SEPARATE FINANCIAL STATEMENTS OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR ENDED 31 DECEMBER 2020

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY EUROPEAN UNION

2020

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

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

Tel.: +370 5 255 3000
www.deloitte.lt

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of ORLEN Lietuva AB

Opinion

We have audited the financial statements of ORLEN Lietuva AB (the Company), which comprise of the separate statement of financial position as at 31 December 2020, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, of the financial position of the Company as at 31 December 2020, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company 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 Company's annual report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Company's annual report for the financial year for which the financial statements are prepared is consistent with the 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 audit of financial statements, in our opinion, in all material respects:

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

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

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

Simonas Rimašauskas
Lithuanian Certified Auditor
License No. 000466

Vilnius, Republic of Lithuania
12 April 2021

(in USD and EUR thous.)

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	for the year ended		for the year ended	
		31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Statement of profit or loss					
Sales revenues	7.1	2,769,581	2,426,276	5,038,922	4,502,510
Cost of sales	7.4	(2,800,654)	(2,458,543)	(4,762,212)	(4,255,271)
Gross profit on sales		**(31,073)**	**(32,267)**	**276,710**	**247,239**
Distribution expenses	7.4	(137,384)	(120,307)	(154,949)	(138,523)
General and administrative expenses	7.4	(51,638)	(45,211)	(45,737)	(40,872)
Other operating income	7.5	162,835	145,898	32,591	29,217
Other operating expenses	7.6	(154,480)	(135,897)	(50,898)	(45,726)
(Loss)/reversal of loss due to impairment of financial instruments		(143)	(136)	(113)	(102)
Profit/(loss) from operations		**(211,883)**	**(187,920)**	**57,604**	**51,233**
Finance income	7.7.1	6,017	5,443	9,995	8,852
Finance costs	7.7.2	(4,454)	(3,709)	(770)	(688)
Net finance income/(costs)		**1,563**	**1,734**	**9,225**	**8,164**
Profit/(loss) before tax		**(210,320)**	**(186,186)**	**66,829**	**59,397**
Income tax expense	7.8	43,314	38,333	6,260	5,625
Net profit/(loss)		**(167,006)**	**(147,853)**	**73,089**	**65,022**
Other comprehensive income:		**316**	**257**	**167**	**149**
which will not be reclassified subsequently into profit or loss:					
Actuarial gains and losses	8.8.2	316	257	167	149
which will not be reclasified into profit or loss:		**(2,234)**	**(36,233)**	**(9,349)**	**2,271**
Hedging instruments		(2,234)	(1,624)	(9,349)	(8,213)
Exchange differences on translation		-	(34,609)	-	10,484
Other comprehensive income		**(1,918)**	**(35,976)**	**(9,182)**	**2,420**
Total net comprehensive income		**(168,924)**	**(183,829)**	**63,907**	**67,442**

Separate financial statements were approved on 12 April 2021.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax

(in USD and EUR thous.)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31/12/2020		31/12/2019	
		USD	EUR	USD	EUR
ASSETS					
Non-current assets					
Property, plant and equipment	8.1	312,158	254,180	306,325	273,774
Intangible assets	8.2	4,645	3,782	5,321	4,756
Right to use assets	10.1.1	33,122	26,971	11,455	10,238
Investments into subsidiaries and associates	8.3	2,045	1,665	2,045	1,827
Deferred tax assets	7.8.2	55,187	44,937	11,885	10,622
Other assets	8.7	1,075	875	1,453	1,298
Total non-current assets		**408,232**	**332,410**	**338,484**	**302,515**
Current assets					
Inventories	8.5.1	250,027	203,589	339,013	302,988
Trade and other receivables	8.5.2	131,924	107,421	279,724	250,000
Other assets	8.7	1,953	1,590	44,159	39,466
Current tax assets		489	398	4,911	4,389
Cash and cash equivalents		9,484	7,723	8,399	7,506
Non-current assets classified as held for sale		242	197	225	201
Total current assets		**394,119**	**320,918**	**676,431**	**604,550**
Total assets		**802,351**	**653,328**	**1,014,915**	**907,065**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	8.6	6,547	5,794	6,547	5,794
Share premium		50,172	132,152	50,172	132,152
Legal reserves		659	580	659	580
Hedging reserve		(4,683)	(3,813)	(2,449)	(2,189)
Exchange differences on translation		-	(117,541)	-	(82,932)
Retained earnings		360,740	319,473	527,430	467,069
Total equity		**413,435**	**336,645**	**582,359**	**520,474**
LIABILITIES					
Non-current liabilities					
Provisions	8.8	5,848	4,762	5,701	5,095
Lease liabilities	10.1.2	29,332	23,884	5,725	5,116
Total non-current liabilities		**35,180**	**28,646**	**11,426**	**10,211**
Current liabilities					
Trade and other liabilities	8.5.3	236,165	192,303	342,603	306,196
Lease liabilities	10.1.2	7,715	6,283	8,106	7,246
Provisions	8.8	35,725	29,089	41,008	36,651
Other liabilities	8.7	74,131	60,362	29,413	26,287
Total current liabilities		**353,736**	**288,037**	**421,130**	**376,380**
Total liabilities		**388,916**	**316,683**	**432,556**	**386,591**
Total equity and liabilities		**802,351**	**653,328**	**1,014,915**	**907,065**

Separate financial statements were approved on 12 April 2021.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax Administration

(in USD and EUR thous.)

SEPARATE STATEMENT OF CHANGES IN EQUITY

USD	Equity attributable to equity holders of the Parent Company				
	Share capital and share premium	Hedging reserve	Legal reserves	Retained earnings	Total equity
1 January 2020	**56,719**	**(2,449)**	**659**	**527,430**	**582,359**
Profit for the year	-	-	-	(167,006)	**(167,006)**
Components of other comprehensive income	-	(2,234)	-	316	**(1,918)**
Total net comprehensive income	**-**	**(2,234)**	**-**	**(166,690)**	**(168,924)**
31 December 2020	**56,719**	**(4,683)**	**659**	**360,740**	**413,435**
1 January 2019	**56,719**	**6,900**	**659**	**448,525**	**512,803**
Profit for the year	-	-	-	73,089	**73,089**
Components of other comprehensive income	-	(9,349)	-	167	**(9,182)**
Reorganisation of company (AB "Mažeikių naftos prekybos namai"	-	-	-	5,649	**5,649**
Total net comprehensive income	**-**	**(9,349)**	**-**	**73,256**	**63,907**
31 December 2019	**56,719**	**(2,449)**	**659**	**527,430**	**582,359**

EUR	Equity attributable to equity holders of the Parent Company					
	Share capital and share premium	Hedging reserve	Legal reserves	Exchange differences on translation	Retained earnings	Total equity
1 January 2020	**137,946**	**(2,189)**	**580**	**(82,932)**	**467,069**	**520,474**
Profit for the year	-	-	-	-	(147,853)	**(147,853)**
Components of other comprehensive income	-	(1,624)	-	(34,609)	257	**(35,976)**
Total net comprehensive income	**-**	**(1,624)**	**-**	**(34,609)**	**(147,596)**	**(183,829)**
31 December 2020	**137,946**	**(3,813)**	**580**	**(117,541)**	**319,473**	**336,645**
1 January 2019	**137,946**	**6,024**	**580**	**(93,416)**	**396,571**	**447,705**
Profit for the year	-	-	-	-	65,022	**65,022**
Components of other comprehensive income	-	(8,213)	-	10,484	149	**2,420**
Reorganisation of company (AB "Mažeikių naftos prekybos namai"	-	-	-	-	5,208	**5,208**
Exchange differences on translation	-	-	-	-	119	**119**
Total net comprehensive income	**-**	**(8,213)**	**-**	**10,484**	**65,171**	**67,442**
31 December 2019	**137,946**	**(2,189)**	**580**	**(82,932)**	**467,069**	**520,474**

Separate financial statements were approved on 12 April 2021.

Michal Rudnicki
General Director

Marek Gołębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax Administration

(in USD and EUR thous.)

SEPARATE STATEMENT OF CASH FLOWS

	Note	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR	for the year ended 31/12/2019 USD	for the year ended 31/12/2019 EUR
Cash flows from operating activities					
Net profit/(loss)		**(167,006)**	**(147,853)**	**73,089**	**65,022**
Adjustments for:					
Depreciation and amortisation	7.4	38,390	33,652	39,669	35,438
Recognization/(Reversal) of impairment losses on property, plant and equipment, intangible assets and non-current assets classified as held for sale	7.5, 7.6	21,958	18,062	(85)	(77)
Foreign exchange (gain)/loss		2,064	1,757	-	-
Interest and dividend, net		(4,838)	(4,417)	(6,474)	(5,735)
(Profit)/loss on investing activities		(27,727)	(25,478)	20,322	18,385
Change in working capital:		128,580	117,705	(147,213)	(130,275)
receivables		*148,119*	*131,706*	*(37,781)*	*(33,615)*
inventories		*89,060*	*82,671*	*(96,350)*	*(85,675)*
liabilities		*(108,599)*	*(96,672)*	*(13,082)*	*(10,985)*
Change in provisions		(1,740)	(1,238)	33,819	30,151
Tax expense	7.8	(43,314)	(38,333)	(6,260)	(5,625)
Income tax (paid)/received		4,433	4,048	2,634	2,389
Change in financial instruments		7,016	5,786	2,024	1,703
Other adjustments		2	3	(164)	(148)
Net cash from operating activities		**(42,182)**	**(36,306)**	**11,361**	**11,228**
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(59,787)	(52,416)	(76,467)	(68,277)
Disposal of property, plant and equipment and intangible assets		21	19	29	26
Proceeds/repayment of loans granted		5	4	8	7
Increase/(decrease) in derivatives		35,774	33,152	(13,672)	(12,357)
Interest and dividend received		6,001	5,426	7,327	6,549
Disposal of financial asset		-	-	3,261	2,891
(Outflows)/proceeds from cash pool		32,255	25,547	66,353	58,410
Net cash (used) in investing activities		**14,269**	**11,732**	**(13,161)**	**(12,751)**
Cash flows from financing activities					
(Outflows)/proceeds from cash pool		37,478	32,981	1,393	1,187
Interest paid		(797)	(693)	(540)	(482)
Payments of liabilities under lease agreements		(7,683)	(6,757)	(7,593)	(6,806)
Cash and cash equivalents in subsidiaries acquiried		-	-	7,021	6,324
Net cash (used) in financing activities		**28,998**	**25,531**	**281**	**223**
Net (decrease)/increase in cash and cash equivalents		**1,085**	**957**	**(1,520)**	**(1,301)**
Effect of exchange rate changes		-	(740)	-	148
Cash and cash equivalents, beginning of the period		**8,399**	**7,506**	**9,919**	**8,659**
Cash and cash equivalents, end of the period		**9,484**	**7,723**	**8,399**	**7,506**
Restricted cash		-	-	-	-

Separate financial statements were approved on 12 April 2021.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax Administration

BASIC INFORMATION

1. ACTIVITY AND STRUCTURE OF ORLEN LIETUVA

INFORMATION ABOUT ORLEN LIETUVA	
NAME OF THE COMPANY	Public Company ORLEN Lietuva
REGISTERED OFFICE	Mažeikių St. 75, Juodeikiai village, Mazeikiai District, Republic of Lithuania LT-89453
ENTITY REGISTRATION NUMBER IN CENTER OF REGISTERS	166451720
VAT payer code	LT1664517219
PRINCIPAL ACTIVITY	– crude oil processing, – production of fuel and petrochemical goods, – wholesale of fuel products, – transportation of fuels and other services.

Public Company ORLEN Lietuva ("the Company") comprises an oil refinery enterprise in Mažeikiai, the Būtingė terminal and an oil products pumping station in Biržai. The sole shareholder of the Company is Polski Koncern Naftowy ORLEN Spolka Akcyjna (PKN ORLEN).

STRUCTURE OF THE COMPANY

The Company has two subsidiaries and one associate which are listed below:

Name of entity	Headquarters	Share of the Group		Nature of activity
		31/12/2020	31/12/2019	
Subsidiaries				
SIA ORLEN Latvija	Latvia - Ryga	100	100	Wholesale of liquid fuels in Latvia.
OU ORLEN Eesti	Estonia - Talin	100	100	Wholesale of liquid fuels in Estonia.
Associated company				
UAB Naftelf	Lithuania - Vilnius	34	34	Trading in aviation fuel and construction of storage facilities thereof.

2. BASIS OF PREPARATION OF SEPARATE FINANCIAL STATEMENTS

The separate financial statements have been prepared with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting standards (IAS) as well as Interpretations of Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Union (EU). The accounting principles applied by the Company are based on standarts and interpretations adopted by the European Union and applicable to the period beginning on 1 January 2020 or earlier periods.
The separate financial statements have been prepared on a historical cost basis, except derivatives measured at fair value through other comprehensive income. The separate financial statements have been prepared using the accrual basis of accounting except from the separate financial statement of cash flows.
The separate financial statements cover the annual reporting period from 1 January to 31 December 2020 and the comparative period from 1 January to 31 December 2019. Presented separate financial statements present a true and fair view of the Company's financial position as at 31 December 2020, results of its operations and cash flows for the year ended 31 December 2020.
The separate financial statements have been prepared on the assumption that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of this separate financial statements, there is no evidence indicating that Company will not be able to continue its operations as a going concern. The Company have unlimited period of operations.

3. FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY OF FINANCIAL STATEMENTS AND METHODS APPLIED TO TRANSLATION OF FINANCIAL DATA FOR CONSOLIDATION PURPOSES

The functional currency of the Company is US dollar (USD) and presentation currency of this separate financial statements is Euro (EUR).
Translation into USD of financial statements of foreign entities, for consolidation purposes and the separate financial statements of the Company, prepared in US dollars are translated to the presentation currency EUR by using:

- particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
- equity – using historical exchange rate,

- items of the statement of profit or loss and other comprehensive income and the statement of cash flows - using monthly average exchange rate for the reporting period (arithmetic average exchange rates published by European Central Bank of working days in a given period).

Foreign exchange differences resulting from the above recalculations are recognized in equity in the line of exchange differences on translating foreign operations.

Exchange rates used for calculation of financial data

CURRENCIES	exchange rate at the end of the reporting period	
	31/12/2020	31/12/2019
EUR/USD	1.2281	1.1189

4. IMPACT OF CORONAVIRUS PANDEMIC ON COMPANY'S OPERATIONS

The outbreak of the SARS-Cov-2 coronavirus causing the COVID-19 disease had a huge impact on the global economy and the situation in the country. The COVID-19 pandemic caused disruptions in both the economic and administrative system and contributed to significant changes in the market environment, which affected the Company's financial situation in 2020.
Since the outbreak of the pandemic the Company has taken a number of actions in order to adapt to constantly changing business environment, as well as to prevent the spread of COVID-19 infections within its employees.
Below the Company presented the impact of the coronavirus pandemic on selected areas of the Company's operations.

Actions taken by the Company in connection with COVID-19 pandemic

The Company has taken a number of actions in connection with COVID-19 pandemic, especially it developed emergency action plans to ensure the continuity of operations of critical infrastructure and the provision of key services provided by the Company. Crisis management plans are developed depending on the effects that may be caused by the increasing number of cases.
During 2020 there were no disruptions in any area of operations within the Company and there were no threats to the supply chain, both with respect to purchase of raw materials and goods, as well as in the field of internal logistic.
The Company has taken a number of preventive measures in order to limit the spread of the virus at the premises and protection of employees. The Company adjusts its operations on an ongoing basis to the changing epidemiological situation.
The Company estimates that the total cost incurred in 2020 due to the above actions amounted to approximately USD 1,211 thousand or EUR 1,061 thousand, including USD 600 thousand or EUR 526 thousand of donation recognised by the Company in other operating cost provided as part of prosocial activities in the fight against coronavirus.

Analysis of impact of changes in economic situation on valuation of assets and liabilities of the Company

<u>Estimation of expected credit loss ECL</u>

As at 31 December 2020 the Company performed detailed analysis of changes in macroeconomic environment caused by coronavirus pandemic on expected credit loss calculation in terms of the potential need to modify the assumptions made for estimations and including additional risk factor related to current economic situation and forecasts for the future.
As at 31 December 2020, based on performed analysis, the Company did not identify any indicators for modification of assumptions taken for estimation of expected credit loss.

<u>Impairment of property plant and equipment, intangible assets and right to use assets</u>

Situation related to the COVID-19 pandemic, in particular the changes in the conditions for conducting business activity and the destabilization on markets of fuel and crude oil products, resulting in high volatility of prices and fluctuations in demand, which in the medium and long term will affect the domestic and global economic situation, was the indicator to perform impairment tests on assets.
Additional information was included in note 8.4.

Liquidity situation

In 2020 the Company continued its current policy with respect to liquidity management process. The Company does not identify currently and within the next 12 months problems with liquidity. The Company also does not see risk of default on loans or other financing agreements. As at the date of preparation of this set of annual financial statements the financial situation of the Company is stable, but due to ongoing uncertainty related to global pandemic impact on economies the Company decided to ask its parent company for increasing the international cash pool limit in Q1 2021 to buffer liquidity needs throughout the year.

Other accounting estimates

As at the date of preparation of this set of annual financial statements the Company does not identify any significant risks related to potential breach of the terms of commercial contracts and supply contracts (including crude oil supplies).

5. ACCOUNTING PRINCIPLES

Significant accounting principles and significant values based on judgements and estimates are presented as a part of the specific explanatory notes to the separate financial statements. The Company applied the accounting principles consistently to all presented reporting periods.

The preparation of separate financial statements in accordance with IFRS requires that the Management make professional judgments, estimates and assumptions that affect the presented amounts. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds of professional judgments 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 judgments and estimates and related assumptions are verified on regular basis.

6. IMPACT OF IFRS CHANGES ON SEPARATE FINANCIAL STATEMENTS OF THE COMPANY

IFRSs and their interpretations, announced and adopted by the European Union, effective for the current reporting period
Amendments to IAS 1 -Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
Amendment to IFRS 3 - Business combinations
Amendments to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures
Amendments to IFRS 16 “Leases” - Covid-19-Related Rent Concessions
Amendments to References to the Conceptual Framework in IFRS Standards

The aforesmentioned amendments to the existing standards did not have significant impact on the Company’s financial statements for 2020.

IFRSs and their interpretations, announced and adopted by the European Union, not yet effective
Amendments to IFRS 4 “Insurance Contracts” - Extension of the Temporary Exemption from Applying IFRS 9 - the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023
Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform — Phase 2 - effective for annual periods beginning on or after 1 January 2021

Standards adopted by International Accounting Standards Board (IASB), waiting for approval by the European Union
Amendments to IAS 1 - Presentation of financial statements - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023)
Amendments to IAS 16 “Property, Plant and Equipment” - Proceeds before Intended Use - effective for annual periods beginning on or after 1 January 2022
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” - Onerous Contracts - Cost of Fulfilling a Contract - effective for annual periods beginning on or after 1 January 2022
Amendments to IFRS 3 “Business Combinations” - Reference to the Conceptual Framework with amendments to IFRS 3 - effective for annual periods beginning on or after 1 January 2022
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 (effective date deferred indefinitely until the research project on the equity method has been concluded)
IFRS 14 - Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
IFRS 17 - Insurance Contracts - effective for annual periods beginning on or after 1 January 2023
Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording. - The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022.

According to Company’s estimates, the above-mentioned new standarts and changes to existing standarts would not have a material impact on financial statements if applied by the Company at the balance sheet date.

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

7. EXPLANATORY NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

7.1. Sales revenues

SELECTED ACCOUNTING PRINCIPLES

Sales revenues

Sales revenues of goods and services are recognized at a point in time (or over time) when a performance obligations are satisfied by transferring a promised good or service (i.e. an asset) to a customer in the amount reflecting the consideration, to which – as the Company expects – it will be entitled in exchange for these goods or services. An asset is transferred when the customer obtains control of that asset. The following circumstances indicate the transfer of control in accordance with IFRS 15: the current right of the seller to consideration for an asset, the legal ownership of the asset by the customer, physical possession of the asset, transfer of risks and rewards and acceptance of the asset by the customer. Revenues include received and due payments for delivered finished goods, merchandise, and services, decreased by the amount of any trade discounts and value added tax (VAT), excise tax and fuel charges. The amount of revenues is determined at the fair value of the payment received or due. Revenues from the sale of finished goods and services are adjusted for profits or losses from settlement of cash flows hedging instruments related to the above mentioned revenues.

	for the year ended		for the year ended	
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Sales of finished goods	2,714,033	2,377,628	4,963,247	4,434,951
Sales of services	20,018	17,544	24,539	21,923
Revenues from sales of finished goods and services, net	**2,734,051**	**2,395,172**	**4,987,786**	**4,456,874**
Sales of goods for resale	34,326	30,053	50,121	44,734
Sales of spare parts and other materials	1,204	1,051	1,015	902
Revenues from sales of goods for resale and spare parts, net	**35,530**	**31,104**	**51,136**	**45,636**
Total	**2,769,581**	**2,426,276**	**5,038,922**	**4,502,510**

7.2. Sales revenues in division on assortments

	for the year ended		for the year ended	
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Gasoline	754,146	658,578	1,410,616	1,260,955
Diesel fuel	1,371,100	1,202,535	2,478,443	2,214,198
Jet A-1 fuel	70,653	62,445	261,758	234,008
Heavy heating oil	203,323	177,574	462,154	411,935
LPG	73,308	64,056	117,626	105,122
Bitumens	85,255	73,984	122,314	109,464
Propylene	52,539	45,684	41,326	37,115
Other	138,034	122,825	119,131	106,888
Services	20,019	17,544	24,539	21,923
Sales of spare parts and other materials	1,204	1,051	1,015	902
Total	**2,769,581**	**2,426,276**	**5,038,922**	**4,502,510**

In 2020, there were no customers in the Company, whose revenues from sales individually exceeded 10% of total revenues from sale to external customers.

In 2019, there were two major customers in the Company, whose revenues from sales amounted to USD 1,102,062 thousand or EUR 992,652 thousand and individually exceeded 10% of total revenues from sale to external customers.

(in USD and EUR thous.)

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

	for the year ended		for the year ended	
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Lithuania	786,319	689,336	1,217,590	1,088,617
Latvia and Estonia	600,780	524,921	1,123,303	1,004,998
Poland	171,303	154,228	514,585	458,127
Other EU countries	317,104	275,077	177,767	159,708
Other countries, including:	894,075	782,714	2,005,677	1,791,060
Switzerland	*340,822*	*298,590*	*680,684*	*606,612*
Ukraine	*276,135*	*242,195*	*469,794*	*420,553*
Singapore	*236,273*	*206,448*	*583,262*	*520,861*
Other countries	*40,845*	*35,481*	*271,937*	*243,034*
Total	**2,769,581**	**2,426,276**	**5,038,922**	**4,502,510**

7.4. Cost by nature

SELECTED ACCOUNTING PRINCIPLES

Costs

Cost of sales includes costs of finished goods, merchandise, services 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 Company as a whole.

	Note	for the year ended		for the year ended	
		31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Usage of materials and energy		(2,681,666)	(2,353,089)	(4,624,264)	(4,131,645)
Costs of goods for resale		(34,835)	(30,527)	(50,132)	(44,743)
External services		(161,582)	(141,726)	(174,047)	(155,602)
Employee benefits, including:		(51,658)	(45,221)	(46,099)	(41,200)
payroll expenses		*(47,718)*	*(41,772)*	*(42,889)*	*(38,329)*
social security expenses		*(966)*	*(839)*	*(740)*	*(660)*
Depreciation and amortization	8.1, 8.2, 10.1	(38,390)	(33,652)	(39,669)	(35,438)
Taxes and charges		(4,345)	(4,181)	(4,196)	(3,661)
Other costs		(13,941)	(12,230)	(12,207)	(10,909)
		(2,986,417)	**(2,620,626)**	**(4,950,614)**	**(4,423,198)**
Change in finished goods and work in progress		(20,243)	(20,763)	(11,562)	(10,276)
Cost of products and services for own use		33	(15)	(1,474)	(1,320)
Write-down of inventories	8.5.1	16,951	17,343	752	128
Total operating expenses		**(2,989,676)**	**(2,624,061)**	**(4,962,898)**	**(4,434,666)**
Distribution expenses		137,384	120,307	154,949	138,523
General and administrative expenses		51,638	45,211	45,737	40,872
Cost of sales		**(2,800,654)**	**(2,458,543)**	**(4,762,212)**	**(4,255,271)**

(in USD and EUR thous.)

7.5. Other operating income

	Note	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR	for the year ended 31/12/2019 USD	for the year ended 31/12/2019 EUR
Profit from disposal of non-financial fixed assets		19	17	29	25
Reversal of provisions		2,748	2,434	2,932	2,612
Grants		5,852	4,950	-	-
Reversal of impairment allowances of property, plant and equipment, intangible assets, right to use assets and other non curent assets, held for resale		141	125	634	575
Penalties, damages and compensations		184	161	117	103
Settlement and valuation of derivative financial instruments related to operational exposure	9.2	151,819	136,303	11,662	10,502
Ineffective part related to settlement and valuation of operating exposure	9.2	1,977	1,778	4,166	3,675
Other		95	130	13,051	11,725
Total		**162,835**	**145,898**	**32,591**	**29,217**

7.6. Other operating expenses

	Note	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR	for the year ended 31/12/2019 USD	for the year ended 31/12/2019 EUR
Loss from disposal of non-financial fixed assets		294	242	36	33
Donations		1,393	1,257	1,246	1,108
Recognition of provisions		285	235	6,434	5,719
Recognition of impairment allowances of property, plant and equipment, intangible assets, right to use assets and other non-current assets classified as held for sale		22,099	18,187	549	498
Penalties, damages and compensations		1,210	1,014	7	6
Settlement and valuation of derivative financial instruments related to operational exposure	9.2	123,817	110,091	27,411	24,741
Ineffective part related to settlement and valuation of operating exposure	9.2	5,289	4,780	4,331	3,815
Other		93	91	10,884	9,806
Total		**154,480**	**135,897**	**50,898**	**45,726**

7.7. Finance income and costs

7.7.1. Finance income

	Note	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR	for the year ended 31/12/2019 USD	for the year ended 31/12/2019 EUR
Dividends income	9.2	5,786	5,235	5,858	5,184
Interest	9.2	220	198	1,643	1,468
Net foreign exchange gains	9.2	-	-	1,382	1,214
Granted guarantee	9.2	11	10	52	46
Profit from sale of investments	9.2	-	-	1,060	940
Total		**6,017**	**5,443**	**9,995**	**8,852**

7.7.2. Finance costs

	Note	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR	for the year ended 31/12/2019 USD	for the year ended 31/12/2019 EUR
Interest	9.2	1,118	973	770	688
Net foreign exchange loss	9.2	3,336	2,736	-	-
Total		**4,454**	**3,709**	**770**	**688**

(in USD and EUR thous.)

7.8. Tax expense

SELECTED ACCOUNTING PRINCIPLES

Income tax expenses

Income tax expenses (tax expense) include 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 as an asset, if the amount of the current and prior periods income tax paid exceeds the amount due.

Deferred tax assets and liabilities are accounted as non-current and are not discounted. They are offset on the level of particular financial statements of the Company when there is a legally enforceable right to set off the recognized amounts.

	for the year ended		for the year ended	
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Current tax expense	(12)	(10)	(2,152)	(1,929)
Deferred tax expense	(43,302)	(38,323)	(4,108)	(3,696)
Tax recognized in profit or loss	**(43,314)**	**(38,333)**	**(6,260)**	**(5,625)**
Total	**(43,314)**	**(38,333)**	**(6,260)**	**(5,625)**

7.8.1. Reconsiliation of effective tax rate

	for the year ended		for the year ended	
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Profit (loss) for the period before tax	(210,320)	(186,186)	66,829	59,397
Profit tax applying 15 % tax rate	(31,548)	(27,928)	10,024	8,910
Non-taxable income	(13,848)	(12,138)	(6,692)	(6,012)
Expenses not deductible for tax purposes	(2,088)	(1,830)	1,841	1,655
Fixed assets investment relief utilization/ (recognition)	4,536	3,976	(1,191)	(1,069)
Tax loss utilization (recognition)	-	-	(7,718)	(6,934)
Change in estimates related to prior years	(1,013)	(888)	(2,152)	(1,934)
Valuation of derivative financial instruments	647	567	-	-
Other	-	-	(372)	(334)
Exchange differences on translation	-	(92)	-	93
Tax expense	**(43,314)**	**(38,333)**	**(6,260)**	**(5,625)**

7.8.2. Deferred tax

	31/12/2019		Deferred tax recognized in statement of profit or loss		Foreign exchange differences	31/12/2020	
Deferred tax assets / (liabilities)	**USD**	**EUR**	**USD**	**EUR**	**EUR**	**USD**	**EUR**
Impairment allowances	107,901	96,435	11,075	9,708	(9,265)	118,976	96,878
Provisions and accruals	10,564	9,441	(1,428)	(1,252)	(750)	9,136	7,439
Unrealized foreign exchange differences	(4,804)	(4,294)	11,739	10,290	(349)	6,935	5,647
Difference between carrying amount and tax base of property, plant and equipment	(48,228)	(43,103)	(5,544)	(4,859)	4,177	(53,772)	(43,785)
Tax loss carried forward	6,237	5,574	42,172	37,331	(3,487)	48,409	39,418
Valuation of derivative financial instruments	-	-	(647)	(567)	40	(647)	(527)
Investment relief	5,648	5,048	(4,536)	(3,976)	(167)	1,112	905
Other	718	642	83	73	(62)	801	653
Total deferred tax assets / (liabilities)	**78,036**	**69,743**	**52,914**	**46,748**	**(9,863)**	**130,950**	**106,628**
Deferred tax asset / (liabilities) not recognised	**(66,151)**	**(59,121)**	**(9,612)**	**(8,425)**	**5,855**	**(75,763)**	**(61,691)**
Deferred tax, net	**11,885**	**10,622**	**43,302**	**38,323**	**(4,008)**	**55,187**	**44,937**

(in USD and EUR thous.)

	31/12/2018		Deferred tax recognized in statement of profit or		Foreign exchange differences	31/12/2019	
Deferred tax assets / (liabilities)	**USD**	**EUR**	**USD**	**EUR**	**EUR**	**USD**	**EUR**
Impairment allowances	121,438	106,022	(13,537)	(12,091)	2,504	107,901	96,435
Provisions and accruals	2,545	2,222	8,019	7,162	57	10,564	9,441
Unrealized freighn exchange differences	(4,290)	(3,745)	(514)	(459)	(90)	(4,804)	(4,294)
Difference between carrying amount and tax base of property, plant and equipment	(41,561)	(36,285)	(6,667)	(5,955)	(863)	(48,228)	(43,103)
Tax loss	1,880	1,641	4,357	3,892	41	6,237	5,574
Investment relief	5,897	5,148	(249)	(222)	122	5,648	5,048
Other	695	607	23	21	14	718	642
Total deferred tax assets / (liabilities)	**86,604**	**75,610**	**(8,568)**	**(7,652)**	**1,785**	**78,036**	**69,743**
Deferred tax asset / (liabilities) not recognised	**(78,827)**	**(68,820)**	**12,676**	**11,322**	**(1,623)**	**(66,151)**	**(59,121)**
Deferred tax, net	**7,777**	**6,790**	**4,108**	**3,670**	**162**	**11,885**	**10,622**

8. EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

8.1. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Property, plant and equipment

Property, plant and equipment shall be measured initially at acquisition or production cost and shall be presented in the statement of financial position in its net carrying amount, including grants. Property, plant and equipment are presented in the statement of financial position at the net book value which is the amount at which an asset is initially recognized (cost) less accumulated depreciation and any accumulated impairment losses.

The costs of significant repairs and regular maintenance programs are recognized as property, plant and equipment.

Fixed assets 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 useful life.

The following standard 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 at the end of each year. When it is necessary adjustments of depreciation are carried out in subsequent periods (prospectively).

PROFESSIONAL JUDGEMENT AND ESTIMATES

Useful lives of property, plant and equipment

The Company verifies economic useful lives of property, plant and equipment at least once a year.

The impact of verification of useful lives in 2020 resulted in a decrease of depreciation costs by USD 380 thousands EUR 333 thousands compared to depreciation costs that were recognised based on useful lives applied in 2019.

(in USD and EUR thous.)

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Net carrying amount at 01/01/2020						
Gross carrying amount	1	77,206	1,707,156	93,587	43,203	1,921,153
Accumulated depreciation	-	(39,215)	(779,432)	(40,852)	-	(859,499)
Impairment allowances	(1)	(30,934)	(707,116)	(10,171)	(7,107)	(755,329)
	-	**7,057**	**220,608**	**42,564**	**36,096**	**306,325**
Increases/(decreases), net						
Investment expenditures	-	833	19,095	6,415	31,641	57,984
Depreciation	-	(459)	(26,208)	(3,395)	-	(30,062)
Impairment allowances, net	**-**	**(153,259)**	**135,422**	**(677)**	**(2,915)**	**(21,429)**
Recognition	-	(3,400)	(14,530)	(696)	(3,119)	(21,745)
Reversal	-	-	-	8	115	123
Reclassifications	-	(149,859)	149,770	9	89	9
Other	-	-	182	2	-	184
Reclassifications	-	190,057	(171,959)	(120)	(18,155)	(177)
Other	-	-	(480)	(3)	-	(483)
	-	**44,229**	**176,478**	**44,784**	**46,667**	**312,158**
Net carrying amount at 31/12/2020						
Gross carrying amount	1	433,609	1,387,022	99,679	56,690	1,977,001
Accumulated depreciation	-	(205,188)	(638,850)	(44,046)	-	(888,084)
Impairment allowances	(1)	(184,192)	(571,694)	(10,849)	(10,023)	(776,759)
	-	**44,229**	**176,478**	**44,784**	**46,667**	**312,158**
Net carrying amount at 01/01/2019						
Gross carrying amount	1	75,749	1,640,368	76,588	87,639	1,880,345
Accumulated depreciation	-	(38,974)	(756,135)	(40,045)	-	(835,154)
Impairment allowances	(1)	(30,922)	(707,181)	(10,463)	(17,135)	(765,702)
	-	**5,853**	**177,052**	**26,080**	**70,504**	**279,489**
Increases/(decreases), net						
Investment expenditures	-	224	23,072	23,329	10,265	56,890
Depreciation	-	(243)	(23,424)	(6,805)	-	(30,472)
Deprecation from discontinued operation	-	-	-	-	-	-
Impairment allowances, net	**-**	**(12)**	**65**	**292**	**10,028**	**10,373**
Recognition	-	-	-	-	(549)	(549)
Reversal	-	-	-	43	-	43
Reclassifications	-	(13)	(121)	2	13	(119)
Other	-	1	186	247	10,564	10,998
Reclassifications	-	1,235	44,030	(78)	(44,125)	1,062
Other	-	-	(187)	(254)	(10,576)	(11,017)
Net carrying amount at 31/12/2019	**-**	**7,057**	**220,608**	**42,564**	**36,096**	**306,325**

(in USD and EUR thous.)

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Net carrying amount at 01/01/2020						
Gross carrying amount	1	69,001	1,525,745	83,643	38,612	1,717,002
Accumulated depreciation	-	(35,047)	(696,605)	(36,512)	-	(768,164)
Impairment allowances	(1)	(27,647)	(631,974)	(9,090)	(6,352)	(675,064)
	-	**6,307**	**197,166**	**38,041**	**32,260**	**273,774**
Increases/(decreases), net						
Investment expenditures	-	695	16,222	5,837	27,569	50,323
Depreciation	-	(392)	(23,000)	(2,978)	-	(26,370)
Impairment allowances, net	**-**	**(126,081)**	**111,402**	**(560)**	**(2,388)**	**(17,627)**
Recognition	-	(2,796)	(11,953)	(576)	(2,571)	(17,896)
Reversal	-	-	-	6	102	108
Reclassifications	-	(123,285)	123,204	8	81	8
Other	-	-	151	2	-	153
Reclassifications	-	156,393	(140,254)	(97)	(16,202)	(160)
Foreign exchange differences, incl.:	-	(907)	(17,439)	(3,775)	(3,240)	(25,361)
foreign exchange differences of impairment allowances	-	3,747	55,061	816	579	60,203
Other	-	-	(397)	(2)	-	(399)
	-	**36,015**	**143,700**	**36,466**	**37,999**	**254,180**
Net carrying amount at 31/12/2020						
Gross carrying amount	1	353,073	1,129,405	81,165	46,160	1,609,804
Accumulated depreciation	-	(167,077)	(520,193)	(35,865)	-	(723,135)
Impairment allowances	(1)	(149,981)	(465,512)	(8,834)	(8,161)	(632,489)
	-	**36,015**	**143,700**	**36,466**	**37,999**	**254,180**
Net carrying amount at 01/01/2019						
Gross carrying amount	1	66,133	1,432,136	66,866	76,514	1,641,650
Accumulated depreciation	-	(34,026)	(660,149)	(34,963)	-	(729,138)
Impairment allowances	(1)	(26,997)	(617,410)	(9,134)	(14,960)	(668,502)
	-	**5,110**	**154,577**	**22,769**	**61,554**	**244,010**
Increases/(decreases), net						
Investment expenditures	-	201	20,701	20,913	9,145	50,960
Depreciation	-	(217)	(20,938)	(6,056)	-	(27,211)
Impairment allowances, net	**-**	**(10)**	**58**	**261**	**9,030**	**9,339**
Recognition	-	-	-	-	(497)	(497)
Reversal	-	-	-	38	-	38
Reclassifications	-	(11)	(109)	1	11	(108)
Other	-	1	167	222	9,516	9,906
Reclassifications	-	1,108	39,245	(73)	(39,322)	958
Foreign exchange differences, incl.:	-	116	3,690	456	1,378	5,640
foreign exchange differences of impairment allowances	-	(639)	(14,623)	(217)	(421)	(15,900)
Other	-	(1)	(167)	(229)	(9,525)	(9,922)
Net carrying amount at 31/12/2019	**-**	**6,307**	**197,166**	**38,041**	**32,260**	**273,774**

Other information connected with property, plant and equipment

	31/12/2020 USD	31/12/2020 EUR	31/12/2019 USD	31/12/2019 EUR
The acquisition costs of all fully depreciated property, plant and equipment still in use	123,031	100,180	99,417	88,852
The carrying amounts of idle property, plant and equipment and not clasified as held for sale	5	4	23	21

8.2. Intangible assets

SELECTED ACCOUNTING PRINCIPLES

Intangible assets

An intangible asset shall be measured initially at acquisition or production cost and shall be presented in the statement of financial position in its net carrying amount, including grants.

Intangible assets with the finite useful life are amortised using straight-line method. Amortization shall begin 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.
Standard useful lives of intangible assets are from 2 to 10 for software and from 2 to 15 years for concessions, licenses, patents and similar.
The amortization method and useful life of intangible asset item are verified at least at the end of each year.

Rights
The main item of rights is CO_2 emission rights, not amortised, tested for impairment.
Granted emission allowances are presented as intangible assets in correspondence with deferred income at fair value as at the date of registration. Purchased allowances are presented at purchase price. For the estimated CO_2 emission during the reporting period, a provision is created (taxes and charges).
Grants are recognized on a systematic basis in each reporting period to ensure proportionality with the relevant costs of the created reserve. The Company recognises costs flows of CO_2 emission allowances at weighted average method.

ESTIMATES

Useful lives of intangible assets
The Company verifies useful lives of intangible assets once at year end with effect from the beginning of next year. The impact of verification of useful lives in 2020 resulted in decrease of depreciation costs by USD 11 thousands EUR 10 thousands compared to depreciation costs that were recognised based on useful lives applied in 2019.

USD	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Net carrying amount at 01/01/2020					
Gross carrying amount	23,327	6,057	-	-	29,384
Accumulated depreciation	(14,548)	(5,858)	-	-	(20,406)
Impairment allowances	(3,465)	(192)	-	-	(3,657)
	5,314	**7**	**-**	**-**	**5,321**
Increases/(decreases), net					
Investment expenditures	976	-	-	-	976
Purchases	-	-	3,079	-	3,079
Received free of charge	-	-	32,390	-	32,390
Depreciation	(1,370)	(22)	-	-	(1,392)
Impairment allowances, net	**(354)**	**26**	**-**	**-**	**(328)**
Recognition	(354)	-	-	-	(354)
Other	-	26	-	-	26
Reclassifications	(24)	-	-	-	(24)
Emission settlement	-	-	(35,469)	-	(35,469)
Other	-	92	-	-	92
	4,542	**103**	**-**	**-**	**4,645**
Net carrying amount at 31/12/2020					
Gross carrying amount	24,279	6,135	-	-	30,414
Accumulated depreciation	(15,919)	(5,865)	-	-	(21,784)
Impairment allowances	(3,818)	(167)	-	-	(3,985)
	4,542	**103**	**-**	**-**	**4,645**
Net carrying amount at 01/01/2019					
Gross carrying amount	21,194	8,125	-	201	29,520
Accumulated depreciation	(13,855)	(5,854)	-	-	(19,709)
Impairment allowances	(3,465)	(2,192)	-	(201)	(5,858)
	3,874	**79**	**-**	**-**	**3,953**
Increases/(decreases), net					
Investment expenditures	2,108	249	-	-	2,357
Purchases	-	-	2,860	-	2,860
Received free of charge	-	-	32,414	-	32,414
Depreciation	(693)	(5)	-	-	(698)
Impairment allowances, net	**-**	**2,000**	**-**	**201**	**2,201**
Other	-	2,000	-	201	2,201
Reclassifications	25	(316)	-	-	(291)
Emission settlement	-	-	(35,274)	-	(35,274)
Other	-	(2,000)	-	(201)	(2,201)
Net carrying amount at 31/12/2019	**5,314**	**7**	**-**	**-**	**5,321**

(in USD and EUR thous.)

EUR	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Net carrying amount at 01/01/2020					
Gross carrying amount	20,849	5,414	-	-	26,263
Accumulated depreciation	(13,002)	(5,236)	-	-	(18,238)
Impairment allowances	(3,097)	(172)	-	-	(3,269)
	4,750	**6**	**-**	**-**	**4,756**
Increases/(decreases), net					
Investment expenditures	829	-	-	-	829
Purchases	-	-	2,834	-	2,834
Received free of charge	-	-	29,692	-	29,692
Depreciation	(1,202)	(19)	-	-	(1,221)
Impairment allowances, net	**(291)**	**24**	**-**	**-**	**(267)**
Recognition	(291)	-	-	-	(291)
Other	-	24	-	-	24
Reclassifications	(22)	-	-	-	(22)
Emission settlement	-	-	(32,643)	-	(32,643)
Foreign exchange differences, incl.:	(366)	(11)	117	-	(260)
foreign exchange differences of impairment allowances	278	13	-	-	291
Other	-	84	-	-	84
	3,698	**84**	**-**	**-**	**3,782**
Net carrying amount at 31/12/2020					
Gross carrying amount	19,769	4,996	-	-	24,765
Accumulated depreciation	(12,962)	(4,776)	-	-	(17,738)
Impairment allowances	(3,109)	(136)	-	-	(3,245)
	3,698	**84**	**-**	**-**	**3,782**
Net carrying amount at 01/01/2019					
Gross carrying amount	18,503	7,094	-	176	25,773
Accumulated depreciation	(12,096)	(5,111)	-	-	(17,207)
Impairment allowances	(3,025)	(1,914)	-	(176)	(5,115)
	3,382	**69**	**-**	**-**	**3,451**
Increases/(decreases), net					
Investment expenditures	1,889	223	-	-	2,112
Purchases	-	-	2,544	-	2,544
Received free of charge	-	-	28,645	-	28,645
Depreciation	(620)	(4)	-	-	(624)
Impairment allowances, net	**-**	**1,802**	**-**	**181**	**1,983**
Other	-	1,802	-	181	1,983
Reclassifications	24	(283)	-	-	(259)
Emission settlement	-	-	(31,383)	-	(31,383)
Foreign exchange differences, incl.:	75	1	194	-	270
foreign exchange differences of impairment allowances	(72)	(59)	-	(6)	(137)
Other	-	(1,802)	-	(181)	(1,983)
Net carrying amount at 31/12/2019	**4,750**	**6**	**-**	**-**	**4,756**

Other information regarding intangible assets

	31/12/2020 USD	31/12/2020 EUR	31/12/2019 USD	31/12/2019 EUR
The acquisition costs of all fully amortized intangible assets still in use	9,926	8,082	10,912	9,752

8.2.1. Rights

Changes in owned CO_2 emission rights for 2020

	Quantity (in tonnes)	USD	EUR
1 January 2020	**-**	**-**	**-**
Received free of charge	1,253,382	32,390	29,692
Settled emission for 2019 (audited)	(1,599,384)	(35,469)	(32,643)
Purchase	346,002	3,079	2,834
Exchange differences on translation	-	-	117
31 December 2020	**-**	**-**	**-**
Emission in 2020 (audited)	1,478,463	34,113	27,777
Shortage	**(1,478,463)**	**(34,113)**	**(27,777)**

The quantity of CO2 emission rights as at 31 December 2020 is audited. The shortage will be purchased.
As at 31 December 2020 and 31 December 2019 the market value of one EUA amounted to 39.96 USD or 32.54 EUR and amounted 27.39 USD or 24.48 EUR, respectively.

Change in CO_2 emission rights (EUA) in 2019

	Quantity (in tonnes)	USD	EUR
1 January 2019	**-**	**-**	**-**
Received free of charge	1,280,122	32,414	28,645
Settled emission for 2018 (audited)	(1,680,865)	(35,274)	(31,383)
Sales	400,743	2,860	2,544
Exchange differences on translation	-	-	194
31 December 2019	**-**	**-**	**-**

8.3. Investments into subsidiaries and associates

SELECTED ACCOUNTING PRINCIPLES

Investment in subsidiaries and associate is measured at acquisition cost less impairment allowances.
Non repayable additional payments to equity with non-confirmed repayment date are presented in shares in the transferring payment entity and shall be treated as an investment. Repayable additional payments to equity are initialy recognized at fair value in the current or non-current receivables depending on the date of return, i.e. up to 12 months – current receivables or more than 12 months as non-current receivables.
Recognition and reversal of impairment allowances of shares are presented in financing activities.

PROFESSIONAL JUDGEMENT

Investments in subsidiaries and associates
The Company, regardless of the nature of its involvement in the entity (the entity in which it invested) defines its status by assessment, whether it controls the entity in which the investment was made, and whether it has a joint control in a joint venture, after consideration of all the facts and circumstances.

	2020	2020	2019	2019
	USD	**EUR**	**USD**	**EUR**
1 January	**2,045**	**1,827**	**5,606**	**4,894**
Sales of subsidiary	-	-	(2,190)	(1,912)
Reorganisation of subsidiary	-	-	(2,396)	(2,091)
Reorganisation of subsidiary	-	-	1,025	915
Exchange differences on translation	-	(162)	-	21
As at 31 December	**2,045**	**1,665**	**2,045**	**1,827**

In 2019 subsidiary UAB EMAS was sold and intermediate holding entity AB Mažeikių naftos prekybos namai was merged to the Company by reorganisation process. As at 31 December 2020 and 2019 the Company had investments in subsidiaries SIA ORLEN Latvija and OU ORLEN Eesti.

UAB Naftelf did not pay dividends in 2020 and 2019.

USD	Acquisition costs	Impairment	Book value	Equity	Acquisition costs	Impairment	Book value	Equity
	31/12/2020				31/12/2019			
Subsidiaries								
SIA ORLEN Latvija	316	-	316	2,648	316	-	316	4,078
OU ORLEN Eesti	709	-	709	2,035	709	-	709	3,602
Total	**1,025**	**-**	**1,025**	**4,683**	**1,025**	**-**	**1,025**	**7,680**
Associated company								
UAB Naftelf	1,020	-	1,020	4,420	1,020	-	1,020	4,619
Total	**1,020**	**-**	**1,020**	**4,420**	**1,020**	**-**	**1,020**	**4,619**
Total	**2,045**	**-**	**2,045**	**9,103**	**2,045**	**-**	**2,045**	**12,299**

EUR	Acquisition costs	Impairment	Book value	Equity	Acquisition costs	Impairment	Book value	Equity
	31/12/2020				31/12/2019			
Subsidiaries								
SIA ORLEN Latvija	257		257	2,156	282		282	3,644
OU ORLEN Eesti	577	-	577	1,657	634	-	634	3,220
Total	**834**	**-**	**834**	**3,813**	**916**	**-**	**916**	**6,864**
Associated company								
UAB Naftelf	831	-	831	3,599	911	-	911	4,128
Total	**831**	**-**	**831**	**3,599**	**911**	**-**	**911**	**4,128**
Total	**1,665**	**-**	**1,665**	**7,412**	**1,827**	**-**	**1,827**	**10,992**

As at 31 December 2020, the Company did not identify any indications of impairment for investments.

8.4. Impairment of property, plant and equipment, intangible assets and right to use assets

SELECTED ACCOUNTING PRINCIPLES

Impairment of property, plant and equipment, intangible assets and right to use assets
At the end of the reporting period, the Company assesses whether there are indicators that an asset or cash-generating unit (CGU) may be impaired or any indicators that the previously recognised impairment should be reversed.
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 CGU level, to which the asset belongs.
Recognition and reversal of impairment allowances of property, plant and equipment, intangible assets and right to use assets is recognised in other operating activity.

ESTIMATES AND JUDGMENTS

Impairment of property, plant and equipment, intangible assets
The Management assesses whether there is any indicator for impairment of an assets or cash generating unit. As part of the analysis of indications, both external factors - including primarily the macroeconomic environment as well as internal environment are analyzed - including strategic decisions, financial projections and operational plans. If there is any indicator for impairment, the estimation of recoverable amount of an asset is made.

The ORLEN Group conducted impairment tests for companies in the Refinery and Petrochemical segments based on the Financial Plan for 2021, for the following years, calculated using the macroeconomic assumptions of the ORLEN Group Strategy until 2030.
The source of long-term macroeconomic forecasts for refining assets is IHS Markit, for petrochemical assets Nexant taking into account the following assumptions:
- The COVID19 pandemic will leave a long-term mark on the global economy and thus the energy market.
- The COVID19 vaccine will be available in mid-2021, but will be widely available worldwide in early 2022.
- The years 2021-2022 will be a period of rebound in global GDP (+ 3.7% / year). From 2023, there will be a return to a stable level of approximately 2.8% / year.

- The projected Downstream margin based on the macroeconomic assumptions of the Strategy for 2021 at the level of approx. $ 9 / bbl, well below historical levels. Maintaining low margins, also expected in the next three years, only from 2024 the margin returns to its historical average levels. After 2024, a more dynamic rebound of MMD due to forecasted higher margins of petrochemical and refining products.
- Crude oil will still remain the main source of energy and its maximum global consumption will take place around 2035. For Brent DTD crude oil, an average annual price growth dynamics of 8% was adopted for the entire forecast period. It is assumed that the situation on the global market will stabilize and the price will gradually increase - in nominal terms, from $ 48 / bbl in 2021 to $ 86 / bbl in 2030.
- Crack Gasoline margins are projected to increase from $ 101 / t in 2021 to $ 179 / t in 2030 following sharp declines in 2020 due to the COVID-19 pandemic. Forecasted demand for gasoline in the world will grow - increase in transport, slower rotation of the car fleet towards electric cars. Also, the prediction of gasoline demand in Europe assumes an increase of approx. 2% in the period 2019-2030. In the coming years, it is assumed that the low margins in 2020, caused by the reduced demand for refining products caused by the pandemic, will be overcome. IHS forecasts show that margins for gasoline will continue to grow until 2030.
- According to IHS predictions, the demand for diesel oil in the world will grow - increase in transport, slower rotation of the car fleet towards electric cars. IHS forecasts indicate that the margins on diesel fuel will continue to grow until 2039.
- In the next two years (2021-2022), the market is expected to maintain the pressure on lower spread levels vs. kerosene, which results from the global situation related to COVID-19. In the long term, higher margins are assumed on the markets of products for which an increase in demand is expected.

In order to reflect the risks resulting from the current economic and pandemic situation as much as possible, the ORLEN Group decided to perform impairment tests for major production assets based on a scenario analysis. Three scenarios were defined: baseline, pessimistic and optimistic.

The baseline scenario was developed based on long-term forecasts for the refining segment from IHS Markit and for the petrochemical segment from Nexant. Two supplementary scenarios: pessimistic and optimistic, were built on one standard deviation of the historical downstream margin for the period 2012-2020, so as to best reflect the full cycle of the ORLEN Group's production assets, including the full impact of the COVID pandemic.

On this basis, the prices of the main refining products were estimated for the pessimistic and optimistic scenarios. For each of the scenarios, probability weights were established based on the normal distribution and expert judgment, in each case assigning a higher probability of the negative scenario materializing than the positive one, in order to maintain a conservative approach.

Asset impairment tests based on the aforementioned revisions showed the necessity to write down the production assets of the Company in the amount of USD 21,992 thousands, using a discount rate (WACC) of 6.22%.

8.5. Net working capital

Net working capital

The Company defines net working capital as: inventories and trade and other receivables decreased by trade and other liabilities

8.5.1. Inventories

SELECTED ACCOUNTING PRINCIPLES

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

Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period of finished goods, semi-finished products as well as work in progress and systematic allocation of fixed and variable production overheads estimated for its normal level.

Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost or net realizable value.

Cost flows of finished goods, semi-finished products and work in progress are determined based on the weighted average cost of production.

Merchandise and materials are measured initially at acquisition cost, while as at the end of the reporting period merchandise and raw materials are measured at the lower of cost or net realizable value. Cost flows of merchandise and raw materials are determined based on the weighted average acquisition cost.

The initial value of inventories is adjusted for their profits or losses from settlement of cash flow hedging instruments.

Impairment tests for specific items of inventories are carried out at the end of each month. Write-down to net realizable value concerns inventories that are damaged or obsolete and the selling price has fallen. 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.
Recognition and reversal of impairment allowances of inventories is recognized in cost of sales.

ESTIMATES

Net realizable values from sale of inventories
The Company determines the inventory impairment allowances based on estimation of the net realizable values considering the most recent sales prices at the moment of estimations.

	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	**EUR**	**USD**	**EUR**
Raw materials	121,929	99,283	193,216	172,683
Semi-finished products	36,100	29,395	34,355	30,703
Finished goods	72,281	58,856	92,197	82,402
Spare parts	19,717	16,055	19,245	17,200
Inventories, net	**250,027**	**203,589**	**339,013**	**302,988**
Write-down of inventories to net realizable value	15,468	12,595	32,419	29,093
Inventories, gross	**265,495**	**216,184**	**371,432**	**332,081**

The main item of inventories, which turnover period is longer than 12 months after the end of the reporting period are mandatory reserves. As at 31 December 2020 and as at 31 December 2019 the value of mandatory reserves presented in separate financial statements amounted to USD 118,325 thousand or EUR 96,348 thousand and USD 144,911 thousand or EUR 129,512 thousand, respectively.

Change in impairment allowances of inventories to net realizable value

	Note	for the year ended		for the year ended	
		31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	**EUR**	**USD**	**EUR**
As at January 1		**32,419**	**29,093**	**33,170**	**28,959**
Recognition	7.4	150,209	135,031	17,022	15,332
Reversal	7.4	(167,231)	(152,457)	(18,169)	(15,918)
Exchange differences on translation		-	2,094	-	55
Write-down of inventories excluding spare parts		**(17,022)**	**(15,332)**	**(1,147)**	**(531)**
Recognition	7.4	805	714	707	629
Reversal	7.4	(734)	(631)	(312)	(283)
Exchange differences on translation		-	(1,249)	1	319
Write-down of spare parts for obsolescence		**71**	**(1,166)**	**396**	**665**
As at 31 December		**15,468**	**12,595**	**32,419**	**29,093**

8.5.2. Trade and other receivables

SELECTED ACCOUNTING PRINCIPLES

Receivables
Receivables, excluding trade receivables, are recognised initially at a fair value and subsequently, at amortised cost using the effective interest rate including expected credit loss. On initial recognition, the Company measures trade receivables that do not have a significant financing component at their transaction price.
The Company applies simplified methods of valuation of receivables measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment date is not long.
Receivables accounted at amortised cost, where the Company applies simplifications, are accounted at the initial recognition in the amount due, and later, including at the end of the reporting period, in the amount of the payment due less impairment allowances.

ESTIMATES

Impairment of trade and other receivables
As default the Company recognises that the customers do not meet obligations after 90 days from maturity of receivables.

(in USD and EUR thous.)

For the purpose of estimating the expected credit loss, the Company uses the provision matrix, which was estimated based on historical levels of repayment and recoveries from receivables from customers. The Company includes information on the future in parameters used in the expected loss estimation model, through the management adjustment of the basic default probability rates.
The Company does not monitor changes in the credit risk during life of instrument. From 1 January 2018 the Company estimates the expected credit loss until maturity of instrument. The expected credit loss is calculated when the receivable are recognised in the statement of financial position and is updated on each subsequent day ending the reporting period.

	Note	31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Trade receivables		117,927	96,024	267,276	238,874
Other		454	370	111	100
Financial assets	**9.1**	**118,381**	**96,394**	**267,387**	**238,974**
Other taxation, duty, social security receivables and other benefits		2	2	39	35
Deferred insurance costs		12,331	10,041	11,473	10,254
Accrued income and deferred costs		959	780	797	712
Prepayments for delivery		251	204	28	25
Non-financial assets, net		**13,543**	**11,027**	**12,337**	**11,026**
Receivables, net		**131,924**	**107,421**	**279,724**	**250,000**
Receivables impairment allowance		4,656	3,791	4,257	3,838
Expected credit loss		686	559	527	438
Receivables, gross		**137,266**	**111,771**	**284,508**	**254,276**

Division of financial assets denominated in foreign currencies is presented in note 9.5.2. Division of receivables from related parties is presented in note 10.5.2.
The Company expects that the trade and other receivables by contractors will be realized no later than twelve months after the end of the reporting period.

8.5.2.1. Change in expected credit loss of trade and other receivables

	2020	2020	2019	2019
	USD	EUR	USD	EUR
1 January	**527**	**438**	**531**	**441**
Recognition	267	240	-	-
Reversal	(108)	(90)	(4)	(3)
Exchange differences on translation	-	(29)	-	-
As at 31 December	**686**	**559**	**527**	**438**

8.5.2.2. Change in impairment allowances of trade and other receivables

	2020	2020	2019	2019
	USD	EUR	USD	EUR
1 January	**4,257**	**3,922**	**6,137**	**5,476**
Recognition	-	-	2,005	1,719
Reversal	(16)	(14)	(1,892)	(1,617)
Other increases/decreases	-	-	(1,880)	(1,614)
Exchange differences on translation	415	(117)	(113)	(42)
As at 31 December	**4,656**	**3,791**	**4,257**	**3,922**

8.5.3. Trade and other liabilities

SELECTED ACCOUNTING PRINCIPLES

Liabilities
Liabilities, including trade liabilities, are initially measured at fair value and subsequently, at amortised cost using the effective interest rate method.
The Company applies simplified methods of valuation of liabilities measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until settlement of the liability is not long.

(in USD and EUR thous.)

	31/12/2020 USD	31/12/2020 EUR	31/12/2019 USD	31/12/2019 EUR
Trade liabilities	161,042	131,133	190,405	170,170
Investment liabilities	14,225	11,583	11,542	10,316
Uninvoiced services	7,375	6,006	60,682	54,234
Financial liabilities (Note 9.1)	**182,642**	**148,722**	**262,629**	**234,720**
Payroll liabilities	2,257	1,838	1,927	1,723
Excise tax and fuel charge	15,579	12,686	29,942	26,760
Value added tax	21,532	17,533	32,738	29,259
Other taxation, duties, social security and other benefits	4,549	3,703	4,285	3,830
Other liabilities	1,085	883	1,462	1,306
Advance payments and prepayments	1,158	942	3,692	3,300
Accruals	7,363	5,996	5,928	5,298
Non-financial liabilities	**53,523**	**43,581**	**79,974**	**71,476**
Total	**236,165**	**192,303**	**342,603**	**306,196**

Division of financial liabilities denominated in foreign currencies is presented in Note 9.5.2. Division of liabilities from related parties is presented in note 10.5.2.
As at 31 December 2020 and as at 31 December 2019 in the Company there were no material overdue liabilities.
The Company expects that the payment of trade liabilities to contractors will take place no later than twelve months after the end of the reporting period.

8.6. Equity

SELECTED ACCOUNTING PRINCIPLES

Share capital
Equity paid by shareholders and presented at nominal value in accordance with the Company's articles of association and the entry in the Centre of Registers.
Share premium
Equity created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.
Legal reserve
According to legislations in Lithuania, an annual transfer of net profit to the legal reserve is compulsory until the reserve reaches 10% of the share capital. The legal reserve can't be distributed as dividends and is formed to cover future losses.
Hedging reserve
Equity including valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting.
Exchange differences on translating
Result is from translation of the financial statements of USD data into presentation currency EUR.
Retained earnings
Include:
- actuarial gains and losses from post-employment benefits,
- the current reporting period profit/loss.

8.6.1. 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 Company.
The sole shareholder of the Company is PKN ORLEN S.A., controlling 100 % shares. In 2019 and in 2020 the Company did not pay dividends.

(in USD and EUR thous.)

8.7. Derivatives and other assets and liabilities

Other non-current assets

	Note	31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Loans granted	9.1	5	4	11	10
Other non-current receivables	9.1	420	342	589	526
Financial assets		**425**	**346**	**600**	**536**
Non-current prepayment		650	529	853	762
Total non-financial assets		**650**	**529**	**853**	**762**
As at 31 December		**1,075**	**875**	**1,453**	**1,298**

Derivatives and other financial assets

	Note	31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Cash flow hedge instruments - commodity swaps	9.1	-	-	1,241	1,109
Derivatives not designated for hedge accounting - commodity swaps	9.1	1,940	1,579	2,782	2,486
Loans granted	9.1	7	6	4	4
Receivables from cash pool	9.1	-	-	32,301	28,868
Receivables on settled cash flow hedge instruments	9.1	6	5	5,094	4,553
Receivables on settled derivatives not designated for hedge accounting	9.1	-	-	2,737	2,446
As at 31 December		**1,953**	**1,590**	**44,159**	**39,466**

Derivatives and other liabilities

	Note	31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Cash flow hedge instruments - commodity swaps	9.1	4,800	3,909	3,710	3,316
Derivatives not designated for hedge accounting - commodity swaps	9.1	1,940	1,580	4,859	4,343
Liabilities on settled cash flow hedge instruments	9.1	4,310	3,509	2,479	2,215
Liabilities on settled derivatives not designated for hedge accounting	9.1	15,473	12,599	8,362	7,473
Liabilities from cash pool	9.1	47,608	38,765	10,003	8,940
Total		**74,131**	**60,362**	**29,413**	**26,287**

The Company is the members of the international cash pool managed by PKN ORLEN S.A. The internal cross-currency credit limit as at 31 December 2020 granted to the Company was EUR 149 million (or USD 183 million). The date of full repayment of the internal cross-currency credit limit is 30 June 2021.

8.8. Provisions

SELECTED ACCOUNTING PRINCIPLES

Environmental provision

The Company 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 on the basis of the degree of contamination. Changes of provision increase or decrease the value of asset causing the obligation of reclamation in the current period. In case decrease of provision is higher than carrying amount of the asset, the amount of that excess is recognised in profit or loss.

CO2 emissions

The Company recognises the estimated, CO2 emissions costs during the reporting period in operating activity costs (taxes and charges). Provision is recognised based on the value of allowances taking into account the weighted average method. 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 of allowances at the reporting date.

(in USD and EUR thous.)

Other provisions

Other provisions include mainly provisions for on-going legal proceedings and are recognised after consideration of available information, including the opinions of independent experts.

ESTIMATES

Recognition of provisions requires estimates of the probable outflow of resources embodying economic benefits and making the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are recognised when the probability of outflow of resources embodying economic benefits is higher than 50 %.

USD	Non-current		Current		Total	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Environmental	2,135	1,896	914	594	3,049	2,490
Post employment benefits	3,713	3,805	698	470	4,411	4,275
Other provisions	-	-	-	3,162	-	3,162
CO2 emissions	-	-	34,113	36,782	34,113	36,782
As at 31 December	**5,848**	**5,701**	**35,725**	**41,008**	**41,573**	**46,709**

EUR	Non-current		Current		Total	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Environmental	1,738	1,694	744	531	2,482	2,225
Post employment benefits	3,024	3,401	568	420	3,592	3,821
Other provisions	-	-	-	2,827	-	2,827
CO2 emissions	-	-	27,777	32,873	27,777	32,873
As at 31 December	**4,762**	**5,095**	**29,089**	**36,651**	**33,851**	**41,746**

Change in provisions in 2020

USD	Environmental	Post employment benefits	Other provisions	CO2 emissions	Total
1 January 2020	**2,490**	**4,275**	**3,162**	**36,782**	**46,709**
Recognition	653	204	-	34,113	**34,970**
Usage	(346)	(169)	(416)	(35,469)	**(36,400)**
Reversal	-	-	(2,748)	-	**(2,748)**
Correction of previous years	-	-	-	(557)	**(557)**
Accounted from equity	-	(316)	-	-	**(316)**
Exchange differences on translation	252	417	2	(756)	**(85)**
As at 31 December 2020	**3,049**	**4,411**	**-**	**34,113**	**41,573**

EUR	Environmental	Post employment benefits	Other provisions	CO2 emissions	Total
1 January 2020	**2,225**	**3,821**	**2,827**	**32,873**	**41,746**
Recognition	554	166	-	27,777	**28,497**
Usage	(297)	(138)	(363)	(32,643)	**(33,441)**
Reversal	-	-	(2,434)	-	**(2,434)**
Correction of previous years	-	-	-	(511)	**(511)**
Accounted from equity	-	(257)	-	-	**(257)**
Exchange differences on translation	-	-	(30)	281	**251**
As at 31 December 2020	**2,482**	**3,592**	**-**	**27,777**	**33,851**

(in USD and EUR thous.)

Change in provisions in 2019

USD	Environmental	Post employment benefits	Other provisions	CO2 emissions	Total
1 January 2019	**3,013**	**4,330**	**1,951**	**39,036**	**48,330**
Recognition	465	479	6,434	36,814	**44,192**
Usage	(878)	(267)	(2,217)	(35,274)	**(38,636)**
Reversal	(79)	-	(2,853)	-	**(2,932)**
Correction of previous years	-	-	-	(3,794)	**(3,794)**
Accounted from equity	-	(167)	-	-	**(167)**
Exchange differences on translation	(31)	(100)	(153)	-	**(284)**
As at 31 December 2019	**2,490**	**4,275**	**3,162**	**36,782**	**46,709**

EUR	Environmental	Post employment benefits	Other provisions	CO2 emissions	Total
1 January 2019	**2,631**	**3,781**	**1,703**	**34,080**	**42,195**
Recognition	416	430	5,719	32,770	**39,335**
Usage	(787)	(241)	(1,975)	(31,383)	**(34,386)**
Reversal	(71)	-	(2,541)	28	**(2,584)**
Correction of previous years	-	-	-	(2,622)	**(2,622)**
Accounted from equity	-	(149)	-	-	**(149)**
Exchange differences on translation	36	-	(79)	-	**(43)**
As at 31 December 2019	**2,225**	**3,821**	**2,827**	**32,873**	**41,746**

8.8.1. Environmental provision

The Company has legal obligation to clean contaminated land-water environment in the area of production plant, pipeline and terminal.

The Company estimates a provision for environmental risk related to removal of pollution based on own analysis taking into account the expected costs of remediation. The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

8.8.2. Provision for post-employment benefits

The Company employees under Collective Agreement and Lithuanian labour code are entitled to retirement benefit, paid once at retirement. The amount of above benefits depends on the number of years in service and an employee's remuneration. Retirement benefits are classified as post-employment defined benefit plans.
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 change in wages.
Actuarial gains and losses from post-employment benefits are recognised in components of other comprehensive income.

Change in post-employment benefits obligation

Post-employment benefits	**2020**		**2019**	
	USD	**EUR**	**USD**	**EUR**
1 January	**4,275**	**3,821**	**4,330**	**3,781**
Current service cost	190	155	191	172
Interest expense	14	11	41	37
Actuarial gains and losses arrising from changes in assumptions	**(316)**	**(257)**	**(167)**	**(149)**
demographic assumptions	(286)	(232)	82	74
financial assumptions	21	17	288	259
experience adjustment	(51)	(42)	(537)	(482)
Payments under program	(169)	(138)	(101)	(91)
Recognized past service cost	-	-	79	72
Exchange differences on translation	417	-	(98)	(1)
As at 31 December	**4,411**	**3,592**	**4,275**	**3,821**

The carrying amount of employee benefits liabilities is equal to their present value as at 31 December 2020 and 31 December 2019.

Sensitivity analysis to changes in actuarial assumptions

As at 31 December 2020, the Company used the following actuarial assumptions that had an impact on the level of actuarial provisions: discount rate of 0.2 %; expected inflation 2.2% in 2021 and 2.0% in subsequent years, the remuneration increase rate 2.5% in 2021 and in the subsequent years.

The Company analysed the impact of the financial and demographic assumptions and calculated that the changes of ratios: remuneration ratio by +/- 0.5 p.p., the discount rate by +/- 0.5 p.p. and the rate of turnover by +/- 0.5 p.p. is not higher than USD 232 thousand. Therefore, the Company does not present any detailed information.

The Company carries out the employee benefit payments from current resources

Post-employment benefits are calculated for active employees.

Maturity of employee benefits analysis

	31/12/2020		31/12/2019	
	USD	EUR	USD	EUR
up to 1 year	698	568	469	420
from 1 to 3 years	358	292	289	258
from 3 to 5 years	330	269	252	225
above 5 years	3,025	2,463	3,265	2,918
	4,411	**3,592**	**4,275**	**3,821**

The weighted average duration of liabilities in Lithuania for post-employment benefits as at 31 December 2020 were 10.9 years and as at 31 December 2019 were 13 years.

Not discounted future cash flow of employee benefits payments

	31/12/2020		31/12/2019	
	USD	EUR	USD	EUR
up to 1 year	719	585	474	424
from 1 to 3 years	387	315	309	276
from 3 to 5 years	382	311	300	268
above 5 years	5,556	4,524	8,912	7,965
	7,044	**5,735**	**9,995**	**8,933**

In 2020 the amount of provision for employee benefits changed as the result of update of assumptions, mainly in relation to discount rate, projected inflation and expected remuneration increase ratio. Should the 2019 assumptions be used, the provision for the employee benefits would be lower by USD 265 thousand or EUR 216 thousand.

9. EXPLANATORY NOTES TO THE FINANCIAL INSTRUMENTS AND FINANCIAL RISK

SELECTED ACCOUNTING PRINCIPLES

Financial instruments

Measurement of financial assets and liabilities

At initial recognition, the Company measures financial assets and liabilities not qualified as at fair value through profit or loss (i.e. held for trading) at their fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The Company does not classify instruments as measured at fair value through profit or loss upon initial recognition, i.e. does not apply the fair value options.

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

The Company uses simplified methods of valuation of financial assets and liabilities accounted at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment of debt or settlement of the liability is not long.

Financial assets measured at amortized cost, where the Company applies simplifications, are accounted at initial recognition in the amount due, and later, including at the end of the reporting period, in the amount of the payment due less expected credit loss impairment allowances.

Financial liabilities for which the Company applies simplifications are measured at initial recognition and at a later date, including at the end of the reporting period, in the amount of payment due less expected credit loss impairment allowances.

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

Impairment of financial assets

The Company recognizes a write-off due to expected credit losses on financial assets measured at amortized cost.

The Company uses the following models for determining impairment allowances:
- general model (basic),
- simplified model.

The general model is used by the Company for financial assets measured at amortized cost - other than trade receivables and for debt instruments measured at fair value through other comprehensive income.

In the general model, the Company monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).

On each day ending the reporting period, the Company considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.

For the purposes of estimating the expected credit loss, the Company uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.

The Company includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by the Company for trade receivables.

In the simplified model, the Company does not monitor changes in the credit risk level during the life and estimates the expected credit loss in the horizon up to maturity of the instrument.

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 Company has cash flow of hedging relation.

The Company assess effectiveness of cash flow hedge at the inception of the hedge and later, at minimum, at reporting date. In case of cash flow hedge accounting, the Company recognises in other comprehensive income part of profits and losses connected with the effective part of the hedge, whereas profits or losses connected with the ineffective part - under profit or loss.

To assess the effectiveness of hedge the Company uses statistical methods, including in particular the direct compensation method. The verification of fulfilment of conditions in the scope of binding effectiveness is made on a prospective basis, based on a qualitative analysis. If it is necessary, the Company uses quantitative analysis (linear regression method) to confirm the existence of an economic link between the hedging instrument and the hedged item.

In case of applying fair value hedge accounting, the Company recognises profits or losses resulting from the revaluation of fair value of derivative financial instrument in financial result, and adjusts carrying amount of hedged item by profit or loss related to the hedged item, resulting from the risk being hedged and recognises it in the profit or loss (in the same item in which hedging derivatives are recognized).

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized in other comprehensive income are reclassified to profit or loss of the reporting period in the same period or periods during which the asset acquired, or liability assumed, affects profit or loss.

However, if the Company expects that all or a portion of a loss recognized 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 subsequently 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 Company removes the associated gains and losses that were recognized in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability when the item appears in the statement of financial position.

If a hedge of a forecast transaction results in the recognition of revenue from sales of finished products, merchandise or services, the Company removes the associated gains or losses that were recognized in the other comprehensive income and adjusts above revenues.

In case of applying fair value hedge accounting, accumulated adjustment of hedged item valuation for hedged risk is transferred to the financial result at the moment when the realization of hedged item affects the result.

Derivatives are recognized as assets when their valuation is positive and as liabilities in case of negative valuation.

Fair value measurement

The Company maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs to estimate the fair value, i.e. 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 Company measures derivatives 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 price and transaction price.

PROFESSIONAL JUDGEMENTS

Financial instruments

The Management assesses the classification of financial instruments, nature and extent of risk related to financial instruments and application of the cash flow hedge accounting. The financial instruments are classified into different categories depending on the purpose of the purchase and nature of acquired assets.

(in USD and EUR thous.)

9.1. Financial instruments by category and class

	Financial instruments by category	Note	31/12/2020		31/12/2019	
			USD	EUR	USD	EUR
ASSETS						
Cash flow hedge instruments	Hedging financial instruments	8.7	-	-	1,241	1,109
Derivatives not designated as hedge accounting	At fair value through profit or loss	8.7	1,940	1,579	2,782	2,486
Trade and other receivables	Measured at amortized cost	8.5.2	118,381	96,394	267,387	238,974
Receivables from cash pool	Measured at amortized cost	8.7	-	-	32,301	28,868
Cash and cash equivalents	Measured at amortized cost		9,484	7,723	8,399	7,506
Receivables on settled cash flow hedge instruments	Measured at amortized cost	8.7	6	5	5,094	4,553
Receivables on settled derivatives not designated as hedge accounting	Measured at amortized cost	8.7	-	-	2,737	2,446
Loans granted	Measured at amortized cost	8.7	12	10	15	14
Other non-current receivables	Measured at amortized cost	8.7	420	342	589	526
Total			**130,243**	**106,053**	**320,545**	**286,482**
LIABILITIES						
Cash flow hedge instruments	Hedging financial instruments	8.7	4,800	3,909	3,710	3,316
Derivatives not designated as hedge accounting	At fair value through profit or loss	8.7	1,940	1,580	4,859	4,343
Lease liabilities	*Excluded from the clasification and measurement of IFRS 9*	10.1.2	37,047	30,167	13,831	12,362
Trade and other liabilities	Measured at amortized cost	8.5.3	182,642	148,722	262,629	234,720
Liabilities from cash pool	Measured at amortized cost	8.7	47,608	38,765	10,003	8,940
Liabilities on settled cash flow hedge instruments	Measured at amortized cost	8.7	4,310	3,509	2,479	2,215
Liabilities on settled derivatives not designated as hedge accounting	Measured at amortized cost	8.7	15,473	12,599	8,362	7,473
Total			**293,820**	**239,251**	**305,873**	**273,369**

9.2. Income, expenses, profit and loss and other comprehensive income

	Financial instruments by category	Note	31/12/2020		31/12/2019	
			USD	EUR	USD	EUR
Interest income	Measured at amortized cost	7.7	220	198	1,643	1,468
Interest costs		7.7	(1,118)	(973)	(770)	(688)
from financial instruments measured at amortised costs	Measured at amortized cost		*(923)*	*(802)*	*(549)*	*(490)*
from lease	*Excluded from the clasification and measurement of IFRS 9*	10.1.2	*(195)*	*(171)*	*(221)*	*(198)*
Foreign exchange gain/(loss)	Measured at amortized cost	7.7	(3,336)	(2,736)	1,382	1,214
(Loss)/reversal of loss due to impairment of financial instruments	Measured at amortized cost		(143)	(136)	(113)	(102)
Ineffective part related to settlement and valuation of operating exposure	Hedging financial instruments (ineffective part)	7.5, 7.6	(3,312)	(3,002)	(165)	(140)
Settlement and valuation of financial instruments related to operational exposure	At fair value through profit or loss	7.5, 7.6	28,002	26,212	(15,749)	(14,239)
Profit from sale of investments	Measured at amortized cost		-	-	1,060	940
Other	Measured at amortized cost	7.7	11	10	52	46
Total			**20,324**	**19,573**	**(12,660)**	**(11,501)**
other, excluded from the scope of IFRS 7						
Dividends			5,786	5,235	5,858	5,184

9.3. Fair value measurement

As at 31 December 2020 and as at 31 December 2019 fair value of financial assets and financial liabilities are equal or similar to carrying amount due to their short term nature.

9.4. Hedge accounting

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

(in USD and EUR thous.)

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

	Note	31/12/2020	31/12/2020	31/12/2019	31/12/2019
		USD	EUR	USD	EUR
Cash flows hedge instruments					
Commodity swap	8.7	(4,800)	(3,909)	(2,469)	(2,207)
Total		**(4,800)**	**(3,909)**	**(2,469)**	**(2,207)**

Cash flows hedge recognized in financial statements

	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Inventories	(6)	(5)	(1,548)	(1,383)
Sales revenues	50,795	47,086	(3,722)	(3,352)
Cost of sales	(32,768)	(28,722)	6,124	5,473

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

	31/12/2020	31/12/2019
Commodity risk exposure	January-May 2021	2020

9.5. Risk identification

9.5.1. Commodity risks

As part of its operating activity the 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 Company results.

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

Type of hedged raw material/product	Unit of measure	31/12/2020	31/12/2019
Crude oil	bbl	3,010,000	3,621,000
Diesel oil	Mt	64,000	111,601
Gasoline	Mt	12,000	9,000
Fuel Jet	Mt	-	4,000
Heating oil	Mt	4,000	-

Sensitivity analysis for changes in prices of products and raw materials

As at 31 December 2020

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	+6%	5	4	-6%	(5)	(4)
Diesel oil USD/Mt	+6%	(1,652)	(1,345)	-6%	1,652	1,345
Gasoline USD/Mt	+3%	(175)	(142)	-3%	175	142
Heating oil USD/Mt	+18%	(207)	(169)	-18%	207	169
		(2,029)	**(1,652)**		**2,029**	**1,652**

As at 31 December 2019

Type of hedged raw material/product	Increase of prices	Total influence		Decrease of prices	Total influence	
		USD	EUR		USD	EUR
Crude oil USD/bbl	+32%	(33,997)	(30,384)	-32%	33,997	30,384
Diesel oil USD/Mt	+26%	(10,199)	(9,115)	-26%	10,199	9,115
Gasoline USD/Mt	+27%	(1,643)	(1,468)	-27%	1,643	1,468
Fuel Jet USD/Mt	+25%	(651)	(582)	-25%	651	582
		(46,490)	**(41,549)**		**46,490**	**41,549**

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil and products prices were calculated based on volatility for 2020 and 2019 and available analysts' forecasts.

9.5.2. The risk of exchange rates changes

Currency risk

Currency risk - The Company's functional currency is US dollar. The Company 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.

Currency structure of financial instruments as at 31 December 2020:

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	8.7	342	-	-	-	420	342
Trade and other receivables	8.5.2	27,971	84,030	-	-	118,381	96,394
Receivables from cash pool	8.7	-	-	-	-	-	-
Loans granted	8.7	10	-	-	-	12	10
Derivatives not designated as hedge accounting	8.7	-	1,940	-	-	1,940	1,579
Receivables on settled cash flow hedge instruments	8.7	-	6	-	-	6	5
Cash and cash equivalents		7,053	823	-	-	9,484	7,723
Total		**35,376**	**86,799**	**-**	**-**	**130,243**	**106,053**
Financial liabilities							
Trade and other liabilities	8.5.3	39,456	134,031	362	60	182,642	148,722
Lease liabilities	10.1.2	30,167	-	-	-	37,047	30,167
Cash flow hedge instruments	8.7	-	4,800	-	-	4,800	3,909
Derivatives not designated as hedge accounting	8.7	-	1,940	-	-	1,940	1,580
Liabilities on settled cash flow hedge instruments	8.7	-	19,783	-	-	19,783	16,108
Liabilities from cash pool	8.7	2,228	44,871	-	-	47,608	38,765
Total		**71,851**	**205,425**	**362**	**60**	**293,820**	**239,251**
Total, net		**(36,475)**	**(118,626)**	**(362)**	**(60)**	**(163,577)**	**(133,198)**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Company (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2020) 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%	(6,719)	-15%	6,719
		(6,719)		**6,719**

(in USD and EUR thous.)

Currency structure of financial instruments as at 31 December 2019:

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	8.7	525	-	-	-	589	526
Trade and other receivables	8.5.2	63,426	196,420	-	-	267,387	238,974
Receivables from cash pool	8.7	-	32,301	-	-	32,301	28,868
Loans granted	8.7	14	-	-	-	15	14
Cash flow hedge instruments	8.7	-	1,241	-	-	1,241	1,109
Derivatives not designated as hedge accounting	8.7	-	2,782	-	-	2,782	2,486
Receivables on settled cash flow hedge instruments	8.7	-	7,831	-	-	7,831	6,999
Cash and cash equivalents		7,011	554	-	-	8,399	7,506
Total		**70,976**	**241,129**	**-**	**-**	**320,545**	**286,482**
Financial liabilities							
Trade and other liabilities	8.5.3	57,060	198,534	627	88	262,629	234,720
Lease liabilities	10.1.2	12,362	-	-	-	13,831	12,361
Cash flow hedge instruments	8.7	-	3,710	-	-	3,710	3,316
Derivatives not designated as hedge accounting	8.7	-	4,859	-	-	4,859	4,343
Liabilities on settled cash flow hedge instruments	8.7	-	10,841	-	-	10,841	9,689
Liabilities from cash pool	8.7	8,931	10	-	-	10,003	8,940
Total		**78,353**	**217,954**	**627**	**88**	**305,873**	**273,369**
Total, net		**(7,377)**	**23,175**	**(627)**	**(88)**	**14,672**	**13,113**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Company (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2019) 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%	(1,238)	-15%	1,238
		(1,238)		**1,238**

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.

9.5.3. The risk of interest rates changes

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

9.5.4. Liquidity, credit and market risk

Financial risk management

The Company is exposed particularly to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, risk of changes in commodity prices, risk of changes in CO2 emission allowances prices). Market risk management process is centralized in PKN ORLEN group and is regulated by Cooperation Agreement on the Treasury Area Centralisation in the ORLEN Capital Group concluded on 23 November 2017 between PKN ORLEN S.A. and the Company.

(in USD and EUR thous.)

Liquidity risk

The goal of the Company is to maintain the balance between continuity and flexibility of financing. To achieve this goal, the Company uses, first of all, financing on the PKN ORLEN Group level (cash pool).
The Company maintains the ratio of current assets to current liabilities (current ratio) on a safe level. As at 31 December 2020 and as at 31 December 2019, the ratio amounted to 1.11 and 1.61 respectively.
The Company had no loans in 2019 or 2020.
Financing available for the year 2020 under the credit/cash pool agreements to cover net current liabilities with the maturity of 30 June 2021 (EUR 149 million or USD 183 million) was covering the expected liquidity needs for 2020 with reserve.

Maturity analysis for financial liabilities:

	Note	31/12/2020 up to 1 year		Carrying amounts	
		USD	EUR	USD	EUR
Trade and other liabilities	8.5.3	182,642	148,722	182,642	148,722
Derivatives not designated for hedge accounting - commodity swaps	8.7	1,940	1,580	1,940	1,580
Cash flow hedge instruments - commodity swaps	8.7	4,800	3,909	4,800	3,909
Liabilities on settled derivatives	8.7	19,783	16,108	19,783	16,108
Liabilities from cash pool	8.7	47,608	38,765	47,608	38,765
Total		**256,773**	**209,084**	**256,773**	**209,084**

	Note	31/12/2019 up to 1 year		Carrying amounts	
		USD	EUR	USD	EUR
Trade and other liabilities	8.5.3	262,629	234,720	262,629	234,720
Derivatives not designated for hedge accounting - commodity swaps	8.7	4,859	4,343	4,859	4,343
Cash flow hedge instruments - commodity swaps	8.7	3,710	3,316	3,710	3,316
Liabilities on settled derivatives	8.7	10,841	9,688	10,841	9,688
Liabilities from cash pool	8.7	10,003	8,940	10,003	8,940
Total		**292,042**	**261,007**	**292,042**	**261,007**

Maturity analysis for lease liabilities is provided in Note 10.1.2.

Credit risk

Within its trading activity the Company sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Company's receivables from sales of products and services. In order to minimize credit risk and working capital the Company 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. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures are implemented as described in the Commercial Credit and Advance payables Management Procedure. In order to reduce the risk of recoverability of trade receivables the Company receives securities from its customers' such as bank guarantees, stand-by letters of credit, mortgages and third-party guarantees.

(in USD and EUR thous.)

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

	Current trade receivables			
	31/12/2020 USD	31/12/2020 EUR	31/12/2019 USD	31/12/2019 EUR
Overdue:				
Up to 30 days	611	497	872	779
31-60 days	34	27	148	132
61-90 days	8	7	226	202
3-6 months	14	12	193	172
6-12 months	7	6	116	104
Above 1 year	-	-	2,846	2,544
Total	**674**	**549**	**4,401**	**3,933**

Market risks

The Company 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 Company 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 Company 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.

10. OTHER EXPLANATORY NOTES

10.1. Leases

SELECTED ACCOUNTING PRINCIPLES

The Company as a lessee

Identifying a lease
The Company applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thereby, for all contracts concluded before 1 January 2019, the Company applied the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. As at 1 January 2019 the Company applies IFRS 16 to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.
At the time of conducting a new contract, the Company assesses whether the contract is a lease or whether it contains a lease. An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess if an agreement transfers the right to control the use of an identified asset for a given period, the Company shall determine whether throughout the entire period of use the customer enjoys the following rights:

a) the right to obtain substantially all economic benefits from the use of the identified asset and
b) the right to manage the use of the identified asset.

Should the Company have the right to control the use of an identified asset for part of the duration of an agreement only, the agreement contains a lease in respect of this part of the period.
Rights resulting from lease, rental, hire or other agreements which meet the definition of a lease as per IFRS 16 are recognised as right to use underlying assets within the framework of non-current assets with a corresponding lease liabilities.

Initial recognition and measurement
The Company recognises the right to use asset as well as the lease liability on the date of commencement of the lease.
On the date of commencement the Company measured the right to use asset at cost.
The cost of the right to use asset is inclusive of the following:

a) the amount of the initial measurement of the lease liability,
b) all lease payments made on or before the date of commencement, less any lease incentives received,
c) all initial costs directly incurred by the lessee, and
d) estimated costs to be incurred by the lessee in connection with the dismantling and removal of underlying assets, the refurbishment of premises within which they were located, or the refurbishment of underlying assets to the condition required by the terms and conditions of the lease, unless these costs are incurred with the aim of creating stocks.

Lease payments included in the evaluation of lease liability include:

- fixed lease payments;
- variable lease payments, which depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts that are expected to be paid by the lessee as part of the guaranteed residual value;
- the call exercise price, should it be assumed with reasonable certainty that the Company shall decide to exercise the call option;
- penalty payments for termination of a lease, unless it can be assumed with reasonable certainty that the Company shall not terminate the lease.

Variable payments, which do not depend on an index or a rate should not be taken into account when calculating lease liability. Such payments are recognised in the profit or loss in the period of the occurrence which renders them payable.
The lease liability on the commencement date shall be calculated on the basis of the current lease payments that are payable by that date and discounted by the marginal interest rates of the lessee.
The Company does not discount lease liabilities by the lease interest rate as the calculation of such rates requires information known only to the lessor (the non-guaranteed final value of the leased asset as well as the direct costs incurred by the lessor).

Determining the lessee's marginal interest rate
Lessee's marginal interest rates were specified as the sum of:

a) the risk free rate, based on the Interest Rate Swap (IRS) in accordance with the maturity of the discount rate, and the relevant basic rate for the given currency, as well as

b) the Company's credit risk premium based on the credit margin calculated inclusive of the credit risk segmentation of all companies which have entered into lease agreements.

Subsequent measurement
After the commencement date, the lessee measures the right to use asset applying the cost model.
In applying the cost model, the lessee shall measure the cost of the right to use asset:

a) less any accumulated depreciation and accumulated impairment losses; and
b) adjusted in respect of any updates to the measurement of lease liability not resulting in the necessity for recognition of a separate asset.

After the date of commencement the lessee shall measure the lease liability by:

a) increasing the carrying amount to reflect interest on the lease liability,
b) decreasing the carrying amount to reflect any lease payments made, and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to revise in-substance fixed lease payments.

The Company shall remeasure the lease liability in cases where there is a change in future lease payments as a result of a change in the index or rate used to determine lease payments (e.g. a change in payment associated with the right of perpetual use), in cases where there is a change in the amount expected by the Company to be payable under the residual amount guarantee, or if the Company reassesses the likelihood of the exercise of the call option, or the extension or termination of the lease.
Updating the lease liability also adjusts the value of the right to use asset. In a situation where the carrying amount of the right to use asset has been reduced to zero, further reductions in the measurement of the lease liability shall be recognised by the Company as profit or loss.

Depreciation
The right to use asset is depreciated linearly over the shorter of the following two periods: the period of lease or the useful life of the underlying asset. However in cases where the Company can be reasonably sure that it will regain ownership of the asset prior to the end of the lease term, right to use shall be depreciated from the day of commencement of the lease until the end of the useful life of the asset.
The useful life of right to use asset is determined in the same manner as for property, plant and equipment.
The Company has leases agreements regarding mainly:

a) Land, including:
   – perpetual usufruct of land for a fixed period of up to 99 years.
b) Buildings and construction, storage tank, office spaces for a fixed period up to 30 years.
c) Vehicles and other, including:
   – railway tank concluded for a specified period of 3 to 10 years,
   – cars for a fixed period up to 3 years.

Impairment
The Company applies IAS 36 Impairment of Assets to determine whether the right to use asset is impaired and to account for any impairment loss identified.

Exemptions, simplifications and practical solutions in the application of IFRS 16

Exemptions
Agreements not included within the scope of IFRS 16:

– lease for the exploration or use of natural resources,
– licenses granted and recognised in accordance with IFRS 15 – “Revenue from Contracts with Customers”, and
– lease of intangible assets in accordance with IAS 38 - Intangible Assets.

Simplifications and practical solutions

Short-term lease
The Company applies a practical solution to short-term lease contracts, which are characterised by a maximum possible contract term of up to 12 months, including any options to extend.

Simplifications regarding these contracts involve the settlement of lease payments as costs:

– on a straight-line basis, for the duration of the lease agreement, or
– another systematic method, if it better reflects the way of spreading the benefits gained by the user in time.

Leases of low-value assets

The Company does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.
As low-value assets are considered to be those which have a value when new not higher than USD 5,000 or the equivalent value in another currency as per the average closing rate of exchange of the European Central Bank at the moment of initial recognition of a contract.
Simplifications in respect of such contracts are due to the settlement of costs on:

- a straight-line basis for the term of the lease contract; or
- another systematic method basis should it be more representative of the time pattern of the user's benefit.

An asset covered by a lease must not be counted as a low-value asset if the asset would typically not be of low value when new. As low-value items, the Company includes for example: gas cylinders, coffee machines, and small items of furniture.
The underlying asset may have a low-value only if:

a) the lessee may benefit from use of the underlying asset itself or in conjunction with other resources which are readily available to him, and
b) the underlying asset is not highly dependent on or related to other assets.

If the lessee transfers asset into subleasing or expects the asset to be transferred to subleasing, then the main lease does not qualify as lease of a low-value asset.

Determining the lease term

In determining the lease term, the Company consider in all important facts and events behind the economic incentives to make use of the option to extend the lease or not to exercise the option of its termination. An assessment of a lease term is carried out on the date of commencement of the lease. A reassessment is made upon the occurrence of either a significant event or a significant change in circumstances, that the lessee controls, that impact such an assessment.

Separating non-lease components

The Company assesses whether the contract contains lease and non-lease components. Non-lease components are removed from contracts containing a lease component, for example service for assets covered by the contract.
However, in cases where a contract includes non-lease components considered by the Company to be immaterial within the context of the contract as a whole, the Company uses simplification which allows lease and non-lease components to be treated a single lease component.

The useful life of right to use asset

The estimated useful life of right to use asset is determined in the same manner as for property, plant and equipment.

(in USD and EUR thous.)

10.1.1. Change is assets due to right of use

USD	Land	Buildings and constructions	Vehicles and other	Total
Net carrying amount at 01/01/2020				
Gross carrying amount	4,516	177	14,598	**19,291**
Accumulated depreciation	(61)	(79)	(7,696)	**(7,836)**
	4,455	**98**	**6,902**	**11,455**
Increases/(decreases), net				
Increase according new contracts, modification and other	7	3	28,932	**28,942**
Depreciation	(61)	(87)	(6,789)	**(6,937)**
Other	-	-	(338)	**(338)**
	4,401	**14**	**28,707**	**33,122**
Net carrying amount at 31/12/2020				
Gross carrying amount	4,523	179	31,074	**35,776**
Accumulated depreciation	(122)	(165)	(2,367)	**(2,654)**
	4,401	**14**	**28,707**	**33,122**
Net carrying amount at 01/01/2019				
Gross carrying amount	5,229	174	13,482	**18,885**
	5,229	**174**	**13,482**	**18,885**
Increases/(decreases), net				
Depreciation	(61)	(79)	(8,360)	**(8,500)**
Other	(713)	3	1,780	**1,070**
Net carrying amount at 31/12/2019	**4,455**	**98**	**6,902**	**11,455**

EUR	Land	Buildings and constructions	Vehicles and other	Total
Net carrying amount at 01/01/2020				
Gross carrying amount	4,036	158	13,046	**17,240**
Accumulated depreciation	(54)	(70)	(6,878)	**(7,002)**
	3,982	**88**	**6,168**	**10,238**
Increases/(decreases), net				
Increase according new contracts, modification and other	6	2	24,619	**24,627**
Depreciation	(54)	(76)	(5,931)	**(6,061)**
Other	-	-	(309)	**(309)**
Exchange differences on translation	(350)	(2)	(1,172)	**(1,524)**
	3,584	**12**	**23,375**	**26,971**
Net carrying amount at 31/12/2020				
Gross carrying amount	3,683	146	25,303	**29,132**
Accumulated depreciation	(99)	(134)	(1,928)	**(2,161)**
	3,584	**12**	**23,375**	**26,971**
Net carrying amount at 01/01/2019				
Gross carrying amount	4,565	152	11,770	**16,487**
	4,565	**152**	**11,770**	**16,487**
Increases/(decreases), net				
Depreciation	(54)	(71)	(7,478)	**(7,603)**
Other	(646)	3	1,596	**953**
Exchange differences on translation	117	4	280	**401**
Net carrying amount at 31/12/2019	**3,982**	**88**	**6,168**	**10,238**

(in USD and EUR thous.)

10.1.2. Maturity analysis for lease liabilities

	31/12/2020 USD	31/12/2020 EUR	31/12/2019 USD	31/12/2019 EUR
up to 1 year	7,716	6,283	8,106	7,246
from 1 to 2 years	7,051	5,741	645	576
from 2 to 3 years	5,536	4,508	521	466
from 3 to 4 years	5,362	4,366	521	466
from 4 to 5 years	4,811	3,917	417	372
above 5 years	17,611	14,341	12,707	11,356
Discount	(11,040)	(8,989)	(9,086)	(8,120)
Total	**37,047**	**30,167**	**13,831**	**12,362**

Amounts from lease contracts recognized in the statement of profit and loss and other comprehensive income

	31/12/2020 USD	31/12/2020 EUR	31/12/2019 USD	31/12/2019 EUR
Costs due to:				
interest on lease	195	171	221	198
short-term lease	59	49	1,284	1,157
lease of low-value assets that are not short-term lease	167	137	-	-
Total	**421**	**357**	**1,505**	**1,355**

10.2. Future commitments resulting from signed investment contracts

As at 31 December 2020 and as at 31 December 2019 the value of future commitments resulting from contracts signed until this date amounted to USD 49,185 thousand or EUR 40,050 thousand and USD 23,630 thousand or EUR 19,241 thousand, respectively.

10.3. Contingent assets and liabilities

SELECTED ACCOUNTING PRINCIPLES

Contingent assets and liabilities

The Company discloses at the end of reporting period information on contingent assets if the inflow of resources embodying economic benefits is practically probable. If it is practicable the Company estimates the financial impact of contingent assets valuing them according to the principles of valuation provisions.
At the end of reporting period the Company discloses information on contingent liabilities if:
- it has a possible obligation, which arose as a result of past events, the existence of which will be confirmed only when one or more uncertain future events occur that are not fully controlled by the Company, or
- it has a current obligation, which arose as a result of past events, but an outflow of funds have economic benefits in it, is not probable or the Company is not able to valuate liabilities reliably enough.

The Company does not disclose the contingent liability when the probability of outflow of funds included economic benefits is remote.

ESTIMATES

Contingent assets

The Company makes estimations with respect to financial effects of disclosed contingent assets based on the value of previously recognized related costs that the Company expects to recover (e.g. under insurance contracts signed) or the value of subjects to proceedings in which the Company entities act as plaintiff.

Contingent liabilities

The Company estimates possible future liabilities constituting contingent liabilities based on the value of claims under ongoing proceedings in which the Company entities act as the defendant.

The Company is not involved in significant court proceedings and arbitration. In the opinion of the Management, the outcome insignificant claims will not have a material adverse effect on the Company's operations.

10.4. Excise tax guarantees

Excise tax guarantees of the Company as at 31 December 2020 and as at 31 December 2019 amounted to USD 553 thousand or EUR 450 thousand and USD 448 thousand or EUR 400 thousand, respectively.

10.5. Related party transactions

In 2020 and 2019 and as at 31 December 2020 and as at 31 December 2019 the based on submitted declarations, there were no transactions of related parties of the Company with the Members of the Management Board or other key executive personnel of the Company.
In 2020 and 2019 on the basis of submitted declarations there were no transactions of close relatives with the other key executive personnel of the Company and key executive personnel of the Company with related parties.

10.5.1. Remuneration paid and due or potentially due to the members of Management Board and other members of key executive personnel of Parent company and the Company companies

The Management 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 31/12/2020		for the year ended 31/12/2019	
	USD	EUR	USD	EUR
Short term employee benefits	**4,274**	**3,746**	**3,073**	**2,745**
- Board of Directors	71	62	23	21
- other key executive personnel	4,203	3,684	3,050	2,724
Termination benefits (severance pay and other remuneration)	**171**	**150**	**141**	**126**
- other key executive personnel	171	150	141	126

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

Bonus systems for key executive personnel of the Company
The Bonus Systems applicable to the Members of the Board of the Company, directors directly reporting to the Members of the Board of Directors, as well as other key positions of the Company have common objective to support the value growth strategy of the ORLEN Group.
The persons subject to the Bonus Systems are remunerated for the accomplishment of specific objectives and bonus tasks set at the beginning of the bonus period by the Board of Directors for Members of the Board of Directors and Deputy General Directors of the Company, and by General Director for the key personnel of the Company.
The Bonus Systems are structured in a way to promote the cooperation between individual employees seeking to achieve the best possible results for the Company. The bonus tasks are qualitative as well as quantitative and are settled after the end of the year for which they were set.

10.5.2. Transactions and balance of settlement of the Company with related parties

for the year ended 31 December 2020

USD	Shareholder of the Group	Related parties	Subsidiaries	Associates	Total
Sales	146,695	56,296	583,096	8,005	**794,092**
Purchases	2,418,994	28,156	382	-	**2,447,532**
Other operating income	153,880	3	-	-	**153,883**
Other operating expenses	129,106	-	-	-	**129,106**
Finance income	159	-	5,797	-	**5,956**
Finance expenses	923	-	-	-	**923**
Trade and other receivables	1,565	1,972	60,787	-	**64,324**
Other financial assets	1,946	-	-	-	**1,946**
Trade and other liabilities	110,153	14,538	3	-	**124,694**
Other financial liabilities	71,413	2,717	-	-	**74,130**
Guarantees issued	-	-	1,842	-	**1,842**

(in USD and EUR thous.)

EUR	Shareholder of the Group	Related parties	Subsidiaries	Associates	Total
Sales	132,643	49,315	509,053	7,096	**698,107**
Purchases	2,119,567	23,936	345	-	**2,143,848**
Other operating income	138,157	3	-	-	**138,160**
Other operating expenses	114,871	-	-	-	**114,871**
Finance income	145	-	5,245	-	**5,390**
Finance expenses	802	-	-	-	**802**
Trade and other receivables	1,274	1,605	49,497	-	**52,376**
Other financial assets	1,584	-	-	-	**1,584**
Trade and other liabilities	89,694	11,838	2	-	**101,534**
Other financial liabilities	58,149	2,212	-	-	**60,361**
Guarantees issued	-	-	1,500	-	**1,500**

for the year ended 31 December 2019

USD	Shareholder of the Group	Related parties	Subsidiaries	Associates	Total
Sales	458,300	135,390	1,109,262	28,839	**1,731,791**
Purchases	4,534,134	27,750	2,796	-	**4,564,680**
Other operating income	26,589	2	1	-	**26,592**
Other operating expenses	31,742	3	-	-	**31,745**
Finance income	1,325	1	6,981	-	**8,307**
Finance expenses	544	2	3	-	**549**
Trade and other receivables	26,929	7,975	118,076	484	**153,464**
Other financial assets	44,154	-	-	-	**44,154**
Trade and other liabilities	194,622	1,019	1,164	-	**196,805**
Other financial liabilities	19,448	9,965	-	-	**29,413**
Guarantees issued	-	-	6,713	-	**6,713**

EUR	Shareholder of the Group	Related parties	Subsidiaries	Associates	Total
Sales	407,827	121,000	992,451	24,511	**1,545,789**
Purchases	4,050,811	24,989	2,474	-	**4,078,274**
Other operating income	23,872	2	1	-	**23,875**
Other operating expenses	28,556	2	-	-	**28,558**
Finance income	1,184	1	6,180	-	**7,365**
Finance expenses	485	2	2	-	**489**
Trade and other receivables	24,067	7,128	105,529	423	**137,147**
Other financial assets	39,462	-	-	-	**39,462**
Trade and other liabilities	173,940	911	1,040	-	**175,891**
Other financial liabilities	17,381	8,906	-	-	**26,287**
Guarantees issued	-	-	6,000	-	**6,000**

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.

10.6. Remuneration arising from the agreement with the entity authorized conduct audit

	for the year ended		for the year ended	
	31/12/2020	31/12/2020	31/12/2019	31/12/2019
	USD	EUR	USD	EUR
Fees payable to auditors in respect of the Company				
audit and reviews of the financial statements	152	133	141	126
additional services	7	6	-	-
Total	**159**	**139**	**141**	**126**

In the period covered by this separate financial statements the entity authorized to conduct audit of the Company's financial statements was Deloitte Lietuva, UAB. Deloitte Lietuva, UAB was selected to conduct audit for the years 2019 – 2021.

(in USD and EUR thous.)

EVENTS AFTER THE END OF THE REPORTING PERIOD

As at the date of approval of these separate financial statements, the Company is in the process of analysing the potential effects of Coronavirus COVID-19. The Company has implemented appropriate internal procedures to ensure continuity of operating activities. Currently, the Company observes a decrease in global demand for crude oil, including a decrease in demand for jet fuel, diesel oil and gasoline. The Company also expects a slowdown in the global economy and monitors the situation on the financial markets on an ongoing basis. The Company is in the process of estimating the qualitative and quantitative impact of a pandemic on the financial position and future financial results of the Company.
Moreover, the Company increased internal cross-currency credit limit up to EUR 300 million (or equivalent in US dollars) to satisfy the Company's essential needs.
After the end of the reporting period, no other events occurred than disclosed in this separate financial statements, which would require recognition or disclosure.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting
and Tax Administration

Market volatility, dramatic changes in oil prices, fluctuating petroleum product demand, and COVID-19 pandemics have created a number of challenges faced in 2020 by the refining industry throughout the world. The effect of such tense microeconomic environment have become visible in the financial performance results of AB ORLEN Lietuva (hereinafter – the Company). The Company thus moved in the search for the solutions to keep up, in a flexible manner, with the rebalancing needs of the refining industry and markets. In 2020, the Company focused on finding the solutions to improve its financial situation while going through a very difficult and tense period, and concentrated on implementation of such solutions trying to take full advantage of every business opportunity offered under the competitive pressure.

Operating Results

Oil price collapse has shaken the entire crude oil refining business in Europe. The industry went under severe competitive pressure resulting from depressed demand and excess production capacities. Therefore, with the fall in demand, the Company had to adjust its processing capacities. In 2020, the feedstock processing volume amounted to 8.2 million tons only, i.e. was by 1.7 million tons (17%) lower than in the previous year, when the processing volume was 9.9 million tons of feedstock. Lower processing volume led to the impairment of the operational efficiency indicators, i.e. impairment of operational availability index as well as internal fuel and losses.

Processing volume decrease has correspondingly adjusted the volume of product sales resulting in 18 % drop: 7.6 million tons of petroleum products were sold by the Company in 2020, whereas the volume of products sold in 2019 was 9.3 million tons. Declining sales volumes and the drop of the global oil and petroleum product prices had an effect on the sales revenue decrease, reducing nearly by half over 2020, and comprising USD 2.8 billion (EUR 2.4 billion) in comparison with USD 5.0 billion (EUR 4.5 billion) in 2019.

Sales in the Baltic countries at the beginning of the year 2020 were successful notwithstanding the new requirements imposed in relation to mandatory blending of biocomponents (gasoline must contain 10% bio component as of 1 January 2020), with significant consumption growth notable in Lithuania and Latvia. Nevertheless, the global COVID-19 pandemics in March had an adverse effect on the Baltic fuel markets with 10% fall in diesel sales and as much as 20% in gasoline sales. Jet fuel consumption faced an exceptionally severe contraction, with decrease of its sales by approx. 60-70% in most markets and no changes in this relation until the very end of 2020.

Sales in the Baltic countries during the year 2020 decreased by 7.0 percent from 3.9 million tons in 2019 to 3.6 million tons in 2020, thus reflecting the drop of jet fuel, gasoline and diesel sales strongly affected by COVID-19 pandemics and associated lockdowns as well as international flight restrictions. Nevertheless, the market share of the Company on the Baltic markets remained stable.

Sales of the Company to Ukraine in 2020 went down by 7.3% in comparison with 2019, and were 0.9 million tons. Such drop was effected by economic and political situation in Ukraine, growing competition on the market as well as COVID-19 pandemics. Despite the drop of gasoline and jet fuel sales, diesel fuel has faced an increase in sales.

In 2019, the Company launched the production of propylene and, starting April, has sold 47 thous. tons of propylene. In 2020, the volume of its production and sales increased by 52.8% reaching 72 thous. tons of propylene, 28.9% of which were exported via Polish border by rail, and the remaining volume sold for seaborne export to the countries of Western Europe.

Lower processing volume in 2020 led to the drop in the seaborne sales with reduction of the volume by 25.5 percent, amounting to 2.6 million tons, compared to 3.5 million tons sold in 2019.

Financial Results

Tense macro environment and global COVID-19 pandemics have also effected the financial results of the Company. Negative financial indicators of the Company are the reflection of strong decline in the refining industry. The net loss of the Company for 2020 under the International Financial Reporting Standards, as adopted by the EU (IFRS) was USD 167.0 million (EUR 147.9 million), in comparison to the net profit of USD 73.1 million (EUR 65.0 million) posted for the year 2019. Operating loss for the year 2020 amounted to USD

211.9 million (EUR 187.9 million), whereas the operating profit for 2019 was USD 57.6 million (EUR 51.2 million).

Negative impact on the financial results for the year 2020 was made by the impairment of the fixed assets of the Company. The impairment testing identified that the recoverable value of assets is lower than the carrying value. After impairment tests the Company has reported the impairment losses in the amount of USD 22 million (EUR 18.1 million).

Operating loss of the Company for the year 2020, prior to the impairment amounted to USD 189.9 million (EUR 169.8 million).

Negative results of the Company have also contributed to its financial indicators[1]. Net profit margin of the Company for the year 2020 was negative and comprised minus 6.0% (1.5% in 2019). Other indicators experienced the following changes: the net debt to equity ratio was 0.09 (-0.05 in 2019), the current ratio was 1.11 (1.61 in 2019), and the asset turnover ratio was 3.45 (4.96 in 2019).

Information on financial risk management of the Company is available in Note 9.5 of the Set of Annual 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 on pricing risk, credit risk, liquidity risk, and cash flow risk.

Modernization, Mandatory and Other Projects

The total amount of investments by the Company made in the property plant and equipment as well as tangible assets (excl. purchase of deficient CO_2 emission allowances and accounting for asset leases under IFRS 16) during the year 2020 was USD 58.9 million in comparison to USD 59.2 million in 2019.

In 2020, the Company commenced the activities under the first phase of Alkylation Unit construction project (License and Basic Design Engineering Package procurement). Preliminary budget of the entire project to be completed in 2025 reaches approx. USD 139.5 million. The expected impact of this project on the annual margin is approx. USD 43.5 million (depending on the fuel market situation).

Special focus of the Company last year was given for the construction bidding process exercised within the scope of the Bottom of the Barrel Upgrade Project. The expected impact of this project on the annual margin is approx. USD 85 million (depending on the fuel market situation).

In 2020, the Company also started the works for modernization of Reactor Block in FCC Unit being one of the key installations of the refinery. Preliminary budget of the entire project to be completed in 2022 reaches approx. USD 23.6 million.

To ensure uninterrupted supply of crude oil for the refinery, major overhaul of Būtingė Terminal spare SPM buoy was commenced in 2020. Preliminary budget of the entire project to be completed in 2022 reaches approx. USD 6.7 million.

In 2020, the investments of the Company in the projects and measures to ensure safety of employees and installations amounted to USD 8.6 million, including USD 2.6 million for the implementation of measures to ensure safety in railway loading racks as well as USD 1.3 million for the initial works within the scope of modernization of the main administrative building.

Apart from the said projects, the activities for refurbishment of other process units of the Company's refinery were also implemented in 2020.

Employees' Development and Work Compensation Policy

Development of employees remains the priority for the human resource management. Last year, in view of the existing demand, employees of the Company attended the trainings in the areas of fire safety and civil

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[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.

protection, first aid and hygiene, information security, as well as trainings under the programs for energy employees, formal safety programs and programs for execution of specialized works.

For ensuring ability of its operational staff to service the process installations and modernized units, the Company aims at continuously improving qualifications of its workers. 545 employees completed the trainings in this relation during the year 2020. Furthermore, over 350 employees of the Company attended the trainings and conferences to improve their professional knowledge, human resources management and managerial skills, trade knowledge, etc.

In 2020, the Company 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 Company acting as the experts was presented and various projects introduced to 198 employees of the Company.

In 2018, the Company launched the project for the improvement of its employees' competencies under the Measure No 09.4.3-ESFA-T-846-01-0074 *'Training for Employees of Foreign Investors'* of the Operational Programme for the European Union Funds' Investment in Priority Axis 9 *'Educating the Society and Strengthening the Potential of Human Resources'*. In 2020, more than 300 employees were enrolled in the Project sessions and improved their knowledge of the refining technologies, IT, welding, safe driving techniques, and English language. The Project will continue in 2021.

The remuneration system of the Company is aimed at encouraging its employees to pursue achievement of the best possible results. The remuneration system of the Company comprises of the following elements: base salary (monthly salary or hourly wage); monthly, quarterly, or annual bonus; reward for the initiatives submitted, implemented, and recognized as rewardable; management discretion bonuses for exceptional performance; annual bonus for the Company's performance results; and packages of additional benefits under the Collective Agreement or other internal acts of the Company. In 2020, employees of the Company were involved in the health insurance coverage, the Company pays contributions for the employees to the pension funds. Information on bonus systems applicable to the key management of the Company is available in Note 10.5.1. of the Set of Annual Financial Statements.

Starting the year 2014, the election of the Best Employees has become an annual event in the Company being another important element of the Company's motivation system. The title of the Best Employee is an honorable appreciation awarded for high professional and social achievements as well as exemplary and ethical behavior demonstrated both within and outside the Company in line with its Core Values and Standards of Conduct. Last year, 83 candidates were nominated by managers, employees of the Company, and the Trade Union, and the best five in each of the two categories *For Exemplary Professional Activities* and *For Outstanding Performance,* and the best six in the category *For Active Cooperation* were elected.

Organizational Changes and Restructuring

Performance optimization and labor efficiency increase continues to be one of the key factors for achieving the objectives set by the shareholder of the Company.

Seeking to improve efficiency of its internal processes, implementation of organizational changes continued in 2020 as well. The work organization associated changes and introduction of advanced technical and organizational solutions resulted in the improvement of the performance results.

Management structure of the Company was not subject to any changes last year, and the number of active employees in the Company at the end of 2020 (including the Company's Representative Office in Ukraine) was 1416.

Social Dialogue

Naftininkų Trade Union formed in the Company is recognized as the equal social partner of the Company. Bipartite committees and commissions of the Company with their members, acting on a parity basis, being the administrative officials and employees delegated by the Trade Union bring benefits to both the employer and employees. Such form of the cooperation is one of the ways to exercise the right of the employees' representatives to information and consultation as well as encourage the contribution of the staff members to the efficient management of human resources.

Currently, the following bipartite committees and commissions work in the Company: Occupational Safety and Health Committee, Employee Affairs Committee, Job Evaluation Commission, and Social Needs Fund Committee.

Agreement with Naftininkų Trade Union was signed in October 2020 for the extension of the 2019 Collective Agreement up to 31 December 2021.

Environmental Protection

In 2020, the Company was operating in line with the statutory environmental requirements, introducing the changes necessary for proper implementation of the provisions set forth by the current and evolving requirements: Environmental requirements applicable to the Company are set out in the Integrated Pollution Prevention and Control (IPPC) Permit, with the environmental objectives established in line with the National Air Pollution Reduction Plan. Operations of the Company are subject to the integrated management system in compliance with the requirements of international quality management (ISO 9001), environmental management (ISO 14001), occupational health and safety management (ISO 45001), and information security management (ISO 27001) standards.

The Company has completed a comparative assessment of its compliance to the requirements of the Commission Implementing Decision No 2014/738/EU of 9 October 2014 establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions, for the refining of mineral oil and gas.

To meet the requirements of BAT and assess emissions to air, the Company applies the aggregated sulfur dioxide (SO_2) and nitrogen oxide (NO_x) values, with continuous emission monitoring systems introduced in the Company to ensure assessment and estimation of SO_2 and NO_x as well as carbon dioxide (CO_2) and particulate concentrations. The systems contribute to more efficient management of production processes and reduction of emissions into the environment.

In 2020, emissions of SO_2 and NO_x did not exceed the ceilings set in the IPPC permit: SO_2 emissions amounted to 7.6 thous. tons (13.0 thous. tons in IPPC permit), whereas NO_x emissions were 1.2 thous. tons (3.0 thous. tons set in IPPC permit). The Company has also fulfilled its commitment to reduce particulate emissions from the refinery installations: particulate emissions in 2020 decreased by 36 tons or 31% in comparison to the year 2019.

Last year, in coordination with the Environment Protection Agency, the Environmental Monitoring Program of the Company was adjusted in view of the atmospheric dispersion modeling results and findings of the sanitary protection zone report.

For implementation of BAT 6 and BAT 18 provisions, the Company continued monitoring of diffuse volatile organic compound (VOC) emissions. Approx. 15'000 emission points were measured for the Refinery units in 2020, with implementation of the program contributing to the reduction of VOC emissions. Another development in this context was monitoring of nickel and vanadium emissions into the environment, and emissions of polychlorinated dibenzo-p-dioxins (PCDDs) and polychlorinated dibenzofurans (PCDFs) from catalytic reforming processes.

Based on the reports developed and the application submitted by the Company, 6'038'840 free emission allowances have been pre-allocated to the Company for the period of 2021-2025. The number of emission allowances have been allocated on the basis of the Report on Lifecycle Greenhouse Gas (GHG) Emissions from Fuels and Energy that was audited and approved by an independent evaluator issuing a GHG emission verification certificate. In line with the recommendations provided by the independent evaluator, the Company has updated its GHG Monitoring Plan, which was approved by the Environmental Protection Agency on 7 October 2020, and prepared the GHG monitoring improvement report.

The Company continuously invests in measures to ensure energy efficiency and, at the same time, reduce emissions of CO_2 and other pollutants into the environment. Energy efficiency improvement projects implemented by the Company in 2020 will contribute to the reduction of CO_2 emissions by approx. 12.9 thous. tons per year.

In 2020, to comply with the requirements of the applicable legislation, drinking water resources were approved, the project of establishment of protection zones for groundwater bodies developed, and the authorization for use of underground resources (except hydrocarbons) and deep geological cavities was obtained from the Lithuanian Geological Survey.

Furthermore, groundwater monitoring, monitoring of underground oil-contaminated sites and their decontamination in the territory of the refinery as well as pollution prevention performance were continued. The results of the monitoring measures evidence that the thickness of free oil product in the sites is decreasing; therefore, the amount of the extracted oil products declines year after year (5 tons of oil products extracted during 2020). Nevertheless, the works will be continued in 2021 - 2023.

In 2020, the Company made the decision on terminating the operation of the area for regeneration of oil-contaminated soil in the territory of Biržai Oil Transshipment Station, with detailed ecogeological survey completed and site remediation plan developed in this relation.

Occupational Health and Safety

Occupational health and safety (OHS) as well as process safety is one of the priority areas in the Company. 'Safety First' Program introduced in 2012 ensures the highest level of OHS in the Company. 'Safety First' is the Company's mission and message rather than its title only, which reflects the overall approach of the Company and its employees to OHS.

On 4 February 2020, the Company was re-certified under ISO 45001:2018 standard proving compliance of the occupational health and safety management system of the Company.

Furthermore, the Company has implemented the occupational health and safety standards developed for the entire ORLEN Capital Group. The standards have been developed on the basis of the best worldwide practices and set the extremely strict occupational health and safety requirements. By the end of 2020, the Company has introduced and successfully implemented 13 standards regulating organization of hazardous works, accident investigation, emergency response, contractor management, in-depth analysis of industrial accidents, routine safety activities, etc.

The Company has implemented the process safety system aimed at ensuring prevention of crude oil, gas and other substance releases and spills, reducing the likelihood of major industrial accidents, ensuring proper level of technical protection, establishing of preventive measures to avoid possible emergency situations or reduce their likelihood, and, in the event of their occurrence, to minimize damage to people, Company business, assets and the environment.

To reduce the risk of accidents and failures, the preventive measures were implemented by the Company in 2020, including development/update of 7 process safety and civil protection procedures, preparation of the Refinery Safety Report, further successful implementation of Hazard and Operability (HAZOP) Studies for the process units of the Company with 12 HAZOP studies completed in 2020. The Company performs continuous assessment of internal changes, conducts analysis of process safety incidents and equipment failures, identifies corrective actions and ensures safety of its employees working under hazardous conditions providing them with personal protective equipment.

The Company has its hazard reporting system dedicated for sending notifications about any dangerous places noticed. In 2020, the number of hazard reports amounted to 2732, with 2320 of the reported hazards eliminated.

The number of accidents in the Company during the year 2020 was 4, whereas the total recordable rate per 1 million man hours was 0.95 (no accidents in 2019).

Ownership Structure

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

In 2020, the Company did not acquire or transfer any of its own shares.

Branches

The 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 Company

Position in Public Company ORLEN Lietuva as of 31 December 2020	Other managerial positions as of 31 December 2020
Michał Rudnicki Chairman of the Board of Directors, General Director of Public Company ORLEN Lietuva	
Marek Paweł Gołębiewski Executive Member of the Board of Directors, Chief Financial Officer of Public Company ORLEN Lietuva	- Chairman of the Supervisory Council, ORLEN Latvija, SIA, code 40003637994, address: Bauskas iela 58A, Zemgales priekšpilsēta, 1004 Riga, Latvia - Chairman of the Supervisory Council, ORLEN Eesti, OÜ, code 10960209, address: Pärnu mnt. 22, 10141 Tallinn, Estonia
Przemysław Cezar Hartliński Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Executive Director for Refinery Production, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland - Member of the Board, Stowarzyszenie Plockich Naftowców , code 610991725, address: Kazimierza Wielkiego 41, 09–400 Płock, Poland
Piotr Tadeusz Matczak Executive Member of the Board of Directors, Deputy General Director for Commercial Sales and Logistics of Public Company ORLEN Lietuva	
Robert Antoni Pijus Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Director of Plock Petrochemical Plant, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland - Member of the Board, Stowarzyszenie Plockich Naftowców , code 610991725, address: Kazimierza Wielkiego 41, 09–400 Płock, Poland
Renata Agnieszka Rosiak Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Project Manager, Office of ORLEN Capital Group, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland - Member of the Supervisory Board, ORLEN Serwis S.A., code 360160621, address: Chemików 7, 09–411 Płock, Poland - Non-executive Member of the Board of Directors of ORLEN Baltics Retail, AB, code 166920025, address: J. Jasinskio 16B, LT-03163, Vilnius, Lithuania - Non-executive Member of the Board of Directors of ORLEN Service Lietuva, AB, code 302310627, address: Mažeikių st. 75, Juodeikiai village, LT- 89467 Mažeikiai District, Lithuania
Andrzej Mieczysław Stegenta Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Director of Operations Planning Office, Acting Executive Director for Supply Chain Management, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland

2021 as the Year of ORLEN 2030 Strategy Launch

In 2021, the Company will continue its activities by coherently implementing the objectives set out in ORLEN2030 Strategy, focusing on reduction of carbon dioxide emissions, value creation in view of the latest environmental trends and consumption patterns, as well as financial stability.

(in USD and EUR thous.)

The forecasted throughput of the Refinery in 2021 is about 9.5 million tons of feedstock. The Company will concentrate its efforts on realization of the key investment projects, capacity utilization increase and reduction of energy consumption as well as on securing the stability of its performance, increasing sales to inland markets and reducing costs.

To give a long term perspective of sustainable growth to Public Company ORLEN Lietuva as well as the entire ORLEN Capital Group in the context of the increasingly competitive and continuously changing macroeconomic environment, the management of the Company will continue in 2021 its intensive efforts for implementation of advanced management solutions aimed at the operational efficiency increase and process optimization.

General Director Michal Rudnicki