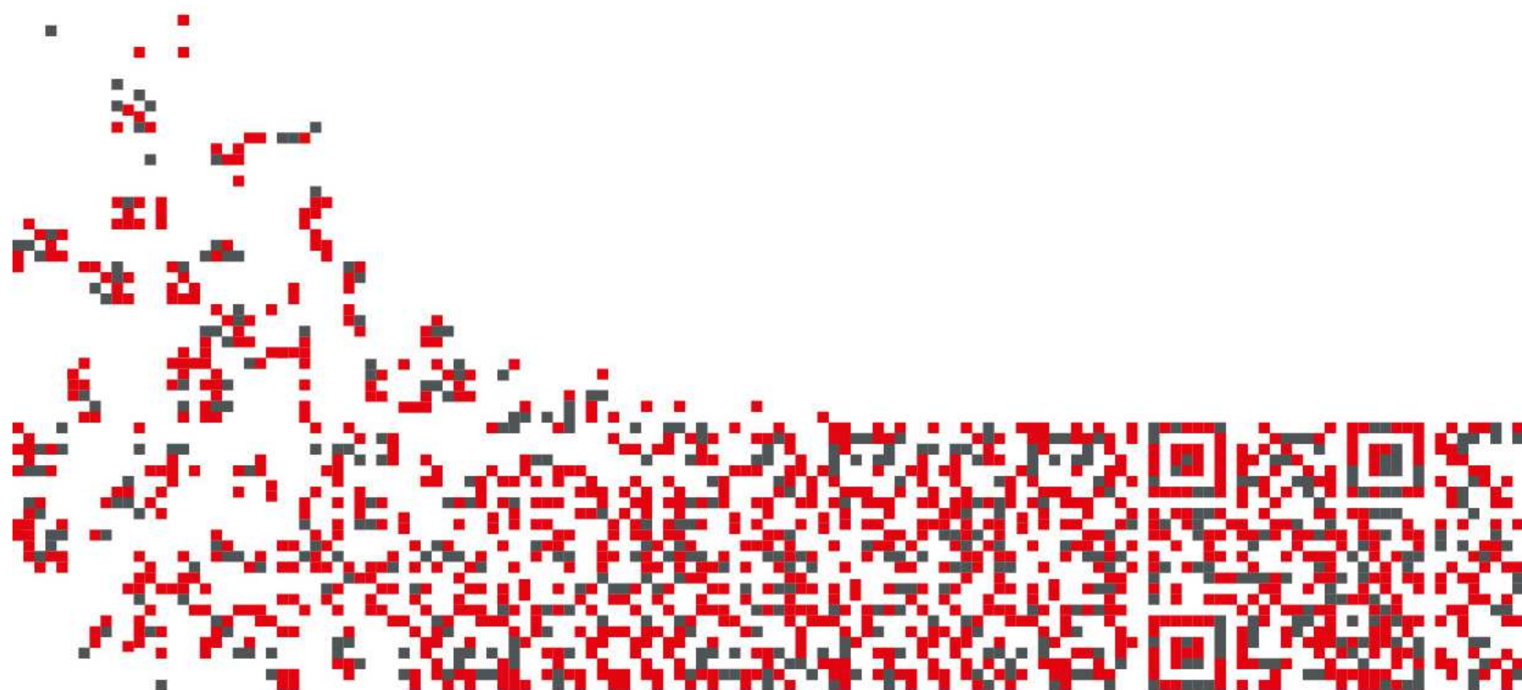
Public Company ORLEN Lietuva
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2012

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union



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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 ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the annual report of AB ORLEN Lietuva for the year ended 31 December 2012, set out on pages 81 to 85 of the consolidated financial statements, and have not identified any material inconsistencies between the consolidated financial information included in the annual report and the consolidated financial statements of AB ORLEN Lietuva for the year ended 31 December 2012.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner pp
Certified Auditor

Andrej Soruženkov
Certified auditor

Klaipėda, the Republic of Lithuania
8 March 2013

Consolidated statement of financial position

	Note	as at 31/12/2012		as at 31/12/2011	
		USD	LTL	USD	LTL
ASSETS					
Non-current assets					
Property, plant and equipment	5	955,790	2,490,788	927,699	2,476,399
Intangible assets	6	47,585	124,004	50,205	134,019
Perpetual usufruct of land	7	103	268	102	271
Investments in equity-accounted investees	8	1,862	4,851	1,756	4,689
Deferred tax assets	24	58,492	152,430	64,077	171,045
Long term financial assets	11	1,223	3,187	1,612	4,302
Other non-current assets		4,760	12,405	2,854	7,617
Total non-current assets		**1,069,815**	**2,787,933**	**1,048,305**	**2,798,342**
Current assets					
Inventory	9	564,261	1,470,466	478,793	1,278,093
Trade and other receivables	10	343,756	895,832	265,963	709,962
Short term financial assets	11	18,211	47,457	6,539	17,456
Income tax receivable		2,840	7,400	2,835	7,568
Cash and cash equivalents	12	17,893	46,629	59,704	159,373
Non-current assets classified as held for sale	13	584	1,522	5,129	13,690
Total current assets		**947,545**	**2,469,306**	**818,963**	**2,186,142**
Total assets		**2,017,360**	**5,257,239**	**1,867,268**	**4,984,484**
LIABILITIES AND SHAREHOLDERS EQUITY					
EQUITY					
Share capital	14	181,886	708,821	181,886	708,821
Share premium		77,507	295,548	77,507	295,548
Other reserves		27,654	74,052	27,654	74,052
Foreign exchange differences		1,083	(256,917)	(607)	(205,236)
Retained earnings		541,806	1,341,307	462,107	1,124,984
Total equity		**829,936**	**2,162,811**	**748,547**	**1,998,169**
LIABILITIES					
Long-term liabilities					
Interest-bearing loans and borrowings	15	349,746	911,439	349,608	933,243
Employee benefits	16	8,708	22,693	7,597	20,280
Provisions	17	2,873	7,486	5,987	15,982
Deferred tax liabilities	24	-	-	1	3
Total long-term liabilities		**361,327**	**941,618**	**363,193**	**969,508**
Short-term liabilities					
Trade and other liabilities	18	590,937	1,539,982	653,901	1,745,523
Interest-bearing loans and borrowings	15	54,864	142,976	48,230	128,744
Income tax liability		477	1,244	190	507
Provisions	17	45,456	118,459	47,893	127,846
Deferred income		18	46	11	30
Other financial liabilities	19	134,345	350,103	5,303	14,157
Total short-term liabilities		**826,097**	**2,152,810**	**755,528**	**2,016,807**
Total liabilities		**1,187,424**	**3,094,428**	**1,118,721**	**2,986,315**
Total equity and liabilities		**2,017,360**	**5,257,239**	**1,867,268**	**4,984,484**

Consolidated financial statements set out on pages 5 to 80 were approved by the General Director, Chief Financial Officer and the Chief Accountant on 6 March 2013.

Ireneusz Fąfara	Waldemar Franz Winkler	Genutė Barkuvienė
General Director	Chief Financial Officer	Chief Accountant

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
		USD	LTL	USD	LTL
Statement of profit or loss					
Sales revenues	20	8,051,016	21,630,663	8,169,601	20,274,500
Cost of sales	21	(7,701,014)	(20,690,314)	(7,913,978)	(19,640,120)
Gross profit on sale		**350,002**	**940,349**	**255,623**	**634,380**
Distribution expenses	21	(173,812)	(466,979)	(178,825)	(443,790)
General and administrative expenses	21	(65,055)	(174,782)	(70,251)	(174,342)
Other operating income	22	37,888	101,795	71,743	178,045
Other operating expenses	22	(34,875)	(93,699)	(53,076)	(131,717)
Profit from operations		**114,148**	**306,684**	**25,214**	**62,576**
Financial income	23	3,548	9,532	2,734	6,783
Financial expenses	23	(29,923)	(80,396)	(31,121)	(77,234)
Financial income and expenses		**(26,375)**	**(70,864)**	**(28,387)**	**(70,451)**
Share in profit from investments in equity-accounted investees	8	59	159	160	398
Profit/(loss) before tax		**87,832**	**235,979**	**(3,013)**	**(7,477)**
Income tax expense	24	(7,405)	(19,895)	(2,571)	(6,381)
Net profit/(loss)		**80,427**	**216,084**	**(5,584)**	**(13,858)**
Items of other comprehensive income/(expenses):					
Foreign exchange differences		962	(51,442)	(1,596)	39,653
		962	**(51,442)**	**(1,596)**	**39,653**
Total net comprehensive income/(expenses)		**81,389**	**164,642**	**(7,180)**	**25,795**
Net profit/(loss) attributable to:					
equity holders of the parent		80,427	216,084	(5,584)	(13,858)
Total comprehensive income/(expenses) attributable to:					
equity holders of the parent		81,389	164,642	(7,180)	25,795

Ireneusz Fąfara
General Director

Waldemar Franz Winkler
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

Consolidated statement of cash flows

	Note	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
Cash flow - operating activities		**USD**	**LTL**	**USD**	**LTL**
Net profit/(loss)		**80,427**	**216,084**	**(5,584)**	**(13,858)**
Adjustments for:					
Share in profit from investments in equity-accounted investees	8	(59)	(159)	(160)	(398)
Depreciation and amortization	5,6,7	63,025	169,329	79,510	197,319
Foreign exchange (gain)/loss		1,279	(10,964)	(1,270)	27,541
Interest and guarantees, net	23	15,626	41,985	13,885	34,460
(Profit)/loss on investing activities		15,647	42,351	31,159	78,364
Change in receivables		(78,699)	(188,097)	4,668	(3,790)
Change in inventories		(85,467)	(192,372)	(28,570)	(104,492)
Change in liabilities		(63,999)	(204,179)	(82,242)	(178,886)
Change in provisions		28,379	72,705	41,133	105,973
Income tax expense	24	7,405	19,895	2,571	6,381
Income tax (paid)/received		(1,525)	(4,097)	(1,515)	(3,760)
Emission rights recognised at fair value	6	(28,775)	(77,310)	(47,646)	(118,243)
Net cash used in operating activities		**(46,736)**	**(114,829)**	**5,939**	**26,611**
Cash flows - investing activities					
Acquisition of property, plant and equipment and intangible assets		(91,075)	(244,950)	(68,407)	(169,766)
Disposal of property, plant and equipment and intangible assets		480	1,290	319	791
Disposal of shares		-	-	229	568
Increase/(decrease) in derivatives		(19,741)	(53,038)	(1,255)	(3,350)
Increase/(decrease) in deposits		(2,318)	(6,040)	5,604	13,907
Interest received		338	962	865	2,147
Net cash used in investing activities		**(112,316)**	**(301,776)**	**(62,645)**	**(155,703)**
Cash flows - financing activities					
Proceeds from loans and borrowings		6,154	16,534	258,282	640,979
Repayment of loans and borrowings		-	-	(145,848)	(361,951)
Interest paid		(16,296)	(43,782)	(14,983)	(37,183)
(Outflow)/inflow from cash pool		127,554	332,390	(15,190)	(39,635)
Net cash used in financing activities		**117,412**	**305,142**	**82,261**	**202,210**
Net (decrease)/increase in cash and cash equivalents		**(41,640)**	**(111,463)**	**25,555**	**73,118**
Effect of exchange rate changes		(171)	(1,281)	(538)	(4,275)
Cash and cash equivalents, beginning of the period	**12**	**59,704**	**159,373**	**34,687**	**90,530**
Cash and cash equivalents, end of the period	**12**	**17,893**	**46,629**	**59,704**	**159,373**

Ireneusz Fąfara	Waldemar Franz Winkler	Genutė Barkuvienė
General Director	Chief Financial Officer	Chief Accountant

Statement of changes in consolidated equity

USD	Equity attributable to equity holders of the parent						
	Share capital	Share premium	Revaluation reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2012	181,886	77,507	109	27,545	(607)	462,107	**748,547**
Profit for the year	-	-	-	-	-	80,427	**80,427**
Foreign currency translation differences of foreign operations	-	-	-	-	1,690	(728)	**962**
Total comprehensive income/(expenses)	**-**	**-**	**-**	**-**	**1,690**	**79,699**	**81,389**
31 December 2012	**181,886**	**77,507**	**109**	**27,545**	**1,083**	**541,806**	**829,936**
1 January 2011	181,886	77,507	109	27,553	2,338	466,334	755,727
Loss for the year	-	-	-	-	-	(5,584)	(5,584)
Transfer of cumulative translation differences after liquidation of subsidiary	-	-	-	-	278	(278)	-
Foreign currency translation differences of foreign operations	-	-	-	-	(3,223)	1,627	(1,596)
Total comprehensive income/(expenses)	**-**	**-**	**-**	**-**	**(2,945)**	**(4,235)**	**(7,180)**
Transferred to legal reserve	-	-	-	(8)	-	8	-
Transactions with owners in their capacity as owners	**-**	**-**	**-**	**(8)**	**-**	**8**	**-**
31 December 2011	**181,886**	**77,507**	**109**	**27,545**	**(607)**	**462,107**	**748,547**

Ireneusz Fąfara
General Director

Waldemar Franz Winkler
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

LTL	Equity attributable to equity holders of the parent						
	Share capital	Share premium	Revaluation reserve	Other reserves	Foreign exchange differences	Retained earnings	Total equity
1 January 2012	708,821	295,548	437	73,615	(205,236)	1,124,984	1,998,169
Profit for the year	-	-	-	-	-	216,084	216,084
Foreign currency translation differences of foreign operations	-	-	-	-	(51,681)	239	(51,442)
Total comprehensive income/(expenses)	**-**	**-**	**-**	**-**	**(51,681)**	**216,323**	**164,642**
31 December 2012	**708,821**	**295,548**	**437**	**73,615**	**(256,917)**	**1,341,307**	**2,162,811**
1 January 2011	708,821	295,548	437	73,636	(242,489)	1,136,421	1,972,374
Loss for the year	-	-	-	-	-	(13,858)	(13,858)
Transfer of cumulative translation differences after liquidation of subsidiary	-	-	-	-	595	(595)	-
Foreign currency translation differences of foreign operations	-	-	-	-	36,658	2,995	39,653
Total comprehensive income/(expenses)	**-**	**-**	**-**	**-**	**37,253**	**(11,458)**	**25,795**
Transferred to legal reserve	-	-	-	(21)	-	21	-
Transactions with owners in their capacity as owners	**-**	**-**	**-**	**(21)**	**-**	**21**	**-**
31 December 2011	**708,821**	**295,548**	**437**	**73,615**	**(205,236)**	**1,124,984**	**1,998,169**

Ireneusz Fąfara
General Director

Waldemar Franz Winkler
Chief Financial Officer

Genutė Barkuvienė
Chief Accountant

Accounting principles, notes 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. 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 2012 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 six subsidiaries (seven subsidiaries in 2011). 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
			31/12/2012	31/12/2011	
Subsidiaries					
AB Ventus nafta	Lithuania	2002	100	100	Retail trade in petroleum products.
UAB Mažeikių Naftos prekybos namai	Lithuania	2003	100	100	It 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. SIA Mazeikiu Nafta Tirdcniecibas Nams changed the name to SIA ORLEN Latvija in December 2011.
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. OU Mazeikiu Nafta Trading House changed the name to OU ORLEN Eesti in December 2011.
Sp.z.o.o. Mazeikiu Nafta Trading House	Poland	2003	0	0	The company was liquidated in November 2011.
UAB Medikvita	Lithuania	2007	100	100	Provides services in relation to health care, training, hygienic assessment of work places and other related services. UAB Mažeikių Naftos sveikatos priežiūros centras changed the name to UAB Medikvita in June 2012.
UAB Paslaugos tau	Lithuania	2008	100	100	Cleaning of premises, maintenance of territory.
UAB EMAS	Lithuania	2009	100	100	Installation, supervision, repair of electrical equipment and related services.
Associated company					
UAB Naftelf	Lithuania	1996	34	34	Trading in aviation fuel and construction of storage facilities thereof.

2. Accounting policies

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) and that in force as at 31 December 2012. The consolidated financial statements cover the period from 1 January to 31 December 2012 and the corresponding period from 1 January to 31 December 2011.

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 2012 and comparative data as at 31 December 2011, results of its operations and cash flows for the year ended 31 December 2012 and comparative data for the year ended 31 December 2011.

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 on 6 March 2013.

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 amendments and interpretations of IFRSs on consolidated financial statements of the Group

2.3.1. Current changes and interpretations of IFRSs

From 1 January 2012 to the date when the financial statement was authorized for issue, the amendments to IFRSs and interpretations to IFRSs, which are effective, had no impact on the \financial statement.

2.3.2. IFRSs and interpretations to IFRSs published, not yet effective

Earlier adoption

The Group had adopted amendments to IAS 1 before the effective date.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

Group:

- presents separately those items of other comprehensive income that may be reclassified in the future to profit or loss when specific conditions are met from those that would never be reclassified to profit or loss,
- has changed the title of the "Statement of Comprehensive Income" to "Statement of Profit or Loss and Other Comprehensive Income".

Adoption in accordance with effective date

The Group intends to adopt published by International Accounting Standard Board (IASB), not yet effective to the date when the foregoing financial statement were authorized for issue, below mentioned, amendments to IFRSs and interpretations to IFRSs, in accordance with their effective dates.

Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First – time Adopters

The amendment adds an exemption that an entity can apply, at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows the entity to measure all assets and liabilities held before the functional currency normalization date at fair value and use that fair value as a deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

The Group shall apply those amendments for annual periods beginning on or after 1 July 2013.

The Group does not expect that at the date of adoption, the amendments to standard will have no impact on future consolidated financial statements, as Group applies IFRS since 2005.

Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

The Amendments contain new disclosure requirements for financial assets and liabilities that are:
– offset in the statement of financial position; or
– subject to master netting arrangements or similar agreements.

It is effective for periods beginning on or after 1 January 2013.

The Group does not expect the amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

New Standard - IFRS 10 Consolidated Financial Statements

IFRS 10 replaces IAS 27 Consolidated and separate financial statements, in scope of consolidation and SIC 12 interpretation Special Purpose Entities.

IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12.

Under the new single control model, an investor controls an investee when:
– it is exposed or has rights to variable returns from its involvements with the investee,
– has the ability to affect those returns through its power over that investee and
– there is a link between power and returns.

It is effective for periods beginning on or after 1 January 2014.

The Group does not expect the new standard to have any impact on the financial statements of the Group, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

New Standard- IFRS 11 Joint Arrangements

IFRS 11 "Joint Arrangements", supersedes and replaces IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non Monetary Contributions by Venturers".

IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:
– a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
– a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations (recognizing particular items of assets and liabilities), under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.

It is effective for periods beginning on or after 1 January 2014.

The Group expects that new standard will have no significant impact on future consolidated financial statements, as the amendments to IFRS 11 are not applicable to the Group.

New Standard- IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and separate structured entities.

It is effective for periods beginning on or after 1 January 2014.

It is expected that the new standard, when initially applied, will increase the number of disclosures of interest in other entities in the financial statements.

New Standard - IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.

It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

It is effective for periods beginning on or after 1 January 2013.

The Company does not expect IFRS 13 to have material impact on the consolidated financial statements, as the Management assesses the methods and assumptions used when measuring assets at fair value as being in line with IFRS 13.

Amendments to IAS 12 Income taxes - Deferred tax: Recovery of Underlying Assets

Amendments introduced in 2010 provide the exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using fair value model in IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

It is effective for periods beginning on or after 1 January 2013.

The Group expects that new standard will have no significant impact on future consolidated financial statements, as the amendments to IAS 12, are not applicable to the Group.

Amendments to IAS 19 Employee Benefits

The amendment removes the corridor method previously applicable to recognizing actuarial gains and losses, and eliminates the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment also requires the expected return on plan assets recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

It is effective for periods beginning at the or after 1 January 2013.

The Group does not expect the amendments to have a significant impact on future consolidated financial statements, since the Group will present actuarial gain and losses in other comprehensive income instead of profit or loss.

Amendments to IAS 27 Separate Financial Statements

IAS 27 (2011) was modified in relation to issuance of IFRS 10 Consolidated Financial Statement and carries forward the existing accounting and disclosure requirements for separate financial statements. For that reason requirements of IAS 28 (2008) and IAS 31 relating to separate financial statements will be incorporated to IAS 27.

It is effective for periods beginning on or after 1 January 2014.

The above amendment will have no material impact on the consolidated financial statements, since it does not results in a change in the group's accounting policy.

Amendments to IAS 28 Investments in Associates and Joint Ventures

Amendments comprise:

– Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
– Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

It is effective for periods beginning on or after 1 January 2014.

It is expected that the standard, when initially applied, will have no impact on the consolidated financial statements, as the Group holds no investments in associates or joint ventures will be impacted by the amendments.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:
– not contingent on a future event; and
– enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

It is effective for periods beginning on or after 1 January 2014.

It is expected that the amendment, when initially applied, will have no significant impact on consolidated financial statements, since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRSs and interpretations to IFRSs adopted by International Accounting Standard Board (IASB), waiting for approval of EU

Amendments to IFRS 1 First-time adopters Government Loans

The amendments add a new exception to retrospective application of IFRS. A first-time adopter of IFRS now applies the measurement requirements of financial instruments standards (IAS 39 or IFRS 9) to a government loan with a below-market rate of interest prospectively from the date of transition to IFRS.

Alternatively, a first-time adopter may elect to apply the measurement requirements retrospectively to a government loan, if the information needed was obtained when it first accounted for that loan. This election is available on a loan-by-loan basis.

It is effective for periods beginning on or after 1 January 2013 for companies reporting under full IFRSs.

The Group does not expect that at the date of adoption, the amendments to standard will have no impact on future consolidated financial statements, as Group applies IFRS since 2005.

New standard and amendments to IFRS 9 Financial Instruments

New standard replaces guidance in IAS 39 Financial Instruments: Recognition and Measurement about classification and measurement of financial assets.

The standard eliminates existing IAS 39 categories: held to maturity, available for sale and loans and receivables.

At the initial recognition, financial assets will be classified as: financial assets measured at amortized cost or financial assets measured at fair value.

The 2010 amendments to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement mainly about liabilities "designated as fair value through profit or loss" in case of changes in fair value, as a result of changes in credit risk of a liability, that are presented directly in other comprehensive

income. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. Accumulated profit or loss may be transferred within equity.

New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortized cost or fair value.

Moreover, the amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.

It is effective for periods on or after 1 January 2015 for companies reporting under full IFRSs.

The Group expects that new standard will not have an impact on items presented in future consolidated financial statements. Based on the standard, assets will be assigned to changed financial instruments categories.

Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

The amendments:

- define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
- limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
- requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
- will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

It is effective for periods on or after 1 January 2013 for companies reporting under full IFRSs.

The Group expects that amendments to standards will not have an impact on items presented in future consolidated financial statements.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.

The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity:

- obtains funds from investors to provide those investors with investment management services;
- commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

It is effective for periods on or after 1 January 2014 for companies reporting under full IFRSs.

The Group expects that amendments to standards will have no significant impact on future consolidated financial statements, as the amendments are not applicable to the Group.

Improvements to IFRS (2009-2011)

The Improvements to IFRSs (2009-2011) contains 7 amendments to 5 standards, with consequential amendments to other standards and interpretations. The main changes relate to:

- repeated application of IFRS 1 – a repeated adopter that elects not to apply IFRS 1 has to apply IFRS retrospectively in accordance with IAS 8, as if it had never stopped applying IFRS;
- clarification that first-time adopter of IFRS choosing to apply borrowing costs exemptions should not restate the borrowing cost component that was capitalized under previous GAAP and should account for borrowing cost incurred on or after the date of transition (or an earlier date, as permitted by IAS 23) in accordance with IAS 23;
- clarification that only one comparative period, which is the preceding period, is required to a complete set of financial statements; however if additional comparative information is prepared it should be accompanied by related notes and be in accordance with IFRS;
- clarification that the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or reclassification has a material effect upon the information in that statement of financial position and except for the disclosures required under IAS 8, other notes related to the opening statement of financial position are no longer required.
- clarification on the classification and accounting of spare parts, stand-by equipment and servicing equipment;
- removal of inconsistencies between IAS 32 and IAS 12 in respect of distributions to holders of an equity instrument and transaction costs of an equity transaction, by clarification that IAS 12 applies to the accounting for income taxes relating to those transactions;
- additional disclosure required of a measure of total assets and liabilities for a particular reportable segment for interim financial reporting.

It is effective for periods on or after 1 January 2014 for companies reporting under full IFRSs.

The Group expects that amendments to standards will have no significant impact on future consolidated financial statements.

2.3.3. 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 Group 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.

CURRENCIES	average exchange rate for the reporting period		exchange rate at the end of the reporting period	
	31/12/2012	31/12/2011	31/12/2012	31/12/2011
LTL/USD	2.68670	2.48170	2.6060	2.6694
EUR/USD	0.77812	0.71875	0.7547	0.7731
LVL/USD	0.54257	0.50765	0.5263	0.5401

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 adjust 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 made to the 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 or in previous consolidated financial statements 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 (entities over which the investor has significant influence and that are neither controlled nor jointly controlled) are accounted 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.

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.

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 full consolidation 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:
- 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 chief operating decision maker 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 which are reconciling item and include activities related to management and administration and other support functions as well as remaining activities not allocated to separate segments.

Segment revenues are revenues reported in the statement of profit or loss and other comprehensive income that are directly attributable to a segment and the relevant portion of revenues that can be allocated on a reasonable basis to a segment, including revenues from sales to external customers and revenues from transactions with other segments.

Segment expenses are expenses 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, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

Segment expenses do not include:

– income tax expense,
– 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.

The revenues, result, assets of a given segment are defined before inter-segment adjustments are made, after adjustments within a given segment.

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

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

Appropriateness of the applied depreciation rates is reviewed periodically (at least once a year). The adjustments are accounted for prospectively from the date of review.

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 when it is incurred.

The Group reviews (once a year) the residual value of property, plant and equipment. Property, plant and equipment are tested for impairment, when there are indicators 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,
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group.

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 profit or loss 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 amortisation period and the amortisation method are reviewed periodically (at least once a year). The changes are reflected in the future accounting periods (prospectively).

The amortizable amount of an asset with a finite useful life 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	2–15 years
Software	2–10 years

Intangible assets with an indefinite useful life are not amortized. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortized is reviewed each period 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. However, the measurement period does not exceed one year from the acquisition date.

2.4.7.2. Rights

Carbon dioxide emission rights (CO_2)

CO_2 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.

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

Grants of CO_2 emission rights are recognized on a systematic basis to ensure matching with the related costs for which the grants were intended to compensate. 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_2 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).

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. Land is not depreciated.

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 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 directly charged into consolidated profit or loss.

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.

The upper limit of the borrowing cost eligible for capitalization is the value of borrowing cost actually borne by the Group in respect of qualifying assets.

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

2.4.10. Impairment of assets

The carrying amounts if the Group's non-financial assets, excluding inventory and deferred tax assets, are reviewed at each reporting date to determine if there are any indicators of impairment. The tests are carried out annually for intangible assets with an 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.

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

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Assets that do not generate independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units). 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.

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 each 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.

An impairment loss recognized for goodwill is not reversed.

Reversal of an impairment loss is recognized in profit or loss.

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.

Outgoings of finished goods and work in progress is determined 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 merchandise and raw materials are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise 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.

Reclassification is reflected 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 (or amortized).

A non-current assets held for sale (excluding financial assets and investment property) is measured at a lower of: carrying value 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.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:
- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The Group re-presents the disclosures presented with reference to discontinued operation for prior periods presented in the consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Group ceases to classify a discontinued operation, the results of operations previously presented in discontinued operations are reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods are described as having been re-presented.

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 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 relates to a difference between the fair value and the purchase cost, after deducting deferred tax, 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.

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),
- advance dividends paid,
- the effects (profit/loss) of prior period errors,
- changes in accounting principles.

2.4.16. Liabilities

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

2.4.16.1. 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 taken to income over period the related costs 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).

2.4.17. Employee benefits: 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 are recognized in profit or loss.

2.4.18. 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.

The provisions are created, among others, for:
- environmental risk,
- business risk,
- restructuring,
- CO_2 emission.

Provisions are not recognized for the future operating losses.

2.4.18.1. 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 independent experts. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

2.4.18.2. Business risk

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

2.4.18.3. 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 Group will carry out the restructuring. 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), termination of lease contracts, dismantling of assets.

2.4.18.4. CO2 emissions

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

2.4.19. 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.

2.4.20. 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. In particular, these are revenues that are fully controlled by the Group.

2.4.20.1. 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.

2.4.21. 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.

The Group recognizes costs in accordance with matching and prudence concept.

2.4.21.1. Costs of sales

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

2.4.21.2. Distribution expenses

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

2.4.21.3. General and administrative expenses

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

2.4.22. 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, research costs, cost of recovery of receivables and liabilities, revaluation losses and loss on sale of investment property.

2.4.23. 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, guarantees and interest expenses.

2.4.24. 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 (impairment analysis of deferred tax assets at each reporting date).

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.

2.4.25. 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.

Cash flows from corporate income tax are presented in cash flows from operating activities, unless it may be related to investing or financing activities.

2.4.26. 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.

2.4.26.1. 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.

2.4.26.2. 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. Transaction costs comprise particularly fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges and transfer of taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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 the following way:
- for instruments quoted on an active market based on current quotations available as at the end of the reporting period,
- for debt instruments unquoted on an active market based on discounted cash flows analysis,
- for forward and swap transactions based on discounted cash flows analysis.

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 other 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. The fair value of a financial liability is the current price of instruments quoted on an active market.

If there is no active market for a financial instrument, the fair value of the financial liabilities is established by using the following techniques:
– using recent arm's length market transactions between knowledgeable, willing parties,
– reference to the current fair value of another instrument that is substantially the same,
– discounted cash flow analysis.

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.

2.4.26.3. Transfers

The Group:
– does not reclassify a derivative out the fair value through profit or loss category while it is held or issued;
– 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, and in case of loans and receivables (if at initial recognition financial assets was not classified at held for trading) if the Group has intention and possibility to hold a financial asset in a foreseeable future or to maturity.

The Group does not reclassify financial instruments into category of fair value through profit or loss after initial recognition.

2.4.26.4. 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 an objective indicator that an impairment loss on loans and other receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is 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.

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 in profit or loss as revenue.

If there is an objective indicator 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 an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognized in statement of profit or loss and other comprehensive income is removed from equity and recognized in 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, with the amount of the reversal recognized in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

2.4.27. Contingent assets and contingent liabilities

A contingent asset is a possible 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 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 consolidated 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.

Contingent assets are not recognized in the consolidated statement of financial position, however the respective information on the contingent asset is disclosed in the additional information to the consolidated financial statements if the inflow of economic benefits is probable and if practicable is estimates the influence on financial results, as according to accounting principles for valuation of provisions.

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 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

Subsequent events after the reporting date are those events, favourable and unfavourable, that occur between end of the reporting period and date of when the consolidated financial statements are authorized for issue. Two types of subsequent 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).

The Group adjusts the amounts recognized in its consolidated financial statements to reflect adjusting events after the reporting date.

The Group does not adjust the amounts recognized in its consolidated financial statements to reflect 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 25). 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 5 and Note 6). The Management assess, if there is an objective indicator for impairment of assets or cash generating units. 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 5 and Note 6). 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 17). As described in Note 2.4.18, 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 17.
- Contingent liabilities (Note 28). 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 24). As described in Note 2.4.24, 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 16).

4. Operating segments

Accounting principles used in reportable segments are in line with the Group's accounting principles, described in the Note 2. 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 Management evaluates the results of segment activities based on the segment's operating result.

The Group has three reportable segments: refining, retail, and corporate functions.

The segment of refining includes production and trade divisions of the Parent company, UAB Mažeikių Naftos prekybos namai, SIA ORLEN Latvija, OU ORLEN Eesti, Sp.z.o.o. Mazeikiu Nafta Trading House, UAB EMAS, UAB Paslaugos tau.

The segment of retail includes 26 owned gas stations of AB Ventus Nafta and 9 gas stations operated under franchise agreements in Lithuania.

The segment of corporate functions includes the Parent company's divisions of business maintenance and administration and the UAB Medikvita.

4.1. Revenue and financial result by segments

For the year ended 31 December 2012

USD	Refining segment	Retail segment	Corporate functions	Adjustments	Total
Sales to external customers	7,984,172	64,109	2,735	-	**8,051,016**
Transactions with other segments	43,376	488	864	(44,728)	**-**
Total sales revenue	**8,027,548**	**64,597**	**3,599**	**(44,728)**	**8,051,016**
Total operating expenses	**(7,873,529)**	**(64,514)**	**(46,566)**	**44,728**	**(7,939,881)**
Other operating income	32,081	271	5,536	-	**37,888**
Other operating expenses	(30,502)	(849)	(3,524)	-	**(34,875)**
Segments operating profit/(loss)	**155,598**	**(495)**	**(40,955)**	**-**	**114,148**
Financial income					**3,548**
Financial expenses					**(29,923)**
Investments into equity-accounted investees	59	-	-	-	**59**
Profit/(loss) before tax					**87,832**
Income tax expense					(7,405)
Net profit/(loss)					**80,427**
Depreciation and amortization	**(58,264)**	**(1,996)**	**(2,765)**	**-**	**(63,025)**
Additions to non-current assets	**119,441**	**282**	**2,839**	**-**	**122,562**

LTL	Refining segment	Retail segment	Corporate functions	Adjustments	Total
Sales to external customers	21,451,073	172,242	7,348	-	**21,630,663**
Transactions with other segments	116,538	1,311	2,321	(120,170)	**-**
Total sales revenue	**21,567,611**	**173,553**	**9,669**	**(120,170)**	**21,630,663**
Total operating expenses	**(21,153,806)**	**(173,330)**	**(125,109)**	**120,170**	**(21,332,075)**
Other operating income	86,193	728	14,874	-	**101,795**
Other operating expenses	(81,950)	(2,281)	(9,468)	-	**(93,699)**
Segments operating profit/(loss)	**418,048**	**(1,330)**	**(110,034)**	**-**	**306,684**
Financial income					**9,532**
Financial expenses					**(80,396)**
Investments into equity-accounted investees	159	-	-	-	**159**
Profit/(loss) before tax					**235,979**
Income tax expense					(19,895)
Net profit/(loss)					**216,084**
Depreciation and amortization	**(156,537)**	**(5,363)**	**(7,429)**	**-**	**(169,329)**
Additions to non-current assets	**320,901**	**758**	**7,628**	**-**	**329,287**

For the year ended 31 December 2011

USD	Refining segment	Retail segment	Corporate functions	Adjustments	Total
Sales to external customers	8,104,741	62,588	2,272	-	**8,169,601**
Transactions with other segments	39,133	433	1,569	(41,135)	**-**
Total sales revenue	**8,143,874**	**63,021**	**3,841**	**(41,135)**	**8,169,601**
Total operating expenses	**(8,071,163)**	**(63,025)**	**(70,001)**	**41,135**	**(8,163,054)**
Other operating income	31,636	172	39,935	-	**71,743**
Other operating expenses	(35,432)	(4,227)	(13,417)	-	**(53,076)**
Segments operating profit/(loss)	**68,915**	**(4,059)**	**(39,642)**	**-**	**25,214**
Financial income					**2,734**
Financial expenses					**(31,121)**
Investments into equity-accounted investees	160	-	-	-	**160**
Profit/(loss) before tax					**(3,013)**
Income tax expense					(2,571)
Net profit/(loss)					**(5,584)**
Depreciation and amortization	**(73,590)**	**(2,624)**	**(3,296)**	**-**	**(79,510)**
Additions to non-current assets	**121,240**	**380**	**580**	**-**	**122,200**

LTL	Refining segment	Retail segment	Corporate functions	Adjustments	Total
Sales to external customers	20,113,538	155,324	5,638	-	**20,274,500**
Transactions with other segments	97,116	1,075	3,894	(102,085)	**-**
Total sales revenue	**20,210,654**	**156,399**	**9,532**	**(102,085)**	**20,274,500**
Total operating expenses	**(20,030,206)**	**(156,410)**	**(173,721)**	**102,085**	**(20,258,252)**
Other operating income	78,511	427	99,107	-	**178,045**
Other operating expenses	(87,930)	(10,490)	(33,297)	-	**(131,717)**
Segments operating profit/(loss)	**171,029**	**(10,074)**	**(98,379)**	**-**	**62,576**
Financial income					**6,783**
Financial expenses					**(77,234)**
Investments into equity-accounted investees	398	-	-	-	**398**
Profit/(loss) before tax					**(7,477)**
Income tax expense					(6,381)
Net profit/(loss)					**(13,858)**
Depreciation and amortization	**(182,627)**	**(6,512)**	**(8,180)**	**-**	**(197,319)**
Additions to non-current assets	**300,881**	**943**	**1,439**	**-**	**303,263**

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 5 and 6.

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 31/12/2012	as at 31/12/2011
Refining Segment	1,885,650	1,735,180
Retail Segment	23,988	23,760
Corporate Functions	52,300	47,338
Total segment assets	**1,961,938**	**1,806,278**
Not allocated	63,194	68,668
Adjustments	(7,772)	(7,678)
Total	**2,017,360**	**1,867,268**

LTL	as at 31/12/2012	as at 31/12/2011
Refining Segment	4,914,007	4,631,891
Retail Segment	62,512	63,425
Corporate Functions	136,293	126,362
Total segment assets	**5,112,812**	**4,821,678**
Not allocated	164,681	183,302
Adjustments	(20,254)	(20,496)
Total	**5,257,239**	**4,984,484**

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

Including:

USD	Non-current assets classified as held for sale		Investments in equity-accounted investees	
	as at 31/12/2012	as at 31/12/2011	as at 31/12/2012	as at 31/12/2011
Refining Segment	426	4,977	1,862	1,756
Corporate Functions	158	152	-	-
Total	**584**	**5,129**	**1,862**	**1,756**

LTL	Non-current assets classified as held for sale		Investments in equity-accounted investees	
	as at 31/12/2012	as at 31/12/2011	as at 31/12/2012	as at 31/12/2011
Refining Segment	1,110	13,285	4,851	4,689
Corporate Functions	412	405	-	-
Total	**1,522**	**13,690**	**4,851**	**4,689**

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 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2012	for the year ended 31/12/2011
Refining Segment	(90,261)	(90,092)	26,549	946
Retail Segment	(187)	(4,206)	262	82
Corporate Functions	(74)	(48)	30	-
Total	**(90,522)**	**(94,346)**	**26,841**	**1,028**

LTL	Recognition		Reversal	
	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2012	for the year ended 31/12/2011
Refining Segment	(242,506)	(223,581)	71,329	2,348
Retail Segment	(502)	(10,438)	704	203
Corporate Functions	(199)	(120)	81	-
Total	**(243,207)**	**(234,139)**	**72,114**	**2,551**

Impairment allowances of assets by segment include items recognized in the consolidated statement of profit or loss and other comprehensive income, i.e.:
- receivables allowances;
- inventories allowances;
- non-current assets impairment allowances;
- non-current assets held for sale.

Recognition and reversal of allowances were performed in relation to inventory revaluation, conjunction with 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 financial assets available for sale.

Detailed information on impairment allowances of property, plant and equipment are disclosed in Note 5.

4.2.3. Geographical information

Revenues from sales

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Lithuania	1,653,305	4,441,935	1,470,143	3,648,454
Other baltic countries	1,510,347	4,057,849	1,475,983	3,662,947
Poland	168,764	453,418	515,201	1,278,576
Other EU countries	2,678,963	7,197,569	2,615,375	6,490,576
Other countries, including:	**2,039,637**	**5,479,892**	**2,092,899**	**5,193,947**
Switzerland	1,265,372	3,399,675	1,326,303	3,291,486
Ukraine	737,557	1,981,594	621,066	1,541,299
Other countries	36,708	98,623	145,530	361,162
Total revenues	**8,051,016**	**21,630,663**	**8,169,601**	**20,274,500**

Non-current assets

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Lithuania	1,003,431	2,614,939	977,952	2,610,544
Other Baltic countries	47	121	54	145
Total	**1,003,478**	**2,615,060**	**978,006**	**2,610,689**

The above non-current assets consist of property, plant and equipment (Note 5), intangible assets (Note 6) and perpetual usufruct of land (Note 7).

4.3. Revenues from sale of core products and services

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	LTL	USD	LTL
Refining Segment	**7,984,172**	**21,451,073**	**8,104,741**	**20,113,538**
Gasoline	2,714,018	7,291,752	2,777,099	6,891,929
Diesel fuel	3,708,154	9,962,696	3,743,980	9,291,435
Jet A-1 fuel	296,017	795,309	321,918	798,904
Heavy heating oil	968,121	2,601,051	938,988	2,330,287
LPG	167,674	450,490	196,429	487,478
Bitumens	81,122	217,950	83,283	206,683
Light heating oil	11,344	30,478	9,843	24,427
Sulphur	2,881	7,740	2,470	6,130
Other	439	1,179	903	2,241
Services	34,402	92,428	29,828	74,024
Retail Segment	**64,109**	**172,242**	**62,588**	**155,324**
Gasoline	13,172	35,389	13,331	33,084
Diesel fuel	32,971	88,583	30,920	76,734
LPG	8,785	23,603	8,607	21,360
Sales of merchandise	8,683	23,329	9,181	22,784
Services	498	1,338	549	1,362
Corporate Functions	**2,735**	**7,348**	**2,272**	**5,638**
Sales of spare parts	1,197	3,216	1,509	3,744
Services	1,538	4,132	763	1,894
Total consolidated revenues	**8,051,016**	**21,630,663**	**8,169,601**	**20,274,500**

4.4. Information about major customers

In 2012 there were two major customers in the refining segment, whose revenues from sales amounted to USD 2,493,809 thousand or LTL 6,700,117 thousand and individually exceeded 10% of total revenues from sale to external customers, whereas in Retail and Corporate segment there was not a customer who individually exceeded 10% of revenue from sales to external customers.

In 2011 there were two major customers in the refining segment, whose revenues from sales amounted to USD 3,608,437 thousand or LTL 8,955,058 thousand and individually exceeded 10% of total revenues from sale to external customers, whereas in Retail and Corporate segment there was not a customer who individually exceeded 10% of revenue from sales to external customers.

5. Property, plant and equipment

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	LTL	USD	LTL
Land	1,905	4,964	1,860	4,965
Buildings and constructions	43,749	114,010	44,029	117,530
Machinery and equipment	837,167	2,181,658	795,300	2,122,974
Vehicles and other	38,891	101,349	34,562	92,260
Construction in progress	34,078	88,807	51,948	138,670
Total	**955,790**	**2,490,788**	**927,699**	**2,476,399**

Changes in property, plant and equipment by class:

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2012	2,824	95,427	1,399,292	105,974	75,428	1,678,945
Acquisitions	-	687	68,135	15,321	3,717	87,860
Other increases	-	-	-	100	4,957	5,057
Reclassifications	-	1,000	30,290	(5,859)	(28,759)	(3,328)
Decreases due to disposals and write-offs	-	(2)	(10,720)	(8,770)	(97)	(19,589)
Foreign exchange differences	68	555	410	290	17	1,340
31 December 2012	**2,892**	**97,667**	**1,487,407**	**107,056**	**55,263**	**1,750,285**
Accumulated depreciation and impairment allowances						
1 January 2012	964	51,398	603,992	71,412	23,480	751,246
Depreciation	-	1,719	55,115	5,058	-	61,892
Impairment allowances, net	-	-	-	20	(2,308)	(2,288)
recognition	-	-	-	344	3,113	3,457
reclassifications	-	-	-	-	(4,314)	(4,314)
decreases	-	-	-	(324)	(1,107)	(1,431)
Reclassifications	-	448	(2,242)	(1,656)	-	(3,450)
Decreases of depreciation due to disposals and write-offs of property, plant and equipment and other decreases	-	(2)	(6,942)	(6,917)	-	(13,861)
Foreign exchange differences	23	355	317	248	13	956
31 December 2012	**987**	**53,918**	**650,240**	**68,165**	**21,185**	**794,495**
Gross book value						
1 January 2011	2,872	95,616	1,390,446	106,035	61,052	1,656,021
Acquisitions	16	337	8,603	275	32,468	41,699
Other increases	-	-	-	-	3	3
Reclassifications	-	(3)	6,135	753	(16,283)	(9,398)
Decreases due to disposals and write-offs	-	(2)	(5,499)	(818)	(1,796)	(8,115)
Foreign exchange differences	(64)	(521)	(393)	(271)	(16)	(1,265)
31 December 2011	**2,824**	**95,427**	**1,399,292**	**105,974**	**75,428**	**1,678,945**
Accumulated depreciation and impairment allowances						
1 January 2011	530	45,962	541,823	61,043	18,609	667,967
Depreciation	-	2,517	64,225	11,441	-	78,183
Impairment allowances, net	432	3,319	1,948	504	4,883	11,086
recognition	432	3,319	1,948	504	7,089	13,292
decreases	-	-	-	-	(2,206)	(2,206)
Reclassifications	31	(3)	(718)	(491)	-	(1,181)
Decreases of depreciation due to disposals and write-offs of property, plant and equipment and other decreases	-	(2)	(2,947)	(809)	-	(3,758)
Foreign exchange differences	(29)	(395)	(339)	(276)	(12)	(1,051)
31 December 2011	**964**	**51,398**	**603,992**	**71,412**	**23,480**	**751,246**
Net book value						
1 January 2012	**1,860**	**44,029**	**795,300**	**34,562**	**51,948**	**927,699**
31 December 2012	**1,905**	**43,749**	**837,167**	**38,891**	**34,078**	**955,790**
1 January 2011	**2,342**	**49,654**	**848,623**	**44,992**	**42,443**	**988,054**
31 December 2011	**1,860**	**44,029**	**795,300**	**34,562**	**51,948**	**927,699**

LTL	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2012	7,536	254,733	3,735,271	282,886	201,348	4,481,774
Acquisitions	-	1,846	183,058	41,163	9,986	236,053
Other increases	-	-	-	269	13,318	13,587
Reclassifications	-	2,687	81,380	(15,741)	(77,267)	(8,941)
Decreases due to disposals and write-offs	-	(5)	(28,801)	(23,562)	(261)	(52,629)
Foreign exchange differences	-	(4,741)	(94,725)	(6,027)	(3,109)	(108,602)
31 December 2012	**7,536**	**254,520**	**3,876,183**	**278,988**	**144,015**	**4,561,242**
Accumulated depreciation and impairment allowances						
1 January 2012	2,571	137,203	1,612,297	190,626	62,678	2,005,375
Depreciation	-	4,618	148,078	13,589	-	166,285
Impairment allowances, net	-	-	-	54	(6,200)	(6,146)
recognition	-	-	-	924	8,364	9,288
reclassifications	-	-	-	-	(11,590)	(11,590)
decreases	-	-	-	(870)	(2,974)	(3,844)
Reclassifications	-	1,204	(6,023)	(4,450)	-	(9,269)
Decreases of depreciation due to disposals and write-offs of property, plant and equipment and other decreases	-	(5)	(18,651)	(18,584)	-	(37,240)
Foreign exchange differences	1	(2,510)	(41,176)	(3,596)	(1,270)	(48,551)
31 December 2012	**2,572**	**140,510**	**1,694,525**	**177,639**	**55,208**	**2,070,454**
Gross book value						
1 January 2011	7,496	249,548	3,628,925	276,741	159,340	4,322,050
Acquisitions	39	838	21,351	682	80,575	103,485
Other increases	-	-	-	-	8	8
Reclassifications	-	(8)	15,224	1,870	(40,410)	(23,324)
Decreases due to disposals and write-offs	-	(4)	(13,648)	(2,032)	(4,457)	(20,141)
Foreign exchange differences	1	4,359	83,419	5,625	6,292	99,696
31 December 2011	**7,536**	**254,733**	**3,735,271**	**282,886**	**201,348**	**4,481,774**
Accumulated depreciation and impairment allowances						
1 January 2011	1,386	119,956	1,414,104	159,316	48,568	1,743,330
Depreciation	-	6,247	159,385	28,393	-	194,025
Impairment allowances, net	1,071	8,237	4,835	1,251	12,118	27,512
recognition	1,071	8,237	4,835	1,251	17,593	32,987
decreases	-	-	-	-	(5,475)	(5,475)
Reclassifications	78	(8)	(1,782)	(1,220)	-	(2,932)
Decreases of depreciation due to disposals and write-offs of property, plant and equipment and other decreases	-	(4)	(7,313)	(2,007)	-	(9,324)
Foreign exchange differences	36	2,775	43,068	4,893	1,992	52,764
31 December 2011	**2,571**	**137,203**	**1,612,297**	**190,626**	**62,678**	**2,005,375**
Net book value						
1 January 2012	**4,965**	**117,530**	**2,122,974**	**92,260**	**138,670**	**2,476,399**
31 December 2012	**4,964**	**114,010**	**2,181,658**	**101,349**	**88,807**	**2,490,788**
1 January 2011	**6,110**	**129,592**	**2,214,821**	**117,425**	**110,772**	**2,578,720**
31 December 2011	**4,965**	**117,530**	**2,122,974**	**92,260**	**138,670**	**2,476,399**

Total impairment allowances of property, plant and equipment as at 31 December 2012 amounted to USD 42,254 thousand or LTL 110,114 thousand and 31 December 2011 USD 44,194 thousand or LTL 117,971 thousand.

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

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

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2012 amounted to USD 101,263 thousand or LTL 263,891 thousand and as at 31 December 2011 USD 155,527 thousand or LTL 415,164 thousand.

As at 31 December 2012 items of property, plant and equipment value of USD 98 thousand or LTL 256 thousand secured potential liabilities, covered by the provision. As at 31 December 2011 the Group had not such assets.

As at 31 December 2011 property, plant and equipment with the carrying amount of USD 6,344 thousand or LTL 16, 935 thousand were provided as collateral for loans and borrowings. As at 31 December 2012 the Group had not such assets.

Net book value of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2012 amounted to USD 2,704 thousand or LTL 7,047 thousand and as at 31 December 2011 USD 3,346 thousand or LTL 8,932 thousand.

Impairment allowances of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2012 amounted to USD 4,241 thousand or LTL 11,052 thousand and as at 31 December 2011 USD 5,158 thousand or LTL 13,769 thousand.

Concerning reclassifications in the tables above, in 2012 property, plant and equipment with the carrying amount of USD 244 thousand or LTL 655 thousand was reclassified to non-current assets held for sale USD 191 thousand or LTL 513 thousand, inventories USD 53 thousand or LTL 142 thousand, and intangible assets were reclassified to tangible assets USD 366 thousand or LTL 983 thousand. In 2011 property, plant and equipment with the carrying amount of USD 8,217 thousand or LTL 20,392 thousand was reclassified to non-current assets held for sale USD 8,175 thousand or LTL 20,288 thousand, perpetual usufruct of land USD 31 thousand or LTL 77 thousand, and intangible assets USD 11 thousand or LTL 27 thousand.

Information on capitalized borrowing costs related to the construction of property, plant and equipment is disclosed in Note 23.2.

6. Intangible assets

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	LTL	USD	LTL
Software	3,872	10,091	4,511	12,043
Patents, trade marks and licenses	610	1,590	978	2,611
Goodwill	2,137	5,568	2,798	7,468
Emission rights	40,718	106,111	41,689	111,285
Research and development	90	234	89	236
Other	158	410	140	376
Total	**47,585**	**124,004**	**50,205**	**134,019**

The changes of intangible assets were as follows:

USD	Software	Patents, trade marks and licenses	Goodwill	Emission rights	Research and development	Other	Total
Gross book value							
1 January 2012	15,978	7,039	2,798	52,940	89	147	78,991
Acquisitions	717	8	-	119	1	25	870
Other increases	-	-	-	28,775	-	-	28,775
Reclassifications	(421)	-	-	-	-	-	(421)
Decreases due to disposals and write-offs	(169)	(413)	(661)	-	-	(10)	(1,253)
Utilisation	-	-	-	(32,819)	-	-	(32,819)
Foreign exchange differences	26	-	-	-	-	6	32
31 December 2012	**16,131**	**6,634**	**2,137**	**49,015**	**90**	**168**	**74,175**
Accumulated amortisation and impairment allowances							
1 January 2012	11,467	6,061	-	11,251	-	7	28,786
Amortization	993	136	-	-	-	3	1,132
Impairment allowances, net	(17)	240	-	(2,954)	-	-	(2,731)
recognition	-	-	-	10,014	-	-	10,014
reclassifications	-	240	-	-	-	-	240
decreases	(17)	-	-	(12,968)	-	-	(12,985)
Reclassifications	(54)	-	-	-	-	-	(54)
Decreases of amortization due to disposals and write-offs of intangible assets and other decreases	(153)	(413)	-	-	-	-	(566)
Foreign exchange differences	23	-	-	-	-	-	23
31 December 2012	**12,259**	**6,024**	**-**	**8,297**	**-**	**10**	**26,590**
Gross book value							
1 January 2011	15,553	10,127	2,798	12,322	-	167	40,967
Acquisitions	421	49	-	32,281	89	12	32,852
Other increases	-	-	-	47,646	-	-	47,646
Reclassifications	36	-	-	-	-	(30)	6
Decreases due to disposals and write-offs	(7)	(3,137)	-	-	-	-	(3,144)
Utilisation	-	-	-	(39,309)	-	-	(39,309)
Foreign exchange differences	(25)	-	-	-	-	(2)	(27)
31 December 2011	**15,978**	**7,039**	**2,798**	**52,940**	**89**	**147**	**78,991**
Accumulated amortisation and impairment allowances							
1 January 2011	10,142	9,194	-	-	-	3	19,339
Amortization	1,318	4	-	-	-	3	1,325
Impairment allowances, net	43	(3,120)	-	11,251	-	-	8,174
recognition	43	-	-	11,251	-	-	11,294
decreases	-	(3,120)	-	-	-	-	(3,120)
Reclassifications	(4)	-	-	-	-	-	(4)
Decreases of amortization due to disposals and write-offs of intangible assets and other decreases	(7)	(17)	-	-	-	-	(24)
Foreign exchange differences	(25)	-	-	-	-	1	(24)
31 December 2011	**11,467**	**6,061**	**-**	**11,251**	**-**	**7**	**28,786**
Net book value							
1 January 2012	**4,511**	**978**	**2,798**	**41,689**	**89**	**140**	**50,205**
31 December 2012	**3,872**	**610**	**2,137**	**40,718**	**90**	**158**	**47,585**
1 January 2011	**5,411**	**933**	**2,798**	**12,322**	**-**	**164**	**21,628**
31 December 2011	**4,511**	**978**	**2,798**	**41,689**	**89**	**140**	**50,205**

LTL	Software	Patents, trade marks and licenses	Goodwill	Emission rights	Research and development	Other	Total
Gross book value							
1 January 2012	42,652	18,790	7,468	141,319	236	394	210,859
Acquisitions	1,926	21	-	320	3	67	2,337
Other increases	-	-	-	77,310	-	-	77,310
Reclassifications	(1,131)	-	-	-	-	-	(1,131)
Decreases due to disposals and write-offs	(454)	(1,110)	(1,776)	-	-	(27)	(3,367)
Utilisation	-	-	-	(88,175)	-	-	(88,175)
Foreign exchange differences	(956)	(412)	(124)	(3,040)	(5)	3	(4,534)
31 December 2012	**42,037**	**17,289**	**5,568**	**127,734**	**234**	**437**	**193,299**
Accumulated amortisation and impairment allowances							
1 January 2012	30,609	16,179	-	30,034	-	18	76,840
Amortization	2,668	365	-	-	-	8	3,041
Impairment allowances, net	(46)	645	-	(7,937)	-	-	(7,338)
recognition	-	-	-	26,904	-	-	26,904
reclassifications	-	645	-	-	-	-	645
decreases	(46)	-	-	(34,841)	-	-	(34,887)
Reclassifications	(145)	-	-	-	-	-	(145)
Decreases of amortization due to disposals and write-offs of intangible assets and other decreases	(411)	(1,110)	-	-	-	-	(1,521)
Foreign exchange differences	(729)	(380)	-	(474)	-	1	(1,582)
31 December 2012	**31,946**	**15,699**	**-**	**21,623**	**-**	**27**	**69,295**
Gross book value							
1 January 2011	40,593	26,430	7,302	32,160	-	437	106,922
Acquisitions	1,044	122	-	80,112	220	29	81,527
Other increases	-	-	-	118,243	-	-	118,243
Reclassifications	91	-	-	-	-	(75)	16
Decreases due to disposals and write-offs	(15)	(7,785)	-	-	-	-	(7,800)
Utilisation	-	-	-	(97,554)	-	-	(97,554)
Foreign exchange differences	939	23	166	8,358	16	3	9,505
31 December 2011	**42,652**	**18,790**	**7,468**	**141,319**	**236**	**394**	**210,859**
Accumulated amortisation and impairment allowances							
1 January 2011	26,470	23,995	-	-	-	9	50,474
Amortization	3,271	10	-	-	-	9	3,290
Impairment allowances, net	106	(7,743)	-	27,922	-	-	20,285
recognition	106	-	-	27,922	-	-	28,028
decreases	-	(7,743)	-	-	-	-	(7,743)
Reclassifications	(11)	-	-	-	-	-	(11)
Decreases of amortization due to disposals and write-offs of intangible assets and other decreases	(14)	(42)	-	-	-	-	(56)
Foreign exchange differences	787	(41)	-	2,112	-	-	2,858
31 December 2011	**30,609**	**16,179**	**-**	**30,034**	**-**	**18**	**76,840**
Net book value							
1 January 2012	**12,043**	**2,611**	**7,468**	**111,285**	**236**	**376**	**134,019**
31 December 2012	**10,091**	**1,590**	**5,568**	**106,111**	**234**	**410**	**124,004**
1 January 2011	**14,123**	**2,435**	**7,302**	**32,160**	**-**	**428**	**56,448**
31 December 2011	**12,043**	**2,611**	**7,468**	**111,285**	**236**	**376**	**134,019**

Total impairment allowances of intangible assets as at 31 December 2012 amounted to USD 8,906 thousand or LTL 23,209 thousand and as at 31 December 2011 USD 11,365 thousand or LTL 30,337 thousand.

Recognition and reversal of impairment allowances of intangible assets are recognized in other operating activities.

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

The gross book value of all fully amortized intangible assets still in use as at 31 December 2012 amounted USD 10,829 thousand or LTL 28,220 thousand and as at 31 December 2011 USD 10,851 thousand or LTL 28,966 thousand.

The Group classifies goodwill as intangible assets with indefinite useful life. The net book value of goodwill amounted USD 2,137 thousand or LTL 5,568 thousand and USD 2,798 thousand or LTL 7,468 as at 31 December 2012 and 31 December 2011, respectively.

Rights

CO2 emission allowances are allocated according to Order No. D1-609/4-477 of the Minister of Economy and Minister of Environment of the Republic of Lithuania on 19 November 2007 whereby II National EUA Allocation Plan for 2008-2012 was approved, i.e. for the second period of emission allowance trading.

Change in CO_2 emission rights in 2012:

	Quantity (in tonnes)	USD	LTL
As at 1 January 2012	**2,985,061**	**41,689**	**111,285**
Granted free of charge	2,320,645	28,775	77,310
Settled emission of 2011	(1,903,476)	(32,819)	(88,175)
Purchase	263,768	119	320
Impairment allowances recognition	-	(10,014)	(26,904)
Impairment allowances reversal	-	12,968	34,841
Foreign exchange differences	-	-	(2,566)
As at 31 December 2012	**3,665,998**	**40,718**	**106,111**
Emission in 2012	1,732,365	25,039	67,272
Surplus	**1,933,633**	**15,679**	**38,839**

Change in CO_2 emission rights in 2011:

	Quantity (in tonnes)	USD	LTL
As at 1 January 2011	**815,575**	**12,322**	**32,160**
Granted free of charge	2,320,645	47,646	118,243
Settled emission of 2010	(1,967,110)	(39,309)	(97,554)
Purchase	1,815,951	32,281	80,112
Impairment allowances recognition	-	(11,251)	(27,922)
Foreign exchange differences	-	-	6,246
As at 31 December 2011	**2,985,061**	**41,689**	**111,285**
Emission in 2011	1,903,722	35,437	87,943
Surplus	**1,081,339**	**6,252**	**23,342**

Goodwill

Annual impairment test:

As at 31 December 2012 the Group reviewed the recoverable amount of goodwill in accordance with the requirements of IAS 36 and declared the lack of necessity to recognize or reverse impairment allowances.

7. Perpetual usufruct of land

	as at 2012		as at 2011	
	USD	LTL	USD	LTL
1 January	102	271	98	258
Reclassifications	-	-	31	78
Depreciation	(1)	(3)	(2)	(4)
Impairment allowances recognition	-	-	(24)	(61)
Foreign exchange differences	2		(1)	-
31 December	**103**	**268**	**102**	**271**

The total amount of perpetual usufruct charges, recognized as expenses in profit or loss in 2012 and 2011 amounted to USD 1 thousand or LTL 3 thousand and USD 2 thousand or LTL 4 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.

The right of perpetual usufruct of land granted by the GOL is recognized only in off balance sheet.

8. Investments in equity-accounted investees

	as at 2012		as at 2011	
	USD	LTL	USD	LTL
1 January	**1,756**	**4,689**	**1,646**	**4,295**
Share of net profit /(loss)	59	159	160	398
Foreign exchange differences	47	3	(50)	(4)
31 December	**1,862**	**4,851**	**1,756**	**4,689**

Investments in associates represent an investment of a 34% interest in Naftelf UAB, incorporated in Lithuania. No dividends were received from the company in 2012 and 2011.

There were no possibilities to determine the fair value of the investment as at 31 December 2012 or as at 31 December 2011 as the shares of the associate are not quoted in any open market, the Group measures them at cost that is the acquisition price.

9. Inventories

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Raw materials	213,419	556,171	203,280	542,639
Work in progress	31,705	82,623	30,199	80,613
Finished goods	190,887	497,452	195,362	521,499
Goods for resale	96,643	251,852	25,070	66,922
Spare parts	31,607	82,368	24,882	66,420
Inventories, net	**564,261**	**1,470,466**	**478,793**	**1,278,093**
Write-downs for obsolescence and net realizable value	23,347	60,842	30,541	81,526
Inventories, gross	**587,608**	**1,531,308**	**509,334**	**1,359,619**

The change of write-downs for obsolescence and net realizable value on inventories

	as at 2012		as at 2011	
	USD	**LTL**	**USD**	**LTL**
January 1	30,541	81,526	20,408	53,264
Recognition	74,385	199,850	60,784	150,848
Utilization	(74,762)	(200,863)	(49,705)	(123,353)
Reversal	(6,817)	(18,315)	(946)	(2,348)
Foregn exchange differences	-	(1,356)	-	3,115
31 December	**23,347**	**60,842**	**30,541**	**81,526**

Change in write-down to net realizable value of spare parts, raw materials, finished goods and work in progress was included in cost of sales.

In 2012 the Parent Company signed an agreement with Ministry of Economics of the Republic of Latvia for gasoline storage. The agreement is effective until 30 June 2013. As at 31 December 2012 the Parent Company inventory included gasoline of limited use for USD 14,419 thousand or LTL 37,575 thousand.

In 2011 the Parent Company signed an agreement with Baltimar VT for fuel oil storage. The agreement was effective until 15 July 2012. As at 31 December 2011 the Parent Company inventory included the fuel oil of limited use for USD 2,071 thousand or LTL 5,528 thousand.

10. Trade and other receivables

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Trade receivables	295,701	770,598	226,719	605,203
Other	24,753	64,506	24,244	64,717
Financial assets	**320,454**	**835,104**	**250,963**	**669,920**
Other taxation, duty social security receivables an other benefits	3,749	9,770	74	198
Accrued income and deferred charges	18,170	47,351	13,234	35,327
Other	1,383	3,607	1,692	4,517
Non-financial assets	**23,302**	**60,728**	**15,000**	**40,042**
Receivables, net	**343,756**	**895,832**	**265,963**	**709,962**
Receivables impairment allowance	8,425	21,956	10,017	26,739
Receivables, gross	**352,181**	**917,788**	**275,980**	**736,701**

As at 31 December 2012 and 31 December 2011 trade and other receivables denominated in functional currencies amounted to USD 214,061 thousand or LTL 557,843 thousand and USD 143,934 thousand or LTL 384,217 thousand, respectively.

Detailed split of receivables from related entities is disclosed in Note 30.

Detailed information of financial assets denominated in foreign currencies is presented in Note 26.

Change in impairment allowances of trade and other receivables

	as at 2012		as at 2011	
	USD	LTL	USD	LTL
1 January	10,017	26,740	17,686	46,158
Recognition	2,267	6,092	1,717	4,261
Written-off	-	-	(10,683)	(26,511)
Reversal	(1,532)	(4,116)	-	-
Reclassification	(2,540)	(6,824)	-	-
Foreign exchange differences	213	64	1,297	2,832
31 December	**8,425**	**21,956**	**10,017**	**26,740**

Recognition and reversal of impairment allowances of trade and other receivables are presented in other operating activities as far as principle receivables are concerned.

11. Long-term and short-term financial assets

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	LTL	USD	LTL
Derivatives not designated as hedge accounting	**5,611**	**14,622**	**1,255**	**3,350**
commodity swaps	5,611	14,622	1,255	3,350
Deposits	**8,405**	**21,903**	**6,058**	**16,171**
Loans granted	**836**	**2,179**	**838**	**2,237**
Receivables from cash pool	**4,582**	**11,940**	**-**	**-**
	19,434	**50,644**	**8,151**	**21,758**

As at 31 December 2012 the Group had long term deposit of USD 1,223 thousand USD or LTL 3,187 thousand (as at 31 December 2011 – USD 1,612 thousand or LTL 4,302 thousand) and short term deposits of USD 7,182 thousand USD or LTL 18,716 thousand (as at 31 December 2011 – USD 4,446 thousand or LTL 11,869 thousand). The use of these funds was restricted by banks as collateral for the proper performance of contract or legal obligations.

12. Cash and cash equivalents

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	LTL	USD	LTL
Cash on hand and in bank	10,670	27,806	47,149	125,860
Short-term deposit	2,229	5,809	12,553	33,508
Cash in transit	4,994	13,014	2	5
Total	**17,893**	**46,629**	**59,704**	**159,373**
incl. restricted cash	2,229	5,808	37,556	100,253

Restricted cash refers mainly to deposits on bank accounts due to letters of credit and guarantees granted.

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

13. Non-current assets classified as held for sale

Carrying value of non-current assets classified as held for sale amounted to USD 584 thousand or LTL 1,522 thousand as at 31 December 2012 and USD 5,129 thousand or LTL 13,690 thousand as at 31 December 2011, respectively.

In the Group, as at 31 December 2012 and as at 31 December 2011 non-current assets classified as held for sale include buildings and constructions, machinery and equipment and vehicles.

Impairment on measurement of non-current assets classified as held for sale to the lower of carrying amount and fair value less costs to sell amounted to USD 69 thousand or LTL 180 thousand as at 31 December 2012 and USD 56 thousand or LTL 149 thousand as at 31 December 2011.

14. Share capital

As at 31 December 2012 the Parent company's authorised share capital comprised 708 821 122 ordinary registered shares with a par value of LTL 1 per share. All issued shares are fully paid.

There were no changes in the share capital during 2012 and 2011. 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 2012 and 2011 the Parent company did not pay any dividends to the shareholders.

15. Interest-bearing loans and borrowings

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Borrowings	199,734	520,508	199,566	532,721
Bank loans	150,012	390,931	150,042	400,522
Long-term bank loans and borrowings	**349,746**	**911,439**	**349,608**	**933,243**
Borrowings	258	672	259	690
Bank loans	54,606	142,304	47,971	128,054
Short-term bank loans and borrowings	**54,864**	**142,976**	**48,230**	**128,744**
Total bank loans and borrowings	**404,610**	**1,054,415**	**397,838**	**1,061,987**

The Group bases its financing 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 and in case of long-term contracts depends on ratio of net debt to EBITDA (operating income plus depreciation and amortisation).

15.1. Bank loans

- By currency

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
USD	188,180	490,396	182,946	488,356
EUR	16,438	42,839	15,025	40,108
LTL	-	-	42	112
Total	**204,618**	**533,235**	**198,013**	**528,576**

- By interest rate

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
EURIBOR	15,496	40,384	14,321	38,229
LIBOR	188,180	490,396	182,946	488,356
VILIBOR	-	-	42	112
EONIA	942	2,455	704	1,879
Total	**204,618**	**533,235**	**198,013**	**528,576**

As at 31 December 2012 the bank loans were not secured by the Group's assets. As at 31 December 2011 bank loans of USD 0.1 thousand or LTL 0.3 thousand were secured by the Group's assets.

In the period covered by the foregoing consolidated financial statements as well as after reporting period end, there were no cases of violations of loans repayment nor breaches of covenants.

The loans and borrowings outstanding as at 31 December 2012 and 31 December 2011 were subject to a number of covenants, such as:

- Ensure that throughout the validity period of agreement without the prior written consent of the lender the current shareholder of the borrower will not sell and / or otherwise transfer to third persons and / or take actions allowing third parties to acquire the shares of the borrower or any part of them which constitute more than 10 per cent. of borrower's share capital and / or rights or any part of the rights attaching to them;
- To perform particular turnover through the borrower's accounts held with the lenders;
- To perform the following actions only with the prior written consent of the lenders: mortgage real estate, pledge other long term assets as well as any other assets to secure due performance of its own obligations or obligations of other persons, except when the aggregate value of the assets pledged / mortgaged per year does not exceed the amounts specified in the agreements; provide any surety guarantee or under any other agreement or unilateral transactions secure due performance of third persons except when the aggregate value of such obligations assumed per year does not exceed the amounts specified in the agreements; adopt or propose to adopt decisions on reorganisation, restructuring, liquidation, transformation of the borrower, reduce the share capital, in any form initiate commencement of bankruptcy proceeding in respect of the borrower; adopt or propose to adopt decisions on spin-off, transfer or sale of trademarks, assignment of rights thereto, sell or otherwise transfer its business or part of thereof, enterprise or a part thereof, lease or otherwise encumber its rights to the business or a part thereof;
- Ensure that ratio of Net Debt to EBITDA calculated on the basis of the consolidated financial statements of PKN ORLEN would not exceed 3.5:1.

The management believes that the Group has complied with these covenants as at 31 December 2012.

15.2. Borrowings

- By currency

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
USD	199,992	521,180	199,825	533,411
Total	**199,992**	**521,180**	**199,825**	**533,411**

- By interest rate

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
LIBOR	199,992	521,180	199,825	533,411
Total	**199,992**	**521,180**	**199,825**	**533,411**

In the period covered by the foregoing consolidated financial statements as well as after reporting date there were no cases of violations of loans repayment nor breaches of covenants.

In 2011 Parent company refinanced its loans with new loans received from PKN ORLEN S.A. for the amount of USD 200,000 thousand or LTL 496,340 thousand for 3 years and loan from AB SEB bank for the amount of USD 150,000 thousand or LTL 372,255 thousand thousand for 5 years. The loan received from AB SEB bank secured with a guarantee from PKN ORLEN S.A. of USD 175,000 thousand or LTL 434,298 thousand.

16. 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.

	as at 31/12/2012		as at 31/12/2011	
	USD	**LTL**	**USD**	**LTL**
Present value of defined benefit obligation	12,246	31,913	10,119	27,012
Past Service costs not yet recognised	(3,538)	(9,220)	(2,522)	(6,732)
Defined benefit liability	**8,708**	**22,693**	**7,597**	**20,280**

Change in present value of defined benefits obligations in 2012

	Jubilee bonuses provision		Post-employment benefits		Total	
	USD	**LTL**	**USD**	**LTL**	**USD**	**LTL**
1 January 2012	**2,988**	**7,973**	**7,131**	**19,039**	**10,119**	**27,012**
Current service costs	142	382	297	798	439	1,180
Interest expense	145	390	342	919	487	1,309
Net actuarial gains/(losses)	(5)	(13)	(107)	(287)	(112)	(300)
Benefits paid	(401)	(1,077)	-	-	(401)	(1,077)
Past service costs	267	717	1,181	3,173	1,448	3,890
Exchange differences	78	4	188	(105)	266	(101)
31 December 2012	**3,214**	**8,376**	**9,032**	**23,537**	**12,246**	**31,913**

Change in present value of defined benefits obligations in 2011

	Jubilee bonuses provision		Post-employment benefits		Total	
	USD	**LTL**	**USD**	**LTL**	**USD**	**LTL**
1 January 2011	**3,177**	**8,292**	**8,992**	**23,468**	**12,169**	**31,760**
Current service costs	152	377	426	1,057	578	1,434
Interest expense	159	395	454	1,127	613	1,522
Net actuarial gains/(losses)	33	82	(627)	(1,556)	(594)	(1,474)
Benefits paid	(460)	(1,142)	(70)	(174)	(530)	(1,316)
Past service costs	-	-	(1,836)	(4,556)	(1,836)	(4,556)
Other	(5)	(12)	-	-	(5)	(12)
Exchange differences	(68)	(19)	(208)	(327)	(276)	(346)
31 December 2011	**2,988**	**7,973**	**7,131**	**19,039**	**10,119**	**27,012**

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2012 and 31 December 2011.

as at	Present value of the above mentioned employee benefits obligation	
	USD	**LTL**
31/12/2012	12,246	31,913
31/12/2011	10,119	27,012
31/12/2010	12,169	31,760
31/12/2009	12,884	30,988
31/12/2008	18,254	44,736

Total expense recognized in profit or loss

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Current service costs	439	1,180	578	1,434
Interest expense	487	1,309	613	1,522
Net actuarial gains/(losses)	(112)	(300)	(594)	(1,474)
Benefits paid	(401)	(1,077)	(530)	(1,316)
Past service cost	1,448	3,890	(1,836)	(4,556)
Other	-	-	(5)	(12)
Exchange differences	266	(101)	(276)	(346)
Total	**2,127**	**4,901**	**(2,050)**	**(4,748)**

In 2012 the amount of provision for employee benefits changed as the result of update of assumptions. The changes relate mainly to discount rate, projected inflation and expected remuneration increase ratio. Should the prior year assumptions be used, the provision for the employee benefits would be lower by USD 824 thousand or LTL 2,146 thousand.

Costs of employee benefits are recognized in general and administrative expenses.

For updating the provision for employment benefits as at 31 December 2012, the Group adopted the following actuarial assumptions:

- discount rate – 4.5 %;
- expected inflation rate – 2 -3 %;

– remuneration increase rates: starting from 5 % in 2013; up to 0 % in 2014; 0 % in 2015; 5 % in 2016 and later.

For updating the provision for employment benefits as at 31 December 2011, the Group adopted the following actuarial assumptions:
– discount rate – 5.5 %;
– expected inflation rate – 2 %;
– remuneration increase rates: starting from 0 % in 2012; up to 3 % in 2014; 4% in 2015; 5 % in 2016 and later.

Based on the existing regulations the Group is obliged to make contributions to the national retirement and pension plans. These expenses are recognized as employee benefit costs. There are no other obligations as far as employee benefits are concerned.

17. Provisions

USD	long-term		short-term		Total	
	as at 31/12/2012	as at 31/12/2011	as at 31/12/2012	as at 31/12/2011	as at 31/12/2012	as at 31/12/2011
Environmental provision	2,873	2,933	1,936	1,556	4,809	4,489
Business risk provision	-	3,054	15,865	8,309	15,865	11,363
Restructuring provision	-	-	2,670	6,324	2,670	6,324
Provision for CO2 emission	-	-	24,985	31,704	24,985	31,704
Total	**2,873**	**5,987**	**45,456**	**47,893**	**48,329**	**53,880**

LTL	long-term		short-term		Total	
	as at 31/12/2012	as at 31/12/2011	as at 31/12/2012	as at 31/12/2011	as at 31/12/2012	as at 31/12/2011
Environmental provision	7,486	7,829	5,047	4,154	12,533	11,983
Business risk provision	-	8,153	41,344	22,180	41,344	30,333
Restructuring provision	-	-	6,957	16,881	6,957	16,881
Provision for CO2 emission	-	-	65,111	84,631	65,111	84,631
Total	**7,486**	**15,982**	**118,459**	**127,846**	**125,945**	**143,828**

Change in provisions in 2012

USD	Environmental provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
1 January 2012	**4,489**	**11,363**	**6,324**	**31,704**	**53,880**
Recognition	1,675	5,002	2,546	25,039	**34,262**
Usage	(1,431)	(1,440)	(6,227)	(32,819)	**(41,917)**
Discounting	-	915	-	-	**915**
Foreign exchange differences	76	25	27	1,061	**1,189**
31 December 2012	**4,809**	**15,865**	**2,670**	**24,985**	**48,329**

LTL	Environmental provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
1 January 2012	**11,983**	**30,333**	**16,881**	**84,631**	**143,828**
Recognition	4,500	13,439	6,839	67,272	**92,050**
Usage	(3,845)	(3,869)	(16,729)	(88,175)	**(112,618)**
Discounting	-	2,458	-	-	**2,458**
Foreign exchange differences	(105)	(1,017)	(34)	1,383	**227**
31 December 2012	**12,533**	**41,344**	**6,957**	**65,111**	**125,945**

Change in provisions in 2011

USD	Environmental provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
1 January 2011	**5,686**	**20,423**	**878**	**32,666**	**59,653**
Recognition	324	788	5,921	35,437	**42,470**
Usage	(1,482)	(6,055)	(445)	(39,309)	**(47,291)**
Discounting	-	(915)	-	-	**(915)**
Reversal	-	(2,544)	-	-	**(2,544)**
Foreign exchange differences	(39)	(334)	(30)	2,910	**2,507**
31 December 2011	**4,489**	**11,363**	**6,324**	**31,704**	**53,880**

LTL	Environmental provision	Business risk provision	Restructuring provision	Provision for CO2 emission	Total
1 January 2011	**14,840**	**53,302**	**2,291**	**85,256**	**155,689**
Recognition	803	1,957	14,694	87,943	**105,397**
Usage	(3,678)	(15,027)	(1,104)	(97,554)	**(117,363)**
Discounting	-	(2,271)	-	-	**(2,271)**
Reversal	-	(6,313)	-	-	**(6,313)**
Foreign exchange differences	18	(1,315)	1,000	8,986	**8,689**
31 December 2011	**11,983**	**30,333**	**16,881**	**84,631**	**143,828**

The same assumptions for calculation of provisions were used in 2012 and 2011.

17.1. Environmental provision

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

The operation of the refinery causes pollution. A provision was recognized for the costs to be incurred for handling of waste and contaminate 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.

17.2. Business risk provision

Business risk is described wider in the note concerning significant proceedings in front of court in Note 34.

The increase of business risk provision in 2012 is mainly a result of an update of court and administrative proceedings.

17.3. 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.

17.4. Provision for CO_2 emission

The Parent Company recognizes provision for estimated CO2 emissions in the reporting period. The cost of recognized provision in the consolidated profit or loss is compensated with settlement of deferred income on CO2 emission rights granted free of charge.

18. Trade and other liabilities

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Trade liabilities	497,550	1,296,614	560,349	1,495,796
Investment liabilities	6,572	17,127	8,517	22,735
Uninvoiced services	13,977	36,424	9,702	25,900
Financial liabilities	**518,099**	**1,350,165**	**578,568**	**1,544,431**
Received prepayments	1,911	4,980	2,120	5,659
Payroll liabilities	2,262	5,895	2,517	6,719
Excise tax and fuel charge	8,189	21,341	16,737	44,678
Value added tax	48,742	127,022	41,250	110,112
Other taxation, duties, social security and other benefits	5,941	15,482	7,093	18,934
Acruals	5,768	15,032	5,594	14,931
Holiday pay accrual	4,554	11,868	4,546	12,135
Other accruals	1,214	3,164	1,048	2,796
Other liabilities	25	65	22	59
Non-financial liabilities	**72,838**	**189,817**	**75,333**	**201,092**
Total	**590,937**	**1,539,982**	**653,901**	**1,745,523**

Trade and other liabilities denominated in functional currencies amounted to USD 449,464 thousand or LTL 1,171,303 thousand as at 31 December 2012 and USD 517,534 thousand or LTL 1,381,505 thousand as at 31 December 2011.

A detailed division of financial liabilities denominated in foreign currencies is presented in Note 26.

As at 31 December 2012 and as at 31 December 2011 trade and other liabilities of USD 9,748 thousand or LTL 25,403 thousand and USD 1,183 thousand or LTL 3,157 thousand, respectively, were secured on the Group's current assets (deposits).

19. Other financial liabilities

	as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Derivatives	**1,972**	**5,139**	**5,143**	**13,731**
foreign currency forward	1,972	5,139	5,143	13,731
Liabilities from cash pool	**132,373**	**344,964**	**160**	**426**
	134,345	**350,103**	**5,303**	**14,157**

AB Orlen Lietuva has joined to the cash pool structure organized in Nordea Bank Finland Plc., Germany Branch, by parent entity PKN Orlen S.A. through its subsidiary ORLEN Finance AB (Sweden) by signing International Agreement on Group Accounts System with a possibility to borrow up to 220 million EUR. The Group Accounts Holder is Orlen Finance AB and Authorised Operator is AB Orlen Lietuva. The cash pool structure includes the possibility of intra-company lending. Internal interest on credit balances and internal interest on debt balances are determined in this Agreement. Calculation and registration of internal interest are handled by Nordea Bank Finland Plc., Germany Branch.

20. Sales revenues

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	LTL	USD	LTL
Sales of finished goods	7,791,206	20,932,632	7,990,297	19,829,521
Sales of services	36,438	97,898	31,140	77,280
Revenues from sales of finished goods and services, net	**7,827,644**	**21,030,530**	**8,021,437**	**19,906,801**
Sales of goods for resale and merchandise	222,166	596,893	146,554	363,703
Sales of spare parts	1,206	3,240	1,610	3,996
Revenues from sales of goods for resale, merchandise and spare parts, net	**223,372**	**600,133**	**148,164**	**367,699**
Total revenues	**8,051,016**	**21,630,663**	**8,169,601**	**20,274,500**

21. Operating costs

Cost of sales

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	LTL	USD	LTL
Cost of finished goods and services sold	7,548,885	20,281,589	7,793,511	19,341,158
Cost of goods for resale and merchandise sold	152,129	408,725	120,467	298,962
Total	**7,701,014**	**20,690,314**	**7,913,978**	**19,640,120**

Cost by kind

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Usage of materials and energy, including:	**7,623,287**	**20,481,485**	**7,779,528**	**19,306,454**
usage of materials	7,569,681	20,337,462	7,718,358	19,154,649
usage of energy	53,606	144,023	61,170	151,805
External services, including:	**197,845**	**531,551**	**208,260**	**516,836**
railway services	109,261	293,552	114,071	283,089
repairs and maintenance services	20,622	55,405	26,521	65,816
terminal services,transit and freight	44,044	118,333	43,601	108,205
advisory services	5,237	14,070	5,425	13,462
lease	5,356	14,390	5,594	13,882
security of property	4,776	12,832	3,410	8,463
others services	8,549	22,969	9,638	23,919
Payroll, social security and other employee benefits	**67,267**	**180,726**	**75,112**	**186,405**
Depreciation and amortization (Note 5,6,7)	**63,025**	**169,329**	**79,510**	**197,319**
Taxes and charges	**5,417**	**14,554**	**8,494**	**21,080**
Write-down of spare parts for obsolescence	**(6,817)**	**(18,315)**	**8,284**	**20,558**
Other costs, including:	**19,208**	**51,602**	**14,686**	**36,452**
insurance	11,004	29,564	9,013	22,368
other costs	8,204	22,038	5,673	14,084
	7,969,232	**21,410,932**	**8,173,874**	**20,285,104**
Change in finished goods and work in progress	(25,317)	(68,019)	(5,181)	(12,858)
Cost of products and services for own use	(4,034)	(10,838)	(5,639)	(13,994)
Total operating costs	**7,939,881**	**21,332,075**	**8,163,054**	**20,258,252**
Distribution expenses	173,812	466,979	178,825	443,790
General and administrative expenses	65,055	174,782	70,251	174,342
Cost of sales	7,701,014	20,690,314	7,913,978	19,640,120
Total operating costs	**7,939,881**	**21,332,075**	**8,163,054**	**20,258,252**

Employee benefits costs

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Payroll expenses	48,824	131,175	55,650	138,107
Social security expenses	14,999	40,298	17,215	42,721
Future benefits expenses	919	2,469	412	1,022
Other employee benefits expenses	2,525	6,784	1,835	4,555
Total	**67,267**	**180,726**	**75,112**	**186,405**

22. Other operating income and expenses

22.1. Other operating income

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	LTL	USD	LTL
Settlement surplus of CO2 grants	7,295	19,599	8,560	21,243
Update provisions related to CO2 rights	-	-	6,315	15,673
Releases of provisions	3,986	10,709	4,954	12,294
Reversal of receivables impairment allowances	1,532	4,116	7,221	17,920
Decreases of impairment allowances of property, plant and equipment and intangible assets	18,492	49,682	5,326	13,218
Penalties and compensations earned	1,163	3,125	1,833	4,549
Income from insurance	3,483	9,358	35,741	88,698
Other	1,937	5,206	1,793	4,450
Total	**37,888**	**101,795**	**71,743**	**178,045**

In October 2011 the Parent Company received USD 35,000 thousand or LTL 86,860 thousand as insurance compensation for the losses incurred during the fire in the Refinery on 12 October 2006.

22.2. Other operating expenses

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	LTL	USD	LTL
Loss from disposal of non-financial fixed assets	4,074	10,946	4,535	11,256
Recognition of provisions	9,223	24,778	6,588	16,349
Update provisions related to CO2 rights	3,558	9,559	2,665	6,614
Write down of overdue accounts recievable	362	973	7,179	17,816
Recognition of impairment receivables (Note 10)	2,267	6,092	1,717	4,261
Recognition of impairment allowances of property, plant and equipment and intangible assets	13,508	36,292	24,666	61,214
Penalties and compensations	1,269	3,410	2,839	7,046
Other	614	1,649	2,887	7,161
Total	**34,875**	**93,699**	**53,076**	**131,717**

23. Financial income and expenses

23.1. Financial income

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	LTL	USD	LTL
Interest	259	695	535	1,328
Gain on liquidation of subsidiary	-	-	1,281	3,178
Foreign exchange gains	3,289	8,837	-	-
Other	-	-	918	2,277
Total	**3,548**	**9,532**	**2,734**	**6,783**

23.2. Financial expenses

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Interest	14,996	40,290	14,420	35,788
Foreign exchange loss	-	-	10,989	27,271
Granted guarantee	889	2,389	299	742
Settlement and valuation of financial instruments	12,213	32,813	4,605	11,428
Other	1,825	4,904	808	2,005
Total	**29,923**	**80,396**	**31,121**	**77,234**

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 2012 and 2011 amounted to USD 415 thousand or LTL 1,115 thousand and USD 643 thousand or LTL 1,595 thousand, respectively. In 2012 and in 2011 capitalization rate that was used to calculate borrowing costs capitalization amounted to 0.16% p.a. and to 0.28% p.a., respectively.

24. Income tax expense

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Current income tax	1,809	4,861	1,042	2,586
Change in deferred income tax	5,596	15,034	1,529	3,795
Total	**7,405**	**19,895**	**2,571**	**6,381**

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

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Profit (loss) for the period before tax	87,832	235,979	(3,013)	(7,477)
Profit tax applying 15 % tax rate	13,175	35,397	(452)	(1,122)
Effect of different tax rates in other countries	(182)	(489)	(347)	(861)
Non-taxable exchange gains	2,523	6,779	(3,879)	(9,627)
Non-taxable income	(1,379)	(3,705)	(8,593)	(21,325)
Expenses not deductible for tax purposes	(7,212)	(19,377)	16,052	39,836
Tax losses for which no deferred income tax assets was recognised	89	239	95	237
Charity	(146)	(392)	-	-
Income tax on dividends paid	446	1,198	237	588
Incentive on investment in non-current assets	96	258	(542)	(1,345)
Tax loss utilization	(5)	(13)	-	-
Income tax expense	**7,405**	**19,895**	**2,571**	**6,381**

24.2. Deferred tax

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
Deferred tax assets	**USD**	**LTL**	**USD**	**LTL**
Assets allowances	5,502	14,338	8,567	22,866
Provisions and accruals	7,954	20,728	9,257	24,711
Unrealized foreign exchange losses	13,406	34,936	7,202	19,225
Difference between carrying amount and tax base of property, plant and equipment	(6,788)	(17,689)	(6)	(16)
Tax loss	38,904	101,384	43,707	116,671
Investment relief	2,477	6,455	2,572	6,866
Other	(2,963)	(7,722)	(7,222)	(19,278)
Total deferred tax assets	**58,492**	**152,430**	**64,077**	**171,045**
Deferred tax liabilities				
Other	-	-	1	3
Total deferred tax liabilities	**-**	**-**	**1**	**3**
Deferred tax, net	**58,492**	**152,430**	**64,076**	**171,042**

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

24.3. Change in deferred tax asset and liability, net

	for the year ended 31/12/2012	for the year ended 31/12/2012	for the year ended 31/12/2011	for the year ended 31/12/2011
	USD	**LTL**	**USD**	**LTL**
Beginning of the period	64,076	171,042	65,608	171,230
Deferred tax recognised in profit or loss	5,596	15,034	1,529	3,795
Foreign exchange differences	(11,180)	(33,646)	(3,061)	(3,983)
Total	**58,492**	**152,430**	**64,076**	**171,042**

25. Financial instruments

25.1. Financial instruments by category and class

Financial assets

as at 31 December 2012

USD		Financial instruments by category			
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Total
Financial instruments by class	**Note**				
Long-term receivable		-	2,349	-	2,349
Deposits	11	-	-	8,405	8,405
Trade and other receivables	10	-	320,454	-	320,454
Receivables from cash pool	11	-	4,582	-	4,582
Loans granted	11	-	836	-	836
Derivatives	11	5,611	-	-	5,611
Cash and cash equivalents	12	-	17,893	-	17,893
Total		**5,611**	**346,114**	**8,405**	**360,130**

LTL		Financial instruments by category			
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Total
Financial instruments by class	**Note**				
Long-term receivable		-	6,122	-	6,122
Deposits	11	-	-	21,903	21,903
Trade and other receivables	10	-	835,104	-	835,104
Receivables from cash pool	11	-	11,940	-	11,940
Loans granted	11	-	2,179	-	2,179
Derivatives	11	14,622	-	-	14,622
Cash and cash equivalents	12	-	46,629	-	46,629
Total		**14,622**	**901,974**	**21,903**	**938,499**

as at 31 December 2011

USD		Financial instruments by category			
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Total
Financial instruments by class	**Note**				
Long-term receivable		-	1,229	-	1,229
Deposits	11	-	-	6,058	6,058
Trade and other receivables	10	-	250,963	-	250,963
Loans granted	11	-	838	-	838
Derivatives	11	1,255	-		1,255
Cash and cash equivalents	12	-	59,704	-	59,704
Total		**1,255**	**312,734**	**6,058**	**320,047**

LTL		Financial instruments by category			
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Total
Financial instruments by class	**Note**				
Long-term receivable		-	3,281	-	3,281
Deposits	11	-	-	16,171	16,171
Trade and other receivables	10	-	669,920	-	669,920
Loans granted	11	-	2,237	-	2,237
Derivatives	11	3,350	-	-	3,350
Cash and cash equivalents	12	-	159,373	-	159,373
Total		**3,350**	**834,811**	**16,171**	**854,332**

Financial liabilities

as at 31 December 2012

USD		Financial instruments by category		
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Total
Financial instruments by class	**Note**			
Bank loans	15	-	204,618	204,618
Borrowings	15	-	199,992	199,992
Trade and other liabilities	18	-	518,099	518,099
Derivatives	19	1,972	-	1,972
Liabilities from cash pool	19	-	132,373	132,373
Total		**1,972**	**1,055,082**	**1,057,054**

LTL		Financial instruments by category		
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Total
Financial instruments by class	**Note**			
Bank loans	15	-	533,235	533,235
Borrowings	15	-	521,180	521,180
Trade and other liabilities	18	-	1,350,165	1,350,165
Derivatives	19	5,139	-	5,139
Liabilities from cash pool	19	-	344,964	344,964
Total		**5,139**	**2,749,544**	**2,754,683**

as at 31 December 2011

USD		Financial instruments by category		
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Total
Financial instruments by class	**Note**			
Bank loans	15	-	198,013	198,013
Borrowings	15	-	199,825	199,825
Trade and other liabilities	18	-	578,568	578,568
Derivatives	19	5,143	-	5,143
Liabilities from cash pool	19	-	160	160
Total		**5,143**	**976,566**	**981,709**

LTL		Financial instruments by category		
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Total
Financial instruments by class	**Note**			
Bank loans	15	-	528,576	528,576
Borrowings	15	-	533,411	533,411
Trade and other liabilities	18	-	1,544,431	1,544,431
Derivatives	19	13,731	-	13,731
Liabilities from cash pool	19	-	426	426
Total		**13,731**	**2,606,844**	**2,620,575**

25.2. Fair value of financial instruments

USD	as at 31/12/2012		as at 31/12/2011	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Deposits	8,405	8,405	6,058	6,058
Long-term receivables	2,349	2,349	1,229	1,229
Trade and other receivables	320,454	320,454	250,963	250,963
Receivables from cash pool	4,582	4,582	-	-
Loans granted	836	836	838	838
Derivatives	5,611	5,611	1,255	1,255
Cash and cash equivalents	17,893	17,893	59,704	59,704
Total	**360,130**	**360,130**	**320,047**	**320,047**
Financial liabilities				
Bank loans	204,754	204,618	197,050	198,013
Borrowings	199,726	199,992	198,736	199,825
Trade and other liabilities	518,099	518,099	578,568	578,568
Derivatives	1,972	1,972	5,143	5,143
Liabilities from cash pool	132,373	132,373	160	160
Total	**1,056,924**	**1,057,054**	**979,657**	**981,709**

LTL	as at 31/12/2012		as at 31/12/2011	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Deposits	21,903	21,903	16,171	16,171
Long-term receivables	6,122	6,122	3,281	3,281
Trade and other receivables	835,104	835,104	669,920	669,920
Receivables from cash pool	11,940	11,940	-	-
Loans granted	2,179	2,179	2,237	2,237
Derivatives	14,622	14,622	3,350	3,350
Cash and cash equivalents	46,629	46,629	159,373	159,373
Total	**938,499**	**938,499**	**854,332**	**854,332**
Financial liabilities				
Bank loans	533,589	533,235	484,707	528,576
Borrowings	520,486	521,180	530,506	533,411
Trade and other liabilities	1,350,165	1,350,165	1,544,431	1,544,431
Derivatives	5,139	5,139	13,731	13,731
Liabilities from cash pool	344,964	344,964	426	426
Total	**2,754,343**	**2,754,683**	**2,573,801**	**2,620,575**

Methods applied in determining fair values of financial instruments recognized in the statement of financial position at fair value (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 modeled 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 witch hedge accounting is not applicable, are recognized in a current year profit or loss.

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).

Methods and assumptions applied in determining fair values of financial instruments presented in the consolidated statement of financial position at amortized cost

Loans granted, loans liabilities and other financial instruments are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates as at 31 December 2012 and 31 December 2011 respectively increased by margins proper for particular financial instruments.

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.

26. 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, risk of changes in commodity prices, risk of changes in CO_2 emission rights prices).

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 the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types such as:

- limit,
- insurance,
- securities.

The established payment term of receivables connected with the ordinary course of sales amounts to 13 days.

Each non-cash customer is individually assessed with regard to credit risk. Some receivables are insured within an organized trade credit insurance program. Trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

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

	Current receivables			
	as at 31/12/2012		as at 31/12/2011	
	USD	**LTL**	**USD**	**LTL**
Overdue:				
Up to 1 month	1,964	5,118	1,944	5,189
1-3 months	64	167	814	2,173
3-6 months	30	78	143	382
6-12 months	39	102	97	259
Above 1 year	525	1,368	1,813	4,839
	2,622	**6,833**	**4,811**	**12,842**

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 deposits is assessed by the Orlen Lietuva Group as low.

All entities, in which the Group's free cash is deposited, are operating 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 in Standard & Poor's, F1 in Fitch and Prime-1 in Moody's are treated as the highest credibility, while A-2 in Standard & Poor's, F2 in Fitch and Prime-2 in Moody's are considered to be good credibility. The sources of information about ratings are publications on web sites of each of the bank, in which the Group invest its free cash flows.

Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed 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 such as: 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 an impairment allowance.

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between short term liabilities and current assets.

As at 31 December 2012 and as at 31 December 2011 current assets to short-term liabilities ratio (current ratio) amounted to 1.15 and 1.08, respectively.

Detailed information regarding loans is disclosed in the Note 15.

As at 31 December 2012 and 31 December 2011 the maximum possible indebtedness due to signed loans agreements amounted to USD 702,568 thousand or 1,830,892 LTL thousand and USD 496,830 thousand or LTL 1,326 236 thousand, respectively. As at 31 December 2012 and 31 December 2011 there were available to use USD 246,845 thousand or LTL 643,277 thousand and USD 98,992 thousand or LTL 264,249 thousand, respectively.

Maturity analysis for financial liabilities:

USD	as at 31/12/2012					
	Note	up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	15	57,545	155,302		212,847	204,618
Borrowings-undiscounted value	15	6,971	202,870	-	209,841	199,992
Trade and other liabilities	18	518,099	-	-	518,099	518,099
Derivatives	19	1,972	-	-	1,972	1,972
Liabilities from cash pool	19	132,373	-	-	132,373	132,373
Total		**716,960**	**358,172**	**-**	**1,075,132**	**1,057,054**

LTL	as at 31/12/2012					
	Note	up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	15	149,962	404,717	-	554,679	533,235
Borrowings-undiscounted value	15	18,166	528,679	-	546,846	521,180
Trade and other liabilities	18	1,350,165	-	-	1,350,165	1,350,165
Derivatives	19	5,139	-	-	5,139	5,139
Liabilities from cash pool	19	344,964	-	-	344,964	344,964
Total		**1,868,397**	**933,396**	**-**	**2,801,793**	**2,754,683**

USD	Note	as at 31/12/2011 up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	15	18,952	24,427	133,995	177,374	198,013
Borrowings-undiscounted value	15	7,555	210,385	-	217,940	199,825
Trade and other liabilities	18	578,568	-	-	578,568	578,568
Derivatives	19	5,143	-	-	5,143	5,143
Liabilities from cash pool	19	160		-	160	160
Total		**610,378**	**234,812**	**133,995**	**979,185**	**981,709**

LTL	Note	as at 31/12/2011 up to 1 year	1-3 years	3-5 years	Total	Carrying amount
Bank loans-undiscounted value	15	50,590	65,205	357,686	473,482	528,576
Borrowings-undiscounted value	15	20,167	561,602	-	581,769	533,411
Trade and other liabilities	18	1,544,431	-	-	1,544,431	1,544,431
Derivatives	19	13,731	-	-	13,731	13,731
Liabilities from cash pool	19	426	-	-	426	426
Total		**1,629,346**	**626,807**	**357,686**	**2,613,839**	**2,620,575**

Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights 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 Company's functional currency is US dollar. The Company is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures as well as from future planned cash flows from sales and purchases of refinery products. Currency risk exposure is hedged by USD/EUR non-deliverable forward instruments.

(ii) Commodity price change risk - The Company 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) CO2 emission rights price change risk - The Company was granted free European Union emission (EUA) rights for 2008-2012 period. The Company performs vertification of the number of rights. In 2012 the Company concluded purchase agreement of 263,768 Emission reduction units (ERU) in order completely to use the right to swap 20% of granted European Union emission (EUA) rights to Emission reduction units

(ERU). The surplus of European Union emission (EUA) rights from 2008-2012 periods will be transferred to 2013 -2020 period.

Currency structure of financial instruments as at 31 December 2012:

Financial instruments by class	Note	EUR	USD	LTL	LVL	PLN	Other	Total after conversion to USD
Financial assets								
Long-term receivables		-	-	6,122	-	-	-	2,349
Deposits	11	923	7,182	-	-	-	-	8,405
Trade and other receivables	10	20,985	200,329	230,307	2,076	-	-	320,454
Receivables from cash pool	11	3,458	-	-	-	-	-	4,582
Loans granted	11	631	-	-	-	-	-	836
Derivatives	11	66	4,085	3,750	-	-	-	5,611
Cash and cash equivalents	12	1,205	10,781	12,154	448	1	-	17,893
Total		**27,268**	**222,377**	**252,333**	**2,524**	**1**	**-**	**360,130**
Financial liabilities								
Bank loans	15	12,407	188,179	-	-	-	-	204,618
Borrowings	15	-	199,992	-	-	-	-	199,992
Trade and other liabilities	18	11,982	448,282	136,725	351	1,830	289	518,099
Derivatives	19	-	1,972	-	-	-	-	1,972
Liabilities from cash pool	19	58	132,296	-	-	-	-	132,373
Total		**24,447**	**970,721**	**136,725**	**351**	**1,830**	**289**	**1,057,054**

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 2012) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before tax:

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%	660	-15%	(660)
LTL/USD	+15%	7,829	-15%	(7,829)
LVL/USD	+15%	729	-15%	(729)
		9,217		**(9,217)**

Currency structure of financial instruments as at 31 December 2011:

Financial instruments by class		EUR	USD	LTL	LVL	PLN	Other	Total after conversion to USD
Financial assets								
Long-term receivables		-	-	3,281	-	-	-	1,229
Deposits	11	2,664	-	6,971	-	-	-	6,058
Trade and other receivables	10	18,875	133,985	229,908	1,972	-	-	250,963
Loans granted	11	648	-	-	-	-	-	838
Derivatives	11	344	810	-	-	-	-	1,255
Cash and cash equivalents	12	4,156	33,738	46,050	1,808	-	-	59,704
Total		**26,687**	**168,533**	**286,210**	**3,780**	**-**	**-**	**320,047**
Financial liabilities								
Bank loans	15	11,616	182,946	112	-	-	-	198,013
Borrowings	15	-	199,825	-	-	-	-	199,825
Trade and other liabilities	18	11,466	516,463	123,580	240	1,279	270	578,568
Derivatives	19	-	-	13,732	-	-	-	5,143
Liabilities from cash pool	19	-	159	-	-	-	-	160
Total		**23,082**	**899,393**	**137,424**	**240**	**1,279**	**270**	**981,709**

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 2011) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before tax and:

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%	823	-15%	(823)
LTL/USD	+15%	9,836	-15%	(9,836)
LVL/USD	+15%	1,157	-15%	(1,157)
		11,816		**(11,816)**

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.

Interest rate structure of financial instruments:

USD	EURIBOR	LIBOR	as at 31/12/2012 VILIBOR	Other	Fixed rate	Total
Financial instruments by class						
Financial assets						
Deposits	-	-	-	-	8,405	8,405
Loans granted	-	-	-	-	836	836
Total	**-**	**-**	**-**	**-**	**9,241**	**9,241**
Financial liabilities						
Bank loans	15,496	188,180	-	942	-	204,618
Borrowings	-	199,992	-	-	-	199,992
Liabilities from cash pool	-	-	132,373	-	-	132,373
Total	**15,496**	**388,172**	**132,373**	**942**	**-**	**536,983**

LTL	EURIBOR	LIBOR	as at 31/12/2012 VILIBOR	Other	Fixed rate	Total
Financial instruments by class						
Financial assets						
Deposits	-	-	-	-	21,903	21,903
Loans granted	-	-	-	-	2,179	2,179
Total	**-**	**-**	**-**	**-**	**24,082**	**24,082**
Financial liabilities						
Bank loans	40,383	490,397	-	2,455	-	533,235
Borrowings	-	521,180	-	-	-	521,180
Liabilities from cash pool	-		344,964	-	-	344,964
Total	**40,383**	**1,011,577**	**344,964**	**2,455**	**-**	**1,399,379**

USD	EURIBOR	LIBOR	as at 31/12/2011 VILIBOR	Other	Fixed rate	Total
Financial instruments by class						
Financial assets						
Deposits	-	-	-	-	6,058	6,058
Loans granted	-	-	-	-	838	838
Total	**-**	**-**	**-**	**-**	**6,896**	**6,896**
Financial liabilities						
Bank loans	14,321	182,946	42	704	-	198,013
Borrowings	-	199,825	-	-	-	199,825
Liabilities from cash pool	-	160	-	-	-	160
Total	**14,321**	**382,931**	**42**	**704.0**	**-**	**397,998**

LTL	EURIBOR	LIBOR	as at 31/12/2011 VILIBOR	Other	Fixed rate	Total
Financial instruments by class						
Financial assets						
Deposits	-	-	-	-	16,171	16,171
Loans granted	-	-	-	-	2,237	2,237
Total	**-**	**-**	**-**	**-**	**18,408**	**18,408**
Financial liabilities						
Bank loans	38,228	488,356	112	1,879	-	528,576
Borrowings	-	533,411	-	-	-	533,411
Liabilities from cash pool	-	426	-	-	-	426
Total	**38,228**	**1,022,193**	**112**	**1,879**	**-**	**1,062,413**

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 as at 31/12/2012	Assumed variation as at 31/12/2011	Influence on profit before tax as at 31/12/2012	as at 31/12/2012	as at 31/12/2011	as at 31/12/2011
			USD	LTL	USD	LTL
EURIBOR	+50	+50	(77)	(202)	(72)	(191)
LIBOR	+50	+50	(1,941)	(5,058)	(1,915)	(5,111)
VILIBOR	+50	+50	(662)	(1,725)	-	-
			(2,680)	**(6,985)**	**(1,987)**	**(5,302)**
EURIBOR	0	-50	-	-	72	191
VILIBOR	-50	-50	662	1,725	-	-
			662	**1,725**	**72**	**191**

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

The Group does not take the potential decrease of LIBOR into consideration because of low level of LIBOR interest rates as at the end of 2012 and 2011 and market forecast.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2012 and 31 December 2011. 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.

Capital management policy

The purpose of the Board policy – to keep the shareholders equity over borrowings at the level to maintain investors, creditors and market trust and have the possibilities of business development in the future. The board monitors rates of return and makes proposals on dividend payment to shareholders into consideration the Group's financial results and strategic plans.

27. Capital commitments

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

	as at 31/12/2012		as at 31/12/2011	
	USD	LTL	USD	LTL
Property, plant and equipment	17,314	45,120	28,899	77,143

28. 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. It was received by the Parent 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 Parent 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 Parent company's operations. The main litigations and claims are presented in Note 34.

Guarantees under waste treatment plans

As required by waste treatment plans approved by the Ministry of Environment in 2004, the banks on behalf of the Parent company issued guarantees to regional departments of the Ministry of Environment for a total amount of USD 3,173 thousand or LTL 8,268 thousand as at 31 December 2012 and USD 3,097 thousand or LTL 8,268 thousand as at 31 December 2011. Guarantees are valid until 5 December 2013. Payments under these guarantees should be made in cases when the Parent company is unable to continue treatment of waste accumulating in production process. In the consolidated financial statements for the year ended on 31 December 2012, the Parent company made a provision for the environmental liabilities amounting to USD 4,809 thousand or LTL 12,533 thousand and as at 31 December 2011 it was made USD 4,489 thousand or LTL 11,983 thousand (Note 17).

Tax inspections

No tax inspections for the year 2007 and subsequent years have been performed by the tax authorities up to 28 February 2013 in the Parent company.

Customs inspections

No other outgoing custom inspections or disputes with Klaipeda Territorial Custom Office up to 31 December 2012.

29. Guarantees and sureties

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2012 and 31 December 2011 amounted to USD 576 thousand or LTL 1,500 thousand and USD 562 thousand or LTL 1,500 thousand, respectively.

Guarantees granted but not covered by the Group's cash as at 31 December 2012 and 31 December 2011 amounted to USD 3,776 thousand or LTL 9,840 thousand and USD 9,539 thousand or LTL 25,463 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.

30. Related party transactions

30.1. Information on material related party transactions concluded by the Group with related parties on other than market terms

In 2012 and 2011 the Group did not conclude any material related party transactions on other than market terms.

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

In 2012 and 2011 the Group companies did not grant to managing and supervising persons and their relatives any advances, borrowings, loans, guarantees and sureties, or concluded other agreements obliging to render services to the Group and its related parties.

As at 31 December 2012 and 31 December 2011 there were no loans granted by the Group to managers and supervisors and their relatives.

In 2012 and 2011 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

30.3. Transactions with related parties concluded through the key management personnel of the Parent Company and other Group companies

In 2012 and 2011 members of the Group's key executive personnel did not conclude any transactions with related parties.

30.4. Transactions and balance of settlement of the Group with related parties

for the year ended 31 December 2012

USD	Related parties	Associates	Total related parties
Sales	168,844	29,338	198,182
Purchases	7,028,814	-	7,028,814
Interest expenses	12,228	-	12,228
Other financial costs	140	-	140
Trade and other receivables (net)	7,833	698	8,531
Liabilities from cash pool	132,373	-	132,373
Borrowings	199,992	-	199,992
Trade and other liabilities	430,430	-	430,430
LTL	**Related parties**	**Associates**	**Total related parties**
Sales	453,638	78,823	532,461
Purchases	18,884,320	-	18,884,320
Interest expenses	32,853	-	32,853
Other financial costs	376	-	376
Trade and other receivables (net)	20,413	1,819	22,232
Liabilities from cash pool	344,964	-	344,964
Borrowings	521,180	-	521,180
Trade and other liabilities	1,121,701	-	1,121,701

for the year ended 31 December 2011

USD	Related parties	Associates	Total related parties
Sales	515,254	24,149	539,403
Purchases	7,142,285	-	7,142,285
Interest expenses	6,398	-	6,398
Other financial costs	111	-	111
Trade and other receivables (net)	13,807	786	14,593
Liabilities from cash pool	160	-	160
Borrowings	199,825	-	199,825
Trade and other liabilities	499,000	-	499,000

LTL	Related parties	Associates	Total related parties
Sales	1,278,704	59,931	1,338,635
Purchases	17,725,009	-	17,725,009
Interest expenses	15,878	-	15,878
Other financial costs	275	-	275
Trade and other receivables (net)	36,856	2,098	38,954
Liabilities from cash pool	426	-	426
Borrowings	533,411	-	533,411
Trade and other liabilities	1,332,031	-	1,332,031

The above transactions with related parties include sale and purchase of refinery products, purchases of repair, transportation and other services. Sale and purchase transactions with related parties were made at market conditions.

Settlements with related parties include trade and financial receivables and liabilities.

31. 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 Capital 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, post-employment benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

	for the year ended 31/12/2012		for the year ended 31/12/2011	
	USD	LTL	USD	LTL
Remuneration and other benefits of the key executive personnel	**5,241**	**14,081**	**5,742**	**14,316**
- key executive personnel of the Parent company	4,360	11,714	4,565	11,395
- key executive personnel of the subsidiaries belonging to the Group	881	2,367	1,177	2,921

In 2012 and 2011 the Parent company's key executive personnel was participating in the annual MBO bonus system (Management by objectives). The regulations applicable to Parent company General Director and Deputies of General Director and other key positions in the Parent company have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Bord for the General Director and his deputies and by the General Director of the Company for the key personnel members. 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 Parent company. The goals are qualitative, dedicated to increase Company's management quality, and quantitative, mostly dedicated to increase company's financial efficiency and costs control. Goals are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.

32. 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. According to the agreement concluded on 27 July 2011 with Parent Company and later with subsidiaries for period 2012 and 2011 KPMG Baltics executes the reviews of interim and audits of separate and consolidated financial statements.

	for the year ended 31/12/2012		for the year ended 31/12/2011	
	USD	LTL	USD	LTL
Fees payable to KPMG Baltics UAB in respect of the Parent Company	**171**	**459**	**207**	**514**
audit of the annual financial statements	79	212	93	231
reviews of financial statements	84	226	95	236
other services	8	21	19	47
Fees payable to KPMG companies in respect of subsidiaries belonging to the Capital Group	**59**	**159**	**66**	**163**
audit of the annual financial statements	48	129	55	136
reviews of financial statements	10	27	10	25
other services	1	3	1	2
	230	**618**	**273**	**677**

33. Employment structure

	as at 31/12/2012	as at 31/12/2011
Average employment in persons		
Blue collar workers	1,501	1,637
White collar workers	912	933
	2,413	**2,570**
Employment in persons		
Blue collar workers	1,401	1,611
White collar workers	883	941
	2,284	**2,552**

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

Mainly due to restructuring activities held in ORLEN Lietuva Group, employment decreased by 268 persons in 2012 and by 144 persons in 2011.

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

34.1. Court proceedings in which ORLEN Lietuva act as plaintiff

Compensation due to property damages
AB Orlen Lietuva 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 22,877 thousand at exchange rate as at 31December 2012).

34.2. Court proceedings in which ORLEN Lietuva act as a defendant

Court proceedings in case against Environmental Department of Panevėžys Region of the Ministry of Environment of the Republic of Lithuania re 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 3,723 thousand at exchange rate as at 31December 2012). In October 2011 the Panevėžys District Court adopted a decision by which the Parent Company was obliged to compensate LTL 6,791 thousand (USD 2,606 thousand at exchange rate as at 31December 2012) damage, 5 percent interest to the moment of accomplishment of the court‘s decision as well as respective legal expenses.

Appeal has been provided by the Parent Company. The court hearing at the appellate instance court has not been set yet.

Anti-trust/competition proceedings
The Parent Company was convicted in abuse of a dominant position during the period from the year 2002 to 2004 under the provisions of Article 9 of Law on Competition and Article 102 of EC Treaty. A fine in the amount of LTL 8,231 thousand (USD 3,158 thousand at exchange rate as at 31December 2012) was imposed upon the Parent Company by the decision of the Competition Council dated 16 December 2010. The Parent Company filed a complaint with a court and challenged the aforementioned Competition Council decision. The first instance court rejected the Parent Company's complaint in April 2011.

The Parent Company appealed against the decision. The Supreme Administrative Court of Lithuania on 22 January 2013 adopted a decision by which decided to reduce the amount of the fine to LTL 7,819 thousand (USD 3,000 thousand at exchange rate as at 31December 2012). The decision is final and is not subject to a further appeal.

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 Gelezinkeliai on 28 October 1999 (the Agreement). The arbitral tribunal issued arbitral award on 10 November 2009 whereby LTL 64,352 thousand (USD 24,694 thousand at exchange rate as at 31December 2012) 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 15,272 thousand at exchange rate as at 31December 2012) was awarded in favour of AB Lietuvos geležinkeliai. The financial outcome of the arbitration case totaled to LTL 24,274 thousand (USD 9,315 thousand at exchange rate as at 31December 2012) 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 3,196 thousand at exchange rate as at 31December 2012) 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. A court hearing at the appellate instance has not been set yet.

35. 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.

36. Factors and events that may influence future results

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

Ireneusz Fąfara	Waldemar Franz Winkler	Genutė Barkuvienė
General Director	Chief Financial Officer	Chief Accountant

ANNUAL REPORT OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR 2012

Public Company ORLEN Lietuva and its subsidiaries (hereinafter – the Group) ended the year 2012 with the record improvement of its main performance indicators which were directly impacted by the successful technological upgrades of the refinery in the second quarter of 2012, and high crude oil refining margins in Europe.

Modernization of process units, performance optimization and labor efficiency increase were among the most serious challenges for Public Company ORLEN Lietuva (hereinafter – the Parent Company) during the last year. In 2012, reorganizational changes were continued with elimination of non-core activities, changes of the organizational structure and manpower optimization.

In May the Parent Company successfully completed a 35-day turnaround of the refinery process units with implementation of 54 reconstruction and modernization projects, including replacement of cyclones in Catalytic Cracking Unit reactor, installation of Vacuum Distillation Unit cooling system, modernization of towers' internals, and implementation of the advanced process control system in the secondary refining process.

Financial results of the Group were constantly improving as a result of accomplishing the main three strategic objectives: operational excellence, promotion of sales and value creating investment.

Organizational changes and restructuring were followed by the workforce reduction during the last year. The active number of employees of the Group at the end of 2012 was 2,245.

Operating Results

In 2012, the feedstock processing volume was 9.1 million tons, i.e. by 0.4 million tons (4%) less than in the last year (9.5 million tons). Lower processing volume was mainly caused by a 35-day turnaround of the refinery in spring of 2012.

Sales of petroleum products by the Group in 2012 amounted to 8.6 million tons, compared to 9.0 million tons of petroleum products in 2011. Petroleum product sales volume decreased by 0.4 million tons or 4.4%, if compared to 2011. Despite of the increased world prices for crude oil and petroleum products in 2012, revenue of the Group was lower by 1.5% as a result of the reduction in sales volume, reaching USD 8.1 billion (LTL 21.6 billion), while the revenue in the year 2011 amounted to USD 8.2 billion (LTL 20.3 billion).

Notwithstanding the serious competition on the markets, the Group managed to increase its gasoline sales and reach record sales of its diesel fuel on the markets of Lithuania, Latvia and Estonia. Volume of the said products sold to the above markets increased by 9.7% in comparison with 2011.

In 2012, the Group exceeded the record level of 2011 sales to Ukrainian market and markets of other CIS, reaching 730 thousand tons of gasoline and diesel fuel, i.e. by 4.4% higher than during the previous year. Such sales results were impacted by the quality of fuel and recognition of the refined petroleum products on the said markets.

Decrease of the refining volumes and increase of sales in the Baltic States and Ukrainian markets were followed by lower seaborne sales in 2012, amounting to 4.6 million tons, in comparison with 4.9 million tons in the year 2011.

In 2012, the fuel stations of the Group operating under of ORLEN LIETUVA and VENTUS brands sold 69.90 million liters of fuel, i.e. decrease by 1.08% versus 2011. The main reasons for such reduction were further significant increase of fuel prices (diesel fuel and gasoline prices increased by approx. LTL 0.29 and LTL 0.28 per liter, respectively, if compared to the year 2011) as well as increasing size of the shadow economy. Due to the increased competition on the fuel retail market the fuel sales promoting campaigns were less successful than in 2011.

The volume of sales in the shops of the fuel stations increased by 2.90% in comparison with the year 2011 as a result of continuous growth of fast food and coffee sales as well as recovery in tobacco sales.

Financial Results

The net profit of the Group for the year 2012 under the International Financial Reporting Standards (IFRS) amounted to USD 80.4 million (LTL 216.1 million), while the net loss for 2011 was USD 5.6 million (LTL 13.9 million). Operating profit for the year 2012 comprised USD 114.2 million (LTL 306.7 million) in comparison with USD 25.2 million (LTL 62.6 million) for 2011. This is the best performance result of the Group before interest and taxes since 2006, when PKN ORLEN acquired the former Mažeikiu Nafta.

Changes in financial indicators of the Group for the year 2012 in comparison to the same period of the last year were as follows: the return on assets was 4 % (-0.3 % in 2011), and the return on equity was 9.7 % (-0.7 % in 2011). Changes of other indicators were as follows: the long term debt to equity ratio was 0.44 (0.49 in 2011), the current ratio was 1.15 (1.08 in 2011), the asset turnover ratio was 3.99 (4.38 in 2011), and the net debt to equity ratio was 0.47 (0.45 in 2011).

Information on financial risk management of the Group is available in Note 26 of Financial Statements. Information includes data of financial risk management trends, used insurance instruments to which the accounting of insurance transactions is applicable as well as the information on the extent of pricing risk, credit risk, liquidity risk and cash flow risk.

Modernization, Mandatory and Other Projects

The total amount of investments by the Group in tangible and intangible assets during the year 2012 comprised USD 93.7 million, i.e. were by 136% higher than in the year 2011 (USD 39.7 million).

In 2012, the following modernization projects significant to the Parent Company were implemented: Visbreaker Residue Vacuum Distillation as well as Sulphur Degassing and Granulation projects, replacement of Tower R-201 internals in Catalytic Cracking Unit, implementation of Emergency Shutdown/Distributed Control System (ESD/DCS) with replacement of pneumatic instruments to electronic devices, and the turnaround of the Parent Company process units.

Fifty four large-scope projects were implemented during the largest turnaround in the history of the Parent Company. The major projects included installation of the new efficient cooling system in Vacuum Distillation Unit, modernization of seven towers in various process units, replacement of Catalytic Cracking Unit reactor head and cyclones. At the same time new 189 duplicating valves were installed enabling to perform annual technical inspection in the run.

The Parent Company's main targets, similar to the previous year, were implementation of the projects with the short pay-back period requiring relatively low investments and intended for profit margin increase. In 2012, the number of such projects completed by the Company amounted to 18, with the total budget reaching USD 6.9 million and the positive impact on EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) comprising approx. USD 23 million per year. In 2012, the main projects intended for EBITDA improvement were as follows: increase of the vacuum level in Vacuum Distillation Unit Tower K-601 of FCC Complex, modernization of towers' internals in the process units, improvement of flare section stacks efficiency and installation of stepless load control system on compressors.

Work Compensation Policy and Employees' Development

Continuous improvement of the employees' qualifications is the priority area of the human resources management. Rich library and computerized Training Center of the Parent Company ensure good conditions for employee training and professional education.

During 2012, the number of employees of the Group who attended the training on formal safety programs amounted to 29; the Parent Company has the license for such trainings issued by the Ministry of Education

and Science of the Republic of Lithuania. 558 employees attended trainings on fire safety and civil safety, 422 employees completed the courses in first aid and hygiene for work under potential exposure to occupational risks. More than 574 employees of the Group participated in trainings organized by other training institutions and acquired certificates for execution of specialized works.

The Parent Company turns special attention to the continuous improvement of workers' qualifications to ensure proper servicing by its operational staff of additional process equipment or modernized units. During the year 2012, such courses were attended by 283 employees.

More than 600 employees participated in trainings on quality improvement, ecology, industrial accident risk management, engineering, finance and accounting, law, financial IT programs, information security, team-building, internal communication, management of changes, emotional intelligence, foreign languages, etc.

In autumn of 2012, *Social Dialogue Capacity Building in Lithuanian Chemical Industry and its International Development* training project financed by the European Union was started jointly with Association of Lithuanian Chemical Industry Enterprises, with participation of 140 employees in the training *Safety and Health in Chemical Industry*.

Work compensation policy is labor market oriented. Employees' salary level varies based on the changes in Lithuanian labor market as well as the general tendencies. Increase of salaries is based on the principles of internal equity and external competitiveness.

On 12 June 2012 the Parent Company signed a new Collective Agreement preserving continuity of the essential social guarantees and benefits set in the previously effective agreement. In 2012 the Collective Agreements in subsidiaries UAB Paslaugos Tau and UAB EMAS were renewed as well. Collective Agreement is an effective tool assisting employers in maintaining social dialog with the employees, and the guarantee for employees to secure discharge of the obligations assumed by the employer.

Organizational Changes and Restructuring

Optimization of the activities and labor efficiency increase are considered as the most serious targets seeking for profitability; therefore in 2012 the Group continued implementation of work organization and structure related changes.

The Parent Company was further executing the process of restructuring by reducing its non-core activities and outsourcing the relevant services. Upon implementation of the work organization associated changes, introduction of advanced technical measures and tools, modernization of processes and staff optimization in many organizational units of the Parent Company the labor efficiency increased.

Organizational changes and restructuring in the Group allowed for the staff reduction during the last year. The number of employees reduced by 268, with the total number at the end of 2012 being 2 245, including the Parent Company's Representative Office in Ukraine.

Maintaining the Management Systems and their Recertification

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 pursue of the short-term profitability.

In 2012 the Parent Company further continued improvement of its internal order, implementation of more efficient management followed by better comprehension of the objectives and processes by the employees; but the most important here is the trust of the clients in our products and work quality.

The Parent Company continuously maintains and improves its Integrated Management System which includes the areas of quality management, environmental management, information security management and occupational health and safety management. In December of 2012, LQRA Ltd successfully completed certification of the Parent Company's information security management system, issuing the certificate effective by the 17 January 2016.

Social Responsibility

Having secured one of the leading positions in Lithuanian economy, the Group seeks not only to improve its business results, but also to enhance quality of life of its employees and their families as well as communities of Mažeikiai, Biržai Districts, Palanga town and the community of Lithuania.

The Parent Company, taking care of the community in line with the provisions of its Social Policy, in cooperation with Mažeikiai District Municipality, granted support for equipping the daily care center for children and organizing catering for the socially-disadvantaged people, reconstruction of two basketball courts near Mažeikiai Pavasario and Ventos Schools. The Parent Company has also financed the disabled elderly people nursing services in Mažeikiai District provided by Mažeikiai Branch of the Lithuanian Red Cross Society.

Taking into consideration the needs of the local community as well as the national culture the Parent Company granted support to Regional Song, Dance and Music Festival *Žydėjimas* organized in Mažeikiai, VI International Festival of Arts *Mažeikiai-2012,* Biržai Town Festival, XVIII Klaipėda Jazz Festival, as well as became the general sponsor of the 72nd season of the Lithuanian National Philharmonic.

The Seimas of the Republic of Lithuania has declared 2012 as the Year of Museums. On this occasion the Parent Company became the general sponsor of exhibition *'The Crosses stand for virtue, the Arrow for victory... The Sapiehas – statesmen, art patrons and collectors'* organized by the National Museum *Palace of Grand Dukes of Lithuania.* At the initiative and with support of the Parent Company the Lithuanian National Commission for UNESCO jointly with Association of Lithuanian Museums issued a unique map of Lithuania *'Lithuania UNESCO. Museums of Lithuania'* presenting significant part of Lithuanian cultural and natural heritage and UNESCO cultural and natural heritage sites of Lithuania.

In 2012, the 10th EU Natural Science Olympiad (EUSO2012) was organized in Vilnius with the Parent Company being its general sponsor.

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 2012, the Group did not acquire or transfer any of its own shares either.

Branches

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

The Year 2013 – Continued Pursuit of the Group's Strategy

In the year 2013, the Group will further pursue its strategy focusing on the operational excellence through capacity utilization increase and reduction of the internal energy consumption.

The forecasted throughput of the Refinery in 2013 is about 10.1 million tons of feedstock. The Group will concentrate its efforts and investments to improve the product portfolio and quality indicators, focusing on the projects intended for increasing the yield of middle distillates and producing high-octane gasoline components.

To ensure the long-term perspective of both ORLEN Lietuva Group and PKN ORLEN Group under the conditions of increasing competition and become one of the most successful and efficient oil companies in the Central and Eastern Europe, the management of the Group in 2013 will further continue implementation of advanced management solutions in the area of operational efficiency increase and processes optimization.

Chairman of the Board of Directors Ireneusz Fąfara