SEPARATE FINANCIAL STATEMENTS OF PUBLIC COMPANY ORLEN LIETUVA FOR THE YEAR ENDED 31 DECEMBER 2021

2021

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

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF AB ORLEN LIETUVA

To the Shareholder of ORLEN Lietuva AB

Opinion

We have audited the financial statements of ORLEN Lietuva AB (the Company), which comprise of the separate statement of financial position as at 31 December 2021, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, of the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Emphasis of matter

We draw your attention to the Note 11 *Events after the end of the reporting period* of the financial statements, which describes the Company's Management assessment of the factual or potential impact of effects of Russian Federation attack on Ukraine started on 24 February 2022. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Deloitte Lietuva, UAB
Audit Company License No 001275

Simonas Rimašauskas
Lithuanian Certified Auditor
License No. 000466

Vilnius, the Republic of Lithuania
14 March 2022

(in USD and EUR thous.)

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	for the year ended		for the year ended	
		31/12/2021	31/12/2021	31/12/2020	31/12/2020
		USD	EUR	USD	EUR
Statement of profit or loss					
Sales revenues	7.1	5,016,953	4,263,826	2,769,581	2,426,276
Cost of sales	7.4	(4,721,745)	(4,013,449)	(2,800,654)	(2,458,543)
Gross profit on sales		**295,208**	**250,377**	**(31,073)**	**(32,267)**
Distribution expenses	7.4	(155,740)	(132,067)	(137,384)	(120,307)
General and administrative expenses	7.4	(57,865)	(49,013)	(51,638)	(45,211)
Other operating income	7.5	93,775	79,371	162,835	145,898
Other operating expenses	7.6	(92,578)	(77,612)	(154,480)	(135,897)
(Loss)/reversal of loss due to impairment of financial instruments		289	247	(143)	(136)
Profit/(loss) from operations		**83,089**	**71,303**	**(211,883)**	**(187,920)**
Finance income	7.7	11,335	9,590	6,017	5,443
Finance costs	7.7	(5,707)	(4,845)	(4,454)	(3,709)
Net finance income/(costs)		**5,628**	**4,745**	**1,563**	**1,734**
Profit/(loss) before tax		**88,717**	**76,048**	**(210,320)**	**(186,186)**
Income tax expense	7.8	(5,178)	(4,584)	43,314	38,333
Net profit/(loss)		**83,539**	**71,464**	**(167,006)**	**(147,853)**
Other comprehensive income:		**510**	**450**	**316**	**257**
which will not be reclassified subsequently into profit or loss:					
Actuarial gains and losses	8.9.2	510	450	316	257
which will be reclasified into profit or loss:		**3,123**	**33,127**	**(2,234)**	**(36,233)**
Hedging instruments		3,123	2,437	(2,234)	(1,624)
Exchange differences on translation		-	30,690	-	(34,609)
Other comprehensive income		**3,633**	**33,577**	**(1,918)**	**(35,976)**
Total net comprehensive income		**87,172**	**105,041**	**(168,924)**	**(183,829)**

Separate financial statements were approved on 14 March 2022.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax Administration

(in USD and EUR thous.)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31/12/2021		31/12/2020	
		USD	EUR	USD	EUR
ASSETS					
Non-current assets					
Property, plant and equipment	8.1	332,134	293,043	312,158	254,180
Intangible assets	8.2	7,298	6,439	4,645	3,782
Right to use assets	10.1.1	27,497	24,260	33,122	26,971
Investments into subsidiaries and associates	8.3	56,001	49,410	2,045	1,665
Deferred tax assets	7.8.2	50,009	44,123	55,187	44,937
Other assets	8.7	2,972	2,622	1,075	875
Total non-current assets		**475,911**	**419,897**	**408,232**	**332,410**
Current assets					
Inventories	8.5.1	431,191	380,441	250,027	203,589
Trade and other receivables	8.5.2	379,189	334,560	131,924	107,421
Other assets	8.7	16,252	14,338	1,953	1,590
Current tax assets		452	399	489	398
Cash and cash equivalents		1,612	1,422	9,484	7,723
Non-current assets classified as held for sale		-	-	242	197
Total current assets		**828,696**	**731,160**	**394,119**	**320,918**
Total assets		**1,304,607**	**1,151,057**	**802,351**	**653,328**
EQUITY AND LIABILITIES					
EQUITY					
Share capital	8.6	6,547	5,794	6,547	5,794
Share premium		50,172	132,152	50,172	132,152
Legal reserves		659	580	659	580
Hedging reserve		(1,560)	(1,376)	(4,683)	(3,813)
Exchange differences on translation		-	(86,851)	-	(117,541)
Retained earnings		444,789	391,387	360,740	319,473
Total equity		**500,607**	**441,686**	**413,435**	**336,645**
LIABILITIES					
Non-current liabilities					
Provisions	8.9	5,085	4,487	5,848	4,762
Lease liabilities	10.1.2	21,914	19,335	29,332	23,884
Loans and borrowings	8.8	34,429	30,377	-	-
Total non-current liabilities		**61,428**	**54,199**	**35,180**	**28,646**
Current liabilities					
Trade and other liabilities	8.5.3	440,274	388,455	236,165	192,303
Lease liabilities	10.1.2	7,610	6,714	7,715	6,283
Loans and borrowings	8.8	10,618	9,368	-	-
Provisions	8.9	138,659	122,339	35,725	29,089
Other liabilities	8.7	145,411	128,296	74,131	60,362
Total current liabilities		**742,572**	**655,172**	**353,736**	**288,037**
Total liabilities		**804,000**	**709,371**	**388,916**	**316,683**
Total equity and liabilities		**1,304,607**	**1,151,057**	**802,351**	**653,328**

Separate financial statements were approved on 14 March 2022.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax Administration

(in USD and EUR thous.)

SEPARATE STATEMENT OF CHANGES IN EQUITY

USD	Equity attributable to equity holders of the Parent Company				
	Share capital and share premium	Hedging reserve	Legal reserves	Retained earnings	Total equity
1 January 2021	**56,719**	**(4,683)**	**659**	**360,740**	**413,435**
Profit for the year	-	-	-	83,539	**83,539**
Components of other comprehensive income	-	3,123	-	510	**3,633**
Total net comprehensive income	**-**	**3,123**	**-**	**84,049**	**87,172**
31 December 2021	**56,719**	**(1,560)**	**659**	**444,789**	**500,607**
1 January 2020	**56,719**	**(2,449)**	**659**	**527,430**	**582,359**
Profit for the year	-	-	-	(167,006)	**(167,006)**
Components of other comprehensive income	-	(2,234)	-	316	**(1,918)**
Total net comprehensive income	**-**	**(2,234)**	**-**	**(166,690)**	**(168,924)**
31 December 2020	**56,719**	**(4,683)**	**659**	**360,740**	**413,435**

EUR	Equity attributable to equity holders of the Parent Company					
	Share capital and share premium	Hedging reserve	Legal reserves	Exchange differences on translation	Retained earnings	Total equity
1 January 2021	**137,946**	**(3,813)**	**580**	**(117,541)**	**319,473**	**336,645**
Profit for the year	-	-	-	-	71,464	**71,464**
Components of other comprehensive income	-	2,437	-	30,690	450	**33,577**
Total net comprehensive income	**-**	**2,437**	**-**	**30,690**	**71,914**	**105,041**
31 December 2021	**137,946**	**(1,376)**	**580**	**(86,851)**	**391,387**	**441,686**
1 January 2020	**137,946**	**(2,189)**	**580**	**(82,932)**	**467,069**	**520,474**
Profit for the year	-	-	-	-	(147,853)	**(147,853)**
Components of other comprehensive income	-	(1,624)	-	(34,609)	257	**(35,976)**
Total net comprehensive income	**-**	**(1,624)**	**-**	**(34,609)**	**(147,596)**	**(183,829)**
31 December 2020	**137,946**	**(3,813)**	**580**	**(117,541)**	**319,473**	**336,645**

Separate financial statements were approved on 14 March 2022.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and Tax Administration

(in USD and EUR thous.)

SEPARATE STATEMENT OF CASH FLOWS

	Note	for the year ended		for the year ended	
		31/12/2021	31/12/2021	31/12/2020	31/12/2020
		USD	EUR	USD	EUR
Cash flows from operating activities					
Net profit/(loss)		**83,539**	**71,464**	**(167,006)**	**(147,853)**
Adjustments for:					
Depreciation and amortisation	7.4	43,544	36,875	38,390	33,652
Recognization/(Reversal) of impairment losses on property, plant and equipment, intangible assets and non-current assets classified as held for sale	7.5, 7.6	(1,324)	(1,186)	21,958	18,062
Foreign exchange (gain)/loss		(5,775)	(4,906)	2,064	1,757
Interest and dividend, net		2,667	2,310	(4,838)	(4,417)
(Profit)/loss on investing activities		9,519	7,503	(27,727)	(25,478)
Change in working capital:		(110,093)	(88,671)	128,580	117,705
receivables		*(135,019)*	*(110,975)*	*148,119*	*131,706*
inventories		*(177,259)*	*(144,749)*	*89,060*	*82,671*
liabilities		*202,185*	*167,053*	*(108,599)*	*(96,672)*
Change in provisions		23,921	20,549	(1,740)	(1,238)
Tax expense	7.8	5,178	4,584	(43,314)	(38,333)
Income tax (paid)/received		38	32	4,433	4,048
Change in financial instruments		2,789	2,714	7,016	5,786
Other adjustments		176	148	2	3
Net cash from operating activities		**54,179**	**51,416**	**(42,182)**	**(36,306)**
Cash flows from investing activities					
Acquisition of property, plant and equipment and intangible assets		(95,245)	(80,130)	(59,787)	(52,416)
Acquisition of shares	8.3	(53,956)	(44,500)	-	-
Disposal of property, plant and equipment and intangible assets		369	325	21	19
Proceeds/repayment of loans granted		9	8	5	4
Increase/(decrease) in derivatives		(35,096)	(29,661)	35,774	33,152
Interest and dividend received		3,010	2,510	6,001	5,426
(Outflows)/proceeds from cash pool		(1,689)	(1,394)	32,255	25,547
Net cash (used) in investing activities		**(182,598)**	**(152,842)**	**14,269**	**11,732**
Cash flows from financing activities					
Proceeds from loans and borrowings		53,956	44,500	-	-
Repayment of loans and borrowings		(5,680)	(4,922)	-	-
(Outflows)/proceeds from cash pool		84,248	65,026	37,478	32,981
Interest paid		(4,890)	(4,156)	(797)	(693)
Payments of liabilities under lease agreements		(7,066)	(5,990)	(7,683)	(6,757)
Other		(21)	(18)	-	-
Net cash (used) in financing activities		**120,547**	**94,440**	**28,998**	**25,531**
Net (decrease)/increase in cash and cash equivalents		**(7,872)**	**(6,986)**	**1,085**	**957**
Effect of exchange rate changes		-	685	-	(740)
Cash and cash equivalents, beginning of the period		**9,484**	**7,723**	**8,399**	**7,506**
Cash and cash equivalents, end of the period		**1,612**	**1,422**	**9,484**	**7,723**
Restricted cash		-	-	-	-

Separate financial statements were approved on 14 March 2022.

Michal Rudnicki
General Director

Marek Golębiewski
Chief Financial Officer

Genutė Barkuvienė
Director of Accounting and
Tax Administration

BASIC INFORMATION

1. ACTIVITY AND STRUCTURE OF THE COMPANY

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

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

Structure of the company

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

Name of entity	Headquarters	Share of the Group (%)		Nature of activity
		31/12/2021	31/12/2020	
Subsidiaries				
SIA ORLEN Latvija	Latvia - Ryga	100	100	Wholesale of liquid fuels in Latvia.
OU ORLEN Eesti	Estonia - Talin	100	100	Wholesale of liquid fuels in Estonia.
UAB Mockavos terminalas	Lithuania - Zelionka vil.	100	-	Reloading and storage of oil products.
Associated company				
UAB Naftelf	Lithuania - Vilnius	34	34	Trading in aviation fuel and construction of storage facilities thereof.

As at 15th June 2021, the Company acquired 100% shares in UAB Mockavos Terminalas. The fair value of the payment made accounted to EUR 45 million (USD 54 million).
The book value of the acquired net assets as at the time of taking over control was EUR 8.4 million (USD 10 million).

2. BASIS OF PREPARATION OF SEPARATE FINANCIAL STATEMENTS

The separate financial statements have been prepared with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting standards (IAS) as well as Interpretations of Standing Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), which were adopted by the European Union (EU). The accounting principles applied by the Company are based on standarts and interpretations adopted by the European Union and applicable to the period beginning on 1 January 2021 or earlier periods.
The separate financial statements have been prepared on a historical cost basis, except derivatives measured at fair value through other comprehensive income. The separate financial statements have been prepared using the accrual basis of accounting except from the separate financial statement of cash flows.
The separate financial statements cover the annual reporting period from 1 January to 31 December 2021 and the comparative period from 1 January to 31 December 2020. Presented separate financial statements present a true and fair view of the Company's financial position as at 31 December 2021, results of its operations and cash flows for the year ended 31 December 2021.
The separate financial statements have been prepared on the assumption that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of this separate financial statements, there is no evidence indicating that Company will not be able to continue its operations as a going concern. The Company have unlimited period of operations.

(in USD and EUR thous.)

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

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

- particular assets and liabilities – at spot exchange rate as at the end of the reporting period,
- equity – using historical exchange rate,
- items of the statement of profit or loss and other comprehensive income and the statement of cash flows - using monthly average exchange rate for the reporting period (arithmetic average exchange rates published by European Central Bank of working days in a given period).

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

Exchange rates used for calculation of financial data

CURRENCIES	exchange rate at the end of the reporting period	
	31/12/2021	31/12/2020
EUR/USD	1.1334	1.2281

4. IMPACT OF CORONAVIRUS PANDEMIC ON COMPANY'S OPERATIONS

In 2021, the COVID-19 pandemic continued to impact the global economy and the situation in the country, causing disruptions in the economic and administrative system. With respect to the market environment, the Company continued still to observe uncertainties about the future course of the pandemic and the scale and distribution over time of the secondary effects of the "rebound" from the pandemic recession reflected in high volatility in demand as well as in prices of refining products and raw materials, including crude oil, energy and CO2 emission allowances, which affected sales prices and the level of margin achieved.
Below the Company presented the impact of the coronavirus pandemic on selected areas of the Company's operations.

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

The Company has taken a number of actions in connection with COVID-19 pandemic, especially it developed emergency action plans to ensure the continuity of operations of critical infrastructure and the provision of key services provided by the Company. Crisis management plans are developed depending on the effects that may be caused by the increasing number of cases.
During 2021 there were no disruptions in any area of operations within the Company and there were no threats to the supply chain, both with respect to purchase of raw materials and goods, as well as in the field of internal logistic.
Since the outbreak of the pandemic the Company have taken a number of actions in order to adapt to constantly changing business environment, as well as to prevent the spread of COVID-19 infections, which were continued in 2021. The Company adjusts its operations on an ongoing basis to the changing epidemiological situation.
The total cost incurred in the 12-month period ended 31 December 2021 and 31 December 2020 due the preventive measures taken by the Company in order to limit the spread of the virus at the premises and protection of employees and customers amounted to USD 157 thousand or EUR 132 thousand and USD 1211 thousand or EUR 1061 thousand, respectively.

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

Estimation of expected credit loss ECL

As at 31 December 2021 the Company performed detailed analysis of changes in macroeconomic environment caused by coronavirus pandemic on expected credit loss calculation in terms of the potential need to modify the assumptions made for estimations and including additional risk factor related to current economic situation and forecasts for the future.
As at 31 December 2021, based on performed analysis, the Company did not identify any indicators for modification of assumptions taken for estimation of expected credit loss.

Impairment of property plant and equipment, intangible assets and right-of-use assets

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

Additional information was included in note 8.4.

Liquidity situation

In 2021 the Company continued its current policy with respect to liquidity management process. The Company does not identify currently and within the next 12 months problems with liquidity. The Company also does not see risk of default on loans or other financing agreements. As at the date of preparation of this set of annual financial statements the financial situation of the Company is stable, but due to ongoing uncertainty related to geopolitical situation on economies the Company decided to ask its parent company for increasing the international cash pool limit in Q2 2022 to buffer liquidity needs throughout the year.

Other accounting estimates

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

5. ACCOUNTING PRINCIPLES

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

The preparation of separate financial statements in accordance with IFRS requires that the Management make professional judgments, estimates and assumptions that affect the presented amounts. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds of professional judgments of the carrying amount of assets and liabilities which is not based directly on any other factors.

In the matters of considerable weight, the Management might base its estimates on opinions of independent experts.The judgments and estimates and related assumptions are verified on regular basis.

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

IFRSs and their interpretations, announced and adopted by the European Union, effective for the current reporting period
Amendments to IFRS 4 “Insurance Contracts” - Extension of the Temporary Exemption from Applying IFRS 9
Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 16 “Leases” - Covid-19-Related Rent Concessions

The aforesmentioned amendments to the existing standarts did not have significant impact on the Company’s financial statements for 2021.

IFRSs and their interpretations, announced and adopted by the European Union, not yet effective
Amendments to IAS 16 “Property, Plant and Equipment” - Proceeds before Intended Use - effective for annual periods beginning on or after 1 January 2022
Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” - Onerous Contracts - Cost of Fulfilling a Contract - effective for annual periods beginning on or after 1 January 2022
Amendments to IFRS 3 “Business Combinations” - Reference to the Conceptual Framework with amendments to IFRS 3 - effective for annual periods beginning on or after 1 January 2022
IFRS 17 - Insurance Contracts - effective for annual periods beginning on or after 1 January 2023
Amendments to IAS 1 “Presentation of Financial Statements” and the IASB guidelines on disclosures regarding accounting policies in practice - The requirement to disclose material information on accounting policies (applicable for annual periods beginning on or after 1 January 2023)

Standards adopted by International Accounting Standards Board (IASB), waiting for approval by the European Union
Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded)
IFRS 14 - Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
Amendments to IFRS 17 "Insurance Contracts" - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after 1 January 2023)
Amendments to IAS 1 - Presentation of financial statements - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023)
Amendments to IAS 1 “Presentation of Financial Statements” and the IASB guidelines on disclosures regarding accounting policies in practice - The requirement to disclose material information on accounting policies (applicable for annual periods beginning on or after 1 January 2023)
Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023)
Amendments to IAS 12 “Income Taxes” - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023)

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

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

7.1. Sales revenues

SELECTED ACCOUNTING PRINCIPLES

Sales revenues

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

	for the year ended		for the year ended	
	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Sales of finished goods	4,854,556	4,126,432	2,714,033	2,377,628
Sales of services	19,056	16,162	20,018	17,544
Revenues from sales of finished goods and services, net	**4,873,612**	**4,142,594**	**2,734,051**	**2,395,172**
Sales of goods for resale	141,513	119,689	34,326	30,053
Sales of spare parts and other materials	1,828	1,543	1,204	1,051
Revenues from sales of goods for resale and spare parts, net	**143,341**	**121,232**	**35,530**	**31,104**
Total	**5,016,953**	**4,263,826**	**2,769,581**	**2,426,276**

7.2. Sales revenues in division on assortments

	for the year ended		for the year ended	
	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Gasoline	1,569,973	1,334,548	754,146	658,578
Diesel fuel	2,333,041	1,981,874	1,371,100	1,202,535
Jet A-1 fuel	135,933	116,106	70,653	62,445
Heavy heating oil	414,561	353,318	203,323	177,574
LPG	127,836	108,590	73,308	64,056
Bitumens	122,773	103,995	85,255	73,984
Propylene	96,180	81,643	52,539	45,684
Other	195,772	166,047	138,034	122,825
Services	19,056	16,162	20,019	17,544
Sales of spare parts and other materials	1,828	1,543	1,204	1,051
Total	**5,016,953**	**4,263,826**	**2,769,581**	**2,426,276**

In 2021, there was one major customer in the Company, whose revenues from sales amounted to USD 745,969 thousand or EUR 659,846 thousand and individually exceeded 10% of total revenues from sale to external customers.

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

(in USD and EUR thous.)

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

	for the year ended		for the year ended	
	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Lithuania	923,582	783,962	786,319	689,336
Latvia and Estonia	999,395	848,328	600,780	524,921
Poland	316,560	272,315	171,303	154,228
Other EU countries	657,158	557,307	317,104	275,077
Other countries, including:	2,120,258	1,801,914	894,075	782,714
Switzerland	*926,690*	*787,814*	*340,822*	*298,590*
Ukraine	*471,604*	*399,356*	*276,135*	*242,195*
Singapore	*420,562*	*355,927*	*236,273*	*206,448*
Other countries	*301,402*	*258,817*	*40,845*	*35,481*
Total	**5,016,953**	**4,263,826**	**2,769,581**	**2,426,276**

7.4. Cost by nature

SELECTED ACCOUNTING PRINCIPLES

Costs

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

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

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

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

	Note	for the year ended		for the year ended	
		31/12/2021	31/12/2021	31/12/2020	31/12/2020
		USD	EUR	USD	EUR
Usage of materials and energy		(4,574,190)	(3,885,743)	(2,681,666)	(2,353,089)
Costs of goods for resale		(134,498)	(113,736)	(34,835)	(30,527)
External services		(182,617)	(154,770)	(161,582)	(141,726)
Employee benefits, including:		(53,476)	(45,274)	(51,658)	(45,221)
payroll expenses		*(49,466)*	*(41,870)*	*(47,718)*	*(41,772)*
social security expenses		*(775)*	*(659)*	*(966)*	*(839)*
Depreciation and amortization	8.1, 8.2, 10.1	(43,544)	(36,875)	(38,390)	(33,652)
Taxes and charges		(30,109)	(25,757)	(4,345)	(4,181)
Other costs		(14,972)	(12,668)	(13,941)	(12,230)
		(5,033,406)	**(4,274,823)**	**(2,986,417)**	**(2,620,626)**
Change in finished goods and work in progress		98,502	80,404	(20,243)	(20,763)
Cost of products and services for own use		(478)	(420)	33	(15)
Write-down of inventories	8.5.1	32	310	16,951	17,343
Total operating expenses		**(4,935,350)**	**(4,194,529)**	**(2,989,676)**	**(2,624,061)**
Distribution expenses		155,740	132,067	137,384	120,307
General and administrative expenses		57,865	49,013	51,638	45,211
Cost of sales		**(4,721,745)**	**(4,013,449)**	**(2,800,654)**	**(2,458,543)**

(in USD and EUR thous.)

7.5. Other operating income

	Note	for the year ended 31/12/2021 USD	for the year ended 31/12/2021 EUR	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR
Profit from disposal of non-financial fixed assets		369	325	19	17
Reversal of provisions		49	42	2,748	2,434
Subsidies		4,587	3,895	5,852	4,950
Reversal of impairment allowances of property, plant and equipment, intangible assets, right to use assets and other non curent assets, held for resale		1,834	1,609	141	125
Penalties, damages and compensations		5,237	4,521	184	161
Settlement and valuation of derivative financial instruments related to operational exposure	9.2	79,400	67,024	151,819	136,303
Ineffective part related to settlement and valuation of operating exposure	9.2	2,180	1,852	1,977	1,778
Other		119	103	95	130
Total		**93,775**	**79,371**	**162,835**	**145,898**

7.6. Other operating expenses

	Note	for the year ended 31/12/2021 USD	for the year ended 31/12/2021 EUR	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR
Loss from disposal of non-financial fixed assets		(267)	(225)	(294)	(242)
Donations		(579)	(487)	(1,393)	(1,257)
Recognition of provisions		(57)	(50)	(285)	(235)
Recognition of impairment allowances of property, plant and equipment, intangible assets, right to use assets and other non-current assets classified as held for sale		(510)	(423)	(22,099)	(18,187)
Penalties, damages and compensations		(60)	(50)	(1,210)	(1,014)
Settlement and valuation of derivative financial instruments related to operational exposure	9.2	(89,021)	(74,627)	(123,817)	(110,091)
Ineffective part related to settlement and valuation of operating exposure	9.2	(2,077)	(1,745)	(5,289)	(4,780)
Other		(7)	(5)	(93)	(91)
Total		**(92,578)**	**(77,612)**	**(154,480)**	**(135,897)**

7.7. Finance income and costs

	Note	for the year ended 31/12/2021 USD	for the year ended 31/12/2021 EUR	for the year ended 31/12/2020 USD	for the year ended 31/12/2020 EUR
Finance income					
Dividends income	9.2	2,970	2,476	5,786	5,235
Interest	9.2	134	116	220	198
Net foreign exchange gains	9.2	8,189	6,964	-	-
Granted guarantee	9.2	41	34	11	10
Total finance income		**11,334**	**9,590**	**6,017**	**5,443**
Finance costs					
Interest	9.2	(5,686)	(4,827)	(1,118)	(973)
Net foreign exchange loss	9.2	-	-	(3,336)	(2,736)
Granted guarantee	9.2	(21)	(18)	-	-
Total finance costs		**(5,707)**	**(4,845)**	**(4,454)**	**(3,709)**
Net finance income/(costs)		**5,627**	**4,745**	**1,563**	**1,734**

(in USD and EUR thous.)

7.8. Tax expense

SELECTED ACCOUNTING PRINCIPLES

Income tax expenses

Income tax expenses (tax expense) include current tax and deferred tax. Current tax expense is determined in accordance with the relevant tax law based on the taxable profit for a given period and is recognized as a liability, in the amount which has not been paid or as an asset, if the amount of the current and prior periods income tax paid exceeds the amount due.

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

	for the year ended		for the year ended	
	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Current tax expense	-	-	(12)	(10)
Deferred tax expense	5,178	4,584	(43,302)	(38,323)
Tax recognized in profit or loss	**5,178**	**4,584**	**(43,314)**	**(38,333)**
Total	**5,178**	**4,584**	**(43,314)**	**(38,333)**

7.8.1. Reconciliation of effective tax rate

	for the year ended		for the year ended	
	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Profit (loss) for the period before tax	88,717	76,048	(210,320)	(186,186)
Profit tax applying 15 % tax rate	13,308	11,407	(31,548)	(27,928)
Non-taxable income	(3,461)	(2,924)	(13,848)	(12,138)
Expenses not deductible for tax purposes	(5,864)	(4,954)	(2,088)	(1,830)
Fixed assets investment relief utilization/ (recognition)	3,302	2,790	4,536	3,976
Tax loss utilization (recognition)	(1,557)	(1,315)	-	-
Change in estimates related to prior years	-	-	(1,013)	(888)
Valuation of derivative financial instruments	(385)	(325)	647	567
Other	(165)	(139)	-	-
Exchange differences on translation	-	44	-	(92)
Tax expense	**5,178**	**4,584**	**(43,314)**	**(38,333)**

7.8.2. Deferred tax

	31/12/2020		Deferred tax recognized in statement of profit or loss		Foreign exchange differences	31/12/2021	
Deferred tax assets / (liabilities)	**USD**	**EUR**	**USD**	**EUR**	**EUR**	**USD**	**EUR**
Impairment allowances	118,976	96,878	(736)	(622)	8,067	118,240	104,323
Provisions and accruals	9,136	7,439	(4,137)	(3,495)	467	4,999	4,411
Unrealized foreign exchange differences	6,935	5,647	(11,378)	(9,612)	45	(4,443)	(3,920)
Difference between carrying amount and tax base of property, plant and equipment	(53,772)	(43,785)	(4,532)	(3,829)	(3,828)	(58,304)	(51,442)
Tax loss carried forward	48,409	39,418	(4,644)	(4,133)	3,329	43,765	38,614
Valuation of derivative financial instruments	(647)	(527)	386	326	(29)	(261)	(230)
Investment relief	1,112	905	395	334	90	1,507	1,329
Other	801	653	(102)	(86)	50	699	617
Total deferred tax assets / (liabilities)	**130,950**	**106,628**	**(24,748)**	**(21,117)**	**8,191**	**106,202**	**93,702**
Deferred tax asset / (liabilities) not recognised	**(75,763)**	**(61,691)**	**19,570**	**16,533**	**(4,421)**	**(56,193)**	**(49,579)**
Deferred tax, net	**55,187**	**44,937**	**(5,178)**	**(4,584)**	**3,770**	**50,009**	**44,123**

(in USD and EUR thous.)

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

8. EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

8.1. Property, plant and equipment

SELECTED ACCOUNTING PRINCIPLES

Property, plant and equipment

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

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

Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation (catalysts).

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

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

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

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

PROFESSIONAL JUDGEMENT AND ESTIMATES

Useful lives of property, plant and equipment

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

The impact of verification of useful lives in 2021 resulted in a decrease of depreciation costs by USD 1,513 thousands or EUR 1,315 thousands compared to depreciation costs that were recognised based on useful lives applied in 2020.

(in USD and EUR thous.)

USD	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Net carrying amount at 01/01/2021						
Gross carrying amount	1	433,609	1,387,022	99,679	56,690	1,977,001
Accumulated depreciation	-	(205,188)	(638,850)	(44,046)	-	(888,084)
Impairment allowances	(1)	(184,192)	(571,694)	(10,849)	(10,023)	(776,759)
	-	**44,229**	**176,478**	**44,784**	**46,667**	**312,158**
Increases/(decreases), net						
Investment expenditures	-	6,404	14,059	8,329	29,674	58,466
Depreciation	-	(2,596)	(26,730)	(5,557)	-	(34,883)
Impairment allowances, net	**-**	**(298)**	**4,359**	**250**	**1,570**	**5,881**
Recognition	-	(109)	(325)	-	(76)	(510)
Reversal	-	9	1,465	2	355	1,831
Reclassifications	-	(348)	(1,445)	121	1,283	(389)
Other	-	150	4,664	127	8	4,949
Reclassifications	-	5,548	20,159	(124)	(26,030)	(447)
Other	-	(294)	(4,709)	(3,922)	(116)	(9,041)
	-	**52,993**	**183,616**	**43,760**	**51,765**	**332,134**
Net carrying amount at 31/12/2021						
Gross carrying amount	1	445,156	1,401,004	95,205	60,218	2,001,584
Accumulated depreciation	-	(207,673)	(650,053)	(40,846)	-	(898,572)
Impairment allowances	(1)	(184,490)	(567,335)	(10,599)	(8,453)	(770,878)
	-	**52,993**	**183,616**	**43,760**	**51,765**	**332,134**
Net carrying amount at 01/01/2020						
Gross carrying amount	1	77,206	1,707,156	93,587	43,203	1,921,153
Accumulated depreciation	-	(39,215)	(779,432)	(40,852)	-	(859,499)
Impairment allowances	(1)	(30,934)	(707,116)	(10,171)	(7,107)	(755,329)
	-	**7,057**	**220,608**	**42,564**	**36,096**	**306,325**
Increases/(decreases), net						
Investment expenditures	-	833	19,095	6,415	31,641	57,984
Depreciation	-	(459)	(26,208)	(3,395)	-	(30,062)
Impairment allowances, net	**-**	**(153,259)**	**135,422**	**(677)**	**(2,915)**	**(21,429)**
Recognition	-	(3,400)	(14,530)	(696)	(3,119)	(21,745)
Reversal	-	-	-	8	115	123
Reclassifications	-	(149,859)	149,770	9	89	9
Other	-	-	182	2	-	184
Reclassifications	-	190,057	(171,959)	(120)	(18,155)	(177)
Other	-	-	(480)	(3)	-	(483)
Net carrying amount at 31/12/2020	**-**	**44,229**	**176,478**	**44,784**	**46,667**	**312,158**

(in USD and EUR thous.)

EUR	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Net carrying amount at 01/01/2021						
Gross carrying amount	1	353,073	1,129,405	81,165	46,160	1,609,804
Accumulated depreciation	-	(167,077)	(520,193)	(35,865)	-	(723,135)
Impairment allowances	(1)	(149,981)	(465,512)	(8,834)	(8,161)	(632,489)
	-	**36,015**	**143,700**	**36,466**	**37,999**	**254,180**
Increases/(decreases), net						
Investment expenditures	-	5,633	12,091	6,916	25,017	49,657
Depreciation	-	(2,196)	(22,644)	(4,713)	-	(29,553)
Impairment allowances, net	**-**	**(253)**	**3,747**	**209**	**1,329**	**5,032**
Recognition	-	(91)	(269)	-	(63)	(423)
Reversal	-	8	1,294	2	302	1,606
Reclassifications	-	(300)	(1,236)	100	1,083	(353)
Other	-	130	3,958	107	7	4,202
Reclassifications	-	4,768	17,173	(107)	(22,170)	(336)
Foreign exchange differences, incl.:	-	3,042	11,934	3,303	3,593	21,872
foreign exchange differences of impairment allowances	-	(12,542)	(38,795)	(727)	(626)	(52,690)
Other	-	(253)	(3,996)	(3,464)	(96)	(7,809)
	-	**46,756**	**162,005**	**38,610**	**45,672**	**293,043**
Net carrying amount at 31/12/2021						
Gross carrying amount	1	392,762	1,236,108	83,999	53,130	1,766,000
Accumulated depreciation	-	(183,230)	(573,542)	(36,039)	-	(792,811)
Impairment allowances	(1)	(162,776)	(500,561)	(9,350)	(7,458)	(680,146)
	-	**46,756**	**162,005**	**38,610**	**45,672**	**293,043**
Net carrying amount at 01/01/2020						
Gross carrying amount	1	69,001	1,525,745	83,643	38,612	1,717,002
Accumulated depreciation	-	(35,047)	(696,605)	(36,512)	-	(768,164)
Impairment allowances	(1)	(27,647)	(631,974)	(9,090)	(6,352)	(675,064)
	-	**6,307**	**197,166**	**38,041**	**32,260**	**273,774**
Increases/(decreases), net						
Investment expenditures	-	695	16,222	5,837	27,569	50,323
Depreciation	-	(392)	(23,000)	(2,978)	-	(26,370)
Impairment allowances, net	**-**	**(126,081)**	**111,402**	**(560)**	**(2,388)**	**(17,627)**
Recognition	-	(2,796)	(11,953)	(576)	(2,571)	(17,896)
Reversal	-	-	-	6	102	108
Reclassifications	-	(123,285)	123,204	8	81	8
Other	-	-	151	2	-	153
Reclassifications	-	156,393	(140,254)	(97)	(16,202)	(160)
Foreign exchange differences, incl.:	-	(907)	(17,439)	(3,775)	(3,240)	(25,361)
foreign exchange differences of impairment allowances	-	3,747	55,061	816	579	60,203
Other	-	-	(397)	(2)	-	(399)
Net carrying amount at 31/12/2020	**-**	**36,015**	**143,700**	**36,466**	**37,999**	**254,180**

Other information connected with property, plant and equipment

	31/12/2021 USD	31/12/2021 EUR	31/12/2020 USD	31/12/2020 EUR
The acquisition costs of all fully depreciated property, plant and equipment still in use	48,283	42,600	51,290	41,764
The carrying amounts of idle property, plant and equipment and not clasified as held for sale	1	1	5	4

8.2. Intangible assets

SELECTED ACCOUNTING PRINCIPLES

Intangible assets

An intangible asset shall be measured initially at acquisition or production cost and shall be presented in the statement of financial position in its net carrying amount.
Intangible assets with the finite useful life are amortised using straight-line method. Amortization shall begin when the asset is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
Standard useful lives of intangible assets are from 2 to 10 for software and from 2 to 15 years for concessions, licenses, patents and similar.
The amortization method and useful life of intangible asset item are verified at least at the end of each year.

Rights

The main item of rights is CO2 emission rights, not amortised, tested for impairment.
Granted emission allowances are presented as intangible assets in correspondence with deferred income at fair value as at the date of registration. If the allowances in a given year are not registered on the account under the date resulting from regulations, they are presented as receivable on the reporting date in correspondence with deferred income (as separate items) in the fair value of allowances due at the reporting date. The receivable is settled at the moment of allowances registration in the subsequent period by the disclosure of intangible assets.
Purchased allowances are presented at purchase price. For the estimated CO2 emission during the reporting period, a provision is created (taxes and charges).
Grants are recognized on a systematic basis in each reporting period to ensure proportionality with the relevant costs of the created reserve. The Company recognises costs flows of CO2 emission allowances at weighted average method.

ESTIMATES

Useful lives of intangible assets

The Company verifies useful lives of intangible assets once at year end with effect from the beginning of next year. Useful lives of intangible assets after the verification remained unchanged in 2021.

(in USD and EUR thous.)

USD	Software	Licenses, patents and similar assets	Emission rights	Total
Net carrying amount at 01/01/2021				
Gross carrying amount	24,279	6,135	-	30,414
Accumulated amortisation	(15,919)	(5,865)	-	(21,784)
Impairment allowances	(3,818)	(167)	-	(3,985)
	4,542	**103**	**-**	**4,645**
Increases/(decreases), net				
Investment expenditures	1,038	2,314	-	3,352
Purchases	-	-	33,478	33,478
Amortisation	(1,514)	(31)	-	(1,545)
Impairment allowances, net	**(40)**	**-**	**-**	**(40)**
Other	(40)	-	-	(40)
Reclassifications	11	(11)	-	-
Emission settlement	-	-	(33,478)	(33,478)
Other	886	-	-	886
	4,923	**2,375**	**-**	**7,298**
Net carrying amount at 31/12/2021				
Gross carrying amount	25,188	8,438	-	33,626
Accumulated amortisation	(16,406)	(5,896)	-	(22,302)
Impairment allowances	(3,859)	(167)	-	(4,026)
	4,923	**2,375**	**-**	**7,298**
Net carrying amount at 01/01/2020				
Gross carrying amount	23,327	6,057	-	29,384
Accumulated amortisation	(14,548)	(5,858)	-	(20,406)
Impairment allowances	(3,465)	(192)	-	(3,657)
	5,314	**7**	**-**	**5,321**
Increases/(decreases), net				
Investment expenditures	976	-	-	976
Purchases	-	-	3,079	3,079
Received free of charge	-	-	32,390	32,390
Amortisation	(1,370)	(22)	-	(1,392)
Impairment allowances, net	**(354)**	**26**	**-**	**(328)**
Recognition	(354)	-	-	(354)
Other	-	26	-	26
Reclassifications	(24)	-	-	(24)
Emission settlement	-	-	(35,469)	(35,469)
Other	-	92	-	92
Net carrying amount at 31/12/2020	**4,542**	**103**	**-**	**4,645**

(in USD and EUR thous.)

EUR	Software	Licenses, patents and similar assets	Emission rights	Total
Net carrying amount at 01/01/2021				
Gross carrying amount	19,769	4,996	-	24,765
Accumulated amortisation	(12,962)	(4,776)	-	(17,738)
Impairment allowances	(3,109)	(136)	-	(3,245)
	3,698	**84**	**-**	**3,782**
Increases/(decreases), net				
Investment expenditures	894	1,920	-	2,814
Purchases	-	-	28,013	28,013
Amortisation	(1,280)	(27)	-	(1,307)
Impairment allowances, net	**(34)**	**-**	**-**	**(34)**
Recognition	-	-	-	-
Other	(34)	-	-	(34)
Reclassifications	9	(9)	-	-
Emission settlement	-	-	(28,013)	(28,013)
Foreign exchange differences, incl.:	322	127	-	449
foreign exchange differences of impairment allowances	(261)	(11)	-	(272)
Other	735	-	-	735
	4,344	**2,095**	**-**	**6,439**
Net carrying amount at 31/12/2021				
Gross carrying amount	22,224	7,445	-	29,669
Accumulated amortisation	(14,475)	(5,203)	-	(19,678)
Impairment allowances	(3,405)	(147)	-	(3,552)
	4,344	**2,095**	**-**	**6,439**
Net carrying amount at 01/01/2020				
Gross carrying amount	20,849	5,414	-	26,263
Accumulated amortisation	(13,002)	(5,236)	-	(18,238)
Impairment allowances	(3,097)	(172)	-	(3,269)
	4,750	**6**	**-**	**4,756**
Increases/(decreases), net				
Investment expenditures	829	-	-	829
Purchases	-	-	2,834	2,834
Received free of charge	-	-	29,692	29,692
Amortisation	(1,202)	(19)	-	(1,221)
Impairment allowances, net	**(291)**	**24**	**-**	**(267)**
Recognition	(291)	-	-	(291)
Other	-	24	-	24
Reclassifications	(22)	-	-	(22)
Emission settlement	-	-	(32,643)	(32,643)
Foreign exchange differences, incl.:	(366)	(11)	117	(260)
foreign exchange differences of impairment allowances	278	13	-	291
Other	-	84	-	84
Net carrying amount at 31/12/2020	**3,698**	**84**	**-**	**3,782**

Other information regarding intangible assets

	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
The acquisition costs of all fully amortized intangible assets still in use	7,506	6,623	7,891	6,425

(in USD and EUR thous.)

8.2.1. Rights

Changes in owned CO_2 emission rights (EUA) for 2021

	Quantity (in tonnes)	USD	EUR
1 January 2021	**-**	**-**	**-**
Purchase	1,478,463	33,478	28,013
Settled emission for 2020 (audited)	(1,478,463)	(33,478)	(28,013)
31 December 2021	**-**	**-**	**-**
Emission in 2021 (not audited)	1,501,674	137,266	121,110
Shortage	**(1,501,674)**	**(137,266)**	**(121,110)**

The quantity of CO2 emission as at 31 December 2021 is not audited. The Company received granted emission allowances for 2021 in quantity of 1.2 million tonnes in February 2022 and granted emission allowances for 2022 in quantity of 1.2 million tonnes in March 2022. The balance of received emission allowances is sufficient for the settlement of CO2 emission for 2021.
As at 31 December 2021 and 31 December 2020 the market price of one EUA amounted to 91.41 USD/t or 80.65 EUR/t and amounted 39.96 USD/t or 32.54 EUR/t, respectively.

Changes in owned CO_2 emission rights (EUA) for 2020

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

8.3. Investments into subsidiaries and associates

SELECTED ACCOUNTING PRINCIPLES

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

PROFESSIONAL JUDGEMENT

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

	2021	2021	2020	2020
	USD	EUR	USD	EUR
1 January	**2,045**	**1,665**	**2,045**	**1,827**
Acquisition of subsidiary	53,956	44,500	-	-
Exchange differences on translation	-	3,245	-	(162)
As at 31 December	**56,001**	**49,410**	**2,045**	**1,665**

As at 31 December 2021 the Company had investments in subsidiaries SIA ORLEN Latvija, OU ORLEN Eesti and new subsidiary - UAB Mockavos terminalas.

UAB Naftelf did not pay dividends in 2021 and 2020.

(in USD and EUR thous.)

USD	Acquisition costs	Impairment	Book value	Equity	Acquisition costs	Impairment	Book value	Equity
	31/12/2021				31/12/2020			
Subsidiaries								
UAB Mockavos terminalas	53,956	-	53,956	9,767	-	-	-	-
SIA ORLEN Latvija	316	-	316	3,644	316	-	316	2,648
OU ORLEN Eesti	709	-	709	3,188	709	-	709	2,035
Total	**54,981**	**-**	**54,981**	**16,599**	**1,025**	**-**	**1,025**	**4,683**
Associated company								
UAB Naftelf	1,020	-	1,020	4,546	1,020	-	1,020	4,420
Total	**1,020**	**-**	**1,020**	**4,546**	**1,020**	**-**	**1,020**	**4,420**
Total	**56,001**	**-**	**56,001**	**21,145**	**2,045**	**-**	**2,045**	**9,103**

EUR	Acquisition costs	Impairment	Book value	Equity	Acquisition costs	Impairment	Book value	Equity
	31/12/2021				31/12/2020			
Subsidiaries								
UAB Mockavos terminalas	47,605	-	47,605	8,617	-	-	-	-
SIA ORLEN Latvija	279	-	279	3,215	257		257	2,156
OU ORLEN Eesti	626	-	626	2,813	577	-	577	1,657
Total	**48,510**	**-**	**48,510**	**14,645**	**834**	**-**	**834**	**3,813**
Associated company								
UAB Naftelf	900	-	900	4,011	831	-	831	3,599
Total	**900**	**-**	**900**	**4,011**	**831**	**-**	**831**	**3,599**
Total	**49,410**	**-**	**49,410**	**18,656**	**1,665**	**-**	**1,665**	**7,412**

As at 31 December 2021, the Company did not identify any indications of impairment for investments.

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

SELECTED ACCOUNTING PRINCIPLES

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

At the end of the reporting period, the Company assesses whether there are indicators that an asset or cash-generating unit (CGU) may be impaired or any indicators that the previously recognised impairment should be reversed.

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

Recognition and reversal of impairment allowances of property, plant and equipment, intangible assets and right to use assets is recognised in other operating activity.

ESTIMATES AND JUDGMENTS

Impairment of property, plant and equipment, intangible assets

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

Main assumptions adopted in asset impairment tests as at 31 December 2021

Assets impairment tests were carried out based on expected future net cash flows developed on the basis of: (i) macroeconomic assumptions and projections of financial results included in Financial Plan for PKN ORLEN and ORLEN Group for 2022, (ii) macroeconomic assumptions updated based on IHS Markit and Nexant for prices of crude oil and main refinery and petrochemical products, updated based on forward curves for prices of gas and CO2 emission allowances and electricity. Net cash flows were discounted to their present value using discount rates reflecting current market estimates of the time value of money and risks specific to the assets being valued.

Net cash flows planned for assets of the Refinery segment

ORLEN Lietuva performed impairment tests on assets of the Refinery segment (CGU) using the method of discounted future cash flows from operating activities (value in use). The source of long-term macroeconomic forecasts for refining assets is IHS Markit, and other supporting sources (forward curves, bank predictions, government agency analyses) including the following assumptions:

The next 2-3 years are assumed to be a rebound period for global GDP, reaching 4.5% in 2022. Vaccine success and powerful fiscal incentives will lead to increased global demand for oil. The pandemic will impact global GDP until 2024-2025, after which it will stabilize with average annual growth of about 2.6%. An additional strong driver of European demand for oil products is their substitutability with natural gas. With the crisis in the natural gas market resulting in very strong price increases, it is being replaced by oil products.

Refineries will reach 2019 throughputs between 2022 and 2023. Global throughputs will increase by 1 Mb/d by 2025 and 2.3 Mb/d by 2033 compared to 2019, then begin to decline. The COVID19 pandemic has accelerated refinery modernization efforts. European refiners will be under pressure from high environmental costs. At the same time, pressure for energy transition and falling demand for fossil fuels will be a major threat to their topping out. All European sub-regions are expected to face upgrading, but the greatest burden will fall on the English Channel zone, Scandinavia and the western Mediterranean. Central and Eastern Europe will be somewhat less affected.

Projected Model Downstream Margin (MMD) based on current macroeconomic assumptions for 2022 is at approximately $8.7/bbl, well below historical levels. Continued low margins also projected for the next two years, only in the beginning in 2024 does the margin return to historical average levels and reach $14.6/bbl in 2030.

Crude oil will continue to be the main source of energy, with maximum global consumption around 2033. The energy transition is expected to accelerate, with a growing share of alternative fuels, a change in vehicle powertrains and technological innovations. In this situation, crude oil supply will not be under threat, and potential periodic price pressures on demand will be quickly mitigated by the flexibility of shale oil start-ups.

According to the IHS forecast, current high levels of Brent dtd oil prices will continue in 2022 at $78/bbl to reach $75/bbl in 2030. The average level of Brent dtd oil prices for 2022-2030 is around $70/bbl.

European gasoline demand is expected to return to 2015-19 levels in a very short time due to the market's gradual shift away from diesel. Crack margins for Gasoline (the difference between the gasoline quotation and the oil price) are assumed to increase from $151/t in 2022 to $159/t in 2030 with an average of $147/t between 2022 and 2030.

It is assumed that margins for diesel will gradually improve as the world recovers from COVID-19. In Europe, the diesel passenger car fleet will continue to shift to alternatives due to pressure to reduce emissions. In the longer term, margins for diesel are expected to be supported by the use of diesel as a bunker fuel after IMO regulation in 2020. Crack margins for diesel (the difference between the price of diesel and the price of oil) are assumed to increase from $90/t in 2022 to $110/t in 2030 with an average of $96/t between 2022 and 2030.

Natural gas prices in 2022-2030 were projected based on forward curves taking into account the European market crisis. A base price of $1415/t was assumed for 2022 and $403/t for 2030. The average assumed price level of Natural Gas for 2022-2030 is 594 $/t. Financial flows for impairment testing include prices according to concluded gas supply contracts.

Prices for CO2 emissions allowances in 2022-2030 were forecasted on the basis of forward curves taking into account price increases on the European market. For 2022, a price of EUR 80/t was assumed, and in 2030 - EUR 90/t. The average assumed level of emissions allowance prices for 2022-2030 is EUR 86/t. Financial flows for impairment testing include gradual plan to reduce CO2 emissions to the level of 20% in 2030 in accordance with the Strategy of Decarbonization of ORLEN Group.

ORLEN Group conducted tests for impairment of the main production assets based on a scenario analysis. Three scenarios were defined for Refinery segment: baseline, pessimistic and optimistic. The baseline scenario was based directly on the main macroeconomic assumptions of the Financial Plan 2022 and the updated macroeconomic forecasts for 2023-2030 taking into account the above-described assumptions. The pessimistic and optimistic scenarios were built on one standard deviation of the historic Downstream Margin for the years 2012-2021 and on the estimated probability of the impact of prices of CO2 emission allowances on revenues from sales of refining and petrochemical products.

For each of the scenarios, probability weights were established based on the normal distribution and expert assessment, in each case assigning a higher probability of a negative scenario materializing than a positive scenario, in order to maintain a conservative approach.

The impairment testing based on the aforementioned revisions identified that the recoverable value of assets is higher than the carrying value. Therefore, as at 31 December 2021 impairment allowances partially need to be reversed for production assets of the ORLEN Lietuva in the amount of USD 1,413 thousand, using a discount rate (WACC) of 6.14%.

8.5. Net working capital

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

8.5.1. Inventories

SELECTED ACCOUNTING PRINCIPLES

Inventories, including mandatory reserves comprise products, semi-finished products and work in progress, merchandise and materials.
Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period of finished goods, semi-finished products as well as work in progress and systematic allocation of fixed and variable production overheads estimated for its normal level.
Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost or net realizable value.
Cost flows of finished goods, semi-finished products and work in progress are determined based on the weighted average cost of production.
Merchandise and materials are measured initially at acquisition cost, while as at the end of the reporting period merchandise and raw materials are measured at the lower of cost or net realizable value. Cost flows of merchandise and raw materials are determined based on the weighted average acquisition cost.
The initial value of inventories is adjusted for their profits or losses from settlement of cash flow hedging instruments.
Impairment tests for specific items of inventories are carried out at the end of each month. Write-down to net realizable value concerns inventories that are damaged or obsolete and the selling price has fallen. Raw materials held for use in the production are not written down below acquisition or production cost if the products in which they will be incorporated are expected to be sold at or above cost.
However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.
Recognition and reversal of impairment allowances of inventories is recognized in cost of sales.

ESTIMATES

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

	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Raw materials	196,730	173,575	121,929	99,283
Semi-finished products	48,901	43,146	36,100	29,395
Finished goods	157,989	139,394	72,281	58,856
Spare parts	27,571	24,326	19,717	16,055
Inventories, net	**431,191**	**380,441**	**250,027**	**203,589**
Write-down of inventories to net realizable value	16,020	14,135	15,468	12,595
Inventories, gross	**447,211**	**394,576**	**265,495**	**216,184**

The main item of inventories, which turnover period is longer than 12 months after the end of the reporting period are mandatory reserves. As at 31 December 2021 and as at 31 December 2020 the value of mandatory reserves presented in separate financial statements amounted to USD 187,336 thousand or EUR 165,287 thousand and USD 118,325 thousand or EUR 96,348 thousand, respectively.

(in USD and EUR thous.)

Change in impairment allowances of inventories to net realizable value

	Note	2021		2020	
		USD	EUR	USD	EUR
As at January 1		**15,468**	**12,595**	**32,419**	**29,093**
Recognition	7.4	-	-	150,209	135,031
Reclassification		584	495	-	-
Reversal	7.4	-	-	(167,231)	(152,457)
Exchange differences on translation		-	19	-	2,094
Write-down of inventories excluding spare parts		**584**	**514**	**(17,022)**	**(15,332)**
Recognition	7.4	887	736	805	714
Reversal	7.4	(919)	(767)	(734)	(631)
Exchange differences on translation		-	1,057	-	(1,249)
Write-down of spare parts for obsolescence		**(32)**	**1,026**	**71**	**(1,166)**
As at 31 December		**16,020**	**14,135**	**15,468**	**12,595**

8.5.2. Trade and other receivables

SELECTED ACCOUNTING PRINCIPLES

Receivables

Receivables, excluding trade receivables, are recognised initially at a fair value and subsequently, at amortised cost using the effective interest rate including expected credit loss. On initial recognition, the Company measures trade receivables that do not have a significant financing component at their transaction price.

The Company applies simplified methods of valuation of receivables measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment date is not long.

Receivables accounted at amortised cost, where the Company applies simplifications, are accounted at the initial recognition in the amount due, and later, including at the end of the reporting period, in the amount of the payment due less impairment allowances.

CO2 emmision allowances are presented as receivables on the reporting date in correspondence with deferred income (as separate items) in the fair value of allowances due at the reporting date if the allowances in a given year were not registered on the account under the date resulting from regulations. The receivable should be settled at the moment of allowances registration in the subsequent period by the disclosure of intangible assets.

ESTIMATES

Impairment of trade and other receivables

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

For the purpose of estimating the expected credit loss, the Company uses the provision matrix, which was estimated based on historical levels of repayment and recoveries from receivables from customers. The Company includes information on the future in parameters used in the expected loss estimation model, through the management adjustment of the basic default probability rates.

The Company does not monitor changes in the credit risk during life of instrument. From 1 January 2018 the Company estimates the expected credit loss until maturity of instrument. The expected credit loss is calculated when the receivable are recognised in the statement of financial position and is updated on each subsequent day ending the reporting period.

(in USD and EUR thous.)

	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Trade receivables	249,940	220,522	117,927	96,024
Other	1,113	982	454	370
Financial assets (Note 9.1)	**251,053**	**221,504**	**118,381**	**96,394**
CO2 allowances receivables	112,237	99,027	-	-
Deferred insurance costs	13,617	12,015	12,331	10,041
Accrued income and deferred costs	1,244	1,098	959	780
Prepayments for delivery	1,036	914	251	204
Other taxation, duty, social security receivables and other benefits	2	2	2	2
Non-financial assets, net	**128,136**	**113,056**	**13,543**	**11,027**
Receivables, net	**379,189**	**334,560**	**131,924**	**107,421**
Receivables impairment allowance	4,261	3,758	4,656	3,791
Expected credit loss	406	359	686	559
Receivables, gross	**383,856**	**338,677**	**137,266**	**111,771**

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

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

	2021	2021	2020	2020
	USD	EUR	USD	EUR
1 January	**686**	**559**	**527**	**438**
Recognition	372	313	267	240
Reversal	(652)	(556)	(108)	(90)
Exchange differences on translation	-	43	-	(29)
As at 31 December	**406**	**359**	**686**	**559**

8.5.2.2. Change in impairment allowances of trade and other receivables

	2021	2021	2020	2020
	USD	EUR	USD	EUR
1 January	**4,656**	**3,791**	**4,257**	**3,922**
Utilisation	(29)	(26)	-	-
Reversal	(8)	(7)	(16)	(14)
Exchange differences on translation	(358)	-	415	(117)
As at 31 December	**4,261**	**3,758**	**4,656**	**3,791**

8.5.3. Trade and other liabilities

SELECTED ACCOUNTING PRINCIPLES

Liabilities

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

(in USD and EUR thous.)

	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Trade and other liabilities	339,883	299,879	162,127	132,016
Investment liabilities	16,095	14,201	14,225	11,583
Uninvoiced services	6,796	5,996	7,375	6,006
Financial liabilities (Note 9.1)	**362,774**	**320,076**	**183,727**	**149,605**
Payroll liabilities	2,127	1,876	2,257	1,838
Excise tax and fuel charge	22,456	19,813	15,579	12,686
Value added tax	37,927	33,463	21,532	17,533
Other taxation, duties, social security and other benefits	5,659	4,994	4,549	3,703
Advance payments and prepayments	2,053	1,812	1,158	942
Accruals	7,278	6,421	7,363	5,996
Non-financial liabilities	**77,500**	**68,379**	**52,438**	**42,698**
Total	**440,274**	**388,455**	**236,165**	**192,303**

Division of financial liabilities denominated in foreign currencies is presented in Note 9.5.2. Division of liabilities from related parties is presented in note 10.5.2.
As at 31 December 2021 and as at 31 December 2020 in the Company there were no material overdue liabilities.
The Company expects that the payment of trade liabilities to contractors will take place no later than twelve months after the end of the reporting period.

8.6. Equity

SELECTED ACCOUNTING PRINCIPLES

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

8.6.1. Share capital

Share capital of the Company is EUR 5,793,562. Nominal value of one share is 1 EUR.
The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.
The sole shareholder of the Company is PKN ORLEN, controlling 100 % shares. In 2021 and in 2020 the Company did not pay dividends.

(in USD and EUR thous.)

8.7. Derivatives and other assets and liabilities

Other non-current assets

	Note	31/12/2021	31/12/2021	31/12/2020	31/12/2020
		USD	EUR	USD	EUR
Other non-current receivables	9.1	295	261	420	342
Loans granted	9.1	-	-	5	4
Financial assets		**295**	**261**	**425**	**346**
Non-current prepayment		2,677	2,361	650	529
Total non-financial assets		**2,677**	**2,361**	**650**	**529**
Total		**2,972**	**2,622**	**1,075**	**875**

Derivatives and other financial assets

	Note	31/12/2021	31/12/2021	31/12/2020	31/12/2020
		USD	EUR	USD	EUR
Receivables from cash pool	9.1	1,689	1,490	-	-
Loans granted	9.1	3	2	7	6
Derivatives not designated for hedge accounting - commodity swaps	9.1	9,422	8,313	1,940	1,579
Receivables on settled cash flow hedge instruments	9.1	-	-	6	5
Receivables on settled derivatives not designated for hedge accounting	9.1	5,138	4,533	-	-
Total		**16,252**	**14,338**	**1,953**	**1,590**

Derivatives and other liabilities

	Note	31/12/2021	31/12/2021	31/12/2020	31/12/2020
		USD	EUR	USD	EUR
Liabilities from cash pool	9.1	132,082	116,536	47,608	38,765
Cash flow hedge instruments - commodity swaps	9.1	1,935	1,707	4,800	3,909
Derivatives not designated for hedge accounting - commodity swaps	9.1	4,559	4,023	1,940	1,580
Liabilities on settled cash flow hedge instruments	9.1	6,835	6,030	4,310	3,509
Liabilities on settled derivatives not designated for hedge accounting	9.1	-	-	15,473	12,599
Total		**145,411**	**128,296**	**74,131**	**60,362**

The Company is the members of the international cash pool managed by PKN ORLEN. The internal cross-currency credit limit as at 31 December 2021 granted to the Company was EUR 340 million (or USD 300 million). The date of full repayment of the internal cross-currency credit limit is 30 June 2022.

8.8. Loans and borrowings

SELECTED ACCOUNTING PRINCIPLES

Loans and Borrowings

At initial recognition, all loans and borrowings are recognised at fair value, less transaction costs and discounts or premiums. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest rate method.

USD	Non-current		Current		Total	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Loans and borrowings	34,429	-	10,618	-	45,047	-
Total	**34,429**	**-**	**10,618**	**-**	**45,047**	**-**

(in USD and EUR thous.)

EUR	Non-current 31/12/2021	Non-current 31/12/2020	Current 31/12/2021	Current 31/12/2020	Total 31/12/2021	Total 31/12/2020
Loans and borrowings	30,377	-	9,368	-	39,745	-
Total	**30,377**	**-**	**9,368**	**-**	**39,745**	**-**

As at 31 December 2021, the increase in loans and borrowings resulted from borrowing received from PKN ORLEN in the amount of EUR 44,500 thousand for the acquisition of shares of UAB Mockavos terminalas.
Fair value of borrowings is disclosed in Note 9.3.

8.8.1. Maturity analysis for loans and borowings

	31/12/2021	
	USD	EUR
up to 1 year	11,646	10,275
from 1 to 3 years	22,498	19,850
from 3 to 5 years	13,521	11,930
Total	**47,665**	**42,055**
Carrying amounts	**45,047**	**39,745**

In the period covered by the foregoing financial statements, as well as after the reporting date, there were no instances of principal or interest non repayment nor loan/ borrowing covenant violations.

8.9. Provisions

SELECTED ACCOUNTING PRINCIPLES

Environmental provision
The Company creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provision for reclamation is periodically reviewed on the basis of the degree of contamination. Changes of provision increase or decrease the value of asset causing the obligation of reclamation in the current period. In case decrease of provision is higher than carrying amount of the asset, the amount of that excess is recognised in profit or loss.
CO2 emissions
The Company recognises the estimated, CO2 emissions costs during the reporting period in operating activity costs (taxes and charges). Provision is recognised based on the value of allowances taking into account the weighted average method. In case of a shortage of allowances, the provision is created based on the purchase price of allowance concluded in forward contracts or market quotations of allowances at the reporting date.
Other provisions
Other provisions include mainly provisions for on-going legal proceedings and are recognised after consideration of available information, including the opinions of independent experts.

ESTIMATES

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

USD	Non-current 31/12/2021	Non-current 31/12/2020	Current 31/12/2021	Current 31/12/2020	Total 31/12/2021	Total 31/12/2020
Environmental	1,912	2,135	652	914	2,564	3,049
Post employment benefits	3,173	3,713	684	698	3,857	4,411
Other provisions	-	-	57	-	57	-
CO2 emissions	-	-	137,266	34,113	137,266	34,113
As at 31 December	**5,085**	**5,848**	**138,659**	**35,725**	**143,744**	**41,573**

(in USD and EUR thous.)

EUR	Non-current		Current		Total	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Environmental	1,687	1,738	575	744	2,262	2,482
Post employment benefits	2,800	3,024	604	568	3,404	3,592
Other provisions	-	-	50	-	50	-
CO2 emissions	-	-	121,110	27,777	121,110	27,777
As at 31 December	**4,487**	**4,762**	**122,339**	**29,089**	**126,826**	**33,851**

Change in provisions in 2021

USD	Environmental	Post employment benefits	Other provisions	CO2 emissions	Total
1 January 2021	**3,049**	**4,411**	**-**	**34,113**	**41,573**
Recognition	448	509	57	137,266	**138,280**
Usage	(665)	(221)	-	(33,478)	**(34,364)**
Interest	-	8	-	-	**8**
Reversal	(49)	-	-	-	**(49)**
Correction of previous years	-	-	-	4	**4**
Accounted from equity	-	(510)	-	-	**(510)**
Exchange differences on translation	(219)	(340)	-	(639)	**(1,198)**
As at 31 December 2021	**2,564**	**3,857**	**57**	**137,266**	**143,744**

EUR	Environmental	Post employment benefits	Other provisions	CO2 emissions	Total
1 January 2021	**2,482**	**3,592**	**-**	**27,777**	**33,851**
Recognition	375	450	50	121,110	**121,985**
Usage	(559)	(195)	-	(28,013)	**(28,767)**
Interest	-	7	-	-	**7**
Reversal	(42)	-	-	-	**(42)**
Correction of previous years	-	-	-	3	**3**
Accounted from equity	-	(450)	-	-	**(450)**
Exchange differences on translation	6	-	-	233	**239**
As at 31 December 2021	**2,262**	**3,404**	**50**	**121,110**	**126,826**

Change in provisions in 2020

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

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

8.9.1. Environmental provision

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

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

8.9.2. Provision for post-employment benefits

The Company employees under Collective Agreement and Lithuanian labour code are entitled to retirement benefit, paid once at retirement. The amount of above benefits depends on the number of years in service and an employee's remuneration. Retirement benefits are classified as post-employment defined benefit plans.
Provisions are determined by an independent actuary and revalued if there are any indications impacting their value, taking into account the staff turnover and planned change in wages.
Actuarial gains and losses from post-employment benefits are recognised in components of other comprehensive income.

Change in post-employment benefits obligation

	2021		2020	
	USD	EUR	USD	EUR
1 January	**4,411**	**3,592**	**4,275**	**3,821**
Current service cost	172	152	190	155
Interest expense	8	7	14	11
Actuarial gains and losses arrising from changes in assumptions	**(510)**	**(450)**	**(316)**	**(257)**
demographic assumptions	14	13	(286)	(232)
financial assumptions	(554)	(489)	21	17
experience adjustment	30	26	(51)	(42)
Payments under program	(221)	(195)	(169)	(138)
Recognized past service cost	337	298	-	-
Exchange differences on translation	(340)	-	417	-
As at 31 December	**3,857**	**3,404**	**4,411**	**3,592**

The carrying amount of employee benefits liabilities is equal to their present value as at 31 December 2021 and 31 December 2020.

Sensitivity analysis to changes in actuarial assumptions
As at 31 December 2021, the Company used the following actuarial assumptions that had an impact on the level of actuarial provisions: discount rate of 0.6 %; expected inflation 2.6% in 2022 and 2.0% in subsequent years, the remuneration increase rate 3% in 2022 and 2023 and 1% in the subsequent years.
The Company analysed the impact of the financial and demographic assumptions and calculated that the changes of ratios: remuneration ratio by +/- 0.5 p.p., the discount rate by +/- 0.5 p.p. and the rate of turnover by +/- 0.5 p.p. is not higher than USD 171 thousand. Therefore, the Company does not present any detailed information.
The Company carries out the employee benefit payments from current resource.
Post-employment benefits are calculated for active employees.

Maturity of employee benefits analysis

	31/12/2021		31/12/2020	
	USD	EUR	USD	EUR
up to 1 year	684	604	698	568
from 1 to 3 years	433	382	358	292
from 3 to 5 years	337	297	330	269
above 5 years	2,403	2,121	3,025	2,463
	3,857	**3,404**	**4,411**	**3,592**

The weighted average duration of liabilities in Lithuania for post-employment benefits as at 31 December 2021 were 9.3 years and as at 31 December 2020 were 10.9 years.

(in USD and EUR thous.)

Not discounted future cash flow of employee benefits payments

	31/12/2021		31/12/2020	
	USD	EUR	USD	EUR
up to 1 year	708	625	719	585
from 1 to 3 years	471	416	387	315
from 3 to 5 years	396	349	382	311
above 5 years	4,488	3,960	5,556	4,524
	6,063	**5,350**	**7,044**	**5,735**

In 2021 the amount of provision for employee benefits changed as the result of update of assumptions, mainly in relation to discount rate, projected inflation and expected remuneration increase ratio. Should the 2020 assumptions be used, the provision for the employee benefits would be higher by USD 540 thousand or EUR 476 thousand.

9. EXPLANATORY NOTES TO THE FINANCIAL INSTRUMENTS AND FINANCIAL RISK

SELECTED ACCOUNTING PRINCIPLES

Financial instruments

Measurement of financial assets and liabilities

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

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

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

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

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

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

Impairment of financial assets

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

The Company uses the following models for determining impairment allowances:

- general model (basic),
- simplified model.

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

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

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

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

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

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

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

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

Hedge accounting

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

The Company has cash flow of hedging relation.

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

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

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

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

However, if the Company expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it reclassifies the amount that is not expected to be recovered to profit or loss.

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

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

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

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

Fair value measurement

The Company maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs to estimate the fair value, i.e. the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.

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

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

PROFESSIONAL JUDGEMENTS

Financial instruments

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

9.1. Financial instruments by category and class

	Financial instruments by category	Note	31/12/2021		31/12/2020	
			USD	EUR	USD	EUR
ASSETS						
Derivatives not designated as hedge accounting	At fair value through profit or loss	8.7	9,422	8,313	1,940	1,579
Trade and other receivables	Measured at amortized cost	8.5.2	251,053	221,504	118,381	96,394
Receivables from cash pool	Measured at amortized cost	8.7	1,689	1,490	-	-
Cash and cash equivalents	Measured at amortized cost		1,612	1,422	9,484	7,723
Receivables on settled cash flow hedge instruments	Measured at amortized cost	8.7	-	-	6	5
Receivables on settled derivatives not designated as hedge accounting	Measured at amortized cost	8.7	5,138	4,533	-	-
Loans granted	Measured at amortized cost	8.7	3	2	12	10
Other non-current receivables	Measured at amortized cost	8.7	295	261	420	342
Total			**269,212**	**237,525**	**130,243**	**106,053**
LIABILITIES						
Cash flow hedge instruments	Hedging financial instruments	8.7	1,935	1,707	4,800	3,909
Derivatives not designated as hedge accounting	At fair value through profit or loss	8.7	4,559	4,023	1,940	1,580
Lease liabilities	*Excluded from the clasification and measurement of IFRS 9*	10.1.2	29,524	26,049	37,047	30,167
Loans and borrowings	Measured at amortized cost	8.8	45,047	39,745	-	-
Trade and other liabilities	Measured at amortized cost	8.5.3	362,775	320,076	183,727	149,605
Liabilities from cash pool	Measured at amortized cost	8.7	132,082	116,536	47,608	38,765
Liabilities on settled cash flow hedge instruments	Measured at amortized cost	8.7	6,835	6,030	4,310	3,509
Liabilities on settled derivatives not designated as hedge accounting	Measured at amortized cost	8.7	-	-	15,473	12,599
Total			**582,757**	**514,166**	**294,905**	**240,134**

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

	Financial instruments by category	Note	31/12/2021		31/12/2020	
			USD	EUR	USD	EUR
Interest income	Measured at amortized cost	7.7	134	116	220	198
Interest costs		7.7	(5,686)	(4,827)	(1,118)	(973)
from financial instruments measured at amortised costs	Measured at amortized cost		*(5,046)*	*(4,286)*	*(923)*	*(802)*
from lease	*Excluded from the clasification and measurement of IFRS 9*	10.1.2	*(640)*	*(541)*	*(195)*	*(171)*
Foreign exchange gain/(loss)	Measured at amortized cost	7.7	8,189	6,964	(3,336)	(2,736)
(Loss)/reversal of loss due to impairment of financial instruments	Measured at amortized cost		289	247	(143)	(136)
Ineffective part related to settlement and valuation of operating exposure	Hedging financial instruments (ineffective part)	7.5, 7.6	103	107	(3,312)	(3,002)
Settlement and valuation of financial instruments related to operational exposure	At fair value through profit or loss	7.5, 7.6	(9,621)	(7,603)	28,002	26,212
Other	Measured at amortized cost	7.7	20	16	11	10
Total			**(6,572)**	**(4,980)**	**20,324**	**19,573**
other, excluded from the scope of IFRS 7						
Dividends			2,970	2,476	5,786	5,235

9.3. Fair value measurement

Fair value for loans and borrowings as at 31 December 2021 is equal to USD 45,130 thousand or EUR 39,818 thousand. Financial liabilities due to liabilities for borrowings are measured at fair value using discounted cash flow method.

As at 31 December 2021 and as at 31 December 2020 fair value for other classes of financial assets and financial liabilities are equal or similar to carrying amount due to their short term nature.

(in USD and EUR thous.)

9.4. Hedge accounting

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

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

	Note	31/12/2021 USD	31/12/2021 EUR	31/12/2020 USD	31/12/2020 EUR
Cash flows hedge instruments					
Commodity swap	8.7	(1,935)	(1,707)	(4,800)	(3,909)
Total		**(1,935)**	**(1,707)**	**(4,800)**	**(3,909)**

Cash flows hedge recognized in financial statements

	31/12/2021 USD	31/12/2021 EUR	31/12/2020 USD	31/12/2020 EUR
Inventories	-	-	(6)	(5)
Sales revenues	(20,859)	(17,589)	50,795	47,086
Cost of sales	4,333	3,684	(32,768)	(28,722)

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

	31/12/2021	31/12/2020
Commodity risk exposure	January-December 2022	January-May 2021

9.5. Risk identification

9.5.1. Commodity risks

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

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

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

Type of hedged raw material/product	Unit of measure	31/12/2021	31/12/2020
Crude oil	bbl	1,950,000	3,010,000
Diesel oil	Mt	70,000	64,000
Gasoline	Mt	-	12,000
Heating oil	Mt	-	4,000
Margin	bbl	5,415,000	-

Sensitivity analysis for changes in prices of products and raw materials

As at 31 December 2021

Analysis of the influence of changes in the carrying amount of financial instruments on result before tax and hedging reserve to a hypothetical change in prices of products and raw materials:

(in USD and EUR thous.)

Type of hedged raw material/product	Increase of prices	Total influence		Decrease of prices	Total influence	
		USD	EUR		USD	EUR
Crude oil USD/bbl	+31%	(15,564)	(13,732)	-31%	15,564	13,732
Diesel oil USD/Mt	+31%	(14,530)	(12,820)	-31%	14,530	12,820
Margin USD/bbl	+30%	(10,465)	(9,233)	-30%	10,465	9,233
		(40,559)	**(35,785)**		**40,559**	**35,785**

As at 31 December 2020

Type of hedged raw material/product	Increase of prices	Total influence		Decrease of prices	Total influence	
		USD	EUR		USD	EUR
Crude oil USD/bbl	+6%	5	4	-6%	(5)	(4)
Diesel oil USD/Mt	+6%	(1,652)	(1,345)	-6%	1,652	1,345
Gasoline USD/Mt	+3%	(175)	(142)	-3%	175	142
Heating oil USD/Mt	+18%	(207)	(169)	-18%	207	169
		(2,029)	**(1,652)**		**2,029**	**1,652**

Applied for the sensitivity analysis of commodity risk hedging instruments variations of crude oil and products prices were calculated based on volatility for 2021 and 2020 and available analysts' forecasts.

9.5.2. The risk of exchange rates changes

Currency risk

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

Currency structure of financial instruments as at 31 December 2021:

Financial instruments by class	Note	EUR	USD	PLN	Other	Total after conversion to USD	Total after conversion to EUR
Financial assets							
Other non-current receivables	8.7	261	-	-	-	295	261
Trade and other receivables	8.5.2	71,433	170,091	-	-	251,053	221,504
Receivables from cash pool	8.7	1,490	-	-	-	1,689	1,490
Loans granted	8.7	2	-	-	-	3	2
Derivatives not designated as hedge accounting	8.7	-	9,422	-	-	9,422	8,313
Receivables on settled cash flow hedge instruments	8.7	-	5,138	-	-	5,138	4,533
Cash and cash equivalents		1,356	76	-	-	1,612	1,422
Total		**74,542**	**184,727**	**-**	**-**	**269,212**	**237,525**
Financial liabilities							
Trade and other liabilities	8.5.3	68,970	284,048	1,587	127	362,774	320,076
Loans and borrowings	8.8	39,745	-	-	-	45,047	39,745
Lease liabilities	10.1.2	26,044	-	-	-	29,524	26,049
Cash flow hedge instruments	8.7	-	1,935	-	-	1,935	1,707
Derivatives not designated as hedge accounting	8.7	-	4,559	-	-	4,559	4,023
Liabilities on settled cash flow hedge instruments	8.7	-	6,835	-	-	6,835	6,030
Liabilities from cash pool	8.7	2,682	129,042	-	-	132,082	116,536
Total		**137,441**	**426,419**	**1,587**	**127**	**582,756**	**514,166**
Total, net		**(62,899)**	**(241,692)**	**(1,587)**	**(127)**	**(313,544)**	**(276,641)**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Company (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2021) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before tax would be:

(in USD and EUR thous.)

Financial instruments by class	Influence of financial instruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/USD	+15%	(10,693)	-15%	10,693
		(10,693)		**10,693**

Currency structure of financial instruments as at 31 December 2020:

Financial instruments by class	Note	EUR	USD	PLN	Other	Total after conversion to USD	Total after conversion to EUR
Financial assets							
Other non-current receivables	8.7	342	-	-	-	420	342
Trade and other receivables	8.5.2	27,971	84,030	-	-	118,381	96,394
Loans granted	8.7	10	-	-	-	12	10
Derivatives not designated as hedge accounting	8.7	-	1,940	-	-	1,940	1,579
Receivables on settled cash flow hedge instruments	8.7	-	6	-	-	6	5
Cash and cash equivalents		7,053	823	-	-	9,484	7,723
Total		**35,376**	**86,799**	**-**	**-**	**130,243**	**106,053**
Financial liabilities							
Trade and other liabilities	8.5.3	39,459	135,113	362	60	183,727	149,605
Lease liabilities	10.1.2	30,167	-	-	-	37,047	30,167
Cash flow hedge instruments	8.7	-	4,800	-	-	4,800	3,909
Derivatives not designated as hedge accounting	8.7	-	1,940	-	-	1,940	1,580
Liabilities on settled cash flow hedge instruments	8.7	-	19,783	-	-	19,783	16,108
Liabilities from cash pool	8.7	2,228	44,871	-	-	47,608	38,765
Total		**71,854**	**206,507**	**362**	**60**	**294,905**	**240,134**
Total, net		**(36,478)**	**(119,708)**	**(362)**	**(60)**	**(164,662)**	**(134,081)**

Sensitivity analysis for currency risk

Increase/decrease in exchange rate means appreciation/depreciation of the relevant currencies against the functional currency of the Company (USD). The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2020) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (USD) on profit before tax would be:

Financial instruments by class	Influence of financial instruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/USD	+15%	(6,719)	-15%	6,719
		(6,719)		**6,719**

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

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

9.5.3. The risk of interest rates changes

Structure of financial instruments subject to risk of interest rates changes as at 31 December 2021

		31/12/2021	
		EURIBOR	
Financial instruments by class	**Note**	**USD**	**EUR**
Financial liabilities			
Loans and borrowings	8.8	45,127	39,816
Total		**45,127**	**39,816**

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

Sensitivity analysis for the interest rate changes

Interest rate	Assumed variation	Influence on result before tax	
		USD	EUR
EURIBOR	+0.5 p.p.	(226)	(199)
Total		**(226)**	**(199)**

At variation of interest rates by (-) 0.5 p.p. the sensitive analysis presents variations of the same value as in above table but with opposite sign. However, decrease of interest rates are higly doubtfull due to low or even negative value of floating interest rates in the market, which equates to zero.

9.5.4. Liquidity, credit and market risk

Financial risk management

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

Liquidity risk

The goal of the Company is to maintain the balance between continuity and flexibility of financing. To achieve this goal, the Company uses, first of all, financing on the ORLEN group level (cash pool).
The Company maintains the ratio of current assets to current liabilities (current ratio) on a safe level. As at 31 December 2021 and as at 31 December 2020, the ratio amounted to 1.12 and 1.11 respectively.
Financing available for the year 2021 under the credit/cash pool agreements to cover net current liabilities with the maturity of 30 June 2022 (EUR 300 million or USD 340 million) was covering the expected liquidity needs for 2021.
In 2021 the Company received long term loan from PKN ORLEN for financing of acquisition of UAB Mockavos terminalas shares.

(in USD and EUR thous.)

Maturity analysis for financial liabilities:

	Note	31/12/2021 up to 1 year		Carrying amounts	
		USD	EUR	USD	EUR
Trade and other liabilities	8.5.3	362,775	320,076	362,775	320,076
Liabilities from cash pool	8.7	132,082	116,536	132,082	116,536
Derivatives not designated for hedge accounting - commodity swaps	8.7	4,559	4,023	4,559	4,023
Cash flow hedge instruments - commodity swaps	8.7	1,935	1,707	1,935	1,707
Liabilities on settled derivatives	8.7	6,835	6,030	6,835	6,030
Total		**508,186**	**448,372**	**508,186**	**448,372**

	Note	31/12/2020 up to 1 year		Carrying amounts	
		USD	EUR	USD	EUR
Trade and other liabilities	8.5.3	183,727	149,605	183,727	149,605
Liabilities from cash pool	8.7	47,608	38,765	47,608	38,765
Derivatives not designated for hedge accounting - commodity swaps	8.7	1,940	1,580	1,940	1,580
Cash flow hedge instruments - commodity swaps	8.7	4,800	3,909	4,800	3,909
Liabilities on settled derivatives	8.7	19,783	16,108	19,783	16,108
Total		**257,858**	**209,967**	**257,858**	**209,967**

Maturity analysis for loans and borrowings is provided in Note 8.8.1 and maturity analysis for lease liabilities is provided in Note 10.1.2.

Credit risk

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

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

	Current trade receivables			
	31/12/2021	31/12/2021	31/12/2020	31/12/2020
	USD	EUR	USD	EUR
Overdue:				
Up to 30 days	554	489	611	497
31-60 days	72	63	34	27
61-90 days	8	7	8	7
3-6 months	10	9	14	12
6-12 months	3	2	7	6
Above 1 year	7	7	-	-
Total	**654**	**577**	**674**	**549**

Market risks

The Company is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission allowance prices.
The objective of market risk management process is to reduce the unfavourable effects of changes in market risk factors on the cash flow and financial results in the short and medium term.
Market risk management is conducted using hedging strategies based on derivatives. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. The Company applies only those instruments which can be measured independently, using standard valuation models for each instrument.
As far as market valuation of the instruments is concerned, the Company relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

10. OTHER EXPLANATORY NOTES

10.1. Leases

SELECTED ACCOUNTING PRINCIPLES

The Company as a lessee

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

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

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

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

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

Lease payments included in the evaluation of lease liability include:

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

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

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

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

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

Subsequent measurement

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

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

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

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

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

Depreciation

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

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

Impairment

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

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

Exemptions

Agreements not included within the scope of IFRS 16:

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

Simplifications and practical solutions

Short-term lease

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

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

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

Leases of low-value assets

The Company does not apply the rules concerning recognition, measurement and presentation outlined in IFRS 16 to lease agreements of low-value assets.

As low-value assets are considered to be those which have a value when new not higher than USD 5,000 or the equivalent value in another currency as per the average closing rate of exchange of the European Central Bank at the moment of initial recognition of a contract.

Simplifications in respect of such contracts are due to the settlement of costs on:

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

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

The underlying asset may have a low-value only if:

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

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

Determining the lease term

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

Separating non-lease components

The Company assesses whether the contract contains lease and non-lease components. Non-lease components are removed from contracts containing a lease component, for example service for assets covered by the contract.

However, in cases where a contract includes non-lease components considered by the Company to be immaterial within the context of the contract as a whole, the Company uses simplification which allows lease and non-lease components to be treated a single lease component.

The useful life of right to use asset

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

(in USD and EUR thous.)

10.1.1. Change is assets due to right of use

USD	Land	Buildings and constructions	Vehicles and other	Total
Net carrying amount at 01/01/2021				
Gross carrying amount	4,523	179	31,074	**35,776**
Accumulated depreciation	(122)	(165)	(2,367)	**(2,654)**
	4,401	**14**	**28,707**	**33,122**
Increases/(decreases), net				
Increase according new contracts, modification and other	-	487	1,105	**1,592**
Depreciation	(61)	(96)	(6,959)	**(7,116)**
Other	-	-	(101)	**(101)**
	4,340	**405**	**22,752**	**27,497**
Net carrying amount at 31/12/2021				
Gross carrying amount	4,523	487	31,476	**36,486**
Accumulated depreciation	(183)	(82)	(8,724)	**(8,989)**
	4,340	**405**	**22,752**	**27,497**
Net carrying amount at 01/01/2020				
Gross carrying amount	4,516	177	14,598	**19,291**
Accumulated depreciation	(61)	(79)	(7,696)	**(7,836)**
	4,455	**98**	**6,902**	**11,455**
Increases/(decreases), net				
Increase according new contracts, modification and other	7	3	28,932	**28,942**
Depreciation	(61)	(87)	(6,789)	**(6,937)**
Other	-	-	(338)	**(338)**
Net carrying amount at 31/12/2020	**4,401**	**14**	**28,707**	**33,122**

(in USD and EUR thous.)

EUR	Land	Buildings and constructions	Vehicles and other	Total
Net carrying amount at 01/01/2021				
Gross carrying amount	3,683	146	25,303	**29,132**
Accumulated depreciation	(99)	(134)	(1,928)	**(2,161)**
	3,584	**12**	**23,375**	**26,971**
Increases/(decreases), net				
Increase according new contracts, modification and other	-	408	921	**1,329**
Depreciation	(52)	(81)	(5,882)	**(6,015)**
Other	-	-	(86)	**(86)**
Exchange differences on translation	297	18	1,746	**2,061**
	3,829	**357**	**20,074**	**24,260**
Net carrying amount at 31/12/2021				
Gross carrying amount	3,991	429	27,772	**32,192**
Accumulated depreciation	(162)	(72)	(7,698)	**(7,932)**
	3,829	**357**	**20,074**	**24,260**
Net carrying amount at 01/01/2020				
Gross carrying amount	4,036	158	13,046	**17,240**
Accumulated depreciation	(54)	(70)	(6,878)	**(7,002)**
	3,982	**88**	**6,168**	**10,238**
Increases/(decreases), net				
Increase according new contracts, modification and other	6	2	24,619	**24,627**
Depreciation	(54)	(76)	(5,931)	**(6,061)**
Other	-	-	(309)	**(309)**
Exchange differences on translation	(350)	(2)	(1,172)	**(1,524)**
Net carrying amount at 31/12/2020	**3,584**	**12**	**23,375**	**26,971**

10.1.2. Maturity analysis for lease liabilities

	31/12/2021		31/12/2020	
	USD	EUR	USD	EUR
up to 1 year	7,610	6,714	7,716	6,283
from 1 to 2 years	5,543	4,891	7,051	5,741
from 2 to 3 years	5,212	4,599	5,536	4,508
from 3 to 4 years	4,535	4,001	5,362	4,366
from 4 to 5 years	3,766	3,323	4,811	3,917
above 5 years	12,438	10,973	17,611	14,341
Discount	(9,580)	(8,452)	(11,040)	(8,989)
Total	**29,524**	**26,049**	**37,047**	**30,167**

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

	31/12/2021		31/12/2020	
	USD	EUR	USD	EUR
Costs due to:				
interest on lease	(640)	(541)	(195)	(171)
short-term lease	(54)	(48)	(59)	(49)
lease of low-value assets that are not short-term lease	(165)	(146)	(167)	(137)
Total	**(859)**	**(735)**	**(421)**	**(357)**

10.2. Future commitments resulting from signed investment contracts

As at 31 December 2021 and as at 31 December 2020 the value of future commitments resulting from contracts signed until this date amounted to USD 728,379 thousand or EUR 642,650 thousand and USD 49,185 thousand or EUR 40,050 thousand, respectively.
The main increase of future commitments is related with planed turnaround in 2022 and investment into building of the „Bottom of the Barrel" unit in production plant of the Company in Mažeikiai.

10.3. Contingent assets and liabilities

SELECTED ACCOUNTING PRINCIPLES

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

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

ESTIMATES

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

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

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

10.4. Excise tax guarantees

Excise tax guarantees of the Company as at 31 December 2021 and as at 31 December 2020 amounted to USD 510 thousand or EUR 450 thousand and USD 553 thousand or EUR 450 thousand, respectively.

10.5. Related party transactions

In 2021 and 2020 and as at 31 December 2021 and as at 31 December 2020 the based on submitted declarations, there were no transactions of related parties of the Company with the Members of the Management Board or other key executive personnel of the Company.
In 2021 and 2020 on the basis of submitted declarations there were no transactions of close relatives with the other key executive personnel of the Company and key executive personnel of the Company with related parties.

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

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

(in USD and EUR thous.)

	for the year ended 31/12/2021		for the year ended 31/12/2020	
	USD	EUR	USD	EUR
Short term employee benefits	**4,795**	**4,051**	**4,274**	**3,746**
- Board of Directors	75	64	71	62
- other key executive personnel	4,720	3,987	4,203	3,684
Termination benefits (severance pay and other remuneration)	**191**	**162**	**171**	**150**
- other key executive personnel	191	162	171	150

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

Bonus systems for key executive personnel of the Company

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

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

for the year ended 31 December 2021

USD	Shareholder of the Group	Related parties	Subsidiaries	Associates	Total
Sales	276,746	89,608	983,853	15,308	**1,365,515**
Purchases	4,233,381	30,303	1,470	-	**4,265,154**
Other operating income	81,580	3	-	-	**81,583**
Other operating expenses	91,098	52	-	-	**91,150**
Finance income	-	-	3,010	-	**3,010**
Finance expenses	5,037	-	-	-	**5,037**
Trade and other receivables	34,768	6,022	61,041	303	**102,134**
Other financial assets	14,560	1,689	-	-	**16,249**
Trade and other liabilities	268,013	15,968	341	-	**284,322**
Other financial liabilities	142,471	2,600	339	-	**145,410**
Loans and borrowings	45,047	-	-	-	**45,047**
Guarantees issued	-	-	2,267	-	**2,267**

EUR	Shareholder of the Group	Related parties	Subsidiaries	Associates	Total
Sales	238,455	76,047	835,215	13,072	**1,162,789**
Purchases	3,595,155	26,167	1,267	-	**3,622,589**
Other operating income	68,876	2	-	-	**68,878**
Other operating expenses	76,371	44	-	-	**76,415**
Finance income	-	-	2,510	-	**2,510**
Finance expenses	4,279	-	-	-	**4,279**
Trade and other receivables	30,676	5,313	53,856	267	**90,112**
Other financial assets	12,846	1,490	-	-	**14,336**
Trade and other liabilities	236,468	14,089	301	-	**250,858**
Other financial liabilities	125,703	2,294	299	-	**128,296**
Loans and borrowings	39,745	-	-	-	**39,745**
Guarantees issued	-	-	2,000	-	**2,000**

(in USD and EUR thous.)

for the year ended 31 December 2020

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

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

The above transactions with related parties include mainly sales and purchases of refinery products and sales and purchases of services.
Sale and purchase transactions with related parties were made at market conditions.

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

	for the year ended		for the year ended	
	31/12/2021	**31/12/2021**	**31/12/2020**	**31/12/2020**
	USD	**EUR**	**USD**	**EUR**
Fees payable to auditors in respect of the Company				
audit and reviews of the financial statements	145	123	152	133
additional services	16	14	7	6
Total	**161**	**137**	**159**	**139**

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

(in USD and EUR thous.)

11. EVENTS AFTER THE END OF THE REPORTING PERIOD

As at the date of approval of these financial statements, the Company is in the process of analysing the potential effects of current macroeconomic and geopolitical situation in the light of Russian Federation attack on Ukraine started on 24 February 2022.

PKN ORLEN fully secures crude oil supplies to refineries in Poland, Lithuania and the Czech Republic and has been consistently diversifying its crude oil supplies. Ukraine has been and remains one of long-time strategic direction for ORLEN Lietuva business activities. The Company manages this situation as more operational than strategic challenge, which was and is the imminent part of regional geopolitical tensions. Businesswise the Company does not expect significant financial problems due to decrease of Ukrainian sales due to versality of sales structure and flexibility in moving volumes between different international markets.

The Company has implemented appropriate internal procedures to ensure continuity of operating activities. Currently, the Company observes a changes in global demand for crude oil and oil products and restrictive measures in view of Russia's actions destabilising the situation in Ukraine. The Company is in the process of estimating the qualitative and quantitative impact of a geopolitical situation and restrictive measures on the financial position and future financial results of the Company.

After the end of the reporting period the Company received granted CO2 emission allowances for 2021 and 2022 in quantity of 2.46 million tonnes. Information related with CO2 emission and recevables of CO2 emission allowances is provided in Notes 8.2.1, 8.5.2 and 8.9.

After the end of the reporting period, no other events occurred than disclosed in these financial statements, which would require recognition or disclosure.

Michal Rudnicki General Director	Marek Golębiewski Chief Financial Officer	Genutė Barkuvienė Director of Accounting and Tax Administration

Market volatility, dynamic development in oil prices and petroleum product demand, and continued COVID-19 pandemics have created a number of challenges faced in 2021 by the refining industry throughout the world. The effect of such tense macroeconomic environment have become visible in the financial performance results of AB ORLEN Lietuva (hereinafter - the Company). The Company thus moved in the search for the solutions to keep up, in a flexible manner, with the rebalancing needs of the refining industry and markets.

In 2021, the Company focused on finding the solutions to improve its financial situation while going through a very difficult and tense period, and concentrated on implementation of such solutions trying to take full advantage of every business opportunity offered under the competitive pressure.

Strengthening of energy security of the Company, improvement of its operational flexibility and autonomy, stable supply of petroleum products to the Polish market have greatly benefited from the acquisition in 2021 of Mockava transshipment terminal near Lithuanian-Polish border.

In autumn 2021, the Company received approval from its shareholder Polski Koncern Naftowy Orlen S.A. (hereinafter, PKN ORLEN) for realization of new Residue Hydrocracking Unit (RHCU) construction project. The project will become one of the largest investments of ORLEN Group in Lithuania, and allow increasing the yield of high-margin products, improving profitability of the Refinery as well as contribute to enhancing energy security of the entire region.

Operating Results

From a business point of view, 2021 has been a challenging year for the enterprises operating in the oil industry, including the Company. The COVID-19 pandemic has had a profound impact on the population mobility and, accordingly, on the global petroleum product demand. The industry went under severe competitive pressure resulting from depressed demand and excess production capacities. In 2021, the feedstock processing volume amounted to 8.5 million tons, i.e. was by 0.3 million tons (4%) higher than in the previous year, when the processing volume was 8.2 million tons of feedstock. Increased volume of processing has correspondingly improved the operational efficiency indicators such as operational availability index, light product yield as well as internal fuel and losses.

Processing volume increase has correspondingly adjusted the volume of product sales resulting in 7% growth: 8.1 million tons of petroleum products were sold by the Company in 2021, whereas the volume of products sold in 2020 was 7.6 million tons. Increase of the sales volumes and growth of the global oil and petroleum product prices had a considerable effect on the sales revenue growth, reaching USD 5.0 billion for 2021 (EUR 4.3 billion), whereas the revenue of the Company in 2020 amounted to USD 2.8 billion (EUR 2.4 billion).

Company' sales in the Baltic countries during the year 2021 increased by 2.8 percent from 3.6 million tons in 2020 to 3.7 million tons in 2021. This achievement represents the effect of the fuel consumption increase combined with the stable market share of the Company with the increase of gasoline and diesel sales in 2021 by 6.6% to 1.7 million tons. Sales of jet fuel in the Baltic countries increased by 44.1% from 101 thousand tons in 2020 to 146 thousand tons in 2021, with such growth being strongly affected by the recovery of the aviation sector and increased number of international flights.

Sales of the Company to Ukraine in 2021 increased by 16.8% in comparison with 2020, reaching 1.1 million tons. Despite the complicated economic situation in Ukraine, challenging transit of products via Belarus and tough competition on the market, the volume of gasoline, diesel fuel, bitumen and liquefied petroleum gas sold to Ukraine has also increased, with slight drop in sales of jet fuel only.

Inland sales to Poland in 2021 went up by 54.1% from 278 thousand tons in 2020 to 429 thousand tons last year, representing the effect of increased consumption on Polish market and, accordingly, growing demand for gasoline and its components.

Sales of bitumen decreased by 19.4% from 362 thousand tons in 2020 to 291 thousand tons in 2021 because of the lower bitumen production volumes affected by reduced number of public tenders for road construction in the Baltic countries as well as pro-active competition with bitumen of Russian origin.

In 2021, the volume of propylene production and sales increased by 8.7% reaching 78 thousand tons, 6.6% of which were exported via Polish border by rail, and the remaining volume sold for seaborne export to the countries of Western Europe.

Higher processing volume in 2021 led to the increased seaborne sales with growth of the volume by 6.7%, amounting to 2.8 million tons, compared to 2.6 million tons sold in 2020.

Financial Results

Dynamic changes in macro environment have also effected the financial results of the Company. The net profit for 2021 under the International Financial Reporting Standards (IFRS) was USD 83.5 million (EUR 71.5 million), in comparison to the net loss of USD 167.0 million (EUR 147.9 million) posted for the year 2020. Operating profit (EBIT) for the year 2021 amounted to USD 83.1 million (EUR 71.3 million), whereas the operating loss for 2020 was USD 211.9 million (EUR 187.9 million).

Positive results of the Company allowed maintaining the sufficient level of its[1] financial indicators. Net profit margin of the Company for the year 2021 was 1.6% (in comparison with negative 6.0% for 2020). Other indicators experienced the following changes: the net debt to equity ratio was 0.12 (0.09 in 2020), the current ratio was 1.12 (1.11 in 2020), and the asset turnover ratio was 3.85 (3.45 in 2020).

Information on financial risk management of the Company is available in Note 9.5 of the Set of Annual Financial Statements. The information includes data on financial risk management trends, used insurance instruments to which the accounting of insurance transactions is applicable as well as on pricing risk, credit risk, liquidity risk, and cash flow risk.

Modernization, Mandatory and Other Projects

The total amount of investments by the Company made in the property plant and equipment as well as tangible assets (excl. purchase of deficient CO_2 emission allowances and accounting for asset leases under IFRS 16) during the year 2021 was USD 61.8 million in comparison to USD 58.9 million in 2020.

In 2021, the activities under the first phase of Alkylation Unit construction project (License and Basic Design Engineering Package procurement) were completed, with the general contractor to be selected in 2022.

In 2021, the Company signed RHCU construction contract within the scope of the Bottom of the Barrel Upgrade Project. The budget of the entire project to be completed in 2024 reaches approx. USD 778.5 million. The expected impact of this project on the annual margin is approx. USD 98.5 million (depending on the fuel market situation).

In 2021, the works for replacing of Naphtha Reformer KR-203 heater in LK-1 Complex commenced. The budget of the entire project to be completed in 2022 reaches approx. USD 23.6 million. The expected impact of this project on reduction of variable costs is approx. USD 2.6 to 4.8 million per year (depending on the market prices and the refinery capacities).

To ensure uninterrupted supply of crude oil for the refinery, major overhaul of Būtingė Terminal spare SPM buoy was executed in 2021, with its completion planned in 2022.

In 2021, the investments of the Company in the projects and measures to ensure safety of employees and installations amounted to USD 13.7 million, including USD 6.1 million for the implementation of LPG storage facility flare system upgrading project and USD 5.2 million for the works within the scope of modernization of the main administrative building.

Apart from the said projects, the activities for refurbishment of other process units of the Company's refinery were also implemented in 2021.

Organizational Changes and Manpower Structure

On 15 June 2021, the Company acquired 100% of UAB Mockavos Terminalas shares thus taking control over the only liquid fuel terminal operated at Lithuanian-Polish border. The terminal is used for transshipment of petroleum products made in the refinery and designated for sales to Polish and Ukrainian markets. Apart from strengthening the energy security of the Company, the acquisition of the terminal in Mockava, next to the Lithuanian-Polish border, will also ensure stable supply of petroleum products to the Polish market as well as improve the Company’s operational flexibility and autonomy.

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

Seeking to improve efficiency of its internal processes, implementation of organizational changes continued in 2021 as well. To ensure efficient management of power generation and supply processes, Energy Subdivision was established in the Company on 1 September 2021, with its key focus on energy processes, development and modernization of Power Plant, and realization of renewable energy projects.

The number of active employees in the Company as of 31 December 2021 (including the Company's Representative Office in Ukraine) was 1’416 (1‘416 as of 31 December 2020).

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

(in USD and EUR thous.)

	Managers*	Specialists and clerks	Workers
Headcount by HR categories	189	425	802

*Managers of the Company include the following positions: General Director, Directors, managers of organizational units, Project Managers, Shift Supervisors, etc.

Education statistics: university degree – 37.2%, non-university higher education – 6.4%, post-secondary and vocational education – 40.5%, secondary education – 15.5%, and lower than secondary education – 0.4%. The Company employs 72.5% male and 27.5% female employees, with major effect on such distribution made by specifics of the Company's activities. Staff turnover in 2021 was 6.4%.

Employees' Development and Work Compensation Policy

Development of employees remains the priority for the human resource management. Last year, in view of the requirements of applicable legislation as well as job descriptions and the occupational risk assessment results, employees of the Company attended the trainings in the areas of fire safety and civil protection, first aid and hygiene, information security, as well as trainings under the programs for energy employees, formal safety programs and programs for execution of specialized works. All trainings were conducted free of charge during the workhours. Furthermore, over 500 employees of the Company attended the trainings and conferences to improve their professional knowledge, leadership, environmental skills, etc.

In 2021, the Company further proceeded with the project of internal trainings *'Expert Club. Refined Knowledge'* intended for experience and knowledge exchange. Information and various projects were prepared and presented by specialists and managers of the Company acting as the experts. Trainings were attended by 850 employees.

In 2018, the Company launched the project for the improvement of its employees' competencies under the Measure No 09.4.3-ESFA-T-846-01-0074 *'Training for Employees of Foreign Investors'* of the Operational Programme for the European Union Funds' Investment in Priority Axis 9 *'Educating the Society and Strengthening the Potential of Human Resources*'. In 2021, 640 employees were enrolled in the training sessions and improved their knowledge of the refining technologies, economic optimization of refining operations, project management, IT and English language, etc. This project will be completed in 2022.

The Company managers hold annual performance appraisal interviews with employees in order to promote employee engagement and innovative approach based on mutual dialogue and responsive feedback culture, strengthen employee potential, monitor the qualitative growth of competencies, analyze and identify training needs and future performance objectives.

The Company has defined clear and consistent actions for age management to reduce the generation gap, ensure the transfer of knowledge and skills and the elimination of skill gaps, with a backup personnel recruitment project being successfully implemented. In order to achieve the faster and more efficient integration of new employees, the Company organizes Newcomer Days and implements adaptation programs.

The Company actively cooperates with educational institutions to attract new workforce. 52 students from Kaunas University of Technology (KTU), Vytautas Magnus University, Vilnius Gediminas Technical University, Vilnius, Šiauliai and Klaipėda Universities of Applied Sciences, Mažeikiai Polytechnic School, etc. took traineeships in the Company in 2021.

The remuneration system applied by the Company is based on job levels to ensure the fair reward for the work performed. It comprises the following elements: base salary (monthly salary or hourly wage); monthly, quarterly, or annual bonus; reward for the initiatives submitted, implemented, and recognized as rewardable; management discretion bonuses for exceptional performance; annual bonus for the Company's performance results. The Company offers packages of additional benefits under the Collective Agreement that include additional days of leave, annual leave bonus, Social Needs Fund, compensation of transport costs for employee excursions, etc. Employees of the Company are involved in the health insurance coverage, the Company pays contributions for the employees to the pension funds. Information on bonus systems applicable to the key management of the Company is available in Note 10.5.1 of the Set of Annual Financial Statements.

Starting the year 2014, the election of the Best Employees has become an annual event in the Company being another important element of the Company's motivation system. The title of the Best Employee is an honorable appreciation awarded for high professional and social achievements as well as exemplary and ethical behavior demonstrated both within and outside the Company in line with the Company's Core Values and Code of Ethics. Last year, 86 candidates were nominated by managers and employees of the Company, and the best five in each of the two categories *For Active Cooperation* and *For Exemplary Professional Activities* as well as six employee *For Outstanding Performance* were elected.

Social Dialogue

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

The Collective Agreement for 2022-2023 was signed with Naftininkų Trade Union in December 2021.

Environmental Protection

The Company is a socially responsible entity with a strong focus on environmental protection. The Company ensures the safety of its operated facilities and introduces effective solutions recognized in the market. The refinery, Būtingė oil terminal and Biržai transshipment station employ modern production techniques, continuously implement emission and waste reducing measures and properly maintain their equipment.

The Company aims to prevent or mitigate the negative effects on the environment and to enhance the beneficial effects on the environment, as environmental impact management is part of the organization's business processes, strategic orientation and decision-making.

The long-term objectives of the Company in terms of sustainable development are prevention or minimization of negative environmental impact, effectiveness of environmental protection measures and saving of natural resources.

In 2021, the Company was operating in line with the statutory environmental requirements, introducing the changes necessary for proper implementation of the provisions set forth by the current and evolving requirements: Environmental requirements applicable to the Company are set out in the Integrated Pollution Prevention and Control (IPPC) Permit, with the environmental objectives established in line with the National Air Pollution Reduction Plan. Operations of the Company are subject to the integrated management system in compliance with the requirements of international quality management (ISO 9001), environmental management (ISO 14001), occupational health and safety management (ISO 45001), and information security management (ISO 27001) standards.

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

In 2021, emissions of SO_2 and NO_x did not exceed the ceilings set in the IPPC permit: SO_2 emissions amounted to 7.05 thousand tons (13.0 thousand tons in IPPC permit), whereas NO_x emissions were 1.08 thousand tons (3.0 thousand tons set in IPPC permit).

The Company has also fulfilled its commitment to reduce particulate emissions from the refinery installations. 0.04 thousand tons in 2021, which is 0.06 thousand tons less than in 2020 and 0.11 thousand tons less than in 2019. The concentration of solid emissions to air dropped down already in 2019 after installing an electrostatic precipitator in the Fluid Catalytic Cracking Unit.

Pursuant to the Regulations for Environmental Monitoring of Business Entities, the Company performs the monitoring of emissions from stationary air pollution sources and ambient air quality in accordance with its monitoring program agreed with the environmental protection authority.

An application was filed on 1 July 2021 with the Environmental Protection Agency (EPA) for changes to the Integrated Pollution Prevention and Control (IPPC) Permit and Economic Entity Environmental Monitoring Program (EEEMP). The application was filed for the recalculation of aggregate SO2 (BAT 58) and NOX (BAT 57) values in consideration of the optimization carried out in the process units. With these changes implemented, starting from the year 2022 annual SO_2 and NO_x emissions will decrease by: 18.3 percent of CO_2 (from 12‘948 tons to 10‘577 tons per year) and 38.8 percent of NO_x (from 2‘800 tons to 1‘712 tons per year).

An application was filled with the Environmental Protection Agency in 2021 for changes to the Būtingė oil terminal pollution permit. The Company requested to fill in the special part ‘Odours control’ of the permit and, due to occurrence of new circumstances, to include the priority hazardous substance di(2-ethylhexyl)phthalate in the Economic Entity Environmental Monitoring Program (permissible wastewater pollution).

An application was filled with the Environmental Protection Agency in 2021 for changes to Biržai transshipment station pollution permit. The aim of this application was to fill in the special part ‘Odours control’ of the permit. In December 2021, the Environmental Protection Agency approved the changes to Biržai transshipment station permit.

Technology meant to reduce SO_2 emissions from Elemental Sulfur Production Units was selected in 2021. The selected technology was approved by the Environmental Protection Agency on 20 May 2021. Third catalytic stage will be added to the two-stage catalytic Claus process in the Sulphur Production Unit. This project will be implemented by 1 June 2027.

For implementation of BAT 6 and BAT 18 provisions, the Company continued monitoring of diffuse volatile organic compound (VOC) emissions. Approx. 15'000 emission points were measured for the refinery units in 2021, with implementation of the program contributing to the reduction of VOC emissions. VOC emissions reached 9,2 thousand tons in 2021 and did not change compared to emission levels in 2020.

In 2021, the Company filed an application with the Environmental Projects Management Agency for the allocation of funding for implementing measures intended to reduce emissions of non-methane volatile organic compounds (NMVOCs). Authorization was received for the project ‘Replacement of breather valves and safety valves of crude oil refinery petroleum product storage tanks to reduce emissions of non-methane volatile organic compounds‘, which is partially financed from the Environmental Investment Fund. This project is scheduled to end in 2022.

To meet the requirements of BAT 4, the Company monitored nickel and vanadium emissions into the environment, and emissions of polychlorinated dibenzo-p-dioxins (PCDDs) and polychlorinated dibenzofurans (PCDFs) from catalytic reforming processes.

Based on the reports developed and the application submitted by the Company, 6‘139‘320 free emission allowances have been pre-allocated to the Company for the period of 2021-2025. The number of emission allowances have been allocated on the basis of the Report on Lifecycle Greenhouse Gas (GHG) Emissions from Fuels and Energy that was audited and approved by an independent evaluator issuing a GHG emission verification certificate. In line with the recommendations provided by the independent evaluator, the Company has updated its GHG Monitoring Plan, which was approved by the Environmental Protection Agency in December of 2020, and prepared the GHG monitoring improvement report.

The Company continuously invests in measures to ensure energy efficiency and, at the same time, reduce emissions of CO_2 and other pollutants into the environment. Energy efficiency improvement projects implemented by the Company in 2021 will contribute to the reduction of CO_2 emissions by approx. 14.9 thousand tons per year.

Furthermore, groundwater monitoring, monitoring of underground oil-contaminated sites and their decontamination in the territory of the refinery as well as pollution prevention performance were continued. The results of the monitoring measures evidence that the thickness of free oil product in the sites is decreasing; therefore, the amount of the extracted oil products declines year after year (29.74 tons of oil products extracted during 2021). Nevertheless, the works will be continued in 2021 - 2023.

Occupational Health and Safety

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

Health and safety have never been more relevant than now due to the ongoing pandemic. As a responsible employer, the company focused on the security of employees, especially those that cannot work remotely. Employees were provided with free medical masks, hand and surface disinfection solutions. The company implemented organizational tools for the restriction of physical contact and actively used IT tools for communication and management.

In 2021, the company applied risk management measures to mitigate risks associated with COVID-19, with all these activities coordinated by the Company‘s Emergency Operations Center. The Company applied three levels of COVID-19 response, as done in the entire ORLEN Group, with appropriate organizational and technical risk management measures designed for each level.

The Company actively encouraged employee vaccination against COVID-19 and organized vaccination services for its employees in the medical center operating in the territory of the refinery. The employee vaccination rate reached 95 percent at the end of 2021.

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

Furthermore, the Company has implemented the occupational health and safety standards developed for the entire ORLEN Group. The standards have been developed on the basis of the best worldwide practices and set the extremely strict occupational health and safety requirements. By the end of 2021, the Company has introduced and successfully implemented 15 standards regulating organization of hazardous work, accident investigation, emergency response, contractor management, in-depth analysis of industrial accidents, routine safety activities, etc.

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

To reduce the risk of accidents and failures, the preventive measures were implemented by the Company in 2021, including development/update of 5 process safety and civil protection procedures, preparation of the Refinery Safety Report, and further successful implementation of Hazard and Operability (HAZOP) Studies for the process units of the Company: with 10 HAZOP studies made in 2021, the three-year project for risk assessment for the process facilities has been completed with overall number of 26 HAZOP studies. The Company performs continuous assessment of internal changes, conducts analysis of process safety incidents and equipment failures, identifies corrective actions and ensures safety of its employees working under hazardous conditions providing them with personal protective equipment.

The Company has its hazard reporting system dedicated for sending notifications about any dangerous places noticed. In 2021, the number of hazard reports amounted to 2334, with 1975 of the reported hazards eliminated.

The number of accidents in the Company during the year 2021 was 3, whereas the total recordable rate per 1 million man hours was 0.64 (4 and 0.95, accordingly, in 2020).

Ownership Structure

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

In 2021, the Company did not acquire or transfer any of its own shares.

Branches

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

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

Position in Public Company ORLEN Lietuva 2021-12-31	Other managerial positions as of 31 December 2021
Michał Rudnicki Chairman of the Board of Directors, General Director of Public Company ORLEN Lietuva	Chairman of the Board of Directors, General Director of ORLEN Baltics Retail, AB, code 166920025, address: J. Jasinskio 16B, LT-03163, Vilnius, Lithuania
Marek Paweł Gołębiewski Executive Member of the Board of Directors, Chief Financial Officer of Public Company ORLEN Lietuva	- Chairman of the Supervisory Council, ORLEN Latvija, SIA, code 40003637994, address: Bauskas iela 58A, Zemgales priekšpilsēta, 1004 Riga, Latvia - Chairman of the Supervisory Council, ORLEN Eesti, OÜ, code 10960209, address: Pärnu mnt. 22, 10141 Tallinn, Estonia - Non-executive Member of the Board of Directors of ORLEN Service Lietuva, UAB, code 302310627, address: Mažeikių st. 75, Juodeikiai village, LT- 89467 Mažeikiai District, Lithuania
Radosław Misztalewski Executive Member of the Board of Directors, Deputy General Director for Commercial Sales and Logistics of Public Company ORLEN Lietuva	
Robert Antoni Pijus Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Director of Plock Petrochemical Plant, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland - Member of the Board, Stowarzyszenie Plockich Naftowców, code 610991725, address: Kazimierza Wielkiego 41, 09–400 Płock, Poland

(in USD and EUR thous.)

Renata Agnieszka Rosiak Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Project Manager, Office of ORLEN Group, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland - Member of the Supervisory Board, ORLEN Serwis S.A., code 360160621, address: Chemików 7, 09–411 Płock, Poland - Member of the Supervisory Board, ORLEN Aviation Sp. z o.o., code 0000022177, address: J. Gordona Bennetta 2, 02-159 Warsaw, Poland - Non-executive Member of the Board of Directors of ORLEN Service Lietuva, AB, code 302310627, address: Mažeikių st. 75, Juodeikiai village, LT- 89467 Mažeikiai District, Lithuania
Andrzej Mieczysław Stegenta Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Director of Operations Planning Office, Acting Executive Director for Supply Chain Management, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Chemików 7, 09–411 Płock, Poland
Filip Wojtas Non-executive Member of the Board of Directors of Public Company ORLEN Lietuva	- Executive Director for Refining Wholesale, Polski Koncern Naftowy ORLEN S.A., code 610188201, address: Bielańska 12, 00-085 Warsaw, Poland - Chairman of the Supervisory Board, ORLEN Aviation Sp. z o.o., code 0000022177, address: J. Gordona Bennetta 2, 02-159 Warsaw, Poland - Chairman of the Supervisory Board, ORLEN Oil Sp. z o. o., code 0000102722, address: Opolska 114, 31-323 Cracow, Poland - Chairman of the Supervisory Board, ORLEN Asfalt Sp. z o. o., code 0000044178, address: **Łukasiewicza 39, 09-400 Płock,** Poland - Chairman of the Supervisory Board, ORLEN Paliwa Sp. z o. o., code 0000126258, address: Widełka 869, 36-145 Widełka, Poland

2022 as the Year of Continued Focus on ORLEN 2030 Strategy Implementation

In 2022, the Company will continue its activities by coherently implementing the objectives set out in ORLEN2030 Strategy, focusing on reduction of carbon dioxide emissions, value creation in view of the latest environmental trends and consumption patterns as well as financial stability.

A large turnaround of the refinery is scheduled in 2022 and thus it processing volume will be about 7.2 million tons of feedstock. The Company will concentrate its efforts on realization of the key investment projects, capacity utilization increase and reduction of energy consumption as well as on securing the stability of its performance, increasing sales to inland markets and reducing costs.

To give a long term perspective of growth to Public Company ORLEN Lietuva as well as the entire ORLEN Group in the context of the increasingly competitive and continuously changing macroeconomic environment, the management of the Company will continue in 2022 its intensive efforts for implementation of advanced management solutions aimed at the operational efficiency increase and process optimization, with the special focus on sustainability of its business.

General Director Michal Rudnicki