



Public Company ORLEN Lietuva

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2018
PREPARED IN ACCORDANCE WITH INTERNATIONAL
FINANCIAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION**

2018

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Independent auditor's report to the shareholder of AB ORLEN Lietuva

To the Shareholder of ORLEN Lietuva AB

Opinion

We have audited the consolidated financial statements of ORLEN Lietuva AB and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects of the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other Information

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

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

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

Deloitte yra vadinamos Deloitte Touche Tohmatsu Limited, Jungtinės Karalystės ribotos atsakomybės bendrovės, ir grupelį priklausančios bendrovės narės („DTTL“). Kiekviena DTTL narė yra atskiras ir nepriklausomas juridinis asmuo. DTTL (dar vadinama „Deloitte Global“) pati savaraimė paslaugų netelkia. Daugiau informacijos apie DTTL ir jos bendroves nares galite rasti čia www.deloitte.lt.

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

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

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

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

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

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

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

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

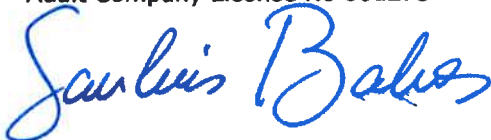
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte Lietuva, UAB
Audit Company License No 001275



Saulius Bakas
Lithuanian Certified Auditor
License No. 000604

Vilnius, Republic of Lithuania
20 March 2019

Consolidated statement of financial position

	Note	31/12/2018		31/12/2017	
		USD	EUR	USD	EUR
ASSETS					
Non-current assets					
Property, plant and equipment	4	279,671	244,169	224,157	186,906
Intangible assets	5	3,953	3,451	2,427	2,023
Investments in equity-accounted investees	6	1,534	1,340	1,616	1,347
Deferred tax assets	21.2	7,907	6,902	4,307	3,593
Other non-current assets	7	1,492	1,303	2,940	2,451
Total non-current assets		294,557	257,165	235,447	196,320
Current assets					
Inventory	9	270,609	236,257	304,097	253,561
Trade and other receivables	10	277,225	242,034	284,996	237,636
Other financial assets	11	118,538	103,489	306,112	255,244
Current tax assets		5,633	4,918	7	6
Cash and cash equivalents	12	14,490	12,651	15,283	12,743
Non-current assets classified as held for sale		324	283	410	342
Total current assets		686,819	599,632	910,905	759,532
Total assets		981,376	856,797	1,146,352	955,852
LIABILITIES AND SHAREHOLDERS EQUITY					
EQUITY					
Share capital	13	6,547	5,794	6,547	5,794
Share premium		50,172	132,152	50,172	132,152
Other reserves		1,040	887	1,013	864
Hedging reserve		6,900	6,024	(2,184)	(1,830)
Foreign exchange differences		(1,983)	(93,584)	(1,329)	(114,046)
Retained earnings		459,359	404,495	430,647	381,358
Total equity		522,035	455,768	484,866	404,292
LIABILITIES					
Non-current liabilities					
Provisions	14	6,186	5,401	7,325	6,108
Deferred income		-	-	1	1
Total non-current liabilities		6,186	5,401	7,326	6,109
Current liabilities					
Trade and other liabilities	15	370,973	323,880	510,826	425,938
Current tax liability		279	243	1,689	1,408
Provisions	14	42,575	37,169	35,615	29,696
Other financial liabilities	16	36,560	31,919	102,866	85,771
Deferred income		1	1	294	245
Advance payments and prepayments		2,767	2,416	2,870	2,393
Total current liabilities		453,155	395,628	654,160	545,451
Total liabilities		459,341	401,029	661,486	551,560
Total equity and liabilities		981,376	856,797	1,146,352	955,852

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.

Consolidated financial statements were approved on 20 March 2019.

Michal Rudnicki
General Director

Marek Gołębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting
and Tax Administration

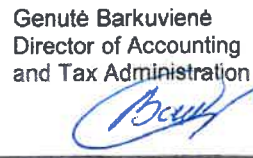
Consolidated statement of profit or loss and other comprehensive income

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Statement of profit or loss					
Sales revenues	17	5,533,815	4,705,961	4,540,698	4,005,655
Cost of sales	18	(5,287,306)	(4,498,767)	(4,076,279)	(3,598,592)
Gross profit on sales		246,509	207,194	464,419	407,063
Distribution expenses	18	(165,334)	(140,550)	(130,386)	(114,777)
Administrative expenses	18	(47,889)	(40,582)	(49,246)	(43,395)
Other operating income	19.1	52,931	43,758	4,388	3,966
Other operating expenses	19.2	(55,033)	(45,114)	(3,412)	(2,980)
Share in profit from investments in equity-accounted investees	6	(12)	(7)	(155)	(140)
(Loss)/Reversal of loss due to impairment of financial instruments		169	138	-	-
Profit/(loss) from operations		31,341	24,837	285,608	249,737
Finance income	20.1	1,912	1,612	93,458	79,478
Finance expenses	20.2	(6,821)	(5,779)	(109,717)	(93,484)
Net finance income/(expenses)		(4,909)	(4,167)	(16,259)	(14,006)
Profit/(loss) before tax		26,432	20,670	269,349	235,731
Income tax expenses	21	3,074	3,081	(27,929)	(24,274)
Net profit/(loss) from continuing operations		29,506	23,751	241,420	211,457
Net profit/(loss)		29,506	23,751	241,420	211,457
Items of other comprehensive income/(expenses):					
which will not be reclassified into profit or loss					
Actuarial (gains) and losses		(27)	(24)	(452)	(387)
Deferred tax		3	3	58	45
that are or may be reclassified to profit or loss					
Hedging instruments		9,084	7,854	(1,514)	(1,189)
Foreign exchange differences		(654)	20,462	1,857	(42,510)
Other comprehensive income		8,406	28,295	(51)	(44,041)
Total net comprehensive income/(expenses)		37,912	52,046	241,369	167,416
Net profit/(loss) attributable to:					
equity holders of the parent		29,506	23,751	241,420	211,457
Total comprehensive income/(expenses) attributable to:					
equity holders of the parent		37,912	52,046	241,369	167,416

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Consolidated financial statements were approved on 20 March 2019.

Michal Rudnicki
 General Director

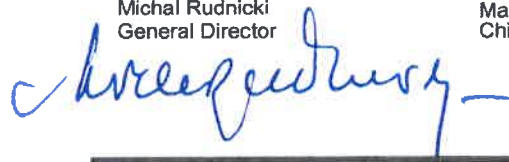

Marek Golebiewski
 Chief Financial Officer



Genutė Barkuvienė
 Director of Accounting
 and Tax Administration



Consolidated statement of cash flows

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Cash flow - operating activities					
Net profit/(loss)		29,506	23,751	241,420	211,457
Adjustments for:					
Share in profit from investments in equity-accounted investees	6	12	7	155	140
Depreciation and amortization	4,5	25,335	21,549	19,238	16,963
Recognition/(Reversal) of impairment losses on property, plant and equipment, intangible assets and non-current assets classified as held for sale	19.1, 19.2	77	64	555	443
Foreign exchange (gain)/loss		1	1	1,714	(18,305)
Interest, net		(380)	(325)	193	160
(Profit)/loss on investing activities		(5,239)	(4,245)	8,429	7,228
Change in working capital:		(118,805)	(92,012)	(83,191)	(67,431)
receivables		2,240	(1,732)	(113,981)	(73,826)
inventories		32,105	36,948	(62,457)	(22,373)
liabilities		(153,150)	(127,228)	93,247	28,768
Change in provisions		24,766	21,251	19,278	12,947
Tax expenses	21	(3,074)	(3,081)	27,929	24,274
Income tax (paid)/received		(7,536)	(6,433)	(8,257)	(5,132)
Change in financial instruments		(1,248)	(1,595)	8,677	6,938
Other adjustments		(17)	(227)	(2)	194
Net cash generated in operating activities		(56,602)	(41,295)	236,138	189,876
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(82,724)	(69,822)	(59,931)	(54,542)
Disposal of property, plant and equipment and intangible assets		89	73	146	126
Proceeds/repayment of loans granted		13	11	36	34
Increase/(decrease) in derivatives		(6,297)	(5,224)	(8,143)	(6,956)
Increase/(decrease) in deposits		(241)	(207)	568	530
Interest received		1,513	1,282	666	595
(Outflows)/proceeds from cash pool		131,506	104,842	(21,802)	7,443
Net cash used in investing activities		43,859	30,955	(88,460)	(52,770)
Cash flows from financing activities					
Interest paid		(1,107)	(936)	(844)	(744)
(Outflow)/inflow from cash pool		13,078	10,809	13,865	11,556
Dividends paid		-	-	(150,000)	(139,561)
Net cash used in financing activities		11,971	9,873	(136,979)	(128,749)
Net (decrease)/increase in cash and cash equivalents		(772)	(467)	10,699	8,357
Effect of exchange rate changes		(21)	375	-	-
Cash and cash equivalents, beginning of the period	12	15,283	12,743	4,584	4,386
Cash and cash equivalents, end of the period	12	14,490	12,651	15,283	12,743

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.
 Consolidated financial statements were approved on 20 March 2019.

Michal Rudnicki
 General Director


Marek Golebiewski
 Chief Financial Officer


Genutė Barkuvienė
 Director of Accounting and Tax Administration


Statement of changes in consolidated equity

USD	Equity attributable to equity holders of the Parent Company						
	Share capital	Share premium	Hedging reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2018	6,547	50,172	(2,184)	1,013	(1,329)	430,647	484,866
Impact of IFRS9 adoption	-	-	-	-	-	(701)	(701)
1 January 2018 (recalculated data)	6,547	50,172	(2,184)	1,013	(1,329)	429,946	484,165
Profit for the year	-	-	-	-	-	29,506	29,506
Other comprehensive income/(expenses)	-	-	9,084	-	-	(24)	9,060
Foreign currency translation differences of foreign operations	-	-	-	-	(654)	(42)	(696)
Total comprehensive income/(expenses)	-	-	9,084	-	(654)	29,440	37,870
Transfer to legal reserve	-	-	-	27	-	(27)	-
Total transactions with owners of the Group	-	-	-	27	-	(27)	-
31 December 2018	6,547	50,172	6,900	1,040	- 1,983	459,359	522,035
1 January 2017	6,547	50,172	(670)	996	(3,186)	339,631	393,490
Profit for the year	-	-	-	-	-	241,420	241,420
Other comprehensive income/(expenses)	-	-	(1,514)	-	-	(394)	(1,908)
Foreign currency translation differences of foreign operations	-	-	-	-	1,857	7	1,864
Total comprehensive income/(expenses)	-	-	(1,514)	-	1,857	241,033	241,376
Transfer to legal reserve	-	-	-	17	-	(17)	-
Dividends	-	-	-	-	-	(150,000)	(150,000)
Total transactions with owners of the Group	-	-	-	17	-	(150,017)	(150,000)
31 December 2017	6,547	50,172	(2,184)	1,013	(1,329)	430,647	484,866

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.
 Consolidated financial statements were approved on 20 March 2019.

Michal Rudnicki
 General Director


Marek Golebiewski
 Chief Financial Officer


Genutė Barkuvienė
 Director of Accounting and
 Tax Administration


EUR	Equity attributable to equity holders of the Parent Company						
	Share capital	Share premium	Hedging reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2018	5,794	132,152	(1,830)	864	(114,046)	381,358	404,292
Impact of IFRS9 adoption	-	-	-	-	-	(569)	(569)
1 January 2018 (recalculated data)	5,794	132,152	(1,830)	864	(114,046)	380,789	403,723
Profit for the year	-	-	-	-	-	23,751	23,751
Other comprehensive income/(expenses)	-	-	7,854	-	-	(21)	7,833
Foreign currency translation differences of foreign operations	-	-	-	-	20,462	(1)	20,461
Total comprehensive income/(expenses)	-	-	7,854	-	20,462	23,729	52,045
Transfer to legal reserve	-	-	-	23	-	(23)	-
Total transactions with owners of the Group	-	-	-	23	-	(23)	-
31 December 2018	5,794	132,152	6,024	887	(93,584)	404,495	455,768
1 January 2017	5,794	132,152	(641)	849	(71,536)	309,822	376,440
Profit for the year	-	-	-	-	-	211,457	211,457
Other comprehensive income/(expenses)	-	-	(1,189)	-	-	(342)	(1,531)
Foreign currency translation differences of foreign operations	-	-	-	-	(42,510)	(3)	(42,513)
Total comprehensive income/(expenses)	-	-	(1,189)	-	(42,510)	211,112	167,413
Transfer to legal reserve	-	-	-	15	-	(15)	-
Dividends	-	-	-	-	-	(139,561)	(139,561)
Total transactions with owners of the Group	-	-	-	15	-	(139,576)	(139,561)
31 December 2017	5,794	132,152	(1,830)	864	(114,046)	381,358	404,292

The notes on pages 12 to 73 are an integral part of these consolidated financial statements.
 Consolidated financial statements were approved on 20 March 2019.

Michal Rudnicki
 General Director


Marek Gołębiewski
 Chief Financial Officer


Genutė Barkuvienė
 Director of Accounting and
 Tax Administration


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, Mažeikiai 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 2018 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
			31/12/2018	31/12/2017	
Subsidiaries					
UAB Mažeikių Naftos prekybos namai	Lithuania	2003	100	100	Intermediate holding entity has two subsidiaries SIA ORLEN Latvija and OU ORLEN Eesti. Their activity is wholesale trading in petroleum products in Latvia and Estonia.
SIA ORLEN Latvija	Latvia	2003	100	100	Wholesale trading in petroleum products in Latvia. This company is a subsidiary of UAB Mažeikių Naftos prekybos namai which holds 100 percent of shares of this company.
OU ORLEN Eesti	Estonia	2003	100	100	Wholesale trading in petroleum products in Estonia. This company is a subsidiary of UAB Mažeikių Naftos prekybos namai which holds 100 percent of shares of this company.
UAB EMAS	Lithuania	2009	100	100	Installation, supervision, repair of electrical equipment and related services, in-door and industrial cleaning services.
Associated company					
UAB Naftelf	Lithuania	1996	34	34	Trading in aviation fuel and construction of storage facilities thereof.

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 2018. The consolidated financial statements cover the period from 1 January to 31 December 2018 and the corresponding period from 1 January to 31 December 2017.

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 Director of Accounting and Tax Administration on 20 March 2019. 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

IFRSs and their interpretations, announced and adopted by the European Union, effective for the current reporting period	Possible impact on financial statements
IFRS 9 - Financial Instruments	Impact*
IFRS 15 - Revenue from Contracts with Customers	Impact**
Amendments to IFRS 2 - Classification and measurement of share-based payment transactions	
Amendments to IFRS 4 - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	
Amendments to IFRS 15 - Revenue from Contracts with Customers: Clarifications to IFRS 15 Revenue from Contracts with Customers	Amendments to the existing standards has not led to any material changes in the current financial statement
Amendments to IAS 40 - Transfers of investment property	
Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)": Amendments resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording	
IFRIC 22 - Foreign Currency Transactions and Advance Consideration	

IFRSs and their interpretations, announced and adopted by the European Union, not yet effective	Possible impact on financial statements
IFRS 16 - Leases	Impact***
Amendments to IAS 19 - Employee Benefits: Plan Amendment, Curtailment or Settlement	
Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures	
Amendments to IFRS 9 - Prepayment features with negative compensation	No impact expected
IFRIC 23 - Uncertainty over Income tax treatments	
Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording	

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

IFRS 9 - Financial Instruments*

Selected accounting principles

Measurement of financial assets and liabilities

From 1 January 2018, the Group classifies financial assets into one of the following categories:

- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Group classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.

The Group as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.

At the moment of initial recognition, the Group classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.

The Group classifies to assets measured at fair value through profit or loss derivatives that are not designated for hedge accounting and hedged items that are measured in accordance with hedge accounting principles.

The Group classifies financial liabilities into one of the following categories:

- measured at amortized cost,
- measured at fair value through profit or loss,
- hedging financial instruments.

The Group as liabilities measured at amortized cost classifies trade liabilities. Liabilities on derivatives not designated for hedge accounting are classified by the Group as measured at fair value through profit or loss.

The Group classifies to the category of hedging financial instruments, financial assets and liabilities which constitute derivative hedging cash flows.

Measurement of financial assets at amortized cost

The Group applies the effective interest rate method to measure financial assets at amortized cost.

Trade receivables after initial recognition are measured at amortized cost using the effective interest rate method, including impairment allowances, while trade receivables with a maturity of less than 12 months from the date of recognition (i.e. not including the financing component) and not appointed to factoring, are not discounted and are measured at nominal value.

Measurement of financial assets at fair value through other comprehensive income

Gains and losses on a financial asset constituting an equity instrument for which was applied the option of fair value through other comprehensive income is recognized in other comprehensive income, except for revenues from received dividends.

Measurement of financial assets at fair value through profit or loss

Gains or losses on the measurement of a financial asset that is classified as measured at fair value through profit or loss are recognized in profit or loss during the period in which they were recognized. Gains or losses from the valuation of items measured at fair value through profit or loss also include interest and dividend income.

Measurement of hedging financial instruments

Hedging financial instruments are measured in accordance with the principles of hedge accounting.

Impairment of financial assets

IFRS 9 introduces a new approach to estimating the impairment of financial assets measured at amortized cost or at fair value through other comprehensive income (with the exception of investments in capital assets and contract assets). The impairment model is based on the expected loss calculation as opposed to the applied model in years before 2018 resulting from IAS 39, which was based on the concept of incurred loss. The most important item of financial assets in the Group's financial statements, which is subject to the new principles of calculating expected credit losses, are trade receivables.

The Group uses the following models for determining impairment allowances:

- general model (basic),
- simplified model.

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

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

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

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

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

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

The simplified model is used by the Group for trade receivables. In the simplified model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument. In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.

For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.

The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years.

The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

(Loss)/reversal of losses due to impairment of financial instruments

The (losses)/reversal of losses due to impairment of financial instruments include, in particular, (losses)/reversals of losses due to impairment of trade receivables and (losses)/reversals of losses due to impairment of granted loans.

Hedge accounting

Derivatives designated as hedging instruments from which it is expected that their value resulting from cash flows will offset changes in cash flows of hedged item are recognized in accordance with the principles of cash flow hedges.

The Group assesses the effectiveness of hedging both at the moment of establishing the hedging and in subsequent periods, at least at each end of the reporting period. Verification of satisfaction of the conditions for the effectiveness of linking is made on a prospective basis, based on a qualitative analysis. If necessary, the Group uses a quantitative analysis (linear regression method) to confirm an economic relation between the hedging instrument and the hedged item.

In the case of cash flow hedge accounting, the Group:

- the part of profits or losses related to the hedging instrument, which constitute an effective hedge due to the hedged risk, is recognized in other comprehensive income,
- the inefficient part of profits or losses related to the hedging instrument is recognized in the statement of profit or loss. In the case of hedging cash flows from operating activities, the ineffective part is recognized in other operating income/expenses, and in the case of hedging cash flows of financing activities in finance income/costs.
- reclassification of profit or losses from equity to the statement of profit or loss is to the line in which the hedged item is presented,

- profit or losses from equity is excluded and adjusts the initial value of the hedged item (if the realization of the hedged item results in the recognition of a non-financial asset - for example, an inventory).

The table below presents the impact of the implementation of IFRS 9 on the change in the classification and measurement of the Company's financial assets as at 1 January 2018.

Financial instruments by class	Classification		Carrying amount			
	IAS 39	IFRS 9	IAS 39		IFRS 9	
			USD	EUR	USD	EUR
Loans granted	Loans and receivables	Measured at amortized cost	33	33	28	28
Trade and other receivables	Loans and receivables	Measured at amortized cost	272,465	271,764	227,187	226,618
Derivatives not designated as hedge accounting	At fair value through profit or loss	At fair value through profit or loss	9,310	9,310	7,763	7,763
Cash flow hedging instruments	Hedging financial instruments	Hedging financial instruments	12,875	12,875	10,736	10,736
Cash and cash equivalents	Loans and receivables	Measured at amortized cost	15,283	15,283	12,743	12,743
Receivables on settled derivatives	Loans and receivables	Measured at amortized cost	53,544	53,544	44,647	44,647

In the area of hedge accounting, the Group applies the requirements of IFRS 9 in the construction of hedging relationships. In particular, it concerns matching of the definitions of commodity risk hedging to the exposure characteristics and applied risk management strategies. The Group aims to limit the underlying risk in hedging relationships (resulting from various commodity indices on the side of the hedging instrument and the hedged item).

IFRS 15 Revenue from Contracts with Customers**

Selected accounting principles

The Group applies the principles of IFRS 15 in a five-step model in relation to the portfolio of contracts (or performance obligations) with similar characteristics, if the entity reasonably expects that the impact of the following principles on the financial statements will not significantly differ from the application of the following principles to individual contracts (or performance obligations).

Requirements to identify a contract with a customer

A contract with a customer meets its definition when all of the following criteria are met:

- the parties of the contract have approved the contract and are committed to perform their obligations;
- the Group can identify each party's rights regarding goods or services to be transferred;
- the Group can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance and it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identification of performance obligations

At contract inception the Group assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or Groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.

Determination of the transaction price

The Group considers the terms of the contract and its the customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the

Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes, fuel charges, excise taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.

To estimate variable consideration, the Group decided to apply the most probable value method for contracts with one value threshold and the expected value method for contracts with more value thresholds from which a rebate is granted to the customer.

Allocating the transaction price to individual performance obligations

The Group allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue when performance obligations are satisfied

The Group recognises revenue when (or as) the Group satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenue is recognised as amounts equal to the transaction price that has been allocated to a given performance obligation.

The Group transfers control of good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits from performance as the Group performs,
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced,
- as a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

Impact of the implementation of IFRS 9 and IFRS 15 on the Group's consolidated financial statements as at 1 January 2018:

The table below summarizes the impact of the implementation of IFRS 9 and IFRS 15 on the Group's consolidated financial statements as at 1 January 2018:

USD	IFRS/ IAS applied	31 December 2017 Carrying amount	Change resulting from change in classification	Change resulting from change in measurement	1 January 2018 Carrying amount	1 January 2018 Impact on retained earnings
Trade and other receivables	IAS 39/IFRS 9	272,465	-	(701)	271,764	(701)

EUR	IFRS/ IAS applied	31 December 2017 Carrying amount	Change resulting from change in classification	Change resulting from change in measurement	1 January 2018 Carrying amount	1 January 2018 Impact on retained earnings
Trade and other receivables	IAS 39/IFRS 9	227,187	-	(569)	226,618	(569)

The change in trade and other receivables results from the change in the measurement of impairment allowances estimated in accordance with IFRS 9, which takes into account the requirements of the expected credit losses model.

The impact of the application of IFRS 15 on the items of the separate financial statements of the Group in 2018 compared to IAS 11, IAS 18 and related interpretations was immaterial.

IFRS 16 Leases***

Selected accounting principles

IFRS 16 "Leases" was published on January 13, 2016 year and was adopted by the European Union on October 31, 2017.

In accordance with the requirements of IFRS, from 1 January 2019, the Group applies for the first time IFRS 16 Leases related to recognition, measurement and presentation of lease contracts. Accounting policy changes will be made in accordance with the transitional provisions contained in IFRS 16.

Group will implement IFRS 16 using the modified retrospective approach, therefore, comparative information for the year 2018 will not be converted and, if any, the combined effect of the first application of the new standard will be included, as an adjustment to the opening balance of retained earnings on first use.

Definition of lease

The Group currently applies the definition of a lease determined in accordance with IFRIC 4. As from 1 January 2019, the Group will assess whether the contract is or contains a lease based on the definition of leasing described in IFRS 16.

An agreement is a lease or contains a lease if it transfers the right to control the use of an identified asset for a given period in exchange for remuneration. In order to assess whether the contract provides the right to control over the use of a underlying asset for a given period, the Group assesses whether the client has the following rights for the entire period of use:

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

The Group applies new guidelines for identifying a lease only for contracts that it has concluded (or amended) on the day of its first application, i.e. 1 January 2019 or after that date. Thus, for all contracts concluded before 1 January 2019, it will apply the practical exemption provided for in IFRS 16, according to which the entity is not required to reassess whether the contract is a lease or contains a lease on the date of first application. Instead, the Group applies IFRS 16 only to contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4. According to the initial assessment of the Group, the new definition of leasing would not cause significant changes to the existing classification of contracts as leasing or leasing agreements.

Group as a lessee

In accordance with the current IAS 17 Leases, the lessee classifies leasing contracts as a financial or operating lease based on an assessment of whether the entire risk and benefits resulting from ownership of the leased asset were transferred to the lessee. In accordance with IFRS 16, the lessee recognizes in the statement of financial position an asset item under the right of use and lease liability for most leases.

For leases that are currently classified as operating leases and contracts not classified in accordance with IAS 17 as a lease, the lessee recognizes assets under the right of use and lease liabilities as follows:

- the leasing liability measures in the current value of the remaining lease payments, discounted on the basis of the marginal interest rate for the given agreement on the date of the first application,

- the value of the right of use of the underlying asset components for individual lease agreements (separately for each contract) is equal to the leasing liability, adjusted by previously recognized pre-paid or accrued lease payments.

Using the modified retrospective method of implementing IFRS 16, the lessee uses the following practical solutions for leases previously classified as operating leases in accordance with IAS 17:

- leasing agreements, the period of which ends up to 12 months from the date of the initial application of the Standard;
- for contracts where the leased asset is of low value, for example: a tablet, laptop, telephones, other small items of equipment.

After the initial recognition, the lessee measures the right to use an asset, similarly to other non-financial fixed assets, and the lease liability similar to financial liabilities. As a result, after initial recognition, the lessee recognizes depreciation of an asset component under the right of use (except when the law meets the definition of an investment property) and interest on the leasing liability.

The initial valuation of both assets and liabilities is significantly affected by the determination of the leasing period. According to the definition of the leasing period in accordance with IFRS 16, this period includes the non-cancellable period and periods resulting from the option of renewal or termination option, if there is reasonable certainty that the customer will extend the contract or will not use the option of termination.

In addition, the Group made the other judgements for estimations and assumptions that affect the valuation of lease liabilities and rights to use of asset, ie. the Group:

- specifies the marginal interest rates used in the discounting future cash flows;

The marginal interest rates are defined as the sum of:

- a) the risk free rate, designated on the basis of the IRS (Interest Rate Swap) in accordance with the maturity discount rate and the corresponding base rate for the currency, and
- b) the risk premium of the Groups based on credit margin calculated taking into account the credit risk segmentation, all companies in which lease contracts have been identified.

- indicate periods of the usefulness of the rights to use of asset, recognized as at 1 January 2019;

- the structure of the fixed and variable payment in the contract.

The weighted average marginal interest rate of the lessee applied to the lease liabilities recognized in the statement of financial position as at 1 January 2019 amounted to 1.68%.

The impact on the financial statements as at the date of initial application is as follows:

The Group has estimated the impact of IFRS 16 and found that on 1 January 2019 the Group will recognize the right to use assets and lease liability at an equal amount of 16,626,216 EUR or 19,037,017 USD, what will not cause the difference in value to be included in retained earnings position.

Group as a lessor

In respect to contracts in which the Group is the lessor, at the time of implementation of IFRS 16 the Group does not make any adjustments. From 1 January 2019 the Group recognizes contracts in accordance with IFRS 16.

IFRSs and their interpretations waiting for approval of EU	Possible impact on financial statements
IFRS 14 - Regulatory Deferral Accounts	No impact expected
IFRS 17 - Insurance Contracts	No impact expected
Amendment to IFRS 3 - Business combinations	No impact expected
Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments	No impact expected
Amendments to IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors : Definition of Material	No impact expected
Amendments to references to the conceptual framework in IFRS Standards	No impact expected

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.

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	
	31/12/2018	31/12/2017
EUR/USD	1.14540	1.19930

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 (CO₂)

CO₂ 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 CO₂ emissions during the reporting period, a provision is created in operating activity costs (taxes and charges).

Grants of CO₂ 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. Inventory

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

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

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

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

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

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

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

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

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

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

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

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

2.4.9. Cash and cash equivalents

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

2.4.10. Equity

Equity and equity related reserves are presented in accounting books by type, in accordance with legal regulations.

2.4.10.1. Share capital

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

2.4.10.2. Share premium

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

2.4.10.3. Foreign exchange differences

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

2.4.10.4. Other reserves

Additional payments to equity are initially recognized at fair value.

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

2.4.10.5. Hedging reserve

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

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

2.4.10.6. Retained earnings

Movements in retained earnings include:

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

2.4.11. Liabilities

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

2.4.12. Provisions

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

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

2.4.12.1. Environmental provision

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

2.4.12.2. Post-employment benefits

Under the Group's remuneration plans employees are entitled to retirement and pension benefits, paid once at retirement or pension. The amount of retirement and pension benefits 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 are recognized in profit and loss.

2.4.12.3.CO2 emissions

The Group creates provision for the estimated CO₂ 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.

2.4.12.4.Other provisions

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

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

2.4.13. Sales revenues

The Group recognises revenue when (or as) the Group satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer. The transfer of an asset takes place when the customer obtains control over this asset. Revenues are recognized as amounts equal to the transaction price that was assigned to a given performance obligation.

The Group transfers control over good or service over time and thus satisfies the performance obligation and recognizes revenues over time if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits from performance as it is performed;
- the asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced;

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

- as a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

The Group recognizes revenue satisfying the performance obligation over time only if it can rationally measure the degree of total satisfaction of given performance obligation. In case the Group is not able to rationally measure the degree of total satisfaction of the performance obligation, but expects to recover the costs incurred as the obligation is performed, it recognizes revenues only up to the amount incurred up to the moment when rational measurement of results of performance obligations can be made.

The measurement of the degree of satisfaction of the performance obligation is carried out using the method based on results or the method based on inputs, depending on which will provide a more reliable measurement.

When the performance obligation was satisfied, formally agreed and invoiced or the internal document was booked based on which the payment is to be made, the following entries are made:

- revenue – if the amount relates to current reporting period,
- contract obligations – if the amount relates to future reporting periods.

If the Group has the right to receive consideration from the customer in an amount which directly corresponds to the value of the customer's previous performance, the Group recognizes revenue in the amount it has the right to invoice.

Revenues from the sale of products, goods, materials and services are adjusted for gains or losses on the settlement of cash flow hedges for the above mentioned revenues.

2.4.14. Costs

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

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

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

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

2.4.15. Income tax expenses

Income tax expense comprises current tax and deferred tax.

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

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

2.4.16. Consolidated statement of cash flows

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

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

2.4.17. Financial instruments

2.4.17.1. Measurement of financial assets and liabilities

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

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

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

2.4.17.2. Hedge accounting

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

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

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

The Group assesses effectiveness of the hedge at the inception of the hedge and later, at minimum, at each reporting date for external reporting purposes. The verification of fulfillment of conditions in the scope of effectiveness of the relationship is made on a prospective basis, based on a qualitative analysis. If this is necessary, the Group applies a quantitative analysis (linear regression method) to confirm the existence of an economic relationship between the hedging instrument and the hedged item.



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.

2.4.18. Fair value measurement

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

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

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

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

2.4.19. Contingent assets and contingent liabilities

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

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

3. The Management estimates and assumptions

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

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

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

Actual results may differ from the estimated values.

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

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

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

- Impairment of property, plant and equipment and intangible assets (Note 4 and Note 5). The Management assesses, if there is an objective indicator for impairment of assets or CGU. If there is an indicator for impairment the Group assesses the recoverable amount of an asset or cash generating units by determining higher of fair value less cost to sell or value in use by applying the proper discount rate.
- 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 2.4.12, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing consolidated financial statements are disclosed in Note 14.
- Contingent liabilities (Note 23.3). As described in Note 2.4.19, disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period.
- Utilization of deductible temporary differences and recognition of deferred tax assets (Note 21). As described in Note 2.4.15, deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences could be utilized.

4. Property, plant and equipment

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Buildings and constructions	5,853	5,109	4,912	4,095
Machinery and equipment	177,133	154,647	147,982	123,390
Vehicles and other	26,181	22,859	31,735	26,462
Construction in progress	70,504	61,554	39,528	32,959
Total	279,671	244,169	224,157	186,906



Public Company ORLEN Lietuva

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USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Acquisition costs						
1 January 2018	1	74,622	1,595,976	79,574	56,648	1,806,821
Investment expenditures	-	168	30,087	2,971	49,035	82,261
Reclassifications	-	961	16,473	468	(18,040)	(138)
Sales	-	-	-	(1)	(3)	(4)
Liquidation	-	(2)	(1,605)	(4,978)	(1)	(6,586)
Foreign exchange differences	-	-	(24)	(67)	-	(91)
31 December 2018	1	75,749	1,640,907	77,967	87,639	1,882,263
Accumulated depreciation and impairment allowances						
1 January 2018	1	69,710	1,447,994	47,839	17,120	1,582,664
Depreciation	-	188	17,404	7,245	-	24,837
Impairment allowances, net	-	(1)	(247)	(657)	15	(890)
Reclassifications	-	-	-	27	-	27
Sales	-	-	-	(1)	-	(1)
Liquidation	-	(1)	(1,356)	(2,606)	-	(3,963)
Foreign exchange differences	-	-	(21)	(61)	-	(82)
31 December 2018	1	69,896	1,463,774	51,786	17,135	1,602,592
Acquisition costs						
1 January 2017	1	74,374	1,590,452	77,988	29,139	1,771,954
Investment expenditures	-	224	30,669	7,289	35,292	73,474
Reclassifications	-	24	5,940	1,801	(7,247)	518
Sales	-	-	(26)	-	-	(26)
Liquidation	-	-	(31,122)	(7,691)	(536)	(39,349)
Foreign exchange differences	-	-	63	187	-	250
31 December 2017	1	74,622	1,595,976	79,574	56,648	1,806,821
Accumulated depreciation and impairment allowances						
1 January 2017	1	69,544	1,465,751	49,363	18,374	1,603,033
Depreciation	-	166	13,283	5,356	-	18,805
Impairment allowances, net	-	-	(14,511)	(2,044)	(1,254)	(17,809)
Reclassifications	-	-	(16)	(19)	-	(35)
Sales	-	-	(26)	-	-	(26)
Liquidation	-	-	(16,547)	(4,994)	-	(21,541)
Foreign exchange differences	-	-	60	177	-	237
31 December 2017	1	69,710	1,447,994	47,839	17,120	1,582,664
Carrying amounts						
1 January 2018	-	4,912	147,982	31,735	39,528	224,157
31 December 2018	-	5,853	177,133	26,181	70,504	279,671
1 January 2017	-	4,830	124,701	28,625	10,765	168,921
31 December 2017	-	4,912	147,982	31,735	39,528	224,157

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Acquisition costs						
1 January 2018	1	62,221	1,330,756	66,351	47,234	1,506,563
Investment expenditures	-	147	26,000	2,525	41,163	69,835
Reclassifications	-	826	13,792	387	(15,117)	(112)
Sales	-	-	-	(1)	(2)	(3)
Liquidation	-	(1)	(1,371)	(4,176)	(1)	(5,549)
Foreign exchange differences	-	2,940	63,429	2,985	3,237	72,591
31 December 2018	1	66,133	1,432,806	68,071	76,514	1,643,325
Accumulated depreciation and impairment allowances						
1 January 2018	1	58,126	1,207,366	39,889	14,275	1,319,657
Depreciation	-	160	14,786	6,180	-	21,126
Impairment allowances, net	-	-	(213)	(576)	10	(779)
Reclassifications	-	-	-	24	-	24
Sales	-	-	-	(1)	-	(1)
Liquidation	-	(1)	(1,156)	(2,198)	-	(3,355)
Foreign exchange differences	-	2,739	57,176	1,894	675	62,484
31 December 2018	1	61,024	1,277,959	45,212	14,960	1,399,156
Acquisition costs						
1 January 2017	1	71,150	1,521,527	74,609	27,876	1,695,163
Investment expenditures	-	189	26,760	6,589	31,775	65,313
Reclassifications	-	22	5,377	1,651	(6,578)	472
Sales	-	-	(25)	-	-	(25)
Liquidation	-	-	(29,063)	(7,156)	(504)	(36,723)
Foreign exchange differences	-	(9,140)	(193,820)	(9,342)	(5,335)	(217,637)
31 December 2017	1	62,221	1,330,756	66,351	47,234	1,506,563
Accumulated depreciation and impairment allowances						
1 January 2017	1	66,530	1,402,230	47,225	17,577	1,533,563
Depreciation	-	148	11,722	4,708	-	16,578
Impairment allowances, net	-	-	(13,586)	(1,929)	(1,095)	(16,610)
Reclassifications	-	-	(13)	(17)	-	(30)
Sales	-	-	(25)	-	-	(25)
Liquidation	-	-	(15,421)	(4,643)	-	(20,064)
Foreign exchange differences	-	(8,552)	(177,541)	(5,455)	(2,207)	(193,755)
31 December 2017	1	58,126	1,207,366	39,889	14,275	1,319,657
Carrying amounts						
1 January 2018	-	4,095	123,390	26,462	32,959	186,906
31 December 2018	-	5,109	154,647	22,859	61,554	244,169
1 January 2017	-	4,620	119,297	27,384	10,299	161,600
31 December 2017	-	4,095	123,390	26,462	32,959	186,906

In 2018, reclassifications of property, plant and equipment with the carrying amount of USD 165 thousand or EUR 136 thousand were made: reclassified from non-current assets held for sale of USD 10 thousand or EUR 8 thousand, reclassified from intangible assets of USD 143 thousand or EUR 115 thousand and reclassified to inventories of USD 32 thousand or EUR 29 thousand.

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



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Change in property, plant and equipment impairment:

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2018	1	30,923	707,428	11,120	17,120	766,592
Recognition	-	-	-	68	59	127
Reversal	-	-	-	-	(44)	(44)
Sale and liquidation	-	(1)	(247)	(725)	-	(973)
31 December 2018	1	30,922	707,181	10,463	17,135	765,702
Increase/(decrease) net	-	(1)	(247)	(657)	15	(890)
1 January 2017	1	30,923	721,939	13,164	18,374	784,401
Recognition	-	-	-	732	219	951
Reversal	-	-	-	(45)	(1,409)	(1,454)
Reclassifications	-	-	64	(4)	(64)	(4)
Sale and liquidation	-	-	(14,575)	(2,727)	-	(17,302)
31 December 2017	1	30,923	707,428	11,120	17,120	766,592
Increase/(decrease) net	-	-	(14,511)	(2,044)	(1,254)	(17,809)

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2018	1	25,784	589,867	9,272	14,275	639,199
Recognition	-	-	-	59	48	107
Reversal	-	-	-	-	(38)	(38)
Sale and liquidation	-	-	(213)	(635)	-	(848)
Foreign exchange differences	-	1,213	27,756	438	675	30,082
31 December 2018	1	26,997	617,410	9,134	14,960	668,502
Increase/(decrease) net	-	-	(213)	(576)	10	(779)
1 January 2017	1	29,583	690,652	12,593	17,577	750,406
Recognition	-	-	-	620	185	805
Reversal	-	-	-	(41)	(1,226)	(1,267)
Reclassifications	-	-	54	(4)	(54)	(4)
Sale and liquidation	-	-	(13,640)	(2,504)	-	(16,144)
Foreign exchange differences	-	(3,799)	(87,199)	(1,392)	(2,207)	(94,597)
31 December 2017	1	25,784	589,867	9,272	14,275	639,199
Increase/(decrease) net	-	-	(13,586)	(1,929)	(1,095)	(16,610)

Other information connected with property, plant and equipment

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
The acquisition costs of all fully depreciated property, plant and equipment still in use	92,379	80,652	97,983	81,699
The carrying amounts of idle property, plant and equipment and not clasifed as held for sale	17	15	27	23

5. Intangible assets

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Software	3,874	3,382	2,418	2,016
Licenses, patents and similar assets	79	69	9	7
Total	3,953	3,451	2,427	2,023

USD	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Acquisition costs					
1 January 2018	19,551	8,063	-	201	27,815
Investment expenditures	1,812	70	-	-	1,882
Acquisitions	-	-	3,035	-	3,035
Granted CO2 free of charge	-	-	15,913	-	15,913
Reclassifications	143	-	-	-	143
Liquidation	(161)	-	-	-	(161)
Utilisation	-	-	(18,948)	-	(18,948)
Foreign exchange differences	(8)	-	-	-	(8)
31 December 2018	21,337	8,133	-	201	29,671
Accumulated amortization and impairment allowances					
1 January 2018	17,133	8,054	-	201	25,388
Amortization	498	-	-	-	498
Liquidation	(161)	-	-	-	(161)
Foreign exchange differences	(7)	-	-	-	(7)
31 December 2018	17,463	8,054	-	201	25,718
Acquisition costs					
1 January 2017	18,295	8,062	-	201	26,558
Investment expenditures	1,497	-	-	-	1,497
Acquisitions	-	-	2,941	-	2,941
Granted CO2 free of charge	-	-	8,335	-	8,335
Reclassifications	(236)	-	-	-	(236)
Liquidation	(23)	-	-	-	(23)
Utilisation	-	-	(11,276)	-	(11,276)
Foreign exchange differences	18	1	-	-	19
31 December 2017	19,551	8,063	-	201	27,815
Accumulated amortization and impairment allowances					
1 January 2017	16,705	8,052	-	201	24,958
Amortization	432	1	-	-	433
Liquidation	(23)	-	-	-	(23)
Foreign exchange differences	19	1	-	-	20
31 December 2017	17,133	8,054	-	201	25,388
Carrying amounts					
1 January 2018	2,418	9	-	-	2,427
31 December 2018	3,874	79	-	-	3,953
1 January 2017	1,590	10	-	-	1,600
31 December 2017	2,418	9	-	-	2,427

EUR	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
Acquisition costs					
1 January 2018	16,302	6,723	-	168	23,193
Investment expenditures	1,554	59	-	-	1,613
Acquisitions	-	-	2,470	-	2,470
Granted CO2 free of charge	-	-	12,905	-	12,905
Reclassifications	115	-	-	-	115
Liquidation	(139)	-	-	-	(139)
Utilisation	-	-	(15,419)	-	(15,419)
Foreign exchange differences	796	318	44	8	1,166
31 December 2018	18,628	7,100	-	176	25,904
Accumulated amortization and impairment allowances					
1 January 2018	14,286	6,716	-	168	21,170
Amortization	423	-	-	-	423
Liquidation	(139)	-	-	-	(139)
Foreign exchange differences	676	315	-	8	999
31 December 2018	15,246	7,031	-	176	22,453
Acquisition costs					
1 January 2017	17,501	7,713	-	192	25,406
Investment expenditures	1,291	-	-	-	1,291
Acquisitions	-	-	2,747	-	2,747
Granted CO2 free of charge	-	-	7,804	-	7,804
Reclassifications	(207)	-	-	-	(207)
Liquidation	(22)	-	-	-	(22)
Utilisation	-	-	(10,533)	-	(10,533)
Foreign exchange differences	(2,261)	(990)	(18)	(24)	(3,293)
31 December 2017	16,302	6,723	-	168	23,193
Accumulated amortization and impairment allowances					
1 January 2017	15,980	7,704	-	192	23,876
Amortization	383	1	-	-	384
Liquidation	(22)	-	-	-	(22)
Foreign exchange differences	(2,055)	(989)	-	(24)	(3,068)
31 December 2017	14,286	6,716	-	168	21,170
Carrying amounts					
1 January 2018	2,016	7	-	-	2,023
31 December 2018	3,382	69	-	-	3,451
1 January 2017	1,521	9	-	-	1,530
31 December 2017	2,016	7	-	-	2,023

Change in impairment of intangible assets:

USD	Software	Licenses, patents and similar assets	Research and development	Total
1 January 2018	3,465	2,192	201	5,858
31 December 2018	3,465	2,192	201	5,858
increase/(decrease) net	-	-	-	-
1 January 2017	3,465	2,192	201	5,858
31 December 2017	3,465	2,192	201	5,858
increase/(decrease) net	-	-	-	-

EUR	Software	Licenses, patents and similar assets	Research and development	Total
1 January 2018	2,889	1,828	168	4,885
Foreign exchange differences	136	86	8	230
31 December 2018	3,025	1,914	176	5,115
increase/(decrease) net	-	-	-	-
1 January 2017	3,315	2,097	192	5,604
Foreign exchange differences	(426)	(269)	(24)	(719)
31 December 2017	2,889	1,828	168	4,885
increase/(decrease) net	-	-	-	-

Other information regarding intangible assets

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
The acquisition costs of all fully amortized intangible assets still in use	11,818	10,318	13,580	11,323

Rights

Change in CO₂ emission rights (EUA) in 2018:

	Quantity (in tonnes)	USD	EUR
As at 1 January 2018	-	-	-
Granted free of charge	1,306,788	15,913	12,905
Settled emission for 2017 (audited)	(1,709,530)	(18,948)	(15,419)
Purchase	402,742	3,035	2,470
Foreign exchange differences	-	-	44
As at 31 December 2018	-	-	-
Emission in 2018 (not audited)	1,676,695	39,036	34,080
Shortage	(1,676,695)	(39,036)	(34,080)

The quantity of CO₂ emission rights as at 31 December 2018 is not audited. The Parent company will receive emission allowances for 2019 in quantity of 1.3 MM tonnes. The missing part will be purchased.

Change in CO₂ emission rights (EUA) in 2017:

	Quantity (in tonnes)	USD	EUR
As at 1 January 2017	-	-	-
Granted free of charge	1,333,141	8,335	7,804
Settled emission for 2016 (audited)	(1,830,717)	(11,276)	(10,533)
Purchase	497,576	2,941	2,747
Foreign exchange differences	-	-	(18)
As at 31 December 2017	-	-	-

As at 31 December 2018 and 31 December 2017 the market value of one EUA amounted to 28.22 USD or 24.64 EUR and amounted 9.76 USD or 8.14 EUR, respectively.

6. Investments in equity-accounted investees

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
1 January	1,616	1,347	1,637	1,566
Share of net profit /(loss)	(12)	(7)	(155)	(140)
Dividends	-	-	(86)	(79)
Foreign exchange differences	(70)	-	220	-
As at 31 December	1,534	1,340	1,616	1,347

Investments in associates represent an investment of a 34% interest in Naftelf UAB, incorporated in Lithuania. In 2017 the Parent Company received dividends by amount USD 86 thousand or EUR 79 thousand under Resolution of shareholders of Naftelf UAB. In 2018 dividends were not paid.

Condensed financial data comprising total assets and liabilities as at 31 December 2018 and 31 December 2017, revenues, financial expenses and profit for 2018 and 2017 in Naftelf UAB are disclosed below.

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Non-current assets	556	485	669	558
Current assets	4,584	4,002	4,680	3,902
Equity	4,513	3,940	4,753	3,963
Current liabilities	627	547	596	497

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Sales revenues	29,662	26,276	18,114	16,046
Profit/(loss) from operations	38	34	(198)	(175)
Profit/(loss) before tax	12	11	(486)	(430)
Tax expense	(1)	(1)	(1)	(1)
Net profit/(loss)	11	10	(487)	(431)

7. Other non-current assets

	Note	31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Loans granted	22	18	16	26	22
Other non-current receivables	22	441	385	1,606	1,339
Financial assets		459	401	1,632	1,361
Non-current prepayment		1,033	902	1,308	1,090
Total non-financial assets		1,033	902	1,308	1,090
As at 31 December		1,492	1,303	2,940	2,451

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 2018 the impairment test of intangible assets and property, plant and equipment for the Group was performed.

The impairment test was conducted based on the Group's Budget for 2019, Strategy and Mid-term Plan for 2019-2022 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 2018

	Refining
Cost of equity	14,08%
Cost of debt after tax	4,17%
Capital structure	64,54%
Debt structure	35,46%
Nominal discount rate	10,56%
Long term rate of inflation*	2,10%
Tax rate	15,00%

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

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta). Cost of debt includes the average level of credit margins and expected market value of money for each country. For the purpose of impairment testing of property, plant and equipment and intangible assets, the periods of analysis performed on the basis of the expected useful life of Refining segment. The useful life adopted for the analysis of the Refining segment as of 31 December 2018 was 23 years.

As at 31 December 2018 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. Inventory

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Raw materials	97,345	84,988	118,418	98,739
Work in progress	25,606	22,356	24,370	20,320
Finished goods	127,470	111,288	135,034	112,594
Goods for resale	1,641	1,433	6,121	5,104
Spare parts	18,547	16,192	20,154	16,804
Inventories, net	270,609	236,257	304,097	253,561
Write-down of inventories to the net realizable value	38,106	33,269	14,985	12,497
Inventories, gross	308,715	269,526	319,082	266,058

Change in write-down of inventories to realizable net value

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
January 1		14,985	12,497	15,617	14,940
Recognition	18	23,086	20,228	3,206	2,880
Utilization		-	-	(3,313)	(2,880)
Foreign exchange differences		18	(56)	107	(62)
Write-down of inventories excluding spare parts		23,104	20,172	-	(62)
Recognition	18	1,054	857	64	54
Reversal	18	(1,037)	(888)	(696)	(550)
Foreign exchange differences		-	631	-	(1,885)
Write-down of spare parts for obsolescence		17	600	(632)	(2,381)
As at 31 December		38,106	33,269	14,985	12,497

As at 31 December 2018 the Group inventory includes state fuel reserve of USD 120,605 thousand or EUR 105,295 thousand (as at 31 December 2017: USD 113,674 thousand or EUR 94,783 thousand).

10. Trade and other receivables

	Note	31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Trade receivables		257,368	224,697	269,581	224,782
Other		6,119	5,342	2,884	2,405
Financial assets	22	263,487	230,039	272,465	227,187
Other taxation, duty, social security receivables and other benefits		303	265	26	22
Deferred insurance costs		9,066	7,915	8,949	7,461
Accrued income and deferred charges		578	505	460	384
Prepayments for delivery		3,791	3,310	8	7
Other		-	-	3,088	2,575
Non-financial assets		13,738	11,995	12,531	10,449
Receivables, net		277,225	242,034	284,996	237,636
Receivables impairment allowance		6,899	6,023	8,377	6,986
Receivables, gross		284,124	248,057	293,373	244,622

As at 31 December 2018 and 31 December 2017 trade and other receivables denominated in functional currencies amounted to USD 145,158 thousand or EUR 126,732 thousand and USD 136,199 thousand or EUR 113,565 thousand, respectively.

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

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

Change in impairment allowances of trade and other receivables

	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
1 January	8,377	6,986	7,572	7,245
Recognition	101	87	58	51
Utilisation	(1,690)	(1,450)	-	-
Reversal	(283)	(236)	(55)	(47)
Other increases/decreases	695	563	(64)	(56)
Foreign exchange differences	(301)	73	866	(207)
As at 31 December	6,899	6,023	8,377	6,986

11. Other financial assets

	Note	31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Cash flow hedge instruments - commodity swaps	22	9,282	8,103	12,875	10,736
Derivatives not designated for hedge accounting - commodity swaps	22	-	-	9,310	7,763
Deposits	22	241	210	4	3
Loans granted	22	5	4	7	6
Receivables from cash pool	22	98,737	86,203	230,372	192,089
Receivables on settled cash flow hedge instruments	22	10,273	8,969	1,280	1,068
Receivables on settled derivatives not designated for hedge accounting	22	-	-	52,264	43,579
As at 31 December		118,538	103,489	306,112	255,244

As at 31 December 2018 the Group had short term deposits of USD 241 thousand or EUR 210 thousand. The use of these funds was restricted by banks as collateral for the proper performance of contract or legal obligations.

12. Cash and cash equivalents

	Note	31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Cash on hand and in bank	22	14,490	12,651	15,283	12,743
31 December		14,490	12,651	15,283	12,743

The Group did not have restricted cash as at 31 December 2018 or as at 31 December 2017.

13. Share capital

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

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

The sole shareholder of the Parent company is PKN ORLEN S.A., controlling 100 % shares. In 2017 Parent company paid dividends amounting USD 150,000 thousand or EUR 139,561 thousand to the shareholders. In 2018 Parent company did not pay dividends.

14. Provisions

USD	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Environmental provision	1,864	2,930	1,149	1,254	3,013	4,184
Post employment benefits provision	4,322	4,395	439	164	4,761	4,559
Business risk provision	-	-	1,951	18,524	1,951	18,524
Provision for CO2 emission	-	-	39,036	15,673	39,036	15,673
As at 31 December	6,186	7,325	42,575	35,515	48,761	42,940

EUR	Non-current		Current		Total	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Environmental provision	1,628	2,443	1,003	1,045	2,631	3,488
Post employment benefits provision	3,773	3,665	383	137	4,156	3,802
Business risk provision	-	-	1,703	15,445	1,703	15,445
Provision for CO2 emission	-	-	34,080	13,069	34,080	13,069
As at 31 December	5,401	6,108	37,169	29,696	42,570	35,804

Change in provisions in 2018

USD	Environ-mental	Post employment benefits	Business risk	Provision for CO2	Total
1 January 2018	4,184	4,559	18,524	15,673	42,940
Recognition	312	386	242	42,311	43,251
Usage	(1,177)	(8)	(12,184)	(18,948)	(32,317)
Reversal	(125)	-	(2,812)	-	(2,937)
Accounted from equity	-	27	-	-	27
Foreign exchange differences	(181)	(203)	(1,819)	-	(2,203)
As at 31 December 2018	3,013	4,761	1,951	39,036	48,761

EUR	Environ-mental	Post employment benefits	Business risk	Provision for CO2	Total
1 January 2018	3,488	3,802	15,445	13,069	35,804
Recognition	267	339	213	36,026	36,845
Usage	(1,010)	(7)	(10,226)	(15,420)	(26,663)
Reversal	(110)	-	(2,410)	-	(2,520)
Accounted from equity	-	24	-	-	24
Foreign exchange differences	(4)	(2)	(1,319)	405	(920)
As at 31 December 2018	2,631	4,156	1,703	34,080	42,570

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Change in provisions in 2017

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

EUR	Environ- mental	Post employment benefits	Business risk	Provision for CO2	Total
1 January 2017	3,054	1,833	16,609	11,752	33,048
Recognition	1,546	1,835	-	13,787	17,168
Usage	(1,066)	(25)	(364)	(10,533)	(11,988)
Reversal	(25)	-	(918)	(1,099)	(2,042)
Accounted from equity	-	387	-	-	387
Foreign exchange differences	(21)	(28)	118	(838)	(769)
As at 31 December 2017	3,488	3,802	15,445	13,069	35,804

14.1. Environmental provision

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

The operation of the refinery causes pollution. A provision was recognized for the costs to be incurred for handling of waste. 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 and waste. The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

14.2. Provision for 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.

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

Change in post-employment benefits in 2018

	Note	Post-employment		Total	
		USD	EUR	USD	EUR
1 January 2018		4,559	3,802	4,559	3,802
Current service costs	18	214	188	214	188
Interest expense	18	34	30	34	30
Actuarial gains and losses recognized in Other		27	24	27	24
Comprehensive Income net					
demographic assumptions		(54)	(47)	(54)	(47)
financial assumptions		125	110	125	110
experience adjustment		(44)	(39)	(44)	(39)
Payments under program	18	(8)	(7)	(8)	(7)
Recognized past service cost	18	137	121	137	121
Exchange differences		(202)	(2)	(202)	(2)
As at 31 December 2018		4,761	4,156	4,761	4,156

Change in post-employment benefits in 2017

	Note	Post-employment		Total	
		USD	EUR	USD	EUR
1 January 2017		1,707	1,633	1,707	1,633
Current service costs	18	200	169	200	169
Interest expense	18	34	28	34	28
Actuarial gains and losses recognized in Other		464	392	464	392
Comprehensive Income net					
demographic assumptions		125	105	125	105
financial assumptions		158	134	158	134
experience adjustment		181	153	181	153
Payments under program	18	(30)	(25)	(30)	(25)
Recognized past service cost	18	1,931	1,633	1,931	1,633
Exchange differences		253	(28)	253	(28)
As at 31 December 2017		4,559	3,802	4,559	3,802

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2018 and 31 December 2017.

Division of liabilities for employee benefits for active employees

	Active employees		Active employees	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Lithuania	4,761	4,156	4,559	3,802
Total	4,761	4,156	4,559	3,802

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 2018, the Group used the following actuarial assumptions: discount rate of 1.2 %; inflation rate 2.2% in 2019 and 2.0% in following years and the remuneration increase rate 5% in 2019 and 3 % in the following years.

	Assumed variations 31/12/2018	Influence on post-employment benefits 2018	
		USD	EUR
Demographic assumptions (+)		(369)	(322)
mortality	+10%	(86)	(75)
staff turnover rates, disability and early retirement	0.5 p.p.	(283)	(247)
Financial assumptions (+)		10	9
discount rate	0.5 p.p.	(282)	(246)
level of future remuneration	0.5 p.p.	292	255
Total		(359)	(313)
Demographic assumptions (-)		396	346
mortality	-10%	87	76
staff turnover rates, disability and early retirement	-0.5 p.p.	309	270
Financial assumptions (-)		42	37
discount rate	-0.5 p.p.	310	271
level of future remuneration	-0.5 p.p.	(268)	(234)
Total		438	383

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

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

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Analysis of liabilities and payment terms for employee benefits as at 31 December 2018

	Post-employment benefits		Total	
	USD	EUR	USD	EUR
up to 1 year	439	383	439	383
from 1 to 3 years	361	315	361	315
from 3 to 5 years	338	295	338	295
above 5 years	3,623	3,163	3,623	3,163
			4,761	4,156

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

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

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

	31/12/2018	31/12/2017
Lithuania	12	13

Not discounted future cash flow of employee benefits payments as at 31 December 2018

	Post-employment benefits		Total	
	USD	EUR	USD	EUR
up to 1 year	446	389	446	389
from 1 to 3 years	396	346	396	346
from 3 to 5 years	411	359	411	359
above 5 years	10,403	9,082	10,403	9,082
			11,656	10,176

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

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

Total costs recognized in profit or loss and other comprehensive income

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
In profit and loss				
Current service costs	214	188	200	169
Interest expense	34	30	34	28
Payments under program	(8)	(7)	(30)	(25)
Recognized past service cost	137	121	1,931	1,633
Total	377	332	2,135	1,805
In components of other comprehensive income				
demographic assumptions	27	24	464	392
financial assumptions	(54)	(47)	125	105
experience adjustment	125	110	158	134
	(44)	(39)	181	153

Should the prior year assumptions be used, the provision for the employee benefits would be lower by USD 72 thousand or EUR 62 thousand (2017: lower by USD 282 thousand or EUR 236 thousand).

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

14.3. Business risk provision

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

14.4. Provision for CO₂ emission

The Parent company recognizes provision for estimated CO₂ 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 CO₂ emission allowance granted free of charge.

15. Trade and other liabilities

	Note	31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Trade liabilities		248,359	216,832	388,080	323,592
Liabilities for investments		26,356	23,010	21,160	17,643
Uninvoiced services		18,980	16,570	14,118	11,772
Financial liabilities	22	293,695	256,412	423,358	353,007
Payroll liabilities		189	165	2,330	1,942
Excise tax and fuel charge		22,858	19,956	21,470	17,902
Value added tax		42,966	37,512	49,686	41,429
Other taxation, duties, social security and other benefits		3,925	3,426	5,831	4,861
Accruals		6,199	5,413	6,978	5,819
Holiday pay accrual		3,995	3,488	4,199	3,501
Other accruals		2,204	1,925	2,779	2,318
Other liabilities		1,141	996	1,173	978
Non-financial liabilities		77,278	67,468	87,468	72,931
Total		370,973	323,880	510,826	425,938

Trade and other liabilities denominated in functional currency amounted to USD 210,533 thousand or EUR 183,808 thousand as at 31 December 2018 and USD 336,099 thousand or EUR 280,246 thousand as at 31 December 2017.

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

16. Other financial liabilities

	Note	31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Cash flow hedge instruments - commodity swaps	22	1,592	1,390	13,703	11,426
Derivatives not designated for hedge accounting - commodity swaps	22	-	-	16,791	14,001
Liabilities from cash pool	22	27,241	23,783	13,924	11,610
Liabilities on settled derivatives not designated for hedge accounting	22	-	-	57,897	48,275
Liabilities on settled cash flow hedge instruments	22	7,727	6,746	551	459
		36,560	31,919	102,866	85,771

The Parent Company, ORLEN Eesti and ORLEN Latvia are the members of the international cash pool managed by PKN ORLEN S.A. The internal cross-currency credit limit granted to ORLEN Latvia is 49 million EUR (or 56 million USD), to ORLEN Eesti - 30 million EUR (or 34 million USD) and to the Parent Company - 149 million EUR (or 171 million USD). The date of full repayment of the internal cross-currency credit limit is 30 June 2019.

17. Sales revenues

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Sales of finished goods	5,454,334	4,639,031	4,478,204	3,948,585
Sales of services	27,230	23,065	24,076	21,484
Revenues from sales of finished goods and services, net	5,481,564	4,662,096	4,502,280	3,970,069
Sales of goods for resale	51,057	42,855	37,548	34,824
Sales of spare parts and other materials	1,194	1,010	870	762
Revenues from sales of goods for resale and spare parts, net	52,251	43,865	38,418	35,586
Total	5,533,815	4,705,961	4,540,698	4,005,655

Sales revenues by assortments

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Total	5,533,815	4,705,961	4,540,698	4,005,655
Gasoline	1,636,715	1,390,756	1,493,940	1,317,057
Diesel fuel	2,723,362	2,315,171	2,162,995	1,908,882
Jet A-1 fuel	264,443	224,875	150,901	132,657
Heavy heating oil	603,275	513,959	467,443	413,063
LPG	143,003	121,677	124,015	109,434
Bitumens	105,807	90,856	63,409	54,876
Light heating oil	7,099	6,058	6,683	5,783
Sulphur	9,783	8,356	6,297	5,496
Other	11,904	10,178	40,069	36,161
Sales of spare parts and other materials	1,194	1,010	870	762
Services	27,230	23,065	24,076	21,484
Total	5,533,815	4,705,961	4,540,698	4,005,655

In 2018, there were two major customers in the Group, whose revenues from sales amounted to USD 1,334,132 thousand or EUR 1,129,080 thousand and individually exceeded 10% of total revenues from sale to external customers.

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

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

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Lithuania	1,228,586	1,044,335	865,817	765,589
Other Baltic countries	1,205,368	1,024,871	953,699	840,748
Poland	566,110	482,800	575,740	508,977
Other EU countries	73,702	61,986	261,525	228,289
Other countries, including:	2,460,049	2,091,969	1,883,917	1,662,052
Switzerland	1,206,795	1,027,041	619,458	540,566
Ukraine	435,852	372,260	325,594	284,521
Singapore	805,233	682,437	913,800	814,857
Other countries	12,169	10,231	25,065	22,108
Total	5,533,815	4,705,961	4,540,698	4,005,655

„Other EU countries“ comprises sales to customers from Belgium, Cyprus, Finland, Germany, United Kingdom and other countries. „Other countries“ comprises sales to customers from Moldova, Norway, Panama, Russia.

18. Operating expenses

Cost of sales

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Cost of finished goods and services sold	5,235,528	4,455,220	4,037,004	3,561,881
Cost of goods for resale and spare parts sold	51,778	43,547	39,275	36,711
Total	5,287,306	4,498,767	4,076,279	3,598,592

Cost by kind

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Usage of materials and energy, including:		5,137,517	4,367,998	4,002,952	3,534,213
usage of materials		5,089,970	4,327,607	3,961,912	3,497,910
usage of energy		47,547	40,391	41,040	36,303
External services, including:		187,261	159,065	151,080	133,165
railway services		118,488	100,757	89,886	79,054
repairs and maintenance services		17,707	14,907	14,735	13,115
terminal services, transit and freight		35,263	29,957	31,418	27,616
advisory services		2,897	2,462	3,079	2,716
lease		4,871	4,139	3,919	3,572
security of property		5,318	4,495	5,014	4,474
others services		2,717	2,348	3,029	2,618
Payroll, social security and other employee benefits		54,275	45,950	55,760	49,119
Depreciation and amortization	4,5	25,335	21,549	19,238	16,963
Taxes and charges		27,039	23,165	11,798	10,190
Write-down of spare parts for obsolescence, net	9	17	(31)	(632)	(496)
Other costs, including:		11,652	9,887	11,276	9,954
insurance		9,969	8,452	10,056	8,887
other costs		1,683	1,435	1,220	1,067
		5,443,096	4,627,583	4,251,472	3,753,108
Costs of goods for resale		46,861	39,211	36,085	33,600
Change in finished goods and work in progress		(14,851)	(9,253)	(36,377)	(34,138)
Cost of products and services for own use		2,337	2,130	1,525	1,314
Write-down of inventories	9	23,086	20,228	3,206	2,880
Total operating expenses		5,500,529	4,679,899	4,255,911	3,756,764
Distribution expenses		165,334	140,550	130,386	114,777
Administrative expenses		47,889	40,582	49,246	43,395
Cost of sales		5,287,306	4,498,767	4,076,279	3,598,592
Total operating expenses		5,500,529	4,679,899	4,255,911	3,756,764

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

Employee benefits costs

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Payroll expenses		39,789	33,675	39,266	34,661
Social security expenses		12,151	10,281	12,260	10,817
Future benefits expenses	14.2	377	332	2,135	1,805
Other employee benefits expenses		1,958	1,662	2,099	1,836
Total		54,275	45,950	55,760	49,119

19. Other operating income and expenses

19.1. Other operating income

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Profit from disposal of non-financial fixed assets		80	66	81	70
Reversal of provisions		2,937	2,520	1,006	943
Reversal of receivables impairment allowances		-	-	55	47
Decreases of impairment allowances of property, plant and equipment and intangible assets		50	43	1,501	1,309
Revaluation of CO2 granted		-	-	1,173	1,097
Penalties and compensations earned		239	200	323	290
Settlement and valuation of derivative financial instruments related to operational exposure	22.2	36,140	29,629	-	-
Ineffective part related to operational exposure		9,721	7,996	-	-
Stocktaking discrepancies		3,733	3,277	-	-
Other		31	27	249	210
Total		52,931	43,758	4,388	3,966

19.2. Other operating expenses

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Loss from disposal of non-financial fixed assets		1,658	1,350	530	498
Donations		1,705	1,423	445	391
Recognition of provisions		242	213	-	-
Recognition of impairment receivables		-	-	58	51
Recognition of impairment allowances of property, plant and equipment, intangible assets and non-current assets classified as held for sale		127	107	2,056	1,752
Penalties and compensations		279	231	253	228
Revaluation of CO2 granted		3,264	2,670	-	-
Settlement and valuation of derivative financial instruments related to operational exposure	22.2	34,956	28,653	-	-
Ineffective part related to operational exposure		12,757	10,428	-	-
Other		45	39	70	60
Total		55,033	45,114	3,412	2,980

Beginning from 1 January 2018 the Group presents settlement and valuation of derivatives not designated as hedge accounting and the ineffective part of hedged derivatives related to hedging exposures to risk related to operating activities, in other operating income and expenses. In the previous period, the Group presented the above transactions within financing activities. Comparative data were not converted due to their immaterial impact. As a result of changes in the presentation, the Group recognizes both changes in the value of the hedged item and the effects of hedging transactions within the result from operating activities.

20. Finance income and expenses

20.1. Finance income

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Interest	22.2	1,713	1,451	3,023	2,696
Settlement and valuation of financial instruments	22.2	-	-	90,382	76,736
Other	22.2	199	161	53	46
Total		1,912	1,612	93,458	79,478

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

20.2. Finance expenses

	Note	for the year ended		for the year ended	
		31/12/2018	31/12/2018	31/12/2017	31/12/2017
		USD	EUR	USD	EUR
Interest	22.2	1,370	1,160	2,187	1,949
Foreign exchange loss	22.2	4,617	3,913	1,827	1,780
Costs of factoring	22.2	758	641	648	573
Settlement and valuation of financial instruments	22.2	-	-	104,839	88,991
Other	22.2	76	65	216	191
Total		6,821	5,779	109,717	93,484

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

21. Income tax expenses

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Tax expense in the statement of profit or loss	(3,074)	(3,081)	27,929	24,274
Current tax expense	527	194	6,203	5,420
Deferred tax expense	(3,601)	(3,275)	21,726	18,854
Deferred tax recognized in other comprehensive income	(3)	(3)	(58)	(45)
Actuarial gains and losses from post-employment benefits	(3)	(3)	(58)	(45)
Total	(3,077)	(3,084)	27,871	24,229

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

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Profit (loss) for the period before tax	26,432	20,670	269,349	235,731
Profit tax applying 15 % tax rate	3,965	3,101	40,402	35,360
Effect of different tax rates in other countries	-	-	-	-
Non-taxable income	(2,139)	(1,810)	(16,299)	(14,438)
Expenses not deductible for tax purposes	2,448	2,072	10,644	9,429
Fixed asset investment relief utilization	(6,479)	(5,483)	-	-
Tax loss utilization	(362)	(306)	(3,482)	(3,085)
Change in estimates related to prior years	(908)	(768)	(5,489)	(4,862)
Other	401	339	2,153	1,907
Foreign exchange differences	-	(226)	-	(37)
Income tax	(3,074)	(3,081)	27,929	24,274

21.2. Deferred tax

	31/12/2017		Deferred tax recognized in statement of profit or		Deferred tax recognized in other comprehensive		31/12/2018	
	USD	EUR	USD	EUR	USD	EUR	USD	EUR
Deferred tax assets / (liabilities)								
Impairment allowances	116,639	97,256	4,799	8,766	-	-	121,438	106,022
Provisions and accruals (included actuarial loss)	3,418	2,850	(746)	(518)	3	3	2,675	2,335
Unrealized foreign exchange differences	1,100	917	(5,390)	(4,662)	-	-	(4,290)	(3,745)
Difference between carrying amount and tax base of property, plant and equipment	(34,675)	(28,913)	(6,886)	(7,372)	-	-	(41,561)	(36,285)
Tax loss	4,239	3,535	(2,359)	(1,894)	-	-	1,880	1,641
Financial instruments valuation	2,060	1,718	(2,060)	(1,718)	-	-	-	-
Investment relief	4,625	3,856	1,272	1,292	-	-	5,897	5,148
Other	759	633	(64)	(26)	-	-	695	607
Total deferred tax assets / (liabilities)	98,165	81,852	(11,434)	(6,132)	3	3	86,734	75,723
Deferred tax asset / (liabilities) not recognised	(93,858)	(78,259)	15,031	9,438	-	-	(78,827)	(68,821)
Deferred tax, net	4,307	3,593	3,597	3,306	3	3	7,907	6,902

The Parent Company has not recognised deferred income tax by amount USD 78,827 thousand or EUR 68,821 thousand, because it is not probable that future taxable profits will be available against which the Parent company can utilize the benefits.


Public Company ORLEN Lietuva

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

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

	for the year ended		for the year ended	
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
	USD	EUR	USD	EUR
Beginning of the period	4,307	3,593	25,958	24,833
Deferred tax recognised in profit or loss	3,601	3,275	(21,726)	(18,854)
Deferred tax recognised in other comprehensive income	3	3	58	45
Foreign exchange differences	(4)	31	17	(2,431)
Total	7,907	6,902	4,307	3,593
Deferred tax, net	7,907	6,902	4,307	3,593

22. Financial instruments and financial risks

22.1. Financial instruments by category and class

Financial assets

as at 31 December 2018

USD		Financial instruments by category				Total
		Measured at amortized cost	Financial assets held to maturity	Hedging financial instruments	At fair value through profit or loss	
Financial instruments by class	Note					
Other non-current receivables	7	441	-	-	-	441
Deposits	11	-	241	-	-	241
Trade and other receivables	10	263,487	-	-	-	263,487
Receivables from cash pool	11	98,737	-	-	-	98,737
Loans granted	7,11	23	-	-	-	23
Cash flow hedge instruments	11	-	-	9,282	-	9,282
Receivables on settled cash flow hedge instruments	11	10,273	-	-	-	10,273
Cash and cash equivalents	12	14,490	-	-	-	14,490
Total		387,451	241	9,282	-	396,974

EUR		Financial instruments by category				Total
		Measured at amortized cost	Financial assets held to maturity	Hedging financial instruments	At fair value through profit or loss	
Financial instruments by class	Note					
Other non-current receivables	7	385	-	-	-	385
Deposits	11	-	210	-	-	210
Trade and other receivables	10	230,039	-	-	-	230,039
Receivables from cash pool	11	86,203	-	-	-	86,203
Loans granted	7,11	20	-	-	-	20
Cash flow hedge instruments	11	-	-	8,103	-	8,103
Receivables on settled cash flow hedge instruments	11	8,969	-	-	-	8,969
Cash and cash equivalents	12	12,651	-	-	-	12,651
Total		338,267	210	8,103	-	346,580

as at 31 December 2017

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

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

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Financial liabilities**as at 31 December 2018**

USD	Financial instruments by category				Total
	Financial liabilities measured at amortized cost	Hedging financial instruments	At fair value through profit or loss		
Financial instruments by class	Note				
Trade and other liabilities	15	293,695	-	-	293,695
Liabilities from cash pool	16	27,241	-	-	27,241
Cash flow hedge instruments	16	-	1,592	-	1,592
Liabilities on settled cash flow hedge instruments	16	7,727	-	-	7,727
Total		328,663	1,592	-	330,255

EUR	Financial instruments by category				Total
	Financial liabilities measured at amortized cost	Hedging financial instruments	At fair value through profit or loss		
Financial instruments by class	Note				
Trade and other liabilities	15	256,412	-	-	256,412
Liabilities from cash pool	16	23,783	-	-	23,783
Cash flow hedge instruments	16	-	1,390	-	1,390
Liabilities on settled cash flow hedge instruments	16	6,746	-	-	6,746
Total		286,941	1,390	-	288,331

as at 31 December 2017

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

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

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

As at 31 December 2018

		Financial Instruments by category			
USD		Measured at amortised cost	At fair value through profit or loss	Hedging financial instruments (ineffective part)	Total
Financial instruments by class	Note				
Interest income	20.1	1,713	-	-	1,713
Interest costs	20.2	(1,370)	-	-	(1,370)
Foreign exchange gain/(loss)	20.2	(4,617)	-	-	(4,617)
(Loss)/Reversal of loss due to impairment of financial instruments		169	-	-	169
Settlement and valuation of financial instruments related to operational exposure	19.1, 19.2	-	1,184	(3,036)	(1,852)
Costs of factoring	20.2	(758)	-	-	(758)
Other	20.1, 20.2	123	-	-	123
Total		(4,740)	1,184	(3,036)	(6,592)



Public Company ORLEN Lietuva

ORLEN Lietuva Address: Mažeikių St. 75, Juodeikiai village, Mažeikiai District, Republic of Lithuania LT-89467
 Legal entity code: 166451720. Data about Parent Company is collected and stored in the Centre of Registers
 Consolidated financial statements for the year ended 31 December 2018
 (all tabular amounts are in USD'000 and EUR'000 unless otherwise stated)

EUR		Financial instruments by category			
		Measured at amortised cost	At fair value through profit or loss	Hedging financial instruments (ineffective part)	Total
Financial instruments by class	Note				
Interest income	20.1	1,451	-	-	1,451
Interest costs	20.2	(1,160)	-	-	(1,160)
Foreign exchange gain/(loss)	20.2	(3,913)	-	-	(3,913)
(Loss)/Reversal of loss due to impairment of financial instruments		138	-	-	138
Settlement and valuation of financial instruments related to operational exposure	19.1, 19.2	-	976	(2,432)	(1,456)
Costs of factoring	20.2	(641)	-	-	(641)
Other	20.1, 20.2	96	-	-	96
Total		(4,029)	976	(2,432)	(5,485)

As at 31 December 2017

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

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

22.3. Fair value measurement

As at 31 December 2018 and as at 31 December 2017 fair value of financial assets and financial liabilities are equal or similar to carrying amount due to short term nature.

22.4. Hedge accounting

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

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

	Note	31/12/2018		31/12/2017	
		USD	EUR	USD	EUR
Cash flows hedge Instruments					
Commodity swap	11,16	7,690	6,713	(828)	(690)
Total		7,690	6,713	(828)	(690)

Cash flows hedge recognised in financial statements

	31/12/2018		31/12/2017	
	USD	EUR	USD	EUR
Inventories	3,710	3,239	(693)	(578)
Sales revenues	(81,609)	(71,728)	(16,948)	(14,613)
Cost of sales	55,249	47,744	4,350	3,843

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

	31/12/2018	31/12/2017
Commodity risk exposure	January-March 2019	2018

22.5. Financial risk management

The Group is exposed particularly to the following financial risks:

- credit risk;
- liquidity risk;

- market risk, including
 - currency risk,*
 - interest rate risk,*
 - commodity price risk,*
 - price risk of allowances CO₂*

22.5.1. Credit risk

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

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

	Current receivables			
	31/12/2018		31/12/2017	
	USD	EUR	USD	EUR
Overdue:				
Up to 30 days	21,887	19,109	32,562	27,151
31-60 days	204	178	228	190
61-90 days	22	19		
3-6 months	79	69	39	33
6-12 months	5	4	1	1
Above 1 year	4,699	4,103	4,796	3,999
	26,896	23,482	37,626	31,374

22.5.2. Liquidity risk

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

The Group maintains the ratio of current assets to current liabilities (current ratio) on a safe level. As at 31 December 2018 and 31 December 2017, the ratio amounted to 1.52 and 1.39, respectively.

The Group had no loans in 2018 or 2017.

Financing available for the year 2018 under the credit/cash pool agreements to cover net current liabilities with the maturity of 30 June 2019 (EUR 228 million or USD 261 million) is covering the expected liquidity needs for 2018 with reserve.

Maturity analysis for financial liabilities:

USD	Note	31/12/2018 up to 1 year	Carrying amount
Trade and other liabilities	15	293,695	293,695
Liabilities on settled cash flow hedge instruments	16	7,727	7,727
Cash flow hedge instruments	16	1,592	1,592
Liabilities from cash pool	16	27,241	27,241
Total		330,255	330,255

EUR	Note	31/12/2018 up to 1 year	Carrying amount
Trade and other liabilities	15	256,412	256,412
Liabilities on settled cash flow hedge instruments	16	6,746	6,746
Cash flow hedge instruments	16	1,390	1,390
Liabilities from cash pool	16	23,783	23,783
Total		288,331	288,331

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

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

22.5.3. Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO₂ emission allowance prices.

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

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

22.5.3.1. Commodity risks

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

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

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

Type of hedged raw material/product	Unit of measure	31/12/2018	31/12/2017
Crude oil	bbl	1,905,000	5,495,800
Diesel oil	Mt	27,100	422,300
Gasoline	Mt	-	2,000
Heating oil	Mt	-	528,000
Fuel Jet	Mt	-	5,500

Sensitivity analysis for changes in prices of products and raw materials

As at 31 December 2018

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	+29%	(11,287)	(9,412)	-29%	11,287	9,412
Diesel oil USD/Mt	+24%	(3,299)	(2,750)	-24%	3,299	2,750
Gasoline USD/Mt	+24%	-	-	-24%	-	-
Heating oil USD/Mt	+28%	-	-	-28%	-	-
Fuel Jet USD/Mt	+23%	-	-	-23%	-	-
		(14,586)	(12,162)		14,586	12,162

As at 31 December 2017

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

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil and products prices were calculated based on volatility for 2018 and 2017 and available analysts' forecasts.

22.5.3.2. Currency risk

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

Currency structure of financial instruments as at 31 December 2018:

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	385	-	-	-	441	385
Deposits	11	210	-	-	-	241	210
Trade and other receivables	10	103,296	145,158	-	14	263,487	230,039
Receivables from cash pool	11	-	98,737	-	-	98,737	86,203
Loans granted	7,11	20	-	-	-	23	20
Cash flow hedge instruments	11	-	9,282	-	-	9,282	8,103
Receivables on settled cash flow hedge instruments	11	-	10,273	-	-	10,273	8,969
Cash and cash equivalents	12	11,297	1,548	-	-	14,490	12,651
Total		115,208	264,998	-	14	396,974	346,580
Financial liabilities							
Trade and other liabilities	15	72,007	210,533	1,834	138	293,695	256,412
Cash flow hedge instruments	16	-	1,592	-	-	1,592	1,390
Liabilities on settled cash flow hedge instruments	16	-	7,727	-	-	7,727	6,746
Liabilities from cash pool	16	23,783	-	-	-	27,241	23,783
Total		95,790	219,852	1,834	138	330,255	288,331
Total, net		19,418	45,146	(1,834)	(124)	66,719	58,249

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 2018) 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%	3,336	-15%	(3,336)
		3,336		(3,336)

Currency structure of financial instruments as at 31 December 2017:

Financial instruments by class	Note	EUR	USD	PLN	Other	Total after conversion to USD	Total after conversion to EUR
Financial assets							
Other non-current receivables	7	1,339	-	-	-	1,606	1,339
Deposits	11	3	-	-	-	4	3
Trade and other receivables	10	113,622	136,199	-	-	272,465	227,187
Receivables from cash pool	11	22,762	203,074	-	-	230,372	192,089
Loans granted	7,11	28	-	-	-	33	28
Cash flow hedge instruments	11	-	12,875	-	-	12,875	10,736
Derivatives not designated as hedge accounting	11	-	9,310	-	-	9,310	7,763
Receivables on settled cash flow hedge instruments	11	-	53,544	-	-	53,544	44,647
Cash and cash equivalents	12	6,564	7,409	-	-	15,283	12,743
Total		144,318	422,411	-	-	595,492	496,535
Financial liabilities							
Trade liabilities	15	72,456	336,099	1,064	68	423,358	353,007
Cash flow hedge instruments	16	-	13,703	-	-	13,703	11,426
Derivatives not designated as hedge accounting	16	-	16,791	-	-	16,791	14,001
Liabilities on settled cash flow hedge instruments	16	-	58,447	-	-	58,448	48,734
Liabilities from cash pool	16	11,610	-	-	-	13,924	11,610
Total		84,066	425,040	1,064	68	526,224	438,778
Total, net		60,252	(2,629)	(1,064)	(68)	69,268	57,757

Sensitivity analysis for currency risk

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

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

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.

22.5.3.3. The risk of interest rates changes

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

23. Other explanatory notes

23.1. Leases

Operating lease

As at 31 December 2018 and as at 31 December 2017 the Group was lessee under non-cancellable operating lease agreements (tenancy/rent), which regard mainly the lease of land.

Future minimum lease payments under non-cancellable operating lease agreements

	31/12/2018		31/12/2017	
	USD	EUR	USD	EUR
up to 1 year	7,081	6,182	3,733	3,113
above 1 to 5 years	8,150	7,116	7,577	6,318
above 5 years	15,046	13,136	15,978	13,323
	30,277	26,434	27,288	22,754

23.2. Capital commitments

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

	31/12/2018		31/12/2017	
	USD	EUR	USD	EUR
Property, plant and equipment	32,863	28,691	56,597	47,192

23.3. Contingencies

Information on significant court proceedings is presented in Note 24.

23.4. Guarantees

Excise tax guarantees of the Group as at 31 December 2018 and as at 31 December 2017 amounted to USD 5,040 thousand or EUR 4,400 thousand and USD 3,303 thousand or EUR 2,754 thousand, respectively.

As at 31 December 2018 and as at 31 December 2017 the value of other guarantees concerning liabilities of Group towards third parties issued in the course of day-to-day operations amounted to USD 4,672 thousand or EUR 4,079 thousand and USD 8,045 thousand or EUR 6,736 thousand, respectively.

As at 31 December 2018 and as at 31 December 2017 the Group received guarantees of USD 445,986 thousand or EUR 389,372 thousand and USD 474,922 thousand or EUR 395,999 thousand, respectively.

23.5. Related party transactions

As at 31 December 2018 and as at 31 December 2017 and in 2018 and in 2017 there were no material transactions of related parties with:

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

Transactions and balance of settlement of the Group with related parties

for the year ended 31 December 2018

USD	Shareholder of the Group	Related parties	Associates	Total
Sales	502,175	137,713	28,839	668,727
Purchases	4,940,780	18,000	-	4,958,780
Other operating income	44,669	-	-	44,669
Other operating expenses	46,652	-	-	46,652
Finance income	1,495	-	-	1,495
Finance expenses	1,191	-	-	1,191
Trade and other receivables	18,662	4,961	484	24,107
Other financial assets	118,251	-	-	118,251
Trade and other liabilities	208,222	775	-	208,997
Other financial liabilities	36,155	-	-	36,155

EUR	Shareholder of the Group	Related parties	Associates	Total
Sales	428,389	116,896	24,511	569,796
Purchases	4,195,143	15,558	-	4,210,701
Other operating income	36,344	-	-	36,344
Other operating expenses	37,892	-	-	37,892
Finance income	1,280	-	-	1,280
Finance expenses	1,034	-	-	1,034
Trade and other receivables	16,293	4,331	423	21,047
Other financial assets	103,239	-	-	103,239
Trade and other liabilities	181,790	676	-	182,466
Other financial liabilities	31,565	-	-	31,565

for the year ended 31 December 2017

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

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

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

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

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

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

	for the year ended 31/12/2018		for the year ended 31/12/2017	
	USD	EUR	USD	EUR
Short term employee benefits	4,293	3,633	2,896	2,565
- Board of Directors	350	296	364	322
- other key executive personnel	3,943	3,337	2,532	2,243
Termination benefits (severance pay and other remuneration)	274	232	88	78
- other key executive personnel	274	232	88	78

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.

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

	for the year ended 31/12/2018		for the year ended 31/12/2017	
	USD	EUR	USD	EUR
Fees payable to auditors in respect of the Parent Company	127	108	154	129
audit and reviews of the financial statements	127	108	139	116
additional services	-	-	15	13
Fees payable to auditors in respect of subsidiaries belonging to the Group	40	34	42	35
audit and reviews of the financial statements	40	34	42	35
	167	142	196	164

In 2018 and 2017 Group auditors were Deloitte Lietuva, UAB.

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

Following the concluded agreements for the year 2018, Deloitte Lietuva, UAB performs the agreed upon procedures of interim and audit of financial statements of the subsidiaries (except for UAB Mažeikių Naftos prekybos namai).

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

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

24.1.1. Compensation due to property damages

The Parent Company is a party in the compensation proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. due to losses incurred during the accident in Būtingė Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately EUR 23,300 thousand (USD 26,688 thousand at exchange rate as at 31 December 2018). The parties have agreed that prior to court hearings they would make an effort to settle the dispute through mediation. The case is under preparation for mediation process.

From the insurance companies the Parent Company has already got the essential part as a compensation of damages, however, the Parent Company is seeking to get the compensation for business interruption. At the moment there are the negotiations between attorneys of all involved parties. Under advice of the HWF law firm which represents interests of the Parent Company, the Parent Company is considering to hire SOFEC for the damage valuation.

24.1.2. VIAP cases / administrative proceedings

The Parent Company is an applicant in several administrative proceedings (starting from 2013) contesting legality of VIAP (PSO). All cases are suspended due to the process at EUCJ. 2019 PSO case might be suspended or postponed due to request of Achema as our cases are joined with Achema and Lifosa 2019 VIAP cases. In 28 January 2019 Achema has filed an application for postponement of the case because it intends to challenge the EC Decision. The Commission of Prices supported the request to suspend the case.

On 28 January 2019 the case was suspended until the case No. A-1725-525/2019 will not be solved.

These cases are related with 24.2.4 case.

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

24.2.1 Payment request from a group of inventors

In 2010, a group of individuals claimed royalties and interest related to production improvement process which has been allegedly invented and patented by the group and supposedly improved the performance of the Parent Company's refinery. The claim covered the years 1996-2010 and amounted to EUR 11.1 million (USD 12.7 million at exchange rate as at 31 December 2018), not including the procedural interest, litigation and other costs.

The Parent Company has paid for the use of invention for 1995 and later ceased to pay.

On 6 August 2015, the court partially satisfied the claim and awarded to the claimants from the Parent Company EUR 6.8 million (USD 7.8 million at exchange rate as at 31 December 2018) principal amount and interest, respective procedural interest and litigation costs.

On 20 May 2016, the appellate instance court reduced the amount adjudged to the claimants from the Parent Company up to EUR 0.6 million (USD 0.7 million at exchange rate as at 31 December 2018) of principal amount and interest.

After examination of cassation appeals of both the Parent Company and the claimants, by the judgement of 2 December 2016 Supreme Court of Lithuania revoked the ruling of the Court of Appeals of Lithuania of 20 May 2016, maintained the part of the decision of Šiauliai District Court of 6 August 2015 awarding royalty (income tax included) in favor of the claimants for the period from 1996 to 22 June 2000 in total amount of EUR 5.9 million (USD 6.8 million at exchange rate as at 31 December 2018) unchanged and ruled that the examination of the remaining part of this case on the royalty for the period from 2000 to 2004 is to be passed to the Court of Appeals of Lithuania anew.

By its decision of 4 July 2017, the Court of Appeals of Lithuania satisfied the claim of the claimants in part for the period of 2000–2004 and awarded EUR 1.2 million (USD 1.4 million at exchange rate as at 31 December 2018) of royalty, EUR 1.8 million (USD 2.1 million at exchange rate as at 31 December 2018) of interest and pre-judgement interest at the rate of 5 percent charged until full implementation of the decision of the court in favor of the claimants.

The Parent Company lodged a cassation appeal against the decision of the Court of Appeals of 4 July 2017. The Parent Company contests amount awarded against it on the grounds of inter alia the expiry of limitation period. The appeal has been accepted by the Supreme Court of Lithuania.

The Parent Company was ordered to pay the amount of EUR 5.9 million (USD 6.8 million at exchange rate as at 31 December 2018) onto the account of a bailiff, who was executing the 2 December 2016 decision of the Supreme Court of Lithuania. The Parent Company has fulfilled this order by paying the aforementioned amount to the bailiff's account.

The Parent Company's appeal has been accepted for the hearing at the Supreme Court, the case was sent again to the appellate instance in which the Ruling was announced on 4 July 2018. The Ruling of 4 July 2018 of the Appeal Court is enforceable and Parent Company already paid based on it all awarded amounts.

The Parent Company has submitted the cassation claim. In addition on 11 October 2018 the cassation appeal has been submitted by the inventors to the Supreme Court in order to award from Parent Company additionally EUR 0,905 million(USD 1.037 million at exchange rate as at 31 December 2018) plus interest.

On 7 February 2019 the Supreme Court of the Republic of Lithuania adopted the Ruling to dismiss the cassation appeal of the Parent Company (On 7 February 2019 the Supreme Court of the Republic of Lithuania adopted the Ruling to dismiss the cassation appeal of the Parent Company (defendant) and the Ruling of 4 July 2018 from the Court of Appeal whereby the following additional amounts were awarded to the authors of patent for the period from 23 June 2000 until 20 April 2004 (when OL equipment subject to patent was dismantled): EUR 1,254,511.36 authors' fee; EUR 1,810,078.39 of interest; 5% annual procedural interest from the awarded amounts from the day of initiating the court proceeding (2 February 2011) until the date the awarded amounts will be actually paid; and EUR 45,887.38 of legal fees.

By the same ruling of 7 February 2019 the Supreme Court also rejected the cassation appeal of the authors whereby they had been requesting for additional interest over EUR 900,000 from the Company.

Reasoning of the Supreme Court's ruling is formulated in rather complicated way, however, we understand the position of the Supreme Court as follows:

The Company's arguments that the court in fact awarded larger amount than requested by the claimants under their initial claim, and thus exceeded scope of the claim, were dismissed by the Supreme Court as not a basis for a cassation appeal, since the Court of Appeal based its decision on previous final conclusions of the Supreme Court made in the same case, which conclusions cannot be questioned.

The Supreme Court changed argumentation of the Court of Appeal on non-application of statute of limitations. According to the earlier determined fact in this case (also by the Supreme Court) that the moment when the claimants became aware of their rights' violation should be associated with the defendant's letter of 26 March 2001, the Supreme Court ruled that the beginning of the term of the statute of limitations for the claims attributable to the period before 26 March 2001 was determined correctly by the Court of Appeal. Regarding claims attributable to the period after 26 March 2001 until 20 April 2004, the Supreme Court ruled that the breach of the defendant, when the benefit is received and the authors cannot receive their remuneration, is of a continuous nature and therefore the term of the statute of limitation begins each day anew.

Regarding the Court of Appeal's conclusions on renewal of the statute of limitations, the Supreme Court ruled that in principle the conclusions were correct. It indicated that during the dispute the defendant constantly denied, mislead the claimants, and without calculations the claimants were unable to submit a claim.

Regarding compensated interest the Supreme Court stated that it has already ruled earlier in this case about the period for which the interest must be awarded, and that the Court of Appeal correctly reduced the interest by 50 percent.

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

In September 2017, the Parent Company received a notice from Šiauliai District Court about claim for damages filed by Belorussian enterprise Polocktransfet Druzhba against the Parent Company. The claimant claims for damages caused by allegedly unlawful actions of the Parent Company when it appropriated from the Druzhba pipeline the crude that allegedly belonged to the claimant (crude transportation by the pipeline was stopped in July 2006). The amount of claims is USD 72 million (EUR 63 million at exchange rate as at 31 December 2018) in damages and USD 12 million (EUR 10 million at exchange rate as at 31 December 2018) in interest accrued over 3 years until the date of claim, total USD 84 million (EUR 73 million at exchange rate as at 31 December 2018).

The court hearing took place on 15 March, 2018. The court announced a decision on 29 March, 2018. The court rejected the claimant's claim. The decision is appealed by the claimant. There is no court hearing date set yet at the appeal court.

24.2.3. Claim regarding unfair competition / Klaipėdos terminalas case

The case is investigated in the court of first instance at Vilnius County Court. The claimant UAB "Krovinių terminalas" and the defendants are AB "Klaipėdos nafta" and the Parent Company.

The case is regarding termination of the agreement and compensation for damages. The amount of the claim was reduced from EUR 5,994,765 (USD 6,866,404 at exchange rate as at 31 December 2018) to EUR 4,823,253 (USD 5,524,554 at exchange rate as at 31 December 2018) on 5 January 2018.

At the moment the claimant does not require damages from the Parent Company, only from AB „Klaipėdos nafta“.

Vilnius regional court acting as the court of first instance by the decision of 7 March 2019 has dismissed the claim brought by UAB „Krovinių terminalas“ against AB „Klaipėdos nafta“ and AB „ORLEN Lietuva“. The court decided that the agreement of 17 November 2011 concluded by and between AB „Klaipėdos nafta“ and the Company is not in breach of competition law. The main arguments are that the market is wider than Klaipėda sea port, as opposed to the allegations of the plaintiff. Thus the market share of the Company is not dominant. The court also took note of the 1-year termination period as important judging about the possible restrictive effect of the agreement of 17 November 2011.

Respectively, the claim of damages was dismissed. All litigation expenses suffered by the defendants have been awarded from the plaintiff. The Company expects that the decision will be appealed by the plaintiff.

24.2.4. Claim regarding unpaid VIAP / PSO

In addition to above administrative proceedings mentioned in 24.1.2, UAB Baltpool and AB Litgrid are requesting in civil proceedings from the Parent Company VIAP's unpaid amounts. The case at the 1st instance court is suspended until the EUCJ will not render its decision.

The claim is around EUR 106 thousand (USD 121 thousand at exchange rate as at 31 December 2018) and currently the unpaid amount of VIAP by the Parent Company is more than EUR 12 million (USD 14 million at exchange rate as at 31 December 2018). The Parent Company should consider start paying these debts.

Other litigations and claims

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


25. Significant events after the end of the reporting period

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

26. Factors and events that may influence future results

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

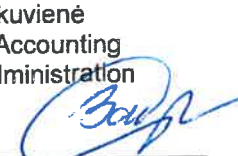
Michał Rudnicki
General Director



Marek Gołębiowski
Chief Financial Officer



Genutė Barkuvienė
Director of Accounting
and Tax Administration



CONSOLIDATED ANNUAL REPORT OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR 2018

Public Company ORLEN Lietuva and its subsidiaries (hereinafter – the Group) post the profit at the year end, with the performance indicators being directly impacted by the production and sales achievements. *Better Done* Program aimed at improvement of the main business areas has significantly contributed to the financial success of the Group. Measures have been introduced by Public Company ORLEN Lietuva (hereinafter – the Parent Company) to improve the operational efficiency, promote sales, optimize performance and implement the value creating initiatives as well as increase the labour efficiency for maintaining the competitive presence on the market in case of its downturn.

As in the previous years, the flexibility and operational efficiency were among the key targets for the Group in the year 2018. The Group has benefited from the favourable market conditions and business opportunities to establish a sustainable position in a highly competitive environment.

Operating Results

In 2018, the feedstock processing volume amounted to 9.9 million tons, i.e. was by 0.2 million tons (1.9%) lower than in the previous year, when the processing volume was 10.1 million tons of feedstock. Despite the turnaround of the Refinery installations in spring of 2018, the annual capacity utilization in 2018 was by 1.4 percentage points higher in comparison to the year 2017. Regardless of the lower processing volume, the year 2018 was marked by improvement of the operational efficiency indicators such as reduction of internal fuel and losses, and improvement of energy intensity index.

Reduced volume of processing has correspondingly adjusted the volume of sales. Sales of petroleum products by the Group in 2018 were by 0.1 million tons or 1.5 percent lower than in 2017, and resulted in the total volume of 9.4 million tons (compared to 9.5 million tons sold in 2017). Notwithstanding the overall reduction in sales volume, increase of the global oil and petroleum product prices and sales to inland markets had an effect on the growth of sales revenue reaching USD 5.5 billion (EUR 4.7 billion) in the year 2018, whereas the revenue of the Group in 2017 amounted to USD 4.5 billion (EUR 4.0 billion).

Sales in the Baltic countries and Ukraine during the year 2018 increased by 3.3 percent. The volume of products sold in Lithuania amounted to 1.93 million tons thus reflecting an increase in comparison with the year 2017, when the sales were at the level of 1.79 million tons. This achievement represents the effect of the stable market share combined with the fuel consumption increase: the majority of the national retailers were trading in fuel produced by the Parent Company.

The year 2018 was also marked by the notable success of sales to Ukraine reaching almost 0.9 million tons of fuel sold (maintaining the level achieved in 2017). Such result was affected by the successful trade in alternative petroleum products (aviation fuel and liquefied petroleum gas), regardless of the extremely difficult conditions impacted by the complicated economic and political situation.

Despite the tough competition in the Baltic countries, the Group has successfully increased the sales of diesel fuel and gasoline on Lithuanian as well as Latvian and Estonian markets, with the volume of sales being by 4.3 percent higher in comparison with the year 2017.

Growth of the inland sales and lower processing volume led to the drop in the seaborne sales with reduction of volume by 22.6 percent, amounting to 3.7 million tons in 2018, compared to 4.7 million tons sold in 2017.

Financial Results

The net profit of the Group for 2018 under the International Financial Reporting Standards (IFRS) was USD 29.5 million (EUR 23.8 million), in comparison to the net profit of USD 241.4 million (EUR 211.5 million) posted for the year 2017. Operating profit for the year 2018 amounted to USD 31.3 million (EUR 24.8 million), whereas the operating profit for 2017 was USD 285.6 million (EUR 249.7 million). Financial result of the Group was adversely affected by the considerable drop in the global oil and petroleum product prices during the last quarter of 2018 and the consequent write-down of inventories to net realisable value.

Nevertheless, positive results of the Group allowed maintaining the sufficient level of its financial indicators¹. Net profit margin of the Group for the year 2018 was 0.5% (5.3% in 2017). Other indicators experienced the following changes: the net debt to equity ratio was -0.16 (-0.48 in 2017), the current ratio was 1.52 (1.39 in 2017), and the asset turnover ratio was 5.64 (3.96 in 2017).

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

Modernization, Mandatory and Other Projects

The total amount of investments by the Group made in the property plant and equipment as well as tangible assets (excl. purchase of deficient CO₂ emission allowances) during the year 2018 reached USD 84.1 million, i.e. 12% higher than in 2017 (USD 75.0 million).

In 2018, the Group commenced the activities under the first phase of the Bottom of the Barrel Improvement Project (License and Basic Design Engineering Package procurement) with completion of the first phase planned in 2019. Preliminary budget of the entire project to be completed in 2022 reaches approx. USD 371.3 million. The expected impact of the project on the annual margin is from USD 294 to USD 1186 million (depending on the fuel market situation).

In 2018, the Group continued implementation of the project for Propane-Propylene Fraction Splitter addition to the Refinery's technological scheme. The project completion is intended in the first half of 2019, with its expected impact on the annual margin reaching USD 11.9 to USD 21.4 million (depending on the fuel market situation). Furthermore, the Group also continued implementation of mandatory project required in the face of increasing environmental constraints.

The special focus of the Group, as in previous years, was given for implementation of the projects with the short pay-back period requiring relatively low investment. The number of such projects completed in 2018 was 16, with their total budget reaching USD 9.8 million and the positive impact on EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) potentially amounting to USD 6.7 million per year, depending on the market situation.

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

Employees' Development and Work Compensation Policy

Development of employees remains the priority for the human resource management. 2253 employees of the Group received certificates in the areas of fire safety and civil protection, first aid

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

and hygiene as well as execution of specialized works as required by the applicable legislation and internal procedures.

For ensuring ability of its operational staff to service the process installations and modernized units, the Parent Company aims at continuously improving qualifications of its workers. 788 employees completed the trainings in this relation during the year 2018. Furthermore, over 670 employees of the Group attended the trainings on mechanical engineering, process engineering, power engineering, accounting, safe driving, process safety, etc.

In 2018, the Group further proceeded with the project of internal trainings '*Expert Club. Refined Knowledge*' intended for experience and knowledge exchange. Information prepared by specialists and managers of the Parent Company acting as the experts was presented and various projects introduced to 900 employees of the Group.

In 2018, '*Social Awareness and Relationship Management*' program based on the DiSC® methodology started back in 2015 was also continued, involving 378 employees of the Group enrolled in the sessions on cooperation and increasing awareness of others as well as relationship management. Foreign language teaching also received considerable attention: employees were learning Polish and English languages.

In 2018, the Parent Company launched the project for the improvement of its employees' competencies under the Measure No 09.4.3-ESFA-T-846-01-0074 '*Training for Employees of Foreign Investors*' of the Operational Programme for the European Union Funds' Investment in Priority Axis 9 '*Educating the Society and Strengthening the Potential of Human Resources*'. 87 employees enrolled in the Project sessions improved their knowledge of the refining technologies, maximization of sales potential, mechanical engineering and IT. The Project will continue until 2021, with the intended involvement of over 400 employees of the Company.

The remuneration system of the Parent Company is aimed at encouraging its employees to pursue achievement of the best possible results. In 2018, job evaluation was completed in the Parent Company and, upon agreement with Naftininkų Trade Union representatives, the values of the base salary grades revised. The remuneration system of the Parent Company comprises of the following elements: base salary (monthly salary or hourly wage); monthly, quarterly, or annual bonus; reward for the initiatives submitted, implemented, and recognized as rewardable; management discretion bonuses for exceptional performance; annual bonus for the Company's performance results; and packages of additional benefits under the Collective Agreements effective in the Group or other internal acts. In 2018, all employees of the Parent Company were involved in the health insurance coverage.

Organizational Changes and Restructuring

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

Seeking to improve efficiency of the Group internal processes, implementation of organizational changes continued in 2018 as well. The work organization associated changes and introduction of advanced technical and organizational solutions resulted in the improvement of the performance results.

New Collective Agreement was signed by the Parent Company with Naftininkų Trade Union at the end of the year. Application of the new Collective Agreement will commence from the 1 January 2019.

The number of active employees in the Group at the end of 2018 (including the Company's Representative Office in Ukraine) was 1,618.

Environmental Protection

During 2018, the Parent Company was operating in line with the statutory environmental requirements, introducing the changes necessary for proper implementation of the provisions set forth by the existing and evolving requirements.

To ensure readiness of the Parent Company for application of the conclusions on the best available techniques (BAT) for the refining of mineral oil and gas established in the 9 October 2014 Decision of the European Commission, the Parent Company was further realizing the measures and projects included in the relevant action plan for the period until October 2018, with the costs of their implementation reaching EUR 12–15 million. Such measures and projects included installation of the continuous emission monitoring systems in Sulphur Production, Hydrogen Generation and Catalytic Cracking Units, installation of automatic sampling system in the waste water treatment facilities, replacement of Boiler K-2 burners and fuel burning management system in Power Production Plant, with the installation of electrostatic precipitator (ESP) for FCC Unit currently being finalized.

In 2018, the waste record keeping information system was modified by the Parent Company starting the registration in the Unified Product, Packaging and Waste Record Keeping Information System.

Certification and Maintaining of the Management Systems

In 2018, the development of the integrated management system (IMS) was continued, with the strong emphasis on the improvement of the internal audit system and the system of performance indicators. IMS Policy was updated in view of the shareholder' recommendations. No instances of non-compliance with the requirements of the applicable standards were identified during the follow-up audit performed in December 2018 by certification auditors.

Occupational Health and Safety

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

In 2017, 'Safety First 2.0' Program was launched by the Parent Company along with the introduction of new initiatives such as involvement of the top management and security staff in organizing of the safety related measures, and implementation of the health program. Furthermore, the introduction of the occupational health and safety standards compliant to the requirements of the entire ORLEN Capital Group was commenced. The standards have been developed on the basis of the best worldwide practices and set the extremely strict occupational health and safety requirements. Twelve standards out of the entire fifteen have been implemented in the Parent Company by the end of 2018:

- S1 Permits to perform hazardous (including fire hazards) work;
- S3 Work in confined spaces;
- S4 Work at height;
- S5 Safe execution of excavation works;
- S6 Accident Investigation;
- S8 Organization of emergency rescue exercises;
- S9 Measurements of hazardous substances (toxicity, explosiveness, oxygen content);
- M1 Leadership and management role in shaping the safety system;
- M2 Contractor management;

- P2 In-depth analysis of industrial accidents;
- P3 Emergency plans – the scope and design;
- M10 Organization and scope of daily conversations regarding work safety.

The number of accidents in the Parent Company during the year 2018 was 5, whereas the total recordable rate per 1 million man hours was 1.1.

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 2018, the Group did not acquire or transfer any of its own shares.

Branches

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

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

Position in Public Company ORLEN Lietuva as of 31 December 2018	Other managerial positions as of 31 December 2018
Michał Rudnicki Chairman of the Board of Directors, General Director of Public Company ORLEN Lietuva	
Marek Paweł Gołęblewski Member of the Board of Directors, Chief Financial Officer of Public Company ORLEN Lietuva	<ul style="list-style-type: none"> - Chairman of the Board of Directors, UAB „Mažeikių naftos“ prekybos namai (UAB Mažeikių Nafta Trading House), code 126237146, address: Mažeikių str. 75, Juodeikiai Village, Mažeikiai Distr. Municipality - Chairman of the Supervisory Council, ORLEN Latvija, SIA, code 40003637994, address: Bauskas iela 58A, Zemgales priekšpilsēta, 1004 Riga, Latvia - Chairman of the Supervisory Council, ORLEN Eesti, OÜ, code 10960209, address: Ahtri 6A, 10151 Tallinn, Estonia
Przemysław Hartlinski Member of the Board of Directors of Public Company ORLEN Lietuva	- Executive Director for Refinery Production, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09-411 Płock, Poland
Andrzej Stegenta Member of the Board of Directors of Public Company ORLEN Lietuva	- Director for Operations Planning Office, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09-411 Płock, Poland
Jarosław Roman Szaliński Member of the Board of Directors, Deputy General Director for Commercial Sales and Logistics of Public Company ORLEN Lietuva	- Member of the Board of Directors, UAB „Mažeikių naftos“ prekybos namai (UAB Mažeikių Nafta Trading House), code 126237146, address: Mažeikių str. 75, Juodeikiai Village, Mažeikiai Distr. Municipality

Krzysztof Witkowski Member of the Board of Directors of Public Company ORLEN Lietuva	<ul style="list-style-type: none"> - Director of Power Generation Assets Management Office, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09-411 Płock, Poland - Member of the Management Board, Baltic Power Sp. z o.o., code 145868460 address: Bielańska 12, 00-085 Warsaw, Poland - Chairman of the Supervisory Council, Energomedia Sp. z o.o., code 273713642, address: Fabryczna 22, 32-540 Trzebinia, Poland
Paweł Wysocki Member of the Board of Directors of Public Company ORLEN Lietuva	<ul style="list-style-type: none"> - Executive Director for Refining Wholesale, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09-411 Płock, Poland - Chairman of the Supervisory Council, ORLEN Paliwa Sp. z o.o., code 690387770, address: Widelka 869, 36-145 Widelka, Poland - Member of the Supervisory Council, ORLEN Deutschland GmbH, code 8093 PI, DE 813-701-725, address: Kurt-Wagener-Straße 7, 25337 Elmshorn, Germany - Member of the Supervisory Council, Naftoport Sp. z o.o., code 190009775, address: Kpt. Poinca 1, 80-561 Gdansk, Poland

2019 as the Year of Continued Focus on the Strategy Implementation

In 2019, the Group will continue consistent implementation of the objectives defined in ORLEN Capital Group Mid-Term Plan for 2019–2022 with a particular focus on the value creation, people and financial strength.

The forecasted throughput of the Refinery in 2019 is about 9.8 million tons of feedstock. The Group will concentrate its efforts on realization of the key investment projects, capacity utilization increase and reduction of energy consumption as well as on securing the stability of its performance, increasing sales to inland markets and reducing costs.

To give a long term perspective of sustainable growth to Public Company ORLEN Lietuva and its subsidiaries as well as the entire ORLEN Capital Group in the context of the increasingly competitive and continuously changing macroeconomic environment, the management of the Group will continue in 2019 its intensive efforts for implementation of advanced management solutions aimed at the operational efficiency increase and process optimization.

General Director



Michał Rudnicki