

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 expense

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 expense	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

9.3 Other income

PLN '000	Note	Year ended Dec 31 2014	Year ended Dec 31 2013 (restated)
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Reversal of impairment losses on property, plant and equipment and other

intangible assets:	-	550
Reversal of impairment losses:	-	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
Impairment losses:	-	(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
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.

9.4 Other expenses

	Year ended	Year ended
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PLN '000	Note	Dec 31 2014	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.

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.

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)