Public Company ORLEN Lietuva

2016

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION

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

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KPMG Baltics, UAB
Konstitucijos Ave 29
LT-08105, Vilnius
Lithuania

Phone: +370 5 2102600
Fax: +370 5 2102659
E-mail: vilnius@kpmg.lt
Website: kpmg.com/lt

Independent auditor's report

To the Shareholders of AB ORLEN Lietuva

Opinion

We have audited the consolidated financial statements of AB ORLEN Lietuva and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, changes in equity and 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit 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

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

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

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

Company code: 111494971
VAT code: LT114949716

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Domantas Dabulis.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner pp
Certified Auditor

Vilnius, the Republic of Lithuania
28 February 2017

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

Consolidated statement of financial position

	Note	31/12/2016		31/12/2015	
		USD	EUR	USD	EUR
ASSETS					
Non-current assets					
Property, plant and equipment	4	168,921	161,600	160,545	146,938
Intangible assets	5	1,600	1,530	1,198	1,097
Investments in equity-accounted investees	6	1,637	1,566	1,771	1,621
Deferred tax assets	22.2	25,958	24,833	20,358	18,632
Other non-current assets	7	2,380	2,279	1,323	1,211
Total non-current assets		**200,496**	**191,808**	**185,195**	**169,499**
Current assets					
Inventory	9	242,621	232,108	177,569	162,519
Trade and other receivables	10	170,863	163,458	101,142	92,569
Other financial assets	11	215,449	206,112	119,355	109,239
Current tax assets		4	3	428	392
Cash and cash equivalents	12	4,584	4,386	1,051	962
Non-current assets classified as held for sale		1,225	1,172	455	416
Total current assets		**634,746**	**607,239**	**400,000**	**366,097**
Total assets		**835,242**	**799,047**	**585,195**	**535,596**
LIABILITIES AND SHAREHOLDERS EQUITY					
EQUITY					
Share capital	13	6,547	5,794	6,547	5,794
Share premium		50,172	132,152	50,172	132,152
Reserves		326	208	2,668	2,401
Foreign exchange differences		(3,186)	(71,536)	(2,694)	(83,734)
Retained earnings		339,631	309,822	250,294	224,352
Total equity		**393,490**	**376,440**	**306,987**	**280,965**
LIABILITIES					
Non-current liabilities					
Provisions	15	4,191	4,009	4,440	4,064
Total non-current liabilities		**4,191**	**4,009**	**4,440**	**4,064**
Current liabilities					
Trade and other liabilities	16	394,188	377,105	226,497	207,303
Loans and borrowings	14	-	-	13,954	12,771
Current tax liability		3,665	3,506	4,480	4,101
Provisions	15	30,354	29,039	28,322	25,920
Other financial liabilities	17	9,354	8,948	515	472
Total current liabilities		**437,561**	**418,598**	**273,768**	**250,567**
Total liabilities		**441,752**	**422,607**	**278,208**	**254,631**
Total equity and liabilities		**835,242**	**799,047**	**585,195**	**535,596**

The notes on pages 12 to 68 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 28 February 2017.

Ireneusz Fąfara General Director	Marek Golębiewski Chief Financial Officer	Genutė Barkuvienė Chief Accountant

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

Consolidated statement of profit or loss and other comprehensive income

	Note	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR	for the year ended 31/12/2015 USD	for the year ended 31/12/2015 EUR
Statement of profit or loss					
Sales revenues	18	3,607,087	3,267,195	4,138,484	3,729,628
Cost of sales	19	(3,179,182)	(2,880,089)	(3,671,775)	(3,309,466)
Gross profit on sales		**427,905**	**387,106**	**466,709**	**420,162**
Distribution expenses	19	(143,365)	(129,654)	(139,364)	(125,686)
Administrative expenses	19	(42,727)	(38,640)	(37,682)	(33,997)
Other operating income	20.1	11,835	10,748	4,700	4,228
Other operating expenses	20.2	(9,093)	(8,550)	(11,420)	(10,357)
Share in profit from investments in equity-accounted investees	6	85	77	168	152
Profit/(loss) from operations		**244,640**	**221,087**	**283,111**	**254,502**
Finance income	21.1	822	750	14,309	12,960
Finance expenses	21.2	(4,544)	(3,992)	(76,515)	(68,028)
Net finance income/(expenses)		**(3,722)**	**(3,242)**	**(62,206)**	**(55,068)**
Profit/(loss) before tax		**240,918**	**217,845**	**220,905**	**199,434**
Income tax expenses	22	25	1,178	14,942	13,884
Net profit/(loss) from continuing operations		**240,943**	**219,023**	**235,847**	**213,318**
Net profit/(loss)		**240,943**	**219,023**	**235,847**	**213,318**
Items of other comprehensive income/(expenses):					
which will not be reclassified into profit or loss					
Actuarial (gains) and losses		(963)	(921)	(56)	(55)
Deferred tax		16	15	(4)	(3)
that are or may be reclassfied to profit or loss					
Hedging instruments		(3,001)	(2,774)	2,331	2,133
Foreign exchange differences		(492)	12,198	(1,891)	7,397
Other comprehensive income		**(4,440)**	**8,518**	**380**	**9,472**
Total net comprehensive income/(expenses)		**236,503**	**227,541**	**236,227**	**222,790**
Net profit/(loss) attributable to:					
equity holders of the parent		240,943	219,023	235,847	213,318
Total comprehensive income/(expenses) attributable to:					
equity holders of the parent		236,503	227,541	236,227	222,790

The notes on pages 12 to 68 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 28 February 2017.

Ireneusz Fąfara
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

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

Consolidated statement of cash flows

	Note	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR	for the year ended 31/12/2015 USD	for the year ended 31/12/2015 EUR
Cash flow - operating activities					
Net profit/(loss)		**240,943**	**219,023**	**235,847**	**213,318**
Adjustments for:					
Share in profit from investments in equity-accounted investees	6	(85)	(77)	(168)	(152)
Depreciation and amortization	4,5	14,440	13,056	12,405	11,177
Recognition/(Reversal) of impairment losses on property, plant and equipment, intangible assets and non-current assets classified as held for sale	20.1, 20.2	(597)	(552)	(470)	(412)
Foreign exchange (gain)/loss		(20)	4,883	(2,981)	(8,097)
Interest, net		137	124	1,066	951
(Profit)/loss on investing activities		269	260	61,969	56,240
Change in working capital:		**25,346**	**22,282**	**(104,331)**	**(91,715)**
receivables		*(70,335)*	*(71,526)*	*9,934*	(1,363)
inventories		*(60,983)*	*(65,742)*	*85,220*	53,792
liabilities		*156,664*	*159,550*	*(199,485)*	(144,144)
Change in provisions		10,184	10,402	20,734	21,409
Tax expenses	22	(25)	(1,178)	(14,942)	(13,884)
Income tax (paid)/received		(5,968)	(5,230)	(689)	(570)
Change in financial instruments		8,325	7,717	(7,542)	(6,762)
Other adjustments		(123)	(133)	575	51
Net cash generated in operating activities		**292,826**	**270,577**	**201,473**	**181,554**
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(26,750)	(23,656)	(24,190)	(21,552)
Disposal of property, plant and equipment and intangible assets		351	317	27	25
Proceeds/repayment of loans granted		29		30	27
Increase/(decrease) in derivatives		-	-	(60,621)	(54,511)
Increase/(decrease) in deposits		1,700	1,533	7,552	6,749
Interest received		545	521	60	55
(Outflows)/proceeds from cash pool		(100,272)	(100,412)	(106,718)	(97,821)
Net cash used in investing activities		**(124,397)**	**(121,697)**	**(183,860)**	**(167,028)**
Cash flows from financing activities					
Proceeds/repayment of loans and borrowings		(14,187)	(12,751)	6,233	5,294
Interest paid		(709)	(639)	(1,619)	(1,453)
(Outflow)/inflow from cash pool		-	-	(25,805)	(21,211)
Dividends paid		(150,000)	(132,066)	-	-
Net cash used in financing activities		**(164,896)**	**(145,456)**	**(21,191)**	**(17,370)**
Net (decrease)/increase in cash and cash equivalents		**3,533**	**3,424**	**(3,578)**	**(2,844)**
Cash and cash equivalents, beginning of the period	**12**	**1,051**	**962**	**4,629**	**3,806**
Cash and cash equivalents, end of the period	**12**	**4,584**	**4,386**	**1,051**	**962**

The notes on pages 12 to 68 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 28 February 2017.

Ireneusz Fąfara General Director	Marek Golębiewski Chief Financial Officer	Genutė Barkuvienė Chief Accountant

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

Statement of changes in consolidated equity

USD	Equity attributable to equity holders of the parent						
	Share capital	Share premium	Hedging reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2016	**6,547**	**50,172**	**2,331**	**337**	**(2,694)**	**250,294**	**306,987**
Profit for the year	-	-	-	-	-	240,943	**240,943**
Other comprehensive income/(expenses)	-	-	(3,001)	-	-	(947)	**(3,948)**
Foreign currency translation differences of foreign operations	-	-	-	-	(492)	-	**(492)**
Total comprehensive income/(expenses)	**-**	**-**	**(3,001)**	**-**	**(492)**	**239,996**	**236,503**
Transfer to legal reserve		-	-	659	-	(659)	**-**
Dividends	-	-	-	-	-	(150,000)	**(150,000)**
Total transactions with owners of the Group	**-**	**-**	**-**	**659**	**-**	**(150,659)**	**(150,000)**
31 December 2016	**6,547**	**50,172**	**(670)**	**996**	**(3,186)**	**339,631**	**393,490**
1 January 2015	185,562	373,814	-	27,530	(803)	(515,336)	**70,767**
Profit for the year	-	-	-	-	-	235,847	**235,847**
Other comprehensive income/(expenses)	-	-	2,331	-	-	(60)	**2,271**
Foreign currency translation differences of foreign operations	-	-	-	-	(1,891)	-	**(1,891)**
Total comprehensive income/(expenses)	**-**	**-**	**2,331**	**-**	**(1,891)**	**235,787**	**236,227**
Decrease of share capital	(179,015)	(7)	-	-	-	179,015	**(7)**
Coverage of losses	-	(323,635)	-	(27,193)	-	350,828	**-**
Total transactions with owners of the Group	**(179,015)**	**(323,642)**	**-**	**(27,193)**	**-**	**529,843**	**(7)**
31 December 2015	**6,547**	**50,172**	**2,331**	**337**	**(2,694)**	**250,294**	**306,987**

The notes on pages 12 to 68 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 28 February 2017.

Ireneusz Fąfara
General Director

Marek Gołębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

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

EUR	Equity attributable to equity holders of the parent						
	Share capital	Share premium	Hedging reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2016	5,794	132,152	2,133	268	(83,734)	224,352	**280,965**
Profit for the year	-	-	-	-	-	219,023	**219,023**
Other comprehensive income/(expenses)	-	-	(2,774)	-	-	(906)	**(3,680)**
Foreign currency translation differences of foreign operations	-	-	-	-	12,198	-	**12,198**
Total comprehensive income/(expenses)	-	-	**(2,774)**	-	**12,198**	**218,117**	**227,541**
Transfer to legal reserve	-	-	-	581	-	(581)	-
Dividends	-	-	-	-	-	(132,066)	
Total transactions with owners of the Group	-	-	-	**581**	-	**(132,647)**	**(132,066)**
31 December 2016	**5,794**	**132,152**	**(641)**	**849**	**(71,536)**	**309,822**	**376,440**
1 January 2015	208,295	327,926	-	21,309	(91,131)	(408,218)	**58,181**
Profit for the year	-	-	-	-	-	213,318	**213,318**
Other comprehensive income/(expenses)	-	-	2,133	-	-	(58)	**2,075**
Foreign currency translation differences of foreign operations	-	-	-	-	7,397	-	**7,397**
Total comprehensive income/(expenses)	-	-	**2,133**	-	**7,397**	**213,260**	**222,790**
Difference on recalculation of the share capital in national currency	274	-	-	-	-	(274)	-
Decrease of share capital	(202,775)	(6)	-	-	-	202,775	**(6)**
Coverage of losses	-	(195,768)	-	(21,041)	-	216,809	-
Total transactions with owners of the Group	**(202,501)**	**(195,774)**	-	**(21,041)**	-	**419,310**	**(6)**
31 December 2015	**5,794**	**132,152**	**2,133**	**268**	**(83,734)**	**224,352**	**280,965**

The notes on pages 12 to 68 are an integral part of these consolidated financial statements.
Consolidated financial statements were approved on 28 February 2017.

Ireneusz Fąfara
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

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

Accounting principles and other explanatory information

1. Reporting entity

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

The consolidated financial statements as at 31 December 2016 include the Parent company and subsidiary companies. The Parent company also prepares separate financial statements.

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

Subsidiary/associated company	Established in	Year of establishment/ acquisition	Share of the Group		Nature of activity
			31/12/2016	31/12/2015	
Subsidiaries					
UAB Mažeikių Naftos prekybos namai	Lithuania	2003	100	100	Intermediate holding entity has two subsidiaries SIA ORLEN Latvija and OU ORLEN Eesti. Their activity is wholesale trading in petroleum products in Latvia and Estonia.
SIA ORLEN Latvija	Latvia	2003	100	100	Wholesale trading in petroleum products in Latvia. This company is a subsidiary of UAB Mažeikių Naftos prekybos namai which holds 100 percent of shares of this company.
OU ORLEN Eesti	Estonia	2003	100	100	Wholesale trading in petroleum products in Estonia. This company is a subsidiary of UAB Mažeikių Naftos prekybos namai which holds 100 percent of shares of this company.
UAB EMAS	Lithuania	2009	100	100	Installation, supervision, repair of electrical equipment and related services, in-door and industrial cleaning services. UAB EMAS was reorganised in 2015 by merging UAB Paslaugos tau to UAB EMAS activities. UAB Paslaugos tau ceased the operations from 30 September 2015 and UAB EMAS continue as one entity.
Associated company					
UAB Naftelf	Lithuania	1996	34	34	Trading in aviation fuel and construction of storage facilities thereof.

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

2. Accounting principles

2.1. Principles of preparation of financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) effective as at 31 December 2016. The consolidated financial statements cover the period from 1 January to 31 December 2016 and the corresponding period from 1 January to 31 December 2015.

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

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

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

The consolidated financial statements were authorized for issue by the General Director, Chief Financial Officer and Chief accountant on 28 February 2017. Owners of every entity have the power to amend, approve or reject financial statements after their issue.

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

2.2.1. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective

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

	Possible impact on financial statements
IFRS 9 - Financial Instruments	impact*
IFRS 15 - Revenue from Contracts with Customers	impact**

*** IFRS 9 Financial Instruments (2014)** (Effective for annual periods beginning on or after 1 January 2018, to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

• the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,

• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Entity's financial instruments are expected to change.

The Group does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Group's financial instruments are not expected to change under IFRS 9 because of the nature of the Group's operations and the types of financial instruments that it holds. However the Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The Group has not yet finalised the impairment methodologies that it will apply under IFRS 9.

**** IFRS 15 Revenue from contracts with customers** (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

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

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the timing and the measurement of the Entity's revenues are expected to change.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

2.2.2. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU

	Possible impact on financial statements
IFRS 14 - Regulatory Deferral Accounts	no impact expected
Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	no impact expected
IFRS 16 - Leasing	impact***
Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses	no impact expected
Amendments to IAS 7 Statement of Cash Flows - Diclosure initiative	no impact expected
Amendments to IFRS 15 - Revenue from Contracts with Customers	no impact expected
Amendments to IFRS 2 - Share-based Payment	no impact expected
Amendments to IFRS 4 - Insurance contracts	no impact expected
Improvements to IFRS (2014-2016)	no impact expected
IFRIC 22 - Foreign Currency Transactions and Advance Consideration	no impact expected
Amendments to IAS 40 - Investment Property	no impact expected

*** The impact of the new IFRS 16 will result in the recognition in the statement of financial position the Group as a lessee under rent, tenancy, use and lease, which until the first application of the standard is not qualified as a finance lease. The Group plans to finalize the analysis of the impact of the standard IFRS 16 at the latest by 2018.

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

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

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

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

Exchange rates used for calculation of financial data

CURRENCIES	exchange rate at the end of the reporting period	
	31/12/2016	31/12/2015
EUR/USD	1.04530	1.09260

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

2.4. Description of significant accounting principles

2.4.1. Transactions in foreign currencies

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

2.4.2. Principles of consolidation

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

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

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

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

2.4.3. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

2.4.4. Intangible assets

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

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

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

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

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

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

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

2.4.4.1. Rights

Carbon dioxide emission rights (CO_2)

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

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

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

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

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

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

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

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

2.4.6. Inventories

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

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

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

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

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

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

2.4.7. Receivables

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

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

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

2.4.8. Cash and cash equivalents

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

2.4.9. Equity

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

2.4.9.1. Share capital

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

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

2.4.9.2. Share premium

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

2.4.9.3. Foreign exchange differences

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

2.4.9.4. Other reserves

Additional payments to equity are initially recognized at fair value.

According to Lithuanian legislation an annual transfer of 5% of net profit to the legal reserve is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses.

2.4.9.5. Hedging reserve

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

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

2.4.9.6. Retained earnings

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

2.4.10. Liabilities

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

2.4.11. Provisions

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

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

2.4.11.1. Environmental provision

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

2.4.11.2. Jubilee bonuses and post-employment benefits

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

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

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

2.4.11.3. CO2 emissions

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

2.4.11.4. Other provisions

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

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

2.4.12. Sales revenues

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

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

2.4.13. Costs

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

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

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

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

2.4.14. Income tax expenses

Income tax expense comprises current tax and deferred tax.

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

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

2.4.15. Consolidated statement of cash flows

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

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

2.4.16. Financial instruments

2.4.16.1. Measurement of financial assets and liabilities

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

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

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

2.4.16.2. Hedge accounting

Starting from 1 July 2015 the Parent Company has applied hedge accounting in relation to commodity swaps on crude oil and products. Consequently, the result of commodity swaps for transactions after 1-st of July settlement is included in operating activity of the statement of profit or loss and other comprehensive income. The valuation of commodity swap transactions is included in the statement of financial position as hedging reserve.

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

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

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

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

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

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

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

2.4.17. Fair value measurement

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

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

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

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

2.4.18. Contingent assets and contingent liabilities

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

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

3. The Management estimates and assumptions

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

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

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

Actual results may differ from the estimated values.

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

- Financial instruments classification, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (Note 23). The Management classifies the financial instruments depending on the purpose of the purchase and nature of the instrument. The fair value of financial instruments is measured using common practiced valuation models. Details of the applied estimates and sensitivity analysis have been presented in the above note.

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

- Impairment of property, plant and equipment and intangible assets (Note 4 and Note 5). The Management assesses, if there is an objective indicator for impairment of assets or CGU. If

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

there is an indicator for impairment the Group assesses the recoverable amount of an asset or cash generating units by determining higher of fair value less cost to sell or value in use by applying the proper discount rate.

- Estimated economic useful lives of property, plant and equipment and intangible assets (Note 4 and Note 5). As described in Note 2.4.3 and 2.4.4 the Group verifies economic useful lives of property, plant and equipment and intangible assets at least once a year.
- Provisions. As described in Note 2.4.11, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing consolidated financial statements are disclosed in Note 15.
- Contingent liabilities (Note 24.2). As described in Note 2.4.18, disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period.
- Utilization of deductible temporary differences and recognition of deferred tax assets (Note 22). As described in Note 2.4.14, deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences could be utilized.

4. Property, plant and equipment

	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Buildings and constructions	4,830	4,620	4,642	4,249
Machinery and equipment	124,701	119,297	121,087	110,824
Vehicles and other	28,625	27,384	26,532	24,283
Construction in progress	10,765	10,299	8,284	7,582
Total	**168,921**	**161,600**	**160,545**	**146,938**

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

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Acquisition costs						
1 January 2016	1	73,976	1,576,620	77,251	28,843	1,756,691
Investment expenditures	-	4	10,284	6,005	7,224	23,517
Reclassifications	-	394	4,118	(1,727)	(5,645)	(2,860)
Sales	-	-	(23)	(3)	(369)	(395)
Liquidation	-	-	(527)	(3,486)	(914)	(4,927)
Foreign exchange differences	-	-	(20)	(52)	-	(72)
31 December 2016	**1**	**74,374**	**1,590,452**	**77,988**	**29,139**	**1,771,954**
Accumulated depreciation and impairment allowances						
1 January 2016	1	69,334	1,455,533	50,719	20,559	1,596,146
Depreciation	-	164	11,021	2,826	-	14,011
Impairment allowances, net	-	46	211	(791)	(2,185)	(2,719)
Reclassifications	-	-	(456)	(592)	-	(1,048)
Sales	-	-	(23)	(3)	-	(26)
Liquidation	-	-	(517)	(2,744)	-	(3,261)
Foreign exchange differences	-	-	(18)	(52)	-	(70)
31 December 2016	**1**	**69,544**	**1,465,751**	**49,363**	**18,374**	**1,603,033**
Acquisition costs						
1 January 2015	1	73,968	1,564,281	85,929	33,714	1,757,893
Investment expenditures	-	-	8,141	9,387	3,338	20,866
Reclassifications	-	8	5,079	69	(7,924)	(2,768)
Sales	-	-	-	(46)	-	(46)
Liquidation	-	-	(831)	(16,954)	(285)	(18,070)
Other decreases	-	-	-	(1,000)	-	(1,000)
Foreign exchange differences	-	-	(50)	(134)	-	(184)
31 December 2015	**1**	**73,976**	**1,576,620**	**77,251**	**28,843**	**1,756,691**
Accumulated depreciation and impairment allowances						
1 January 2015	1	69,171	1,446,090	67,009	23,128	1,605,399
Depreciation	-	162	10,292	1,628	-	12,082
Other increases	-	1	-	-	-	1
Impairment allowances, net	-	-	478	(2,302)	(2,569)	(4,393)
Reclassifications	-	-	(465)	(78)	-	(543)
Sales	-	-	-	(29)	-	(29)
Liquidation	-	-	(812)	(15,391)	-	(16,203)
Foreign exchange differences	-	-	(50)	(118)	-	(168)
31 December 2015	**1**	**69,334**	**1,455,533**	**50,719**	**20,559**	**1,596,146**
Carrying amounts						
1 January 2016	**-**	**4,642**	**121,087**	**26,532**	**8,284**	**160,545**
31 December 2016	**-**	**4,830**	**124,701**	**28,625**	**10,765**	**168,921**
1 January 2015	**-**	**4,797**	**118,191**	**18,920**	**10,586**	**152,494**
31 December 2015	**-**	**4,642**	**121,087**	**26,532**	**8,284**	**160,545**

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

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Acquisition costs						
1 January 2016	1	67,706	1,442,998	70,704	26,398	1,607,807
Investment expenditures	-	4	9,344	5,476	6,043	20,867
Reclassifications	-	369	3,713	(1,617)	(5,100)	(2,635)
Sales	-	-	(21)	(1)	(340)	(362)
Liquidation	-	-	(479)	(3,094)	(815)	(4,388)
Foreign exchange differences	-	3,071	65,972	3,141	1,690	73,874
31 December 2016	**1**	**71,150**	**1,521,527**	**74,609**	**27,876**	**1,695,163**
Accumulated depreciation and impairment allowances						
1 January 2016	1	63,457	1,332,174	46,421	18,816	1,460,869
Depreciation	-	149	9,961	2,557	-	12,667
Impairment allowances, net	-	43	196	(708)	(1,979)	(2,448)
Reclassifications	-	-	(406)	(546)	-	(952)
Sales	-	-	(21)	(2)	-	(23)
Liquidation	-	-	(469)	(2,424)	-	(2,893)
Foreign exchange differences	-	2,881	60,795	1,927	740	66,343
31 December 2016	**1**	**66,530**	**1,402,230**	**47,225**	**17,577**	**1,533,563**
Acquisition costs						
1 January 2015	1	60,812	1,286,065	70,646	27,718	1,445,242
Investment expenditures	-	-	7,401	8,527	3,046	18,974
Reclassifications	-	7	4,545	38	(7,075)	(2,485)
Sales	-	-	-	(43)	-	(43)
Liquidation	-	-	(747)	(15,168)	(259)	(16,174)
Other decreases	-	-	-	(889)	-	(889)
Foreign exchange differences	-	6,887	145,734	7,593	2,968	163,182
31 December 2015	**1**	**67,706**	**1,442,998**	**70,704**	**26,398**	**1,607,807**
Accumulated depreciation and impairment allowances						
1 January 2015	1	56,869	1,188,894	55,091	19,015	1,319,870
Depreciation	-	146	9,279	1,460	-	10,885
Impairment allowances, net	-	-	438	(2,062)	(2,333)	(3,957)
Reclassifications	-	-	(416)	(71)	-	(487)
Sales	-	-	-	(26)	-	(26)
Liquidation	-	-	(730)	(13,762)	-	(14,492)
Foreign exchange differences	-	6,442	134,709	5,791	2,134	149,076
31 December 2015	**1**	**63,457**	**1,332,174**	**46,421**	**18,816**	**1,460,869**
Carrying amounts						
1 January 2016	**-**	**4,249**	**110,824**	**24,283**	**7,582**	**146,938**
31 December 2016	**-**	**4,620**	**119,297**	**27,384**	**10,299**	**161,600**
1 January 2015	**-**	**3,943**	**97,171**	**15,555**	**8,703**	**125,372**
31 December 2015	**-**	**4,249**	**110,824**	**24,283**	**7,582**	**146,938**

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

In 2015, reclassifications of property, plant and equipment with the carrying amount of USD 2,225 thousand or EUR 1,998 thousand were made: reclassified to non-current assets held for sale of USD 1,520 thousand or EUR 1,368 thousand, reclassified to inventories of USD 1,017 thousand or

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EUR 907 thousand and reclassified from intangible assets of USD 312 thousand or EUR 277 thousand.

Change in property, plant and equipment impairment:

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2016	1	30,877	721,728	13,955	20,559	787,120
Recognition	-	46	143	11	-	200
Reversal	-	-	-	(153)	(619)	(772)
Reclassifications	-	-	78	(173)	(578)	(673)
Sale and liquidation	-	-	(10)	(476)	(988)	(1,474)
31 December 2016	**1**	**30,923**	**721,939**	**13,164**	**18,374**	**784,401**
increase/(decrease) net	-	46	211	(791)	(2,185)	(2,719)
1 January 2015	1	30,877	721,250	16,257	23,128	791,513
Recognition	-	-	-	-	617	617
Reversal	-	-	-	(1,000)	(153)	(1,153)
Reclassifications	-	-	496	(4)	(2,850)	(2,358)
Sale ans liquidation	-	-	(18)	(1,298)	(183)	(1,499)
31 December 2015	**1**	**30,877**	**721,728**	**13,955**	**20,559**	**787,120**
increase/(decrease) net	-	-	478	(2,302)	(2,569)	(4,393)

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2016	1	28,260	660,560	12,773	18,816	720,410
Recognition	-	43	136	10	-	189
Reversal	-	-	-	(137)	(580)	(717)
Reclassifications	-	-	69	(159)	(520)	(610)
Sale and liquidation	-	-	(9)	(423)	(878)	(1,310)
Foreign exchange differences	-	1,280	29,896	529	739	32,444
31 December 2016	**1**	**29,583**	**690,652**	**12,593**	**17,577**	**750,406**
increase/(decrease) net	-	43	196	(709)	(1,978)	(2,448)
1 January 2015	1	25,386	592,971	13,366	19,014	650,738
Recognition	-	-	-	-	557	557
Reversal	-	-	-	(890)	(140)	(1,030)
Reclassifications	-	-	455	(3)	(2,584)	(2,132)
Sale and liquidation	-	-	(17)	(1,169)	(166)	(1,352)
Foreign exchange differences	-	2,874	67,151	1,469	2,135	73,629
31 December 2015	**1**	**28,260**	**660,560**	**12,773**	**18,816**	**720,410**
increase/(decrease) net	-	-	438	(2,062)	(2,333)	(3,957)

Other information connected with property, plant and equipment

	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
The acquisition costs of all fully depreciated property, plant and equipment still in use	120,381	115,165	89,953	82,329
The carrying amounts of idle property, plant and equipment and not clasified as held for sale	18	17	296	271

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

5. Intangible assets

	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
Software	1,590	1,521	1,196	1,095
Licenses, patents and similar assets	10	9	2	2
Total	**1,600**	**1,530**	**1,198**	**1,097**

USD	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Acquisition costs					
1 January 2016	17,455	7,577	-	201	25,233
Investment expenditures	744	9	-	-	753
Acquisitions	-	-	2,191	-	2,191
Granted CO2 free of charge	-	-	7,157	-	7,157
Reclassifications	113	476	-	-	589
Other decreases	(12)	-	-	-	(12)
Utilisation	-	-	(9,348)	-	(9,348)
Foreign exchange differences	(5)	-	-	-	(5)
31 December 2016	**18,295**	**8,062**	**-**	**201**	**26,558**
Accumulated amortization and impairment allowances					
1 January 2016	16,259	7,575	-	201	24,035
Amortization	428	1	-	-	429
Impairment allowances, net	4	496	-	-	500
Reclassifications	20	(20)	-	-	-
Foreign exchange differences	(6)	-	-	-	(6)
31 December 2016	**16,705**	**8,052**	**-**	**201**	**24,958**
Acquisition costs					
1 January 2015	17,490	6,579	-	201	24,270
Investment expenditures	295	1,000	-	-	1,295
Acquisitions	-	-	1,235	-	1,235
Granted CO2 free of charge	-	-	11,096	-	11,096
Reclassifications	(312)	-	-	-	(312)
Liquidation	(3)	-	-	-	(3)
Utilisation	-	-	(12,331)	-	(12,331)
Foreign exchange differences	(15)	(2)	-	-	(17)
31 December 2015	**17,455**	**7,577**	**-**	**201**	**25,233**
Accumulated amortization and impairment allowances					
1 January 2015	15,974	6,555	-	172	22,701
Amortization	302	21	-	-	323
Impairment allowances, net	1	1,000	-	29	1,030
Liquidation	(3)	-	-	-	(3)
Foreign exchange differences	(15)	(1)	-	-	(16)
31 December 2015	**16,259**	**7,575**	**-**	**201**	**24,035**
Carrying amounts					
1 January 2016	**1,196**	**2**	**-**	**-**	**1,198**
31 December 2016	**1,590**	**10**	**-**	**-**	**1,600**
1 January 2015	**1,516**	**24**	**-**	**29**	**1,569**
31 December 2015	**1,196**	**2**	**-**	**-**	**1,198**

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

EUR	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Acquisition costs					
1 January 2016	15,976	6,935	-	184	23,095
Investment expenditures	699	8	-	-	707
Acquisitions	-	-	1,932	-	1,932
Granted CO2 free of charge	-	-	6,454	-	6,454
Reclassifications	102	430	-	-	532
Other decreases	(11)	-	-	-	(11)
Utilisation	-	-	(8,245)	-	(8,245)
Foreign exchange differences	735	340	(141)	8	942
31 December 2016	**17,501**	**7,713**	**-**	**192**	**25,406**
Accumulated amortization and impairment allowances					
1 January 2016	14,881	6,933	-	184	21,998
Amortization	387	1	-	-	388
Impairment allowances, net	3	448	-	-	451
Reclassifications	18	(18)	-	-	-
Foreign exchange differences	691	340	-	8	1,039
31 December 2016	**15,980**	**7,704**	**-**	**192**	**23,876**
Acquisition costs					
1 January 2015	14,379	5,409	-	165	19,953
Investment expenditures	266	889	-	-	1,155
Acquisitions	-	-	1,148	-	1,148
Granted CO2 free of charge	-	-	9,774	-	9,774
Reclassifications	(277)	-	-	-	(277)
Liquidation	(3)	-	-	-	(3)
Utilisation	-	-	(11,456)	-	(11,456)
Foreign exchange differences	1,611	637	534	19	2,801
31 December 2015	**15,976**	**6,935**	**-**	**184**	**23,095**
Accumulated amortization and impairment allowances					
1 January 2015	13,133	5,389	-	141	18,663
Amortization	273	19	-	-	292
Impairment allowances, net	1	921	-	27	949
Liquidation	(3)	-	-	-	(3)
Foreign exchange differences	1,477	604	-	16	2,097
31 December 2015	**14,881**	**6,933**	**-**	**184**	**21,998**
Carrying amounts					
1 January 2016	**1,095**	**2**	**-**	**-**	**1,097**
31 December 2016	**1,521**	**9**	**-**	**-**	**1,530**
1 January 2015	**1,246**	**20**	**-**	**24**	**1,290**
31 December 2015	**1,095**	**2**	**-**	**-**	**1,097**

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

Change in impairment of intangible assets:

USD	Software	Licenses, patents and similar assets	Research and development	Total
1 January 2016	3,461	1,696	201	5,358
Reclassifications	4	496	-	500
31 December 2016	**3,465**	**2,192**	**201**	**5,858**
increase/(decrease) net	4	496	-	500
1 January 2015	3,460	696	172	4,328
Recognition	-	-	29	29
Reclassifications	1	1,000	-	1,001
31 December 2015	**3,461**	**1,696**	**201**	**5,358**
increase/(decrease) net	1	1,000	29	1,030

EUR	Software	Licenses, patents and similar assets	Research and development	Total
1 January 2016	3,168	1,552	184	4,904
Reclassifications	3	448	-	451
Foreign exchange differences	144	97	8	249
31 December 2016	**3,315**	**2,097**	**192**	**5,604**
increase/(decrease) net	3	448	-	451
1 January 2015	2,845	572	141	3,558
Recognition	-	-	27	27
Reclassifications	1	921	-	922
Foreign exchange differences	322	59	16	397
31 December 2015	**3,168**	**1,552**	**184**	**4,904**
increase/(decrease) net	1	921	27	949

Other information regarding intangible assets

	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
The acquisition costs of all fully amortized intangible assets still in use	13,262	12,687	11,064	10,126

Rights

Change in CO_2 emission rights (EUA) in 2016:

	Quantity (in tonnes)	USD	EUR
As at 1 January 2016	-	-	-
Granted free of charge	1,359,259	7,157	6,454
Settled emission for 2015	(1,755,789)	(9,348)	(8,245)
Purchase	396,530	2,191	1,932
Foreign exchange differences	-	-	(141)
As at 31 December 2016	-	-	-
Emission in 2016	1,830,354	12,284	11,068
Shortage	**(1,830,354)**	**(12,284)**	**(11,068)**

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

The quantity of CO2 emission rights as at 31 December 2016 is not audited. The Parent company will receive emission allowances for 2017 in quantity of 1.3 MM tonnes. The missing part will be purchased.

Change in CO_2 emission rights (EUA) in 2015:

	Quantity (in tonnes)	USD	EUR
As at 1 January 2015	-	-	-
Granted free of charge	1,385,117	11,096	9,774
Settled emission for 2014	(1,631,285)	(12,331)	(11,456)
Purchase	246,168	1,235	1,148
Foreign exchange differences	-	-	534
As at 31 December 2015	-	-	-
Emission in 2015	1,761,329	13,690	12,333
Shortage	**(1,761,329)**	**(13,690)**	**(12,333)**

As at 31 December 2016 and 31 December 2015 the market value of one EUA amounted to 6.84 USD or 6.54 EUR and amounted 8.98 USD or 8.22 EUR, respectively.

6. Investments in equity-accounted investees

	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
1 January	**1,771**	**1,621**	**1,858**	**1,527**
Share of net profit /(loss)	85	77	168	152
Dividends	(150)	(132)	(65)	(59)
Foreign exchange differences	(69)	-	(190)	1
As at 31 December	**1,637**	**1,566**	**1,771**	**1,621**

Investments in associates represent an investment of a 34% interest in Naftelf UAB, incorporated in Lithuania. In 2016 the Parent Company received dividends by amount USD 150 thousand or EUR 132 thousand (as at 31 December 2015: USD 65 thousand or EUR 59 thousand) under Resolution of shareholders of Naftelf UAB.

Condensed financial data comprising total assets and liabilities as at 31 December 2016 and 31 December 2015, revenues, financial expenses and profit for 2016 and 2015 in Naftelf UAB are disclosed below.

	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Non-current assets	641	613	745	682
Current assets	4,338	4,150	4,748	4,346
Equity	4,814	4,605	5,208	4,767
Current liabilities	165	158	285	261

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

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Sales revenues	13,195	11,923	20,353	18,478
Profit/(loss) from operations	164	148	573	515
Profit/(loss) before tax	298	269	673	612
Tax expense	(50)	(45)	(102)	(94)
Net profit/(loss)	248	224	571	518

7. Other non-current assets

	Note	31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Loans granted	23	52	50	80	73
Other non-current receivables	23	1,673	1,601	1,214	1,111
Financial assets		**1,725**	**1,651**	**1,294**	**1,184**
Non-current prepayment		655	628	29	27
Total non-financial assets		**655**	**628**	**29**	**27**
As at 31 December		**2,380**	**2,279**	**1,323**	**1,211**

8. Impairment of non-current assets

At the end of each reporting period the Group is performing testing of assets value in use. As at 31 December 2016 the impairment test of intangible assets and property, plant and equipment for ORLEN Lietuva Group was performed.

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

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

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

The discount rate structure used in the impairment testing of assets by cash-generating unit of the Group as at 31 December 2016

	Refining
Cost of equity	15,26%
Cost of debt after tax	4,27%
Capital structure	62,4%
Debt structure	37,6%
Nominal discount rate	**11,13%**
Long term rate of inflation*	1,84%
Tax rate	15,00%

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

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta). Cost of debt includes the average level of credit margins and expected market value of money for each country. For the purpose of impairment testing of property, plant and equipment and intangible assets, the periods of analysis performed on the basis of the expected useful life of Refining segment. The useful life adopted for the analysis of the Refining segment as of 31 December 2016 was 23 years.

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As at 31 December 2016 the Group did not identify any impairment indications and any indications of reversal of impairment in relation to intangible assets and property, plant and equipment of the Group.

9. Inventories

	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Raw materials	97,637	93,406	70,608	64,624
Work in progress	20,869	19,964	16,265	14,886
Finished goods	102,934	98,474	69,404	63,522
Goods for resale	1,347	1,289	1,964	1,797
Spare parts	19,834	18,975	19,328	17,690
Inventories, net	**242,621**	**232,108**	**177,569**	**162,519**
Write-down of inventories to the net realizable value	15,617	14,940	23,797	21,780
Inventories, gross	**258,238**	**247,048**	**201,366**	**184,299**

Change in write-down of inventories to realizable net value

	Note	for the year ended		for the year ended	
		31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
January 1		**23,797**	**21,780**	**64,690**	**53,185**
Recognition	19	1,505	1,412	7,366	6,783
Utilization		(8,935)	(8,196)	(47,141)	(40,047)
Foreign exchange differences		63	42	-	1,249
Write-down of inventories excluding spare parts		**(7,367)**	**(6,742)**	**(39,775)**	**(32,015)**
Recognition	19	534	501	333	301
Reversal	19	(1,307)	(1,171)	(666)	(611)
Utilization		(40)	(36)	(785)	(713)
Foreign exchange differences		-	608	-	1,633
Write-down of spare parts for obsolescence		**(813)**	**(98)**	**(1,118)**	**610**
As at 31 December		**15,617**	**14,940**	**23,797**	**21,780**

As at 31 December 2016 the Group inventory includes state fuel reserve of USD 88,372 thousand or EUR 84,542 thousand (as at 31 December 2015: USD 77,085 thousand or EUR 70,552 thousand).

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10. Trade and other receivables

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
Trade receivables		159,491	152,579	89,426	81,847
Financial assets	**23**	**159,491**	**152,579**	**89,426**	**81,847**
Other taxation, duty, social security receivables and other benefits		426	407	595	545
Deferred insurance costs		9,987	9,555	9,482	8,678
Accrued income and deferred charges		575	550	848	776
Other		384	367	791	723
Non-financial assets		**11,372**	**10,879**	**11,716**	**10,722**
Receivables, net		**170,863**	**163,458**	**101,142**	**92,569**
Receivables impairment allowance		7,572	7,245	6,408	5,865
Receivables, gross		**178,435**	**170,703**	**107,550**	**98,434**

As at 31 December 2016 and 31 December 2015 trade and other receivables denominated in functional currencies amounted to USD 59,062 thousand or EUR 56,502 thousand and USD 45,290 thousand or EUR 41,452 thousand, respectively.

Detailed information about receivables from related parties is disclosed in Note 24.4.

Detailed information of financial assets denominated in foreign currencies is presented in Note 23.5.3.2.

Change in impairment allowances of trade and other receivables

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
1 January		6,408	5,865	6,956	5,719
Recognition	20.2	341	310	29	26
Reversal	20.1	(472)	(430)	(20)	(18)
Reclassification		1,936	1,775	-	-
Other increases/decreases		(257)	(238)	(20)	(18)
Foreign exchange differences		(384)	(37)	(537)	156
As at 31 December		**7,572**	**7,245**	**6,408**	**5,865**

11. Other financial assets

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
Cash flow hedge instruments		2,537	2,427	2,331	2,133
commodity swaps	*23*	*2,537*	*2,427*	*2,331*	*2,133*
Deposits	23	563	539	2,256	2,065
Loans granted	23	26	25	26	24
Receivables from cash pool	23	208,571	199,532	108,299	99,120
Receivables on settled cash flow hedge instruments	23	3,752	3,589	6,443	5,897
As at 31 December		**215,449**	**206,112**	**119,355**	**109,239**

As at 31 December 2016 the Group had short term deposits of USD 563 thousand or EUR 539 thousand (as at 31 December 2015 – USD 2,256 thousand or EUR 2,065 thousand). The use of these funds was restricted by banks as collateral for the proper performance of contract or legal obligations.

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

12. Cash and cash equivalents

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
Cash on hand and in bank	23	4,584	4,386	1,051	962
31 December		**4,584**	**4,386**	**1,051**	**962**

The Group did not have restricted cash as at 31 December 2016 or as at 31 December 2015.

13. Share capital

In January 2015, the nominal value of one share of the Parent Company was changed from EUR 0.29 to EUR 36 and number of share was reduced from 719,200,800 to 5,793,562 shares.

In February 2015, share capital of the Parent Company was reduced from EUR 208,568,232 to EUR 5,793,562 by changing nominal value of one share from EUR 36 to EUR 1. The purpose of the reduction of the authorized capital of the Parent Company – to cancel the losses recorded in the balance sheet of the Parent Company.

In April 2015 PKN ORLEN S.A. the sole shareholder of Parent Company, approved the profit (loss) appropriation, making decision to cover of accumulated losses from share capital, share premium and other reserves.

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

The sole shareholder of the Parent company is PKN ORLEN S.A., controlling 100 % shares. In 2016 Parent company paid dividends amounting USD 150,000 thousand or EUR 132,066 thousand to the shareholders. In 2015 the Parent company did not pay any dividends to the shareholders.

14. Loans and borrowings

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
Bank loans	23	-	-	13,954	12,771
Current loans		**-**	**-**	**13,954**	**12,771**
Total bank loans		**-**	**-**	**13,954**	**12,771**

The Group financing is based on floating interest rate. Depending on the currency of financing there are LIBOR, EURIBOR, EONIA and plus a margin. Margin reflects the risks associated with the financing of the Group

- By currency

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
USD		-	-	5,314	4,863
EUR		-	-	8,640	7,908
Total	**23.5.3.2**	**-**	**-**	**13,954**	**12,771**

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

- By interest rate

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
EURIBOR		-	-	4,526	4,142
LIBOR		-	-	5,314	4,863
EONIA		-	-	4,114	3,766
Total	**23.5.3.3**	**-**	**-**	**13,954**	**12,771**

15. Provisions

USD	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Environmental provision	2,560	2,427	632	964	3,192	3,391
Post employment benefits provision	1,631	2,013	76	150	1,707	2,163
Business risk provision	-	-	17,362	11,745	17,362	11,745
Restructuring provision	-	-	-	43	-	43
Provision for CO2 emission	-	-	12,284	15,420	12,284	15,420
As at 31 December	**4,191**	**4,440**	**30,354**	**28,322**	**34,545**	**32,762**

EUR	Non-current		Current		Total	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Environmental provision	2,449	2,221	605	882	3,054	3,103
Post employment benefits provision	1,560	1,843	73	137	1,633	1,980
Business risk provision	-	-	16,609	10,749	16,609	10,749
Restructuring provision	-	-	-	39	-	39
Provision for CO2 emission	-	-	11,752	14,113	11,752	14,113
As at 31 December	**4,009**	**4,064**	**29,039**	**25,920**	**33,048**	**29,984**

As at 31 December 2016 and 31 December 2015 the business risk provision amounting to USD 561 thousand or EUR 536 thousand and USD 2,224 thousand or EUR 2,036 thousand respectively is secured by the Group's deposit.

Change in provisions in 2016

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

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

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

Change in provisions in 2015

USD	Environ-mental	Post employment benefits	Business risk	Restruc-turing	Provision for CO2	Total
1 January 2015	**3,166**	**2,198**	**2,644**	**2,229**	**14,061**	**24,298**
Recognition	1,332	135	9,506	-	13,690	**24,663**
Usage	(784)	(3)	(18)	(541)	(12,331)	**(13,677)**
Reversal	-	-	(132)	(1,638)	-	**(1,770)**
Accounted from equity	-	56	-	-	-	**56**
Foreign exchange differences	(323)	(223)	(255)	(7)	-	**(808)**
As at 31 December 2015	**3,391**	**2,163**	**11,745**	**43**	**15,420**	**32,762**

EUR	Environ-mental	Post employment benefits	Business risk	Restruc-turing	Provision for CO2	Total
1 January 2015	**2,603**	**1,807**	**2,174**	**1,833**	**11,560**	**19,977**
Recognition	1,193	125	8,616	-	12,333	**22,267**
Usage	(710)	(3)	(15)	(493)	(11,456)	**(12,677)**
Reversal	-	-	(123)	(1,475)	-	**(1,598)**
Accounted from equity	-	55	-	-	-	**55**
Foreign exchange differences	17	(4)	97	174	1,676	**1,960**
As at 31 December 2015	**3,103**	**1,980**	**10,749**	**39**	**14,113**	**29,984**

15.1. Environmental provision

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

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

15.2. Provision for jubilee bonuses and post-employment benefits

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

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

Change in jubilee bonuses and post-employment benefits in 2016

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

Change in jubilee bonuses and post-employment benefits in 2015

	Note	Jubilee bonuses		Post-employment		Total	
		USD	EUR	USD	EUR	USD	EUR
1 January 2015		**16**	**14**	**2,182**	**1,793**	**2,198**	**1,807**
Current service costs	19	1	1	99	92	100	93
Interest expense	19	-	-	36	33	36	33
Actuarial gains and losses recognized in Other Comprehensive Income net		**-**	**-**	**56**	**55**	**56**	**55**
demographic assumptions		-	-	(29)	(29)	(29)	(29)
financial assumptions		-	-	83	82	83	82
experience adjustment		-	-	2	2	2	2
Actuarial gains and losses recognized in Profit and loss net		**(1)**	**(1)**	**-**	**-**	**(1)**	**(1)**
experience adjustment	19	(1)	(1)	-	-	(1)	(1)
Payments under program	19	-	-	(3)	(3)	(3)	(3)
Exchange differences		(1)	-	(222)	(4)	(223)	(4)
As at 31 December 2015		**15**	**14**	**2,148**	**1,966**	**2,163**	**1,980**

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2016 and 31 December 2015.

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

Division of liabilities for employee benefits for active employees

	Active employees		Active employees	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Lithuania	1,707	1,633	2,148	1,966
Latvia	-	-	8	7
Estonia	-	-	7	7
Total	**1,707**	**1,633**	**2,163**	**1,980**

Geographical division of employee benefits obligations in 2016

	Active employees	
	31/12/2016	31/12/2016
	USD	EUR
Lithuania	1,707	1,633
Latvia	-	-
Estonia	-	-
Total	**1,707**	**1,633**

Geographical division of employee benefits obligations in 2015

	Provision for jubilee		Post-employment		Total	
	31/12/2015	31/12/2015	31/12/2015	31/12/2015	31/12/2015	31/12/2015
	USD	EUR	USD	EUR	USD	EUR
Lithuania	-	-	2,148	1,966	2,148	1,966
Latvia	8	7	-	-	8	7
Estonia	7	7	-	-	7	7
Total	**15**	**14**	**2,148**	**1,966**	**2,163**	**1,980**

Analysis of sensitivity to change in actuarial assumptions

For the Group entities, in order to update the provision for employee benefits as at 31 December 2016, the Group used the following actuarial assumptions: discount rate of 0.85 %; inflation rate 1.2% in 2017 and 2.2% in following years and the remuneration increase rate 0% in 2017-2018 and 2.5 % in the following years.

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

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

	Assumed variations 31/12/2015	Influence on provision for jubilee 2015		Influence on post-employment benefits 2015	
		USD	EUR	USD	EUR
Demographic assumptions (+)					
staff turnover rates, disability and early retirement	0,5 p.p.	(1)	(1)	(105)	(96)
Financial assumptions (+)					
discount rate	0,5 p.p	(1)	(1)	(120)	(110)
level of future remuneration	1 p.p	-	-	284	260
Total		**(2)**	**(2)**	**59**	**54**
Demographic assumptions (-)					
staff turnover rates, disability and early retirement	-0.5 p.p.	1	1	113	103
Financial assumptions (-)					
discount rate	-0.5 p.p.	1	1	132	120
level of future remuneration	-1 p.p.	-	-	(239)	(219)
Total		**2**	**2**	**6**	**4**

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

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

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

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

Analysis of liabilities and payment terms for employee benefits as at 31 December 2015

	Provision for jubilee		Post-employment		Total	
	USD	EUR	USD	EUR	USD	EUR
up to 1 year	1	1	149	136	150	137
from 1 to 3 years	1	1	159	146	160	147
from 3 to 5 years	7	7	182	167	189	174
above 5 years	6	5	1,658	1,517	1,664	1,522
					2,163	**1,980**

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

	31/12/2016	31/12/2015
Lithuania	14	11
Latvia	-	1
Estonia	-	20

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

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

Not discounted future cash flow of employee benefits payments as at 31 December 2015

	Provision for jubilee		Post-employment		Total	
	USD	EUR	USD	EUR	USD	EUR
up to 1 year	1	1	151	138	152	139
from 1 to 3 years	1	1	190	174	191	175
from 3 to 5 years	3	3	255	234	258	237
above 5 years	40	36	6,158	5,636	6,198	5,672
					6,799	**6,223**

Total costs recognized in profit or loss and other comprehensive income

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
In profit and loss				
Current service costs	135	129	100	93
Interest expense	43	41	36	33
Resulting from other issues	(14)	(14)	(1)	(1)
Payments under program	(10)	(9)	(3)	(3)
Recognized past service cost	(1,480)	(1,403)	-	-
Total	**(1,326)**	**(1,256)**	**132**	**122**
In components of other comprehensive income	963	921	56	55
demographic assumptions	67	64	(29)	(29)
financial assumptions	97	93	83	82
experience adjustment	799	764	2	2

In 2016, the amount of provision for employee benefits changed as the result of the update of assumptions, mainly in discount rate, as well as projected inflation. Should the prior year assumptions be used, the provision for the employee benefits would be lower by USD 151 thousand or EUR 144 thousand.

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

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

15.3. Business risk provision

Business risk is described in more detail in Note 25 concerning significant legal proceedings.

15.4. Restructuring provision

The restructuring provision was created in 2014 for the Group's restructuring process. The provision represented a reduction in the number of employees. The plan was implemented mainly in 2015 and finished implementing in 2016. The restructuring plan for 2017 was not created.

15.5. Provision for CO_2 emission

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

16. Trade and other liabilities

	Note	31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Trade liabilities		327,390	313,202	166,563	152,447
Liabilities for investments		2,952	2,824	3,360	3,075
Uninvoiced services		3,779	3,615	6,633	6,071
Financial liabilities	**23**	**334,121**	**319,641**	**176,556**	**161,593**
Prepayments		5,159	4,936	6,287	5,754
Payroll liabilities		1,682	1,609	1,741	1,593
Excise tax and fuel charge		15,283	14,621	8,854	8,104
Value added tax		27,527	26,334	21,489	19,668
Other taxation, duties, social security and other benefits		5,013	4,795	5,075	4,645
Acruals		4,627	4,428	4,197	3,842
Holiday pay accrual		3,264	3,123	3,252	2,977
Other accruals		1,363	1,305	945	865
Other liabilities		776	741	2,298	2,104
Non-financial liabilities		**60,067**	**57,464**	**49,941**	**45,710**
Total		**394,188**	**377,105**	**226,497**	**207,303**

Trade and other liabilities denominated in functional currency amounted to USD 240,961 thousand or EUR 230,519 thousand as at 31 December 2016 and USD 100,668 thousand or EUR 92,136 thousand as at 31 December 2015.

Detailed information of financial liabilities denominated in foreign currencies is presented in Note 23.5.3.2.

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

17. Other financial liabilities

	Note	31/12/2016 USD	31/12/2016 EUR	31/12/2015 USD	31/12/2015 EUR
Cash flow hedge instruments		3,207	3,068	-	-
commodity swap	*23*	*3,207*	*3,068*	-	-
Liabilities from cash pool	23	45	43	47	43
Liabilities on settled derivatives not designated for hedge accounting	23	-	-	51	47
Liabilities on settled cash flow hedge instruments	23	6,102	5,837	417	382
		9,354	**8,948**	**515**	**472**

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

18. Sales revenues

	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR	for the year ended 31/12/2015 USD	for the year ended 31/12/2015 EUR
Sales of finished goods	3,475,781	3,148,308	3,995,738	3,602,621
Sales of services	23,732	21,466	27,904	25,111
Revenues from sales of finished goods and services, net	**3,499,513**	**3,169,774**	**4,023,642**	**3,627,732**
Sales of goods for resale	106,917	96,832	112,655	99,889
Sales of spare parts	657	589	2,187	2,007
Revenues from sales of goods for resale and spare parts, net	**107,574**	**97,421**	**114,842**	**101,896**
Total	**3,607,087**	**3,267,195**	**4,138,484**	**3,729,628**

Sales revenues by assortments

	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR	for the year ended 31/12/2015 USD	for the year ended 31/12/2015 EUR
	3,607,087	**3,267,195**	**4,138,484**	**3,729,628**
Gasoline	1,225,615	1,108,389	1,374,314	1,240,656
Diesel fuel	1,785,366	1,618,105	2,130,151	1,917,337
Jet A-1 fuel	105,207	95,027	104,317	93,935
Heavy heating oil	320,615	291,287	335,637	302,527
LPG	87,929	79,636	95,739	86,440
Bitumens	37,601	33,802	42,825	38,624
Light heating oil	3,510	3,107	5,222	4,696
Sulphur	4,367	3,962	7,009	6,288
Other	12,488	11,825	13,179	12,007
Sales of spare parts	657	589	2,187	2,007
Services	23,732	21,466	27,904	25,111
Total	**3,607,087**	**3,267,195**	**4,138,484**	**3,729,628**

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

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

In 2015 there was one major customer in the Group, whose revenues from sales amounted to USD 989,623 thousand or EUR 925,262 thousand and individually exceeded 10% of total revenues from sale to external customers.

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

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Lithuania	797,683	720,927	932,908	731,984
Other Baltic countries	711,343	643,453	870,820	813,996
Poland	264,461	240,528	53,295	50,222
Other EU countries	208,907	189,010	277,676	258,528
Other countries, including:	**1,624,693**	**1,473,277**	**2,003,785**	**1,874,898**
Switzerland	357,676	325,338	670,195	628,473
Ukraine	206,839	187,756	325,517	303,998
Singapore	1,024,492	927,762	989,766	925,387
Other countries	35,686	32,421	18,307	17,040
Total	**3,607,087**	**3,267,195**	**4,138,484**	**3,729,628**

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

19. Operating expenses

Cost of sales

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Cost of finished goods and services sold	3,062,980	2,774,491	3,560,240	3,210,010
Cost of goods for resale and spare parts sold	116,202	105,598	111,535	99,456
Total	**3,179,182**	**2,880,089**	**3,671,775**	**3,309,466**

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

Cost by kind

	Note	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR	for the year ended 31/12/2015 USD	for the year ended 31/12/2015 EUR
Usage of materials and energy, including:		**3,151,651**	**2,854,660**	**3,593,237**	**3,236,202**
usage of materials		3,114,321	2,820,907	3,559,167	3,205,546
usage of energy		37,330	33,753	34,070	30,656
External services, including:		**162,571**	**146,994**	**158,064**	**142,575**
railway services		103,030	93,109	99,819	90,036
repairs and maintenance services		12,107	10,929	10,744	9,702
terminal services,transit and freight		29,234	26,489	29,242	26,366
advisory services		2,731	2,469	2,575	2,327
lease		6,211	5,618	5,801	5,236
security of property		4,531	4,091	4,402	3,966
others services		4,727	4,289	5,481	4,942
Payroll, social security and other employee benefits		**45,055**	**40,819**	**45,151**	**40,790**
Depreciation and amortization	4,5	**14,440**	**13,055**	**12,405**	**11,177**
Taxes and charges		**10,248**	**9,223**	**6,313**	**5,690**
Write-down of spare parts for obsolescence, net	9	**(773)**	**(670)**	**(333)**	**(310)**
Other costs, including:		**11,676**	**10,559**	**7,457**	**6,701**
insurance		10,842	9,802	6,539	5,877
other costs		834	757	918	824
		3,394,868	**3,074,640**	**3,822,294**	**3,442,825**
Change in finished goods and work in progress		(28,881)	(25,612)	29,358	28,352
Cost of products and services for own use		(2,218)	(2,057)	(10,197)	(8,811)
Write-down of inventories	9	1,505	1,412	7,366	6,783
Total operating expenses		**3,365,274**	**3,048,383**	**3,848,821**	**3,469,149**
Distribution expenses		143,365	129,654	139,364	125,686
Administrative expenses		42,727	38,640	37,682	33,997
Cost of sales		3,179,182	2,880,089	3,671,775	3,309,466
Total operating expenses		**3,365,274**	**3,048,383**	**3,848,821**	**3,469,149**

Employee benefits costs

	Note	for the year ended 31/12/2016 USD	for the year ended 31/12/2016 EUR	for the year ended 31/12/2015 USD	for the year ended 31/12/2015 EUR
Payroll expenses		34,025	30,853	33,491	30,256
Social security expenses		10,521	9,546	10,230	9,242
Future benefits expenses	15.2	(1,326)	(1,256)	132	122
Other employee benefits expenses		1,835	1,676	1,298	1,170
Total		**45,055**	**40,819**	**45,151**	**40,790**

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

20. Other operating income and expenses

20.1. Other operating income

	Note	for the year ended		for the year ended	
		31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Profit from disposal of non-financial fixed assets		322	290	20	18
Reversal of provisions		8,053	7,262	1,770	1,598
Reversal of receivables impairment allowances	10,23.2	472	430	20	18
Decreases of impairment allowances of property, plant and equipment and intangible assets		804	747	1,159	1,035
Penalties and compensations earned		2,153	1,990	1,535	1,380
Other		31	29	196	179
Total		**11,835**	**10,748**	**4,700**	**4,228**

20.2. Other operating expenses

	Note	for the year ended		for the year ended	
		31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Loss from disposal of non-financial fixed assets		341	313	197	179
Recognition of provisions		7,730	7,312	9,506	8,616
Recognition of impairment receivables	10,23.2	341	310	29	26
Recognition of impairment allowances of property, plant and equipment, intangible assets and non-current assets classified as held for sale		207	195	689	623
Penalties and compensations		303	264	882	808
Other		171	156	117	105
Total		**9,093**	**8,550**	**11,420**	**10,357**

21. Financial income and expenses

21.1.Financial income

	Note	for the year ended		for the year ended	
		31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Interest	23.2	822	750	323	290
Settlement and valuation of financial instruments	23.2	-	-	13,821	12,519
Other	23.2	-	-	165	151
Total		**822**	**750**	**14,309**	**12,960**

21.2.Financial expenses

	Note	for the year ended		for the year ended	
		31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Interest	23.2	1,837	1,677	1,305	1,169
Foreign exchange loss	23.2	2,003	1,689	762	779
Costs of factoring	23.2	456	399	1,070	966
Settlement and valuation of financial instruments	23.2	-	-	72,976	64,756
Other	23.2	248	227	402	358
Total		**4,544**	**3,992**	**76,515**	**68,028**

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

22. Tax expenses

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Tax expense in the statement of profit or loss	**(25)**	**(1,178)**	**(14,942)**	**(13,884)**
Current tax expense	5,561	5,067	4,959	4,457
Deferred tax expense	(5,586)	(6,245)	(19,901)	(18,341)
Deferred tax recognized in other comprehensive income	**(16)**	**(15)**	**4**	**3**
Actuarial gains and losses from post-employment benefits	(16)	(15)	4	3
Total	**(41)**	**(1,193)**	**(14,938)**	**(13,881)**

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

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Profit (loss) for the period before tax	240,918	217,845	220,905	199,434
Profit tax applying 15 % tax rate	36,138	32,677	33,136	29,915
Effect of different tax rates in other countries	135	122	(67)	(60)
Non-taxable income	(9,590)	(8,666)	(14,942)	(13,462)
Expenses not deductible for tax purposes	1,650	1,491	12,330	11,109
Fixed asset investment relief utilization	82	74	(4,480)	(4,036)
Tax loss utilization	(2,538)	(2,293)	(20,934)	(18,860)
Change in estimates related to prior years	(25,874)	(23,380)	(20,008)	(18,026)
Other	(28)	(25)	23	21
Forex impact, because of different currency exchange rate	-	(1,178)	-	(485)
Income tax	**(25)**	**(1,178)**	**(14,942)**	**(13,884)**

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

22.2. Deferred tax

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

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

	31/12/2014		Deferred tax recognized in statement of profit or		Deferred tax recognized in other comprehensive		31/12/2015	
Deferred tax assets / (liabilities)	**USD**	**EUR**	**USD**	**EUR**	**USD**	**EUR**	**USD**	**EUR**
Impairment allowances	126,430	103,944	(5,527)	6,712	-	-	120,903	110,656
Provisions and accruals (included actuarial loss)	3,362	2,764	(1,128)	(720)	(4)	(3)	2,230	2,041
Unrealized foreign exchange differences	(980)	(806)	(11,063)	(10,216)	-	-	(12,043)	(11,022)
Difference between carrying amount and tax base of property, plant and equipment	(13,373)	(10,995)	(8,444)	(8,973)	-	-	(21,817)	(19,968)
Tax loss	72,953	59,978	(27,391)	(18,277)	-	-	45,562	41,701
Financial instruments valuation	-	-	(966)	(884)	-	-	(966)	(884)
Investment relief	-	-	4,480	4,100	-	-	4,480	4,100
Other	944	776	341	399	-	-	1,285	1,175
Total deferred tax assets / (liabilities)	**189,336**	**155,661**	**(49,698)**	**(27,859)**	**(4)**	**(3)**	**139,634**	**127,799**
Deferred tax asset / (liabilities) not recognised	**(188,842)**	**(155,255)**	**69,566**	**46,088**	**-**	**-**	**(119,276)**	**(109,167)**
Deferred tax, net	**494**	**406**	**19,868**	**18,229**	**(4)**	**(3)**	**20,358**	**18,632**

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

The Parent Company has not recognised deferred income tax by amount USD 119,276 thousand or EUR 109,167 thousand, because is not probable that future taxable profits will be available against which the Parent company can utilize the benefits.

	for the year ended		for the year ended	
	31/12/2016	31/12/2016	31/12/2015	31/12/2015
	USD	EUR	USD	EUR
Beginning of the period	20,358	18,632	494	406
Deferred tax recognised in profit or loss	5,586	6,245	19,901	18,341
Deferred tax recognised in other comprefensive income	16	15	(4)	(3)
Foreign exchange differences	(2)	(59)	(33)	(112)
Total	**25,958**	**24,833**	**20,358**	**18,632**
Deferred tax, net	**25,958**	**24,833**	**20,358**	**18,632**

23. Financial instruments and financial risks

23.1. Financial instruments by category and class

Financial assets

as at 31 December 2016

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

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

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

as at 31 December 2015

USD		Financial instruments by category			
		Loans and receivables	Financial assets held to maturity	Hedging financial instruments	Total
Financial instruments by class	**Note**				
Other non-current receivables	7	1,214	-	-	1,214
Deposits	11	-	2,256	-	2,256
Trade receivables	10	89,426	-	-	89,426
Receivables from cash pool	11	108,299	-	-	108,299
Loans granted	7,11	106	-	-	106
Cash flow hedge instruments	11	-	-	2,331	2,331
Receivables on settled cash flow hedge instruments	11	6,443	-	-	6,443
Cash and cash equivalents	12	1,051	-	-	1,051
Total		**206,539**	**2,256**	**2,331**	**211,126**

EUR		Financial instruments by category			
		Loans and receivables	Financial assets held to maturity	Hedging financial instruments	Total
Financial instruments by class	**Note**				
Other non-current receivables	7	1,111	-	-	1,111
Deposits	11	-	2,065	-	2,065
Trade receivables	10	81,847	-	-	81,847
Receivables from cash pool	11	99,120	-	-	99,120
Loans granted	7,11	97	-	-	97
Cash flow hedge instruments	11	-	-	2,133	2,133
Receivables on settled cash flow hedge instruments	11	5,897	-	-	5,897
Cash and cash equivalents	12	962	-	-	962
Total		**189,034**	**2,065**	**2,133**	**193,232**

Financial liabilities

as at 31 December 2016

USD		Financial instruments by category		
		Financial liabilities measured at amortized cost	Hedging financial instruments	Total
Financial instruments by class	**Note**			
Trade liabilities	16	334,121	-	334,121
Liabilities from cash pool	17	45	-	45
Cash flow hedge instruments	17	-	3,207	3,207
Liabilities on settled cash flow hedge instruments	17	6,102	-	6,102
Total		**340,268**	**3,207**	**343,475**

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

EUR		Financial instruments by category		
		Financial liabilities measured at amortized cost	Hedging financial instruments	Total
Financial instruments by class	**Note**			
Trade liabilities	16	319,641	-	319,641
Liabilities from cash pool	17	43	-	43
Cash flow hedge instruments	17	-	3,068	3,068
Liabilities on settled cash flow hedge instruments	17	5,837	-	5,837
Total		**325,521**	**3,068**	**328,589**

as at 31 December 2015

USD		Financial instruments by category			
		Financial liabilities measured at amortized cost	Financial liabilities valued at amortized cost	Hedging financial instruments	Total
Financial instruments by class	**Note**				
Bank loans	14	-	13,954	-	13,954
Trade liabilities	16	-	176,556	-	176,556
Liabilities from cash pool	17	-	47	-	47
Liabilities on settled derivatives not designated for hedge accounting	17	51	-	-	51
Liabilities on settled cash flow hedge instruments	17	-	417	-	417
Total		**51**	**190,974**	**-**	**191,025**

EUR		Financial instruments by category			
		Financial liabilities measured at amortized cost	Financial liabilities valued at amortized cost	Hedging financial instruments	Total
Financial instruments by class	**Note**				
Bank loans	14	-	12,771	-	12,771
Trade liabilities	16	-	161,593	-	161,593
Liabilities from cash pool	17	-	43	-	43
Liabilities on settled derivatives not designated for hedge accounting	17	47	-	-	47
Liabilities on settled cash flow hedge instruments	17	-	382	-	382
Total		**47**	**174,789**	**0**	**174,836**

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

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

As at 31 December 2016

USD		Financial instruments by category		
		Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial instruments by class	**Note**			
Interest income	21.1	822	-	822
Interest costs	21.2	-	(1,837)	(1,837)
Foreign exchange gain/(loss)	21.2	(538)	(1,465)	(2,003)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	20.1, 20.2	131	-	131
Costs of factoring	21.2	-	(456)	(456)
Other	21.2	-	(248)	(248)
Total		**415**	**(4,006)**	**(3,591)**

EUR		Financial instruments by category		
		Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial instruments by class	**Note**			
Interest income	21.1	750	-	750
Interest costs	21.2	-	(1,677)	(1,677)
Foreign exchange gain/(loss)	21.2	(480)	(1,209)	(1,689)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	20.1, 20.2	120	-	120
Costs of factoring	21.2	-	(399)	(399)
Other	21.2	-	(227)	(227)
Total		**390**	**(3,512)**	**(3,122)**

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

As at 31 December 2015

USD		Financial instruments by category			
		Financial assets and financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial instruments by class	**Note**				
Interest income	21.1	-	323	-	323
Interest costs	21.2	-	-	(1,305)	(1,305)
Foreign exchange gain/(loss)	21.2	-	(2,296)	1,534	(762)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	20.1, 20.2	-	(9)	-	(9)
Settlement and valuation of financial instruments, net	21.1, 21.2	(59,155)	-	-	(59,155)
Costs of factoring	21.2	-	-	(1,070)	(1,070)
Other, net	21.2	-	165	(402)	(237)
Total		**(59,155)**	**(1,817)**	**(1,243)**	**(62,215)**

EUR		Financial instruments by category			
		Financial assets and financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Total
Financial instruments by class	**Note**				
Interest income	21.1	-	290	-	290
Interest costs	21.2	-	-	(1,169)	(1,169)
Foreign exchange gain/(loss)	21.2	-	(2,147)	1,368	(779)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses, net	20.1, 20.2	-	(8)	-	(8)
Settlement and valuation of financial instruments, net	21.1, 21.2	(52,237)	-	-	(52,237)
Costs of factoring	21.2	-	-	(966)	(966)
Other, net	21.2	-	151	(358)	(207)
Total		**(52,237)**	**(1,714)**	**(1,125)**	**(55,076)**

23.3. Fair value measurement

As at 31 December 2016 and as at 31 December 2015 fair value of financial assets and financial liabilities are equal or similar to carrying amount due to short term nature.

23.4.Hedge accounting

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

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

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

	Note	31/12/2016	31/12/2016	31/12/2015	31/12/2015
		USD	EUR	USD	EUR
Cash flows hedge instruments					
Commodity swap	11,17	(670)	(641)	2,331	2,133
Total		**(670)**	**(641)**	**2,331**	**2,133**

Cash flows hedge recognised in financial statements

	31/12/2016	31/12/2016
	USD	EUR
Inventories	63	61
Sales revenues	12,125	10,458
Cost of sales	1,023	989

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

	31/12/2016	31/12/2015
Commodity risk exposure	January-April 2017	January-March 2016

23.5.Financial risk management

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

23.5.1. Credit risk

Within its trading activity the Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Group's receivables from sales of products and services. In order to minimize credit risk and working capital the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges collaterals of appropriate different types. The established average payment term of receivables connected with the ordinary course of sales is 12 to 15 days. Each non-cash customer with deferred payment is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Group also uses recourse (terminated in 2016) and non-recourse factoring. Trade receivables are monitored by Treasury, Financial Planning and Controlling Department on regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures are implemented as described in the binding procedures. In order to reduce the risk of recoverability of trade receivables the Group receives securities from its customers' such as: bank guarantees, documentary letters of credit, stand-by letters of credit, mortgages and third-party guarantees.

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

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

	31/12/2016		31/12/2015	
	USD	EUR	USD	EUR
Overdue:				
Up to 1 month	2,147	2,054	10,335	9,459
1-3 months	86	83	3,136	2,870
3-6 months	3	2	354	324
6-12 months	118	113	2,288	2,094
Above 1 year	6,218	5,949	4,077	3,731
	8,572	**8,201**	**20,190**	**18,479**

23.5.2. Liquidity risk

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

The Group maintains the ratio of current assets to current liabilities (current ratio) on a safe level. As at 31 December 2016 and 31 December 2015, the ratio amounted to 1.45 and 1.46, respectively.

In 2015 Parent Company signed a non-recourse factoring agreement with AB SEB Bank on the factoring limit – up to EUR 37 million. In 2016 Parent Company prolonged this agreement for the factoring limit – up to EUR 17 million.

Detailed information regarding loans is disclosed in Note 14.

As at 31 December 2016 and 31 December 2015 the maximum possible indebtedness under the signed loan agreements (mainly non-recourse factoring) amounted to USD 34,231 thousand or EUR 31,331 thousand and USD 44,102 thousand or EUR 36,258 thousand, respectively. In 2016 all loans were refunded.

Financing available for the year 2016 under the credit/cash pool agreements to cover net current liabilities with the maturity of 31 December 2017 (EUR 100 million) is covering the expected liquidity needs for 2016 with reserve.

Maturity analysis for financial liabilities:

USD	Note	31/12/2016 up to 1 year	Carrying amount
Trade liabilities	16	334,121	334,121
Liabilities on settled cash flow hedge instruments	17	6,102	6,102
Cash flow hedge instruments	17	3,207	3,207
Liabilities from cash pool	17	45	45
Total		**343,475**	**343,475**

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

EUR	Note	31/12/2016 up to 1 year	Carrying amount
Trade liabilities	16	319,641	319,641
Liabilities on settled cash flow hedge instruments	17	5,837	5,837
Cash flow hedge instruments	17	3,068	3,068
Liabilities from cash pool	17	43	43
Total		**328,589**	**328,589**

USD	Note	31/12/2015 up to 1 year	Carrying amount
Bank loans-undiscounted value	14	13,954	13,954
Trade liabilities	16	176,556	176,556
Liabilities on settled cash flow hedge instruments	17	417	417
Liabilities on settled derivatives not designated for hedge accounting	17	51	51
Liabilities from cash pool	17	47	47
Total		**191,025**	**191,025**

EUR	Note	31/12/2015 up to 1 year	Carrying amount
Bank loans-undiscounted value	14	12,771	12,771
Trade liabilities	16	161,593	161,593
Liabilities on settled cash flow hedge instruments	17	382	382
Liabilities on settled derrivatives not designated for hedge accounting	17	47	47
Liabilities from cash pool	17	43	43
Total		**174,836**	**174,836**

23.5.3. Market risks

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

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

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

23.5.3.1. Commodity risks

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

- risk of changes in refining margins on the sale of products and Ural/Brent differential fluctuations- hedges on an irregular basis as a part of hedging strategies;

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

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

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

Type of hedged raw material/product	Unit of measure	31/12/2016	31/12/2015
Crude oil	bbl	737,250	4,914,000
Diesel oil	Mt	11,000	255,905
Gasoline	Mt	-	288,286
Heating oil	Mt	85,000	102,511

Sensitivity analysis for changes in prices of products and raw materials

As at 31 December 2016

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	+45%	8,719	8,342	-45%	(8,719)	(8,342)
Diesel oil USD/Mt	+42%	(2,342)	(2,240)	-42%	2,342	2,240
Heating oil USD/Mt	+53%	(13,670)	(13,077)	-53%	13,670	13,077
		(7,292)	**(6,975)**		**7,292**	**6,975**

As at 31 December 2015

Type of hedged raw material/product	Increase of prices	Total influence		Decrease of prices	Total influence	
		USD	EUR		USD	EUR
Crude oil USD/bbl	+19%	16,281	14,901	-19%	(16,281)	(14,901)
Diesel oil USD/Mt	+17%	(7,448)	(6,817)	-17%	7,448	6,817
Gasoline USD/Mt	+21%	(13,020)	(11,917)	-21%	13,020	11,917
Heating oil USD/Mt	+20%	(1,416)	(1,296)	-20%	1,416	1,296
		(5,603)	**(5,128)**		**5,603**	**5,128**

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil and products prices were calculated based on volatility for 2016 and 2015 and available analysts' forecasts.

23.5.3.2. Currency risk

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

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

Currency structure of financial instruments as at 31 December 2016:

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

Sensitivity analysis for currency risk

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

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

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

Currency structure of financial instruments as at 31 December 2015:

Financial instruments by class	Note	EUR	USD	PLN	Other	Total after conversion to USD	Total after conversion to EUR
Financial assets							
Other non-current receivables	7	1,111	-	-	-	1,214	1,111
Deposits	11	2,065	-	-	-	2,256	2,065
Trade receivables	10	40,395	45,290	-	-	89,426	81,847
Receivables from cash pool	11	4,863	102,986	-	-	108,299	99,120
Loans granted	7,11	97	-	-	-	106	97
Cash flow hedge instruments	11	-	2,331	-	-	2,331	2,133
Receivables on settled cash flow hedge instruments	11	-	6,443	-	-	6,443	5,897
Cash and cash equivalents	12	857	115	-	-	1,051	962
Total		**49,388**	**157,165**	**-**	**-**	**211,126**	**193,232**
Financial liabilities							
Bank loans	14	7,908	5,314	-	-	13,954	12,771
Trade liabilities	16	69,133	100,668	1,146	178	176,556	161,593
Liabilities on settled derrivatives not designated for hedge accounting	17	-	51	-	-	51	47
Liabilities on settled cash flow hedge instruments	17	-	417	-	-	417	382
Liabilities from cash pool	17	43	-	-	-	47	43
Total		**77,084**	**106,450**	**1,146**	**178**	**191,025**	**174,836**
Total, net		**(27,696)**	**50,715**	**(1,146)**	**(178)**	**20,101**	**18,396**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Group (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2015) 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%	(4,539)	-15%	4,539
		(4,539)		**4,539**

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

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

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

23.5.3.3. Interest rate risk

The Group is exposed to the risk of volatility of cash flows arising from interest rates resulting from borrowings, cash pool facility and bank loans based on floating interest rates.

Interest rate structure of financial instruments:

USD	Note	31/12/2016		Total
		EONIA*	LIBID**	
Financial instruments by class				
Financial assets				
Receivables from cash pool	11	3,902	204,669	208,571
Total		**3,902**	**204,669**	**208,571**
Financial liabilities				
Liabilities from cash pool	17	45	-	45
Total		**45**	**-**	**45**

EUR	Note	31/12/2016		Total
		EONIA*	LIBID**	
Financial instruments by class				
Financial assets				
Receivables from cash pool	11	3,732	195,800	199,532
Total		**3,732**	**195,800**	**199,532**
Financial liabilities				
Liabilities from cash pool	17	43	-	43
Total		**43**	**-**	**43**

USD	Note	31/12/2015				Total
		EONIA*	LIBID**	LIBOR***	EURIBOR****	
Financial instruments by class						
Financial assets						
Other non-current receivables	7	-	-	-	-	-
Deposits	11	-	-	-	-	-
Loans granted	7,11	-	-	-	-	-
Receivables from cash pool	11	5,313	102,986	-	-	108,299
Total		**5,313**	**102,986**	**-**	**-**	**108,299**
Financial liabilities						
Bank loans	14	4,114	-	5,314	4,526	13,954
Liabilities from cash pool	17	-	-	47	-	47
Total		**4,114**	**-**	**5,361**	**4,526**	**14,001**

EUR	Note	31/12/2015				Total
		EONIA*	LIBID**	LIBOR***	EURIBOR****	
Financial instruments by class						
Financial assets						
Other non-current receivables	7	-	-	-	-	-
Deposits	11	-	-	-	-	-
Loans granted	7,11	-	-	-	-	-
Receivables from cash pool	11	4,862	94,258	-	-	99,120
Total		**4,862**	**94,258**	**-**	**-**	**99,120**
Financial liabilities						
Bank loans	14	3,765	-	4,864	4,142	12,771
Liabilities from cash pool	17	-	-	43	-	43
Total		**3,765**	**-**	**4,907**	**4,142**	**12,814**

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

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

Sensitivity analysis for interest rate risk

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

Interest rate	Assumed variation		Influence on profit before tax			
	31/12/2016	31/12/2015	31/12/2016	31/12/2016	31/12/2015	31/12/2015
			USD	EUR	USD	EUR
EONIA	+50	+50	19	18	6	5
LIBID	+50	+50	1,023	979	515	471
LIBOR	+50	+50	-	-	(27)	(25)
EURIBOR	+50	+50	-	-	(23)	(21)
Total			**1,042**	**997**	**471**	**430**
EONIA	-50	0	(19)	(18)	-	-
LIBID	-50	0	(1,023)	(979)	-	-
LIBOR	-50	0	-	-	-	-
EURIBOR	-50	0	-	-	-	-
Total			**(1,042)**	**(997)**	**-**	**-**
Total			**-**	**-**	**471**	**430**

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

Low interest rates of EONIA, LIBID, LIBOR and EURIBOR at the end of 2015 and market forecasts for the further periods caused that the Group did not take the further decreases in the sensitivity analysis into consideration.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2016 and 31 December 2015. The influence of interest rates changes was presented on annual basis. The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate.

24. Other explanatory notes

24.1. Capital commitments

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

	31/12/2016		31/12/2015	
	USD	EUR	USD	EUR
Property, plant and equipment	14,211	13,595	4,797	4,390

24.2. Contingencies

Information on significant court proceedings is presented in Note 25.

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

24.3. Guarantees

Excise tax guarantees of the Parent Company as at 31 December 2016 and as at 31 December 2015 amounted to USD 303 thousand or EUR 290 thousand and USD 317 thousand or EUR 290 thousand, respectively.

As at 31 December 2016 and as at 31 December 2015 the Group received guarantees of USD 309,981 thousand or EUR 296,548 thousand and USD 338,956 thousand or EUR 310,229 thousand, respectively.

24.4. Related party transactions

As at 31 December 2016 and as at 31 December 2015 and in 2016 and in 2015 there were no material transactions of related parties with:

- Members of the Management Board and the Supervisory Board of the Parent Company and their relatives,
- Key executive personnel of the Parent Company and the Group companies (Note 24.5).

Transactions and balance of settlement of the Group with related parties

for the year ended 31 December 2016

USD	Note	Shareholder of the Group	Related parties	Associates	Total
Sales		232,655	49,361	11,475	293,491
Purchases		2,768,043	17,000	-	2,785,043
Interest income		-	538	-	538
Interest expenses		-	575	-	575
Receivables from cash pool	11	-	208,571	-	208,571
Trade and other receivables (net)		1,687	4,853	59	6,599
Liabilities from cash pool	17	-	45	-	45
Trade and other liabilities		225,143	326	-	225,469

EUR	Note	Shareholder of the Group	Related parties	Associates	Total
Sales		211,877	44,650	10,354	266,881
Purchases		2,503,945	15,785	-	2,519,730
Interest income		-	488	-	488
Interest expenses		-	520	-	520
Receivables from cash pool	11	-	199,532	-	199,532
Trade and other receivables (net)		1,614	4,643	56	6,313
Liabilities from cash pool	17	-	43	-	43
Trade and other liabilities		215,386	312	-	215,698

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

for the year ended 31 December 2015

USD	Note	Shareholder of the Group	Related parties	Associates	Total
Sales		26,370	55,155	18,229	99,754
Purchases		3,155,658	19,606	-	3,175,264
Interest income		-	48	-	48
Interest expenses		-	1,304	-	1,304
Other operating income		-	4	-	4
Other financial costs		-	185	-	185
Receivables from cash pool	11	-	108,299	-	108,299
Trade and other receivables (net)		985	3,100	65	4,150
Liabilities from cash pool	17	-	47	-	47
Trade and other liabilities		76,129	742	-	76,871

EUR	Note	Shareholder of the Group	Related parties	Associates	Total
Sales		24,037	49,741	16,430	66,171
Purchases		2,840,639	17,888	-	17,888
Interest income		-	44	-	44
Interest expenses		-	1,168	-	1,168
Other operating income		-	3	-	3
Other financial costs		-	161	-	161
Receivables from cash pool	11	-	99,120	-	99,120
Trade and other receivables (net)		902	2,837	59	2,896
Liabilities from cash pool	17	-	43	-	43
Trade and other liabilities		69,677	679	-	679

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.

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

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

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

	for the year ended 31/12/2016		for the year ended 31/12/2015	
	USD	EUR	USD	EUR
Remuneration and other benefits of the key executive personnel	**2,567**	**2,319**	**2,544**	**2,310**
- key executive personnel of the Parent company	2,227	2,012	2,002	1,796
- key executive personnel of the subsidiaries belonging to the Group	340	307	542	514
Remuneration and other benefits potentially due to the key executive personnel, to be paid in the following year	**166**	**159**	**187**	**171**
- key executive personnel of the Parent company	88	84	81	74
- key executive personnel of the subsidiaries belonging to the Group	78	75	106	97
Post employment benefits for the key executive personnel	**50**	**48**	**74**	**67**
- key executive personnel of the Parent company	49	47	71	65
- key executive personnel of the subsidiaries belonging to the Group	1	1	3	2

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

Bonus systems for key executive personnel of the Group

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

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

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

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

	for the year ended 31/12/2016		for the year ended 31/12/2015	
	USD	EUR	USD	EUR
Fees payable to KPMG Baltics UAB in respect of the Parent Company	**125**	**114**	**133**	**122**
audit of the annual financial statements	35	32	39	36
agreed upon procedures on financial statements	83	75	87	79
other services	7	7	7	7
Fees payable to KPMG companies in respect of subsidiaries belonging to the Group	**35**	**33**	**41**	**38**
audit of the annual financial statements	31	29	27	25
agreed upon procedures on financial statements	3	3	11	10
other services	1	1	3	3
	160	**147**	**174**	**160**

In the period covered by this consolidated financial statement the entity authorized to conduct audit of the Group's financial statements is KPMG Baltics, UAB. According to the agreement amendment concluded on 17 April 2015 with the Parent Company for the years 2015 and 2016, KPMG Baltics, UAB, performs the interim reviews agreed upon procedures and audits of separate and consolidated financial statements in years 2015-2016.

Following the concluded agreements for the year 2016, KPMG Baltics, UAB performs the agreed upon procedures of interim and audit of financial statements of the subsidiaries (except for UAB Mažeikių Naftos prekybos namai).

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

25.1. Court proceedings in which the Parent company act as plaintiff

Compensation due to property damages

Parent company is a party in the compensation proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. due to losses incurred during the accident in Būtingė Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately EUR 23,300 thousand (USD 22,290 thousand) at exchange rate as at 31 December 2016.

Arbitration proceedings against AB Lietuvos geležinkeliai regarding calculation of rail carriage tariffs and overpaid difference

Starting from 1 January 2014, AB Lietuvos Geležinkeliai applied higher tariffs for rail carriage on the Parent company. Calculation of the tariffs, according to AB Lietuvos Geležinkeliai, relates to the regulation on infrastructure fees, approved by the Government of the Republic of Lithuania. The Parent company did not agree with the applied tariffs, as they have been calculated by AB Lietuvos Geležinkeliai not in accordance with the effective rail carriage contract. On 31 December 2014, the Parent company filed a request for arbitration against AB Lietuvos geležinkeliai in the Vilnius court of commercial arbitration. The Parent company claims that calculation of tariffs for railway transportation should be done in line with the current contract concluded between the Parent company and AB Lietuvos geležinkeliai, and AB Lietuvos geležinkeliai should pay the compensation to the Parent company for excessive tariffs applied. Granting of a relief according to the Parent company's claims would lead to savings for the company in the amount of not less than EUR 41 million, as of 31 December 2016 (USD 42.9 million at exchange rate as at 31 December 2016), and to receiving of compensation of approximately EUR 100 million, as of 31 December 2016 (USD 104.5 million at exchange rate as at 31 December 2016). The amount of savings and compensation will be further updated in accordance with the activity ongoing on the basis of the rail carriage contract.

Court proceedings against AB Lietuvos geležinkeliai regarding repayment of the debt and penalty interest under fuel sale-purchase contract

The Parent company started the civil proceedings at Vilnius District Court against AB Lietuvos geležinkeliai regarding the repayment of the debt and penalty interest under fuel sale-purchase contract. The value of the claim exceeds EUR 5.7 million (USD 6.0 million at exchange rate as at 31 December 2016). The hearing of the case is suspended until the dispute in arbitration on railway tariffs between the Parent company and AB Lietuvos geležinkeliai is finally resolved.

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

Payment request from a Company of inventors

In 2010, a group of individuals claimed royalties and interest related to production improvement process which has been invented and patented by the group and supposedly improved the performance of the Parent company's refinery. The claim covered the years 1996-2010 and amounted to EUR 11.1 million (USD 11.6 million at exchange rate as at 31 December 2016), not including the procedural interest, litigation and other costs. On 6 August 2015, the court partially satisfied the claim and awarded to the claimants from the Parent company EUR 6.8 million (USD 7.1 million at exchange rate as at 31 December 2016) principal amount and interest, respective procedural interest and litigation costs. On 20 May 2016, the appellate instance court reduced the amount adjudged to the claimants from the Parent company up to EUR 0.6 million (USD 0.6 million at exchange rate as at 31 December 2016) of principal amount and interest. On 2 December 2016 the Supreme Court of Lithuania decided that the Parent company should pay the royalties to the claimants according to the 1st instance court decision. Additionally, the court decided that case should be re-examined at the appellate instance as a matter of compensation for the claimants, for the extended period of the patent validity. The Parent company applied for renewal of the proceedings at the Supreme Court. The Parent company's request for renewal, as well as the respective part of the case transferred to the appellate instance will be heard in forthcoming months.

Dispute with Lietuvos geležinkeliai regarding rail carriage contract

Starting from 1 January 2015, AB Lietuvos Geležinkeliai applied to the Parent company higher tariffs for railway transportation. Calculation of the tariffs, according to AB Lietuvos Geležinkeliai, relates to the regulation on infrastructure fees, approved by the Government of the Republic of Lithuania. The Parent company did not agree with the applied tariffs, as they were calculated by AB Lietuvos Geležinkeliai not in accordance with the effective rail carriage contract. Therefore, the Parent company covered only a respective portion of the invoices issued by AB Lietuvos Geležinkeliai and paid for transportation services applying the tariffs calculated in an appropriate manner.

As a result of disagreement, on 4 June, 28 October 2014, 26 June 2015, 19 August 2015, 5 January 2016, 27 June 2016, and 16 December 2016 AB Lietuvos geležinkeliai filed claims against the Parent company claiming the overdue debt and penalty interest in amount of EUR 37.5 million (USD 39.2 million at exchange rate as at 31 December 2016), as well as respective procedural interest. The Parent company objected to jurisdiction of state courts on the basis of effective rail carriage contract, and argued that all the disputes raised by AB Lietuvos geležinkeliai fall under the jurisdiction of arbitration. Examination of aforementioned claims of AB Lietuvos geležinkeliai was either discontinued or suspended by the state courts due to jurisdiction of arbitration. Some of the appeals of AB Lietuvos geležinkeliai on these procedural questions are still being examined by the state courts.

Other litigations and claims

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

26. Significant events after the end of the reporting period

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

27. Factors and events that may influence future results

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

Ireneusz Fąfara
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

CONSOLIDATED ANNUAL REPORT OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR 2016

Public Company ORLEN Lietuva and its subsidiaries (hereinafter – the Group) ended the year 2016 with the outstanding performance indicators which were directly impacted by the Group achievements in the production and sales areas as well as favorable macroeconomic conditions.

Similar to the previous years, the improvement of flexibility and operational efficiency were among the key targets of the Group for the year 2016. The Group has taken advantage of the favorable market conditions and business opportunities to establish a sustainable position on the market being exposed to the tough competition.

In 2016, the Group succeeded in achieving exceptional results, with the *Better Done* Program of Public Company ORLEN Lietuva (hereinafter – Parent Company), aimed at improvement of the main business areas, making an important contribution to the financial success of the Group. The Parent Company was implementing the operational efficiency improvement, sales promotion, performance optimization measures and the value creating initiatives as well as continued the labor efficiency increase to maintain a competitive presence on the market in case of a worsened situation.

In 2016, the work organization and structural changes were continued by introducing advanced technical measures and tools as well as performing modernization of processes which was followed by staff optimization and labor efficiency increase.

Operating Results

In 2016, the feedstock processing volume amounted to 9.9 million tons, i.e. was by 0.9 million tons (9.5%) higher than in the previous year, when the volume of feedstock processed was 9.05 million tons. Annual capacity utilization in 2016 was higher than in 2015 by 8.1 percentage points. Increased processing volume and better capacity utilization were caused by the favorable macroeconomic environment. The year 2016 was also marked by improvement of other indicators representing the operational efficiency such as internal fuel and losses reduction, improvement of energy intensity index and mechanical availability.

Increased processing volume resulted in the product sales growth. Sales of petroleum products by the Group in 2016 amounted to 9.5 million tons, compared to 8.6 million tons in 2015. Petroleum product sales volume in 2016 was by 0.9 million tons or 9.6% higher in comparison with 2015. Despite the sales volume increase, the Group revenues in 2016 were USD 3.6 billion (EUR 3.3 billion), whereas revenues of the Group in 2015 amounted to USD 4.1 billion (EUR 3.7 billion), with lower revenues caused by the fall in world prices for crude oil and petroleum products.

Sales of light products in Lithuania during 2016 amounted to 1.8 million tons; the Group succeeded in maintaining and slightly increasing the sales level of 2015 when it comprised 1.77 million tons. Such result was achieved through the stable market share: the majority of the national retail network was trading in the fuel produced by the Parent Company; in addition, the fuel consumption in Lithuania increased.

The year 2016 was also marked by the particularly successful sales to Ukraine reaching almost 0.8 million tons of fuel sold by the Group in spite of the extremely difficult conditions for sale impacted by the complicated economic and political situation in this country.

Sales on the Polish market were four times that of the year 2015, with the highest growth in sales of diesel fuel. The volume of products sold in 2016 to Poland amounted to 0.6 million tons in comparison with 0.1 million tons sold in 2015.

Notwithstanding the fierce competition on the market of Baltic countries, the Group succeeded in increasing gasoline sales not only in Lithuania but in Latvia and Estonia as well. Volume of sales in comparison with the year 2015 increased by 9.9%; however, further increase of the growing number of clients was and still remains one of the main targets for the sales activities.

Growth of the processing volume also resulted in seaborne sales increase by 4.3%. Seaborne sales in 2016 amounted to 4.5 million tons, compared to 4.3 million tons in 2015.

Financial Results

The net profit of the Group for the year 2016 under the International Financial Reporting Standards (IFRS) amounted to USD 240.9 million (EUR 219.0 million), in comparison to the net profit of USD 235.8 million (EUR 213.3 million) for the year 2015. Operating profit for the year 2016 comprised USD 244.6 million (EUR 221.1 million), compared to the operating profit of USD 283.1 million (EUR 254.5 million) in 2015.

Positive results of the Group have also contributed to the improvement of its financial indicators. Net profit margin of the Group for the year 2016 was 6.7% (5.7% in 2015). Changes of other indicators were as follows: the net debt to equity ratio was -0.54 (-0.31 in 2015), the current ratio was 1.45 (1.46 in 2015), and the asset turnover ratio was 4.32 (7.07 in 2015).

Information on financial risk management of the Group is available in Note 23 -of Consolidated Financial Statements. The information includes data on financial risk management trends, used insurance instruments to which the accounting of insurance transactions is applicable as well as pricing risk, credit risk, liquidity risk, and cash flow risk.

Modernization, Mandatory and Other Projects

The total amount of investments made by the Parent Company to property plant and equipment as well as intangible assets (excluding purchase of deficient CO_2 emission allowances) during the year 2016 comprised USD 24.1 million, i.e. was by 9% higher than in the year 2015 (USD 22.2 million).

In 2016, the Parent Company completed the project of heat exchange optimization in LK-2 Crude Distillation Unit. The project will allow for the fuel savings reaching USD 10 million per year.

The main focus of the Group, similar to the previous years, was given for implementation of the projects with the short pay-back period requiring relatively low investment. The number of such projects completed in 2016 was 12, with their total budget reaching USD 1.9 million and the positive impact on EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) possibly reaching USD 3.3 million, depending on the market situation.

In addition to the Crude Distillation Unit heat exchange optimization project, other projects intended for EBITDA improvement included the projects of bitumen production in winter season, isopentane (i-C5) supply to Gasoline Blending Station, installation of load control system for compressors IK-301-1 and IK-301-2, modification of liquid fuel supply to Power House, connection of coolers-condensers AK-117, AK-118, AO-111 and AV-117 for cooling of Tower K-105 bottom product.

Besides the projects intended for profit margin increase, the activities for refurbishment of the process units and catalyst replacement works were also implemented in 2016.

Employees' Development and Work Compensation Policy

Employees' development remains the priority area of the human resource management. In 2016, following the applicable legislation and the internal requirements 1,903 employees of the Group attended trainings and received certificates in the areas of fire safety and civil protection, first aid and hygiene, as well as execution of specialized works.

The Parent Company continuously improves qualifications of its workers to ensure proper servicing by the operational staff of the process equipment and modernized units. During 2016, trainings in this relation were completed by 405 employees. More than 525 employees of the Group participated in trainings on mechanical engineering, process engineering, energy, law, leadership, business security, management, etc.

In 2016, the project of internal trainings *'Expert Club. Refined Knowledge'* was further continued by aiming to exchange of knowledge and learning from each other. Experts being the experienced specialists and managers of the Parent Company prepared information and introduced activities of their departments as well as various projects to more than 400 employees.

The group of 60 mid-level managers and specialists of the Parent Company continued and completed the Leadership Program initiated at the end of 2015, improving their knowledge of the refining market specifics, activities of the Company and management solutions, and taking part in business simulation classes.

Seeking to further improve efficiency of the Group activities, LEAN management and skills development program was further continued in 2016 enrolling 332 employees of the Group.

In 2016, the Group also continued the Program of *'Social Awareness and Relationship Management'* based on the DiSC® methodology which involved 101 managers and employees of the Group.

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

Organizational Changes and Restructuring

Performance optimization and labor efficiency increase remained one of the key targets of the Group to achieve the objectives set by its shareholders.

To improve the efficiency of internal processes, the Parent Company was further implementing organizational changes. Implementation of the work organization associated changes and introduction of advanced technical and organizational solutions resulted in the performance indicators improvement.

The number of active employees in the Group at the end of 2016 was 1,562 (including the Parent Company's Representative Office in Ukraine).

Environmental Protection

In 2016, the Parent Company was operating in compliance with the established environmental requirements, introducing the changes required for adequate implementation of existing and evolving provisions.

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

In 2016, different environmental measures were implemented, with the most important of these being related to fuel and electricity savings allowing for reduction of industrial emissions. Implementation of the said measures in 2016 allowed the Parent Company’s Refinery to reduce the energy consumption by approx. 5% in comparison with the year 2015.

Certification and Maintaining of the Management Systems

Activities of the Parent Company comply with the strict international integrated management system standards (ISO 9001, ISO 14001, BS OHSAS 18001 and ISO/IEC 27001). In 2016, the Parent Company further continued maintenance and improvement of its Integrated Management System which includes the areas of quality, environmental, information security as well as occupational health and safety management. In December of 2016, LRQA Lietuva completed audit of the Integrated Management System, by determining that activities of the Parent Company are compliant to the requirements of ISO 9001, ISO 14001, ISO/IEC 27001 and OHSAS 18001 standards, and extended validity of the relevant certificates until autumn of 2018.

Occupational Health and Safety
Safety is one of the priorities in the Parent Company. *‘Safety First’* Program launched in 2012 ensures the highest level of occupational health and safety (OHS) in the Parent Company.

The Parent Company is making constant progress in introducing the efficient measures which promote OHS culture and improve OHS level such as motivation system, system on reporting and eliminating dangerous places, employee training system, OHS inspection system with participation of the top management, system of permit issue for dangerous works, contractor management system, etc. In 2016, the Parent Company commenced implementation of the Health Program, performed assessment of fire safety and evacuation systems and developed their improvement measures.

Consistent, year by year, improvement of *‘Safety First’* Program and implementation of additional occupational health and safety measures allowed the Parent Company reaching the best results in the history of the Parent Company related to OHS indicators, i.e. the lowest number of accidents (2) and the best TRR indicator (number of accidents per 1 million man-hours) of 0.73.

Ownership Structure

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

In 2016, the Group did not acquire or transfer any of its own shares.

Branches

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

The Year 2017 – Continued Pursuit of the Group Strategy

The Group will further pursue its objectives established in PKN ORLEN Strategy for 2017-2021 focusing on the Value Creation, People and Financial Strength as the key pillars of the growth.

The forecasted throughput of the Refinery in 2017 is about 8.9 million tons of feedstock. The Group intends concentrating its efforts on the turnaround of the Refinery installations, implementation of the major investment projects, capacity utilization increase, reduction of the internal energy consumption and ensuring the stability of performance, increasing sales to inland markets as well as reducing costs.

To ensure the long term perspective of both Public Company ORLEN Lietuva and its subsidiaries as well as the entire PKN ORLEN Group under conditions of increasing competition and constantly changing macroeconomic situation, the management of the Group in the year 2017 will continue intensive implementation of advanced management solutions in the areas of operational efficiency increase and process optimization.

General Director Ireneusz Fąfara