

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	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	Note	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
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)	10.3	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).

The Notes to the consolidated financial statements are an integral part of the statements.
(This is a translation of a document originally issued in Polish)