



# **Public Company ORLEN Lietuva**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2014  
PREPARED IN ACCORDANCE WITH INTERNATIONAL  
FINANCIAL REPORTING STANDARDS  
AS ADOPTED BY EUROPEAN UNION**

**2014**

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AB ORLEN Lietuva and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, set out on pages 5–92.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AB ORLEN Lietuva and its subsidiaries as at 31 December 2014, and of the consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated annual report of AB ORLEN Lietuva for the year ended 31 December 2014, set out on pages 93 to 96 of the financial statements, and have not identified any material inconsistencies between the financial information included in the consolidated annual report and the financial statements of AB ORLEN Lietuva for the year ended 31 December 2014.

On behalf of KPMG Baltics, UAB

  
Rokas Kasperavičius  
Partner pp  
Certified Auditor

  
Rūta Kupiniene  
Certified auditor

Klaipėda, the Republic of Lithuania  
4 March 2015



## Consolidated statement of financial position

	Note	as at 31/12/2014		as at 31/12/2013	
		USD	LTL	USD	LTL
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	6	152,494	432,884	952,891	2,391,565
Intangible assets	7	1,569	4,455	21,155	53,096
Perpetual usufruct of land	8	-	-	106	265
Investments in equity-accounted investees	9	1,858	5,274	1,922	4,825
Deferred tax assets	26	494	1,402	80,364	201,699
Other non-current assets	10	5,765	16,365	6,745	16,928
<b>Total non-current assets</b>		<b>162,180</b>	<b>460,380</b>	<b>1,063,183</b>	<b>2,668,378</b>
<b>Current assets</b>					
Inventory	12	259,980	738,007	588,805	1,477,781
Trade and other receivables	13	109,775	311,618	228,497	573,483
Other financial assets	14	8,464	24,027	11,449	28,735
Current tax assets		217	616	3,168	7,952
Cash and cash equivalents	15	4,629	13,140	12,602	31,628
Non-current assets classified as held for sale	16	330	937	463	1,161
<b>Total current assets</b>		<b>383,395</b>	<b>1,088,345</b>	<b>844,984</b>	<b>2,120,740</b>
<b>Total assets</b>		<b>545,575</b>	<b>1,548,725</b>	<b>1,908,167</b>	<b>4,789,118</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
<b>EQUITY</b>					
Share capital	17	185,562	719,201	181,886	708,821
Share premium		373,814	1,132,264	77,507	295,548
Other reserves		27,530	73,575	27,635	74,002
Foreign exchange differences		(803)	(314,658)	2,212	(325,008)
Retained earnings		(515,336)	(1,409,496)	448,082	1,097,160
<b>Total equity</b>		<b>70,767</b>	<b>200,886</b>	<b>737,322</b>	<b>1,850,523</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans and borrowings	18	-	-	331,010	830,769
Provisions	19	4,071	11,557	13,722	34,439
<b>Total non-current liabilities</b>		<b>4,071</b>	<b>11,557</b>	<b>344,732</b>	<b>865,208</b>
<b>Current liabilities</b>					
Trade and other liabilities	20	413,958	1,175,102	596,539	1,497,202
Loans and borrowings	18	9,086	25,793	67,531	169,490
Current tax liability		-	-	74	185
Provisions	19	20,227	57,418	29,472	73,969
Deferred income		-	-	15	38
Other financial liabilities	21	27,466	77,969	132,482	332,503
<b>Total current liabilities</b>		<b>470,737</b>	<b>1,336,282</b>	<b>826,113</b>	<b>2,073,387</b>
<b>Total liabilities</b>		<b>474,808</b>	<b>1,347,839</b>	<b>1,170,845</b>	<b>2,938,595</b>
<b>Total equity and liabilities</b>		<b>545,575</b>	<b>1,548,725</b>	<b>1,908,167</b>	<b>4,789,118</b>

The notes on pages 10 to 92 are an integral part of these consolidated financial statements.

Consolidated financial statements were approved on 4 March 2015.

Ireneusz Fafara  
General Director

Marek Golebiewski  
Chief Financial Officer

Genutė Barkuvienė  
Chief Accountant

  
Ireneusz Fafara  
General Director




## Consolidated statement of profit or loss and other comprehensive income

	Note	for the year ended 31/12/2014 USD	for the year ended 31/12/2014 LTL	for the year ended 31/12/2013 USD	for the year ended 31/12/2013 LTL
<b>Statement of profit or loss</b>					
Sales revenues	22	6,179,305	16,069,900	7,987,598	20,777,338
Cost of sales	23	(6,078,547)	(15,807,869)	(7,842,088)	(20,398,840)
<b>Gross profit on sales</b>		<b>100,758</b>	<b>262,031</b>	<b>145,510</b>	<b>378,498</b>
Distribution expenses	23	(160,351)	(417,008)	(172,772)	(449,412)
Administrative expenses	23	(46,324)	(120,471)	(64,871)	(168,743)
Other operating income	24.1	15,515	40,349	8,237	21,427
Other operating expenses	24.2	(780,096)	(2,028,717)	(12,349)	(32,123)
Share in profit from investments in equity-accounted investees	9	177	459	(19)	(49)
<b>Profit/(loss) from operations</b>		<b>(870,321)</b>	<b>(2,263,357)</b>	<b>(96,264)</b>	<b>(250,402)</b>
Finance income	25.1	9,710	25,251	5,577	14,506
Finance expenses	25.2	(26,203)	(68,144)	(24,958)	(64,921)
<b>Net finance income and expenses</b>		<b>(16,493)</b>	<b>(42,893)</b>	<b>(19,381)</b>	<b>(50,415)</b>
<b>Profit/(loss) before tax</b>		<b>(886,814)</b>	<b>(2,306,250)</b>	<b>(115,645)</b>	<b>(300,817)</b>
Income tax expense	26	(81,324)	(211,492)	20,261	52,703
<b>Net profit/(loss) from continuing operations</b>		<b>(968,138)</b>	<b>(2,517,742)</b>	<b>(95,384)</b>	<b>(248,114)</b>
<b>Discontinued operation</b>					
Profit/(loss) from discontinued operation, net of tax	5	4,675	12,156	1,080	2,809
<b>Net profit/(loss)</b>		<b>(963,463)</b>	<b>(2,505,586)</b>	<b>(94,304)</b>	<b>(245,305)</b>
<b>Items of other comprehensive income:</b>					
<b>which will not be reclassified into profit or loss</b>					
Actuarial (gains) and losses		(562)	(1,485)	492	1,280
Deferred tax	3		8	(74)	(192)
Foreign exchange differences		(2,516)	10,330	1,272	(68,071)
		<b>(3,075)</b>	<b>8,853</b>	<b>1,690</b>	<b>(66,983)</b>
<b>Total net comprehensive income/(expenses)</b>		<b>(966,538)</b>	<b>(2,496,733)</b>	<b>(92,614)</b>	<b>(312,288)</b>
<b>Net profit/(loss) attributable to:</b>					
equity holders of the parent		(963,463)	(2,505,586)	(94,304)	(245,305)
<b>Total comprehensive income/(expenses) attributable to:</b>					
equity holders of the parent		(966,538)	(2,496,733)	(92,614)	(312,288)

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Consolidated financial statements were approved on 4 March 2015.

Ireneusz Fafara  
General Director

Marek Gołębiewski  
Chief Financial Officer

Genutė Barkuvienė  
Chief Accountant

  
Ireneusz Fafara  
Generalinis direktorius







## Consolidated statement of cash flows

	Note	for the year ended 31/12/2014 USD	for the year ended 31/12/2014 LTL	for the year ended 31/12/2013 USD	for the year ended 31/12/2013 LTL
<b>Cash flow - operating activities</b>					
<b>Net profit/(loss)</b>		<b>(963,463)</b>	<b>(2,505,586)</b>	<b>(94,304)</b>	<b>(245,305)</b>
Adjustments for:					
Share in profit from investments in equity-accounted investees	9	(177)	(459)	19	49
Depreciation and amortization	6,7	41,604	108,195	72,328	188,139
Foreign exchange (gain)/loss		(2,071)	(11,576)	1,033	(12,740)
Interest and guarantees, net		12,251	31,623	12,798	33,290
(Profit)/loss on investing activities		771,582	2,008,017	11,229	28,168
Change in working capital:		248,710	638,045	90,959	267,883
receivables		106,991	230,167	124,436	345,678
inventories		325,743	732,042	(22,020)	(751)
liabilities		(184,024)	(324,164)	(11,457)	(77,044)
Change in provisions		(4,227)	(1,366)	11,607	25,931
Disposal of discontinued operation, net of tax	5	(4,675)	(12,156)	-	-
Tax expenses	26	81,324	211,492	(20,261)	(52,703)
Income tax (paid)/received		1,380	3,258	(2,352)	(6,118)
Other adjustments		425	(6,174)	-	-
<b>Net cash used in operating activities</b>		<b>182,663</b>	<b>463,313</b>	<b>83,056</b>	<b>226,594</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment and intangible assets		(31,252)	(83,039)	(67,857)	(177,276)
Disposal of property, plant and equipment and intangible assets		26,192	68,116	794	2,065
Disposal of shares		-	-	127	330
Disposal of discontinued operation, net of cash	5	19,094	49,175	-	-
Increase/(decrease) in derivatives		(5,872)	(15,269)	5,162	13,427
Increase/(decrease) in deposits		(8,549)	(22,233)	6,027	15,699
Interest received		232	604	79	295
<b>Net cash used in investing activities</b>		<b>(155)</b>	<b>(2,646)</b>	<b>(55,668)</b>	<b>(145,460)</b>
<b>Cash flows from financing activities</b>					
Repayment of loans and borrowings		(387,336)	(1,007,305)	(6,567)	(17,082)
Interest paid		(12,660)	(32,922)	(13,454)	(34,990)
(Outflow)/inflow from cash pool		(90,485)	(219,108)	(12,658)	(44,063)
Issuance of shares and other capital instruments, additional payments to capital		300,000	780,180	-	-
<b>Net cash used in financing activities</b>		<b>(190,481)</b>	<b>(479,155)</b>	<b>(32,679)</b>	<b>(96,135)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(7,973)</b>	<b>(18,488)</b>	<b>(5,291)</b>	<b>(15,001)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>15</b>	<b>12,602</b>	<b>31,628</b>	<b>17,893</b>	<b>46,629</b>
<b>Cash and cash equivalents, end of the period</b>	<b>15</b>	<b>4,629</b>	<b>13,140</b>	<b>12,602</b>	<b>31,628</b>

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Consolidated financial statements were approved on 4 March 2015.

Ireneusz Fafara  
General Director

Marek Gołębiewski  
Chief Financial Officer

Genutė Barkuvienė  
Chief Accountant

Ireneusz Fafara  
Generalinis direktorius



## Statement of changes in consolidated equity

USD	Equity attributable to equity holders of the parent						Total equity
	Share capital	Share premium	Revaluation reserve	Other reserves	Foreign exchange differences	Retained earnings	
<b>1 January 2014</b>	<b>181,886</b>	<b>77,507</b>	<b>109</b>	<b>27,526</b>	<b>2,212</b>	<b>448,082</b>	<b>737,322</b>
Loss for the year	-	-	-	-	-	(963,463)	(963,463)
Write-off of revaluation reserve	-	-	(109)	-	-	109	-
Other comprehensive income/(expenses)	-	-	-	-	-	(559)	(559)
Foreign currency translation differences of foreign operations	-	-	-	-	(3,015)	499	(2,516)
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>-</b>	<b>(109)</b>	<b>-</b>	<b>(3,015)</b>	<b>(963,414)</b>	<b>(966,538)</b>
Issue of ordinary shares	3,676	296,307	-	-	-	-	299,983
Transfer to legal reserve	-	-	-	4	-	(4)	-
<b>Total transactions with owners of the Group</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>(4)</b>	<b>-</b>
<b>31 December 2014</b>	<b>185,562</b>	<b>373,814</b>	<b>-</b>	<b>27,530</b>	<b>- 803</b>	<b>- 515,336</b>	<b>70,767</b>
<b>1 January 2013</b>	<b>181,886</b>	<b>77,507</b>	<b>109</b>	<b>27,545</b>	<b>1,083</b>	<b>541,806</b>	<b>829,936</b>
Loss for the year	-	-	-	-	-	(94,304)	(94,304)
Transfer of cumulative translation differences after disposal of subsidiary	-	-	-	-	21	(21)	-
Other comprehensive income/(expenses)	-	-	-	-	-	418	418
Foreign currency translation differences of foreign operations	-	-	-	-	1,108	164	1,272
<b>Total comprehensive income/(expenses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,129</b>	<b>(93,743)</b>	<b>(92,614)</b>
Transferred to legal reserve	-	-	-	(19)	-	19	-
<b>Total transactions with owners of the Group</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19)</b>	<b>-</b>	<b>19</b>	<b>-</b>
<b>31 December 2013</b>	<b>181,886</b>	<b>77,507</b>	<b>109</b>	<b>27,526</b>	<b>2,212</b>	<b>448,082</b>	<b>737,322</b>

The notes on pages 10 to 92 are an integral part of these consolidated financial statements.

Consolidated financial statements were approved on 4 March 2015.

Ireneusz Fafara  
General Director

Ireneusz Fafara  
Generalinis direktorius

Marek Gołębiewski  
Chief Financial Officer

Genutė Barkuvienė  
Chief Accountant





## Public Company ORLEN Lietuva

## Consolidated financial statements for the year 2014

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

LTL	Equity attributable to equity holders of the parent						Total equity
	Share capital	Share premium	Revaluation reserve	Other reserves	Foreign exchange differences	Retained earnings	
<b>1 January 2014</b>	708,821	295,548	437	73,565	(325,008)	1,097,160	1,850,523
Loss for the year	-	-	-	-	-	(2,505,586)	(2,505,586)
Write-off of revaluation reserve	-	-	(437)	-	-	437	-
Other comprehensive income/(expenses)	-	-	-	-	-	(1,477)	(1,477)
Foreign currency translation differences of foreign operations	-	-	-	-	10,350	(20)	10,330
<b>Total comprehensive income/(expenses)</b>	-	-	(437)	-	10,350	(2,506,646)	(2,496,733)
Issue of ordinary shares	10,380	836,716	-	-	-	-	847,096
Transfer to legal reserve	-	-	-	10	-	(10)	-
<b>Total transactions with owners of the Group</b>	-	-	-	10	-	(10)	-
<b>31 December 2014</b>	<b>719,201</b>	<b>1,132,264</b>	<b>-</b>	<b>73,575</b>	<b>(314,658)</b>	<b>(1,409,496)</b>	<b>200,886</b>
<b>1 January 2013</b>	708,821	295,548	437	73,615	(256,917)	1,341,307	2,162,811
Loss for the year	-	-	-	-	-	(245,305)	(245,305)
Transfer of cumulative translation differences after disposal of subsidiary	-	-	-	-	47	(47)	-
Other comprehensive income/(expenses)	-	-	-	-	-	1,088	1,088
Foreign currency translation differences of foreign operations	-	-	-	-	(68,138)	67	(68,071)
<b>Total comprehensive income/(expenses)</b>	-	-	-	-	(68,091)	(244,197)	(312,288)
Transferred to legal reserve	-	-	-	(50)	-	50	-
<b>Total transactions with owners of the Group</b>	-	-	-	(50)	-	50	-
<b>31 December 2013</b>	<b>708,821</b>	<b>295,548</b>	<b>437</b>	<b>73,565</b>	<b>(325,008)</b>	<b>1,097,160</b>	<b>1,850,523</b>

The notes on pages 10 to 92 are an integral part of these consolidated financial statements.  
Consolidated financial statements were approved on 4 March 2015.

Ireneusz Fafara  
General Director

Marek Gołębiewski  
Chief Financial Officer

Genutė Barkuvienė  
Chief Accountant

Ireneusz Fafara  
Generalinis direktorius

## Accounting principles and other explanatory information

### 1. Reporting entity

Public Company ORLEN Lietuva (hereinafter – the Parent company) is incorporated and domiciled in Lithuania. Its registered office is located at the address: Mažeikių St. 75, Juodeikiai village, Mazeikiai District, Republic of Lithuania. Its legal entity code is 166451720. The Parent company comprises an oil refinery enterprise in Mažeikiai operating since 1980, the Būtingė terminal operating since 1999, and an oil products pumping station in Biržai operating since 1970. The sole shareholder of the Parent company is PKN ORLEN S.A.

The consolidated financial statements as at 31 December 2014 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 five subsidiaries (six subsidiaries in 2013). 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
			31/12/2014	31/12/2013	
<b>Subsidiaries</b>					
AB Ventus nafta	Lithuania	2002	0	100	Retail trade in petroleum products. The company was sold to PKN ORLEN S.A. in August 2014.
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 Paslaugos tau	Lithuania	2008	100	100	In-door and industrial cleaning.
UAB EMAS	Lithuania	2009	100	100	Installation, supervision, repair of electrical equipment and related services.
<b>Associated company</b>					
UAB Naftelf	Lithuania	1996	34	34	Trading in aviation fuel and construction of storage facilities thereof.

### 2. Accounting policy

#### 2.1. Principles of presentation

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 2014. The consolidated financial statements cover the period from 1 January to 31 December 2014 and the corresponding period from 1 January to 31 December 2013.

Presented consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2014 and comparative data as at 31 December 2013, results of its operations and cash flows for the year ended 31 December 2014 and comparative data for the year ended 31 December 2013.

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 ORLEN Lietuva Group is unlimited.

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

The consolidated financial statements were authorized for issue by the General Director, Chief Financial Officer and Chief accountant on 4 March 2015.

## ***2.2. Basis of measurement***

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Derivative financial instruments are measured at fair value;
- Non-derivative financial instruments at fair value through profit or loss are measured at fair value.

## ***2.3. Impact of IFRS amendments and interpretations on consolidated financial statements of the Group***

### ***2.3.1. Binding amendments and interpretations of IFRSs***

The amendments to standards and IFRS interpretations, in force from 1 January 2014 until the date of publication of these consolidated financial statements had no impact on the foregoing consolidated financial statements.

### ***2.3.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective***

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

- IFRIC Interpretation 21 - Levies
- Amendments to IAS 19 - Employee Benefits entitled Defined Benefit Plans: Employee Contributions
- Improvements to IFRS (2010-2012)
- Improvements to IFRS (2011-2013)

It is expected that the aforementioned standards and amendments to standards, when initially applied, will have no material impact on future consolidated financial statements of the Group.

## **Application according to the effective date**

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

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

- New standard IFRS 9 - Financial Instruments
- New standard IFRS 14 - Regulatory Deferral Accounts
- New standard IFRS 15 - Revenue from Contracts with Customers
- Amendments to IFRS 11 - Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: Agriculture: Bearer Plants
- Amendments to IAS 27 - Separate Financial Statements: Equity Method in Separate Financial Statements
- Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Improvements to IFRS (2012-2014)
- Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 - Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 1 - Presentation of Financial Statements: Disclosure initiative

It is expected that the aforementioned amendments and interpretation to standards, when initially applied, will have no material impact on future consolidated financial statements of the Group, however, when the new standard IFRS 9 will be initially applied, assets will be assigned to changed financial instruments categories.

The impact of the initial application, i.e. 1 January 2017, of the new standard IFRS 15 will depend on the specific facts and circumstances of the contracts with customers to which the Group will be a party.

**2.3.4. Presentation changes**

The Group changed classification of expenses in the Consolidated statement of profit or loss and other comprehensive income in 2014. The result of share in profit from investments in equity-accounted investees was transferred in the Consolidation statement of profit or loss to operating activity.

Services provided by internal units/departments in 2014 were transferred from distribution expenses and administrative expenses and increased cost of sales. Similar reclassification was done for 2013 figures presented as comparatives. The summary of presentation adjustments is stated below:



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

	for the year ended 31/12/2013	reclassifi- cation	for the year ended 31/12/2013 (restated)	for the year ended 31/12/2013	reclassifi- cation	for the year ended 31/12/2013 (restated)
	USD	USD	USD	LTL	LTL	LTL
<b>Extracts from profit and loss</b>						
Sales revenues	7,987,598	-	7,987,598	20,777,338	-	20,777,338
Cost of sales	(7,838,142)	(3,946)	(7,842,088)	(20,388,576)	(10,264)	(20,398,840)
<b>Gross profit on sales</b>	<b>149,456</b>	<b>(3,946)</b>	<b>145,510</b>	<b>388,762</b>	<b>(10,264)</b>	<b>378,498</b>
Distribution expenses	(174,834)	2,062	(172,772)	(454,776)	5,364	(449,412)
Administrative expenses	(66,755)	1,884	(64,871)	(173,643)	4,900	(168,743)
Other operating income	8,237	-	8,237	21,427	-	21,427
Other operating expenses	(12,349)	-	(12,349)	(32,123)	-	(32,123)
Share in profit from investments in equity-accounted investees	-	(19)	(19)	-	(49)	(49)
<b>Profit/(loss) from operations</b>	<b>(96,245)</b>	<b>(19)</b>	<b>(96,264)</b>	<b>(250,353)</b>	<b>(49)</b>	<b>(250,402)</b>
Finance income	5,577	-	5,577	14,506	-	14,506
Finance expenses	(24,958)	-	(24,958)	(64,921)	-	(64,921)
<b>Net finance income and expenses</b>	<b>(19,381)</b>	<b>-</b>	<b>(19,381)</b>	<b>(50,415)</b>	<b>-</b>	<b>(50,415)</b>
Share in profit from investments in equity-accounted investees	(19)	19	-	(49)	49	-
<b>Profit/(loss) before tax</b>	<b>(115,645)</b>	<b>-</b>	<b>(115,645)</b>	<b>(300,817)</b>	<b>-</b>	<b>(300,817)</b>

### 2.3.5. Functional and presentation currency of financial statements and methods applied to translation of 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 Lithuanian Litas (LTL) being an additional presentation currency. Since 2 February 2002 the exchange rate of the Litas has been pegged to the euro at a rate of LTL 3.4528 = EUR 1.

### Exchange rates used to calculation of financial data

CURRENCIES	average exchange rate for the reporting period		exchange rate at the end of the reporting period	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
LTL/USD	0.38453	0.38444	0.35230	0.39844
EUR/USD	1.32769	1.32739	1.21633	1.37573
LVL/USD	-	1.89251	-	1.95968

The consolidated financial statements of the Group, prepared in US dollars, the functional currency of the Parent company, are translated to the presentation currency, Lithuanian Litas by using period end exchange rate for translation of assets and liabilities and average exchange rate for the year for translation of income and expenses (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates prevailing at the dates of the transactions). All resulting exchange differences are recognized as cumulative translation adjustments in other comprehensive income.

Accounting policies for foreign currency transactions are disclosed in Note 2.4.2.

## ***2.4. Applied accounting policies***

### ***2.4.1. Changes in accounting policies and estimates***

The Group will change an accounting policy only if the change:

- is required by an new or revised IFRS; or
- results in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows.

In case of change in accounting policy it is assumed that the new policy had always been applied. The amount of the resulting adjustment is made to the equity. For comparability, the Group adjusts the comparative information for the earliest prior period presented as if the new accounting policy had always been applied, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Items of consolidated financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The effects of changes in estimates are accounted prospectively in the statement of comprehensive income in the period of changes.

The correction of a material prior period error is accounted in equity. When preparing the financial statements it is assumed that the errors were corrected in the period when they occurred.

### ***2.4.2. Transactions in foreign currencies***

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

1. foreign currency monetary items, including units of currency held by the Group and receivables and liabilities due in a defined or definable units of currency are translated using the closing rate, i.e. the spot rate at the end of the reporting period;
2. non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
3. non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period are recognized by the Group in consolidated profit or loss in the period in which they arise.

### ***2.4.3. Principles of consolidation***

The consolidated financial statements of the Group comprise the financial statements of Public Company ORLEN Lietuva and its subsidiaries prepared as at the end of the same reporting period using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

#### **2.4.3.1. Investments in subsidiaries**

Subsidiaries are entities under the Parent's control. It is assumed that the Parent company controls another entity if it holds directly or indirectly – through its subsidiaries – more than 50% of the voting rights in an entity, unless in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the Parent company owns half or less of the voting power of an entity when there is:

- power over more than half of the voting rights by virtue of an agreement with other investors,
- power to govern the financial and operating policies of the entity under a statute or an agreement,
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body, or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Subsidiaries are consolidated from the date control commences to the date control ceases, using the full consolidation method.

#### **2.4.3.2. Investment in equity accounted investees**

Investments in equity accounted investees relate to entities over which the investor has significant influence and that are neither controlled nor jointly controlled.

It is assumed that the Investor has significant influence over another entity, if it has ability to participate in financial and operating decisions of the entity. Particularly, the significant influence is evidenced when the Group holds directly or indirectly more than 20%, and no more than 50% of the voting rights of an entity and participation in financial and operating decisions is not contractually or actually restrained and is actually executed.

Investments in equity accounted investees are accounted in the consolidated financial statement using the equity method, based on financial statements of associates prepared as at the end of 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.

#### **2.4.3.3. Consolidation procedures**

The consolidated financial statements are prepared using the line by line method and the proportionate method. When investor has significant influence over another entity, equity method is used to evaluate shares in entity.

Consolidated financial statements are the financial statements of a Group presented as those of a single economic entity.

In preparing consolidated financial statements using line by line method, an entity combines the financial statements of the Parent company and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses and then performs adequate consolidation procedures, including mainly:

- the carrying amounts of the Parent's investment in each subsidiary and the Parent's portion of equity of each subsidiary are eliminated,
- intra group balances are eliminated,
- unrealized profits or losses from intra group transactions are eliminated,
- intra group revenue and expenses are eliminated.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognized in other comprehensive income of the investor.

#### **2.4.4. Business combinations**

The Group accounts for each business combination by applying the acquisition method. Applying the acquisition method requires:

- identifying the acquirer,
- determining the acquisition date,
- recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquire, and
- recognizing and measuring goodwill or a gain from a bargain purchase.

The fair value of assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost is determined in accordance with principles set in attachment B to IFRS 3.

#### **2.4.5. Operating Segments**

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same group),
- whose operating results are regularly reviewed by the Group's governing body to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

The operations of the Group were divided into following segments:

- the refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the retail segment, which includes sales at petrol stations,
- corporate functions, constitute as agreement position which include activities related to management and administration, support functions as well as remaining activities not allocated to separate operating segments.

Segment revenues are revenues from the sale to external customers or from transactions with other operating segments, which are directly attributable to the segment.

Segment expenses are expenses related to the sale to external customers and expenses from transactions with other operating segments resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Group's expenses that can be allocated on a reasonable basis to a segment.

Segment expenses do not include:

- income tax,
- interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature,
- losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature.

Segment result is calculated on the level of operating result.



Segment assets are those operating assets that are employed by that segment in operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Particularly segment assets do not include assets connected with income tax.

#### **2.4.6. Property, plant and equipment**

Property, plant and equipment are assets that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one period (one year or the operating cycle, if longer than one year).

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) and 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. The carrying amount is the amount at which an asset is initially recognized (cost) after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation of an item of property, plant and equipment begins when it 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, over the period reflecting its estimated economic useful life, considering the residual value. Property, plant and equipment are depreciated with straight-line method and in justified cases units of production method of depreciation.

The depreciable amount of an asset is determined after deducting its residual value from the initial value.

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. Land is not depreciated.

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 major inspections and overhaul and replacement of components programs is recognized as property, plant and equipment and depreciated in accordance with their economic 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.

#### 2.4.7. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Group intends to do so; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group or from other rights and obligations.

An intangible asset is recognized if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and
- the cost of the asset can be measured reliably.

An intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

If the definition criteria of an intangible asset are not met, the cost incurred to acquire or self-develop an asset is recognized in cost when incurred. If an asset was acquired in a business combination it is part of goodwill as at acquisition date.

An intangible asset is measured initially at cost including grants related to assets. An intangible asset that is acquired in a business combination is recognized initially at fair value.

After initial recognition, an intangible asset, except goodwill, is presented in the consolidated statement of financial position at its cost including grants related to assets, less amortization and impairment allowance, if any.

Intangible assets with finite 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 amortizable amount of an asset is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life is assumed to be zero.

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. Additionally, in each period the useful life is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

#### **2.4.7.1. Goodwill**

Goodwill acquired in a business combination, from the acquisition date, is allocated to each of the acquirer's cash-generating units, (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The acquirer recognizes goodwill as of the acquisition date measured as the excess of a) over b) below:

a) the aggregate of:

- the consideration transferred, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in point (b) exceeds the aggregate of the amounts specified in point (a). If that excess remains, after reassessment of fair value of all acquired assets and liabilities, the acquirer recognizes the resulting gain in profit or loss on the acquisition date as other operating profit for the period.

The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment allowances.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided the test is performed at the same time every year.

A cash-generating unit to which no goodwill has been allocated is tested for impairment only when there are indicators that the cash-generating unit might be impaired.

An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer retrospectively adjusts the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer also recognizes additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period does not exceed one year from the acquisition date.

#### **2.4.7.2. Rights**

##### **Carbon dioxide emission rights (CO<sub>2</sub>)**

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide (CO<sub>2</sub>). In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in emissions trading system. All mentioned entities are allowed to emit CO<sub>2</sub> in specified amount and are obliged to amortize those rights in the amount of the emissions of the given year.

CO<sub>2</sub> emission rights are initially recognized as intangible assets, which are not amortized, but tested for impairment.

Granted emission allowances are presented as separate items as intangible assets with corresponding deferred income at fair value as at the date of registration. Purchased allowances are presented as intangible assets at purchase price.

If the allowances in a given year were not registered on the account under the date resulting from regulations, they are presented as receivable at the reporting date in correspondence with deferred income (as separate items) in the amount of fair value of allowances due at the reporting date. The receivable is settled at the moment of allowances registration in the subsequent period as intangible assets at fair value (allowances granted). Deferred income is also be revaluated.

For the estimated CO<sub>2</sub> emissions during the reporting period, a provision is created in operating activity costs (taxes and charges).

Grants of CO<sub>2</sub> emission rights are recognized on a systematic basis to ensure matching with the related costs for which the grants were intended to compensate. Consequently, the cost of recognition of the provision in the consolidated statement of profit or loss and other comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of evaluated annual emission. The surplus of grant over the estimated emission in the reporting period is recognized as other operating income.

Granted/purchased CO<sub>2</sub> emission allowances are amortized against the book value of provision, as its settlement. Outgoing of allowances is recognized using FIFO method (first in, first out) based on particular type of allowances (EUA, ERU, CER).

#### **2.4.8. Perpetual usufruct of land**

Perpetual usufruct of land is recognized at acquisition cost and presented in a separate line of the consolidated statement of financial position.

As at the end of the reporting period perpetual usufruct of land is valued at the net carrying amount, i.e. at acquisition cost less any accumulated depreciation and impairment losses.

#### **2.4.9. Borrowing costs**

Borrowing costs are interests and other costs that Group incurs in connection with the borrowing of funds.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as costs when incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.



Borrowing costs may include:

- interest expense calculated using the effective interest,
- finance charges in respect of finance leases, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Upper limit of the borrowing cost eligible for capitalization is the value of borrowing cost actually borne by the Group.

The commencement date for capitalization is the date when all of the following three conditions are met:

- expenditures for the asset are incurred,
- borrowing costs are incurred,
- activities necessary to bring the asset into its intended use or sale are undertaken.

Capitalizing of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Necessity to perform additional administrative or decoration works or some adaptation requested by the buyer or user is not the basis for the capitalization of borrowing costs.

After putting the asset into use, the capitalized borrowing costs are depreciated/ amortized over the period reflecting useful life of the asset as part of the cost of the asset.

#### **2.4.10. Impairment of 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. If any such indication exists, the Group estimates the recoverable amount of the asset (CGU).

The recoverable amount is the higher of the fair value less costs to sell of an asset and its value in use.

Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.

Value in use is the present value of the estimated future cash flows expected to be derived from an asset or CGU.

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).

To the cash generating unit following assets are allocated:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated to a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, the impairment tests are carried out. The tests are carried out also annually for intangible assets with the indefinite useful life and for goodwill.

When carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less costs to sell.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of reporting period an assessment is made whether an impairment loss recognized in prior periods for an asset is partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.

A reversal of an impairment loss for an asset other than goodwill is recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another standard.

#### **2.4.11. Inventories**

Inventories are assets:

- held for sale in the ordinary course of business,
- in the process of production for such sale, or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services,
- other goods in petrol stations.

Inventories 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.

The production costs do not include:

- costs incurred as a consequence of low production or production losses,
- general and administrative expenses that are not directly attributable to bringing the inventories to the condition and location at the moment of measurement,
- storage costs of finished goods and work in progress, unless these costs are necessary in the production process,
- distribution expenses.

Finished goods and work in progress are measured at the end of the reporting period at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the basic course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Finished goods and work in progress are evaluated based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.

Merchandise and raw materials are measured initially at acquisition cost.

As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any write-downs for obsolescence.

Write down tests for specific items of inventories are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns inventories that are damaged or obsolete.

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.

Outgoings of merchandise and raw materials are determined based on the weighted average acquisition cost or production cost formula.

#### **2.4.12. Receivables**

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

#### **2.4.13. 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. Cash equivalents are rather part of the cash management process implemented by the Group, nor investment or other. The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the cash management.

Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (first-in first-out) method.

#### **2.4.14. Non-current assets held for sale**

Non-current assets held for sale are those which comply simultaneously with the following criteria:

- the sales were declared by the appropriate level of management,
- the assets are available for an immediate sale in their present condition,
- an active program to locate a buyer has been initiated,
- the sale transaction is highly probable and can be settled within 12 months following the sales decision,
- the selling price is reasonable in relation to its current fair value,
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

Classification to this category is carried out in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, the Group does not classify a non-current asset as held for sale in those financial statements when issued.

While a non-current asset is classified as held for sale it is not depreciated.

A non-current assets held for sale (excluding financial assets) is measured at a lower of: carrying amount or fair value less costs to sell.

A gain is recognized for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that had been previously recognized on reclassification.

#### **2.4.15. Equity**

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

##### **2.4.15.1. 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.

#### **2.4.15.2. 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.

#### **2.4.15.3. Revaluation surplus**

Revaluation surplus related to a difference between the fair value and the purchase cost, after deducting deferred tax, of assets held for sale, if there is a market price available from active regulated market, or fair value may be calculated on other reliable basis.

#### **2.4.15.4. 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 Litas (LTL).

#### **2.4.15.5. Other reserves**

Additional payments to equity are initially recognized at fair value.

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

#### **2.4.15.6. 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 related to post-employment benefits, recognized directly to other comprehensive income.

#### **2.4.16. Liabilities**

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

##### **2.4.16.1. Accruals**

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.

#### **2.4.17. Provisions**

The Group recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognized.

When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognized as financial expenses.

Provisions are not recognized for the future operating losses.

The provisions are created, among others, for (if recognition criteria mentioned above are met):

- environmental risk,
- business risk,
- restructuring,
- CO<sub>2</sub> emission.

#### **2.4.17.1. 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. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

#### **2.4.17.2. Jubilee bonuses and post-employment benefits**

Under the Group's remuneration plans employees are entitled to jubilee bonuses as well as retirement and pension benefits.

The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years in service and an employee's average salary.

Provisions for jubilee bonuses and 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 internal regulation. The present value of these obligations is estimated at the end of each reporting year by an independent actuary.

A legal obligation is an obligation that derives from: a contract, legislation (including legislation virtually certain to be enacted) or other operation of law.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

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.

Actuarial gains or losses:

- from post-employment benefits are recognized in other comprehensive income,
- from other employment benefits, including jubilee bonuses, are recognized in profit and loss.

#### **2.4.17.3. Business risk**

Business risk provision is created after consideration of all available information, including opinions of independent experts. If on the basis of such information it is more likely that not that a present obligation exists at the end of the reporting period, the Group recognizes a provision (if the recognition criteria are met).

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.

#### **2.4.17.4. Restructuring**

A restructuring provision is created when the Group starts to implement a restructuring plan or has announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation that the restructuring will be carried out. A restructuring provision includes only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations).

#### **2.4.17.5. CO<sub>2</sub> emissions**

The Group creates provision for the estimated CO<sub>2</sub> emission during the reporting period in operating activity costs (taxes and charges).

#### **2.4.18. Government grants**

Government grants are transfers of resources to the Group by government, government agencies and similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the operating activities of the Group.

Government grants are not recognized until there is reasonable assurance that the grants will be received and the Group will comply with the conditions attaching to them.

Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.

Government grants related to assets are presented separately as deferred income that is amortized over the useful life of the asset (gross presentation).

#### **2.4.19. Revenues from sale**

Revenues from sale (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Group was founded, revenues are recurring and are not of incidental character.

##### **2.4.19.1. Revenues from sales of finished goods, merchandise, materials and services**

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

Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenues can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which are expected to be recovered by the Group.

#### **2.4.20. Costs**

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Group was founded, costs are recurring and are not of incidental character. Particularly costs that are connected to purchase of raw materials, their processing and distribution, those are fully under Group's control.

##### **2.4.20.1. Costs of sales**

Cost of sales comprises costs of finished goods, merchandise and raw materials sold, including services of support functions.

##### **2.4.20.2. Distribution expenses**

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

##### **2.4.20.3. General and administrative expenses**

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

#### **2.4.21. Other operating income and expenses**

Other operating income refer to operating revenues, in particular relating to profit from liquidation and sale of property, plant and equipment and intangible assets, surplus of assets, return of court fees, penalties earned by the Group, surplus of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and some provisions, compensations earned, revaluation gains and profit on sale of investment property.

Other operating expenses refer to operating expenses, in particular relating to loss on liquidation and sale of non-financial non-current assets, shortages of assets, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, cash and tangible assets granted free of charge, impairment allowances (except those that are recognized as financial expenses), compensations paid, write-off of construction in progress which have not produced the desired economic effect, cost of recovery of receivables and liabilities, revaluation losses and loss on sale of investment property.

#### **2.4.22. Financial income and expenses**

Financial income include in particular profit from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Incomes from dividends are recognized when the shareholders' right to receive payments is established.

Financial expenses include, in particular, the loss on the sale of shares and securities sold and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest receivables, foreign exchange losses, interest on bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings costs and guarantees.

#### **2.4.23. Income tax expense**

Income tax expense comprises current tax and deferred tax.

Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period for each entity within the group in accordance with the laws of the relevant jurisdiction.

Current tax liabilities for current and prior periods represent the amounts payable at the reporting date. If the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognized as a receivable.

Deferred tax assets are recognized for deductible temporary differences, unrealized tax losses and unrealized tax relieves.

Deferred tax liabilities are recognized for taxable temporary differences.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base. Deductible temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the value of the asset or liability is recovered or settled. Taxable temporary differences arise when the carrying amount of an asset at the end of reporting period is higher than its tax base or when the carrying amount of a liability is lower than its tax base. Taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities.

The measurement of deferred tax liabilities and deferred tax assets reflect the tax consequences that would follow from the manner in which the Group expects, to recover or settle the carrying amount of its assets and liabilities.

If the transaction is not a business combination, and affects neither accounting profit nor taxable profit (loss), the Group does not recognize the resulting deferred tax liability or asset arising on initial recognition of an asset or liability. No deferred tax liability is recognized on goodwill, amortisation of which is not a tax deductible expense.

Deferred tax assets and liabilities are measured at the end of each reporting period at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to transactions settled directly in equity are recognized in equity.

Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities.

Deferred tax assets and liabilities are offset in the statement of financial position, if the Group has a legally enforceable right to set off the recognized amounts. It is assumed that a legally enforceable right exists if the amounts concern the same tax payer (including capital tax group), except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow offsetting them with tax determined according to general rules.



#### **2.4.24. Consolidated statement of cash flows**

The consolidated statement of cash flows is prepared using indirect method.

Cash and cash equivalents presented in the consolidated statement of cash flows include cash and cash equivalents.

Non-cash transactions are excluded from statement of cash flows.

Dividends received are presented in consolidated cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

Interests received from finance leases, loans granted and short-term securities are presented in cash flows from investing activities. Other interests received are presented in consolidated cash flows from operating activities.

Interests paid and provisions on bank loans and borrowings received, debt securities issued and finance leases are presented in consolidated cash flows from financing activities. Other interests paid are presented in consolidated cash flows from operating activities.

Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short are reported on a net basis in the consolidated statement of cash flows.

Cash received or paid due to term agreements i.e. futures, forward, options, swap is presented in consolidated cash flows from investing activities, unless the agreements are held by the Group for trading or cash received or paid is presented in financing activities.

#### **2.4.25. Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### **2.4.25.1. Recognition and derecognition in the consolidated statement of financial position**

The Group recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognized by the Group as at trade date.

The Group derecognizes a financial asset from the statement of financial position when and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

The Group derecognizes a financial liability (or part of financial liability) from its statement of financial position when, and only when it is extinguished - that is when the obligation specified in the contract:

- is discharged, or
- is cancelled, or
- expired.

##### **2.4.25.2. 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.

For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the Group classifies financial assets into the following four categories:

- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial assets.

Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial assets as financial assets at fair value through profit or loss, when doing so results in more relevant information.

A financial asset at fair value through profit or loss is a financial asset that has been designated by the Group upon initial recognition as at fair value through profit or loss or classified as held for trading if it is:

- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or
- a derivative (except for a derivative that is an effective hedging instrument).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Available-for-sale financial assets are those non-derivative financial assets that are designated by the Group as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

#### **a. Fair value measurement of financial assets**

Subsequent to initial recognition the Group measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.

Fair value of financial assets is determined in accordance with the principles of fair value measurement.

If the fair value of investments in equity instruments (shares) that do not have a quoted market price on an active market is not reliably measurable, the Group measures them at cost, that is the acquisition price less any accumulated impairment losses.

A gain or loss on a financial asset classified as at fair value through profit or loss is recognized through profit or loss.

A gain or loss on an available-for-sale financial asset is recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses that are recognized in profit or loss. In case of debt financial instruments interest calculated using the effective interest method is recognized in profit or loss.

#### **b. Amortized cost measurement of financial assets**

Subsequent to initial recognition the Group measures loans and receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. Effective interest is the rate which precisely discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and in grounded situations in shorter period – up to net book value of asset of financial liability.

#### **c. Fair value measurement of financial liabilities**

As at the end of the reporting period or other dates after the initial recognition the Group measures financial liabilities at fair value through profit or loss (including particularly derivatives which are not designated as hedging instruments) at fair value. Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial liabilities as financial liabilities at fair value through profit or loss, when doing so results in more relevant information. Fair value of incurred financial liability is measured in accordance with the principles of fair value measurement.

#### **d. Amortized cost measurement of financial liabilities**

Subsequent to initial recognition the Group measures other financial liabilities other than those at fair value through profit and loss at amortized cost using the effective interest rate method.

Financial guarantee contracts, that are contracts that require the Group (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:

- the amount determined in accordance with principles relating to valuation of provisions,
- the amount initially recognized less, when appropriate, cumulative amortization.

#### **2.4.25.3. Transfers**

The Group:

- does not reclassify a financial instrument out of fair value through profit or loss category if at initial recognition it has been designated by the Group as measured at fair value through profit and loss; and
- may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category in limited circumstances. In case of loans and receivables (if at initial recognition financial assets were not classified as held for trading) financial assets can be reclassified from assets measured at fair value through profit or loss if the Group has intention and possibility to hold a financial asset in a foreseeable future or to maturity.

#### **2.4.25.4. Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective indicator that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the Group recognizes an impairment allowance in the amount measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. effective interest rate determined at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized as other income.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

If there is objective evidence that an impairment loss has been incurred on available-for-sale financial asset, the cumulative loss on decline in value that had been recognized in statement of profit or loss and other comprehensive income in accordance with measurement rules for financial assets are reclassified from equity to profit or loss.

Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed and recognized as other income.

#### **2.4.26. Fair value measurement**

At initial recognition, the transaction price of an acquired asset or assumed liability in an exchange transaction for that asset or liability is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

If the Group measures an asset or a liability initially at fair value and the transaction price differs from fair value, the difference is recognized in profit or loss unless that IFRS specifies otherwise.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

In the absence of any directly observable input, i.e. prices quoted (unadjusted) in active markets for identical assets or liabilities to which the Group can access at the measurement date, the fair value is determined on the basis of the corrected directly observable inputs. Adjusted input includes:

- quoted prices for similar assets or liabilities in active markets.
- quoted prices for identical or similar assets or liabilities in markets that are not active.
- inputs other than quoted prices that are observable for the asset or liability, for example:
- market-corroborated inputs.

In the case when the observable (directly or indirectly) inputs are not available, fair value is measured on the basis of the developed by the Group unobservable input using appropriate valuation techniques.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of a liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, the entity's own credit risk. When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled.

Group shall maximize 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 at the measurement date under current market conditions.

Assets and liabilities that are measured at fair value in the statement of financial position or are not valued at fair value, but information about them are disclosed, Group classifies according to a hierarchy of fair value at the three levels of the input depending on the assessment of their availability:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.



In the cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

#### **2.4.27. Contingent assets and contingent liabilities**

A contingent asset is an asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognized in the statement of financial position as it may lead to recognition of the income, which will never be gain. However, if the inflow of economic benefits is probable, the Group discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, as according to accounting principles for valuation of provisions.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Group discloses the contingent asset.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations or the amount of the obligation (liabilities) cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the consolidated statement of financial position however the information on contingent liabilities is disclosed in the consolidated financial statements unless the probability of outflow of resources embodying to economic benefits is remote.

Contingent liabilities assumed in the business combinations are recognized in the consolidated statement of financial position as provisions.

#### **2.4.28. Events after the reporting date**

Events after the reporting date are those events, favourable and unfavourable, that occur between end of the reporting period and date of when the financial statements are authorized for issue. Two types of those events can be identified:

- those, that provide evidence of conditions that existed as the end of the reporting period (adjusting events after the reporting period), and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

### **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 27). 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 6 and Note 7). The Management assess, 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 6 and Note 7). As described in Note 2.4.6 and 2.4.7 the Group verifies economic useful lives of property, plant and equipment and intangible assets at least once a year.
- Provisions (Note 19). As described in Note 2.4.17, 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 18.
- Contingent liabilities (Note 30). As described in Note 2.4.27, 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 26). As described in Note 2.4.23, 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.
- Measurement of defined benefit obligations (Note 19).

#### 4. Operating segments

Accounting principles used in reportable segments are in line with the Group's accounting principles, described in the Note 2.4.5. The segments' result is the result generated by respective segments without the allocation of corporate functions, financial revenue and expenses, as well as income tax expenses. This information is passed on to chief operating decision makers responsible for allocation of resources and evaluation of segment results.

Revenue from transactions with external parties are arm's length transactions. External segment revenues presented to the Management are measured in conformity with the method used in the statement of profit or loss and other comprehensive income.

The Group has two reportable segments: refining and corporate functions. The retail segment was sold in August 2014 and this segment is presented as discontinued activity in this report.

The segment of refining includes production and trade divisions of the Parent company and its subsidiaries: UAB Mažeikių Naftos prekybos namai, SIA ORLEN Latvija, OU ORLEN Eesti, UAB EMAS, UAB Paslaugos tau.

The segment of corporate functions includes the Parent company's divisions of business maintenance and administration and UAB Medikvita (until August 2013).

#### 4.1. Revenue and financial results by operating segments

For the year ended 31 December 2014

USD	Note	Refining segment	Corporate functions	Adjustments	Total
Sales to external customers	22	6,176,315	2,990	-	6,179,305
Transactions with other segments		27,900	887	(28,787)	-
<b>Total sales revenue</b>		<b>6,204,215</b>	<b>3,877</b>	<b>(28,787)</b>	<b>6,179,305</b>
<b>Total operating expenses</b>	<b>23</b>	<b>(6,277,055)</b>	<b>(36,954)</b>	<b>28,787</b>	<b>(6,285,222)</b>
Other operating income	24.1	3,666	11,849	-	15,515
Other operating expenses	24.2	(734,035)	(46,061)	-	(780,096)
Share in profit from investments in equity-accounted investees	9	177	-	-	177
<b>Segments operating profit/(loss)</b>		<b>(803,032)</b>	<b>(67,289)</b>	<b>-</b>	<b>(870,321)</b>
Financial income	25.1				9,710
Financial expenses	25.2				(26,203)
<b>Profit/(loss) before tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(886,814)</b>
Income tax expense	26				(81,324)
<b>Net profit/(loss) from continuing operation</b>					<b>(968,138)</b>
<b>Depreciation and amortization</b>	<b>6,7</b>	<b>(39,873)</b>	<b>(1,731)</b>	<b>-</b>	<b>(41,604)</b>
<b>Additions to non-current assets</b>	<b>6,7</b>	<b>49,354</b>	<b>668</b>	<b>-</b>	<b>50,022</b>

LTL	Note	Refining segment	Corporate functions	Adjustments	Total
Sales to external customers	22	16,062,124	7,776	-	16,069,900
Transactions with other segments		72,557	2,307	(74,864)	-
<b>Total sales revenue</b>		<b>16,134,681</b>	<b>10,083</b>	<b>(74,864)</b>	<b>16,069,900</b>
<b>Total operating expenses</b>	<b>23</b>	<b>(16,324,109)</b>	<b>(96,103)</b>	<b>74,864</b>	<b>(16,345,348)</b>
Other operating income	24.1	9,534	30,815	-	40,349
Other operating expenses	24.2	(1,908,931)	(119,786)	-	(2,028,717)
Share in profit from investments in equity-accounted investees	9	459	-	-	459
<b>Segments operating profit/(loss)</b>		<b>(2,088,366)</b>	<b>(174,991)</b>	<b>-</b>	<b>(2,263,357)</b>
Financial income	25.1				25,251
Financial expenses	25.2				(68,144)
<b>Profit/(loss) before tax</b>					<b>(2,306,250)</b>
Income tax expense	26				(211,492)
<b>Net profit/(loss) from continuing operation</b>					<b>(2,517,742)</b>
<b>Depreciation and amortization</b>	<b>6,7</b>	<b>(103,693)</b>	<b>(4,502)</b>	<b>-</b>	<b>(108,195)</b>
<b>Additions to non-current assets</b>	<b>6,7</b>	<b>128,350</b>	<b>1,737</b>	<b>-</b>	<b>130,087</b>

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

For the year ended 31 December 2013

USD	Note	Refining segment	Corporate functions	Adjustments	Total
Sales to external customers	22	7,984,149	3,449	-	7,987,598
Transactions with other segments		42,513	1,204	(43,717)	-
<b>Total sales revenue</b>		<b>8,026,662</b>	<b>4,653</b>	<b>(43,717)</b>	<b>7,987,598</b>
<b>Total operating expenses</b>	<b>23</b>	<b>(8,070,499)</b>	<b>(52,949)</b>	<b>43,717</b>	<b>(8,079,731)</b>
Other operating income	24.1	1,645	6,592	-	8,237
Other operating expenses	24.2	(8,668)	(3,681)	-	(12,349)
Share in profit from investments in equity-accounted investees	9	(19)	-	-	(19)
<b>Segments operating profit/(loss)</b>		<b>(50,879)</b>	<b>(45,385)</b>	<b>-</b>	<b>(96,264)</b>
Financial income	25.1				5,577
Financial expenses	25.2				(24,958)
<b>Profit/(loss) before tax</b>					<b>(115,645)</b>
Income tax expense	26				20,261
<b>Net profit/(loss) from continuing operation</b>					<b>(95,384)</b>
<b>Depreciation and amortization</b>	<b>6,7</b>	<b>(67,615)</b>	<b>(2,809)</b>	<b>-</b>	<b>(70,424)</b>
<b>Additions to non-current assets</b>	<b>6,7</b>	<b>72,050</b>	<b>3,165</b>	<b>-</b>	<b>75,215</b>

LTL	Note	Refining segment	Corporate functions	Adjustments	Total
Sales to external customers	22	20,768,366	8,972	-	20,777,338
Transactions with other segments		110,585	3,132	(113,717)	-
<b>Total sales revenue</b>		<b>20,878,951</b>	<b>12,104</b>	<b>(113,717)</b>	<b>20,777,338</b>
<b>Total operating expenses</b>	<b>23</b>	<b>(20,992,981)</b>	<b>(137,731)</b>	<b>113,717</b>	<b>(21,016,995)</b>
Other operating income	24.1	4,281	17,146	-	21,427
Other operating expenses	24.2	(22,561)	(9,562)	-	(32,123)
Share in profit from investments in equity-accounted investees	9	(49)	-	-	(49)
<b>Segments operating profit/(loss)</b>		<b>(132,359)</b>	<b>(118,043)</b>	<b>-</b>	<b>(250,402)</b>
Financial income	25.1				14,506
Financial expenses	25.2				(64,921)
<b>Profit/(loss) before tax</b>					<b>(300,817)</b>
Income tax expense	26				52,703
<b>Net profit/(loss) from continuing operation</b>					<b>(248,114)</b>
<b>Depreciation and amortization</b>	<b>6,7</b>	<b>(175,879)</b>	<b>(7,307)</b>	<b>-</b>	<b>(183,186)</b>
<b>Additions to non-current assets</b>	<b>6,7</b>	<b>187,416</b>	<b>8,233</b>	<b>-</b>	<b>195,649</b>

Adjustments in the tables above represent eliminations of inter-segment transactions.

Additions to non-current assets include purchases and other increases, which are widely described in Notes 6 and 7.

CO2 emission rights granted for free are included to Additions to non-current assets amounts.



## 4.2. Other segment data

### 4.2.1. Assets by operating segments

USD	as at 31/12/2014	as at 31/12/2013
Refining segment	525,959	1,763,833
Retail segment	-	21,964
Corporate functions	17,047	40,412
<b>Total segment assets</b>	<b>543,006</b>	<b>1,826,209</b>
Not allocated	2,569	85,454
Adjustments	-	(3,496)
<b>Total</b>	<b>545,575</b>	<b>1,908,167</b>

LTL	as at 31/12/2014	as at 31/12/2013
Refining segment	1,493,042	4,426,865
Retail segment	-	55,125
Corporate functions	48,391	101,426
<b>Total segment assets</b>	<b>1,541,433</b>	<b>4,583,416</b>
Not allocated	7,292	214,476
Adjustments	-	(8,774)
<b>Total</b>	<b>1,548,725</b>	<b>4,789,118</b>

Including:

USD	Non-current assets classified as held for sale		Investments in equity-accounted investees	
	as at 31/12/2014	as at 31/12/2013	as at 31/12/2014	as at 31/12/2013
Refining segment	303	188	1,858	1,922
Corporate functions	27	275	-	-
<b>Total</b>	<b>330</b>	<b>463</b>	<b>1,858</b>	<b>1,922</b>

LTL	Non-current assets classified as held for sale		Investments in equity-accounted investees	
	as at 31/12/2014	as at 31/12/2013	as at 31/12/2014	as at 31/12/2013
Refining segment	860	471	5,274	4,825
Corporate functions	77	690	-	-
<b>Total</b>	<b>937</b>	<b>1,161</b>	<b>5,274</b>	<b>4,825</b>

Adjustments in the tables above represent eliminations of inter-segment transactions.

Operating segments include all assets except for financial assets and tax assets. Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

#### 4.2.2. Recognition and reversal of impairment allowances

USD	Recognition		Reversal	
	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2014	for the year ended 31/12/2013
Refining segment	(791,293)	(51,853)	1,293	340
Corporate functions	(17,195)	(40)	-	20
<b>Total</b>	<b>(808,488)</b>	<b>(51,893)</b>	<b>1,293</b>	<b>360</b>
<b>Impairment allowances in operating activity</b>	<b>(808,488)</b>	<b>(51,893)</b>	<b>1,293</b>	<b>360</b>

LTL	Recognition		Reversal	
	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2014	for the year ended 31/12/2013
Refining segment	(2,057,839)	(134,880)	3,363	884
Corporate functions	(44,717)	(104)	-	52
<b>Total</b>	<b>(2,102,556)</b>	<b>(134,984)</b>	<b>3,363</b>	<b>936</b>
<b>Impairment allowances in operating activity</b>	<b>(2,102,556)</b>	<b>(134,984)</b>	<b>3,363</b>	<b>936</b>

Impairment by segment as disclosed in the consolidated statement of profit or loss and other comprehensive income include impairment of receivables, the write-down of value of inventories to net realizable value and impairment of non-current assets.

Recognition and reversal of write-downs were performed in connection with the revaluation of inventory, occurrence or extinction of indicators in respect of overdue receivables, uncollectible receivables or receivables in court as well as impairment of property, plant and equipment, intangible assets and shares.

As at 31 December 2014 estimated impairment amounts to USD 769,142 thousand, which was allocated on pro rata basis to intangible assets and property plant and equipment.

Detailed information on impairment of property, plant and equipment are disclosed in Note 6, on intangible assets in Note 7, on inventories in Note 12, on trade and other receivables in Note 13, on non-current assets classified as held for sale in Note 16.

#### 4.2.3. Geographical information

##### Revenues from sales

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Lithuania	1,559,708	4,056,176	1,617,320	4,206,971
Other baltic countries	1,075,109	2,795,928	1,669,068	4,341,580
Poland	166,868	433,957	130,588	339,686
Other EU countries	319,880	831,880	468,176	1,217,819
Other countries, including:	<b>3,057,740</b>	<b>7,951,959</b>	<b>4,102,446</b>	<b>10,671,282</b>
Switzerland	1,371,905	3,567,776	1,529,167	3,977,669
Ukraine	535,911	1,393,690	717,166	1,865,492
Singapore	1,022,753	2,659,771	1,765,622	4,592,736
Other countries	127,171	330,721	90,491	235,385
<b>Total</b>	<b>6,179,305</b>	<b>16,069,900</b>	<b>7,987,598</b>	<b>20,777,338</b>

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

#### Division of non-current assets

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Lithuania	154,053	437,311	974,127	2,444,863
Other Baltic countries	10	28	25	63
<b>Total</b>	<b>154,063</b>	<b>437,339</b>	<b>974,152</b>	<b>2,444,926</b>

The above non-current assets consist of property, plant and equipment (Note 6), intangible assets (Note 7) and perpetual usufruct of land (Note 8).

#### 4.3. Revenues from sale of core products and services

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
<b>Refining segment</b>	<b>6,176,336</b>	<b>16,062,178</b>	<b>7,984,228</b>	<b>20,768,574</b>
Gasoline	1,956,487	5,088,039	2,680,060	6,971,372
Diesel fuel	3,047,435	7,925,159	3,719,717	9,675,728
Jet A-1 fuel	202,920	527,714	295,019	767,403
Heavy heating oil	674,259	1,753,478	959,264	2,495,238
LPG	154,194	400,997	171,733	446,712
Bitumens	58,690	152,629	91,239	237,331
Light heating oil	8,982	23,359	8,596	22,360
Sulphur	7,576	19,702	4,751	12,358
Other	30,197	78,530	9,406	24,467
Services	35,596	92,571	44,443	115,605
<b>Corporate functions</b>	<b>2,969</b>	<b>7,721</b>	<b>3,370</b>	<b>8,764</b>
Sales of spare parts	1,406	3,656	1,083	2,817
Services	1,563	4,065	2,287	5,947
<b>Total</b>	<b>6,179,305</b>	<b>16,069,900</b>	<b>7,987,598</b>	<b>20,777,338</b>

#### 4.4. Information about major customers

In 2014 there were three major customers in the refining segment, whose revenues from sales amounted to USD 2,341,041 thousand or LTL 6,088,111 thousand and individually exceeded 10% of total revenues from sale to external customers, whereas in Corporate segment there was not a customer who individually exceeded 10% of revenue from sales to external customers.

In 2013 there were two major customers in the refining segment, whose revenues from sales amounted to USD 2,621,181 thousand or LTL 6,818,476 thousand and individually exceeded 10% of total revenues from sale to external customers, whereas in Corporate segment there was not a customer who individually exceeded 10% of revenue from sales to external customers.

#### 5. Discontinued operation

In August 2014, the Group sold its entire Retail segment. This segment was not previously classified as held for sale or as a discontinued operation. The Consolidated statement of profit or loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations.

### 5.1. Results of discontinued operation

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
<b>Statement of profit or loss</b>				
Sales revenues	42,290	109,979	66,062	171,840
Cost of sales	(35,722)	(92,899)	(56,269)	(146,367)
<b>Gross profit on sales</b>	<b>6,568</b>	<b>17,080</b>	<b>9,793</b>	<b>25,473</b>
Distribution expenses	(3,844)	(9,997)	(6,563)	(17,072)
Administrative expenses	(1,055)	(2,744)	(1,762)	(4,583)
Other operating income	17	44	102	265
Other operating expenses	(4)	(10)	(461)	(1,199)
<b>Profit/(loss) from operations</b>	<b>1,682</b>	<b>4,373</b>	<b>1,109</b>	<b>2,884</b>
Finance income	-	-	-	-
Finance expenses	-	-	(29)	(75)
Income tax expense	(72)	(187)	-	-
<b>Results from operating activities, net of tax</b>	<b>1,610</b>	<b>4,186</b>	<b>1,080</b>	<b>2,809</b>
Gain on sale of discontinued operation	3,065	7,970	-	-
<b>Net profit/(loss)</b>	<b>4,675</b>	<b>12,156</b>	<b>1,080</b>	<b>2,809</b>

The profit from the discontinued operation of USD 4,675 thousand or LTL 12,156 thousand (2013: profit of USD 1,080 thousand or LTL 2,809 thousand) is attributable entirely to the owners of the Company.

### 5.2. Cash flows used in discontinued operation

	for the year ended 31/12/2014	for the year ended 31/12/2014
	USD	LTL
Net cash used in operating activities	(3,529)	(9,065)
Net cash used in investing activities	19,094	50,350
Net cash used in financing activities	3,529	9,066
<b>Net cash flow for the year</b>	<b>19,095</b>	<b>50,351</b>

### 5.3. Effect on disposal on the financial position of the Group

	for the year ended 31/12/2014	for the year ended 31/12/2014
	USD	LTL
Property, plant and equipment and intangible assets	(14,087)	(36,279)
Inventories	(2,779)	(7,157)
Trade and other receivables	(3,420)	(8,809)
Other financial assets	(3,147)	(8,106)
Cash and cash equivalents	(456)	(1,175)
Provisions	494	1,273
Trade and other payables	6,838	17,611
Current tax liability	72	184
<b>Net assets and liabilities</b>	<b>(16,486)</b>	<b>(42,457)</b>
Consideration received, satisfied in cash	19,550	50,350
Cash and cash equivalents disposed of	(456)	(1,175)
<b>Net cash inflow</b>	<b>19,094</b>	<b>49,175</b>



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

## 6. Property, plant and equipment

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
Land	-	-	1,978	4,964
Buildings and constructions	4,797	13,614	42,846	107,535
Machinery and equipment	118,191	335,511	808,751	2,029,802
Vehicles and other	18,920	53,708	38,808	97,401
Construction in progress	10,586	30,051	60,508	151,863
<b>Total</b>	<b>152,494</b>	<b>432,884</b>	<b>952,891</b>	<b>2,391,565</b>

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

### Changes in property, plant and equipment by class:

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
<b>Acquisition costs</b>						
1 January 2014	3,003	98,743	1,522,558	100,164	83,259	1,807,727
Acquisitions	-	91	20,712	1,321	770	22,894
Acquisitions (discontinued operation)	-	1	-	-	-	1
Other increases	-	-	-	3	-	3
Reclassifications	-	(626)	43,802	(3,121)	(45,447)	(5,392)
Sale	-	-	(1)	(165)	-	(166)
Liquidation	-	-	(5,362)	(878)	(4,261)	(10,501)
Other decreases due to discontinued operation	(2,958)	(23,889)	(17,110)	(11,062)	(599)	(55,618)
Foreign exchange differences	(44)	(352)	(318)	(333)	(8)	(1,055)
<b>31 December 2014</b>	<b>1</b>	<b>73,968</b>	<b>1,564,281</b>	<b>85,929</b>	<b>33,714</b>	<b>1,757,893</b>
<b>Accumulated depreciation and impairment allowances</b>						
1 January 2014	1,025	55,897	713,807	61,356	22,751	854,836
Depreciation	-	647	37,164	3,051	-	40,862
Depreciation from discontinued operation	-	410	257	306	-	973
Impairment allowances, net	(1,009)	22,549	710,274	13,845	385	746,044
Reclassifications	-	(232)	(1,346)	(1,788)	-	(3,366)
Sale	-	-	(1)	(115)	-	(116)
Liquidation	-	-	(5,155)	(832)	-	(5,987)
Other decreases due to discontinued operation	-	(9,864)	(8,646)	(8,517)	-	(27,027)
Foreign exchange differences	(15)	(236)	(264)	(297)	(8)	(820)
<b>31 December 2014</b>	<b>1</b>	<b>69,171</b>	<b>1,446,090</b>	<b>67,009</b>	<b>23,128</b>	<b>1,605,399</b>
<b>Acquisition costs</b>						
1 January 2013	2,892	97,667	1,487,407	107,056	55,263	1,750,285
Acquisitions	-	716	19,150	12,180	41,107	73,153
Acquisitions (discontinued operation)	-	5	11	195	-	211
Reclassifications	-	318	17,744	(6,029)	(13,118)	(1,085)
Sale	-	-	(61)	(180)	-	(241)
Liquidation	-	(859)	(2,348)	(13,437)	(2)	(16,646)
Other decreases due to subsidiary sales	-	-	-	(94)	-	(94)
Other decreases	-	-	(8)	-	(12)	(20)
Foreign exchange differences	111	896	663	473	21	2,164
<b>31 December 2013</b>	<b>3,003</b>	<b>98,743</b>	<b>1,522,558</b>	<b>100,164</b>	<b>83,259</b>	<b>1,807,727</b>
<b>Accumulated depreciation and impairment allowances</b>						
1 January 2013	987	53,918	650,240	68,165	21,185	794,495
Depreciation	-	1,056	63,217	5,017	-	69,290
Depreciation from discontinued operation	-	682	443	694	-	1,819
Other increases	-	-	1	1	-	2
Impairment allowances, net	-	35	1,579	(78)	1,547	3,083
Reclassifications	-	-	(31)	(877)	-	(908)
Sale	-	-	(59)	(143)	-	(202)
Liquidation	-	(384)	(2,110)	(11,792)	-	(14,286)
Other decreases due to subsidiary sales	-	-	-	(49)	-	(49)
Foreign exchange differences	38	590	527	418	19	1,592
<b>31 December 2013</b>	<b>1,025</b>	<b>55,897</b>	<b>713,807</b>	<b>61,356</b>	<b>22,751</b>	<b>854,836</b>
<b>Carrying amounts</b>						
<b>1 January 2014</b>	<b>1,978</b>	<b>42,846</b>	<b>808,751</b>	<b>38,808</b>	<b>60,508</b>	<b>952,891</b>
<b>31 December 2014</b>	<b>-</b>	<b>4,797</b>	<b>118,191</b>	<b>18,920</b>	<b>10,586</b>	<b>152,494</b>
<b>1 January 2013</b>	<b>1,905</b>	<b>43,749</b>	<b>837,167</b>	<b>38,891</b>	<b>34,078</b>	<b>955,790</b>
<b>31 December 2013</b>	<b>1,978</b>	<b>42,846</b>	<b>808,751</b>	<b>38,808</b>	<b>60,508</b>	<b>952,891</b>

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

LTL	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
<b>Acquisition costs</b>						
1 January 2014	7,536	247,826	3,821,316	251,393	208,964	4,537,035
Acquisitions	-	237	53,863	3,435	2,002	59,537
Acquisitions (discontinued operation)	-	-	3	-	-	3
Other increases	-	-	-	8	-	8
Reclassifications	-	(1,628)	113,911	(8,116)	(118,189)	(14,022)
Sale	-	-	(3)	(429)	-	(432)
Liquidation	-	-	(13,944)	(2,283)	(11,081)	(27,308)
Other decreases due to discontinued operation	(7,693)	(62,126)	(44,496)	(28,768)	(1,558)	(144,641)
Foreign exchange differences	161	25,662	509,876	28,686	15,565	579,950
<b>31 December 2014</b>	<b>4</b>	<b>209,971</b>	<b>4,440,526</b>	<b>243,926</b>	<b>95,703</b>	<b>4,990,130</b>
<b>Accumulated depreciation and impairment allowances</b>						
1 January 2014	2,572	140,291	1,791,514	153,992	57,101	2,145,470
Depreciation	-	1,683	96,648	7,934	-	106,265
Depreciation from discontinued operation	-	1,066	668	796	-	2,530
Impairment allowances, net	(2,624)	58,642	1,847,138	36,005	1,001	1,940,162
Reclassifications	-	(603)	(3,500)	(4,650)	-	(8,753)
Sale	-	-	(3)	(299)	-	(302)
Liquidation	-	-	(13,406)	(2,164)	-	(15,570)
Other decreases due to discontinued operation	-	(25,652)	(22,485)	(22,149)	-	(70,286)
Foreign exchange differences	56	20,930	408,441	20,753	7,550	457,730
<b>31 December 2014</b>	<b>4</b>	<b>196,357</b>	<b>4,105,015</b>	<b>190,218</b>	<b>65,652</b>	<b>4,557,246</b>
<b>Acquisition costs</b>						
1 January 2013	7,536	254,520	3,876,183	278,988	144,015	4,561,242
Acquisitions	-	1,862	49,813	31,683	106,928	190,286
Acquisitions (discontinued operation)	-	13	29	507	-	549
Reclassifications	-	827	46,156	(15,683)	(34,123)	(2,823)
Sale	-	-	(159)	(469)	-	(628)
Liquidation	-	(2,234)	(6,107)	(34,952)	(5)	(43,298)
Other decreases due to subsidiary sales	-	-	-	(244)	-	(244)
Other decreases	-	-	(21)	-	(31)	(52)
Foreign exchange differences	-	(7,162)	(144,578)	(8,437)	(7,820)	(167,997)
<b>31 December 2013</b>	<b>7,536</b>	<b>247,826</b>	<b>3,821,316</b>	<b>251,393</b>	<b>208,964</b>	<b>4,537,035</b>
<b>Accumulated depreciation and impairment allowances</b>						
1 January 2013	2,572	140,510	1,694,525	177,639	55,208	2,070,454
Depreciation	-	2,747	164,440	13,050	-	180,237
Depreciation from discontinued operation	-	1,774	1,152	1,805	-	4,731
Other increases	-	-	3	3	-	6
Impairment allowances, net	-	91	4,107	(203)	4,024	8,019
Reclassifications	-	-	(81)	(2,281)	-	(2,362)
Sale	-	-	(153)	(370)	-	(523)
Liquidation	-	(999)	(5,489)	(30,674)	-	(37,162)
Other decreases due to subsidiary sales	-	-	-	(129)	-	(129)
Foreign exchange differences	-	(3,832)	(66,990)	(4,848)	(2,131)	(77,801)
<b>31 December 2013</b>	<b>2,572</b>	<b>140,291</b>	<b>1,791,514</b>	<b>153,992</b>	<b>57,101</b>	<b>2,145,470</b>
<b>Carrying amounts</b>						
1 January 2014	4,964	107,535	2,029,802	97,401	151,863	2,391,565
31 December 2014	-	13,614	335,511	53,708	30,051	432,884
1 January 2013	4,964	114,010	2,181,658	101,349	88,807	2,490,788
31 December 2013	4,964	107,535	2,029,802	97,401	151,863	2,391,565

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

In 2014 property, plant and equipment with the carrying amount of USD 2,026 thousand or LTL 5,269 thousand was reclassified to non-current assets held for sale USD 1,807 thousand or LTL 4,699 thousand and to inventories USD 219 thousand or LTL 570 thousand. In 2013 property, plant and equipment with the carrying amount of USD 256 thousand or LTL 666 thousand was reclassified to non-current assets held for sale USD 148 thousand or LTL 385 thousand and inventories USD 108 thousand or LTL 281 thousand. Intangible assets were reclassified to tangible assets USD 79 thousand or LTL 205 thousand.

#### Change in property, plant and equipment impairment:

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2014	1,025	8,421	11,052	2,437	22,751	45,686
Recognition	1	28,541	708,026	15,442	13,094	765,104
Reversal	-	-	-	-	(424)	(424)
Reclassifications	-	314	7,459	104	(7,877)	-
Other decreases due to discontinued operation	(1,010)	(6,306)	(5,199)	(1,622)	(539)	(14,676)
Sale and liquidation	-	-	(12)	(79)	(3,869)	(3,960)
Foreign exchange differences	(15)	(93)	(76)	(25)	(8)	(217)
<b>31 December 2014</b>	<b>1</b>	<b>30,877</b>	<b>721,250</b>	<b>16,257</b>	<b>23,128</b>	<b>791,513</b>
increase/(decrease) net	(1,009)	22,549	710,274	13,845	385	746,044
1 January 2013	987	8,149	9,279	2,452	21,184	42,051
Recognition	-	35	1,579	39	1,547	3,200
Reversal	-	-	-	(83)	-	(83)
Sale and liquidation	-	-	-	(34)	-	(34)
Foreign exchange differences	38	237	194	63	20	552
<b>31 December 2013</b>	<b>1,025</b>	<b>8,421</b>	<b>11,052</b>	<b>2,437</b>	<b>22,751</b>	<b>45,686</b>
increase/(decrease) net	-	35	1,579	(78)	1,547	3,083

LTL	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2014	2,573	21,135	27,738	6,116	57,101	114,663
Recognition	3	74,224	1,841,292	40,158	34,052	1,989,729
Reversal	-	-	-	-	(1,103)	(1,103)
Reclassifications	-	817	19,398	270	(20,485)	-
Other decreases due to discontinued operation	(2,627)	(16,399)	(13,521)	(4,218)	(1,402)	(38,167)
Sale and liquidation	-	-	(31)	(205)	(10,061)	(10,297)
Foreign exchange differences	54	7,874	172,536	4,028	7,551	192,043
<b>31 December 2014</b>	<b>3</b>	<b>87,651</b>	<b>2,047,412</b>	<b>46,149</b>	<b>65,653</b>	<b>2,246,868</b>
increase/(decrease) net	(2,624)	58,642	1,847,138	36,005	1,001	1,940,162
1 January 2013	2,572	21,236	24,181	6,390	55,206	109,585
Recognition	-	91	4,107	101	4,024	8,323
Reversal	-	-	-	(216)	-	(216)
Sale and liquidation	-	-	-	(88)	-	(88)
Foreign exchange differences	1	(192)	(550)	(71)	(2,129)	(2,941)
<b>31 December 2013</b>	<b>2,573</b>	<b>21,135</b>	<b>27,738</b>	<b>6,116</b>	<b>57,101</b>	<b>114,663</b>
increase/(decrease) net	-	91	4,107	(203)	4,024	8,019

Recognition and reversal of allowances for property, plant and equipment are recognized in other operating activities.

As at 31 December 2014 and 31 December 2013 the Group recognized impairment allowance for property, plant and equipment retired from active use which amounted to USD 7,597 thousand or LTL 21,566 thousand and USD 5,867 thousand or LTL 14,725 thousand, respectively.



### Other information connected with property, plant and equipment

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
The acquisition costs of all fully depreciated property, plant and equipment still in use	82,836	235,147	83,858	210,467
The carrying amounts of idle property, plant and equipment and not classified as held for sale	271	769	540	1,355

The Group reviews economic useful lives of property, plant and equipment and adjustment of depreciation expense is made respectively.

### 7. Intangible assets

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
Software	1,516	4,305	4,591	11,523
Concessions, licenses, patents and similar assets	24	68	513	1,288
Emission rights	-	-	15,688	39,374
Research and development	29	82	198	496
Other	-	-	165	415
<b>Total</b>	<b>1,569</b>	<b>4,455</b>	<b>21,155</b>	<b>53,096</b>

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

The changes of intangible assets were as follows:

USD	Software	Licenses, patents and similar assets	Goodwill	Emission rights	Research and development	Other	Total
<b>Acquisition costs</b>							
1 January 2014	17,581	6,579	-	23,985	198	166	48,509
Acquisitions	1,117	-	-	-	3	-	1,120
Acquisitions (discontinued operation)	-	-	-	-	-	19	19
Other increases	-	-	-	26,005	-	-	26,005
Sale	-	-	-	(27,518)	-	-	(27,518)
Liquidation	(188)	-	-	-	-	-	(188)
Other decreases due to discontinued operation	(984)	-	-	-	-	(178)	(1,162)
Other decreases	-	-	-	-	-	(4)	(4)
Utilisation	-	-	-	(22,472)	-	-	(22,472)
Foreign exchange differences	(36)	-	-	-	-	(3)	(39)
<b>31 December 2014</b>	<b>17,490</b>	<b>6,579</b>	<b>-</b>	<b>-</b>	<b>201</b>	<b>-</b>	<b>24,270</b>
<b>Accumulated amortization and impairment allowances</b>							
1 January 2014	12,990	6,066	-	8,297	-	1	27,354
Amortization	659	83	-	-	-	-	742
Amortization from discontinued operation	15	-	-	-	-	-	15
Impairment allowances, net	3,411	406	-	(8,297)	172	-	(4,308)
Liquidation	(182)	-	-	-	-	-	(182)
Other decreases due to discontinued operation	(885)	-	-	-	-	-	(885)
Other decreases	-	-	-	-	-	(1)	(1)
Foreign exchange differences	(34)	-	-	-	-	-	(34)
<b>31 December 2014</b>	<b>15,974</b>	<b>6,555</b>	<b>-</b>	<b>-</b>	<b>172</b>	<b>-</b>	<b>22,701</b>
<b>Acquisition costs</b>							
1 January 2013	16,131	6,634	2,137	49,015	90	168	74,175
Acquisitions	1,845	80	-	-	108	-	2,033
Acquisitions (discontinued operation)	12	-	-	-	-	28	40
Other increases	29	-	-	-	-	-	29
Reclassifications	(37)	(135)	-	-	-	(3)	(175)
Liquidation	(439)	-	(2,137)	-	-	-	(2,576)
Other decreases due to subsidiary sales	(4)	-	-	-	-	(31)	(35)
Utilisation	-	-	-	(25,030)	-	-	(25,030)
Foreign exchange differences	44	-	-	-	-	4	48
<b>31 December 2013</b>	<b>17,581</b>	<b>6,579</b>	<b>-</b>	<b>23,985</b>	<b>198</b>	<b>166</b>	<b>48,509</b>
<b>Accumulated amortization and impairment allowances</b>							
1 January 2013	12,259	6,024	-	8,297	-	10	26,590
Amortization	994	138	-	-	-	2	1,134
Amortization from discontinued operation	84	-	-	-	-	-	84
Other increases	29	-	-	-	-	-	29
Reclassifications	-	(96)	-	-	-	-	(96)
Liquidation	(416)	-	-	-	-	-	(416)
Other decreases due to subsidiary sales	-	-	-	-	-	(11)	(11)
Foreign exchange differences	40	-	-	-	-	-	40
<b>31 December 2013</b>	<b>12,990</b>	<b>6,066</b>	<b>-</b>	<b>8,297</b>	<b>-</b>	<b>1</b>	<b>27,354</b>
<b>Carrying amounts</b>							
<b>1 January 2014</b>	<b>4,591</b>	<b>513</b>	<b>-</b>	<b>15,688</b>	<b>198</b>	<b>165</b>	<b>21,155</b>
<b>31 December 2014</b>	<b>1,516</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>1,569</b>
<b>1 January 2013</b>	<b>3,872</b>	<b>610</b>	<b>2,137</b>	<b>40,718</b>	<b>90</b>	<b>158</b>	<b>47,585</b>
<b>31 December 2013</b>	<b>4,591</b>	<b>513</b>	<b>-</b>	<b>15,688</b>	<b>198</b>	<b>165</b>	<b>21,155</b>

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

LTL	Software	Licenses, patents and similar assets	Goodwill	Emission rights	Research and development	Other	Total
<b>Acquisition costs</b>							
1 January 2014	44,125	16,514	-	60,199	496	416	121,750
Acquisitions	2,905	-	-	-	8	-	2,913
Acquisitions (discontinued operation)	-	-	-	-	-	49	49
Other increases	-	-	-	67,629	-	-	67,629
Sale	-	-	-	(71,563)	-	-	(71,563)
Liquidation	(489)	-	-	-	-	-	(489)
Other decreases due to discontinued operation	(2,559)	-	-	-	-	(463)	(3,022)
Other decreases	-	-	-	-	-	(10)	(10)
Utilisation	-	-	-	(58,441)	-	-	(58,441)
Foreign exchange differences	5,669	2,161	-	2,176	66	8	10,080
<b>31 December 2014</b>	<b>49,651</b>	<b>18,675</b>	<b>-</b>	<b>-</b>	<b>570</b>	<b>-</b>	<b>68,896</b>
<b>Accumulated amortization and impairment allowances</b>							
1 January 2014	32,602	15,226	-	20,825	-	1	68,654
Amortization	1,714	216	-	-	-	-	1,930
Amortization from discontinued operation	39	-	-	-	-	-	39
Impairment allowances, net	8,871	1,056	-	(21,577)	447	-	(11,203)
Liquidation	(473)	-	-	-	-	-	(473)
Other decreases due to discontinued operation	(2,302)	-	-	-	-	-	(2,302)
Other decreases	-	-	-	-	-	(3)	(3)
Foreign exchange differences	4,895	2,109	-	752	41	2	7,799
<b>31 December 2014</b>	<b>45,346</b>	<b>18,607</b>	<b>-</b>	<b>-</b>	<b>488</b>	<b>-</b>	<b>64,441</b>
<b>Acquisition costs</b>							
1 January 2013	42,037	17,289	5,568	127,734	234	437	193,299
Acquisitions	4,799	208	-	-	281	-	5,288
Acquisitions (discontinued operation)	31	-	-	-	-	73	104
Other increases	75	-	-	-	-	-	75
Reclassifications	(96)	(351)	-	-	-	(8)	(455)
Liquidation	(1,142)	-	(5,559)	-	-	-	(6,701)
Other decreases due to subsidiary sales	(10)	-	-	-	-	(81)	(91)
Utilisation	-	-	-	(65,108)	-	-	(65,108)
Foreign exchange differences	(1,569)	(632)	(9)	(2,427)	(19)	(5)	(4,661)
<b>31 December 2013</b>	<b>44,125</b>	<b>16,514</b>	<b>-</b>	<b>60,199</b>	<b>496</b>	<b>416</b>	<b>121,750</b>
<b>Accumulated amortization and impairment allowances</b>							
1 January 2013	31,946	15,699	-	21,623	-	27	69,295
Amortization	2,585	359	-	-	-	5	2,949
Amortization from discontinued operation	219	-	-	-	-	-	219
Other increases	75	-	-	-	-	-	75
Reclassifications	-	(250)	-	-	-	-	(250)
Liquidation	(1,082)	-	-	-	-	-	(1,082)
Other decreases due to subsidiary sales	-	-	-	-	-	(29)	(29)
Foreign exchange differences	(1,141)	(582)	-	(798)	-	(2)	(2,523)
<b>31 December 2013</b>	<b>32,602</b>	<b>15,226</b>	<b>-</b>	<b>20,825</b>	<b>-</b>	<b>1</b>	<b>68,654</b>
<b>Carrying amounts</b>							
<b>1 January 2014</b>	<b>11,523</b>	<b>1,288</b>	<b>-</b>	<b>39,374</b>	<b>496</b>	<b>415</b>	<b>53,096</b>
<b>31 December 2014</b>	<b>4,305</b>	<b>68</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>4,455</b>
<b>1 January 2013</b>	<b>10,091</b>	<b>1,590</b>	<b>5,568</b>	<b>106,111</b>	<b>234</b>	<b>410</b>	<b>124,004</b>
<b>31 December 2013</b>	<b>11,523</b>	<b>1,288</b>	<b>-</b>	<b>39,374</b>	<b>496</b>	<b>415</b>	<b>53,096</b>

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

### Change in impairment of intangible assets:

USD	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
1 January 2014	50	-	8,297	-	8,347
Recognition	3,460	406	-	172	4,038
Other decreases due to discontinued operation	(49)	-	-	-	(49)
Sale and liquidation	-	-	(520)	-	(520)
Other decreases	-	-	(7,777)	-	(7,777)
Foreign exchange differences	(1)	-	-	-	(1)
<b>31 December 2014</b>	<b>3,460</b>	<b>406</b>	<b>-</b>	<b>172</b>	<b>4,038</b>
increase/(decrease) net	3,411	406	(8,297)	172	(4,308)
1 January 2013	48	290	8,297	-	8,635
Foreign exchange differences	2	-	-	-	2
<b>31 December 2013</b>	<b>50</b>	<b>290</b>	<b>8,297</b>	<b>-</b>	<b>8,637</b>
increase/(decrease) net	-	-	-	-	-

LTL	Software	Licenses, patents and similar assets	Emission rights	Research and development	Total
1 January 2014	126	-	20,825	728	21,679
Recognition	8,998	1,056	-	447	10,501
Reclassifications	-	-	-	-	-
Other decreases due to discontinued operation	(127)	-	-	-	(127)
Sale and liquidation	-	-	(1,352)	-	(1,352)
Other decreases	-	-	(20,225)	-	(20,225)
Foreign exchange differences	825	166	752	67	1,810
<b>31 December 2014</b>	<b>9,822</b>	<b>1,222</b>	<b>-</b>	<b>1,242</b>	<b>12,286</b>
increase/(decrease) net	8,871	1,056	(21,577)	447	(11,203)
1 January 2013	125	-	21,622	756	22,503
Foreign exchange differences	1	-	(797)	(28)	(824)
<b>31 December 2013</b>	<b>126</b>	<b>-</b>	<b>20,825</b>	<b>728</b>	<b>21,679</b>
increase/(decrease) net	-	-	-	-	-

Recognition and reversal of impairment allowances of intangible assets are recognized in other operating activities. Impairment allowances utilization was made due to sold emission allowances to PKN ORLEN S.A. in June 2014.

### Other information regarding intangible assets

	as at 31/12/2014 USD	as at 31/12/2014 LTL	as at 31/12/2013 USD	as at 31/12/2013 LTL
The acquisition costs of all fully amortized intangible assets still in use	9,377	26,618	10,376	26,042

The Group reviews economic useful lives of intangible assets and adjustment of amortization expense is made respectively.



## Rights

The number of greenhouse gas emission allowances allocated to production facilities for the period from 2013 to 2020 was approved by the decision of the European Commission on 17 January 2014. Following the decision, a list of the operators involved in the emission allowance trading scheme was approved with an order issued by the Minister of Environment and the Minister of Economy of the Republic of Lithuania. In order to implement the provisions of Directive 2003/87/EC of the European Parliament and of the Council as of 13 October 2003, and following the above referred to list, the number of greenhouse gas emission allowances allocated for the year 2014 and for each successive calendar year shall be issued to an operator before February 28.

Change in CO<sub>2</sub> emission rights (EUA) in 2014:

	Quantity (in tonnes)	USD	LTL
<b>As at 1 January 2014</b>	<b>1,934,368</b>	<b>15,688</b>	<b>39,374</b>
Granted free of charge	2,846,782	26,005	67,629
Settled emission for 2013	(1,812,299)	(22,472)	(58,441)
Sale	(2,968,851)	(27,518)	(71,563)
Impairment allowances utilisation	-	8,297	21,577
Foreign exchange differences	-	-	1,424
<b>As at 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>
Emission in 2014	1,631,737	14,060	36,564
<b>Shortage</b>	<b>(1,631,737)</b>	<b>(14,060)</b>	<b>(36,564)</b>

The quantity of CO<sub>2</sub> emission rights as at 31 December 2014 is not audited. The Parent company will receive emission allowances in February 2015. The expected quantity is approx. 1,4 MM ton. The missing part will be purchased from PKN ORLEN S.A.

Change in CO<sub>2</sub> emission rights (EUA) in 2013:

	Quantity (in tonnes)	USD	LTL
<b>As at 1 January 2013</b>	<b>3,665,998</b>	<b>40,718</b>	<b>106,111</b>
Settled emission for 2012	(1,731,630)	(25,030)	(65,108)
Foreign exchange differences	-	-	(1,629)
<b>As at 31 December 2013</b>	<b>1,934,368</b>	<b>15,688</b>	<b>39,374</b>
Emission in 2013	1,811,966	14,696	38,227
<b>Surplus</b>	<b>122,402</b>	<b>992</b>	<b>1,147</b>

As at 31 December 2014 and 31 December 2013 the market value of one EUA amounted to 8,50 USD or 24,12 LTL and amounted 6,66 USD or 16,71 LTL, respectively.

## Goodwill

The goodwill, associated with acquired Mažeikiai Elektrinė in 2006, was impaired as at 31 December 2013. The activities of the component were incorporated to the activities of the Group and it was not generating any external cash flows; therefore, the impairment test could not be performed properly and carrying amount of the goodwill was written off.

## 8. Perpetual usufruct of land

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
As at 1 January	106	265	103	268
Depreciation	(1)	(3)	(1)	(3)
Other decreases due to discontinued operation	(103)	(268)	-	-
Foreign exchange differences	(2)	6	4	-
<b>As at 31 December</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>265</b>

The total amount of perpetual usufruct charges, recognized as expenses in profit or loss in 2014 and 2013 amounted to USD 1 thousand or LTL 3 thousand and USD 1 thousand or LTL 3 thousand, respectively.

Perpetual usufruct of land is recognized at the acquisition cost price and presented in a separate line of the statement of financial position.

At the end of the reporting period, perpetual usufruct of land is valued at the net carrying amount, i.e. at the acquisition cost price less any accumulated depreciation and impairment losses.

## 9. Investments in equity-accounted investees

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
1 January	1,922	4,825	1,862	4,851
Share of net profit /(loss)	177	459	(19)	(49)
Foreign exchange differences	(241)	(10)	79	23
<b>As at 31 December</b>	<b>1,858</b>	<b>5,274</b>	<b>1,922</b>	<b>4,825</b>

Investments in associates represent an investment of a 34% interest in Naftelf UAB, incorporated in Lithuania. No dividends were received from the company in 2014 and 2013.

Condensed financial data comprising total assets and liabilities as at 31 December 2014 and 31 December 2013, revenues, financial expenses and profit for 2014 and 2013 in company are disclosed below.

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
Non-current assets	928	2,635	1,077	2,702
Current assets	4,845	13,750	5,324	13,363
Equity	5,465	15,512	5,630	14,130
Short-term liabilities	308	873	771	1,935

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Sales revenues	31,167	81,052	30,343	78,927
Profit/(loss) from operations	339	882	26	69
Profit/(loss) before tax	524	1,364	26	69
Tax expense	-	-	(2)	(4)
Net profit/(loss)	524	1,364	24	65

## 10. Other non-current assets

	Note	as at	as at	as at	as at
		31/12/2014	31/12/2014	31/12/2013	31/12/2013
		USD	LTL	USD	LTL
Loans granted		123	349	84	211
Deposits		3,019	8,570	1,261	3,164
Other non-current receivables		2,454	6,966	3,141	7,883
<b>Financial assets</b>	27, 28	<b>5,596</b>	<b>15,885</b>	<b>4,486</b>	<b>11,258</b>
Non-current prepayment		169	480	2,259	5,670
<b>Total non-financial assets</b>		<b>169</b>	<b>480</b>	<b>2,259</b>	<b>5,670</b>
<b>As at 31 December</b>		<b>5,765</b>	<b>16,365</b>	<b>6,745</b>	<b>16,928</b>

As at 31 December 2014 the Group had long term deposit of USD 3,019 thousand or LTL 8,570 thousand (as at 31 December 2013 – USD 1,261 thousand or LTL 3,164 thousand). The use of these funds was restricted by banks as collateral for the proper performance of contract or legal obligations.

## 11. Impairment of non-current assets

As at 31 December 2014 the Group did not identified new or additional impairment indicators in relation to intangible assets and property, plant and equipment of the Group.

The Group's results for 12 months of 2014 include impairment allowances of non-current assets recognized in the 1<sup>st</sup> half of 2014.

In the 1<sup>st</sup> half of 2014 impairment indicators were identified in the Parent company. The indicators in the 1<sup>st</sup> half related mainly to worsening current macroeconomic situation and lack of prospects for its improvement, especially noticeable in refining activities. Limited fuel consumption due to lasting economic crisis, excess of global capacity increasing products' supply and growing pressure on margins resulting from shale gas revolution in America and economic changes in Russia have led to an update of assumptions of the Group's Strategy and Mid-term Plan for years 2014-2017 including optimization of assets potential and an update of investment program.

During development of assumptions to impairment tests, in accordance with IAS 36 – impairment of assets, the possibility of estimation of the fair value and value in use of individual assets of the Group was considered. The measurement of fair value less cost of disposal is not possible because there is no basis for making a reliable estimate of the price, at which an orderly transaction to sell the asset owned by the Group would be executed. As a result, it was assumed that the best estimate of the recoverable amount of particular Group's assets was its value in use, according to IAS 36.20.

The analysis as at 30 June 2014 were conducted based on the Parent Company's Strategy and Mid-term Plan for 2014-2017 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 discount rate structure used in the impairment testing of assets by cash-generating unit of the Group as at 30 June 2014**

	Refining	Retail
Cost of equity	13.99%	12.24%
Cost of debt after tax	4.92%	4.92%
Capital structure	0.51%	0.74%
<b>Nominal discount rate</b>	<b>10.94%</b>	<b>9.12%</b>
Long term rate of inflation	2.20%	2.20%

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 were separately determined for each cash-generating unit (CGU) on the basis of the expected useful life.

**Useful life adopted for the analysis of the operating segments as of 30 June 2014:**

Refinery segment – 24 years, Retail segment – 15 years.

As at 30 June 2014 impairment testing for each identified CGU was performed. Impairment of assets was carried out on the level of particular CGUs broken down by representing groups of non-current assets and influenced result from operations.

Book value of the Parent company of property plant and equipment and intangible assets amounted to USD 922 million as at 30 June 2014. The calculated recoverable amount was USD 153 million as at 30 June 2014. Therefore, the impairment allowance of USD 769 million was recognised as at 30 June 2014 for the Parent company. Information about the amount of recognition and reversal of impairment for each group of non-financial assets are set out in Note 6 and Note 7.

Projections of future financial performance are based on a number of assumptions, a part of which concern macroeconomic factors, including: commodity prices, product quotations on global markets, foreign exchange rates or interest rates, remain beyond the control of the Group. Changes in these assumptions can affect impairment tests results of non-current assets and as a result may lead to changes in the financial standing and financial results of the Group.

**Sensitivity analysis of value in use**

The major elements influencing the amount representing the value in use of assets within the individual cash-generating unit are: operating profit before depreciation and amortization (i.e. EBITDA ratio) and the discount rate.

The sensitivity of changes of the above factors on the impairment allowances are presented below in USD million:



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

Discount rate	Change*	EBITDA		
		-5%	0%	+5%
	-0.5 p.p.	-69	21	58
	0.0 p.p.	Increase in allowance -84	Decrease in allowance -	Decrease in allowance 110
	+0.5 p.p.	Increase in allowance -98	Decrease in allowance -20	Decrease in allowance 83

\*change reflects not only an increase of impairment allowances recognised in the II quarter of 2014 but also additional impairment allowance, which would occur after the changes of assumptions

## 12. Inventories

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
Raw materials	81,955	232,648	175,646	440,836
Work in progress	14,591	41,419	38,136	95,714
Finished goods	124,736	354,088	326,230	818,771
Goods for resale and merchandise	15,313	43,469	21,672	54,392
Spare parts	23,385	66,383	27,121	68,068
<b>Inventories, net</b>	<b>259,980</b>	<b>738,007</b>	<b>588,805</b>	<b>1,477,781</b>
Write down of inventories to the net realizable value	64,690	183,636	34,676	87,030
<b>Inventories, gross</b>	<b>324,670</b>	<b>921,643</b>	<b>623,481</b>	<b>1,564,811</b>

### Write down of inventories to realizable net value

	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
<b>January 1</b>	34,676	87,030	23,347	60,842
Recognition (Note 23)	38,218	99,390	46,413	120,729
Utilization (Note 23)	(571)	(1,485)	(35,038)	(91,141)
Reversal (Note 23)	(31)	(81)	(46)	(120)
Reversal of spare parts write down	(7,602)	(19,770)	-	-
Foreign exchange differences	-	18,552	-	(3,280)
<b>As at 31 December</b>	<b>64,690</b>	<b>183,636</b>	<b>34,676</b>	<b>87,030</b>

Recognition, utilization and reversal of write down of spare parts, raw materials, finished goods and work in progress is included in cost of sales.

As at 31 December 2014, the Group included inventory of limited use for USD 121,745 thousand or LTL 345,598 thousand (as at 31 December 2013 USD 317,420 thousand or LTL 796,658 thousand).

In 2013, the Parent company signed an agreement with Ministry of Economics of the Republic of Latvia for gasoline and diesel storage. The agreement was effective until 30 June 2014. As at 31 December 2013, the Parent company's inventory included gasoline of limited use for USD 31,806 thousand or LTL 79,827 thousand.

### 13. Trade and other receivables

	Note	as at 31/12/2014 USD	as at 31/12/2014 LTL	as at 31/12/2013 USD	as at 31/12/2013 LTL
Trade receivables		101,612	288,447	178,813	448,785
Other		-	-	25,695	64,489
<b>Financial assets</b>	<b>27, 28</b>	<b>101,612</b>	<b>288,447</b>	<b>204,508</b>	<b>513,274</b>
Other taxation, duty social security receivables and other benefits		30	85	177	444
CO2 allowances receivable		-	-	9,562	23,999
Deferred insurance costs		6,891	19,561	9,061	22,741
Accrued income and deferred charges		531	1,507	3,556	8,925
Other		711	2,018	1,633	4,100
<b>Non-financial assets</b>		<b>8,163</b>	<b>23,171</b>	<b>23,989</b>	<b>60,209</b>
<b>Receivables, net</b>		<b>109,775</b>	<b>311,618</b>	<b>228,497</b>	<b>573,483</b>
Receivables impairment allowance		6,956	19,745	8,548	21,454
<b>Receivables, gross</b>		<b>116,731</b>	<b>331,363</b>	<b>237,045</b>	<b>594,937</b>

As at 31 December 2014 and 31 December 2013 trade and other receivables denominated in functional currencies amounted to USD 62,922 thousand or LTL 178,617 thousand and USD 105,718 thousand or LTL 265,331 thousand, respectively. Detailed information about receivables from related parties is disclosed in Note 32.

As at 31 December 2014, other receivables significantly decreased in the Parent company because of the closed legal case with AB Lietuvos Geležinkeliai (Note 36) and set-off amounts. Following the court's ruling, the Parent company set off other receivables with trade liabilities and provisions (Note 19) by the amount of USD 22,669 thousand or LTL 64,352 thousand.

Detailed information of financial assets denominated in foreign currencies is presented in Note 27.

### Change in impairment allowances of trade and other receivables

	Note	as at 31/12/2014 USD	as at 31/12/2014 LTL	as at 31/12/2013 USD	as at 31/12/2013 LTL
<b>1 January</b>		8,548	21,454	8,427	21,961
Recognition	24.2	990	2,576	28	73
Reversal	24.1	(792)	(2,060)	(83)	(216)
Other changed due to discontinued operations, net		(189)	(492)	(37)	(96)
Other increases/decreases		(903)	(2,348)	9	23
Foreign exchange differences		(698)	615	204	(291)
<b>As at 31 December</b>		<b>6,956</b>	<b>19,745</b>	<b>8,548</b>	<b>21,454</b>

The recognition and reversal of impairment allowances on receivables are presented in other operating activities.

#### 14. Other financial assets

	Note	as at 31/12/2014 USD	as at 31/12/2014 LTL	as at 31/12/2013 USD	as at 31/12/2013 LTL
Derivatives not designated as hedge accounting	27, 28	64	182	529	1,329
foreign currency forwards		-	-	449	1,128
commodity swaps		64	182	80	201
Deposits	27, 28	6,789	19,272	1,135	2,848
Loans granted	27, 28	30	85	929	2,331
Receivables from cash pool	27, 28	1,581	4,488	8,856	22,227
<b>As at 31 December</b>		<b>8,464</b>	<b>24,027</b>	<b>11,449</b>	<b>28,735</b>

As at 31 December 2014 the Group had short term deposits of USD 6,789 thousand USD or LTL 19,272 thousand (as at 31 December 2013 – USD 1,135 thousand or LTL 2,848 thousand). The use of these funds was restricted by banks as collateral for the proper performance of contract or legal obligations.

#### 15. Cash and cash equivalents

	Note	as at 31/12/2014 USD	as at 31/12/2014 LTL	as at 31/12/2013 USD	as at 31/12/2013 LTL
Cash on hand and in bank	27, 28	4,629	13,140	12,602	31,628
<b>As at 31 December</b>		<b>4,629</b>	<b>13,140</b>	<b>12,602</b>	<b>31,628</b>

The Group did not have restricted cash as at 31 December 2014 or as at 31 December 2013.

Components of cash and cash equivalents in the consolidated statement of cash flows and the consolidated statement of financial position are the same.

#### 16. Non-current assets classified as held for sale

	as at 31/12/2014 USD	as at 31/12/2014 LTL	as at 31/12/2013 USD	as at 31/12/2013 LTL
Gross of non-current assets classified as held for sale	422	1,198	534	1,339
Impairment of non-current assets classified as held for sale	(92)	(261)	(71)	(178)
<b>As at 31 December</b>	<b>330</b>	<b>937</b>	<b>463</b>	<b>1,161</b>

In the Group, as at 31 December 2014 and as at 31 December 2013 non-current assets classified as held for sale include machinery and equipment, vehicles and other fixed assets.

### Change in the impairment of non-current assets classified as held for sale:

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
1 January	71	178	69	180
Recognition	138	359	60	156
Reversal	(46)	(120)	(56)	(146)
Sale and liquidation	(71)	(185)	(2)	(5)
Foreign exchange differences	-	29	-	(7)
<b>As at 31 December</b>	<b>92</b>	<b>261</b>	<b>71</b>	<b>178</b>

### 17. Share capital

As at 31 December 2014 the Parent company's authorised share capital comprised 719 200 800 ordinary registered shares with a nominal value of LTL 1 per share. All issued shares are fully paid.

In 2014 December the Parent company's share capital was increased by issuing 10 379 678 new ordinary shares with the nominal value LTL 1. The issued shares were acquired by the sole shareholder PKN ORLEN S.A. that paid LTL 847,140,100 or 300,000,000 USD for the shares. The difference between the amount paid and the total nominal value of shares has been accounted for as share premium. The total value of share premium was reduced by the amount of direct expenses incurred due to the issue of new shares. There were no changes in the share capital during 2013. All shares rank equally with regard to the Group's residual assets. 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 2014 and 2013 the Parent company did not pay any dividends to the shareholders.

### 18. Loans and borrowings

	Note	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
		USD	LTL	USD	LTL
Borrowings	32.4	-	-	199,772	501,388
Bank loans	27	-	-	131,238	329,381
<b>Non-current loans and borrowings</b>		<b>-</b>	<b>-</b>	<b>331,010</b>	<b>830,769</b>
Borrowings	32.4	-	-	192	482
Bank loans	27	9,086	25,793	67,339	169,008
<b>Current loans and borrowings</b>		<b>9,086</b>	<b>25,793</b>	<b>67,531</b>	<b>169,490</b>
<b>Total loans and borrowings</b>		<b>9,086</b>	<b>25,793</b>	<b>398,541</b>	<b>1,000,259</b>

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



### 18.1. Bank loans

- By currency

	Note	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
		USD	LTL	USD	LTL
USD		4,785	13,583	182,622	458,345
EUR		4,301	12,210	15,955	40,044
<b>Total</b>	<b>27, 28</b>	<b>9,086</b>	<b>25,793</b>	<b>198,577</b>	<b>498,389</b>

- By interest rate

	Note	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
		USD	LTL	USD	LTL
EURIBOR	27.3	2,291	6,503	14,241	35,742
LIBOR	27.3	4,785	13,584	182,622	458,345
Danske Bank EUR Prime Eesti	27.3	-	-	1,714	4,302
EONIA	27.3	2,010	5,706	-	-
<b>Total</b>		<b>9,086</b>	<b>25,793</b>	<b>198,577</b>	<b>498,389</b>

As at 31 December 2014 and 31 December 2013 the bank loans were not secured by the Group's assets.

As at 18 July 2014 the Parent company repaid the loan using its own funds, and fulfilled all of its obligations before the maturity date under the Loan Agreement for USD 150,000 thousand signed between the Company and AB SEB Bank. In the period covered by the foregoing consolidated financial statements as well as after the end of the reporting period, there were no cases of violations of loan covenants.

The Group's loans provided are not covered with financial or non-financial covenants as at 31 December 2014.

### 18.2. Borrowings

- By currency

	Note	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
		USD	LTL	USD	LTL
USD	27, 28	-	-	199,964	501,870
<b>Total</b>		<b>-</b>	<b>-</b>	<b>199,964</b>	<b>501,870</b>

- By interest rate

	Note	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
		USD	LTL	USD	LTL
LIBOR	27.3	-	-	199,964	501,870
<b>Total</b>		<b>-</b>	<b>-</b>	<b>199,964</b>	<b>501,870</b>

In December 2014 the Parent company repaid borrowings to PKN ORLEN S.A. by amount of USD 200,000 thousand. In the period covered by the foregoing consolidated financial statements there were no cases of violations of loan covenants.

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

## 19. Provisions

USD	Non-current		Current		Total	
	as at	as at	as at	as at	as at	as at
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Environmental provision	1,979	2,802	1,187	2,362	3,166	5,164
Jubilee ad post employment benefits provision	2,092	10,920	106	1,235	2,198	12,155
Business risk provision	-	-	2,644	8,606	2,644	8,606
Restructuring provision	-	-	2,229	2,010	2,229	2,010
Provision for CO2 emission	-	-	14,061	15,259	14,061	15,259
<b>As at 31 December</b>	<b>4,071</b>	<b>13,722</b>	<b>20,227</b>	<b>29,472</b>	<b>24,298</b>	<b>43,194</b>

LTL	Non-current		Current		Total	
	as at	as at	as at	as at	as at	as at
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Environmental provision	5,618	7,032	3,370	5,929	8,988	12,961
Jubilee and post employment benefits provision	5,939	27,407	301	3,100	6,240	30,507
Business risk provision	-	-	7,505	21,598	7,505	21,598
Restructuring provision	-	-	6,328	5,045	6,328	5,045
Provision for CO2 emission	-	-	39,914	38,297	39,914	38,297
<b>As at 31 December</b>	<b>11,557</b>	<b>34,439</b>	<b>57,418</b>	<b>73,969</b>	<b>68,975</b>	<b>108,408</b>

As at 31 December 2014 the business risk provision amounting to USD 2,474 thousand or LTL 7,023 thousand is secured by the Group's non-current deposit amounting to USD 2,474 thousand or LTL 7,023 thousand. As at 31 December 2013 the business risk provision amounting to USD 4,203 thousand or LTL 10,549 thousand is secured by the Group's non-current deposit amounting to USD 1,261 thousand or LTL 3,164 thousand.

As at 31 December 2014 the business risk provision is reduced by USD 3,152 thousand or LTL 8,197 thousand following the court's ruling in the legal case with AB Lietuvos Geležinkeliai (Note 36).

## Change in provisions in 2014

USD	Jubilee and post		Business risk provision	Restructuring provision	Provision for CO2 emission	Total
	Environmental provision	employment benefits provision				
<b>1 January 2014</b>	<b>5,164</b>	<b>12,155</b>	<b>8,606</b>	<b>2,010</b>	<b>15,259</b>	<b>43,194</b>
Recognition	346	43	-	6,141	14,060	20,590
Usage	(1,838)	(71)	(3,784)	(5,561)	(14,695)	(25,949)
Reversal	(25)	(9,069)	(1,408)	(325)	-	(10,827)
Other changed due to discontinued operations, net	-	(29)	(471)	-	-	(500)
Accounted from equity	-	562	-	-	-	562
Foreign exchange differences	(481)	(1,393)	(299)	(36)	(563)	(2,772)
<b>As at 31 December 2014</b>	<b>3,166</b>	<b>2,198</b>	<b>2,644</b>	<b>2,229</b>	<b>14,061</b>	<b>24,298</b>

LTL	Environmental provision	Jubilee and post employment benefits provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
<b>1 January 2014</b>	12,961	30,507	21,598	5,045	38,297	108,408
Recognition	900	112	-	15,971	36,564	53,547
Usage	(4,780)	(185)	(9,841)	(14,462)	(38,216)	(67,484)
Reversal	(64)	(23,585)	(3,662)	(845)	-	(28,156)
Other changed due to discontinued operations, net	-	(75)	(1,225)	-	-	(1,300)
Accounted from equity	-	1,485	-	-	-	1,485
Foreign exchange differences	(29)	(2,019)	635	619	3,269	2,475
<b>As at 31 December 2014</b>	<b>8,988</b>	<b>6,240</b>	<b>7,505</b>	<b>6,328</b>	<b>39,914</b>	<b>68,975</b>

### Change in provisions in 2013

USD	Environmental provision	Jubilee and post employment benefits provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
<b>1 January 2013</b>	4,809	8,708	15,865	2,670	24,985	57,037
Recognition	1,623	3,990	3,655	1,683	14,696	25,647
Other changed due to discontinued operations, net	-	-	381	25	-	406
Usage	(1,427)	(328)	(9,114)	(1,735)	(25,030)	(37,634)
Reversal	-	(6)	(2,487)	(641)	(9)	(3,143)
Sale of subsidiary	-	(54)	-	-	-	(54)
Accounted to equity	-	(492)	-	-	-	(492)
Foreign exchange differences	159	337	306	8	617	1,427
<b>As at 31 December 2013</b>	<b>5,164</b>	<b>12,155</b>	<b>8,606</b>	<b>2,010</b>	<b>15,259</b>	<b>43,194</b>

LTL	Environmental provision	Jubilee and post employment benefits provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
<b>1 January 2013</b>	12,533	22,693	41,344	6,957	65,111	148,638
Recognition	4,222	10,379	9,507	4,378	38,227	66,713
Other changed due to discontinued operations, net	-	-	991	65	-	1,056
Usage	(3,712)	(853)	(23,707)	(4,513)	(65,108)	(97,893)
Reversal	-	(16)	(6,469)	(1,667)	(23)	(8,175)
Sale of subsidiary	-	(140)	-	-	-	(140)
Accounted to equity	-	(1,280)	-	-	-	(1,280)
Foreign exchange differences	(82)	(276)	(68)	(175)	90	(511)
<b>As at 31 December 2013</b>	<b>12,961</b>	<b>30,507</b>	<b>21,598</b>	<b>5,045</b>	<b>38,297</b>	<b>108,408</b>

The same assumptions for calculation of provisions were used in 2014 and 2013.

#### 19.1. Environmental provision

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

The operation of the refinery causes pollution. A provision was recognized for the costs to be incurred for handling of waste and contaminated land which was accumulated before the end of 2007. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, the Parent

company is required to clean up all contamination that it causes. The amount of the provisions is the best estimate of the Management based on evaluation of the remaining quantities and average level of costs necessary to remove contamination. The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

## 19.2. Provision for jubilee bonuses and post-employment benefits

The Group realizes the program of paying out the jubilee bonuses and 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 jubilee bonuses and 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 internal regulation. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses 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. It was actual until new Collective Agreements were signed in 2014.

Jubilee and post-employment benefits provision has decreased significantly due to new Collective Agreements signed in the Parent company and UAB EMAS. Payments and social security benefits are lower in comparison with the previous Collective Agreements.

### Change in jubilee bonuses and post-employment benefits in 2014

	Jubilee bonuses provision		Post-employment benefits		Total	
	USD	LTL	USD	LTL	USD	LTL
1 January 2014	2,690	6,752	9,465	23,755	12,155	30,507
Current service costs	124	322	384	999	508	1,321
Interest expense	97	252	340	884	437	1,136
Actuarial gains and losses recognized in Other Comprehensive Income net	-	-	562	1,485	562	1,485
demographic assumptions	-	-	1	3	1	3
financial assumptions	-	-	484	1,278	484	1,278
experience adjustment	-	-	76	201	76	201
Changes due to discontinued operations	-	-	1	3	1	3
Actuarial gains and losses recognized in Profit and loss net	3	7	-	-	3	7
financial assumptions	4	10	-	-	4	10
experience adjustment	(1)	(3)	-	-	(1)	(3)
Payments under program	(31)	(81)	(41)	(107)	(72)	(188)
Recognized past service cost	(2,559)	(6,655)	(7,411)	(19,272)	(9,970)	(25,927)
Other decreases due to discontinued operation	-	-	(29)	(75)	(29)	(75)
Exchange differences	(308)	(551)	(1,088)	(1,475)	(1,396)	(2,026)
As at 31 December 2014	16	46	2,182	6,194	2,198	6,240



### Change in jubilee bonuses and post-employment benefits in 2013

	Jubilee bonuses provision		Post-employment benefits		Total	
	USD	LTL	USD	LTL	USD	LTL
Present value of defined benefit obligation	3,214	8,376	9,032	23,537	12,246	31,913
Past Service costs not yet recognised	-	-	(3,538)	(9,220)	(3,538)	(9,220)
<b>1 January 2013</b>	<b>3,214</b>	<b>8,376</b>	<b>5,494</b>	<b>14,317</b>	<b>8,708</b>	<b>22,693</b>
Current service costs	126	328	394	1,025	520	1,353
Interest expense	146	380	262	682	408	1,062
Actuarial gains and losses recognized in Other Comprehensive Income net	-	-	(492)	(1,280)	(492)	(1,280)
demographic assumptions	-	-	3,763	9,788	3,763	9,788
financial assumptions	-	-	(3,256)	(8,469)	(3,256)	(8,469)
experience adjustment	-	-	(998)	(2,596)	(998)	(2,596)
Changes due to discontinued operations	-	-	(1)	(3)	(1)	(3)
Actuarial gains and losses recognized in Profit and loss net	(606)	(1,576)	-	-	(606)	(1,576)
demographic assumptions	415	1,079	-	-	415	1,079
financial assumptions	77	200	-	-	77	200
experience adjustment	(1,098)	(2,855)	-	-	(1,098)	(2,855)
Payments under program	(313)	(814)	(36)	(94)	(349)	(908)
Recognized past service cost	-	-	3,683	9,580	3,683	9,580
Others	-	-	(54)	(140)	(54)	(140)
Exchange differences	123	58	214	(335)	337	(277)
<b>As at 31 December 2013</b>	<b>2,690</b>	<b>6,752</b>	<b>9,465</b>	<b>23,755</b>	<b>12,155</b>	<b>30,507</b>

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2014 and 31 December 2013.

### Division of liabilities for employee benefits for active employees

	Active employees		Active employees	
	as at 31/12/2014	as at 31/12/2014	as at 31/12/2013	as at 31/12/2013
	USD	LTL	USD	LTL
Lithuania	2,182	6,194	12,141	30,472
Latvia	8	23	6	15
Estonia	8	23	8	20
<b>Total</b>	<b>2,198</b>	<b>6,240</b>	<b>12,155</b>	<b>30,507</b>

### Geographical division of employee benefits obligations in 2014

	Provision for jubilee		Post-employment benefits		Total	
	as at	as at	as at	as at	as at	as at
	31/12/2014	31/12/2014	31/12/2014	31/12/2014	31/12/2014	31/12/2014
	USD	LTL	USD	LTL	USD	LTL
Lithuania	-	-	2,182	6,194	2,182	6,194
Latvia	8	23	-	-	8	23
Estonia	8	23	-	-	8	23
<b>Total</b>	<b>16</b>	<b>46</b>	<b>2,182</b>	<b>6,194</b>	<b>2,198</b>	<b>6,240</b>

### Geographical division of employee benefits obligations in 2013

	Provision for jubilee		Post-employment benefits		Total	
	as at	as at	as at	as at	as at	as at
	31/12/2013	31/12/2013	31/12/2013	31/12/2013	31/12/2013	31/12/2013
	USD	LTL	USD	LTL	USD	LTL
Lithuania	2,676	6,717	9,465	23,755	12,141	30,472
Latvia	6	15	-	-	6	15
Estonia	8	20	-	-	8	20
<b>Total</b>	<b>2,690</b>	<b>6,752</b>	<b>9,465</b>	<b>23,755</b>	<b>12,155</b>	<b>30,507</b>

### 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 2014, the Group used the following actuarial assumptions: discount rate of 1.84%; inflation rate 0% in years 2015–2017 and 2.5% in following years the remuneration increase rate.

	Assumed variations as at 31/12/2014	Influence on provision for jubilee 2014		Influence on post- employment benefits 2014	
		USD	LTL	USD	LTL
Demographic assumptions (+)					
staff turnover rates, disability and early retirement	0.5 p.p.	(1)	(3)	(119)	(338)
Financial assumptions (+)					
discount rate	0.5 p.p.	(1)	(3)	(127)	(361)
level of future remuneration	1 p.p.	-	-	301	854
Demographic assumptions (-)					
staff turnover rates, disability and early retirement	-0.5 p.p.	1	3	112	318
Financial assumptions (-)					
discount rate	-0.5 p.p.	1	3	140	397
level of future remuneration	-1 p.p.	-	-	(201)	(571)

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

	Assumed variations as at 31/12/2013	Influence on provision for jubilee 2013		Influence on post- employment benefits 2013	
		USD	LTL	USD	LTL
Demographic assumptions (+)					
staff turnover rates, disability and early retirement	0,5 p.p.	(75)	(188)	(467)	(1,172)
Financial assumptions (+)					
discount rate	0,5 p.p.	(76)	(191)	(489)	(1,227)
level of future remuneration	1 p.p.	-	-	1,182	2,967
Demographic assumptions (-)					
staff turnover rates, disability and early retirement	-0.5 p.p.	79	198	489	1,227
Financial assumptions (-)					
discount rate	-0.5 p.p.	81	203	533	1,338
level of future remuneration	-1 p.p.	-	-	(702)	(1,762)

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

#### Analysis of liabilities and payment terms for employee benefits as at 31 December 2014

	Provision for jubilee		Post-employment benefits		Total	
	USD	LTL	USD	LTL	USD	LTL
up to 1 year	1	3	105	298	106	301
from 1 to 3 years	1	3	161	457	162	460
from 3 to 5 years	2	6	196	556	198	562
above 5 years	12	34	1,720	4,883	1,732	4,917
					<b>2,198</b>	<b>6,240</b>

#### Analysis of liabilities and payment terms for employee benefits as at 31 December 2013

	Provision for jubilee		Post-employment benefits		Total	
	USD	LTL	USD	LTL	USD	LTL
up to 1 year	317	796	919	2,307	1,236	3,103
from 1 to 3 years	589	1,478	706	1,772	1,295	3,250
from 3 to 5 years	479	1,202	937	2,352	1,416	3,554
above 5 years	1,305	3,276	6,903	17,324	8,208	20,600
					<b>12,155</b>	<b>30,507</b>

**Total costs recognized in profit or loss and other comprehensive income**

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
<b>In profit and loss</b>				
Current service costs	508	1,321	519	1,350
Interest expense	437	1,136	407	1,059
Actuarial gains and losses net	-	-	(604)	(1,571)
demographic assumptions	-	-	412	1,072
financial assumptions	-	-	76	198
resulting from other issues	-	-	(1,092)	(2,841)
Payments under program	(72)	(188)	(348)	(905)
Recognized past service cost	(9,970)	(25,927)	3,682	9,578
<b>Total</b>	<b>(9,097)</b>	<b>(23,658)</b>	<b>3,656</b>	<b>9,510</b>
<b>In components of other comprehensive income</b>				
demographic assumptions	562	1,485	(492)	(1,280)
financial assumptions	1	3	3,763	9,788
experience adjustment	484	1,278	(3,256)	(8,469)
Changes due to discontinued operations	76	201	(998)	(2,596)
	1	3	(1)	(3)

Costs of employee benefits are recognized in administrative expenses amounting to USD (9,097) thousand or LTL (23,658) thousand as at 31 December 2014 and USD 3,656 thousand or LTL 9,510 thousand as at 31 December 2013.

In 2014, the amount of provision for employee benefits changed as the result of new Collective Agreements signed and the update of assumptions, mainly in discount rate, as well as projected inflation. Should the prior year assumptions be used, the provision for the employee benefits would be higher by USD 481 thousand or LTL 1,364 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.

**19.3. Business risk provision**

Business risk is described in more detail in Note 36 concerning significant legal proceedings.

The decrease of business risk provision in 2014 is mainly a result of solved court and administrative proceedings.

**19.4. Restructuring provision**

The reorganization plan provides for the reduction of the number of employees. In the opinion of the Group's management, the reorganization will not have significant influence on the Group's activity and financial statements.

Employee restructuring provision was launched to support the restructuring process conducted in the Group. The programs provide additional money considerations and trainings for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.



### 19.5. Provision for CO<sub>2</sub> emission

The Parent company recognizes provision for estimated CO<sub>2</sub> emissions in the reporting period. The cost of recognized provision in the consolidated statement of profit or loss is compensated with settlement of deferred income on CO<sub>2</sub> emission allowance granted free of charge.

### 20. Trade and other liabilities

	Note	as at	as at	as at	as at
		31/12/2014	31/12/2014	31/12/2013	31/12/2013
		USD	LTL	USD	LTL
Trade liabilities		333,517	946,755	492,995	1,237,319
Liabilities for investments		5,238	14,869	14,231	35,717
Uninvoiced services		16,030	45,504	11,611	29,140
<b>Financial liabilities</b>	<b>27, 28</b>	<b>354,785</b>	<b>1,007,128</b>	<b>518,837</b>	<b>1,302,176</b>
Prepayments for deliveries		9,274	26,326	2,020	5,069
Payroll liabilities		91	258	2,414	6,058
Excise tax and fuel charge		12,290	34,888	10,058	25,244
Value added tax		30,049	85,300	50,259	126,139
Other taxation, duties, social security and other benefits		3,279	9,308	6,724	16,878
Accruals		4,189	11,891	6,198	15,561
Holiday pay accrual		3,480	9,879	4,734	11,880
Other accruals		709	2,013	1,464	3,681
Other liabilities		1	3	29	77
<b>Non-financial liabilities</b>		<b>59,173</b>	<b>167,974</b>	<b>77,702</b>	<b>195,026</b>
<b>Total</b>		<b>413,958</b>	<b>1,175,102</b>	<b>596,539</b>	<b>1,497,202</b>

Trade and other liabilities denominated in functional currency amounted to USD 296,508 thousand or LTL 841,697 thousand as at 31 December 2014 and USD 441,656 thousand or LTL 1,108,468 thousand as at 31 December 2013.

A detailed division of financial liabilities denominated in foreign currencies is presented in Note 27.

As at 31 December 2014 and as at 31 December 2013 trade and other liabilities of USD 23,295 thousand or LTL 66,128 thousand and USD 2,792 thousand or LTL 7,007 thousand, respectively, were secured on the Group's current assets (deposits).

### 21. Other financial liabilities

	Note	as at	as at	as at	as at
		31/12/2014	31/12/2014	31/12/2013	31/12/2013
		USD	LTL	USD	LTL
<b>Derivatives</b>		<b>1,581</b>	<b>4,488</b>	<b>8,493</b>	<b>21,315</b>
commodity swap	27, 28	1,581	4,488	8,493	21,315
<b>Liabilities from cash pool</b>	<b>27,28, 32.4</b>	<b>25,885</b>	<b>73,481</b>	<b>123,989</b>	<b>311,188</b>
		<b>27,466</b>	<b>77,969</b>	<b>132,482</b>	<b>332,503</b>

ORLEN Lietuva, ORLEN Eesti and ORLEN Latvia are the members of the international cash pool managed by ORLEN Finance AB. The internal cross-currency credit limit granted to ORLEN Latvia and ORLEN Eesti is 10 million EUR and to ORLEN Lietuva - 150 million EUR. The date of full repayment of the EUR internal cross-currency credit limit is December 2017.

## 22. Sales revenues

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Sales of finished goods	6,058,416	15,755,517	7,902,976	20,557,220
Sales of services	37,180	96,690	46,809	121,760
<b>Revenues from sales of finished goods and services, net</b>	<b>6,095,596</b>	<b>15,852,207</b>	<b>7,949,785</b>	<b>20,678,980</b>
Sales of goods for resale	83,709	217,693	36,730	95,541
Sales of spare parts	-	-	1,083	2,817
<b>Revenues from sales of goods for resale and spare parts, net</b>	<b>83,709</b>	<b>217,693</b>	<b>37,813</b>	<b>98,358</b>
<b>Total</b>	<b>6,179,305</b>	<b>16,069,900</b>	<b>7,987,598</b>	<b>20,777,338</b>

## 23. Operating costs

### Cost of sales

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Cost of finished goods and services sold	5,989,299	15,575,771	7,807,654	20,309,269
Cost of goods for resale and merchandise sold	89,248	232,098	34,434	89,571
<b>Total</b>	<b>6,078,547</b>	<b>15,807,869</b>	<b>7,842,088</b>	<b>20,398,840</b>

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

### Cost by kind

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
<b>Usage of materials and energy, including:</b>	<b>5,835,144</b>	<b>15,174,874</b>	<b>7,719,640</b>	<b>20,080,327</b>
usage of materials	5,777,913	15,026,040	7,655,518	19,913,533
usage of energy	57,231	148,834	64,122	166,794
<b>External services, including:</b>	<b>188,854</b>	<b>491,136</b>	<b>196,309</b>	<b>510,639</b>
railway services	116,440	302,814	121,776	316,764
repairs and maintenance services	15,033	39,095	13,370	34,778
terminal services, transit and freight	31,803	82,707	36,841	95,831
advisory services	8,340	21,689	6,767	17,602
lease	6,913	17,978	4,643	12,077
security of property	5,914	15,380	6,346	16,507
others services	4,411	11,473	6,566	17,079
<b>Payroll, social security and other employee benefits</b>	<b>43,622</b>	<b>113,443</b>	<b>63,525</b>	<b>165,241</b>
<b>Depreciation and amortization (Note 6,7)</b>	<b>41,604</b>	<b>108,195</b>	<b>70,424</b>	<b>183,186</b>
<b>Taxes and charges</b>	<b>7,069</b>	<b>18,384</b>	<b>9,895</b>	<b>25,739</b>
<b>Write-down of spare parts for obsolescence (Note 12)</b>	<b>1,355</b>	<b>3,524</b>	<b>2,779</b>	<b>7,229</b>
<b>Other costs, including:</b>	<b>12,495</b>	<b>32,494</b>	<b>12,837</b>	<b>33,393</b>
insurance	10,145	26,383	10,447	27,175
other costs	2,350	6,111	2,390	6,218
	<b>6,130,143</b>	<b>15,942,050</b>	<b>8,075,409</b>	<b>21,005,753</b>
Change in finished goods and work in progress	119,582	310,985	(4,337)	(11,281)
Cost of products and services for own use	(764)	(1,987)	109	283
Impairment allowances of inventories (Note 12)	36,261	94,300	8,550	22,240
<b>Total operating costs</b>	<b>6,285,222</b>	<b>16,345,348</b>	<b>8,079,731</b>	<b>21,016,995</b>
Distribution expenses	160,351	417,008	172,772	449,412
General and administrative expenses	46,324	120,471	64,871	168,743
Cost of sales	6,078,547	15,807,869	7,842,088	20,398,840
<b>Total operating costs</b>	<b>6,285,222</b>	<b>16,345,348</b>	<b>8,079,731</b>	<b>21,016,995</b>

### Employee benefits costs

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Payroll expenses	38,944	101,277	44,466	115,664
Social security expenses	11,839	30,789	13,562	35,278
Future benefits expenses	(9,097)	(23,658)	3,658	9,515
Other employee benefits expenses	1,936	5,035	1,839	4,784
<b>Total</b>	<b>43,622</b>	<b>113,443</b>	<b>63,525</b>	<b>165,241</b>

## 24. Other operating income and expenses

### 24.1. Other operating income

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Reversal of provisions	1,758	4,571	3,128	8,136
Reversal of receivables impairment allowances (Note 13)	792	2,060	83	216
Decreases of impairment allowances of property, plant and equipment and intangible assets (Note 6, 7, 16)	470	1,223	139	362
Penalties and compensations earned	5,542	14,413	748	1,946
Income from insurance	2,304	5,992	3,929	10,220
Other	4,649	12,090	210	547
<b>Total</b>	<b>15,515</b>	<b>40,349</b>	<b>8,237</b>	<b>21,427</b>

### 24.2. Other operating expenses

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Loss from disposal of non-financial fixed assets	2,875	7,478	133	346
Recognition of provisions	6,141	15,971	5,246	13,646
Recognition of impairment receivables (Note 12)	990	2,576	28	73
Recognition of impairment allowances of property, plant and equipment, intangible assets and non-current assets classified as held for sale	769,280	2,000,589	5,397	14,039
Penalties and compensations	635	1,650	364	947
Other	175	453	1,181	3,072
<b>Total</b>	<b>780,096</b>	<b>2,028,717</b>	<b>12,349</b>	<b>32,123</b>

On June 2014 the Parent company carried out impairment test of assets identified for all cash-generating units. Impairment test result is presented in line Recognition of impairment allowances of property, plant and equipment, intangible assets and non-current assets classified as held for sale.

On June 2014, the Parent company sold emission allowances to PKN ORLEN S.A. and had loss of USD 4,649 thousand or LTL 12,091 thousand which is presented in line loss from disposal of non-financial fixed assets.

## 25. Financial income and expenses

### 25.1. Financial income

	Note	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
		USD	LTL	USD	LTL
Interest	27.2	127	331	220	572
Settlement and valuation of financial instruments		9,583	24,920	4,520	11,758
Gain of sale subsidiary		-	-	5	13
Foreign exchange gains		-	-	832	2,163
<b>Total</b>		<b>9,710</b>	<b>25,251</b>	<b>5,577</b>	<b>14,506</b>



## 25.2. Financial expenses

	Note	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
		USD	LTL	USD	LTL
Interest	27.2	12,206	31,743	12,081	31,425
Foreign exchange loss		3,027	7,871	-	-
Granted guarantee		502	1,306	908	2,362
Settlement and valuation of financial instruments		9,007	23,424	10,959	28,507
Increase of provisions		646	1,680	-	-
Other		815	2,120	1,010	2,627
<b>Total</b>		<b>26,203</b>	<b>68,144</b>	<b>24,958</b>	<b>64,921</b>

According to IAS 23, the Group capitalizes those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of the asset. Borrowing costs capitalized in the year 2014 and 2013 amounted to USD 170 thousand or LTL 442 thousand and USD 282 thousand or LTL 734 thousand, respectively. In 2014 and in 2013 capitalization rate that was used to calculate borrowing costs capitalization amounted to 0.34% p.a. and to 0.14% p.a., respectively.

## 26. Tax expenses

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
<b>Tax recognized in profit or loss</b>	<b>81,324</b>	<b>211,492</b>	<b>(20,261)</b>	<b>(52,703)</b>
Current income tax	1,497	3,893	1,700	4,422
Deferred income tax	79,827	207,599	(21,961)	(57,125)
<b>Tax recognized in other comprehensive income</b>	<b>(3)</b>	<b>(8)</b>	<b>74</b>	<b>192</b>
Actuarial gains and losses from post-employment benefits	(3)	(8)	74	192
<b>Total</b>	<b>81,321</b>	<b>211,484</b>	<b>(20,187)</b>	<b>(52,511)</b>

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

	for the year ended 31/12/2014	for the year ended 31/12/2014	for the year ended 31/12/2013	for the year ended 31/12/2013
	USD	LTL	USD	LTL
Profit (loss) for the period before tax	(886,814)	(2,306,250)	(115,645)	(300,817)
Profit tax applying 15 % tax rate	(133,022)	(345,934)	(17,185)	(44,702)
Effect of different tax rates in other countries	(22)	(57)	(357)	(929)
Non-taxable exchange gains/losses	(8,079)	(21,010)	(572)	(1,488)
Forex on non-monetary asset	18,058	46,963	(3,673)	(9,554)
Non-taxable income	(7,568)	(19,681)	359	934
Expenses not deductible for tax purposes	123,676	321,629	3,845	10,002
Temporary differences for which no deferred tax was recognised	100	260	-	-
Charity	(1)	(3)	(33)	(86)
Tax losses for which no deferred tax asset was recognised	26,031	67,696	(20)	(52)
Income tax on dividends paid	460	1,196	542	1,410
Incentive on investment in non-current assets	5,526	14,371	(3,048)	(7,928)
Tax loss utilization	(82)	(213)	(119)	(310)
Change in estimates related to prior years	56,247	146,275		
<b>Income tax</b>	<b>81,324</b>	<b>211,492</b>	<b>(20,261)</b>	<b>(52,703)</b>

Non-deductible exchange differences relate to impact of the changes in foreign exchange rates on assets and liabilities of the Parent company, which are measured in US dollars for financial reporting purposes and in Lithuanian Litas for tax purposes.

**26.2. Deferred tax**

	as as 31/12/2013		Deferred tax recognized in statement of profit or loss		Deferred tax recognized in other comprehensive income		as as 31/12/2014	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
<b>Deferred tax assets</b>								
Impairment allowances	7,481	18,775	118,949	340,122	-	-	126,430	358,897
Provisions and accruals (included actuarial loss)	3,431	8,611	(72)	926	3	8	3,362	9,545
Unrealized foreign exchange differences	17,079	42,864	(18,059)	(45,646)	-	-	(980)	(2,782)
Difference between carrying amount and tax base of property, plant and equipment	(8,145)	(20,443)	(5,228)	(17,520)	-	-	(13,373)	(37,963)
Tax loss	57,607	144,583	15,346	62,509	-	-	72,953	207,092
Investment relief	5,525	13,867	(5,525)	(13,867)	-	-	-	-
Other	(2,614)	(6,558)	3,558	9,237	-	-	944	2,679
<b>Total deferred tax assets</b>	<b>80,364</b>	<b>201,699</b>	<b>108,969</b>	<b>335,761</b>	<b>3</b>	<b>8</b>	<b>189,336</b>	<b>537,468</b>
<b>Deferred tax asset not recognised</b>	<b>-</b>	<b>-</b>	<b>(188,842)</b>	<b>(536,066)</b>	<b>-</b>	<b>-</b>	<b>(188,842)</b>	<b>(536,066)</b>
<b>Deferred tax, net</b>	<b>80,364</b>	<b>201,699</b>	<b>(79,873)</b>	<b>(200,305)</b>	<b>3</b>	<b>8</b>	<b>494</b>	<b>1,402</b>

The Parent company has not recognized deferred income tax from June 2014, because it is not probable that future taxable profits will be available against which the Parent company can utilize the benefits.

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

	as as 31/12/2012		Deferred tax recognized in statement of profit or loss		Deferred tax recognized in other comprehensive income		as as 31/12/2013	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
<b>Deferred tax assets</b>								
Impairment allowances	5,502	14,338	1,979	4,437	-	-	7,481	18,775
Provisions and accruals (included actuarial loss)	7,728	20,140	(4,223)	(11,337)	(74)	(192)	3,431	8,611
Unrealized foreign exchange differences	13,406	34,936	3,673	7,928	-	-	17,079	42,864
Difference between carrying amount and tax base of property, plant and equipment	(6,788)	(17,689)	(1,357)	(2,754)	-	-	(8,145)	(20,443)
Tax loss	38,904	101,384	18,703	43,199	-	-	57,607	144,583
Investment relief	2,477	6,455	3,048	7,412	-	-	5,525	13,867
Other	(2,737)	(7,134)	123	576	-	-	(2,614)	(6,558)
<b>Total deferred tax assets</b>	<b>58,492</b>	<b>152,430</b>	<b>21,946</b>	<b>49,461</b>	<b>(74)</b>	<b>(192)</b>	<b>80,364</b>	<b>201,699</b>
<b>Deferred tax, net</b>	<b>58,492</b>	<b>152,430</b>	<b>21,946</b>	<b>49,461</b>	<b>(74)</b>	<b>(192)</b>	<b>80,364</b>	<b>201,699</b>

Above items assets and reserve for deferred tax are compensated at the level of Group's reporting financial statements and are presented in the consolidated financial statements of the Group.

### 26.3. Change in deferred tax asset and liability, net

	for the year ended 31/12/2014		for the year ended 31/12/2013	
	USD	LTL	USD	LTL
Beginning of the period	80,364	201,699	58,492	152,430
Deferred tax recognised in profit or loss	(79,827)	(207,599)	21,961	57,125
Deferred tax recognised in other comprehensive income	3	8	(74)	(192)
Foreign exchange differences	(46)	7,294	(15)	(7,664)
<b>Total</b>	<b>494</b>	<b>1,402</b>	<b>80,364</b>	<b>201,699</b>
<b>Deferred tax, net</b>	<b>494</b>	<b>1,402</b>	<b>80,364</b>	<b>201,699</b>

## 27. Financial instruments

### 27.1. Financial instruments by category and class

#### Financial assets

as at 31 December 2014

USD		Financial instruments by category			Total
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	
Financial instruments by class	Note				
Non-current receivables	10	-	2,454	-	2,454
Deposits	10,14	-	-	9,808	9,808
Trade and other receivables	13	-	101,612	-	101,612
Receivables from cash pool	14	-	1,581	-	1,581
Loans granted	10,14	-	153	-	153
Derivatives	14	64	-	-	64
Cash and cash equivalents	15	-	4,629	-	4,629
<b>Total</b>		<b>64</b>	<b>110,429</b>	<b>9,808</b>	<b>120,301</b>

LTL		Financial instruments by category			Total
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	
Financial instruments by class	Note				
Non-current receivables	10	-	6,966	-	6,966
Deposits	10,14	-	-	27,842	27,842
Trade and other receivables	13	-	288,447	-	288,447
Receivables from cash pool	14	-	4,488	-	4,488
Loans granted	10,14	-	434	-	434
Derivatives	14	182	-	-	182
Cash and cash equivalents	15	-	13,140	-	13,140
<b>Total</b>		<b>182</b>	<b>313,475</b>	<b>27,842</b>	<b>341,499</b>

as at 31 December 2013

USD		Financial instruments by category			Total
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	
Financial instruments by class	Note				
Non-current receivables	10	-	3,141	-	3,141
Deposits	10,14	-	-	2,396	2,396
Trade and other receivables	13	-	204,508	-	204,508
Receivables from cash pool	14	-	8,856	-	8,856
Loans granted	10,14	-	1,013	-	1,013
Derivatives	14	529	-	-	529
Cash and cash equivalents	15	-	12,602	-	12,602
<b>Total</b>		<b>529</b>	<b>230,120</b>	<b>2,396</b>	<b>233,045</b>



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

LTL	Financial instruments by class	Note	Financial instruments by category			Total
			Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	
	Non-current receivables	10	-	7,883	-	7,883
	Deposits	10,14	-	-	6,012	6,012
	Trade and other receivables	13	-	513,274	-	513,274
	Receivables from cash pool	14	-	22,227	-	22,227
	Loans granted	10,14	-	2,542	-	2,542
	Derivatives	14	1,329	-	-	1,329
	Cash and cash equivalents	15	-	31,628	-	31,628
	<b>Total</b>		<b>1,329</b>	<b>577,554</b>	<b>6,012</b>	<b>584,895</b>

## Financial liabilities

as at 31 December 2014

USD	Financial instruments by class	Note	Financial instruments by category		Total
			Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	
	Bank loans	18	-	9,086	9,086
	Trade and other liabilities	20	-	354,785	354,785
	Derivatives	21	1,581	-	1,581
	Liabilities from cash pool	21	-	25,885	25,885
	<b>Total</b>		<b>1,581</b>	<b>389,756</b>	<b>391,337</b>

LTL	Financial instruments by class	Note	Financial instruments by category		Total
			Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	
	Bank loans	18	-	25,793	25,793
	Trade and other liabilities	20	-	1,007,128	1,007,128
	Derivatives	21	4,488	-	4,488
	Liabilities from cash pool	21	-	73,481	73,481
	<b>Total</b>		<b>4,488</b>	<b>1,106,402</b>	<b>1,110,890</b>

as at 31 December 2013

USD	Financial instruments by class	Note	Financial instruments by category		Total
			Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	
	Bank loans	18	-	198,577	198,577
	Borrowings	20	-	199,964	199,964
	Trade and other liabilities	21	-	518,837	518,837
	Derivatives	21	8,493	-	8,493
	Liabilities from cash pool	21	-	123,989	123,989
	<b>Total</b>		<b>8,493</b>	<b>1,041,367</b>	<b>1,049,860</b>

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

LTL	Financial instruments by class	Note	Financial instruments by category		Total
			Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	
Bank loans		18	-	498,389	498,389
Borrowings		18	-	501,870	501,870
Trade and other liabilities		20	-	1,302,176	1,302,176
Derivatives		21	21,315	-	21,315
Liabilities from cash pool		21	-	311,188	311,188
<b>Total</b>			<b>21,315</b>	<b>2,613,623</b>	<b>2,634,938</b>

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

As at 31 December 2014

USD	Financial instruments by class	Note	Financial instruments by category				Total
			Financial assets and financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Liabilities excluded from the scope of IAS 39	
Interest income		25	127	-	-	-	127
Interest costs		25	-	-	(12,206)	-	(12,206)
Foreign exchange gain/(loss)			(1,787)	-	(1,240)	-	(3,027)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses		24	(198)	-	-	-	(198)
Settlement and valuation of financial instruments		25	576	-	-	-	576
Other		25	(938)	-	(1,025)	-	(1,963)
<b>Total</b>			<b>(2,220)</b>	<b>-</b>	<b>(14,471)</b>	<b>-</b>	<b>(16,691)</b>

LTL	Financial instruments by class	Note	Financial instruments by category				Total
			Financial assets and financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Liabilities excluded from the scope of IAS 39	
Interest income		25	331	-	-	-	331
Interest costs		25	-	-	(31,743)	-	(31,743)
Foreign exchange gain/(loss)			(4,647)	-	(3,225)	-	(7,872)
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses		24	(516)	-	-	-	(516)
Settlement and valuation of financial instruments		25	1,496	-	-	-	1,496
Other		25	(2,439)	-	(2,666)	-	(5,105)
<b>Total</b>			<b>(5,775)</b>	<b>-</b>	<b>(37,634)</b>	<b>-</b>	<b>(43,409)</b>

As at 31 December 2013

USD		Financial instruments by category				Total
		Financial assets and financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Liabilities excluded from the scope of IAS 39	
Financial instruments by class	Note					
Interest income	25	220	-	-	-	220
Interest costs	25	-	-	(12,081)	-	(12,081)
Foreign exchange gain/(loss)		-	(4,699)	5,531	-	832
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses	24	55	-	-	-	55
Settlement and valuation of financial instruments	25	(6,439)	-	-	-	(6,439)
Other	25	(973)	-	(945)	-	(1,918)
<b>Total</b>		<b>(7,137)</b>	<b>(4,699)</b>	<b>(7,495)</b>	<b>-</b>	<b>(19,331)</b>
other, excluded from the scope of IFRS 7						
Gain on sale of subsidiary	25.1					5
						5

LTL		Financial instruments by category				Total
		Financial assets and financial liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Liabilities excluded from the scope of IAS 39	
Financial instruments by class	Note					
Interest income	25	572	-	-	-	572
Interest costs	25	-	-	(31,425)	-	(31,425)
Foreign exchange gain/(loss)		-	(12,223)	14,386	-	2,163
Recognition/reversal of receivables impairment allowances recognized in other operating income/expenses	24	143	-	-	-	143
Settlement and valuation of financial instruments	25	(16,749)	-	-	-	(16,749)
Other	25	(2,531)	-	(2,458)	-	(4,989)
<b>Total</b>		<b>(18,565)</b>	<b>(12,223)</b>	<b>(19,497)</b>	<b>-</b>	<b>(50,285)</b>
other, excluded from the scope of IFRS 7						
Gain on sale of subsidiary	25.1					13
						13

### 27.3. Financial risk management

The Group is exposed particularly to the following financial risks:

- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, commodity price risk, price risk of allowances CO<sub>2</sub>).

## 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 financial assets past due, but not impaired as at the end of the reporting period:

	Current receivables			
	as at 31/12/2014		as at 31/12/2013	
	USD	LTL	USD	LTL
Overdue:				
Up to 1 month	15,116	42,911	9,174	23,025
1-3 months	1,237	3,511	721	1,810
3-6 months	9	26	34	85
6-12 months	25	71	131	329
Above 1 year	318	903	296	743
	<b>16,705</b>	<b>47,421</b>	<b>10,356</b>	<b>25,992</b>

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Lithuania, Poland, Estonia, Latvia, Ukraine, United Kingdom, Switzerland economies.

Credit risk associated with cash and bank deposits is considered by the Group as low. All entities, in which the Group invests available funds operate in financial sector. They include domestic and foreign banks and branches of foreign banks which have the high grade of short-term and long-term credit credibility or upper medium grade credibility.

Rating A-1 by Standard & Poor's, F1 by Fitch and Prime-1 in Moody's are treated as the highest credibility, while A-2 by Standard & Poor's, F2 by Fitch and Prime-2 in Moody's are considered to be good credibility. Sources of information about ratings are published on the websites each of the banks in which the Group invest available cash.

Credit risk arising from the positive valuation of derivative instruments is considered by the Orlen Lietuva Group as low, due to the fact that all transactions are concluded with banks having high credit rating. One of the factors significant for bank choice is rating on the level not lower than A.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount.

In order to reduce the risk of recoverability of trade receivables, the Group receives from its customers' securities in the form of: letters of credit, bank guarantees, factoring, third party guarantees or surety ship, mortgages and bills of exchange, etc.



The Management believes that the risk of impaired financial assets is reflected by recognition of impairment.

### Liquidity risk

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

The Group maintains the ratio of current assets to short-term liabilities (current ratio) on a safe level. As at 31 December 2014 and 31 December 2013, the ratio amounted to 0.81 and 1.02, respectively.

Detailed information regarding loans is disclosed in Note 18.

As at 31 December 2014 and 31 December 2013 the maximum possible indebtedness under the signed loan agreements amounted to USD 44,102 thousand or LTL 125,192 thousand and USD 432,534 thousand or LTL 1,085,574 thousand, respectively. As at 31 December 2014 and 31 December 2013 the amount available to use was USD 35,034 thousand or LTL 99,450 thousand and USD 33,993 thousand or LTL 85,316 thousand, respectively.

Financing available for the year 2015 under the credit/cash pool agreements to cover net current liabilities with the maturity of 31 December 2017 (EUR 150 million) is covering the expected liquidity needs for 2015 with reserve.

### Maturity analysis for financial liabilities:

as at 31/12/2014						
USD	Note	up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	18	9,086	-	-	9,086	9,086
Trade and other liabilities	20	354,785	-	-	354,785	354,785
Derivatives	21	1,581	-	-	1,581	1,581
Liabilities from cash pool	21	25,885	-	-	25,885	25,885
<b>Total</b>		<b>391,337</b>	<b>-</b>	<b>-</b>	<b>391,337</b>	<b>391,337</b>

as at 31/12/2014						
LTL	Note	up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	18	25,793	-	-	25,793	25,793
Trade and other liabilities	20	1,007,128	-	-	1,007,128	1,007,128
Derivatives	21	4,488	-	-	4,488	4,488
Liabilities from cash pool	21	73,481	-	-	73,481	73,481
<b>Total</b>		<b>1,110,890</b>	<b>-</b>	<b>-</b>	<b>1,110,890</b>	<b>1,110,890</b>

as at 31/12/2013						
USD	Note	up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	18	67,339	131,250	-	198,589	198,577
Borrowings-undiscounted value	18	192	-	200,000	200,192	199,964
Trade and other liabilities	20	518,837	-	-	518,837	518,837
Derivatives	21	8,493	-	-	8,493	8,493
Liabilities from cash pool	21	123,989	-	-	123,989	123,989
<b>Total</b>		<b>718,850</b>	<b>131,250</b>	<b>200,000</b>	<b>1,050,100</b>	<b>1,049,860</b>

as at 31/12/2013						
LTL	Note	up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	18	169,007	329,411	-	498,418	498,389
Borrowings-undiscounted value	18	482	-	501,960	502,442	501,870
Trade and other liabilities	20	1,302,176	-	-	1,302,176	1,302,176
Derivatives	21	21,315	-	-	21,315	21,315
Liabilities from cash pool	21	311,188	-	-	311,188	311,188
<b>Total</b>		<b>1,804,168</b>	<b>329,411</b>	<b>501,960</b>	<b>2,635,539</b>	<b>2,634,938</b>

## Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO<sub>2</sub> 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.

## Currency risk

(i) 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 risk exposure is hedged by USD/EUR non-deliverable forward instruments.

(ii) Commodity price change risk - The Group is exposed to changes in commodity prices due to:

- purchase of crude oil for processing, which depend on the volume of processing, the inventory level and the level of crude oil price on the global market;
- sales of refinery products, which depend on the volume of sales, the inventory level and the level of product prices on the global market.

Refinery margin exposure is hedged by OTC swap instruments.

(iii) CO<sub>2</sub> emission allowance price change risk - The Parent company was granted free European Union emission (EUA) allowance for 2013-2020 periods. The shortage of European Union Emission (EUA) allowance will be covered by the surplus of European Union emission (EUA) allowance from the period of 2008-2012.

### Currency structure of financial instruments as at 31 December 2014:

Financial instruments by class	Note	EUR	USD	LTL	PLN	Total after conversion to USD	Total after conversion to LTL
<b>Financial assets</b>							
Non-current receivables	10	-	-	6,967	-	2,454	6,966
Deposits	10,14	3,972	-	14,129	-	9,808	27,842
Trade and other receivables	13	8,179	56,317	100,341	-	101,612	288,447
Receivables from cash pool	14	-	1,581	-	-	1,581	4,488
Loans granted	10,14	71	-	189	-	153	434
Derivatives	14	-	64	-	-	64	182
Cash and cash equivalents	15	1,653	671	5,528	-	4,629	13,140
<b>Total</b>		<b>13,875</b>	<b>58,633</b>	<b>127,154</b>	<b>-</b>	<b>120,301</b>	<b>341,499</b>
<b>Financial liabilities</b>							
Bank loans	18	3,536	4,785	-	-	9,086	25,793
Borrowings	18	-	-	-	-	-	-
Trade and other liabilities	20	12,765	296,509	119,830	1,896	354,785	1,007,128
Derivatives	21	-	1,581	-	-	1,581	4,488
Liabilities from cash pool	21	105	24,764	2,818	-	25,885	73,481
<b>Total</b>		<b>16,406</b>	<b>327,639</b>	<b>122,648</b>	<b>1,896</b>	<b>391,337</b>	<b>1,110,890</b>

### 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). Litas (LTL) has been pegged to the Euro (EUR) at a fixed exchange rate of 3.4528 LTL / EUR and would only be expected to change as a result of government macroeconomic policy. The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2014) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before 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%	(462)	-15%	462
LTL/USD	+15%	238	-15%	(238)
		<b>(224)</b>		<b>224</b>

### Currency structure of financial instruments as at 31 December 2013:

Financial instruments by class	Note	EUR	USD	LTL	LVL	PLN	Other	Total after conversion to USD	Total after conversion to LTL
<b>Financial assets</b>									
Non-current receivables	10	-	-	7,883	-	-	-	3,141	7,883
Deposits	10,14	1,705	50	-	-	-	-	2,396	6,012
Trade and other receivables	13	14,797	95,243	208,098	3,050	44	-	204,508	513,274
Receivables from cash pool	14	5,232	1,658	-	-	-	-	8,856	22,227
Loans granted	10,14	668	-	235	-	-	-	1,013	2,542
Derivatives	14	-	80	1,128	-	-	-	529	1,329
Cash and cash equivalents	15	691	2,515	12,315	2,158	4	-	12,602	31,628
<b>Total</b>		<b>23,093</b>	<b>99,546</b>	<b>229,659</b>	<b>5,208</b>	<b>48</b>	<b>-</b>	<b>233,045</b>	<b>584,895</b>
<b>Financial liabilities</b>									
Bank loans	18	11,597	182,622	-	-	-	-	198,577	498,389
Borrowings	18	-	199,964	-	-	-	-	199,964	501,870
Trade and other liabilities	20	15,013	440,383	140,939	426	1,711	331	518,837	1,302,176
Derivatives	21	-	8,493	-	-	-	-	8,493	21,315
Liabilities from cash pool	21	43	123,930	-	-	-	-	123,989	311,188
<b>Total</b>		<b>26,653</b>	<b>955,392</b>	<b>140,939</b>	<b>426</b>	<b>1,711</b>	<b>331</b>	<b>1,049,860</b>	<b>2,634,938</b>

### 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 2013) 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%	(735)	-15%	735
LTL/USD	+15%	5,302	-15%	(5,302)
LVL/USD	+15%	1,406	-15%	(1,406)
		<b>5,973</b>		<b>(5,973)</b>

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.

### Interest rate risk

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



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

### Interest rate structure of financial instruments:

as at 31/12/2014							
USD	Note	EURIBOR	LIBOR	VILIBOR	Other	Fixed rate	Total
<b>Financial instruments by class</b>							
<b>Financial assets</b>							
Deposits	10,14	-	-	-	-	12,262	12,262
Loans granted	10,14	-	-	-	-	153	153
Receivables from cash pool	14	-	-	1,581	-	-	1,581
<b>Total</b>		-	-	<b>1,581</b>	-	<b>12,415</b>	<b>13,996</b>
<b>Financial liabilities</b>							
Bank loans	18	2,291	4,785	-	2,010	-	9,086
Liabilities from cash pool	21	-	25,885	-	-	-	25,885
<b>Total</b>		<b>2,291</b>	<b>30,670</b>	-	<b>2,010</b>	-	<b>34,971</b>

as at 31/12/2014							
LTL	Note	EURIBOR	LIBOR	VILIBOR	Other	Fixed rate	Total
<b>Financial instruments by class</b>							
<b>Financial assets</b>							
Deposits	10,14	-	-	-	-	34,808	34,808
Loans granted	10,14	-	-	-	-	434	434
Receivables from cash pool	14	-	-	4,488	-	-	4,488
<b>Total</b>		-	-	<b>4,488</b>	-	<b>35,242</b>	<b>39,730</b>
<b>Financial liabilities</b>							
Bank loans	18	6,503	13,584	-	5,706	-	25,793
Liabilities from cash pool	21	-	73,481	-	-	-	73,481
<b>Total</b>		<b>6,503</b>	<b>87,065</b>	-	<b>5,706</b>	-	<b>99,274</b>

as at 31/12/2013							
USD	Note	EURIBOR	LIBOR	VILIBOR	Other	Fixed rate	Total
<b>Financial instruments by class</b>							
<b>Financial assets</b>							
Deposits	10,14	-	-	-	-	2,396	2,396
Loans granted	10,14	-	-	-	-	1,013	1,013
Receivables from cash pool	14	-	-	8,856	-	-	8,856
<b>Total</b>		-	-	<b>8,856</b>	-	<b>3,409</b>	<b>12,265</b>
<b>Financial liabilities</b>							
Bank loans	18	14,241	182,622	-	1,714	-	198,577
Borrowings	18	-	199,964	-	-	-	199,964
Liabilities from cash pool	21	-	123,989	-	-	-	123,989
<b>Total</b>		<b>14,241</b>	<b>506,575</b>	-	<b>1,714</b>	-	<b>522,530</b>

LTL	Note	as at 31/12/2013					Total
		EURIBOR	LIBOR	VILIBOR	Other	Fixed rate	
Financial instruments by class							
Financial assets							
Deposits	10,14	-	-	-	-	6,012	6,012
Loans granted	10,14	-	-	-	-	2,542	2,542
Receivables from cash pool	14	-	-	22,227	-	-	22,227
Total		-	-	22,227	-	8,554	30,781
Financial liabilities							
Bank loans	18	35,742	458,345	-	4,302	-	498,389
Borrowings	18	-	501,870	-	-	-	501,870
Liabilities from cash pool	21	-	311,188	-	-	-	311,188
Total		35,742	1,271,403	-	4,302	-	1,311,447

### Sensitivity analysis for interest rate risk

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

Interest rate	Assumed variation		Influence on profit before tax			
	as at	as at	as at	as at	as at	as at
	31/12/2014	31/12/2013	31/12/2014	31/12/2014	31/12/2013	31/12/2013
			USD	LTL	USD	LTL
EURIBOR	+50	+50	(11)	(33)	(71)	(179)
LIBOR	+50	+50	(153)	(435)	(2,533)	(6,357)
VILIBOR	+50	+50	8	22	44	111
<b>Total</b>			<b>(156)</b>	<b>(446)</b>	<b>(2,560)</b>	<b>(6,425)</b>
VILIBOR	-	-50	-	-	(44)	(111)
			-	-	<b>(44)</b>	<b>(111)</b>

The above interest rates variations were calculated based on observations of interest rates fluctuations in the current and prior year annual reporting periods as well as on the basis of available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2014 and 31 December 2013. The influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate. In case of derivatives, the influence of interest rate variations on fair value was examined at constant level of currency rates.

In the case of derivatives in the sensitivity analysis for interest rate risk The Group uses interest rate curve shift of the reasonably possible change in the reference interest rates, assuming the immutability of other risk factors.

### Risk of changes in CO<sub>2</sub> emission allowance prices

ORLEN Lietuva was granted CO<sub>2</sub> emission allowance on the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers.

The Group performs verification of the number of rights annually and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term and spot transactions depending on the situation.

Additional information regarding CO<sub>2</sub> emission allowance is disclosed in Note 7.

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

## 28. Fair value determination

As at 31 December 2014

USD	Note	fair value	carrying amount	Fair value hierarchy		
				Level 1	Level 2	Level 3
Financial assets						
Deposits	10,14	9,808	9,808	-	9,808	-
Non-current receivables	10	2,454	2,454	-	2,454	-
Trade and other receivables	13	101,612	101,612	-	101,612	-
Receivables from cash pool	14	1,581	1,581	1,581	-	-
Loans granted	10,14	153	153	-	153	-
Derivatives	14	64	64	-	64	-
Cash and cash equivalents	15	4,629	4,629	4,629	-	-
Total		120,301	120,301	6,210	114,091	-
Financial liabilities						
Bank loans	18	9,086	9,086	-	9,086	-
Trade and other liabilities	20	354,785	354,785	-	354,785	-
Derivatives	21	1,581	1,581	-	1,581	-
Liabilities from cash pool	21	25,885	25,885	25,885	-	-
Total		391,337	391,337	25,885	365,452	-

LTL	Note	fair value	carrying amount	Fair value hierarchy		
				Level 1	Level 2	Level 3
Financial assets						
Deposits	10,14	27,842	27,842	-	27,842	-
Non-current receivables	10	6,966	6,966	-	6,966	-
Trade and other receivables	13	288,447	288,447	-	288,447	-
Receivables from cash pool	14	4,488	4,488	4,488	-	-
Loans granted	10,14	434	434	-	434	-
Derivatives	14	182	182	-	182	-
Cash and cash equivalents	15	13,140	13,140	13,140	-	-
Total		341,499	341,499	17,628	323,871	-
Financial liabilities						
Bank loans	18	25,793	25,793	-	25,793	-
Trade and other liabilities	20	1,007,128	1,007,128	-	1,007,128	-
Derivatives	21	4,488	4,488	-	4,488	-
Liabilities from cash pool	21	73,481	73,481	73,481	-	-
Total		1,110,890	1,110,890	73,481	1,037,409	-

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

As at 31 December 2013

USD	Note	fair value	carrying amount	Fair value hierarchy		
				Level 1	Level 2	Level 3
Financial assets						
Deposits	10,14	2,396	2,396	-	2,396	-
Non-current receivables	10	3,141	3,141	-	3,141	-
Trade and other receivables	13	204,508	204,508	-	204,508	-
Receivables from cash pool	14	8,856	8,856	8,856	-	-
Loans granted	10,14	1,013	1,013	-	1,013	-
Derivatives	14	529	529	-	529	-
Cash and cash equivalents	15	12,602	12,602	12,602	-	-
Total		233,045	233,045	21,458	211,587	-
Financial liabilities						
Bank loans	18	198,650	198,577	-	198,650	-
Borrowings	18	199,962	199,964	-	199,962	-
Trade and other liabilities	20	518,837	518,837	-	518,837	-
Derivatives	21	8,493	8,493	-	8,493	-
Liabilities from cash pool	21	123,989	123,989	123,989	-	-
Total		1,049,931	1,049,860	123,989	925,942	-

LTL	Note	fair value	carrying amount	Fair value hierarchy		
				Level 1	Level 2	Level 3
Financial assets						
Deposits	10,14	6,012	6,012	-	6,012	-
Non-current receivables	10	7,883	7,883	-	7,883	-
Trade and other receivables	13	513,274	513,274	-	513,274	-
Receivables from cash pool	14	22,227	22,227	22,227	-	-
Loans granted	10,14	2,542	2,542	-	2,542	-
Derivatives	14	1,329	1,329	-	1,329	-
Cash and cash equivalents	15	31,628	31,628	31,628	-	-
Total		584,895	584,895	53,855	531,040	-
Financial liabilities						
Bank loans	18	498,572	498,389	-	498,572	-
Borrowings	18	501,865	501,870	-	501,865	-
Trade and other liabilities	20	1,302,176	1,302,176	-	1,302,176	-
Derivatives	21	21,315	21,315	-	21,315	-
Liabilities from cash pool	21	311,188	311,188	311,188	-	-
Total		2,635,116	2,634,938	311,188	2,323,928	-

Methods applied in determining fair values (fair value hierarchy)

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. As compared to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

The fair value of derivative instruments is based on discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction. Forward exchange rate is not modelled as a separate risk factor, but is derived from the relevant spot rate and forward interest rate for foreign currencies in relation to USD.

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in a current year profit or loss.



The Group's management is of the opinion that the carrying amounts less impairment losses of cash and cash equivalents, trade and other receivables, and the carrying amounts of accounts payable approximate their fair value due to the short-term nature of expected cash-flows.

Loans granted, financial liabilities and other financial instruments are measured at fair value using discounted cash flow method. Future cash flows are discounted using discount rates calculated on the basis of market interest rates as at 31 December 2014, and 31 December 2013 based on quotations of 1-month, 3-month and 6-month interest rates plus applicable margins for individual financial instruments.

Fair value of derivatives is determined based on other input data, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2).

## 29. Capital commitments

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

	as at 31/12/2014		as at 31/12/2013	
	USD	LTL	USD	LTL
Property, plant and equipment	3,160	8,970	12,163	30,527

## 30. Contingencies

### *Payment request from a group of inventors*

In November 2010 inventors group (seven individuals) made a claim in Šiauliai District Court for royalties and interest in the amount of LTL 38 million. The claim was received by the Company in February 2011. A payment request from a group of individuals related to a production improvement process invented and patented by the group and subsequently implemented by the oil refinery covers the period of years 1996-2010. The management of the Company assessed the claim as defective and unjustified.

### *Other litigations and claims*

The Parent company is involved in other litigation where claims have been lodged against it for the matters arising in the ordinary course of business, which have not been described above. In the opinion of the management, the outcome of these claims will not have a material adverse effect on the Group's operations. The main litigations and claims are presented in Note 36.

### *Guarantees under waste treatment plans*

Based on the Waste Management Activity Termination Plans, as approved by the Ministry of Environment, the banks on behalf of the Parent company issued guarantees to Regional Departments of the Ministry of Environment for a total amount of USD 2,913 thousand or LTL 8,268 thousand as at 31 December 2014 and USD 3,173 thousand or LTL 8,268 thousand as at 31 December 2013. The guarantees shall remain valid through to 6 August 2015. Payments under these guarantees shall be made in the cases when the Parent company is unable to continue managing the waste having accumulating in the production process. In the consolidated financial statements for the year ended on 31 December 2014, the Parent company made a provision for the environmental liabilities amounting to USD 3,166 thousand or LTL 8,988 thousand and as at 31 December 2013 it was made USD 5,164 thousand or LTL 12,961 thousand (Note 19).

### *Tax inspections*

Since 2007 through 31 December 2014 the State Tax Inspectorate has not conducted any thorough tax audit in the Parent company. In 2014, several local audits were conducted (VAT and corporate income taxation for income in kind received by the expats of the Company). Neither violations nor additional taxes have been observed in the Parent company.

### **Customs inspections**

As at 31 December 2014 Klaipėda Territorial Customs Office has performed two objective business-commercial audits in the Parent company. No comprehensive custom inspections or disputes with Klaipėda Territorial Custom Office as at 31 December 2014 or as at 31 December 2013.

### **31. Guarantees and sureties**

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2014 and 31 December 2013 amounted to USD 352 thousand or LTL 999 thousand and USD 478 thousand or LTL 1,200 thousand, respectively.

As at 31 December 2014 all guarantees granted on behalf of the Group were covered by the Group's cash amounted to USD 5,829 or LTL 16,547. As at 31 December 2013 guarantees granted on behalf of the Group were not covered by the Group's cash amounted to USD 3,896 thousand or LTL 9,778 thousand, respectively. Sureties and guarantees relate to obligations issued to third parties in the course of ongoing operations relate mainly to: warranties and guarantees of good performance, payment guarantees.

### **32. Related party transactions**

#### ***32.1. Information on material transactions concluded by the Group companies with related parties on other than market terms***

In 2014 and 2013 the Group did not conclude any material related party transactions on other than market terms.

#### ***32.2. Transactions with members of the Management Board and Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives***

In 2014 and 2013 the Group companies did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and sureties, or other agreements obliging to render services to the Group and its related parties.

As at 31 December 2014 and 31 December 2013 there were no loans granted by the Group to managers and supervisors and their relatives.

In 2014 and 2013 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

#### ***32.3. Transactions with related parties concluded through the key management personnel of the Parent company and other Group companies***

In 2014 and 2013 members of the Group's key executive personnel of the Parent company and the Group companies basing on the submitted statements on transactions concluded with related parties disclosed that they did not conclude any transactions with related parties.

**32.4. Transactions and balance of settlement of the Group with related parties  
for the year ended 31 December 2014**

USD	Note	Related parties	Associates	Total related parties
Sales		185,519	28,179	213,698
Purchases		5,082,830	-	5,082,830
Interest expenses		9,681	-	9,681
Revenue from disposal of CO2 allowances		22,348	-	22,348
Net value of disposed CO2 allowances		26,998	-	26,998
Other operating income		23	-	23
Other financial costs		669	-	669
Receivables from cash pool	14	1,581	-	1,581
Trade and other receivables (net)		5,314	207	5,521
Liabilities from cash pool	21	25,885	-	25,885
Trade and other liabilities		283,150	-	283,150

LTL	Note	Related parties	Associates	Total related parties
Sales		482,461	73,299	555,760
Purchases		13,218,408	-	13,218,408
Interest expenses		25,176	-	25,176
Revenue from disposal of CO2 allowances		58,118	-	58,118
Net value of disposed CO2 allowances		70,211	-	70,211
Other operating income		60	-	60
Other financial costs		1,740	-	1,740
Receivables from cash pool	14	4,488	-	4,488
Trade and other receivables (net)		15,085	520	15,605
Liabilities from cash pool	21	73,481	-	73,481
Trade and other liabilities		803,778	-	803,778

**for the year ended 31 December 2013**

USD	Note	Related parties	Associates	Total related parties
Sales		130,626	28,195	158,821
Purchases		7,090,682	-	7,090,682
Interest expenses		9,389	-	9,389
Other financial costs		1,155	-	1,155
Receivables from cash pool	14	8,856	-	8,856
Trade and other receivables (net)		5,243	651	5,894
Liabilities from cash pool	21	123,989	-	123,989
Borrowings	18	199,964	-	199,964
Trade and other liabilities		418,913	-	418,913

LTL	Note	Related parties	Associates	Total related parties
Sales		339,784	73,341	413,125
Purchases		18,444,283	-	18,444,283
Interest expenses		24,423	-	24,423
Other financial costs		3,004	-	3,004
Receivables from cash pool	14	22,227	-	22,227
Trade and other receivables (net)		13,159	1,634	14,793
Liabilities from cash pool	21	311,188	-	311,188
Borrowings	18	501,870	-	501,870
Trade and other liabilities		1,051,388	-	1,051,388

The above transactions with related parties include sale and purchase of refinery products, purchases of repair, transportation and other services.

In June 2014 the Parent company sold emission allowances to PKN ORLEN S.A.

In August 2014, the retail company AB Ventus Nafta was sold to PKN ORLEN S.A.

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

The Group granted guarantees and sureties on behalf of related parties. As at 31 December 2014 and as at 31 December 2013 they amounted to USD 5,704 thousand or LTL 16 192 thousand and USD 7,653 thousand or LTL 19,207 thousand, respectively.

### 33. Remuneration together with profit-sharing paid and due or potentially due to Management Board, Supervisory Board and other members of key executive personnel of Parent company and the Group companies in accordance with IAS 24

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 31/12/2014		for the year ended 31/12/2013	
	USD	LTL	USD	LTL
<b>Remuneration and other benefits of the key executive personnel</b>	<b>4,143</b>	<b>10,775</b>	<b>4,872</b>	<b>12,672</b>
- key executive personnel of the Parent company	3,348	8,707	3,970	10,327
- key executive personnel of the subsidiaries belonging to the Group	639	1,662	643	1,671
- key executive personnel from discontinued operation	156	406	259	675

Since 2007 the Group's key executive personnel is participating in the annual MBO bonus system (Management by objectives). 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 Company for the key personnel members. Management by objectives system in subsidiaries entities is applied only for manager of entity, the goals and bonus amount is setting and approving 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.

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

In the period covered by this consolidated financial statement the entity authorized to conduct audit of the Group's financial statements is KPMG Baltics, UAB. According to the agreement concluded on 17 January 2013 with the Parent company and later with subsidiaries (except for UAB Mažeikių Naftos prekybos namai and UAB Paslaugos tau) for the years 2013 and 2014, KPMG Baltics, UAB, executes the agreed upon procedure of interim and audits of separate and consolidated financial statements.

	for the year ended 31/12/2014		for the year ended 31/12/2013	
	USD	LTL	USD	LTL
<b>Fees payable to KPMG Baltics UAB in respect of the Parent Company</b>	<b>157</b>	<b>408</b>	<b>161</b>	<b>419</b>
audit of the annual financial statements	64	166	70	182
agreed upon procedures on financial statements	85	221	83	216
other services	8	21	8	21
<b>Fees payable to KPMG companies in respect of subsidiaries belonging to the Group</b>	<b>45</b>	<b>117</b>	<b>58</b>	<b>151</b>
audit of the annual financial statements	28	73	34	89
agreed upon procedures on financial statements	15	39	9	23
other services	2	5	1	3
fee from discontinued operations	-	-	14	36
	<b>202</b>	<b>525</b>	<b>219</b>	<b>570</b>

### 35. Employment structure

	as at 31/12/2014	as at 31/12/2013
<b>Average employment in persons</b>		
Blue collar workers	1,014	1,373
White collar workers	721	828
	<b>1,735</b>	<b>2,201</b>
<b>Employment in persons</b>		
Blue collar workers	967	1,343
White collar workers	683	815
	<b>1,650</b>	<b>2,158</b>

Average employment is calculated based on number of active employees. Employment in persons includes all employees.

Mainly due to restructuring activities held in the Group, employment decreased by 204 persons in 2014 and by 81 persons in 2013. Due to the sale of AB Ventus nafta in August 2014, employment decreased by 284 persons.

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

#### 36.1. Court proceedings in which Parent company act as plaintiff

#### Compensation due to property damages

Parent company was 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 Butinge Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately LTL 59,617 thousand (USD 21,002 thousand at exchange rate as at 31 December 2014).



**36.2. Court proceedings in which Parent company act as a defendant****Court proceedings in the case against Environmental Department of Panevėžys Region of the Ministry of Environment of the Republic of Lithuania regarding the environmental damage that was caused by oil product spillage**

In March 2009 an accident of oil product spillage had occurred and resulted in environmental damage (the pipe that was illegally connected to Parent company's pipeline was damaged and spillage of oil products occurred). In January 2011, Environmental Department of Panevėžys Region filed a claim regarding recovery of LTL 9,702 thousand (USD 3,418 thousand at exchange rate as at 31 December 2014). In October 2011 the Panevėžys District Court adopted a decision by which the Parent company was obliged to compensate LTL 6,791 thousand (USD 2,392 thousand at exchange rate as at 31 December 2014) damages, 5 percent interest to the moment of accomplishment of the court's decision as well as respective legal expenses. The Parent company's submitted appeal was rejected and the amount of damages adjudged was increased to LTL 9,702 thousand (USD 3,418 thousand at exchange rate as at 31 December 2014). The claim was paid by the Parent company in July 2013. The Parent company submitted a cassation appeal to the Supreme Court of Lithuania. On 24 April 2014, by adopting the final decision, the Supreme Court rejected the parent company's appeal and upheld the decision of the appellate instance court, i.e. awarding of LTL 9,702 thousand (USD 3,418 thousand at exchange rate as at 31 December 2014) from the parent company.

**Court proceedings against AB Lietuvos geležinkeliai**

The dispute is related to an arbitration case that was started in 2008 by AB Lietuvos geležinkeliai regarding the interpretation and application of the agreement concluded between the Parent company and AB Lietuvos geležinkeliai on 28 October 1999 (the Agreement). The arbitral tribunal issued arbitral award on 10 November 2009 whereby LTL 64,352 thousand (USD 22,669 thousand at exchange rate as at 31 December 2014) and the applicable interest was awarded in favour of the Parent company. However, the arbitral tribunal defined the awarded amount as "overpayment for the years 2007 and 2008". At the same time, LTL 39,800 thousand (USD 14,020 thousand at exchange rate as at 31 December 2014) was awarded in favour of AB Lietuvos geležinkeliai. The financial outcome of the arbitration case totalled to LTL 24,274 thousand (USD 8,551 thousand at exchange rate as at 31 December 2014) in favour of the Parent company. Following the award in arbitration case, the uncertainty remained regarding the respective VAT amounts applicable to the sum of relief awarded.

The aforementioned issue led the Parent company to a filing of a claim at a state court against AB Lietuvos geležinkeliai requesting, amongst other reliefs, to adjudge in favour of the Parent company VAT in the amount of LTL 8,328 thousand (USD 2,934 thousand at exchange rate as at 31 December 2014) as remaining part of VAT due in accordance with the arbitral award of 10 November 2009. The Parent company's claim was rejected by the decision of the Vilnius District Court (first instance court) that was adopted on 28 June 2012. Appeal was filed by the Parent company and was rejected by the court. The Parent company filed a cassation appeal with the Supreme Court of Lithuania. On 29 October 2014, the Supreme Court by adopting the final decision ruled that the Company is entitled to a receivable from AB Lietuvos geležinkeliai in amount of LTL 4,305 thousand (USD 1,516 thousand at exchange rate as at 31 December 2014). Court, however, did not satisfy the Parent company's arguments and claims regarding VAT.

**Dispute with Lietuvos geležinkeliai regarding transportation agreement**

On 12 June and 11 November 2014 the Parent company received claims from AB Lietuvos geležinkeliai claiming the overdue debt of approx. LTL 20 million (equivalent to USD 7 million at exchange rate as at 31 December 2014) and annual interest of 6% from the date of the claim to the full settlement of the debt. The Claimant requested to attach the assets of the Parent company equal to the amount of the claim. After short litigation on this issue, currently no attachments to the Parent company's assets are applied. All claimed amount is accounted under trade liabilities, therefore no additional provision is recognised as at 31 December 2014.

Starting from 1 January 2014, AB Lietuvos Geležinkeliai started to apply new tariffs for railway transportation. Calculation of the tariffs, according to AB Lietuvos geležinkeliai, relates to the regulation on infrastructure fees, approved by the Government of the Republic of Lithuania. The Parent company did not agree with the new tariffs, as they were calculated by AB Lietuvos geležinkeliai not in accordance with the effective transportation agreement. Therefore, the Parent company covered only a respective portion of the invoices issued by AB Lietuvos Geležinkeliai and paid for transportation services applying the appropriately calculated tariffs. The dispute is at the pre-hearing stage at state courts.

On 31 December 2014, the Parent company filed a motion for arbitration against AB Lietuvos geležinkeliai with the Vilnius court of commercial arbitration. In these proceedings the Parent company disputes the use of excessive transportation charges in amount of USD 19 million (equivalent to LTL 54 million at exchange rate as at 31 December 2014) that were applied by AB Lietuvos geležinkeliai. The proceedings are ongoing.

### **37. 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.

In January 2015 the nominal value of one share of the Parent company was changed from EUR 0,29 to EUR 36 and number of shares was reduced from 719,200,800 to 5,793,562. In February 2015 the share capital of the Parent company was reduced from EUR 208,568,232 to EUR 5,793,562 by changing nominal value of one share from EUR 36 to EUR 1. The purpose of the reduction of the authorised capital of the Parent company – to cancel the losses recorded in the balance sheet of the Parent company.

On 1 January 2015, the Republic of Lithuania joined the euro zone and the Lithuanian national currency litas was replaced by the euro. As a result, UAB EMAS, UAB Paslaugos Tau, UAB Mažeikių naftos prekybos namai and UAB Naftelf converted their financial accounting to euros from 1 January 2015 and the financial statements for subsequent years will be prepared and presented in euros. Future comparative information will be translated into euros using the official exchange rate of LTL 3.4528 to EUR 1.

### **38. 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.

### **39. Going concern**

The main indicators for performing impairment tests of the assets within ORLEN Lietuva Group were mainly related to the worsened macroeconomic situation and lack of evident prospects for its improvement, especially noticeable in refining sector. After the impairment for the property, plant and equipment was recorded, the equity of the Parent company in the financial statements, prepared in accordance with International Financial Reporting Standards as at 30 June, 2014 was negative and has not met the requirements of the Law on Companies of the Republic of Lithuania. According to its provisions, if the equity of the Parent company becomes negative, the shareholders have to take actions and restore equity within 6 months after the day on which the Board learnt or ought to have learnt about the existing situation. Remedy actions regarding negative equity were taken on 31 December 2014, by increasing the Parent company's share capital to 719 200 800 ordinary registered shares.

The worsening macroeconomic situation, fierce competition in global fuel markets and unfavourable logistic conditions for the Parent company combined with impairment tests' results made a significant negative impact on its net financial results. Thus, in 2015 the Group continues to focus its efforts on pursuing the objectives established in PKN ORLEN S.A. Strategy 2014–2017 reflecting the current macroeconomic situation.

The Group will concentrate its efforts on capacity utilization increase and reduction of the internal energy consumption, increase of the sales to inland markets as well as reduction of costs, especially in the logistics

area. Continued improvement of the operational efficiency as well as performance optimization and labour efficiency increase will also become the key objectives for mitigation of the negative effects.

The Parent company's management continues to develop the Contingency Plan, which similarly to 2014 is aimed both to increase cash generation potential and EBITDA result of the Parent company. Implementation of the Contingency Plan will assist in improving the Parent company's financial position and will mitigate the potential negative impact of the macroeconomic environment.

As described in Note 21, the Parent company has available Group internal cross-currency credit limit of EUR 150 million (USD 199 million) maturing on December 2017, which sufficiently covers a net current liability position, which amounts to USD 87,342 thousand or LTL 259,494 thousand as at 31 December 2014.

ORLEN Lietuva Group EBITDA for the year 2015 will be positive reaching the amount of USD 23 million. The forecasted throughput of the Parent company's Refinery in 2015 is about 7.4 million tons of feedstock. Sales contracts concluded with the key inland market customers for 2015 show that the market share in Estonia in comparison with 2014 will be improved twice and in Latvia by 30%.

Ireneusz Fafara  
General Director



Marek Gołębiewski  
Chief Financial Officer



Genutė Barkuvienė  
Chief Accountant



## **CONSOLIDATED ANNUAL REPORT OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR 2014**

Unfavourable macroeconomic conditions and severe competition on the global fuel market, changes related to the growth of shale oil production in the United States and adverse logistics situation had a negative effect on the financial results of Public Company ORLEN Lietuva and its subsidiaries (hereinafter – the Group) for the year 2014.

Valuation of Public Company ORLEN Lietuva (hereinafter – the Parent Company) fixed assets has also reflected the continuing decline in the refining sector. After impairment tests made at the end of the 2<sup>nd</sup> quarter of 2014, the Parent Company reduced the value of its fixed assets.

Nonetheless, the Parent Company continued implementation of the operational efficiency improvement and sales promotion measures as well as performance optimization and labour efficiency increase. Negative effects of the macroeconomic environment have been mitigated by implementation of the Contingency Plan that assisted in improving the Parent Company's financial position.

In 2014, reorganizational changes within the Parent Company were continued. Implementation of the work organization associated changes, introduction of advanced technical measures and tools, modernization of processes and staff optimization were followed by increase of the labour efficiency.

### **Operating Results**

In 2014, the feedstock processing volume was 8 million tons, i.e. by 1.6 million tons (16.3%) lower than in the last year. In 2013 the volume of feedstock processed amounted to 9.6 million tons. Annual capacity utilization in 2014 was lower than the last year by 13.3 percentage points. To minimize the impact of adverse market conditions in the 1<sup>st</sup> quarter of 2014, the volume of processing has been reduced to the minimum necessary, i.e. the Refinery operated at 60% of its design capacity.

Reduced processing volume resulted in product sales decrease. Sales of petroleum products by the Group in 2014 amounted to 7.7 million tons, compared to 9.1 million tons in 2013. Petroleum product sales volume in 2014 was by 1.4 million tons or 14.8% lower in comparison with 2013. Reduced sales volume as well as reduction of the world crude oil and petroleum product prices in the 2<sup>nd</sup> half of 2014 were followed by decrease of the Group revenues reaching USD 6.2 billion (LTL 16.2 billion); whereas revenues of the Group in 2013 were USD 8.1 billion (LTL 20.9 billion).

Sales of the light products in Lithuania during 2014 amounted to 1.5 million tons and remained on the level of 2013. This could have only been possible with the stable market share: the majority of the national retail network was trading in the Refinery-produced fuel; moreover, fuel consumption in Lithuania increased.

2014 was also marked by the particularly successful sales to Ukraine reaching almost 1 million tons of fuel. The beginning of the year was extremely difficult: economic and political situation was really vague; thus sales to Ukraine were realized with advance payment only.

Sales results for 2014 on the inland markets were not as good as in 2013. Worse results were impacted by absence of sales to Statoil in Latvia and Estonia, one of the biggest clients of the Group. A certain portion of unsold volumes has been directed to other markets, i.e. Lithuania and Ukraine. The Baltic countries have three large fuel retail network players the loss of which would lead to significant reduction of the Group market share; therefore, further increase of the growing number of clients was and still remains one of the main targets for the sales activities.

### **Financial Results**

The net loss of the Group for the year 2014 under the International Financial Reporting Standards (IFRS) amounted to USD 963.5 million (LTL 2.5 billion), while the net loss for 2013 was USD 94.3 million (LTL 245.3 million). Operating loss for the year 2014 comprised USD 865.6 million (LTL 2.3 billion), in



comparison with the operating loss of USD 95.1 million (LTL 247.5 million) in the year 2013. Major impact on the negative financial results of the Group for the year 2014 was made by the impairment of the fixed assets of the Parent Company.

Following the provisions of International Accounting Standards (IAS) Article 36 *Impairment of Assets* the entities are required, at the closure of each reporting period, to conduct impairment tests to identify existence of any indication of impairment of their assets. Impairment tests are conducted taking into consideration the external (market) and internal (strategy and business plans) factors. Situation of the Parent Company's Refinery deteriorated in the 2<sup>nd</sup> half of 2013 when the margins hit the rock bottom over the last 10 years and the pressure in the seaborne sales sector increased (more than 50% of the Refinery's products are targeted for seaborne export). Such situation was mainly caused by the shale gas revolution reshaping the global market: export of gasoline was commenced by the United States, a very important market for gasoline earlier. For this reason the Parent Company has recorded an operating loss in 2013 and the first months of the year 2014. After impairment tests the Parent Company has reported the impairment losses in the amount of USD 769 million (LTL 1.97 billion).

Operating loss of the Group for the year 2014, prior to the impairment, amounted to USD 96.7 million (LTL 284.7 million). Negative effects of the macroeconomic environment on financial results have been mitigated by implementation of the Contingency Plan.

Information on financial risk management of the Group is available in Note 25 of Financial Statements. The information includes data on financial risk management trends, used insurance instruments to which the accounting of insurance transactions is applicable as well as pricing risk, credit risk, liquidity risk and cash flow risk.

### **Modernization, Mandatory and Other Projects**

The total amount of investments made by the Group in tangible and intangible assets during the year 2014 comprised USD 24.0 million, i.e. was by 68% lower than in the year 2013 (USD 75.4 million).

In 2014, the Parent Company completed Visbreaker Vacuum Flasher (VVF) Project as well as other modernization projects such as Prime-G+ light and heavy cracked naphtha direction to gasoline blending separately and diesel fuel production project with operation of one Diesel Hydrotreatment Unit. The Parent Company was also implementing the project of natural gas supply to the Refinery as well as major refurbishment works on the Refinery's process units.

The Parent Company's main focus, similar to previous years, was given for implementation of the projects with the short pay-back period requiring relatively low investments. In 2014, the number of such projects completed by the Parent Company amounted to 15, with the total budget reaching USD 1.5 million and the positive impact on EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) that may reach USD 8.6 million per year, depending on the fuel market situation. The main projects intended for EBITDA improvement were as follows: reduction of bitumen production costs, production of marine gas oils, directing fraction >420°C to VVF as well as installation and refurbishment of thermal insulation for hot piping, flanges and reinforcement.

### **Employees' Development and Work Compensation Policy**

Employees' development remains the priority area of the human resources management in the Group. Following the applicable legislation and internal requirements 2,250 employees of the Group attended trainings and received certificates in the areas of fire and civil safety, first aid and hygiene as well as execution of specialized works.

The Parent Company continuously improves qualification of its workers to ensure proper servicing by its operational staff of the process equipment and modernized units. During 2014, trainings in this relation were attended by 797 employees. More than 500 employees of the Group participated in trainings on ecology,



engineering, finance and accounting, law, Lean management and skills development, leadership, business security, and other areas.

In 2014 the internal trainings project *Expert Club. Refined Knowledge* was continued aiming to knowledge exchange and learning from each other. Experts, i.e. qualified specialists and managers of the Parent Company, prepare information and materials introducing activities of their departments to more than 350 employees and presenting various projects being executed.

In 2014, 16 employees participated in the trainings programs financed by the European Union funds improving public speaking skills, and knowledge in innovations management and economics.

On the 20 August 2014 the Parent Company signed the new Collective Agreement, while from the 1 September 2014 new Monthly Premium Payment Regulations came into force. Negotiations on new collective agreements in UAB EMAS and UAB Paslaugos Tau, subsidiaries of the Parent Company, commenced at the end of 2014.

### **Organizational Changes and Restructuring**

Optimization of the Group activities and labour efficiency increase remained one of the most significant targets to achieve the objectives set by the shareholders. In August 2014 Public Company Ventus-Nafta was sold. To improve efficiency of internal processes, the Parent Company was further implementing organizational changes and restructuring processes. Upon implementation of the work organization associated changes, introduction of advanced technical solutions, and modernization of processes, staff optimization in many organizational units was achieved at the same time improving the Parent Company's performance indicators.

Organizational changes and restructuring in the Group allowed for staff reduction during the last year. The number of active employees reduced by 490, with the total number at the end of 2014 being 1,637 (including the Parent Company's Representative Office in Ukraine).

### **Maintaining the Management Systems and their Certification**

Activities of the Parent Company comply with the strict international integrated management system standards (ISO 9001, ISO 14001, BS OHSAS 18001 and ISO/IEC 27001) implemented by many European companies. In the European business practice, the companies which have introduced ISO 9001 standard are considered as the solid and reliable partners oriented towards the long-term plans and quality instead of pursuing short-term profitability.

Despite significant structural changes in 2014, the Integrated Management System that includes the areas of quality management, environmental management, information security, and occupational health and safety management was further maintained and developed. In January 2014, LRQA Ltd. completed the Parent Company's Integrated Management System recertification establishing that activities of the Parent Company are in compliance with the requirements of ISO 9001, ISO 14001, ISO/IEC 27001 and OHSAS 18001 standards and extending validity of the certificates until the year 2017.

### **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 2014, the Group did not acquire or transfer any of its own shares.

### **Branches**

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

**The Year 2015 – Continued Pursuit of the Group Strategy Improvement**

In 2015, the Group will further pursue its objectives established in PKN ORLEN Strategy 2014-2017 reflecting the current macroeconomic situation.

The forecasted throughput of the Parent Company's Refinery in 2015 is about 7.4 million tons of feedstock. The Group will concentrate its efforts on capacity utilization increase and reduction of the internal energy consumption, seeking to ensure its stable activities and increasing sales to inland markets as well as reducing costs, especially in the logistics area.

To ensure the long-term perspective of both ORLEN Lietuva Group as well as PKN ORLEN Group under conditions of increasing competition and unfavorable macroeconomic situation the management of the Group in the year 2015 will continue implementation of advanced management solutions in the area of operational efficiency increase and process optimization.

General Director



Ireneusz Fąfara