FINANCIAL HIGHLIGHTS - CONSOLIDATED

THE LOTOS GROUP

	PLN '000		EUR '000	
	Year ended Dec 31 2012	**Year ended Dec 31 2011**	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Revenue	33,111,000	29,259,586	7,933,439	7,067,362
Operating profit	301,073	1,085,473	72,137	262,185
Pre-tax profit	361,202	551,379	86,544	133,180
Net profit	922,970	649,322	221,145	156,837
Net profit attributable to owners of the Parent	922,943	648,994	221,139	156,758
Net profit attributable to non-controlling interests	27	328	6	79
Total comprehensive income	1,280,238	277,628	306,747	67,058
Total comprehensive income attributable to owners of the Parent	1,280,225	277,271	306,744	66,972
Total comprehensive income attributable to non-controlling interests	13	357	3	86
Net cash from operating activities	1,347,080	902,359	322,762	217,956
Net cash from investing activities	(838,051)	(846,943)	(200,798)	(204,571)
Net cash from financing activities	(883,278)	(35,582)	(211,635)	(8,594)
Total net cash flow	(374,249)	19,834	(89,671)	4,791
Basic earnings per share (PLN/EUR)	7.11	5.00	1.70	1.21
Diluted earnings per share (PLN/EUR)	7.11	5.00	1.70	1.21

	PLN '000		EUR '000	
	As at Dec 31 2012	**As at Dec 31 2011**	**As at Dec 31 2012**	**As at Dec 31 2011**
Total assets	20,056,379	20,423,220	4,905,919	4,623,986
Equity attributable to owners of the Parent	9,061,740	7,781,436	2,216,560	1,761,781
Non-controlling interests	699	947	171	214
Total equity	9,062,439	7,782,383	2,216,731	1,761,996

Items in the Financial Highlights table have been translated at the following EUR exchange rates:

Items of the statement of financial position have been translated at the mid-exchange rates quoted by the National Bank of Poland for the last day of the reporting period:

As at Dec 31 2012	As at Dec 31 2011
EUR 1 = PLN 4.0882	EUR 1 = PLN 4.4168

Items of the statement of comprehensive income and the statement of cash flows have been translated using the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period:

Year ended Dec 31 2012	Year ended Dec 31 2011
EUR 1 = PLN 4.1736	EUR 1 = PLN 4.1401

THE LOTOS GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR 2012
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
WITH THE AUDITOR'S OPINION

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for 2012

(PLN '000)	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Revenue	9.1	33,111,000	29,259,586
Cost of sales	9.4	(30,327,507)	(26,572,381)
Gross profit		**2,783,493**	**2,687,205**
Distribution costs	9.4	(1,054,839)	(1,000,366)
Administrative expenses	9.4	(463,804)	(432,269)
Other income	9.2	47,562	41,715
Other expenses	9.6	(1,090,052)	(337,874)
Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group)	2	57,747	126,383
Loss of control over subsidiary	2	20,966	679
Operating profit		**301,073**	**1,085,473**
Finance income	9.3	302,008	22,272
Finance costs	9.7	(241,879	(559,262)
Share in profit of equity-accounted associates	16	-	2,896
Pre-tax profit		**361,202**	**551,379**
Corporate income tax	10.1	561,768	97,943
Net profit		**922,970**	**649,322**
Other comprehensive income			
Exchange differences on translating foreign operations		(39,076)	57,835
Cash flow hedges	24	472,197	(516,892)
Income tax on other comprehensive income	10.1	(75,853)	87,363
Other comprehensive income (net)		**357,268**	**(371,694)**
Total comprehensive income		**1,280,238**	**277,628**
Net profit attributable to:			
Owners of the Parent	11	922,943	648,994
Non-controlling interests	27	27	328
		922,970	**649,322**
Total comprehensive income attributable to:			
Owners of the Parent		1,280,225	277,271
Non-controlling interests	27	13	357
		1,280,238	**277,628**
Net profit attributable to owners of the Parent per share (PLN)			
Weighted average number of shares ('000)	11	129,873	129,873
- basic	11	7.11	5.00
- diluted	11	7.11	5.00

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for 2012

(PLN '000)	Note	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	9,685,850	10,523,550	10,387,482
Goodwill	14	46,688	46,688	46,688
Other intangible assets	15	544,468	475,58	94,825
Investments in equity-accounted associates	16	-	-	93,064
Deferred tax assets	10.3	1,121,314	400,128	159,901
Derivative financial instruments	29	-	12,098	19,408
Other non-current assets	18	107,232	124,193	70,682
Total non-current assets		**11,505,552**	**11,582,237**	**10,872,050**
Current assets				
Inventories	19	5,965,705	5,855,840	4,506,791
- including mandatory reserves	*19.2*	*4,353,207*	*4,427,752*	*2,980,241*
Trade receivables	18	1,640,360	2,075,562	1,740,890
Current tax assets		90,566	132,876	47,492
Derivative financial instruments	29	121,334	37,202	49,962
Other current assets	18	462,101	246,699	119,667
Cash and cash equivalents	20	268,333	383,680	382,601
Total current assets		**8,548,399**	**8,731,859**	**6,847,403**
Assets held for sale	17	**2,428**	**109,124**	**7,911**
Total assets		**20,056,379**	**20,423,220**	**17,727,364**
EQUITY AND LIABILITIES				
Equity				
Share capital	22	129,873	129,873	129,873
Share premium	23	1,311,348	1,311,348	1,311,348
Cash flow hedging reserve	24	(36,801)	(419,281)	(739)
Retained earnings	25	7,623,418	6,700,396	6,046,056
Translation reserve	26	33,902	59,100	12,281
Equity attributable to owners of the Parent		**9,061,740**	**7,781,436**	**7,498,819**
Non-controlling interests	27	**699**	**947**	**14,658**
Total equity		**9,062,439**	**7,782,383**	**7,513,477**
Non-current liabilities				
Borrowings, other debt instruments and finance lease liabilities	28	4,462,098	5,161,474	4,475,012
Derivative financial instruments	29	88,325	127,364	80,107
Deferred tax liability	10.3	322,169	105,226	123,143
Employee benefit obligations	30	129,862	115,914	95,370
Other liabilities and provisions	31	412,260	337,561	289,561
Total non-current liabilities		**5,414,714**	**5,847,539**	**5,063,193**
Current liabilities				
Borrowings, other debt instruments and finance lease liabilities	28	2,094,602	2,427,155	1,978,707
Derivative financial instruments	29	91,000	140,414	199,700
Trade and other payables	31	2,178,760	2,821,742	1,832,545
Current tax payables		5,752	7,420	15,188
Employee benefit obligations	30	110,930	94,737	103,673
Other liabilities and provisions	31	1,098,182	1,261,432	1,020,708
Total current liabilities		**5,579,226**	**6,752,900**	**5,150,521**
Liabilities directly associated with assets held for sale	17	**-**	**40,398**	**173**
Total liabilities		**10,993,940**	**12,640,837**	**10,213,887**
Total equity and liabilities		**20,056,379**	**20,423,220**	**17,727,364**

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
for 2012
prepared using the indirect method

(PLN '000)	Note	Year ended Dec 31 2012	Year ended Dec 31 2011 (restated)
Cash flows from operating activities			
Net profit		**922,970**	**649,322**
Adjustments:		488,352	435,042
Corporate income tax	10.1	(561,768)	(97,943)
Share in profit of equity-accounted associates	16	-	(2,896)
Depreciation and amortisation expense	21	666,590	608,608
Foreign exchange (gains)/losses		(131,686)	284,656
Interest and dividends		197,801	145,912
(Gain)/Loss from investing activities		981,752	182,728
Settlement and valuation of financial instruments		(117,772)	130,430
Decrease/(Increase) in trade receivables	21	449,852	(372,659)
(Increase) in other assets	21	(201,167)	(138,173)
(Increase) in inventories	21	(108,783)	(1,352,908)
(Decrease)/Increase in trade and other payables	21	(644,199)	983,674
(Decrease)/Increase in other liabilities and provisions	21	(72,409)	48,923
Increase in employee benefit obligations		30,141	11,608
Other adjustments		-	3,082
Income tax paid		(64,242)	(182,005)
Net cash from operating activities		**1,347,080**	**902,359**
Cash flows from investing activities			
Dividends received		567	514
Interest received		9,316	3,135
Sale of property, plant and equipment and other intangible assets		27,727	13,676
Sale of non-current financial assets		550	680
Repayment of loans advanced		1,536	308
Loss of control over subsidiary, net of cash disposed of		78,000	1,104
Other cash inflows on financial assets		-	971
Other cash from investing activities		138	-
Purchase of property, plant and equipment and other intangible assets	21	(757,925)	(677,995)
Purchase of non-current financial assets		(13,017)	(16,256)
Loans advanced		-	(1,805)
Acquisition of a subsidiary, net of cash acquired	2	(129,132)	(108,879)
Bank deposits for financing of overhaul shutdown		(45,721)	(38,106)
Security deposits		586	(8,639)
Funds contributed to the decommissioning fund	31.1	(1,886)	(1,898)
Settlement of derivative financial instruments		(8,790)	(13,749)
Other cash used in investing activities		-	(4)
Net cash from investing activities		**(838,051)**	**(846,943)**
Cash flows from financing activities			
Proceeds from borrowings		542,530	876,876
Issue of notes		362,367	572,712
Cash flows attributable to changes in interest in a subsidiaries not resulting in loss of control		(182)	(9,726)
Other cash from financing activities		-	2,216
Repayment of borrowings		(1,171,040)	(597,082)
Redemption of notes		(364,000)	(628,000)
Interest paid		(205,132)	(137,075)
Decrease in finance lease liabilities		(15,234)	(8,532)
Settlement of derivative financial instruments		(32,534)	(106,912)
Other cash used in financing activities		(53)	(59)
Net cash from financing activities		**(883,278)**	**(35,582)**
Total net cash flow		**(374,249)**	**19,834**
Effect of exchange rate fluctuations on cash held		(27,958)	23,485
Change in net cash	21	**(402,207)**	**43,319**
Cash at beginning of period	21	**161,552**	**118,233**
Cash at end of period	21	**(240,655)**	**161,552**

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for 2012

(PLN '000)	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Translation reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2012		**129,873**	**1,311,348**	**(419,281)**	**6,700,396**	**59,100**	**7,781,436**	**947**	**7,782,383**
Net profit		-	-	-	*922,943*	-	*922,943*	*27*	*922,970*
Other comprehensive income, net		-	-	*382,480*	-	*(25,198)*	*357,282*	*(14)*	*357,268*
Total comprehensive income		-	-	382,480	922,943	(25,198)	1,280,225	13	1,280,238
Purchase of shares from non-controlling shareholders	2	-	-	-	79	-	79	(261)	(182)
Dec 31 2012		**129,873**	**1,311,348**	**(36,801)**	**7,623,418**	**33,902**	**9,061,740**	**699**	**9,062,439**
Jan 1 2011		**129,873**	**1,311,348**	**(739)**	**6,046,056**	**12,281**	**7,498,819**	**14,658**	**7,513,477**
Net profit		-	-	-	*648,994*	-	*648,994*	*328*	*649,322*
Other comprehensive income, net		-	-	*(418,542)*	-	*46,819*	*(371,723)*	*29*	*(371,694)*
Total comprehensive income		-	-	(418,542)	648,994	46,819	277,271	357	277,628
Changes in the Group’s organisational structure		-	-	-	1,080	-	1,080	(214)	866
Purchase of shares from non-controlling shareholders		-	-	-	4,266	-	4,266	(13,854)	(9,588)
Dec 31 2011		**129,873**	**1,311,348**	**(419,281)**	**6,700,396**	**59,100**	**7,781,436**	**947**	**7,782,383**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Grupa LOTOS Spółka Akcyjna ("Grupa LOTOS S.A.", the "Company", the "Parent") was established on September 18th 1991. The Company's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

The core business of the group of companies of Grupa LOTOS S.A. (the "LOTOS Group", the "Group") consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes acquisition of crude oil and natural gas deposits and oil and gas production. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

2. Composition of the Group and its changes

As at December 31st 2012, the LOTOS Group comprised Grupa LOTOS S.A. (the parent) and 34 production and service companies, including:

- 14 subsidiaries of Grupa LOTOS S.A.,
- 20 indirect subsidiaries of Grupa LOTOS S.A.

The Group also holds shares in a jointly-controlled entity.

Information on the registered offices and business profiles of the entities which are included in consolidation, the Group's ownership interests, and the applied method of consolidation is presented below.

Company name	Registered office	Business profile	Method of consolidation	Ownership interest (%)	
				Dec 31 2012	Dec 31 2011
Parent					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct subsidiaries					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	The company does not conduct operations	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Rail transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electrical systems and controlling devices, overhaul and repair services	full	100.00%	100.00%
LOTOS LAB Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	- (1)	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Until October 16th 2011 – trading in aviation fuel and, as of January 1st 2013 – logistics services	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent of another group: LOTOS Czechowice Group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00%	100.00%
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	full	100.00%	100.00%
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.96% (2)	99.95%)
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company does not conduct operations	full	100.00%	100.00%

Company name	Registered office	Business profile	Method of consolidation	Ownership interest (%)	
				Dec 31 2012	Dec 31 2011
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00%	100.00%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00%	100.00%
Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Company Group)	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport related services, and managing own financial assets	full	99.96% [3]	99.95% [3]
Technical Ship Management Sp. z o.o. [4]	Gdańsk	On October 1st 2012, the company launched sea transport support activities involving advisory on the operation of ships.	full	99.96% [3, 4]	100.00%
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	full	99.96% [3]	99.95%
Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group Group)	Nicosia, Cyprus	Management of own assets	full	99.96% [3]	99.95%
Bazalt Navigation Co. Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95%
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95%
Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95%)
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95%
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95%
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.96% [3]	99.95%
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	full	99.96% [3]	99.95%)
Aphrodite Offshore Services N.V.	Curaçao, Netherlands Antilles	Dormant since October 17th 2011	full	99.96% [3]	99.95%
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.96% [3]	99.95%
AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta)	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.96% [3]	99.95%
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production	full	99.96% [3]	99.95%
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production	full	99.96% [3, 5]	49.98%
Baltic Gas Sp. z o.o.	Gdańsk	The company has not commenced operations	non-consolidated [6]	99.96% [3, 6]	-
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	Gdańsk	The company has not commenced operations	non-consolidated [7]	99.96% [3, 7]	-
Jointly-controlled entities					
UAB Minijos Nafta	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98% [3]	49.98% [3]

[1] On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, Krokus Chem Sp. z o.o.

[2] In exercise of its pre-emptive rights, on December 15th 2011 Grupa LOTOS S.A. subscribed for newly issued Series C shares of LOTOS Petrobaltic S.A. Grupa LOTOS S.A. subscribed for 279,996 shares in the increased share capital of LOTOS Petrobaltic S.A., with a total value of PLN 53,980 thousand. On February 2nd 2012, the increase in the share capital of LOTOS Petrobaltic S.A. was registered.

Grupa LOTOS S.A. also continued purchasing shares from non-controlling shareholders as part of the voluntary share purchase process, which was completed at the end of March 2012. In the period from January 1st to the completion of the voluntary share purchase process, Grupa LOTOS S.A. acquired 26 shares in LOTOS Petrobaltic S.A. with an aggregate value of PLN 3 thousand, representing 0.0003% of the company's share capital.

With respect to the remaining shares held by non-controlling shareholders, excluding the shares held by the State Treasury, on May 8th 2012 the Extraordinary General Meeting of LOTOS Petrobaltic S.A. adopted a resolution regarding minority squeeze-out by the majority shareholder, that is Grupa LOTOS S.A.

As part of the squeeze-out process, by December 31st 2012 Grupa LOTOS S.A. acquired 1.421 shares in LOTOS Petrobaltic S.A. with the aggregate value of PLN 179 thousand, representing 0.0146% of the company's share capital, of which 218 shares with the aggregate value of PLN 28 thousand, representing 0.0022% of the company's share capital, were entered in the share register.

In line with IAS 27 Consolidated and Separate Financial Statements, the above acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as part of the voluntary share purchase process and the minority squeeze-out were accounted for as equity transactions, as a result of which PLN 79 thousand was recognised under retained earnings attributable to the Parent and the value of non-controlling interests decreased by PLN 261 thousand.

Following acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as part of the voluntary share purchase process and the minority squeeze-out, and the increase in the share capital of LOTOS Petrobaltic S.A., as at December 31st 2012 Grupa LOTOS S.A. held a 99.96% interest in the share capital of LOTOS Petrobaltic S.A., including 9,935,069 shares entered in the share register and representing 99.95% of the share capital of LOTOS Petrobaltic S.A.

(3) The shareholding changes described in item (2) above resulted in changes in the Group's indirect interests in the share capitals of the subsidiaries and the jointly controlled company of LOTOS Petrobaltic S.A.

(4) On July 31st 2012, Grupa LOTOS S.A. sold 100% of shares in LOTOS Ekoenergia Sp. z o.o. to Miliana Shipholding Company Ltd. On October 17th 2012, a change of the company name from LOTOS Ekoenergia Sp. z o.o. to Technical Ship Management Sp. z o.o. was registered.

(5) On November 28th 2012, AB LOTOS Geonafta acquired a 50% interest in UAB Manifoldas. Following the transaction, AB LOTOS Geonafta holds a 100% interest in UAB Manifoldas.

(6) On November 12th 2012, LOTOS Petrobaltic S.A. and Kancelaria Prawna Domański i Wspólnicy sp.k. executed a share purchase agreement whereby LOTOS Petrobaltic S.A. acquired a 100% interest in Baltic Gas Sp. z o.o. Baltic Gas Sp. z o.o. was excluded from consolidation due to the fact that the data disclosed in its financial statements as at December 31st 2012 is immaterial to the performance of the obligation specified in IAS 27 Consolidated and Separate Financial Statements.

(7) On November 12th 2012, LOTOS Petrobaltic S.A. purchased from Kancelaria Prawna Domański i Wspólnicy sp.k. all the rights and obligations in Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., and thus became the sole limited partner in the company. The general partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. is Baltic Gas Sp. z o.o. The company was excluded from consolidation due to the fact that the data disclosed in its financial statements as at December 31st 2012 is immaterial to the performance of the obligation specified in IAS 27 Consolidated and Separate Financial Statements.

Sale of shares in LOTOS Parafiny Sp. z o.o. to a third party

On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, Krokus Chem Sp. z o.o. As an additional element of the transaction, on November 29th 2011, the parties executed a seven-year agreement for the supply of slack waxes by Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o. The agreement was concluded for the period from January 1st 2012 to December 31st 2018 and its estimated value is PLN 780m, VAT exclusive.

The effect of the loss of control over the subsidiary was presented in the consolidated statement of comprehensive income for 2012 under *Loss of control over subsidiary*, in the amount of PLN 20,966 thousand. In the consolidated statement of cash flows for 2012, net cash proceeds from the above transaction in the amount of PLN 78,000 thousand were presented under *Loss of control over subsidiary, net of cash*. As at December 31st 2011, the assets and liabilities of LOTOS Parafiny Sp. z o.o. were presented in the consolidated financial statements under assets of related entities held for sale and the associated liabilities. LOTOS Parafiny Sp. z o.o. was classified in the downstream segment.

Acquisition of shares in UAB Manifoldas by AB LOTOS Geonafta

On September 27th 2012, AB LOTOS Geonafta concluded an agreement for purchase of 50% of shares in UAB Manifoldas from a natural person. After clearance from the Lithuanian anti-trust authority was obtained and other contractual conditions were fulfilled, on November 28th 2012 AB LOTOS Geonafta acquired a controlling 50% interest in UAB Manifoldas.

The acquisition price of the 50% of shares in UAB Manifoldas comprised the base purchase price of PLN 101,773 thousand, increased by the amount of the difference between the UAB Manifoldas' receivables and liabilities of PLN 7,899 thousand.

Following the transaction, as at December 31st 2012, AB LOTOS Geonafta, which is a part of the group of companies of LOTOS Petrobaltic (LOTOS Petrobaltic Group), held a 100% interest in UAB Manifoldas.

AB LOTOS Geonafta is the parent of another group of companies (AB LOTOS Geonafta Group). As at December 31st 2012, it included the following companies in consolidation:

- UAB Manifoldas (100% of shares held by AB LOTOS Geonafta, consolidated with the full method),
- UAB Genciu Nafta (100% of shares held by AB LOTOS Geonafta, consolidated with the full method),
- UAB Minijos Nafta (50% of shares held by AB LOTOS Geonafta, consolidated with the proportional method).

Given the fact that before November 28th 2012 AB LOTOS Geonafta held a 50 % interest in UAB Manifoldas, the business combination, as defined in IFRS 3 Business Combinations, is accounted for as a step acquisition. In the case of a business combination achieved in stages (step acquisition), the acquirer remeasures its previously held equity interest in the acquiree at fair value as at the business combination date and recognises the resulting gain or loss in the statement of comprehensive income.

As at December 31st 2012, the Group initially accounted for the business combination made on November 28th 2012 (“acquisition date” or “business combination date”) as follows:

	November 28th 2012 PLN '000
Consideration paid at fair value as at the date of acquisition of a 50% equity interest in the acquiree **(A)**	109,672
Fair value of the 50% equity interest in the acquiree previously held by the acquirer, determined as at the business combination date **(B)**	109,672
Total (A+B)	**219,344**
Equity interest in the acquiree	100%
Assets and liabilities of the acquiree:	
Current assets, including:	45,095
Cash and cash equivalents	*13,713*
Trade receivables	*29,612*
Non-current assets, including:	213,184
Property, plant and equipment	*35,121*
Identifiable intangible assets	*177,725*
Acquired assets – total	**258,279**
Non-current liabilities, including:	30,414
Deferred tax liabilities	*26,659*
Other liabilities and provisions	*3,755*
Current liabilities	8,521
Assumed liabilities – total	**38,935**
Acquired net assets (C)	**219,344**
Value of interest in acquired net assets	219,344
Goodwill / Gain on bargain purchase (C-A-B)	**-**

A) Represents the fair value of the consideration for: 50% of shares in UAB Manifoldas acquired on November 28th 2012.
(B) Represents the fair value of the 50% interest in the consolidated net assets of UAB Manifoldas previously held by AB LOTOS Geonafta (before November 28th 2012).
(C) Represents the fair value of identifiable net assets of UAB Manifoldas as at the acquisition date.

When initially accounting for the transaction involving acquisition of control over UAB Manifoldas, the Group used provisional fair values of the identifiable acquired assets and assumed liabilities, which may differ from the fair values that will be used for final accounting for the transaction. In accordance with IFRS 3 Business Combinations, a business combination must be finally accounted for within a year from the acquisition date.

The Group recognised identifiable intangible assets comprising licences held by Manifoldas and conferring the right to conduct production of oil from deposits in the territory of Lithuania. The value of the licences, that is PLN 177,725 thousand (LTL *149,311* thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the business combination date) includes the tax effect of PLN 26,659 thousand *(LTL 22,397 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for November 28th 2010)*, calculated at the 15% rate in effect in Lithuania.

The increase in the value of the 50% equity interest in UAB Manifoldas held by AB LOTOS Geonafta before November 28th 2012, of PLN 57,747 thousand *(LTL 48,515 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the acquisition date, that is November 28th 2010),* resulting from its fair value measurement as at the business combination date, was disclosed in the consolidated statement of comprehensive income for 2012 under ”Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group).

UAB Manifoldas' revenue and net loss figures for the period from the business combination date to December 31st 2012, were PLN 4,074 thousand and PLN (1,632) thousand, respectively *(LTL 3,370 thousand and LTL 1,350 thousand, respectively, translated at the rate representing the arithmetic mean of the LTL/PLN mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the period from the acquisition date to December 31st 2012)*, and were accounted for in the consolidated statement of comprehensive income for 2012.

If UAB Manifoldas, acquired on November 28th 2012, was fully consolidated beginning from January 1st 2012, the Group's 2012 consolidated statement of comprehensive income would include the company's (as a subsidiary) total revenue of PLN 73,375 thousand and net profit of PLN 33,091 thousand *(LTL 60,706 thousand and LTL 27,377 thousand, respectively,* *translated at the rate representing the arithmetic mean of the LTL/PLN mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the period from January 1st to December 31st 2012)*.

On November 28th 2012, AB LOTOS Geonafta paid all its liabilities related to the acquisition of 50% of shares in UAB Manifoldas, totalling PLN 109,672 thousand *(LTL 92,138 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for November 28th 2012)*.

Net of the acquiree's cash acquired in the business combination, totalling PLN 6,820 thousand *(LTL 5,760 thousand, translated at the LTL/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)*, the acquisition value of UAB Manifoldas as disclosed in the consolidated statement of cash flows for the reporting period ended December 31st 2012 was PLN 104,405 thousand *(LTL 86,378 thousand, translated at the rate representing the arithmetic mean of the LTL/PLN mid-exchange rates quoted by the National Bank of Poland for the last day of each calendar month in the period from January 1st to December 31st 2012)*.

The transaction follows from the Group's development strategy for the upstream segment. The Group assumed control over AB LOTOS Geonafta on February 3rd 2011 by acquiring an interest in UAB Meditus. For more details, see Note 2 to the consolidated financial statements for 2011. On February 3rd 2012, the Group settled all its liabilities under the acquisition of UAB Meditus outstanding as at December 31st 2011, which resulted in the recognition in the consolidated statement of cash flows for the reporting period ended December 31st 2012 of an outflow of PLN 24,727 thousand *(LTL 20,457 thousand, translated at the average LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012)*.

3. Basis of preparation

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union which were published and effective as at December 31st 2012.

Taking into account the ongoing process of implementation of the IFRS in the EU and the business conducted by the Group, as far as the accounting policies applied by the Group are concerned, there is no difference between the IFRS that have become effective and the IFRS endorsed by the EU for the year ended December 31st 2012.

The following amendments to the existing standards adopted by the European Union were effective in 2012:

- Amendments to IFRS 7 Financial Instruments: Disclosures: Transfers of Financial Assets (effective for annual periods beginning on or after July 1st 2011).

The Group has reviewed the amendments and believes, they have no material impact on the accounting policies applied by the Group.

The functional of the Parent and the reporting currency of these financial statements is the Polish złoty (PLN). These consolidated financial statements have been prepared in the złoty (PLN), and all the figures are presented in thousands of złoty, unless stated otherwise.

4. New standards and interpretations

New standards, amendments to the existing standards and interpretations which have been adopted by the European Union (EU):

- IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IFRS 13 Fair Value Measurement (effective for periods beginning on or after January 1st 2013),
- IAS 27 Separate Financial Statements (2011) (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- IAS 28 Investments in Associates and Joint Ventures (2011) (effective for periods beginning on or after January 1st 2013 – in the UE effective no later than for annual periods beginning on or after January 1st 2014),
- Amendment to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for periods beginning on or after July 1st 2012),
- Amendments to IFRS 7 – Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2013),
- Amendment to IAS 19 Employee Benefits (effective for periods beginning on or after January 1st 2013),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for periods beginning on or after January 1st 2013),
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1st 2012 – in the UE effective no later than for annual periods beginning on or after January 1st 2013),
- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for periods beginning on or after July 1st 2011 – in the UE effective no later than for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2014).

- Amendments to IFRS 1 First-Time Adoption of International Financial Reporting Standards: Government Loans (effective for annual periods beginning on or after January 1st 2013).

New standards, amendments to existing standards and their interpretations which have not been adopted by the European Union:

- IFRS 9 Financial Instruments: Classification and Measurement (effective for periods beginning on or after January 1st 2015),
- Amendments introduced as part of the Improvements to IFRSs (published in May 2012) (effective for annual periods beginning on January 1st 2013),
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (effective for annual periods beginning on or after January 1st 2014).

By the date of approval of these consolidated financial statements, the first phase of IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after January 1st 2015), had not been endorsed by the European Union. During the next phases, the International Accounting Standards Board will focus on hedge accounting and impairment. Implementation of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will analyse this effect along with the effect from the other phases of the project after their publication, in order to present a coherent picture.

The Group has not opted for early application of any of the standards, interpretations, or amendments which have been published but have not yet become effective.

The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the Group's future financial statements.

In the opinion of the Company's Management Board, the amendments to IAS 19 Employee Benefits have no material impact on the accounting policies applied by the Group and thus on the Group's future financial statements prepared for the period beginning on or after January 1st 2013.

As of January 1st 2014, the Group intends to apply the following set of standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The method of proportionate consolidation applied by the Group in respect of UAB Minijos Nafta, controlled jointly by AB Geonafta, is expected to change to the equity method for financial statements prepared for periods beginning after December 31st 2013.

5. Material judgements and estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of assumptions, judgments and estimates which affect the value of items disclosed in the financial statements and in the notes.

Although the assumptions and estimates are based on the management's best knowledge of the current and future events and developments, the actual results might differ from the estimates.

The estimates and underlying assumptions are reviewed on a continuous basis. Any change in an accounting estimate is recognised in the period in which it has been made if it refers exclusively to that period, or in the current period and future periods if it refers to both the current period and future periods. Material assumptions used in making the estimates are described in the relevant notes.

While making assumptions, estimates and judgments, the Company's Management Board may rely on its experience and knowledge as well as opinions, analyses and recommendations issued by independent experts.

Apart from the accounting estimates, the professional judgement of the management was of key importance in the application of the accounting policies in the cases described below.

Employee benefit obligations

Employee benefit obligations are estimated using actuarial methods. The assumptions adopted for the measurement of the obligations are described in more detail in Note 30.4.

Depreciation/amortisation charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

The basis for calculation of depreciation (using the units-of-production depreciation method) of the assets of onshore and offshore oil and gas facilities are estimates of reserves (2P – proved and probable – reserves), evaluated, revised and updated by the Group, as well as forecast production volumes from the individual fields based on geological data, test production, subsequent production data and the schedule of work adopted for the long-term strategy.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate methods and assumptions for the valuation, the Group relies on professional judgment.

The assumptions adopted for the measurement of fair value of financial instruments are described in Note 7.23.

Deferred tax assets

The Group recognises deferred tax assets if it is assumed that taxable profit will be generated in the future against which the asset can be utilised. If taxable profit deteriorates in the future, this assumption may prove invalid. The Parent's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account changes in the factors on which such estimates were based, new information and past experience.

The assumptions adopted for the measurement of deferred tax assets are described in Note 10.3.

Impairment of cash-generating units and individual items of property, plant and equipment and intangible assets

As at the last day of each reporting period, in accordance with IAS 36 Impairment of Assets, it is assessed whether there is any indication of impairment of cash-generating units and individual assets. Indications of impairment may be based on external sources and relate to market variables (including fluctuations in prices, FX rates, stock prices, interest rates and other variables related to current economic trends), as well as plans, actions and developments at the Group, such as decisions concerning change, discontinuation, limitation or development of its business, or technological changes, efficiency and investment initiatives.
If there is any indication of impairment, the Company is required to estimate the recoverable amounts of assets and cash-generating units. While determining the recoverable amount, the Company takes into account such key variables as discount rates, growth rates and price ratios.
For information on impairment of property, plant and equipment and intangible assets, see Notes 13 and 15.
Following the analysis of cash flows generated by individual cash-generating units and impairment tests of selected assets which required such tests (including: waterproofing materials production plant in Jasło, LOTOS Paliwa Sp. z o.o.'s goodwill, as well as production assets at the YME field and the Girkaliai, Kretinga and Nausodis fields), the Group made necessary adjustments to the value of the assets and presented their effect in these consolidated financial statements.

Provision for decommissioning of oil and gas facilities and land reclamation

As at the last day of each reporting period, the Group analyses the costs necessary to decommission oil and gas facilities and the expenditure to be incurred on future land reclamation. As a result of those analyses, the Group corrects the value of the land reclamation provision recognised in previous years by adjusting its value to the amount of indispensable future costs. Any changes in the estimated time value of money are also reflected in the increase of the provision amount.

6. Change of information presented in previous reporting periods, change of accounting policies and correction of errors

The accounting policies and calculation methods adopted by the Group in the preparation of these consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for 2011.

The Group made presentation changes with regard to items in the statement of comprehensive income, the statement of financial position, the statement of cash flows and the statement of changes in equity and, as a result, introduced changes in selected notes. The changes involved disaggregation or aggregation of certain items, as well as addition of more details or extension of the scope of disclosures regarding certain issues presented in the financial statements for 2012. Also, the Company adjusted the terminology to comply with the currently applicable IFRS. The changes were intended to render the financial statements more useful for their readers while ensuring compliance with the applicable IFRS. They did not affect valuation methods and had no material effect on the scope of data included in the financial statements for 2012 relative to data included in the financial statements for 2011. In line with IAS1 Presentation of Financial Statements, the Company restated comparative data as at December 31st and January 1st 2011, and presented them in the financial statements for 2012.

Also, as at December 31st 2012, having reviewed the provisions of IAS 12 Income Taxes (par. 40), the Group reversed the deferred tax liability relating to exchange differences on translating foreign operations of PLN 13,863 thousand.

7. Accounting policies

These consolidated financial statements have been prepared in accordance with the historical cost principle, except with respect to financial instruments, which are measured at fair value. The consolidated statement of cash flows is prepared using the indirect method.

The key accounting policies applied by the Group are presented below.

7.1 Basis of consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent and financial statements of the entities controlled or jointly controlled by the Parent as well as the Parent's associates, prepared as at December 31st 2012.

All significant balances and transactions between the related entities, including material unrealised profits on transactions between the related entities, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of an impairment of value.

Subsidiaries are consolidated with the full method starting from the date when the Group assumes control over them and cease to be consolidated when control is lost. The Company is deemed to exert control when it holds, directly or indirectly (through its subsidiaries), more than 50% of votes in a given entity unless it is possible to prove that the ownership of over 50% of votes is not tantamount to exerting control. The Company's is also deemed to exert control when it does not have a majority of votes in a given entity but has the ability to decide on a its financial and operational policies. As at the last day of the reporting period, the Company held shares in one jointly controlled entity, which was consolidated with the proportional method.

7.2 Revenue

Revenue is disclosed at the fair value of proceeds, received or due, from sale of products, merchandise or services, which are provided or rendered to customers in the ordinary course of business, less discounts, VAT and other sales-related taxes (excise duty, fuel charge). Revenue from sale of products and merchandise is recognised at the moment of delivery, when material risk and benefits resulting from the ownership of the products and merchandise have been transferred to the purchaser.

7.3 Interest

Interest income is recognised as the interest accrues (using the effective interest rate), unless its receipt is doubtful.

7.4 Taxes

7.4.1 Income tax

Mandatory decrease in profit/(increase in loss) comprises: current income tax (CIT) and deferred income tax. The current portion of the income tax is calculated based on the net profit/(loss) (taxable income) for a given financial year. The net profit (loss) established for tax purposes differs from the net profit (loss) established for financial reporting purposes due to temporary differences between accounting and tax income (that is income which is taxable and costs which are deductible in a period other than the current reporting period) as well as permanent differences resulting from the fact that certain expense and income items recognised for accounting purposes will never be taken into account in tax settlements. The tax charges are calculated based on the tax rates effective for a given financial year.
For the purposes of financial reporting, the Company recognises deferred tax liabilities using the balance-sheet liability method in relation to all temporary differences existing as at the last day of the reporting period between the tax base of assets and liabilities and their carrying amount as disclosed in the consolidated financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiaries, jointly-controlled entities or associates, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax assets, and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences, assets and losses to be used:

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable profit (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiaries, jointly controlled entities or associates and interests in joint ventures, the related deferred tax assets are recognised in the statement of financial position to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

The carrying amount of deferred tax assets is revised as at the last day of each reporting period and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of the deferred tax assets would be generated.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of particular asset or liability, based on tax rates (and tax legislation) effective as at the last day of the reporting period or tax rates (and tax legislation) which as at the last day of the reporting period are certain to be effective in the future. The effect of deferred tax on items posted directly to equity is recognised in equity through other comprehensive income.
Deferred tax assets and deferred tax liabilities are presented in the statement of financial position in the amount obtained after they are offset for particular entities consolidated by the Company.

7.4.2 Value-added tax, excise duty and fuel charge

Revenue, expenses, assets and liabilities are recognised net of the VAT, excise duty and fuel charge:

- except where the value added tax paid on the purchase of assets or services is not recoverable from the tax authorities (in such a case it is recognised in the cost of the given asset or as part of the cost item), and
- except in the case of receivables and payables, which are recognised inclusive of the VAT, excise duty and fuel charge.

The net amount of the VAT, excise duty and fuel charge which is recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

7.5 Foreign currency transactions

The financial statements of foreign entities are translated into the presentation currency (Polish złoty) of the consolidated financial statements at the following exchange rates:

- items of the statement of financial position – at the mid-exchange rate quoted by the National Bank of Poland for the last day of the reporting period (mid-exchange rate quoted by the NBP for the last day of the reporting period),
- items of the statement of comprehensive income – at the exchange rate computed as the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the last day of each month in the reporting period (mid-exchange rate quoted by the NBP for the reporting period).

The exchange rate applicable to purchase invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the invoice date, and the exchange rate applicable to sales invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the sales date.

Any foreign exchange gains or losses resulting from currency translation are posted to the statement of comprehensive income, except for foreign exchange gains and losses which are treated as a part of borrowing costs and are capitalised in property, plant and equipment (foreign exchange gains and losses on interest and fees and commissions). Non-monetary items measured at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

The Company calculates separately realised and unrealised foreign exchange gains (losses) and recognises the resulting total balance in the statement of comprehensive income under:

- operating profit or loss: in the case of foreign exchange gains and losses related to settlement of trade receivables and payables,
- financial profit or loss: in the case of borrowings, investment commitments, and cash and cash equivalents.

Exchange differences arising on valuation, as at the last day of the reporting period, of short-term investments (e.g. shares, other securities, loans advanced, cash and other monetary assets) and receivables and liabilities denominated in foreign currencies, are charged to finance income or costs and operating income or expenses.

The financial statements of foreign entities are translated into the presentation currency of the consolidated financial statements at the following exchange rates:

- items of the statement of financial position – at the mid-exchange rate quoted by the National Bank of Poland for the balance-sheet date;
- items of the statement of comprehensive income – at the exchange rate computed as the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the day ending each month in the reporting period.

The resulting exchange differences are recognised as separate items under equity and other comprehensive income, taking into account the tax effect.

Exchange differences arising on a monetary item that forms a part of a reporting entity's net investment in a foreign operation are recognised in equity and other comprehensive income, and on disposal of the investment they are reclassified to consolidated profit or loss in the statement of comprehensive income.

At the time of disposal of a foreign entity, the accumulated exchange differences recognised in equity and relating to this foreign entity are disclosed in profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets or liabilities of the foreign operation and are translated into the presentation currency of the consolidated financial statements at the exchange rate effective as at the last day of the reporting period.

The following exchange rates were used in the valuation of items of the statement of financial position:

Mid-exchange rate quoted by the NBP for:	Dec 31 2012(1)	Dec 31 2011(2)
USD	3.0996	3.4174
EUR	4.0882	4.4168
NOK	0.5552	0.5676
LTL	1.1840	1.2792

(1) Table of mid-exchange rates of December 31st 2012.
(1) Table of mid-exchange rates of December 31st 2011.

The following exchange rates were used in the valuation of items of the statement of comprehensive income:

Mid-exchange rate quoted by the NBP for the period ended:	Dec 31 2012	Dec 31 2011
USD	3.2312	2.9679
NOK	0.5594	0.5315
LTL	1.2087	1.1991

7.6 Property, plant and equipment

Items of property, plant and equipment other than land are measured at cost less accumulated depreciation and impairment losses.

Land is measured at cost less impairment losses. In the case of perpetual usufruct rights to land, cost is understood to mean the amount paid for the right to a third party.

Perpetual usufruct rights to land obtained free of charge are capitalised at fair value in the accounting books.
Initial value of an item of property, plant and equipment comprises its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred on an asset which is already in service, such as costs of repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

Items of property, plant and equipment (including their components), other than land and assets used for crude oil production, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and structures	over 1 year – 80 years
Plant and equipment	over 1 year – 25 years
Vehicles and other	over 1 year – 15 years

Items of property, plant and equipment used in petroleum production are depreciated using the units-of-production depreciation method, i.e. depreciation per unit of produced crude oil is charged to expenses. The depreciation rate is estimated by reference to forecasts of crude oil production from a given geological area. If the estimated reserves (2P – proved and probable – reserves) change significantly as at the balance-sheet date, depreciation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised depreciation rate is applied.

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the company does not expect to realise any economic benefits from its further use. Any gains or losses on removal of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are disclosed in the statement of comprehensive income in the period of removal.

The residual value, useful economic life and depreciation method are reviewed on an annual basis and adjusted – if required – with effect from the beginning of the next financial year.

In its consolidated financial statements, under property, plant and equipment the Group discloses an asset corresponding to the value of provision for decommissioning of oil and gas facilities. The asset was recognised in accordance with IAS 16 Property, Plant and Equipment, which reads: "The cost of an item of property, land and equipment comprises […] the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period". The Group's obligation to incur costs of decommissioning of the offshore oil and gas facilities results directly from the reasons specified in IAS 16. Under Paragraph 63 of the standard, the entities applying the IAS are obliged to test the value of the asset periodically, but no less frequently than as at the last day of each reporting period.

Revaluation of the asset so recognised may be caused by:

- change in estimated cash outflow necessary to ensure performance of the decommissioning obligation,
- change in the current market discount rate,
- increase in the value resulting from the passage of time – shortening of the time remaining until decommissioning, leading to the adjustment of the discount rate.

Items of property, plant and equipment under construction are measured at the amount of aggregate costs directly attributable to its acquisition or production (including finance costs), less impairment losses, if any. Items of property, plant and equipment under construction are not depreciated until they are ready for their intended use.

Property, plant and equipment under construction comprise assets which are under construction or assembly and are recognised at cost.

Finance costs capitalised in property, plant and equipment under construction include costs identified in line with the policies described in Note 7.22.

The cost of exploration for crude oil and natural gas is capitalised as property, plant and equipment under construction until the size of an oil/gas field and the economic viability of production are determined. Upon confirmation of the existence of reserves whose extraction is technically and economically viable, the expenditure incurred on exploration is transferred to property, plant and equipment and is subsequently depreciated. If exploration drillings do not result in discovery of any reserves whose extraction is technically and economically viable, impairment losses on property, plant and equipment under construction are recognised and charged to the profit or loss of the period in which it is found that commercial production from the discovered fields is not viable.

7.7 Goodwill

The acquirer recognises goodwill as at the acquisition date measured as the excess representing the difference between (A) the consideration transferred, measured at its acquisition-date fair value, including the amount of any non-controlling interest in the acquiree plus (B) the acquisition-date fair value of any interests in the acquiree previously held by the acquirer (in the case of a business combination achieved in stages), and (C) the net of the acquisition-date amounts of the acquiree's assets, including all of the identifiable assets acquired and the liabilities assumed, measured at their fair values as at the transaction date.

Goodwill = (C) – (A) – (B)

In the case of a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in the statement of comprehensive income.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Group calculates impairment of value by estimating the recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its carrying amount, the Group recognises impairment losses. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the cash-generating unit's business, the goodwill connected with the sold business is included in the carrying amount of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, pro-rata to the interest in the retained part of the cash-generating unit.

7.8 Other intangible assets

Intangible assets are recognised if the Group is likely to obtain future economic benefits attributable directly to the assets. Intangible assets are initially recognised at cost, if they are acquired in separate transactions. Intangible assets acquired as part of a business combination are recognised at their fair value as at the acquisition date. Subsequent to initial recognition, intangible assets are carried at amounts reflecting accumulated amortisation and impairment losses.

The Group capitalises and recognises as an intangible asset both the fees under the licences for crude oil and natural gas exploration and appraisal and the royalties under the concluded mining use agreements granting the right to conduct crude oil and natural gas exploration. Exploration work cannot be conducted without obtaining a relevant licence and executing the mining use agreement.

Intangible assets are amortised using the straight-line method over their estimated useful lives. The expected useful lives of the Group's intangible assets ranges from 2 to 33 years.

Licences obtained during the step acquisition of control over companies of the AB LOTOS Geonafta Group are amortised using the unit-of-production method, i.e. amortisation per unit of produced crude oil is charged to expenses. The amortisation rate is estimated by reference to forecasts of crude oil production from a given field. If the estimated reserves change significantly as at the last day of the reporting period, amortisation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised amortisation rate is applied.

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in the asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates.

With the exception of capitalised development expenditure, expenditure on intangible assets produced by the Company is not capitalised and is charged to expenses in the period in which it was incurred.

7.9 Investments in associates

Investments in associates are equity-accounted. Associates are the entities over which the Parent has significant influence, either directly or indirectly through its subsidiaries, and which are neither its subsidiaries nor interests in joint ventures. The financial statements of associates serve as a basis for the equity method valuation of the shares held by the Parent.

Investments in associates are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Parent's share in the net assets of the associates, and reduced by impairment losses, if any. The statement of comprehensive income includes the Parent's share of the profits and losses of the associates. In the case of a change recognised directly in an associate's equity, the Parent recognises its share in such change and, if applicable, discloses it in the statement of changes in equity.

7.10 Exploration and appraisal assets

Exploration and appraisal assets are exploration and appraisal expenditures recognised as assets in accordance with the Group's accounting policy. Exploration and appraisal expenditures are expenditures incurred by the Group in connection with the exploration for and appraisal of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and appraisal of mineral resources is the search for mineral resources, including oil, natural gas and similar non-regenerative resources, after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. The Group classifies the exploration and appraisal assets as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner. When the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, exploration and appraisal assets are no longer classified as such.

The Group presents and discloses impairment losses on exploration and appraisal assets in accordance with IFRS 6 and evaluates such assets in accordance with IAS 36. Impairment losses are recognised in profit or loss, in accordance with IAS 36.

The Group examines the need to recognise impairment losses on exploration and appraisal assets by considering, inter alia, the following circumstances in relation to a specific area:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- no substantial expenditure on further exploration for and appraisal of mineral resources is anticipated;
- exploration for and appraisal of mineral resources have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities;
- sufficient data exist to indicate that, although development in the specific area is likely to proceed, the carrying amount of the exploration and appraisal asset is unlikely to be recovered in full from successful development or by sale.

7.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership onto the lessee. All other types of leases are treated as operating leases.

The Group as a lessor

- Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for the given reporting period calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.
- Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.
- Income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term.

The Group as a lessee

- Assets used under a finance lease are recognised as assets of the Group and at initial recognition are measured at fair value or, if lower, the present value of the minimum lease payments. The resultant obligation towards the lessor is presented in the statement of financial position under finance lease liabilities. Lease payments are broken down into the interest component and the principal component so as to produce a constant rate of interest on the remaining balance of the liability. Finance costs are charged to the statement of comprehensive income.
- Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

7.12 Impairment losses on non-financial non-current assets

As at the last day of the reporting period, the Group assesses whether there is any indication of impairment of any of its assets. If the Group finds that there is such indication, or if the Group is required to perform annual impairment tests, the Group estimates the recoverable value of the given asset.

The recoverable value of an asset is equal to the higher of the:

- fair value of the asset or cash generating unit, less the transaction costs,
- or its value in use.

The recoverable value is determined for the individual assets, unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable value, the value of the asset is impaired and impairment losses are recognised up to the established recoverable value. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses related to the assets used in the continued operations are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at the last day of the reporting period, the Group assesses whether there is an indication that any impairment losses recognised in the previous periods with respect to a given asset are no longer necessary or should be reduced. If there is such indication, the Group estimates the recoverable value of the given asset. A recognised impairment loss is reversed only when following the recognition of the last impairment loss there has been a change in the estimates used to determine the recoverable value of the asset. In such a case, the carrying amount of the asset is increased up to its recoverable value. The increased value may not exceed the carrying amount of the asset that would have been determined (net of accumulated amortisation/depreciation) if no impairment losses had not been recognised on that asset in the previous years. Reversal of an asset impairment loss is immediately recognised as income in the statement of comprehensive income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to the given asset is adjusted so that over the remaining useful life of that asset its revised carrying amount, less its residual value, can be regularly written off.

7.13 Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in order to bring each inventory item to its present location and conditions are accounted for in the following manner:

- materials and merchandise – at cost,
- finished goods and work-in-progress – at the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity utilisation.

Net realisable value is the selling price estimated as at the last day of the reporting period, net of VAT, excise duty and fuel charge, less any rebates, discounts and other similar items, and less the estimated costs to complete and costs to sell.

Inventory disposals are measured using the weigted average cost method.

Mandatory reserves are disclosed as non-current assets given their turnover in a short term. For more information on mandatory reserves, see Note 19.2.

7.14 Investment property

Investment property is measured at cost less accumulated depreciation and impairment losses.

Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Group does not use for its own purposes but which will generate benefits in the form of value appreciation or rent income.

7.15 Trade and other receivables, prepayments

Trade receivables, which typically become due and payable in 7 to 60 days, are recognised and carried at amounts initially invoiced, less impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of receivables is no longer probable. Uncollectible receivables are written off through the statement of comprehensive income when recognised as unrecoverable accounts.

If the effect of time value of money is significant, the value of receivables is determined by discounting the projected future cash flows to their present value using a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as finance income.

The Group recognises prepayments if they relate to future reporting periods as other non-financial assets.

7.16 Cash and cash equivalents

Cash in hand and at banks, as well as and short-term deposits held to maturity are measured at face value.

Cash and cash equivalents as disclosed in the consolidated statement of cash flows comprise cash in hand, overdraft facilities as well as those bank deposits maturing within three months which are not treated as investment activity.

7.17 Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to be met only if the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification.

Non-current assets classified as held for sale and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

7.18 Equity

Equity is recognised in the consolidated financial statements by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association of the consolidated entities.

The share capital of the LOTOS Group is the share capital of the Parent and is recognised at its par value, in the amount specified in the Company's Articles of Association and in the relevant entry in the National Court Register.

7.19 Dividends

Dividend is recognised as finance income as at the date on which the appropriate governing body of the dividend payer adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

7.20 Borrowings and other debt instruments

All borrowings and other debt instruments are initially recognised at cost, equal to the fair value, less cost of obtaining the funds.

Following initial recognition, borrowings and other debt instruments are measured at amortised cost, using the effective interest rate method. Amortised cost includes the cost of obtaining the funds as well as discounts or premiums obtained at settlement of the liability. Upon removal of the liability from the statement of financial position or recognition of value impairment, gains or losses are charged to the statement of comprehensive income.

7.21 Employee benefit obligations

7.21.1 Retirement severance payments and length-of-service awards

In accordance with the company remuneration systems applied by the LOTOS Group companies, the Group employees are entitled to length-of-service awards and severance payments upon retirement due to old age or disability. Length-of-service awards are paid out after a specific period of employment. Old-age and disability retirement severance payments are one-off and paid upon retirement. Amounts of severance payments and length-of-service awards depend on the length of employment and the average remuneration of an employee. The Group recognises a liability for future retirement severance payment and length-of-service award obligations in order to assign costs to the periods to which they relate. According to IAS 19 Employee Benefits, length-of-service awards are classified as other long-term employee benefits, while retirement severance payments – as defined post-employment benefit plans. The present value of the obligations as at the last day of the reporting period is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account the employment turnover, and relate to the period ending on the last day of the reporting period. Information concerning demographics and employment turnover is sourced from historical data. Actuarial gains and losses are recognised in profit or loss.

Furthermore, the Group companies recognise a liability for the benefits to which employees and other eligible persons are entitled as part of the Company Social Benefits Fund.

Employees of the Group companies are entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Group recognises the cost of employee holidays on an accrual basis using the liability method. The amount of the provision for unused holidays is calculated on the basis of the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time.

7.21.2 Profit distribution for employee benefits and special accounts

According to the business practice followed in Poland, company shareholders have the right to allocate a part of profit for employee benefits by making contributions to the Company's social benefits fund and to other special accounts. In the financial statements such distributions are charged to operating expenses in the period to which profit distribution relates.

7.22 Borrowing costs

Borrowing costs are expensed in the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed (an asset whose preparation for use or sale requires a significant amount of time), which are capitalised as a part of the cost of such an asset.

To the extent that funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the borrowing costs which may be capitalised as part of such asset is determined as the difference between the actual borrowing costs incurred in connection with a given credit facility or loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the borrowing costs which may be capitalised is determined by applying the capitalisation rate to the expenditure on that asset.

7.23 Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

- Financial assets held to maturity,
- Financial assets and liabilities at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which are quoted on an active market and which the Group has the positive intention and ability to hold to maturity, other than those:

- designated at fair value through profit or loss upon initial recognition,
- designated as available for sale,
- which qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the last day of the reporting period.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. Financial assets are classified as held for trading if they:
   - have been acquired principally for the purpose of being sold in the near future,
   - are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
   - are derivatives (except for those which are part of hedge accounting or financial guarantee contracts),

b) it has been assigned to this category on initial recognition, in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, based on their market value as at the last day of the reporting period, without reflecting sale transaction costs. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs. An entire contract can be designated as financial assets at fair value through profit or loss if it contains one or more embedded derivatives. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear without an analysis or following a short analysis that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited. Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or

(ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a well-documented risk management strategy; or

(iii) the assets contain embedded derivatives which should be presented separately.

Based on the fair value measurement methods applied, the Group classifies its individual financial assets and liabilities into the following categories (fair value hierarchy):

- Level 1: Financial assets and liabilities whose fair values are measured directly on the basis of quoted prices (used without adjustment) from active markets for identical assets or liabilities.

- Level 2: Financial assets and liabilities whose fair values are measured using measurement models in the case of which all significant input data is observable on the market either directly (as prices) or indirectly (based on prices).

- Level 3: Financial assets and liabilities whose fair values are measured using measurement models in the case of which the input data is not based on observable market data (unobservable input data).

The Group discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading. Financial assets and liabilities held for trading include the following types of derivatives: swaps, futures, forwards, options, interest-rate swaps, forward rate agreements (financial risk management is described below).

Fair value of EUA and CER futures contracts hedging against the risk related to carbon dioxide (CO_2) allowances is established by reference to the difference between the market price quoted by the Intercontinental Exchange (ICE) for the valuation date and the transaction price. (Level 1 in the fair value hierarchy).

Fair value of commodity swaps is established by reference to future cash flows connected with the transactions, calculated on the basis of the difference between the average market price and the transaction price. The fair value has been established on the basis of prices quoted on active markets, as provided by an external consultancy (Level 2 in the fair value hierarchy).

Fair value of spots, forwards and currency swaps is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the interest rate curve implied in FX swaps (Level 2 in the fair value hierarchy).

Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction (Level 2 in the fair value hierarchy).

Loans and receivables are financial assets with fixed or determinable payments not classified as derivatives and not traded on any active market. They are disclosed under current assets if they mature within 12 months from the last day of the reporting period. Loans and receivables with maturities exceeding 12 months from the last day of the reporting period are classified as non-current assets.

Financial assets available for sale are financial assets that are not derivative instruments, and have been classified as available for sale or do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value increased by the transaction costs which may be directly attributed to an acquisition or issue of a financial asset. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment. The positive or negative differences between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be established in any other reliable manner) and their cost are recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in finance costs.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value including – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

Financial assets are derecognised when the Group loses control over the contractual rights comprising a particular financial instrument; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

7.24 Impairment of financial assets

As at the last day of the reporting period the Group determines whether there is an objective indication of impairment of a financial asset or a group of financial assets.

Assets carried at amortised cost

If there is an objective indication that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying amount of an asset is reduced directly or by recognising relevant provisions. The amount of loss is recognised in the statement of comprehensive income.

The Group first determines whether there exists an objective indication of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective indication of impairment of an individually tested asset, regardless of whether it is material or not, the Group includes the asset into the group of financial assets with similar credit risk profile and tests it for impairment together with the other assets from this group. Assets which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.

If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that the carrying amount of the asset does not exceed its amortised cost as at the reversal date.

Financial assets carried at cost

If there exists an objective indication of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial assets available for sale

If there exists an objective indication of impairment of a financial asset classified as an asset available for sale, the amount of the difference between (A) the cost of that asset (less any principal payments and depreciation/amortisation charges) and its (B) current fair value, reduced by any impairment losses previously recognised in the statement of comprehensive income, (A – B) is derecognised from equity and charged to the statement of comprehensive income. Reversal of impairment losses concerning equity financial instruments classified as available for sale may not be recognised in the statement of comprehensive income. If the fair value of a debt instrument available for sale increases in the next period, and the increase may be objectively associated with an event that occurred subsequent to the impairment loss recognition in the statement of comprehensive income, the amount of the reversed impairment losses is recognised in the statement of comprehensive income.

7.25 Derivative financial instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. In addition, the Group relies on full barrel swaps and commodity swaps to hedge its exposure to raw material and petroleum product prices, uses futures contracts to manage its exposure to prices of carbon dioxide (CO_2) emission allowances, and enters into interest rate swaps (IRSs) and forward rate agreements (FRAs) to hedge its interest rate exposure.

Derivative financial instruments of this type are measured at fair value. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

In the statement of financial position, financial instruments are presented as either current or non-current, depending on the expected time of realisation of assets and liabilities classified as held for trading.

7.26 Hedge accounting

As of January 1st 2011, the Parent commenced cash flow hedge accounting with respect to a USD-denominated credit facility designated as a hedge of future USD-denominated sales transactions. In H2 2012, the Company extended the scope of application of cash flow hedge accounting through the establishment of new hedging relationships with respect to foreign-currency denominated credit facilities intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

The objective of cash flow hedge accounting is to guarantee a specified Polish złoty value of its revenue generated in USD. The hedged items comprise a number of highly probable and planned USD-denominated refining product sale transactions, in particular the first portion of revenue (up to the amount of the designated principal repayment) in USD generated in a given calendar month, or if the amount of revenue in a given month is lower than the amount of the designated principal payment – the first portion of revenue generated in three successive months. If a subsequent portion of revenue is designated in a given calendar month, the hedged item is the first portion of revenue generated after the previously designated portion of revenue in USD in a given calendar month, or if the amount of revenue in a given month is lower than the amount of the designated principal repayment – a subsequent portion of revenue generated in three successive months. A hedged item is linked to relevant hedging instruments based on an individual document designating the hedging relationship.

The designated hedging instruments cover an obligation to repay a USD-denominated credit facility, whose settlement dates fall on business days of specified calendar months, as provided in the principal repayment schedule.

Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent representing an effective hedge, are posted directly to other comprehensive income. Changes in the fair value of financial derivatives designated to hedge cash flows, to the extent not representing an effective hedge, are charged to other finance income or costs in the reporting period.

At the time when a hedge is undertaken, the Company formally designates and documents the hedging relationship, as well as its risk management objective and strategy for undertaking the hedge.
The relevant documentation specifies (i) the hedging instrument, (ii) the hedged item or transaction, (iii) the nature of the hedged risk, (iv) as well as how the Company will assess the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged item or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis to determine whether it remains highly effective during all the reporting periods for which it was undertaken.

7.27 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the Group anticipates that the costs for which provisions have been recognised will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate asset, but only when such recovery is practically certain to occur. The cost related to a given provision is disclosed in the statement of comprehensive income net of any recoveries. If the effect of the time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to their present value at a pre-tax discount rate reflecting the current market estimates of the time value of money and risks, if any, specific to a given obligation. If the discount method is applied, an increase in the provision as a result of lapse of time is recognised as finance costs. Provisions are charged against operating expenses, other expenses, or finance costs, depending on what circumstances the future obligation relates to.

7.28 Trade and other payables and other liabilities, accruals

Current trade and other payables are reported at nominal amounts payable.
Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they were acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded instruments, are also classified as held for trading, unless they are considered as effective hedges.

Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition if the following criteria are met:

(i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases,
(ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a well-documented risk management strategy, or
(iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities at fair value through profit or loss are measured at fair value, based on their market value as at the last day of the reporting period, without reflecting sale transaction costs. Changes in the fair value of such instruments are recognised in profit or loss as finance income or costs.

Other financial liabilities, not classified as financial liabilities at fair value through profit or loss, are carried at amortised cost using the effective interest rate method.

The Group derecognises a financial liability when it is extinguished, that is when the obligation specified in the contract is either discharged or cancelled or expires. When a debt instrument between the same parties is replaced by another instrument whose terms are substantially different, the Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications to the terms of a contract concerning an existing financial liability are presented as extinguishment of the former and recognition of a new financial liability. Any differences in the respective carrying amounts arising in connection with the replacement are charged to profit or loss

Other non-financial liabilities include in particular VAT, excise duty and fuel charge liabilities to the tax authorities and liabilities under received prepayments, which are to be settled by delivery of goods or tangible assets, or performance of services. Other non-financial liabilities are measured at nominal amounts payable.

Accrued expenses are recognised at probable amounts of current-period liabilities.The Group presents expenses under other non-financial liabilities or under employee benefirs obligations (current liabilities during employment) if it refers to it.

7.29 Grants

If there is reasonable certainty that a grant will be received and that all related conditions will be fulfilled, grants are recognised at fair value.

If a grant concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. If it concerns an asset, its fair value is recognised as deferred income, and then it is written off annually in equal parts through the statement of comprehensive income over the estimated useful life of the asset.

7.30 Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (strategic financial, operating and political decisions relating to the activity require the unanimous consent of the venturers). When a Group member becomes directly involved in activities as part of a joint venture, the Group’s share of jointly controlled assets and liabilities incurred jointly with the other venturers is disclosed in the financial statements of such Group member and classified in accordance with its nature. Liabilities and costs incurred directly in connection with a share in jointly controlled assets are accounted for using the accrual method. Income from the sale or use of the Group’s share of the output produced by jointly controlled assets and the share of expenses incurred by the joint venture are recognised when the inflow/transfer by the Group of the economic benefits connected with relevant transactions becomes probable, provided that they can be measured reliably. As at December 31st 2012, the Group was a party to joint ventures in relation to the production operations conducted by subsidiary LOTOS Exploration and Production Norge AS in Norway.

7.31 Segment reporting

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

The Group’s operating activity comprises two main reportable operating segments:

- upstream segment – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production,
- downstream segment – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

The operating segments are identified at the Group level. The Parent is included in the downstream segment. The upstream segment comprises the LOTOS Petrobaltic Group (excluding Energobaltic Sp. z o.o.).

Segment performance is assessed on the basis of revenue,
EBIT (= operating profit/(loss))
and EBITDA (= operating profit/(loss) before depreciation and amortisation).

The segments' revenue, EBIT and EBITDA do not account for intersegment adjustments.

Financial information of the operating segments used by the chief operating decision makers to assess their performance is presented in Note 8.

7.32 Contingent liabilities and receivables

A contingent liability is understood as a duty to discharge an obligation which is conditional upon the occurrence of certain circumstances.

In line with the policies applied by the Group, consistent with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a contingent liability is understood as:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- a present obligation that arises from past events but is not recognised in the financial statements because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of resources embodying economic benefits is negligible.

In compliance with the IFRS, the Group defines a contingent asset as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent receivables are not recognised in the statement of financial position, however information on them is disclosed if the inflow of resources embodying economic benefits is likely to occur.

Examples of contingent assets and liabilities include liabilities or receivables related to pending court disputes whose future outcomes are neither known not fully controlled by the entity. For more information on pending court proceedings and other contingent liabilities see Note 36.1 and Note 36.2, respectively.

7.33 Carbon dioxide (CO_2) emission allowances

The Group recognises carbon dioxide (CO_2) emission allowances in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised only after the Group actually exceeds the limit. The Group analyses the limits granted to it on an annual basis. Income from sale of unused emission allowances is credited against the statement of comprehensive income at the time of sale.

8. Business segments

PLN '000	Upstream segment	Downstream segment	Other[2]	Consolidation adjustments	Consolidated
	for the year ended Dec 31 2012				
Revenue:	**759,799**	**32,899,919**	**27,205**	**(575,923)**	**33,111,000**
Intersegment sales	*512,675*	*43,467*	*19,781*	*(575,923)*	*-*
External sales	*247,124*	*32,856,452*	*7,424*	*-*	*33,111,000*
Operating profit/(loss)**(EBIT)**	**(680,235)** [1]	**977,481**	**5,377**	**(1,550)**	**301,073**
Depreciation and amortisation expense	137,980	520,066	10,339	(1,795)	666,590
Operating profit/(loss) before amortisation and depreciation **(EBITDA)**	**(542,255)**	**1,497,547**	**15,716**	**(3,345)**	**967,663**

PLN '000	Upstream segment	Downstream segment	Other[2]	Consolidation adjustments	Consolidated
	Dec 31 2012				
Total assets	**3,366,025**	**17,334,548**	**148,607**	**(792,801)**	**20,056,379**
- including net exploration and appraisal assets	*150,033*	*-*	*-*	*-*	*150,033*

PLN '000	Upstream segment	Downstream segment	Other[2]	Consolidation adjustments	Consolidated
	for the year ended Dec 31 2011 (restated)				
Revenue:	**582,259**	**29,062,269**	**23,350**	**(408,292)**	**29,259,586**
Intersegment sales	*350,476*	*40,461*	*17,355*	*(408,292)*	*-*
External sales	*231,783*	*29,021,808*	*5,995*	*-*	*29,259,586*
Operating profit/(loss)**(EBIT)**	**21,663** [1]	**1,061,327**	**3,119**	**(636)**	**1,085,473**
Depreciation and amortisation expense	119,989	480,305	9,704	(1,390)	608,608
Operating profit/(loss) before amortisation and depreciation **(EBITDA)**	**141,652**	**1,541,632**	**12,823**	**(2,026)**	**1,694,081**

PLN '000	Upstream segment	Downstream segment	Other[2]	Consolidation adjustments	Consolidated
	Dec 31 2011				
Total assets	**3,078,573**	**17,901,203**	**147,187**	**(703,743)**	**20,423,220**
- including net exploration and appraisal assets	*89,581*	*-*	*-*	*-*	*89,581*

[1] Including impairment losses on YME field assets, of PLN 935,247 thousand (December 31st 2011: PLN 239,775 thousand), described in more detail in Note 13 .
[2] Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

Geographical structure of sales

PLN '000	Upstream segment	Downstream segment	Other(1)	Consolidated
	for the year ended Dec 31 2012			
Domestic sales	**304**	**24,142,354**	**7,424**	**24,150,082**
- products and services	65	23,107,959	7,424	23,115,448
- merchandise and materials	239	1,034,395	-	1,034,634
Export sales	**246,820**	**8,714,098**	**-**	**8,960,918**
- products and services	207,679	8,368,721	-	8,576,400
- merchandise and materials	39,141	345,377	-	384,518
Total	**247,124**	**32,856,452**	**7,424**	**33,111,000**

PLN '000	Upstream segment	Downstream segment	Other(1)	Consolidated
	for the year ended Dec 31 2011			
Domestic sales	**240**	**22,684,726**	**5,995**	**22,690,961**
- products and services	91	22,286,029	5,995	22,292,115
- merchandise and materials	149	398,697	-	398,846
Export sales	**231,543**	**6,337,082**	**-**	**6,568,625**
- products	193,334	5,772,411	-	5,965,745
- merchandise and materials	38,209	564,671	-	602,880
Total	**231,783**	**29,021,808**	**5,995**	**29,259,586**

Sales by product category

PLN '000	Upstream segment	Downstream segment	Other(1)	Consolidated
	for the year ended Dec 31 2012			
Gasolines	-	5,221,788	-	5,221,788
Raw gasoline	-	1,097,071	-	1,097,071
Reformate	-	458,827	-	458,827
Diesel oils	-	16,374,326	-	16,374,326
Bunker fuel	-	111,347	-	111,347
Light fuel oil	-	1,145,857	-	1,145,857
Heavy fuel oil	-	2,226,874	-	2,226,874
Aviation fuel	-	1,855,654	-	1,855,654
Lubricants	-	367,701	-	367,701
Base oils	-	568,804	-	568,804
Bitumens	-	1,730,266	-	1,730,266
LPG	-	502,388	-	502,388
Crude oil	239,828	-	-	239,828
Other refinery products, merchandise and materials	-	765,660	-	765,660
Other products, merchandise and materials	599	172,838	7,386	180,823
Services	6,697	274,142	38	280,877
Effect of accounting for cash flow hedge accounting	-	*(17,091)*	-	*(17,091)*
Total	**247,124**	**32,856,452**	**7,424**	**33,111,000**

(1) Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

PLN '000	Upstream segment	Downstream segment	Other(1)	Consolidated
	for the year ended Dec 31 2011			
Gasolines	-	4,511,001	-	4,511,001
Naphtha	-	480,080	-	480,080
Reformate	-	477,264	-	477,264
Diesel oils	-	15,112,466	-	15,112,466
Bunker fuel	-	115,782	-	115,782
Light fuel oil	-	1,223,309	-	1,223,309
Heavy fuel oil	-	1,600,701	-	1,600,701
Aviation fuel	-	1,397,304	-	1,397,304
Lubricants	701	318,930	-	319,631
Base oils	-	551,806	-	551,806
Bitumens	-	1,912,436	-	1,912,436
LPG	-	274,185	-	274,185
Crude oil	224,248	-	-	224,248
Other refinery products, merchandise and materials	12	598,200	-	598,212
Other products, merchandise and materials	150	206,644	5,960	212,754
Services	6,672	241,790	35	248,497
Effect of accounting for cash flow hedge accounting	-	*(90)*	-	*(90)*
Total	**231,783**	**29,021,808**	**5,995**	**29,259,586**

(1) Includes LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. w likwidacji (in liquidation) and Energobaltic Sp. z o.o.

In 2012, no customer of the LOTOS Group had a share of the Group's total revenue in excess of 10%. In 2011, the share of one customer, Shell POLSKA Sp. z o.o., exceeded 10% of the Group's total revenue, and amounted to 10.25%.

9. Income and expenses

9.1 Revenue

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Revenue from sale of products	31,410,971	28,009,363
- including the effect of accounting for cash flow hedge accounting	*(17,091)*	*(90)*
Revenue from rendering of services	280,877	248,497
Total revenue from sale of products and rendering of services	**31,691,848**	**28,257,860**
Revenue from sale of merchandise	1,005,871	798,264
Revenue from sale of materials [(1)]	413,281	203,462
Total revenue from sale of merchandise and materials	**1,419,152**	**1,001,726**
Total	**33,111,000**	**29,259,586**
- including to related entities	*6,569*	*6,579*

[(1)] Including revenue from sale of crude oil.

9.2 Other income

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Gain on disposal of non-financial non-current assets	17,493 [(1)]	1,420
Gain on disposal of assets held for sale	118	2,490
Grants	2,059	1,654
Provisions	1,295	380
Reversal of impairment losses on receivables	8,018	4,151
Reversal of impairment losses on property, plant and equipment and other intangible assets	511	681
Compensations/damages	9,647	10,558
Other	8,421	20,381 [(2)]
Total	**47,562**	**41,715**

[(1)] Including PLN 14,469 thousand in income from sale of carbon dioxide (CO_2) emission allowances.
[(2)] Including PLN 14,391 thousand under statute of limitations for liabilities.

9.3 Finance income

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Dividend received	700	514
Interest	25,555	20,717
Foreign exchange gains:	156,112	-
- on foreign-currency denominated bank borrowings	*165,726*	-
- on foreign-currency denominated non-bank borrowings	*(19,503)*	-
- on foreign-currency transactions in bank accounts	*25,560*	-
- on debt securities	*(3,454)*	-
- other foreign exchange differences	*(12,217)*	-
Gain on disposal of investments	150	958
Revaluation of financial assets:	117,772	-
- valuation of derivative financial instruments	*159,096*	-
- settlement of derivative financial instruments	*(41,324)*	-
Provisions	1,699	4
Other	20	79
Total	**302,008**	**22,272**

9.4 Expenses by nature

	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Depreciation and amortisation expense	21	666,590	608,608
Raw material and consumables used		28,191,721	25,008,836
- including foreign exchange losses [1]		*31,196*	*319,366*
Services		1,135,525	1,187,705
Taxes and charges		175,491	155,661
Employee benefit expenses	9.5	653,638	633,639
Other expenses by nature		197,513	193,982
Merchandise and materials at cost		1,320,772	888,812
Total expenses by nature		**32,341,250**	**28,677,243**
Change in products and adjustments to cost of sales		(495,100)	(672,227)
Total		**31,846,150**	**28,005,016**
including:			
Cost of sales		30,327,507	26,572,381
Distribution costs		1,054,839	1,000,366
Administrative expenses		463,804	432,269

[1] Foreign exchange losses relating to operating activities have been included in cost of sales.

9.5 Employee benefit expenses

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Cost of current salaries and wages	483,860	468,719
Cost of social security and other employee benefits	141,980	127,711
Cost of retirement and other post-employment benefits	27,798	37,209
Employee benefit expenses	**653,638**	**633,639**
Change in products and adjustments to cost of sales	(13,534)	(15,310)
Total	**640,104**	**618,329**
including:		
Items recognised in cost of sales	369,964	358,773
Items recognised in distribution costs	32,602	33,366
Items recognised in administrative expenses	237,538	226,190

9.6 Other expenses

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Loss on disposal of non-current non-financial assets		787	2,500
Revaluation of receivables		3,006	11,053
Revaluation of property, plant and equipment and other intangible assets, including:		1,064,536	305,507
- impairment loss on YME field assets	*13*	*935,247*	*239,775*
- impairment losses on assets connected with the Waterproofing Materials Production Plant	*13*	*22,840*	*15,050*
- impairment losses on Norwegian exploration Licences	*15*	*74,481*	*30,646*
- impairment losses on assets connected with the Kretinga field in Lithuania	*15*	15,504	-
Revaluation of assets held for sale		502	-
Revaluation of other assets		-	264
Provisions		4,001	3,710
Fines and damages		2,255	587
Other		14,965	14,253
Total		**1,090,052**	**337,874**

9.7 Finance costs

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Interest, including:		232,945	207,525
- discount on provisions for oil and gas facilities [(1)]		*12,038*	*11,573*
Foreign exchange losses:		-	234,787
- on foreign-currency denominated bank borrowings		-	*390,914*
- on foreign-currency denominated non-bank borrowings		-	*(95,475)*
- on foreign-currency transactions in bank accounts		-	*(34,112)*
- on debt securities		-	*(15,539)*
- other foreign exchange losses		-	*(11,001)*
Revaluation of financial assets:		-	130,485
- valuation of derivative financial instruments		-	*9,769*
- settlement of derivative financial instruments		-	*120,661*
Bank fees		15,443	19,652
Other		4,790	3,004
Amounts capitalised as part of the cost of qualifying assets	13	(11,299)	(36,191)
Total		**241,879**	**559,262**

[(1)] For more information on the discount related to the estimated provision for oil and gas facilities, see Note 31.1 .

10. Corporate income tax

10.1 Tax expense

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Current income tax	53,593	110,795
Deferred tax	(615,361)	(208,738)
Total income tax charged to consolidated profit or loss	**(561,768)**	**(97,943)**
Income tax expense recognised in other comprehensive income (net), including on:	75,853	(87,363)
- *exchange differences on translating foreign operations*	*(13,864)*	*10,987*
- cash flow hedges	*89,717*	*(98,350)*

For entities operating in Poland, the current and deferred portion of income tax was calculated at the rate of 19% of the corporate income tax base.

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. LOTOS Exploration and Production Norge AS's activities are subject to taxation under two parallel tax systems: the corporate income tax system (28% tax rate) and the petroleum tax system (additional tax rate of 50%).

In the case of Lithuanian subsidiaries of the AB LOTOS Geonafta Group, the current and deferred portion of income tax was calculated at the rate of 15%.

10.2 Corporate income tax calculated at effective tax rate and reconciliation of pre-tax profit to tax base

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Pre-tax profit	361,202	551,379
Income tax at the rate of 19%	**68,628**	**104,762**
Permanent differences	11,599	18,528
Difference related to accounting for step acquisition of control (AB LOTOS Geonafta Group) (1)	(10,972)	(24,013)
Tax effect of tax losses incurred in period	101	1,129
Tax effect of tax losses deducted in period	(1,211)	(1,755)
Tax effect of share in profits of equity-accounted associates	-	(550)
Tax effect of the bio-component tax credit (2)	(5,518)	(6,905)
Tax effect of the special economic zone tax credit (2)	-	4,755
Adjustments disclosed in current year related to tax for previous years	(2,978)	148
Difference resulting from the application of tax rates other than 19%	(623,130)	(193,990)
Norway	*(618,301)*	*(186,569)*
Lithuania	*(1,485)*	*(4,429)*
Cyprus	*(3,341)*	*(2,681)*
Netherlands Antilles	*(3)*	*(311)*
Other differences	1,713	(52)
Corporate income tax	**(561,768)**	**(97,943)**

(1) Data for 2012 refers to the initial accounting for the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 . Data for 2011 refers to the accounting for the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta). For more information on the transaction, see Note 2 to the consolidated financial statements for 2011.
(2) For more information on the tax credits, see Note 31.2 .

10.3 Deferred income tax

The net deferred tax assets (liabilities) before set-off comprise the following items:

	Statement of financial position			Statement of comprehensive income for the year ended	
	Dec 31 2012	**Dec 31 2011**	**Jan 1 2011**	**Dec 31 2012**	**Dec 31 2011**
Deferred tax assets					
Provision for employee benefit obligations	42,715	36,701	34,783	6,014	1,918
Impairment losses on inventories	448	1,877	1,473	(1,429)	404
Impairment losses on property, plant and equipment and other intangible assets	100,679	40,995	23,264	59,684	17,731
Impairment losses on YME field assets	806,962	165,741	-	641,221	165,741
Negative valuation of derivatives	28,905	35,671	52,036	(6,766)	(16,365)
Exchange differences on revaluation of foreign-currency denominated items	80	320	35,985	(240)	(35,665)
Impairment losses on receivables	15,693	17,767	18,011	(2,074)	(244)
Finance lease	32,032	33,765	14,415	(1,733)	19,350
Oil and Gas Facility Decommissioning Fund and provisions for reclamation	28,086	20,746	15,551	7,340	5,195
Unrealised margin assets	3,120	2,382	1,789	738	593
Accrued tax loss carry-forward	986,442	769,794	380,561	216,648	389,233
Other provisions	6,017	6,011	8,997	6	(2,986)
Bio-component tax credit(2)	10,934	15,752	19,964	(4,818)	(4,212)
Special economic zone tax credit (2)	-	-	4,755	-	(4,755)
Cash flow hedge accounting	8,633	98,350	-	(89,717)	98,350
Other	21,263	18,726	18,073	2,537	653
Total	**2,092,009**	**1,264,598**	**629,657**	**827,411**	**634,941**
Deferred tax liabilities					
Difference between present tax value and carrying amount of property, plant and equipment and other intangible assets	1,112,151	815,482	518,132	296,669	297,350
Positive valuation of derivatives	2,159	6,088	13,180	(3,929)	(7,092)
Finance lease	31,814	33,527	16,089	(1,713)	17,438
Exchange differences on translating foreign operations recognised in equity	-	13,864	2,877	(13,864)	10,987

	Statement of financial position			Statement of comprehensive income for the year ended	
	Dec 31 2012	Dec 31 2011	Jan 1 2011	Dec 31 2012	Dec 31 2011
Exchange differences on revaluation of foreign-currency denominated items	34,605	6,312	21,146	28,293	(14,834)
Provision for Lithuanian exploration and production licences acquired	64,032	54,296	-	9,736	54,296
Interest accrued	33,128	16,968	7,927	16,160	9,041
Other	14,975	23,159	13,548	(8,184)	9,611
Total	**1,292,864**	**969,696**	**592,899**	**323,168**	**376,797**
Deferred tax expense				504,243	258,144
Exchange differences on translating foreign operations				*11,654*	*(20,407)*
Assets held for sale, other exchange differences				*-*	*1,599*
Deferred tax disclosed under effect of accounting for step acquisition of control (AB LOTOS Geonafta Group)[(1)]				*23,611*	*56,765*
Deferred tax disclosed under other comprehensive income (net)				*75,853*	*(87,363)*
Deferred tax expense recognised in the consolidated statement of comprehensive income				**615,361**	**208,738**
Net deferred tax assets/(liabilities)	**799,145**	**294,902**	**36,758**		
including:					
Deferred tax assets	*2,092,009*	*1,264,598*	*629,657*		
Deferred tax liabilities	*(1,292,864)*	*(969,696)*	*(592,899)*		

(1) Data for 2012 refers to the initial accounting for the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 2 . Data for 2011 refers to the accounting for the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta). For more information on the transaction, see Note 2 to the consolidated financial statements for 2011.

(2) For more information on the tax credits, see Note 31.2 .

As the Group companies are separate taxpayers, deferred tax (deferred tax assets and deferred tax liabilities) is calculated at each company individually. Deferred tax assets and deferred tax liabilities are offset by the Group companies. Below is presented recognition of the deferred tax assets and liabilities in the consolidated statement of financial position:

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Deferred tax assets	1,121,314	400,128	159,901
Deferred tax liabilities	(322,169)	(105,226)	(123,143)
Net deferred tax assets/(liabilities)	**799,145**	**294,902**	**36,758**

Taxable temporary differences are expected to expire in 2013–2085.

As at December 31st 2012, the amount of tax losses with respect to which no deferred tax assets were recognised in the statement of financial position was PLN 43,101 thousand (December 31st 2011: PLN 69,392 thousand).

11. Earnings per share

	Year ended Dec 31 2012	Year ended Dec 31 2011
Net profit attributable to owners of the Parent (PLN '000) (A)	922,943	648,994
Weighted average number of shares ('000) (B)	129,873	129,873
Earnings per share (PLN) (A/B)	7.11	5.00

Earnings per share for each reporting period are calculated by dividing the net profit for a given reporting period by the weighted average number of shares in the reporting period.

Diluted earnings per share are equal to basic earnings per share since the Group carries no instruments with a dilutive effect.

12. Dividends

On June 28th 2012, the General Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the Company's net profit for 2011. The General Meeting resolved not to distribute the Company's net profit for 2011, totalling PLN 307,670 thousand, to the Company shareholders, and to allocate the profit as follows:

- PLN 307,670 thousand was transferred to the Company's statutory reserve funds,
- PLN 1,500 thousand was transferred to the Special Account designated for financing corporate social responsibility (CSR) projects.

In these consolidated financial statements, the Company presented profit after distribution for 2011 under retained earnings.

As at the date of publication of these consolidated financial statements, the Company's Management Board did not adopt a resolution on distribution of net profit for 2012.

As at December 31st 2012 and December 31st 2011, Grupa LOTOS S.A.'s ability to distribute funds in the form of dividends was restricted. The restrictions followed from the provisions of the credit facility agreement executed on June 27th 2008 for the financing of the 10+ Programme, based on which the dividend amount may be conditional upon fulfilment of specific requirements, including generation of sufficient cash surplus and achievement of financial ratios at prescribed levels.

13. Property, plant and equipment

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Land	428,922	401,744	398,030
Buildings, structures	3,497,440	3,583,780	2,851,534
Plant and equipment	4,244,449	4,441,854	2,535,512
Vehicles, other	491,533	538,102	388,722
Property, plant and equipment under construction	888,829	1,485,902	4,174,319
Exploration and appraisal property, plant and equipment(1)	134,677	72,168	39,365
Total	**9,685,850**	**10,523,550**	**10,387,482**

(1) Including exploration and appraisal assets in the Baltic Sea.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Gross carrying amount Jan 1 2012 (restated)	**414,608**	**4,502,781**	**5,556,750**	**1,032,442**	**1,766,080**	**138,254**	**13,410,915**
Increase:	29,786	127,890	119,695	90,445	345,369	60,721	773,906
- purchase	*-*	*41*	*3,309*	*67,828*	*592,012*	*65,264*	*728,454*
- transfer from property, plant and equipment under construction	*29,782*	*115,937*	*84,385*	*32,758*	*(280,987)*	*-*	*(18,125)*
- acquisition of control (AB LOTOS Geonafta Group)[(1)]	*4*	*16*	*33,138*	*433*	*2,073*	*-*	*35,664*
- exchange differences on translating foreign operations	*-*	*(146)*	*(8,868)*	*(11,392)*	*(36,265)*	*(147)*	*(56,818)*
- reclassification of exploration and appraisal assets[(2)]	*-*	*-*	*4,396*	*-*	*-*	*(4,396)*	*-*
- borrowing costs	*-*	*-*	*-*	*-*	*11,299*	*-*	*11,299*
- assets related to decommissioning of oil and gas facilities	*-*	*11,823*	*959*	*-*	*56,506*	*-*	*69,288*
- other	*-*	*219*	*2,376*	*818*	*731*	*-*	*4,144*
Decrease:	(525)	(6,922)	(38,711)	(29,437)	(13,803)	-	(89,398)
- sale	*(94)*	*(3,723)*	*(6,523)*	*(5,356)*	*(2,693)*	*-*	*(18,389)*
- liquidation	*(429)*	*(3,134)*	*(3,763)*	*(6,738)*	*-*	*-*	*(14,064)*
- exclusion from consolidation (AB LOTOS Geonafta Group)[(1)]	*(2)*	*(8)*	*(25,287)*	*(308)*	*(1,037)*	*-*	*(26,642)*
- other	*-*	*(57)*	*(3,138)*	*(17,035)*	*(10,073)*	*-*	*(30,303)*
Gross carrying amount Dec 31 2012	**443,869**	**4,623,749**	**5,637,734**	**1,093,450**	**2,097,646**	**198,975**	**14,095,423**

[(1)]Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.
[(2)] Intangible exploration and appraisal assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

THE LOTOS GROUP
Consolidated financial statements for 2012
Notes to the financial statements

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Gross carrying amount Jan 1 2011	**409,820**	**3,574,186**	**3,427,961**	**793,722**	**4,247,788**	**102,511**	**12,555,988**
							1,038,048
Increase:	6,553	949,755	2,168,596	279,796	(2,402,395)	35,743	*755,936*
- purchase	-	-	*11,817*	*52,829*	*658,205*	*33,085*	*(47,809)*
- transfer from property, plant and equipment under construction	*6,134*	*941,408*	*2,062,892*	*210,385*	*(3,268,628)*	-	*92,232*
- acquisition of control (AB LOTOS Geonafta Group)[1]	*2*	*1,818*	*81,127*	*591*	*3,701*	*4,993*	*293*
- reclassification from assets held for sale	-	*293*	-	-	-	-	*172,014*
- exchange differences on translating foreign operations	-	*121*	*7,112*	*15,666*	*148,949*	*166*	-
- reclassification of exploration and appraisal assets[2]	-	-	*2,501*	-	-	*(2,501)*	
- borrowing costs	-	-	-	-	*36,191*	-	*36,191*
- assets related to decommissioning of oil and gas facilities	-	*2,967*	*2,269*	-	*19,040*	-	*24,276*
- other	*417*	*3,148*	*878*	*325*	*147*	-	*4,915*
Decrease:	(1,765)	(21,160)	(39,807)	(41,076)	(79,313)	-	(183,121)
- sale	*(346)*	*(187)*	*(5,368)*	*(3,641)*	*(528)*	-	*(10,070)*
- liquidation	*(452)*	*(615)*	*(9,010)*	*(4,465)*	*(469)*	-	*(15,011)*
- reclassification to assets held for sale	*(953)*	*(20,145)*	*(19,219)*	*(2,081)*	*(191)*	-	*(42,589)*
- other	*(14)*	*(213)*	*(6,210)*	*(30,889)*	*(78,125)* [3]	-	*(115,451)*
Gross carrying amount Dec 31 2011 (restated)	**414,608**	**4,502,781**	**5,556,750**	**1,032,442**	**1,766,080**	**138,254**	**13,410,915**

[1] Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.
[2] Intangible exploration and appraisal assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
[3] Relating to discontinued investments (design documentation) in the Company with the use of impairment loss of PLN 69,239 thousand.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Accumulated depreciation							
Jan 1 2012	**12,456**	**902,616**	**1,112,523**	**493,303**	**-**	**-**	**2,520,898**
							-
Increase:	1,575	202,270	279,417	115,554	-	-	598,816
- depreciation	*1,488*	*202,054*	*279,310*	*121,270*	-	-	*604,122*
- exchange differences on translating foreign operations	*-*	*(7)*	*(1,938)*	*(7,697)*	-	-	*(9,642)*
- other	*87*	*223*	*2,045*	*1,981*	-	-	*4,336*
Decrease:	(25)	(2,802)	(15,728)	(8,186)	-	-	(26,741)
- sale	*(25)*	*(1,033)*	*(5,866)*	*(3,406)*	-	-	*(10,330)*
- liquidation	*-*	*(1,740)*	*(3,319)*	*(3,607)*	-	-	*(8,666)*
- exclusion from consolidation (AB LOTOS Geonafta Group)[(1)]	*-*	*-*	*(6,541)*	*(92)*	-	-	*(6,633)*
- other	*-*	*(29)*	*(2)*	*(1,081)*	-	-	*(1,112)*
Accumulated depreciation Dec 31 2012	**14,006**	**1,102,084**	**1,376,212**	**600,671**	**-**	**-**	**3,092,973**
Accumulated depreciation	**11,382**	**718,635**	**892,086**	**404,978**	**-**	**-**	**2,027,081**
Jan 1 2011					-		
	1,398	189,266	252,215	128,041	-	-	570,920
Increase:	*1,398*	*187,300*	*250,040*	*117,003*	-	-	*555,741*
- depreciation	*-*	*264*	*-*	*-*	-	-	*264*
- reclassification from assets held for sale	*-*	*4*	*1,538*	*10,338*	-	-	*11,880*
- exchange differences on translating foreign operations	*-*	*1,698*	*637*	*700*	-	-	*3,035*
- other							
	(324)	(5,285)	(31,778)	(39,716)	-	-	(77,103)
Decrease:	*(22)*	*(49)*	*(5,034)*	*(3,264)*	-	-	*(8,369)*
- sale	*-*	*(204)*	*(7,972)*	*(4,485)*	-	-	*(12,661)*
- liquidation	*(302)*	*(4,979)*	*(12,619)*	*(1,592)*	-	-	*(19,492)*
- reclassification to assets held for sale	*-*	*(53)*	*(6,153)*	*(30,375)*	-	-	*(36,581)*
- other							
Accumulated depreciation	**12,456**	**902,616**	**1,112,523**	**493,303**	**-**	**-**	**2,520,898**
Dec 31 2011					**-**	**-**	

[(1)]Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and appraisal property, plant and equipment	Total
Impairment losses Jan 1 2012 (restated)	**408**	**16,385**	**2,373**	**1,037**	**280,178**	**66,086**	**366,467**
Recognised	940	9,157	15,234	616	943,512	364	969,823
Reclassification to assets held for sale	-	-	-	(390)	-	-	(390)
Exchange differences on translating foreign operations	-	-	-	-	(12,764)	(119)	(12,883)
Reclassification from exploration and appraisal assets(1)	-	-	2,033	-	-	(2,033)	-
Exclusion from consolidation (AB LOTOS Geonafta Group)(2)	-	-	(2,033)	-	-	-	(2,033)
Used / Reversed	(407)	(1,317)	(534)	(13)	(2,109)	-	(4,380)
Other	-	-	-	(4)	-	-	(4)
Impairment losses Dec 31 2012	**941**	**24,225**	**17,073**	**1,246**	**1,208,817**	**64,298**	**1,316,600**
Impairment losses Jan 1 2011	**408**	**4,017**	**363**	**22**	**73,469**	**63,146**	**141,425**
Recognised	-	13,691	2,561	978	259,846 (3)	2,805	279,881
Exchange differences on translating foreign operations	-	-	-	-	16,355	135	16,490
Used / Reversed	-	(1,323)	(571)	(148)	(69,492) (4)	-	(71,534)
Other	-	-	20	185	-	-	205
Impairment losses Dec 31 2011 (restated)	**408**	**16,385**	**2,373**	**1,037**	**280,178**	**66,086**	**366,467**
Net carrying amount Dec 31 2012	**428,922**	**3,497,440**	**4,244,449**	**491,533**	**888,829**	**134,677**	**9,685,850**
Net carrying amount Dec 31 2011 (restated)	**401,744**	**3,583,780**	**4,441,854**	**538,102**	**1,485,902**	**72,168**	**10,523,550**
Net carrying amount Jan 1 2011	**398,030**	**2,851,534**	**2,535,512**	**388,722**	**4,174,319**	**39,365**	**10,387,482**

(1) Exploration and appraisal assets in respect of which technical feasibility and commercial viability of extracting a mineral resource are demonstrable.
(2)Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.
(3) Including impairment losses on assets related to the YME field of PLN 239,775 thousand and impairment losses on expenditure on the IGCC project of PLN 19,352 thousand (the impairment losses on the IGCC project include impairment losses on licences obtained free of charge of PLN 6,468 thousand, referred to in Note 31.2
(4) Relating to discontinued investments (design documentation) in the Company with the use of impairment loss of PLN 69,239 thousand.

The table below presents items under which depreciation of property, plant and equipment was recognised:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Cost of sales	503,547	453,936
Distribution costs	52,025	51,306
Administrative expenses	32,207	32,285
Change in products and adjustments to cost of sales	16,341	18,155
Total	**604,120**	**555,682**

As at December 31st 2012, financing costs capitalised in property, plant and equipment under construction amounted to PLN 43,211 thousand (December 31st 2011: PLN 35,078 thousand).

In 2012, financing costs capitalised in property, plant and equipment under construction amounted to PLN 11,299 thousand (2011: PLN 36,191 thousand).

As at December 31st 2012, the Group's liabilities under executed agreements relating to expenditure on property, plant and equipment amounted to PLN 82,633 thousand.

As at December 31st 2012, the value of property, plant and equipment serving as collateral for the Group's liabilities amounted to PLN 7,150,215 thousand (December 31st 2011: PLN 7,850,904 thousand).

The Group incurs exploration and appraisal expenditure. In 2012, costs of direct purchases of materials and investment services related to exploration and appraisal assets amounted to PLN 66,231 thousand (2011: PLN 12,765 thousand), including direct cash flows from investing activities related to exploration and appraisal assets of PLN 65,263 thousand (2011: PLN 10,843 thousand). As at December 31st 2012, investment commitments amounted to PLN 968 thousand (December 31st 2011: PLN 1,922 thousand).

The Group recognises exploration and appraisal property, plant and equipment until the technical feasibility and commercial viability of extracting a mineral resource is demonstrable. As at December 31st 2012, property, plant and equipment in respect of which the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 109,030 thousand (December 31st 2011: PLN 108,303 thousand); the cost of their depreciation was PLN 7,300 thousand (December 31st 2011: PLN 5,436 thousand). As at the last day of the reporting period, those assets were no longer recognised under exploration and appraisal property, plant and equipment, but under property, plant and equipment used in petroleum production, depreciated using the units-of-production method.

Under property, plant and equipment, the Group recognises the oil and gas facilities decommissioning asset (for more information, see Note 31.1). As at December 31st 2012, the net value of the oil and gas facilities decommissioning asset amounted to PLN 188,523 thousand (December 31st 2011: PLN 133,094 thousand).

In 2012, the Group recognised impairment losses of PLN 969,823 thousand on property, plant and equipment (2011: PLN 279,881 thousand). Those included primarily impairment losses of PLN 935,247 thousand (2011: PLN 239,775 thousand) on assets of LOTOS Exploration and Production Norge AS (upstream segment) related to the YME project, described below in a section devoted to interests in Norwegian production and exploration licences, as well as impairment losses of PLN 22,840 thousand (2011: PLN 15,050 thousand) on assets of LOTOS Asfalt Sp. z o.o related to the Waterproofing Materials Production Plant situated in the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN.

As the time required to achieve the initially assumed sales volumes of finished products proved longer than expected, LOTOS Asfalt Sp. z o.o. tested the assets related to the Waterproofing Materials Production Plant for impairment, which involved an analysis of the discounted cash flows to be generated by the Plant in 2013–2017 based on the following assumptions of gradual growth in sales volumes: 35% in 2013 (relative to 2012), and 10% in 2014–2017 (year on year), taking into account an adjustment for expected inflation at the level of 2.44%–2.74% (in 2014–2017) and weighted average cost of capital of 11.17%. Based on the test results, an impairment loss for the full amount of the assets was recognised.

Information on interests in Norwegian production and exploration licences

The item "Property, plant and equipment under construction" includes expenditure of PLN 1,768m (*NOK 3.184m, translated at the mid-exchange rate as at December 31st 2012*) incurred by LOTOS Exploration and Production Norge AS on the purchase of interests in Norwegian production licences and on development of the YME field, including prepayments of PLN 137m (*NOK 247m, translated at the mid-exchange rate quoted by the National Bank of Poland as at December 31st 2012*).

The Group tested the YME project for impairment as at June 30th 2012 and December 31st 2012. Following the tests, impairment losses were recognised as at June 30th 2012, and no need for recognition of further impairment losses as at December 31st 2012 was identified.

During its execution, the YME project suffered significant delays and cost overruns, and the project is the subject matter of arbitration proceedings involving the contractor responsible for the delivery of the platform. For this reason, the operator of the YME field, Talisman Energy Norge AS, carried out (and concluded in April 2012) further internal and external analyses of the YME project, which resulted in a revision of the project cost estimates and the scheduled completion date. This in turn led to recognition of an impairment loss on the project by the YME field operator. The operator citied the delays in project execution and the need to perform significant work prior to the production launch as the main reasons for recognising the impairment loss. Talisman Energy Norge AS further stated that it continued close cooperation with the project partners and the supplier of the Mobile Offshore Production Unit (the production component of the platform), Single Buoy Moorings Inc. (hereinafter referred to as SBM), with a view to achieving full understanding of the scope of work remaining to be done. However, the operator is also considering other options for completing the development of the YME field.

In light of the information presented above and having identified possible impairment, as at June 30th 2012, the Group tested the assets for impairment based on estimated values in use, using a discounted cash flow analysis of LOTOS Exploration and Production Norge AS's interests in the hydrocarbon reserves held under the acquired production licences covering the YME field development project. Following the impairment test, the Group recognised impairment losses on the YME assets, which brought the amount of the YME project property, plant and equipment under construction to PLN 445m as at June 30th 2012 (*NOK 787m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*).

The YME field impairment test as at June 30th 2012 was carried out assuming a change in crude oil prices by +/-15%/bbl relative to Brent crude spot and forward prices as at June 29th 2012, a +/-15% change on the USD/NOK forward rate as at June 29th 2012, and a +/-15% change in the YME field reserves, and a weighted average cost of capital of 7.5% subject to a 78% marginal tax rate (applicable in Norway).

For the purposes of the test as at June 30th 2012, a scenario was adopted providing for the launch of production in Q3 2015.

Based on such assumptions, it was concluded that as at June 30th 2012 the carrying amount of the assets related to the YME field exceeded the upper limit of the recoverable amount ranges determined, and hence an impairment loss was recognised on the tested asset, of PLN 928m, as at the end of June 2012 (*NOK 1,672m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*), compared with the impairment loss of PLN 256m (*NOK 451m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day*). In the consolidated statement of comprehensive income for 2012, the impairment loss on YME field assets was included in *Other expenses* at PLN 395m *(NOK 1,672m, translated at the average mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012*), compared with PLN 240m *(NOK 451m, translated at the average mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2011*) for 2011. The effect of the impairment loss on net profit for 2012, taking into account the deferred tax effect, was PLN 286m (*NOK 510.4m, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*), compared with the effect of PLN 84.6m (*NOK 159m, translated at the mid-exchange rate quoted by the National Bank of Poland for the period*) on the 2011 net profit.

As discussed in Note 38 (Material events subsequent to the last day of the reporting period), on March 12th 2013, Talisman Energy Norge AS (the YME field operator) and Single Buoy Moorings Inc. (SBM, production platform owner) announced that they reached an agreement concerning removal of the defective platform from the YME field (evacuated since mid-July 2012) and termination of all existing contracts and agreements executed by them in connection with the YME project.

When carrying out an impairment test with respect to assets related to the YME field as at December 31st 2012, in connection with the contemplated possibility for LOTOS Exploration and Production Norge AS to exit the YME field development project, the Group adopted a different approach to testing the recoverable amount of expenditure incurred than the one used in the impairment test performed as at June 30th 2012. The Group calculated the recoverable amount of the assets on the basis of their estimated fair value less cost to sell. For the purpose of determining the price that can be obtained for the interest in the YME field (the realisable value), the value of the assets was calculated on the basis of the proved reserves of crude oil (2P) and the price per unit of reserves in similar market transactions concerning fields with comparable development status, taking into account the tax position. The realisable value thus determined has confirmed the realisability of the YME field assets as shown in the consolidated financial statements as at December 31st 2012, which means that there is no need to recognise any additional impairment.

Moreover, assuming the Group's further involvement in the YME project, the Group carried out a multi-scenario analysis of the YME field development based on various levels of investment expenditure and operating costs, and various production start dates. Analyses of the value in use confirmed the results of the test based on estimates of fair value of the YME project less cost to sell.

The total value of impairment losses as at December 31st 2012 adjusts the value of expenditure related to the YME project by PLN 1,179m *(NOK 2,123m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day).* As at the reporting date, the amount of expenditure on property, plant and equipment under construction related to the YME field, net of impairment, was PLN 589m *(NOK*1,061*m, translated at the mid-exchange rate quoted by the National Bank of Poland for that day)*.

Taking into consideration the impairment losses recognised on the capital expenditure on the YME field, as well as earlier tax losses deductible in future periods, in the consolidated statement of financial position as at December 31st 2012, the Group recognised a deferred tax asset totalling PLN 1,077m (*NOK 1,939m, translated at the mid-exchange rate quoted by the National*

Bank of Poland for that day). Based on the completed analyses and obtained legal opinions, and taking into consideration the Norwegian tax legislation, which does not impose any time limit for settling deductible tax losses, the Group believes that the deferred tax asset recognised as at December 31st 2012 is fully recoverable in the nominal amount disclosed in these consolidated financial statements.

Due to high market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to reasonable changes, as a result of which it may be necessary to further reduce the carrying amount of the YME project assets due to the fact that it will exceed their recoverable amount. Therefore, the Management Board points out to a number of uncertainties as to the recoverable amount of the assets recognised in connection with the YME field, including.

- Volatility in market prices of crude oil;
- Estimated size and market value of the recoverable hydrocarbon reserves in the YME field depending on the Plan for Development and Operation of the field;
- Estimated fair value of tax assets taken into account in the impairment test of the YME field made as at the end of the year;
- Amount of reclamation liabilities taken over together with the SBM's sub-sea infrastructure under the settlement reached on March 11th 2013 between the YME project operator and SBM, referred to in Note 38.
- Date of commencement of production from the YME field, if any;
- NOK/USD exchange rate fluctuations;
- Discount rates.

Prospects for development of the B-4 and B-6 gas fields

Since 2010, impairment losses have been recognised for the full amount of expenditure incurred by LOTOS Petrobaltic S.A. on gas exploration at the B-4 and B-6 fields, including PLN 593 thousand (December 31st 2011: PLN 593 thousand) recognised under property, plant and equipment under construction, and PLN 48,672 thousand (December 31st 2011: PLN 48,308 thousand) recognised under exploration and appraisal assets. According to the findings of analyses performed with respect to the B-4 and B-6 fields, significant capital expenditure was required to obtain commercial production of hydrocarbons and ensure that the development of the B-4 and B-6 fields is profitable. Therefore, LOTOS Petrobaltic S.A. took measures to find an industry partner to continue the project. In October 2012, LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. executed a cooperation agreement on the development of the B-4 and B-6 fields. The agreement is subject to a number of conditions precedent. The project provides for joint operations carried out through a special purpose vehicle. Under the preparatory work schedule, seismics acquisition and selection of a preliminary field development concept are scheduled for 2013–2014. On completion of that stage, the partners will be able to make a final investment decision concerning the development of the B-4 and B-6 fields.

14. Goodwill

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Carrying amount of goodwill arising on the acquisition of:			
- LOTOS Partner Sp. z o.o.	1,862	1,862	1,862
- Energobaltic Sp. z o.o.	1,126	1,126	1,126
Total	**2,988**	**2,988**	**2,988**
Carrying amount of goodwill arising on the acquisition of an organised part of business:			
- LOTOS Gaz S.A. (1)	10,009	10,009	10,009
- ESSO service stations network (2)	31,759	31,759	31,759
- Slovnaft Polska service stations network (2)	1,932	1,932	1,932
Total	**43,700**	**43,700**	**43,700**
Total goodwill	**46,688**	**46,688**	**46,688**

(1) The goodwill relates to an organised part of LOTOS Gaz S.A.'s business (wholesale of fuels) acquired by LOTOS Paliwa Sp. z o.o.

(2) The goodwill relates to ExxonMobile Poland and Slovnaft Polska service station networks acquired by LOTOS Paliwa Sp. z o.o. The Group determines the recoverable amount of goodwill for the service station networks acquired from ExxonMobile Poland and Slovnaft Polska based on their values in use, using the discounted cash flow method. Future cash flows were calculated based on five-year cash-flow projections. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 1.94% (2011: 1.84%) was used to extrapolate cash-flows projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2015. To test goodwill for impairment, the Group assumed net weighted average cost of capital (WACC) of 7.53% (2011: 8.73%). Discounted cash flows calculated separately for each cash-generating unit were grossed up.

As at December 31st 2012 and December 31st 2011, the Group carried out impairment tests of goodwill allocated to individual cash-generating units. No impairment losses on the goodwill were recognised as at December 31st 2012 and December 31st 2011 (no need to recognise impairment losses was identified following the impairment tests performed).

15. Other intangible assets

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Licences, patents and trademarks	91,286	86,664	49,123
Exploration and production licences (1)	426,882	361,975	-
Intangible exploration and appraisal assets (2)	15,356	17,413	33,828
Other	10,944	9,528	11,874
Total	**544,468**	**475,580**	**94,825**

(1) Exploration and production licences related to oil fields in Lithuania.

(2) Including Norwegian licences for exploration on the North Sea of PLN 13,896 thousand (December 31st 2011: PLN 15,176 thousand) and licences for exploration on the Baltic Sea of PLN 771 thousand (December 31st 2011: PLN 1,024 thousand).

The Group incurs expenditure on intangible exploration and appraisal assets. In 2012, cash flows related to expenditure on intangible exploration and appraisal assets amounted to PLN 73,714 thousand (2011: PLN 12,114 thousand).

The Group recognises intangible exploration and appraisal assets until the technical feasibility and commercial viability of extracting a mineral resource is demonstrable. As at December 31st 2012, intangible assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 430,755 thousand (December 31st 2011: PLN 365,895 thousand); the cost of their amortisation was PLN 49,869 thousand (2011: PLN 39,981 thousand).

In 2012, the Group recognised impairment losses on intangible assets in the amount of PLN 88,985 thousand (2011: PLN 30,646 thousand), which related to Latvian exploration and production licences and Norwegian exploration licences, as discussed in more detail below. The impairment losses on the intangible assets were charged to the upstream segment and recognised under *"Operating profit/(loss) (EBIT)"* in Note 8.

As drillings under the PL 498 and PL 497 licences produced no positive results, impairment losses on capitalised costs of exploration work related to the licences were recognized in amount PLN 74,481 thousand *(NOK 133,145 thousand, translated at the average NOK/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012)*. In 2011, the impairment losses amounted to PLN 30,646 thousand and related to licence PL 455 *(NOK 57,660 thousand, translated at the average NOK/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2011)*.

The remeasurement of the intangible assets related to the Lithuanian licences followed mainly from the disclosure of new geological information which reduced the reserve estimates. Following impairment tests performed separately for each asset generating independent cash flows, i.e. for the Girkaliai, Kretinga and Nausodis fields, impairment losses of PLN 14,504 thousand *(LTL 12,000 thousand, translated at the average LTL/PLN mid-exchange rate quoted by the National Bank of Poland for the reporting period ended December 31st 2012)* were recognised on assets related to the Kretinga field.

Production profiles based on the current field reports prepared by an independent industry adviser were used in the calculations of future cash flows (the assets tested for impairment generate cash flows from production of crude oil; production profiles determine the period of detailed cash flow projections for each field). The analysed cash flows in the production periods included revenue from sale of crude oil, operating expenses and capital expenditure necessary to conduct production activities, and the calculated cash flows were discounted in order to show the present value of future payments. The applied discount rate was based on the weighted average cost of capital after tax, estimated at 11%. As the financial effects of production from a given oil field show high sensitivity to changes in the prices of crude oil, and the prices are highly volatile, the Group applied a range approach to testing the value of its fields, allowing for the volatility of the following parameters: crude oil price: +/- 15%, output volumes: +/- 15%, USD/LTL exchange rate: +/- 15%, in order to avoid remeasurement of assets after every change in the prices. The tests which were carried out revealed that, as at December 31st 2012, the carrying amount of the Girkaliai and Nausodis fields fell within the ranges determined by the range test. In the case of the Kretinga field, the carrying amount of the tested assets was higher than the field's range measurement values, which led to the recognition of impairment losses on the assets.

Changes in other intangible assets

PLN '000	Licences, patents and trademarks	Exploration and production licences	Intangible exploration and appraisal assets	Other	Total
Gross carrying amount					
Jan 1 2012	**150,007**	**403,716**	**87,880**	**29,834**	**671,437**
(restated)					
Increase:	15,698	147,312	71,425	3,421	237,856
- purchase	*180*	-	*73,526*	*805*	*74,511*
- transfer from property, plant and equipment under construction	*15,518*	-	*188*	*2,419*	*18,125*
- acquisition of control (AB LOTOS Geonafta Group)(1)	-	*180,472*	-	-	*180,472*
- exchange differences on translating foreign operations	-	*(33,160)*	*(2,289)*	*(80)*	*(35,529)*
- other	-	-	-	*277*	*277*
Decrease:	(2,079)	(28,042)	-	(277)	(30,398)
- sale	-	-	-	*(2)*	*(2)*
- liquidation	*(584)*	-	-	*(270)*	*(854)*
- exclusion from consolidation (AB LOTOS Geonafta Group)(1)	-	*(28,042)*	-	-	*(28,042)*
- other	*(1,495)*	-	-	*(5)*	*(1,500)*
Gross carrying amount					
Dec 31 2012	**163,626**	**522,986**	**159,305**	**32,978**	**878,895**
Gross carrying amount					
Jan 1 2011	**103,134**	**-**	**67,306**	**30,432**	**200,872**
Increase:	46,971	403,716	21,176	1,088	472,951
- purchase	-	-	*12,739*	*302*	*13,041*
- transfer from property, plant and equipment under construction	*47,068*	-	*456*	*382*	*47,906*
- acquisition of control (AB LOTOS Geonafta Group)(2)	-	*378,436*	-	*106*	*378,542*
- exchange differences on translating foreign operations	-	*25,280*	*7,884*	*270*	*33,434*
- reclassification of exploration and appraisal assets(3)	*(97)*	-	*97*	-	-
- other	-	-	-	*28*	*28*
Decrease:	(98)	-	(602)	(1,686)	(2,386)
- sale	-	-	-	*(14)*	*(14)*
- liquidation	*(14)*	-	*(602)*	*(957)*	*(1,573)*
- reclassification to assets held for sale	*(15)*	-	-	*(683)*	*(698)*
- other	*(69)*	-	-	*(32)*	*(101)*
Gross carrying amount					
Dec 31 2011					
(restated)	**150,007**	**403,716**	**87,880**	**29,834**	**671,437**
Accumulated amortisation					
Jan 1 2012	**63,340**	**41,741**	**6,156**	**20,280**	**131,517**
(restated)					
Increase:	10,309	45,133	965	2,005	58,412
- amortisation	*10,309*	*49,142*	*965*	*2,054*	*62,470*
- exchange differences on translating foreign operations	-	*(4,009)*	-	*(56)*	*(4,065)*
- other	-	-	-	*7*	*7*
Decrease:	(1,312)	(4,978)	-	(277)	(6,567)
- sale	-	-	-	*(2)*	*(2)*
- liquidation	*(584)*	-	-	*(270)*	*(854)*
- exclusion from consolidation (AB LOTOS Geonafta Group)(1)	-	*(4,978)*	-	-	*(4,978)*
- other	*(728)*	-	-	*(5)*	*(733)*
Accumulated amortisation					
Dec 31 2012	**72,337**	**81,896**	**7,121**	**22,008**	**183,362**

(1) Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.
(2) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.
(3) Intangible exploration and appraisal assets in respect of which the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

PLN '000	Licences, patents, and trademarks	Exploration and production licences	Intangible exploration and appraisal assets	Other	Total
Accumulated amortisation					
Jan 1 2011	**54,008**	**-**	**5,261**	**18,455**	**77,724**
Increase:	9,362	41,741	1,497	3,150	55,750
- amortisation	*9,362*	*39,127*	*1,497*	*2,940*	*52,926*
- exchange differences on translating foreign operations	-	*2,614*	-	*181*	*2,795*
- other	-	-	-	*29*	*29*
Decrease:	(30)	-	(602)	(1,325)	(1,957)
- sale	-	-	-	*(12)*	*(12)*
- liquidation	*(15)*	-	*(602)*	*(881)*	*(1,498)*
- reclassification to assets held for sale	*(15)*	-	-	*(400)*	*(415)*
other	-	-	-	(32)	(32)
Accumulated amortisation Dec 31 2011 (restated)	**63,340**	**41,741**	**6,156**	**20,280**	**131,517**
Impairment losses					
Jan 1 2012	**3**	**-**	**64,311**	**26**	**64,340**
Recognised	-	14,504	74,481	-	88,985
Exchange differences on translating foreign operations	-	(296)	(1,964)	-	(2,260)
Impairment losses Dec 31 2012	**3**	**14,208**	**136,828**	**26**	**151,065**
Impairment losses					
Jan 1 2011	**3**	**-**	**28,217**	**103**	**28,323**
Recognised	-	-	30,646	-	30,646
Exchange differences on translating foreign operations	-	-	5,448	-	5,448
Used / Reversed	-	-	-	(77)	(77)
Impairment losses Dec 31 2011	**3**	**-**	**64,311**	**26**	**64,340**
Net carrying amount Dec 31 2012	**91,286**	**426,882**	**15,356**	**10,944**	**544,468**
Net carrying amount Dec 31 2011 (restated)	**86,664**	**361,975**	**17,413**	**9,528**	**475,580**
Net carrying amount Jan 1 2011	**49,123**	**-**	**33,828**	**11,874**	**94,825**

The table below presents items under which amortisation of other intangible assets was recognised:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Cost of sales	51,392	42,489
Distribution costs	1,380	1,332
Administrative expenses	9,590	8,907
Change in products and adjustments to cost of sales	108	198
Total	**62,470**	**52,926**

16. Investments in equity-accounted associates

As at December 31st 2012 and December 31st 2011, the Group carried no investments in associates. Until February 3rd 2011, the Group held a 40.59% interest in AB LOTOS Geonafta (parent of another group) (1). On February 3rd 2011, the Group acquired 100% of shares in UAB Meditus, which holds a 59.41% interest in AB LOTOS Geonafta. As a result of the transaction, the Group gained control of AB LOTOS Geonafta. The final accounting for the business combination was presented in Note 2 to the consolidated financial statements for 2011, prepared in accordance with the IFRS. Until the business combination date, the Group's share in net assets of AB LOTOS Geonafta was PLN 93,064 thousand, and its share in the company's net profit (loss) stood at PLN 2,896 thousand.

(1) AB LOTOS Geonafta includes the following companies in consolidation: UAB Geňciu Nafta, UAB Manifoldas and UAB Minijos Nafta.

17. Assets held for sale

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Non-current assets held for sale (1)	2,428	1,797	6,012
Assets of related entities held for sale	-	107,327 (2)	1,899
including:			
Property, plant and equipment	-	*22,280*	*6*
Inventories	-	*24,728*	-
Trade receivables	-	*55,367*	*711*
Other assets	-	*4,952*	*1,182*
Total assets held for sale	**2,428**	**109,124**	**7,911**
Liabilities directly associated with assets of related entities held for sale	-	40,398 (2)	173
including:			
Trade and other payables, other liabilities and provisions	-	*19,539*	*173*
Bank borrowings	-	*20,859*	-
Total liabilities directly associated with assets held for sale	**-**	**40,398**	**173**

(1) As at December 31st 2012, non-current assets held for sale recognised by the Group included: boats, dwelling unit with attached land property, plant and equipment for processing of plastics (December 31st 2011: dwelling unit with attached land property, real property accommodating a gas bottling plant).

(2) Assets connected with LOTOS Parafiny Sp. z o.o., which was sold in January 2012 (see Note 2).

As at December 31st 2012, assets held for sale are presented in the upstream segment at PLN 1,658 thousand, and in the downstream segment at PLN 770 thousand (December 31st 2011: PLN 697 thousand and PLN 108,427 thousand, respectively).

18. Trade receivables and other assets

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Financial assets			
Non-current financial assets			
Other financial assets:	90,198	117,404	63,303
Security deposits receivable	*28,555*	*20,919*	*12,594*
Finance lease receivables	*6,180*	*3,564*	*4,599*
Other receivables	*7,063*	*8,830*	*11,419*
Shares	*9,756*	*9,746*	*9,915*
Oil and Gas Facility Decommissioning Fund[1]	*27,481*	*24,491*	*21,668*
Deposits[2]	-	*38,106*	-
Security deposits (margins) [3]	*11,163*	*11,748*	*3,108*
Total	**90,198**	**117,404**	**63,303**
Current financial assets			
Trade receivables, including:	1,640,360	2,075,562	1,740,890
- from related entities	*2,507*	*90*	-
Other financial assets:	173,238	119,789	26,168
Security deposits receivable	*10,483*	*7,998*	*4,896*
Other	*21,872*	*21,555*	*15,340*
Deposits[2]	*122,563*	*40,565*	*5,932*
Cash blocked in bank accounts)	*18,320* [4]	*49,671* [4],[5]	-
Total	**1,813,598**	**2,195,351**	**1,767,058**
Total financial assets	**1,903,796**	**2,312,755**	**1,830,361**
Non-financial assets			
Non-current non-financial assets			
Prepayments for lease of railway locomotives	8,990	-	
Other	8,044	6,789	-
			7,379
Total	**17,034**	**6,789**	**7,379**
Current non-financial assets			
Receivables from the state budget other than income tax [6]	167,932	52,858	39,914
Property and other insurance	39,207	31,015	24,070
Prepayments for lease of railway locomotives	2,336	-	-
Joint venture receivables (Norwegian deposits)	41,756	50	-
Other[7]	37,632	42,987	29,515
Total	**288,863**	**126,910**	**93,499**
Total non-financial assets	**305,897**	**133,699**	**100,878**
Total	**2,209,693**	**2,446,454**	**1,931,239**
including:			
non-current	*107,232*	*124,193*	*70,682*
current	*2,102,461*	*2,322,261*	*1,860,557*

[1] Cash deposited in the bank account of the Oil and Gas Facility Decommissioning Fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) to cover future costs of decommissioning of oil and gas facilities, referred to in Note 31.1.

[2] "Deposits" include primarily deposits of the Parent:

- deposits of PLN 83,826 thousand (December 31st 2011: PLN 38,106 thousand), comprising funds earmarked for the financing of an overhaul shutdown planned for 2013, as provided for in the credit facility agreements executed to finance the 10+ Programme, referred to on Note 28.1.
- deposits of PLN 11,432 thousand (December 31st 2011: PLN 7,874 thousand), serving as security for payment of interest on an inventory financing facility, referred to in Note 28.1.

- deposits of PLN 27,244 thousand (December 31st 2011: PLN 32,623 thousand), serving as security for payment of interest on credit facilities contracted to finance the 10+ Programme, referred to in Note 28.1.

(3) Including security deposit provided by the Parent as margin to BNP Paribas Bank Polska to enable execution of transactions on the ICE Futures Internet platform, in the amount of PLN 11,163 thousand (December 31st 2011: PLN 11,748 thousand margin placed with Marex Financial, a brokerage firm).

(4) Cash of PLN 18,320 thousand blocked in LOTOS Paliwa Sp. z o.o.'s bank account by a court enforcement officer in connection with court proceedings concerning WANDEKO.

(5) Blocked cash, including:

- cash of PLN 26,169 thousand, representing AB LOTOS Geonafta's liabilities under the acquisition of shares in UAB Meditus. The amount of the liabilities was held in an escrow account to secure AB LOTOS Geonafta's potential claims against the selling shareholders. The amount was paid in full on February 3rd 2012.
- cash of PLN 5,182 thousand held by the LOTOS Petrobaltic Group, serving as security for payment of interest on credit facilities; the amount was released following repayment of the facilities.

(6) Including value added tax of PLN 165,152 thousand (December 31st 2011: 42,236 thousand).

(7) Including excise duty of PLN 29,678 thousand due to inter-warehouse transfers at Grupa LOTOS S.A. (December 31st 2011: PLN 33,620 thousand).

The payment period for trade receivables in the ordinary course of business is 7 - 35 days.

As at December 31st 2012 and December 31st 2011, the Group's receivables were not subject to any assignment by way of security for the Group's liabilities.

Financial instruments are described in Note 7.23. The financial risk management objectives and policies are described in Note 33.

Maximum exposure to credit risk arising from financial assets as at December 31st 2012 and December 31st 2011 is presented in Note 33.6.

For sensitivity analysis of financial assets with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 33.3.1.

For sensitivity analysis of financial assets with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 33.4.1.

18.1 Change in impairment losses on receivables

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011	
At beginning of the period	**195,646**	**182,354**	
Recognised(1)	11,325	14,438	
Acquisition of control (AB LOTOS Geonafta Group)	-	16,707	(2)
Exchange differences on translating foreign operations	(1,025)	1,116	
Used	(20,179)	(12,063)	
Reversed(3)	(8,615)	(6,325)	
Reclassification to assets held for sale	-	(581)	
At end of the period	**177,152**	**195,646**	
including:			
non-current	-	*17,236*	
current	*177,152*	*178,410*	

(1) Including PLN 3,006 thousand charged to other expenses (2011: PLN 11,053 thousand) and PLN 1,416 thousand (2011: PLN 412 thousand) reducing finance income on interest.

(2) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

(3) Including PLN 8,018 thousand charged to other income (2011: PLN 4,151 thousand).

The table below presents the age structure of past due receivables for which no impairment losses were recognised.

PLN '000	Dec 31 2012	Dec 31 2011
Up to 1 month	81,742	104,255
From 1 to 3 months	11,932	10,051
From 3 to 6 months	4,800	1,057
From 6 months to 1 year	2,275	4,106
Over 1 year	5,357	4,888
Total	**106,106**	**124,357**

As at December 31st 2012, the share of trade receivables from the Group's four largest customers as at the end of the reporting period represented 20.94% of total trade receivables (December 31st 2011: a 14.59% share of three largest customers). In the Group's opinion, with the exception of receivables from the above-mentioned customers, there is no material concentration of credit risk.

Concentration of risk relating to the Group's trading activities is limited as the Group enters into transactions with a large number of customers.

18.2 Finance lease receivables

The Group has developed and implemented the "LOTOS Family" Franchise Programme, which defines the procedures for managing service stations. The Group has entered into franchise agreements with entities operating service stations at their own risk and for their own account (Partners). Receivables under franchise agreements represent mainly expenditure on the design of DOFO service stations operated by dealers under 5-10 year agreements.

PLN '000	Minimum lease payment		Present value of minimum lease payments	
	Dec 31 2012	**Dec 31 2011**	**Dec 31 2012**	**Dec 31 2011**
Up to 1 year [(1)]	2,716	1,942	2,683	1,914
From 1 to 5 years	5,970	3,526	5,896	3,475
Over 5 years	288	90	284	89
Total	**8,974**	**5,558**	**8,863**	**5,478**
Less unrealised finance income	(111)	(80)	-	-
Present value of minimum lease payments	**8,863**	**5,478**	**8,863**	**5,478**
Non-current			*6,180*	*3,564*
Current			*2,683*	*1,914*

[(1)] Present value of minimum lease payments is disclosed under *Trade receivables.*

19. Inventories

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Finished products	1,800,351	1,544,783	1,171,917
Semi-finished products and work in progress	751,935	623,582	449,497
Merchandise	256,875	238,397	251,531
Materials	3,156,544	3,449,078	2,633,846
Total	**5,965,705**	**5,855,840**	**4,506,791**

As at December 31st 2012, the value of inventories serving as collateral for the liabilities under the Parent's inventory refinancing facility referred to in Note 28.1 was PLN 4,983,260 thousand (December 31st 2011: PLN 5,048,329 thousand).

19.1 Change in impairment losses on inventories

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At beginning of the period	**11,437**	**7,586**
Recognised	12,880	5,527
Acquisition of control (AB LOTOS Geonafta Group)	-	1,002
Exchange differences on translating foreign operations	(85)	76 (1)
Used	(5,269)	(769)
Reversed	(16,670) (2)	(718)
Reclassification to assets held for sale	-	(1,267)
At end of the period	**2,293**	**11,437**
including:		
Finished products	*332*	*4,592*
Semi-finished products and work in progress	*40*	*58*
Merchandise	*29*	*42*
Materials	*1,892*	*6,745*

(1) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.
(2) Including PLN 4,820 thousand from reversal of impairment losses on materials following their use for own needs or reclassification in view of an overhaul shutdown at Grupa LOTOS S.A. planned for 2013.

The effect of revaluation of inventories is included in cost of sales.

19.2 Mandatory reserves

Grupa LOTOS S.A. complies with the mandatory reserves regulations effective since April 7th 2007, which were introduced by virtue of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on the Rules to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market of February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007, as amended). The Act defines the rules for creating, maintaining and financing reserves of crude oil and petroleum products. The mandatory reserves include crude oil, petroleum products (liquid fuels) and LPG. As at December 31st 2012, the gross value of mandatory reserves was PLN 4,353.207 thousand (December 31st 2011: PLN 4,427,752 thousand).

20. Cash and cash equivalents

PLN '000	Dec 31 2012	Dec 31 2011	Dec 31 2010
Cash at bank	267,682	380,668	381,995
Cash in hand	362	322	273
Other cash	289	2,690	333
Total	**268,333**	**383,680**	**382,601**

Cash at banks bears interest at variable rates set on the basis of short-term interest rates prevailing on the interbank market. Short-term deposits are placed for various maturities, ranging from one day to one month, depending on the Group's current cash requirement, and bear interest at the interest rates set for them.

As at December 31st 2012, the amount of undrawn funds available to the Group under working capital facilities in respect of which all conditions precedent had been fulfilled (including the working capital facility provided by Bank Syndicate (4); see Note 28) was PLN 764,086 thousand (December 31st 2011: PLN 1,621,940 thousand).

As at December 31st 2012, cash in bank accounts serving as security for the LOTOS Group's liabilities amounted to PLN 1,484 thousand (December 31st 2011: PLN 772 thousand).

21. Cash structure in the statement of cash flows

PLN '000	Dec 31 2012	Dec 31 2011
Cash and cash equivalents	268,333	383,680
Overdraft facilities	(508,988)	(222,128)
Total	**(240,655)**	**161,552**

Causes of differences between changes in certain items as shown by the statement of financial position and as shown by the statement of cash flows

Trade receivables	**Note**	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
PLN '000			**(restated)**
Change in trade receivables		435,202	(334,672)
Change in the Group structure		14,650	17,380
Reclassification to assets held for sale	17	-	(55,367)
Change in trade receivables in the statement of cash flows		449,852	(372,659)

Other assets	**Note**	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
PLN '000			**(restated)**
Change in other non-current and current assets in the statement of financial position		(198,440)	(183,919)
Change in investment property		977	-
Change in other financial assets		23,617	79,507
Change in investment receivables		654	(1,531)
Change in receivables from sale of shares		(400)	400
Set-off of current income tax payables against VAT receivables		(26,436)	(29,413)
Change in commission fees on revolving facilities, amortised over time		(365)	(1,754)
Change in the Group structure		62	4,685
Reclassification to assets held for sale		-	(2,840)
Other		(836)	(3,308)
Change in receivables in the statement of cash flows		(201,167)	(138,173)

Inventories PLN '000	**Note**	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Change in inventories in the statement of financial position		(109,865)	(1,349,049)
Change in the Group structure		868	16,590
Reclassification to assets held for sale	17	-	(24,728)
Other		214	4,279
Change in inventories in the statement of cash flows		(108,783)	(1,352,908)

Trade and other payables PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011 (restated)**
Change in trade and other payables in the statement of financial position	(642,982)	989,197
Change in the Group structure	(1,217)	(21,306)
Reclassification to assets held for sale	-	15,783
Change in trade and other payables in the statement of cash flows	(644,199)	983,674

Other liabilities and provisions PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011 (restated)**
Change in other liabilities and provisions in the statement of financial position	(88,552)	288,724
Change in provision for Offshore Oil and Gas Facilities	(75,363)	(29,374)
Adjustment for deposits earmarked for repayment of bank borrowings	(14,185)	(168,346)
Change in investment commitments	(42,343)	16,955
Change in liabilities related to acquisition of debt claims	-	38,793
Change in liabilities related to acquisition of shares	40,699	(15,363)
Set-off of current income tax assets against VAT liabilities	76,613	7,562
Grants received	-	(2,211)
Adjustment for cash earmarked for acquisition of shares	26,169	(26,169)
Change in the Group structure	6,899	(66,030)
Reclassification to assets held for sale	-	3,669
Other	(2,346)	713
Change in liabilities and accruals and deferred income in the statement of cash flows	(72,409)	48,923

Cash and cash equivalents PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Change in cash and cash equivalents in the statement of financial position	(115,347)	1,079
Change in interest-bearing overdraft facilities	(286,860)	42,240
Change in cash in the statement of cash flows	(402,207)	43,319

Causes of differences between items disclosed in the notes to the financial statements and items of the statement of cash flows

Depreciation and amortisation PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Depreciation/amortisation disclosed in change in property, plant and equipment and intangible assets	666,592	608,667
Depreciation directly related to expenditure on tangible assets under construction	(2)	(59)
Depreciation/amortisation disclosed in the statement of cash flows	666,590	608,608

Purchase of property, plant and equipment and intangible assets PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011 (restated)**
Purchase of property, plant and equipment and other intangible assets disclosed in change in property, plant and equipment and intangible assets	(802,965)	(769,074)
Change in investment commitments	54,077	(22,895)
Acquisition of tangible assets under a lease agreement	(15,015)	110,955
Other	5,978	3,019
Purchase of property, plant and equipment and intangible assets disclosed in the statement of cash flows	(757,925)	(677,995)

22. Share capital

As at December 31st 2012 and December 31st 2011, the share capital comprised 129,873,362 ordinary shares with a par value of PLN 1 per share, fully paid-up. Each share confers the right to one vote at the General Meeting and carries the right to dividend.

23. Share premium

Share premium as at December 31st 2012 and December 31st 2011 amounted to PLN 1,320,773 thousand and comprised the excess of the issue price over the par value of shares, net of costs directly attributable to the share issue, adjusted for corporate income tax in the amount of PLN 9,425 thousand.

24. Cash flow hedging reserve

Cash flow hedging reserve comprises changes in the valuation of foreign-currency denominated credit facilities used as hedging instruments to hedge cash flows, less the effect of corporate income tax. In H2 2012, the Company extended the scope of application of cash flow hedge accounting through the establishment of new hedging relationships with respect to foreign-currency denominated credit facilities intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
At beginning of the period	**(419,281)**	**(739)**
Valuation of cash flow hedging instruments	472,197	(516,892)
Corporate income tax relating to the valuation of cash flow hedging instruments	(89,717)	98,350
At end of the period	**(36,801)**	**(419,281)**

25. Retained earnings

Retained earnings comprise capital reserves created and used in accordance with the rules stipulated by the applicable laws and provisions of the Articles of Association, as well as current period's profit.

As at December 31st 2012 and December 31st 2011, Grupa LOTOS S.A.'s ability to distribute funds in the form of dividends was restricted. For more information see Note 12.

25.1 Restricted ability of subsidiaries of the LOTOS Group to transfer funds to the Parent in the form of dividends

In 2011 and 2012, the ability of subsidiaries of the LOTOS Group to transfer funds to Grupa LOTOS S.A. in the form of dividends was restricted due to the following arrangements:

- The agreement concluded on December 16th 2004 by LOTOS Paliwa Sp. z o.o. with Bank Pekao S.A. and PKO BP S.A. imposes restrictions on the amount of surplus cash generated by LOTOS Paliwa Sp. z o.o. in a financial year that may be allocated to dividend payment, setting specific ratios which must be met.

- At AB LOTOS Geonafta, there are restrictions on dividend payment under credit facility agreements of April 5th and September 27th 2012, which make such payment conditional upon the bank's prior consent.

- At LOTOS Exploration and Production Norge AS, there are restrictions on dividend payment under a credit facility agreement of December 17th 2010. The agreement imposes restrictions on dividend payment if such payment could - in the bank's reasonable opinion - put at risk the company's ability to repay the facility in a timely manner.

- The provisions of the credit facility agreement executed on December 14th 2010 by Nordea Bank Polska and Nordea Bank Finland with AB LOTOS Geonafta (formerly AB LOTOS Baltija) and LOTOS Petrobaltic S.A. as the guarantor imposed restrictions on the amount of surplus cash generated by LOTOS Petrobaltic S.A. in a financial year that may be allocated to dividend payment, making it contingent on meeting specific financial ratios computed based on the financial statements of LOTOS Petrobaltic S.A. On April 16th 2012, the credit facility was repaid.

As at December 31st 2012, restrictions on dividend payments were imposed on the following companies:
LOTOS Paliwa Sp. z o.o., AB LOTOS Geonafta and LOTOS Exploration and Production Norge AS.

26. Translation reserve

Translation reserve comprises exchange differences resulting from the translation into the Polish złoty of the financial statements of foreign companies and groups of companies, less the effect of corporate income tax.

PLN '000	Year ended Dec 31 2012		Year ended Dec 31 2011
At beginning of the period	**59,100**		**12,281**
Currency-translation differences	(39,062)	(1)	57,806
Corporate income tax relating to currency-translation differences	13,864		(10,987)
At end of the period	**33,902**		**59,100**

(1) Including PLN (686) thousand attributable to exclusion from consolidation of 50% equity interest previously held by the Group in UAB Manifoldas, a Lithuanian company, which started to be consolidated with the full method as of February 28th 2012 after the Group acquired control over it. For more information on the acquisition of control over UAB Manifoldas, see Note 2.

27. Non-controlling interests

PLN '000	Year ended Dec 31 2012		Year ended Dec 31 2011	
At beginning of the period	**947**		**14,658**	
Share in profit/(loss)	*27*		*328*	
Share in other comprehensive income (net)	*(14)*		*29*	
Share in total comprehensive income	13		357	
Changes in the structure of non-controlling interests	-		(214)	
Sale of shares to the Parent	(261)	(1)	(13,854)	(2)
At end of the period	**699**		**947**	

(1) Shares of LOTOS Petrobaltic S.A., see Note 2.
(2) Shares of LOTOS Jasło S.A., LOTOS Czechowice S.A. and LOTOS Petrobaltic S.A.

28. Borrowings, other debt instruments and finance lease liabilities

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Bank borrowings	6,373,535	7,368,073	6,293,802
Non-bank borrowings	17,056	23,556	32,992
Notes	-	-	52,670
Finance lease liabilities	166,109	197,000	74,255
Total	**6,556,700**	**7,588,629**	**6,453,719**
including:			
non-current	*4,462,098*	*5,161,474*	*4,475,012*
current	*2,094,602*	*2,427,155*	*1,978,707*

28.1 Borrowings

Borrowings as at December 31st 2012, by currency and by maturity

PLN '000	EUR	USD	PLN	Total
2013	16,712	1,818,861	239,419	2,074,992
2014	2,409	415,753	74,553	492,715
2015	2,409	444,706	20,382	467,497
2016	-	416,167	17,606	433,773
2017	-	409,554	9,333	418,887
after 2017	-	2,494,643	8,084	2,502,727
Total	**21,530**	**5,999,684**	**369,377**	**6,390,591**

Borrowings as at December 31st 2011, by currency and by maturity

PLN '000	EUR	USD	PLN	Total
2012	219,540	1,976,983	211,217	2,407,740
2013	2,603	297,063	59,229	358,895
2014	2,603	405,466	74,553	482,622
2015	2,603	421,101	20,381	444,085
2016	-	459,145	17,606	476,751
after 2016	-	3,204,118	17,418	3,221,536
Total	**227,349**	**6,763,876**	**400,404**	**7,391,629**

Repayment of the above facilities is secured with:

- power of attorney over bank accounts
- registered pledge over bank accounts
- registered pledge over inventories
- registered pledge over existing and future movables
- mortgage
- transfer of title to property, plant and equipment
- assignment of rights under inventory insurance agreement
- assignment of rights under inventory storage agreements
- assignment of rights to compensation from the State Treasury due in the event of the requirement to sell stocks below market price
- assignment of rights under agreements for the implementation and management of the 10+ Programme
- assignment of rights under insurance agreements relating to the Gdańsk refinery
- assignment of licence agreements
- assignment of agreements for sale of products

- assignment of rights under oil sale contracts
- shares in subsidiaries
- representation on voluntary submission to enforcement
- blank promissory note
- bank guarantees

The credit facilities bear interest based on:

- 1M, 3M or 6M LIBOR (USD), depending on the interest period selected at a given time - in the case of USD-denominated facilities,
- 1M or 3M EURIBOR - in the case of EUR-denominated facilities,
- O/N, 1M or 3M WIBOR - in the case of PLN-denominated facilities.

The bank margins applicable to the contracted facilities are within the range of 0.30pp. – 4.00pp.

As at December 31st 2012, the average effective interest rate for the USD- and EUR-denominated facilities was approximately 2.47 % (2.44% as at December 31st 2011). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities of the Parent) was approx. 4.81 % (5.81% as at December 31st 2011).

Borrowings by lender

PLN '000	Dec 31 2012	Dec 31 2011
Non-current		
Kredyt Bank S.A.	8,987	14,988
Pekao S.A.	20,008	24,530
PKO BP S.A.	15,125	16,625
National Fund for Environmental Protection and Water Management	6,056	12,056
Provincial Fund for Environmental Protection and Water Management of Gdańsk	4,250	5,000
Nordea Bank Lithuania	44,240	-
Bank Ochrony Środowiska S.A.	36,902	36,902
Bank Syndicate (2)**	2,988,669	3,513,826
Bank Syndicate (3)***	1,080,892	1,273,067
Bank Syndicate (5)*****	43,448	86,895
Bank Syndicate (6)******	67,022	-
Non-current – total	**4,315,599**	**4,983,889**
Current		
Kredyt Bank S.A.	6,000	7,607
Pekao S.A.	174,866	179,178
ING Bank Śląski S.A.	4,830	5
PKO BP S.A.	308,815	246,656
National Fund for Environmental Protection and Water Management	6,000	6,500
Provincial Fund for Environmental Protection of Gdańsk	750	-
Nordea Bank Lithuania	23,810	18,564
Bank Ochrony Środowiska S.A.	14,747	-
BRE Bank S.A.	10,278	33,251
Bank Syndicate (1)*	-	1,369,959
Bank Syndicate (2)**	207,042	225,715
Bank Syndicate (3)***	83,182	91,054
Bank Syndicate (4)****	409,245	169,585
Bank Syndicate (5)*****	43,462	43,573
Bank Syndicate (6)******	42,587	193,104
Bank Syndicate (7)*******	930,574	-
Funds in bank deposits securing payment of interest and principal********	(191,196)	(177,011)
Current – total	**2,074,992**	**2,407,740**
Total	**6,390,591**	**7,391,629**

*Bank Syndicate (1): Pekao S.A., PKO BP S.A., BRE Bank S.A., Nordea Bank Polska S.A.

**Bank Syndicate (2): Banco Bilbao Vizcaya Argentaria S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., Pekao S.A., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Credit Agricole CIB (formerly Calyon), DnB Nor Bank ASA, DnB Nord Polska S.A., ING Bank Śląski S.A., KBC Finance Ireland, Kredyt Bank S.A., Nordea Bank AB, PKO BP S.A., The Royal Bank of Scotland plc, Société Générale S.A., Bank Zachodni WBK S.A., Rabobank Polska S.A., Bank Gospodarki Żywnościowej S.A. and Sumitomo Mitsui Banking Corporation Europe Ltd.

***Bank Syndicate (3): Banco Bilbao Vizcaya Argentaria S.A. and BNP Paribas S.A.

****Bank Syndicate (4): Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

*****Bank Syndicate (5): Pekao S.A. and PKO BP S.A.

******Bank Syndicate (6): Nordea Bank Finland Plc,Lithuania Branch, Nordea Bank Polska S.A.

*******Bank Syndicate (7): Pekao S.A., BRE Bank S.A., ING Bank Śląski S.A., Nordea Bank AB, Société Générale S.A.

********As at December 31st 2012 and December 31st 2011, Grupa LOTOS S.A. offset a financial asset (cash reserved for repayment of the facilities) against a financial liability under the facilities and in accordance with IAS 32 it disclosed the relevant net amount in the statement of financial position (the Company holds a valid legal title to set off the amounts and intends to realise the asset and settle the liability simultaneously). The objective of this procedure is to reflect the expected future cash flows from settlement of two or more financial instruments.

Bank borrowings contracted by the Parent

As at December 31st 2012, the amount drawn by the Company (in nominal terms) under the investment facilities granted by Bank Syndicate (2) and Bank Syndicate (3) was USD 1,423.7m *(PLN 4.412,8 m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)*. As at December 31st 2011, it was USD 1,510.6 *(PLN 5,162.4m translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2011)*.

The working capital facility was made available to Grupa LOTOS S.A. by Bank Syndicate (4) in the form of overdraft facilities which are used by the Company on an as-needed basis.

On October 10th 2012, Grupa LOTOS S.A. entered into a facility agreement for the refinancing and financing of inventories with a syndicate of five banks (Bank Syndicate (7)), comprising:

- Pekao S.A. of Warsaw,
- BRE Bank S.A. of Warsaw,
- ING Bank Śląski S.A. of Katowice,
- Nordea Bank AB of Stockholm,
- Société Générale S.A of Paris,

The agreement provides for a revolving credit facility of up to USD 400m (PLN 1,268m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for October 10th 2012). The agreement was concluded to refinance the previous inventory-financing facility under an agreement of December 20th 2007, as amended, executed with a syndicate of four banks (Bank Syndicate (1)), comprising:

- Pekao S.A. of Warsaw,
- PKO BP S.A. of Warsaw,
- BRE Bank S.A. of Warsaw,
- Nordea Bank Polska S.A. of Gdynia.

As at December 31st 2012, the amount drawn under the credit facility for the refinancing and financing of inventories, advanced by Bank Syndicate (7), amounted to USD 300m (PLN 929.9m, translated at USD mid-exchange rate quoted by the National Bank of Poland for December 31st 2012). The amount was applied towards repayment of another credit facility advanced by Bank Syndicate (1), by way of settlements between the banks. The remaining amount of USD 100m was repaid with funds of Grupa LOTOS S.A., which resulted in the recognition of a PLN 313.6m outflow in the consolidated statement of cash flows, under cash flows from financing activities.

In connection with the credit facilities referred to under Bank Syndicate (2), Bank Syndicate (3), Bank Syndicate (4) and Bank Syndicate (7), as described above, Grupa LOTOS S.A. is required to meet a covenant of maintaining the Tangible Consolidated Net Worth at least at the level specified in the facility agreements.

In addition, in connection with the facility referred to under Bank Syndicate (7), the Company is also required to meet a financial covenant of maintaining the Loan to Pledged Inventory Value Ratio at a level not higher than specified in the facility agreement.

As at December 31st 2012 and December 31st 2011, the covenants were complied with.

28.2 Notes

In the year ended December 31st 2012, LOTOS Asfalt Sp. z o.o. issued short-term bearer notes under the Note Programme Agreement of July 27th 2010.

As part of the Note Programme, LOTOS Asfalt Sp. z o.o. may carry out numerous notes issues. The company's total liabilities under notes outstanding at any given time may not exceed PLN 300,000 thousand (based on the nominal value of the notes). The term of the programme is five years. The notes are denominated in the Polish złoty and are offered in private placements. The notes are issued as unsecured zero-coupon bearer notes in book-entry form and are redeemed at nominal values.

The issued notes were acquired by third-party investors as well as by the Group companies. The nominal value of notes issued to investors outside the Group in the years ended December 31st 2012 and December 31st 2011 is presented below:

PLN '000	Nominal value of notes issued	Discount	Liabilities under notes issued
As at Jan 1 2011	**53,000**	**(330)**	**52,670**
Increase (issue)	575,000	(2,248)	
Decrease (redemption)	(628,000)	2,578	
As at Dec 31 2011	**-**	**-**	**-**
As at Jan 1 2012	**-**	**-**	**-**
Increase (issue)	364,000	(1,607)	
Decrease (redemption)	(364,000)	1,607	
As at Dec 31 2012	**-**	**-**	**-**

In the year ended December 31st 2012, the proceeds from the notes issued by the Group to investors outside the Group were PLN 362,393 thousand, net of the issue expenses (December 31st 2011: PLN 572,752 thousand). In the year ended December 31st 2012, the Group's expenditure on redemption of the notes amounted PLN 364,000 thousand (December 31st 2011: PLN 628,000 thousand).

28.3 Finance lease liabilities

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2012	**Dec 31 2011**	**Dec 31 2012**	**Dec 31 2011**
Up to 1 year	36,794	41,113	19,610	19,415
From 1 to 5 years	134,813	153,520	92,155	91,357
Over 5 years	57,639	98,221	54,344	86,228
Total	**229,246**	**292,854**	**166,109**	**197,000**
Less finance costs	(63,137)	(95,854)	-	-
Present value of minimum lease payments	**166,109**	**197,000**	**166,109**	**197,000**
non-current			*146,499*	*177,585*
current			*19,610*	*19,415*

The Group uses finance leases to finance primarily rolling stock assets.

29. Derivative financial instruments

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Financial assets			
Non-current financial assets			
- Futures (CO_2emissions)	-	-	580
- Interest rate swap (IRS)	-	12,098	18,828
Total	**-**	**12,098**	**19,408**
Current financial assets			
- Commodity swaps (raw materials and petroleum products)	45	-	1,472
- Futures (CO_2emissions)	-	8,304	35
- Currency forward and spot contracts	73,452	16,175	13,181
- Forward rate agreements (FRAs)	-	-	655
- Interest rate swap (IRS)	11,318	11,640	10,259
- Currency swap	36,519	1,083	24,360
Total	**121,334**	**37,202**	**49,962**
Total financial assets	**121,334**	**49,300**	**69,370**
Financial liabilities			
Non-current financial liabilities			
- Futures (CO_2emissions)	1,293	-	463
- Interest rate swap (IRS)	87,032	127,364	79,644
Total	**88,325**	**127,364**	**80,107**
Current financial liabilities			
- Commodity swaps (raw materials and petroleum products)	337	-	3,517
- Futures (CO_2emissions)	2,494	15,607	-
- Currency forward and spot contracts	9,161	51,889	24,709
- Forward rate agreements (FRAs)	-	-	340
- Interest rate swap (IRS)	60,975	44,770	148,253
- Currency swap	18,033	28,148	22,881
Total	**91,000**	**140,414**	**199,700**
Total financial liabilities	**179,325**	**267,778**	**279,807**

For a description of derivative financial instruments see Note 7.23. The financial risk management objectives and policies are described in Note 33.

For sensitivity analysis of derivative financial instruments with respect to market risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances as at December 31st 2012 and December 31st 2011, see Note 33.2.1.

For sensitivity analysis of derivative financial instruments with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 33.3.1.

For sensitivity analysis of derivative financial instruments with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 33.4.1.

For maturity analysis of derivative financial instruments as at December 31st 2012 and December 31st 2011, see Note 35.5.

Maximum exposure to credit risk arising from financial assets (derivative financial instruments) as at December 31st 2012 and December 31st 2011 has been presented in Note 33.6.

30. Employee benefit obligations

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Non-current liabilities			
Length-of-service awards	101,091	85,056	71,431
Post-employment benefits	28,771	30,858	23,939
Total	**129,862**	**115,914**	**95,370**
Current liabilities			
Length-of-service awards	9,350	9,511	8,111
Post-employment benefits	6,404	6,376	4,348
Current liabilities under other employee benefits during employment	78,619	64,273	78,162
Salaries and wages payable	16,557	14,577	13,052
Total	**110,930**	**94,737**	**103,673**
Total liabilities	**240,792**	**210,651**	**199,043**

30.1 Liabilities under length-of-service awards and post-employment benefits

In accordance with the Group's remuneration systems, the Group employees are entitled to post-employment benefits upon retirement. Length-of-service awards are paid out after a specific period of employment. Therefore, based on a valuation prepared by professional actuary firms or based on own estimates, the Group recognises the present value of liabilities under length-of-service awards and post-employment benefits. The table below provides information on the amount of the liabilities and a reconciliation presenting changes in the liabilities during the reporting period.

PLN '000	Length-of-service awards	Post-employment benefits	Total
Jan 1 2012	**97,330**	**36,844**	**134,174**
Current service cost	7,430	1,918	9,348
Interest cost	4,848	1,696	6,544
Past service cost	11,972	(3,879)	8,093
Acquisition/(disposal) of related entities	(2,763)	(713)	(3,476)
Benefits paid	(10,995)	(2,494)	(13,489)
Actuarial (gain)/loss	2,619	1,334	3,953
Dec 31 2012	**110,441**	**34,706**	**145,147**
non-current	*101,091*	*28,302*	*129,393*
current	*9,350*	*6,404*	*15,754*
Liabilities under length-of-service awards and post-employment benefits at foreign companies(1)	-	*469*	*469*
Dec 31 2012	**110,441**	**35,175**	**145,616**
non-current	*101,091*	*28,771*	*129,862*
current	*9,350*	*6,404*	*15,754*

PLN '000	Length-of-service awards	Post-employment benefits	Total
Jan 1 2011	**79,564**	**28,265**	**107,829**
Current service cost	6,311	2,103	8,414
Interest cost	4,144	1,421	5,565
Past service cost	14,237	5,805	20,042
Benefits paid	(8,103)	(2,283)	(10,386)
Actuarial (gain)/loss	1,177	1,533	2,710
Dec 31 2011	**97,330**	**36,844**	**134,174**
non-current	*87,599*	*30,362*	*117,961*
current	*9,731*	*6,482*	*16,213*
Liabilities under length-of-service awards and post-employment benefits at foreign companies (1)	-	*1,103*	*1,103*
Reclassification to assets held for sale	*(2,763)*	*(713)*	*(3,476)*
Dec 31 2011	**94,567**	**37,234**	**131,801**
non-current	*85,056*	*30,858*	*115,914*
current	*9,511*	*6,376*	*15,887*

(1) Given the different nature of the retirement plans in place at the foreign companies of the Group: LOTOS Exploration and Production Norge AS as well as the AB LOTOS Geonafta Group companies, and their immaterial effect on the total liabilities under length-of-service awards and post-employment benefits, those companies' liabilities were presented separately.

30.2 Present value of future employee benefit obligations

(PLN '000)	Present value of future employee benefit obligations
Dec 31 2012	145,616
Dec 31 2011	131,801
Dec 31 2010	107,829
Dec 31 2009	98,694
Dec 31 2008	92,092

Present value of future employee benefit obligations is equal to their carrying amount.

30.3 Total costs of future employee benefit payments charged to profit or loss

PLN '000	for the year ended Dec 31 2012	for the year ended Dec 31 2011
Current service cost	9,348	8,414
Interest cost	6,544	5,565
Past service cost	8,093	20,042
Actuarial (gains)/losses	3,953	2,710
Effect of foreign companies	(140)	478
Total	**27,798**	**37,209**

30.4 Actuarial assumptions

The table below presents the key assumptions adopted by the actuary as at the balance-sheet date to calculate the amount of the obligation.

	Dec 31 2012	Dec 31 2011 (restated)
Discount rate (%)	4.5%	5.7%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%)	2.6%	2.9%
Expected growth rate of salaries and wages (%)	2.7%	2.8%
Expected growth rate of salaries and wages (%) in the following years	2.7%	4.5%

- The discount rate for future payments of employee benefits: 4.5% (i.e. equal to the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2011: 5.7%).
- The long-term annual growth rate of average remuneration in the national economy: 3.5%, i.e. 1pp higher than the expected long-term annual inflation rate of 2.5% (the National Bank of Poland's inflation target).
- The long-term annual growth rate of remuneration in the Group: 2.7% in 2012, (December 31st 2011: the average long-term annual growth rate of remuneration assumed at 2,8% in 2012, in the previous year the ratio was presented in age categories and as at December 31st 2011 ranged from 0%-3,5%).
  The presented values of the ratios are a synthetic representation of the relevant absolute values determined separately for each Group company.
- The employee attrition probability is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry. The employee turnover ratios adopted by the actuary were determined separately for men and women and broken down into 9 age categories in ten-year intervals. The employee turnover ratio is presently calculated as a weighted average. In the previous year, the employee turnover ratio was presented in age categories and as at December 31st 2011 ranged from 1% to 11.4%.
- The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2011, published by the Polish Central Statistics Office (GUS), and assume that the Group’s employee population is representative of the average Polish population in terms of mortality (December 31st 2011: Life Expectancy Tables of Poland for 2010).
- The changes resulting from amendments to the Act on Pensions and Disability Pensions from Social Security Fund (Pensions Act) were accounted for, in particular changes relating to the retirement age of women and men, including its extension over a defined period to 67 years for both women and men. The amendments to the Pensions Act resulted in a change in the operation of individual benefit plans, giving rise to additional past service costs.

- It was assumed that the Group employees will retire according to the standard system, as prescribed by detailed rules set out in the Pensions Act, with the exception of employees who according to information provided by the company meet the early retirement entitlement conditions.
- The data used in the assumptions does not cover cases related to organisational changes.

30.5 Termination benefits

In 2012, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 5,349 thousand (2011: PLN 5,703 thousand). In 2012, provisions for termination benefits totalled PLN 1,502 thousand (2011: PLN 18 thousand).

31. Trade and other payables, other liabilities and provisions

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Financial liabilities			
Non-current financial liabilities			
Other financial liabilities:	1,204	15,194	26,211
Investment commitments	-	*13,296*	*22,874*
Other	*1,204*	*1,898*	*3,337*
Total	**1,204**	**15,194**	**26,211**
Current financial liabilities			
Trade and other payables, including:	2,178,760	2,821,742	1,832,545
- to related parties	*138*	*6,823*	-
Other financial liabilities:	286,735	224,313	189,603
Investment commitments	*178,074*	*172,706*	*142,935*
Liabilities to insurers	*36,580*	*30,259*	*22,201*
Joint venture liabilities (Norwegian deposits)	*58,077*	-	-
Other	*14,004*	*21,348*	*24,467*
Total	**2,465,495**	**3,046,055**	**2,022,148**
Total financial liabilities	**2,466,699**	**3,061,249**	**2,048,359**
Non-financial liabilities			
Non-current non-financial liabilities			
Provisions	370,486	283,190	227,752
Oil and Gas Facility Decommissioning Fund	27,481	24,491	21,668
Grants	13,089	14,415	13,615
Other	-	271	315
Total	**411,056**	**322,367**	**263,350**
Current non-financial liabilities			
Provisions	21,256	20,790	20,678
Liabilities to the state budget other than corporate income tax(1)	686,520	966,530	759,184
Grants	26,359	24,906	26,397
Joint venture liabilities (Norwegian deposits)	55,092	-	-
Other	22,220	24,893	24,846
Total	**811,447**	**1,037,119**	**831,105**
Total non-financial liabilities	**1,222,503**	**1,359,486**	**1,094,455**
Total	**3,689,202**	**4,420,735**	**3,142,814**
including:			
non-current	*412,260*	*337,561*	*289,561*
current	*3,276,942*	*4,083,174*	*2,853,253*

(1) Including PLN 629,443 thousand in liabilities related to excise duty and fuel charge (December 31st 2011: PLN 728,310 thousand).

Trade and other payables do not bear interest and are, as a rule, settled on a 7–60 day basis. Other liabilities do not bear interest, and their average payment period is one month. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

For sensitivity analysis of trade and other payables and other liabilities with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 33.3.1.

For maturity analysis of trade and other payables and other liabilities as at December 31st 2012 and December 31st 2011, see Note 33.5.

31.1 Provisions

	Provisions for decommissioning and reclamation costs			Other provisions	Total
PLN '000	Provisions for retired refinery installations(1)	Provision for onshore oil and gas facilities	Provision for offshore oil and gas facilities)		
Jan 1 2012	**41,641**	**18,916**	**222,586**	**20,837**	**303,980**
Recognised	140	959	68,329	16,581	86,009
Change in provisions for liabilities attributable to the approaching maturity date (discount reversal effect)	263	1,356	10,682	43	12,344
Acquisition of control (AB LOTOS Geonafta Group) (1)	-	4,097	-	-	4,097
Exchange differences on translating foreign operations	-	(1,424)	(1,740)	(95)	(3,259)
Used	-	-	(22)	(1,703)	(1,725)
Released	(274)	(3,588)	(1,886)	(1,908)	(7,656)
Exclusion from consolidation (AB LOTOS Geonafta Group) (1)	-	(2,048)	-	-	(2,048)
Dec 31 2012	**41,770**	**18,268**	**297,949**	**33,755**	**391,742**
including:					
long-term provisions	*41,497*	*18,268*	*297,949*	*12,772*	*370,486*
short-term provisions	*273*	*-*	*-*	*20,983*	*21,256*
Jan 1 2011	**41,116**	**-**	**186,350**	**20,964**	**248,430**
Recognised	421	2,270	22,006	3,831	28,528
Change in provisions for liabilities attributable to the approaching maturity date (discount reversal effect)	331	759	10,814	104	12,008
Acquisition of control (AB LOTOS Geonafta Group)(2)	-	14,703	-	66	14,769
Exchange differences on translating foreign operations	-	1,184	5,328	-	6,512
Used	-	-	(14)	(2,973)	(2,987)
Released	(227)	-	(1,898)	(875)	(3,000)
Reclassification to assets held for sale	-	-	-	(280)	(280)
Dec 31 2011	**41,641**	**18,916**	**222,586**	**20,837**	**303,980**
including:					
long-term provisions	*41,408*	*18,916*	*222,586*	*280*	*283,190*
short-term provisions	*233*	*-*	*-*	*20,557*	*20,790*

(1) Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta; for more information see Note 2.
(2) Effect of the acquisition of control over AB Geonafta (currently AB LOTOS Geonafta); for more information see Note 2 to the consolidated financial statements for 2011.

Provisions for retired refinery installations are primarily related to the PLN 34,839 thousand (December 31st 2011: PLN 34,792 thousand) provision for land reclamation and the cost of dismantlement and decommissioning of retired installations at LOTOS Czechowice S.A.

Provision for onshore oil and gas facilities relates to the provision for estimated decommissioning costs of Lithuanian oil facilities.

Provision for offshore oil and gas facilities[(1)] relates to the provision for future costs of decommissioning the oil and gas facilities in the B-3 and B-8 mining areas on the Baltic Sea and at the YME field on the North Sea.

[(1)] As at December 31st 2012, the Management Board of LOTOS Petrobaltic S.A. analysed the costs of decommissioning of the offshore oil and gas facilities in the B-3 and B-8 mining areas. It was concluded that in 2012 the costs to be incurred in the future on decommissioning of the offshore oil and gas facilities in the B-3 and B-8 mining areas increased due to a change in the expected expenditure caused by price changes - by PLN 11,823 thousand (December 31st 2011: PLN 2,967 thousand), and due to the passage of time and the related change in the time value of money - by PLN 7,358 thousand (December 31st 2011: PLN 8,760 thousand), charged to finance costs in 2012. Another change in the provision resulted from the fact that an amount corresponding to the contributions calculated and transferred to the bank account of the Oil and Gas Facility Decommissioning Fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) was released from the provision. For 2012, this amount totalled PLN 1,886 thousand (2011: PLN 1,898 thousand). Cash in the bank account of the Oil and Gas Facility Decommissioning Fund amounted to PLN 27,481 thousand as at December 31st 2012 (December 31st 2011: PLN 24,491 thousand). In the consolidated statement of financial position the Oil and Gas Facility Decommissioning Fund is disclosed under other non-current assets. As at December 31st 2012, LOTOS Petrobaltic S.A. also recognised a liability of PLN 27,481 thousand (December 31st 2011: PLN 24,491 thousand) for calculated costs of future decommissioning of oil and gas facilities. In the consolidated statement of financial position the liability is disclosed under other non-current liabilities and provisions. As at December 31st 2012, the provision for decommissioning of the offshore oil and gas facilities in the B-3 and B-8 mining areas totalled PLN 180,817 thousand (December 31st 2011: PLN 163,522 thousand).

As at December 31st 2012, LOTOS Exploration and Production Norge AS recognised PLN 117,132 thousand (NOK *210,974* thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for that day) provision for future costs of decommissioning of offshore oil and gas facilities at the YME field.. As at December 31st 2011 it was PLN 59,064 thousand *(NOK 104,060 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for that day)*. The liquidation of the offshore oil and gas facilities at the YME field and land reclamation are scheduled for 2029. In 2012, the provision was increased by an upward adjustment in the estimated future costs amounting to PLN 56,506 thousand (NOK *101,012* thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period) and by a discount representing the estimated changes in the time value of money, amounting to PLN 3,324 thousand *(NOK 5,942 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period)*. As at December 31st 2011 this provision was increased by PLN 20,333 thousand *(NOK 35,823 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period)* and by a discount representing the estimated changes in the time value of money, amounting to PLN 3,193 thousand *(NOK 3,864 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period)*. The amount of the provision also changed due to its actual use – by PLN 22 thousand *(NOK 40 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period. As at* December 31st 2011 it changed due to its actual use by PLN 15 thousand *(NOK 27 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for the period)*.

Other provisions include a provision of PLN 15,318 thousand related to the court proceedings instigated by WANDEKO, to which LOTOS Paliwa Sp. z o.o. is a party (for further information, see Note 36.1). As at December 31st 2012, in connection with delays affecting the YME project in Norway, the Group recognised a provision of PLN 12,492 thousand *(NOK 22,500 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for last day of the reporting period ended on December 31st 2012)* for unavoidable costs resulting from concluded agreement for offtake and transport of oil produced from the field.

31.2 Grants

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011	
At beginning of the period	**39,321**	**40,012**	
Received during the year	2,186	7,431	
Recognised in consolidated profit or loss	(2,059)	(1,654)	
Other	-	(6,468)	(1)
At end of the period	**39,448**	**39,321**	
including:			
non-current	*13,089*	*14,415*	
current	*26,359*	*24,906*	

[(1)] Licences obtained by Grupa LOTOS S.A. free of charge in connection with the IGCC project, in respect of which impairment losses of PLN 19,352 thousand were recognised in 2011 (see Note 13).

The grants are primarily related to licences received free of charge and grants from the Eco Fund for the use of waste gas from an offshore oil and gas facility for heating purposes.

The Group receives also government assistance within the meaning of IAS 20 Accounting for Government Grants and Disclosure.

Until April 30th 2011, the Group benefited from tax credit available to producers of bio-components under Art. 19a of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz. U. of 2011, No. 74, item 397). The state aid awarded in line with the laws referred to above was approved by virtue of the European Commission's Decision No. 57/08 of September 18th 2009 concerning authorisation for the grant of state operating aid for biofuels. The credit enabled producers of biofuels to deduct from the income tax payable an amount representing no more than 19% of the excess of the value of the produced biofuels over the value of the produced liquid fuels of the same calorific value, calculated at average prices. The European Commission's authorisation for the application of the tax credit expired on April 30th 2011. The outstanding amount of the credit is settled as part of current prepayments for corporate income tax. The tax effect of the bio-component tax credit is presented in Notes 10.2 and 10.3.

The Group operates in the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN, under Permit No. 158/ARP S.A./2008 of January 23rd 2008. The Permit is valid until November 15th 2017. In connection with the investment project executed in the Tarnobrzeg Special Economic Zone, the Group is entitled to a tax credit, i.e. it may deduct up to 50% of capital expenditure incurred in the Tarnobrzeg Special Economic Zone from its income tax payable. The tax effect of the special economic zone tax credit is presented in Notes 10.2 and 10.3.

The Group benefits from a tax credit available to entities introducing new technologies pursuant to Art. 18b of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz.U. of 2011, No. 74, item 397). The credit enables the Group to deduct up to 50% of expenditure incurred on new technologies from the tax base.

32. Financial instruments

32.1 Carrying amount

Dec 31 2012 PLN '000	**Note**	**Categories of financial instruments**				**Total**
		Financial assets/liabilities at fair value through profit or loss – held for trading	**Loans and receivables**	**Financial assets available for sale[1]**	**Financial liabilities at amortised cost**	
Classes of financial instruments						
Financial assets		**121,334**	**2,162,373**	**9,756**	**-**	**2,293,463**
Derivative financial instruments	29	121,334	-	-	-	121,334
Trade receivables	18	-	1,640,360	-	-	1,640,360
Cash and cash equivalents	20	-	268,333	-	-	268,333
Other financial assets	18	-	253,680	9,756	-	263,436
Financial liabilities		**(179,325)**	**-**	**-**	**(9,023,399)**	**(9,202,724)**
Borrowings, other debt instruments and finance lease liabilities	28	-	-	-	(6,556,700)	(6,556,700)
Derivative financial instruments	29	(179,325)	-	-	-	(179,325)
Trade and other payables	31	-	-	-	(2,178,760)	(2,178,760)
Other financial liabilities	31	-	-	-	(287,939)	(287,939)
Total		**(57,991)**	**2,162,373**	**9,756**	**(9,023,399)**	**(6,909,261)**

Dec 31 2011 PLN '000	Note	Categories of financial instruments: Financial assets/liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale[(1)]	Financial liabilities at amortised cost	__Total__
Classes of financial instruments						
Financial assets		**49,300**	**2,686,689**	**9,746**	**-**	**2,745,735**
Derivative financial instruments	29	49,300	-	-	-	49,300
Trade receivables	18	-	2,075,562	-	-	2,075,562
Cash and cash equivalents	20	-	383,680	-	-	383,680
Other financial assets:	18	-	227,447	9,746	-	237,193
Financial liabilities		**(267,778)**	**-**	**-**	**(10,649,878)**	**(10,917,656)**
Borrowings, other debt instruments and finance lease liabilities	28	-	-	-	(7,588,629)	(7,588,629)
Derivative financial instruments	29	(267,778)	-	-	-	(267,778)
Trade and other payables	31	-	-	-	(2,821,742)	(2,821,742)
Other financial liabilities	31	-	-	-	(239,507)	(239,507)
Total		**(218,478)**	**2,686,689**	**9,746**	**(10,649,878)**	**(8,171,921)**

[(1)]As at December 31st 2012 and December 31st 2011, the Group had equity interests in other entities, measured at historical cost less impairment losses (presented in Note 18).

As at December 31st 2012 and December 31st 2012, the fair value of financial assets and liabilities did not materially differ from their carrying amounts.

32.2 Fair value hierarchy

PLN '000	Dec 31 2012 Level 1	Dec 31 2012 Level 2	Dec 31 2011 Level 1	Dec 31 2011 Level 2
Financial assets	**-**	**132,858**	**8,304**	**40,996**
Commodity swap	-	45	-	-
Futures (CO_2emissions)	-	-	8,304	-
Currency forward and spot contracts	-	84,976	-	16,175
Interest rate swap (IRS)	-	11,318	-	23,738
Currency swap	-	36,519	-	1,083
Financial liabilities	**(3,787)**	**(187,062)**	**(15,607)**	**(252,171)**
Commodity swap	-	(337)	-	-
Futures (CO_2emissions)	(3,787)	-	(15,607)	-
Currency forward and spot contracts	-	(20,685)	-	(51,889)
Interest rate swap (IRS)	-	(148,007)	-	(172,134)
Currency swap	-	(18,033)	-	(28,148)
Total	**(3,787)**	**(54,204)**	**(7,303)**	**(211,175)**

32.3 Items of income, expenses, gains and losses disclosed in the statements of comprehensive income by category of financial instrument

Year ended Dec 31 2012 PLN '000	Note	Categories of financial instruments				
		Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Classes of financial instruments						
Shares:		**-**	**-**	**150**	**-**	**150**
Gains/(losses) on sale recognised in finance income		-	-	*150*	-	*150*
Trade receivables:		**-**	**(43,876)**	**-**	**-**	**(43,876)**
Interest income recognised in finance income		-	*8,812*	-	-	*8,812*
Foreign exchange gains/(losses) recognised in cost of sales		-	*(54,471)*	-	-	*(54,471)*
Foreign exchange gains/(losses) recognised in finance income		-	*(3,229)*	-	-	*(3,229)*
Reversal/(recognition) of impairment losses recognised in other income/(expenses)		-	*5,012*	-	-	*5,012*
Cash and cash equivalents:		**-**	**(27,085)**	**-**	**-**	**(27,085)**
Interest income recognised in finance income		-	*1,309*	-	-	*1,309*
Foreign exchange gains/(losses) recognised in finance income		-	*(28,394)*	-	-	*(28,394)*
Other financial assets:		**-**	**(99,495)**	**-**	**-**	**(99,495)**
Interest income recognised in finance income		-	*14,959*	-	-	*14,959*
Foreign exchange gains/(losses) recognised in finance income		-	*(114,454)*	-	-	*(114,454)*
Derivative financial instruments (financial assets/liabilities):	9.3	**117,772**	**-**	**-**	**-**	**117,772**
Gains/(losses) on fair value measurement of derivative financial instruments recognised in finance income		*159,096*	-	-	-	*159,096*
Gains/(losses) on realisation of derivative financial instruments recognised in finance income		*(41,324)*	-	-	-	*(41,324)*
Borrowings, other debt instruments and finance lease liabilities		**-**	**-**	**-**	**564,636**	**564,636**
Interest expenses recognised in finance costs		-	-	-	*(191,754)*	*(191,754)*
Foreign exchange gains/(losses) recognised in finance income		-	-	-	*284,193*	*284,193*
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income (net)		-	-	-	*472,197*	*472,197*
Trade and other payables		**-**	**-**	**-**	**24,202**	**24,202**
Interest expenses recognised in finance costs		-	-	-	*(88)*	*(88)*
Foreign exchange gains/(losses) recognised in cost of sales		-	-	-	*23,275*	*23,275*
Foreign exchange gains/(losses) recognised in finance income		-	-	-	*1,015*	*1,015*
Other financial liabilities:		**-**	**-**	**-**	**(2,266)**	**(2,266)**
Interest expenses recognised in finance costs		-	-	-	*(19,247)*	*(19,247)*
Foreign exchange gains/(losses) recognised in finance income		-	-	-	*16,981*	*16,981*
Total		**117,772**	**(170,456)**	**150**	**586,572**	**534,038**

Year ended Dec 31 2011 PLN '000	Note	Categories of financial instruments: Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Classes of financial instruments						
Shares:		**-**	**-**	**957**	**-**	**957**
Gains/(losses) on sale recognised in finance income/(costs)		*-*	*-*	*957*	*-*	*957*
Trade receivables:		**-**	**11,256**	**-**	**-**	**11,256**
Interest income recognised in finance income		*-*	*8,197*	*-*	*-*	*8,197*
Foreign exchange gains/(losses) recognised in cost of sales		*-*	*5,604*	*-*	*-*	*5,604*
Foreign exchange gains/(losses) recognised in finance costs		*-*	*4,357*	*-*	*-*	*4,357*
Reversal/(recognition) of impairment losses recognised in other income/(expenses)		*-*	*(6,902)*	*-*	*-*	*(6,902)*
Cash and cash equivalents:		**-**	**34,750**	**-**	**-**	**34,750**
Interest income recognised in finance income		*-*	*930*	*-*	*-*	*930*
Foreign exchange gains/(losses) recognised in finance costs		*-*	*33,820*	*-*	*-*	*33,820*
Other financial assets:		**-**	**150,553**	**-**	**-**	**150,553**
Interest income recognised in finance income		*-*	*11,075*	*-*	*-*	*11,075*
Foreign exchange gains/(losses) recognised in finance costs		*-*	*139,478*	*-*	*-*	*139,478*
Derivative financial instruments (financial assets/liabilities):	9.7	**(130,430)**	**-**	**-**	**-**	**(130,430)**
Gains/(losses) on fair value measurement of derivative financial instruments recognised in finance costs		*(9,769)*	*-*	*-*	*-*	*(9,769)*
Gains/(losses) on realisation of derivative financial instruments recognised in finance costs		*(120,661)*	*-*	*-*	*-*	*(120,661)*
Borrowings, other debt instruments and finance lease liabilities		**-**	**-**	**-**	**(1,061,121)**	**(1,061,121)**
Interest expenses recognised in finance costs		*-*	*-*	*-*	*(157,833)*	*(157,833)*
Foreign exchange gains/(losses) recognised in finance costs		*-*	*-*	*-*	*(386,396)*	*(386,396)*
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income(net)		*-*	*-*	*-*	*(516,892)*	*(516,892)*
Trade and other payables		**-**	**-**	**-**	**(326,850)**	**(326,850)**
Interest expenses recognised in finance costs		*-*	*-*	*-*	*(323)*	*(323)*
Foreign exchange (gains)/losses recognised in cost of sales		*-*	*-*	*-*	*(324,970)*	*(324,970)*
Foreign exchange gains/(losses) recognised in finance costs		*-*	*-*	*-*	*(1,557)*	*(1,557)*
Other financial liabilities:		**-**	**-**	**-**	**(34,689)**	**(34,689)**
Interest expenses recognised in finance costs		*-*	*-*	*-*	*(10,200)*	*(10,200)*
Foreign exchange gains/(losses) recognised in finance costs		*-*	*-*	*-*	*(24,489)*	*(24,489)*
Total		**(130,430)**	**196,559**	**957**	**(1,422,660)**	**(1,355,574)**

33. Objectives and policies of financial risk management

The Group is exposed to financial risks, including:

- market risk (risk related to prices of raw materials and petroleum products, risk related to prices of CO_2 allowances, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The Price Risk and Trading Committee operates at the Parent, which is responsible for:

- oversight and coordination of the price risk management process,
- monitoring and coordination of trading activities requiring cross-segment interaction.

The powers in the area of currency risk, interest rate risk and credit risk management have been vested directly in the Chief Financial Officer. In addition, a team for liquidity optimisation and coordination of financing coordinates and supervises key efforts in the area of liquidity risk management, arrangement of financing, and debt management at the LOTOS Group.

To ensure efficiency and operational security of financial risk management, Grupa LOTOS S.A. has distinguished the following areas: financial transactions (front-office), risk analysis and control (middle-office) and documentation and settlement (back-office).

Financial risk management seeks to achieve the following key objectives:

- increase the probability that budget and strategic objectives will be met,
- limit volatility of cash flows,
- ensure short-term financial liquidity,
- maximise the result on market risk management within the assumed risk level limits.

In order to achieve those objectives, relevant documents have been prepared and approved at appropriate decision-making levels at Grupa LOTOS S.A. Those documents specify the necessary framework for effective and secure functioning of the financial risk management process, including principally:

- the methodology for quantifying exposures to particular risks,
- acceptable financial instruments,
- the method of assessing financial risk management,
- limits within risk management,
- the reporting method,
- credit limits.

The Parent monitors all managed market risks on an ongoing basis. Opening positions with respect to risks which do not arise as part of the Company's core business is prohibited. Grupa LOTOS S.A. uses liquid derivatives which it is able to measure by applying commonly used valuation models. The valuation of the underlying position and derivatives is performed based on market inputs provided by reliable sources.

On January 1st 2011, the Parent commenced hedge accounting with respect to cash flows (i.e. foreign-currency facilities used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sale transactions). In H2 2012, the Group extended the scope of application of cash flow hedge accounting through the establishment of new hedging relationships with respect to foreign-currency denominated credit facilities intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions.

33.1 Risk related to prices of raw materials and petroleum products

The Parent considers risk related to prices of raw materials and petroleum products, as well as currency risk, to be particularly important.

Currently, the Parent is continuing research into and work on a new policy for managing the risk, which ties in closely with our plans to develop trading operations. Concurrently, to enable implementation of specific price risk management processes, streamline management functions and improve security of operations in the broad price risk and trading area, the Company has started to roll-out the selected Energy Trading and Risk Management system.

In 2012, the Company entered into commodity swaps in connection with sales of bitumen components at fixed prices, to ensure that the initial risk profile remains unchanged. Part of the swaps were settled in 2012, and part of them will be settled in 2013. As at December 31st 2011, the Group carried no open positions on commodity contracts.

Open commodity swaps as at December 31st 2012:

Type of contract	Underlying index	Contract execution period	Valuation period	Amount in tonnes in the valuation period	Average weighted price (USD/t)	Fair value (PLN '000)	
						Financial assets	Zobowiązania finansowe
Commodity swap	3.5 PCT Barges FOB Rotterdam	Dec 2012	Jun–Nov 2013	14,092	591,25	-	(335)
Commodity swap	Gasoil .1 Cargoes CIF NWE / Basis ARA	Dec 2012	Jun–Nov 2013	(3,000)	915,00	45	(2)
					TOTAL	**45**	**(337)**

33.2 Risk related to prices of carbon (CO_2) allowances

The risk related to prices of carbon dioxide (CO_2) allowances is managed in line with the assumptions set forth in The Strategy for Managing the Risk Related to Prices of Carbon Dioxide (CO_2) Allowances by Grupa LOTOS S.A.

The Company determines its underlying CO_2 allowances position, which represents the difference between the number of CO_2 allowances (held or estimated) and CO_2 emissions (released or estimated) for each individual trading period (phase), for which emission allowances are granted.

As part of risk management procedures, the Company sets a volume limit for the total position in CO_2 allowances (the underlying position adjusted for the position resulting from executed contracts, i.e transactions involving purchase/sale of emission allowances) based on the number of allowances granted for a given phase. The Company monitors the total position for a given phase, representing the aggregate of total positions for individual years within the phase.

Depending on the market situation and the set limits, the Company monitors the risk and maintains an appropriate total position in carbon allowances by entering into financial transactions on an on-going basis. The limit reflecting the risk of loss for the transactions (maximum loss limit) is defined by reference to the Company's equity.

Underlying CO2 allowances position as at December 31st 2012 (in tonnes):

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(520,169)	-	(520,169)
Phase III (2013-2020)	(363,376)	-	(363,376)

In 2012, the management of Phase II, which was nearing its end, continued; and management of Phase III for years 2013-2020 commenced. Phase II covers the period to the end of 2012, and is to be settled by the end of April 2013. Therefore, the two-phase division was retained in the tables containing information on the underlying position and financial instruments.

Given the lack of liquidity of the futures market in the period until 2020, the end of the risk management period for the risk related to the prices of CO_2 emission allowances in phase III was set at the end of 2014. However, with the passage of time, the risk management period will be extended to include successive years.

Underlying CO_2 allowances position as at December 31st 2011:

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(133,535)	17,873	(115,662)

In 2012, the Company entered into EUA/CER swaps, as that was justified by the spread between those two types of emission allowances.

Open CO_2 allowances contracts as at December 31st 2012:

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)	
						Financial assets	Financial liabilities
EUA Futures	Aug–Nov 2012	Dec 2013-Dec 2014	523,000	8,53	Phase III	-	(3,787)
					TOTAL	**-**	**(3,787)**

Open CO_2 allowances contracts as at December 31st 2011:

Type of contract	Contract execution period	Contract settlement period	Number of allowances in the period	Average weighted price (EUR/t)	Phase	Fair value (PLN '000)	
						Financial assets	Financial liabilities
Futures EUA	Aug–Dec 2011	Dec 2012	(405,000)	11.94	Phase II	8,304	(34)
Futures CER	Jan 2011	Dec 2012	515,000	11.07	Phase II	-	(15.573)
					TOTAL	**8.304**	**(15.607)**

Total CO_2 allowances position as at December 31st 2012 (in tonnes):

	EUA position			CER position		
Period	Underlying	Contracts	Total	Underlying	Contracts	Total
Phase II (2008-2012)	(520 169)	-	(520,169)	-	620,000	620,000
Phase III (2013-2020)	(363 376)	523,000	159,624	-	-	-

As at December 31st 2012, Grupa LOTOS S.A. held open CER Futures contracts which were not included in the table listing open contracts but were disclosed in the table containing information on the total position. The CER Futures provide for the purchase of 620,000 CO_2 emission allowances and are to be settled in March 2013. Since Grupa LOTOS S.A. intends to settle the contracts by physical delivery, the contracts were not measured and a provision was recognised for costs related to the purchase.

Total CO_2 allowances position as at December 31st 2011 (in tonnes):

	EUA position			CER position		
Period	Underlying	Contracts	Total	Underlying	Contracts	Total
Phase II (2008-2012)	(133,535)	(405,000)	(538,535)	17,873	515,000	532,873

For information on average annual CO_2 emission allowances granted for each of the years, see Note 35.

33.2.1 Sensitivity analysis with respect to market risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances

As at December 31st 2012 and December 31st 2011 the Parent held futures for the purchase of carbon dioxide (CO_2) emission allowances (EUA – Emissions Unit Allowance), measured at fair value.

Below is presented an analysis of the sensitivity to risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances as at December 31st 2012 and December 31st 2011, assuming a 10% increase or decrease in the interest rate.

PLN '000	Dec 31 2012			Dec 31 2011		
	Carrying amount	Change		Carrying amount	Change	
		+10%	-10%		+10%	-10%
Financial assets	-	-	-	8,304	(1,261)	1,261
Financial liabilities	(3,787)	1,446	(1,446)	(15,607)	912	(912)
Total	**(3,787)**	**1,446**	**(1,446)**	**(7,303)**	**(349)**	**349**

33.3 Currency risk

Currency risk is managed in line with the assumptions stipulated in The Strategy of Currency Risk Management at Grupa LOTOS S.A. The exposure management horizon is connected with the introduction of a budget rolled over to next four quarters as a permanent component of the planning activities at the Company. The four-quarter period is treated as the basis for determining the exposure management horizon. The base map of currency positions takes into account principally the volumes and price formulae for purchases of raw materials and sales of products, investments, credit facilities denominated in foreign currencies, as well as valuation of derivatives, and may be adjusted for a ratio reflecting the volatility in the prices of raw materials and petroleum products. The strategy provides for the calculation of the following limits:

- position limit (open currency contracts must not increase the Company's underlying position and must not exceed the volume of the underlying position);
- maximum loss and liquidity limits are expressed as a percentage of the Company's equity (the liquidity limit is calculated in order to reduce the risk of excessive accumulation of financial transactions over a limited period of time, the settlement of which could result in liquidity and operating problems);
- gross total and global currency position limits for the entire management period as well as for sub-periods.

For the purpose of the limits calculation, equity is remeasured on a quarterly basis. Moreover, when loss on risk management exceeds a pre-defined threshold, limits are immediately revised in order to prevent any significant exceeding of the maximum loss limit set by the Management Board of Grupa LOTOS S.A.
The strategy allows for the possibility of consolidated risk management at the Group level.

USD is used in market price quotations for crude oil and petroleum products. For this reason it was decided that USD is the most appropriate currency for contracting and repaying long-term credit facilities to finance the 10+ Programme, as this would reduce the structurally long position, and consequently also the strategic currency risk.

The underlying currency position represents all material cash flows (identified during currency risk identification process) whose value, expressed in Grupa LOTOS S.A.'s functional currency, over the risk management period depends on exchange rates, adjusted for a ratio reflecting the decreasing probability of generating such cash flows. To determine the underlying currency position, the Company takes into account deposits and borrowings, but excludes currency transactions.

Underlying currency position as at December 31st 2012:

Period	USD '000	EUR '000
2013	654,698	(173,187)

Underlying currency position as at December 31st 2011:

Period	USD '000	EUR '000
2012	468,679	(254,124)

Grupa LOTOS S.A. actively manages its currency position and changes it depending on the expected market developments.

Open currency contracts as at December 31st 2012:

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency spot	Purchase	Dec 2012	Jan 2013	USD/PLN	54,000	3.0951	(167,135)	234	-
Currency spot	Purchase	Dec 2012	Jan 2013	EUR/PLN	1,891	4.0925	(7,739)	-	(9)
Currency forward	Purchase	Sep–Dec 2012	Jan–Jun 2013	USD/PLN	110,500	3.1760	(350,948)	57	(7.436)
Currency forward	Purchase	Aug–Dec 2012	Jan–Jul 2013	EUR/USD	146,000	1.2828	(187,289)	17.029	-
Currency forward	Sale	Aug–Dec 2012	Jan–Nov 2013	USD/PLN	(324,000)	3.3091	1,072,148	56.132	(1.381)
Currency forward	Sale	Dec 2012	Jan 2013	EUR/PLN	(15,000)	4.0717	61,076	-	(335)
Currency swap	Purchase	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	74,000	3.2998	(244,185)	-	(12.672)
Currency swap	Purchase	Dec 2012	Jan 2013	EUR/PLN	15,500	4.1474	(64,285)	-	(832)
Currency swap	Purchase	Oct–Dec 2012	Jan–Jul 2013	EUR/USD	31,610	1.2948	(40,929)	2.478	-
Currency swap	Sale	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	(399,500)	3.1968	1,277,122	34.041	(4.529)
							TOTAL	**109.971**	**(27.194)**

Open currency contracts as at December 31st 2011:

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency forward	Purchase	Aug–Dec 2011	Jan–Jul 2012	EUR/PLN	12,000	4.2133	(50,560)	3,010	-
Currency forward	Purchase	May–Dec 2011	Jan–Dec 2012	EUR/USD	191,000	1.3501	(257,869)	-	(35,459)
Currency forward	Sale	Aug–Dec 2011	Feb–Oct 2012	USD/PLN	(206,000)	3.4589	712,533	13,165	(15,031)
Currency forward	Sale	Dec 2011	Jan 2012	EUR/USD	(2,000)	1.2914	2,583	-	(7)
Currency forward	Sale	Sep–Dec 2011	Jan–Jul 2012	USD/NOK	(15)	5.8735	89	-	(1,392)
Currency swap	Purchase	Dec 2011	Jan 2012	USD/PLN	103,000	3.5158	(362,127)	-	(10,132)
Currency swap	Purchase	Dec 2011	Jan–Jul 2012	EUR/PLN	28,000	4.6215	(129,402)	-	(4,074)
Currency swap	Purchase	May–Dec 2011	Jan 2012	EUR/USD	20,100	1.3535	(27,205)	-	(4,185)
Currency swap	Sale	Dec 2011	Jan 2012	USD/PLN	(72,100)	3.4316	247,418	995	(169)

Currency swap	Sale	Dec 2011	Jan – Jul 2012	EUR/PLN	(3,650)	4.4416	16,212	88	-
Currency swap	Sale	Nov 2010	May 2012	USD/PLN	(49,284)	3.2610	160,715	-	(9.588)
							TOTAL	**17.258**	**(80.037)**

The LOTOS Group companies executed transactions to hedge their currency risk and transactions to hedge the USD exchange rate in connection with the purchase of notes from a LOTOS Group company.

A currency swap comprises two transactions which in this document are assigned to purchase or sale, as applicable, under "currency swap".

Total currency position of the Parent for each currency as at December 31st 2012:

Period	**USD/PLN position**			**EUR/PLN position**		
	Underlying (USD '000)	**Contracts (USD '000)**	**Total (USD '000)**	**Underlying (EUR '000)**	**Contracts (EUR '000)**	**Total (EUR '000)**
2013	654,698	(654,766)	(68)	(173,187)	180,001	6,814

Total currency position of the Parent for each currency as at December 31st 2011:

Period	**USD/PLN position**			**EUR/PLN position**		
	Underlying (USD '000)	**Contracts (USD '000)**	**Total (USD '000)**	**Underlying (EUR '000)**	**Contracts (EUR '000)**	**Total (EUR '000)**
2012	468,679	(457,601)	11,078	(254,124)	245,450	(8,674)

33.3.1 Sensitivity analysis with respect to market risk related to fluctuations in currency exchange rates

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2012 and December 31st 2011, along with the effect on the net profit or loss, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN exchange rates and all other variables remaining unchanged.

Dec 31 2012	4% increase in exchange rate effect on net profit/loss for the year		4% decrease in exchange rate effect on net profit/loss for the year	
PLN '000	USD	EUR	USD	EUR
Financial assets	**(21,072)**	**33,497**	**21,072**	**(33,497)**
Trade receivables	10,815	2,077	(10,815)	(2,077)
Other receivables	2	25	(2)	(25)
Derivative financial instruments	(85,181)	29,022	85,181	(29,022)
Notes	6,586	-	(6,586)	-
Cash and cash equivalents	657	360	(657)	(360)
Other financial assets:	46,049	2,013	(46,049)	(2,013)
Loans advanced	*44,502*	*1,651*	*(44,502)*	*(1,651)*
Deposits	*1,547*	*-*	*(1,547)*	*-*
Security deposits (margins)	*-*	*362*	*-*	*(362)*
Financial liabilities	**(191,498)**	**(10,049)**	**191,498**	**10,049**
Trade and other payables	(71,086)	(1,253)	71,086	1,253
Other liabilities	(1,248)	(1,647)	1,248	1,647
Borrowings	(110,782) (1)	(867)	110,782 (1)	867
Liabilities under issue of notes	(6,566)	-	6,566	-
Derivative financial instruments	-	(6,522)	-	6,522
Finance lease liabilities	(1,816)	240	1,816	(240)
Total	**(212,570)**	**23,448**	**212,570**	**(23,448)**

(1) Taking into account the effect of cash flow hedge accounting. Assuming a 4% increase or decrease in the USD/PLN exchange rate, the effect on other comprehensive income would potentially lead to a change of PLN (176,513) 176,513 thousand in the fair value of the credit facilities.

Dec 31 2011	4% increase in exchange rate effect on net profit/loss for the year		4% decrease in exchange rate effect on net profit/loss for the year	
PLN '000	USD	EUR	USD	EUR
Financial assets	**22,766**	**9,541**	**(22,766)**	**(9,541)**
Trade receivables	6,377	2,487	(6,377)	(2,487)
Other receivables	-	4	-	(4)
Derivative financial instruments	(27,887)	1,805	27,887	(1,805)
Notes	6,154	-	(6,154)	-
Cash and cash equivalents	1,365	1,710	(1,365)	(1,710)
Other financial assets:	36,757	3,535	(36,757)	(3,535)
Loans advanced	*35,137*	*2,090*	*(35,137)*	*(2,090)*
Deposits	*1,620*	*1,060*	*(1,620)*	*(1,060)*
Security deposits (margins)	*-*	*385*	*-*	*(385)*
Financial liabilities	**(294,672)**	**22,616**	**294,672**	**(22,616)**
Trade and other payables	(97,253)	(1,777)	97,253	1,777
Other liabilities	(1,159)	(323)	1,159	323
Borrowings	(149,424) (1)	(8,731)	149,424 (1)	8,731
Liabilities under issue of notes	(6,125)	-	6,125	-
Derivative financial instruments	-	(7,715)	-	7,715
Finance lease liabilities	(40,711)	41,162	40,711	(41,162)
Total	**(271,906)**	**32,157**	**271,906**	**(32,157)**

(1) Taking into account the effect of cash flow hedge accounting. Assuming a 4% increase or decrease in the USD/PLN exchange rate, the effect on other comprehensive income would potentially lead to a change of PLN (156,095) 156,095 thousand in the fair value of the credit facilities.

33.4 Interest rate risk

The base map of interest rate positions is related to the cash flows which depend on future interest rates; in particular it is based on the planned schedule of repayments under the credit facilities for financing of inventories and implementation of the 10+ Programme and the associated interest calculated on the basis of a floating LIBOR USD rate. The structure of limits is based on the underlying's nominal value hedge ratio. In a long-term perspective, a partial risk mitigation effect was achieved through the choice of a fixed interest rate for the SACE sub-tranche under the term facility granted to finance the 10+ Programme; see Note 28.

The obligation to maintain a specific level of the hedge ratio for the interest rate risk connected with the LIBOR USD floating interest rate on the facility contracted to finance the 10+ Programme expired on June 30th 2011, in accordance with the agreement on the financing of the 10+ Programme.

Underlying interest rate position means all material positions (identified in the interest rate risk identification process) whose value depends on the level of interest rates.

Underlying interest rate position as at December 31st 2012 and December 31st 2011 (USD '000):

Period	Underlying position (USD '000)	
	2011	2012
2012	(1,864,944)	-
2013	(1,373,687)	(1,757,021)
2014	(1,267,629)	(1,267,629)
2015	(1,143,396)	(1,143,396)
2016	(1,012,073)	(1,012,073)
2017	(876,641)	(876,641)
2018	(728,733)	(728,733)
2019	(562,495)	(562,495)
2020	(395,211)	(395,211)

As at December 31st 2012, the Company had open hedging transactions.

Open interest rate contracts as at December 31st 2012:

Type of contract	Contract execution period	Period	Notional amount (USD '000)	Company pays	Company receives	Financial assets (PLN '000)	Financial liabilities (PLN '000)
Interest rate swap (IRS)	Sep 2008–May 2009	Oct 2008–Jan 2018	600,000	3.33% - 4.22%	6M LIBOR	-	(141.756)
Interest rate swap (IRS)	Mar 2012	Jan 2015–Jan 2019	50,000	2.476%	3M LIBOR	-	(6.251)
Interest rate swap (IRS)	Sep 2008	Jan 2009–Jan 2013	(100,000)	6M LIBOR	4.0%	11,318	-
					TOTAL	**11.318**	**(148.007)**

Open interest rate contracts as at December 31st 2011:

Type of contract	Contract execution period	Period	Notional amount (USD '000)	Company pays	Company receives	Financial assets (PLN '000)	Financial liabilities (PLN '000)
Interest rate swap (IRS)	Sep 2008–May 2009	Oct 2008–Jan 2018	600,000	3.33% - 4.22%	6M LIBOR	-	(172.134)
Interest rate swap (IRS)	Sep 2008	Jan 2009–Jan 2013	(100,000)	6M LIBOR	4.0%	23,738	-
					TOTAL:	**23.738**	**(172.134)**

Total interest rate position as at December 31st 2012:

Period	Underlying position (USD)	Fixed interest rate facilities (USD)	Contract position (USD)	Variable interest rate deposits (USD)	Total position (USD)	Hedge ratio
2012	-	-	-	-	-	-
2013	(1,757,020,833)	376,656,250	200,000,000	72,300,359	(1,108,064,224)	37%
2014	(1,267,628,750)	347,575,625	200,000,000	89,935,408	(630,117,717)	50%
2015	(1,143,396,250)	313,511,875	250,000,000	90,749,801	(489,134,574)	57%
2016	(1,012,072,500)	277,503,750	250,000,000	97,925,778	(386,642,972)	62%
2017	(876,641,250)	240,369,375	250,000,000	98,837,064	(287,434,811)	67%
2018	(728,732,500)	199,813,750	50,000,000	111,555,820	(367,362,930)	50%
2019	(562,495,000)	154,232,500	-	114,607,735	(293,654,765)	48%
2020	(395,211,250)	108,364,375	-	111,076,453	(175,770,422)	56%

Total interest rate position as at December 31st 2011:

Period	Underlying position (USD)	Fixed interest rate facilities (USD)	Contract position (USD)	Variable interest rate deposits (USD)	Total position (USD)	Hedge ratio
2012	(1,864,943,750)	401,678,125	500,000,000	75,863,870	(887,401,755)	52%
2013	(1,373,687,500)	376,656,250	200,000,000	75,707,285	(721,323,965)	47%
2014	(1,267,628,750)	347,575,625	200,000,000	93,595,493	(626,457,632)	51%
2015	(1,143,396,250)	313,511,875	200,000,000	96,284,191	(533,600,184)	53%
2016	(1,012,072,500)	277,503,750	200,000,000	102,199,230	(432,369,520)	57%
2017	(876,641,250)	240,369,375	200,000,000	102,124,180	(334,147,695)	62%
2018	(728,732,500)	199,813,750	-	113,673,611	(415,245,139)	43%
2019	(562,495,000)	154,232,500	-	115,396,189	(292,866,311)	48%
2020	(395,211,250)	108,364,375	-	111,293,408	(175,553,467)	56%

33.4.1 Sensitivity analysis with respect to market risk related to fluctuations in interest rates

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2012 and December 31st 2011, assuming a 0.2% increase or decrease in the interest rate.

Dec 31 2012 PLN '000	**Note**	**Carrying amount**	**Change**	
			+0.2%	**-0.2%**
Financial assets		**440,858**	**858**	**(858)**
Derivative financial instruments [(1)]	29	11,318	(1)	1
Cash and cash equivalents	20	268,333	537	(537)
Other financial assets:	18	161,207	322	(322)
Oil and Gas Facility Decommissioning Fund		*27,481*	*55*	*(55)*
Deposits		*122,563*	*245*	*(245)*
Security deposits (margins)		*11,163*	*22*	*(22)*
Financial liabilities		**(6,704,707)**	**(3,129)**	**3,030**
Borrowings	28	(6,390,591)	(10,490)	10,490
Finance lease liabilities	28.3	(166,109)	(332)	332
Derivative financial instruments [(1)]	29	(148,007)	7,693	(7,792)
Total		**(6,263,849)**	**(2,271)**	**2,172**

Dec 31 2011 PLN '000	Note	Carrying amount	Change	
			+0.2%	**-0.2%**
Financial assets		**522,328**	**300**	**(297)**
Derivative financial instruments [1]	29	23,738	(696)	699
Cash and cash equivalents	20	383,680	767	(767)
Other financial assets:	18	114,910	229	(229)
Oil and Gas Facility Decommissioning Fund		*24,491*	*49*	*(49)*
Deposits		*78,671*	*157*	*(157)*
Security deposits (margins)		*11,748*	*23*	*(23)*
Financial liabilities		**(7,760,763)**	**(1,460)**	**1,336**
Borrowings	28	(7,391,629)	(12,093)	12,093
Finance lease liabilities	28.3	(197,000)	(394)	394
Derivative financial instruments [1]	29	(172,134)	11,027	(11,151)
Total		**(7,238,435)**	**(1,160)**	**1,039**

[1] Interest rate swap (IRS)

33.5 Liquidity risk

The liquidity risk management process at Grupa LOTOS S.A. consists in monitoring projected cash flows and the portfolio of financial assets and liabilities, matching maturities of assets and liabilities, analysing working capital, optimising flows within the Group and close cooperation with specific business areas in order to ensure safe and effective allocation of the liquidity.
In 2012, the Group implemented real cash-pooling services for most of its Polish subsidiaries. The structure is managed by Grupa LOTOS S.A. on an ongoing basis in terms of liquidity optimisation and interest balance.
In the period covered by the budget, liquidity is monitored on an ongoing basis across the Group as part of the financial risk management. In the mid- and long term, it is monitored as part of the planning process, which helps to develop a long-term financial strategy.

In the area of financial risk, in addition to active management of market risk, the Company applies the following liquidity management rules:

- no margins in derivatives trading on the OTC market,
- limited possibility of early termination of financial transactions,
- limits for low-liquidity spot financial instruments,
- credit limits for counterparties in financial and trade transactions,
- ensuring adequate quality and diversification of available financing sources,
- internal control processes and organisational efficiency facilitating prompt contingency response.

Contractual maturities of financial liabilities as at December 31st 2012 and December 31st 2011:

Dec 31 2012 PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Borrowings (other than overdraft facilities)	28	5,857,893	6,125,075	1,371,533	368,530	499,013	1,340,723	2,545,276
Overdraft facilities	28	532,698	532,698	532,698	-	-	-	-
Finance lease liabilities	28.3	166,109	166,109	10,469	9,141	19,422	72,733	54,344
Trade and other payables	31	2,178,760	2,178,760	2,177,965	795	-	-	-
Other financial liabilities	31	287,939	287,939	273,072	13,663	509	695	-
Total		**9,023,399**	**9,290,581**	**4,365,737**	**392,129**	**518,944**	**1,414,151**	**2,599,620**

Dec 31 2011 PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Borrowings (other than overdraft facilities)	28	7,083,442	7,344,207	348,463	1,933,482	363,759	1,424,509	3,273,994
Overdraft facilities	28	308,187	308,187	224,976	83,211	-	-	-
Finance lease liabilities	28.3	197,000	197,000	10,663	8,752	18,965	72,392	86,228
Trade and other payables	31	2,821,742	2,821,742	2,820,524	1,218	-	-	-
Other financial liabilities	31	239,507	239,507	127,545	96,768	14,515	679	-
Total		**10,649,878**	**10,910,643**	**3,532,171**	**2,123,431**	**397,239**	**1,497,580**	**3,360,222**

Maturity structure of derivative financial instruments as at December 31st 2012 and December 31st 2011:

Dec 31 2012 PLN '000	Note	Carrying amount*	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Commodity swap	29	(292)	(291)	(24)	(267)	-	-	-
Futures (CO_2 emissions)		(3,787)	(3,787)	-	(2,494)	(1,293)	-	-
Currency forward and spot contracts		64,291	75,811	68,656	7,155	-	-	-
Forward rate agreements (FRAs)		-	-	-	-	-	-	-
Interest rate swap (IRS)		(136,689)	(138,662)	(51,223)	1,543	(19,147)	(50,271)	(19,564)
Currency swap		18,486	25,463	23,790	1,673	-	-	-
Total		**(57,991)**	**(41,466)**	**41,199**	**7,610**	**(20,440)**	**(50,271)**	**(19,564)**

Dec 31 2011 PLN '000	Note	Carrying amount*	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Commodity swap	29	-	-	-	-	-	-	-
Futures (CO_2 emissions)		(7,303)	(7,303)	-	(7,303)	-	-	-
Currency forward and spot contracts		(35,714)	(26,674)	(37,961)	11,287	-	-	-
Forward rate agreements (FRAs)		-	-	-	-	-	-	-
Interest rate swap (IRS)		(148,396)	(151,748)	(40,030)	6,916	(51,999)	(44,272)	(22,363)
Currency swap		(27,065)	(26,654)	(22,066)	(4,588)	-	-	-
Total		**(218,478)**	**(212,379)**	**(100,057)**	**6,312**	**(51,999)**	**(44,272)**	**(22,363)**

* Carrying amount (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative financial instruments.

33.6 Credit risk

Management of credit risk related to counterparties in financial transactions consists in the verification of creditworthiness of the current and potential counterparties and monitoring of credit exposure against the granted limits. The counterparties must have an appropriate credit rating assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum rating requirement. The Group enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it cooperates.

As at December 31st 2012, the concentration of credit risk with respect to any single counterparty in financial transactions did not exceed PLN 26,073 thousand (0.13% of the Group's balance-sheet total). As at December 31st 2011, the concentration of credit risk with respect to any single counterparty in financial transactions did not exceed PLN 3,063 thousand (0,015% of the Group's balance-sheet total).

As regards management of counterparty risk in non-financial transactions, all customers who request trading on credit terms are subject to credit assessment, whose results determine the level of possible credit limits. The Parent defines guidelines for the management of counterparty risk in non-financial transactions with a view to maintaining appropriate credit analysis standards and operating safety across the Group.

Credit risk is measured by the maximum exposure to risk of individual classes of financial assets. Carrying amounts of financial assets represent the maximum credit risk exposure.

Maximum exposure to credit risk arising from financial assets as at the last day of the reporting period:

PLN '000	**Note**	**Dec 31 2012**	**Dec 31 2011**
Derivative financial instruments	29	121,334	49,300
Trade receivables	18	1,640,360	2,075,562
Cash and cash equivalents	20	268,333	383,680
Other financial assets:	18	263,436	237,193
Total		**2,293,463**	**2,745,735**

In the Management Board's opinion, the risk related to non-performing financial assets is reflected in the recognised impairment losses. For more information on impairment losses on financial assets, see Notes 9.2 ;9.6 and 18.1 .

For discussion of concentration of credit risk related to trade receivables as at December 31st 2012 and December 31st 2011, see Note 18.

For age analysis of receivables which are past due but not impaired, as at December 31st 2012 and December 31st 2011, see Note 18.1.

34. Capital management

The objective of the LOTOS Group financial policy is to maintain long-term liquidity, while using an appropriate level of financial leverage to support the achievement of the principal goal of maximising the return on equity for shareholders.
This is achieved by constant effort to develop the desired capital structure at the Group level.

The LOTOS Group monitors its financing structure using the debt to equity ratio, calculated as net debt to equity.

Net debt is the sum of borrowings less cash and cash equivalents. Equity includes equity attributable to owners of the Parent increased by non-controlling interests.

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Non-current borrowings	28.1	4,315,599	4,983,889
Current borrowings	28.1	2,074,992	2,407,740
Cash and cash equivalents	20	(268,333)	(383,680)
Net debt		**6,122,258**	**7,007,949**
Equity attributable to owners of the Parent		9,061,740	7,781,436
Non-controlling interests		699	947
Total equity		**9,062,439**	**7,782,383**
Net debt to equity		0.68	0.90

The Group monitors its financing structure in order to achieve the goal set in the Strategy for the LOTOS Group for the years 2011–2015, providing for a reduction of debt in order to achieve a debt to equity ratio of no more than 0.4 at the end of the Strategy term.

35. Carbon dioxide (CO_2) emission allowances

As at December 31st 2012, considering the expected allocation of allowances for 2012 and the planned carbon dioxide (CO_2) emissions in 2012, a provision for carbon dioxide (CO_2) emission allowances of PLN 954 thousand was recognised by the Group. In the year ended December 31st 2012, the Group sold carbon dioxide (CO_2) emission allowances.
As at December 31st 2011, considering the limit of allowances allocated for 2008–2012, the Group reported an excess of the carbon dioxide (CO_2) emission allowances it had been allocated over its carbon dioxide (CO_2) emissions, therefore no provisions were recognised and disclosed in the consolidated financial statements.

Average annual limits of carbon dioxide (CO_2) emission allowances allocated for 2008 – 2012 (thousand tonnes)	**2008**	**2009**	**2010**	**2011**	**2012**	**TOTAL**
Allowances allocated under the National Allocation Plan [(1)]	1,217	1,217	1,236	1,228	1,228	6,126
Additional allowances [(2)]	-	-	143	751	761	1,655
TOTAL	**1,217**	**1,217**	**1,379**	**1,979**	**1,989**	**7,781**
Actual carbon dioxide (CO_2) emissions [(3)]	1,192	1,102	1,163	2,061	2,033	7,551

[(1)] On July 1st 2008, the Polish Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Dioxide (CO_2) Emission Allowances for 2008-2012, issued under the EU carbon dioxide (CO_2) emission trading scheme to existing installations and installations undergoing modification (Dz.U. of November 14th 2008, No. 202, item 1248). In accordance with the current legislation, allowances under Phase II (2008–2012) were allocated free of charge to all the installations covered by the emission trading scheme.
[(2)] By virtue of decisions of the Marshal of the Gdańsk Province of January 18th 2011 and July 29th 2011, Grupa LOTOS S.A. was allocated additional carbon dioxide (CO_2) emission allowances.[(3)] Carbon dioxide (CO_2) emissions, calculated based on the production data for the installations covered by the emission trading scheme and verified in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

The total allocation of free carbon dioxide (CO_2) emission allowances expected for the years 2013 - 2020 based on the draft allocation plan submitted for approval to the European Commission is 13,108 thousand tonnes, including 1,665 thousand tonnes for 2013.

For information on the risk related to prices of carbon dioxide (CO_2) emission allowances, see Note 33.2.

36. Contingent liabilities and assets

36.1 Material court, arbitration or administrative proceedings and other risks of the Parent or its subsidiaries

Material court proceedings instigated against Grupa LOTOS S.A.

Proceedings brought by PETROECCO JV Sp. z o.o. seeking compensation for losses incurred as a result of monopolistic practices

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, plus statutory interest from May 1st 1999, as compensation for damage incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o. The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Monopoly Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company was also ordered to abandon monopolistic practices pursuant to a decision of the Provincial Court of Warsaw – the Anti-Monopoly Court of October 22nd 1997.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation filed by PETROECCO JV Sp. z o.o., fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals and remanded for re-examination by the Regional Court. The Company questioned the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage. After two further hearings at which expert witnesses provided their evidence, by virtue of a ruling of April 20th 2007 the action was dismissed. Following the appeal and cassation proceedings in 2007, initiated by PETROECCO JV Sp. z o.o., the case was remanded for re-examination by the Regional Court of Gdańsk. As a result of further hearings (held on November 3rd 2009, October 1st 2010, December 6th 2012, February 8th 2013), after evidence was taken based on an opinion of the expert witness of Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków, which was favourable to Grupa LOTOS S.A., and after the parties exchanged process letters, the Court dismissed the action filed by PETROECCO J. Sp. z o.o. in its entirety on February 22nd 2013. As at the date of approval of these consolidated financial statements, the ruling was not final.

Given that there was little risk of an unfavourable outcome of the case, the Group did not recognise any provisions for potential liabilities related to the case. By virtue of its ruling of February 22nd 2013, the Court awarded PLN 57.6 thousand to Grupa LOTOS S.A. as reimbursement of the costs of proceedings.

Proceedings brought by the Minister of State Treasury seeking invalidation of the share purchase agreement concerning shares in Naftoport Sp. z o.o.

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court of Gdańsk issued a ruling dismissing the suit in its entirety. On November 27th 2012, following lengthy appeal and cassation proceedings instituted on the initiative of the Ministry of State Treasury, whose detailed progress was each time described in the annual financial statements, Grupa LOTOS S.A. received a court's decision refusing to accept the State Treasury's cassation complaint for consideration. The agreement of August 18th 1998 concluded between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand, has not been declared null and void. As at the date of approval of these consolidated financial statements, the case is finally closed.

By virtue of its ruling of November 23rd 2011, the Court awarded PLN 116 thousand to Grupa LOTOS S.A. as reimbursement of the costs of appeal and cassation proceedings.

Tax settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within governmental authorities and between those authorities and businesses, leading to uncertainty and conflicts.

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company.

Court proceedings instigated by or against the Group entities

Court proceedings instigated by WANDEKO and involving LOTOS Paliwa Sp. z o.o. as a party

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik who conducts business activity under the business name of WANDEKO. On October 28th 2009, the Regional Court of Gdańsk, Commercial Division IX, issued a default judgement awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. LOTOS Paliwa Sp. z o.o. recognised a PLN 15,318 thousand provision for the awarded amount, including interest, in 2009. The company appealed against the judgement by lodging an objection to the default judgement with the Regional Court of Gdańsk on November 10th 2009. By virtue of its decision of December 28th 2010, the Court of Appeals dismissed Mr Andrzej Wójcik's complaint against the decision issued by the Regional Court of Gdańsk rejecting reversal of the decision to lift the court order making default judgement immediately enforceable, and awarded reimbursement of the cost of proceedings to LOTOS Paliwa Sp. z o.o. Court hearings were held on May 22nd 2012 and September 12th 2012 and, as at the date of approval of these consolidated financial statements, the case was pending.

On January 11th 2013, the Court Enforcement Officer issued a decision reversing the earlier seizure (dated December 14th 2009) of receivables from the bank account of LOTOS Paliwa Sp. z o.o. securing the claims of Mr Andrzej Wójcik (see Note 18).

Proceedings involving LOTOS Gaz S.A. w likwidacji (in liquidation) as a party

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. The company's estate is managed by a bankruptcy administrator. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision admitting objections to the list of debt claims and recognised the claim of LOTOS Gaz S.A. w likwidacji (in liquidation) in the total amount of PLN 23,695 thousand, including principal amount of PLN 21,435 thousand, and acknowledged claims of PLN 21,132thousand as secured with mortgages. As at the date of approval of consolidated financial statement, the decision is final. On December 11th-12th 2012, the judge commissioner issued a decision approving the lists of debt claims prepared in the course of bankruptcy proceedings.

Proceedings involving a LOTOS Petrobaltic Group company as a party

On January 16th 2012, the arbitration court held a session to hear a case concerning claims brought by Single Buoy Moorings Inc. ("SBM") – supplier of the MOPU (Mobile Operating and Production Unit) to be used in production operations on the YME field. The petition in which SBM presented its claims against Talisman Energy Norge AS and other holders of interests in the YME project was filed with the arbitration court in Norway on January 25th 2011. The petitioner demanded:

- USD 90,000 thousand as an additional bonus for delivering the MOPU within the deadline set forth in the agreement,
- USD 3,700 thousand as reimbursement of costs incurred in connection with using a different method to transport the MOPU.

The liability of LOTOS Exploration and Production Norge AS for SBM's claims was 20% of the amounts, i.e. USD 18,740 thousand in total. On February 20th 2012, a decision in the arbitration proceedings was announced. All claims of Single Buoy Moorings Inc. were dismissed and the arbitration proceedings were closed.

There were also second arbitration proceedings pending with respect to claims of Single Buoy Moorings Inc. ("SBM") against the YME consortium and mutual claims. SBM's claims were filed and subsequently modified by the letters of December 14th 2011, May 2nd 2012 and October 16th 2012, and involved disputed costs of USD 330,000 thousand relating to dealings between the parties under the agreement for the delivery of the Mobile Operating and Production Unit (MOPU) to Norway.

On March 12th 2013, Talisman Energy Norge AS (the YME field operator) and SBM (owner of the platform) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the platform from the YME field (see Note 38).

The agreement contains a note on conclusion of all pending arbitration proceedings between SBM and Talisman Energy Norge AS.

As the risk of an unfavourable ruling in the potential dispute was low, no provisions for potential liabilities were recognised in these consolidated financial statements.

36.2 Other conditional liabilities

As at December 31st 2012. the Parent had a PLN 240,000 thousand blank promissory note deposited at the Customs Office in Gdańsk as lump-sum security for excise duty for the amount of PLN 800,000 thousand. The security is valid until August 19th 2013.

An unconditional and irrevocable guarantee issued by LOTOS Petrobaltic S.A. for the benefit of the government of Norway on June 17th 2008. concerning the activities of LOTOS Exploration and Production Norge AS related to its exploration and production operations on the Norwegian Continental Shelf. was effective as at December 31st 2012 and December 31st 2011. In the guarantee. LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf. consisting in exploration for and extraction of the natural resources from the sea bottom. including their storage and transport using means of transport other than ships.

37. Related parties

37.1 Related-party transactions

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Jointly-controlled entities		
Sales to related entities	6,831	6,579
Purchases from related entities	35,702	34,510

PLN '000	Dec 31 2012	Dec 31 2011
Jointly-controlled entities		
Receivables from related entities	2,507	90
Liabilities to related entities	138	6,823

In 2012 and 2012, the Group reported transactions with UAB Minijos Nafta and UAB Manifoldas (until the date of acquisition of control over the company, see Note 2). The transactions mainly regarded sale of services and purchase of crude oil.

As at December 31st 2012, the Group recognised the balance of unsettled transactions with UAB Minijos Nafta (December 31st 2011: UAB Minijos Nafta and UAB Manifoldas).

37.2 Entity exercising control over the Group

As at December 31st 2012 and December 31st 2011, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2011 and 2012, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

37.2.1 Transactions with related parties over which the State Treasury has control, joint control or significant influence

In 2012, the Group executed transactions with companies related to it through the State Treasury, whose total value was material. The transactions were concluded on arms' length and related to the Group's day-to-day operations. They involved primarily sale of fuels and storage services as well as purchase of electricity, fuels, transport services, storage services and leases. In 2012, revenue from those transactions amounted to PLN 531,533 thousand (2011: PLN 162,056 thousand), while purchased amounted to PLN 1,337,438 thousand (2011: PLN 964,776 thousand).

37.3 Remuneration of the Management and Supervisory Board members and information on loans and other similar benefits granted to members of the management and supervisory staff

The remuneration paid to the members of the Company's Management and Supervisory Boards was as follows:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Management Board		
Short-term employee benefits (salaries and wages), including:	1,404	1,261
- annual bonus paid	*249* (1)	*249* (2)
Length-of-service awards	-	-
Share-based employee benefits	-	-
Management Board – subsidiaries(3)		
Short-term employee benefits (salaries and wages)	3,104	2,795
Supervisory Board		
Short-term employee benefits (salaries and wages)	242	309
Total remuneration paid(4)	**4,750**	**4,365**

(1) Remuneration under annual bonuses for 2011 paid in 2012.
(2) Remuneration under annual bonuses for 2010 paid in 2011.
(3) Remuneration paid to the members of the Company's Management Board for serving on the Supervisory Boards and the Board of Directors of direct and indirect subsidiaries.
(4) The value of remuneration reflects changes in the composition of the Company's Management and Supervisory Boards during the reporting period.

Other employee benefits:

PLN '000	Dec 31 2012	Dec 31 2011
Management Board		
Liabilities under length-of-service awards and post-employment benefits	570 (1)	350
Other short-term employee benefits during employment (annual bonus) (2)	249	249
Loans and other similar benefits	-	-

(1) The value of liabilities reflects changes in the composition of the Company's Management Board during the reporting period.
(2) Pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities.

In 2012 2011, the Company did not grant any loans or similar benefits to members of its management and supervisory staff.

37.4 Remuneration paid or payable to other members of the key management staff

Remuneration paid to members of key management staff:

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Short-term employee benefits (salaries and wages)	30,205	30,769
- annual bonus paid	*7,045* [(1)]	*6,188* [(2)]
Total remuneration paid to key management staff (other than members of the Company's Management Board)	**30,205**	**30,769**

[(1)] Remuneration under annual bonuses for 2011 paid in 2012.
[(2)] Remuneration under annual bonuses for 2010 paid in 2011.

Other employee benefits: PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Liabilities under length-of-service awards and post-employment benefits	7,457	7,155
Other short-term employee benefits during employment (annual bonus)	7,339	7,275
Loans and other similar benefits	16	21

In 2012 and 2011, the Group did not grant any loans or similar benefits to members of its key management staff.

37.5 Other transactions with members of the Company's Management and Supervisory Boards, their spouses, siblings, ascendants, descendants or other close persons

In 2012 and 2011, the Company entered into no material transactions with members of the Management and Supervisory Boards[(1)], advanced no loans, made no advance payments, issued no guarantees and concluded no other agreements to or with any such persons, other than transactions on standard market terms or transactions with no material bearing on these consolidated financial statements. Based on representations submitted by members of the Company's Management and Supervisory Boards, in 2012 and 2011 Grupa LOTOS S.A. did not become aware of any transactions concluded with the Company or a company of the LOTOS Group by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of members of the Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

[(1)] Taking into account changes in the composition of the Management and Supervisory Boards.

38. Material events subsequent to the balance-sheet date

- On March 12th 2013, Talisman Energy Norge AS (the YME field operator) and Single Buoy Moorings Inc. (SBM, owner of the platform) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the platform from the YME field. Under the agreement, SBM paid joint venture partners an amount of USD 470m. Acting on behalf of the licence holders, Talisman Energy Norge AS agreed to make all the necessary preparations and remove the rig from the field. SBM Offshore will be responsible for transporting and scrapping the rig onshore. At the same time, ownership of the subsea structure installed on the YME field will be transferred to the joint venture partners. The structure was supplied by SBM and the company has an obligation to disassemble it and reclaim the drilling site upon completion of work. The parties will cover the costs of decommissioning work as set out in the agreement. The settlement has been approved by all partners in the YME licence, including LOTOS Exploration and Production Norge AS. The settlement includes a note announcing termination of all arbitration proceedings between SBM and Talisman Energy Norge AS. For more information, see Note 36.1.

- On March 11th 2013, LOTOS Petrobaltic SA received the final pre-court payment notice for approximately GPB 6.5m from AGR Subsea Ltd. ("AGR"). The claim concerns AGR's remuneration for performance of an agreement to unearth the legs of the Baltic Beta platform. LOTOS Petrobaltic SA questioned the figure quoted by AGR as remuneration for services. In the course of negotiations, LOTOS Petrobaltic SA has proposed to pay PLN 16m *(GBP 3.2m translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)* to AGR under the claim. AGR Subsea Ltd. did not accept the settlement and sent a payment notice to LOTOS Petrobaltic SA. The dispute between the parties concerns the nature of the contract, the reasons behind its delayed and incomplete performance, as well as whether LOTOS Petrobaltic SA had grounds to terminate the contract and demand reimbursement of costs incurred for replacement contractors hired by LOTOS Petrobaltic SA to complete the work. Given the complex nature of the dispute, LOTOS Petrobaltic SA recognises the risk arising in relation to court proceedings, as in case of an unfavourable verdict, LOTOS Petrobaltic SA may have to incur additional expenses related to court proceedings, including costs of legal representation and costs of enforcement proceedings. As at December 31st 2012, the Group recognises a liability of PLN 16m *(GBP 3.2m translated at the mid-exchange rate quoted by the National Bank of Poland for December 31st 2012)* towards AGR Subsea Ltd. for unearthing the legs of the Baltic Beta platform.

39. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board on March 19th 2013.

Signatures of the Management Board members and the person responsible for keeping the accounting books of Grupa LOTOS S.A.

President of the Management Board, Chief Executive Officer	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	Mariusz Machajewski
Vice-President of the Management Board, Chief Exploration and Production Officer	Zbigniew Paszkowicz
Vice-President of the Management Board, Chief Operation Officer	Marek Sokołowski
Vice-President of the Management Board, Chief Commercial Officer	Maciej Szozda
Chief Accountant	Tomasz Południewski