

	PLN'000		EUR'000	
	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Revenue	28,597,342	33,111,000	6,791,105	7,933,439
Operating profit/(loss)	146,494	312,756	34,788	74,937
Pre-tax profit/(loss)	(61,979)	366,341	(14,718)	87,776
Net profit	39,428	927,876	9,363	222,320
Net profit attributable to owners of the Parent	39,415	927,849	9,360	222,314
Net profit attributable to non-controlling interests	13	27	3	6
Total comprehensive income	123,450	1,284,223	29,316	307,702
Total comprehensive income attributable to owners of the Parent	123,439	1,284,210	29,313	307,699
Total comprehensive income attributable to non-controlling interests	11	13	3	3
Net cash from operating activities	1,436,496	1,347,080	341,129	322,762
Net cash from investing activities	(938,414)	(838,051)	(222,848)	(200,798)
Net cash from financing activities	(251,102)	(883,278)	(59,630)	(211,635)
Total net cash flow	246,980	(374,249)	58,651	(89,671)
Basic earnings per share (PLN/EUR)	0,30	7,14	0,07	1,71
Diluted earnings per share (PLN/EUR)	0,30	7,14	0,07	1,71

	PLN'000		EUR'000	
	As at Dec 31 2013	As at Dec 31 2012 (restated)	As at Dec 31 2013	As at Dec 31 2012 (restated)
Total assets	20,299,617	20,027,565	4,894,776	4,898,871
Equity attributable to owners of the Parent	9,189,307	9,065,725	2,215,786	2,217,535
Non-controlling interests	289	699	70	171
Total equity	9,189,596	9,066,424	2,215,856	2,217,706

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 2013	As at Dec 31 2012
1 EUR = 4.1472 PLN	1 EUR = 4.0882 PLN

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 2013	Year ended Dec 31 2012
1 EUR = 4.2110 PLN	1 EUR = 4.1736 PLN



THE LOTOS GROUP

**CONSOLIDATED FINANCIAL STATEMENTS FOR 2013
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS AS ENDORSED BY THE EUROPEAN UNION
WITH THE AUDITOR'S OPINION**

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THE LOTOS GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for 2013

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Revenue	8	28,597,342	33,111,000
Cost of sales	9.1	(26,913,268)	(30,339,959)
Gross profit		1,684,074	2,771,041
Distribution costs	9.1	(1,106,746)	(1,051,962)
Administrative expenses	9.1	(433,984)	(446,449)
Other income	9.3	30,337	41,963
Other expenses	9.4	(40,659)	(1,084,453)
Effect of accounting for step acquisition of control (AB LOTOS Geonafta Group)	6	-	61,650
Loss of control over subsidiary	2	13,472	20,966
Operating profit		146,494	312,756
Finance income	9.5	135,162	302,008
Finance costs	9.6	(342,627)	(248,423)
Share in net loss of equity-accounted entities	16	(1,008)	-
Pre-tax profit/(loss)		(61,979)	366,341
Corporate income tax	10.1	101,407	561,535
Net profit		39,428	927,876
Other comprehensive income:			
Items that may be reclassified to profit/loss:		84,174	357,244
Exchange differences on translating foreign operations		(13,646)	(39,100)
Cash flow hedges	23	120,765	472,197
Income tax on other comprehensive income	10.1	(22,945)	(75,853)
Items that will not be reclassified to profit/loss:		(152)	(897)
Actuarial gain/(loss) relating to post-employment benefits		(188)	(1,111)
Income tax on other comprehensive income	10.1	36	214
Other comprehensive income (net)		84,022	356,347
Total comprehensive income		123,450	1,284,223
Net profit attributable to:			
Owners of the Parent	11	39,415	927,849
Non-controlling interests	26	13	27
		39,428	927,876
Total comprehensive income attributable to:			
Owners of the Parent		123,439	1,284,210
Non-controlling interests	26	11	13
		123,450	1,284,223
Net profit attributable to owners of the Parent per share (PLN)			
Weighted average number of shares ('000)	11	129,873	129,873
- basic	11	0.30	7.14
- diluted	11	0.30	7.14

The Notes to the consolidated financial statements, presented on pages 8 to 112, are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
for 2013

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	13	10,048,374	9,685,850	10,523,550
Goodwill	14	46,688	46,688	46,688
Other intangible assets	15	686,222	548,659	475,580
Equity-accounted entities	16	66,222	-	-
Deferred tax assets	10.3	980,284	1,121,314	400,128
Other non-current assets	18	210,981	107,232	136,291
Total non-current assets		12,038,771	11,509,743	11,582,237
Current assets				
Inventories	19	5,731,851	5,966,203	5,855,840
- including mandatory stocks	19.2	4,250,530	4,353,207	4,427,752
Trade receivables	18	1,594,746	1,632,837	2,071,269
Current tax assets		30,755	90,566	132,876
Derivative financial instruments	28	73,935	121,334	37,202
Other current assets	18	325,079	436,121	224,404
Cash and cash equivalents	20	503,686	268,333	383,680
Total current assets		8,260,052	8,515,394	8,705,271
Assets held for sale	17	794	2,428	109,124
Total assets		20,299,617	20,027,565	20,396,632
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	61,019	(36,801)	(419,281)
Retained earnings	24	7,666,833	7,627,427	6,700,396
Exchange differences on translating foreign operations	25	20,234	33,878	59,100
Equity attributable to owners of the Parent		9,189,307	9,065,725	7,781,436
Non-controlling interests	26	289	699	947
Total equity		9,189,596	9,066,424	7,782,383
Non-current liabilities				
Borrowings, other debt instruments and finance lease liabilities	27	4,496,190	4,462,098	5,161,474
Derivative financial instruments	28	52,876	88,325	127,364
Deferred tax liabilities	10.3	281,307	322,873	105,226
Employee benefit obligations	29	151,425	129,862	115,914
Other liabilities and provisions	30	711,845	412,260	337,561
Total non-current liabilities		5,693,643	5,415,418	5,847,539
Current liabilities				
Borrowings, other debt instruments and finance lease liabilities	27	1,715,196	2,094,602	2,427,155
Derivative financial instruments	28	21,277	91,000	140,414
Trade payables	30	2,396,086	2,174,451	2,812,259
Current tax payables		8,823	5,752	7,420
Employee benefit obligations	29	105,057	110,930	94,737
Other liabilities and provisions	30	1,169,939	1,068,988	1,244,327
Total current liabilities		5,416,378	5,545,723	6,726,312
Liabilities directly associated with assets held for sale		-	-	40,398
Total liabilities		11,110,021	10,961,141	12,614,249
Total equity and liabilities		20,299,617	20,027,565	20,396,632

The Notes to the consolidated financial statements, presented on pages 8 to 112
are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
for 2013
prepared using the indirect method

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Cash flows from operating activities			
Net profit		39,428	927,876
Adjustments:		1,409,414	483,446
Income tax	10.1	(101,407)	(561,535)
Share in net loss of equity-accounted associates	16	1,008	-
Depreciation and amortisation	9.1	656,065	666,465
Foreign exchange (gains)/losses		121,495	(131,686)
Interest and dividends		193,156	197,801
(Gain)/loss from investing activities		11,576	977,849
Settlement and valuation of financial instruments	9.5	(112,861)	(117,772)
Decrease in trade receivables		23,023	453,082
Decrease/(Increase) in other assets		200,717	(197,483)
Decrease/(Increase) in inventories		232,696	(108,783)
Increase/(Decrease) in trade payables		238,465	(639,025)
(Decrease)/Increase in other provisions and liabilities		(70,378)	(84,497)
Increase in employee benefit obligations		15,859	29,030
Income tax paid		(12,346)	(64,242)
Net cash from operating activities		1,436,496	1,347,080
Cash flows from investing activities			
Dividends received		680	567
Interest received		6,988	9,316
Sale of property, plant and equipment and other intangible assets		9,429	27,727
Sale of shares		14,910	550
Repayment of loans advanced		-	1,536
Loss of control over subsidiary, net of cash disposed of		-	78,000
Sale of organised part of business		3,722	138
Purchase of property, plant and equipment and other intangible assets		(976,975)	(757,925)
Acquisition of shares in related entities		(13,560)	(13,017)
Acquisition of a subsidiary, net of cash acquired	2	-	(129,132)
Bank deposits for financing of maintenance shutdown		-	(45,721)
Security deposits (margins)		134	586
Funds contributed to the oil extraction facilities decommissioning fund	30.1	(1,654)	(1,886)
Settlement of derivative financial instruments		17,912	(8,790)
Net cash from investing activities		(938,414)	(838,051)
Cash flows from financing activities			
Proceeds from borrowings	27.1	963,045	542,530
Issue of notes	27.2	203,050	362,367
Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control	2	(278)	(182)
Repayment of borrowings	27.1	(1,263,548)	(1,171,040)
Redemption of notes	27.2	-	(364,000)
Interest paid		(176,361)	(205,185)
Decrease in finance lease liabilities		(16,811)	(15,234)
Settlement of derivative financial instruments		39,801	(32,534)
Net cash from financing activities		(251,102)	(883,278)
Total net cash flow		246,980	(374,249)
Effect of exchange rate fluctuations on cash held		(1,553)	(27,958)
Change in net cash		245,427	(402,207)
Cash at beginning of the period		(240,655)	161,552
Cash at end of the period	20	4,772	(240,655)

The Notes to the consolidated financial statements, presented on pages 8 to 112 are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for 2013

PLN '000	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Exchange differences on translating foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2013		129,873	1,311,348	(36,801)	7,627,427	33,878	9,065,725	699	9,066,424
<i>Net profit</i>		-	-	-	39,415	-	39,415	13	39,428
<i>Other comprehensive income (net)</i>		-	-	97,820	(152)	(13,644)	84,024	(2)	84,022
Total comprehensive income		-	-	97,820	39,263	(13,644)	123,439	11	123,450
Purchase of shares from non-controlling shareholders	2	-	-	-	143	-	143	(421)	(278)
Dec 31 2013		129,873	1,311,348	61,019	7,666,833	20,234	9,189,307	289	9,189,596
Jan 1 2012		129,873	1,311,348	(419,281)	6,700,396	59,100	7,781,436	947	7,782,383
<i>Net profit</i>		-	-	-	927,849	-	927,849	27	927,876
<i>Other comprehensive income (net)</i>		-	-	382,480	(897)	(25,222)	356,361	(14)	356,347
Total comprehensive income		-	-	382,480	926,952	(25,222)	1,284,210	13	1,284,223
Purchase of shares from non-controlling shareholders		-	-	-	79	-	79	(261)	(182)
Dec 31 2012 (restated)		129,873	1,311,348	(36,801)	7,627,427	33,878	9,065,725	699	9,066,424

The Notes to the consolidated financial statements, presented on pages 8 to 112, are an integral part of the statements.

(This is a translation of a document originally issued in Polish)

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

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

2. Composition of the Group and its changes

As at December 31st 2013, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent) and 34 production, service and trading companies, including:

- 13 direct subsidiaries of Grupa LOTOS S.A.,
- 21 indirect subsidiaries of Grupa LOTOS S.A.

In addition, the Group holds shares in equity-accounted entities and a proportionately-consolidated entity.

Detailed information on the registered addresses and business profiles of these entities, the Group's ownership interests and the applied method of consolidation is presented below.

Name	Registered office	Business profile	The Group's ownership interest	
			Dec 31 2013	Dec 31 2012
Parent				
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable
Direct fully-consolidated subsidiaries				
LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group)	Gdańsk	Acquisition of crude oil and natural gas deposits and hydrocarbon production	99.98% ⁽¹⁾	99.96%
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%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100.00%	100.00%
LOTOS LAB Sp. z o.o.	Gdańsk	Laboratory analyses	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100.00%	100.00%
LOTOS Terminale S.A. ⁽²⁾ (parent of another group: LOTOS Terminale Group)	Czechowice-Dziedzice	Storage and distribution of fuels	100.00%	100.00%
LOTOS Infrastruktura S.A. ⁽³⁾	Jasło	Storage and distribution of fuels Renting and operating of own or leased real estate	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków	Dormant	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Dormant	100.00%	100.00%

THE LOTOS GROUP
Consolidated financial statements for 2013
Notes to the financial statements

Name	Registered office	Business profile	The Group's ownership interest	
			Dec 31 2013	Dec 31 2012
Indirect fully-consolidated subsidiaries				
<i>LOTOS Terminale Group</i>				
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	100.00%	100.00%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	100.00%	100.00%
<i>LOTOS Petrobaltic Group</i>				
LOTOS Exploration and Production Norge AS	Norway, Stavanger	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	99.98% ⁽⁴⁾	99.96%
Aphrodite Offshore Services N.V.	Curaçao	Sea transport services (dormant)	99.98% ⁽⁴⁾	99.96%
ENERGOBALTIC Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	99.98% ⁽⁴⁾	99.96%
B8 Sp. z o.o.	Gdańsk	Support activities for extraction and quarrying operations (dormant)	99.98% ^(4, 5)	-
B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A.	Gdańsk	Exploration and production of crude oil and natural gas (dormant)	99.98% ^(4, 6)	-
Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Group)	Cyprus, Nicosia	Storage and transport of crude oil, other sea transport services	99.98% ⁽⁴⁾	99.96%
Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group)	Gdańsk	Sea transport support activities, ship operation advisory services	99.98% ⁽⁴⁾	99.96%
SPV Baltic Sp. z o.o.	Gdańsk	Provision of sea transport and related services	99.98% ^(4, 7)	-
Miliana Shipmanagement Ltd.	Cyprus, Nicosia	Provision of sea transport and related services	99.98% ⁽⁴⁾	99.96%
Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group)	Cyprus, Nicosia	Management of own assets	99.98% ⁽⁴⁾	99.96%
Bazalt Navigation Co. Ltd.	Cyprus, Nicosia	Ship chartering	99.98% ⁽⁴⁾	99.96%
Granit Navigation Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% ⁽⁴⁾	99.96%
Kambr Navigation Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% ⁽⁴⁾	99.96%
St. Barbara Navigation Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% ⁽⁴⁾	99.96%
Petro Icarus Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% ⁽⁴⁾	99.96%
Petro Aphrodite Company Ltd.	Cyprus, Nicosia	Ship chartering	99.98% ⁽⁴⁾	99.96%
AB LOTOS Geonafta (parent of another group: AB LOTOS Geonafta Group)	Lithuania, Gargždai	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	99.98% ⁽⁴⁾	99.96%
UAB Genciu Nafta	Lithuania, Gargždai	Crude oil exploration and production	99.98% ⁽⁴⁾	99.96%
UAB Manifoldas	Lithuania, Gargždai	Crude oil exploration and production	99.98% ⁽⁴⁾	99.96%
Equity-accounted entities				
LOTOS - Air BP Polska Sp. z o.o. ⁽⁸⁾	Gdańsk	Sale of aviation fuel and logistics services	50.00% ⁽⁸⁾	100.00%
<i>LOTOS Petrobaltic Group</i>				
Baltic Gas Sp. z o.o.	Gdańsk	Oil and gas production (support activities for oil and gas production)	49.99% ^(4, 9)	99.96%
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	Gdańsk	Crude oil and gas production	81,68% ^(4, 10)	99.96%
Proportionately-consolidated entities				
<i>AB LOTOS Geonafta Group</i>				
UAB Minijos Nafta	Lithuania, Gargždai	Crude oil exploration and production	49.99% ⁽⁴⁾	49.98%

⁽¹⁾ In 2013, Grupa LOTOS S.A. continued the squeeze-out process at LOTOS Petrobaltic S.A. Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of the squeeze-out, as at December 31st 2013 Grupa LOTOS S.A. held a 99.98% interest in the share capital of LOTOS Petrobaltic S.A.

⁽²⁾ On July 30th 2013, a change of the company's name from LOTOS Czechowice S.A. to LOTOS Terminale S.A. was registered.

⁽³⁾ On April 18th 2013, a change of the company's name from LOTOS Jasło S.A. to LOTOS Infrastruktura S.A. was registered.

⁽⁴⁾ The shareholding changes described in item ⁽¹⁾ above had effect on the indirect equity interests held by the Group in the LOTOS Petrobaltic Group entities.

⁽⁵⁾ On December 30th 2013, LOTOS Petrobaltic S.A. acquired 100% of shares in B8 Sp. z o.o. One of the objectives of the acquisition was to create establish a vehicle for the financing of development of the B-8 field (see below).

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⁽⁶⁾ On December 30th 2013, LOTOS Petrobaltic S.A. acquired 99.5% of shares in B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna, and became a limited partner in the company. B8 Sp. z o.o., holding 0.5% of the company's shares, is a minority shareholder and the general partner in the company. One of the objectives of the acquisition was to create establish a vehicle for the financing of development of the B-8 field (see below).

⁽⁷⁾ On December 20th 2013, Technical Ship Management Sp. z o.o. acquired 100% of shares in SPV Baltic Sp. z o.o.

⁽⁸⁾ On November 25th 2013, Grupa LOTOS S.A. sold 1,000 shares in LOTOS Tank Sp. z o.o., representing 50% of the company's share capital, to BP Europe SE (see below). On December 17th 2013, a change of the company's name from LOTOS Tank Sp. z o.o. to LOTOS-Air BP Polska Sp. z o.o. was registered.

⁽⁹⁾ The sale by LOTOS Petrobaltic S.A. of a 50% interest in Baltic Gas Sp. z o.o. to CalEnergy Resources Poland Sp. z o.o. was registered on May 17th 2013.

⁽¹⁰⁾ The presented ownership interest was determined based on the value of contributions made by individual partners relative to the sum of all contributions as at December 31st 2013:

- Baltic Gas Sp. z o.o. (general partner) (0.002%),
- LOTOS Petrobaltic S.A. (limited partner) (81.693%),
- CalEnergy Resources Poland Sp. z o.o. (CalEnergy) (limited partner) (18.305%).

The Group's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (a jointly-controlled entity) is 81.68%.

Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy spółka komandytowa ("Baltic Gas Sp. z o.o. i wspólnicy sp.k") is a partnership. The partnership agreement defines the profit and loss sharing ratio, whereby Baltic Gas Sp. z o.o. holds 0.001% share in profits and 100% share in losses, LOTOS Petrobaltic S.A. holds 50.9995% share in profits, and CalEnergy holds 48.9995% share in profits. The respective percentage shares in the total vote are not given, as any matters subject to the partners' decision, as set forth in the partnership agreement, require unanimous approval, or the partners are required to unanimously pass a resolution determining the procedure for deciding on other matters not specified in the partnership agreement. For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly-controlled by the Group.

Acquisition of Series A shares in LOTOS Petrobaltic S.A.

In 2013, Grupa LOTOS S.A. continued the squeeze-out of non-controlling interests in LOTOS Petrobaltic S.A. (excluding shares held by the State Treasury). From January 1st to December 31st 2013, the Company acquired 2,212 shares with a total value of PLN 278 thousand, representing 0.0223% of the share capital entered in the share register.

In line with IAS 27 Consolidated and Separate Financial Statements, the above transactions were accounted for as equity transactions; as a result, an amount of PLN 143 thousand was recognised as retained earnings attributable to the Parent, and the value of non-controlling interests decreased by PLN 421 thousand.

Following the acquisition of shares in LOTOS Petrobaltic S.A. as part of the squeeze-out, as at December 31st 2013 Grupa LOTOS S.A. held a 99.98% interest in the share capital of LOTOS Petrobaltic S.A. (9,938,484 shares).

CalEnergy Resources Poland Sp. z o.o. becomes a limited partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k.

On April 9th 2013, CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") became a limited partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy spółka komandytowa ("Baltic Gas Sp. z o.o. i wspólnicy sp.k"), a partnership established by LOTOS Petrobaltic S.A. for the purpose of implementing an investment agreement with CalEnergy of October 2012, which provides a framework for cooperation between the parties through a special purpose vehicle (the agreement was concluded subject to certain conditions precedent). CalEnergy made a cash contribution of PLN 5 thousand to Baltic Gas Sp. z o.o. i wspólnicy sp.k. Concurrently, LOTOS Petrobaltic S.A., as the other limited partner, increased its contribution to equity from PLN 5 thousand to PLN 52,000 thousand, making a cash payment of PLN 295 thousand and an in-kind contribution worth PLN 51,700 thousand. The cooperation agreement provides development of the B-4 and B-6 fields. Under the preparatory work schedule, seismic acquisition and selection of a preliminary field development concept are scheduled for 2013-2014. Upon completion of that stage, the partners will be able to make a final decision whether to pursue development of the B-4 and B-6 fields.

Acquisition of an equity interest in Baltic Gas Sp. z o.o. i wspólnicy sp.k by CalEnergy marked the end of preparation for joint operations on the two fields and the beginning of CalEnergy's financial commitment to the project. During the preparatory work, a number of conditions precedent for project launch were met, including the transfer of licences to Baltic Gas Sp. z o.o. i wspólnicy sp.k upon LOTOS Petrobaltic S.A.'s consent. By virtue of the Minister of Environment's decision dated March 13th 2013, the following licences were transferred to Baltic Gas Sp. z o.o. i wspólnicy sp.k:

- licence for exploration and appraisal of oil and gas deposits in the Gaz Północ area,
- licence for extraction of wet natural gas from the B-4 field located in the Polish exclusive economic zone of the Baltic Sea,
- licence for extraction of natural gas condensate from the B-6 field located in the Polish exclusive economic zone of the Baltic Sea.

Under the investment agreement, CalEnergy will finance the costs of seismic surveys, selection of the development concept and preparation of the front end engineering design.

The partners' participation in profits and losses and the percentage ownership interest in Baltic Gas Sp. z o.o. i wspólnicy sp.k, calculated on the basis of the value of contributions made by individual partners, is presented above.

Agreement on joint financing of the development of the B-8 oil field in the Baltic Sea. Acquisition of shares in special purpose vehicles

On October 7th 2013, LOTOS Petrobaltic S.A. and Polskie Inwestycje Rozwojowe S.A. ("PIR") executed an agreement to jointly finance the development of the B-8 oil field in the Baltic Sea. The purpose of the agreement is to work out the terms and structure of the project financing; a special purpose vehicle (SPV) has been established, to which LOTOS Petrobaltic S.A. will transfer the mining usufruct rights and the assets related to the development of the B-8 field. The tasks to be carried out by the SPV include completion of the drilling work within the field, installation of subsea production facilities, and conversion of the Petrobaltic drilling platform into a production unit. Subsequently, the SPV will produce and sell oil and gas extracted from the B-8 field. PIR will have its claims subordinated to those of banks as senior lenders. The financing can take the form of a private placement of corporate bonds with restricted transferability, and the financing period should not exceed 10 years. PIR has expressed its willingness to participate in the project financing on market terms. The total cost of the B-8 project, including the value of assets contributed by LOTOS Petrobaltic S.A. to the SPV, stands at approximately PLN 1,600m, of which the market value of the assets contributed by LOTOS Petrobaltic S.A. is approximately PLN 700m, and the total external financing to be provided by banks and PIR amounts to approximately PLN 900m. Under the agreement, PIR's share in the project financing will not exceed PLN 563m. The parties want the first tranche of the PIR financing to be advanced in the first half of 2014. The final project financing structure will be subject to further analyses and negotiations, and will be prepared in consultation with banks interested in providing funds for the project. Details of the final financing structure will be published in a report.

To facilitate the financing of the B-8 field development, on December 30th 2013 LOTOS Petrobaltic S.A. acquired 100% of shares in B8 Sp. z o.o. and 99.5% of shares in B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna, and became a limited partner in the company. With a 0.5% equity interest, B8 Sp. z o.o. is a minority shareholder and general partner in B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna.

Sale of shares in LOTOS Tank Sp. z o.o. (currently LOTOS Air-BP Polska Sp. z o.o.) to a third party

On November 25th 2013, Grupa LOTOS S.A. sold 1,000 shares in LOTOS Tank Sp. z o.o. (currently LOTOS Air-BP Polska Sp. z o.o.), representing 50% of the company's share capital, to BP Europe SE. The transaction was concluded under the joint venture agreement of June 25th 2013 between Grupa LOTOS S.A. and BP Europa SE, concerning establishment of a new entity based on assets of LOTOS Tank Sp. z o.o., through which the two partners will pursue joint operations in the aviation fuel market.

The effect of the loss of control over the subsidiary was presented in the consolidated statement of comprehensive income for 2013 under Loss of control over subsidiary, in the amount of PLN 13,472 thousand. In the consolidated statement of cash flows for 2013, net cash proceeds of PLN 14,907 thousand from the above transaction were presented under *Sale of shares*. Until the date of the loss of control, the subsidiary had been fully consolidated and a part of the downstream segment. As at December 31st 2013, shares in LOTOS-Air BP Polska Sp. z o.o. were accounted for with the equity method.

As a result of the transaction and in line with IAS 27.34.d, the Group disclosed the fair value of 50% of the shares resulting from recognition of the investment held in the former subsidiary, in the amount of PLN 14,907 thousand. The shares are disclosed in the consolidated statement of financial position under *Equity-accounted entities*.

3. Basis of preparation

These consolidated financial statements ("consolidated financial statements", "financial statements") were prepared in accordance with the International Financial Reporting Standards ("IFRS") endorsed by the European Union which were in effect as at December 31st 2013. Taking into account the ongoing process of implementing the IFRSs in the EU and the business conducted by the Group, as far as the accounting policies applied by the Group are concerned, there is no difference between the IFRS that became effective and the IFRSs endorsed by the EU for 2013, except for the new set of standards: IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements, and IAS 28 Investments in Associates and Joint Ventures, which will be applied by the Group for annual periods beginning on after January 1st 2014.

The following new standards, amendments to the existing standards and interpretations which have been endorsed by the European Union (the "EU") are effective in periods beginning after January 1st 2013:

- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for annual 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),
- Amendments to IAS 19 Employee Benefits (effective for annual periods beginning on or after January 1st 2013),
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual 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 EU effective for annual periods beginning on or after January 1st 2013),
- 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),
- Amendments introduced as part of Improvements to IFRSs published in May 2012 (effective for annual periods beginning on or after January 1st 2013).

The Group verified these amendments and decided that they had no material impact on the accounting policies applied by the Group to prepare these consolidated financial statements. For information on the impact of amendments under IAS 19 Employee Benefits, see Note 6.

The Parent's functional currency and the presentation currency of these consolidated financial statements is the Polish zloty. These consolidated financial statements were prepared in thousands of zloty and, unless indicated otherwise, all amounts are stated in thousands of zloty.

4. New standards and interpretations, which have been published, but are not applicable

The following new standards, amendments to the existing standards and interpretations have been endorsed by the European Union (the "EU"):

- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IAS 27 Separate Financial Statements, as amended in 2011 (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- IAS 28 Investments in Associates and Joint Ventures, as amended in 2011 (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- 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 10, IFRS 11 and IFRS 12 Transition Guidance (effective for annual periods beginning on or after January 1st 2013; in the EU effective for annual periods beginning on or after January 1st 2014),
- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting, published on June 27th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets, published on May 29th 2013 (effective for annual periods beginning on or after January 1st 2014),

Due to the Group's obligation to apply new standards, i.e. IFRS 10, IFRS 11, IFRS 12, IAS 27, and IAS 28 as of January 1st 2014, the Group will cease to use the method of proportionate consolidation for the annual periods beginning on or after January 1st 2014 and will account for shares in UAB Minijos Nafta with the equity method.

Starting from January 1st 2014, the investment in UAB Minijos Nafta will be disclosed in the consolidated financial statements under *Equity-accounted entities* as the Group's share in net assets of the company, accounting for changes in the assets in the future reporting periods, as well as elimination of the company's intra-Group transactions with other related parties. The Group will no longer disclose the investment as a share in UAB Minijos Nafta's assets, liabilities, revenue and expenses, which were previously aggregated with the corresponding items in the consolidated financial statements. The table below presents separate financial data of UAB Minijos Nafta as at December 31st 2013, as per the Group's ownership interest.

PLN '000	Dec 31 2013
Non-current assets	38,222
Current assets	14,728
Liabilities	11,056
Net assets	41,894

PLN '000	for the year ended Dec 31 2013
Revenue	38,805
Net profit	4,730

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

- Amended IFRS 9 Financial Instruments: Classification and Measurement (the effective date was deferred by the IASB with no planned endorsement date given),
- IFRIC 21 Levies, published on May 20th 2013 (effective for annual periods beginning on or after January 1st 2014),
- Amendments introduced as part of the Improvements to IFRSs 2010-2012 cycle, published on December 12th 2013 (effective for annual periods beginning on or after July 1st 2014),
- Amendments introduced as part of the Improvements to IFRSs 2011-2013 cycle, published on December 12th 2013 (effective for annual periods beginning on or after July 1st 2014),
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1st 2014),
- IFRS 14 Regulatory Deferral Accounts, published on January 30th 2014 (effective for annual periods beginning on or after January 1st 2016).

The Group has not opted for early application of any of the standards, interpretations, or amendments which have not yet become effective. The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the Group's future financial statements.

5. Material judgements and estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of assumptions, judgements and estimates which affect the value of items disclosed in these 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 an ongoing basis. Any change in an accounting estimate is recognised in the period in which it has been made if it refers exclusively to that period, or in the current period and future periods if it refers to both the current period and future periods. Material assumptions used in making the estimates are described in the relevant notes to these financial statements.

While making assumptions, estimates and judgements, the Parent's Management Board (Management Board) relies on its experience and knowledge and may take into consideration opinions, analyses and recommendations issued by independent experts.

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

Employee benefit obligations

Employee benefit obligations are estimated using actuarial methods. For information on actuarial assumptions and valuation of employee benefit obligations see Note 29.4.

Amortisation and depreciation

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, based on current estimates. The relevant estimate update which had an effect on the Group's financial statements for 2013 chiefly involved a PLN 8,619 thousand decrease in depreciation at the Parent.

Depreciation/amortisation of the assets of onshore and offshore oil and gas facilities is calculated (with the units-of-production depreciation method) based on 2P-category hydrocarbon reserve estimates (proved and probable reserves), evaluated, reviewed and updated by the Group, as well as forecast production volumes for the individual fields based on geological data, test production, subsequent production data and the schedule of work adopted in the long-term strategy.

In 2013, the Group made an adjustment to its estimates of hydrocarbon resources used for calculating (with the units-of-production amortisation method) the amortisation of intangible assets in the upstream segment at the AB LOTOS Geonafta Group companies in Lithuania. The change in estimates resulted in lower value of resources used for calculating (with the units-of-production amortisation method) the amortisation of Lithuanian exploration and production licences in 2013 and increased the amortisation charge for these assets in these financial statements by PLN 5,669 thousand (LTL 4,648 thousand).

Following the purchase of a portfolio of Heimdal assets on the Norwegian Continental Shelf, the estimated oil and gas resources increased, which will affect the depreciation/amortisation (with the unit-of-production method) of the Group's production assets as of January 1st 2014.

Fair value of financial instruments

Fair value of financial instruments for which no active market exists is measured with the use of appropriate valuation methods. In selecting the methods and assumptions appropriate for these objectives, the Group relies on professional judgement.

For more information on the assumptions adopted for the measurement of fair value of financial instruments, see Note 7.23.

Deferred tax assets

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

For information on deferred tax assets, see Note 10.3.

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

In accordance with IAS 36 Impairment of Assets, as at the end of each reporting period it is assessed whether there are any indicators of impairment of cash-generating units and individual assets. Impairment indicators may be external and may relate to market variables (including fluctuations in prices, FX rates, stock prices, interest rates and other variables related to current economic trends), and may also follow from plans, actions and developments at the Group, such as decisions concerning change, discontinuation, limitation or development of its business, technology changes, or efficiency and investment initiatives.

If there is any indication of impairment, the Group is required to estimate recoverable amounts of assets and cash-generating units. While determining such recoverable amounts, the Group takes into account such key variables as discount rates, growth rates and price ratios.

Having analysed cash flows for individual cash-generating units and run the required impairment tests for assets, the Group performed necessary adjustments to assets and presented the effect of those adjustments in these consolidated financial statements.

For information on property, plant and equipment, goodwill and other intangible assets see Notes 13, 14 and 15, which also describe the assumptions and results of impairment tests of these assets performed by the Group in 2013 and in the comparative period.

Provision for decommissioning of oil and gas facilities and land reclamation

As at the end of the reporting period, the Group analyses the costs necessary to decommission oil and gas facilities and the expenditure to be incurred on future land reclamation. As a result of those analyses, the Group adjusts the value of the land reclamation provision recognised in previous years to reflect the amount of estimated necessary future costs. Any changes in the estimated time value of money are also reflected in the amount of the provision. For information on the rules for recognition of these provisions and information on provisions disclosed in these financial statements for 2013 see Note 7.27.1 and Note 30.1, respectively.

Carbon dioxide (CO₂) emission allowances

Emissions trading is a climate policy instrument designed to reduce pollutant emissions. Poland's obligation to participate in the European Union Emissions Trading Scheme stems from the commitments it accepted under the Kyoto Protocol, a legally binding international agreement, setting out a long-term plan for reducing emissions of six greenhouse gases, including carbon dioxide. The emissions trading mechanism was set up in 2005 under directive 2003/87/EC of the European Parliament and of the Council. The relevant EU legislation was implemented into Polish law with the Act on Trading in Emission Allowances for Greenhouse Gases and Other Substances of December 22nd 2004, subsequently superseded by the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011. In 2012 and 2013, extensive work was carried out on a new bill to govern emissions trading, which was put for public consultations at the end of December 2013 and beginning of January 2014. The proposed new regulations introduce a number of changes to the greenhouse gas emissions trading scheme in the 2013-2020 settlement period (phase III of the EU CO₂ Emissions Trading Scheme). As at December 31st 2013, these changes are not effective and they do not affect the estimates shown in these financial statements. However, the Group continues to monitor the legislative process, and will account for its result while managing risk related to carbon emission allowances in periods following introduction of the changes.

CO₂ emission allowances are presented by the Company in its financial statements in accordance with the net liability approach, which means that the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised only after the Group actually exceeds the limit.

As the European Commission approved the planned allowance limits for the final group of Member States, including Poland, before the release of these financial statements, the Management Board is of the opinion that the Group will be able to use the allocated allowances for 2013 to settle emissions in line with the CO₂ emission settlement schedule for 2013, i.e. by the end of April 2014.

For information on carbon dioxide (CO₂) emission allowances, see Notes 7.33, 32.2, and 34.

6. Effect of final accounting for the acquisition of UAB Manifoldas and change of information presented in previous reporting periods, change of accounting policies and correction of errors

Change in comparative data relating to the final accounting for the acquisition of shares in UAB Manifoldas by AB LOTOS Geonafta

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

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

Following the transaction, as at December 31st 2012 AB LOTOS Geonafta, a company of the LOTOS Petrobaltic Group, held a 100% interest in UAB Manifoldas.

AB LOTOS Geonafta is the parent of another group (the AB LOTOS Geonafta Group), composed of:

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

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

The business combination of November 28th 2012 ("purchase date", "acquisition date" or "combination date") was initially accounted for as at December 31st 2012. In accordance with IFRS 3 Business Combinations, a business combination must be finally accounted for within a year from the acquisition date. The transaction was finally accounted for retrospectively in the consolidated financial statements; accordingly, the comparative data was adjusted to reflect the fair value measurement of the acquired net assets. Finally determined values and their effect on the comparative data for the date of assuming control, that is November 28th 2012, are presented below.

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	Initial determination of acquisition-date fair value	Final determination of acquisition-date fair value	Effect of final accounting for the acquisition
PLN '000	November 28th 2012	November 28th 2012	
Consideration paid (fair value as at the date of acquiring 50% of shares in the acquiree) (A)	109,672	109,672	-
Combination-date fair value of the acquirer's previously held 50% equity interest in the acquiree (B)	109,672	109,672	-
Total (A+B)	219,344	219,344	-
Equity interest in the acquiree	100%	100%	
<u>Assets and liabilities of the acquiree:</u>			
Non-current assets, including:	213,184	217,274	4,090
<i>Property, plant and equipment</i>	35,121	35,121	-
<i>Intangible assets</i>	177,725	181,815	4,090
Current assets, including:	45,095	45,596	501
<i>Inventories</i>	1,745	2,246	501
<i>Trade receivables</i>	29,612	29,612	-
<i>Cash and cash equivalents</i>	13,713	13,713	-
Total acquired assets	258,279	262,870	4,591
Non-current liabilities, including:	30,414	31,102	688
<i>Deferred tax liabilities</i>	26,659	27,347	688
<i>Other liabilities and provisions</i>	3,755	3,755	-
Current liabilities	8,521	8,521	-
Total assumed liabilities	38,935	39,623	688
Acquired net assets (C)	219,344	223,247	3,903
Interest in acquired net assets	219,344	219,344	-
Gain on bargain purchase (C-A-B)	-	3,903	3,903

(A) Represents the fair value of the payment for 50% of shares in UAB Manifoldas acquired on November 28th 2012.

(B) Represents the fair value of the 50% interest in the consolidated net assets of UAB Manifoldas previously held by AB LOTOS Geonafra (before November 28th 2012).

(C) Represents the acquisition-date fair value of identifiable net assets of UAB Manifoldas.

The Group recognised identifiable intangible assets representing licences held by UAB Manifoldas, under which the licensee has the right to operate crude oil fields in the Republic of Lithuania. The value of the licences was measured at PLN 181,815 thousand (LTL 152,747 thousand), taking into consideration tax effect of PLN 27,272 thousand (LTL 22,912 thousand), computed at the 15% tax rate applicable in the Republic of Lithuania.

The fair value of licences identified in the business combination was measured with the excess earnings method subject to the prudent valuation principle. Based on the Group's current geological expert analyses of the reserves, confirmed by reports of independent experts, as well as current estimated production levels and credible projections of oil market prices used in calculation, the fair value of the licences measured as at the day of final accounting for the acquisition of UAB Manifoldas was slightly higher than initial estimates. As a result, the Group disclosed a surplus of fair value of the acquired net assets over the price paid and recognised a gain on bargain purchase.

The Group recognised a gain on bargain purchase of PLN 3,903 thousand (LTL 3,279 thousand) and presented it in the statement of comprehensive income as an adjustment to comparative data under *Effect of accounting for step acquisition of control (GK AB LOTOS Geonafra)*. The calculation of the adjustment of comparative data in the statement of financial position is presented in the table below.

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PLN '000	Effect of final accounting for the acquisition	Adjustment to amortisation of intangible assets and its tax effect	Adjustment to exchange differences on translating foreign operations	Adjustment in the statement of financial position as at December 31st 2012
Assets				
Intangible assets	4,090	125	(24)	4,191
Inventories	501	-	(3)	498
Total	4,591	125	(27)	4,689
Equity and liabilities				
Retained earnings	3,903	106	-	4,009
Exchange differences on translating foreign operations	-	-	(24)	(24)
Deferred tax liabilities	688	19	(3)	704
Total	4,591	125	(27)	4,689

Change in the Group's accounting policies following application of the amended IAS 19 Employee benefits, and other presentation changes related to employee benefits

The Group applied the amended IAS 19 Employee Benefits in its 2013 financial statements and restated the relevant data for the comparative period ended December 31st 2012. The restatement involved disclosure of actuarial gains/losses on measurement of certain post-employment benefits in other comprehensive income. These changes, reflected in Retained earnings, had no effect on the presentation in the statement of financial position or in the statement of changes in equity, and their impact on the statement of comprehensive income was immaterial.

Starting from 2013, the Group recognises the cost of discount on its employee benefit obligations in finance costs rather than in operating profit/loss, as was the case earlier. The Group's comparative data in the statement of comprehensive income for 2012 was adjusted accordingly. As a result, the finance costs rose and the operating profit/loss increased by PLN 6,544 thousand.

Other changes

The Group reclassified some of its costs (amortisation/depreciation, overhauls, real property tax) previously recognised as administrative expenses, into cost of sales. The Group's comparative data for the year ended December 31st 2012 was restated accordingly. As a result, administrative expenses decreased by PLN 17,481 thousand, while cost of sales increased by the same amount.

In the statement of financial position, the Group changed the presentation of selected receivables and payables, previously disclosed under *Trade receivables/payables*. Following these changes, comparative data was restated – *Trade receivables* as at December 31st 2012 decreased by PLN 7,523 thousand, while *Other current assets* as at that date increased by the same amount, and by PLN 4,293 thousand as at January 1st 2012. *Trade payables* as at December 31st 2012 declined, while *Other provisions and liabilities* rose by PLN 4,309 thousand as at December 31st 2012 and by PLN 9,483 thousand as at January 1st 2012.

The Company offset prepayments with corresponding property insurance liabilities, as a result of which the presented comparative data as at December 31st 2012 and January 1st 2012 was restated. In the statement of financial position, *Other current assets* and *Other liabilities and provisions* decreased by PLN 33,503 thousand as at December 31st 2012 and by PLN 26,588 thousand as at January 1st 2012.

In the statement of comprehensive income, the Group applied uniform rules for the presentation of gains and losses in *Other income/expenses*. Gains and losses on disposal of non-financial non-current assets, impairment losses and reversal of impairment losses on property, plant and equipment, other intangible assets and receivables, as well as the recognition and release of provisions are presented on a net basis, under Other income / expenses. The change was applied also to the comparative data.

7. Accounting policies

These consolidated financial statements have been prepared in accordance with the historical cost principle, except with respect to financial instruments, which are measured at fair value.

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

7.1 Basis of consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent and financial statements of its subsidiaries, jointly-controlled entities and associates, prepared as at December 31st 2013.

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

Subsidiaries are fully consolidated starting from the date when the Group assumes control over them and cease to be consolidated when the control is lost. The Company is deemed to exert control when it holds, directly or through its subsidiaries, more than 50% of the votes in a given entity, unless it is possible to prove that the ownership of over 50% of the votes is not tantamount to exerting control. The Company's ability to decide on an entity's financial and operational policies, even where it does not hold the majority of votes in that entity, is also deemed exerting control. As at the end of the reporting period, the Company held shares in an equity-accounted jointly-controlled entity.

7.2 Revenue

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

7.3 Dividend income

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.

7.4 Interest income

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

7.5 Taxes

7.5.1 Income tax

Mandatory decrease in profit/(increase in loss) comprises: current income tax (CIT) and deferred income tax. The current portion of income tax is calculated based on net profit/(loss) (taxable income) for a given financial year. Net profit (loss) for tax purposes differs from net profit (loss) for accounting purposes due to temporary differences between revenue amounts calculated for these two purposes, including income which is taxable and costs which are tax-deductible in a period other than the current accounting period, as well as permanent differences attributable to income and cost which will never be accounted for in tax settlements. Tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, the Group recognises deferred tax liabilities using the balance-sheet liability method in relation to all temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts disclosed in the consolidated financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiaries, jointly-controlled entities or associates and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences 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 income (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 end of each reporting period and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for its partial or full realisation 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 end of the reporting period or tax rates (and tax legislation) which as at the end of the reporting period are certain to be effective in the future. The effect of deferred tax on items posted directly to equity is recognised in equity through other comprehensive income.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position in the amount obtained after they are offset for particular entities consolidated by the Company.

7.5.2 Value-added tax (VAT), excise duty and fuel charge

Revenue, expenses, assets and liabilities are recognised net of value-added tax, excise duty and fuel charge:

- except where the value-added tax (VAT) 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 a given asset or as part of the cost item), and
- except in the case of receivables and payables which are recognised inclusive of the value-added tax (VAT), excise duty and fuel charge.

The net amount of the value-added tax (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.

7.6 Foreign currency transactions

Business transactions denominated in foreign currencies are reported in the consolidated financial statements after translation into the Group's presentation currency (Polish złoty) at 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 rate quoted for a given currency by the National Bank of Poland (the "NBP") 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 for other transactions.

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

Any foreign exchange gains or losses resulting from currency translation (including intra-Group foreign currency transactions) 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 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 realised and unrealised foreign exchange gains (losses) separately 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,
- finance gain or loss: in the case of borrowings, investment commitments, and cash and cash equivalents.

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

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

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

The resulting exchange differences are recognised in equity and other comprehensive income as a separate component.

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

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

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

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

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NBP's mid-exchange rate quoted for:	Dec 31 2013 ⁽¹⁾	Dec 31 2012 ⁽²⁾
USD	3.0120	3.0996
EUR	4.1472	4.0882
NOK	0,4953	0.5552
LTL	1.2011	1.1840

⁽¹⁾ Mid-exchange rates table, effective for December 31st 2013.

⁽²⁾ Mid-exchange rates table, effective for December 31st 2012.

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

NBP's average exchange rate for the reporting period	ended Dec 31 2013 ⁽¹⁾	ended Dec 31 2012 ⁽²⁾
USD	3,1653	3.2312
EUR	4.2110	4.1736
NOK	0.5357	0.5594
LTL	1.2196	1.2087

⁽¹⁾ Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2013.

⁽²⁾ Based on the arithmetic mean of the mid rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2012.

7.7 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 or overhauls or operating fees, are expensed in the reporting period in which they were incurred.

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

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

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

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the company does not expect to realise any economic benefits from its further use. Any gains or losses on derecognition 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 derecognition.

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

In its consolidated financial statements, under property, plant and equipment the Group discloses assets corresponding to the value of provision for decommissioning of oil and gas facilities. The assets were recognised in accordance with IAS 16 Property, Plant and Equipment, which reads: "The cost of an item of property, land and equipment comprises [...] the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period". The Group's obligation to incur costs of decommissioning of the oil and gas extraction facilities results directly from the reasons specified in IAS 16 Property, Plant and Equipment. Under paragraph 63 of the standard, the entities applying the IAS are obliged to test the value of the asset periodically, at least as at the end of the reporting period.

Revaluation of assets so recognised may be caused by:

- change in estimated cash outflow necessary to ensure performance of the decommissioning obligation,
- change in the current market discount rate,
- change in the inflation rate.

Items of property, plant and equipment under construction are measured at the amount of aggregate costs directly attributable to their 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 (including assembly) are recognised at cost.

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

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

7.8 Goodwill

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

Goodwill = (C) - (A) - (B)

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

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

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

7.9 Other intangible assets

Intangible assets other than goodwill comprise licences for production and exploration of crude oil in Lithuania purchased as part of a business combination, expenditure incurred on gas and oil exploration licences on the Norwegian Continental Shelf, other production and exploration licences, software licences, patents, trademarks and acquired CO₂ emission allowances. Intangible assets are initially recognised at cost, if they are acquired in separate transactions. Intangible assets acquired as part of a business combination are recognised at fair value as at the transaction date. Subsequent to initial recognition, measurement of intangible assets accounts for accumulated amortisation and impairment losses.

Lithuanian licences obtained during the step acquisition of AB LOTOS Geonafta Group companies are amortised using the unit-of-production method, i.e. amortisation per unit of produced crude oil is charged to expenses. The amortisation rate is estimated by reference to forecasts of crude oil production from a given field. If the estimated hydrocarbon reserves (in 2P category – proved and probable reserves) change significantly as at the end of the reporting period, amortisation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the revised amortisation rate is applied.

Expenditure on exploration licences on the Norwegian Continental Shelf is not amortised until the technical feasibility and commercial viability of extraction is demonstrated. Accounting policy for exploration and evaluation expenditure is presented below.

Other intangible assets are amortised using the straight-line method over their estimated useful lives. The expected useful lives of the Group's intangible assets range from 2 to 40 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 generation of the future economic benefits embodied in an intangible asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates.

Except capitalised development expenditure, expenditure on intangible assets produced by the Company is not capitalised but is charged to expenses in the period in which it was incurred.

7.10 Mineral resources exploration and evaluation expenditures

Exploration for and evaluation (appraisal) of mineral resources means the search for crude oil, natural gas and similar non-regenerative resources and determination of the technical feasibility and commercial viability of extracting a mineral resource.

From the moment of obtaining the exploration right to a given area to the moment of determination of the technical feasibility and commercial viability of extracting a mineral resource, expenditure directly connected with exploration for and evaluation of oil and gas resources is recognised as an exploration and evaluation asset.

The expenditure includes the costs of acquisition of exploration rights, costs of the exploration rig, salaries and wages, consumables and fuel, insurance, costs of geological and geophysical surveys, as well as costs of other services.

The Group classifies the exploration and evaluation assets as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner.

Once the size of a deposit is confirmed and its production plan is approved, the expenditure is transferred to appropriate items of intangible assets or property, plant and equipment.

The Group examines the need to recognise impairment losses on exploration and evaluation assets in relation to a specific area by considering the following:

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

7.11 Equity-accounted and proportionately-consolidated entities

Equity-accounted entities

Investments in equity-accounted entities are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Group's share in net assets of the entities, less impairment losses, if any. The statement of comprehensive income reflects the share in the results of operations of such entities, and if a change is recognised directly in their equity, the Group recognises its share in each change and, if applicable, discloses it in the statement of changes in equity.

Proportionate consolidation

All assets, liabilities, revenue and expenses of an entity subject to proportionate consolidation are individually aggregated with the corresponding items in the financial statements, in accordance with the Group's share in the entity's net assets. The Group ceases to apply proportionate consolidation after it ceases to exercise joint control over the entity.

For the list of equity-accounted and proportionately-consolidated entities, see Note 2.

7.12 Leases

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

The Group as a lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for a given financial year calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term.

The Group as a lessee

Assets used under a finance lease are recognised as assets of the Group and are measured at fair value as at the acquisition date 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 recognised in 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.

7.13 Impairment of non-financial non-current assets

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

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

- the fair value of the asset or cash generating unit in which such asset is used, less cost to sell, or
- the value in use of the asset or cash generating unit in which such asset is used.

The recoverable amount is determined for the individual assets, unless a given asset does not generate separate cash flows largely independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable amount, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable amount.

In assessing value in use, the projected cash flows are discounted to their present value (at a pre-tax discount rate) which reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment losses on non-financial assets used in operations are recognised under other expenses.

As at the end the reporting period, the Group assesses whether there is an indication that any impairment loss recognised in the previous periods with respect to a given asset should be reduced or reversed in full. If there is such indication, the Group again estimates the recoverable amount of the asset and the recognised impairment loss is reversed accordingly only if following the recognition of the most recent impairment loss there has been a change in the estimates used to determine the recoverable amount of the asset. In such a case, the carrying amount of the asset is increased up to its recoverable amount. 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 been recognised on that asset in the previous years. Reversal of an impairment loss on a non-financial non-current assets is immediately recognised as Other income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to a 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. The Group offsets corresponding items of other income and expenses in accordance with IAS 1 Presentation of Financial Statements (Section 34) and recognises them in the statement of comprehensive income on a net basis.

7.14 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 condition are accounted for in the following manner:

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

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

Decrease in inventories is established with the weighted average method.

Mandatory stocks are disclosed as current assets given their short turnover cycle. For more information on mandatory stocks, see Note 19.2.

7.15 Investment property

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

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

7.16 Trade and other receivables, prepayments and accrued income

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 at a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as finance income.

The Group recognises prepayments where costs relate to future reporting periods; prepayments are recognised under other non-financial assets.

7.17 Cash and cash equivalents

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

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

7.18 Assets held for sale

Non-current assets (or 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.

7.19 Equity

Equity is recognised in the consolidated financial statements by categories, in accordance with applicable laws and constitutional documents of the consolidated entities.

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

7.20 Borrowings and other debt instruments

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

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

7.21 Employee benefit obligations

7.21.1 Retirement severance payments, length-of-service awards and other employee benefits

In accordance with the Collective Bargaining Agreement, the Group's employees are entitled to length-of-service awards and severance payments upon retirement due to old age or disability, as well as death benefits.

Also, the employees, retired employees, and pensioners covered by the Group's social benefits are entitled to benefits from a separate social fund, which is established pursuant to applicable national regulations (Company Social Benefits Fund).

According to IAS 19 Employee Benefits, old-age and disability retirement severance payments, as well as contributions to the Company Social Benefits Fund to be used for payment of future benefits to retired employees, are classified as defined post-employment benefit plans, while length-of-service awards, death benefits, and benefits paid to currently retired employees are recognised under other employee benefits. Present value of future post-employment benefit obligations as at the end of the reporting period is calculated by an independent actuary using the projected unit credit method and is a discounted value of future payments, which the employer has to make in order to fulfil its obligations under the work performed by employees in previous periods (until the end of the reporting period), defined individually for each employee, accounting for employee turnover (probability of employees leaving work), without including future employees.

In prior years, the value of future employee benefit obligations included length-of-service awards, old-age and disability retirement severance payments, and social fund benefits payable to retired employees and pensioners. The value as at December 31st 2013 additionally includes the estimated value of death benefits, due to the increased importance of that item in the actuarial estimates.

Length-of-service awards are paid 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 amount of death benefit depends on the length of employment

of the deceased employee, and the benefit is payable to the family, in accordance with the rules set forth in the Polish Labour Code.

Following the amendments to IAS 19 applicable for annual periods beginning after January 1st 2013, the Group changed the presentation of actuarial gains or losses under post-employment employee benefits in its statement of comprehensive income. For annual periods beginning after January 1st 2013, the actuarial gains or losses are recognised in other comprehensive income rather than in operating profit/loss as was the case earlier. In accordance with the provisions of the amended standard, the Group applied these rules retrospectively by adjusting the comparative data. These changes, reflected in *Retained earnings*, had no effect on the presentation in the statement of financial position or in the statement of changes in equity, and their impact on the statement of comprehensive income was immaterial. For detailed information about changes in the comparative data in the statement of comprehensive income see Note 6.

Employees of the Group companies are also entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Group calculates the cost of employee holidays on an accrual basis using the liability method. The value of compensation for unused holidays is recognised in the Group's accounting records based on the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time, and disclosed in the financial statements as, respectively, current or non-current liabilities under other employee benefits during employment.

Obligations under other employee benefits during employment also comprise bonuses and awards granted as part of the Group's incentive pay systems.

For detailed information on employee benefits, see Note 29, containing the individual items of employee benefit obligations and costs, actuarial assumptions, as well as an analysis of sensitivity of estimates to changes of these assumptions. The Group recognises the cost of discount on its employee benefit obligations in finance costs. Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafsta Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are presented separately as *Obligations under length-of-service awards and post-employment benefits at foreign companies*.

7.21.2 Profit distribution for employee benefits and special accounts

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

7.22 Borrowing costs

Borrowing costs (i.e. interest and other costs incurred in connection with borrowings) are expensed in the period in which they were incurred, except costs which relate directly to the acquisition, construction or production of an asset being completed (including foreign exchange losses on interest and fees and commissions), which are capitalised as part of the cost of such asset (an asset being completed is an asset whose preparation for use or sale requires a significant amount of time).

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

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

7.23 Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

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

Financial assets held to maturity

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

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

Financial assets held to maturity are measured at amortised cost using the effective interest method.

Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the end of the reporting period.

Financial assets and liabilities at fair value through profit or loss

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 derivative financial instruments (except for those which are part of hedge accounting or financial guarantee contracts),
- b) it has been assigned to this category in accordance with IAS 39 Financial Instruments: Recognition and Measurement upon initial recognition.

Measurement of financial assets at fair value through profit or loss consists in recognition of such assets at fair value by reference to their market value as at the end of the reporting period, without reflecting sale transaction costs. Any changes in the value of such instruments are recognised in the statement of comprehensive income as finance income or costs.

An entire contract can be designated as a financial asset 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 that if a similar hybrid instrument was first considered, separation of the embedded derivative would be prohibited under IFRS.

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.

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 end 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.

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

- Level 1: Financial assets and liabilities whose fair values are measured directly on the basis of quoted prices (used without adjustment) from active markets for identical assets or liabilities.
- Level 2: Financial assets and liabilities whose fair values are measured using measurement models when all significant input data is observable on the market either directly (unadjusted market prices) or indirectly (data based on market prices).
- Level 3: Financial assets and liabilities whose fair values are measured using measurement models when the input data is not based on observable market data (unobservable input data).

The Group discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading.

The Group's financial assets and liabilities held for trading include the following types of derivatives: options, forward contracts (in particular forward rate agreements), futures contracts, swaps (in particular interest-rate swaps) and spot contracts. All the above types of forward transactions classified as derivatives are executed by the Group as part of its risk management policy (see below).

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 is 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 from 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 from 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).

As part of its risk management activities the Group evaluates the risk of deficit of free emission allowances allocated under carbon dioxide emission reducing programme (see Note 5) and manages the risk of emission allowances prices quoted in an active market.

To hedge against the risk associated with CO₂ emission allowances prices, the Group enters into EUA, CER and ERU futures contracts. The estimated fair value of these instruments is based on the difference between the market price of a contract as quoted at the valuation date by the Intercontinental Exchange (ICE). (Level 1 in the fair value hierarchy).

If required, futures contracts to purchase carbon (CO₂) allowances open as at the last day of the reporting period are settled by the Group through physical delivery, with the intention to potentially use the allowances to offset the Group's actual CO₂ emissions. Valuation of transactions to be settled through physical delivery is not disclosed under financial assets/liabilities in the financial statements. However, the Group internally monitors and performs the valuation of its open futures positions as part of an overall assessment of efficiency of its CO₂ risk management (off balance sheet).

Information on the Group's limits of free carbon dioxide emission allowances are disclosed in Note 34 and a description of risk management in Note 32.2.

The Group applies hedge accounting. 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.

In the statement of financial position, financial derivatives are recognised under a separate item or, if their value is immaterial, under other assets and liabilities.

For more information on recognition and measurement of financial derivatives and hedge accounting, see Notes 7.25 and 7.26.

Loans and receivables

The category includes 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 end of the reporting period. Loans and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets.

The category includes: trade receivables, cash and cash equivalents, deposits, security deposits, loans advanced, investment receivables, cash pool receivables, and other. In the statement of financial position, these are recognised under: *Trade receivables, Cash and cash equivalents, Other current and non-current assets*. For information on their recognition and measurement, see Notes 7.16 and 7.17.

Financial assets available for sale

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

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

A financial asset is removed from the statement of financial position when the Group loses control over the contractual rights embodied in the financial instrument. This usually takes place when the instrument is sold or when all cash flows generated by the instrument are transferred to a non-related third party.

This category includes shares in other entities which are recognised by the Group in the statement of financial position under *Other financial assets*.

Financial liabilities at amortised cost

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.

Financial liabilities at amortised cost include borrowings, other debt instruments, finance lease liabilities, trade payables, investment commitments, and other liabilities. These liabilities are recognised in the statement of financial position under: *Borrowings, other debt instruments and finance lease liabilities, Trade payables, Other liabilities and provisions*. For information on recognition and measurement of the above classes in this category of instruments, see Note 7.12, 7.20 and 7.26

7.24 Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Financial assets carried at cost

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

Financial assets available for sale

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

Impairment losses on financial assets and their reversals are recognised on a net basis as gains or losses under, respectively, *Other expenses / Other income* or *Finance costs / finance income* in the statement of comprehensive income, depending on class of financial instrument.

7.25 Derivative financial instruments

Derivative instruments used by the Group to hedge against currency risk include in particular FX forwards. The Group also uses commodity swaps to hedge its exposure to raw material and petroleum product prices, futures contracts to manage its exposure to prices of carbon dioxide (CO₂) emission allowances, and interest rate swaps (IRSs) and forward rate agreements (FRAs) to hedge its interest rate exposure.

Such financial derivatives are measured at fair value in line with the fair value hierarchy discussed above in the section devoted to financial asset and liability measurement policies. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive

and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

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

7.26 Hedge accounting

As of January 1st 2011, the Parent commenced cash flow hedge accounting with respect to a USD-denominated credit facility designated as a hedge of future USD-denominated sales transactions. In the second half of 2012, the scope of application of cash flow hedge accounting was extended to include new hedging relationships established with respect to foreign-currency denominated facilities contracted to finance 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 zloty value of 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 identifies (i) the hedging instrument, (ii) the hedged item or transaction, (iii) the nature of the hedged risk, and (iv) specifies how the Company will assess the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis to determine whether it remains highly effective during all the reporting periods for which it was undertaken.

7.27 Provisions

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

7.27.1 Provisions for decommissioning and reclamation costs

Provisions for decommissioning and reclamation costs are recognised when the Group has an obligation to decommission oil and gas facilities or to demolish, disassemble or remove other property, plant and equipment and restore the site to its original condition, and when a reliable estimate can be made of the amount of the obligation.

If a decommissioning obligation arises with respect to new property, plant and equipment, such as production and transport infrastructure (pipelines) or refinery installations, it is recognised on completion of construction or installation. If a decommissioning obligation arises with respect to a production well, it is recognised on completion of drilling.

A decommissioning obligation may be further adjusted over the useful life of a well, production or transport infrastructure, etc. to reflect changes in applicable laws or a decision to suspend certain operations. The recognised amount of the obligation is the present value of future expenditures, estimated for the local conditions and requirements.

On recognition of a decommissioning obligation, a matching decommissioning asset is recognised in the same amount under property, plant equipment, which is subsequently depreciated in line with the asset subject to decommissioning.

The amount of the decommissioning provision and its corresponding asset is adjusted to reflect changes to the present value of estimated decommissioning and reclamation costs, other than provision discount reversals. Adjustments are also made for foreign exchange gains or losses arising from translation of a decommissioning obligation denominated in a foreign currency when it is certain that the obligation will be settled in that currency.

Periodic discount reversals are recognised as finance costs in the statement of comprehensive income.

Deferred tax assets and liabilities are recognised in respect of the decommissioning provision and the corresponding decommissioning asset.

Under the Polish Geological and Mining Law of February 4th 1994 (Dz.U.05.228.1947, as amended), the Group is required to operate Oil and Gas Facility Decommissioning Fund, whose financial resources may only be used to cover the cost of decommissioning of an oil and gas facility or its designated part.

The amount of contribution to the Fund is calculated separately for each facility and represents an equivalent of 3% or more of the depreciation charge recognised on the facility's property, plant and equipment, determined in accordance with applicable corporate income tax laws. The Company is required to deposit the contributions in a separate bank account until decommissioning start date.

7.28 Trade payables, other liabilities, accruals and deferred income

Current trade payables are reported at nominal amounts payable.

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

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

Accrued expenses are recognised at probable amounts of current-period liabilities. The Group discloses accruals and deferred income under other non-financial liabilities or, if they refer to employee benefits, under employee benefit obligations.

7.29 Grants

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

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

7.30 Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (strategic financial and operational decisions relating to the activity require the unanimous consent of the venturers). When a Group company becomes directly involved in activities as part of a joint venture, the Group's share of jointly controlled assets and liabilities incurred jointly with the other venturers is disclosed in the financial statements of such Group company and classified in accordance with its nature. Liabilities and costs incurred directly in connection with a share in jointly controlled assets are accounted for using the accrual method. Income from the sale or use of the Group's share of the output produced by jointly controlled assets and the share of expenses incurred by the joint venture are recognised when the inflow/transfer by the Group of the economic benefits connected with relevant transactions becomes probable, provided that they can be measured reliably. As at December 31st 2013, the Group was a venturer in joint ventures involving production operations conducted by subsidiary LOTOS Exploration and Production Norge AS in Norway.

7.31 Segment reporting

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments, whereas for financial reporting purposes the Group's operating activity comprises two main reportable operating segments:

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

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

Segment performance is assessed on the basis of revenue, EBIT and EBITDA.

EBIT is operating profit/(loss),
and EBITDA is operating profit/(loss) before depreciation and amortisation.

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

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

7.32 Contingent liabilities and assets

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

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

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

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

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

Examples of contingent assets and liabilities include liabilities or receivables related to pending court disputes whose future outcomes are neither known nor fully controlled by the entity. For more information on pending court disputes and other contingent liabilities, see Note 35.1 and Note 35.2, respectively.

7.33 Carbon dioxide (CO₂) emission allowances

CO₂ emission allowances are presented by the Company in its financial statements in accordance with the net liability approach, which means that the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted. The Group reviews the limits granted to it on an annual basis. The liability is recognised only after the Company actually exceeds the limit. Income from sale of unused emission allowances is recognised in the statement of comprehensive income at the time of sale.

Additionally purchased emission allowances are measured at acquisition cost less impairment, if any, taking into consideration the residual value of allowances, and presented as intangible assets.

If purchased allowances are used to cover the deficit as on the date of settling the annual limit of emission allowances, the allowances thus used are set off at carrying amount with the liability previously recognised for covering the deficit.

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8. Business segments

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Revenue:	623,936	28,587,306	24,474	(638,374)	28,597,342
<i>Intersegment sales</i>	578,369	43,093	16,912	(638,374)	-
<i>External sales</i>	45,567	28,544,213	7,562	-	28,597,342
Operating profit/(loss) (EBIT)	153,930	13,902	13,937	(35,275)	146,494
Amortisation and depreciation	147,192	500,804	9,860	(1,791)	656,065
Operating profit/(loss) before amortisation and depreciation (EBITDA)	301,122	514,706	23,797	(37,066)	802,559

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Total assets	4,116,495	17,059,568	120,425	(996,871)	20,299,617
<i>- including exploration and evaluation assets</i>	381,130	-	-	-	381,130

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Revenue:	759,799	32,899,919	27,205	(575,923)	33,111,000
<i>Intersegment sales</i>	512,675	43,467	19,781	(575,923)	-
<i>External sales</i>	247,124	32,856,452	7,424	-	33,111,000
Operating profit/(loss) (EBIT)	(675,213)⁽²⁾	984,122	5,397	(1,550)	312,756
Amortisation and depreciation	137,855	520,066	10,339	(1,795)	666,465
Operating profit/(loss) before amortisation and depreciation (EBITDA)	(537,358)	1,504,188	15,736	(3,345)	979,221

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Total assets	3,373,334	17,397,475	148,607	(891,851)	20,027,565
<i>- including exploration and evaluation assets</i>	150,033	-	-	-	150,033

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

⁽²⁾ Including an impairment loss on YME field assets, of PLN 935,247 thousand; see Note 13.

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Geographical structure of sales

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidated
	for the year ended Dec 31 2013			
Domestic sales	6,491	20,370,299	7,562	20,384,352
- products and services	6,257	18,804,309	7,562	18,818,128
- merchandise and materials	234	1,565,990	-	1,566,224
Export sales	39,076	8,173,914	-	8,212,990
- products and services	38,201	7,835,360	-	7,873,561
- merchandise and materials	875	338,554	-	339,429
Total	45,567	28,544,213	7,562	28,597,342

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

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

Sales by products, merchandise and services

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidated
	for the year ended Dec 31 2013			
Gasolines	-	5,010,064	-	5,010,064
Naphtha	-	824,241	-	824,241
Diesel oils	-	14,365,265	-	14,365,265
Bunker fuel	-	124,661	-	124,661
Light fuel oil	-	942,434	-	942,434
Heavy fuel oil	-	2,037,899	-	2,037,899
Aviation fuel	-	1,474,528	-	1,474,528
Lubricants	-	380,218	-	380,218
Base oils	-	485,887	-	485,887
Bitumens	-	1,246,061	-	1,246,061
LPG	-	564,540	-	564,540
Crude oil	32,094	-	-	32,094
Other products, merchandise and materials	-	517,155	-	517,155
Other products, merchandise and materials	530	292,630	7,523	300,683
Services	12,943	291,082	39	304,064
<i>Effect of cash flow hedge accounting</i>	-	<i>(12,452)</i>	-	<i>(12,452)</i>
Total	45,567	28,544,213	7,562	28,597,342

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

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

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

In 2013, there were no customers whose share in the LOTOS Group's total revenue would significantly exceed 10%.

9. Income and expenses

9.1 Expenses by nature

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Depreciation and amortisation	8	656,065	666,465
Raw material and consumables used		24,223,055	28,191,721
- including exchange differences ⁽¹⁾	31.3	(76,694)	31,196
Services		1,253,948	1,135,525
Taxes and charges		175,888	175,491
Employee benefits expense	9.2	677,053	645,983
Other expenses by nature		160,130	197,513
Merchandise and materials sold		1,752,528	1,320,772
Total expenses by nature		28,898,667	32,333,470
Change in products and adjustments to cost of sales		(444,669)	(495,100)
Total		28,453,998	31,838,370
including:			
Cost of sales		26,913,268	30,339,959
Distribution costs		1,106,746	1,051,962
Administrative expenses		433,984	446,449

⁽¹⁾ Exchange differences related to operating activities are recognised in cost of sales.

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9.2 Employee benefits expense

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Current salaries and wages	496,130	483,860
Social security and other employee benefits	151,468	141,980
Length-of-service awards, retirement and other post-employment benefits	29,455	20,143
Total employee benefits expense	677,053	645,983
Change in products and adjustments to cost of sales	(8,209)	(13,534)
Total	668,844	632,449
including:		
Cost of sales	394,493	365,060
Distribution costs	34,344	32,625
Administrative expenses	240,007	234,764

9.3 Other income

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Gain on disposal of non-financial non-current assets		-	16,706 ⁽²⁾
Grants	30,2	2,075	2,059
Provisions		2,900	-
- provision for deficit in CO2 emission allowances	34	(1,527)	-
- other provisions		(1,276)	-
- release of provisions for retired refinery installations	30,1	5,077	-
- release of other provisions		626	-
Reversal of impairment losses on receivables	18,1; 31,3	-	5,012
- reversal of impairment loss		-	8,536
- impairment loss		-	(3,524)
Revaluation of estimated provision related to the offshore oil production facility in the YME field in Norway		6,447	-
Compensation		7,988	9,647
Gain on sale of organised part of business		379	-
Reimbursed excise duty		6,143 ⁽¹⁾	-
Other		4,405	8,539
Total		30,337	41,963

⁽¹⁾ Including PLN 1,673 thousand under reimbursed excise duty on intra-Community supplies of heavy fuel oil and PLN 3,634 thousand of excise duty on consumption of electricity and fuel additives reimbursed due to exemption from excise duty under Art. 47.1.1 of the Excise Duty Act.

⁽²⁾ Including PLN 14,469 Grupa LOTOS S.A.'s income from sale of carbon dioxide (CO2) emission allowances.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of other income and expense charged to operating profit or loss separately, as presented in the table above.

9.4 Other expenses

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Loss on disposal of non-financial non-current assets		3,098	-
Impairment losses on receivables:	18.1, 31.3	6,012	-
- impairment losses		7,291	-
- reversal of impairment losses		(1,279)	-
Impairment losses on property, plant and equipment and other intangible assets:		17,927	1,064,025
<i>Impairment losses on:</i>		74,200	1,064,025
- YME field assets	13	-	935,247
- Norwegian exploration licences	15	4,744	74,481
- Lithuanian exploration and production licences	15	26,420	14,504
- assets associated with Lithuanian fields		-	12,837
- assets associated with the B-28 field	13	26,842	-
- service stations	13	11,912	-
- the Waterproofing Materials Production Plant assets	13	-	22,840
- other		4,282	4,116
<i>Reversal of impairment losses on:</i>		(56,273)	-
- assets related to the B-4 and B-6 fields, contributed to Baltic Gas ⁽¹⁾	13	(48,273)	-
- the Waterproofing Materials Production Plant assets	13	(8,000)	-
Provisions		-	2,116
- provision for deficit in CO2 emission allowances	34	-	910
- other provisions		-	2,541
- release of other provisions		-	(1,335)
Fines and compensation		1,277	2,255
Property damage incurred during ordinary course of business		2,516	3,139
Cost brought forward		2,947	5,498
Charitable donations		2,483	2,277
Other		4,399	5,143
Total		40,659	1,084,453

⁽¹⁾ For more information see Note 2.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of other income and expense charged to operating profit or loss separately, as presented in the table above.

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9.5 Finance income

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
Dividend received		840	700
Interest		17,361	25,555
- on trade receivables	31.3	5,995	8,804
- on finance lease receivables	31.3	193	287
- on cash	31.3	1,267	1,309
- on deposits	31.3	8,413	14,592
- other		1,493	563
Exchange differences:		-	156,112
- on foreign-currency denominated bank borrowings	31.3	-	167,476
- on foreign-currency denominated intra-Group borrowings ⁽¹⁾	31.3	-	(19,503)
- on realised foreign-currency transactions in bank accounts	31.3	-	25,560
- on intra-Group notes ⁽¹⁾	31.3	-	(3,454)
- on cash	31.3	-	(30,144)
- on investment commitments	31.3	-	14,624
- on other financial assets and liabilities	31.3	-	1,553
Gain on disposal of investments		-	150
Revaluation of financial assets:		112,861	117,772
- valuation of derivative financial instruments	31.3	55,148	159,096
- settlement of derivative financial instruments	31.3	57,713	(41,324)
Provisions		-	1,699
Other		4,100	20
Total		135,162	302,008

⁽¹⁾ According to IAS 21 – The Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intra-group foreign currency transactions are recognised in the Group's net profit or loss.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of income and expense charged to profit or loss separately, as presented in the table above.

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9.6 Finance costs

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Interest, including:		203,183	230,777
- on bank borrowings	31.3	151,875	169,218
- on non-bank borrowings	31.3	575	817
- on notes	31.3	423	1,607
- on trade payables	31.3	53	88
- on finance lease liabilities	31.3	16,132	20,112
- on factoring arrangements		11,823	18,215
- on other financial liabilities	31.3	125	380
- discount related to provisions for oil production facilities, for land reclamation and other provisions	30.1	15,284	12,344
- discount related to future employee benefit obligations	29.3	6,138	6,544
- other		755	1,452
Exchange differences:		115,541	-
- on bank borrowings	31.3	(8,142)	-
- on intra-Group borrowings ⁽¹⁾	31.3	119,223	-
- on realised foreign-currency transactions in bank accounts	31.3	(7,278)	-
- on notes ⁽¹⁾	31.3	15,767	-
- on cash	31.3	3,516	-
- on cash blocked in bank accounts	31.3	(15,075)	-
- on investment commitments	31.3	7,563	-
- on other financial assets and liabilities	31.3	(33)	-
Bank fees		19,358	12,856
Other		4,545	4,790
Total		342,627	248,423

⁽¹⁾ According to IAS 21 – The Effects of Changes in Foreign Exchange Rates, foreign exchange gains and losses on intra-group foreign currency transactions are recognised in the Group's net profit or loss.

The Group offsets similar transaction items pursuant to IAS 1 – Presentation of Financial Statements, sections 34 and 35. The Group discloses material items of income and expense charged to profit or loss separately, as presented in the table above.

10. Income tax expense

10.1 Tax expense

PLN '000		Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Current tax		82,471	53,593
Deferred tax	10.3	(183,878)	(615,128)
Total income tax recognised in consolidated net profit or loss		(101,407)	(561,535)
Tax expense recognised in other comprehensive income (net), including:		22,909	75,639
- exchange differences on translating foreign operations		-	(13,864)
- cash flow hedging	23	22,945	89,717
- actuarial gain/(loss) relating to post-employment benefits		(36)	(214)

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

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

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

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

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Pre-tax profit	(61,979)	366,341
Income tax at 19%	(11,776)	69,605
Permanent differences	5,355	11,599
Difference related to accounting for step acquisition of control (AB LOTOS Geonafta Group) ⁽¹⁾	-	(11,716)
Tax effect of tax losses incurred in the period	1,418	101
Tax effect of tax losses deducted in the period	(395)	(1,211)
Tax effect of share in profit of equity-accounted entities	191	-
Tax effect of the bio-component tax credit ⁽²⁾	(10,935)	(5,518)
Adjustments disclosed in current year related to tax for previous years	178	(2,978)
Difference resulting from the application of tax rates other than 19%:	(85,949)	(623,130)
- Norway	(83,220)	(618,301)
- Lithuania	(1,015)	(1,485)
- Cyprus	(1,713)	(3,341)
- Netherlands Antilles	(1)	(3)
Other differences	506	1,713
Income tax expense	(101,407)	(561,535)

⁽¹⁾ Data for 2012 includes accounting for the acquisition of control over UAB Manifoldas by AB LOTOS Geonafta. For more information on the transaction, see Note 6.

⁽²⁾ The Group used higher tax credit than suggested by the preliminary estimates based on which the relevant deferred tax assets had been recognised. Therefore, as at December 31st 2013, the deferred tax assets related to bio-component tax credit were recognised on the basis of the full amount of tax credit left to be used in the coming years. For more information on the basis and rules for the use bio-component tax credit, see Note 30.2.

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10.3 Deferred income tax

Net deferred tax assets/(liabilities) before set-off comprise the following items:

	Statement of financial position			Change	
	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012	2013	2012 (restated)
	A	B	C	A-B	B-C
PLN '000					
Deferred tax assets					
Employee benefit obligations	49,561	42,715	36,701	6,846	6,014
Impairment losses on inventories	797	448	1,877	349	(1,429)
Impairment losses on property, plant and equipment and other intangible assets	127,529	100,679	40,995	26,850	59,684
Impairment losses on YME field assets	710,083	806,962	165,741	(96,879)	641,221
Negative fair value of derivative financial instruments	13,734	28,905	35,671	(15,171)	(6,766)
Exchange differences on revaluation of foreign-currency denominated items	6,446	80	320	6,366	(240)
Impairment losses on receivables	16,200	15,693	17,767	507	(2,074)
Finance lease	28,068	32,032	33,765	(3,964)	(1,733)
Provisions for decommissioning of oil and gas facilities and land reclamation	188,828	28,086	20,746	160,742	7,340
Unrealised margin assets	8,545	3,120	2,382	5,425	738
Tax loss carried forward	1,145,075	986,442	769,794	158,633	216,648
Other provisions	9,619	6,017	6,011	3,602	6
Bio-component tax credit	4,463	10,934	15,752	(6,471)	(4,818)
Cash flow hedge accounting	-	8,633	98,350	(8,633)	(89,717)
Other	17,220	21,263	18,726	(4,043)	2,537
Total	2,326,168	2,092,009	1,264,598	234,159	827,411
Deferred tax liabilities					
Difference between the current tax value and carrying amount of property, plant and equipment and intangible assets	1,468,538	1,114,692	824,651	353,846	290,041
Positive fair value of derivative financial instruments	140	2,159	6,088	(2,019)	(3,929)
Finance lease	28,698	31,814	33,527	(3,116)	(1,713)
Exchange differences on translating foreign operations recognised in equity	-	-	13,864	-	(13,864)

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PLN '000	Statement of financial position			Change	
	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012	2013	2012 (restated)
	A	B	C	A-B	B-C
Exchange differences on revaluation of foreign-currency denominated items	-	34,605	6,312	(34,605)	28,293
Tax liabilities associated with the acquired exploration and production licences in Lithuania	57,537	64,736	54,296	(7,199)	10,440
Cash flow hedge accounting	14,312	-	-	14,312	-
Accrued interest	43,966	33,128	16,968	10,838	16,160
Other	14,000	12,434	13,990	1,566	(1,556)
Total	1,627,191	1,293,568	969,696	333,623	323,872
Net deferred tax assets/(liabilities)	698,977	798,441	294,902	(99,464)	503,539
Change in deferred tax assets and liabilities disclosed in the statement of financial position				(99,464)	503,539
Reconciliation of differences between the change in deferred tax assets and liabilities disclosed in the statement of financial position and the deferred tax disclosed in the statement of comprehensive income					
			Note		
Exchange differences on translating deferred tax of foreign operations				122,175	11,651
Effect of accounting for the acquisition price of the Heimdal assets ⁽¹⁾			13	138,115	-
Deconsolidation (LOTOS Tank Sp. z o.o.) ⁽²⁾				143	-
Deferred tax disclosed as a result of accounting for step acquisition of control (AB LOTOS Geonafta Group) ⁽³⁾				-	24,299
Deferred tax disclosed under other comprehensive income, net			10.1	22,909	75,639
Deferred tax expense recognised in net profit or loss				183,878	615,128

⁽¹⁾ Accounting for the tax due resulting from pro and contra cash flows generated in the transitional period, which are a part of the cost of Heimdal assets, by decreasing the tax asset relating to tax losses.

⁽²⁾ For more information on the transaction, see Note 2.

⁽³⁾ For more information on the transaction, see Note 6.

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As the Group entities are separate taxpayers, deferred tax (deferred tax assets and liabilities) is assessed separately by each entity. The Group entities offset deferred tax assets and deferred tax liabilities. The table below presents the deferred tax disclosed in the consolidated statement of financial position:

PLN '000	Dec 31 2013	Dec 31 2012 (restated)
Deferred tax assets	980,284	1,121,314
Deferred tax liabilities	(281,307)	(322,873)
Net deferred tax assets (liabilities)	698,977	798,441

Taxable temporary differences are expected to expire in 2014–2083.

As at December 31st 2013, the tax losses with respect to which no deferred tax assets were recognised in the statement of financial position were PLN 33,960 thousand (December 31st 2012: PLN 43,101 thousand). The decrease in the amount of the above tax losses in 2013 is a result of their partial settlement, as well as the loss of deduction right due to expiry of the period when the tax losses could be settled in accordance with the tax regulations.

11. Earnings per share

	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Net profit attributable to owners of the Parent (PLN '000) (A)	39,415	927,849
Weighted average number of shares ('000) (B)	129,873	129,873
Earnings per share (PLN) (A/B)	0.30	7.14

Earnings per share for each reporting period are calculated by dividing 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 2013, the General Meeting of Grupa LOTOS S.A. passed a resolution on distribution of the Company's net profit earned in 2012. The General Meeting resolved not to distribute the Company's net profit for 2012, totalling PLN 836,431 thousand, to the Company shareholders, and to allocate the profit as follows:

- PLN 834,931 thousand to the Company's statutory reserve funds,
- PLN 1,500 thousand to the Special Account designated for financing corporate social responsibility (CSR) projects.

In these consolidated financial statements, the distributed 2012 net profit is presented under *Retained earnings*.

As at the date of publication of these consolidated financial statements, the Company's Management Board has not yet passed a resolution on coverage of the net loss for 2013.

As at December 31st 2013 and December 31st 2012, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends. The restrictions follow from the credit facility agreement executed on June 27th 2008 for the financing of the 10+ Programme, whereby dividend amounts are subject to certain conditions, including generation of sufficient free cash and achievement of certain levels of financial ratios.

13. Property, plant and equipment

PLN '000	Dec 31 2013	Dec 31 2012
Land	456,390	428,922
Buildings, structures	3,414,803	3,497,440
Plant and equipment	4,728,815	4,244,449
Vehicles, other	442,857	491,533
Property, plant and equipment under construction	822,818	888,829
Exploration and evaluation property, plant and equipment	182,691	134,677
Total	10,048,374	9,685,850

Change in property, plant and equipment

PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
Gross carrying amount Jan 1 2013	443,869	4,623,749	5,637,734	1,093,450	2,097,646	198,975	14,095,423
<i>Purchase</i>	1,234	9,020	15,286	28,892	429,481	76,475	560,388
<i>Acquisition of Heimdal assets</i>	-	-	339,772	-	-	-	339,772
<i>Transfer from property, plant and equipment under construction</i>	29,692	125,822	196,741	59,885	(427,614)	-	(15,474)
<i>Contribution of assets for development of B-4 and B-6 fields to Baltic Gas Sp. z o.o. i wspólnicy sp.k.⁽¹⁾</i>	-	-	-	-	(2,363)	(48,287)	(50,650)
<i>Reclassification to assets held for sale⁽²⁾</i>	(923)	(23,556)	(21,676)	(1,717)	(29,273)	-	(77,145)
<i>Exchange differences on translating foreign operations</i>	-	27	(44,968)	(4,054)	(190,671)	(10)	(239,676)
<i>Borrowing costs</i>	-	-	-	-	1,842	-	1,842
<i>Assets related to decommissioning of oil extraction facilities</i>	-	(1,404)	265,345 ⁽³⁾	-	11,995	-	275,936
<i>Sale</i>	(952)	(3,449)	(6,715)	(2,647)	(33)	-	(13,796)
<i>Liquidation</i>	-	(5,968)	(13,043)	(186,258) ⁽⁴⁾	(37)	-	(205,306)
<i>Deconsolidation (LOTOS Tank Sp. z o.o.)⁽¹⁾</i>	-	(3,987)	(1,944)	(8,026)	(5)	-	(13,962)
<i>Other</i>	14	3,196	12,587	(34,670)	(3,875)	(1,994)	(24,742)
Gross carrying amount Dec 31 2013	472,934	4,723,450	6,379,119	944,855	1,887,093	225,159	14,632,610

⁽¹⁾ For more information on the transaction, see Note 2.

⁽²⁾ Including assets of LOTOS Asfalt Sp. z o.o. associated with the Waterproofing Materials Production Plant and assets related to the YME field, see note 17.

⁽³⁾ Including an asset of PLN 265,709 thousand (NOK 496,004 thousand) related to decommissioning of oil and gas production facility following acquisition of the Heimdal portfolio, described in more detail in information on acquisition of interest in Norwegian production and exploration licences - Heimdal.

⁽⁴⁾ Including PLN 180,429 thousand under liquidation of spent catalysts at Grupa LOTOS S.A.

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PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
Accumulated depreciation							
Jan 1 2013	14,006	1,102,084	1,376,212	600,671	-	-	3,092,973
<i>Depreciation</i>	1,492	199,073	296,209	90,835	-	-	587,609
<i>Exchange differences on translating foreign operations</i>	-	1	(20)	(2,999)	-	-	(3,018)
<i>Reclassification to assets held for sale ⁽¹⁾</i>	(70)	(3,734)	(4,806)	(960)	-	-	(9,570)
<i>Liquidation</i>	-	(3,546)	(11,611)	(186,371) ⁽²⁾	-	-	(201,528)
<i>Deconsolidation (LOTOS Tank Sp. z o.o.) ⁽³⁾</i>	-	(831)	(694)	(241)	-	-	(1,766)
<i>Other</i>	71	(421)	(5,466)	(732)	-	-	(6,548)
Accumulated depreciation Dec 31 2013	15,499	1,292,626	1,649,824	500,203	-	-	3,458,152
Impairment losses							
Jan 1 2013	941	24,225	17,073	1,246	1,208,817	64,298	1,316,600
<i>Recognised</i>	952	13,866	2,058	593	1,824	26,842	46,135
<i>Reclassification to assets held for sale ⁽¹⁾</i>	(669)	(15,221)	(13,611)	(201)	(19,855)	-	(49,557)
<i>Exchange differences on translating foreign operations</i>	-	-	-	-	(125,779)	-	(125,779)
<i>Used / Reversed</i>	(179)	(6,849)	(5,040)	(91)	(732)	(48,672)	(61,563)
<i>Other</i>	-	-	-	248	-	-	248
Impairment losses Dec 31 2013	1,045	16,021	480	1,795	1,064,275	42,468	1,126,084
Net carrying amount							
Dec 31 2013	456,390	3,414,803	4,728,815	442,857	822,818	182,691	10,048,374

⁽¹⁾ Including assets of LOTOS Asphalt Sp. z o.o. associated with the Waterproofing Materials Production Plant and assets related to the YME field, see note 17.

⁽²⁾ Including PLN 180,429 under liquidation of spent catalysts at Grupa LOTOS S.A.

⁽³⁾ For more information on the transaction, see Note 2.

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PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
Gross carrying amount							
Jan 1 2012	414,608	4,502,781	5,556,750	1,032,442	1,766,080	138,254	13,410,915
<i>Purchase</i>	-	41	3,309	67,828	591,824	65,264	728,266
<i>Transfer from property, plant and equipment under construction</i>	29,782	115,937	84,385	32,758	(280,799)	-	(17,937)
<i>Acquisition of control (AB LOTOS Geonafra Group)⁽¹⁾</i>	4	16	33,138	433	2,073	-	35,664
<i>Exchange differences on translating foreign operations</i>	-	(146)	(8,868)	(11,392)	(36,265)	(147)	(56,818)
<i>Reclassification of exploration and evaluation property, plant and equipment⁽²⁾</i>	-	-	4,396	-	-	(4,396)	-
<i>Borrowing costs</i>	-	-	-	-	11,299	-	11,299
<i>Assets related to decommissioning of oil extraction facilities</i>	-	11,823	(930)	-	56,506	-	67,399
<i>Sale</i>	(94)	(3,723)	(6,523)	(5,356)	(2,693)	-	(18,389)
<i>Liquidation</i>	(429)	(3,134)	(3,763)	(6,738)	-	-	(14,064)
<i>Deconsolidation (AB LOTOS Geonafra Group)⁽¹⁾</i>	(2)	(8)	(25,287)	(308)	(1,037)	-	(26,642)
<i>Other</i>	-	162	1,127	(16,217)	(9,342)	-	(24,270)
Gross carrying amount							
Dec 31 2012	443,869	4,623,749	5,637,734	1,093,450	2,097,646	198,975	14,095,423

⁽¹⁾ Effect of the acquisition of control over UAB Manifoldas by AB LOTOS Geonafra. For more information on the transaction, see Note 2 to the consolidated financial statements for 2012.

⁽²⁾ Exploration and evaluation property, plant and equipment relating to mineral resources with demonstrable technical feasibility and commercial viability of their extraction.

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PLN '000	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Exploration and evaluation property, plant and equipment	Total
Accumulated depreciation							
Jan 1 2012	12,456	902,616	1,112,523	493,303	-	-	2,520,898
<i>Depreciation</i>	1,488	202,054	279,310	121,268	-	-	604,120
<i>Exchange differences on translating foreign operations</i>	-	(7)	(1,938)	(7,697)	-	-	(9,642)
<i>Sale</i>	(25)	(1,033)	(5,866)	(3,406)	-	-	(10,330)
<i>Liquidation</i>	-	(1,740)	(3,319)	(3,607)	-	-	(8,666)
<i>Deconsolidation (AB LOTOS Geonafta Group)⁽¹⁾</i>	-	-	(6,541)	(92)	-	-	(6,633)
<i>Other</i>	87	194	2,043	902	-	-	3,226
Accumulated depreciation Dec 31 2012	14,006	1,102,084	1,376,212	600,671	-	-	3,092,973
Impairment losses							
Jan 1 2012	408	16,385	2,373	1,037	280,178	66,086	366,467
<i>Recognised</i>	940	9,157	15,234	616	943,512	364	969,823
<i>Reclassification to assets held for sale</i>	-	-	-	(390)	-	-	(390)
<i>Exchange differences on translating foreign operations</i>	-	-	-	-	(12,764)	(119)	(12,883)
<i>Reclassification of exploration and evaluation assets⁽²⁾</i>	-	-	2,033	-	-	(2,033)	-
<i>Deconsolidation (AB LOTOS Geonafta Group)⁽¹⁾</i>	-	-	(2,033)	-	-	-	(2,033)
<i>Used / Reversed</i>	(407)	(1,317)	(534)	(13)	(2,109)	-	(4,380)
<i>Other</i>	-	-	-	(4)	-	-	(4)
Impairment losses Dec 31 2012	941	24,225	17,073	1,246	1,208,817	64,298	1,316,600
Net carrying amount							
Dec 31 2012	428,922	3,497,440	4,244,449	491,533	888,829	134,677	9,685,850

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

⁽²⁾ Exploration and evaluation property, plant and equipment relating to mineral resources with demonstrable technical feasibility and commercial viability of their extraction.

Property, plant and equipment used under finance lease

PLN '000	Dec 31 2013			Dec 31 2012		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Gross carrying amount	Accumulated depreciation	Net carrying amount
Plant and equipment, vehicles	198,737	47,379	151,358	199,202	31,316	167,886

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

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

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
Cost of sales	496,122	503,547
Distribution costs	58,575	52,025
Administrative expenses	21,609	32,207
Change in products and adjustments to cost of sales	11,303	16,341
Total	587,609	604,120

As at December 31st 2013, borrowing costs capitalised as cost of property, plant and equipment under construction were PLN 43,009 thousand (December 31st 2012: PLN 43,211 thousand).

In 2013, borrowing costs capitalised as cost of property, plant and equipment under construction were PLN 1,842 thousand (2012: PLN 11,299 thousand).

As at December 31st 2013, the Group's future contractual liabilities related to expenditure on property, plant and equipment undisclosed in the statement of financial position were PLN 582,966 thousand, and were mostly related to acquisition of a rig, as described in Note 37 (December 31st 2012: PLN 74,594 thousand).

As at December 31st 2013, property, plant and equipment serving as collateral for the Group's liabilities was PLN 7,877,463 thousand (December 31st 2012: PLN 7,150,215 thousand).

Exploration and evaluation assets

The Group incurs expenditures on exploration for and evaluation of mineral resources. In 2013, the Group incurred expenditure of PLN 76,745 thousand, chiefly on assets related to the B-8 and B-28 fields in the Baltic Sea (2012: PLN 65,264 thousand). In 2013, the value of cash flows related to expenditure on exploration and evaluation property, plant and equipment was PLN 74,360 thousand (2012: PLN 64,296 thousand), and the value of investment commitments related to exploration and evaluation assets was PLN 2,115 thousand as at December 31st 2013 (December 31st 2012: PLN 968 thousand).

Exploration and evaluation property, plant and equipment is carried until the technical feasibility and commercial viability of extracting the mineral resources are demonstrated. As at December 31st 2013, property, plant and equipment related to mineral resources with demonstrable technical feasibility and commercial viability of extraction was PLN 102,678 thousand (December 31st 2012: PLN 109,030 thousand), and depreciation of these assets in 2013 was PLN 6,786 thousand (2012: PLN 7,300 thousand). As at the end of the reporting period, this property, plant and equipment was not longer presented as exploration and evaluation property, plant and equipment, but as property, plant and equipment comprising production infrastructure, depreciated with the units-of-production method.

Assets from decommissioning and reclamation

The property, plant and equipment comprising production infrastructure and depreciated with the units-of-production depreciation method includes assets related to future costs of decommissioning of oil and gas facilities. As at December 31st 2013, the net value of assets from decommissioning of oil facilities was PLN 421,667 thousand (December 31st 2012: PLN 188,523 thousand), attributable chiefly to assets from the YME and Heimdal projects in Norway (see below).

Furthermore, under property, plant and equipment the Group recognises an asset for decommissioning of the underground pipeline used by Energobaltic Sp. z o.o. As at December 31st 2013, the value of the asset was PLN 3,653 thousand (December 31st 2012: PLN 4,045 thousand).

Impairment losses on property, plant and equipment

In 2013, the Group made a revaluation of its property, plant and equipment. The impairment losses totalled PLN 46,135 thousand (2012: PLN 969,823 thousand), while impairment loss reversals amounted to PLN 58,728 thousand (2012: PLN 1,527).

Upstream segment

Given that no commercial hydrocarbon flows were recorded on the B-28 field, in 2013 LOTOS Petrobaltic S.A. decided to recognise a PLN 26,842 thousand impairment loss on the expenditure incurred in relation to the formation and well. Moreover, in 2013 LOTOS Petrobaltic S.A. reversed an impairment loss on assets associated with the B-4 and B-6 gas fields, which were contributed to Baltic Gas (see Note 2). Impairment losses were recognised for the full amount of expenditure on gas exploration operations conducted on the B-4 and B-6 fields, incurred in previous years by LOTOS Petrobaltic S.A.

In 2012, the Group tested the YME project for impairment, as a result of which it recognised an impairment loss of PLN 935.247 thousand. For detailed information on the YME project see below.

Downstream segment

In 2013, LOTOS Paliwa Sp. z o.o. recognised an impairment loss on assets related to service stations in the amount of PLN 11,912 thousand. LOTOS Paliwa Sp. z o.o. determines the recoverable amount of property, plant and equipment related to the LOTOS service station network based on the value in use, using the discounted cash flow method. Future cash flows were calculated based on five-year cash-flow projections, prepared using budget projections for 2014 and the cash inflow and outflow plan for subsequent years, based on the development strategy until 2018. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 1.84% (2012: 1.94%) was used to extrapolate cash-flow projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2020. LOTOS Paliwa Sp. z o.o.'s net weighted average cost of capital (WACC) was assumed at 7.16% (2012: 7.53%), based on the company's capital structure. Discounted cash flows calculated separately for each cash-generating unit were grossed up.

Calculation of the value in use of cash-generating units is most sensitive to the following variables:

- gross margin, which depends on average values of unit margins in the period preceding the budget period (an 8% average year-on-year decline of the margin was assumed),
- discount rates, reflecting risks typical to the cash-generating unit (the median price for five-year PLN-denominated notes quoted by REUTERS in November 2003 was adopted),
- volumes based on fuel consumption growth rate (a 5% increase was assumed),
- market share in the budget period (a stable market share was assumed),
- growth rate used to extrapolate cash-flow projections beyond the budget period, based on a quantitative forecast of the fuel consumption growth rate in Poland in 2013-2020, prepared using GUS, NBP and JBC reports (for gasolines), and based on GDP market consensus

As regards the calculation of the value in use of service stations, the Management Board is of the opinion that no reasonably probable change to any of the key assumptions listed above will result in the carrying amount exceeding its recoverable value to a significant extent.

In view of the slow pace of reaching the initially assumed sales volumes of finished products and the loss incurred on the Waterproofing Materials Production Plant operations, in 2012 LOTOS Asphalt Sp. z o.o. tested the assets for impairment by analysing the discounted future cash flows expected to be generated by the Plant in 2013 - 2017. Following the test, an impairment loss for the full amount of the assets, i.e. PLN 22,840 thousand, was recognised. The test was carried out based on the following assumptions: consistent growth of sales volumes by 35% in 2013 (relative to 2012) and 10% in 2014-2017 (on a year-on-year basis), taking into account an adjustment for expected inflation rate at 2.44% - 2.74% (in 2014-2017), and weighted average cost of capital of 11.17%. In 2013, following the sale of the assets LOTOS Asphalt Sp. z o.o. made a reversal of the impairment loss of PLN 8,000 thousand.

Interests in Norwegian production and exploration licences – YME

Property, plant and equipment under construction include expenditure incurred by LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") on the acquisition of interests in Norwegian production licences and on the development associated with the interests in the YME field, in an amount of PLN 1,588m (NOK 3,207m).

The Group tested the YME project for impairment as at December 31st 2013. No impairment indicators were found.

The Group tested the YME field assets for impairment as at December 31st 2013 using the same methodology as the one used to test the assets for impairment as at December 31st 2012.

The test, carried out with the discounted cash flow method, was based on estimated values in use for LOTOS E&P Norge AS's interest in hydrocarbon reserves in the YME licences. The YME field impairment test was carried out assuming a +/-15%/bbl in crude oil prices relative to Brent crude prices as at December 31st 2013, a +/-15% change in the USD/NOK exchange rate, a +/-15% change in the YME field reserves, a weighted average cost of capital of 7.5%, and the 78% marginal tax rate (applicable in Norway). For the purposes of the test as at December 31st 2013 it was assumed that production from the field would be launched in 2018.

Based on such assumptions, as at December 31st 2013 the carrying amount of the assets related to the YME field was below the upper limit of the recoverable amount ranges determined, and hence no impairment loss was recognised on the tested asset as at the end of December 2013.

Further, as LOTOS E&P Norge AS's exit from the YME field project was being considered, the Group calculated the recoverable amount of the assets on the basis of their estimated fair value less cost to sell. For the purposes of determining the price that could be obtained for the interest in the YME field (realisable value), the value of the assets was calculated on the basis of the proved reserves of crude oil (2P category – proved and probable) and the price per unit of reserves in similar market transactions involving fields with comparable development status, taking into account the value of tax position. The realisable value thus determined confirmed the realisability of the YME field assets as presented in the consolidated financial statements as at December 31st 2013, which means that there was no need to recognise any further impairment.

As described in Note 35.1, on March 12th 2013, the operator of the YME field, Talisman Energy Norge AS ("Talisman," "Operator") and the supplier of the Mobile Operating and Production Unit (MOPU) to be operated on the YME field, Single Buoy

Moorings Inc. ("SBM"), announced that an agreement had been reached to remove the defective MOPU (evacuated in mid-July 2012) from the YME field and to terminate all existing contracts and agreements between the parties in connection with the YME project.

As at December 31st 2013, the then-aggregate impairment losses adjusting the value of expenditure on the YME project were PLN 1,051m (NOK 2,123m). As at December 31st 2013, the amount of expenditure on property, plant and equipment under construction related to the YME field, net of impairment, was PLN 537m (NOK 1,084m).

Taking into account the impairment losses on the YME project expenditure recognised in previous years, and the incurred tax losses that may be carried forward, in the consolidated statement of financial position as at December 31st 2013 the Group recognised a deferred tax asset of PLN 932m (NOK 1,882m). Given the fact that under the Norwegian tax legislation tax losses can be carried forward indefinitely, and that on December 30th 2013 the Group acquired interests in the Heimdal assets (including interests in producing fields), the Group believes that the deferred tax asset recognised as at December 31st 2013 is fully realisable at the amount disclosed in these consolidated financial statements.

Due to significant market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to justifiable changes, and such changes may in the future cause a reduction of carrying amounts of assets associated with the YME field as the carrying amounts may exceed the assets' recoverable amount. Therefore, the Group points to a number of uncertainties as to the recoverable amount of the assets recognised in connection with the YME field, such uncertainties being related to:

- volatility of market prices of crude oil,
- the new PDO (plans for development and operation) for the YME field that is ultimately opted for,
- the estimated amount and market value of hydrocarbons recoverable from the YME field, dependent on the new PDO,
- the estimated fair value of tax assets taken into account in the impairment test of the YME project,
- the amount of reclamation commitments, including those assumed together with elements of the SBM subsea infrastructure, under the agreement of March 12th 2013 concluded between the YME Project Operator and SBM (see Note 35.1),
- date of production launch, if any, from the YME field,
- date and cost of MOPU removal from the YME field,
- volatility of the NOK/USD exchange rate,
- discount rates.

Acquisition of interests in Norwegian production and exploration licences – Heimdal

On October 18th 2013, LOTOS Exploration and Production Norge AS of the LOTOS Petrobaltic Group ("LOTOS E&P Norge AS") entered into an agreement with Centrica Resources (Norge) AS/Centrica Norway Limited ("Centrica", "Seller"), subsidiaries of Centrica Plc. of the UK, to purchase Heimdal assets on the Norwegian Continental Shelf. On December 18th 2013, LOTOS E&P Norge AS obtained the consent of the Norwegian authorities to finalise the transaction and on December 30th 2013 it delivered to the Seller a certificate confirming payment and creation of security in the form of a stand-by letter of credit for international transactions, for future liabilities related to decommissioning of the production infrastructure.

On December 30th 2013 ("acquisition date") all conditions precedent to the agreement were fulfilled and all material risks and benefits related to the ownership of the acquired Heimdal assets were transferred to LOTOS E&P Norge AS. The transaction is recognised in these consolidated financial statements as asset acquisition, in accordance with IAS 31 Interests in Joint Ventures.

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The Heimdal assets comprise interests in 14 licences on the following fields in the central part of the North Sea:

Fields	Status	Licences	Interests
Heimdal	transmission infrastructure (HUB), exploration	PL036BS	5%
Vale	production, exploration	PL036, PL249	25.75%
Skirne/Byggve	production	PL102	30%
Atla	production	PL102C	20%
Trell	exploration	PL102D	20%
Trell	exploration	PL102E	30%
Trell Carve-out Area	exploration	PL102F, PL102G	10%
Frigg Gamma Delta	discovered	PL442	10%
Fulla	discovered	PL362	50%
Fulla	discovered	PL035B	50%
Rind	discovered	PL026, PL026B	7.87%

Under the licence, production activities are no longer being carried out on the Heimdal gas field (located 212 km north west of Stavanger), but the platform continues to operate as the centre for processing and distribution of gas coming from the Norwegian Continental Shelf. At present, given the central location of the field, its infrastructure is used to process gas from other neighbouring fields: Atla, Skirne, Vale and Huldra. It also serves as a distribution point for the transport of gas from the Oseberg Gas Transport. The Heimdal hub can process and transport gas representing approximately 15%-20% of Norway's gas exports, which makes Heimdal one of the key strategic points for gas exports from Norway to Central Europe and the UK. The Heimdal licence operator is Statoil Petroleum AS. The other interest holders are Total E&P Norge AS, Petoro AS and Centrica Norge. Production from the Atla, Skirne and Vale fields attributable to LOTOS E&P Norge AS's interest is approximately 5,000 boe daily and approximately 250,000 toe annually.

Gas and condensate are produced from the Skirne/Byggve, Atla and Vale fields. Frigg Gamma Delta, Fulla and Rind are new discoveries, which can be developed by 2020 or later. The Group also obtained access to six exploration licences. On the Fulla field, LOTOS E&P Norge AS is the operator in licences PL362 and PL035B, and a partner in the other licences.

Proven and probable (2P) recoverable volumes of gas (70%) and condensate (30%) from the interests acquired by the Group in the producing fields amount to 9m boe. 2C contingent resources in the discoveries attributable to LOTOS E&P Norge AS's interest amount to 31m boe.

The contractual price for the interests in the 14 licences acquired in the Heimdal transaction was set by the parties at USD 175.8m as at January 1st 2013, which under the Norwegian tax law is referred to as the effective economic date of the transaction. Tax consequences of acquisition and sale of interests in joint ventures on the Norwegian Continental Shelf require approval by the Norwegian Ministry of Finance. This requirement is imposed by the legislation governing crude oil taxation. The legislation also requires that January 1st be assumed as the effective transaction date for tax purposes, and that payment for acquired interests include the agreed purchase price, an appropriate share in working capital, and the amount of settlements between the existing partners of the joint venture. The period from January 1st (the effective economic transaction date) to the date of actual transaction settlement is referred to as the transitional period. Once the transaction is finalised, the buyer pays the agreed purchase price and a pro and contra settlement takes place, as part of which the parties make mutual settlements relating to working capital, accounts to be settled with the joint venture partners as at January 1st, and respective shares in net cash flows from the licence in the transitional period.

The purchase of the Heimdal assets was partly financed with a bank loan, and the balance of the contractual price of USD 175.8m was settled through the pro and contra mechanism, that is using the cash flows acquired by LOTOS E&P Norge AS, generated in the period from the effective transaction date (January 1st 2013) to the actual date of finalising the transaction (the acquisition date, i.e. December 30th 2013), in the amount of USD 72.16m.

Given the high amount of the deferred tax asset recognised in LOTOS E&P Norge AS accounts, no income tax for 2013 will be paid on those cash flows and the Seller will recover income tax overpayment of NOK 278.9m, after assignment to LOTOS E&P Norge AS of cash flows of USD 72.16m, counted towards the contract price of USD 175.8m. Such settlement follows from the Norwegian tax regime and has no effect on the Group's financial result.

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The total value of the acquired Heimdal assets as disclosed in the consolidated financial statements is PLN 710.2m (NOK 1,433.8m). The table below presents the effect of accounting for the acquisition of Heimdal assets in these consolidated financial statements:

Reporting position	NOKm	PLNm
I. Property, plant and equipment	634.2	314.1
II. Intangible assets	303.6	150.4
Value of acquired Heimdal assets after pro and contra settlement, taking into account capitalised transaction costs and estimated future conditional payments (I + II)	937.8	464.5
III. Decommissioning asset	496.0	245.7
Total (I + II + III)	1,433.8	710.2
<i>Settlement of acquisition price (A + B):</i>		
A. Price paid after pro and contra settlement (USD 175.8m - USD 72.16m)	910.5	450.9
B. Tax resulting from pro and contra settlement, on cash flows generated in the transitional period (amount paid by Centrica to the Norwegian tax authorities, settled against deferred tax asset of LOTOS E&P Norge AS)	631.6	312.8
<i>Capitalised transaction costs (C + D):</i>	27.3	13.6
C. Amount of conditional future payments as agreed	10.2	5.1
D. Capitalised transaction costs	17.1	8.5
E. Decommissioning provision	496.0	245.7
Total (A+B+C+D+E)	1,433.8	710.2

The purchased property, plant and equipment comprise production equipment (plant and equipment). The remaining assets were classified as intangible exploration and evaluation assets.

Under property, plant and equipment the Group recognises an asset related to future costs of decommissioning of offshore oil facility of PLN 245,671 thousand (NOK 496,004 thousand). The value of the asset is dependent on the updated estimated value of the relevant provision.

The decommissioning provision recognised by the Group, representing the best estimate of future costs related to land reclamation, is recognised in the financial statements in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and in fulfilment of the obligation resulting from international land reclamation requirements. The estimated reclamation period for the deposits covered by the transaction will span from 2014 to 2035, therefore the amount of future costs was determined by the Group at a 4.5% discount rate and a 2% inflation rate. For information on provisions for offshore oil and gas facilities on the North Sea, see Note 30.1.

To finance the acquisition of Heimdal assets, on December 11th 2013 LOTOS E&P Norge AS signed a USD 110m investment loan agreement. The total amount drawn under the loan is USD 105m and includes payments of interest on the deferred settlement with Centrica. The final loan repayment date is December 31st 2016.

The bank guarantee provided to the Seller, in the form of a stand-by letter of credit, secures LOTOS E&P Norge AS's liabilities related to decommissioning of depleted off-shore oil and gas facilities. The amount under the bank guarantee agreement, signed with PKO BP S.A. on December 11th 2013, is USD 25m.

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

As at December 31st 2012, the items "Property, plant and equipment under construction" and "Exploration and appraisal assets" included expenditure of PLN 593 thousand and PLN 48,672 thousand, respectively, incurred by the Group on gas exploration on the B-4 and B-6 fields in the Baltic Sea. As at December 31st 2012, impairment losses were recognised for the full amount of those assets. In 2013, pursuing further development of the B-4 and B-6 fields under an investment agreement between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o., the Group reversed impairment losses on these expenditures in the amount of PLN 48,273 thousand and contributed the amount to Baltic Gas spółka z ograniczoną odpowiedzialnością i

wspólnicy sp. k, a special purpose vehicle, in exchange for Baltic Gas shares acquired by the Group (see Note 2). Under the preparatory work schedule, seismics acquisition and selection of a preliminary field development concept are scheduled for 2013–2014. Upon completion of that stage, the partners will be able to make a final decision whether to pursue development of the B-4 and B-6 fields.

14. Goodwill

Goodwill is allocated to cash-generating units, as presented in the table below.

PLN '000	Dec 31 2013	Dec 31 2012
Goodwill arising on the acquisition of an organised part of business by LOTOS Paliwa Sp. z o.o.:		
- LOTOS Gaz S.A. (wholesale of fuels)	10,009	10,009
- ESSO service stations network	31,759	31,759
- Slovnaft Polska service stations network	1,932	1,932
Total	43,700	43,700
Goodwill arising on the acquisition of:		
- LOTOS Partner Sp. z o.o.	1,862	1,862
- Energobaltic Sp. z o.o.	1,126	1,126
Total	2,988	2,988
Total goodwill	46,688	46,688

As at December 31st 2013 and December 31st 2012, impairment tests of individual cash-generating units to which goodwill was allocated did not reveal any impairment indicators.

The Group determines the recoverable value of cash-generating units based on their respective values in use, calculated on the basis of a five-year cash flow projection. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 1.84% (2012: 1.94%) was used to extrapolate cash-flow projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2020. The discount rate adopted for calculation reflects net WACC of 7.16% (2012: 7.53%). Discounted cash flows calculated separately for each cash-generating unit were grossed up.

The most material factors affecting the estimated values in use of cash-generating units were: gross margin, discount rate, volumes forecast, projected market shares in the budget period and estimated growth rate beyond the forecast period.

The Group believes that no reasonably probable change in the key parameters identified above would result in goodwill impairment.

15. Other intangible assets

PLN '000	Dec 31 2013	Dec 31 2012 (restated)
Licences, patents and trademarks	93,607	91,286
Exploration and production licences ⁽¹⁾	357,559	431,073
Intangible exploration and evaluation assets ⁽²⁾	198,439	15,356
Other	36,617 ⁽³⁾	10,944
Total	686,222	548,659

⁽¹⁾ AB LOTOS Geonafra Group's exploration and production licences related to oil fields in Lithuania.

⁽²⁾ Including PLN 180,401 thousand under LOTOS E&P Norge AS North Sea exploration licences (December 31st 2012: PLN 13,896 thousand).

⁽³⁾ Including Grupa LOTOS's purchased carbon dioxide (CO₂) emission allowances of PLN 23,911 thousand.

Exploration and evaluation assets

The Group incurs expenditures on intangible assets in connection with exploration for and evaluation of mineral resources. In 2013, the incurred expenditure of PLN 204,518 thousand mainly related to the acquisition of assets connected with the YME field and Heimdal fields (for more information on the transaction, see Note 13). In 2013, the value of cash flows related to expenditure on intangible exploration and evaluation assets was PLN 181,632 thousand (2012: PLN 73,714 thousand). As at December 31st 2013, the value of investment commitments connected with the expenditure was PLN 21,233 thousand.

Exploration and evaluation assets are carried until the technical feasibility and commercial viability of extracting the mineral resources is demonstrated. As at December 31st 2013, the intangible assets related to mineral resources with demonstrable technical feasibility and commercial viability of extraction stood at PLN 362,438 thousand (December 31st 2012: PLN 434,949 thousand), and their 2013 amortisation amounted to PLN 55,126 thousand (2012: PLN 49,744 thousand). These assets are recognised under: *Exploration and production licences* and *Other intangible assets*.

Impairment losses on intangible assets

Upstream segment

In 2013, the Group recognised impairment losses on intangible assets of PLN 31,164 thousand (2012: PLN 88,986 thousand). The impairment losses were related to exploration licences in Norway and exploration and production licences in Lithuania, as described in more detail below.

In 2013, as the drillings performed within the PL 498 and PL 497 licence areas yielded no positive results, the Group recognised an impairment loss on related capitalised exploration expenses of PLN 4,744 thousand (NOK 8,856 thousand). The respective impairment loss recognised in 2012 was PLN 74,481 thousand (NOK 133,145 thousand).

As at December 31st 2013 Latvian production licences held by companies of the AB LOTOS Geonafta Group (AB LOTOS Geonafta (Girkaliai, Kretinga and Nausodis fields), UAB Genciu Nafta (Genciu field)) were tested for impairment. The Group determined the recoverable amount of the tested assets at their value in use measured using the discounted future cash flows method.

The assets of UAB Manifoldas (Klaipėda, Troba fields) were not tested for impairment, as the key assumptions relating to the allocation of cost for AB LOTOS Geonafta's acquisition of controlling interest in UAB Manifoldas were not materially different from the estimates made in connection with the final accounting for the transaction (see Note 6).

Key assumptions underlying computation of the recoverable amount of the tested intangible assets in Lithuania as at December 31st 2013:

- the cash flow projection period was assumed to equal the asset's planned life,
- the discount rate was assumed to equal the weighted average cost, at 11%,
- production volumes were assumed to be in line with a competent person report prepared by Miller & Lents based on available current geological information,
- capital expenditure was assumed to match the projected production volumes.

The following crude oil price assumptions in USD/bbl were adopted for the purposes of the estimates:

- 2014-2016 – in line with the assumptions adopted for the purposes of calculating budgets of the LOTOS Group companies and the average annual price in 2011-2013,
- 2017 and beyond – crude prices reflect the assumptions made for the purposes of acquisition of an interest in Heimdal assets by LOTOS E&P Norge AS (for more information on the acquisition of Heimdal assets see Note 13).

Due to significant market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to justifiable changes, and such changes may in the future cause a change on the carrying amounts of assets held by the AB LOTOS Geonafta Group. To determine the effect of key factors on the test results, the Group carried out an analysis of sensitivity to a -15%/+15% change of crude oil price, -15%/+15% change in production volumes, and a -15%/+15% change in the USD/LTL exchange rate. As at December 31st 2013, as a result of impairment tests a PLN 26,420 thousand (LTL 21,663 thousand) impairment loss on assets was recognised, including PLN 7,943 thousand (LTL 6,513 thousand) on assets associated with the Girkaliai field and PLN 18,477 thousand (LTL 15,150 thousand) on assets associated with the UAB Minijos Nafta's fields.

As at December 31st 2012, remeasurement of the intangible assets related to the Lithuanian licences was necessitated mainly by the determination of new geological information which revised the reserve estimates down. Following impairment tests performed separately for each individual asset generating cash flows, i.e. for the Girkaliai, Kretinga and Nausodis fields, an impairment loss of PLN 14,504 thousand (LTL 12,000 thousand) was recognised on assets related to the Kretinga field

In connection with the tests carried out as at December 31st 2012, production profiles based on the current field reports prepared by an independent expert were used to calculate future cash flows (the assets tested for impairment generate cash flows from production of crude oil; production profiles determine the period of detailed cash flow projections for each field). The analysed cash flows in the production periods included revenue from sale of crude oil, operating expenses and capital expenditure necessary to conduct production activities, and the calculated cash flows were discounted to arrive at the present value of future payments. The applied discount rate was based on the weighted average cost of capital after tax, estimated at 11%. With financial effects of production from a given oil field showing high sensitivity to changes in the prices of crude oil, and the prices being highly volatile, the Group applied a range approach to testing the value of its fields, in order to avoid

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remeasurement of assets after any price movements, by allowing for the following volatilities: crude oil price: +/- 15%, production volumes: +/- 15%, USD/LTL exchange rate: +/- 15%. The tests revealed that, as at December 31st 2012, the carrying amounts of the Girkaliai and Nausodis fields fell within the ranges determined by the range test. In the case of the Kretinga field, the carrying amount of the tested assets was higher than the field's range measurement values, which resulted in recognition of the impairment loss on the assets.

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

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012 (restated)
Cost of sales	56,679	51,267
Distribution costs	472	1,380
Administrative expenses	11,197	9,590
Change in products and adjustments to cost of sales	108	108
Total	68,456	62,345

As at December 31st 2013, other intangible assets serving as collateral for the Group's liabilities was PLN 150,364 thousand. The collateral was created over the acquired Heimdal assets; for more information see Note 13. As at December 31st 2012, no intangible assets served as collateral.

As at December 31st 2013, the Group's future contractual liabilities related to expenditure on intangible assets undisclosed in the statement of financial position were PLN 9,263 thousand (December 31st 2012: PLN 8,039 thousand).

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Changes in other intangible assets

PLN '000	Note	Licences, patents and trademarks	Exploration and production licences	Intangible exploration and evaluation assets	Other	Total
Gross carrying amount						
Jan 1 2013 (restated)		163,626	527,054	159,305	32,978	882,963
<i>Purchase</i>		-	-	41,890	25,573 ⁽¹⁾	67,463
<i>Acquisition of Heimdal assets</i>	13	-	-	162,628	-	162,628
<i>Transfer from property, plant and equipment under construction</i>		12,562	-	-	2,912	15,474
<i>Exchange differences on translating foreign operations</i>		-	7,612	(30,788)	(473)	(23,649)
<i>Contribution of assets for development of B-4 and B-6 fields to Baltic Gas Sp. z o.o i wspólnicy sp. k. ⁽²⁾</i>		-	-	(1,430)	(327)	(1,757)
<i>Liquidation</i>		(179)	-	-	(14)	(193)
<i>Other</i>		(265)	-	-	308	43
Gross carrying amount Dec 31 2013						
		175,744	534,666	331,605	60,957	1,102,972
Accumulated amortisation						
Jan 1 2013 (restated)		72,337	81,773	7,121	22,008	183,239
<i>Amortisation</i>		10,249	54,548	1,411	2,248	68,456
<i>Exchange differences on translating foreign operations</i>		-	354	-	(293)	61
<i>Contribution of assets for development of B-4 and B-6 fields to Baltic Gas Sp. z o.o i wspólnicy sp. k. ⁽²⁾</i>		-	-	(1,317)	(87)	(1,404)
<i>Liquidation</i>		(172)	-	-	(10)	(182)
<i>Other</i>		(252)	-	-	420	168
Accumulated amortisation Dec 31 2013						
		82,162	136,675	7,215	24,286	250,338
Impairment losses						
Jan 1 2013		3	14,208	136,828	26	151,065
<i>Recognised</i>		-	26,420	4,744	-	31,164
<i>Exchange differences on translating foreign operations</i>		-	(196)	(15,079)	-	(15,275)
<i>Used / Reversed</i>		-	-	(542)	-	(542)
<i>Other</i>		(28)	-	-	28	-
Impairment losses Dec 31 2013						
		(25)	40,432	125,951	54	166,412
Net carrying amount						
Dec 31 2013		93,607	357,559	198,439	36,617	686,222

⁽¹⁾ Including Grupa LOTOS S.A.'s purchased carbon dioxide (CO2) emission allowances of PLN 23,430 thousand.

⁽²⁾ For more information see Note 2.

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PLN '000	Licences, patents and trademarks	Exploration and production licences	Intangible exploration assets plant and equipment	Other	Total
Gross carrying amount					
Jan 1 2012	150,007	403,716	87,880	29,834	671,437
<i>Purchase</i>	180	-	73,714	805	74,699
<i>Transfer from property, plant and equipment under construction</i>	15,518	-	-	2,419	17,937
<i>Exchange differences on translating foreign operations</i>	-	(33,245)	(2,289)	(80)	(35,614)
<i>Acquisition of control (AB LOTOS Geonafta Group)⁽¹⁾</i>	-	184,625	-	-	184,625
<i>Liquidation</i>	(584)	-	-	(270)	(854)
<i>Deconsolidation (AB LOTOS Geonafta Group)⁽¹⁾</i>	-	(28,042)	-	-	(28,042)
<i>Other</i>	(1,495)	-	-	270	(1,225)
Gross carrying amount					
Dec 31 2012 (restated)	163,626	527,054	159,305	32,978	882,963
Accumulated amortisation					
Jan 1 2012	63,340	41,741	6,156	20,280	131,517
<i>Amortisation</i>	10,309	49,017	965	2,054	62,345
<i>Exchange differences on translating foreign operations</i>	-	(4,007)	-	(56)	(4,063)
<i>Liquidation</i>	(584)	-	-	(270)	(854)
<i>Deconsolidation (AB LOTOS Geonafta Group)⁽¹⁾</i>	-	(4,978)	-	-	(4,978)
<i>Other</i>	(728)	-	-	-	(728)
Accumulated amortisation					
Dec 31 2012 (restated)	72,337	81,773	7,121	22,008	183,239
Impairment losses					
Jan 1 2012	3	-	64,311	26	64,340
<i>Recognised</i>	-	14,504	74,481	-	88,985
<i>Exchange differences on translating foreign operations</i>	-	(296)	(1,964)	-	(2,260)
Impairment losses					
Dec 31 2012	3	14,208	136,828	26	151,065
Net carrying amount					
Dec 31 2012 (restated)	91,286	431,073	15,356	10,944	548,659

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

16. Equity-accounted entities

	The Group's ownership interest
	Dec 31 2013
LOTOS – Air BP Polska Sp. z o.o.	50.00%
LOTOS Petrobaltic Group	
Baltic Gas Sp. z o.o.	49.99%
Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k.	81.68%

For more information on shareholder structure of the equity-accounted entities, as well as changes in the reporting period, see Note 2.

Change in shareholdings in equity-accounted entities

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.
Jan 1 2013	-	5	5
Contributions made	-	-	52,296
Purchase price	14,907	-	-
Share capital increase	-	20	-
Sale of shares	-	(3)	-
Share in net loss	(488)	(15)	(505)
Dec 31 2013	14,419	7	51,796

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Condensed financial information on equity-accounted entities

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.
	Dec 31 2013		
Total assets	39,226	16	70,782
Total liabilities	23,861	2	7,975
Net assets	15,365	14	62,807

PLN '000	LOTOS – Air BP Polska Sp. z o.o.	Baltic Gas Sp. z o.o.	Baltic Gas Sp. z o.o. i wspólnicy sp.k.
	for the year ended Dec 31 2013		
Revenue	19,478	-	-
Net loss	(976)	(28)	(1,009)

17. Assets held for sale

PLN '000	Dec 31 2013	Dec 31 2012
Upstream segment	794	1,658
Downstream segment	-	770
Total	794	2,428

In 2013, the Group recognised assets held for sale:

- On July 1st 2013, LOTOS Asphalt Sp. z o.o. (downstream segment) sold assets associated with the Waterproofing Materials Production Plant of Jasło for PLN 8,000 thousand. Proceeds from the sale in the amount of PLN 3,050 thousand were presented in the statement of cash flows under *Sale of organised part of business*. As at December 31st 2013, the outstanding balance of the amount due under the transaction was disclosed in the statement of financial position as *Current investment receivables* under Other assets.
- On October 15th 2013, an agreement was signed with Wenergy LTD PTE of Singapore for the sale of drilling equipment (WOU) from the YME field platform. The total selling price was USD 15.5m, with USD 3.1m (20%, pro rata to the interest in the consortium) of that amount due to LOTOS Exploration and Production Norge AS (upstream segment). Cash proceeds of PLN 912 thousand (NOK 1,842 thousand) from the sale was presented in the statement of cash flows under *Sale of property, plant and equipment and other intangible assets*. As at December 31st 2013, the outstanding balance of the amount due under the transaction, i.e. PLN 8,211 thousand (NOK 16,579 thousand), was disclosed in the statement of financial position as *Current investment receivables* under Other assets.
- LOTOS Kolej Sp. z o.o. (downstream segment) sold PLN 870 thousand worth of rolling stock. Cash proceeds from the sale were presented in the statement of cash flows under *Sale of property, plant and equipment and other intangible assets*.

As at December 31st 2013, property, plant and equipment disclosed by the Group as held for sale comprised two residential units with the attached interest in land (December 31st 2012: boats, residential unit with the attached land, as well as plant and equipment for plastics processing).

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18. Trade receivables and other assets

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012 (restated)
Financial assets				
Non-current financial assets				
Other financial assets:	31.1	194,002	86,435	125,472
<i>Security deposits receivable</i>		23,089	28,555	20,919
<i>Finance lease receivables</i>	18.2	8,061	6,180	3,564
<i>Shares</i>		9,746	9,756	9,746
<i>Oil and gas facility decommissioning fund ⁽¹⁾</i>	32.4.1	29,866	27,481	24,491
<i>Deposits</i>		-	-	38,106
<i>Security deposits (margins)</i>	32.4.1	11,029	11,163	11,748
<i>Cash blocked in bank accounts</i>	32.3.1.; 32.4.1.	110,379	-	-
<i>Derivative financial instruments</i>		-	-	12,098
<i>Other receivables</i>		1,832	3,300	4,800
Total		194,002	86,435	125,472
Current financial assets				
Trade receivables, including:	31.1	1,594,746	1,632,837	2,071,269
- <i>from related entities</i>	36.1	16,657	2,507	90
Other financial assets:	31.1	185,376	173,238	119,789
<i>Security deposits receivable</i>		23,089	10,483	7,998
<i>Deposits</i>	32.4.1	29,653	122,563	40,565
<i>Cash blocked in bank accounts</i>	32.3.1.; 32.4.1.	103,559	18,320	49,671
<i>Investment receivables</i>		13,144	2,457	1,299
<i>Other receivables</i>		15,931	19,415	20,256
Total		1,780,122	1,806,075	2,191,058
Total financial assets		1,974,124	1,892,510	2,316,530
Non-financial assets				
Non-current non-financial assets				
Prepayments for lease of railway locomotives		6,663	8,990	-
Other		10,316	11,807	10,819
Total		16,979	20,797	10,819
Current non-financial assets				
Value-added tax receivable		51,899	165,152	42,236
Other receivables from the state budget other than income tax		632	2,780	10,622
Property and other insurance		4,522	5,704	4,427
Prepayments for lease of railway locomotives		2,336	2,336	-
Settlements under joint ventures (Norwegian fields)		27,158	41,756	50
Excise duty on inter-warehouse transfers		27,237	29,678	33,620
Prepaid deliveries		9,588	7,523	4,293
Other		16,331	7,954	9,367
Total		139,703	262,883	104,615
Total non-financial assets		156,682	283,680	115,434
Total		2,130,806	2,176,190	2,431,964
<i>including:</i>				
<i>non-current</i>		210,981	107,232	136,291
<i>current:</i>		1,919,825	2,068,958	2,295,673
- <i>trade receivables</i>		1,594,746	1,632,837	2,071,269
- <i>other</i>		325,079	436,121	224,404

⁽¹⁾ Cash deposited in the bank account of the oil and gas facility decommissioning fund (created pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) to cover future costs of decommissioning of oil and gas facilities, as discussed in Note 30.1.

As at December 31st 2013 and December 31st 2012, the item *Deposits* mainly included the Parent's deposits securing payments of interest under credit facilities contracted for the financing of the 10+ Programme, as well as for financing and refinancing inventories, referred to in Note 27.1. As at December 31st 2012, the item included Parent's cash of PLN 83,826 thousand earmarked for plant maintenance, as required under the 10+ Programme financing agreements. The cash was used in the first half of 2013.

As at December 31st 2013, *Security deposits (margins)* mainly included PLN 8,917 thousand security deposit (margin) provided by the Parent to BNP Paribas Bank Polska, to enable execution of transactions on the ICE Futures Internet platform (December 31st 2012: PLN 9,051 thousand).

As at December 31st 2013, *Cash blocked in bank accounts* comprised cash on ecrow account associated with the agreement concluded between the parties involved in the execution of the YME Project in Norway; for more information, see Note 30.1. As at December 31st 2013, the blocked cash totalled PLN 213,938 thousand. As at December 31st 2012, Cash blocked in bank accounts comprised LOTOS Paliwa Sp. z o.o.'s cash in of PLN 18,320 thousand. These funds were blocked by a court enforcement officer in connection with court proceedings concerning WANDEKO and were released in 2013; for more information, see Note 35.1.

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

As at December 31st 2013, a PLN 3,156 thousand assignment was established on the Group's receivables as security for the Group's liabilities. As at December 31st 2012, the Group's receivables were not subject to any assignment by way of security for the Group's liabilities.

For description of the financial instruments, see Note 7.23. For description of objectives and policies of financial risk management, see Note 32.

The maximum credit risk exposure of financial assets is presented in Note 32.6.

For currency risk sensitivity analysis of financial assets, see Note 32.3.1.

For interest rate risk sensitivity analysis of financial assets, see Note 32.4.1.

18.1 Change in impairment losses on receivables

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
At beginning of the period	177,152	195,646
Recognised	11,998	11,325
Exchange differences on translating foreign operations	34	(1,025)
Used	(11,015)	(20,179)
Deconsolidation (LOTOS Tank Sp. z o.o.) ⁽¹⁾	(735)	-
Reversed	(2,141)	(8,615)
At end of the period	175,293	177,152

⁽¹⁾ For more information on the transaction, see Note 2.

The amounts resulting from recognition or reversal of impairment losses on receivables are presented under other income or expenses (the principal portion) and under finance income or costs (the default interest portion).

Recognised impairment losses included PLN 9,584 thousand under the principal (2012: PLN 9,898 thousand) and PLN 2,371 thousand under interest (2012: PLN 1,416 thousand).

The item *Reversed* comprised PLN 1,280 thousand under the principal (2012: PLN 8,537 thousand) and PLN 861 thousand under interest (2012: PLN 78 thousand).

In 2013, the Group disclosed the recognition and reversal of impairment losses on the principal under Other expenses, in the amount of PLN 6,012 thousand (2012: PLN 5,012 thousand under Other income). Moreover, in 2013 the Group offset the impairment loss of PLN 2,292 thousand against corresponding Other income items (2012: PLN 6,373 thousand).

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The table below presents aging of past due receivables for which no impairment losses were recognised:

PLN '000	Dec 31 2013	Dec 31 2012
Up to 1 month	47,503	81,742
From 1 to 3 months	8,051	11,932
From 3 to 6 months	5,694	4,800
From 6 months to 1 year	4,948	2,275
Over 1 year	6,341	5,357
Total	72,537	106,106

No impairment loss was recognised on past due receivables because they are secured against credit risk with a mortgage, pledge, insurance policy, bank guarantee or surety.

As at December 31st 2013 and December 31st 2012, the share of trade receivables from the Group's four largest customers as at the end of the reporting period slightly exceeded 20% of total trade receivables. In the Group's opinion, with the exception of receivables from the above-mentioned customers, there is no material concentration of credit risk. The Group's maximum exposure to credit risk as at the end of the reporting period is best represented by the carrying amounts of those instruments. The concentration of risk related to sales is limited, as the Group trades with large number of partners.

18.2 Finance lease receivables

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

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Up to 1 year ⁽¹⁾	3,437	2,716	3,406	2,683
From 1 to 5 years	7,604	5,970	7,534	5,896
Over 5 years	532	288	527	284
Total	11,573	8,974	11,467	8,863
Less unrealised finance income	(106)	(111)	-	-
Present value of minimum lease payments	11,467	8,863	11,467	8,863
<i>including:</i>				
<i>non-current</i>			8,061	6,180
<i>current</i>			3,406	2,683

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

19. Inventories

PLN '000	Dec 31 2013	Dec 31 2012 (restated)
Finished products	1,755,650	1,800,849
Semi-finished products and work in progress	671,636	751,935
Merchandise	284,497	256,875
Raw material and consumables	3,020,068	3,156,544
Total	5,731,851	5,966,203
<i>including inventories measured:</i>		
<i>at cost</i>	5,725,835	5,960,708
<i>at net realisable value</i>	6,016	5,495

As at December 31st 2013, the value of inventories serving as collateral for the Parent's liabilities under the inventory refinancing and financing facility discussed in Note 27.1 was PLN 5,032,009 thousand (December 31st 2012: PLN 4,983,260 thousand).

19.1 Change in impairment losses on inventories

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
At beginning of the period	2,293	11,437
Recognised	3,319	1,336
Exchange differences on translating foreign operations	3	(85)
Used	(265)	(5,269)
Reversed	(874)	(5,126)
At end of the period	4,476	2,293
<i>including:</i>		
<i>Finished products</i>	311	332
<i>Semi-finished products and work in progress</i>	2	40
<i>Merchandise</i>	68	29
<i>Raw material and consumables</i>	4,095	1,892

The effect of revaluation of inventories is taken to cost of sales.

19.2 Mandatory stocks

The Group maintains mandatory stocks as required by the following acts:

- 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).
- Regulation of the Minister of Economy, Labour and Social Policy, on fuel stocks at power utility companies, dated February 12th 2003 (Dz.U. No. 39, item 338, as amended).

These regulations define the rules for creating, maintaining and financing stocks of crude oil, petroleum products and fuels at power utility companies.

The Group's mandatory stocks include crude oil, petroleum products (liquid fuels), LPG and coal. As at December 31st 2013, the gross value of mandatory stocks was PLN 4,250,530 thousand (December 31st 2012: PLN 4,353,207 thousand).

20. Cash and cash equivalents

PLN '000	Dec 31 2013	Dec 31 2012
Cash at bank	501,573	267,682
Cash in hand	345	362
Other cash	1,768	289
Total cash and cash equivalents recognised in the statement of financial position	503,686	268,333
Overdraft facilities	(498,914)	(508,988)
Total cash and cash equivalents recognised in the statement of financial position	4,772	(240,655)

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

As at December 31st 2013, the amount of undrawn funds available to the Group under working capital facilities in respect of which all conditions precedent had been fulfilled (including the working capital facility provided by Bank Syndicate (4) (see Note 27.1) was PLN 683,147 thousand (December 31st 2012: PLN 764,086 thousand).

As at December 31st 2013, cash in bank accounts serving as security for the LOTOS Group's liabilities was PLN 2,629 thousand (December 31st 2012: PLN 1,484 thousand).

21. Share capital

As at December 31st 2013 and December 31st 2012, the share capital comprised 129,873,362 ordinary shares, fully paid-up, with a par value of PLN 1 per share. 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 2013 and December 31st 2012 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 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 bank borrowings used as hedging instruments designated to hedge cash flows, less the effect of income tax.

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
At beginning of the period		(36,801)	(419,281)
Valuation of cash flow hedging instruments		120,765	472,197
Income tax on valuation of cash flow hedging instruments	10.1	(22,945)	(89,717)
At end of the period		61,019	(36,801)

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 Articles of Association, as well as current period's profit.

As at December 31st 2013 and December 31st 2012, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends, as described in detail in Note 12.

Furthermore, retained earnings include actuarial gains/losses relating to defined post-employment benefits, recognised inclusive of tax effect, which are posted under *Other comprehensive income* in the statement of comprehensive income.

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

In 2012 and 2013, the ability of subsidiaries of the LOTOS Group to transfer funds to Grupa LOTOS S.A. in the form of dividends was restricted due to the following arrangements:

- The agreement concluded on December 16th 2004 by LOTOS Paliwa Sp. z o.o. with Bank Pekao S.A. and PKO BP S.A. imposes restrictions on the amount of surplus cash generated by LOTOS Paliwa Sp. z o.o. in a financial year that may be allocated to dividend payment, setting specific ratios which must be met.
- At AB LOTOS Geonafta, there are restrictions on dividend payment under the credit facility agreements of April 5th and September 27th 2012, which make such payment conditional upon the bank's prior consent.
- At LOTOS Exploration and Production Norge AS, there are restrictions on dividend payment under the credit facility agreements of December 17th 2010 and December 11th 2013, and the framework agreement concerning provision of bank guarantees dated December 11th 2013. Pursuant to the agreements, no dividends may be paid without a prior consent of the bank.

As at December 31st 2013, the following companies were restricted in their ability to pay dividends: LOTOS Paliwa Sp. z o.o., AB LOTOS Geonafta and LOTOS Exploration and Production Norge AS.

25. Exchange differences on translating foreign operations

Exchange differences on translating foreign operations comprise exchange differences resulting from the translation into PLN of the financial statements of foreign companies and groups of companies.

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
At beginning of the period	33,878	59,100
Exchange differences on translating foreign operations	(13,644)	(39,086)
Corporate income tax relating to currency-translation differences	-	13,864 ⁽¹⁾
At end of the period	20,234	33,878

⁽¹⁾ Reversal of the deferred tax liability following review of IAS 12 Income Taxes (paragraph 40) by the Group in 2012.

26. Non-controlling interests

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
At beginning of the period	699	947
Share in profit/(loss)	13	27
Share in other comprehensive income, net	(2)	(14)
Share in total comprehensive income	11	13
Sale of shares to the Parent ⁽¹⁾	(421)	(261)
At end of the period	289	699

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

27. Borrowings, other debt instruments and finance lease liabilities

PLN '000	Note	Dec 31 2013	Dec 31 2012
Bank borrowings:	27.1	5,851,809	6,373,535
- investment credit facilities		4,512,290	4,598,145
- working capital facilities		831,739	1,036,012
- inventory refinancing and financing facilities		753,296	930,574
- funds in bank deposits securing repayment of interest and principal instalments		(245,516)	(191,196)
Non-bank borrowings	27.1	10,306	17,056
Notes	27.2	198,240	-
Finance lease liabilities	27.3	151,031	166,109
Total		6,211,386	6,556,700
<i>including:</i>			
non-current		4,496,190	4,462,098
current		1,715,196	2,094,602

27.1 Borrowings

Borrowings as at December 31st 2013, by currency and by maturity

PLN '000	Borrowings in EUR	Borrowings in USD	Borrowings in PLN	Total
2014	2,448	1,226,142	449,901	1,678,491
2015	2,444	432,606	60,657	495,707
2016	-	404,569	25,750	430,319
2017	-	801,939	26,000	827,939
2018	-	470,697	24,750	495,447
after 2018	-	1,894,326	39,886	1,934,212
Total	4,892	5,230,279	626,944	5,862,115

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

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

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 property, plant and equipment
- assignment of rights under inventory insurance agreement

- assignment of rights under inventory storage agreements
- assignment of rights to compensation from the State Treasury due in the event of the requirement to sell stocks below market price
- assignment of rights under insurance agreements relating to the Gdańsk refinery
- assignment of rights under licence agreements
- assignment of rights under agreements for sale of products,
- assignment of rights under crude oil sales agreements,
- shares in subsidiaries,
- representation on voluntary submission to enforcement
- blank promissory note
- bank guarantees.

The credit facilities bear interest based on:

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

The bank margins on to the contracted facilities are within the range of 0.30pp. – 3.75pp.

As at December 31st 2013, the average effective interest rate for the credit facilities denominated in USD and EUR was approximately 2.49% (2.47% as at December 31st 2012). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities contracted by the Parent) was approximately 3.96% (4.81% as at December 31st 2012).

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Borrowings by lender

PLN '000	Dec 31 2013	Dec 31 2012
Non-current		
Kredyt Bank S.A.	-	8,987
Pekao S.A.	16,101	20,008
PKO BP S.A.	417,424	15,125
National Fund for Environmental Protection and Water Management	-	6,056
Provincial Fund for Environmental Protection and Water Management of Gdańsk	3,250	4,250
Nordea Bank Lithuania	28,836	44,240
Bank Ochrony Środowiska S.A.	4,844	36,902
Bank Syndicate (2)	2,598,132	2,988,669
Bank Syndicate (3)	940,647	1,080,892
Bank Syndicate (5)	141,667	43,448
Bank Syndicate (6)	32,723	67,022
Non-current - total	4,183,624	4,315,599
Current		
Kredyt Bank S.A.	-	6,000
Pekao S.A.	3,976	174,866
ING Bank Śląski S.A.	298	4,830
PKO BP S.A.	194,518	308,815
National Fund for Environmental Protection and Water Management	6,056	6,000
Provincial Fund for Environmental Protection of Gdańsk	1,000	750
Bank Millennium S.A.	6,529	-
Nordea Bank Polska S.A.	7,379	23,810
Nordea Bank Lithuania	14,418	14,747
Bank Ochrony Środowiska S.A.	4,844	-
BRE Bank S.A.	396	10,278
Bank Syndicate (1)	753,296	930,574
Bank Syndicate (2)	270,050	207,042
Bank Syndicate (3)	105,438	83,182
Bank Syndicate (4)	444,268	409,245
Bank Syndicate (5)	51,818	43,462
Bank Syndicate (6)	59,723	42,587
Funds in bank deposits securing payment of interest and principal	(245,516)	(191,196)
Current - total	1,678,491	2,074,992
Total	5,862,115	6,390,591

Bank Syndicate (1):

Pekao S.A., BRE Bank S.A., ING Bank Śląski S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., Bank Zachodni WBK S.A.; on December 20th 2013, there was a change in the composition of the syndicate; see below for details.

Bank Syndicate (2):

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

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

Bank Syndicate (4):

Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

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

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

In accordance with IAS 32, Grupa LOTOS S.A. offsets a financial asset (cash reserved for repayment of the facilities) against a financial liability under the facilities, because it holds a valid legal title to set off the amounts and intends to realise the asset and settle the liability at the same time. The purpose of adopting the net-basis presentation approach in the statement of financial position is to reflect the expected future cash flows from settlement of two or more financial instruments.

Bank borrowings of the Parent

Inventory financing and refinancing facility

As at December 31st 2013, the nominal amount drawn under the credit facility for the refinancing and financing of inventories, advanced by Bank Syndicate (1), amounted to PLN 753m (*USD 250m*).

In connection with the credit facility incurred to finance and refinance inventories, Grupa LOTOS S.A. is required to maintain the Tangible Consolidated Net Worth (TCNW) ratio of no less than specified in the facility agreement. 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 2013 and December 31st 2012, the covenants were complied with.

Amendments to the inventory financing and refinancing facility

On November 7th 2013, Grupa LOTOS S.A. and a syndicate of five banks (Bank Syndicate (1)), 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,

signed an amendment extending by 12 months, i.e. until December 20th 2014, the term of the credit facility agreement for refinancing and financing of Grupa LOTOS S.A.'s inventories, of October 10th 2012, providing for a revolving credit facility of up to USD 400m (*i.e. PLN 1,268m, as translated at the mid rate quoted by the National Bank of Poland for October 10th 2012*).

Under the amended agreement, as of December 20th 2013 Nordea Bank AB of Stockholm was no longer a party to the credit facility agreement, and its entire credit commitment had been taken over by Bank Handlowy w Warszawie S.A. and Bank Zachodni WBK S.A. of Wrocław.

The other legal terms of the credit facility agreement of October 10th 2012, as well as its provisions concerning penalties, did not change, and they did not differ from those commonly applied in agreements of such type. The financial covenants have been adjusted to current market conditions.

Investment facilities

As at December 31st 2013, the Company had drawn (in nominal terms) PLN 3,960.9m (*USD 1,315.0m*) under investment facilities advanced by Bank Syndicates (2) and (3). As at December 31st 2012, PLN 4,412.8m (*USD 1,423.7m*) had been drawn.

In connection with the credit facilities incurred to finance the 10+ Programme, Grupa LOTOS S.A. is required to maintain the Tangible Consolidated Net Worth ratio of no less than specified in the facility agreements. As at December 31st 2013 and December 31st 2012, the covenants were complied with.

Working-capital facilities

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.

The Parent may also finance its working capital requirements of up to PLN 600m with funds available under credit facilities contracted from PKO BP S.A. (a PLN 300m credit facility of June 26th 2009) and Pekao S.A. (a PLN 300m credit facility of May 16th 2012).

As at December 31st 2013, the Company carried no liabilities under these facilities (December 31st 2012: PLN 23,710 thousand).

Borrowings of other Group companies

The aggregate value of liabilities under borrowings disclosed by other companies of the Group as at December 31st 2013 was PLN 995.8m (December 31st 2012: PLN 858.5m). This amount includes mainly liabilities of LOTOS Exploration and Production Norge AS and LOTOS Paliwa Sp. z o.o.

Bank borrowings of LOTOS Exploration and Production Norge AS

On December 11th 2013, LOTOS Exploration and Production Norge AS and PKO BP S.A. signed an agreement concerning an investment credit facility for a total amount of USD 110m, intended for financing of the purchase of Heimdal assets (for a more detailed description of the transaction, see Note 13). The final repayment date of the facility is December 31st 2016. As at December 31st 2013, liabilities under the agreement were PLN 316.9m (*USD 105.0m*).

In addition, LOTOS Exploration and Production Norge AS uses a working capital facility contracted with PKO BP S.A., which is intended for the financing of its day-to-day operations and investment activities. As at December 31st 2013, liabilities under this credit facility were PLN 240.4m (*USD 79.8m*).

Bank borrowings of LOTOS Paliwa Sp. z o.o.

On March 6th 2013, LOTOS Paliwa Sp. z o.o and a consortium of Pekao S.A. and PKO BP S.A. signed an agreement for a PLN 150m credit facility intended for the financing and refinancing of the purchase of service stations. The final repayment date of the facility is June 30th 2024, and as at December 31st 2013 the amount outstanding under this facility was PLN 150m.

Furthermore, as at December 31st 2013, LOTOS Paliwa Sp. z o.o. disclosed liabilities under investment credit facilities contracted in the previous years with PKO BP S.A. and Pekao S.A., totalling PLN 73.8m, and liabilities of PLN 40m under a working capital facility advanced by PKO BP S.A.

Proceeds from and repayment of bank borrowings

In 2013, proceeds from the credit facilities contracted by the Group were PLN 963,045 thousand (2012: PLN 542,530 thousand), while the cash outflows on repayment of borrowings were PLN 1,263,548 thousand (2012: PLN 1,171,040 thousand). These amounts were presented in the consolidated statement of cash flows from financing activities under *Proceeds from borrowings* and *Repayment of borrowings*, respectively. In 2013 and in 2012, the Group did not contract any non-bank borrowings.

In 2013, the proceeds under the contracted bank borrowings related mainly to:

- LOTOS Exploration and Production Norge AS' investment credit facility intended for the financing of the Heimdal assets (PLN 343,847 thousand),
- LOTOS Paliwa Sp. z o.o.'s investment credit facility intended for the financing and refinancing of the purchase of service stations (PLN 150,000 thousand),
- working capital facilities of the Parent (PLN 189,965 thousand),
- working capital facilities of AB LOTOS Geonafta (PLN 255,642 thousand).

In 2013, the outflows on repayment of the contracted bank borrowings related mainly to:

- investment credit facilities of the Parent (PLN 495,300 thousand zł),
- working capital facilities of the Parent (PLN 213,675 thousand),
- investment credit facilities of LOTOS Paliwa (PLN 61,434 thousand),
- working capital facilities of LOTOS Petrobaltic S.A. (PLN 159,579 thousand)
- working capital facilities of AB LOTOS Geonafta (PLN 286,192 thousand).

In 2013, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under agreements on credit facilities or other borrowings.

27.2 Notes

In 2013, LOTOS Petrobaltic S.A. issued medium-term notes under an agreement with Bank Pekao S.A. of October 29th 2013. Pursuant to the agreement, LOTOS Petrobaltic S.A. issued notes for up to the equivalent of PLN 200m in USD.

The notes were acquired by Bank Pekao S.A.

Carrying amount of notes issued

(PLN '000)	Nominal value (USD)	Nominal value translated into PLN	Issue date	Redemption date	Interest rate
Series A	5,000	15,060	Nov 7 2013	Dec 31 2014	1M LIBOR USD + bank margin
Series B	5,000	15,060	Nov 7 2013	Dec 31 2015	1M LIBOR USD + bank margin
Series C	10,000	30,120	Nov 7 2013	Dec 31 2016	1M LIBOR USD + bank margin
Series D	35,000	105,420	Nov 7 2013	Dec 31 2017	1M LIBOR USD + bank margin
Series E	10,898	32,825	Dec 9 2013	Dec 31 2017	1M LIBOR USD + bank margin
TOTAL	65,898	198,485			

As at December 31st 2013 the total value of liabilities under the issue of notes presented above was PLN 198.2m and included interest accrued of PLN 0.1m and a deferred arrangement fee of PLN (0.4m), which reduces the liability.

From 2010 LOTOS Asphalt Sp. z o.o., another Group company, operates a short-term note issue programme. The term of the programme is five years. In 2013, no notes were issued by LOTOS Asphalt Sp. z o.o. under the programme. As part of the programme, in 2012 LOTOS Asphalt Sp. z o.o. issued notes with a nominal value of PLN 364m to investors from outside the LOTOS Group. As at December 31st 2013 and December 31st 2012, LOTOS Asphalt Sp. z o.o. did not carry any liabilities under issue of notes.

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Proceeds from notes issued by the Group to investors outside the Group, including expenses related to the issue, were PLN 203,050 thousand, after issue costs (2012: PLN 362,367 thousand). The Group did not redeem any notes in 2013. In 2012, the Group spent PLN 364,000 thousand on redemption of notes. Issue proceeds and expenses were presented in the statement of cash flows as cash flows from financing activities under Issue of notes and Redemption of notes, respectively.

27.3 Finance lease liabilities

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2013	Dec 31 2012	Dec 31 2013	Dec 31 2012
Up to 1 year	34,994	36,794	21,636	19,610
From 1 to 5 years	122,836	134,813	96,764	92,155
Over 5 years	33,816	57,639	32,631	54,344
Total	191,646	229,246	151,031	166,109
Less finance costs	(40,615)	(63,137)	-	-
Present value of minimum lease payments	151,031	166,109	151,031	166,109
<i>including:</i>				
<i>non-current</i>			129,395	146,499
<i>current</i>			21,636	19,610

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

27.3.1 Commitments related to operating leases

As at December 31st 2013 and December 31st 2012, future minimum lease payments under non-cancellable operating leases were as follows:

PLN'000	Dec 31 2013	Dec 31 2012
Up to 1 year	35,107	58,697
From 1 to 5 years	36,426	99,824
Over 5 years	157	2,142
Razem	71,690	160,663

The Group uses operating leases to finance primarily rolling stock assets, whose value as at December 31st 2013 was PLN 259,776 thousand (December 31st 2012: PLN 485,346 thousand).

28. Derivative financial instruments

PLN '000	Dec 31 2013	Dec 31 2012
Current financial assets		
- Commodity swaps (commodities and petroleum products)	736	45
- Currency forward and spot contracts	34,924	73,452
- Interest rate swap (IRS)	-	11,318
- Currency swap	38,275	36,519
Total financial assets	73,935	121,334
Financial liabilities		
Non-current financial liabilities		
- Futures (CO ₂ emissions)	-	1,293
- Interest rate swap (IRS)	52,876	87,032
Total	52,876	88,325
Current financial liabilities		
- Commodity swaps (commodities and petroleum products)	-	337
- Futures (CO ₂ emissions)	-	2,494
- Currency forward and spot contracts	1,017	9,161
- Interest rate swap (IRS)	19,387	60,975
- Currency swap	873	18,033
Total	21,277	91,000
Total financial liabilities	74,153	179,325

For description of the derivative financial instruments, see Note 7.25. For description of objectives and policies of financial risk management, see Note 32.

For market risk sensitivity analysis of derivative financial instruments related to changes in prices of petroleum commodities and products, see Note 32.1.1.

For market risk sensitivity analysis of derivative financial instruments related to fluctuations in prices of carbon dioxide (CO₂) emission allowances, see Note 32.2.1.

For currency risk sensitivity analysis of derivative financial instruments, see Note 32.3.1.

For interest rate sensitivity analysis of derivative financial instruments, see Note 32.4.1.

For maturities of derivative financial instruments, see Note 32.5.

For information on the maximum credit risk exposure of derivative financial instruments (financial assets), see Note 32.6.

29. Employee benefit obligations

PLN '000	Dec 31 2013	Dec 31 2012
Non-current obligations		
Post-employment benefits	32,741	26,286
Length-of-service awards and other benefits	118,684	103,576
Total	151,425	129,862
Current obligations		
Post-employment benefits	3,869	6,201
Length-of-service awards and other benefits	11,966	9,553
Bonuses, awards and unused holidays	72,339	78,619
Salaries and wages payable	16,883	16,557
Total	105,057	110,930
Total obligations	256,482	240,792

29.1 Obligations under length-of-service awards and post-employment benefits

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

PLN '000	Note	Post-employment benefits	Length-of-service awards and other benefits	Total
Jan 1 2013		32,018	113,129	145,147
Current service cost		1,804	17,277	19,081
Cost of discount	9.6	1,158	4,980	6,138
Past service cost		(152)	(793)	(945)
Benefits paid		(2,206)	(11,236)	(13,442)
Actuarial (gain)/loss under profit or loss		-	7,680	7,680
Actuarial (gain)/loss under other comprehensive income		225	-	225
Dec 31 2013		32,847	131,037	163,884
<i>including:</i>				
<i>non-current</i>		29,132	119,033	148,165
<i>current</i>		3,715	12,004	15,719
Obligations under length-of-service awards and post-employment benefits at foreign companies (1)		3,802	-	3,802
Deconsolidation (LOTOS Tank Sp. z o.o.)		(39)	(387)	(426)
Dec 31 2013		36,610	130,650	167,260
<i>including:</i>				
<i>non-current</i>		32,741	118,684	151,425
<i>current</i>		3,869	11,966	15,835
Jan 1 2012		34,271	99,903	134,174
Current service cost		1,918	7,430	9,348
Cost of discount	9.6	1,560	4,984	6,544
Past service cost		(3,879)	11,972	8,093
Acquisition/(disposal) of related entities		(713)	(2,763)	(3,476)
Benefits paid		(2,312)	(11,177)	(13,489)
Actuarial (gain)/loss under profit or loss		-	2,780	2,780
Actuarial (gain)/loss under other comprehensive income		1,173	-	1,173
Dec 31 2012		32,018	113,129	145,147
<i>including:</i>				
<i>non-current</i>		25,817	103,576	129,393
<i>current</i>		6,201	9,553	15,754
Obligations under length-of-service awards and post-employment benefits at foreign companies (1)		469	-	469
Dec 31 2012		32,487	113,129	145,616
<i>including:</i>				
<i>non-current</i>		26,286	103,576	129,862
<i>current</i>		6,201	9,553	15,754

(1) Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafra Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are presented separately as *Obligations under length-of-service awards and post-employment benefits at foreign companies*.

29.2 Present value of future employee benefit obligations

(PLN '000)	Present value of future employee benefit obligations
Dec 31 2013	167,260
Dec 31 2012	145,616
Dec 31 2011	131,801
Dec 31 2010	107,829
Dec 31 2009	98,694

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

29.3 Total cost of future employee benefit payments charged to profit or loss

PLN '000	Note	for the year ended Dec 31 2013	for the year ended Dec 31 2012
Items recognised in profit or loss:			
Current service cost		19,081	9,348
Cost of discount	9.6	6,138	6,544
Past service cost		(945)	8,093
Effect of foreign operations		3,639	(78)
Actuarial (gain)/loss		7,680	2,780
Total		35,593	26,687
Items recognised in other comprehensive income:			
Actuarial (gain)/loss		188	1,111
Total		35,781	27,798

29.4 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 2013	Dec 31 2012
Discount rate (%)	4.30%	4.50%
Expected inflation rate (%)	2.50%	2.50%
Employee turnover ratio (%)	2.49%	2.60%
Expected growth rate of salaries and wages (%) in the following year	0.00%	2.70%
Expected growth rate of salaries and wages (%) in the following years	2.76%	2.70%

- 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. The employee turnover ratio is now calculated on an average basis.
- The mortality and life expectancy ratios were based on the Life Expectancy Tables of Poland for 2012, published by the Polish Central Statistics Office (GUS), and assume that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2012: Life Expectancy Tables of Poland for 2011).
- The changes resulting from amendments to the Act on Pensions and Disability Pensions from Social Security Fund (Pensions Act) were accounted for, in particular changes relating to the retirement age of women and men, including its extension over a defined period to 67 years for both women and men. The amendments to the Pensions Act resulted in a change in the operation of individual benefit plans, giving rise to additional past service costs.
- It was assumed that employees would retire in accordance with the standard procedure, as prescribed by the Pensions Act, with the exception of employees who, according to the information provided by the Company, meet the conditions for early retirement entitlement.
- Based on the historical data, it was assumed that in 60% of cases half of the full amount of death benefits is paid.
- The data used in the assumptions did not include cases related to organisational changes.
- Additionally, the provision for death benefits as at December 31st 2012 was revaluated. The effect of this revaluation is presented in Note 29.1 under Current service cost.

29.5 Termination benefits

In 2013, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 3,984 thousand (2012: PLN 4,181 thousand).

In 2013, provisions for termination benefits totalled PLN 74 thousand (2012: PLN 1,502 thousand).

29.6 Sensitivity analysis

The table below presents results of calculations for changed key actuarial assumptions: the salaries and wages growth rate and the discount rate.

Opening balance of the obligation (amount of provision)

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total ⁽¹⁾
base	base	119,459	29,915	8,742	5,768	163,884
base + 1%	base	129,304	33,309	9,580	6,749	178,942
base - 1%	base	110,898	27,056	8,013	4,986	150,953
base	base + 0.5%	114,552	28,328	8,337	5,348	156,565
base	base - 0.5%	124,753	31,661	9,182	6,243	171,839

The table below presents results of calculations for changed key actuarial assumptions: the salaries and wages growth rate, medical care contributions, and the discount rate.

Current service cost projected for 2014

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total ⁽¹⁾
base	base	9,138	1,606	668	202	11,614
base + 1%	base	10,178	1,888	757	263	13,086
base - 1%	base	8,253	1,380	593	157	10,383
base	base + 0.5%	8,676	1,488	630	178	10,972
base	base - 0.5%	9,642	1,739	710	229	12,320

Cost of discount projected for 2014

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total ⁽¹⁾
base	base	4,651	1,126	348	238	6,363
base + 1%	base	5,074	1,271	383	280	7,008
base - 1%	base	4,284	1,003	316	205	5,808
base	base + 0.5%	4,957	1,181	369	246	6,753
base	base - 0.5%	4,311	1,061	324	228	5,924

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Total current service cost and cost of discount projected for 2014

PLN '000						
Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total ⁽¹⁾
base	base	13,789	2,732	1,016	440	17,977
base + 1%	base	15,252	3,159	1,140	543	20,094
base - 1%	base	12,537	2,383	909	362	16,191
base	base + 0.5%	13,633	2,669	999	424	17,725
base	base - 0.5%	13,953	2,800	1,034	457	18,244

⁽¹⁾ Given the different nature of pension plans operated by the Group's foreign companies – LOTOS Exploration and Production Norge AS and the companies of the AB LOTOS Geonafra Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, such companies' obligations are not included in analysis presented above.

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30. Trade payables, other liabilities and provisions

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)	Jan 1 2012 (restated)
Financial liabilities				
Non-current financial liabilities				
Other financial liabilities:		235	1,204	15,194
<i>Investment commitments</i>	31,1	235	-	13,296
<i>Other</i>		-	1,204	1,898
Total		235	1,204	15,194
Current financial liabilities				
Trade payables, including:	31,1	2,396,086	2,174,451	2,812,259
- <i>including to related entities</i>	36,1	8	138	6,823
Other financial liabilities:	31,1	200,455	253,232	197,725
<i>Investment commitments</i>		158,385	178,074	172,706
- <i>including to related entities</i>	36,1	32	-	-
<i>Liabilities to insurers</i>		3,764	3,077	3,671
<i>Settlements under joint ventures (Norwegian fields)</i>		15,926	58,077	-
<i>Other</i>		22,380	14,004	21,348
- <i>including to related entities</i>	36,1	167	-	-
Total		2,596,541	2,427,683	3,009,984
Total financial liabilities		2,596,776	2,428,887	3,025,178
Non-financial liabilities				
Non-current non-financial liabilities				
Provisions		698,841	397,967	307,681
Grants		11,987	13,089	14,415
Other		782	-	271
Total		711,610	411,056	322,367
Current non-financial liabilities				
Provisions		162,938	21,256	20,790
Liabilities to the state budget other than corporate income tax ¹		720,199	686,520	966,530
Grants		30,582	26,359	24,906
Settlements under joint ventures (Norwegian fields)		721	55,092	-
Prepaid deliveries		32,005	4,509	9,483
Other		23,039	22,020	24,893
Total		969,484	815,756	1,046,602
Total non-financial liabilities		1,681,094	1,226,812	1,368,969
Total		4,277,870	3,655,699	4,394,147
<i>including:</i>				
<i>non-current</i>		711,845	412,260	337,561
<i>current:</i>		3,566,025	3,243,439	4,056,586
- <i>trade receivables</i>		2,396,086	2,174,451	2,812,259
- <i>other</i>		1,169,939	1,068,988	1,244,327

⁽¹⁾ Including PLN 541,957 thousand in excise duty and fuel charge liabilities (December 31st 2012: PLN 629,443 thousand).

Trade payables do not bear interest and are, as a rule, paid in 7-60 days. Other liabilities do not bear interest, and their average payment period is one month. Amounts resulting from the difference between value added tax receivable and value added tax payable are paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

For sensitivity analysis of trade payables and other liabilities with respect to currency risk as at December 31st 2013 and December 31st 2012, see Note 32.3.1.

For maturities of trade payables and other liabilities as at December 31st 2013 and December 31st 2012, see Note 32.5.

30.1 Provisions

PLN '000	Note	Provisions for decommissioning and reclamation costs					Other provisions	Total
		Provisions for retired refinery installations	Provision for onshore oil and gas facilities – Lithuania	Provision for offshore oil and gas facilities – the North Sea	Provision for offshore oil and gas facilities – the Baltic Sea	Baltic Sea Oil and Gas Facility Decommissioning Fund		
Jan 1 2013		41,770	18,268	117,132	180,817	27,481	33,755	419,223
<i>Recognised</i>		-	-	265,709	-	-	8,373	274,082
<i>Revaluation of decommissioning costs</i>		-	723	11,995	(1,404)	-	-	11,314
<i>Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)</i>	9.6	263	895	5,085	9,041	-	-	15,284
<i>Transfer to Oil and Gas Facility Decommissioning Fund</i>		-	-	-	(1,654)	1,654	-	-
<i>Interest on Oil and Gas Facility Decommissioning Fund</i>		-	-	-	-	731	-	731
<i>Exchange differences on translating foreign operations</i>		-	254	(49,975)	-	-	(990)	(50,711)
<i>Estimated costs of removal of the MOPU from the YME field</i>		-	-	281,859	-	-	-	281,859
<i>Used</i>		(828)	-	(69,537)	-	-	(8,067)	(78,432)
<i>Released</i>		(5,077)	(957)	-	-	-	(5,537)	(11,571)
Dec 31 2013		36,128	19,183	562,268	186,800	29,866	27,534	861,779
<i>including:</i>								
<i>non-current</i>		35,854	19,183	419,085	186,800	29,866	8,053	698,841
<i>current</i>		274	-	143,183	-	-	19,481	162,938

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PLN '000	Note	Provisions for decommissioning and reclamation costs					Other provisions	Total
		Provisions for retired refinery installations	Provision for onshore oil and gas facilities – Lithuania	Provision for offshore oil and gas facilities – the North Sea	Provision for offshore oil and gas facilities – the Baltic Sea	Baltic Sea Oil and Gas Facility Decommissioning Fund		
Jan 1 2012		41,641	18,916	59,064	163,522	24,491	20,837	328,471
<i>Recognised</i>		140	-	-	-	-	16,581	16,721
<i>Revaluation of decommissioning costs</i>		-	959	56,506	11,823	-	-	69,288
<i>Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)</i>	9.6	263	1,356	3,324	7,358	-	43	12,344
<i>Transfer to Oil and Gas Facility Decommissioning Fund</i>		-	-	-	(1,886)	1,886	-	-
<i>Interest on Oil and Gas Facility Decommissioning Fund</i>		-	-	-	-	1,104	-	1,104
<i>Acquisition of control (AB LOTOS Geonafta Group)⁽¹⁾</i>		-	4,097	-	-	-	-	4,097
<i>Exchange differences on translating foreign operations</i>		-	(1,424)	(1,740)	-	-	(95)	(3,259)
<i>Used</i>		-	-	(22)	-	-	(1,703)	(1,725)
<i>Released</i>		(274)	(3,588)	-	-	-	(1,908)	(5,770)
<i>Deconsolidation (AB LOTOS Geonafta Group)⁽¹⁾</i>		-	(2,048)	-	-	-	-	(2,048)
Dec 31 2012		41,770	18,268	117,132	180,817	27,481	33,755	419,223
<i>including:</i>								
<i>non-current</i>		41,497	18,268	117,132	180,817	27,481	12,772	397,967
<i>current</i>		273	-	-	-	-	20,983	21,256

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

Provisions for retired refinery installations primarily include a PLN 28,933 thousand (December 31st 2012: PLN 34,839 thousand) provision for land reclamation and the cost of disassembly and decommissioning of retired installations at LOTOS Terminale S.A.

Provision for the Baltic Sea offshore oil and gas facilities is a provision for future costs of decommissioning of the oil and gas facilities in the B-3 and B-8 licences areas.

Provision for the North Sea offshore oil and gas facilities is a provision for future costs of decommissioning of the offshore oil and gas facilities in the YME and Heimdal fields, the latter acquired in 2013.

On March 12th 2013, the operator of the YME field, Talisman Energy Norge AS (“Talisman,” “Operator”) and the supplier of the Mobile Operating and Production Unit (MOPU) to be operated on the YME field, Single Buoy Moorings Inc. (“SBM”), announced that an agreement had been reached to remove the defective MOPU (evacuated in mid-July 2012) from the YME field and to terminate all existing contracts and agreements between the parties in connection with the YME project (see Note 35.1). As a result of the agreement, the Group recognised a provision for future costs of removal of the MOPU from the YME field, of PLN 281,859 thousand (NOK 526,151 thousand), including in current portion, which was partially used (PLN 69,527 thousand (NOK 129,787 thousand)) in 2013.

The provision referred to above disclosed in the statement of financial position as at December 31st 2013, totalling PLN 196,319 thousand, including long-term portion of PLN 53,136 thousand (NOK 107,280 thousand) and short-term portion of PLN 143,183 thousand (NOK 289.084 thousand) was calculated based on the following assumptions:

- the MOPU will be removed from the YME field not later than in 2015;
- the provision fully covers the unspent, as at December 31st 2013, budget for removing the MOPU, approved by the interest holders of the YME licence.

In connection with the acquisition in 2013 of new production assets on the Norwegian Continental Shelf (Heimdal), a provision for future costs of decommissioning of the acquired production assets was recognised at PLN 265,709 thousand (NOK 496,004 thousand). Decommissioning of the newly acquired non-current assets of the offshore oil and gas facility at the Heimdal field and reclamation work are scheduled for 2014–2035. As at December 31st 2013, a provision of PLN 245,671 thousand (NOK 496,004 thousand; see Note 13 Acquisition of interests in Norwegian production and exploration licences – Heimdal) was presented by the Group in its statement of financial position, under Other liabilities and provisions .

Other provisions

As at December 31st 2013, the Group recognised a provision for contingent payments under the Heimdal assets acquisition agreement, of PLN 5,089 thousand (NOK 10,275 thousand).

The Group recognised a provision for the unavoidable costs under an agreement it made earlier for collection and transport of the crude oil produced from the YME field. This provision was recognised in 2012, in the amount of PLN 12,492 thousand (i.e. NOK 22,500 thousand), and was then partly released as a result of negotiations and the shortening of the contract term. In 2013, the provision amount used was PLN 5,353 thousand (NOK 9,992 thousand) and the amount released was 4,912 thousand (NOK 9,170 thousand). As at December 31st 2013, the provision was PLN 1,653 thousand (NOK 3,338 thousand).

Furthermore, as at December 31st 2013 and December 31st 2012, the Group also disclosed a provision of PLN 15,318 thousand related to court proceedings instigated by WANDEKO, to which LOTOS Paliwa Sp. z o.o. is a party (see Note 35.1).

30.2 Grants

PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
At beginning of the period		39,448	39,321
Received during the year		5,196	2,186
Recognised in consolidated profit or loss	9.3	(2,075)	(2,059)
At end of the period		42,569	39,448
<i>including:</i>			
<i>non-current</i>		11,987	13,089
<i>current</i>		30,582	26,359

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

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

Until April 30th 2011, the Group benefited from tax credit available to producers of bio-components under Art. 19a of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz.U. of 2011, No. 74, item 397). The state aid awarded in line with the laws referred to above was approved by virtue of the European Commission's Decision No. 57/08 of September 18th 2009 concerning authorisation for the grant of state operating aid for biofuels. This relief has enabled biofuel producers to deduct from their payable income tax up to 19% of the surplus value of their produced biofuels, over the value of their produced liquid fuels of the same calorific value, calculated at average prices. European Commission's approval for the tax relief expired on April 30th 2011, and the unsettled amount of the relief is accounted for in current prepayments for corporate income tax. The deferred tax associated with the biocomponent tax credit is presented in Note 10.3., and the related tax effect in Note 10.2.

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

31. Financial instruments

31.1 Carrying amount

Dec 31 2013	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	
PLN '000						
Classes of financial instruments						
Financial assets						
Derivative financial instruments	28	73,935	-	-	-	73,935
Trade receivables	18	-	1,594,746	-	-	1,594,746
Cash and cash equivalents	20	-	503,686	-	-	503,686
Other financial assets:	18	-	369,632	9,746	-	379,378
Total		73,935	2,468,064	9,746	-	2,551,745
Financial liabilities						
Borrowings, other debt instruments and finance lease liabilities	27	-	-	-	6,211,386	6,211,386
Derivative financial instruments	28	74,153	-	-	-	74,153
Trade payables	30	-	-	-	2,396,086	2,396,086
Other financial liabilities	30	-	-	-	200,690	200,690
Total		74,153	-	-	8,808,162	8,882,315
Dec 31 2012 (restated)						
Dec 31 2012 (restated)	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	
PLN '000						
Classes of financial instruments						
Financial assets						
Derivative financial instruments	28	121,334	-	-	-	121,334
Trade receivables	18	-	1,632,837	-	-	1,632,837
Cash and cash equivalents	20	-	268,333	-	-	268,333
Other financial assets:	18	-	249,917	9,756	-	259,673
Total		121,334	2,151,087	9,756	-	2,282,177
Financial liabilities						
Borrowings, other debt instruments and finance lease liabilities	27	-	-	-	6,556,700	6,556,700
Derivative financial instruments	28	179,325	-	-	-	179,325
Trade payables	30	-	-	-	2,174,451	2,174,451
Other financial liabilities	30	-	-	-	254,436	254,436
Total		179,325	-	-	8,985,587	9,164,912

⁽¹⁾ As at December 31st 2013 and December 31st 2012, the Group held shares in other undertakings measured at historical cost less impairment.

As at December 31st 2013 and December 31st 2012, the fair value of financial assets and liabilities did not materially differ from their carrying amounts.

31.2 Fair value hierarchy

PLN '000	Dec 31 2013		Dec 31 2012	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Commodity swap	-	736	-	45
Currency forward and spot contracts	-	34,924	-	73,452
Interest rate swap (IRS)	-	-	-	11,318
Currency swap	-	38,275	-	36,519
Total	-	73,935	-	121,334
Financial liabilities				
Commodity swap	-	-	-	337
Futures (CO ₂ emissions)	-	-	3,787	-
Currency forward and spot contracts	-	1,017	-	9,161
Interest rate swap (IRS)	-	72,263	-	148,007
Currency swap	-	873	-	18,033
Total	-	74,153	3,787	175,538

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

Year ended		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	Financial liabilities at amortised cost	
Dec 31 2013						
PLN '000	Note					
Classes of financial instruments						
Trade receivables:		-	1,111	-	-	1,111
	<i>Interest income</i>	9.5	5,995	-	-	5,995
	<i>Foreign exchange gains/(losses) recognised in cost of sales</i>	9.1	766	-	-	766
	<i>Foreign exchange gains/(losses)</i>	9.6	362	-	-	362
	<i>Impairment losses</i>	9.4	(6,012)	-	-	(6,012)
Cash and cash equivalents:		-	(2,249)	-	-	(2,249)
	<i>Interest income</i>	9.5	1,267	-	-	1,267
	<i>Foreign exchange gains/(losses)</i>	9.6	(3,516)	-	-	(3,516)
Other financial assets:		-	(26,237)	-	-	(26,237)
	<i>Interest income</i>	9.5	8,606	-	-	8,606
	<i>Foreign exchange gains/(losses)</i>	9.6	(34,843)	-	-	(34,843)
Derivative financial instruments (financial assets/liabilities):		112,861	-	-	-	112,861
	<i>Gains/(losses) on fair value measurement of derivative financial instruments</i>	9.5	55,148	-	-	55,148
	<i>Gains/(losses) on realisation of derivative financial instruments</i>	9.5	57,713	-	-	57,713

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Year ended Dec 31 2013	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	Financial liabilities at amortised cost	
Classes of financial instruments - continued							
Borrowings, other debt instruments and finance lease liabilities			-	-	-	(132,506)	(132,506)
<i>Interest expenses</i>		9.6	-	-	-	(169,005)	(169,005)
<i>Foreign exchange gains/(losses)</i>		9.6	-	-	-	(84,266)	(84,266)
<i>Gains/(losses) on measurement of cash flow hedges</i>		23	-	-	-	120,765	120,765
Trade payables			-	-	-	75,800	75,800
<i>Interest expenses</i>		9.6	-	-	-	(53)	(53)
<i>Foreign exchange gains/(losses) recognised in cost of sales</i>		9.1	-	-	-	75,928	75,928
<i>Foreign exchange gains/(losses)</i>		9.6	-	-	-	(75)	(75)
Other financial liabilities:			-	-	-	6,672	6,672
<i>Interest expenses recognised in finance costs</i>		9.6	-	-	-	(125)	(125)
<i>Foreign exchange gains/(losses) recognised in finance costs</i>		9.6	-	-	-	6,797	6,797
Total			112,861	(27,375)	-	(50,034)	35,452

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Year ended Dec 31 2012	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	Financial liabilities at amortised cost	
PLN '000						
Classes of financial instruments						
Shares:						
		-	-	150	-	150
<i>Gains/(losses) on sale</i>	9.5	-	-	150	-	150
Trade receivables:						
		-	(43,884)	-	-	(43,884)
<i>Interest income</i>	9.5	-	8,804	-	-	8,804
<i>Foreign exchange gains/(losses) recognised in cost of sales</i>	9.1	-	(54,471)	-	-	(54,471)
<i>Foreign exchange gains/(losses)</i>	9.5	-	(3,229)	-	-	(3,229)
<i>Reversal of impairment losses</i>	9.3	-	5,012	-	-	5,012
Cash and cash equivalents:						
		-	(28,835)	-	-	(28,835)
<i>Interest income</i>	9.5	-	1,309	-	-	1,309
<i>Foreign exchange gains/(losses)</i>	9.5	-	(30,144)	-	-	(30,144)
Other financial assets:						
		-	(99,575)	-	-	(99,575)
<i>Interest income</i>	9.5	-	14,879	-	-	14,879
<i>Foreign exchange gains/(losses)</i>	9.5	-	(114,454)	-	-	(114,454)
Derivative financial instruments (financial assets/liabilities):		117,772	-	-	-	117,772
<i>Gains/(losses) on fair value measurement of derivative financial instruments</i>	9.5	159,096	-	-	-	159,096
<i>Gains/(losses) on realisation of derivative financial instruments</i>	9.5	(41,324)	-	-	-	(41,324)

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Year ended Dec 31 2012	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	Financial liabilities at amortised cost	
PLN '000						
Classes of financial instruments - continued						
Borrowings, other debt instruments and finance lease liabilities		-	-	-	566,386	566,386
<i>Interest expenses</i>	9.6	-	-	-	(191,754)	(191,754)
<i>Foreign exchange gains/(losses)</i>	9.5	-	-	-	285,943	285,943
<i>Gains/(losses) on measurement of cash flow hedges</i>	23	-	-	-	472,197	472,197
Trade payables		-	-	-	24,202	24,202
<i>Interest expenses recognised in finance costs</i>	9.6	-	-	-	(88)	(88)
<i>Foreign exchange gains/(losses) recognised in cost of sales</i>	9.1	-	-	-	23,275	23,275
<i>Foreign exchange gains/(losses)</i>	9.5	-	-	-	1,015	1,015
Other financial liabilities:		-	-	-	16,601	16,601
<i>Interest expenses</i>	9.6	-	-	-	(380)	(380)
<i>Foreign exchange gains/(losses)</i>	9.5	-	-	-	16,981	16,981
Total		117,772	(172,294)	150	607,189	552,817

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32. Objectives and policies of financial risk management

The Group is exposed to financial risks, including:

- market risk (risk related to prices of raw materials and petroleum products, risk related to prices of CO2 allowances, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The Parent operates a Financial Risk Management Office, which coordinates and exercises ongoing supervision of the Group's financial risk management processes.

Furthermore, the Price Risk and Trading Committee, appointed by the Management Board, supervises the work on development of policies and procedures, and monitors implementation of the Group's strategy in the area of its responsibilities. Specifically, the Committee provides opinions on or initiates key price and trading risk management initiatives, makes recommendations, and submits proposals for actions that require the Management Board's approval.

In addition, to ensure effective management of liquidity, debt structure and external finance raising by companies of the LOTOS Group, the Management Board has appointed the Liquidity Optimisation and Financing Coordination Team.

Financial risk management seeks to achieve the following key objectives:

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

With a view to implementing the above objectives, the Group has put in place relevant tools and developed a number of documents, which were then approved at the relevant decision-making levels and which define the framework for ensuring effectiveness and safety of the Company's financial activities, including:

- methodology for quantifying exposures to particular risks,
- acceptable financial instruments,
- methodology of assessing financial risk management,
- risk management limits,
- the reporting method,
- credit limits,
- documentation and operating standards,
- division of responsibilities in transaction execution, risk assessment and monitoring, and transaction recording and settlement between different organisational units.

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

On January 1st 2011, the Parent commenced hedge accounting with respect to cash flows (i.e. foreign-currency facilities used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sale transactions). In H2 2012, the scope of cash flow hedge accounting was extended to include newly established hedging relationships of the same nature.

32.1 Risk related to prices of raw materials and petroleum products

The Group considers risk related to prices of raw materials and petroleum products to be particularly important.

The Company identifies the following factors of this risk:

- volatility of the refining margin, measured as the difference between the liquid index of a reference petroleum product basket (e.g. aviation fuel, gasoline, diesel oil, fuel oil) and the liquid index of reference feedstock (e.g. Urals crude),
- volatility of prices with respect to the raw material and product inventory volumes deviating from the required levels of mandatory and operational stocks,
- volatility of differentials between the reference indices and indices used in commercial contracts (e.g. Urals-Brent differential, i.e. the difference between different types of crude oil),
- use of non-standard pricing formulae in commercial contracts.

In order to secure fixed petroleum product prices for future deliveries to customers, the Group has implemented a system whereby the risk can be transferred from the customers onto the Group. This requires execution of appropriate price risk hedging transactions and implementation of procedures providing protection against credit and operational risks.

As part of the measures discussed above, in 2012 and 2013, in connection with sales of bitumen components the Group entered into commodity swap contracts, which helped it maintain its original price risk profile. The swap contracts concluded in that period were partially settled in the year when they were entered into, and partly in the following year.

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Open commodity swaps as at December 31st 2013:

Type of contract	Reference index	Contract execution period	Valuation period	Amount in tonnes in the valuation period	Average weighted price (USD/tonne)	Fair value (PLN '000)	
						Financial assets	Financial liabilities
Commodity swap	3.5 PCT Barges FOB Rotterdam	Sep–Nov 2013	Mar–Oct 2014	20,989	572.90	736	-
Total						736	-

The above swap transactions for the total amount of 20,989 tonnes based on the 3.5 PCT Barges FOB Rotterdam liquid index during the period from March to October 2014 year were entered into to reverse the risk profile relating to the prices of raw materials and petroleum products, arising in connection with the sale of bitumen components at fixed prices.

Open commodity swaps as at December 31st 2012:

Type of contract	Reference 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)

The above swap transactions based on the 3.5 PCT Barges FOB Rotterdam liquid index and the Gasoil .1 Cargoes CIF NWE / Basis ARA index were also entered into to reverse the risk profile relating to the prices of raw materials and petroleum products and arising in connection with the sale of bitumen components at fixed prices.

The Management Board points out that the importance of price risk management and of trading activities within the Group has been steadily growing. In connection with the need to manage new processes and to enhance the efficiency of ongoing operations in this area, and in order to improve the operational safety, the Group is implementing an ERTM IT system (Energy Trading and Risk Management).

32.1.1 Market risk sensitivity analysis: fluctuations in prices of raw materials and petroleum products

An analysis of the sensitivity as at December 31st 2013 and December 31st 2012 of financial transactions to the risk of fluctuations in prices of raw materials and petroleum products, assuming a +/- 10% price change is presented below:

PLN '000	Carrying amount	Dec 31 2013		Carrying amount	Dec 31 2012	
		Change			Change	
		10%	-10%		10%	-10%
Financial assets ⁽¹⁾	736	3,695	(3,695)	45	(778)	778
Financial liabilities ⁽¹⁾	-	-	-	(337)	2,481	(2,481)
Total	736	3,695	(3,695)	(292)	1,703	(1,703)

⁽¹⁾ Commodity swaps.

The above deviations of underlying index prices have been calculated based on a hypothetical +/- 10% price change. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2013 and December 31st 2012. The effect of the underlying index price changes on the fair value has been examined assuming that the currency exchange rates remain unchanged.

32.2 Risk related to prices of carbon (CO₂) allowances

The risk related to prices of carbon dioxide allowances is managed by the Parent in line with the Strategy for Managing the Risk Related to Prices of Carbon Dioxide (CO₂) Allowances by Grupa LOTOS S.A.

The Group determines its underlying CO₂ allowances position, which represents the difference between the number of CO₂ allowances (held or estimated) and CO₂ emissions (released or estimated) for each individual trading period (phase), for which emission allowances are granted.

As part of risk management procedures, the Group sets a volume limit for the total position in CO₂ 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 Group 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 within the set limits, the Group 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 on the transactions (maximum loss limit) is defined by reference to the Group's equity.

Below are presented underlying, contract and total position as at December 31st 2013 and December 31st 2012.

Underlying CO₂ allowances position as at December 31st 2013 (tonnes):

Period	EUA*	CER*	ERU*	TOTAL
Phase III (2013-2020)	(1,238,485)	383	29,000	(1,209,102)

*Under the European Union Emissions Trading System/Scheme (EU ETS):

1 EUA (Emission Unit Allowance) represents an allowance for emission of one tonne of CO₂.

1 CER (Certified Emission Reduction Unit) represents one tonne of CO₂ equivalent (tCO₂e) effectively reduced. Certified emission reduction units are obtained in connection with investment projects implemented in developing countries where no CO₂ emission limits have been defined.

1 ERU (Emission Reduction Unit) represents one tonne of CO₂ equivalent (tCO₂e) effectively reduced. ERUs are certified emission units, obtained through investment projects implemented in countries where the CO₂ reduction costs are lower.

The presented above underlying position is based on the following assumptions as to the allowances and carbon dioxide emission volumes, and the fact that 993 thousand EUA, 383 CER and 29 thousand ERU were registered in the Company's account as at December 31st 2013:

Phase III (2013-2020), tonnes	2013	2014	2015	2016	2017	2018	2019	Total
Allowances allocated under the National Allocation Plan ⁽¹⁾	1,521,342	1,492,657	1,462,140	1,428,944	1,396,948	1,366,559	1,335,827	10,004,417
Carbon dioxide (CO ₂) emissions ⁽²⁾	(1,676,529)	(1,779,653)	(1,779,653)	(1,779,653)	(1,661,606)	(1,779,653)	(1,779,653)	(12,236,400)
Surplus/shortage	(155,187)	(286,996)	(317,513)	(350,709)	(264,658)	(413,094)	(443,826)	(2,231,983)

⁽¹⁾ Projected volume of free CO₂ emission allowances to be allocated to Grupa LOTOS in 2013–2019 under the National Allocation Plan (NAP).

⁽²⁾ Projected carbon dioxide (CO₂) emissions, calculated based on the production data for the installations covered by the emission trading scheme, and used to determine the underlying position as at December 31st 2013.

In 2013, given the lack of liquidity on the futures market and the instability of the underlying position in the period until 2020 (the last year – phase III), the end of the risk management period for the risk related to the prices of CO₂ emission allowances was set at the end of 2019, however, with the lapse of time, year 2020 will probably also be included in the risk management horizon.

As at December 31st 2013, the Group did not receive its free allocation of CO₂ emission allowances for 2013, which it should have received by the end of February 2013. The Group assumes that there is little probability that these allowances will not be received before the final offsetting date, i.e. April 30th 2014, as by the date of publication of these financial statements, i.e. February 26th 2014, the European Commission announced its approval of the allowance limits planned for the last group of member states, including Poland. The Management Board would also like to note that the Group holds around 60% of the allowances it is required to surrender, and that the balance could be purchased without any material effect on liquidity until free credits are received.

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Underlying CO₂ allowances position as at December 31st 2012 (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, covering years 2013-2020 commenced, however due to limited liquidity of the market, the management was actually limited to 2013 and 2014. Phase II covered the period to the end of 2012, and it was 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.

As at December 31st 2012, the underlying position was based on the following assumptions as to the volume of allowances and carbon dioxide emissions in phase II and phase III:

Phase II (2008-2012), tonnes	2012	Total
Allowances in the account	1,458,144	1,458,144
Carbon dioxide (CO ₂) emissions ⁽¹⁾	(1,978,313)	(1,978,313)
Surplus/shortage	(520,169)	(520,169)

⁽¹⁾ Projected carbon dioxide (CO₂) emissions, calculated based on the production data for the installations covered by the emission trading scheme.

Phase III (2013-2020), tonnes	2013	2014	Total
Allowances allocated under the National Allocation Plan ⁽¹⁾	1,610,712	1,607,843	3,218,555
Carbon dioxide (CO ₂) emissions ⁽²⁾	(1,737,054)	(1,844,877)	(3,581,931)
Surplus/shortage	(126,342)	(237,034)	(363,376)

⁽¹⁾ Projected volume of free CO₂ emission allowances to be allocated to the Company in 2013–2014.

⁽²⁾ Projected carbon dioxide (CO₂) emissions, calculated based on the production data for the installations covered by the emission trading scheme.

To manage risk related to carbon dioxide emission allowances, the Group evaluates the risk of deficit of free emission allowances allocated under the NAP on a case-by-case basis.

If required, futures contracts to purchase carbon (CO₂) allowances open as at the last day of the reporting period are settled by the Group through physical delivery, with the intention to potentially use the allowances to offset the Group's actual CO₂ emissions. Valuation of transactions to be settled through physical delivery is not disclosed under financial assets/liabilities in the financial statements. However, the Company internally monitors and performs the valuation of its open futures positions as part of an overall assessment of the effectiveness of its CO₂ risk management (off balance sheet).

The EUA futures transactions which were open as at December 31st 2013 will be settled through physical delivery and the Company expects to use the purchased emission allowances for its own needs. As at December 31st 2012, the Parent held open CER futures contracts which it intended to settle through physical delivery. The transactions were not disclosed in the financial statements as at the last day of the reporting period, and their fair values were recorded only as an off-balance sheet item.

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

Open CO₂ allowances contracts as at December 31st 2013:

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 2012–Dec 2013	Dec 2014–Dec 2017	1,696,000	5.58	Phase III	1,182	(5,230)
Total						1,182	(5,230)

*Off-balance-sheet values, used exclusively for statistical purposes and as part of monitoring in risk management.

Open CO₂ 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
CER Futures	Dec 2012	Mar 2013	620,000	0.42	Phase II	-	(641)
Total						-	(641)

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)

** On-balance-sheet valuation.

Given the underlying position described above and the effected transactions, the Company's aggregate position (in tonnes) in emission allowances as at December 31st 2013 was as follows:

Period	EUA position			CER position			ERU position		
	Underlying	Contracts	Total	Underlying	Contracts	Total	Underlying	Contracts	Total
Phase III (2013-2020)	(1,238,485)	1,696,000	457,515	383	-	383	29,000	-	29,000

Given the underlying position described above and the effected transactions, the Company's aggregate position (in tonnes) in emission allowances as at December 31st 2012 was as follows:

Period	EUA position			CER position		
	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	-	-	-

For information on CO₂ emission allowances see Note 34.

32.2.1 Market risk sensitivity analysis: fluctuations in prices of carbon dioxide (CO₂) emission allowances

As at December 31st 2013 and December 31st 2012 the Group held futures for the purchase of carbon dioxide emission allowances.

Below is presented an analysis of the sensitivity to risk of changes in prices of carbon dioxide emission allowances (+/- 10%) for the estimated fair value of the derivative instruments disclosed in the statement of financial position:

PLN '000	Dec 31 2013			Dec 31 2012		
	Carrying amount	Change 10%	-10%	Carrying amount	Change 10%	-10%
Financial liabilities ⁽¹⁾	-	-	-	(3,787)	1,446	(1,446)
Total	-	-	-	(3,787)	1,446	(1,446)

⁽¹⁾ EUA Futures.

The above deviations of CO₂ emission allowance prices have been calculated based on a hypothetical +/- 10% price change. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2012. The effect of the allowance price changes on the fair value has been examined assuming that the currency exchange rates remain unchanged.

The Group does not perform a sensitivity analysis for the fair value of futures contracts to purchase CO₂ emission allowances held by it as at the end of the reporting period if it intends to settle the contracts through physical delivery and use them to cover allowance deficits, and therefore the table above does not present a sensitivity analysis for EUA futures held as at December 31st 2013 and CER futures held as at December 31st 2012, which were intended to settle through physical delivery to cover allowance deficits in settlement of carbon dioxide emission for the period.

32.3 Currency risk

Currency risk is managed by the Group in line with the Strategy of Currency Risk Management at Grupa LOTOS S.A. The exposure management horizon is linked with the Group's budget horizon, which varies from three to five consecutive quarters depending on the time of the year. 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, deposits, and 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 the Parent.

In order to optimise execution of foreign exchange transactions at the Group, the Parent offers to its subsidiaries direct quotations of such transactions based on framework agreements and applicable operational procedures.

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 the Group'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.

The Group has a structural long position in USD (it benefits from a rise in the USD/PLN exchange rate) as its cash inflows dependent on the USD exchange rate (mainly revenue from sale of petroleum products) are higher than the corresponding cash outflows (e.g. on purchase of crude oil, credit facility repayment).

As at December 31st 2013, the Group projects that in 2014 it will also have a long position in EUR, driven by a change of the price formulae under biocomponent purchase agreements, which were based on EUR in the previous reporting period and now are based mainly on USD, meaning that cash flows under these transactions are part of the USD position.

Underlying currency position of the Parent as at December 31st 2013:

Period	USD '000	EUR '000
2014	445,543	2,008

Underlying currency position of the Parent as at December 31st 2012:

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

The Parent actively manages its currency position within the set limits, taking into account expected market developments.

The Group's companies execute transactions to hedge their currency risk.

Each currency swap comprises a pair of transactions, which in this analysis are assigned to purchase or sale under *Currency swap*.

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Open currency contracts as at December 31st 2013:

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 2013	Jan 2014	USD/PLN	21,000	3,0178	(63,374)	-	(125)
Currency spot	Purchase	Dec 2013	Jan 2014	EUR/PLN	1,500	4,1500	(6,225)	-	(4)
Currency forward	Purchase	Dec 2013	Jan 2014	USD/PLN	20,000	3,0551	(61,102)	-	(783)
Currency forward	Purchase	Dec 2013	Jan 2014	EUR/PLN	4,700	4,1720	(19,608)	-	(105)
Currency forward	Sale	Aug–Nov 2013	Mar–Oct 2014	USD/PLN	(169,000)	3,2487	549,030	34,924	-
Currency swap	Purchase	Dec 2013	Sep 2014	USD/PLN	25,000	3,0932	(77,330)	-	(845)
Currency swap	Purchase	Dec 2013	Jan 2014	EUR/USD	1,850	1,3800	(2,553)	-	(18)
Currency swap	Sale	Sep–Dec 2013	Jan–Dec 2014	USD/PLN	(393,450)	3,1371	1,234,292	38,275	-
Currency swap	Sale	-	-	EUR/PLN	-	-	-	-	-
Currency swap	Sale	Dec 2013	Jan 2014	EUR/USD	(7,500)	1,3764	10,323	-	(10)
							Total	73,199	(1,890)

Open currency contracts as at December 31st 2012:

Type of contract	Purchase/sale	Contract execution period	Contract settlement period	Currency pair (base/quote)	Amount in base currency ('000)	Weighted average exchange rate	Amount in quote currency ('000)	Fair value (PLN '000)	
								Financial assets	Financial liabilities
Currency spot	Purchase	Dec 2012	Jan 2013	USD/PLN	54,000	3,0951	(167,135)	234	-
Currency spot	Purchase	Dec 2012	Jan 2013	EUR/PLN	1,891	4,0925	(7,739)	-	(9)
Currency forward	Purchase	Sep–Dec 2012	Jan–Apr 2013	USD/PLN	110,500	3,1760	(350,948)	57	(7,436)
Currency forward	Purchase	Aug–Dec 2012	Jan–Jul 2013	EUR/USD	146,000	1,2828	(187,289)	17,029	-
Currency forward	Sale	Aug–Dec 2012	Jan–Nov 2013	USD/PLN	(324,000)	3,3091	1,072,148	56,132	(1,381)
Currency forward	Sale	Dec 2012	Jan 2013	EUR/PLN	(15,000)	4,0717	61,076	-	(335)
Currency swap	Purchase	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	74,000	3,2998	(244,185)	-	(12,672)
Currency swap	Purchase	Dec 2012	Jan 2013	EUR/PLN	15,500	4,1474	(64,285)	-	(832)
Currency swap	Purchase	Oct–Dec 2012	Jan–Jul 2013	EUR/USD	31,610	1,2948	(40,929)	2,478	-
Currency swap	Sale	Aug–Dec 2012	Jan–Jul 2013	USD/PLN	(399,500)	3,1968	1,277,122	34,041	(4,529)
							Total	109,971	(27,194)

(This is a translation of a document originally issued in Polish)

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Total currency position of the Group as at December 31st 2013:

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)
2014	445,543	(422,907)	22,636	2,008	300	2,308

Total currency position of the Group 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

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

Currency structure of selected financial instruments as at December 31st 2013:

Dec 31 2013 (PLN '000)	USD	USD translated into PLN	EUR	EUR translated into PLN	Carrying amount in foreign currency translated into PLN as at the balance- sheet date
	Note				

Classes of financial instruments

Financial assets

Trade receivables	121,143	364,884	10,922	45,112	409,996
Other receivables	-	-	15	63	63
Notes	59,268	178,516	-	-	178,516
Cash and cash equivalents	23,339	70,280	8,492	28,635	98,915
Other financial assets:	436,078	1,313,611	9,961	41,313	1,354,924
<i>Loans advanced to related entities</i>	361,974	1,090,321	7,208	29,895	1,120,216
<i>Deposits</i>	3,105	9,352	603	2,501	11,853
<i>Security deposit (margin)</i>	-	-	2,150	8,917	8,917
<i>Cash blocked in bank accounts</i>	18 70,999	213,938	-	-	213,938
Total	639,828	1,927,291	29,390	115,123	2,042,414

Financial liabilities

Borrowings	2,096,295	6,320,969	1,180	4,892	6,325,861
Trade payables	622,316	1,931,556	11,589	50,877	1,982,433
Other liabilities	9,084	27,829	3,909	16,211	44,040
Notes	6,674	377,210	-	-	377,210
Finance lease liabilities	-	-	21,259	88,164	88,164
Total	2,734,369	8,657,564	37,937	160,144	8,817,708

Currency structure of selected financial instruments as at December 31st 2012:

Dec 31 2012 (PLN '000)	USD	USD translated into PLN	EUR	EUR translated into PLN	Carrying amount in foreign currency translated into PLN as at the balance- sheet date
Classes of financial instruments					
Financial assets					
Trade receivables	87,225	270,367	12,697	51,922	322,289
Other receivables	13	41	154	630	671
Notes	53,119	164,647	-	-	164,647
Cash and cash equivalents	5,321	16,416	2,205	8,992	25,408
Other financial assets:	371,510	1,151,237	12,313	50,338	1,201,575
<i>Loans advanced to related entities</i>	359,032	1,112,561	10,099	41,287	1,153,848
<i>Deposits</i>	12,478	38,676	-	-	38,676
<i>Security deposit (margin)</i>	-	-	2,214	9,051	9,051
Total	517,188	1,602,708	27,369	111,882	1,714,590
Financial liabilities					
Borrowings	2,291,949	7,108,363	5,307	21,672	7,130,035
Trade payables	573,352	1,777,160	8,456	31,319	1,808,479
Other liabilities	10,070	31,200	10,085	41,172	72,372
Notes	53,119	164,162	-	-	164,162
Finance lease liabilities	-	-	39,885	163,058	163,058
Total	2,928,490	9,080,885	63,733	257,221	9,338,106

For the purposes of sensitivity analysis, the currency structure presented above also accounts for intra-Group foreign currency transactions sensitive to changes in foreign exchange rates, which affect the Group's currency risk pursuant to IAS 21 – The Effects of Changes in Foreign Exchange Rates with respect to recognition of relevant foreign exchange gains or losses in the Group's net profit or loss.

Apart from the instruments listed above, the Group held foreign-currency derivatives, including commodity swaps, interest-rate swaps, futures, as well as spot contracts, forwards and currency swaps. Depending on the type of derivative, the Group applies the appropriate method of fair value measurement, which also determines the method of calculating the effect of changes of foreign exchange rates on the value of individual derivatives (for more detailed information on the derivative measurement methods see Note 7.21). The tables below, presenting sensitivity of financial instruments to currency risk as at December 31st 2013 and December 31st 2012, also present the effect of currency rate changes on the carrying amounts of the derivatives.

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Sensitivity analysis to currency risk as at December 31st 2013, 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 is presented below:

Dec 31 2013 PLN '000	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
Classes of financial instruments				
Financial assets				
Trade receivables	14,595	1,804	(14,595)	(1,804)
Other receivables	-	3	-	(3)
Derivative financial instruments	(75,226)	(41)	75,226	41
Notes	7,141	-	(7,141)	-
Cash and cash equivalents	2,812	1,145	(2,812)	(1,145)
Other financial assets:	52,544	1,653	(52,544)	(1,653)
Loans advanced to related entities	43,613	1,196	(43,613)	(1,196)
Deposits	374	100	(374)	(100)
Security deposits (margins)	-	357	-	(357)
Cash blocked in bank accounts	8,557	-	(8,557)	-
Total financial assets	1,866	4,564	(1,866)	(4,564)
Financial liabilities				
Borrowings	96,997 ⁽¹⁾	196	(96,997) ⁽¹⁾	(196)
Trade payables	77,262	2,035	(77,262)	(2,035)
Derivative financial instruments	(13,591)	(132)	13,591	132
Other liabilities	1,113	648	(1,113)	(648)
Notes	15,088	-	(15,088)	-
Finance lease liabilities	-	3,527	-	(3,527)
Total financial liabilities	176,869	6,274	(176,869)	(6,274)
Total	(175,003)	(1,710)	175,003	1,710

⁽¹⁾ Calculation of the effect of an exchange rate change on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 4% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (158,436) thousand/PLN 158,436 thousand in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid front-end arrangement fees (measured at the exchange rate effective on the payment date), reducing financial liabilities under borrowings, which would potentially result in a change of PLN 2,593 thousand/PLN (2,593) thousand in the fair value of borrowings, assuming a 4% change of the USD/PLN exchange rate.

The above deviations of carrying amounts in PLN which are dependent on currency exchange rates were calculated on the basis of a hypothetical +/- 4% change of the exchange rates. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2013.

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Sensitivity analysis to currency risk as at December 31st 2012, 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 is presented below:

Dec 31 2012 PLN '000	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
Classes of financial instruments				
Financial assets				
Trade receivables	10,815	2,077	(10,815)	(2,077)
Other receivables	2	25	(2)	(25)
Derivative financial instruments	(85,181)	29,022	85,181	(29,022)
Notes	6,586	-	(6,586)	-
Cash and cash equivalents	657	360	(657)	(360)
Other financial assets:	46,049	2,013	(46,049)	(2,013)
<i>Loans advanced to related entities</i>	44,502	1,651	(44,502)	(1,651)
<i>Deposits</i>	1,547	-	(1,547)	-
<i>Security deposits (margins)</i>	-	362	-	(362)
Total financial assets	(21,072)	33,497	21,072	(33,497)
Financial liabilities				
Borrowings	110,782 ⁽¹⁾	867	(110,782) ⁽¹⁾	(867)
Trade payables	71,086	1,253	(71,086)	(1,253)
Derivative financial instruments	1,816	(240)	(1,816)	240
Other liabilities	1,248	1,647	(1,248)	(1,647)
Notes	6,566	-	(6,566)	-
Finance lease liabilities	-	6,522	-	(6,522)
Total financial liabilities	191,498	10,049	(191,498)	(10,049)
Total	(212,570)	23,448	212,570	(23,448)

⁽¹⁾ Calculation of the effect of an exchange rate change on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 4% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (176,513) thousand/PLN 176,513 thousand in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid front-end arrangement fees (measured at the exchange rate effective on the payment date), reducing financial liabilities under borrowings, which would potentially result in a change of PLN 2,960 thousand/PLN (2,960) thousand in the fair value of borrowings, assuming a 4% change of the USD/PLN exchange rate.

The above deviations of carrying amounts in PLN which are dependent on currency exchange rates were calculated on the basis of a hypothetical +/- 4% change of the exchange rates. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2012.

32.4 Interest rate risk

The underlying interest rate position is attributable to cash flows whose amounts depend on the future interest rate levels. This position is driven primarily by the expected repayment schedules under the credit facilities contracted to finance and refinance stocks and to finance an investment under the 10+ Programme, as well as the amount of interest computed by reference to the floating LIBOR USD rate. The structure of limits is based on the underlying position'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 a tranche of the term facility contracted to finance the 10+ Programme (credit facility designated in the table as 'Bank Syndicate 3'; see Note 27.1.)

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Underlying interest rate position as at December 31st 2013 and December 31st 2012:

Period	Underlying position (USD '000)	
	2013	2012
2013	-	(1,757,021)
2014	(1,497,343)	(1,267,629)
2015	(1,123,111)	(1,143,396)
2016	(991,787)	(1,012,073)
2017	(856,356)	(876,641)
2018	(708,447)	(728,733)
2019	(542,210)	(562,495)
2020	(374,926)	(395,211)

Open interest rate contracts as at December 31st 2013:

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)	Mar 2009–May 2009	Jul 2011–Jan 2018	200,000	3.33% - 4.045%	6M LIBOR	-	(70,543)
Interest rate swap (IRS)	Mar 2012	Jan 2015–Jan 2019	50,000	2.476%	3M LIBOR	-	(1,720)
Total						-	(72,263)

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)

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Total interest rate position as at December 31st 2013:

Period	Underlying position (USD'000)	Fixed interest rate facilities (USD'000)	Contract position (USD'000)	Variable interest rate deposits (USD'000)	Total position (USD'000)	Hedge ratio
2014	(1,497,343)	342,014	200,000	88,926	(866,403)	42%
2015	(1,123,111)	307,950	250,000	91,598	(473,563)	58%
2016	(991,787)	271,942	250,000	99,822	(370,023)	63%
2017	(856,356)	234,807	250,000	102,094	(269,455)	69%
2018	(708,447)	194,252	50,000	114,982	(349,213)	51%
2019	(542,210)	148,670	-	117,133	(276,407)	49%
2020	(374,926)	102,802	-	109,312	(162,812)	57%

Total interest rate position as at December 31st 2012:

Period	Underlying position (USD'000)	Fixed interest rate facilities (USD'000)	Contract position (USD'000)	Variable interest rate deposits (USD'000)	Total position (USD'000)	Hedge ratio
2013	(1,757,021)	376,656	200,000	72,300	(1,108,065)	37%
2014	(1,267,629)	347,576	200,000	89,935	(630,118)	50%
2015	(1,143,396)	313,512	250,000	90,750	(489,134)	57%
2016	(1,012,073)	277,504	250,000	97,926	(386,643)	62%
2017	(876,641)	240,369	250,000	98,837	(287,435)	67%
2018	(728,733)	199,814	50,000	111,556	(367,363)	50%
2019	(562,495)	154,233	-	114,608	(293,654)	48%
2020	(395,211)	108,364	-	111,076	(175,771)	56%

32.4.1 Market risk sensitivity analysis: fluctuations in interest rates

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2013, assuming a 0.2% change in interest rates:

Dec 31 2013	Note	Carrying amount	Change	
			+0.2%	-0.2%
PLN '000				
Classes of financial instruments				
Financial assets				
Cash and cash equivalents	20	503,686	1,007	(1,007)
Other financial assets:		284,486	569	(569)
<i>Oil and Gas Facility Decommissioning Fund</i>	18	29,866	60	(60)
<i>Deposits</i>	18	29,653	59	(59)
<i>Security deposits (margins)</i>	18	11,029	22	(22)
<i>Cash blocked in bank accounts</i>	18	213,938	428	(428)
Total		788,172	1,576	(1,576)
Financial liabilities				
Borrowings	27.1	5,862,115	9,663 ⁽¹⁾	(9,663) ⁽¹⁾
Notes	27	198,240	396	(396)
Finance lease liabilities	27.3	151,031	302	(302)
Derivative financial instruments ⁽¹⁾	28	72,263	(6,017)	6,081
Total		6,283,649	4,344	(4,280)

⁽¹⁾ Net of fixed interest borrowings and paid front-end fees reducing liabilities under borrowings.

⁽²⁾ Interest rate swap (IRS). The difference between the change in the valuation amount, when the interest rate curve moves up or down 0.2%, arises at the time of discounting future cash flows (relating to the contract settlement) as at the valuation date. Discounting takes place at different interest rates (in the first case the interest rate curve is moved up 0.2%, in the second case the curve is moved down 0.2%).

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2012, assuming a 0.2% change in interest rates:

Dec 31 2012	Note	Carrying amount	Change	
			+0.2%	-0.2%
PLN '000				
Classes of financial instruments				
Financial assets				
Derivative financial instruments ⁽¹⁾	28	11,318	(1)	1
Cash and cash equivalents	20	268,333	537	(537)
Other financial assets:		161,207	322	(322)
<i>Oil and Gas Facility Decommissioning Fund</i>	18	27,481	55	(55)
<i>Deposits</i>	18	122,563	245	(245)
<i>Security deposits (margins)</i>	18	11,163	22	(22)
Total		440,858	858	(858)
Financial liabilities				
Borrowings	27.1	6,390,591	10,490 ⁽²⁾	(10,490) ⁽²⁾
Finance lease liabilities	27.3	166,109	332	(332)
Derivative financial instruments ⁽¹⁾	28	148,007	(7,693)	7,792
Total		6,704,707	3,129	(3,030)

⁽¹⁾ Interest rate swap (IRS). The difference between the change in the valuation amount, when the interest rate curve moves up or down 0.2%, arises at the time of discounting future cash flows (relating to the contract settlement) as at the valuation date. The cash flows are discounted at different interest rates (in the first case the interest rate curve is moved up 0.2%, in the second case the curve is moved down 0.2%).

⁽²⁾ Net of fixed interest borrowings and paid front-end fees reducing liabilities under borrowings.

In the case of derivative financial instruments, for the purpose of interest rate sensitivity analysis the interest rate curve is moved up or down by a hypothetical change in reference interest rates (3M LIBOR, 6M LIBOR). This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2013 and December 31st 2012. The effect of the interest rate changes on the fair value has been examined assuming that the currency exchange rates remain unchanged.

32.5 Liquidity risk

The liquidity risk management process at the Group consists in monitoring projected cash flows and the portfolio of financial assets and liabilities, matching maturities of the assets and liabilities, analysing working capital, and optimising cash flows within the Group. This process requires that units operating in different business areas closely cooperate in activities undertaken 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, whereby the Parent manages on an on-going basis the structure comprising the subsidiaries covered by the cash-pooling services to optimise liquidity and interest balances.

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 Group observes 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,
- adequate quality and diversification of available financing sources,
- internal control processes and organisational efficiency facilitating prompt contingency response.

Below is presented an information on the contractual maturities of financial liabilities as at December 31st 2013 and December 31st 2013.

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Contractual maturities of financial liabilities as at December 31st 2013:

Dec 31 2013		Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
PLN '000	Note							
Borrowings (other than overdraft facilities)	27.1	5,363,201	5,674,778	969,472	462,779	501,883	1,774,901	1,965,743
Overdraft facilities	27.1	498,914	498,914	498,914	-	-	-	-
Notes	27	198,240	198,485	-	15,060	15,060	168,365	-
Finance lease liabilities	27.3	151,031	191,646	18,032	16,962	33,213	89,623	33,816
Trade payables	30	2,396,086	2,396,086	2,394,530	1,556	-	-	-
Other financial liabilities	30	200,690	200,690	131,576	68,879	235	-	-
Total		8,808,162	9,160,599	4,012,524	565,236	550,391	2,032,889	1,999,559

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

Dec 31 2012		Carrying amount	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
(restated)	Note							
PLN '000								
Borrowings (other than overdraft facilities)	27.1	5,857,893	6,125,075	1,371,533	368,530	499,013	1,340,723	2,545,276
Overdraft facilities	27.1	532,698	532,698	532,698	-	-	-	-
Finance lease liabilities	27.3	166,109	229,246	19,342	17,452	34,325	100,488	57,639
Trade payables	30	2,174,451	2,174,451	2,173,656	795	-	-	-
Other financial liabilities	30	254,436	254,436	239,569	13,663	509	695	-
Total		8,985,587	9,315,906	4,336,798	400,440	533,847	1,441,906	2,602,915

(This is a translation of a document originally issued in Polish)

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Maturities of derivative financial instruments as at December 31st 2013:

Dec 31 2013 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	28	736	736	409	327	-	-	-
Currency forward and spot contracts		33,907	41,180	24,229	16,951	-	-	-
Interest rate swap (IRS)		(72,263)	(73,301)	(20,446)	1,055	(17,772)	(33,866)	(2,272)
Currency swap		37,402	43,863	29,416	14,447	-	-	-
Total		(218)	12,478	33,608	32,780	(17,772)	(33,866)	(2,272)

Maturities 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	28	(292)	(291)	(24)	(267)	-	-	-
Futures (CO ₂ emissions)**		(3,787)	(3,787)	-	(2,494)	(1,293)	-	-
Currency forward and spot contracts		64,291	75,811	68,656	7,155	-	-	-
Interest rate swap (IRS)		(136,689)	(138,662)	(51,223)	1,543	(19,147)	(50,271)	(19,564)
Currency swap		18,486	25,463	23,790	1,673	-	-	-
Total		(57,991)	(41,466)	41,199	7,610	(20,440)	(50,271)	(19,564)

* Carrying amount (positive fair value of derivative financial instruments less negative fair value of derivative financial instruments) represents the fair value of derivative financial instruments disclosed in the statement of financial position ** Carrying amount of futures (CO₂ emissions) as at December 31st 2012 excludes open CER futures purchased to be used for the settlement through physical delivery.

32.6 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. Credit exposure includes bank deposits and derivatives measurement.

The counterparties must have an appropriate credit rating assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum rating requirement. The Group enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it maintains relationship.

As at December 31st 2013, the concentration of credit risk exposure to any single counterparty in financial transactions of the Group did not exceed PLN 249,010 thousand (3.49% of the Parent's equity), while at December 31st 2012 the amount was PLN 153,189 thousand (2.17% of the Parent's equity). For information on the structure of the Group's borrowings by lender see Note 27.1.

As regards management of counterparty risk in non-financial transactions, all customers who request trading on credit terms are subject to credit assessment, whose results determine the level of possible credit limits. The Parent defines guidelines for managing counterparty risk in non-financial transactions to ensure that appropriate standards of credit analysis and operational security are observed across the entire Group.

As at December 31st 2013, concentration of risk with any single business partner of the Group did not exceed PLN 161,066 thousand (2.26% of the Company's equity).

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 financial assets credit risk exposures as at the end of the reporting period:

PLN '000	Note	Dec 31 2013	Dec 31 2012 (restated)
Derivative financial instruments	28	73,935	121,334
Trade receivables	18	1,594,746	1,632,837
Cash and cash equivalents	20	503,686	268,333
Other financial assets:	18	379,378	259,673
Total		2,551,745	2,282,177

In the Management Board's opinion, the risk related to non-performing financial assets is reflected in the recognised impairment losses. For information on impairment of financial assets, see Notes 9.4 and 18.1.

For information on concentrations of trade receivables credit risk, see Note 18.1.

For aging analysis of receivables past due but not impaired, see Note 18.1.

33. Capital management

The objective of the LOTOS Group financial policy is to maintain long-term liquidity, while using an appropriate level of financial leverage to support the achievement of the principal objective of maximising the return on equity for shareholders.

This is achieved through constant effort to develop the desired capital structure at the Group level.

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

Net debt comprises borrowings, other debt instruments and finance lease liabilities less cash and cash equivalents. Equity includes equity attributable to owners of the Parent plus non-controlling interests.

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PLN '000	Note	Year ended Dec 31 2013	Year ended Dec 31 2012
Non-current borrowings	27.1	4,183,624	4,315,599
Current borrowings	27.1	1,678,491	2,074,992
Notes	27	198,240	-
Lease liabilities	27.3	151,031	166,109
Cash and cash equivalents	20	(503,686)	(268,333)
Net debt		5,707,700	6,288,367
Equity attributable to owners of the Parent		9,189,307	9,065,725
Non-controlling interests		289	699
Total equity		9,189,596	9,066,424
Net debt to equity		0.62	0.69

The figures for the year ended December 31st 2012 have changed in relation to the figures contained in the financial statements published for the previous period as a result of inclusion of lease liabilities in the calculations of net debt.

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

34. Carbon dioxide (CO₂) emission allowances

The below presented amounts of CO₂ emission allowances for 2013–2020 are based on the draft regulations prepared by the Ministry of the Environment. On February 26th 2014, the European Commission approved the limits of free allocations of carbon dioxide emission allowances for 2013–2020.

Number of free CO₂ emission allowances for 2013–2020 and actual CO₂ emissions:

in thousand tonnes	2013	2014	2015	2016	2017	2018	2019	2020	Total
Allowances allocated under the National Allocation Plan ⁽¹⁾	1,567	1,543	1,509	1,471	1,436	1,403	1,369	1,328	11,626
Actual CO ₂ emissions ⁽²⁾	1,745	-	-	-	-	-	-	-	1,745

⁽¹⁾ Projected volumes of free CO₂ emission allowances for 2013–2020 under the National Allocation Plan prepared by the National Centre for Emissions Balancing and Management, taking into account the cross-sectoral correction factor referred to in the Commission Decision 2013/448/EU. The European Commission approved draft specifications prepared by Poland, including lists of installations and the initial allocation volumes, thus providing the basis for further legislation work at the national level, aimed at efficiently passing the allowances over to Polish enterprises.

⁽²⁾ CO₂ emissions calculated on the basis of production data for installations included in the emissions trading system, in accordance with the report of January 10th 2014 presenting data as at December 31st 2013. The data will be subject to verification in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

In addition, some of the Group companies have unused free CO₂ emission allowances allocated for 2008–2012 under the National Allocation Plan; the aggregate amount of these allowances is 143 thousand tonnes, and they may be used to cover the emissions in 2013–2020.

As at December 31st 2013, considering the proposed amount of allowances to be allocated under the European Union Emissions Trading Scheme for 2013 and the actual volume of emissions, the Group reported a deficit of allocated CO₂ emission allowances, and therefore a PLN 1,527 thousand provision was recognised in its financial statements. Moreover, to cover the 2013 deficit, the Group acquired CO₂ emission allowances valued at PLN 23,430 thousand, which were disclosed in its statement of financial position under *Other intangible assets* (see Note 15).

As at December 31st 2012, the Company recognised a liability of PLN 954 thousand related to the purchase cost. The emissions limit for 2012 was set at 1,989 thousand tonnes (1,228 thousand tonnes under the National Allocation Plan and 761 thousand tonnes allocated by the Marshal of the Gdańsk Province), whereas the actual CO₂ emissions totalled 2,033 thousand tonnes.

The Group's total allocation of CO₂ emission allowances for the years 2008–2012 was 7,781 thousand tonnes (6,126 thousand tonnes under the National Allocation Plan and 1,655 thousand tonnes allocated by the Marshal of the Gdańsk Province), whereas its actual CO₂ emissions in the years 2008–2012 totalled 7,551 thousand tonnes.

For information on the risk related to prices of CO₂ emission allowances, see Note 32.2.

35. Contingent liabilities and assets

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

Material court proceedings instigated against Grupa LOTOS S.A.

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

On February 22nd 2013, the court dismissed in its entirety an action brought by PETROECCO JV Sp. z o.o. against the Company whereby it sought a court decision on the awarding of PLN 6,975 thousand, plus statutory interest from May 1st 1999, as compensation for losses incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring customers whose orders were filled to a disproportionately large extent than the orders of PETROECCO JV Sp. z o.o. On June 26th 2013, PETROECCO JV Sp. z o.o. appealed against the decision. As at the date of approval of these financial statements, the case was pending.

As the risk of an unfavourable outcome of the case was limited, Grupa LOTOS S.A. 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.

Tax settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent authorities, which may impose high penalties and sanctions. As the legislation regulating such matters in Poland is relatively new, it is often ambiguous and inconsistent. Differing interpretations of tax legislation are common, both among governmental authorities and government and business, leading to uncertainty and conflicts. Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company.

Court proceedings instigated by or against Group companies

WANDEKO vs. LOTOS Paliwa Sp. z o.o.

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik conducting business as WANDEKO. On October 28th 2009, the Regional Court of Gdańsk, 9th Commercial Division, issued a default judgment awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. In 2009, LOTOS Paliwa Sp. z o.o. recognised a PLN 15,318 thousand provision for the court-awarded amount plus interest. The company appealed against the judgment by lodging an objection to the default judgment with the Regional Court of Gdańsk on November 10th 2009. By virtue of its decision of December 28th 2010, the Court of Appeals dismissed Mr Andrzej Wójcik's complaint against the decision issued by the Regional Court of Gdańsk refusing to reverse the decision to lift the court order making the default judgment immediately enforceable, and awarded reimbursement of the cost of the proceedings to LOTOS Paliwa Sp. z o.o. In the reporting period ended December 31st 2013, following earlier decisions rendered in the case by the Regional Court in Gdańsk and the Court of Appeals in Gdańsk, the Court Enforcement Officer issued a decision reversing the earlier seizure of receivables from LOTOS Paliwa Sp. z o.o.'s bank account in the amount of PLN 18,320 thousand, which had been established to secure the plaintiff's claims in 2009. Accordingly, the Group ceased to disclose that amount as Cash blocked in bank accounts under Current financial assets, as it had done in the 2012 financial statements (see Note 18).

The most recent hearing in the case was held on November 13th 2013. The court decided that the next hearing would take place after an expert opinion is obtained on the quality of work performed by WANDEKO for LOTOS Paliwa Sp. z o.o. As at the date of approval of these consolidated financial statements, the case was pending. As at December 31st 2013, LOTOS Paliwa Sp. z o.o. recognised a provision (see Note 30.1) for the court-awarded amount plus interest, as specified above.

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

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o.'s bankruptcy by liquidation of assets. The company's estate is managed by a bankruptcy administrator. On September 24th 2009, LOTOS Gaz S.A. w likwidacji (in liquidation) lodged its claims in the proceedings. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision recognising the claims of LOTOS Gaz S.A. w likwidacji (in liquidation) for a total amount of PLN 23,695 thousand, including a principal of PLN 21,435 thousand, and acknowledged that claims of PLN 21,132 thousand were secured with mortgages. The decision is final. The bankruptcy administrator submitted a separate plan of distribution of the proceeds from sale of real property, but due to objections and contentions raised by the parties, the plan has not yet been approved by the judge commissioner. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending and did not affect the current consolidated financial statements.

Proceedings involving a LOTOS Petrobaltic Group company

Agreement signed by LOTOS Exploration and Production Norge AS

LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") was a party to proceedings held before an arbitration court in Norway in connection with claims filed by Single Buoy Moorings Inc. ("SBM"), the supplier of a MOPU (Mobile Offshore Production Unit) for the operation of the YME field, against Talisman Energy Norge AS, the operator of the YME field ("Talisman", the "Operator") and the other YME licence holders. The share of SBM's claims attributable to LOTOS E&P Norge AS was 20%.

On March 12th 2013, Talisman (the YME field operator) and SBM (the owner of the MOPU) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the MOPU from the YME field. Under the agreement, SBM paid USD 470m to the joint venture partners. On behalf of the licence holders, Talisman agreed to make the necessary preparations, remove the MOPU from the field and transport it to the handover point. SBM agreed to be responsible for towing and scrapping the unit onshore. Following completion of certain works, the ownership of elements of the YME field in situ subsea infrastructure delivered by SBM will be transferred to the consortium members, who will be required to perform reclamation (and disassembly) activities related to the infrastructure after the end of the production phase. The parties will cover the costs of decommissioning work as set out in the agreement. The agreement was approved by all partners in the YME licence, including LOTOS E&P Norge AS. It includes an arrangement concerning termination of all pending arbitration proceedings (between SBM and Talisman and the other YME licence holders).

In accordance with the provisions of the agreement with SBM, USD 12.22m has been paid to LOTOS E&P Norge AS's bank account by March 31st 2013. The payment represented a part of LOTOS E&P Norge AS's 20% interest in the amount of USD 470m, paid by SBM to the consortium members. The balance of the Group's share in the amount due to the consortium members under the agreement, that is USD 81.78m, was transferred to the escrow account of the YME project, and will be gradually released to finance works connected with the removal of the MOPU and infrastructure from the field, as defined in the agreement. As at December 31st 2013, the cash deposited in the escrow account, denominated in the presentation currency, was recognised in the statement of financial position as Cash blocked in bank accounts under Other non-current/current financial assets in the amounts of PLN 110,378 thousand / PLN 103,559 thousand, respectively (see Note 18). Also, the Group recognised a provision for future costs of the MOPU removal and disassembly of the installed assets under non-current and current portions of *Other liabilities and provisions* in non-current portion in amount of PLN 53,136 thousand and in current portion in the amount of PLN 143,183 thousand (see Note 30.1, *Estimated costs of removal of the MOPU from the YME field*).

On December 4th 2013, Talisman and Excalibur Maritime Contractors („EMC”) entered into an agreement to remove the Mobile Offshore Production Unit (MOPU) from the YME field. On February 5th 2014, Talisman notified LOTOS E&P Norge AS of the execution of an agreement between EMC and Single Buoy Moorings Inc. ("SBM") for the transport of the MOPU. The above-specified provisions comprise the liabilities under the agreement to remove the MOPU, which are attributable to LOTOS E&P Norge AS.

Proceedings involving LOTOS Petrobaltic S.A.

On March 11th 2013, LOTOS Petrobaltic S.A. received the final pre-court payment notice for approximately GBP 6.5m from AGR Subsea Ltd. ("AGR"). The claim concerns AGR's remuneration for performance of an agreement to unearth the legs of the Baltic Beta platform. LOTOS Petrobaltic S.A. questioned the amount demanded by AGR as remuneration for the services. In the course of negotiations, LOTOS Petrobaltic S.A. has proposed to pay PLN 16m (the equivalent of GBP 3.2m, translated at the mid rate quoted by the National Bank of Poland for December 31st 2012) to AGR under the claim. The dispute concerns the nature of the contract, the reasons behind its delayed and incomplete performance, as well as whether LOTOS Petrobaltic S.A. had grounds to terminate the contract and demand reimbursement of costs incurred for replacement contractors hired by LOTOS Petrobaltic S.A. to complete the work. AGR Subsea Ltd. did not accept the settlement and brought the case to court. On November 4th 2013, the company received a claim brought by AGR for payment of GBP 6.5m. Moreover, on October 31st 2013, LOTOS Petrobaltic S.A. filed a claim against AGR to the Regional Court of Gdańsk for payment of GBP 5.6m to cover the costs of hiring the replacement contractors.

Given the complex nature of the dispute, it is difficult to assess the risk arising in relation to the court proceedings, as if the judgment is unfavourable to a given party, that party may have to incur additional expenses related to the proceedings, including costs of legal representation and costs of enforcement.

As at December 31st 2013, no liability towards AGR Subsea Ltd. was recognised by the Group in these consolidated financial statements.

35.2 Other contingent liabilities

- As at December 31st 2013, the Parent had a PLN 240,000 thousand blank promissory note deposited at the Customs Office in Gdańsk as lump-sum security for excise duty of PLN 800,000 thousand. The security is valid until August 19th 2014.
- An unconditional and irrevocable guarantee issued by LOTOS Petrobaltic S.A. for the benefit of the government of Norway on June 17th 2008, concerning the activities of LOTOS Exploration and Production Norge AS related to its exploration and production operations on the Norwegian Continental Shelf, was effective as at December 31st 2013 and December 31st 2012. In the guarantee, LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian

Continental Shelf, consisting in the exploration for and extraction of natural resources from the sea bottom, including their storage and transport using means of transport other than ships.

36. Related parties

36.1 Related-party transactions

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
Jointly-controlled entities		
Sale	19,983	6,831
Purchases	516	35,702
In-kind contribution	51,700 ⁽¹⁾	-

⁽¹⁾ LOTOS Petrobaltic S.A., as the other limited partner in Baltic Gas Sp. z o.o. i wspólnicy sp. k., increased its equity interest in the partnership in exchange for contributions, including an in-kind contribution in the form of non-current assets related to B-4 and B-6 fields, see Note 2.

In 2013, the Group made sale transactions primarily with LOTOS - Air BP Polska Sp. z o.o. (executed subsequently to the loss of control over the company, see Note 2). The transactions involved sales of aviation fuel. The value of the sales stood at PLN 19,533 thousand.

In 2012, the Group mainly purchased crude oil from UAB Manifoldas (transactions executed prior to the acquisition of control over UAB Manifoldas on November 28th 2012, as discussed in Note 2 to the 2012 consolidated financial statements). The value of the purchases stood at PLN 34,651 thousand.

PLN '000	Note	Dec 31 2013	Dec 31 2012
Jointly-controlled entities			
Receivables	18	16,657	2,507
Payables	30	207	138

As at December 31st 2013, the Group disclosed mainly receivables from LOTOS - Air BP Polska Sp. z o.o. in the amount of PLN 16,321 thousand (December 31st 2012: UAB Minijos Nafta).

36.2 Group's controlling entity

As at December 31st 2013 and December 31st 2012, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2013 and 2012, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

36.2.1 Transactions with related entities over which the State Treasury has control, joint control or significant influence

In 2013, the Group executed transactions with parties related to it through the State Treasury. The aggregate value of the transactions was material. They were concluded at arm's length in the course of the Group's day-to-day business and involved mainly sale of fuels, sale and purchase of storage services, purchase of transport services, energy, natural gas and other fuels. In 2013, the value of sales generated under the transactions totalled PLN 353,978 thousand (2012: PLN 797,327 thousand), with the value of purchases standing at PLN 1,649,885 thousand (2012: PLN 1,337,438 thousand).

36.3 Remuneration of members of the Management and Supervisory Boards, along with information on loans and other similar benefits granted to members of the management and supervisory staff

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

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
Management Board		
Short-term employee benefits (salaries and wages), including:	1,580	1,404
- annual bonus paid	249 ⁽¹⁾	249 ⁽²⁾
- length-of-service awards (jubilee benefits)	41	-
Management Board – subsidiaries ⁽³⁾		
Short-term employee benefits (salaries)	3,562	3,104
Supervisory Board		
Short-term employee benefits (salaries and wages)	246	242
Total ⁽⁴⁾	5,388	4,750

⁽¹⁾ Remuneration paid in 2013 on account of annual bonus for 2012.

⁽²⁾ Remuneration paid in 2012 on account of annual bonus for 2011.

⁽³⁾ Remuneration paid to members of the Company's Management Board for serving in corporate bodies of direct and indirect subsidiaries.

⁽⁴⁾ The amount reflects changes in the composition of the Company's Management Board (increased number of members) and Supervisory Board.

Other employee benefits

PLN '000	Dec 31 2013	Dec 31 2012
Management Board		
Post-employment benefits, length-of-service awards and other benefits	522	570
Current liabilities under annual bonus ⁽¹⁾	311	249
Total	833	819

⁽¹⁾ Pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities (the Public Sector Salary Cap Act). Taking into account changes in the composition of the Company's Management Board (increased number of members).

In 2013 and 2012, the Company did not grant any loans or similar benefits to members of its management and supervisory staff. No other material transactions were concluded with members of the Company's Management and Supervisory Boards. 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 by blood or marriage 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.

36.4 Remuneration paid or payable to other members of key management staff

Remuneration paid to members of key management staff (other than members of the Management Board of Grupa LOTOS S.A.)

PLN '000	Year ended Dec 31 2013	Year ended Dec 31 2012
Short-term employee benefits (salaries and wages), including:	30,187	30,205
- annual bonus paid	5,606 ⁽¹⁾	7,045 ⁽²⁾

⁽¹⁾ Remuneration paid in 2013 on account of annual bonus for 2012.

⁽²⁾ Remuneration paid in 2012 on account of annual bonus for 2011.

Other employee benefits:

PLN '000	Dec 31 2013	Dec 31 2012
Post-employment benefits, length-of-service awards and other benefits	8,886	7,457
Current liabilities under annual bonus	7,163	7,339
Loans and other similar benefits	6	16
Total	16,055	14,812

In 2013 and 2012, the Group did not provide any loans or similar benefits to members of its key management staff.

37. Material events after the reporting period

- On February 3rd 2014, the ownership of a new rig was transferred onto SPV Baltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group), following the fulfilment of the conditions stipulated in the agreement of December 20th 2013, including the full payment of the price. The offshore rig may perform drilling in waters with a depth of up to 105 metres (350 feet); it will be used in the execution of LOTOS Petrobaltic S.A.'s exploratory projects in the Baltic Sea. As at December 31st 2013, the value of the contract was disclosed as the Group's future commitments under agreements related to expenditure on property, plant and equipment (see Note 13). The offshore rig reached Poland on February 26th 2014.

38. Approval of the consolidated financial statements

These consolidated financial statements were approved for publication by the Management Board on March 3rd 2014.

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 Sokółowski

Vice-President of the Management Board,
Chief Commercial Officer

Maciej Szozda

Chief Accountant

Tomasz Południowski