

**THE LOTOS GROUP
FINANCIAL HIGHLIGHTS**

| | PLN'000 | | EUR'000 | |
|---|---------------------------|---|---------------------------|---|
| | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
| Revenue | 28,501,887 | 28,559,165 | 6,803,496 | 6,782,039 |
| Operating profit/(loss) | (1,393,008) | 166,600 | (332,516) | 39,563 |
| Pre-tax loss | (2,123,715) | (58,676) | (506,938) | (13,934) |
| Net profit/(loss) | (1,466,372) | 39,428 | (350,028) | 9,363 |
| Net profit/(loss) attributable to owners of the Parent | (1,466,326) | 39,415 | (350,017) | 9,360 |
| Net profit/(loss) attributable to non-controlling interests | (46) | 13 | (11) | 3 |
| Total comprehensive income/(loss) | (1,902,137) | 123,450 | (454,047) | 29,316 |
| Total comprehensive income/(loss) attributable to owners of the Parent | (1,902,096) | 123,439 | (454,037) | 29,313 |
| Total comprehensive income/(loss) attributable to non-controlling interests | (41) | 11 | (10) | 3 |
| Net cash from operating activities | 1,380,488 | 1,416,277 | 329,527 | 336,328 |
| Net cash from investing activities | (958,338) | (931,051) | (228,759) | (221,100) |
| Net cash from financing activities | (597,271) | (243,864) | (142,571) | (57,911) |
| Total net cash flow | (175,121) | 241,362 | (41,803) | 57,317 |
| Basic earnings/(loss) per share (PLN/EUR) | (10.11) | 0.28 | (2.41) | 0.07 |
| Diluted earnings/(loss) per share (PLN/EUR) | (10.11) | 0.28 | (2.41) | 0.07 |

| | PLN'000 | | EUR'000 | |
|---|----------------------|--|----------------------|--|
| | As at Dec 31 2014 | As at Dec 31 2013 (restated) | As at Dec 31 2014 | As at Dec 31 2013 (restated) |
| Total assets | 18,947,157 | 20,284,754 | 4,445,289 | 4,891,193 |
| Equity attributable to owners of the Parent | 8,258,288 | 9,189,307 | 1,937,519 | 2,215,786 |
| Non-controlling interests | 175 | 289 | 41 | 70 |
| Total equity | 8,258,463 | 9,189,596 | 1,937,560 | 2,215,856 |

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 2014 | As at Dec 31 2013 |
|--------------------|--------------------|
| 1 EUR = 4.2623 PLN | 1 EUR = 4.1472 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 2014 | Year ended Dec 31 2013 |
|---------------------------|---------------------------|
| 1 EUR = 4.1893 PLN | 1 EUR = 4.2110 PLN |



THE LOTOS GROUP

**CONSOLIDATED FINANCIAL STATEMENTS FOR 2014
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 2014

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|------|---------------------------|---|
| Revenue | 8 | 28,501,887 | 28,559,165 |
| Cost of sales | 9.1 | (27,466,614) | (26,878,863) |
| Gross profit | | 1,035,273 | 1,680,302 |
| Distribution costs | 9.1 | (1,162,071) | (1,106,186) |
| Administrative expenses | 9.1 | (447,055) | (429,177) |
| Other income | 9.3 | 26,707 | 30,869 |
| Other expenses | 9.4 | (845,862) | (22,680) |
| Loss of control of subsidiary | | - | 13,472 |
| Operating profit/(loss) | | (1,393,008) | 166,600 |
| Finance income | 9.5 | 21,740 | 135,159 |
| Finance costs | 9.6 | (727,982) | (342,304) |
| Share in net profit/loss of equity-accounted joint ventures | 16 | (24,465) | (18,131) |
| Pre-tax loss | | (2,123,715) | (58,676) |
| Corporate income tax | 10.1 | 657,343 | 98,104 |
| Net profit/(loss) | | (1,466,372) | 39,428 |
| Other comprehensive income/(loss): | | | |
| Items that may be reclassified to profit/loss: | | (428,448) | 84,174 |
| Exchange differences on translating foreign operations | | 45,106 | (13,646) |
| Cash flow hedges | 23 | (584,653) | 120,765 |
| Corporate income tax relating to cash flow hedges | 10.1 | 111,099 | (22,945) |
| Items that will not be reclassified to profit/loss: | | (7,317) | (152) |
| Actuarial gain/(loss) under post-employment benefits | | (8,974) | (188) |
| Corporate income tax relating to actuarial gain/(loss) under post-employment benefits | 10.1 | 1,657 | 36 |
| Other comprehensive income/(loss), net | | (435,765) | 84,022 |
| Total comprehensive income/(loss) | | (1,902,137) | 123,450 |
| Net profit (loss) attributable to: | | | |
| Owners of the Parent | 11 | (1,466,326) | 39,415 |
| Non-controlling interests | 26 | (46) | 13 |
| | | (1,466,372) | 39,428 |
| Total comprehensive income/(loss) attributable to: | | | |
| Owners of the Parent | | (1,902,096) | 123,439 |
| Non-controlling interests | 26 | (41) | 11 |
| | | (1,902,137) | 123,450 |
| Earnings/(loss) per share attributable to owners of the Parent (PLN) | | | |
| Weighted average number of shares ('000) | 11 | 145,027 | 142,717 |
| - basic | 11 | (10.11) | 0.28 |
| - diluted | 11 | (10.11) | 0.28 |

The Notes to the consolidated financial statements, presented on pages 8 to 118, 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 2014

| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|--|----------|-------------------|---------------------------|--------------------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 13 | 9,485,654 | 10,009,073 | 9,644,600 |
| Goodwill | 14 | 46,688 | 46,688 | 46,688 |
| Other intangible assets | 15 | 553,687 | 658,797 | 496,386 |
| Equity-accounted joint ventures | 16 | 99,599 | 129,798 | 85,214 |
| Deferred tax assets | 10.3 | 1,488,901 | 924,534 | 1,121,314 |
| Other non-current assets | 18 | 107,288 | 210,981 | 107,232 |
| Total non-current assets | | 11,781,817 | 11,979,871 | 11,501,434 |
| Current assets | | | | |
| Inventories | 19 | 3,917,129 | 5,728,884 | 5,963,027 |
| - including mandatory stocks | 19.2 | 2,243,655 | 4,250,530 | 4,353,207 |
| Trade receivables | 18 | 1,406,501 | 1,591,649 | 1,625,715 |
| Current tax assets | | 59,596 | 76,711 | 90,566 |
| Derivative financial instruments | 28 | 4,430 | 73,935 | 121,334 |
| Other current assets | 18 | 1,419,034 | 337,071 | 434,400 |
| Cash and cash equivalents | 20 | 348,215 | 495,839 | 266,104 |
| Total current assets | | 7,154,905 | 8,304,089 | 8,501,146 |
| Non-current assets held for sale (or disposal groups) | 17 | 10,435 | 794 | 2,428 |
| Total assets | | 18,947,157 | 20,284,754 | 20,005,008 |
| EQUITY AND LIABILITIES | | | | |
| Equity | | | | |
| Share capital | 21 | 184,873 | 129,873 | 129,873 |
| Share premium | 22 | 2,229,626 | 1,311,348 | 1,311,348 |
| Cash flow hedging reserve | 23 | (412,535) | 61,019 | (36,801) |
| Retained earnings | 24 | 6,190,989 | 7,666,833 | 7,627,427 |
| Exchange differences on translating foreign operations | 25 | 65,335 | 20,234 | 33,878 |
| Equity attributable to owners of the Parent | | 8,258,288 | 9,189,307 | 9,065,725 |
| Non-controlling interests | 26 | 175 | 289 | 699 |
| Total equity | | 8,258,463 | 9,189,596 | 9,066,424 |
| Non-current liabilities | | | | |
| Borrowings, other debt instruments and finance lease liabilities | 27 | 4,495,562 | 4,496,190 | 4,462,098 |
| Derivative financial instruments | 28 | 62,626 | 52,876 | 88,325 |
| Deferred tax liabilities | 10.3 | 55,527 | 275,823 | 313,716 |
| Employee benefit obligations | 29 | 185,451 | 151,425 | 129,862 |
| Other liabilities and provisions | 30 | 657,563 | 705,688 | 405,687 |
| Total non-current liabilities | | 5,456,729 | 5,682,002 | 5,399,688 |
| Current liabilities | | | | |
| Borrowings, other debt instruments and finance lease liabilities | 27 | 2,168,106 | 1,715,196 | 2,094,602 |
| Derivative financial instruments | 28 | 135,917 | 21,277 | 91,000 |
| Trade payables | 30 | 1,692,839 | 2,395,237 | 2,169,408 |
| Current tax payables | | 4,667 | 8,823 | 5,752 |
| Employee benefit obligations | 29 | 84,038 | 103,973 | 109,971 |
| Other liabilities and provisions | 30 | 1,137,310 | 1,168,650 | 1,068,163 |
| Total current liabilities | | 5,222,877 | 5,413,156 | 5,538,896 |
| Liabilities directly associated with non-current assets (or disposal groups) held for sale | 17; 29.1 | 9,088 | - | - |
| Total liabilities | | 10,688,694 | 11,095,158 | 10,938,584 |
| Total equity and liabilities | | 18,947,157 | 20,284,754 | 20,005,008 |

The Notes to the consolidated financial statements, presented on pages 8 to 118,
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 2014
prepared using the indirect method

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|--|----------|---------------------------|---|
| Cash flows from operating activities | | | |
| Net profit/(loss) | | (1,466,372) | 39,428 |
| Adjustments: | | 2,904,163 | 1,388,160 |
| Income tax expense | 10.1 | (657,343) | (98,104) |
| Share in net profit/(loss) of equity-accounted joint ventures | 16 | 24,465 | 18,131 |
| Amortisation and depreciation | 9.1 | 808,941 | 642,480 |
| Foreign exchange (gains)/losses | | 366,720 | 119,591 |
| Interest and dividends | | 166,177 | 170,636 |
| (Gain)/loss from investing activities | | 16,356 | (6,401) |
| Impairment losses on property, plant and equipment and other intangible assets | 9.3; 9.4 | 806,141 | (550) |
| Settlement and valuation of financial instruments | 9.5; 9.6 | 197,849 | (112,861) |
| Decrease in trade receivables | | 185,148 | 18,998 |
| (Increase)/decrease in other assets | | (6,376) | 4,453 |
| Decrease in inventories | | 1,811,755 | 232,487 |
| (Decrease)/increase in trade payables | | (702,398) | 242,659 |
| (Decrease)/Increase in other provisions and liabilities | | (120,389) | 140,907 |
| Increase in employee benefit obligations | | 5,117 | 15,734 |
| Corporate income tax paid | | (57,303) | (11,311) |
| Net cash from operating activities | | 1,380,488 | 1,416,277 |
| Cash flows from investing activities | | | |
| Dividends received – equity-accounted joint ventures | 16.1 | 7,280 | 6,098 |
| Dividends received from other entities | | 894 | 680 |
| Interest received | | 6,033 | 6,988 |
| Sale of property, plant and equipment and other intangible assets | | 14,015 | 9,428 |
| Sale of organised part of business | | 4,880 | 3,722 |
| Sale of shares – equity-accounted joint ventures | 16.1 | - | 3 |
| Loss of control of LOTOS - Air BP Polska Sp. z o.o., net of cash disposed | | - | 14,907 |
| Effect of final accounting for the acquisition of Heimdal assets | 6 | 12,443 | - |
| Purchase of property, plant and equipment and other intangible assets | | (1,002,131) | (975,709) |
| Accounting for acquisition of shares in Energobaltic Sp. z o.o. | | - | (13,112) |
| Cash contributions – equity-accounted joint ventures | 16.1 | (339) | (448) |
| Acquisition of shares in related entities | | (23) | - |
| Security deposit (margin) | | 10,035 | 134 |
| Funds contributed to the oil and gas extraction facilities decommissioning fund | | (407) | (1,654) |
| Settlement of derivative financial instruments | | (11,018) | 17,912 |
| Net cash from investing activities | | (958,338) | (931,051) |
| Cash flows from financing activities | | | |
| Proceeds from bank borrowings | 27.1 | 562,963 | 963,045 |
| Proceeds from non-bank borrowings | 27.2 | 106,900 | - |
| Issue of notes | 27.3 | - | 203,050 |
| Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control | | (1,681) | (278) |
| Grants received | | 1,239 | - |
| Return of a deposit provided as security for repayment of credit facility at Energobaltic Sp. z o.o. | | 2,111 | - |
| Repayment of borrowings | 27.1 | (1,030,408) | (1,256,798) |
| Repayment of non-bank borrowings | 27.2 | (12,983) | (6,750) |
| Redemption of notes | 27.3 | (17,397) | - |
| Interest paid | | (181,297) | (169,123) |
| Decrease in finance lease liabilities | | (18,830) | (16,811) |
| Settlement of derivative financial instruments | | 4,439 | 39,801 |
| Share issue costs | | (12,327) | - |
| Net cash from financing activities | | (597,271) | (243,864) |
| Total net cash flow | | (175,121) | 241,362 |
| Effects of exchange rate changes on the balance of cash held | | 11,509 | (1,553) |
| Change in net cash | | (163,612) | 239,809 |
| Cash at beginning of period | | (3,075) | (242,884) |
| Cash at end of period | 20 | (166,687) | (3,075) |

THE LOTOS GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for 2014

| 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 2014 | | 129,873 | 1,311,348 | 61,019 | 7,666,833 | 20,234 | 9,189,307 | 289 | 9,189,596 |
| <i>Net loss</i> | | - | - | - | (1,466,326) | - | (1,466,326) | (46) | (1,466,372) |
| <i>Other comprehensive income/(loss), net</i> | | - | - | (473,554) | (7,317) | 45,101 | (435,770) | 5 | (435,765) |
| Total comprehensive income/(loss) | | - | - | (473,554) | (1,473,643) | 45,101 | (1,902,096) | (41) | (1,902,137) |
| Issue of shares | 2; 21 | 55,000 | - | - | - | - | 55,000 | - | 55,000 |
| Share premium | 22 | - | 940,500 | - | - | - | 940,500 | - | 940,500 |
| Issue cost | 22 | - | (22,222) | - | - | - | (22,222) | - | (22,222) |
| Purchase of non-controlling interests | 2 | - | - | - | (2,179) | - | (2,179) | (83) | (2,262) |
| Other changes in interest in subsidiaries not resulting in loss of control | 26 | - | - | - | (10) | - | (10) | 10 | - |
| Other | | - | - | - | (12) | - | (12) | - | (12) |
| Dec 31 2014 | | 184,873 | 2,229,626 | (412,535) | 6,190,989 | 65,335 | 8,258,288 | 175 | 8,258,463 |
| Jan 1 2013 (restated) | | 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/(loss), net</i> | | - | - | 97,820 | (152) | (13,644) | 84,024 | (2) | 84,022 |
| Total comprehensive income/(loss) | | - | - | 97,820 | 39,263 | (13,644) | 123,439 | 11 | 123,450 |
| Squeeze-out in LOTOS Petrobaltic S.A. from non-controlling shareholders | | - | - | - | 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 |

The Notes to the consolidated financial statements, presented on pages 8 to 118, 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 principal business activity of the LOTOS Group (the "LOTOS Group" or 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

The LOTOS Group comprises Grupa LOTOS S.A. (the Parent) and a number of production, service and trading companies which are direct or indirect subsidiaries of Grupa LOTOS S.A.

The Group also holds shares in equity-accounted joint ventures.

Contact data and brief description of the principal business activity of these entities, as well as the Group's ownership interests and the applied consolidation method are presented below.

| Name | Registered office | Principal business activity | The Group's ownership interest | |
|--|----------------------|---|--------------------------------|----------------|
| | | | Dec 31 2014 | Dec 31 2013 |
| Parent | | | | |
| <i>Downstream segment</i> | | | | |
| 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 | | | | |
| <i>Upstream segment</i> | | | | |
| LOTOS Petrobaltic S.A. (parent of another group: LOTOS Petrobaltic Group) | Gdańsk | Acquisition of crude oil and natural gas deposits, extraction of hydrocarbons | 99.99% ⁽¹⁾ | 99.98% |
| <i>Downstream segment</i> | | | | |
| 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 Asphalt 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 testing | 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. (parent of another group: LOTOS Terminale Group) ⁽²⁾ | Czechowice-Dziedzice | Storage and distribution of fuels | 100.00% | 100.00% |
| LOTOS Infrastruktura S.A. (parent of another group: LOTOS Infrastruktura Group) | Jasło | Storage and distribution of fuels Renting and operating of own or leased real estate | 100.00% | 100.00% |
| <i>Other</i> | | | | |
| LOTOS Gaz S.A. w likwidacji (in liquidation) | Kraków | Dormant | 100.00% | 100.00% |
| LOTOS Park Technologiczny Sp. z o.o. w likwidacji (in liquidation) ⁽³⁾ | Jasło | Dormant | 100.00% | 100.00% |
| Non-consolidated direct subsidiaries | | | | |
| Infrastruktura Kolejowa Sp. z o.o. | Gdańsk | Dormant | 100.00% ⁽⁴⁾ | - |

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| Name | Registered office | Principal business activity | The Group's ownership interest | |
|---|----------------------|---|--------------------------------|-------------|
| | | | Dec 31 2014 | Dec 31 2013 |
| Indirect fully-consolidated subsidiaries | | | | |
| <i>Downstream segment</i> | | | | |
| <i>LOTOS Infrastruktura Group</i> | | | | |
| RCEkoenergia Sp. z o.o. | Czechowice-Dziedzice | Production and distribution of electricity, heat and gas | 100.00% | 100.00% |
| <i>LOTOS Terminale Group</i> | | | | |
| LOTOS Biopaliwa Sp. z o.o. | Czechowice-Dziedzice | Production of fatty acid methyl esters (FAME) | 100.00% | 100.00% |
| <i>Upstream segment</i> | | | | |
| <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 incidental to oil and gas exploration and production | 99.99% ⁽⁵⁾ | 99.98% |
| Aphrodite Offshore Services N.V. | Curaçao | Sea transport services (dormant) | 99.99% ⁽⁵⁾ | 99.98% |
| B8 Sp. z o.o. | Gdańsk | Support activities for extraction and quarrying operations | 99.99% ⁽⁵⁾ | 99.98% |
| B8 Spółka z ograniczoną odpowiedzialnością BALTIC S.K.A. | Gdańsk | Exploration for and production of crude oil and natural gas | 99.99% ⁽⁵⁾ | 99.98% |
| Miliana Shipholding Company Ltd. (parent of another group: Miliana Shipholding Group) | Nicosia, Cyprus | Storage and transport of crude oil, other sea transport services | 99.99% ⁽⁵⁾ | 99.98% |
| Technical Ship Management Sp. z o.o. (parent of another group: Technical Ship Management Group) | Gdańsk | Sea transport support activities, ship operation advisory services | 99.99% ⁽⁵⁾ | 99.98% |
| SPV Baltic Sp. z o.o. | Gdańsk | Provision of sea transport and related services | 99.99% ⁽⁵⁾ | 99.98% |
| Miliana Shipmanagement Ltd. | Nicosia, Cyprus | Provision of sea transport and related services | 99.99% ⁽⁵⁾ | 99.98% |
| Miliana Shipping Group Ltd. (parent of another group: Miliana Shipping Group) | Nicosia, Cyprus | Management of own assets | 99.99% ⁽⁵⁾ | 99.98% |
| Bazalt Navigation Co. Ltd. | Nicosia, Cyprus | Ship chartering | 99.99% ⁽⁵⁾ | 99.98% |
| Granit Navigation Company Ltd. | Nicosia, Cyprus | Ship chartering | 99.99% ⁽⁵⁾ | 99.98% |
| Kambr Navigation Company Ltd. | Nicosia, Cyprus | Ship chartering | 99.99% ⁽⁵⁾ | 99.98% |
| St. Barbara Navigation Company Ltd. | Nicosia, Cyprus | Ship chartering | 99.99% ⁽⁵⁾ | 99.98% |
| Petro Icarus Company Ltd. | Nicosia, Cyprus | Ship chartering | 99.99% ⁽⁵⁾ | 99.98% |
| Petro Aphrodite Company Ltd. | Nicosia, Cyprus | Ship chartering | 99.99% ⁽⁵⁾ | 99.98% |
| 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 | 99.99% ⁽⁵⁾ | 99.98% |
| UAB Genciu Nafta | Lithuania, Gargždai | Crude oil exploration and production | 99.99% ⁽⁵⁾ | 99.98% |
| UAB Manifoldas | Lithuania, Gargždai | Crude oil exploration and production | 99.99% ⁽⁵⁾ | 99.98% |
| <i>Other</i> | | | | |
| <i>LOTOS Petrobaltic Group</i> | | | | |
| ENERGOBALTIC Sp. z o.o. | Władysławowo | Production of electricity, heat, LPG and natural gas condensate | 99.99% ⁽⁵⁾ | 99.98% |

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| Name | Registered office | Principal business activity | The Group's ownership interest | |
|---|---------------------|--|--------------------------------|-------------|
| | | | Dec 31 2014 | Dec 31 2013 |
| Equity-accounted joint ventures | | | | |
| LOTOS - Air BP Polska Sp. z o.o. ⁽⁶⁾ | Gdańsk | Sale of aviation fuel and logistics services | 50.00% | 50.00% |
| <i>LOTOS Petrobaltic Group</i> | | | | |
| Baltic Gas Sp. z o.o. ⁽⁷⁾ | Gdańsk | Oil and gas production (support activities for oil and gas production) | 49.99% | 49.99% |
| Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽⁷⁾ | Gdańsk | Crude oil and gas production | 62.40% ^(5, 7) | 81.68% |
| <i>AB LOTOS Geonafta Group</i> | | | | |
| UAB Minijos Nafta | Lithuania, Gargždai | Crude oil exploration and production | 49.99% ^(5, 8) | 49.99% |

⁽¹⁾ In H1 2014, Grupa LOTOS S.A. completed squeeze-out of shares in LOTOS Petrobaltic S.A. to acquire equity interests held by non-controlling shareholders (excluding shares held by the State Treasury). In H1 2014, the Company acquired 429 shares with a total value of PLN 54 thousand. As a result of the transactions completed in H1 2014, the amount of non-controlling interests decreased by PLN 83 thousand, and PLN 29 thousand was recognised as retained earnings attributable to the Parent. Expenditure on the acquisition of the shares in LOTOS Petrobaltic S.A. was PLN 54 thousand and was disclosed in the consolidated statement of cash flows under *Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control*.

⁽²⁾ In connection with the ruling of July 9th 2014 of the District Court for Katowice-Wschód in Katowice, 8th Commercial Division of the National Court, issued in an action for change of valuation of LOTOS Terminale S.A. shares acquired by Grupa LOTOS S.A. in 2011 in a squeeze-out process, Grupa LOTOS S.A. is required to pay to former shareholders of LOTOS Terminale S.A. (non-controlling interests) a total amount of PLN 2,208 thousand. As a result, the Group's retained earnings decreased by PLN 2,208 thousand. As at December 31st 2014, the amount of liabilities outstanding under the transaction was PLN 581 thousand. Expenditure incurred under the transaction in 2014, of PLN 1,627 thousand, was presented in the statement of cash flows from financing activities under *Cash flows attributable to changes in interest in subsidiaries not resulting in loss of control*.

⁽³⁾ Liquidation proceedings with respect to LOTOS Park Technologiczny Sp. z o.o., opened by virtue of a decision of April 11th 2014, were registered under the relevant entry in the business register maintained by the District Court of Rzeszów, 12th Commercial Division of the National Court Register. The liquidation proceedings were opened to achieve one of the objectives of the 2013–2015 Efficiency and Growth Programme, which is to streamline the structure of the LOTOS Group. As at December 31st 2014, the liquidation proceedings concerning LOTOS Park Technologiczny Sp. z o.o. were completed.

⁽⁴⁾ On October 6th 2014, a share purchase agreement was executed between Grupa LOTOS S.A. and law office Kancelaria Prawna Domański i Wspólnicy sp.k., under which Grupa LOTOS S.A. acquired 100% of shares in Infrastruktura Kolejowa Sp. z o.o. The company was excluded from consolidation because the figures reported in its financial statements as at December 31st 2014 were immaterial to fulfilling the obligation provided for in IFRS 10 Consolidated Financial Statements.

⁽⁵⁾ 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.

⁽⁶⁾ Joint venture agreement between Grupa LOTOS S.A. and BP Europe SE on joint operations related to supply of aviation fuel through LOTOS - Air BP Polska Sp. z o.o.

⁽⁷⁾ A special purpose vehicle established in connection with the cooperation between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. on development of the B-4 and B-6 fields.

In 2014, the change in the Group's ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. was attributable to payment of the PLN 10,183 thousand cash contribution by CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") in accordance with the notary deed of August 21st 2013 and increase in the agreed contributions by limited partners: CalEnergy and LOTOS Petrobaltic S.A. The increase was effected by the limited partners providing their cash contributions in the following amounts: CalEnergy - PLN 44,205 thousand (contribution increased from PLN 21,865 thousand to PLN 66,071 thousand); LOTOS Petrobaltic S.A. - PLN 348 thousand (contribution increased from PLN 52,300 thousand to PLN 52,648 thousand). As a result, the ownership interests in Baltic Gas, measured as a percentage of the amount of contributions made by individual partners to total contributions as at December 31st 2014, were as follows: Baltic Gas Sp. z o.o. (general partner): 0.001%; LOTOS Petrobaltic S.A. (limited partner): 62.403%; CalEnergy (limited partner): 37.596%. For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k and Baltic Gas Sp. z o.o. are entities jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11; see Note 2 to the consolidated financial statements for 2013).

⁽⁸⁾ At December 31st 2014, in accordance with IFRS 11 Joint Arrangements, the interest in UAB Minijos Nafta was equity-accounted. This approach was applied retrospectively. In the approved consolidated financial statements for the year ended December 31st 2013, the company was consolidated proportionately.

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 2014. Given the ongoing process of implementation of the IFRSs in the European Union and the scope of the Group's business, as far as the accounting policies applied by the Group are concerned, there is no difference between the IFRSs which have come into force and the IFRSs endorsed by the European Union for 2014, save for the principles which have been modified or introduced as a result of applying new IFRS regulations for annual periods beginning on or after January 1st 2014 (see Note 4).

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 on or after January 1st 2014 and have been applied by the Company:

- 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),

Application of IFRS 11 Joint Arrangements had a material impact resulting in a change of the Group's accounting policies described in the consolidated financial statements for 2013 (in particular in Notes 7.11 and 7.30). The standard replaced the previously applicable IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled entities – Non-monetary contributions by venturers.

IFRS 11 defines a joint arrangement as an arrangement of which two or more parties have joint control, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

IFRS 11 distinguishes two types of joint arrangements: joint operations and joint ventures. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement.

If under the joint arrangement the parties with joint control of the arrangement have rights to the net assets of the arrangement, then it is a joint venture, which in principle requires the establishment of a separate vehicle. As at December 31st 2014, the Group's joint ventures included LOTOS – Air BP Polska Sp. z o.o., a jointly-controlled entity operating in the downstream segment, and the following entities operating in the upstream segment: Baltic Gas Sp. z o.o., Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., and UAB Minijos Nafta.

As of January 1st 2014, all joint arrangements that meet the definition of a joint venture are equity-accounted. Under IFRS 11, proportionate consolidation, applied in past periods, is no longer allowed. For a description of the rules of equity-accounting for interests in entities and of proportionate consolidation (no longer in use), see Note 7.11 to the consolidated financial statements for 2013.

In these consolidated financial statements prepared as at December 31st 2014, the Group accounted for the interests in UAB Minijos Nafta, as well as LOTOS-Air BP Polska Sp. z o.o., Baltic Gas Sp. z o.o. and Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., using the equity method (in approved financial statements for periods ending before January 1st 2014, the interests in UAB Minijos Nafta were accounted for with the proportionate method).

Joint arrangements under which the parties with joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, are defined as joint operations. As at December 31st 2014, the Group held interests in joint operations in the upstream segment through LOTOS Exploration and Production Norge AS of Norway, a company of the LOTOS Petrobaltic Group.

In accordance with IFRS 11, the Group recognises its interest in assets, liabilities, costs and expenses related to its joint operations in Norway, as reflected in relevant items of these consolidated financial statements. Before January 1st 2014, the operations in Norway were accounted for in accordance with the rules applicable to joint ventures within the meaning of IAS 31 as jointly controlled assets and liabilities (see Note 7.30 to the consolidated financial statements for 2013). The application of

IFRS 11 did not result in any restatements or change in the Group's comparative data related to these operations as the existing and previously applicable IFRS requirements concerning accounting for such jointly controlled activities are similar.

Regardless of the changes in accounting policies under the new IFRSs introduced as of January 1st 2014, given that the reporting period ended December 31st 2014 was the first period when the Group recognised revenue from sale of crude oil and natural gas in Norway, the Company selected and approved new accounting policies to measure and account for such revenue (see Note 7). The relevant revenue generated in the reporting period was derived from sales of natural gas produced from the Skirne, Vale and Atla fields, interests in which were acquired by the Group on December 30th 2013 (see Note 13 to the consolidated financial statements for 2013 – Acquisition of interests in Norwegian production and exploration licences – Heimdal).

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances were identified which would indicate any threat to the Group companies' continuing as a going concern.

The Parent's functional currency and the presentation currency of these consolidated financial statements is the Polish zloty ("złoty", "zł", "PLN"). 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 yet effective

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

- 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) – in the EU effective for annual periods beginning on or after February 1st 2015,
- 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) – in the EU effective for annual periods beginning on or after January 1st 2015,
- Amendments to IAS 19 Employee Benefits: Defined Benefit Plans – Employee Contributions (effective for annual periods beginning on or after July 1st 2014) – in the EU effective for annual periods beginning on or after February 1st 2015,
- IFRIC 21 Levies, published on May 20th 2013 (applicable to annual periods beginning on or after January 1st 2014 – in the EU effective for annual periods beginning on or after June 17th 2014).

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

- IFRS 9 Financial Instruments, published on July 24th 2014 (effective for annual periods beginning on or after January 1st 2018).
- IFRS 14 Regulatory Deferral Accounts, published on January 30th 2014 (effective for annual periods beginning on or after January 1st 2016),
- IFRS 15 Revenue from Contracts with Customers, published on May 28th 2014 (effective for annual periods beginning on or after January 1st 2017),
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations, published on May 6th 2014 (effective for annual periods beginning on or after January 1st 2016),
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation, published on May 12th 2014 (effective for annual periods beginning on or after January 1st 2016),
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants, published on June 30th 2014 (effective for annual periods beginning on or after January 1st 2016).
- Amendments to IAS 27 Separate Financial Statements: Equity method in separate financial statements, published on August 12th 2014 (effective for annual periods beginning on or after January 1st 2016),
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture; published on September 11th 2014 (effective for annual periods beginning on or after January 1st 2016; it is important to note that the effective date of these amendments has been tentatively postponed, and as at the issue date of these financial statements no decision has been made as to the timing of the individual stages of the endorsement process),
- Amendments introduced as part of the Improvements to IFRSs 2012-2014 cycle, published on September 25th 2014 (effective for annual periods beginning on or after July 1st 2016).
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, and IAS 28 Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception, published on December 18th 2014 (effective for annual periods beginning on or after January 1st 2016),
- Amendments to IAS 1 Presentation of financial statements – Disclosures, published on December 18th 2014 (effective for annual periods beginning on or after January 1st 2016).

The Group has not elected to early adopt any of the standards, interpretations, or amendments endorsed by the EU 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 a continuous basis. Any change in an accounting estimate is recognised in the period in which it was made if it refers exclusively to that period, or in the current period and future periods if it refers to both the current period and future periods. Material assumptions used in making the estimates are described in the relevant notes to these financial statements.

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

The professional judgement of the management, as well as accounting estimates and underlying assumptions, were 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 the actuarial assumptions and valuation of employee benefit obligations see Note 29.4.

Depreciation/amortisation

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 2014 chiefly involved a PLN 23,472 thousand decrease in depreciation at the Parent.

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

Following the purchase of a portfolio of Heimdal assets on the Norwegian Continental Shelf in December 2013, the estimated oil and gas resources increased, which has affected the depreciation/amortisation (with the unit-of-production method) of the Group's production assets since 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 income 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 the recoverable amount, the Company takes into account such key variables as discount rates, growth rates and price ratios.

Following an analysis of cash flows for individual cash-generating units and the required impairment tests for assets, the Group made 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 2014 and in the comparative period.

For information on impairment of the Group's investments in joint ventures, see Note 16.

Provision for decommissioning of the upstream segment's facilities and land reclamation

As at the end of the reporting period, the Group analyses the costs necessary to decommission oil and natural gas extraction 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 2014 see Note 7.27.1 and Note 30.1, respectively.

Recognition of revenue from sales of crude oil and natural gas derived from joint operations in Norway

In line with the Group's accounting policy, revenue from sales of hydrocarbons produced from the fields on the Norwegian Continental Shelf in which the Group holds interests is recognised using the entitlements method (see Note 7.2), in proportion to the Group's entitlement to production from a given field. Revenue from oil and gas sales disclosed in the statement of comprehensive income for a given reporting period is estimated based on up-to-date data on production from the individual fields in the reporting period. Any differences between the amount of actual revenue from sales of crude oil produced from the Skirne, Vale and Atla fields and the Group's revenue estimated based on the contractual share of production from the fields are recognised in the statement of financial position under trade receivables and trade payables, which in 2014 amounted to PLN 5,730 thousand and PLN 704 thousand, respectively.

Control of an investee

According to IFRS 10 Consolidated Financial Statements, the Group controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether it controls an investee the Group considers all relevant facts and circumstances, including the entity's purpose and design, its relevant activities and decision-making process, and the significant rights of the investor (excluding protective rights) giving it the current ability to direct the relevant activities, as well as the nature of its relationship with other parties in respect of such entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control: power over the investee, exposure (or rights) to variable returns, and the ability to use its power over the investee. As at the end of the reporting period, the Group controls all of the entities presented in these financial statements as subsidiaries (see Note 2).

Collective control of an investee or operation

The Group and two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the cooperation of other investors, no investor individually controls the investee. The Group assesses whether it shares control of an arrangement, which – according to IFRS 11 Joint Arrangements – may be defined either as a joint venture or a joint operation, taking into consideration whether all parties to the relevant arrangement have control of it, whether they share exposure, or rights, to variable returns from their involvement with the investee, and whether they have the ability to jointly use their power over the investee to affect the amount of their returns. As at the end of the reporting period, the Group was involved in joint operations under projects carried out in Norway, and was involved in joint ventures (see Note 2 and Note 16), of which, considering all facts and circumstances, it had shared control.

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

In order to ensure transparency and comparability with the earlier financial data as at and for the period ended December 31st 2013 and as at January 1st 2013, a detailed list of all the necessary restatements of individual items of the financial statements is presented in the table in Note 6.4 below. Explanation of the reasons for these restatements is provided in Notes 6.1, 6.2 and 6.3.

6.1 Change of data following final accounting for the acquisition of interests in Norwegian production and exploration licences – Heimdal

On October 18th 2013, LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS"), a LOTOS Petrobaltic Group company, entered into an agreement with Centrica Resources (Norge) AS and Centrica Norway Limited, subsidiaries of Centrica Plc. of the UK, to acquire the Heimdal assets on the Norwegian Continental Shelf.

On December 30th 2013, all conditions precedent to the agreement were fulfilled and all material risks and rewards related to the ownership of the acquired Heimdal assets were transferred to LOTOS E&P Norge AS (see Note 13 to the consolidated financial statements for 2013).

In accordance with the agreement, as at March 31st 2014 the parties finally settled the transaction (within three months of the acquisition date). The transaction had no impact on the consolidated profit or loss. The effect of the final accounting was applied retrospectively; accordingly, in these consolidated financial statements, the comparative data as at December 31st 2013 was adjusted. The finally determined amounts and their effect on the data as at December 31st 2013, are presented below.

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| Reporting item | Initial accounting as at Dec 31 2013 | | Final accounting as at Mar 31 2014 | | Effect of final accounting for the acquisition recognised as adjustment in the statement of financial position as at Dec 31 2013 | |
|--|---|--------------|---------------------------------------|--------------|--|--------------|
| | NOKm | PLNm | NOKm | PLNm | NOKm | PLNm |
| I. Property, plant and equipment | 634.2 | 314.1 | 628.2 | 311.1 | (6.0) | (3.0) |
| II. Intangible assets | 303.6 | 150.4 | 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 | 931.8 | 461.5 | (6.0) | (3.0) |
| III. Decommissioning asset | 496.0 | 245.7 | 496.0 | 245.7 | - | - |
| Total (I + II + III) | 1,433.8 | 710.2 | 1,427.8 | 707.2 | (6.0) | (3.0) |
| <i>Settlement of acquisition price (A + B):</i> | <u>910.5</u> | <u>450.9</u> | <u>904.5</u> | <u>447.9</u> | <u>(6.0)</u> | <u>(3.0)</u> |
| A. Price paid after pro and contra settlement (USD 175.8m - USD 77m) | 631.6 | 312.8 | 606.8 | 300.5 | (24.8) | (12.3) |
| 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) | 278.9 | 138.1 | 297.7 | 147.4 | 18.8 | 9.3 |
| <i>Capitalised transaction costs (C + D):</i> | <u>27.3</u> | <u>13.6</u> | <u>27.3</u> | <u>13.6</u> | - | - |
| C. Amount of conditional future payments as per agreement | 10.2 | 5.1 | 10.2 | 5.1 | - | - |
| D. Capitalised transaction costs | 17.1 | 8.5 | 17.1 | 8.5 | - | - |
| E. Decommissioning provision | 496.0 | 245.7 | 496.0 | 245.7 | - | - |
| Total (A+B+C+D+E) | 1,433.8 | 710.2 | 1,427.8 | 707.2 | (6.0) | (3.0) |

6.2 The change of data following discontinuation of the proportionate consolidation and application of the equity method to account for the Group's interest in joint venture UAB Minijos Nafta as at December 31st 2013.

Among the new IFRSs effective as of January 1st, the one that had a material impact resulting in a change of the Group's accounting policies is IFRS 11 Joint Arrangements (see Note 3).

To ensure comparability of data presented in the consolidated financial statements for 2014, in accordance with IFRS 11 applied in the preparation of these financial statements, the interest held by the Group as at December 31st 2013 in UAB Minijos Nafta, a joint venture within the meaning of IFRS 11, was accounted for using the equity method, and the comparative data was appropriately restated.

In the approved financial statements as at December 31st 2013, UAB Minijos Nafta was consolidated using the proportionate method under IAS 31 Interests in Joint Ventures, which was applied in the past.

Under the proportionate method, all assets, liabilities, income and expenses of a jointly controlled entity were combined, line by line, with similar items in the financial statements in accordance with the Group's share of the net assets of the company. However, given that proportionate consolidation can no longer be applied under IFRS 11, the Group made appropriate changes in this respect.

Under the equity method applied in preparing these financial statements, investments in joint ventures within the meaning of IFRS 11 are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Group's share of the net assets of such 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 (see Accounting Policies, Note 7.11).

The change of the accounting method applied to UAB Minijos Nafta in the consolidated statement of financial position resulted in a decrease in total assets as at December 31st 2013 by PLN 14,863 thousand compared with the previously released data (January 1st 2013: PLN 22,557 thousand). Compared with the previously released data, the Group's revenue for 2013 was down by PLN 38,177 thousand. In consequence, the Group's operating profit for 2013 increased by PLN 20,106 thousand against the previously released data.

The change of the accounting method, however, had no effect on the Group's equity or net profit for 2013. As at December 31st 2013, the Group's share of the net assets of UAB Minijos Nafta and their changes in the amount of PLN 63,576 thousand was recognised in the statement of financial position under *Equity-accounted joint ventures* (January 1st 2013: PLN 85,214 thousand). The Group's share in UAB Minijos Nafta's net loss for 2013 in the amount of PLN 17,123 thousand was recognised in the statement of comprehensive income under *Share in net profit/loss of equity-accounted joint ventures*.

6.3 Other material changes

Due to the final settlement in 2014 of the corporate income tax (CIT) for 2013 at LOTOS Exploration and Production Norge AS (LOTOS Petrobaltic Group), the Group recognised income tax receivables as at December 31st 2013, which resulted in reclassification of relevant data as at December 31st 2013. Data was restated for *Deferred tax assets*, which decreased by PLN 46,424 thousand and *Current tax assets*, which increased by the same amount.

6.4 List of all restatements of previously published financial data as at and for the period ended December 31st 2013 and as at January 1st 2013

Consolidated statement of financial position as at December 31st 2013

| | Dec 31 2013* (audited) | Dec 31 2013 (restated) | Effect of change, including: | | | |
|--|---------------------------|---------------------------|------------------------------------|---|--|-------------------------------|
| | | | | Effect of change of the consolidation method applied for UAB Minijos Nafta | Effect of final accounting for the acquisition of Heimdal assets | Effect of other changes |
| PLN '000 | | | | | | |
| Non-current assets, including: | 12,038,771 | 11,979,871 | (58,900) | (153) | (12,323) | (46,424) |
| Property, plant and equipment | 10,048,374 | 10,009,073 | (39,301) | (36,298) | (3,003) | - |
| Other intangible assets | 686,222 | 658,797 | (27,425) | (27,431) | 6 | - |
| Equity-accounted joint ventures | 66,222 | 129,798 | 63,576 | 63,576 | - | - |
| Deferred tax assets | 980,284 | 924,534 | (55,750) | - | (9,326) | (46,424) |
| Current assets, including: | 8,260,052 | 8,304,089 | 44,037 | (14,710) | 12,323 | 46,424 |
| Inventories | 5,731,851 | 5,728,884 | (2,967) | (2,967) | - | - |
| Trade receivables | 1,594,746 | 1,591,649 | (3,097) | (3,097) | - | - |
| Current tax assets | 30,755 | 76,711 | 45,956 | (468) | - | 46,424 |
| Other current assets | 325,079 | 337,071 | 11,992 | (331) | 12,323 | - |
| Cash and cash equivalents | 503,686 | 495,839 | (7,847) | (7,847) | - | - |
| Assets held for sale | 794 | 794 | - | - | - | - |
| Total assets | 20,299,617 | 20,284,754 | (14,863) | (14,863) | - | - |
| Equity | 9,189,596 | 9,189,596 | - | - | - | - |
| Non-current liabilities, including: | 5,693,643 | 5,682,002 | (11,641) | (11,641) | - | - |
| Deferred tax liability | 281,307 | 275,823 | (5,484) | (5,484) | - | - |
| Other liabilities and provisions | 711,845 | 705,688 | (6,157) | (6,157) | - | - |
| Current liabilities, including: | 5,416,378 | 5,413,156 | (3,222) | (3,222) | - | - |
| Trade payables | 2,396,086 | 2,395,237 | (849) | (849) | - | - |
| Employee benefit obligations | 105,057 | 103,973 | (1,084) | (1,084) | - | - |
| Other liabilities and provisions | 1,169,939 | 1,168,650 | (1,289) | (1,289) | - | - |
| Total liabilities | 11,110,021 | 11,095,158 | (14,863) | (14,863) | - | - |
| Total equity and liabilities | 20,299,617 | 20,284,754 | (14,863) | (14,863) | - | - |

* (Audited) data as at December 31st 2013 is derived from the audited consolidated financial statements for the year ended December 31st 2013, released March 5th 2014.

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Consolidated statement of financial position as at January 1st 2013

| PLN '000 | Jan 1 2013* (audited) | Jan 1 2013 (restated) | Effect of the change of the consolidation method applied for UAB Minijos Nafta |
|--|--------------------------|--------------------------|---|
| Non-current assets, including: | 11,509,743 | 11,501,434 | (8,309) |
| <i>Property, plant and equipment</i> | 9,685,850 | 9,644,600 | (41,250) |
| <i>Other intangible assets</i> | 548,659 | 496,386 | (52,273) |
| <i>Equity-accounted joint ventures</i> | - | 85,214 | 85,214 |
| Current assets, including: | 8,515,394 | 8,501,146 | (14,248) |
| <i>Inventories</i> | 5,966,203 | 5,963,027 | (3,176) |
| <i>Trade receivables</i> | 1,632,837 | 1,625,715 | (7,122) |
| <i>Current tax assets</i> | 90,566 | 90,566 | - |
| <i>Other current assets</i> | 436,121 | 434,400 | (1,721) |
| <i>Cash and cash equivalents</i> | 268,333 | 266,104 | (2,229) |
| <i>Assets held for sale</i> | 2,428 | 2,428 | - |
| Total assets | 20,027,565 | 20,005,008 | (22,557) |
| Equity | 9,066,424 | 9,066,424 | - |
| Non-current liabilities, including: | 5,415,418 | 5,399,688 | (15,730) |
| <i>Deferred tax liability</i> | 322,873 | 313,716 | (9,157) |
| <i>Other liabilities and provisions</i> | 412,260 | 405,687 | (6,573) |
| Current liabilities, including: | 5,545,723 | 5,538,896 | (6,827) |
| <i>Trade payables</i> | 2,174,451 | 2,169,408 | (5,043) |
| <i>Employee benefit obligations</i> | 110,930 | 109,971 | (959) |
| <i>Other liabilities and provisions</i> | 1,068,988 | 1,068,163 | (825) |
| Total liabilities | 10,961,141 | 10,938,584 | (22,557) |
| Total equity and liabilities | 20,027,565 | 20,005,008 | (22,557) |

* (Audited) data as at December 1st 2013 is derived from the audited consolidated financial statements for the year ended December 31st 2013, released March 5th 2014.

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Consolidated statement of comprehensive income for the year ended December 31st 2013

| | year ended Dec 31 2013* (audited) | year ended Dec 31 2013 (restated) | Effect of change, including: | Effect of the change of the consolidation method applied for UAB Minijos Nafta | |
|---|---|---|------------------------------------|--|----------------------------|
| | | | | | Effect of other changes |
| PLN '000 | | | | | |
| Revenue | 28,597,342 | 28,559,165 | (38,177) | (38,177) | - |
| Cost of sales | (26,913,268) | (26,878,863) | 34,405 | 34,405 | - |
| Gross profit | 1,684,074 | 1,680,302 | (3,772) | (3,772) | - |
| Distribution costs | (1,106,746) | (1,106,186) | 560 | 560 | - |
| Administrative expenses | (433,984) | (429,177) | 4,807 | 4,807 | - |
| Other income | 30,337 | 30,869 | 532 | (19) | 551 |
| Other expenses | (40,659) | (22,680) | 17,979 | 18,530 | (551) |
| Loss of control of subsidiary | 13,472 | 13,472 | - | - | - |
| Operating profit | 146,494 | 166,600 | 20,106 | 20,106 | - |
| Finance income | 135,162 | 135,159 | (3) | (3) | - |
| Finance costs | (342,627) | (342,304) | 323 | 323 | - |
| Share in net profit/loss of equity- accounted joint ventures | (1,008) | (18,131) | (17,123) | (17,123) | - |
| Pre-tax loss | (61,979) | (58,676) | 3,303 | 3,303 | - |
| Corporate income tax | 101,407 | 98,104 | (3,303) | (3,303) | - |
| Net profit | 39,428 | 39,428 | - | - | - |
| Other comprehensive income (net) | 84,022 | 84,022 | - | - | - |
| Total comprehensive income | 123,450 | 123,450 | - | - | - |

* (Audited) data for the year ended December 31st 2013 is derived from the audited consolidated financial statements for the year ended December 31st 2013, released March 5th 2014.

Consolidated statement of cash flows for the year ended December 31st 2013

| | year ended Dec 31 2013* (audited) | year ended Dec 31 2013 (restated) | Effect of change, including: | Effect of the change of the consolidation method applied for UAB Minijos Nafta | |
|------------------------------------|---|---|------------------------------------|--|----------------------------|
| | | | | | Effect of other changes |
| PLN '000 | | | | | |
| Net cash from operating activities | 1,436,496 | 1,416,277 | (20,219) | (12,981) | (7,238) |
| Net cash from investing activities | (938,414) | (931,051) | 7,363 | 7,363 | - |
| Net cash from financing activities | (251,102) | (243,864) | 7,238 | - | 7,238 |
| Total net cash flow | 246,980 | 241,362 | (5,618) | (5,618) | - |

* (Audited) data for the year ended December 31st 2013 is derived from the audited consolidated financial statements for the year ended December 31st 2013, released March 5th 2014.

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 most important accounting policies applied by the Group are presented below. As indicated in Note 3, in the reporting period ended December 31st 2014 there was a change in the accounting policies following application of a new standard, IFRS 11 Joint Arrangements (see Notes 7.11 and 7.30). New accounting policies were also selected and approved to measure and account for revenue from the sale of crude oil and natural gas in Norway, as 2014 was the first reporting period in which the Group recorded such revenue (see Note 7.2).

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 and jointly-controlled entities, prepared as at December 31st 2014.

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. According to IFRS 10 Consolidated Financial Statements, the Group controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group and two or more investors collectively control an investee when they must act together to direct the relevant activities. In such cases, because no investor can direct the activities without the cooperation of other investors, no investor individually controls the investee. Given the application of IFRS 11 Joint Arrangements (see Note 3 and Note 6.2), interests in joint ventures held by the Group as at December 31st 2013 are accounted for with the equity method (see Note 7.11).

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 risks and rewards resulting from the ownership of the products and merchandise have been transferred to the purchaser, with the proviso that revenue from sale of crude oil and natural gas in Norway is recognised and disclosed using the entitlements (rights) method.

The entitlements method is one of two methods for recognition of revenue commonly applied by oil and gas producers (with the sales method as the alternative) and allowed under IFRS. The Management Board believes that the entitlements method provides for a fair and accurate presentation of the assets, financial performance and profitability of the Group's joint operations carried out at oil and gas producing fields.

For logistical reasons, when hydrocarbons are produced from a field by many participants there are naturally occurring differences between the volumes actually received by individual participants and their respective contractual share of production (to which participants are entitled under relevant agreements). Thus, it is necessary to apply a special mechanism to account for such discrepancies. In accordance with the entitlements method applied by the Group, revenue is always recognised in the Group's accounting books in proportion to its entitlement to production from the field. The correct amount of revenue in the financial statements is arrived at in such manner that an overlift party, i.e. a participant which in a given period receives hydrocarbons in excess of its contractual share of production from a field, recognises the excess in its accounting books not as revenue but as a liability. Conversely, if in a given period the underlift party, i.e. a participant that receives less than its entitlement, recognises the underlift as a receivable (revenue). In the consolidated statement of financial position, assets and liabilities under the entitlements method are presented as *trade receivables* and *trade payables*. For more information on estimates related to the application of the entitlements method, see Note 5.

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 income (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 an amount obtained after they are offset for particular consolidated entities.

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

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

- except where the value-added tax (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, excise duty and fuel charge.

The net amount of value-added tax, excise duty and fuel charge 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-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the invoice date, and the exchange rate applicable to sales invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the sale date.

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

The Company calculates 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-exchange rate quoted by the National Bank of Poland for the end of the reporting period (NBP's mid-exchange rate 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-exchange rates quoted by the National Bank of Poland for the end of each month in the reporting period (NBP's average mid-exchange rate in the reporting period).

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

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:

| NBP's mid-exchange rate quoted for: | Dec 31 2014 ⁽¹⁾ | Dec 31 2013 ⁽²⁾ |
|-------------------------------------|----------------------------|----------------------------|
| USD | 3.5072 | 3.0120 |
| EUR | 4.2623 | 4.1472 |
| NOK | 0.4735 | 0.4953 |
| LTL | 1.2344 | 1.2011 |

⁽¹⁾ NBP's mid-exchange rates table, effective for December 31st 2014.

⁽²⁾ NBP's mid-exchange rates table, effective for December 31st 2013.

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 2014 ⁽¹⁾ | ended Dec 31 2013 ⁽²⁾ |
|--|----------------------------------|----------------------------------|
| USD | 3.1784 | 3.1653 |
| EUR | 4.1893 | 4.2110 |
| NOK | 0.5001 | 0.5357 |
| LTL | 1.2133 | 1.2196 |

⁽¹⁾ Based on the arithmetic mean of the mid-exchange rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2014.

⁽²⁾ Based on the arithmetic mean of the mid-exchange rates quoted by the NBP for the last day of each full month in the period January 1st–December 31st 2013.

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 comprising production infrastructure, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

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

Items of property, plant and equipment comprising production infrastructure used in crude oil and natural gas extraction are depreciated using the units-of-production depreciation method, i.e. depreciation per unit of produced crude oil or natural gas is charged to expenses. The depreciation rate is estimated by reference to forecasts of crude oil and gas production from a given geological area. If the estimated hydrocarbon reserves (2P – proved and probable reserves) change materially as at the end of the reporting period, depreciation per unit of produced crude oil or natural gas is remeasured. Then, starting from the new financial year, the revised depreciation rate is applied (see also Note 5).

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the entity 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 values, useful economic lives and depreciation methods are reviewed on an annual basis and adjusted – if required – with effect from the beginning of the next financial year.

As part of its property, plant and equipment comprising production infrastructure, the Group discloses assets corresponding to the provision for decommissioning of oil and gas production facilities (see also Note 7.27.1). These assets are 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. Under section 63 of the standard, entities 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 the 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 costs recognised in line with the policies described in Note 7.22.

Expenditure on property, plant and equipment used in exploration for and evaluation of crude oil and natural gas resources is capitalised until the deposit volume and the economic viability of production are determined; such expenditure is presented in a separate item of property, plant and equipment in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources. Upon confirmation of existence of reserves in the case of which extraction is technically feasible and economically viable, such expenditure is transferred to relevant items of property, plant and equipment related to development and production of hydrocarbons, and is subsequently depreciated using the units-of-production method (see above) based on the volume of reserves present and actual production.

If expenditure on property, plant and equipment under construction does not result in discovery of any reserves in the case of which extraction is technically feasible 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 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 oil exploration and production licences in Lithuania acquired as part of a business combination, expenditure incurred on oil and gas exploration licences on the Norwegian Continental Shelf, other production and exploration licences in Poland, software licences, patents, trademarks and acquired CO₂emission 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.

Licences obtained in Lithuania during the step acquisition of the AB LOTOS Geonafna Group companies are disclosed in intangible assets related to development and production of hydrocarbon reserves and 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 hydrocarbon production from a given field. If the estimated hydrocarbon reserves (2P – proved and probable reserves) change materially as at the end of the reporting period, amortisation per unit of produced crude oil or natural gas is remeasured. Then, starting from the new financial year, the revised amortisation rate is applied.

Expenditure on oil and gas exploration licences on the Norwegian Continental Shelf is presented in a separate item of intangible assets, as required under IFRS 6 Exploration for and Evaluation of Mineral Resources, and is not amortised until the technical feasibility and commercial viability of extraction is demonstrated. For more information on the accounting policies concerning expenditure on exploration for and evaluation of mineral resources, see Note 7.10.

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 (see Note 5).

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 Exploration and evaluation expenditures

Exploration for and evaluation (appraisal) of mineral resources means the search for crude oil and natural gas resources, and determination of the technical feasibility and commercial viability of their extraction.

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 mineral resources, expenditure directly connected with exploration for and evaluation of oil and gas resources is recognised in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources in a separate item of non-current assets. The expenditure includes the costs of acquisition of exploration rights, costs of exploration rigs, salaries and wages, consumables and fuel, insurance, costs of geological and geophysical surveys, as well as costs of other services.

The Group classifies its hydrocarbon 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 property, plant and equipment or intangible assets related to development and production of resources (see also Note 7.7 and Note 7.9).

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

- whether 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 joint ventures

Investments in joint ventures measured in accordance with IFRS 11 Joint Arrangements are accounted for with the equity method and recognised in the statement of financial position at cost, adjusted for subsequent changes in the Group's share of the net assets of such 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.

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 asset is immediately recognised as Other income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge for a given asset is adjusted so that its revised carrying amount, less residual value, can be regularly written off over the remaining useful life of that asset.

The Group offsets corresponding items of other income and expenses, including impairment losses and their reversals, 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.

Impairment losses on products or semi-finished products, resulting from revaluation based on net realisable value rather than purchase price or production cost, are posted to production costs. Impairment losses on merchandise are charged to merchandise sold in the statement of comprehensive income.

As at the end of the reporting period, the Group estimates (based on an individual assessment of the usefulness of inventories for the purposes of the Group's business) the value of write-down of stored materials. Following a decline in prices of crude oil and refining products, the Group recognises a write-down of inventories to adjust their carrying amount, given the difference between their production cost and net realisable value, in accordance with IAS 2. Write-downs of stored materials made due to their impairment are charged to production costs.

If the reason for making an inventory write-down no longer exists, an equivalent of the entire or part of the write-down increases the value of the inventory item. If a write-down is used, write-down reversal is reflected in operating activities for the sake of clarity and due to its economic nature.

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, is 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 Non-current assets held for sale (or disposal groups)

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 (or 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 financing.

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 financing and discounts, as well as premiums obtained on settlement of the liability. Upon removal of the liability from the statement of financial position or recognition of impairment losses, 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.

The value of future employee benefit obligations includes length-of-service awards, old-age and disability retirement severance payments, social fund benefits payable to retired employees and pensioners, and estimated value of death benefits.

Length-of-service awards are paid out after a specific period of employment. Old-age and disability retirement severance payments are one-off and paid upon retirement. Amounts of severance payments and length-of-service awards depend on the length of employment and the average remuneration of an employee. The 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.

Actuarial gains and losses on post-employment benefits are recognised in other comprehensive income.

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 include 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 employee benefit expenses, 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 Geonafta Group – and their negligible effect on the Group's obligations under length-of-service awards and post-employment benefits, those 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

In accordance with the business practice in Poland, shareholders have the right to allocate a part of profit to employee benefits by making contributions to the Company's social benefits fund and to other special accounts. However, in the financial statements, such distributions are charged to operating expenses of 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 foreign exchange losses on 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 advanced and receivables,
- Financial assets available for sale,
- Financial liabilities at amortised cost

Financial assets held to maturity

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,
- that 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 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 liabilities or recognising the gains and losses on them on different bases, or
- (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 liabilities contain embedded derivatives which should be presented separately.

Financial liabilities classified as financial liabilities at fair value through profit or loss are measured 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 connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction (Level 2 in the fair value hierarchy).

To manage risk related to carbon dioxide emission allowances, the Group assesses, on a case-by-case basis, the risk of expected deficit of emission allowances allocated free of charge under the carbon emission reduction system and manages the risk of changes in the price of emission allowance traded on an active market.

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

If required, futures contracts to purchase carbon dioxide emission 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. The valuation of futures contracts to purchase carbon dioxide emission allowances 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 the effectiveness of its CO₂ risk management (off balance sheet).

For information on the limit of free carbon dioxide emission allowances allocated to the Group, see Note 34. For a description of the Group's risk management process, see Note 32.2.

The Group applies hedge accounting. Changes in the fair value of derivative financial instruments 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, derivative financial instruments 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 advanced and receivables.

Loans advanced and receivables are financial assets with fixed or determinable payments not classified as derivatives and not traded on any active market. They are disclosed under current assets if they mature within 12 months from the 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, investment receivables, security deposits receivable, finance lease 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 7.12, 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 the 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; in the statement of financial position they are posted 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 bank and non-bank borrowings, bonds/notes, 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 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.

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.

Impairment losses on financial assets and their reversals are recognised on a net basis as gains or losses under other income/expenses or finance income/costs, depending on the class of financial instruments.

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.

7.25 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 derivative financial instruments 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 derivative financial instruments 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.

7.26 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.

7.26.1 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 extraction 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, irrespective of the hydrocarbon flow recorded.

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 unwinding is 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 an Oil and Gas Extraction Facility Decommissioning Fund, whose financial resources may only be used to cover the cost of decommissioning of an oil and gas extraction 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.

7.27 Trade and other payables, and accruals and deferred income

Current trade and other 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.

7.28 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.

7.29 Joint Arrangements

IFRS 11 defines a joint arrangement as a contractual arrangement under which the business of two or more parties is subject to joint control. Joint control exists only when decisions about the relevant activities under the arrangement require the unanimous consent of all the parties.

Joint arrangements are classified into two types – joint operations and joint ventures. The distinction between the two is based on different rights and obligations of the parties under the joint arrangement.

If under the joint arrangement the parties with joint control of the arrangement have rights to the net assets of the arrangement, then it is a joint venture, which in principle requires the establishment of a separate vehicle. The Group's joint ventures include LOTOS-Air BP Polska Sp. z o.o., a jointly-controlled entity operating in the downstream segment, and the following entities operating in the upstream segment: Baltic Gas Sp. z o.o., Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., and UAB Minijos Nafta, all of which are equity-accounted (See Note 7.11).

Joint arrangements under which the parties with joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, are defined as joint operations. The Group holds interests in joint operations in the upstream segment through a Norwegian company, LOTOS Exploration and Production Norge AS, a subsidiary of LOTOS Petrobaltic S.A.

In accordance with IFRS 11, the Group recognises its interest in assets, liabilities, costs and expenses related to its joint operations in Norway.

7.30 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.

7.31 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 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.

7.32 Carbon dioxide (CO₂) emission allowances

CO₂ emission allowances are presented by the Group 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.

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

8. Business segments

| PLN '000 | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidation adjustments | Consolidated |
|--|---------------------------------|---------------------------------|----------------------|------------------------------|--------------------|
| | year ended Dec 31 2014 | | | | |
| Revenue: | 906,279 | 28,157,947 | 25,535 | (587,874) | 28,501,887 |
| <i>Intersegment sales</i> | 523,278 | 47,559 | 17,037 | (587,874) | - |
| <i>External sales</i> | 383,001 | 28,110,388 | 8,498 | - | 28,501,887 |
| Operating profit/(loss) (EBIT) | (624,120) ⁽²⁾ | (774,492) ⁽³⁾ | 6,914 | (1,310) | (1,393,008) |
| Amortisation | 344,141 | 459,449 | 7,137 | (1,786) | 808,941 |
| Operating profit/(loss) before amortisation and depreciation (EBITDA) | (279,979) | (315,043) | 14,051 | (3,096) | (584,067) |

| PLN '000 | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidation adjustments | Consolidated |
|---|---------------------|-----------------------|----------------------|------------------------------|-------------------|
| | Dec 31 2014 | | | | |
| Total assets | 3,944,812 | 16,028,893 | 112,330 | (1,138,878) | 18,947,157 |
| <i>including:</i> | | | | | |
| - assets related to exploration for and evaluation of crude oil and natural gas resources | 241,445 | - | - | - | 241,445 |
| - assets related to development and production of crude oil and natural gas resources | 1,331,027 | - | - | - | 1,331,027 |

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| | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidation adjustments | Consolidated |
|---|---------------------|-----------------------|----------------------|------------------------------|-------------------|
| year ended Dec 31 2013 (restated) | | | | | |
| PLN '000 | | | | | |
| Revenue: | 585,759 | 28,587,306 | 24,474 | (638,374) | 28,559,165 |
| <i>Intersegment sales</i> | 578,369 | 43,093 | 16,912 | (638,374) | - |
| <i>External sales</i> | 7,390 | 28,544,213 | 7,562 | - | 28,559,165 |
| Operating profit/(loss) (EBIT) | 174,036 | 13,902 | 13,937 | (35,275) | 166,600 |
| Amortisation | 133,607 | 500,804 | 9,860 | (1,791) | 642,480 |
| Operating profit/(loss) before amortisation and depreciation (EBITDA) | 307,643 | 514,706 | 23,797 | (37,066) | 809,080 |
| | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidation adjustments | Consolidated |
| Dec 31 2013 (restated) | | | | | |
| PLN '000 | | | | | |
| Total assets | 4,101,632 | 17,059,568 | 120,425 | (996,871) | 20,284,754 |
| <i>including:</i> | | | | | |
| - assets related to exploration for and evaluation of crude oil and natural gas resources | 368,357 | - | - | - | 368,357 |
| - assets related to development and production of crude oil and natural gas resources | 1,894,133 | - | - | - | 1,894,133 |

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

⁽¹⁾ Including an impairment loss on YME field assets, of PLN 578,448 thousand (see Note 13).

⁽³⁾ Including an inventory write-down of PLN 450,891 thousand (see Note 19.1).

Geographical structure of sales

| | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidated |
|----------------------------------|------------------|--------------------|----------------------|-------------------|
| year ended Dec 31 2014 | | | | |
| PLN '000 | | | | |
| Domestic sales: | 3,921 | 19,019,321 | 8,498 | 19,031,740 |
| <i>products and services</i> | 3,719 | 18,315,224 | 8,498 | 18,327,441 |
| <i>merchandise and materials</i> | 202 | 704,097 | - | 704,299 |
| Export sales: | 379,080 | 9,091,067 | - | 9,470,147 |
| <i>products and services</i> | 378,404 | 8,673,940 | - | 9,052,344 |
| <i>merchandise and materials</i> | 676 | 417,127 | - | 417,803 |
| Total | 383,001 | 28,110,388 | 8,498 | 28,501,887 |

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| PLN '000 | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidated |
|----------------------------------|--------------------------------------|--------------------|----------------------|-------------------|
| | year ended Dec 31 2013 (restated) | | | |
| Domestic sales: | 6,491 | 20,370,299 | 7,562 | 20,384,352 |
| <i>products and services</i> | 6,257 | 18,804,309 | 7,562 | 18,818,128 |
| <i>merchandise and materials</i> | 234 | 1,565,990 | - | 1,566,224 |
| Export sales: | 899 | 8,173,914 | - | 8,174,813 |
| <i>products and services</i> | 606 | 7,835,360 | - | 7,835,966 |
| <i>merchandise and materials</i> | 293 | 338,554 | - | 338,847 |
| Total | 7,390 | 28,544,213 | 7,562 | 28,559,165 |

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

The year-on-year increase in the upstream segment's sales in 2014 was attributable to the launch of sales of oil and gas produced from the Heimdal area fields, acquired in December 2013.

The year-on-year decline in revenue from sales of merchandise in 2014 was due to the fact that continuity of supplies to the Group's trading partners was maintained during the refinery's overhaul shutdown in Q1 2013.

Sales by products, merchandise and services

| PLN '000 | Upstream segment | Downstream segment | Other ⁽¹⁾ | Consolidated |
|---|------------------------|--------------------|----------------------|-------------------|
| | year ended Dec 31 2014 | | | |
| Gasolines | - | 4,660,642 | - | 4,660,642 |
| Naphtha | - | 750,974 | - | 750,974 |
| Diesel oils | - | 13,608,087 | - | 13,608,087 |
| Bunker fuel | - | 108,467 | - | 108,467 |
| Light fuel oil | - | 757,506 | - | 757,506 |
| Heavy fuel oil | - | 2,349,680 | - | 2,349,680 |
| Aviation fuel | - | 2,044,246 | - | 2,044,246 |
| Lubricants | - | 345,702 | - | 345,702 |
| Base oils | - | 580,307 | - | 580,307 |
| Bitumens | - | 1,055,843 | - | 1,055,843 |
| LPG | - | 629,750 | - | 629,750 |
| Crude oil | 156,103 | - | - | 156,103 |
| Natural gas | 218,843 | - | - | 218,843 |
| Reformate | - | 28,689 | - | 28,689 |
| Other refinery products, merchandise and materials | - | 553,505 | - | 553,505 |
| Other products, merchandise and materials | 881 | 320,948 | 8,457 | 330,286 |
| Services | 7,174 | 324,034 | 41 | 331,249 |
| <i>Effect of cash flow hedge accounting</i> | - | (7,992) | - | (7,992) |
| Total | 383,001 | 28,110,388 | 8,498 | 28,501,887 |

⁽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 |
|---|--------------------------------------|--------------------|----------------------|-------------------|
| | year ended Dec 31 2013 (restated) | | | |
| 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 |
| Other refinery products, merchandise and materials | - | 517,155 | - | 517,155 |
| Other products, merchandise and materials | 530 | 292,630 | 7,523 | 300,683 |
| Services | 6,860 | 291,082 | 39 | 297,981 |
| <i>Effect of cash flow hedge accounting</i> | - | (12,452) | - | (12,452) |
| Total | 7,390 | 28,544,213 | 7,562 | 28,559,165 |

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

In 2014 and 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 2014 | Year ended Dec 31 2013 (restated) |
|---|------|---------------------------|---|
| Depreciation and amortisation | 8 | 808,941 | 642,480 |
| Raw materials and consumables used | | 24,734,942 | 24,219,317 |
| - including exchange differences ⁽¹⁾ | 31.3 | 65,110 | (76,694) |
| Services | | 1,280,200 | 1,244,694 |
| Taxes and charges | | 179,710 | 171,720 |
| Employee benefits expense | 9.2 | 681,865 | 670,817 |
| Other expenses by nature | | 344,315 | 158,095 |
| Merchandise and materials sold | | 978,764 | 1,751,978 |
| Total expenses by nature | | 29,008,737 | 28,859,101 |
| Change in products and adjustments to cost of sales | | 67,003 | (444,875) |
| Total | | 29,075,740 | 28,414,226 |
| including: | | | |
| Cost of sales | | 27,466,614 | 26,878,863 |
| Distribution costs | | 1,162,071 | 1,106,186 |
| Administrative expenses | | 447,055 | 429,177 |

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

9.2 Employee benefits expenses

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|------------|---------------------------|---|
| Current salaries and wages | | 491,466 | 491,366 |
| Social security and other employee benefits | | 144,793 | 149,996 |
| Length-of-service awards, retirement and other post-employment benefits | 29.3 | 45,606 | 29,455 |
| Total employee benefits expenses | 9.1 | 681,865 | 670,817 |
| Change in products and adjustments to cost of sales | | (20,579) | (8,209) |
| Total | | 661,286 | 662,608 |
| including: | | | |
| Cost of sales | | 388,563 | 389,908 |
| Distribution costs | | 30,301 | 34,218 |
| Administrative expenses | | 242,422 | 238,482 |

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9.3 Other income

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|--------|---------------------------|---|
| Reversal of impairment losses on property, plant and equipment and other intangible assets: | | - | 550 |
| <i>Reversal of impairment losses:</i> | | - | 57,214 |
| - on property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources | | - | 48,672 |
| - on assets related to the B-4 and B-6 fields, transferred to Baltic Gas as a contribution in kind | 13.1.1 | - | 48,273 |
| - on other assets | | - | 399 |
| - on intangible assets related to exploration for and evaluation of crude oil and natural gas resources | | - | 542 |
| - on Norwegian exploration licences | | - | 542 |
| - on refinery and other property, plant and equipment: | | - | 8,000 |
| - Waterproofing Materials Production Plant assets | 13.2 | - | 8,000 |
| <i>Impairment losses:</i> | | - | (56,664) |
| - on property, plant and equipment related to production | | - | (26,842) |
| - on assets related to the B-28 field | 13.1.1 | - | (26,842) |
| - on property, plant and equipment related to development of crude oil and natural gas resources | | - | (1,794) |
| - on other assets | | - | (1,794) |
| - on intangible assets related to exploration for and evaluation of crude oil and natural gas resources | | - | (4,744) |
| - on Norwegian exploration licences | 15.1.1 | - | (4,744) |
| - on intangible assets related to development and production of crude oil and natural gas resources: | | - | (7,943) |
| - on Lithuanian assets | 15.1.2 | - | (7,943) |
| - on refinery and other property, plant and equipment: | | - | (15,341) |
| - on service stations | 13.2 | - | (11,912) |
| - on other assets | | - | (3,429) |
| Gain on disposal of non-financial non-current assets | | 3,521 | - |
| Grants | 30.2 | 1,889 | 2,075 |
| Provisions: | | - | 2,900 |
| - provision for deficit in CO ₂ emission allowances | 34 | - | (1,527) |
| - other provisions | | - | (1,276) |
| - reversal of provisions for retired refinery installations | 30.1 | - | 5,077 |
| - reversal of other provisions | | - | 626 |
| Remeasurement of estimated provision related to the offshore oil extraction facility in the YME field in Norway | | - | 6,447 |
| Compensation | | 14,025 ⁽¹⁾ | 7,970 |
| Gain on sale of organised part of business | | - | 379 |
| Reimbursed excise duty | | 896 | 6,143 ⁽²⁾ |
| Other | | 6,376 | 4,405 |
| Total | | 26,707 | 30,869 |

⁽¹⁾ Including PLN 7,927 thousand received as compensation in connection production stoppage in the Atla field (one of the Heimdal area assets).

⁽²⁾ 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.

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 expenses charged to profit or loss separately, as presented in the table above.

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9.4 Other expenses

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|------------|---------------------------|---|
| Impairment loss on property, plant and equipment and other intangible assets: | | 806,141 | - |
| <i>Impairment losses:</i> | | 806,562 | - |
| - on property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources | | 31,853 | - |
| - on assets related to the B-27 field | 13.1.1 | 29,914 | - |
| - on assets related to the B-28 field | 13.1.1 | 1,939 | - |
| - on property, plant and equipment related to development of crude oil and natural gas resources | | 578,448 | - |
| - on assets related to the YME field | 13.1.2 | 578,448 | - |
| - on property, plant and equipment related to production | | 48,562 | - |
| - on Heimdal assets | 13.1.3 | 45,854 | - |
| - on Lithuanian assets | 13.1.3 | 2,708 | - |
| - on intangible assets related to exploration for and evaluation of crude oil and natural gas resources | | 14,439 | - |
| - on Heimdal assets | 15.1.1 | 13,823 | - |
| - on other Norwegian licences | 15.1.1 | 616 | - |
| - on intangible assets related to development and production of crude oil and natural gas resources: | | 100,604 | - |
| - on Lithuanian assets | 15.1.2 | 100,604 | - |
| - on refinery and other property, plant and equipment: | | 32,656 | - |
| - on service stations | 13.2 | 15,765 | - |
| - on assets related to bitumen production unit at the LOTOS Asphalt Branch in Jaslo | 13.2 | 15,893 | - |
| - on other assets | | 998 | - |
| <i>Reversal of impairment losses:</i> | | (421) | - |
| - on refinery and other property, plant and equipment | | (421) | - |
| Loss on disposal of non-financial non-current assets | | - | 1,863 |
| Loss on discontinued projects | | 11,935 ⁽¹⁾ | 1,236 |
| Impairment losses on receivables: | 18.1; 31.3 | 13,078 | 6,012 |
| - impairment losses | | 15,928 | 7,291 |
| - reversal of impairment losses | | (2,850) | (1,279) |
| Provisions: | | 4,761 | - |
| - provision for deficit in CO ₂ emission allowances | 34 | 2,784 | - |
| - reversal of provision for deficit in CO ₂ emission allowances | 34 | (1,527) | - |
| - other provisions | | 8,935 | - |
| - reversal of other provisions | | (5,431) | - |
| Fines and compensation | | 1,512 | 1,277 |
| Property damage incurred during ordinary course of business | | 1,041 | 2,516 |
| Cost brought forward | | 567 | 2,947 |
| Charitable donations | | 1,067 | 2,483 |
| Other | | 5,760 | 4,346 |
| Total | | 845,862 | 22,680 |

⁽¹⁾ Of which PLN 5,937 thousand relates to the Sambia W field (the Baltic Sea) and PLN 5,772 thousand relates to the Zvaginai well (Lithuania).

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 expenses charged to 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 2014 | Year ended Dec 31 2013 (restated) |
|--|------|---------------------------|---|
| Dividend received | | 1,103 | 840 |
| Interest: | | 19,096 | 17,358 |
| - on trade receivables | 31.3 | 6,349 | 5,995 |
| - on finance lease receivables | 31.3 | 166 | 193 |
| - on cash | 31.3 | 1,249 | 1,264 |
| - on deposits | 31.3 | 9,360 | 8,413 |
| - other | | 1,972 | 1,493 |
| Revaluation of financial assets: | | - | 112,861 |
| - valuation of derivative financial instruments | 31.3 | - | 55,148 |
| - settlement of derivative financial instruments | 31.3 | - | 57,713 |
| Other | | 1,541 | 4,100 |
| Total | | 21,740 | 135,159 |

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.

9.6 Finance costs

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|------------|---------------------------|---|
| Interest: | | 202,503 | 202,921 |
| - on borrowings | 31.3 | 141,584 | 151,874 |
| - on non-bank borrowings | 31.3 | 9,576 | 575 |
| - on notes | 31.3 | 3,373 | 423 |
| - on trade payables | 31.3 | 87 | 53 |
| - on finance lease liabilities | 31.3 | 12,142 | 16,132 |
| - on factoring arrangements | | 7,400 | 11,823 |
| - on other financial liabilities | 31.3 | - | 125 |
| - discount related to provisions for oil production facilities and for land reclamation, and other provisions | 30.1 | 20,426 | 15,023 |
| - cost of discount on employee benefits obligations | 29.1; 29.3 | 6,354 | 6,138 |
| - other | | 1,561 | 755 |
| Exchange differences: | | 307,020 | 115,489 |
| - on borrowings | 31.3 | 222,455 | (8,142) |
| - on translation of intra-Group borrowings ⁽¹⁾ | 31.3 | 68,284 | 119,223 |
| - on realised foreign-currency transactions in bank accounts | 31.3 | 16,530 | (7,330) |
| - on notes ⁽¹⁾ | 31.3 | 43,698 | 15,767 |
| - on cash | 31.3 | (11,564) | 3,516 |
| - on cash blocked in bank accounts ⁽²⁾ | 31.3 | (37,630) | (15,075) |
| - on investment commitments | 31.3 | 4,675 | 7,563 |
| - on other financial assets and liabilities | 31.3 | (3,062) | (33) |
| - other | | 3,634 | - |
| Revaluation of financial assets, including: | | 197,849 | - |
| - valuation of derivative financial instruments | | 191,271 | - |
| - settlement of derivative financial instruments | | 6,578 | - |
| Bank fees | | 17,287 | 19,349 |
| Other | | 3,323 | 4,545 |
| Total | | 727,982 | 342,304 |

⁽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.

⁽²⁾ This relates to funds held in an escrow account in connection with the agreement on removal of the defective MOPU from the YME field, to which LOTOS Exploration and Production Norge AS is a party; for more information on the agreement, see Note 35.1.

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 expenses charged to profit or loss separately, as presented in the tables above.

10. Income tax

10.1 Tax expense

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|--|-------------|---------------------------|---|
| Current tax | | 69,377 | 81,911 |
| Deferred tax | 10.3 | (726,720) | (180,015) |
| Total income tax charged to net profit or loss | 10.2 | (657,343) | (98,104) |
| Tax expense recognised in other comprehensive income (net), including: | | (112,756) | 22,909 |
| - cash flow hedging | 23 | (111,099) | 22,945 |
| - actuarial gain/(loss) relating to post-employment benefits | | (1,657) | (36) |

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

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 (27% tax rate) and the petroleum tax system (additional tax rate of 51%).

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 taxable income

| PLN '000 | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|---------------------------|---|
| Pre-tax loss | (2,123,715) | (58,676) |
| Income tax at 19% | (403,506) | (11,148) |
| Permanent differences | 3,869 | 5,355 |
| Unrecognised deferred tax asset under tax loss carry-forward | 60,145 | - |
| Tax effect of tax losses incurred in the period | - | 1,418 |
| Tax effect of tax losses deducted in the period | (1,416) | (395) |
| Tax effect of share in profit of equity-accounted entities | 4,648 | 3,445 |
| Tax effect of the bio-component tax credit ⁽¹⁾ | - | (10,935) |
| Adjustments disclosed in current year related to tax for previous years | 454 | 178 |
| Difference resulting from the application of tax rates other than 19%: | (322,100) | (86,528) |
| - Norway | (322,323) | (83,220) |
| - Lithuania | 968 | (1,594) |
| - Cyprus | (746) | (1,713) |
| - Netherlands Antilles | 1 | (1) |
| Other differences | 563 | 506 |
| Income tax expense | (657,343) | (98,104) |

⁽¹⁾ The Group used higher tax credit than was expected based on the preliminary estimates which served as the basis for recognition of the relevant deferred tax assets. 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. In 2014, the Group used the full available tax credit amount and reversed the related deferred tax asset. For more information on the basis and rules for the use of bio-component tax credit, see Note 30.2.

10.3 Deferred income tax

| PLN '000 | Note | Statement of financial position | | Change |
|---|---------------|---------------------------------|---------------------------|----------------|
| | | Dec 31 2014 | Dec 31 2013 (restated) | |
| Deferred tax assets | | 1,488,901 | 924,534 | 564,367 |
| Deferred tax liabilities | | (55,527) | (275,823) | 220,296 |
| Net deferred tax assets/(liabilities) | 10.3.1 | 1,433,374 | 648,711 | 784,663 |
| Exchange differences on translating deferred tax of foreign operations | | | | 65,745 |
| Deferred tax disclosed under other comprehensive income/(loss), net | 10.1 | | | (112,756) |
| Other differences: | | | | (10,932) |
| - uplift ⁽¹⁾ | | | | (6,337) |
| - reclassification to non-current assets held for sale (or disposal groups) | | | | 1,727 |
| - other | | | | (6,322) |
| Deferred tax expense recognised in net profit or loss | 10.1 | | | 726,720 |

⁽¹⁾Tax credit applicable in Norway (uplift). The determined uplift rate is 5.5% pa. The uplift is calculated based on the capitalised investment expenditure (offshore production installation) and is settled against taxable income over a period of four years from the year the expenditure was incurred. Any uplift unused in a given period may be settled in the future until fully used, with no time limit. The amount of LOTOS Production and Exploration Norge AS's unused uplift increased the deferred tax asset under the Group's tax losses carried forward, and had no effect on tax disclosed in the consolidated statement of comprehensive income.

10.3.1 Deferred tax assets and liabilities

| PLN '000 | Dec 31 2013 (restated) | Deferred tax charged to net profit or loss | Deferred tax disclosed under other comprehensive income/(loss) | Exchange differences on translating deferred tax of foreign operations | Other differences | Dec 31 2014 |
|---|---------------------------|---|--|---|----------------------|------------------|
| | <i>Note</i> | | | | | |
| Deferred tax assets | | | | | | |
| Employee benefit obligations | 49,561 | 3,038 | 1,657 | (232) | (1,724) | 52,300 |
| Inventory write-downs | 564 | 85,593 | - | 1 | - | 86,158 |
| Impairment losses on property, plant and equipment and other intangible assets | 115,837 | 17,213 | - | (7,901) | - | 125,149 |
| Impairment losses on assets related to the YME field | 714,882 | (714,882) ⁽¹⁾ | - | - | - | - |
| Negative fair value of derivative financial instruments | 13,734 | 6,182 | - | - | - | 19,916 |
| Exchange differences on revaluation of foreign-currency denominated items | 6,446 | (6,292) | - | 226 | - | 380 |
| Impairment losses on receivables | 16,200 | 1,225 | - | - | - | 17,425 |
| Finance lease liabilities | 28,068 | (3,735) | - | - | - | 24,333 |
| Provisions for decommissioning of oil and gas facilities and land reclamation | 187,827 | 100,157 | - | (12,426) | - | 275,558 |
| Unrealised margin assets | 8,545 | 619 | - | - | - | 9,164 |
| Tax losses carried forward | 1,089,325 | 947,917 ⁽¹⁾ | - | (74,829) | 12,656 | 1,975,069 |
| Other provisions | 9,619 | 1,529 | - | - | - | 11,148 |
| Bio-component tax credit | 4,463 | (4,463) | - | - | - | - |
| Cash flow hedge accounting | - | - | 96,787 | - | - | 96,787 |
| Other | 16,919 | 10,218 | - | (470) | - | 26,667 |
| Total | 2,261,990 | 444,319 | 98,444 | (95,631) | 10,932 | 2,720,054 |
| Deferred tax liabilities | | | | | | |
| Difference between the current tax value and carrying amount of property, plant and equipment and other intangible assets | 1,493,672 | (273,812) | - | (30,900) | - | 1,188,960 |
| Positive fair value of derivative financial instruments | 140 | (140) | - | - | - | - |
| Tax liabilities associated with the acquired exploration and production licences in Lithuania | 49,522 | (20,905) | - | 1,010 | - | 29,627 |
| Cash flow hedge accounting | 14,312 | - | (14,312) | - | - | - |
| Accrued interest | 43,966 | 12,937 | - | 2 | - | 56,905 |
| Other | 11,667 | (481) | - | 2 | - | 11,188 |
| Total | 1,613,279 | (282,401) | (14,312) | (29,886) | - | 1,286,680 |
| Net deferred tax assets/(liabilities) | 648,711 | 726,720 | 112,756 | (65,745) | 10,932 | 1,433,374 |

⁽¹⁾ In connection with the recognition in 2014 of impairment losses on all capital expenditure on the YME development project (see Note 13.1.2) and in relation to cease of tax depreciation of those assets in accordance with Norwegian tax regulations all deferred tax assets related to the impairment losses on capital expenditure on the YME project were transferred to tax losses carried forward.

Taxable temporary differences are expected to expire in 2015–2083.

As at December 31st 2014, the amount of unrecognised deferred tax assets under losses carried forward was PLN 63,025 thousand (December 31st 2013: PLN 6,452 thousand).

11. Earnings/(loss) per share

| | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|---------------------------|---|
| Net profit/(loss) attributable to owners of the Parent (PLN '000) (A) | (1,466,326) | 39,415 |
| Weighted average number of shares ('000) (B) | 145,027 | 142,717 |
| Earnings/(loss) per share (PLN) (A/B) | (10.11) | 0.28 |

Earnings/(loss) per share for each reporting period are calculated by dividing net profit/(loss) for the reporting period by the weighted average number of shares in the reporting period. The weighted average number of shares as at December 12th 2014 includes the new Series D shares in Grupa LOTOS S.A. (see Note 21).

Following the issue of pre-emptive rights to Series D shares and allotment of shares offered in the exercise of pre-emptive rights, in accordance with IAS 33 Earnings per share, the Company calculated earnings per share including the result of the issue of pre-emptive rights (bonus issue at a price of 18.10 PLN per share as compared to the Company's share price of 25.95 PLN at that time), with a retrospective application to comparative data for 2013.

Diluted earnings/(loss) per share are equal to basic earnings/(loss) per share as the Company carries no instruments with a dilutive effect.

12. Dividends

As at December 31st 2014 and December 31st 2013, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends. The restrictions followed 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.

On June 30th 2014, the General Meeting of Grupa LOTOS S.A. passed a resolution on coverage of the Company's net loss for 2013. In accordance with the resolution, the net loss for 2013 of PLN 14,774 thousand was covered from the Company's statutory reserve funds.

As at the date of issue of these consolidated financial statements, the Company's Management Board has not passed a resolution on coverage of the net loss for 2014.

13. Property, plant and equipment

| PLN '000 | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|---|------------------|---------------------------|--------------------------|
| <i>Property, plant and equipment related to exploration for, development and production of crude oil and natural gas resources</i> | | | |
| Property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources | 44,769 | 182,681 | 134,677 |
| Property, plant and equipment related to development of crude oil and natural gas resources | 522,350 | 681,596 | 713,178 |
| Property, plant and equipment related to production of crude oil and natural gas resources | 600,390 | 879,500 | 351,610 |
| Total | 1,167,509 | 1,743,777 | 1,199,465 |
| <i>Refinery and other property, plant and equipment</i> | | | |
| Land | 475,666 | 456,390 | 428,922 |
| Buildings, structures | 3,151,731 | 3,241,992 | 3,304,305 |
| Plant and equipment | 3,851,578 | 4,000,393 | 4,090,413 |
| Vehicles, other | 569,425 | 309,646 | 341,284 |
| Property, plant and equipment under construction | 269,745 | 256,875 | 280,211 |
| Total | 8,318,145 | 8,265,296 | 8,445,135 |
| Total | 9,485,654 | 10,009,073 | 9,644,600 |

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13.1 Property, plant and equipment related to exploration for, evaluation, development and production of crude oil and natural gas resources

| PLN '000 | Note | Property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources | | | Property, plant and equipment related to development of crude oil and natural gas resources | | | Property, plant and equipment related to production of crude oil and natural gas | | | | Total |
|--|--------|--|-------------------------|----------------|---|------------------|------------------|--|----------------|------------------------|------------------|------------------|
| | | Poland | Lithuania | Total | Poland | Norway | Total | Poland | Norway | Lithuania | Total | |
| Gross carrying amount Jan 1 2014 (restated) | | 224,532 | 617 | 225,149 | 196,741 | 1,572,207 | 1,768,948 | 527,959 | 563,107 | 112,881 | 1,203,947 | 3,198,044 |
| <i>Purchase</i> | | 70,756 | 10,061 | 80,817 | 209,388 | 349 | 209,737 | 5,751 | 6,385 | 14,902 | 27,038 | 317,592 |
| <i>Exchange differences on translating foreign operations</i> | | - | 7 | 7 | - | (71,001) | (71,001) | - | (27,286) | 3,473 | (23,813) | (94,807) |
| <i>Recognition of assets related to future costs of decommissioning of crude oil and natural gas production facilities</i> | 13.1.4 | - | - | - | 642 | - | 642 | - | - | 1,074 | 1,074 | 1,716 |
| <i>Estimated cost related to decommissioning of oil and gas extraction facilities</i> | 13.1.4 | - | - | - | - | 27,743 | 27,743 | (36,396) | 33,455 | (844) | (3,785) | 23,958 |
| <i>Reclassification of oil and gas exploration and evaluation assets to production assets⁽¹⁾</i> | | (176,425) ⁽²⁾ | (10,685) ⁽³⁾ | (187,110) | 176,425 ⁽²⁾ | - | 176,425 | - | - | 10,685 ⁽³⁾ | 10,685 | - |
| <i>Expenditure written off due to project discontinuation</i> | | (33,097) ⁽⁴⁾ | - | (33,097) | - | - | - | - | - | (5,772) ⁽⁵⁾ | (5,772) | (38,869) |
| <i>Sale</i> | | - | - | - | - | (2,504) | (2,504) | - | - | (75) | (75) | (2,579) |
| <i>Other</i> | | 6,164 | - | 6,164 | (5,150) | 8,291 | 3,141 | (195) | 7,190 | (219) | 6,776 | 16,081 |
| Gross carrying amount Dec 31 2014 | | 91,930 | - | 91,930 | 578,046 | 1,535,085 | 2,113,131 | 497,119 | 582,851 | 136,105 | 1,216,075 | 3,421,136 |
| Accumulated depreciation Jan 1 2014 (restated) | | - | - | - | 52,007 | - | 52,007 | 284,532 | - | 33,532 | 318,064 | 370,071 |
| <i>Depreciation</i> | | - | - | - | 3,579 | - | 3,579 | 28,505 | 210,962 | 16,208 | 255,675 | 259,254 |
| <i>Exchange differences on translating foreign operations</i> | | - | - | - | - | - | - | - | (11,221) | 1,210 | (10,011) | (10,011) |
| <i>Sale</i> | | - | - | - | - | - | - | - | - | (75) | (75) | (75) |
| <i>Other</i> | | - | - | - | 110 | - | 110 | (684) | - | (2) | (686) | (576) |
| Accumulated depreciation Dec 31 2014 | | - | - | - | 55,696 | - | 55,696 | 312,353 | 199,741 | 50,873 | 562,967 | 618,663 |
| Impairment losses Jan 1 2014 (restated) | | 42,468 | - | 42,468 | - | 1,035,345 | 1,035,345 | - | - | 6,383 | 6,383 | 1,084,196 |
| <i>Recognised</i> | | 31,853 | - | 31,853 | - | 578,447 | 578,447 | - | 45,854 | 2,708 | 48,562 | 658,862 |
| <i>Exchange differences on translating foreign operations</i> | | - | - | - | - | (76,203) | (76,203) | - | (2,439) | 224 | (2,215) | (78,418) |
| <i>Used/Reversed</i> | | (27,160) | - | (27,160) | - | (2,504) | (2,504) | - | - | (12) | (12) | (29,676) |
| Impairment losses Dec 31 2014 | | 47,161 | - | 47,161 | - | 1,535,085 | 1,535,085 | - | 43,415 | 9,303 | 52,718 | 1,634,964 |
| Net carrying amount Dec 31 2014 | | 44,769 | - | 44,769 | 522,350 | - | 522,350 | 184,766 | 339,695 | 75,929 | 600,390 | 1,167,509 |

⁽¹⁾ Exploration and evaluation assets relating to mineral resources with demonstrable technical feasibility and commercial viability of extraction.

⁽²⁾ B-8 field.

⁽³⁾ Ablinga field and a well in Zvaginai formation.

⁽⁴⁾ Decommissioning of the B-28 well and exploration and evaluation assets related to the Sambia W field.

⁽⁵⁾ Decommissioning of a well in Zvaginai formation.

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| PLN '000 | Note | Property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources | | | Property, plant and equipment related to development of crude oil and natural gas resources | | | Property, plant and equipment related to production of crude oil and natural gas | | | | Total |
|---|--------|--|------------|----------------|---|------------------|------------------|--|----------------|----------------|------------------|------------------|
| | | Poland | Lithuania | Total | Poland | Norway | Total | Poland | Norway | Lithuania | Total | |
| Gross carrying amount Jan 1 2013 (restated) | | 198,975 | - | 198,975 | 171,141 | 1,768,634 | 1,939,775 | 530,870 | - | 86,589 | 617,459 | 2,756,209 |
| <i>Purchase</i> | | 75,838 | 627 | 76,465 | 26,956 | 11,530 | 38,486 | 13,408 | 6,804 | 25,000 | 45,212 | 160,163 |
| <i>Acquisition of Heimdal assets ⁽¹⁾</i> | | - | - | - | - | - | - | - | 336,769 | - | 336,769 | 336,769 |
| <i>Exchange differences on translating foreign operations</i> | | - | (10) | (10) | - | (190,679) | (190,679) | - | (46,175) | 865 | (45,310) | (235,999) |
| <i>Estimated cost related to decommissioning of oil and gas extraction facilities</i> | 13.1.4 | - | - | - | (1,356) | 11,995 | 10,639 | (48) | 265,709 | 717 | 266,378 | 277,017 |
| <i>Contribution of B-4 and B-6 field development assets to Baltic Gas Sp. z o.o. i wspólnicy sp.k. ⁽²⁾</i> | | (48,287) | - | (48,287) | - | - | - | - | - | - | - | (48,287) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale ⁽³⁾</i> | | - | - | - | - | (29,273) | (29,273) | - | - | - | - | (29,273) |
| <i>Sale</i> | | - | - | - | - | - | - | (214) | - | - | (214) | (214) |
| <i>Decommissioning</i> | | - | - | - | - | - | - | (19) | - | (27) | (46) | (46) |
| <i>Other</i> | | (1,994) | - | (1,994) | - | - | - | (16,038) | - | (263) | (16,301) | (18,295) |
| Gross carrying amount Dec 31 2013 (restated) | | 224,532 | 617 | 225,149 | 196,741 | 1,572,207 | 1,768,948 | 527,959 | 563,107 | 112,881 | 1,203,947 | 3,198,044 |
| Accumulated depreciation Jan 1 2013 (restated) | | - | - | - | 47,323 | - | 47,323 | 241,677 | - | 17,880 | 259,557 | 306,880 |
| <i>Depreciation</i> | | - | - | - | 4,684 | - | 4,684 | 43,009 | - | 15,774 | 58,783 | 63,467 |
| <i>Exchange differences on translating foreign operations</i> | | - | - | - | - | - | - | - | - | (15) | (15) | (15) |
| <i>Sale</i> | | - | - | - | - | - | - | (139) | - | - | (139) | (139) |
| <i>Decommissioning</i> | | - | - | - | - | - | - | (15) | - | - | (15) | (15) |
| <i>Other</i> | | - | - | - | - | - | - | - | - | (107) | (107) | (107) |
| Accumulated depreciation Dec 31 2013 (restated) | | - | - | - | 52,007 | - | 52,007 | 284,532 | - | 33,532 | 318,064 | 370,071 |
| Impairment losses Jan 1 2013 (restated) | | 64,298 | - | 64,298 | - | 1,179,274 | 1,179,274 | - | - | 6,292 | 6,292 | 1,249,864 |
| <i>Recognised</i> | | 26,842 | - | 26,842 | - | 1,794 | 1,794 | - | - | - | - | 28,636 |
| <i>Exchange differences on translating foreign operations</i> | | - | - | - | - | (125,868) | (125,868) | - | - | 91 | 91 | (125,777) |
| <i>Used / Reversed</i> | | (48,672) | - | (48,672) | - | - | - | - | - | - | - | (48,672) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale ⁽³⁾</i> | | - | - | - | - | (19,855) | (19,855) | - | - | - | - | (19,855) |
| Impairment losses Dec 31 2013 (restated) | | 42,468 | - | 42,468 | - | 1,035,345 | 1,035,345 | - | - | 6,383 | 6,383 | 1,084,196 |
| Net carrying amount Dec 31 2013 (restated) | | 182,064 | 617 | 182,681 | 144,734 | 536,862 | 681,596 | 243,427 | 563,107 | 72,966 | 879,500 | 1,743,777 |

⁽¹⁾Acquisition of the Heimdal area assets in Norway (see Note 13 to the consolidated financial statements for 2013).

⁽²⁾Joint venture operated jointly with CalEnergy Resources Poland Sp. z o.o., related to development of the B-4 and B-6 gas fields (see Note 2 to the consolidated financial statements for 2013).

⁽³⁾YME field assets.

13.1.1 Property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources

The Group's expenditure on property, plant and equipment related to exploration for and evaluation of mineral resources amounted to PLN 80,817 thousand in 2014 (2013: PLN 76,465 thousand). Cash flows associated with that expenditure amounted to PLN 74,822 thousand (2013: PLN 75,318 thousand), whereas the amount of outstanding investment commitments was PLN 8,110 thousand as at December 31st 2014 (December 31st 2013: PLN 2,115 thousand).

Property, plant and equipment are carried as exploration and evaluation property, plant and equipment until the technical feasibility and commercial viability of extracting the discovered mineral resources are demonstrated.

Poland

As at December 31st 2014, property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources included mostly expenditure incurred on the B-21, B-23, B-27 and B-28 fields in the Baltic Sea.

The Group also holds interests in a joint venture operated in the form of a special purpose vehicle under the name of Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. ("Baltic Gas", see Note 2 to the consolidated financial statements for 2013). The venture is operated by the Group jointly with CalEnergy Resources Poland Sp. z o.o. as part of further activities related to the B-4 and B-6 gas condensate formations in the Baltic Sea.

In 2014, expenditure incurred by the Group on the B-21, B-27 and B-28 fields reached PLN 70,756 thousand. The expenditure made in 2013, of PLN 75,838 thousand, related mainly to the B-8 and B-28 fields.

Given a very low volume of potential recoverable reserves, in 2014 the Group decided to recognise an impairment loss of PLN 29,914 thousand on the expenditure incurred in 2014 on the B-27 well (see Note 9.4) and an impairment loss of PLN 1,939 thousand on the expenditure incurred on the B-28 well and formation. The total amount of impairment losses was PLN 31,853 thousand (see Note 9.4).

The Group also decided to plug and abandon the well in the B-28 field. It used previously recognised impairment losses of PLN 27,160 thousand to write off the discontinued projects, and thus the write-off did not affect the Group's consolidated net profit or loss for 2014.

Moreover, as the Group decided to discontinue further investments in the Sambia W block and its mining usage rights to the block expired, as at December 31st 2014 the Group wrote off its expenditure on hydrocarbon exploration and evaluation in the area of PLN 5,937 thousand (see Note 9.4).

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 (see Note 9.3).

Following a decision made in 2013 to continue operations in the B-4 and B-6 fields, in the first half of 2013 LOTOS Petrobaltic S.A. reversed a PLN 48,273 thousand impairment loss on assets related to the fields (see Note 9.3), and contributed these assets to special purpose vehicle Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k, its joint venture with CalEnergy Resources Poland Sp. z o.o., set up for the purpose of further development of the B-4 and B-6 fields (see Note 2 to the consolidated financial statements for 2013). Impairment losses were recognised for the full amount of expenditure on gas exploration conducted on the B-4 and B-6 fields, incurred in previous years by LOTOS Petrobaltic S.A.

Lithuania

In 2014, the Group incurred expenditure on property, plant and equipment related to exploration for and evaluation of crude oil and natural gas resources in Lithuania in the amount of PLN 10,061 thousand (in 2013: PLN 637 thousand). The expenditure in 2014 related chiefly to the Ablinga field and the well in the Zvaginai formation.

13.1.2 Property, plant and equipment related to development of crude oil and natural gas resources

Poland

B-8 field

The Group's crude oil and natural gas development assets include expenditure incurred on the B-8 field, which is located in the Baltic Sea, about 70 km north of Jastarnia (in the vicinity of the B-3 field).

Given that the Group made a decision that development of the B-8 field would be conducted on a project finance basis, in December 2013 a separate special purpose vehicle named B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna ("SPV B-8") was established within the Group. In 2014, LOTOS Petrobaltic S.A. contributed to SPV B-8 mining usage rights, the right to use geological data, and the property, plant and equipment related to the project, including the Petrobaltic drilling platform. B-8 SPV will carry out further work related to development of the field, including preparation of subsea installations and other tasks necessary to make the site ready for production. In August 2014, SPV B-8, Polskie Inwestycje Rozwojowe S.A., Bank Gospodarstwa Krajowego and Bank Pekao S.A. entered into agreements on financing of the B-8 project through a note issue programme (see Note 2 to the consolidated financial statements for 2013 and Note 27 to the interim condensed consolidated financial statements for the three and nine months ended September 30th 2014). As at December 31st 2014, the financing had not yet been made available (see Note 27.3).

In 2014, the Group's expenditure on development of the B-8 field amounted to PLN 209,388 thousand, and related mainly to the drilling of production wells and water injectors, as well as conversion of the Petrobaltic platform. The expenditure incurred in 2013 was spent on conversion of the platform and construction of the pipeline infrastructure, and amounted to PLN 26,956 thousand.

Norway

YME field

The Group holds a 20% interest in two licences covering the YME field, which is situated 120 km to the south-west off the Norwegian coast (Egersund), in the southern part of the North Sea. The Group has not yet commenced production from the YME field due to technical defects in the mobile operating and production unit (MOPU).

As at December 31st 2014, property, plant and equipment associated with development of the YME field included expenditure of PLN 1,551m (NOK 3,275m) incurred by LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS"), a LOTOS Petrobaltic Group company, on acquisition of interests in production licences and on development of the field.

In the first half of 2014 and in previous periods due to significant delays in the implementation of the project, cost overruns, and defects of the MOPU that had been intended to be used to produce hydrocarbons from the YME field, the Group tested the YME assets for impairment, which resulted in impairment losses being recognised on those assets. More details on the impairment tests performed in the previous years and the resulting impairment losses recognised on the YME assets are included in the Group's financial statements for 2013 (see Note 13) and 2012 (see Note 13).

As discussed in Note 35.1 of these financial statements, in March 2013 Talisman Energy Norge AS, the YME field operator ("Talisman", "Operator") and Single Buoy Moorings Inc. ("SBM"), supplier of the MOPU which was to be used to conduct production from the YME field, 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 project.

As the decision-making process concerning the choice of the YME field development concept protracts (the decision was originally expected at the end of Q1 2014) and no development scenario has been selected by the YME consortium partners, the Group decided to re-analyse the development prospects for its YME assets and, consequently, recognise further impairment loss reducing the carrying amount of its YME assets to zero. The analysis accounted for the following facts:

- continued uncertainty and risks resulting from the protracted process of selecting Plans for Development and Operation of the YME field, originally expected to be completed by the end of Q1 2014,
- lack of decision as to the YME field development scenario,
- absence of an approved version of the budget for further YME field development,
- delay of the estimated production launch at the YME field.

Considering the above circumstances, on June 30th 2014 an impairment loss was recognised in relation to all capital expenditure on the YME project. This means that impairment losses presented in these consolidated financial statements, taking into account the effect of currency exchange, are PLN 1,551m (NOK 3,275m). Impairment losses on the expenditure associated with the YME project include impairment recognised in respect of the decommissioning asset increase after the Operator provided an updated estimate of the cost of decommissioning of the YME field production infrastructure, which resulted in a concurrent increase in decommissioning asset charged to other expenses in the consolidated statement of comprehensive income of PLN 28m (NOK 55m). Accordingly, operating loss on the impairment of the YME field assets, including the remeasurement of the estimated provision for future decommissioning costs, recognised in the statement of comprehensive income for 2014 was PLN 578m (NOK 1,157m), whereas the effect on net profit (after accounting for the deferred tax effect) was PLN 196m (NOK 392m).

The impairment loss on the YME project disclosed in these consolidated financial statements has no effect on the future ability to develop other LOTOS E&P Norge AS assets related to other production and exploration licences.

Given the nature of the Joint Operating Agreement between the YME project partners and the guarantees issued by LOTOS Petrobaltic S.A. for the benefit of the Norwegian government with respect to LOTOS E&P Norge AS's exploration and production activities on the Norwegian Continental Shelf, the impairment loss does not preclude further capital expenditure on the YME field or the necessity to revalue the expected decommissioning costs, in particular once the YME field development concept is selected or decision is made to abandon the field and the Norwegian government approves a revised Plan for Development and Operation or abandonment decision.

As at December 31st 2014, there was no unanimous decision of the YME consortium members as to further steps to be taken in relation to the field. Pursuant to a decision of a majority of the consortium members, a plan of complete decommissioning of the YME field infrastructure is currently being developed, which will then serve as the basis for further decisions regarding the YME project. It has been preliminarily assumed that the YME decommissioning process will be completed by 2019.

In the opinion of LOTOS E&P Norge AS, the amount of the provision for decommissioning of the infrastructure associated with the YME field (see Note 30.1) reflects the necessary commitment by LOTOS E&P Norge AS if the scenario of earlier complete decommissioning materialises by 2019. This is a consequence of the phase (currently under way) of preparation of the YME field infrastructure decommissioning plan, adopted by the consortium with the votes of the majority of its members and reflected in the project budget to be approved for 2015, taking into account a reduction in the decommissioning cost estimate for 2016-2019 in connection with a drop in the market cost of such services in Norway following the decline in market prices of hydrocarbons. At the same time, LOTOS E&P Norge AS has been involved in a number of steps to abandon the early decommissioning scenario and redevelop the field using a production platform operating in a different field.

Furthermore, work related to removal of the defective MOPU from the YME field, for which the partners obtained financing under an agreement with SBM, is still under way. The scheduled removal date of the MOPU remains unchanged (July 2015), while the amount of expected costs of the operation (most of which have been already contracted) has been properly reflected in these financial statements by updating relevant provisions in accordance with the best current knowledge of the Company's Management Board as at the date of these statements (see Note 30.1).

Taking into account the recognised impairment losses on the YME expenditure and the incurred tax losses that may be carried forward, in the consolidated statement of financial position as at December 31st 2014 the Group recognised a deferred tax asset. The total amount of the tax asset related to the Group's operations in Norway was PLN 1,307m (NOK 2,759m) as at December 31st 2014. Given 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 from which the Group derives revenue, the Management Board believes that the deferred tax asset recognised as at December 31st 2014 is fully realisable at the amount disclosed in these consolidated financial statements. The effect of impairment losses recognised in 2014 on the YME field assets has been presented in Note 10.3.1.

13.1.3 Property, plant and equipment related to production of crude oil and natural gas resources

Poland

Offshore oil and gas production facility in the B-3 field

Property, plant and equipment related to crude oil and natural gas production in Poland comprises the assets of the offshore production facility in the B-3 field, located in the Baltic Sea area, approximately 70 km north off Cape Rozewie.

LOTOS Petrobaltic S.A.'s production infrastructure in the B-3 field includes the Baltic Beta production platform, the PG-1 unmanned riser platform, as well as subsea installations of the B3-6 and B3-9 nodes. This infrastructure supports the operation of more than ten production and injection wells, as well as separator facilities.

Crude oil produced from the field (Rozewie crude) is transported via subsea pipelines to a tanker or carrier vessel and sold entirely to the Company. Natural gas extracted together with crude oil is transported via a pipeline to an onshore CHP plant in Władysławowo operated by Energobaltic Sp. z o.o. (a company of the LOTOS Petrobaltic Group).

In 2014, capital expenditure on the offshore oil production facility in the B-3 field amounted to PLN 5,751 thousand and was incurred mainly on classification surveys of the PG-1 and Baltic Beta platforms. Capital expenditure on property, plant and equipment related to crude oil and natural gas production incurred by the Group in 2013, totalling PLN 13,408 thousand, related mainly to a classification survey of the Baltic Beta platform. In addition, in 2013 the Group made an adjustment to capital expenditure incurred on the work to unearth the legs of the Baltic Beta platform of PLN 16,038 thousand considering the pending dispute with the contractor, AGR Subsea Ltd ("AGR", see Note 35.1), and reversal of the related liability recognised in the previous reporting periods, as the risk of unfavourable resolution of the dispute in court is negligible.

Norway

Heimdal offshore gas and condensate production facility

Skirne/Byggve, Atla and Vale fields

The upstream operations in Norway are carried out by LOTOS Production and Exploration Norge (LOTOS E&P Norge AS, a company of the LOTOS Petrobaltic Group) on the Norwegian Continental Shelf.

The Group's key production assets located in the area include interests in gas-condensate fields: Skirne/Byggve (30%), Alta (20%) and Vale (25.75%), acquired together with an interest (5%) in the Heimdal gas and condensate processing and export hub as part of a portfolio comprising a total of 14 licences in the central part of the North Sea (see Note 13 to the consolidated financial statements for 2013).

The entire volume of gas and condensate produced by the Group from these fields is sold to external customers via a pipeline network delivering the products to various offtake points in the UK and continental Europe.

The production infrastructure of the Heimdal offshore facility comprises the Heimdal production platform with ancillary infrastructure (the Heimdal gas and condensate processing and export hub) and subsea production wells.

As at December 31st 2014, the Group tested the assets for impairment and determined their recoverable amount as their value in use measured using the discounted future cash flows method.

Key assumptions underlying computation of the recoverable amount of the tested property, plant and equipment:

- 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 of capital, and was calculated at 7.5% after taxation with the 78% marginal tax rate (applicable in Norway),
- production and sales volumes, capital expenditure, operating expenses and field decommissioning costs were assumed as projected by the field operators,

The following price assumptions were adopted for the purposes of the estimates:

- for crude oil in USD/bbl (per barrel):

- 2015–2018 – prices in line with the price assumptions for the available market scenarios,
- 2019 and beyond – prices remaining stable in the long term on par with the 2018 level, adjusted for inflation.

- for natural gas in p/th (pence/thermal units):

- 2015–2020 – prices in line with the price assumptions for the available market scenarios, and in 2021 and beyond – prices remaining stable in the long term on par with the 2020 level, adjusted for inflation;

Due to significant market volatility, in particular with respect to oil and gas prices, the adopted assumptions might be subject to justifiable changes, and such changes may in the future cause a change of the carrying amounts of assets held by LOTOS E&P Norge. 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 oil and gas price, -15%/+15% change in production volumes, and -15%/+15% change in the USD/NOK exchange rate.

Following the impairment tests, an impairment loss was recognised on the property, plant and equipment related to hydrocarbon production (Heimdal, Vale, Skirne, Alta) in a total amount of PLN 45,854 thousand (NOK 91,690 thousand); see Note 9.4.

Following the impairment tests, an impairment loss of PLN 13,823 thousand (NOK 27,640 thousand) was also recognised on the Heimdal portfolio's intangible assets related to exploration for and evaluation of hydrocarbon resources in the Rind field; see Note 15.1.1 and Note 9.4.

Lithuania

Onshore oil production facilities

The upstream operations in Lithuania are carried out by the AB LOTOS Geonafra Group, which comprises AB LOTOS Geonafra, UAB Genciu Nafta and UAB Manifoldas. The Group also holds interests in UAB Minijos Nafta, a joint venture.

Property, plant and equipment related to Lithuanian production operations include onshore production facilities of the AB LOTOS Geonafra Group companies, which comprise surface and underground infrastructure such as production wells, pumps, pipelines, crude oil and formation water tanks and a gas separation system. The production wells are fitted with surface and downhole pumps. Oil from the production facility is fed to a pipeline system connected to a storage centre, from where it is shipped by land to a marine terminal in Liepāja (Latvia). The oil is then transported to Gdańsk on a tanker ship and sold to the Company.

In 2014, the Group's capital expenditure on property, plant and equipment related to Lithuanian production infrastructure was PLN 14,902 thousand (LTL 12,282 thousand), compared with PLN 25,000 thousand (LTL 20,499 thousand) in 2013.

Based on the results of an impairment test of the Lithuanian onshore production facilities performed as at December 31st 2014, the Group recognised an impairment loss of PLN 2,708 thousand (LTL 2,232 thousand) on production infrastructure associated with the Ablinga field (see Note 9.4.) The method and assumptions used to determine the recoverable amounts of the assets were consistent with those applied to determine the recoverable amounts of the Lithuanian production licences, tested as at December 31st 2014 (see Note 15.1.2.).

In addition, in 2014 the Group wrote off expenditure on property, plant and equipment related to the Zvaginai well of PLN 5,772 thousand (LTL 4,757 thousand) (see Note 9.4.).

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13.1.4 Assets related to future costs of decommissioning of crude oil and natural gas production facilities

| PLN '000 | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|--|----------------|---------------------------|--------------------------|
| Assets related to development of crude oil and natural gas resources | 24,573 | 132,125 | 134,134 |
| Assets related to production of crude oil and natural gas resources | 178,162 | 288,746 | 53,571 |
| Total | 202,735 | 420,871 | 187,705 |

As part of its production assets related to production and development of oil and gas resources, the Group discloses decommissioning assets for future costs of decommissioning of oil and gas production facilities depreciated with the units-of-production method. These assets are recognised along with the recognition and remeasurement of provisions for decommissioning of oil and gas extraction facilities.

| PLN '000 | Note | Assets related to development of crude oil and natural gas resources | | | Assets related to production of crude oil and natural gas resources | | | | Total |
|---|------------|--|----------------|----------------|---|----------------|--------------|----------------|----------------|
| | | Poland | Norway | Total | Poland | Norway | Lithuania | Total | |
| Gross carrying amount Jan 1 2014 (restated) | | 27,929 | 108,194 | 136,123 | 108,954 | 245,671 | 2,224 | 356,849 | 492,972 |
| <i>Recognised</i> | 13.1; 30.1 | 642 | - | 642 | - | - | 1,074 | 1,074 | 1,716 |
| <i>Estimated cost related to decommissioning of oil and gas extraction facilities</i> | 13.1; 30.1 | - | 27,743 | 27,743 | (36,396) | 33,455 | (844) | (3,785) | 23,958 |
| <i>Exchange differences on translating foreign operations</i> | | - | (6,238) | (6,238) | - | (12,592) | 62 | (12,530) | (18,768) |
| <i>Other</i> | | - | - | - | - | - | (218) | (218) | (218) |
| Gross carrying amount Dec 31 2014 | | 28,571 | 129,699 | 158,270 | 72,558 | 266,534 | 2,298 | 341,390 | 499,660 |
| Accumulated amortisation/depreciation Jan 1 2014 (restated) | | 3,998 | - | 3,998 | 67,378 | - | 725 | 68,103 | 72,101 |
| <i>Amortisation and depreciation</i> | | - | - | - | 4,839 | 95,129 | 194 | 100,162 | 100,162 |
| <i>Exchange differences on translating foreign operations</i> | | - | - | - | - | (5,060) | 23 | (5,037) | (5,037) |
| Accumulated amortisation/depreciation Dec 31 2014 | | 3,998 | - | 3,998 | 72,217 | 90,069 | 942 | 163,228 | 167,226 |
| Impairment losses Jan 1 2014 | | - | - | - | - | - | - | - | - |
| <i>Recognised</i> | | - | 136,985 | 136,985 | - | - | - | - | 136,985 |
| <i>Exchange differences on translating foreign operations</i> | | - | (7,286) | (7,286) | - | - | - | - | (7,286) |
| <i>Used/Reversed</i> | | - | - | - | - | - | - | - | - |
| Impairment losses Dec 31 2014 | | - | 129,699 | 129,699 | - | - | - | - | 129,699 |
| Net carrying amount Dec 31 2014 | | 24,573 | - | 24,573 | 341 | 176,465 | 1,356 | 178,162 | 202,735 |

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| PLN '000 | Note | Assets related to development of crude oil and natural gas resources | | | Assets related to production of crude oil and natural gas resources | | | | Total |
|---|-------------------|--|----------------|----------------|--|----------------|--------------|----------------|----------------|
| | | Poland | Norway | Total | Poland | Norway | Lithuania | Total | |
| Gross carrying amount Jan 1 2013 (restated) | | 29,285 | 108,847 | 138,132 | 109,002 | - | 1,789 | 110,791 | 248,923 |
| <i>Acquisition of Heimdal assets</i> | <i>13.1; 30.1</i> | - | - | - | - | 265,709 | - | 265,709 | 265,709 |
| <i>Estimated cost related to decommissioning of oil and gas extraction facilities</i> | <i>13.1; 30.1</i> | (1,356) | 11,995 | 10,639 | (48) | - | 717 | 669 | 11,308 |
| <i>Exchange differences on translating foreign operations</i> | | - | (12,648) | (12,648) | - | (20,038) | 20 | (20,018) | (32,666) |
| <i>Other</i> | | - | - | - | - | - | (302) | (302) | (302) |
| Gross carrying amount Dec 31 2013 (restated) | | 27,929 | 108,194 | 136,123 | 108,954 | 245,671 | 2,224 | 356,849 | 492,972 |
| Accumulated amortisation/depreciation Jan 1 2013 (restated) | | 3,998 | - | 3,998 | 56,491 | - | 729 | 57,220 | 61,218 |
| <i>Amortisation and depreciation</i> | | - | - | - | 10,887 | - | - | 10,887 | 10,887 |
| <i>Exchange differences on translating foreign operations</i> | | - | - | - | - | - | 27 | 27 | 27 |
| <i>Other</i> | | - | - | - | - | - | (31) | (31) | (31) |
| Accumulated amortisation/depreciation Dec 31 2013 (restated) | | 3,998 | - | 3,998 | 67,378 | - | 725 | 68,103 | 72,101 |
| Impairment losses Jan 1 2013 | | - | - | - | - | - | - | - | - |
| <i>Recognised</i> | | - | - | - | - | - | - | - | - |
| <i>Used/Reversed</i> | | - | - | - | - | - | - | - | - |
| Impairment losses Dec 31 2013 | | - | - | - | - | - | - | - | - |
| Net carrying amount Dec 31 2013 | | 23,931 | 108,194 | 132,125 | 41,576 | 245,671 | 1,499 | 288,746 | 420,871 |

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13.2 Refinery and other property, plant and equipment

| | Land | Buildings, structures | Plant and equipment | Vehicles, other | Property, plant and equipment under construction | Total |
|---|----------------|-----------------------|---------------------|------------------|--|-------------------|
| PLN '000 | | | | | | |
| Gross carrying amount Jan 1 2014 (restated) | 472,934 | 4,392,014 | 5,532,666 | 699,067 | 279,532 | 11,376,213 |
| <i>Purchase</i> | - | 47 | 1,202 | 20,029 | 600,442 | 621,720 |
| <i>Transfer from property, plant and equipment under construction</i> | 23,039 | 107,813 | 101,346 | 323,335 | (577,323) | (21,790) |
| <i>Borrowing costs</i> | - | - | - | - | 2,803 | 2,803 |
| <i>Exchange differences on translating foreign operations</i> | - | 50 | 1,131 | 21,010 | (255) | 21,936 |
| <i>Estimated cost of decommissioning, land reclamation and clean-up⁽¹⁾</i> | - | (762) | - | - | - | (762) |
| <i>Reclassification to non-current assets (or disposal group) held for sale⁽²⁾</i> | (764) | (6,771) | (6,010) | (27,639) | - | (41,184) |
| <i>Sale</i> | (1,881) | (1,362) | (12,890) | (2,279) | (4,050) | (22,462) |
| <i>Decommissioning</i> | - | (1,782) | (11,985) | (6,964) | - | (20,731) |
| <i>Expenditure written off due to project discontinuation</i> | - | - | - | - | (255) | (255) |
| <i>Other</i> | 167 | (590) | 1,878 | (6,495) | (8,515) | (13,555) |
| Gross carrying amount Dec 31 2014 | 493,495 | 4,488,657 | 5,607,338 | 1,020,064 | 292,379 | 11,901,933 |
| Accumulated depreciation Jan 1 2014 (restated) | 15,499 | 1,134,001 | 1,531,793 | 387,626 | - | 3,068,919 |
| <i>Depreciation</i> | 1,530 | 171,185 | 243,783 | 76,004 | - | 492,502 |
| <i>Exchange differences on translating foreign operations</i> | - | 8 | 810 | 16,515 | - | 17,333 |
| <i>Reclassification to non-current assets (or disposal group) held for sale⁽²⁾</i> | (24) | (2,601) | (4,278) | (23,614) | - | (30,517) |
| <i>Sale</i> | (121) | (583) | (12,541) | (2,077) | - | (15,322) |
| <i>Decommissioning</i> | - | (1,630) | (10,529) | (6,471) | - | (18,630) |
| <i>Other</i> | (122) | (920) | 1,246 | (305) | - | (101) |
| Accumulated depreciation Dec 31 2014 | 16,762 | 1,299,460 | 1,750,284 | 447,678 | - | 3,514,184 |
| Impairment losses Jan 1 2014 (restated) | 1,045 | 16,021 | 480 | 1,795 | 22,657 | 41,998 |
| <i>Recognised</i> | 150 | 24,918 | 6,014 | 1,565 | 5 | 32,652 |
| <i>Exchange differences on translating foreign operations</i> | - | - | - | - | - | - |
| <i>Used/Reversed</i> | (13) | (1,968) | (1,015) | (36) | (28) | (3,060) |
| <i>Reclassification to non-current assets (or disposal group) held for sale⁽²⁾</i> | (115) | (1,505) | (3) | (363) | - | (1,986) |
| Impairment losses Dec 31 2014 | 1,067 | 37,466 | 5,476 | 2,961 | 22,634 | 69,604 |
| Net carrying amount Dec 31 2014 | 475,666 | 3,151,731 | 3,851,578 | 569,425 | 269,745 | 8,318,145 |

⁽¹⁾ Estimated cost of site reclamation and clean-up nad of dismantling of a subsea pipeline operated by subsidiary Energobaltic Sp. z o.o. (LOTOS Petrobaltic Group).

⁽²⁾ Jasło and Czechowice-Dziedzice Branches operating as separate, organised parts of business in Jasło and Czechowice-Dziedzice; see Note 17.

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| | Land | Buildings, structures | Plant and equipment | Vehicles, other | Property, plant and equipment under construction | Total |
|---|----------------|-----------------------|---------------------|-----------------|--|-------------------|
| PLN '000 | | | | | | |
| Gross carrying amount Jan 1 2013 (restated) | 443,869 | 4,290,909 | 5,399,440 | 847,128 | 303,570 | 11,284,916 |
| <i>Purchase</i> | 1,234 | 9,020 | 6,694 | 16,057 | 365,958 | 398,963 |
| <i>Transfer from property, plant and equipment under construction</i> | 29,692 | 125,822 | 157,536 | 56,605 | (385,129) | (15,474) |
| <i>Exchange differences on translating foreign operations</i> | - | 27 | (397) | (3,821) | (267) | (4,458) |
| <i>Borrowing costs</i> | - | - | - | - | 1,842 | 1,842 |
| <i>Contribution of B-4 and B-6 field development assets to Baltic Gas Sp. z o.o. i wspólnicy sp.k. ⁽¹⁾</i> | - | - | - | - | (2,363) | (2,363) |
| <i>Sale</i> | (952) | (3,449) | (6,715) | (2,430) | (33) | (13,579) |
| <i>Decommissioning</i> | - | (5,968) | (12,998) | (186,257) | (37) | (205,260) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale ⁽²⁾</i> | (923) | (23,556) | (21,676) | (1,717) | - | (47,872) |
| <i>Expenditure written off due to project discontinuation</i> | - | - | - | - | (1,828) | (1,828) |
| <i>Deconsolidation (LOTOS Tank Sp. z o.o.) ⁽³⁾</i> | - | (3,987) | (1,944) | (8,026) | (5) | (13,962) |
| <i>Other</i> | 14 | 3,196 | 12,726 | (18,472) | (2,176) | (4,712) |
| Gross carrying amount Dec 31 2013 (restated) | 472,934 | 4,392,014 | 5,532,666 | 699,067 | 279,532 | 11,376,213 |
| Accumulated depreciation Jan 1 2013 (restated) | 14,006 | 962,379 | 1,291,954 | 504,598 | - | 2,772,937 |
| <i>Depreciation</i> | 1,492 | 180,153 | 262,510 | 73,921 | - | 518,076 |
| <i>Exchange differences on translating foreign operations</i> | - | 1 | (135) | (2,970) | - | (3,104) |
| <i>Sale</i> | (4) | (1,070) | (5,069) | (2,075) | - | (8,218) |
| <i>Decommissioning</i> | - | (3,546) | (11,570) | (185,946) | - | (201,062) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale ⁽²⁾</i> | (70) | (3,734) | (4,806) | (960) | - | (9,570) |
| <i>Deconsolidation (LOTOS Tank Sp. z o.o.) ⁽³⁾</i> | - | (831) | (694) | (241) | - | (1,766) |
| <i>Other</i> | 75 | 649 | (397) | 1,299 | - | 1,626 |
| Accumulated depreciation Dec 31 2013 (restated) | 15,499 | 1,134,001 | 1,531,793 | 387,626 | - | 3,068,919 |
| Impairment losses Jan 1 2013 (restated) | 941 | 24,225 | 17,073 | 1,246 | 23,359 | 66,844 |
| <i>Recognised</i> | 952 | 13,866 | 2,058 | 593 | 30 | 17,499 |
| <i>Used/Reversed</i> | (179) | (6,849) | (5,040) | (91) | (732) | (12,891) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale ⁽²⁾</i> | (669) | (15,221) | (13,611) | (201) | - | (29,702) |
| <i>Other</i> | - | - | - | 248 | - | 248 |
| Impairment losses Dec 31 2013 (restated) | 1,045 | 16,021 | 480 | 1,795 | 22,657 | 41,998 |
| Net carrying amount Dec 31 2013 | 456,390 | 3,241,992 | 4,000,393 | 309,646 | 256,875 | 8,265,296 |

⁽¹⁾ Joint venture operated jointly with CalEnergy Resources Poland Sp. z o.o., related to development of the B-4 and B-6 gas fields (see Note 2 to the 2013 consolidated financial statements).

⁽²⁾ Including assets associated with the Waterproofing Materials Production Plant sold by LOTOS Asphalt Sp. z o.o. in 2013.

⁽³⁾ Sale of shares in LOTOS Tank Sp. z o.o. (currently LOTOS-Air BP Polska Sp. z o.o.) to a third party (see Note 2 to the consolidated financial statements for 2013). Currently, a joint venture agreement between Grupa LOTOS S.A. and BP Europe SE to conduct activity consisting in supply of aviation fuel through LOTOS - Air BP Polska Sp. z o.o.

Refinery and other property, plant and equipment include chiefly Group's assets related to downstream and support activities, such as the service station network, rolling stock, storage depots, refinery infrastructure and property on which the production plants, production units, pipelines and office buildings are located. The item also comprises other upstream segment assets, including ships and a multi-purpose mobile drilling rig.

In 2014, capital expenditure incurred by the Group on refinery and other property, plant and equipment was PLN 621,720 thousand, and related mainly to the extension of the fuel depot in Poznań, construction of the Hydrogen Recovery Unit and

extension of the service station network. The PLN 398,963 thousand of capital expenditure made in 2013 concentrated chiefly on extension of the service station network and modernisation work performed during the overhaul shutdown in Q2 2013. The capital expenditure incurred by the Group is related to the 2013–2015 Efficiency and Growth Programme.

Impairment losses on refinery and other property, plant and equipment

In 2014, the Group made a revaluation of its refinery and other property, plant and equipment. The impairment losses totalled PLN 32,652 thousand (2013: PLN 17,499 thousand), while impairment loss reversals amounted to PLN 421 thousand (2013: PLN 10,056 thousand). In 2014, impairment losses and reversal of impairment losses were presented under *Other expenses* (see Note 9.4), whereas in 2013 they had been disclosed under *Other income* (see Note 9.3).

In 2014, LOTOS Paliwa Sp. z o.o. recognised an impairment loss on service station assets in the amount of PLN 15,765 thousand; see Note 9.4 (2013: PLN 11,912 thousand; see Note 9.3). The recoverable amount of property, plant and equipment related to the service station network was determined based on the value in use of each station, calculated with the discounted cash flow method. Future cash flows were calculated based on five-year cash-flow projections, prepared using budget projections for 2015 (in 2013: 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 1.0% (2013: 1.84%) 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 2013–2021. LOTOS Paliwa Sp. z o.o.'s net weighted average cost of capital (WACC) was assumed at 6.13% (2013: 7.16%), 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 in November 2014 was adopted),
- volumes based on fuel consumption growth rate (a 4% 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 2013–2021, prepared using GUS, NBP and JBC reports (for gasolines), and based on GDP market consensus.

As regards the calculation of the service stations' value in use, 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 of the service station assets exceeding their recoverable amount to a significant extent.

As at December 31st 2014, LOTOS Asphalt Sp. z o.o. tested for impairment its Jasło and Czechowice plant assets. As a result of the test, LOTOS Asphalt Sp. z o.o. recognised an impairment loss of PLN 15,893 thousand on its Jasło plant assets (see Note 9.4). The impairment loss was recognised based on the assumption that the bitumen business would be restructured after the launch of the EFRA Project, and such restructuring would involve suspending the operation of the Jasło and Czechowice plants' infrastructure, while holding the relevant production capacities on stand-by in Gdańsk. The impairment test was performed using the discounted cash flow method. The analysis covered the planned cash flows in 2015–2017. The test assumed a sales volume growth in 2016–2017 (by about 27% in 2016 compared with 2015 and a further 9% in 2017 compared with 2016), expected in connection with Poland's absorption of funds available from the new EU budget until 2020 on development of its road infrastructure. The sales growth assumed for 2016 was based on the new EU financial framework and the schedule of investment projects planned as part of the National Road Construction Programme 2014–2020, which envisages considerable expenditure on road infrastructure. The company has taken into account the negative impact of the cement technology on its sales growth, however given that the road construction process involving this technology is quite advanced, the cementing work should not peak before the end of 2018. In 2016–2017 margins were assumed to remain roughly unchanged from their budgeted 2015 level, the net weighted average cost of capital (WACC) was put at 9%, and fixed costs were assumed to remain stable as were distribution costs per unit (comprising mainly costs of transport); the computations were performed using fixed prices (inflation was eliminated both from revenue/costs and the discount rate).

In 2013, in connection with the sale of the Waterproofing Materials Production Plant assets, LOTOS Asphalt Sp. z o.o. reversed an impairment loss of PLN 8,000 thousand on these assets (see Note 9.3).

13.3 Other information concerning property, plant and equipment

| PLN '000 | Property, plant and equipment used under finance lease | |
|--------------------------|--|-------------|
| | Dec 31 2014 | Dec 31 2013 |
| Gross carrying amount | 198,557 | 198,737 |
| Accumulated depreciation | 47,328 | 47,379 |
| Net carrying amount | 151,229 | 151,358 |

The Group uses finance leases to finance primarily rolling stock assets (downstream segment).

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

| PLN '000 | Year ended | Year ended |
|---|----------------|----------------|
| | Dec 31 2014 | Dec 31 2013 |
| Cost of sales | 654,683 | 490,215 |
| Distribution costs | 63,030 | 58,575 |
| Administrative expenses | 17,128 | 21,450 |
| Change in products and adjustments to cost of sales | 16,915 | 11,303 |
| Total | 751,756 | 581,543 |

In 2014, the Group capitalised finance costs of PLN 2,803 thousand as property, plant and equipment under construction (2013: PLN 1,842 thousand)(see note 13.2). As at December 31st 2014, financing costs capitalised as property, plant and equipment totalled PLN 5,719 thousand (December 31st 2013: 43,009 thousand).

As at December 31st 2014, the Group's contractual commitments, not disclosed in the statement of financial position, concerning future expenditure on property, plant and equipment amounted to PLN 808.860 thousand and related mostly to the conversion of a drilling platform into a production platform at LOTOS Petrobaltic S.A., a delayed coking unit (the EFRA Project), construction of a Hydrogen Recovery Unit (HRU) at the Refinery, and extension of the service station network.

As at December 31st 2013, the Group's contractual commitments, not disclosed in the statement of financial position, concerning future expenditure on property, plant and equipment amounted to PLN 582,966 thousand and related mostly to acquisition of a new drilling rig by SPV Baltic Sp. z o.o., conversion of a drilling platform into a production platform at LOTOS Petrobaltic S.A., a delayed coking unit (the EFRA Project), and extension of the fuel depot in Poznań.

The Group's future contractual commitments follow from the 2013–2015 Efficiency and Growth Programme.

As at December 31st 2014, property, plant and equipment serving as collateral for the Group's liabilities was PLN 7,038,347 thousand (December 31st 2013: PLN 7,877,463 thousand).

14. Goodwill

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

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|--|---------------|---------------|
| 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 |

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As at December 31st 2014 and December 31st 2013, impairment tests of individual cash-generating units to which goodwill was allocated did not reveal any impairment indicators.

The Group determines the recoverable amount 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% (2013: 1.84%) 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 2013–2021. The discount rate adopted for the calculation reflects net WACC of 6.13% (2013: 7.16%). 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 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|--|----------------|---------------------------|--------------------------|
| <i>Intangible assets related to exploration for, development and production of crude oil and natural gas resources</i> | | | |
| Assets related to exploration for and evaluation of crude oil and natural gas resources | 196,676 | 185,676 | 15,356 |
| Crude oil and natural gas development and production licences | 208,287 | 333,037 | 382,127 |
| Total | 404,963 | 518,713 | 397,483 |
| <i>Other intangible assets</i> | | | |
| Licences, patents and trademarks | 101,251 | 93,607 | 91,286 |
| Other | 47,473 | 46,477 | 7,617 |
| Total | 148,724 | 140,084 | 98,903 |
| Total | 553,687 | 658,797 | 496,386 |

15.1 Intangible assets related to exploration for and evaluation of, as well as development and production of, crude oil and natural gas resources

| PLN '000 | Assets related to exploration for and evaluation of crude oil and natural gas resources | | | | Crude oil and natural gas development and production licences | | | Total |
|---|---|----------------|------------------------|----------------|---|----------------------|----------------|----------------|
| | Poland | Norway | Lithuania | Total | Poland | Lithuania | Total | |
| Gross carrying amount Jan 1 2014 (restated) | 9,608 | 297,589 | 11,645 | 318,842 | 6,459 | 477,207 | 483,666 | 802,508 |
| <i>Purchase</i> | 5,119 | 27,278 | 39 | 32,436 | 3,183 | - | 3,183 | 35,619 |
| <i>Exchange differences on translating foreign operations</i> | - | (14,801) | 293 | (14,508) | - | 13,260 | 13,260 | (1,248) |
| <i>Reclassification of oil and gas exploration and evaluation assets to production assets⁽¹⁾</i> | - | - | (1,764) ⁽²⁾ | (1,764) | - | 1,764 ⁽²⁾ | 1,764 | - |
| <i>Liquidation</i> | (1,172) ⁽³⁾ | - | - | (1,172) | - | - | - | (1,172) |
| <i>Other</i> | (543) | 4,740 | - | 4,197 | 6,079 | - | 6,079 | 10,276 |
| Gross carrying amount Dec 31 2014 | 13,012 | 314,806 | 10,213 | 338,031 | 15,721 | 492,231 | 507,952 | 845,983 |
| Accumulated amortisation Jan 1 2014 (restated) | 7,215 | - | - | 7,215 | 3,566 | 124,828 | 128,394 | 135,609 |
| <i>Amortisation</i> | 1,777 | - | - | 1,777 | 164 | 40,517 | 40,681 | 42,458 |
| <i>Exchange differences on translating foreign operations</i> | - | - | - | - | - | 4,166 | 4,166 | 4,166 |
| <i>Liquidation</i> | (1,172) ⁽³⁾ | - | - | (1,172) | - | - | - | (1,172) |
| <i>Other</i> | (543) | - | - | (543) | 1,218 | - | 1,218 | 675 |
| Accumulated amortisation Dec 31 2014 | 7,277 | - | - | 7,277 | 4,948 | 169,511 | 174,459 | 181,736 |
| Impairment losses Jan 1 2014 (restated) | - | 125,951 | - | 125,951 | - | 22,235 | 22,235 | 148,186 |
| <i>Recognised</i> | - | 14,439 | - | 14,439 | - | 100,604 | 100,604 | 115,043 |
| <i>Exchange differences on translating foreign operations</i> | - | (6,312) | - | (6,312) | - | 2,367 | 2,367 | (3,945) |
| <i>Used/Reversed</i> | - | - | - | - | - | - | - | - |
| Impairment losses Dec 31 2014 | - | 134,078 | - | 134,078 | - | 125,206 | 125,206 | 259,284 |
| Net carrying amount Dec 31 2014 | 5,735 | 180,728 | 10,213 | 196,676 | 10,773 | 197,514 | 208,287 | 404,963 |

⁽¹⁾ Exploration and evaluation assets relating to mineral resources with demonstrable technical feasibility and commercial viability of extraction.

⁽²⁾ Seismic surveys of the Ablinga field.

⁽³⁾ Liquidation of the Sambia W licence and mining usage rights.

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| PLN '000 | Assets related to exploration for and evaluation of crude oil and natural gas resources | | | | Crude oil and natural gas development and production licences | | | Total |
|---|---|----------------|---------------|----------------|---|----------------|----------------|----------------|
| | Poland | Norway | Lithuania | Total | Poland | Lithuania | Total | |
| Gross carrying amount Jan 1 2013 (restated) | 8,580 | 150,725 | - | 159,305 | 6,786 | 470,412 | 477,198 | 636,503 |
| <i>Purchase</i> | 2,458 | 13,797 | 11,824 | 28,079 | - | - | - | 28,079 |
| <i>Acquisition of Heimdal assets ⁽¹⁾</i> | - | 162,634 | - | 162,634 | - | - | - | 162,634 |
| <i>Exchange differences on translating foreign operations</i> | - | (29,567) | (179) | (29,746) | - | 6,795 | 6,795 | (22,951) |
| <i>Contribution of B-4 and B-6 field development assets to Baltic Gas Sp. z o.o. i wspólnicy sp.k. ⁽²⁾</i> | (1,430) | - | - | (1,430) | (327) | - | (327) | (1,757) |
| Gross carrying amount Dec 31 2013 (restated) | 9,608 | 297,589 | 11,645 | 318,842 | 6,459 | 477,207 | 483,666 | 802,508 |
| Accumulated amortisation Jan 1 2013 (restated) | 7,121 | - | - | 7,121 | 3,484 | 77,379 | 80,863 | 87,984 |
| <i>Amortisation</i> | 1,411 | - | - | 1,411 | 169 | 47,046 | 47,215 | 48,626 |
| <i>Exchange differences on translating foreign operations</i> | - | - | - | - | - | 403 | 403 | 403 |
| <i>Contribution of B-4 and B-6 field development assets to Baltic Gas Sp. z o.o. i wspólnicy sp.k. ⁽²⁾</i> | (1,317) | - | - | (1,317) | (87) | - | (87) | (1,404) |
| Accumulated amortisation Dec 31 2013 (restated) | 7,215 | - | - | 7,215 | 3,566 | 124,828 | 128,394 | 135,609 |
| Impairment losses Jan 1 2013 | - | 136,828 | - | 136,828 | - | 14,208 | 14,208 | 151,036 |
| <i>Recognised</i> | - | 4,744 | - | 4,744 | - | 7,943 | 7,943 | 12,687 |
| <i>Exchange differences on translating foreign operations</i> | - | (15,079) | - | (15,079) | - | 84 | 84 | (14,995) |
| <i>Used/Reversed</i> | - | (542) | - | (542) | - | - | - | (542) |
| Impairment losses Dec 31 2013 (restated) | - | 125,951 | - | 125,951 | - | 22,235 | 22,235 | 148,186 |
| Net carrying amount Dec 31 2013 (restated) | 2,393 | 171,638 | 11,645 | 185,676 | 2,893 | 330,144 | 333,037 | 518,713 |

⁽¹⁾Acquisition of the Heimdal area assets in Norway (see Note 13 to the consolidated financial statements for 2013).

⁽²⁾Joint venture operated jointly with CalEnergy Resources Poland Sp. z o.o., related to development of the B-4 and B-6 gas fields (see Note 2 to the consolidated financial statements for 2013).

15.1.1 Intangible assets related to exploration for and evaluation of crude oil and natural gas resources

The Group's expenditure on intangible assets related to exploration for and evaluation of mineral resources amounted to PLN 32,436 thousand in 2014 (2013: PLN 190,713 thousand). Cash flows associated with that expenditure amounted to PLN 48,574 thousand (2013: PLN 169,480 thousand), whereas the amount of outstanding investment commitments was PLN 5,095 thousand as at December 31st 2014 (December 31st 2013: PLN 21,233 thousand).

Intangible exploration and evaluation assets are carried until the technical feasibility and commercial viability of extracting the mineral resources is demonstrated.

Poland

In 2014, the Group held eight hydrocarbon exploration or exploration and appraisal licences covering areas in the Baltic Sea. These included the Gotlandia, Rozewie, Łeba, Sambia E, Sambia W, Gaz Południe, Słupsk E and Słupsk W licence areas.

In 2014, the Group incurred expenditure of PLN 5,119 thousand on extension of licences and licence-related mining usage rights (2013: PLN 2,458 thousand).

As at December 31st 2014, the Sambia W licence and mining usage rights had expired. The value of liquidated intangible assets related to this licence area was PLN 1,172 thousand.

Norway

Heimdal exploration licences

As at December 31st 2014, the Group tested for impairment its Heimdal area assets acquired in December 2013 by LOTOS E&P Norge (LOTOS Petrobaltic Group), including interests in the newly discovered hydrocarbon accumulations awaiting development: Frigg Gamma Delta (10%), Fulla (50%) and Rind (7.87%).

Based on the results of the impairment test performed as at December 31st 2014, the Group determined the recoverable amount of these assets as their value in use, measured using the discounted future cash flows method. The computation of the recoverable amount was based on assumptions consistent with those used to determine the recoverable amount of the property, plant and equipment associated with production of hydrocarbons from the Heimdal assets, as described in Note 13.1.3.

As a result of the tests, as at December 31st 2014 the Group recognised an impairment loss on intangible assets related to the Rind field, in an aggregate amount of PLN 13,823 thousand (NOK 27,640 thousand).

In 2014, the Group's expenditure on hydrocarbon exploration and evaluation in the Heimdal licence area totalled PLN 21,518 thousand, and related mainly to the Trell licence (PL 102FG). In 2013, the Group's expenditure of PLN 162,634 thousand was attributable chiefly to acquisition of the Heimdal assets (see Note 13 to the consolidated financial statements for 2013).

Other exploration licences in Norway

In 2014 and 2013, the Group recognised an impairment loss on capitalised exploration expenses related to surveys performed within the PL 498 and PL 497 licence areas in the North Sea. In 2014, the impairment loss on the licences was PLN 616 thousand (NOK 1,231 thousand) (see Note 9.4), while in 2013 it was PLN 4,744 thousand (NOK 8,856 thousand) (see Note 9.3).

Expenditure incurred by the Group in 2014 on exploration for and evaluation of hydrocarbons in other Norwegian licence areas was PLN 5,760 thousand (2013: PLN 13,797 thousand).

15.1.2 Crude oil and natural gas development and production licences

Poland

Under intangible assets related to development and production of hydrocarbons, the Group discloses licences for the B-3 and B-8 fields located in the Baltic Sea.

Expenditure incurred on these assets in 2014 amounted to PLN 3,183 thousand and included the cost of acquiring the mining usage right to the B-3 field.

Lithuania

The Group holds interests in 17 onshore oil fields in Lithuania, which are located within seven onshore licence areas (Plunge, Klaipėda, Girkalai, Kretinga, Nausodis, Genciu and Gargzdai). 13 of these fields are on production.

The production operations are carried out by companies of the AB LOTOS Geonafta Group, comprising AB LOTOS Geonafta, UAB Genciu Nafta and UAB Manifoldas. The Group also holds interests in UAB Minijos Nafta, a joint venture.

Key assets held by those companies include the following fields: Genciai (UAB Genciu Nafta), Girkalai, Kretinga, Nausodis (AB LOTOS Geonafta), Ablinga, Liziai, Siaures Vezaiciai, Auksoras (UAB Manifoldas), Agluonenai, Degliai, Pietu Siupariai, Pociai, Sakuciai, Siupariai, Uoksai, and Vilkyciai (UAB Minijos Nafta). In the Siaures Vezaiciai, Auksoras and Uoksai fields, production has been suspended.

As at December 31st 2014, production licences held by companies of the AB LOTOS Geonafta Group (AB LOTOS Geonafta (Girkaliai, Kretinga and Nausodis fields), UAB Manifoldas (Vežaičiai, Ližiai and Ablinga fields)) were tested for impairment.

The Group determined the recoverable amount of the tested assets as their value in use measured using the discounted future cash flows method.

Key assumptions underlying computation of the recoverable amount of the tested intangible assets in Lithuania as at December 31st 2014 were as follows:

- 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 10%,
- 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 (USD/bbl) were adopted for the purposes of the estimates:

- 2015–2018 – prices in line with the price assumptions for the available market scenario,
- 2019 and beyond – prices remaining stable on par with the 2018 level, adjusted for inflation.

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 -15%/+15% change in the USD/LTL exchange rate.

As a result of the impairment tests, as at December 31st 2014 an impairment loss totalling PLN 100,604 thousand (LTL 82,918 thousand) was recognised on production licences covering the Girkaliai, Kretinga, Vėžaičiai, Ližiai, and Ablinga fields; another impairment loss, of PLN 2,708 thousand (LTL 2,232 thousand), was recognised on the property, plant and equipment comprising production infrastructure of the Ablinga field; see Note 13.1.3 and Note 9.4.

As at December 31st 2013, 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 as their value in use measured using the discounted future cash flows method.

The production assets of UAB Manifoldas (Klaipėda, Troba fields) were not tested for impairment in 2013, as the key assumptions relating to the allocation of cost for AB LOTOS Geonafta's acquisition of controlling interest in UAB Manifoldas as at December 31st 2014 were not materially different from the estimates made in connection with the final accounting for the transaction made in 2013.

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

- 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 (USD/bbl) were adopted for the purposes of the estimates:

- 2014–2016 – in line with the price assumptions adopted for the purposes of calculating budgets of the LOTOS Group companies, taking into account 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 to the consolidated financial statements for 2013).

Due to significant market volatility, in particular with respect to crude oil prices, to determine the effect of key factors on the results of the impairment test performed in 2013, the Group carried out an analysis of their sensitivity to a -15%/+15% change of crude oil price, -15%/+15% change in production volumes, and -15%/+15% change in the USD/LTL exchange rate. As at December 31st 2013, following the performance of impairment tests a PLN 7,943 thousand (LTL 6,513 thousand) impairment loss was recognised on assets related to the Girkaliai field (see Note 9.3).

15.2 Other intangible assets

| PLN '000 | Patents, trademarks and licences | Other | Total |
|--|-------------------------------------|---------------|----------------|
| Gross carrying amount Jan 1 2014 (restated) | 175,733 | 67,118 | 242,851 |
| <i>Purchase</i> | - | 2,440 | 2,440 |
| <i>Transfer from property, plant and equipment under construction</i> | 17,048 | 4,742 | 21,790 |
| <i>Exchange differences on translating foreign operations</i> | - | (837) | (837) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale⁽¹⁾</i> | (114) | - | (114) |
| <i>Sale</i> | - | 4 | 4 |
| <i>Liquidation</i> | (40) | (38) | (78) |
| <i>Other</i> | (150) | (60) | (210) |
| Gross carrying amount Dec 31 2014 | 192,477 | 73,369 | 265,846 |
| Accumulated amortisation Jan 1 2014 (restated) | 82,123 | 20,615 | 102,738 |
| <i>Amortisation</i> | 9,222 | 5,505 | 14,727 |
| <i>Exchange differences on translating foreign operations</i> | - | (267) | (267) |
| <i>Reclassification to non-current assets (or disposal groups) held for sale⁽¹⁾</i> | (86) | - | (86) |
| <i>Sale</i> | - | 4 | 4 |
| <i>Liquidation</i> | (40) | (21) | (61) |
| <i>Other</i> | - | 52 | 52 |
| Accumulated amortisation Dec 31 2014 | 91,219 | 25,888 | 117,107 |
| Impairment losses Jan 1 2014 | 3 | 26 | 29 |
| <i>Recognised</i> | 4 | - | 4 |
| <i>Used/Reversed</i> | - | (18) | (18) |
| Impairment losses Dec 31 2014 | 7 | 8 | 15 |
| Net carrying amount Dec 31 2014 | 101,251 | 47,473 | 148,724 |

⁽¹⁾Jasło and Czechowice-Dziedzice Branches operating as separate, organised parts of business in Jasło and Czechowice-Dziedzice; see Note 17.

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| PLN '000 | Patents, trademarks and licences | Other | Total |
|---|-------------------------------------|---------------|----------------|
| Gross carrying amount Jan 1 2013 (restated) | 163,587 | 26,079 | 189,666 |
| <i>Purchase</i> | - | 39,379 | 39,379 |
| <i>Transfer from property, plant and equipment under construction</i> | 12,562 | 2,912 | 15,474 |
| <i>Exchange differences on translating foreign operations</i> | - | (1,518) | (1,518) |
| <i>Liquidation</i> | (179) | (14) | (193) |
| <i>Other</i> | (237) | 280 | 43 |
| Gross carrying amount Dec 31 2013 (restated) | 175,733 | 67,118 | 242,851 |
| Accumulated amortisation Jan 1 2013 (restated) | 72,298 | 18,436 | 90,734 |
| <i>Amortisation</i> | 10,249 | 2,062 | 12,311 |
| <i>Exchange differences on translating foreign operations</i> | - | (293) | (293) |
| <i>Liquidation</i> | (172) | (10) | (182) |
| <i>Other</i> | (252) | 420 | 168 |
| Accumulated amortisation Dec 31 2013 (restated) | 82,123 | 20,615 | 102,738 |
| Impairment losses Jan 1 2013 | 3 | 26 | 29 |
| <i>Recognised</i> | - | - | - |
| <i>Used/Reversed</i> | - | - | - |
| Impairment losses Dec 31 2013 | 3 | 26 | 29 |
| Net carrying amount Dec 31 2013 (restated) | 93,607 | 46,477 | 140,084 |

Other intangible assets comprise licences relating to technological processes, including licences for technologies used in the refinery, licences for fuel production, storage and trading, software licences, patents, trademarks and acquired CO₂ emission allowances.

15.3 Other information on intangible assets

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

| PLN '000 | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|---------------------------|---|
| Cost of sales | 42,570 | 49,160 |
| Distribution costs | 530 | 472 |
| Administrative expenses | 14,447 | 11,197 |
| Change in products and adjustments to cost of sales | (362) | 108 |
| Total | 57,185 | 60,937 |

As at December 31st 2014, intangible assets serving as collateral for the Group's liabilities were PLN 155,525 thousand (December 31st 2013: PLN 150,364 thousand). The collateral was created over the Heimdal assets acquired in 2013 (for more information on the acquisition of the Heimdal assets, see Note 13 of the consolidated financial statements for 2013).

As at December 31st 2014, the Group's future contractual commitments not disclosed in the statement of financial position and related to expenditure on intangible assets (specifically software licences) amounted to PLN 552 thousand. As at December 31st 2013, the Group's future investment commitments, of PLN 9,263 thousand, were chiefly related to the EFRA project, consisting in construction of a Delayed Coking Unit (DCU) and auxiliary installations, as well as to the Energy Trading and Risk Management (ETRM) system and other licences.

16. Equity-accounted joint ventures

The Group holds interests in equity-accounted joint ventures, which include:

- Joint venture agreement between Grupa LOTOS S.A. and BP Europe SE on joint operations related to supply of aviation fuel through **LOTOS - Air BP Polska Sp. z o.o.**
- Agreement on cooperation between LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. with respect to development and production of gas and condensate reserves from the B-4 and B-6 fields in the Baltic Sea, performed through special purpose vehicles **Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. and Baltic Gas Sp. z o.o.** (general partner).
- Joint venture set up for the purpose of oil exploration and production operations in Lithuania, operated in the form of **UAB Minijos Nafta**.

For key information on equity-accounted joint ventures, see Note 2.

| | The Group's ownership interest | | | Carrying amount of | | |
|---|--------------------------------|----------------|---------------|--------------------|----------------|---------------|
| | ownership interest | | | (PLN '000) | | |
| | Dec 31 2014 | Dec 31 2013 | Jan 1 2013 | Dec 31 2014 | Dec 31 2013 | Jan 1 2013 |
| Downstream segment | | | | | | |
| LOTOS-Air BP Polska Sp. z o.o. | 50.00% | 50.00% | - | 14,551 | 14,419 | - |
| Upstream segment (LOTOS Petrobaltic Group) | | | | | | |
| Baltic Gas Sp. z o.o. | 49.99% | 49.99% | - | 12 | 7 | - |
| Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽¹⁾ | 62.40% | 81.68% | - | 51,433 | 51,796 | - |
| UAB Minijos Nafta | 49.99% | 49.99% | 49.98% | 33,603 | 63,576 | 85,214 |
| Total | | | | 99,599 | 129,798 | 85,214 |

⁽¹⁾ The ownership interests as at December 31st 2014 were determined based on the value of contributions made by individual partners relative to the sum of all contributions:

- Baltic Gas Sp. z o.o. (general partner) 0.001%, (December 31st 2013: 0.002%),
- LOTOS Petrobaltic S.A. (limited partner) 62.403% (December 31st 2013: 81.693%),
- CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") (limited partner) 37.596% (December 31st 2013: 18.305%).

The Group's indirect ownership interest in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp. k. (jointly-controlled entity) is 62.40% (December 31st 2013: 81.68%).

| PLN '000 | The Group's share in the companies' net profit or loss | |
|---|--|---------------------------|
| | Year ended Dec 31 2014 | Year ended Dec 31 2013 |
| Downstream segment | | |
| LOTOS-Air BP Polska Sp. z o.o. | 185 | (488) |
| Upstream segment (LOTOS Petrobaltic Group) | | |
| Baltic Gas Sp. z o.o. | (25) | (15) |
| Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. ⁽¹⁾ | (711) | (505) |
| UAB Minijos Nafta | (23,914) ⁽²⁾ | (17,123) |
| Total | (24,465) | (18,131) |

⁽¹⁾ In the partnership agreement, the shares of each of the partners in the profit or loss of Baltic Gas Sp. z o.o. i wspólnicy sp.k. were defined as follows:

- Baltic Gas Sp. z o.o. holds a 0.001% share in profit and a 100% share in loss,
- LOTOS Petrobaltic S.A. holds a 50.9995% share in profit and
- CalEnergy holds a 48.9995% share in profit.

Accordingly, for IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k. is an entity jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11; see Note 2 to the consolidated financial statements for 2013).

⁽²⁾ Including an impairment loss on the interest in UAB Minijos Nafta of PLN 21,983 thousand (LTL 18,118 thousand), see Note 16.1.

16.1 Change in shareholdings in equity-accounted joint ventures

Downstream segment

| LOTOS-Air BP Polska Sp. z o.o. | Year ended | Year ended |
|--|--------------------|--------------------|
| PLN '000 | Dec 31 2014 | Dec 31 2013 |
| At beginning the period | 14,419 | - |
| Acquisition price | - | 14,907 |
| Share in net profit/(loss) | 185 | (488) |
| Share in other comprehensive income/(losses), net (actuarial losses on post-employment benefits) | (30) | - |
| Share in losses on intra-Group transactions | (23) | - |
| At end of the period | 14,551 | 14,419 |

Upstream segment (LOTOS Petrobaltic Group)

| Baltic Gas Sp. z o.o. | Year ended | Year ended |
|--------------------------------|--------------------|--------------------|
| PLN '000 | Dec 31 2014 | Dec 31 2013 |
| At beginning the period | 7 | - |
| Consolidation | - | 5 |
| Share capital increase | 30 | 20 |
| Sale of shares | - | (3) |
| Share in net loss | (25) | (15) |
| At end of the period | 12 | 7 |

On April 10th 2014, the share capital of Baltic Gas Sp. z o.o. was increased from PLN 45 thousand to PLN 105 thousand, i.e. by PLN 60 thousand, through the issue of 1,200 new shares with a par value of PLN 50 per share. All new shares were paid for in cash and acquired by the company's existing shareholders, i.e. LOTOS Petrobaltic S.A. and CalEnergy. LOTOS Petrobaltic S.A. acquired 600 shares with a total par value of PLN 30 thousand. The expenditure of PLN 30 thousand, representing the cash contribution made by LOTOS Petrobaltic S.A., has been disclosed in the consolidated statement of cash flows from investing activities under *Cash contributions – equity-accounted joint ventures*. The share capital increase was registered on May 27th 2014.

| Baltic Gas Sp. z o.o. i wspólnicy sp.k. | | Year ended | Year ended |
|--|-------------|--------------------|--------------------|
| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 |
| At beginning the period | | 51,796 | - |
| Consolidation | | - | 5 |
| Contributions made: | | - | 52,296 |
| - contribution of assets for the development of B-4 and B-6 fields | | - | 51,700 |
| - cash contribution | | - | 428 |
| - unpaid contribution | | - | 168 |
| Share capital increase | 2 | 348 | - |
| Share in net loss | | (711) | (505) |
| At end of the period | | 51,433 | 51,796 |

In 2014, the expenditure on cash contributions made to Baltic Gas Spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k. totalled PLN 309 thousand, of which PLN 168 thousand was attributable to contributions made in 2013. The expenditure on these cash contributions was presented in the statement of cash flows from investing activities under *Cash contributions – equity-accounted joint ventures*. As at December 31st 2014, the Group recognised PLN 207 thousand in liabilities under an increase in the contributions in 2014.

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| UAB Minijos Nafta | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|--|-----------------------------------|--|
| PLN '000 | | |
| At beginning the period | 63,576 | 85,214 |
| Dividends paid | (7,280) | (6,098) |
| Share in net loss: | (23,914) | (17,123) |
| - share in net loss of joint venture | (1,931) | (17,123) |
| - impairment loss on interests held in joint venture | (21,983) | - |
| Exchange differences on translating foreign operations | 1,221 | 1,583 |
| At end of the period | 33,603 | 63,576 |

The interest held in UAB Minijos Nafta (the AB LOTOS Geonafta Group) were tested for impairment as at December 31st 2014. The Group determined the recoverable amount of the tested assets as their value in use measured using the discounted future cash flows method.

The key assumptions underlying computation of the recoverable amount of the tested assets are consistent with the assumptions used to compute the recoverable amount of the Lithuanian production licences held by companies of the AB LOTOS Geonafta Group (AB LOTOS Geonafta (Girkaliai, Kretinga and Nausodis fields), UAB Manifoldas (Vėžaičiai, Ližiai and Ablinga fields)) tested for impairment as at December 31st 2014, see Note 15.1.2.

Following the impairment tests, the Group recognised an impairment loss on the interest held in UAB Minijos Nafta for a total amount of PLN 21,983 thousand (LTL 18,118 thousand). The impairment loss on the interest held in UAB Minijos Nafta was disclosed in the consolidated statement of comprehensive income under *Share in net profit/loss of equity-accounted joint ventures*.

16.2 Condensed financial information on equity-accounted joint ventures

| Statement of comprehensive income | LOTOS-Air BP Polska Sp. z o.o. | Baltic Gas Sp. z o.o. | Baltic Gas Sp. z o.o. i wspólnicy sp.k. | UAB Minijos Nafta |
|--|---|----------------------------------|--|--------------------------|
| PLN '000 | Year ended Dec 31 2014 | | | |
| Revenue | 478,279 | - | - | 57,212 |
| Cost of sales | (457,504) | - | (626) | (47,228) |
| Gross profit/(loss) | 20,775 | - | (626) | 9,984 |
| Distribution costs | (15,849) | - | - | (1,088) |
| Administrative expenses | (4,347) | (50) | (615) | (14,488) |
| Net other income/(expenses) | 56 | - | (123) | (148) |
| Operating profit/(loss) | 635 | (50) | (1,364) | (5,740) |
| Net finance income/(costs) | (137) | - | (58) | 289 |
| Pre-tax profit/(loss) | 498 | (50) | (1,422) | (5,451) |
| Income tax expense | (129) | - | - | 1,076 |
| Net profit/(loss) | 369 | (50) | (1,422) | (4,375) |
| <i>Amortisation and depreciation</i> | (779) | - | (626) | (10,900) |

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| Statement of comprehensive income | LOTOS-Air BP Polska Sp. z o.o. | Baltic Gas Sp. z o.o. | Baltic Gas Sp. z o.o. i wspólnicy sp.k. | UAB Minijos Nafta |
|--------------------------------------|-----------------------------------|--------------------------|--|-------------------|
| PLN '000 | year ended Dec 31 2013 | | | |
| Revenue | 19,478 | - | - | 76,354 |
| Cost of sales | (19,103) | - | (530) | (68,810) |
| Gross profit/(loss) | 375 | - | (530) | 7,544 |
| Distribution costs | (1,108) | - | - | (1,120) |
| Administrative expenses | (388) | (30) | (479) | (9,614) |
| Net other income/(expenses) | (3) | - | - | (37,022) |
| Operating loss | (1,124) | (30) | (1,009) | (40,212) |
| Net finance income/(costs) | (36) | - | - | (640) |
| Pre-tax loss | (1,160) | (30) | (1,009) | (40,852) |
| Income tax expense | 184 | - | - | 6,606 |
| Net loss | (976) | (30) | (1,009) | (34,246) |
| <i>Amortisation and depreciation</i> | <i>(126)</i> | <i>-</i> | <i>(530)</i> | <i>(27,170)</i> |

| Statement of financial position | | LOTOS-Air BP Polska Sp. z o.o. | Baltic Gas Sp. z o.o. | Baltic Gas Sp. z o.o. i wspólnicy sp.k. | UAB Minijos Nafta |
|---|-----------|-----------------------------------|--------------------------|--|----------------------|
| PLN '000 | Note | Dec 31 2014 | | | |
| Non-current assets | | 11,598 | 1 | 97,869 | 122,455 |
| Current assets, including: | | 37,046 | 25 | 7,596 | 13,401 |
| <i>Cash and cash equivalents</i> | | <i>6,220</i> | <i>9</i> | <i>3,375</i> | <i>2,791</i> |
| Total assets | | 48,644 | 26 | 105,465 | 135,856 |
| Non-current liabilities | | 5,081 | - | - | 18,031 |
| Current liabilities | | 27,888 | 2 | 23,859 | 5,889 |
| Total liabilities | | 32,969 | 2 | 23,859 | 23,920 |
| Net assets | | 15,675 | 24 | 81,606 | 111,936 |
| | | 50% | 49,99% | * | 49,99% |
| Share of net assets | | 7,838 | 12 | 51,433 | 55,968 |
| Impairment loss on shares | | - | - | - | (22,365) |
| Fair value measurement | | 6,736 ⁽¹⁾ | - | - | - |
| Elimination of intra-Group transactions | | (23) | - | - | - |
| Interest in joint ventures | 16 | 14,551 | 12 | 51,433 | 33,603 |

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| Statement of financial position | | LOTOS-Air BP Polska Sp. z o.o. | Baltic Gas Sp. z o.o. | Baltic Gas Sp. z o.o. i wspólnicy sp.k. | UAB Minijos Nafta |
|-----------------------------------|-----------|-----------------------------------|--------------------------|--|----------------------|
| PLN '000 | Note | Dec 31 2013 | | | |
| Non-current assets | | 12,013 | 1 | 67,750 | 127,458 |
| Current assets, including: | | 27,213 | 15 | 3,032 | 29,420 |
| <i>Cash and cash equivalents</i> | | 4,327 | 10 | 740 | 15,694 |
| Total assets | | 39,226 | 16 | 70,782 | 156,878 |
| Non-current liabilities | | 5,186 | - | - | 23,282 |
| Current liabilities | | 18,675 | 2 | 7,975 | 6,444 |
| Total liabilities | | 23,861 | 2 | 7,975 | 29,726 |
| Net assets | | 15,365 | 14 | 62,807 | 127,152 |
| | | 50% | 49.99% | * | 49.99% |
| Share of net assets | | 7,683 | 7 | 51,796 | 63,576 |
| Fair value measurement | | 6,736 ⁽¹⁾ | - | - | - |
| Interest in joint ventures | 16 | 14,419 | 7 | 51,796 | 63,576 |

* For IFRS purposes, Baltic Gas Sp. z o.o. i wspólnicy sp.k is an entity jointly controlled by the Group (equity-accounted joint arrangement under IFRS 11); see Note 16 above.

⁽¹⁾ PLN 6,736 thousand gain on fair value measurement of a retained interest in a previously controlled entity as at the date of loss of control (see Note 2 to consolidated financial statements for 2013).

For information on transactions with joint ventures in which the Group holds interests, see Note 36.1.

17. Non-current assets (or disposal groups) held for sale

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|--------------------|---------------|-------------|
| Upstream segment | 1,661 | 794 |
| Downstream segment | 8,774 | - |
| Total | 10,435 | 794 |

Upstream segment

As at December 31st 2014, two helicopters were classified as non-current assets held for sale. As at December 31st 2013, non-current assets held for sale comprised two residential units with the attached interest in land, which were sold by the Group in H1 2014. Cash proceeds from the sale of the residential units in 2014 amounted to PLN 1,805 thousand and were presented in the statement of cash flows under *Sale of property, plant and equipment and other intangible assets*.

Downstream segment

As at December 31st 2014, disposal groups comprised the Jasło and Czechowice-Dziedzice Branches, operating as separate, organised parts of business, offering services in the area of maintenance of mechanical and electrical operations and controlling devices, overhaul and repair services, and technical tests and analyses. The Group's liabilities related to these assets, amounting to PLN 9,088 thousand (see Note 29.1), were recognised in the statement of financial position under *Liabilities directly associated with non-current assets (or disposal groups) held for sale*. The planned sale of the assets follows from the 2013–2015 Efficiency and Growth Programme.

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18. Trade receivables and other assets

| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|--|---------------------|------------------|---------------------------|--------------------------|
| Financial assets | | | | |
| Non-current financial assets | | | | |
| Other financial assets: | 31.1 | 71,102 | 194,002 | 86,435 |
| <i>Security deposits receivable</i> | | 20,631 | 23,089 | 28,555 |
| <i>Finance lease receivables</i> | 18.2 | 9,111 | 8,061 | 6,180 |
| <i>Shares</i> | | 9,752 | 9,746 | 9,756 |
| <i>Oil and Gas Extraction Facility Decommissioning Fund⁽¹⁾</i> | 32.4.1 | 30,911 | 29,866 | 27,481 |
| <i>Security deposits (margins)</i> | 32.4.1 | - | 11,029 | 11,163 |
| <i>Cash blocked in bank accounts</i> | 32.3.1.; 32.4.1. | - | 110,379 | - |
| <i>Other receivables</i> | | 697 | 1,832 | 3,300 |
| Total | | 71,102 | 194,002 | 86,435 |
| Current financial assets | | | | |
| Trade receivables | 31.1 | 1,406,501 | 1,591,649 | 1,625,715 |
| - <i>including from related entities</i> | 36.1 | 23,318 | 16,670 | 5,014 |
| Other financial assets: | 31.1 | 1,260,931 | 197,631 | 172,787 |
| <i>Security deposits receivable</i> | | 10,085 | 23,089 | 10,483 |
| <i>Deposits</i> | 32.4.1 | 31,432 | 29,593 | 122,501 |
| <i>Cash blocked in bank accounts</i> | 32.3.1.; 32.4.1. | 179,377 | 103,559 | 18,320 |
| <i>Adjustment to the pro and contra settlement of acquisition of Heimdal assets</i> | 6.1 | - | 12,323 | - |
| <i>Settlements under joint operations (Norwegian fields)⁽²⁾</i> | | 26,100 | - | - |
| <i>Investment receivables</i> | | 86 | 13,144 | 2,457 |
| <i>Security deposits (margins) related to the use of gas fuel distribution and transmission system</i> | | 7,342 | - | - |
| <i>Restricted cash - issue of shares</i> | | 996,939 | - | - |
| <i>Other receivables</i> | | 9,570 | 15,923 | 19,026 |
| Total | | 2,667,432 | 1,789,280 | 1,798,502 |
| Total financial assets | | 2,738,534 | 1,983,282 | 1,884,937 |
| Non-financial assets | | | | |
| Non-current non-financial assets | | | | |
| Prepayments for lease of railway locomotives | | - | 6,663 | 8,990 |
| Fees and commissions related to B8 project financing | | 23,839 | - | - |
| Other | | 12,347 | 10,316 | 11,807 |
| Total | | 36,186 | 16,979 | 20,797 |
| Current non-financial assets | | | | |
| Value-added tax receivable | | 71,262 | 51,895 | 165,152 |
| Other receivables from the state budget other than income tax | | 178 | 632 | 2,114 |
| Property and other insurance | | 16,729 | 4,522 | 5,704 |
| Prepayments for lease of railway locomotives | | 2,336 | 2,336 | 2,336 |
| Settlements under joint operations (Norwegian fields) ⁽²⁾ | | 357 | 27,158 | 41,756 |
| Excise duty on inter-warehouse transfers | | 36,661 | 27,237 | 29,678 |
| Prepaid deliveries | | 9,457 | 9,503 | 7,523 |
| Other | | 21,123 | 16,157 | 7,350 |
| Total | | 158,103 | 139,440 | 261,613 |
| Total non-financial assets | | 194,289 | 156,419 | 282,410 |
| Total | | 2,932,823 | 2,139,701 | 2,167,347 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 107,288 | 210,981 | 107,232 |
| <i>current:</i> | | 2,825,535 | 1,928,720 | 2,060,115 |
| - <i>trade payables</i> | | 1,406,501 | 1,591,649 | 1,625,715 |
| - <i>other</i> | | 1,419,034 | 337,071 | 434,400 |

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

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⁽¹⁾ Cash deposited in the bank account of the Oil and Gas Extraction 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 extraction facilities (see *Decommissioning Fund for the Oil and Gas Extraction Facility in the Baltic Sea* in Note 30.1).

⁽²⁾ Receivables of LOTOS Exploration and Production Norge AS (LOTOS Petrobaltic Group, the upstream segment) under mutual settlements between the operator and consortium members concerning specific Norwegian fields. Information on the Group's interests and status in joint operations in Norway is presented in Note 13 to the consolidated financial statements for 2013 (see 'Acquisition of interests in Norwegian production and exploration licences – Heimdal').

As at December 31st 2014 and December 31st 2013, the item *Deposits* included the Parent's deposits securing payments of interest under credit facilities contracted for the financing of projects executed under the 10+ Programme, as well as for financing and refinancing of inventories, referred to in Note 27.1.

As at December 31st 2014, *Restricted cash - issue of shares* comprised cash proceeds from the issue of Series D shares in Grupa LOTOS S.A., deposited in a separate bank account of the Polish National Depository for Securities (see Note 21) until the day of registration of the share capital increase (see Note 37). The objectives of the issue of Series D shares, outlined in the Prospectus published on November 13th 2014, included the construction of a delayed coking unit (EFRA Project) and development of the B-4 and B-6 gas fields.

As at December 31st 2014, *Cash blocked in bank accounts* comprised cash held in an escrow account associated with the agreement concluded between the parties involved in the YME Project in Norway (for more details on the agreement, see Note 35.1, see also Note 30.1 and Note 13). As at December 31st 2014, the blocked cash totalled PLN 179,377 thousand (December 31st 2013: PLN 213,938 thousand).

As at December 31st 2013, *Investment receivables* included mainly receivables of LOTOS Exploration and Production Norge AS under the sale of a drilling rig and receivables of LOTOS Asphalt Sp. z o.o. under the sale of assets related to the Waterproofing Materials Production Plant in Jasło. The receivables of Lotos Asphalt Sp. z o.o. were collected in 2014. Cash proceeds of the transaction were disclosed in the statement of cash flows from investing activities under *Sale of organised part of business*.

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

As at December 31st 2014, the Group's receivables of PLN 31,676 thousand (December 31st 2013: PLN 3,156 thousand) were assigned by way of security for the Group's liabilities.

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

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.

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

18.1 Change in impairment losses on receivables

| PLN '000 | Year ended Dec 31 2014 | Year ended Dec 31 2013 |
|--|---------------------------|---------------------------|
| At beginning the period | 175,293 | 177,152 |
| Recognised | 18,077 | 11,955 |
| Exchange differences on translating foreign operations | 12 | 34 |
| Used | (11,222) | (10,974) |
| Deconsolidation (LOTOS Tank Sp. z o.o.) ⁽¹⁾ | - | (735) |
| Reversed | (4,604) | (2,141) |
| Other | 138 ⁽²⁾ | 2 |
| At end of the period | 177,694 | 175,293 |

⁽¹⁾ In November 2013, the Group sold 50% of shares in LOTOS-Air BP Polska Sp. z o.o. (formerly *LOTOS Tank Sp. z o.o.*) to a third party.

⁽²⁾ Additional amounts awarded in court proceedings.

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). In the statement of comprehensive income, recognised and reversed impairment losses on receivables are presented on a net basis under: Other income/expenses (in accordance with the adopted accounting policy the Group offsets corresponding items of Other income and Other expenses in line with Section 34 and 35 of IAS 1 Presentation of Financial Statements).

Recognised impairment losses included PLN 15,928 thousand under the principal (2013: PLN 9,584 thousand) and PLN 2,149 thousand under interest (2013: PLN 2,371 thousand).

Reversed impairment losses include PLN 2,850 thousand on the principal portion (2013: PLN 1,279 thousand) and PLN 1,754 thousand on the interest portion (2013: PLN 862 thousand).

In 2014, the Group disclosed the recognised and reversed impairment losses on the principal under Other expenses in the amount of PLN 13,078 thousand, including: PLN 15,928 thousand under recognised impairment losses, and PLN 2,850 thousand under impairment loss reversal (see Note 9.4).

In 2013, the Group disclosed the recognised and reversed impairment losses on the principal under Other expenses in the amount of PLN 6,012 thousand, including: PLN 7,291 thousand under recognised impairment losses, and PLN 1,279 thousand under impairment loss reversal (see Note 9.4). Moreover, in 2013 the Group offset the impairment losses for the principal of PLN 2,293 thousand against corresponding Other income items.

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

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|-------------------------|---------------|---------------|
| Up to 1 month | 41,973 | 47,503 |
| From 1 to 3 months | 5,752 | 8,051 |
| From 3 to 6 months | 956 | 5,694 |
| From 6 months to 1 year | 385 | 4,948 |
| Over 1 year | 24 | 6,341 |
| Total | 49,090 | 72,537 |

No impairment losses were 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 2014 and December 31st 2013, the share of trade receivables from the Group's five largest customers as at the end of the reporting period was approximately 25% and 27%, respectively, of total trade receivables (individually: 2%–12%). 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.

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 2014 | Dec 31 2013 | Dec 31 2014 | Dec 31 2013 |
| Up to 1 year ⁽¹⁾ | 4,429 | 3,437 | 4,394 | 3,406 |
| From 1 to 5 years | 8,951 | 7,604 | 8,881 | 7,534 |
| Over 5 years | 232 | 532 | 230 | 527 |
| Total | 13,612 | 11,573 | 13,505 | 11,467 |
| Less unrealised finance income | (107) | (106) | - | - |
| Present value of minimum lease payments | 13,505 | 11,467 | 13,505 | 11,467 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | | 9,111 | 8,061 |
| <i>current</i> | | | 4,394 | 3,406 |

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

19. Inventories

| | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|---|------------------|---------------------------|--------------------------|
| PLN '000 | | | |
| Finished goods | 1,184,960 | 1,755,310 | 1,800,560 |
| Semi-finished products and work in progress | 556,424 | 671,636 | 751,935 |
| Merchandise | 223,540 | 284,497 | 256,875 |
| Materials | 1,952,205 | 3,017,441 | 3,153,657 |
| Total | 3,917,129 | 5,728,884 | 5,963,027 |
| <i>including inventories measured:</i> | | | |
| <i>at cost</i> | 469,201 | 5,722,868 | 5,957,532 |
| <i>at net realisable value</i> | 3,447,928 | 6,016 | 5,495 |

Inventories are measured at the lower of cost or cost less write-downs to net realisable value less costs to sell.

Following a decline in prices of crude oil and refining products, the Group recognised a write-down on inventories as at December 31st 2014 to reflect their net realisable value (see Note 19.1).

As at December 31st 2014, 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 3,330,652 thousand (December 31st 2013: PLN 5,032,009 thousand).

19.1 Change in inventory write-downs

| | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|--|---------------------------|---|
| PLN '000 | | |
| At beginning the period | 2,919 | 1,407 |
| Recognised | 451,551 ⁽¹⁾ | 2,651 |
| Exchange differences on translating foreign operations | 1 | - |
| Used | (892) | (265) |
| Reversed | (170) | (874) |
| At end of the period | 453,409 | 2,919 |
| <i>including:</i> | | |
| <i>Finished goods</i> | 200,340 | 311 |
| <i>Semi-finished products and work in progress</i> | 40,913 | 2 |
| <i>Merchandise</i> | 5,834 | 68 |
| <i>Materials</i> | 206,322 | 2,538 |

⁽¹⁾ Following a decline in prices of crude oil and refining products, the Group recognised a PLN 450,891 thousand write-down on inventories to adjust their carrying amount to net realisable value in accordance with IAS 2.

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. In the downstream segment, mandatory stocks are maintained mainly by the Parent. As at December 31st 2014, the carrying amount of mandatory stocks was PLN 2,243,655 thousand (December 31st 2013: PLN 4,250,530 thousand).

20. Cash and cash equivalents

| PLN '000 | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|---|------------------|---------------------------|--------------------------|
| Cash at bank | 345,493 | 494,729 | 265,473 |
| Cash in hand | 400 | 335 | 342 |
| Other cash | 2,322 | 775 | 289 |
| Total cash and cash equivalents in the statement of financial position | 348,215 | 495,839 | 266,104 |
| Overdraft facilities | (514,902) | (498,914) | (508,988) |
| Total cash and cash equivalents in the statement of cash flows | (166,687) | (3,075) | (242,884) |

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 2014, 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 676,138 thousand (December 31st 2013: PLN 683,147 thousand).

As at December 31st 2014, cash in bank accounts serving as security for the LOTOS Group's liabilities was PLN 3,197 thousand (December 31st 2013: PLN 2,629 thousand).

21. Share capital

| PLN '000 | Year ended Dec 31 2014 | Year ended Dec 31 2013 |
|--------------------------------|---------------------------|---------------------------|
| At beginning the period | 129,873 | 129,873 |
| Issue of Series D shares | 55,000 | - |
| At end of the period | 184,873 | 129,873 |
| <i>including:</i> | | |
| <i>Series A shares</i> | <i>78,700</i> | <i>78,700</i> |
| <i>Series B shares</i> | <i>35,000</i> | <i>35,000</i> |
| <i>Series C shares</i> | <i>16,173</i> | <i>16,173</i> |
| <i>Series D shares</i> | <i>55,000</i> | <i>-</i> |

On September 8th 2014, the Company's Extraordinary General Meeting passed Resolution No. 2 on increasing the Company's share capital by way of issue of new shares, public offering of new shares, setting the record date for determining the pre-emptive rights to new shares for November 18th 2014, conversion into book-entry form and seeking admission of pre-emptive rights, allotment certificates and new shares to trading on the regulated market of the Warsaw Stock Exchange, amending the Company's Articles of Association and authorising the Supervisory Board to prepare a consolidated text of the Company's Articles of Association

By Resolution No. 1396/2014 of December 11th 2014, the Management Board of the Warsaw Stock Exchange resolved to introduce 55,000,000 allotment certificates for Series D ordinary bearer shares in the Company, with a par value of PLN 1 per share, assigned code PLLOTOS00074 by the Polish NDS, to trading on the main market, by way of the ordinary procedure, with effect from December 12th 2014.

As at December 31st 2014, the share capital was divided into 184,873,362 ordinary shares paid in full, with a par value of PLN 1 per share, including 55,000,000 Series D shares and 129,873,362 Series A, Series B and Series C shares from previous issues. One share confers the right to one vote at the General Meeting and carries the right to dividend.

January 9th 2015 saw the registration of Grupa LOTOS S.A.'s share capital increase from PLN 129,873,362 to PLN 184,873,362 (see Note 37). Following the entry of the share capital increase in the National Court Register, the total number of voting rights conferred by all shares issued by Grupa LOTOS S.A. as at the issue date of these financial statements was 184,873,362.

22. Share premium

Share premium represents the excess of the issue price over the par value of Series B, C and D shares, net of costs directly attributable to the share issue.

| Dec 31 2014 | Series B | Series C | Series D | Total |
|--|-----------------|-----------------|-----------------|------------------|
| PLN '000 | | | | |
| Share premium | 980,000 | 340,773 | 940,500 | 2,261,273 |
| Costs directly attributable to the share issue | (9,049) | (376) | (22,222) | (31,647) |
| Total | 970,951 | 340,397 | 918,278 | 2,229,626 |

| Dec 31 2013 | Series B | Series C | Series D | Total |
|--|-----------------|-----------------|-----------------|------------------|
| PLN '000 | | | | |
| Share premium | 980,000 | 340,773 | - | 1,320,773 |
| Costs directly attributable to the share issue | (9,049) | (376) | - | (9,425) |
| Total | 970,951 | 340,397 | - | 1,311,348 |

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.

Changes in the fair value of derivative financial instruments designated to hedge cash flows, to the extent representing an effective hedge are charged to the cash flow hedging reserve, while the ineffective portion is charged to finance income or costs in the reporting period.

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 |
|--|-------------|-----------------------------------|-----------------------------------|
| At beginning of the period | | 61,019 | (36,801) |
| Valuation of cash flow hedging instruments | | (584,653) | 120,765 |
| - effective portion | | (584,731) | 120,765 |
| - ineffective portion ⁽¹⁾ | | 78 | - |
| Income tax on valuation of cash flow hedging instruments | 10.1 | 111,099 | (22,945) |
| At end of the period | | (412,535) | 61,019 |

⁽¹⁾ The ineffective portion, charged to finance costs.

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.

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/(loss), net* in the statement of comprehensive income.

As at December 31st 2014 and December 31st 2013, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends, as described in detail in Note 12.

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

In 2013 and 2014, 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:

- Under credit facility agreements, the amount of distributable financial surplus generated by LOTOS Paliwa Sp. z o.o. in a financial year was contingent on compliance with specified performance targets.
- At AB LOTOS Geonafta, there are restrictions on dividend payment under credit facility agreements, 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 credit facility agreements, which make such payment conditional upon the bank's prior consent.

The dividend restrictions were binding as at December 31st 2014 and December 31st 2013.

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.

26. Non-controlling interests

| PLN '000 | Note | Year ended Dec 31 2014 | Year ended Dec 31 2013 |
|--|------|---------------------------|---------------------------|
| At beginning the period | | 289 | 699 |
| <i>Share in profit/(loss)</i> | | (46) | 13 |
| <i>Share in other comprehensive income/(loss), net</i> | | 5 | (2) |
| Share in total comprehensive income/(loss) | | (41) | 11 |
| Change in share of net assets of LOTOS Petrobaltic S.A. ⁽¹⁾ | | 10 | - |
| Sale of shares in LOTOS Petrobaltic S.A. to the Parent | 2 | (83) | (421) |
| At end of the period | | 175 | 289 |

⁽¹⁾ Change following Grupa LOTOS S.A.'s increase of the share capital of LOTOS Petrobaltic S.A.

27. Borrowings, other debt instruments and finance lease liabilities

| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 |
|---|------|------------------|------------------|
| Bank borrowings: | 27.1 | 6,215,612 | 5,851,809 |
| - investment credit facilities | | 4,650,868 | 4,512,290 |
| - working capital facilities | | 784,214 | 831,739 |
| - inventory refinancing and financing facilities | | 1,052,449 | 753,296 |
| - funds in bank deposits securing repayment of interest and principal instalments | | (271,919) | (245,516) |
| Loans | 27.2 | 102,783 | 10,306 |
| Notes | 27.3 | 213,479 | 198,240 |
| Finance lease liabilities | 27.4 | 131,794 | 151,031 |
| Total | | 6,663,668 | 6,211,386 |
| <i>including:</i> | | | |
| non-current | | 4,495,562 | 4,496,190 |
| current | | 2,168,106 | 1,715,196 |

27.1 Bank borrowings

Bank borrowings by currency and maturity

| Dec 31 2014 PLN '000 | Currency of credit facility advanced to the Group | | | Total |
|-------------------------|---|------------------|----------------|------------------|
| | EUR | USD | PLN | |
| 2015 | 9,550 | 1,687,928 | 419,909 | 2,117,387 |
| 2016 | - | 724,077 | 34,304 | 758,381 |
| 2017 | - | 464,917 | 34,872 | 499,789 |
| 2018 | - | 549,642 | 35,473 | 585,115 |
| 2019 | - | 591,468 | 28,029 | 619,497 |
| after 2019 | - | 1,535,223 | 100,220 | 1,635,443 |
| Total | 9,550 | 5,553,255 | 652,807 | 6,215,612 |

| Dec 31 2013 PLN '000 | Currency of credit facility advanced to the Group | | | Total |
|-------------------------|---|------------------|----------------|------------------|
| | EUR | USD | PLN | |
| 2014 | 2,448 | 1,226,142 | 442,845 | 1,671,435 |
| 2015 | 2,444 | 432,606 | 59,657 | 494,707 |
| 2016 | - | 404,569 | 24,750 | 429,319 |
| 2017 | - | 801,939 | 24,750 | 826,689 |
| 2018 | - | 470,697 | 24,750 | 495,447 |
| after 2018 | - | 1,894,326 | 39,886 | 1,934,212 |
| Total | 4,892 | 5,230,279 | 616,638 | 5,851,809 |

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 mandatory stocks below market price,
- assignment of rights under insurance agreements relating to the Gdańsk refinery,
- assignment of rights under licence agreements,

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- 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.

Bank borrowings 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.

Bank margins on the contracted facilities are within the range of 0.30pp. – 3.75pp.

As at December 31st 2014, the average effective interest rate for the credit facilities denominated in USD and EUR was approximately 2.42% (2.48% as at December 31st 2013). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities contracted by the Parent) was approximately 3.88% (3.99% as at December 31st 2013).

For sensitivity analysis of borrowings with respect to currency and interest rate risks, see Notes 32.3.1 and 32.4.1, respectively.

For analysis of contractual maturities of the borrowings, see Note 32.5.

Borrowings by lender

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|--|------------------|------------------|
| Pekao S.A. | 20,315 | 20,077 |
| ING Bank Śląski S.A. | - | 298 |
| PKO BP S.A.* | 677,184 | 619,321 |
| Bank Millennium S.A. | - | 6,529 |
| Nordea Bank Litwa | 33,619 | 43,254 |
| Bank Ochrony Środowiska S.A. | 4,844 | 9,688 |
| mBank S.A.** | - | 396 |
| Bank Syndicate (1) | 1,052,449 | 753,296 |
| Bank Syndicate (2) | 2,974,259 | 2,868,182 |
| Bank Syndicate (3) | 1,092,447 | 1,046,085 |
| Bank Syndicate (4) | 428,209 | 444,268 |
| Bank Syndicate (5) | 141,696 | 193,485 |
| Bank Syndicate (6) | 62,509 | 92,446 |
| Funds in bank deposits securing payment of interest and principal*** | (271,919) | (245,516) |
| Total | 6,215,612 | 5,851,809 |
| <i>including:</i> | | |
| <i>non-current</i> | 4,098,225 | 4,180,374 |
| <i>current</i> | 2,117,387 | 1,671,435 |

Bank Syndicate (1):

Pekao S.A., ING Bank Śląski S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., Bank Zachodni WBK S.A., mBank S.A.

Bank Syndicate (2):

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

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

Bank Syndicate (4):

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

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

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

* including credit facilities advanced by Nordea Bank Polska S.A. (acquired by PKO BP S.A.).

** formerly BRE Bank 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. Accumulation of funds for the repayment of credit facilities is expressly provided for in the documentation relating to the investment facilities obtained to finance the 10+ Programme, as well as the inventory financing and refinancing facility. The Company is required to set aside and maintain funds for repayment of principal instalments and interest due over the next six months. 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 2014, the nominal amount drawn under the credit facility for the refinancing and financing of inventories, advanced by Bank Syndicate (1), amounted to PLN 1,052.2m (USD 300m).

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) as specified in the facility agreement. The Company is also required to comply with the covenant requiring it to maintain the Loan to Pledged Inventory Value Ratio at a level not higher than specified in the facility agreement. As at December 31st 2014 and December 31st 2013, the covenants were complied with.

Amendments to the inventory refinancing and financing facility

On October 29th 2014, Grupa LOTOS S.A. and Bank Syndicate (1) signed an amendment extending by 12 months, i.e. until December 20th 2015, 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).

The other terms of the credit facility agreement, as well as its provisions concerning penalties, did not change, and do not differ from those commonly applied in agreements of such type.

Investment facilities

As at December 31st 2014, the Company had drawn (in nominal terms) PLN 4,102.6m (USD 1,169.8m) under investment facilities advanced by Bank Syndicates (2) and (3). As at December 31st 2013, the nominal amount drawn under the facilities was PLN 3,960.9m (USD 1,315.0m).

In connection with the credit facilities incurred to finance the 10+ Programme, Grupa LOTOS S.A. has been required to maintain the Tangible Consolidated Net Worth (TCNW) ratio of no less than specified in the facility agreements. As at December 31st 2014 and December 31st 2013, the requirement was 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 400m with funds available under credit facilities from PKO BP S.A. (a PLN 300m credit facility agreement of June 26th 2009, as amended) and Pekao S.A. (a PLN 100m credit facility agreement of May 16th 2012, as amended). As at December 31st 2014 and December 31st 2013, the Company carried no liabilities under these facilities.

Bank borrowings of other Group companies

The aggregate liabilities under bank borrowings of other Group companies as at December 31st 2014 were PLN 940.2m (December 31st 2013: PLN 985.5m). The outstanding amount comprised mainly liabilities incurred by LOTOS Paliwa Sp. z o.o. and companies of the LOTOS Petrobaltic Group.

Borrowings of the LOTOS Petrobaltic Group companies

As at December 31st 2014, LOTOS Exploration and Production Norge AS disclosed PLN 281.6m (USD 80m) in liabilities under the investment facility for financing of the acquisition of Heimdal assets, advanced by PKO BP S.A. (agreement of December 11th 2013). 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 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 2014, the outstanding amount under the credit facility agreement was PLN 206.8m (USD 58.8m), while as at December 31st 2013 it was PLN 240.4m (USD 79.8m).

On January 31st 2014, SPV Baltic Sp. z o.o. executed an investment facility agreement with Nordea Bank Polska S.A. (currently PKO BP S.A.) to finance the purchase of a drilling rig (agreement of December 20th 2013). As at December 31st 2014, liabilities under this credit facility were PLN 92.6m.

As at December 31st 2014, AB LOTOS Geonafta's liabilities under the investment facility agreement with Nordea Bank Lithuania of September 27th 2012, contracted to finance the acquisition of shares in UAB Manifoldas (the transaction was executed in 2012), stood at PLN 33.6m (USD 9.7m), while its liabilities under the working capital facility of April 5th 2012, advanced by Bank Syndicate (6), stood at PLN 62.5m (USD 18m). As at December 31st 2013, liabilities under these agreements were PLN 43.3m (USD 14.5m) and PLN 92.5m (USD 31m), respectively.

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

Liabilities of LOTOS Paliwa Sp. z o.o. under bank borrowings are associated primarily with investment facilities granted by PKO BP S.A. and Pekao S.A. for the refinancing and financing of acquisition of service stations. As at December 31st 2014, liabilities under the agreements totalled PLN 168.9m (December 31st 2013: PLN 223.8m).

In addition, as at December 31st 2014, LOTOS Paliwa Sp. z o.o. disclosed PLN 61.3m in liabilities under working capital facilities granted by PKO BP S.A. and Pekao S.A.

Proceeds from and repayment of bank borrowings

In 2014, proceeds from the credit facilities contracted by the Group were PLN 562,963 thousand (2013: PLN 963,045 thousand), while cash outflows on repayment of borrowings were PLN 1,030,408 thousand (2013: PLN 1,256,798 thousand). These amounts are presented in the consolidated statement of cash flows as cash flows from financing activities under *Proceeds from borrowings* and *Repayment of borrowings*, respectively.

In 2014, proceeds from bank borrowings related mainly to:

- credit facility for financing and refinancing of the Parent's inventories (PLN 154,145 thousand),
- working capital facilities of the Parent (PLN 45,600 thousand),
- working capital facilities of AB LOTOS Geonafta (PLN 219,480 thousand),
- investment facility of SPV Baltic Sp. z o.o. (PLN 100,000 thousand),
- credit facilities of LOTOS Exploration and Production Norge AS (PLN 43,738 thousand)

In 2014, repayments of bank borrowings related mainly to:

- investment credit facilities of the Parent (PLN 447,820 thousand),
- working capital facilities of the Parent (PLN 45,600 thousand),
- investment credit facilities of LOTOS Paliwa (PLN 54,780 thousand),
- credit facilities of LOTOS Exploration and Production Norge AS (PLN 192,137 thousand)
- credit facilities of AB LOTOS Geonafta (PLN 276,235 thousand).

In 2014 and 2013, none of the Group companies defaulted on their borrowings. As at December 31st 2014, AB LOTOS Geonafta defaulted on one of its debt covenants. However, at the company's request, the bank agreed to waive the covenant. As a result, it had no effect on data disclosed in these financial statements.

27.2 Loans

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|---|----------------|---------------|
| National Fund for Environmental Protection and Water Management | - | 6,056 |
| Provincial Fund for Environmental Protection and Water Management of Gdańsk | 10,150 | 4,250 |
| Agencja Rozwoju Przemysłu S.A. | 92,633 | - |
| Total | 102,783 | 10,306 |
| <i>including:</i> | | |
| <i>non-current</i> | <i>92,146</i> | <i>3,250</i> |
| <i>current</i> | <i>10,637</i> | <i>7,056</i> |

Repayment of the above loans is secured with:

- registered pledge over assets,
- registered and financial pledges over shares,
- assignment of rights under insurance policies,
- assignment of rights under agreements for sale of services,
- blank promissory notes,
- representation on voluntary submission to enforcement,
- sureties issued by Group companies.

The loans bear interest based on 1M WIBOR or the promissory note rediscount rate.

As at December 31st 2014, the average effective interest rate for the loans was approximately 4.96% (December 31st 2013: 3.12%).

For interest rate risk sensitivity analysis of the loans, see Note 32.4.1.

For analysis of contractual maturities of the loans, see Note 32.5.

Loans by maturity

| Dec 31 2014 | PLN-denominated loans advanced to the Group |
|--------------------|--|
| PLN '000 | |
| 2015 | 10,637 |
| 2016 | 11,180 |
| 2017 | 11,997 |
| 2018 | 11,349 |
| 2019 | 11,985 |
| after 2019 | 45,635 |
| Total | 102,783 |

| Dec 31 2013 | PLN-denominated loans advanced to the Group |
|--------------------|--|
| PLN '000 | |
| 2014 | 7,056 |
| 2015 | 1,000 |
| 2016 | 1,000 |
| 2017 | 1,250 |
| 2018 | - |
| after 2018 | - |
| Total | 10,306 |

Loans advanced to the LOTOS Petrobaltic Group

On January 31st 2014, SPV Baltic Sp. z o.o. entered into an agreement for a loan of up to PLN 100m with Agencja Rozwoju Przemysłu S.A. to finance the purchase of an offshore drilling rig (agreement of December 20th 2013). As at December 31st 2014, liabilities under the loan agreement were PLN 92.6m.

Loans of other Group companies

On June 16th 2014, LOTOS Kolej Sp. z o.o. executed a PLN 6.9m loan agreement with the Provincial Fund for Environmental Protection and Water Management of Gdańsk, as co-financing of the upgrade of locomotives. As at December 31st 2014, liabilities under the loan agreement were PLN 6.9m. The company also has a loan from the Provincial Fund for Environmental Protection and Water Management of Gdańsk (agreement of December 21st 2011) as co-financing for the upgrade of a rail tank car cleaning facility. As at December 31st 2014, liabilities under the loan agreement were PLN 3.3m (December 31st 2013: PLN 4.3m).

On December 20th 2014, LOTOS Biopaliwa Sp. z o.o. (subsidiary of LOTOS Terminale S.A.) made its last repayment under the loan from the National Fund for Environmental Protection and Water Management (agreement of June 29th 2007), which had been advanced as co-financing of the construction of the installation for production of fatty acid methyl esters (FAME). The last repayment under the loan had been reduced by PLN 0.6m pursuant to a decision of the Management Board of the National Fund for Environmental Protection and Water Management (the liability was partially cancelled as part of de minimis aid). As at December 31st 2013, liabilities under the loan agreement were PLN 6.1m.

Proceeds from and repayment of loans

In 2014, proceeds from loans contracted by the Group were PLN 106,900 thousand, which was primarily attributable to the PLN 100,000 thousand loan from Agencja Rozwoju Przemysłu S.A. to SPV Baltic Sp. z o.o., while cash outflows on repayment of loans were PLN 12,983 thousand (2013: PLN 6,750 thousand).

These amounts were disclosed in the consolidated statement of cash flows from financing activities under *Proceeds from non-bank borrowings* and *Repayment of non-bank borrowings*, respectively.

27.3 Notes

Notes issued by the LOTOS Petrobaltic Group

As at December 31st 2014, an amount of PLN 213.5m (December 31st 2013: PLN 198.2m) was outstanding under notes issued by the Group.

The outstanding amount was associated with LOTOS Petrobaltic S.A.'s issue of medium-term notes carried out in 2013 (Series: A, B, C, D, and E notes with a total nominal value of USD 65.9m). Pursuant to the agreement concluded on October 29th 2013 with Bank Pekao S.A., which acquired the notes, LOTOS Petrobaltic S.A. may receive financing in USD up to the equivalent of PLN 200m.

Proceeds and payments related to notes

Proceeds from the issue of notes in 2013, amounting to PLN 203,050 thousand, were presented in the statement of cash flows from financing activities of the Group, under *Issue of notes*.

In December 2014, the Series A notes with a total nominal value of USD 5m were redeemed. The related expenses, of PLN 17,397 thousand, were presented in the statement of cash flows from financing activities of the Group, under *Redemption of notes*.

Notes by maturity date

| Dec 31 2014 | Notes of the Group issued in USD |
|--------------|----------------------------------|
| PLN '000 | |
| 2015 | 17,587 |
| 2016 | 35,045 |
| 2017 | 160,847 |
| 2018 | - |
| 2019 | - |
| after 2019 | - |
| Total | 213,479 |

| Dec 31 2013 | Notes of the Group issued in USD |
|--------------|----------------------------------|
| PLN '000 | |
| 2014 | 15,069 |
| 2015 | 14,960 |
| 2016 | 30,034 |
| 2017 | 138,177 |
| 2018 | - |
| after 2018 | - |
| Total | 198,240 |

For sensitivity analysis of the notes with respect to currency and interest rate risks, see Notes 32.3.1 and 32.4.1, and for information on their maturities see Note 32.5.

On August 25th 2014, B8 Spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna ("B8 SPV", a subsidiary of LOTOS Petrobaltic S.A.) executed the following agreements with Polskie Inwestycje Rozwojowe S.A., Bank Gospodarstwa Krajowego and Bank Pekao S.A. to finance development of the B-8 oil field in the Baltic Sea: the Senior Note Programme Agreement and the Subordinated Note Programme Agreement (see also Note 27 to the interim condensed consolidated financial statements for the three and nine months ended September 30th 2014). Due to the conditions precedent for the financing, the programme had not been launched by the date of these financial statements, and as at December 31st 2014, no liabilities related to the programme were recognised by the Group. The arrangement fees paid in connection with the agreements were presented in Note 18 under *Non-current non-financial assets*.

Notes of other Group companies

In addition, LOTOS Asphalt Sp. z o.o. has operated a short-term note issue programme since 2010. The term of the programme is five years. In 2014 or in 2013, LOTOS Asphalt Sp. z o.o. did not issue or redeem any notes under the programme. As at December 31st 2014 and December 31st 2013, LOTOS Asphalt Sp. z o.o. did not carry any liabilities under issue of notes.

27.4 Finance lease liabilities

| PLN '000 | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|----------------|---|----------------|
| | Dec 31 2014 | Dec 31 2013 | Dec 31 2014 | Dec 31 2013 |
| Up to 1 year | 35,286 | 34,994 | 22,495 | 21,636 |
| From 1 to 5 years | 109,607 | 122,836 | 91,178 | 96,764 |
| Over 5 years | 18,511 | 33,816 | 18,121 | 32,631 |
| Total | 163,404 | 191,646 | 131,794 | 151,031 |
| Less finance costs | (31,610) | (40,615) | - | - |
| Present value of minimum lease payments | 131,794 | 151,031 | 131,794 | 151,031 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | | 109,299 | 129,395 |
| <i>current</i> | | | 22,495 | 21,636 |

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

27.4.1 Undisclosed liabilities under operating lease agreements

As at December 31st 2014 and December 31st 2013, future minimum lease payments under non-cancellable operating leases were as follows:

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|-------------------|----------------|---------------|
| Up to 1 year | 107,960 | 35,107 |
| From 1 to 5 years | 128,309 | 36,426 |
| Over 5 years | 12,866 | 157 |
| Total | 249,135 | 71,690 |

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

28. Derivative financial instruments

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|--|----------------|---------------|
| Financial assets | | |
| Current financial assets | | |
| Commodity swaps (commodities and petroleum products) | - | 736 |
| Currency forward and spot contracts | 536 | 34,924 |
| Currency swap | 3,894 | 38,275 |
| Total financial assets | 4,430 | 73,935 |
| Financial liabilities | | |
| Non-current financial liabilities | | |
| Commodity swaps (commodities and petroleum products) | 9,483 | - |
| Interest rate swap (IRS) | 53,143 | 52,876 |
| Total | 62,626 | 52,876 |
| Current financial liabilities | | |
| Commodity swaps (commodities and petroleum products) | 19,854 | - |
| Currency forward and spot contracts | 56,365 | 1,017 |
| Interest rate swap (IRS) | 22,341 | 19,387 |
| Currency swap | 37,357 | 873 |
| Total | 135,917 | 21,277 |
| Total financial liabilities | 198,543 | 74,153 |

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Derivative financial instruments used by the Group are contracted by the Parent. For a description of the derivative financial instruments, see Note 7.25. For a description of objectives and policies of financial risk management, see Note 32. For the classification of derivative financial instruments by fair value hierarchy, see Note 31.2.

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 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 | Note | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|---|-------------|----------------|---------------------------|--------------------------|
| Non-current liabilities | | | | |
| Post-employment benefits | 29.1 | 41,510 | 32,741 | 26,286 |
| Length-of-service awards and other benefits | 29.1 | 143,941 | 118,684 | 103,576 |
| Total | 29.1 | 185,451 | 151,425 | 129,862 |
| Current obligations | | | | |
| Post-employment benefits | 29.1 | 3,681 | 3,869 | 6,201 |
| Length-of-service awards and other benefits | 29.1 | 11,716 | 11,966 | 9,553 |
| Bonuses, awards and unused holidays | | 51,520 | 71,547 | 77,934 |
| Salaries and wages payable | | 17,121 | 16,591 | 16,283 |
| Total | | 84,038 | 103,973 | 109,971 |
| Total liabilities | | 269,489 | 255,398 | 239,833 |

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.

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| PLN '000 | Note | Post-employment benefits | Length-of-service awards and other benefits | Total |
|---|-------------|--------------------------|---|----------------|
| Jan 1 2014 | | 32,808 | 130,650 | 163,458 |
| Current service cost | | 1,206 | 9,289 | 10,495 |
| Cost of discount | 9.6 29.3 | 1,251 | 5,103 | 6,354 |
| Past service cost | | 47 | 362 | 409 |
| Benefits paid | | (1,840) | (12,575) | (14,415) |
| Actuarial (gain)/loss under profit or loss | 29.3 | - | 29,953 | 29,953 |
| Actuarial (gain)/loss under other comprehensive income | 29.3 | 8,850 | - | 8,850 |
| Dec 31 2014 | | 42,322 | 162,782 | 205,104 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 38,723 | 150,586 | 189,309 |
| <i>current</i> | | 3,599 | 12,196 | 15,795 |
| Obligations under length-of-service awards and post-employment benefits at foreign companies ⁽¹⁾ | | 4,832 | - | 4,832 |
| Reclassification to liabilities directly associated with assets held for sale (or disposal groups) | 17 | (1,963) | (7,125) | (9,088) |
| Dec 31 2014 | 29.2 | 45,191 | 155,657 | 200,848 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 41,510 | 143,941 | 185,451 |
| <i>current</i> | | 3,681 | 11,716 | 15,397 |

| 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 29.3 | 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 | 29.3 | - | 7,680 | 7,680 |
| Actuarial (gain)/loss under other comprehensive income | 29.3 | 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 | 29.2 | 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 |

⁽¹⁾ Given the different nature of the 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 immaterial effect on the Group's total obligations under length-of-service awards and post-employment benefits, those 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 | Note | Present value of future employee benefit obligations |
|-------------|------|--|
| Dec 31 2014 | 29.1 | 200,848 |
| Dec 31 2013 | 29.1 | 167,260 |
| Dec 31 2012 | | 145,616 |
| Dec 31 2011 | | 131,801 |
| Dec 31 2010 | | 107,829 |

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 | year ended Dec 31 2014 | year ended Dec 31 2013 |
|---|----------|---------------------------|---------------------------|
| Items recognised in profit or loss: | | 51,960 | 35,593 |
| Length-of-service awards, retirement and other post-employment benefits | 9.2 | 45,606 | 29,455 |
| - current service cost | | 10,495 | 19,081 |
| - past service cost | | 409 | (945) |
| - effect of foreign operations | | 4,749 | 3,639 |
| - actuarial (gain)/loss | 29.1 | 29,953 | 7,680 |
| Cost of discount | 9.6 29.1 | 6,354 | 6,138 |
| Items recognised in other comprehensive income: | | 8,933 | 188 |
| Actuarial (gain)/loss | 29.1 | 8,850 | 225 |
| Effect of foreign operations | | 83 | (35) |
| Deconsolidation (LOTOS Tank Sp. z o.o.) | | - | (2) |
| Total comprehensive income | | 60,893 | 35,781 |

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 2014 | Dec 31 2013 |
|---|-------------|-------------|
| Discount rate (%) | 2.70% | 4.30% |
| Expected inflation rate (%) | 2.50% | 2.50% |
| Employee turnover ratio (%) | 2.43% | 2.49% |
| Expected growth rate of salaries and wages (%) in the following year | 4.00% | 0.00% |
| Expected growth rate of salaries and wages (%) in the following years | 2.50% | 2.76% |

- 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 applied 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 are based on the Life Expectancy Tables of Poland for 2013, 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 2013: Life Expectancy Tables of Poland for 2012).
- 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 discount rate on future benefits was assumed at 2.7%, i.e. reflecting the assumptions made at the corporate level (December 31st 2013: 4.3%, the average yield of the lowest-risk long-term securities traded on the Polish capital market).

29.5 Termination benefits

In 2014, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 3,363 thousand (2013: PLN 3,984 thousand).

In 2014, provisions for termination benefits totalled PLN 69 thousand (2013: PLN 74 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.

Initial obligation balance

| PLN '000 | | | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total ⁽¹⁾ |
|--------------------------------|---------------|--------------------------|--|----------------|----------------------|----------------------|
| Salaries and wages growth rate | Discount rate | Length-of-service awards | | | | |
| base | base | 148,623 | 37,766 | 10,524 | 8,191 | 205,104 |
| base + 1% | base | 163,597 | 42,695 | 11,656 | 9,813 | 227,761 |
| base - 1% | base | 137,729 | 33,823 | 9,596 | 6,947 | 188,095 |
| base | base + 0.5% | 142,855 | 35,599 | 10,013 | 7,517 | 195,984 |
| base | base - 0.5% | 157,237 | 40,367 | 11,136 | 8,987 | 217,727 |

The tables below present 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 2015

| PLN '000 | | | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total ⁽¹⁾ |
|--------------------------------|---------------|--------------------------|--|----------------|----------------------|----------------------|
| Salaries and wages growth rate | Discount rate | Length-of-service awards | | | | |
| base | base | 11,876 | 2,216 | 833 | 335 | 15,260 |
| base + 1% | base | 13,371 | 2,638 | 954 | 448 | 17,411 |
| base - 1% | base | 10,614 | 1,879 | 731 | 254 | 13,478 |
| base | base + 0.5% | 11,209 | 2,038 | 780 | 292 | 14,319 |
| base | base - 0.5% | 12,608 | 2,418 | 890 | 387 | 16,303 |

Cost of discount projected for 2015

| PLN '000 | | | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total ⁽¹⁾ |
|--------------------------------|---------------|--------------------------|--|----------------|----------------------|----------------------|
| Salaries and wages growth rate | Discount rate | Length-of-service awards | | | | |
| base | base | 3,737 | 926 | 267 | 215 | 5,145 |
| base + 1% | base | 4,111 | 1,056 | 297 | 258 | 5,722 |
| base - 1% | base | 3,413 | 816 | 242 | 181 | 4,652 |
| base | base + 0.5% | 4,209 | 1,025 | 300 | 232 | 5,766 |
| base | base - 0.5% | 3,210 | 809 | 231 | 192 | 4,442 |

Total current service cost and cost of discount projected for 2015

| PLN '000 | | | Old-age and disability retirement severance payments | Death benefits | Social benefits fund | Total ⁽¹⁾ |
|--------------------------------|---------------|--------------------------|--|----------------|----------------------|----------------------|
| Salaries and wages growth rate | Discount rate | Length-of-service awards | | | | |
| base | base | 15,613 | 3,142 | 1,100 | 550 | 20,405 |
| base + 1% | base | 17,482 | 3,694 | 1,251 | 706 | 23,133 |
| base - 1% | base | 14,027 | 2,695 | 973 | 435 | 18,130 |
| base | base + 0.5% | 15,418 | 3,063 | 1,080 | 524 | 20,085 |
| base | base - 0.5% | 15,818 | 3,227 | 1,121 | 579 | 20,745 |

⁽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 were not presented in the review.

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30. Trade payables, other liabilities and provisions

| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|--|------|------------------|---------------------------|--------------------------|
| Financial liabilities | | | | |
| Non-current financial liabilities | | | | |
| Other financial liabilities: | 31.1 | 5,549 | 235 | 1,204 |
| <i>Investment commitments</i> | | 4,539 | 235 | - |
| <i>Other</i> | | 1,010 | - | 1,204 |
| Total | | 5,549 | 235 | 1,204 |
| Current financial liabilities | | | | |
| Trade payables | 31.1 | 1,692,839 | 2,395,237 | 2,169,408 |
| Other financial liabilities: | 31.1 | 191,295 | 189,494 | 247,231 |
| <i>Investment commitments</i> | | 120,498 | 158,385 | 178,074 |
| <i>Liabilities to insurers⁽¹⁾</i> | | 19,244 | 3,764 | 3,077 |
| <i>Settlements under joint ventures (Norwegian fields)⁽²⁾</i> | | 39,668 | 15,926 | 58,077 |
| <i>Other</i> | | 11,885 | 11,419 | 8,003 |
| Total | | 1,884,134 | 2,584,731 | 2,416,639 |
| Total financial liabilities | | 1,889,683 | 2,584,966 | 2,417,843 |
| Non-financial liabilities | | | | |
| Non-current non-financial liabilities | | | | |
| Provisions | 30.1 | 638,209 | 692,684 | 391,394 |
| Grants | | 12,263 | 11,987 | 13,089 |
| Other | | 1,542 | 782 | - |
| Total | | 652,014 | 705,453 | 404,483 |
| Current non-financial liabilities | | | | |
| Provisions | 30.1 | 140,219 | 162,938 | 21,256 |
| Liabilities to the state budget other than corporate income tax ⁽³⁾ | | 723,762 | 719,204 | 685,772 |
| Grants | | 29,655 | 30,582 | 26,359 |
| Settlements under joint ventures (Norwegian fields) ⁽²⁾ | | - | 721 | 55,092 |
| Prepaid deliveries | | 1,553 | 31,711 | 4,427 |
| Liabilities under the NAVIGATOR loyalty programme | | 13,367 | 10,961 | 6,006 |
| Other | | 37,459 | 23,039 | 22,020 |
| Total | | 946,015 | 979,156 | 820,932 |
| Total non-financial liabilities | | 1,598,029 | 1,684,609 | 1,225,415 |
| Total | | 3,487,712 | 4,269,575 | 3,643,258 |
| <i>including:</i> | | | | |
| <i>non-current</i> | | 657,563 | 705,688 | 405,687 |
| <i>current:</i> | | 2,830,149 | 3,563,887 | 3,237,571 |
| <i>- trade payables</i> | | 1,692,839 | 2,395,237 | 2,169,408 |
| <i>- other</i> | | 1,137,310 | 1,168,650 | 1,068,163 |

⁽¹⁾Liabilities towards insurers increased mainly due to the execution by LOTOS Petrobaltic S.A. of an insurance agreement covering works related to the development of the B-8 field in 2014-2016.

⁽²⁾Liabilities of LOTOS Exploration and Production Norge AS (LOTOS Petrobaltic Group, the upstream segment) under mutual settlements between the operator and consortium members concerning specific Norwegian fields. Information on the Group's interests and status in joint operations in Norway is presented in Note 13 to the consolidated financial statements for 2013 (see 'Acquisition of interests in Norwegian production and exploration licences - Heimdal').

⁽³⁾Including PLN 586,199 thousand in excise duty and fuel charge liabilities (December 31st 2013: PLN 541,957 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 currency risk sensitivity analysis of trade payables and other liabilities, see Note 32.3.1.

For information on maturities of trade payables and other liabilities, see Note 32.5.

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30.1 Provisions

| PLN '000 | Note | Provisions for decommissioning and reclamation costs | | | | Total | Other provisions | Total |
|--|------|--|--------------------------|---------------|---|----------------|-----------------------|----------------|
| | | Provision for oil & gas extraction facilities | | | Provisions for retired refinery and other installations | | | |
| | | Poland ⁽¹⁾ | Norway | Lithuania | | | | |
| Jan 1 2014 (restated) | | 216,666 | 562,268 | 13,026 | 36,128 | 828,088 | 27,534 | 855,622 |
| <i>Recognised</i> | | 642 | - | 1,074 | 685 | 2,401 | 29,898 ⁽⁵⁾ | 32,299 |
| <i>Remeasurement of decommissioning costs</i> | | (36,396) ⁽²⁾ | 61,198 ⁽³⁾ | (844) | (762) | 23,196 | - | 23,196 |
| <i>Change in provisions for liabilities attributable to approaching maturity date (discount reversal effect)</i> | 9.6 | 2,008 | 17,043 | 669 | 274 | 19,994 | 432 | 20,426 |
| <i>Interest on Oil and Gas Facility Decommissioning Fund</i> | | 659 | - | - | - | 659 | - | 659 |
| <i>Exchange differences on translating foreign operations</i> | | - | (22,482) | 377 | - | (22,105) | (1,396) | (23,501) |
| <i>Used</i> | | - | (120,833) ⁽⁴⁾ | - | (1,257) | (122,090) | (2,752) | (124,842) |
| <i>Reversed</i> | | - | - | - | (4,564) | (4,564) | (867) | (5,431) |
| Dec 31 2014 | | 183,579 | 497,194 | 14,302 | 30,504 | 725,579 | 52,849 | 778,428 |
| <i>including:</i> | | | | | | | | |
| <i>non-current</i> | | 183,579 | 384,153 | 14,302 | 27,403 | 609,437 | 28,772 | 638,209 |
| <i>current</i> | | - | 113,041 | - | 3,101 | 116,142 | 24,077 | 140,219 |

Provisions for decommissioning and reclamation costs:

Provision for the Polish oil and gas extraction facilities – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licences areas.

Provision for the Norwegian oil and gas extraction facilities – a provision for future costs of decommissioning of the oil extraction facilities in the YME field, and the oil and gas extraction facilities in the Heimdal fields.

Provision for the Lithuanian oil and gas extraction facilities – a provision for future costs of decommissioning of the Lithuanian oil extraction facilities.

Provisions for retired refinery installations and other installations – a provision for land reclamation and the cost of disassembly and decommissioning of the retired installations at LOTOS Terminale S.A., a provision for estimated cost of disassembly of the subsea pipeline operated by a subsidiary Energobaltic Sp. z o.o. (of the LOTOS Petrobaltic Group), as well as for land reclamation and clean-up.

⁽¹⁾ Including the Oil and Gas Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas facilities, in accordance with the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002.

⁽²⁾ As at December 31st 2014, in connection with the extension of the production license B-3 from 2016 to 2026, received in 2014, the Group analysed the costs necessary to decommission the oil production facility in the Baltic Sea in the B-3 licence area. According to the analysis, the costs necessary to decommission the offshore oil extraction facility in this area are lower than the previous year's estimates by PLN 36,396 thousand.

⁽³⁾ Including the effect of remeasurement of the provision for future costs of decommissioning of the offshore oil extraction facilities in the YME field, which resulted in an increase of decommissioning asset, charged to operating costs as a one-off expense of PLN 27,743 thousand in the consolidated statement of comprehensive income (see Note 9.4).

⁽⁴⁾ The amount mainly includes PLN 98,611 thousand of used provisions for future costs of removal of the MOPU and disassembly of plant and equipment at the YME field. The provision was recognised in connection with the agreement between Talisman (the YME field operator) and SBM (rig owner) reached in March 2013 (see also Note 13.1 and 13.1.4).

⁽⁵⁾ Including PLN 21,901 from remeasurement of the provision for contingent payments under the Heimdal assets acquisition agreement (for more information on the transaction, see Note 13 to the consolidated financial statements for 2013).

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| PLN '000 | Note | Provisions for decommissioning and reclamation costs | | | | Total | Other provisions | Total |
|---|------|--|------------------------|---------------|---|----------------|------------------|----------------|
| | | Provision for oil & gas extraction facilities | | | Provisions for retired refinery and other installations | | | |
| | | Poland ⁽¹⁾ | Norway | Lithuania | | | | |
| Jan 1 2013 (restated) | | 208,298 | 117,132 | 11,695 | 41,770 | 378,895 | 33,755 | 412,650 |
| <i>Recognised</i> | | - | 265,709 ⁽²⁾ | - | - | 265,709 | 8,373 | 274,082 |
| <i>Remeasurement of decommissioning costs</i> | | (1,404) | 11,995 | 717 | - | 11,308 | - | 11,308 |
| <i>Change in provisions for liabilities attributable to approaching maturity date (discount unwinding effect)</i> | 9.6 | 9,041 | 5,085 | 634 | 263 | 15,023 | - | 15,023 |
| <i>Interest on Oil and Gas Facility Decommissioning Fund</i> | | 731 | - | - | - | 731 | - | 731 |
| <i>Exchange differences on translating foreign operations</i> | | - | (49,975) | 157 | - | (49,818) | (990) | (50,808) |
| <i>Estimated costs of removal of the MOPU from the YME field</i> | | - | 281,859 | - | - | 281,859 | - | 281,859 |
| <i>Used</i> | | - | (69,537) | - | (828) | (70,365) | (8,067) | (78,432) |
| <i>Reversed</i> | | - | - | (177) | (5,077) | (5,254) | (5,537) | (10,791) |
| Dec 31 2013 (restated) | | 216,666 | 562,268 | 13,026 | 36,128 | 828,088 | 27,534 | 855,622 |
| <i>including:</i> | | | | | | | | |
| <i>non-current</i> | | 216,666 | 419,085 | 13,026 | 35,854 | 684,631 | 8,053 | 692,684 |
| <i>current</i> | | - | 143,183 | - | 274 | 143,457 | 19,481 | 162,938 |

Provisions for decommissioning and reclamation costs:

Provision for the Polish oil and gas extraction facilities – a provision for future costs of decommissioning of the oil and gas extraction facilities in the B-3 and B-8 licences areas.

Provision for the Norwegian oil and gas extraction facilities – a provision for future costs of decommissioning of the oil extraction facilities in the YME field, and the oil and gas extraction facilities in the Heimdal fields.

Provision for the Lithuanian oil and gas extraction facilities – a provision for future costs of decommissioning of the Lithuanian oil extraction facilities.

Provisions for retired refinery installations and other installations – a provision for land reclamation and the cost of disassembly and decommissioning of the retired installations at LOTOS Terminale S.A., a provision for estimated cost of disassembly of the subsea pipeline operated by a subsidiary Energobaltic Sp. z o.o. (of the LOTOS Petrobaltic Group), as well as for land reclamation and clean-up.

⁽¹⁾ Including the Oil and Gas Facility Decommissioning Fund, set up to cover future costs of decommissioning of oil and gas facilities, in accordance with the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002.

⁽²⁾ Recognition of a decommissioning provision related to the acquisition of Heimdal assets – see Note 13 to the consolidated financial statements for 2013 ('Acquisition of interests in Norwegian production and exploration licences – Heimdal').

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Provision for oil & gas production facilities – Norway

Provision for decommissioning and reclamation of oil production facility in the YME field

As at December 31st 2014, the provision for decommissioning and reclamation of the oil production facility in the YME field, totalling PLN 146,816 thousand (NOK 310,065 thousand), was disclosed under *Other liabilities and provisions* and reflected the current estimate, made based on the Group's best knowledge, of future costs of removal of the YME infrastructure and costs of land reclamation, assuming that the project is decommissioned in 2031. As at December 31st 2013, the provision was PLN 120,278 thousand (NOK 242,839 thousand).

In the opinion of the Company's Management Board, the disclosed value of the provision for the costs of decommissioning of the infrastructure associated with the YME field and land reclamation following the facility's decommissioning reflects the necessary commitment by LOTOS E&P Norge AS if the scenario of earlier complete decommissioning materialises. This is a consequence of the phase (currently under way) of preparation of the YME field infrastructure decommissioning plan, adopted by the Consortium with the votes of the majority of its members and reflected in the project budget to be approved for 2015, taking into account a reduction in the decommissioning cost estimate in connection with a drop in the market cost of such services. At the same time, LOTOS E&P Norge AS has been involved in a number of steps to abandon the early decommissioning scenario and redevelop the field using a production platform operating in a different field.

Provision for removal of the defective MOPU from the YME field

As described in Note 35.1, in March 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. Following the agreement, the Group recognised a provision for future removal of the MOPU from the YME field, in the amount of PLN 281,859 thousand (NOK 526,151 thousand). In 2013–2014, the provision was partially used. In 2013 and 2014, PLN 69,527 thousand (NOK 129,787 thousand) and PLN 98,611 thousand (NOK 197,183 thousand), respectively, were used under the provision. As at December 31st 2014, the provision was PLN 94,312 thousand (NOK 199,181 thousand). As at December 31st 2013, the provision was PLN 196,319 thousand (NOK 396,364 thousand).

The amount of the provision for removal of the MOPU from the YME field disclosed in the statement of financial position as at December 31st 2014 was determined 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 2014, budget for removing the MOPU, approved by the interest holders of the YME licence.

For information on the YME project and details of the provision for decommissioning of the remaining subsea infrastructure associated with the YME field, see also Note 13.1.2.

Provision for decommissioning and reclamation of gas production facilities in the YME field

In connection with the acquisition in 2013 of new production assets on the Norwegian Continental Shelf, a provision for future costs of decommissioning of the acquired production assets was recognised at PLN 265,709 thousand (NOK 496,004 thousand) (see Note 13 to the consolidated financial statements for 2013 – 'Acquisition of interests in Norwegian production and exploration licences – Heimdal'). Decommissioning of the newly acquired non-current assets of the offshore oil and gas extraction facility at the Heimdal field and reclamation work are scheduled for 2014–2035. As at December 31st 2014, the provision was disclosed in the Group's statement of financial position under *Other liabilities and provisions* at PLN 256,066 thousand (NOK 540,794 thousand). As at December 31st 2013, the provision was PLN 245,671 thousand (NOK 496,004 thousand).

Other provisions

As at December 31st 2014, the Group recognised a provision for contingent payments under the Heimdal assets acquisition agreement, of PLN 26,010 thousand (NOK 54,932 thousand). As at December 31st 2013, the provision was 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 (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). The provision was fully used in 2014.

Furthermore, as at December 31st 2014 and December 31st 2013, 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 2014 | Year ended Dec 31 2013 |
|---|------|---------------------------|---------------------------|
| At beginning the period | | 42,569 | 39,448 |
| Received during the year | | 1,238 | 5,196 |
| Recognised in consolidated profit or loss | 9.3 | (1,889) | (2,075) |
| At end of the period | | 41,918 | 42,569 |
| <i>including:</i> | | | |
| <i>non-current</i> | | 12,263 | 11,987 |
| <i>current</i> | | 29,655 | 30,582 |

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 extraction 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 income tax payable 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.

The Group benefited from a tax credit available to entities introducing new technologies pursuant to Art. 18b of the Corporate Income Tax Act of February 15th 1992 (consolidated text: Dz.U. of 2011, No. 74, item 397). The tax credit enabled the Group to deduct from taxable income up to 50% of expenditure incurred on new technologies. It was settled at the end of 2014 and its effect on these financial statements of the Group was immaterial.

31. Financial instruments

31.1 Carrying amount

| Dec 31 2014 | 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; 31.2 | 4,430 | - | - | - | 4,430 |
| Trade receivables | 18 | - | 1,406,501 | - | - | 1,406,501 |
| Cash and cash equivalents | 20 | - | 348,215 | - | - | 348,215 |
| Other financial assets | 18 | - | 1,322,281 | 9,752 | - | 1,332,033 |
| Total | | 4,430 | 3,076,997 | 9,752 | - | 3,091,179 |
| Financial liabilities | | | | | | |
| Borrowings, other debt instruments and finance lease liabilities | 27 | - | - | - | 6,663,668 | 6,663,668 |
| Derivative financial instruments | 28; 31.2 | 198,543 | - | - | - | 198,543 |
| Trade payables | 30 | - | - | - | 1,692,839 | 1,692,839 |
| Other financial liabilities | 30 | - | - | - | 196,844 | 196,844 |
| Total | | 198,543 | - | - | 8,553,351 | 8,751,894 |

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| Dec 31 2013 (restated) | 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 | Note | | | | | |
| Classes of financial instruments | | | | | | |
| Financial assets | | | | | | |
| Derivative financial instruments | 28; 31.2 | 73,935 | - | - | - | 73,935 |
| Trade receivables | 18 | - | 1,591,649 | - | - | 1,591,649 |
| Cash and cash equivalents | 20 | - | 495,839 | - | - | 495,839 |
| Other financial assets | 18 | - | 381,887 | 9,746 | - | 391,633 |
| Total | | 73,935 | 2,469,375 | 9,746 | - | 2,553,056 |
| Financial liabilities | | | | | | |
| Borrowings, other debt instruments and finance lease liabilities | 27 | - | - | - | 6,211,386 | 6,211,386 |
| Derivative financial instruments | 28; 31.2 | 74,153 | - | - | - | 74,153 |
| Trade payables | 30 | - | - | - | 2,395,237 | 2,395,237 |
| Other financial liabilities | 30 | - | - | - | 189,729 | 189,729 |
| Total | | 74,153 | - | - | 8,796,352 | 8,870,505 |

(1) As at December 31st 2014 and December 31st 2013, the Group held shares in other undertakings measured at historical cost less impairment.

As at December 31st 2014 and December 31st 2013, 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 2014 | Dec 31 2013 |
|-------------------------------------|----------------|---------------|
| | Level 2 | |
| Financial assets | | |
| Commodity swap | - | 736 |
| Currency forward and spot contracts | 536 | 34,924 |
| Currency swap | 3,894 | 38,275 |
| Total | 4,430 | 73,935 |
| Financial liabilities | | |
| Commodity swap | 29,337 | - |
| Currency forward and spot contracts | 56,365 | 1,017 |
| Interest rate swap (IRS) | 75,484 | 72,263 |
| Currency swap | 37,357 | 873 |
| Total | 198,543 | 74,153 |

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

| Year ended Dec 31 2014 | 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 | | | | | | |
| Trade receivables: | | - | 27,055 | - | - | 27,055 |
| <i>Interest income</i> | 9.5 | - | 6,349 | - | - | 6,349 |
| <i>Foreign exchange (gains)/losses recognised in cost of sales</i> | 9.1 | - | 32,523 | - | - | 32,523 |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | 1,261 | - | - | 1,261 |
| <i>Impairment losses</i> | 9.4 | - | (13,078) | - | - | (13,078) |
| Cash and cash equivalents: | | - | 12,813 | - | - | 12,813 |
| <i>Interest income</i> | 9.5 | - | 1,249 | - | - | 1,249 |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | 11,564 | - | - | 11,564 |
| Other financial assets: | | - | 214,615 | - | - | 214,615 |
| <i>Interest income</i> | 9.5 | - | 9,526 | - | - | 9,526 |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | 205,089 | - | - | 205,089 |
| Derivative financial instruments (financial assets/liabilities): | | (197,849) | - | - | - | (197,849) |
| <i>Gains/(losses) on fair value measurement of derivative financial instruments</i> | 9.6 | (191,271) | - | - | - | (191,271) |
| <i>Gains/(losses) on realisation of derivative financial instruments</i> | 9.6 | (6,578) | - | - | - | (6,578) |
| Borrowings, other debt instruments and finance lease liabilities | | - | - | - | (1,276,431) | (1,276,431) |
| <i>Interest expense</i> | 9.6 | - | - | - | (166,675) | (166,675) |
| <i>Gains/(losses) on cash flow hedge accounting charged to revenue</i> | 8 | - | - | - | (7,992) | (7,992) |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | - | - | (517,111) | (517,111) |
| <i>Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income</i> | 23 | - | - | - | (584,653) | (584,653) |
| Trade and other payables | | - | - | - | (96,993) | (96,993) |
| <i>Interest expense</i> | 9.6 | - | - | - | (87) | (87) |
| <i>Foreign exchange (gains)/losses recognised in cost of sales</i> | 9.1 | - | - | - | (97,633) | (97,633) |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | - | - | 727 | 727 |
| Other financial liabilities: | | - | - | - | (4,916) | (4,916) |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | - | - | (4,916) | (4,916) |
| Total | | (197,849) | 254,483 | - | (1,378,340) | (1,321,706) |

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| Year ended 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 | Financial liabilities at amortised cost | |
| PLN '000 | | | | | | |
| 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: | | | | | | |
| | | - | (2,252) | - | - | (2,252) |
| <i>Interest income</i> | 9.5 | - | 1,264 | - | - | 1,264 |
| <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 |
| Borrowings, other debt instruments and finance lease liabilities | | | | | | |
| | | - | - | - | (144,905) | (144,905) |
| <i>Interest expense</i> | 9.6 | - | - | - | (169,004) | (169,004) |
| <i>Gains/(losses) on cash flow hedge accounting charged to revenue</i> | 8 | - | - | - | (12,452) | (12,452) |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | - | - | (84,214) | (84,214) |
| <i>Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income</i> | 23 | - | - | - | 120,765 | 120,765 |
| Trade and other payables: | | | | | | |
| | | - | - | - | 75,800 | 75,800 |
| <i>Interest expense</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 expense</i> | 9.6 | - | - | - | (125) | (125) |
| <i>Foreign exchange gains/(losses)</i> | 9.6 | - | - | - | 6,797 | 6,797 |
| Total | | 112,861 | (27,378) | - | (62,433) | 23,050 |

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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 will be met,
- limit cash flow volatility,
- ensure short-term financial liquidity,
- maximise the result on market risk management within the assumed risk level limits,
- support operating, investment and financial processes, and 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, approved at the relevant decision-making levels, defining the framework for ensuring effectiveness and safety of the Group's financial activities, including:

- the methodology for quantifying exposures to particular risks,
- the time horizon for hedging a given risk,
- acceptable financial instruments,
- the method of assessing financial risk management,
- limits within risk management,
- the reporting method,
- credit limits,
- documentation and operating standards,
- division of responsibilities for execution of transactions, risk analysis and control, as well as documentation of and accounting for transactions, among various corporate 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 derivative financial instruments is performed based on market inputs provided by reliable sources. Opening positions with respect to risks which do not arise as part of the Group's core business is prohibited.

In 2014, the Parent continued to apply the hedge accounting policies implemented in 2011 and 2012 with respect to its cash flows (i.e. foreign-currency facilities used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sale transactions).

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.

To secure petroleum product prices for future deliveries to customers, the Group has implemented a system whereby the risk may be transferred from customers to the Group. This requires simultaneous execution of appropriate derivative transactions and application of procedures ensuring credit and operational security.

As part of the activities described above, in 2014, in connection with its sale of bitumen components at fixed prices, the Group entered into commodity swap contracts for 2014–2017, which enabled it to retain its original price risk profile. The swap contracts concluded in that period were settled partly in the year when they were entered into, and partly in the coming years.

Open commodity swaps as at December 31st 2014:

| Type of contract | Underlying index | Valuation period | Amount in tonnes in the valuation period | Fair value (PLN '000) | |
|------------------|------------------------------|-------------------|--|-----------------------|-----------------------|
| | | | | Financial assets | Financial liabilities |
| Commodity swap | 3.5 PCT Barges FOB Rotterdam | Apr 2015–Sep 2017 | 41,690 | - | (29,338) |
| | | | Total | - | (29,338) |

The above swap transactions for a total of 41,690 tonnes based on the 3.5 PCT Barges FOB Rotterdam liquid index in the period from April 2015 to September 2017 were 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.

Open commodity swaps as at December 31st 2013:

| Type of contract | Underlying index | Valuation period | Amount in tonnes in the valuation period | Fair value (PLN '000) | |
|------------------|------------------------------|------------------|--|-----------------------|-----------------------|
| | | | | Financial assets | Financial liabilities |
| Commodity swap | 3.5 PCT Barges FOB Rotterdam | Mar–Oct 2014 | 20,989 | 736 | - |
| | | | Total | 736 | - |

The above swap transactions for a total of 20,989 tonnes based on the 3.5 PCT Barges FOB Rotterdam liquid index in the period from March to October 2014 were 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. Given the need to manage new processes and enhance the efficiency of ongoing operations in this area, as well as to improve operational safety, the Group implemented an ERTM (Energy Trading and Risk Management) IT system in 2014.

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

Below is presented an analysis of the sensitivity of the Company's financial transactions to the risk of fluctuations in prices of raw materials and petroleum products as at December 31st 2014 and December 31st 2013, assuming a price change of +/- 34.22% and +/- 10%, respectively:

| PLN '000 | Dec 31 2014 | | | Dec 31 2013 | | |
|--------------------------------------|--------------------|---------------|-----------------|--------------------|--------------|----------------|
| | Carrying amount | +34.22% | -34.22% | Carrying amount | +10% | -10% |
| Financial assets ⁽¹⁾ | - | - | - | 736 | 3,695 | (3,695) |
| Financial liabilities ⁽¹⁾ | (29,338) | 15,325 | (15,325) | - | - | - |
| Total | (29,338) | 15,325 | (15,325) | 736 | 3,695 | (3,695) |

⁽¹⁾ Commodity swaps.

This sensitivity analysis has been performed with reference to the instruments held as at December 31st 2014 and December 31st 2013. With respect to the instruments held as at December 31st 2014, the above deviations of underlying index prices have been calculated based on the annual implied volatility of the index on which the transactions open at December 31st 2014 are based, posted on the SuperDerivatives website. For the instruments held as at December 31st 2013, the calculation is based on a hypothetical +/- 10% price change. The effect of the underlying index price changes on the fair value has been examined assuming that the currency exchange rates remain unchanged. The purpose of taking a different approach to setting the percentage deviation of prices in 2014 was to better reflect the fluctuations in market prices of raw materials and petroleum products as at December 31st 2014.

32.2 Risk related to prices of carbon (CO₂) allowances

The risk related to prices of carbon dioxide emissions allowances is managed within the Parent on an ongoing basis in line with the assumptions set forth in the strategy for managing the risk related to prices of carbon dioxide (CO₂) approved by the Management Board of Grupa LOTOS S.A. The Group balances its future CO₂ emission allowance deficits and surpluses depending on the market situation and within defined limits. In line with the approved strategy and limits, the Parent executes the following transactions for emission units:

- EUA (Emission Unit Allowance) – represents an allowance to emit one tonne of CO₂,

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- 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.
- 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.

As at December 31st 2014, the deficit of allowances in the 2013–2020 trading period (Phase III) was 573,770 tonnes. Taking into account derivative transactions for a total of 1,149,000 tonnes, however, the Parent holds surplus emissions allowances for 575,230 tonnes, which have been purchased in view of the market situation and the anticipated strategic deficit in emission allowances after 2020.

As at December 31st 2013, the deficit of allowances in the 2013–2020 trading period (Phase III) was 1,209,102 tonnes. Taking into account derivative transactions for a total of 1,696,000 tonnes, however, the Parent held surplus emissions allowances for 486,898 tonnes.

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. The valuation of contracts 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 such contracts as part of an overall assessment of the effectiveness of its CO₂ risk management (off balance sheet).

EUA futures contracts open as at December 31st 2014 which the Group considered likely to be settled through physical delivery and used for the Group's own purposes are not disclosed in the financial statements as at the last day of the reporting period, and their fair value is recorded only as an off-balance sheet item.

In 2014, the Group swapped its ERUs for 29,000 tonnes for EUAs due to the spread between those two types of emission allowances.

Contract position as at December 31st 2014 and December 31st 2013:

Open CO₂ allowances contracts as at December 31st 2014:

| Type of contract | Contract settlement period | Number of allowances in the period | Phase | Fair value (PLN '000)* | |
|------------------|----------------------------|------------------------------------|-----------|------------------------|-----------------------|
| | | | | Financial assets | Financial liabilities |
| EUA Futures | Dec 2015–Dec 2018 | 1,149,000 | Phase III | 6,062 | (402) |
| Total | | | | 6,062 | (402) |

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

Open CO₂ allowances contracts as at December 31st 2013:

| Type of contract | Contract settlement period | Number of allowances in the period | Phase | Fair value (PLN '000)* | |
|------------------|----------------------------|------------------------------------|-----------|------------------------|-----------------------|
| | | | | Financial assets | Financial liabilities |
| EUA Futures | Dec 2014–Dec 2017 | 1,696,000 | Phase III | 1,182 | (5,230) |
| Total | | | | 1,182 | (5,230) |

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

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 2014 and December 31st 2013, the Group held futures for the purchase of carbon dioxide (CO₂) emission allowances.

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 its own allowance deficits under the carbon emission reduction system. Therefore, no sensitivity analysis has been performed with reference to the EUA futures held as at December 31st 2014 and December 31st 2013.

32.3 Currency risk

The Group manages currency risk in line with the assumptions stipulated in The Strategy of Currency Risk Management at Grupa LOTOS S.A. The exposure management horizon is linked with the budget horizon, which varies from three to five consecutive quarters depending on the time of the year. In its operations the Group is exposed to currency risks related to:

- trading in raw materials, petroleum products and other commodities,
- investment cash flows,
- cash flows from financing activities, including deposits and borrowings,
- valuation of derivative instruments,

indexed to or denominated in a currency other than the functional currency.

The Group actively manages its currency exposure within defined limits, taking into account expected market developments.

As USD is used in market price quotations for crude oil and petroleum products, 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 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).

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

Open currency contracts as at December 31st 2014:

| Type of contract | Purchase/sale | Contract settlement period | Currency pair (base/quote) | Amount in base currency ('000) | Fair value (PLN '000) | |
|------------------|---------------|----------------------------|----------------------------|--------------------------------|-----------------------|-----------------------|
| | | | | | Financial assets | Financial liabilities |
| Currency spot | Purchase | Jan 2015 | USD/PLN | 14,000 | - | (548) |
| Currency spot | Purchase | Jan 2015 | EUR/PLN | 3,000 | - | (76) |
| Currency forward | Purchase | Jan-Feb 2015 | USD/PLN | 16,000 | - | (331) |
| Currency forward | Purchase | Feb 2015 | EUR/PLN | 5,000 | 253 | - |
| Currency forward | Purchase | Mar 2015 | EUR/USD | 5,000 | - | (1,386) |
| Currency forward | Sale | Jan-Sep 2015 | USD/PLN | (251,000) | - | (53,938) |
| Currency forward | Sale | Feb 2015 | EUR/PLN | (5,000) | 11 | (86) |
| Currency forward | Sale | Mar 2015 | EUR/USD | (3,500) | 272 | - |
| Currency swap | Purchase | Feb 2015 | USD/PLN | 16,000 | 3,894 | - |
| Currency swap | Purchase | Apr 2015 | EUR/USD | 5,500 | - | (672) |
| Currency swap | Sale | Jan-Jul 2015 | USD/PLN | (207,300) | - | (36,685) |
| | | | | Total | 4,430 | (93,722) |

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Open currency contracts as at December 31st 2013:

| Type of contract | Purchase/sale | Contract settlement period | Currency pair (base/quote) | Amount in base currency ('000) | Fair value (PLN '000) | |
|------------------|---------------|----------------------------|----------------------------|--------------------------------|-----------------------|-----------------------|
| | | | | | Financial assets | Financial liabilities |
| Currency spot | Purchase | Jan 2014 | USD/PLN | 21,000 | - | (125) |
| Currency spot | Purchase | Jan 2014 | EUR/PLN | 1,500 | - | (4) |
| Currency forward | Purchase | Jan–Nov 2014 | USD/PLN | 20,000 | - | (783) |
| Currency forward | Purchase | Jan 2014 | EUR/PLN | 4,700 | - | (105) |
| Currency forward | Sale | Mar–Oct 2014 | USD/PLN | (169,000) | 34,924 | - |
| Currency swap | Purchase | Jan–Nov 2014 | USD/PLN | 25,000 | - | (845) |
| Currency swap | Purchase | Jan 2014 | EUR/USD | 1,850 | - | (18) |
| Currency swap | Sale | Jan–Dec 2014 | USD/PLN | (393,450) | 38,275 | - |
| Currency swap | Sale | Jan 2014 | EUR/USD | (7,500) | - | (10) |
| Total | | | | | 73.199 | (1.890) |

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

Currency structure of selected financial instruments as at December 31st 2014:

| Dec 31 2014 | | USD | USD translated into PLN | EUR | EUR translated into PLN | Carrying amount in foreign currency translated into PLN as at the balance-sheet date |
|---|------|------------------|-------------------------|---------------|-------------------------|--|
| (PLN '000) | Note | | | | | |
| Classes of financial instruments | | | | | | |
| Financial assets | | | | | | |
| Trade receivables | | 61,228 | 214,662 | 5,076 | 21,652 | 236,314 |
| Cash and cash equivalents | | 8,965 | 33,745 | 9,990 | 42,508 | 76,253 |
| Notes | | 65,418 | 229,434 | - | - | 229,434 |
| Other financial assets: | | 317,964 | 1,137,610 | 1,454 | 6,198 | 1,143,808 |
| <i>Loans advanced to related entities</i> | | 264,274 | 926,790 | 1,410 | 6,010 | 932,800 |
| <i>Deposits</i> | | 8,962 | 31,432 | - | - | 31,432 |
| <i>Cash blocked in bank accounts</i> | 18 | 44,725 | 179,377 | - | - | 179,377 |
| <i>Other receivables</i> | | 3 | 11 | 44 | 188 | 199 |
| Total | | 453,575 | 1,615,451 | 16,520 | 70,358 | 1,685,809 |
| Financial liabilities | | | | | | |
| Borrowings | | 1,869,172 | 6,575,835 | 2,241 | 9,550 | 6,585,385 |
| Notes | | 126,359 | 443,978 | - | - | 443,978 |
| Finance lease liabilities | | - | - | 18,764 | 79,976 | 79,976 |
| Trade payables | | 375,997 | 1,318,705 | 8,750 | 37,255 | 1,355,960 |
| Other financial liabilities | | 7,985 | 28,768 | 4,701 | 19,988 | 48,756 |
| Total | | 2,379,513 | 8,367,286 | 34,456 | 146,769 | 8,514,055 |

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

| Dec 31 2013 | USD | USD translated into PLN | EUR | EUR translated into PLN | Carrying amount in foreign currency translated into PLN as at the balance-sheet date |
|---|------------------|-------------------------|---------------|-------------------------|--|
| (PLN '000) | | | | | |
| Classes of financial instruments | | | | | |
| Financial assets | | | | | |
| Trade receivables | 121,143 | 364,884 | 10,922 | 45,112 | 409,996 |
| Cash and cash equivalents | 23,338 | 70,277 | 8,492 | 28,635 | 98,912 |
| Notes | 59,268 | 178,516 | - | - | 178,516 |
| Other financial assets: | 436,078 | 1,313,611 | 9,976 | 41,376 | 1,354,987 |
| <i>Loans advanced to related entities</i> | <i>361,974</i> | <i>1,090,321</i> | <i>7,208</i> | <i>29,895</i> | <i>1,120,216</i> |
| <i>Deposits</i> | <i>3,105</i> | <i>9,352</i> | <i>603</i> | <i>2,501</i> | <i>11,853</i> |
| <i>Security deposit (margin)</i> | <i>-</i> | <i>-</i> | <i>2,150</i> | <i>8,917</i> | <i>8,917</i> |
| <i>Cash blocked in bank accounts</i> | <i>70,999</i> | <i>213,938</i> | <i>-</i> | <i>-</i> | <i>213,938</i> |
| <i>Other receivables</i> | <i>-</i> | <i>-</i> | <i>15</i> | <i>63</i> | <i>63</i> |
| Total | 639,827 | 1,927,288 | 29,390 | 115,123 | 2,042,411 |
| Financial liabilities | | | | | |
| Borrowings | 2,096,295 | 6,320,969 | 1,180 | 4,892 | 6,325,861 |
| Notes | 125,211 | 377,210 | - | - | 377,210 |
| Finance lease liabilities | - | - | 21,259 | 88,164 | 88,164 |
| Trade payables | 641,265 | 1,931,493 | 12,510 | 50,877 | 1,982,370 |
| Other financial liabilities | 9,240 | 27,829 | 3,909 | 16,211 | 44,040 |
| Total | 2,872,011 | 8,657,501 | 38,858 | 160,144 | 8,817,645 |

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 7.25). The tables below, presenting sensitivity of financial instruments to currency risk as at December 31st 2014 and December 31st 2013, also present the effect of currency rate changes on the carrying amounts of the derivative financial instruments.

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Below is presented an analysis of the Company's sensitivity to currency risk as at December 31st 2014, along with the effect on the net profit or loss, assuming a 12.142% increase or decrease in the USD/PLN exchange rate and a 7.2% increase or decrease in the EUR/PLN exchange rate.

| Dec 31 2014 | Effect of exchange rate increase/decrease on net profit/loss for the year | | | |
|---|---|----------------|--------------------------|----------------|
| | +12.142% | +7.2% | -12.142% | -7.2% |
| PLN '000 | USD | EUR | USD | EUR |
| Classes of financial instruments | | | | |
| Financial assets | | | | |
| Derivative financial instruments | 6,099 | (307) | (6,099) | 307 |
| Trade receivables | 26,064 | 1,559 | (26,064) | (1,559) |
| Cash and cash equivalents | 4,097 | 3,061 | (4,097) | (3,061) |
| Notes | 27,858 | - | (27,858) | - |
| Other financial assets: | 138,128 | 447 | (138,128) | (447) |
| <i>Loans advanced to related entities</i> | 112,531 | 433 | (112,531) | (433) |
| <i>Deposits</i> | 3,816 | - | (3,816) | - |
| <i>Cash blocked in bank accounts</i> | 21,780 | - | (21,780) | - |
| <i>Other receivables</i> | 1 | 14 | (1) | (14) |
| Total financial assets | 202,246 | 4,760 | (202,246) | (4,760) |
| Financial liabilities | | | | |
| Borrowings | 307,057 ⁽¹⁾ | 688 | (307,057) ⁽¹⁾ | (688) |
| Notes | 53,908 | - | (53,908) | - |
| Finance lease liabilities | - | 5,758 | - | (5,758) |
| Derivative financial instruments | 185,269 | (3,374) | (185,269) | 3,374 |
| Trade payables | 160,117 | 2,682 | (160,117) | (2,682) |
| Other financial liabilities | 3,493 | 1,439 | (3,493) | (1,439) |
| Total financial liabilities | 709,844 | 7,193 | (709,844) | (7,193) |
| Total | (507,598) | (2,433) | 507,598 | 2,433 |

⁽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 12.142% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (498,143) thousand/PLN 498,143 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 6,762 thousand/PLN (6,762) thousand in the fair value of borrowings, assuming a 12.142% 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 an implied annual change of the exchange rates as at December 31st 2014 by 12.142% (USD/PLN) and 7.2% (EUR/PLN), published by Reuters. This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2014. The purpose of taking a different approach to setting the percentage change in exchange rates in 2014 was to better reflect the fluctuations in exchange rates on financial markets.

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Below is presented an analysis of the Company's sensitivity 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.

| Dec 31 2013 | Effect of exchange rate increase/decrease on net profit/loss for the year | | | |
|---|---|----------------|-------------------------|----------------|
| | +4% | +4% | -4% | -4% |
| PLN '000 | USD | EUR | USD | EUR |
| Classes of financial instruments | | | | |
| Financial assets | | | | |
| Derivative financial instruments | (75,226) | (41) | 75,226 | 41 |
| Trade receivables | 14,595 | 1,804 | (14,595) | (1,804) |
| Cash and cash equivalents | 2,811 | 1,145 | (2,811) | (1,145) |
| Notes | 7,141 | - | (7,141) | - |
| Other financial assets: | 52,545 | 1,656 | (52,545) | (1,656) |
| <i>Loans advanced to related entities</i> | 43,613 | 1,196 | (43,613) | (1,196) |
| <i>Deposits</i> | 374 | 100 | (374) | (100) |
| <i>Security deposits (margins)</i> | - | 357 | - | (357) |
| <i>Cash blocked in bank accounts</i> | 8,558 | - | (8,558) | - |
| <i>Other receivables</i> | - | 3 | - | (3) |
| Total financial assets | 1,866 | 4,564 | (1,866) | (4,564) |
| Financial liabilities | | | | |
| Borrowings | 96,997 ⁽¹⁾ | 196 | (96,997) ⁽¹⁾ | (196) |
| Notes | 15,088 | - | (15,088) | - |
| Finance lease liabilities | - | 3,527 | - | (3,527) |
| Derivative financial instruments | (13,591) | (132) | 13,591 | 132 |
| Trade payables | 77,260 | 2,035 | (77,260) | (2,035) |
| Other financial liabilities | 1,113 | 648 | (1,113) | (648) |
| Total financial liabilities | 176,867 | 6,274 | (176,867) | (6,274) |
| Total | (175,001) | (1,710) | 175,001 | 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.

32.4 Interest rate risk

The Parent is exposed to the risk of changes in cash flows caused by interest rate movements, as certain assets and liabilities held by the Parent have interest income and expense driven by floating interest rates. This position is driven primarily by the expected repayment schedules under the credit facilities obtained to finance and refinance stocks and to finance investments under the 10+ Programme, as well as the amount of interest computed with reference to the floating LIBOR USD rate. The Parent manages the interest rate risk within the granted limits using interest rate swaps.

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).

Open interest rate contracts as at December 31st 2014:

| Type of contract | Period | Notional amount (USD '000) | Company receives | Financial assets (PLN '000) | Financial liabilities (PLN '000) |
|--------------------------|-------------------|----------------------------|------------------|-----------------------------|----------------------------------|
| Interest rate swap (IRS) | Jul 2011–Jan 2018 | 200,000 | 6M LIBOR | - | (69,290) |
| Interest rate swap (IRS) | Jan 2015–Jan 2019 | 50,000 | 3M LIBOR | - | (6,194) |
| Total | | | | - | (75,484) |

Open interest rate contracts as at December 31st 2013:

| Type of contract | Period | Notional amount (USD '000) | Company receives | Financial assets (PLN '000) | Financial liabilities (PLN '000) |
|--------------------------|-------------------|----------------------------|------------------|-----------------------------|----------------------------------|
| Interest rate swap (IRS) | Jul 2011–Jan 2018 | 200,000 | 6M LIBOR | - | (70,543) |
| Interest rate swap (IRS) | Jan 2015–Jan 2019 | 50,000 | 3M LIBOR | - | (1,720) |
| Total | | | | - | (72,263) |

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 2014, assuming a +/- 0.72% change in interest rates:

| Dec 31 2014 | | Carrying amount | Change | |
|---|------|------------------|-----------------------|-------------------------|
| PLN '000 | Note | | +0.72% | -0.72% |
| Classes of financial instruments | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 20 | 348,215 | 2,507 | (2,507) |
| Other financial assets: | | 241,720 | 1,741 | (1,741) |
| <i>Oil and gas extraction facility decommissioning fund</i> | 18 | 30,911 | 223 | (223) |
| <i>Deposits</i> | 18 | 31,432 | 226 | (226) |
| <i>Cash blocked in bank accounts</i> | 18 | 179,377 | 1,292 | (1,292) |
| Total | | 589,935 | 4,248 | (4,248) |
| Financial liabilities | | | | |
| Bank borrowings | 27.1 | 6,215,612 | 36,963 ⁽¹⁾ | (36,963) ⁽¹⁾ |
| Loans | 27.2 | 102,783 | 740 | (740) |
| Notes | 27.3 | 213,479 | 1,537 | (1,537) |
| Finance lease liabilities | 27.4 | 131,794 | 949 | (949) |
| Derivative financial instruments ⁽²⁾ | 28 | 75,484 | (20,063) | 20,681 |
| Total | | 6,739,152 | 20,126 | (19,508) |

⁽¹⁾ Net of fixed rate borrowings and paid arrangement 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 0.72%, arises at the time of calculating and 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 0.72%, in the second case the curve is moved down 0.72%).

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

| Dec 31 2013 | | Carrying amount | Change | |
|---|------|------------------|----------------------|------------------------|
| PLN '000 | Note | | +0.2% | -0.2% |
| Classes of financial instruments | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 20 | 495,839 | 992 | (992) |
| Other financial assets: | | 284,426 | 569 | (569) |
| <i>Oil and gas extraction facility decommissioning fund</i> | 18 | 29,866 | 60 | (60) |
| <i>Deposits</i> | 18 | 29,593 | 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 | | 780,265 | 1,561 | (1,561) |
| Financial liabilities | | | | |
| Bank borrowings | 27.1 | 5,851,809 | 9,642 ⁽¹⁾ | (9,642) ⁽¹⁾ |
| Loans | 27.2 | 10,306 | 21 | (21) |
| Notes | 27.3 | 198,240 | 396 | (396) |
| Finance lease liabilities | 27.4 | 151,031 | 302 | (302) |
| Derivative financial instruments ⁽²⁾ | 28 | 72,263 | (6,017) | 6,081 |
| Total | | 6,283,649 | 4,344 | (4,280) |

⁽¹⁾ Net of fixed rate borrowings and paid arrangement 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 calculating and 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%).

This sensitivity analysis has been performed with reference to the balance of instruments held as at December 31st 2014 and December 31st 2013. The effect of the interest rate changes on the fair value has been examined assuming that the currency exchange rates remain unchanged. In the case of derivative instruments held as at December 31st 2014, for the purpose of interest rate sensitivity analysis the interest rate curve is moved up or down by the annual historical volatility as at December 31st 2014, calculated based on historical volatility data for the interest rates of interest rate swaps (IRS) with a 6-month interest payment period and 3-year expiry term, published by Reuters. As regards the instruments held as at December 31st 2013, a hypothetical change of reference interest rates (3M LIBOR, 6M LIBOR) was used. The purpose of taking a different approach to setting the percentage change in interest rates in 2014 was to better reflect the fluctuations in interest rates on financial markets.

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.

The majority of the Group's Polish subsidiaries participate in a real cash-pooling arrangement, whereby the Parent manages the structure on an on-going basis 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 derivative financial instrument trading on the OTC market,
- limited possibility of early termination of financial transactions,
- limits for low-liquidity spot financial instruments,
- credit limits for counterparties in financial and trade transactions,
- ensuring adequate quality and diversification of available financing sources,
- internal control processes and organisational efficiency facilitating prompt contingency response.

Contractual maturities of financial liabilities as at December 31st 2014 and December 31st 2013:

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Contractual maturities of financial liabilities as at December 31st 2014:

| Dec 31 2014 | | | | | | | | |
|--|-------------|------------------------|-------------------------------|-----------------------|--------------------|------------------|------------------|---------------------|
| | Note | Carrying amount | Contractual cash flows | Up to 6 months | 6–12 months | 1–2 years | 2–5 years | Over 5 years |
| PLN '000 | | | | | | | | |
| Borrowings (other than overdraft facilities) | 27.1 | 5,700,710 | 6,470,152 | 394,908 | 1,596,229 | 857,460 | 1,924,878 | 1,696,677 |
| Overdraft facilities | 27.1 | 514,902 | 514,902 | 514,902 | - | - | - | - |
| Loans | 27.2 | 102,783 | 122,641 | 3,306 | 12,343 | 13,782 | 47,123 | 46,087 |
| Notes | 27.3 | 213,479 | 213,732 | - | 17,687 | 35,072 | 160,973 | - |
| Finance lease liabilities | 27.4 | 131,794 | 163,404 | 17,500 | 17,786 | 35,441 | 74,166 | 18,511 |
| Trade payables | 30 | 1,692,839 | 1,692,839 | 1,692,755 | 84 | - | - | - |
| Other financial liabilities | 30 | 196,844 | 196,844 | 183,552 | 8,754 | 4,538 | - | - |
| Total | | 8,553,351 | 9,374,514 | 2,806,923 | 1,652,883 | 946,293 | 2,207,140 | 1,761,275 |

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

| Dec 31 2013 | | | | | | | | |
|--|-------------|------------------------|-------------------------------|-----------------------|--------------------|------------------|------------------|---------------------|
| (restated) | Note | Carrying amount | Contractual cash flows | Up to 6 months | 6–12 months | 1–2 years | 2–5 years | Over 5 years |
| PLN '000 | | | | | | | | |
| Borrowings (other than overdraft facilities) | 27.1 | 5,352,895 | 6,148,523 | 256,245 | 1,276,268 | 604,337 | 1,967,022 | 2,044,651 |
| Overdraft facilities | 27.1 | 498,914 | 498,914 | 498,914 | - | - | - | - |
| Loans | 27.2 | 10,306 | 10,698 | 3,769 | 3,519 | 1,084 | 2,326 | - |
| Notes | 27.3 | 198,240 | 198,485 | - | 15,060 | 15,060 | 168,365 | - |
| Finance lease liabilities | 27.4 | 151,031 | 191,646 | 18,032 | 16,962 | 33,213 | 89,623 | 33,816 |
| Trade payables | 30 | 2,395,237 | 2,395,237 | 2,393,681 | 1,556 | - | - | - |
| Other financial liabilities | 30 | 189,729 | 189,729 | 120,615 | 68,879 | 235 | - | - |
| Total | | 8,796,352 | 9,633,232 | 3,291,256 | 1,382,244 | 653,929 | 2,227,336 | 2,078,467 |

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

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Maturity structure of derivative financial instruments as at December 31st 2014:

| Dec 31 2014 | | | | | | | | |
|-------------------------------------|------|------------------|------------------------|-----------------|-----------------|-----------------|-----------------|--------------|
| 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 | (29,337) | (29,337) | (2,414) | (17,440) | (7,670) | (1,813) | - |
| Currency forward and spot contracts | | (55,829) | (52,648) | (43,928) | (8,720) | - | - | - |
| Interest rate swap (IRS) | | (75,484) | (76,610) | (23,975) | 1,629 | (20,792) | (33,472) | - |
| Currency swap | | (33,463) | (31,655) | (27,983) | (3,672) | - | - | - |
| Total | | (194,113) | (190,250) | (98,300) | (28,203) | (28,462) | (35,285) | - |

Maturity structure 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) |

*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 (excluding CO₂ emission allowance futures purchased to be used for settlement).

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 2014 and December 31st 2013, the concentration of credit risk exposure to any single counterparty in financial transactions of the Group did not exceed PLN 284.174 thousand and PLN 249.010 thousand, respectively (i.e. 4.44% and 3.49% 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 2014 and December 31st 2013, the concentration of credit risk exposure to any single counterparty in trade transactions of the Group did not exceed PLN 141,880 thousand and PLN 161,066 thousand, respectively (i.e. 2.21% and 2.26% of the Parent'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 2014 | Dec 31 2013 (restated) |
|----------------------------------|-------------|------------------|---------------------------|
| Derivative financial instruments | 28; 31.2 | 4,430 | 73,935 |
| Trade receivables | 18 | 1,406,501 | 1,591,649 |
| Cash and cash equivalents | 20 | 348,215 | 495,839 |
| Other financial assets | 31.1 | 1,332,033 | 391,633 |
| Total | 31.1 | 3,091,179 | 2,553,056 |

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 ageing 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, notes and liabilities under finance leases 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 | Dec 31 2014 | Dec 31 2013 (restated) |
|--|------|------------------|---------------------------|
| Non-current liabilities | | | |
| Bank borrowings | 27.1 | 4,098,225 | 4,180,374 |
| Loans | 27.2 | 92,146 | 3,250 |
| Notes | 27.3 | 195,892 | 183,171 |
| Finance lease liabilities | 27.4 | 109,299 | 129,395 |
| Total | | 4,495,562 | 4,496,190 |
| Current liabilities | | | |
| Bank borrowings | 27.1 | 2,117,387 | 1,671,435 |
| Loans | 27.2 | 10,637 | 7,056 |
| Notes | 27.3 | 17,587 | 15,069 |
| Finance lease liabilities | 27.4 | 22,495 | 21,636 |
| Total | | 2,168,106 | 1,715,196 |
| Restricted cash - issue of shares ⁽¹⁾ | 18 | (996,939) | - |
| Cash and cash equivalents | 20 | (348,215) | (495,839) |
| Net debt | | 5,318,514 | 5,715,547 |
| Equity attributable to owners of the Parent | | 8,258,288 | 9,189,307 |
| Non-controlling interests | 26 | 175 | 289 |
| Total equity | | 8,258,463 | 9,189,596 |
| Net debt to equity | | 0.64 | 0.62 |

⁽¹⁾Cash proceeds from the issue of Series D shares in Grupa LOTOS S.A., deposited in a separate bank account of the Polish National Depository for Securities (see Note 21) until the day of registration of the share capital increase (see Note 37).

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 CO₂ emission allowances for 2013–2020 presented below account for allowances granted pursuant to the Regulations of the Council of Ministers, as well as for other free allowances allocated by the European Commission.

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⁾ | 1,766 | 1,688 | 1,652 | 1,613 | 1,576 | 1,540 | 1,505 | 1,461 | 12,801 |
| Actual CO ₂ emissions | 1,745 | 1,875 ⁽²⁾ | - | - | - | - | - | - | 3,620 |

⁽¹⁾ The number of free CO₂ allowances in 2013–2020 as part of the National Allocation Plan (NAP) under the Regulation of the Council of Ministers of March 31st 2014 (Dz.U. of 2014, item 439) and the Regulation of the Council of Ministers of April 8th 2014 (Dz.U. of 2014, item 472), containing a list of installations covered by the greenhouse gas emission allowance trading system along with the number of allowances allocated to them. The figures also account for additional free emission allowances from the European Commission reserve, allocated in connection with the expansion of the refinery's production capacities following the introduction of natural gas to produce hydrogen.

⁽²⁾CO₂ emissions, calculated based on the production data for the installations covered by the emission trading scheme. The data for 2014 will be subject to verification in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

As at December 31st 2014, based on the limit of allowances for 2014 to be allocated under the EU ETS system and the actual volume of emissions, the Group reported a deficit of allocated CO₂ emission allowances, and therefore recognised a PLN 2,784 thousand provision in 2014 (December 31st 2013: PLN 1,527 thousand). The PLN 1,257 thousand effect of the provision on operating profit (after reversal of the provision of PLN 1,527 thousand recognised in the previous reporting period) was disclosed under other expenses (see Note 9.4)

Moreover, to cover the deficit, in 2013 the Group acquired 923 thousand of CO₂ emission allowances (EUA, ERU), valued at PLN 23,430 thousand, which were disclosed in its statement of financial position under *Other intangible assets* (see Note 15).

In total, the Group was allocated 1,766 thousand of CO₂ emission allowances for 2013, while the Group's actual CO₂ emissions in the period totalled 1,745 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 to which the Parent is a party

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

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company seeking the court's decision awarding it 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 some customers by fulfilling their orders to a disproportionately larger extent than the orders of PETROECCO JV Sp. z o.o. The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Monopoly Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company was also ordered to abandon the monopolistic practices pursuant to a decision of October 22nd 1997 issued by the Provincial Court of Warsaw – the Anti-Monopoly Court.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation filed by PETROECCO JV Sp. z o.o., fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals and remanded for re-examination by the Regional Court. The Company questioned whether any damage had been incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage. After two further hearings at which expert witnesses provided their evidence, by virtue of a ruling of April 20th 2007 the action was dismissed. Following the appeal and cassation proceedings in 2007, initiated by PETROECCO JV Sp. z o.o., the case was remanded for re-examination by the Regional Court of Gdańsk. As a result of further hearings (held on November 3rd 2009, October 1st 2010, December 6th 2012, February 8th 2013), after evidence was taken based on an opinion of the expert witness of Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków, which was favourable to Grupa LOTOS S.A., and after the parties exchanged process letters, the action filed by PETROECCO JV Sp. z o.o. was dismissed by the Court in its entirety. On June 26th 2013, PETROECCO JV Sp. z o.o. filed an appeal against the ruling. Grupa LOTOS S.A. responded to the appeal on March 11th 2014. On August 28th 2014, the Court of Appeals in Gdańsk issued a decision dismissing the appeal and awarding reimbursement of the costs of the proceedings to Grupa LOTOS S.A. On January 19th 2015, PETROECCO JV Sp. z o.o. filed a cassation appeal against the ruling of the court of second instance. As at the date of approval of these financial statements, the case is pending.

Assuming that there was little risk of an unfavourable outcome of the case, Grupa LOTOS S.A. did not recognise any provisions for potential liabilities related to the case.

Administrative and administrative court proceedings initiated upon a motion to declare invalid a decision expropriating certain property for the benefit of the State Treasury

Grupa LOTOS S.A. is a party to the proceedings against the State Treasury for declaring invalid the expropriation decision, based on which the Company acquired the perpetual usufruct right to land and ownership rights to buildings erected thereon.

The proceedings concern a property with a total area of 87,000 m², where a part of the Refinery's tank farm and its wastewater treatment plant are situated. The proceedings were initiated upon a motion of the former owners of the property. The motion of December 18th 2006 calls for declaring invalid the expropriation decision issued by the President of the City of Gdańsk on June 14th 1983 in its entirety or, failing that, declaring it invalid with respect to the amount of compensation paid. On September 9th 2014, the Gdańsk Province Governor issued a decision refusing to declare the expropriation decision invalid. On October 24th 2014, the former owners appealed against the decision. The Company responded to the appeal on November 3rd 2014. Currently, the case is being reviewed by the Minister of Infrastructure. As at the date of approval of these financial statements, the decision is not final.

The Company believes the risk of an adverse conclusion of the proceedings to be low and without any effect on these consolidated financial statements.

Tax settlements

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

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. The agreement provided for the terms of 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, to be gradually released to finance the removal of the MOPU and related infrastructure from the field, in accordance the agreement. On December 4th 2013, Talisman and Excalibur Maritime Contractors („EMC") signed 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. In June 2014, Talisman notified LOTOS E&P Norge AS of the execution of an agreement between Veolia Environmental Services and Single Buoy Moorings Inc. ("SBM") concerning the scrapping of the rig.

In 2014, work on removal of the MOPU proceeded according to schedule.

As at December 31st 2014, available cash deposited in the escrow account, denominated in the presentation currency, was recognised in the amount of PLN 179,377 thousand under *Other assets*. The available provision for future costs of removal of the MOPU and disassembly of the related fixed assets was recognised in the amount of PLN 94,312 thousand under the current portion of *Other liabilities and provisions*. As the amount of the provision is the Management Board's best estimate as at the reporting date, the assumptions may be subject to reasonable changes that may in the future cause the need to remeasure the provisions for future costs of decommissioning of the platform.

Proceedings involving LOTOS Petrobaltic S.A.

On March 11th 2013, LOTOS Petrobaltic S.A. received a payment notice for approximately GBP 6.5m from AGR Subsea Ltd. ("AGR"). The claim concerns AGR's remuneration for the performance of a contract to unearth the legs of the 'Baltic Beta' platform. LOTOS Petrobaltic S.A. questioned the amount demanded by AGR as remuneration for the services and 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 of its delayed and incomplete performance, as well as the grounds for LOTOS Petrobaltic S.A. to terminate the contract and demand reimbursement of costs incurred by LOTOS Petrobaltic S.A. to hire replacement contractors to complete the work. AGR Subsea Ltd. did not accept the settlement and brought the case to court. On November 4th 2013, LOTOS Petrobaltic S.A. received a claim brought by AGR for payment of GBP 6.5m. The dispute was referred to mediation by virtue of the court's decision, which was accepted by LOTOS Petrobaltic S.A. Mediation meetings between AGR and LOTOS Petrobaltic S.A. were scheduled for April 22nd 2014. At a joint request of both parties, on June 20th 2014 the court agreed to extend the mediation proceedings until July 31st 2014. LOTOS Petrobaltic S.A. moved for extension of the mediation proceedings until September 30th 2014. The court ordered AGR to respond whether it supports the request for extension. As at December 31st 2014, AGR had not responded to the request.

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. On March 25th 2014, the Regional Court, 9th Commercial Division in Gdańsk, in writ-of-payment proceedings, issued an order for payment which was served to LOTOS Petrobaltic S.A. on April 17th 2014. The order along with the claim were served on the respondent on November 14th 2014. AGR raised an objection to the payment order and filed a follow-up preparatory plea on December 31st 2014.

As at December 31st 2014 and 2013, no liability towards AGR Subsea Ltd. was recognised by the Group in these consolidated financial statements.

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

Completion of recovery proceedings at Energobaltic Sp. z o.o.

On April 7th 2014, the District Court for Gdańsk issued a decision to register completion of recovery proceedings at Energobaltic Sp. z o.o. with the National Court Register in light of the decision of the District Court for Gdańsk-Północ confirming performance of the arrangement executed at the meeting of creditors of June 29th 2009 as part of the recovery proceedings between Energobaltic Sp. z o.o. and its creditors (see Note 17 to the consolidated financial statement for 2009).

Proceedings involving other 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*.

The most recent hearing in the case was held on January 28th 2015. The court postponed entry of the ruling until May 25th 2015. As at the date of approval of these consolidated financial statements, the case was pending. As at December 31st 2014, LOTOS Paliwa Sp. z o.o. recognised a provision (see Note 30.1) for the court-awarded amount plus interest accrued in previous years, 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 opened bankruptcy by liquidation of assets of KRAK-GAZ Sp. z o.o. (a subsidiary of LOTOS Gaz S.A., currently LOTOS Gaz S.A. w likwidacji (in liquidation)). As the company's estate is managed by a bankruptcy administrator, LOTOS Gaz S.A. w likwidacji (in liquidation) lost control of KRAK-GAZ Sp. z o.o. KRAK-GAZ Sp. z o.o. has not been consolidated since 2009 (see Note 17 to the consolidated financial statements for 2009). 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. On March 27th 2014, in accordance with a separate plan for the distribution of funds obtained as part of the bankruptcy proceedings, LOTOS Gaz S.A. w likwidacji (in liquidation) (was awarded PLN 3,067 thousand). As at the date of approval of these consolidated financial statements, the bankruptcy proceedings are pending.

35.2 Other contingent liabilities

- Since August 20th 2014, the Parent has had a PLN 240,000 thousand own blank promissory note deposited at the Customs Office in Gdańsk as lump-sum security for excise duty of PLN 800,000 thousand. The security expiry date is August 19th 2015. As at December 31st 2014, the Company had another PLN 240,000 thousand own promissory note deposited with the Head of the Customs Office in Gdańsk. The promissory note will be returned to the Company upon formal settlement of the previous lump-sum security for excise duty of PLN 800,000 thousand, which was valid from August 20th 2013 to September 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 2014 and December 31st 2013. In the guarantee, LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf, consisting in exploration for and extraction of the natural resources from the sea bottom, including their storage and transport using means of transport other than ships.
- On May 13th 2014, LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") entered into an arrangement concerning conditional reimbursement of the costs of the Baltic Gas project (for more information, see Note 2 to the 2013 consolidated financial statements), whereby LOTOS Petrobaltic S.A. agreed to reimburse contributions made and documented by CalEnergy related to the performance of the second part of design work, as well as the remuneration payable to LOTOS Petrobaltic S.A. by CalEnergy, in the event of revocation of the B-4 and B-6 licences (valid until May 11th 2032 and November 7th 2032, respectively) within 12 months of the date of the arrangement. The total amount of contingent liabilities will not exceed USD 13,900 thousand (VAT exclusive).

36. Related parties

36.1 Transactions with related entities in which the Group holds shares

| PLN '000 | Year ended Dec 31 2014 | Year ended Dec 31 2013 (restated) |
|---|---------------------------|---|
| Equity-accounted joint ventures | | |
| Sale | 456,244 | 20,103 |
| Purchases | 510 | 1,032 |
| Purchase of property, plant and equipment | 14 | - |
| Interest income | 2 | - |

| PLN '000 | Note | Dec 31 2014 | Dec 31 2013 (restated) | Jan 1 2013 (restated) |
|--|------|-------------|---------------------------|--------------------------|
| Equity-accounted joint ventures | | | | |
| Receivables | 18 | 23,318 | 16,670 | 5,014 |
| Liabilities | 30 | 208 | 215 | 276 |

In 2014 and 2013, the Group traded primarily with LOTOS-Air BP Polska Sp. z o.o. The transactions involved sale of aviation fuel. The aggregate value of these transactions executed in 2014 was PLN 455,578 thousand (2013: PLN 19,533 thousand). As at December 31st 2014, the balance of outstanding receivables under these transactions was PLN 23,291 thousand (December 31st 2013: PLN 16,321 thousand).

In addition, in 2013 LOTOS Petrobaltic S.A. (upstream segment), as the other limited partner in Baltic Gas spółka z ograniczoną odpowiedzialnością i wspólnicy sp.k., increased its equity interest in the partnership in exchange for contributions, including an in-kind contribution worth PLN 51,700 thousand in the form of non-current assets related to the B-4 and B-6 fields.

For general information on joint ventures in which the Group holds interests see Note 2, and for key information on equity-accounted joint ventures, see Note 16.

36.2 Entity having control of the Group

As at December 31st 2014 and December 31st 2013, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2013 and 2014, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

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

In 2014, 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 regular business activities and involved mainly sale of fuels, sale and purchase of storage services, purchase of transport services, energy, natural gas and other fuels.

| PLN '000 | Year ended Dec 31 2014 | Year ended Dec 31 2013 |
|-----------|---------------------------|---------------------------|
| Sale | 640,112 | 353,978 |
| Purchases | 1,447,552 | 1,649,885 |

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|-------------|-------------|-------------|
| Receivables | 27,205 | 39,231 |
| Liabilities | 134,198 | 241,626 |

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 2014 | Year ended Dec 31 2013 |
|---|---------------------------|---------------------------|
| Management Board | | |
| Short-term employee benefits (salaries), including: | 1,346 | 1,580 |
| - annual bonus paid | - | 249 ⁽¹⁾ |
| - length-of-service awards (jubilee benefits) | 57 | 41 |
| Management Board – subsidiaries ⁽²⁾ | | |
| Short-term employee benefits (salaries and wages) | 3,646 | 3,562 |
| Supervisory Board | | |
| Short-term employee benefits (salaries and wages) | 228 | 246 |
| Total ⁽³⁾ | 5,220 | 5,388 |

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

⁽²⁾ Remuneration paid to members of the Company's Management Board for serving in corporate bodies of direct and indirect subsidiaries.

⁽³⁾ The amount reflects changes in the composition of the Company's Supervisory Board.

Other employee benefits

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|---|-------------|-------------|
| Management Board | | |
| Post-employment benefits, length-of-service awards and other benefits | 631 | 522 |
| Current liabilities under annual bonus ⁽¹⁾ | 156 | 311 |
| Total | 787 | 833 |

⁽¹⁾ Pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities (the Public Sector Salary Cap Act).

In 2014 and 2013, 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 2014 | Year ended Dec 31 2013 |
|---|---------------------------|---------------------------|
| Short-term employee benefits (salaries), including: | 26,918 | 30,187 |
| - annual bonus paid | 3,331 ⁽¹⁾ | 5,606 ⁽²⁾ |

⁽¹⁾ Remuneration paid in 2014 on account of annual bonus for 2013.

⁽²⁾ Remuneration paid in 2013 on account of annual bonus for 2012.

Other employee benefits

| PLN '000 | Dec 31 2014 | Dec 31 2013 |
|---|---------------|---------------|
| Post-employment benefits, length-of-service awards and other benefits | 12,190 | 8,886 |
| Current liabilities under annual bonus | 3,875 | 7,163 |
| Loans and other similar benefits | 31 | 6 |
| Total | 16,096 | 16,055 |

In 2014, the Group granted loans to members of its key management staff for a total amount of PLN 30 thousand. In 2013, 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 January 9th 2015, the District Court for Gdańsk-Póńoc in Gdańsk, 7th Commercial Division of the National Court Register, registered the following: (i) increase of the Company share capital from PLN 129,873,362 to PLN 184,873,362, effected through the issue of 55,000,000 Series D ordinary bearer shares with a par value of PLN 1 per share, pursuant to Resolution No. 2 of the Extraordinary General Meeting of September 8th 2014 on increasing the Company's share capital by way of issue of new shares, public offering of new shares, setting the record date for determining the pre-emptive rights to new shares for November 18th 2014, conversion into book-entry form and seeking admission of pre-emptive rights, allotment certificates and new shares to trading on the regulated market of the Warsaw Stock Exchange, amending the Company's Articles of Association and authorising the Supervisory Board to prepare a consolidated text of the Company's Articles of Association, which was made available to the public in Current Report No. 19/2014 of September 8th 2014 ("Share Issue Resolution") and (ii) amendments to the Company's Articles of Association made under the Share Issue Resolution.

As at January 9th 2015, the total number of voting rights attached to Company shares issued and outstanding upon registration of the share capital increase and Series D shares is 184,873,362, and the share capital comprises 184,873,362 ordinary shares with a par value of PLN 1 per share, including: (i) 78,700,000 Series A shares; (ii) 35,000,000 Series B shares; (iii) 16,173,362 Series C shares, and (iv) 55,000,000 Series D shares.

38. Approval of the consolidated financial statements

These consolidated financial statements were authorised for issue by the Management Board on March 5th 2015.

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