FINANCIAL HIGHLIGHTS
Grupa LOTOS S.A.

	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	31,071,896	27,289,314	7,444,867	6,591,463
Operating profit	556,298	603,398	133,290	145,745
Pre-tax profit	968,808	324,345	232,128	78,342
Net profit	836,431	307,670	200,410	74,315
Total comprehensive income	1,218,911	(111,611)	292,053	(26,959)
Net cash from operating activities	468,311	138,906	112,208	33,551
Net cash from investing activities	68,335	(29,986)	16,373	(7,243)
Net cash from financing activities	(747,851)	(113,629)	(179,186)	(27,446)
Total net cash flow	(211,205)	(4,709)	(50,605)	(1,137)
Basic earnings per share (PLN/EUR)	6.44	2.37	1.54	0.57
Diluted earnings per share (PLN/EUR)	6.44	2.37	1.54	0.57

	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	16,012,117	16,449,524	3,916,667	3,724,308
Equity	7,052,353	5,833,442	1,725,051	1,320,739

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**

GRUPA LOTOS S.A.

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

STATEMENT OF COMPREHENSIVE INCOME

(PLN '000)	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Revenue	9.1	31,071,896	27,289,314
Cost of sales	9.4	(29,691,236)	(25,893,214)
Gross profit		**1,380,660**	**1,396,100**
Distribution costs	9.4	(595,635)	(540,269)
Administrative expenses	9.4	(236,217)	(235,341)
Other income	9.2	18,522	4,766
Other expenses	9.6	(11,032)	(21,858)
Operating profit		**556,298**	**603,398**
Finance income	9.3	523,259	247,335
Finance costs	9.7	(162,806)	(526,388)
Gain on disposal of investments	15	52,057	-
Pre-tax profit		**968,808**	**324,345**
Corporate income tax	10.1	(132,377)	(16,675)
Net profit		**836,431**	**307,670**
Other comprehensive income			
Cash flow hedges		472,197	(517,631)
Income tax on other comprehensive income	10.1	(89,717)	98,350
Other comprehensive income, net		**382,480**	**(419,281)**
Total comprehensive income		**1,218,911**	**(111,611)**
Earnings per share (PLN)			
Weighted average number of shares ('000)	11	129.873	129.873
- basic	11	6.44	2.37
- diluted	11	6.44	2.37

GRUPA LOTOS S.A.
STATEMENT OF FINANCIAL POSITION
as at December 31st 2012

(PLN '000)	Note	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	6,799,992	7,078,991	7,395,715
Intangible assets	14	90,196	83,354	48,655
Shares	16	910,520	857,016	787,165
Derivative financial instruments	26	-	12,098	19,408
Other non-current assets	17	342,948	343,323	242,009
Total non-current assets		**8,143,656**	**8,374,782**	**8,492,952**
Current assets				
Inventories	18	5,705,717	5,637,321	4,298,500
- including mandatory reserves	*18.2*	*4,350,326*	*4,425,263*	*2,976,818*
Trade receivables	17	1,670,509	2,177,238	1,699,108
Current tax assets		9,429	73,512	-
Derivative financial instruments	26	121,334	37,202	49,961
Other current assets	17	358,586	119,928	122,631
Cash and cash equivalents	19	2,886	3,598	14,913
Total current assets		**7,868,461**	**8,048,799**	**6,185,113**
Assets held for sale	15	**-**	**25,943**	**-**
Total assets		**16,012,117**	**16,449,524**	**14,678,065**
EQUITY AND LIABILITIES				
Equity				
Share capital	21	129,873	129,873	129,873
Share premium	22	1,311,348	1,311,348	1,311,348
Cash flow hedging reserve	23	(36,801)	(419,281)	-
Retained earnings	24	5,647,933	4,811,502	4,503,832
Total equity		**7,052,353**	**5,833,442**	**5,945,053**
Non-current liabilities				
Bank borrowings	25	4,069,561	4,786,893	4,141,016
Derivative financial instruments	26	88,325	127,364	80,107
Deferred tax liability	10.3	246,144	23,182	104,869
Employee benefit obligations	27	45,262	41,036	31,420
Total non-current liabilities		**4,449,292**	**4,978,475**	**4,357,412**
Current liabilities				
Borrowings, other debt instruments and finance lease liabilities	25	1,462,557	1,682,149	1,539,612
Derivative financial instruments	26	102,524	129,434	193,764
Trade and other payables	28	2,161,910	2,801,979	1,729,709
Current tax payables		-	-	12,037
Employee benefit obligations	27	35,857	31,210	45,739
Other liabilities and provisions	28	747,624	992,835	854,739
Total current liabilities		**4,510,472**	**5,637,607**	**4,375,600**
Total liabilities		**8,959,764**	**10,616,082**	**8,733,012**
Total equity and liabilities		**16,012,117**	**16,449,524**	**14,678,065**

GRUPA LOTOS S.A.
STATEMENT OF CASH FLOWS
for 2012
(indirect method)

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Cash flows from operating activities			
Net profit		**836,431**	**307,670**
Adjustments:		(357,704)	(83,203)
Corporate income tax	10	132,377	16,675
Depreciation and amortisation expense	20	411,494	375,630
Foreign exchange (gains)/losses		(83,238)	319,275
Interest and dividends		(164,645)	(142,065)
(Gain)/Loss from investing activities		(64,099)	20,921
Settlement and valuation of derivative financial instruments		(93,054)	109,725
Decrease/(Increase) in trade receivables		506,729	(478,130)
(Increase) in other assets	20	(90,785)	(62,823)
(Increase) in inventories		(68,396)	(1,338,821)
(Decrease)/Increase in trade and other payables		(640,069)	1,072,270
(Decrease)/Increase in other liabilities and provisions	20	(212,891)	29,053
Increase/(Decrease) in employee benefit obligations		8,873	(4,913)
Income tax paid		(10,416)	(85,561)
Net cash from operating activities		**468,311**	**138,906**
Cash flows from investing activities			
Dividends received		287,328	240,479
Interest received		11,331	8,427
Sale of property, plant and equipment and intangible assets		14,686	715
Acquisition of shares in related entities	20	78,537	-
Repayment of loans advanced to related parties	20	62,282	66,100
Purchase of property, plant and equipment and intangible assets	20	(110,549)	(153,313)
Acquisition of shares in related entities	20	(513)	(144,677)
Loans advanced to related parties	20	(218,579)	(972)
Bank deposits for financing of overhaul shutdown		(45,721)	(38,106)
Security deposit (margin)		586	(8,639)
Cash pool system expenses		(1)	-
Settlement of derivative financial instruments		(11,052)	-
Net cash from investing activities		**68,335**	**(29,986)**
Cash flows from financing activities			
Proceeds from borrowings		262,803	388,689
Repayment of borrowings		(840,400)	(308,483)
Interest paid		(136,375)	(87,038)
Decrease in finance lease liabilities		-	(67)
Settlement of derivative financial instruments		(33,879)	(106,730)
Net cash from financing activities		**(747,851)**	**(113,629)**
Total net cash flow		**(211,205)**	**(4,709)**
Effect of exchange rate fluctuations on cash held		(29,167)	25,788
Change in net cash	20	**(240,372)**	**21,079**
Cash at beginning of period	20	**(165,987)**	**(187,066)**
Cash at end of period	20	**(406,359)**	**(165,987)**

The Notes to the financial statements, presented on pages 8 to 69, are an integral part of the statements.

GRUPA LOTOS S.A.
STATEMENT OF CHANGES IN EQUITY
for 2012

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total equity
Jan 1 2012		**129,873**	**1,311,348**	**(419,281)**	**4,811,502**	**5,833,442**
Net profit	*11*	-	-	-	*836,431*	*836,431*
Other comprehensive income, net		-	-	*382,480*	-	*382,480*
Total comprehensive income		-	-	382,480	836,431	1,218,911
Dec 31 2012		**129,873**	**1,311,348**	**(36,801)**	**5,647,933**	**7,052,353**
Jan 1 2011		**129,873**	**1,311,348**	**-**	**4,503,832**	**5,945,053**
Net profit	*11*	-	-	-	*307,670*	*307,670*
Other comprehensive income, net		-	-	*(419,281)*	-	*(419,281)*
Total comprehensive income		-	-	(419,281)	307,670	(111,611)
Dec 31 2011		**129,873**	**1,311,348**	**(419,281)**	**4,811,502**	**5,833,442**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

Grupa LOTOS S.A.'s business comprises production, services and trading activities. The Company's core business consists in the production and processing of refined petroleum products. Based on the classification applied by the Warsaw Stock Exchange, Grupa LOTOS S.A. is included in the fuel sector.

2. Information whether the Company is the parent or major investor and whether it prepares consolidated financial statements

Grupa LOTOS S.A. is the parent of the Grupa LOTOS Spółka Akcyjna Group ("LOTOS Group", or the "Group"), which as at the last day of the reporting period comprised: Grupa LOTOS S.A. ("Parent") and 34 production, service and trading companies, including:

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

The Group also holds an equity interest in a jointly-controlled entity.

Therefore, Grupa LOTOS S.A. prepares consolidated financial statements of the Group, including financial information of the companies referred to above. The consolidated financial statements of the LOTOS Group for the year 2012 was approved for publication by the Company's Management Board on March 19th 2013 .

3. Basis of preparation

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

Considering the ongoing process of implementation of the IFRS in the EU and the business conducted by the Company, as far as the accounting policies applied by the Company are concerned, there is no difference between the IFRS that have become effective and the IFRS endorsed by the EU for 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 Company has reviewed the amendments and believes they have no material impact on the accounting policies applied in the preparation of these financial statements.

The functional and the presentation currency of these financial statements is the Polish złoty (PLN). These financial statements have been prepared in the złoty, 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).

The Company intends to apply the following package of standards beginning from January 1st 2014: 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 Company's Management Board believes that the amendments to IAS 19 Employee Benefits will have no material impact on the accounting policies applied by the Company and accordingly no material impact on the future financial statements of the Company.

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 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 Company's financial assets. The Company 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 Company has not opted for early application of any of the above standards, interpretations, or amendments which have been published but have not yet become effective.

The Company's Management Board is assessing whether the introduction of the new standards and interpretations specified above will have any material impact on the accounting policies applied by the Company.

5. Material judgements and estimates

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

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 was 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 by the Management Board 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

Provisions for employee benefit obligations are estimated using actuarial methods. The assumptions adopted for the measurement of the obligations are described in more detail in Note 27.4.

Depreciation/amortisation charges

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

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, the Company relies on professional judgment.

The assumptions adopted for the measurement of fair value of financial instruments are described in Note 7.19.

Deferred tax assets

The Company 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 Company'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, 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, the Management Board assesses 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 Company, such as decisions concerning change, discontinuation, limitation or development of its business, technological changes, efficiency and investment initiatives.

If there is any indication of impairment, the Company is required to estimate the recoverable amounts of assets or cash-generating units. While determining the recoverable amount of the individual assets, 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 14.

Following an analysis of cash flows generated by individual cash-generating units, the Management Board did not identify any indication of impairment which would, in its opinion, necessitate testing the Company's assets for impairment and adjusting the value of the assets.

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 Company in the preparation of these financial statements are the same as those used in the preparation of the financial statements for 2011.

The Company 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.

7. Material accounting policies

These 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 statement of cash flows is prepared using the indirect method.

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

7.1 Revenue

Revenue is disclosed at the fair value of proceeds received or due from sale of products, merchandise, or services, which are provided 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.

7.2 Interest

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

7.3 Taxes

7.3.1 Corporate 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 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.

The Company offsets deferred tax assets and deferred tax liabilities only if it has enforceable title to offset current tax assets with current tax provisions and the deferred tax asset relates to the same tax payer and the same tax authority.

7.3.2 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.

7.4 Foreign currency transactions

Transactions denominated in foreign currencies are reported in the functional currency of the Company (Polish złoty) as at the transaction date, using the following exchange rates:

- the exchange rate actually applied on that date due to the nature of the transaction – in the case of sale or purchase of foreign currencies;
- the mid-exchange rate quoted for a given currency by the National Bank of Poland for the day immediately preceding the transaction date – in the case of payment of receivables or liabilities where there is no rationale for using the exchange rate referred to above, and in the case of other transactions.

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. 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 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	Dec 31 2011
USD	3.0996	3.4174
EUR	4.0882	4.4168

7.5 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.

Upon acquisition, items of property, plant and equipment are divided into components of material value which can be assigned different economic useful lives. The cost of overhauls is also deemed a component.

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

Buildings and structures	1 year – 80 years
Plant and equipment	1 year – 25 years
Vehicles	1 year – 15 years
Other property, plant and equipment	1 year – 10 years

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.

The cost of each overhaul is included in the carrying amount of property, plant and equipment, provided that the recognition criteria are met.

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 of servicing the debt incurred to finance the assets in line with the policies described in Note 7.18.

7.6 Intangible assets

Intangible assets are recognised if the Company 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 capitalised at their fair value as at the acquisition date. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful lives, which are as follows:

Patents, trademarks and licences	2 years – 40 years
Other	2 years– 14 years

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.
The useful lives are reviewed on an annual basis and adjusted – if required – with effect from the beginning of the next financial year.

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.

7.7 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 Company as a lessee

Assets used under a finance lease are recognised as assets of the Company 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.

7.8 Shares

Shares in subsidiaries and associates are carried at historical cost less impairment losses, if any.

7.9 Impairment losses on non-financial non-current assets

As at the last day of the reporting period, the Company assesses whether there is any indication of impairment of any of its assets. If the Company finds that there is such indication, or if the Company is required to perform annual impairment tests, the Company 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 an impairment loss is 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 Company assesses whether there is an indication that any impairment loss recognised in the previous periods with respect to a given asset is no longer necessary or should be reduced. If there is such indication, the Company 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.

7.10 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, established with the weighted average method,
- 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 and with the weighted average method.

Inventory disposals are measured using the weigted average cost method.

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.
Mandatory reserves are disclosed as non-current assets given their turnover in a short term.

For more information on mandatory reserves, see Note 18.2.

7.11 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 Company recognises prepayments if they relate to future reporting periods and presents them under other financial assets.

7.12 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 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.

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

7.14 Equity

Equity is recognised in the accounting books by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of the Company 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.

7.15 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.

7.16 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, interest-bearing 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.

7.17 Employee benefit obligations

7.17.1 Retirement severance payments and length-of-service awards

In accordance with the company remuneration systems applied by the LOTOS Group companies, the Company 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 Company recognises a provision 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 Company recognises a provision for the benefits to which employees and other eligible persons are entitled as part of the Company Social Benefits Fund.

The Company employees are entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Company 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.

7.17.2 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 prepared in accordance with the IFRS such distributions are charged to operating expenses in the period in which the profit distribution was approved by the General Meeting.

7.18 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, 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.

The accounting policies with respect to capitalisation of exchange differences are described in Note 7.4 (Foreign currency transactions).

7.19 Financial assets and liabilities

Financial assets 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 Company 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 balance-sheet date, 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 Company classifies its individual financial assets and liabilities into the following categories:

- **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 Company 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.

Fair value of futures contracts for carbon dioxide (CO_2) allowances (EUA, CER) 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 regulated 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 Company 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.

7.20 Impairment of financial assets

As at the last day of the reporting period the Company 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 Company 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 Company 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, 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 available for sale, the amount of the difference between the cost of that asset (less any principal payments and depreciation/amortisation charges) and its current fair value, reduced by any impairment losses previously recognised in the statement of comprehensive income, is derecognised from equity and charged to the statement of comprehensive income. Reversal of an impairment loss concerning equity instruments qualified 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 loss is recognised in the statement of comprehensive income.

7.21 Derivative financial instruments

Derivatives used by the Company to hedge against currency risk include in particular FX forwards. In addition, the Company 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.

7.22 Hedge accounting

As of January 1st 2011, the Company 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 the hedging instrument, the hedged item or transaction, the nature of the hedged risk, 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.

7.23 Provisions

Provisions are recognised when the Company 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 Company 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.

7.24 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.

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 Company 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 Company 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 property, plant and equipment, 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 Company presents accrued expenses under other non-financial liabilities or under employee benefits obligations (current liabilities during employment) if it refers to it.

7.25 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.

7.26 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. 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. 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.

7.27 Carbon dioxide (CO_2) emission allowances

The Company recognises carbon dioxide (CO_2) emission allowances in its financial statements based on the net liability method – the Company recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised only after the Company actually exceeds the limit. The Company 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

The business segments' results for 2012 are presented in Note 8 to the consolidated financial statements for 2012 , as the segments are identified at the Group level. Grupa LOTOS S.A. is classified in the downstream segment.

The results of operations are assessed on the basis of the operating profit or loss at the Company level.

9. Income and expenses

9.1 Revenue

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Revenue from sale of products	30,118,666	26,623,668
- *including effect of accounting for cash flow hedge accounting*	*(17,091)*	*(90)*
Revenue from rendering of services	115,805	103,647
Total revenue from sale of products and rendering of services	**30,234,471**	**26,727,315**
Revenue from sale of merchandise	422,160	355,258
Revenue from sale of materials [1]	415,265	206,741
Total revenue from sale of merchandise and materials	**837,425**	**561,999**
Total	**31,071,896**	**27,289,314**
- including to related entities	*14,800,023*	*14,629,904*

[1] Including revenue from sale of crude oil.

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Domestic sales	**23,242,552**	**21,955,979**
- products and services	22,405,127	21,595,141
- merchandise and materials	837,425	360,838
Export sales	**7,829,344**	**5,333,335**
- products and services	7,829,344	5,132,174
- merchandise and materials	-	201,161
Total	**31,071,896**	**27,289,314**
Gasolines	5,152,513	4,463,914
Raw gasoline	1,097,071	480,081
Reformate	458,827	477,264
Diesel oil	15,921,515	14,791,005
Light fuel oil	1,129,026	1,194,980
Heavy fuel oil	2,140,840	1,580,725
Aviation fuel	1,856,016	1,395,004
Bunker fuel	125,360	107,446
Bitumen production components	1,311,047	1,431,047
Base oils	698,124	695,655
LPG	354,351	146,858
Other refinery products, merchandise and materials	720,326	411,273
Other merchandise and materials	8,167	10,505
Services	115,804	103,647
Effect of accounting for cash flow hedge accounting	*(17,091)*	*(90)*
Total	**31.071.896**	**27.289.314**

In 2012 and 2011, the largest customers, whose shares in total revenue of Grupa LOTOS S.A. exceeded 10%, were: LOTOS Paliwa Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) and Shell POLSKA Sp. z o.o. The companies' shares in Grupa LOTOS S.A.'s revenue were 40.56 % and 10.06 %, respectively (2011: 44.51 % and 10.99 %, respectively).

9.2 Other income

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Gain on disposal of property, plant and equipment and intangible assets[(1)]	14,057	-
Reversal of impairment losses on receivables	2	4
Grants	733	433
Compensations	2,434	3,341
Other	1,296	988
Total	**18,522**	**4,766**

[(1)] Including PLN 14,469 thousand in income from sale of carbon dioxide (CO_2) emission allowances.

9.3 Finance income

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Dividend received		287,461	240,479
- from related entities	*34.1*	*286,761*	*239,969*
- from other entities		*700*	*510*
Interest		13,264	6,856
Foreign exchange gains:		129,549	-
- on foreign-currency denominated bank borrowings		*132,360*	-
- on foreign-currency denominated loans advanced		*(4,518)*	-
- on foreign-currency transactions in bank accounts		*28,705*	-
- other foreign exchange differences		*(26,998)*	-
Revaluation of financial assets		92,954	-
- valuation of derivative financial instruments		*137,985*	-
- settlement of derivative financial instruments		*(44,931)*	-
- other		*(100)*	-
Other		31	-
Total		**523,259**	**247,335**

9.4 Expenses by nature

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Depreciation and amortisation expense	20	411,494	375,630
Raw material and consumables used		28,411,595	25,066,491
- including foreign exchange losses [1]		*24,995*	*317,827*
Services		834,428	879,609
Taxes and charges		106,445	87,887
Employee benefit expenses	9.5	197,102	188,589
Other expenses by nature		89,985	84,617
Merchandise and materials at cost		823,344	546,430
Total expenses by nature		**30,874,393**	**27,229,253**
Change in products and adjustments to cost of sales		(351,305)	(560,429)
Total		**30,523,088**	**26,668,824**
including:			
Cost of sales		29,691,236	25,893,214
Distribution costs		595,635	540,269
Administrative expenses		236,217	235,341

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

9.5 Employee benefit expenses

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Cost of current salaries and wages		147,231	138,620
Cost of social security and other employee benefits		41,147	34,687
Cost of lenght-of-service awards, retirement and other post-employment benefits		8,724	15,282
Employee benefit expenses	9.4	**197,102**	**188,589**
Change in products and adjustments to cost of sales		(977)	(1,628)
Total		**196,125**	**186,961**
including:			
Items recognised in cost of sales		80,268	73,664
Items recognised in distribution costs		11,258	11,692
Items recognised in administrative expenses		104,599	101,605

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		-	863
Revaluation of receivables		67	27
Revaluation of property, plant and equipment under construction	*13*	1,842	13,245
Provisions recognised		1,500	1,500
Fines and damages		663	124
Other		6,960	6,099
Total		**11,032**	**21,858**

9.7 Finance costs

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Interest	149,439	134,627
Foreign exchange losses:	-	286,647
- on foreign-currency denominated bank borrowings	-	*356,584*
- on foreign-currency denominated loans advanced	-	*(6,818)*
- on foreign-currency transactions in bank accounts	-	*(32,618)*
- other foreign exchange differences	-	*(30,501)*
Revaluation of financial assets:	-	109,947
- valuation of derivative financial instruments	-	*2,995*
- settlement of derivative financial instruments	-	*106,730*
- other	-	*222*
Bank fees	12,467	14,904
Other	2,510	1,778
Amounts capitalised as part of the cost of qualifying assets	(1,610)	(21,515)
Total	**162,806**	**526,388**

10. Corporate income tax

10.1 Tax expense

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Current income tax	(868)	12
Deferred tax	133,245	16,663
Total income tax charged to profit or loss	**132,377**	**16,675**
Income tax expense recognised in other comprehensive income (net):	89,717	(98,350)
Including tax on:		
Cash flow hedges	*89,717*	*(98,350)*

The income tax expense was determined based on the rate of 19% of the tax base.

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	968,808	324,345
Income tax at the rate of 19%	**184,074**	**61,626**
Tax effect of dividends received	(54,618)	(45,691)
Tax effect of other permanent differences	5,279	728
- extraordinary shortages and deficits	*1,920*	*875*
- representation and entertainment expenses	*1,134*	*856*
- donations	*391*	*376*
- other permanent differences	*1,834*	*(1,379)*
Tax on dividend	133	-
Adjustments disclosed in current year related to tax for previous years	(2,491)	12
Corporate income tax	**132,377**	**16,675**
Effective tax rate	**13.7%**	**5.1%**

10.3 Deferred income tax

PLN '000	Note	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						
Employee benefit obligations		15,237	13,627	14,571	1,610	(944)
Impairment losses on receivables		8,847	8,834	8,948	13	(114)
Impairment losses on property, plant and equipment		3,037	3,037	13,675	-	(10,638)
Negative valuation of derivatives		28,905	35,671	52,036	(6,766)	(16,365)
Exchange differences on revaluation of foreign-currency denominated items		-	-	34,455	-	(34,455)
Accrued tax loss carry-forward		136,994	153,419	-	(16,425)	153,419
Cash flow hedges	10.1	8,633	98,350	-	(89,717)	98,350
Other		1,620	5,532	9,023	(3,912)	(3,491)
Total		**203,273**	**318,470**	**132,708**	**(115,197)**	**185,762**
Deferred tax liabilities						
Difference between present tax value and carrying amount of property, plant and equipment and intangible assets		446,148	334,570	218,220	111,578	116,350
Positive valuation of derivatives		2,159	6,088	13,180	(3,929)	(7,092)
Other		1,110	994	6,177	116	(5,183)
Total		**449,417**	**341,652**	**237,577**	**107,765**	**104,075**
Deferred tax expense, charged to:					**(222,962)**	**81,687**
- profit or loss	*10.1*				*(133,245)*	*(16,663)*
- other comprehensive income, net	*10.1*				*(89,717)*	*98,350*
Net deferred tax assets/(liabilities)		**(246,144)**	**(23,182)**	**(104,869)**		
including:						
Deferred tax assets		*203,273*	*318,470*	*132,708*		
Deferred tax liabilities		*(449,417)*	*(341,652)*	*(237,577)*		

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

11. Earnings per share

	Year ended Dec 31 2012	Year ended Dec 31 2011
Net profit (PLN '000) (A)	836,431	307,670
Weighted average number of shares ('000) (B)	129,873	129,873
Earnings per share (PLN) (A/B)	6.44	2.37

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 306,170 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 financial statements, the Company presented profit after distribution for 2011 under retained earnings.

As at the date of publication of these financial statements, the Company's Management Board has not yet adopted 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	177,653	177,755	178,071
Buildings and structures	2,545,458	2,654,055	1,873,751
Plant and equipment	3,903,870	4,080,143	2,267,997
Vehicles and other	59,115	112,617	103,862
Property, plant and equipment under construction	113,896	54,421	2,972,034
Total	**6,799,992**	**7,078,991**	**7,395,715**

As at December 31st 2012, financing costs capitalised in property, plant and equipment under construction amounted to PLN 1,613 thousand (December 31st 2011: PLN 3,289 thousand).

In 2012, capitalised financing costs of property, plant and equipment under construction amounted to PLN 1,610 thousand (2011: PLN 21,515 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	367,078	328,450
Distribution costs	6,901	6,688
Administrative expenses	24,766	25,745
Change in products and adjustments to cost of sales	4,414	7,263
Total	**403,159**	**368,146**

Changes in property, plant and equipment

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Total
Gross carrying amount						
Jan 1 2012	**178,191**	**3,194,540**	**4,905,954**	**279,211**	**76,871**	**8,634,767**
Increase:	-	25,982	33,301	6,930	61,321	127,534
- purchase	-	-	-	*6,449*	*133,576*	*140,025*
- transfer from property, plant and equipment under construction	-	*25,982*	*32,504*	*172*	*(73,865)*	*(15,207)*
- borrowing costs	-	-	-	-	*1,610*	*1,610*
- other	-	-	*797*	*309*	-	*1,106*
Decrease:	-	(179)	(2,668)	(406)	(1,846)	(5,099)
- sale	-	-	*(641)*	*(31)*	-	*(672)*
- liquidation	-	*(174)*	*(2,027)*	*(263)*	-	*(2,464)*
- other	-	*(5)*	-	*(112)*	*(1,846)*	*(1,963)*
Gross carrying amount Dec 31 2012	**178,191**	**3,220,343**	**4,936,587**	**285,735**	**136,346**	**8,757,202**
Gross carrying amount						
Jan 1 2011	**178,405**	**2,289,552**	**2,914,347**	**216,027**	**3,044,010**	**8,642,341**
Increase:	-	905,100	2,000,412	64,940	(2,897,896)	72,556
- purchase	-	-	-	*4,210*	*88,916*	*93,126*
- transfer from property, plant and equipment under construction	-	*905,100*	*2,000,407*	*60,730*	*(3,008,327)*	*(42,090)*
- borrowing costs	-	-	-	-	*21,515*	*21,515*
- other	-	-	*5*	-	-	*5*
Decrease:	(214)	(112)	(8,805)	(1,756)	(69,243)	(80,130)
- sale	-	*(9)*	*(3,481)*	*(1,181)*	-	*(4,671)*
- liquidation	*(214)*	*(103)*	*(5,324)*	*(416)*	-	*(6,057)*
- other	-	-	-	*(159)*	*(69,243)* [(1)]	*(69,402)*
Gross carrying amount						
Dec 31 2011	**178,191**	**3,194,540**	**4,905,954**	**279,211**	**76,871**	**8,634,767**
Accumulated depreciation						
Jan 1 2012	**436**	**540,485**	**825,811**	**166,594**	**-**	**1,533,326**
Increase:	102	134,463	209,266	60,303	-	404,134
- depreciation	*102*	*134,463*	*208,601*	*59,995*	-	*403,161*
- other	-	-	*665*	*308*	-	*973*
Decrease:	-	(63)	(2,360)	(277)	-	(2,700)
- sale	-	-	*(595)*	*(24)*	-	*(619)*
- liquidation	-	*(63)*	*(1,765)*	*(240)*	-	*(2,068)*
- other	-	-	-	*(13)*	-	*(13)*
Accumulated depreciation						
Dec 31 2012	**538**	**674,885**	**1,032,717**	**226,620**	**-**	**1,934,760**

[(1)]In 2011, the Company reduced the value of property, plant and equipment under construction by PLN 69,243 thousand, due to discontinued investments (design documentation), by recognising an impairment loss of PLN 69,239 thousand.

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction		Total
Accumulated depreciation							
Jan 1 2011	**334**	**415,801**	**646,350**	**112,165**	**-**		**1,174,650**
Increase:	102	124,734	187,326	56,048	-		368,210
- depreciation	*102*	*124,734*	*187,321*	*56,048*	-		*368,205*
- other	-	-	*5*	-	-		*5*
Decrease:	-	(50)	(7,865)	(1,619)	-		(9,534)
- sale	-	*(9)*	*(3,373)*	*(1,180)*	-		*(4,562)*
- liquidation	-	*(41)*	*(4,492)*	*(408)*	-		*(4,941)*
- other	-	-	-	*(31)*	-		*(31)*
Accumulated depreciation							
Dec 31 2011	**436**	**540,485**	**825,811**	**166,594**	**-**		**1,533,326**
Impairment losses							
Jan 1 2012	**-**	**-**	**-**	**-**	**22,450**		**22,450**
Recognised	-	-	-	-	1,842		1,842
Used / Reversed	-	-	-	-	(1,842)		(1,842)
Impairment losses							
Dec 31 2012	**-**	**-**	**-**	**-**	**22,450**		**22,450**
Impairment losses							
Jan 1 2011	**-**	**-**	**-**	**-**	**71,976**		**71,976**
Recognised	-	-	-	-	19,713	(1)	19,713
Used / Reversed	-	-	-	-	(69,239)	(2)	(69,239)
Impairment losses							
Dec 31 2011	**-**	**-**	**-**	**-**	**22,450**		**22,450**
Net carrying amount							
Dec 31 2012	**177,653**	**2,545,458**	**3,903,870**	**59,115**	**113,896**		**6,799,992**
Net carrying amount							
Dec 31 2011	**177,755**	**2,654,055**	**4,080,143**	**112,617**	**54,421**		**7,078,991**
Net carrying amount							
Jan 1 2011	**178,071**	**1,873,751**	**2,267,997**	**103,862**	**2,972,034**		**7,395,715**

(1) In 2011, the Company recognised impairment losses of PLN 19,713 thousand on expenditure, mainly related to the IGCC project, valued at PLN 19,352 thousand, including licences obtained free of charge valued at PLN 6,468 thousand.
(2) In the reporting period ended December 31st 2011, the Company reduced the value of property, plant and equipment under construction by PLN 69,243 thousand, due to discontinued investments (design documentation), by recognising an impairment loss of PLN 69,239 thousand.

As at December 31st 2012, the value of property, plant and equipment serving as collateral for the Company's liabilities was PLN 6,575,050 thousand (December 31st 2011: PLN 6,889,922 thousand).

In 2012, the Company recognised an impairment loss on property, plant and equipment under construction of PLN 1,842 thousand (2011: PLN 19,713 thousand).

As at December 31st 2012, the Company's liabilities under executed agreements relating to expenditure on property, plant and equipment amounted to PLN 35,931 thousand.

14. Intangible assets

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Goodwill	1,862	1,862	1,862
Licences, patents and trademarks	83,282	77,550	42,421
Other	5,052	3,942	4,372
Total	**90,196**	**83,354**	**48,655**

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

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Cost of sales	3,100	3,404
Distribution costs	116	62
Administrative expenses	5,028	3,943
Change in products and adjustments to cost of sales	91	75
Total	**8,335**	**7,484**

Change in intangible assets

PLN '000	Goodwill	Licences, patents and trademarks	Other	Total
Gross carrying amount Jan 1 2012	**1,862**	**132,277**	**10,066**	**144,205**
Increase:	-	13,860	1,625	15,485
- purchase	-	*180*	*98*	*278*
- transfer from property, plant and equipment under construction	-	*13,680*	*1,527*	*15,207*
Decrease:	-	(1,554)	(200)	(1,754)
- sale	-	*(180)*	-	*(180)*
- liquidation	-	*(582)*	*(200)*	*(782)*
- other	-	*(792)*	-	*(792)*
Gross carrying amount Dec 31 2012	**1,862**	**144,583**	**11,491**	**157,936**
Gross carrying amount Jan 1 2011	**1,862**	**90,224**	**9,941**	**102,027**
Increase:	-	42,053	129	42,182
- purchase	-	-	*92*	*92*
- transfer from property, plant and equipment under construction	-	*42,053*	*37*	*42,090*
Decrease:	-	-	(4)	(4)
- liquidation	-	-	*(4)*	*(4)*
Gross carrying amount Dec 31 2011	**1,862**	**132,277**	**10,066**	**144,205**
Accumulated amortisation Jan 1 2012	**-**	**54,727**	**6,124**	**60,851**
Increase:	-	7,820	515	8,335
- depreciation	-	*7,820*	*515*	*8,335*
Decrease:	-	(1,246)	(200)	(1,446)
- liquidation	-	*(582)*	*(200)*	*(782)*
- other	-	*(664)*	-	*(664)*
Accumulated depreciation Dec 31 2012	**-**	**61,301**	**6,439**	**67,740**
Accumulated depreciation Jan 1 2011	**-**	**47,803**	**5,569**	**53,372**
Increase:	-	6,924	560	7,484
- depreciation	-	*6,924*	*560*	*7,484*
Decrease:	-	-	(5)	(5)
- liquidation	-	-	*(5)*	*(5)*
Accumulated depreciation Dec 31 2011	**-**	**54,727**	**6,124**	**60,851**
Impairment losses Jan 1 2012	**-**	**-**	**-**	**-**
Recognised	-	-	-	-
Used / Reversed	-	-	-	-
Impairment losses Dec 31 2012	**-**	**-**	**-**	**-**
Impairment losses Jan 1 2011	**-**	**-**	**-**	**-**
Recognised	-	-	-	-
Used / Reversed	-	-	-	-
Impairment losses Dec 31 2011	**-**	**-**	**-**	**-**
Net carrying amount Dec 31 2012	**1,862**	**83,282**	**5,052**	**90,196**
Net carrying amount Dec 31 2011	**1,862**	**77,550**	**3,942**	**83,354**
Net carrying amount Jan 1 2011	**1,862**	**42,421**	**4,372**	**48,655**

15. Assets held for sale

On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold. The gain on the sale, in the amount of PLN 52,057 thousand is presented in the statement of comprehensive income for 2012 under "Gain on disposal of investments". Cash proceeds of PLN 78,000 thousand from the sale of LOTOS Parafiny Sp. z o.o. shares are presented under "Sale of shares in related entities" in the statement of cash flows for 2012. As at December 31st 2011, the Company recognised its shareholding in LOTOS Parafiny Sp. z o.o., in the amount of PLN 25,943 thousand, as assets held for sale.

16. Shares

	Dec 31 2012	Dec 31 2011	Jan 1 2011
Shares in related entities	904,208	850,704	780,850
Shares in other entities	6,312	6,312	6,315
Total	**910,520**	**857,016**	**787,165**

16.1 Shares in related entities

Name	Registered office	Core business	Ownership interest (%)		Carrying amount of shares (PLN '000)	
			Dec 31 2012	Dec 31 2011	Dec 31 2012	Dec 31 2011
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	100.00%	100.00%	114,706	114,706
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	The company does not conduct operations	100.00%	100.00%	-	-
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	100.00%	100.00%	505	505
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%	78	78
Technical Ship Management Sp. z o.o. (1)	Gdańsk	On October 1st 2012, the company launched sea transport support activities involving advisory on the operation of ships.	- (1)	100.00%	-	507
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%	234	234
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100.00%	100.00%	4,020	4,020
LOTOS LAB Sp. z o.o.	Gdańsk	Laboratory analyses	100.00%	100.00%	50	50
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	100.00%	100.00%	3,906	3,906
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	100.00%	100.00%	353	353
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	- (2)	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	100.00%	100.00%	7,245	7,245
LOTOS Czechowice S.A. (parent of another group: LOTOS Czechowice Group)	Czechowice-Dziedzice	Storage and distribution of fuels	100.00%	100.00%	26,044	26,044
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	100.00%	100.00%	5,786	5,786
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	99.96% (3)	99.95% (3)	741,224	687,213
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Dormant	100.00%	100.00%	50	50

Name	Registered office	Core business	Ownership interest (%)		Carrying amount of shares (PLN '000)	
			Dec 31 2012	Dec 31 2011	Dec 31 2012	Dec 31 2011
AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group)	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	0.00137%	0. 00137%	3	3
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	0.005%	0.005%	3	3
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	0.005%	0.005%	1	1
LOTOS Exploration & Production Norge AS	Stavanger, Norway	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	0.00000013%	0.0000002%	0	0
Total shares					**904,208**	**850,704**

(1) On July 31st 2012, Grupa LOTOS S.A. sold 100% of shares in Technical Ship Management Sp. z o.o. (formerly LOTOS Ekoenergia Sp. z o.o.) to Miliana Shipholding Company Ltd.

(2) 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 780 m, VAT exclusive. As at December 31st 2011, the Company disclosed LOTOS Parafiny Sp. z o.o. shares under assets held for sale.

(3) 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, which are disclosed under "Receivables from acquisition of shares in related entities" (see Note 17). 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 2012 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 an aggregate value of PLN 179 thousand, representing 0.0146% of the company's share capital, of which 218 shares with an aggregate value of PLN 28 thousand, representing 0.0022% of the company's share capital, were entered in the share register.

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, as well as 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.

The table below presents changes in shareholdings in related entities:

PLN '000	Shares in related entities
Carrying amount as at Jan 1 2012	**850,704**
Acquisition of LOTOS Petrobaltic S.A. shares	54,011
Sale of Technical Ship Management Sp. z o.o. shares	(507)
Carrying amount as at Dec 31 2012	**904,208**
Carrying amount as at Jan 1 2011	**780,850**
Acquisition of shares in:	90,697
- LOTOS Jasło S.A.	*471*
- LOTOS Czechowice S.A.	*1,833*
- LOTOS Petrobaltic S.A.	*88,390*
- AB LOTOS Geonafta	*3*
Reclassification of LOTOS Parafiny Sp. z o.o. shares to assets held for sale	(20,843)
Carrying amount as at Dec 31 2011	**850,704**

In 2011 and 2012, the ability of LOTOS Paliwa Sp. z o.o. and LOTOS Petrobaltic S.A., 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 between subsidiary LOTOS Paliwa Sp. z o.o. and Bank Pekao S.A. and PKO BP S.A. imposed restrictions on the amount of surplus cash generated by LOTOS Paliwa Sp. z o.o. in the financial year that may be allocated to dividend payment and set specific ratios to be met.
- 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 LOTOS Paliwa Sp. z o.o.

17. 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:	339,329		339,423	238,698
Additional contributions to related entities' equity	*237,700*		*237,700*	*237,700*
Receivables on purchase of shares in related entities [(1)]	*483*		*53,980*	-
Loans advanced to related entities	*92,095*	[(2)]	-	-
Deposits [(3)]	-		*38,106*	-
Security deposit (margin) [(4)]	*9,051*		*9,637*	*998*
Total	**339,329**		**339,423**	**238,698**
Current financial assets				
Trade receivables	1,670,509		2,177,238	1,699,108
- including from related entities:	*1,150,079*		*1,730,282*	*1,222,999*
Other financial assets:	188,528		49,422	79,665
Additional contributions to related entities' equity	*4,281*		*4,281*	*9,380*
Loans advanced to related entities	*61,281*	[(2)]	*750*	*62,165*
Deposits [(3)]	*122,502*		*40,497*	*5,932*
Cash pool	*41*		-	-
Other receivables	*423*		*3,894*	*2,188*
Total	**1,859,037**		**2,226,660**	**1,778,773**
Total financial assets	**2,198,366**		**2,566,083**	**2,017,471**
Non-financial assets				
Non-current non-financial assets				
Other	3,619		3,900	3,311
Total	**3,619**		**3,900**	**3,311**
Current non-financial assets				
Receivables from the state budget other than income tax	104,679	[(5)]	9,006	-
Property and other insurance	34,430		26,619	19,981
Other [(6)]	30,949		34,881	22,985
Total	**170,058**		**70,506**	**42,966**
Total non-financial assets	**173,677**		**74,406**	**46,277**
Total	**2,372,043**		**2,640,489**	**2,063,748**
Non-current	342,948		343,323	242,009
Current	2,029,095		2,297,166	1,821,739

[(1)] Receivables on purchase of shares in LOTOS Petrobaltic S.A., for more information see Note 16.1.
[(2)] Loans to LOTOS Petrobaltic S.A., for more information see Note 34.1.
[(3)] Deposits include:
- 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 in Note 25.

- deposits of PLN 11,432 thousand (December 31st 2011: PLN 7,874 thousand), serving as security for payment of interest on the inventory financing facility referred to in Note 25.
- deposits of PLN 27,244 thousand (December 31st 2011: PLN 32,623 thousand), serving as security for payment of interest on the credit facilities contracted to finance the 10+ Programme, referred to in Note 25.

(4) Security deposit (margin) of PLN 9,051 thousand, transferred to Grupa LOTOS S.A.'s account with BNP Paribas Bank Polska, to enable execution of transactions on the ICE Futures Internet platform (December 31st 2011: security deposit (margin) of PLN 9,637 thousand, with Marex Financial brokerage firm).

(5) Value added tax (December 31st 2011: mainly advance payments towards customs duty on a delivery made in 2012, in the amount of PLN 7,902 thousand).

(6) Including excise duty of PLN 29,151 thousand due to inter-warehouse transfers (December 31st 2011: PLN 33,194 thousand).

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

As at December 31st 2012, the value of trade receivables assigned by way of security for the credit facility intended to finance the 10+ Programme, referred to in Note 25, was PLN 1,145,388 thousand (December 31st 2011: PLN 1,727,378 thousand).

Financial instruments are described in Note 7.19. The financial risk management objectives and policies are described in Note 30.

Maximum exposure to credit risk arising from financial assets as at December 31st 2012 and December 31st 2011 is presented in Note 30.6.

For sensitivity analysis of financial assets with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 30.3.

For sensitivity analysis of financial assets with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 30.4.

17.1 Change in impairment losses on receivables

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At the beginning of period	**86,480**	**85,986**
Recognised	462	1,147
Used	(68)	(649)
Reversed	(189)	(4)
At the end of period	**86,685**	**86,480**

Recognition and reversal of impairment losses on receivables is presented in other income or expenses in the case of principal, and in finance income or costs in the case of default interest.

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	2,416	42,823
From 1 to 3 months	496	133
From 3 to 6 months	-	2
From 6 months to 1 year	-	1,267
Over 1 year	269	-
Total	**3,181**	**44,225**

As at December 31st 2012, the share of trade receivables from the Company's largest customer as at the end of the reporting period represented 63.76% of total trade receivables (December 31st 2011: 70.39%).

The Company believes that there is no material concentration of credit risk in relation to trade receivables, except for trade receivables from the abovementioned customer, that is LOTOS Paliwa Sp. z o.o. (wholly owned by Grupa LOTOS S.A.). The Company's maximum exposure to credit risk as at the last day of the reporting period is best represented by the carrying amounts of those instruments.

18. Inventories

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011
Finished products	1,635,778	1,406,116	1,027,149
Semi-finished products and work in progress	734,131	606,137	432,756
Merchandise	228,398	227,318	251,724
Materials	3,107,410	3,397,750	2,586,871
Total	**5,705,717**	**5,637,321**	**4,298,500**

As at December 31st 2012 and December 31st 2011, the Company measured inventories at cost.

As at December 31st 2012, the value of inventories serving as collateral for Grupa LOTOS S.A.'s liabilities under the inventory refinancing facility referred to in Note 25 was PLN 4,992,180 thousand (December 31st 2011: PLN 5,054,327 thousand).

18.1 Change in impairment losses on inventories

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
At beginning of the period	**4,864**	**5,159**
Recognised	768	19
Used	(342)	(314)
Reversed	(4,820)	-
At end of the period	**470**	**4,864**
- including materials	*470*	*4,864*

[(1)] Reversal of impairment loss on materials following their use for own needs or reclassification in view of an overhaul shutdown planned for 2013.

Change in impairment losses on inventories in presented in cost of sales.

18.2 Mandatory reserves

In 2011 and 2012, Grupa LOTOS S.A. complied 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 4,350,326 thousand (December 31st 2011: PLN 4,425,263 thousand)

19. Cash and cash equivalents

PLN '000	Dec 31 2012	Dec 31 2011	Jan 1 2011 (restated)
Cash at bank	2,874	3,577	14,895
Cash in hand	12	21	18
Total	**2,886**	**3,598**	**14,913**

Cash at banks bears interest at variable rates set on the basis of interest rates for overnight bank deposits. Short-term deposits are placed for various maturities, ranging from one day to three months, depending on the Company'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 Company under working capital facilities in respect of which all conditions precedent had been fulfilled (including the facilities provided by Bank Syndicate (4), see Note 25) was PLN 237,684 thousand (December 31st 2011: PLN 1,213,149 thousand).

As at December 31st 2012, cash in bank accounts over which a registered pledge was created to secure Grupa LOTOS S.A.'s liabilities under credit facilities amounted to PLN 1,484 thousand (December 31st 2011: PLN 772 thousand).

20. Cash structure in the statement of cash flows

PLN '000	Note	Year ended Dec 31 2012	Year ended Dec 31 2011
Cash and cash equivalents	19	2,886	3,598
Overdraft facilities		(409,245)	(169,585)
Total		**(406,359)**	**(165,987)**

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

Other assets PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Change in other non-current and current assets in the statement of financial position	(238,283)	(98,611)
Change in other financial assets	147,863	36,153
Change in commission fees on revolving facilities, amortised over time	(365)	(365)
Change in other assets in the statement of cash flows	(90,785)	(62,823)

Other liabilities and provisions PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Change in other liabilities and provisions in the statement of financial position	(245,211)	138,096
Adjustment for deposits earmarked for repayment of bank borrowings	(14,185)	(168,346)
Change in investment commitments	(28,995)	59,303
Set-off of current tax assets against VAT liabilities	75,500	-
Change in other liabilities and provisions in the statement of cash flows	(212,891)	29,053

Cash PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Change in cash and cash equivalents in the statement of financial position	(712)	(11,315)
Change in overdraft facilities	(239,660)	32,394
Change in net cash in the statement of cash flows	(240,372)	21,079

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 under change in property, plant and equipment and intangible assets	411,496	375,689
Depreciation directly related to expenditure on property, plant and equipment under construction	(2)	(59)
Depreciation/amortisation disclosed in the statement of cash flows	411,494	375,630

Purchase of property, plant and equipment and intangible assets PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Purchase of property, plant and equipment and intangible assets disclosed in changes in property, plant and equipment and intangible assets	(140,303)	(93,218)
Change in investment commitments	29,157	(59,063)
Other	597	(1,032)
Purchase of property, plant and equipment and intangible assets disclosed in the statement of cash flows	(110,549)	(153,313)

Other items related to the statement of cash flows

Sale of shares in related entities PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Sale of LOTOS Parafiny Sp. z o.o. shares	78,000	-
Sale of Technical Ship Management Sp. z o.o (formerly LOTOS Ekoenergia Sp. z o.o.) shares	537	-
Sale of shares in related entities disclosed in the statement of cash flows	78,537	-

Repayment of loans advanced to related entities PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Repayment of the loan advanced to LOTOS Gaz S.A. w likwidacji (in liquidation)	650	-
Repayment of loans advanced to LOTOS Exploration and Production Norge AS	61,632	66,100
Repayment of loans advanced to related entities disclosed in the statement of cash flows	62,282	66,100

Acquisition of shares in related entities PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Acquisition of LOTOS Petrobaltic S.A. shares	(513)	(142,370)
Acquisition of LOTOS Jasło S.A. shares	-	(471)
Acquisition of LOTOS Czechowice S.A. shares	-	(1,833)
Acquisition of AB LOTOS Geonafta shares	-	(3)
Acquisition of shares in related entities disclosed in the statement of cash flows	(513)	(144,677)

Loans advanced to related entities PLN '000	**Year ended Dec 31 2012**	**Year ended Dec 31 2011**
Loans advanced to LOTOS Exploration and Production Norge AS	(62,721)	-
Loans advanced to LOTOS Petrobaltic S.A.	(155,858)	-
Loans advanced to LOTOS Gaz S.A. w likwidacji (in liquidation)	-	(972)
Loans advanced to related entities disclosed in the statement of cash flows	(218,579)	(972)

21. 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.

22. 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.

23. 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)**	**-**
Valuation of cash flow hedging instruments	472,197	(517,631)
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)**

24. Retained earnings

Retained earnings comprise capital reserves created and used in accordance with the rules stipulated by the applicable laws and provisions of the Company's 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. Bank borrowings and finance lease liabilities

PLN '000	**Dec 31 2012**	**Dec 31 2011**	**Jan 1 2011 (restated)**
Bank borrowings	5,532,118	6,469,042	5,680,561
Finance lease liabilities	-	-	67
Total	**5,532,118**	**6,469,042**	**5,680,628**
Non-current	4,069,561	4,786,893	4,141,016
Current	1,462,557	1,682,149	1,539,612

For sensitivity analysis of liabilities under bank borrowings with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 30.3.1.

For sensitivity analysis of liabilities under bank borrowings with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 30.4.1.

For maturity analysis of liabilities under bank borrowings as at December 31st 2012 and December 31st 2011, see Note 30.5.

Bank borrowings as at December 31st 2012, by currency and by maturity

PLN '000	EUR facilities	USD facilities	PLN facilities	Total
2013	1,221	1,380,905	80,431	1,462,557
2014	-	367,512	-	367,512
2015	-	381,684	-	381,684
2016	-	416,167	-	416,167
2017	-	409,554	-	409,554
after 2017	-	2,494,644	-	2,494,644
Total	**1,221**	**5,450,466**	**80,431**	**5,532,118**

Bank borrowings as at December 31st 2011, by currency and by maturity

PLN '000	EUR facilities	USD facilities	PLN facilities	Total
2012	280	1,584,282	97,587	1,682,149
2013	-	297,063	-	297,063
2014	-	405,466	-	405,466
2015	-	421,101	-	421,101
2016	-	459,145	-	459,145
after 2016	-	3,204,118	-	3,204,118
Total	**280**	**6,371,175**	**97,587**	**6,469,042**

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
- 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 to related entities (where sales exceeded PLN 10,000 thousand per year)
- submission to enforcement.

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,
- 3M EURIBOR - in the case of EUR-denominated facilities,
- 1M or 3M WIBOR - in the case of PLN-denominated facilities.

The bank margins on the contracted facilities fall within the range of 0.65 pp.– 2.00 pp.

As at December 31st 2012, the average effective interest rate for the credit facilities denominated in USD and EUR was approximately 2.30% (2.22% as at December 31st 2011).

In connection with the credit facilities relating to the execution of the 10+ Programme and the facility for the refinancing of inventories, Grupa LOTOS S.A. is required to maintain the Tangible Consolidated Net Worth ratio at least at the level specified in both facility agreements.

In addition, in connection with the inventories refinancing facility, 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.

Bank borrowings by lender

PLN '000	Dec 31 2012	Dec 31 2011
Non-current		
Bank Syndicate (2)**	2,988,669	3,513,826
Bank Syndicate (3)***	1,080,892	1,273,067
Non-current - total	**4,069,561**	**4,786,893**
Current		
Pekao S.A.	23,710	2,842
ING Bank Śląski S.A.	-	5
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)*****	930,574	-
Funds in bank deposits securing payment of interest and principal******	(191,196)	(177,011)
Current - total	**1,462,557**	**1,682,149**
Total	**5,532,118**	**6,469,042**

*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., 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., 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, the Company 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.

As at December 31st 2012, the Company had drawn USD 1,423.7m (in nominal terms) (*PLN 4,412.8m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2012*) under the facilities extended by Bank Syndicates (2) and (3). As at December 31st 2011, the Company had drawn USD 1,510.6m *(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. executed a credit facility agreement for refinancing and financing of inventories with a syndicate of five banks (Bank Syndicate (5)), 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 provided 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 (5), amounted to USD 300m *(PLN 929.9m, translated at the USD/PLN 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.

26. 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 swap (raw materials and petroleum products)	45	-	1,472
Futures (CO_2emissions)	-	8,304	35
Currency forward and spot contracts	73,452	16,175	13,180
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**	**49,961**
Total financial assets	**121,334**	**49,300**	**69,369**
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 swap (raw materials and petroleum products)	337	-	3,517
Futures (CO_2emissions)	2,494	15,607	-
Currency forward and spot contracts	20,685	50,497	18,773
Forward rate agreements (FRAs)	-	-	340
Interest rate swap (IRS)	60,975	44,770	148,253
Currency swap	18,033	18,560	22,881
Total	**102,524**	**129,434**	**193,764**
Total financial liabilities	**190,849**	**256,798**	**273,871**

For a description of derivative financial instruments see Note 7.19. The financial risk management objectives and policies are described in Note 30.

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 30.2.1.

For sensitivity analysis of derivative financial instruments with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 30.3.1.

For sensitivity analysis of derivative financial instruments with respect to interest rate risk as at December 31st 2012 and December 31st 2011, see Note 30.4.1.

For maturity analysis of derivative financial instruments as at December 31st 2012 and December 31st 2011, see Note 30.5.

Maximum exposure to credit risk arising from financial assets (derivative financial instruments) as at December 31st 2012 and December 31st 2011 is presented in Note 30.6.

27. Employee benefit obligations

PLN '000	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Non-current liabilities			
Length-of-service awards	34,513	29,440	22,458
Post-employment benefits	10,749	11,596	8,962
Total	**45,262**	**41,036**	**31,420**
Current liabilities			
Length-of-service awards	2,774	3,305	2,507
Post-employment benefits	3,704	3,859	2,466
Current liabilities under other employee benefits during employment	26,339	21,555	38,017
Salaries and wages payable	3,040	2,491	2,749
Total	**35,857**	**31,210**	**45,739**
Total obligations	**81,119**	**72,246**	**77,159**

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

In accordance with the Company remuneration systems, Grupa LOTOS S.A. 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 a professional actuary firm or based on own estimates, the Company 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	**32,745**	**15,455**	**48,200**
Current service cost	2,484	468	2,952
Interest cost	1,678	661	2,339
Past service cost	4,548	(1,410)	3,138
Benefits paid	(4,276)	(908)	(5,184)
Actuarial (gain)/loss	108	187	295
Dec 31 2012	**37,287**	**14,453**	**51,740**
including:			
non-current	34,513	10,749	45,262
current	2,774	3,704	6,478
Jan 1 2011	**24,965**	**11,428**	**36,393**
Current service cost	2,272	428	2,700
Interest cost	1,303	520	1,823
Past service cost	6,469	3,190	9,659
Benefits paid	(2,824)	(651)	(3,475)
Actuarial (gain)/loss	560	540	1,100
Dec 31 2011	**32,745**	**15,455**	**48,200**
including:			
non-current	29,440	11,596	41,036
current	3,305	3,859	7,164

27.2 Present value of future employee benefit obligations

(PLN '000)	Present value of future employee benefit obligations
Dec 31 2012	51,740
Dec 31 2011	48,200
Dec 31 2010	36,393
Dec 31 2009	33,168
Dec 31 2008	31,278

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

27.3 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	2,952	2,700
Interest cost	2,339	1,823
Past service cost	3,138	9,659
Actuarial (gain)/loss	295	1,100
Total	**8,724**	**15,282**

27.4 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%	2.7%
Expected growth rate of salaries and wages (%)	2.7%	2.8%

- 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% per annum, being the sum of: real annual remuneration growth rate of 1% and long-term annual inflation rate of 2.5% (the National Bank of Poland's inflation target).
- The long-term annual growth rate of remuneration: 2.7% (December 31st 2011: the long-term annual growth rate of remuneration assumed at 2.8%).
- 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 nine age categories in five-year intervals. The employee turnover ratio is now calculated on an average basis. In the previous year, the employee turnover ratio was presented in age categories and as at December 31st 2011 ranged from 1.3% to 5.7%
- 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 Company’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.
- The standard procedure of employee's retirement was adopted, 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.

27.5 Termination benefits

In 2012, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 1,532 thousand (2011: PLN 1,246 thousand).

28. Trade and other payables, other liabilities and provisions

PLN '000	Note	Dec 31 2012	Dec 31 2011 (restated)	Jan 1 2011 (restated)
Current financial liabilities				
Trade and other payables		2,161,910	2,801,979	1,729,709
- including to related entities	*34.1*	*179,297*	*173,228*	*74,001*
Other financial liabilities:		78,992	44,009	99,441
Investment commitments		*43,674*	*14,679*	*73,982*
- including to related entities	*34.1*	*5,682*	*1,556*	*2,672*
Liabilities to insurers		*34,895*	*28,989*	*21,644*
Other liabilities		*423*	*341*	*3,815*
- including to related entities	*34.1*	*7*	*-*	*-*
Total financial liabilities		2,240,902	2,845,988	1,829,150
Current non-financial liabilities				
Other provisions		1,417	1,357	1,699
Liabilities to the state budget other than corporate income tax(1)		635,564	923,043	727,265
Government grants	28.1	25,033	23,580	25,275
Other		6,618	846	1,059
Total non-financial liabilities		668,632	948,826	755,298
Total		2,909,534	3,794,814	2,584,448

(1) Including PLN 627,748 thousand in liabilities related to excise duty and fuel charge (December 31st 2011: PLN 725,955 thousand)

Trade and other payables do not bear interest and are, as a rule, settled on a 14–30 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. Liabilities under interest are typically settled within 14 days from the date of issue of a default interest note by the business partner.

For sensitivity analysis of financial liabilities with respect to currency risk as at December 31st 2012 and December 31st 2011, see Note 30.3.1.

For maturity analysis of financial liabilities as at December 31st 2012 and December 31st 2011, see Note 30.5.

28.1 Grants

PLN '000	for the year ended Dec 31 2012	for the year ended Dec 31 2011
Balance at beginning of period	**23,580**	**25,275**
Received during the year	2,186	5,206
Recognised in profit or loss	(733)	(433)
Other	-	(6,468) (1)
Balance at end of period	**25,033**	**23,580**

(1) Licences obtained by the Company 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.

29. Financial instruments

29.1 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**	**1,958,788**	**6,312**	**-**	**2,086,434**
Shares	16	-	-	6,312	-	6,312
Derivative financial instruments	26	121,334	-	-	-	121,334
Trade receivables	17	-	1,670,509	-	-	1,670,509
Cash and cash equivalents		-	2,886	-	-	2,886
Other financial assets:	17	-	285,393	-	-	285,393
- Loans advanced to related entities		-	*153,376*	-	-	*153,376*
- Deposits		-	*122,502*	-	-	*122,502*
- Security deposit (margin)		-	*9,051*	-	-	*9,051*
- Cash pool		-	*41*	-	-	*41*
- Other receivables		-	*423*	-	-	*423*
Financial liabilities		**(190,849)**	**-**	**-**	**(7,773,020)**	**(7,963,869)**
Bank borrowings	25	-	-	-	(5,532,118)	(5,532,118)
Derivative financial instruments	26	(190,849)	-	-	-	(190,849)
Trade and other payables	28	-	-	-	(2,161,910)	(2,161,910)
Other financial liabilities	28	-	-	-	(78,992)	(78,992)
Total		**(69,515)**	**1,958,788**	**6,312**	**(7,773,020)**	**(5,877,435)**

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**	**2,273,720**	**6,312**	**-**	**2,329,332**
Shares	16	-	-	6,312	-	6,312
Derivative financial instruments	26	49,300	-	-	-	49,300
Trade receivables	17	-	2,177,238	-	-	2,177,238
Cash and cash equivalents		-	3,598	-	-	3,598
Other financial assets:	17	-	92,884	-	-	92,884
- Loans advanced to related entities		-	*750*	-	-	*750*
- Deposits		-	*78,603*	-	-	*78,603*
- Security deposit (margin)		-	*9,637*	-	-	*9,637*
- Cash pool		-	-	-	-	-
- Other receivables		-	*3,894*	-	-	*3,894*
Financial liabilities		**(256,798)**	**-**	**-**	**(9,315,030)**	**(9,571,828)**
Bank borrowings	25	-	-	-	(6,469,042)	(6,469,042)
Derivative financial instruments	26	(256,798)	-	-	-	(256,798)
Trade and other payables	28	-	-	-	(2,801,979)	(2,801,979)
Other financial liabilities	28	-	-	-	(44,009)	(44,009)
Total		**(207,498)**	**2,273,720**	**6,312**	**(9,315,030)**	**(7,242,496)**

[(1)] As at December 31st 2012 and December 31st 2011, the Company held shares in other entities measured at historical cost less impairment losses. For more information, see Note 16.

As at December 31st 2012 and December 31st 2011, the fair value of financial assets and liabilities did not materially differ from their carrying amounts.

29.2 Fair value hierarchy

PLN '000	Dec 31 2012		Dec 31 2011	
	Level 1	Level 2	Level 1	Level 2
Financial assets	**-**	**121,334**	**8,304**	**40,996**
Commodity swap	-	45	-	-
Futures (CO_2emissions)	-	-	8,304	-
Currency forward and spot contracts	-	73,452	-	16,175
Interest rate swap (IRS)	-	11,318	-	23,738
Currency swap	-	36,519	-	1,083
Financial liabilities	**(3,787)**	**(187,062)**	**(15,607)**	**(241,191)**
Commodity swap	-	(337)	-	-
Futures (CO_2emissions)	(3,787)	-	(15,607)	-
Currency forward and spot contracts	-	(20,685)	-	(50,497)
Interest rate swap (IRS)	-	(148,007)	-	(172,134)
Currency swap	-	(18,033)	-	(18,560)
Total	**(3,787)**	**(65,728)**	**(7,303)**	**(200,195)**

29.3 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:		**-**	**-**	**-**	**-**	**-**
Gains/(Losses) on sale		-	-	-	-	-
Trade receivables:		**-**	**(51,100)**	**-**	**-**	**(51,100)**
Interest income recognised in finance income		-	*958*	-	-	*958*
Foreign exchange gains/(losses) recognised in cost of sales		-	*(51,991)*	-	-	*(51,991)*
Reversal/(recognition) of impairment losses recognised in other income/(expenses)		-	*(67)*	-	-	*(67)*
Cash and cash equivalents:		**-**	**(27,281)**	**-**	**-**	**(27,281)**
Interest income recognised in finance income		-	*378*	-	-	*378*
Foreign exchange gains/(losses) recognised in finance income		-	*(27,659)*	-	-	*(27,659)*
Other financial assets:		**-**	**7,310**	**-**	**-**	**7,310**
Interest income recognised in finance income		-	*11,928*	-	-	*11,928*
Foreign exchange gains/(losses) recognised in finance income		-	*(4,518)*	-	-	*(4,518)*
Impairment losses recognised in finance income		-	*(100)*	-	-	*(100)*
Derivative financial instruments (financial assets/liabilities):	9.3	**93,054**	**-**	**-**	**-**	**93,054**
Gains/(losses) on fair value measurement of derivative financial instruments recognised in finance income		*137,985*	-	-	-	*137,985*
Gains/(losses) on realisation of derivative financial instruments recognised in finance income		*(44,931)*	-	-	-	*(44,931)*
Bank borrowings		**-**	**-**	**-**	**496,531**	**496,531**
Interest expenses recognised in finance costs		-	-	-	*(136,731)*	*(136,731)*
Foreign exchange gains/(losses) recognised in finance income		-	-	-	*161,065*	*161,065*
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income, net		-	-	-	*472,197*	*472,197*
Trade and other payables:		**-**	**-**	**-**	**25,104**	**25,104**
Interest expenses recognised in finance costs		-	-	-	*(1,892)*	*(1,892)*
Foreign exchange gains/(losses) recognised in cost of sales		-	-	-	*26,996*	*26,996*
Other financial liabilities:		**-**	**-**	**-**	**(8,260)**	**(8,260)**
Interest expenses recognised in finance costs		-	-	-	*(8,921)*	*(8,921)*
Foreign exchange gains/(losses) recognised in finance income		-	-	-	*661*	*661*
Total		**93,054**	**(71,071)**	**-**	**513,375**	**535,358**

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:		**-**	**-**	**(1)**	**-**	**(1)**
Gains/(losses) on sale recognised in finance costs		-	-	*(1)*	-	*(1)*
Trade receivables:		**-**	**(3)**	**-**	**-**	**(3)**
Interest income recognised in finance income		-	*402*	-	-	*402*
Foreign exchange gains/(losses) recognised in cost of sales		-	*(378)*	-	-	*(378)*
Reversal/(recognition) of impairment losses recognised in other income/(expenses)		-	*(27)*	-	-	*(27)*
Cash and cash equivalents:		**-**	**30,300**	**-**	**-**	**30,300**
Interest income recognised in finance income		-	*436*	-	-	*436*
Foreign exchange gains/(losses) recognised in finance costs		-	*29,864*	-	-	*29,864*
Other financial assets:		**-**	**12,614**	**-**	**-**	**12,614**
Interest income recognised in finance income		-	*6,018*	-	-	*6,018*
Foreign exchange gains/(losses) recognised in finance costs		-	*6,818*	-	-	*6,818*
Impairment losses recognised in finance costs		-	*(222)*	-	-	*(222)*
Derivative financial instruments (financial assets/liabilities):	9.6	**(109,725)**	**-**	**-**	**-**	**(109,725)**
Gains/(losses) on fair value measurement of derivative financial instruments recognised in finance costs		*(2,995)*	-	-	-	*(2,995)*
Gains/(losses) on realisation of derivative financial instruments recognised in finance costs		*(106,730)*	-	-	-	*(106,730)*
Bank borrowings		**-**	**-**	**-**	**(946,910)**	**(946,910)**
Interest expenses recognised in finance costs		-	-	-	*(105,313)*	*(105,313)*
Foreign exchange gains/(losses) recognised in finance costs		-	-	-	*(323,966)*	*(323,966)*
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income, net		-	-	-	*(517,631)*	*(517,631)*
Trade and other payables:		**-**	**-**	**-**	**(317,508)**	**(317,508)**
Interest expenses recognised in finance costs		-	-	-	*(59)*	*(59)*
Foreign exchange gains/(losses) recognised in cost of sales		-	-	-	*(317,449)*	*(317,449)*
Other financial liabilities:		**-**	**-**	**-**	**(8,523)**	**(8,523)**
Interest expenses recognised in finance costs		-	-	-	*(9,160)*	*(9,160)*
Foreign exchange gains/(losses) recognised in finance costs		-	-	-	*637*	*637*
Total		**(109,725)**	**42,911**	**(1)**	**(1,272,941)**	**(1,339,756)**

30. Objectives and policies of financial risk management

The Company 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 Grupa LOTOS S.A., 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.

Grupa LOTOS S.A. 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, Grupa LOTOS S.A. 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 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.

30.1 Risk related to prices of raw materials and petroleum products

Grupa LOTOS S.A. considers risk related to prices of raw materials and petroleum products, as well as currency risk, to be particularly important.

Currently, Grupa LOTOS S.A. 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	Financial liabilities
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)**

30.2 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 CO_2 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 (in tonnes):

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
EUA Futures	Aug–Dec 2011	Dec 2012	(405,000)	11,94	Phase II	8,304	(34)
CER Futures	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 valued 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 allowances granted for the individual years, see Note 32.

30.2.1 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 Company 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**

30.3 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)	-	(10)
Currency forward	Purchase	Aug–Dec 2012	Jan–Nov 2013	USD/PLN	168,948	3.2465	(548,490)	57	(18,959)
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**	**(38,718)**

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	712,553	13,165	(15,031)
Currency forward	Sale	Dec 2011	Jan 2012	EUR/USD	(2,000)	1.2914	2,583	-	(7)
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	-
							TOTAL	**17,258**	**(69,057)**

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 Grupa LOTOS S.A. 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 Grupa LOTOS S.A. 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)

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

Below is presented an analysis of the Company'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 PLN '000	**Note**	**Carrying amount in foreign currency translated into PLN as at the balance-sheet date**	**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**	
			USD	**EUR**	**USD**	**EUR**
Financial assets		**477,257**	**(70,951)**	**29,489**	**70,951**	**(29,489)**
Trade receivables		245,866	9,769	65	(9,769)	(65)
Derivative financial instruments	26	121,334	(84,720)	29,022	84,720	(29,022)
Cash and cash equivalents		1,049	2	40	(2)	(40)
Other financial assets:	17	109,008	3,998	362	(3,998)	(362)
Loans advanced to related entities		*61,281*	*2,451*	-	*(2,451)*	-
Deposits		*38,676*	*1,547*	-	*(1,547)*	-
Security deposit (margin)		*9,051*	-	*362*	-	*(362)*
Financial liabilities		**(7,461,263)**	**(116,845)**	**(1,994)**	**116,845**	**1,994**
Trade and other payables		(1,761,738)	(69,850)	(620)	69,850	620
Other financial liabilities	28	(56,989)	(714)	(1,565)	714	1,565
Bank borrowings	25	(5,451,687)	(44,465) (1)	(49)	44,465 (1)	49
Derivative financial instruments	26	(190,849)	(1,816)	240	1,816	(240)
Total		**(6,984,006)**	**(187,796)**	**27,495**	**187,796**	**(27,495)**

(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, net would potentially lead to a change of PLN (176,513) 176,513 thousand in the fair value of the credit facilities.

Dec 31 2011 PLN '000	Note	Carrying amount in foreign currency translated into PLN as at the balance-sheet date	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	
			USD	EUR	USD	EUR
Financial assets		**237,279**	**(20,964)**	**2,401**	**20,964**	**(2,401)**
Trade receivables		134,381	5,300	75	(5,300)	(75)
Derivative financial instruments	26	49,300	(27,887)	1,805	27,887	(1,805)
Cash and cash equivalents		3,464	3	136	(3)	(136)
Other financial assets:	17	50,134	1,620	385	(1,620)	(385)
Loans advanced to related entities		-	-	-	-	-
Deposits		*40,497*	*1,620*	-	*(1,620)*	-
Security deposit (margin)		*9,637*	-	*385*	-	*(385)*
Financial liabilities		**(9,076,131)**	**(239,037)**	**39,923**	**239,037**	**(39,923)**
Trade and other payables		(2,441,892)	(96,623)	(1,053)	96,623	1,053
Other financial liabilities	28	(5,986)	(64)	(175)	64	175
Bank borrowings	25	(6,371,455)	(102,078) [1]	(11)	102,078 [1]	11
Derivative financial instruments	26	(256,798)	(40,272)	41,162	40,272	(41,162)
Total		**(8,838,852)**	**(260,001)**	**42,324**	**260,001**	**(42,324)**

[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, net would potentially lead to a change of PLN (156,095) 156,095 thousand in the fair value of the credit facilities.

30.4 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 described in Note 25.

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:

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 held 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%

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

Below is presented an analysis of the Company'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		**299,174**	**575**	**(575)**
Derivative financial instruments [1]	26	11,318	(1)	1
Cash and cash equivalents	19	2,886	6	(6)
Other financial assets:	17	284,970	570	(570)
Loans advanced to related entities		*153,376*	*307*	*(307)*
Deposits		*122,502*	*245*	*(245)*
Security deposit		*9,051*	*18*	*(18)*
Cash pool		*41*	*0*	*(0)*
Financial liabilities		**(5,680,125)**	**(1,076)**	**977**
Bank borrowings	25	(5,532,118)	(8,769)	8,769
Derivative financial instruments [1]	26	(148,007)	7,693	(7,792)
Total		**(5,380,951)**	**(501)**	**402**

[1] Interest rate swap (IRS)

Dec 31 2011 PLN '000	**Note**	**Carrying amount**	**Change**	
			+0.2%	**-0.2%**
Financial assets		**116,326**	**(511)**	**514**
Derivative financial instruments [1]	26	23,738	(696)	699
Cash and cash equivalents	19	3,598	7	(7)
Other financial assets:	17	88,990	178	(178)
Loans advanced to related entities		*750*	*2*	*(2)*
Deposits		*78,603*	*157*	*(157)*
Security deposit (margin)		*9,637*	*19*	*(19)*
Cash pool		-	-	-
Financial liabilities		**(6,641,176)**	**780**	**(904)**
Bank borrowings	25	(6,469,042)	(10,247)	10,247
Derivative financial instruments [1]	26	(172,134)	11,027	(11,151)
Total		**(6,524,850)**	**269**	**(390)**

[1] Interest rate swap (IRS)

30.5 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
Bank borrowings (other than overdraft facilities)	25	5,099,163	5,364,364	1,059,159	166,232	373,780	1,228,000	2,537,193
Overdraft facilities	25	432,955	432,955	432,955	-	-	-	-
Trade and other payables	28	2,161,910	2,161,910	2,161,910	-	-	-	-
Other financial liabilities	28	78,992	78,992	78,992	-	-	-	-
Total		**7,773,020**	**8,038,221**	**3,733,016**	**166,232**	**373,780**	**1,228,000**	**2,537,193**

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
Bank borrowings (other than overdraft facilities)	25	6,296,610	6,556,782	122,920	1,568,595	301,927	1,306,763	3,256,577
Overdraft facilities	25	172,432	172,432	172,432	-	-	-	-
Trade and other payables	28	2,801,979	2,801,979	2,801,979	-	-	-	-
Other financial liabilities	28	44,009	44,009	44,009	-	-	-	-
Total		**9,315,030**	**9,575,202**	**3,141,340**	**1,568,595**	**301,927**	**1,306,763**	**3,256,577**

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

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	26	(292)	(291)	(24)	(267)	-	-	-
Futures (CO2 emissions)		(3,787)	(3,787)	-	(2,494)	(1,293)	-	-
Currency forward and spot contracts		52,767	59,422	68,656	(9,234)	-	-	-
Currency swap		18,486	25,463	23,790	1,673	-	-	-
Forward rate agreements (FRAs)		-	-	-	-	-	-	-
Interest rate swap (IRS)		(136,689)	(138,662)	(51,223)	1,543	(19,147)	(50,271)	(19,564)
Total		**(69,515)**	**(57,855)**	**41,199**	**(8,779)**	**(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	26	-	-	-	-	-	-	-
Futures (CO2 emissions)		(7,303)	(7,303)	-	(7,303)	-	-	-
Currency forward and spot contracts		(34,322)	(26,673)	(37,960)	11,287	-	-	-
Currency swap		(17,477)	(18,946)	(14,358)	(4,588)	-	-	-
Forward rate agreements (FRAs)		-	-	-	-	-	-	-
Interest rate swap (IRS)		(148,396)	(151,748)	(40,030)	6,916	(51,999)	(44,272)	(22,363)
Total		**(207,498)**	**(204,670)**	**(92,348)**	**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.

30.6 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 Company 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 no single counterparty in financial transactions exceeded PLN 25,619 thousand (0.16 % of the Company's balance-sheet total), at December 31st 2011: PLN 3,290 thousand. (0.02% of the Company'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. Grupa LOTOS S.A. 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 in connection with financial assets as at the last day of the reporting period:

PLN '000	Note	Dec 31 2012	Dec 31 2011
Shares	16	6,312	6,312
Derivative financial instruments	26	121,334	49,300
Trade receivables	17	1,670,509	2,177,238
Cash and cash equivalents	19	2,886	3,598
Other financial assets:	17	285,393	92,884
- Loans advanced to related entities		*153,376*	*750*
- Deposits		*122,502*	*78,603*
- Security deposit (margin)		*9,051*	*9,637*
- Cash pool		*41*	*-*
- Other receivables		*423*	*3,894*
Total		**2,086,434**	**2,329,332**

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 17.1 .

For discussion of concentration of credit risk related to trade receivables as at December 31st 2012 and December 31st 2011, see Note 17.

For age analysis of receivables which are past due but not impaired, as at December 31st 2012 and December 31st 2011, see Note 17.1.

31. Capital management

The objective of Grupa LOTOS S.A. 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. Grupa LOTOS S.A. monitors its financing structure using the debt to equity ratio, calculated as net debt to equity.

Net debt includes bank borrowings, less cash and cash equivalents.

PLN '000	Note	Dec 31 2012	Dec 31 2011
Non-current bank borrowings	25	4,069,561	4,786,893
Current bank borrowings	25	1,462,557	1,682,149
Cash and cash equivalents	19	(2,886)	(3,598)
Net debt		**5,529,232**	**6,465,444**
Total equity		**7,052,353**	**5,833,442**
Net debt to equity		0.78	1.11

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.

32. Carbon dioxide (CO_2) emission allowances

As at December 31st 2012, considering the limit of allowances allocated for 2008–2012 and the forecast volume of (CO_2) emissions, the Company reported a deficit of the (CO_2) emission allowances it had been allocated, and therefore recognised a provision for emission allowances of PLN 910 thousand. In the year ended December 31st 2012, the Company sold carbon dioxide (CO_2) emission allowances.
As at December 31st 2011, considering the limit of allowances allocated for 2008–2012, the Company 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 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]	1,138	1,138	1,138	1,138	1,138	5,690
Additional allowances [2]	-	-	143	751	761	1,655
Total	**1,138**	**1,138**	**1,281**	**1,889**	**1,899**	**7,345**
Actual carbon dioxide (CO_2) emissions [3]	1,135	1,052	1,099	2,005	1,979	7,270

[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 12,757 thousand tonnes, including 1,611 thousand tonnes for 2013.

For information on the risk related to prices of carbon emission (CO_2) allowances, see Note 30.2.

33. Contingent liabilities and assets

33.1 Material court, arbitration or administrative proceedings and other risks

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 financial statements, the ruling is not yet final.

Given that there was little risk of an unfavourable outcome of the case, the Company 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 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.

33.2 Other contingent liabilities

As at December 31st 2012, Grupa LOTOS S.A. 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.

34. Related parties

34.1 Related-party transactions

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Subsidiaries		
Sales to related entities	14,800,923	14,630,283
Purchases from related entities	1,529,602	1,328,210
Sale of property, plant and equipment and intangible assets	192	10
Purchase of property, plant and equipment and intangible assets	13,914	21,027
Dividends from related entities	286,761	239,969
Interest income on loans advanced to related entities	3,198	2,894
Other interest income	1,257	158
Other interest expenses	1,883	1

PLN '000	Dec 31 2012	Dec 31 2011
Subsidiaries		
Receivables from related entities	1,150,079	1,730,282
Liabilities to related entities	184,986	174,784

As at December 31st 2012, trade receivables from related parties subject to assignment amounted to PLN 1,145,388 thousand (December 31st 2011: PLN 1,727,378 thousand).

In 2012 and 2011, the Company did not issue any sureties for the benefit of related entities.

As at December 31st 2012 and December 31st 2011, the Company carried no sureties issued for the benefit of its related entities.

In 2012, loans advanced by the Company to related entities totalled PLN 218,579 thousand, including USD 39,500 thousand (2011: PLN 972 thousand).

In 2012, related entities repaid PLN 62,282 thousand as loan principal, and the nominal value of loans was USD 20.000 thousand (2011: PLN 66,100 thousand and USD 20,000 thousand, respectively).

Loans advanced to subsidiaries in the year ended December 31st 2012

Related entity	Loan agreement date	Principal, as specified in agreement		Maturity date	Security	Financial terms (interest)
		PLN	Currency			
LOTOS Exploration and Production Norge AS	Feb 22 2012	31,365[1]	10,000 USD	Jan 31 2013 [2]	blank promissory note with a "protest waived" clause and promissory note declaration	variable annual interest based on 3M LIBOR plus margin
	Mar 16 2012	31,688[1]	10,000 USD	Jan 31 2013 [2]		
LOTOS Petrobaltic S.A.	Aug 29 2012	33,081[1]	10,000 USD	Jul 31 2013	blank promissory note with a "protest waived" clause and promissory note declaration	variable annual interest based on 6M LIBOR (applicable to USD) plus margin
	Sep 27 2012	30,624 [1]	9,500 USD	Jul 31 2013		
	Dec 24 2012	92,000	-	Dec 31 2015	blank promissory note with a "protest waived" clause and promissory note declaration	variable annual interest based on 6M WIBOR plus margin

[1] Translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for the loan agreement date.
[2] Loan was repaid in full on December 28th 2012.

In addition, on January 31st 2012, LOTOS Gaz S.A. w likwidacji (in liquidation) repaid another portion (PLN 650 thousand) of the PLN 2,000 thousand loan contracted on June 29th 2010. By December 31st 2012, the company repaid PLN 1,750 thousand under the loan. Under another annex signed on November 30th 2012, the repayment date for the outstanding loan amount was extended until October 31st 2013.

In the year ended December 31st 2012, annexes were signed whereby the final dates for repayment of the loans granted to LOTOS Gaz S.A. w likwidacji (in liquidation) under the following loan agreements were postponed as follows:

- loan agreement of March 8th 2011 (for PLN 247 thousand), loan agreement of March 29th 2011 (for PLN 352 thousand), and loan agreement of August 5th 2011 (for PLN 160 thousand) - the repayment date was extended until May 31st 2013,
- loan agreement of May 26th 2011 (for PLN 123 thousand) - the repayment date was extended until October 31st 2013,
- loan agreement of October 31st 2011 (for PLN 90 thousand) - the repayment date was extended until August 31st 2013.

The loans bear interest at fixed rates, based on 3M WIBOR plus margin.

34.2 Entity exercising control over the Company

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

34.2.1 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 414,171 thousand (2011: PLN 63,746 thousand), while purchased amounted to PLN 1,225,161 thousand (2011: PLN 846,203 thousand).

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

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

PLN '000	Year ended Dec 31 2012	Year ended Dec 31 2011
Short-term employee benefits (salaries and wages), including:	18.281	19.740
- annual bonus paid	*4.565* [(1)]	*4.375* [(2)]
Total remuneration paid to key management staff (other than members of the Company's Management Board)	**18.281**	**19.740**

[(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	Dec 31 2012	Dec 31 2011
Liabilities under length-of-service awards and post-employment benefits	5,197	5,031
Other short-term employee benefits during employment (annual bonus)	4,731	4,564
Loans and other similar benefits	12	21

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

34.5 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 agreements or transactions to or with 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.

35. Material events subsequent to the last day of the reporting period

There were no material events occurring after the end of the reporting period and not reflected in the financial statements for the reporting period.

36. Approval of the financial statements

These 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