Grupa LOTOS S.A.
Separate financial statements for 2019

prepared in accordance with
International Financial Reporting Standards
as endorsed by the European Union
together with the independent auditor's report

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	2019	2018 (restated data)
Revenue	9.1	26,313.0	26,737.3
Cost of sales	9.2	(24,509.4)	(24,369.0)
Gross profit		**1,803.6**	**2,368.3**
Distribution costs	9.2	(775.8)	(747.5)
Administrative expenses	9.2	(262.8)	(224.4)
Other income	9.4	15.7	12.5
Other expenses	9.5	(36.2)	(79.7)
Operating profit		**744.5**	**1,329.2**
Finance income	9.6	376.7	404.3
Finance costs	9.7	(166.0)	(152.3)
Profit before tax		**955.2**	**1,581.2**
Corporate income tax	10.1	(120.9)	(247.3)
Net profit		**834.3**	**1,333.9**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss:		**84.6**	**(63.0)**
Cash flow hedges	21	104.5	(77.8)
Corporate income tax relating to cash flow hedges	10.1; 21	(19.9)	14.8
Items that will not be reclassified to profit or loss:		**(3.3)**	**-**
Actuarial gains/(losses) on post-employment benefits	25.1; 25.2	(4.1)	-
Corporate income tax relating to actuarial gain/(loss) on post-employment benefits	10.1	0.8	-
Other comprehensive income/(loss), net		**81.3**	**(63.0)**
Total comprehensive income/(loss)		**915.6**	**1,270.9**

Earnings per share (PLN)

Weighted average number of shares (million)	11	184.9	184.9
- basic	11	4.51	7.21
- diluted	11	4.51	7.21

STATEMENT OF FINANCIAL POSITION

	Note	Dec 31 2019	Dec 31 2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	5,707.3	5,836.4
Intangible assets	14	92.9	86.4
Shares	15	2,993.0	2,654.5
Derivative financial instruments	24	0.1	2.1
Other non-current assets	16	28.8	7.8
Total non-current assets		**8,822.1**	**8,587.2**
Current assets			
Inventories	17	4,526.2	4,530.1
- including emergency stocks		3,026.6	2,874.2
Trade receivables	16	2,598.0	1,815.4
Current tax assets		84.3	-
Derivative financial instruments	24	24.3	14.1
Other current assets	16	101.7	140.9
Cash and cash equivalents	18	319.0	1,193.7
Total current assets		**7,653.5**	**7,694.2**
Total assets		**16,475.6**	**16,281.4**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	184.9	184.9
Share premium	20	2,228.3	2,228.3
Cash flow hedging reserve	21	(203.6)	(288.2)
Retained earnings	22	8,129.7	7,853,3
Total equity		**10,339.3**	**9,978.3**
Non-current liabilities			
Borrowings and lease liabilities	23	1,340.2	1,295.6
Derivative financial instruments	24	3.0	6.6
Deferred tax liabilities	10.3	328.8	260.9
Employee benefit obligations	25	75.5	60.6
Other liabilities and provisions	26	14.0	15.7
Total non-current liabilities		**1,761.5**	**1,639.4**
Current liabilities			
Borrowings and lease liabilities	23	580.1	990.3
Derivative financial instruments	24	12.4	46.8
Trade payables	26	1,968.6	1,900,7
Current tax liabilities		-	156.9
Employee benefit obligations	25	57.7	53.0
Other liabilities and provisions	26	1,756.0	1,516.0
Total current liabilities		**4,374.8**	**4,663.7**
Total liabilities		**6,136.3**	**6,303.1**
Total equity and liabilities		**16,475.6**	**16,281.4**

STATEMENT OF CASH FLOWS

(prepared using the indirect method)

	Note	2019	2018
Cash flows from operating activities			
Net profit	11	**834.3**	**1,333.9**
Adjustments:		**486.3**	**(282.2)**
Income tax	10.1	120.9	247.3
Depreciation and amortisation	9.2	393.6	367.0
Foreign exchange (gains)/losses		138.1	138.8
Interest and dividends		(202.3)	(282.9)
(Gains)/losses from investing activities		0.3	6.8
Settlement and valuation of derivative financial instruments	9.6; 9.7	(32.2)	4.0
(Increase)/Decrease in trade receivables		(782.6)	781.7
Decrease/(Increase) in other assets		40.3	(6.8)
(Increase) in inventories		3.2	(1,195.6)
Increase/(Decrease) in trade payables		67.9	(221.6)
Increase/(Decrease) in other liabilities and provisions		724.6	(124.0)
Increase in employee benefit obligations		15.5	3.1
Income tax paid		(312.7)	(64.2)
Net cash from operating activities		**1,007.9**	**987.5**
Cash flows from investing activities			
Dividends received		312.9	371.4
Interest received		8.7	27.3
Proceeds from sale of property, plant and equipment and intangible assets		-	0.7
Refund of additional contribution to LOTOS Paliwa Sp. z o.o.'s equity		-	121.3
Decrease in loans advanced to related parties	31.1	95.6	171.7
Purchase of property, plant and equipment and intangible assets		(100.2)	(152.6)
Acquisition of shares in LOTOS Upstream Sp. z o.o.	15.1	(338.5)	(366.0)
Loans advanced to related parties	31.1	(103.3)	(7.5)
Security deposit (margin)		(49.9)	27.0
Settlement of derivative financial instruments		55.6	60.1
Net cash from investing activities		**(119.1)**	**253.4**
Cash flows from financing activities			
Repayment of bank borrowings	23	(1,030.0)	(632.5)
Interest paid	23	(96.9)	(112.5)
Dividends paid	12	(554.6)	(184.9)
Lease payments	23	(7.1)	-
Settlement of derivative financial instruments		(71.3)	48.9
Net cash from financing activities		**(1,759.9)**	**(881.0)**
Total net cash flow		**(871.1)**	**359.9**
Effect of exchange rate fluctuations on cash held		(0.6)	2.8
Change in net cash		**(871.7)**	**362.7**
Cash at beginning of the period		**1,190.7**	**828.0**
Cash at end of the period	18	**319.0**	**1,190.7**

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total equity
Jan 1 2019		**184.9**	**2,228.3**	**(288.2)**	**7,853.3**	**9,978.3**
Net profit	11	-	-	-	834.3	834.3
Other comprehensive income/(loss), net		-	-	84.6	(3.3)	81.3
Total comprehensive income/(loss)		-	-	84.6	831.0	915.6
Dividend	12	-	-	-	(554.6)	(554.6)
Dec 31 2019		**184.9**	**2,228.3**	**(203.6)**	**8,129.7**	**10,339.3**
Jan 1 2018		**184.9**	**2,228.3**	**(225.2)**	**6,704.3**	**8,892.3**
Net profit	11	-	-	-	1,333.9	1,333.9
Other comprehensive income/(loss), net		-	-	(63.0)	-	(63.0)
Total comprehensive income/(loss)		-	-	(63.0)	1,333.9	1,270.9
Dividend		-	-	-	(184.9)	(184.9)
Dec 31 2018		**184.9**	**2,228.3**	**(288.2)**	**7,853.3**	**9,978.3**

NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

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

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

Grupa LOTOS S.A. is the parent of the Grupa LOTOS Group (the "LOTOS Group", the "Group"), which as at December 31st 2019 comprised 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.

Consolidated financial statements prepared by Grupa LOTOS S.A. incorporate the financial data of its fully-consolidated subsidiaries and equity-accounted joint ventures.

The consolidated financial statements of the LOTOS Group for 2019 were authorised for issue by the Company's Management Board on March 9th 2020.

3. Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") endorsed by the European Union, issued and effective as at December 31st 2019.

These financial statements have been prepared on the assumption that the Company would continue as a going concern in the foreseeable future. As at the date of authorisation of these financial statements for issue, no circumstances were identified which would indicate any threat to the Company's continuing as a going concern.

The Company's functional currency and the presentation currency of these financial statements is the Polish złoty (the "złoty", "PLN"). These financial statements have been prepared in millions of złoty and, unless indicated otherwise, all amounts are stated in millions of złoty.

4. New standards and interpretations

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

- Amendments to various standards introduced as part of the Annual Improvements to IFRS Standards 2015–2017 Cycle – amendments made to IFRS 3, IFRS 11, IAS 12 and IAS 23 primarily to correct conflicts and clarify wording (effective for annual periods beginning on or after January 1st 2019),
- Amendments to IAS 19 *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective for annual periods beginning on or after January 1st 2019),
- Amendments to IAS 28 *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* (effective for annual periods beginning on or after January 1st 2019),
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Materiality* (effective for annual periods beginning on or after January 1st 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1st 2020),
- Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments - Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* - IBOR Reform (effective for annual periods beginning on or after January 1st 2020).

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

- IFRS 17 *Insurance Contracts* (effective for annual periods beginning on or after January 1st 2021),
- Amendments to IFRS 3 *Business Combinations − Definition of a Business* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1st 2020 and to asset acquisitions that occur on or after the beginning of that period),
- 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*, and subsequent amendments (the effective date of the amendments has been postponed until the research project on the equity method has been concluded),
- IFRS 14 *Regulatory Deferral Accounts* (the effective date of the amendments is deferred),
- IAS 1 Presentation of Financial Statements: classification of liabilities as current or non-current (effective for annual periods beginning on or after January 1st 2022).

The effective dates are stated in relevant standards issued by the International Accounting Standards Board. The dates of application of standards in the EU may differ from the effective dates stated in those standards and are announced upon their endorsement by the EU.

The Company has not elected to early adopt any of the standards, interpretations, or amendments endorsed by the EU which were not effective as at December 31st 2019.

Effect of applying new standards

The accounting policies applied in the preparation of these financial statements are consistent with the policies applied in the preparation of the financial statements for the year ended December 31st 2018 (see Note 6 to the separate financial statements for 2018), except for the policies which were introduced following the adoption, as of January 1st 2019, of the new standard IFRS 16 Leases. For a discussion of the effect of the new standard on the Company's accounting policies, see Note 4 to the separate financial statements for 2018 and below.

Overview of the standard

IFRS 16 *Leases*

IFRS 16 is effective for annual periods beginning on or after January 1st 2019 and has been endorsed by the European Union. It replaces the previously applied IAS 17 as well as IFRIC 4, SIC-15 and SIC-27.	The new standard introduces a single lease accounting model in the lessee's accounting books, which is similar to the recognition of finance leases under IAS 17. Under IFRS 16, a contract is a lease or contains a lease component if it transfers the right to control the use of the identified asset for a given period for consideration. An essential element that differentiates the definitions of lease under IAS 17 and IFRS 16 is the requirement to exercise control over a specific asset used, identified in the contract explicitly or implicitly. The right-of-use is conveyed where the lessee has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use in the period. If the definition of lease is satisfied, the lessee recognises a right-of-use asset and a lease liability, initially measured at the amount of discounted future value of the lease payments to be made over the lease term. Expenditure related to the use of leased assets, previously largely included in cost of services, is now classified as depreciation and interest expense. Right-of-use assets are depreciated using the straight-line method, while lease liabilities are accounted for using the effective interest rate.

Effect of IFRS 16 on the financial statements

The Company carried out an analysis aimed at identifying the agreements under which it uses assets owned by third parties. Each of the agreements so identified was reviewed in terms of satisfying the criteria to be classified as a lease in accordance with IFRS 16. Based on such review, the Company calculated the effect of introduction of IFRS 16 on the individual items of its financial statements.

The Company also made appropriate changes to its accounting policies and operational procedures. It developed and implemented methodologies for correct identification of agreements which are leases as well as for collection of data necessary to correctly account for such transactions.

IFRS 16 introduces a new definition of lease. However, the Company used a practical expedient for transition and did not re-assess whether the contracts previously classified included leases. Therefore, the definition of lease compliant with IAS 17 and IFRIC 4 will continue to apply to lease contracts, concluded or amended before January 1st 2019.

Below are presented the individual adjustments made due to the implementation of IFRS 16.

Recognition of lease liabilities

Upon adopting IFRS 16, the Company recognised lease liabilities related to agreements previously classified as operating leases in accordance with the requirements of IAS 17. These liabilities have been measured at the present value of lease payments outstanding at the first-time application of IFRS 16, discounted using the interest rate of the lease calculated on the basis of the Company's incremental borrowing rate on the date of adoption of the standard.

As at the date of first-time application of the standard, the average discount rate calculated by the Company was 6.15%.

Lease liability	**Jan 1 2019**
Operating lease liabilities as at December 31st 2018	**46.4**
Effect of discounting using the Group's incremental borrowing rate as at January 1st 2019	(19.2)
Short-term leases recognised as expense in the period	(14.6)
Other[(1)]	119.5
Total lease liabilities	**132.1**

[(1)] Applicable mainly to perpetual usufruct of land not classified as non-cancellable operating lease as at December 31st 2018.

Use of practical expedients

When first applying IFRS 16, the Company applied the following practical expedients available under the standard:

- application of a single discount rate to a portfolio of leases with similar characteristics,
- treatment of operating leases whose remaining term as at January 1st 2019 was less than 12 months as short-term leases,
- exclusion of initial direct costs from the measurement of the right-of-use assets at the date of initial application, and
- use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

Effect on the statement of financial position

The estimated cumulative effect of the implementation of IFRS 16 on recognition of additional right-of-use assets and related financial liabilities as at January 1st 2019:

	IAS 17 Dec 31 2018	Effect of accounting policy change	IFRS 16 Jan 1 2019
ASSETS			
Non-current assets			
Property, plant and equipment	5,836.4	132.1	5,968.5
Total	**5,836.4**	**132.1**	**5,968.5**
EQUITY AND LIABILITIES			
Non-current liabilities			
Borrowings and lease liabilities	1,295.6	130.8	1,426.4
Current liabilities			
Borrowings and lease liabilities	990.3	1.3	991.6
Total	**2,285.9**	**132.1**	**2,418.0**

Effect on the statement of comprehensive income

The table below presents the estimated amounts which affect the separate statement of comprehensive income in the current reporting period following the application of IFRS 16 as compared with IAS 17 and the related interpretations that had been effective prior to the change.

	2019		
	Amounts recognised in accordance with IFRS 16	Adjustment	Amounts not affected by application of IFRS 16*
Revenue	26,313.0	-	26,313.0
Cost of sales	(24,509.4)	(2.6)	(24,512.0)
Gross profit	**1,803.6**	**(2.6)**	**1,801.0**
Distribution costs	(775.8)	(0.5)	(776.3)
Administrative expenses	(262.8)	(0.1)	(262.9)
Other income	15.7	-	15.7
Other expenses	(36.2)	-	(36.2)
Operating profit	**744.5**	**(3.2)**	**741.3**
of which: depreciation and amortisation	(393.6)	5.8	(387.8)
Finance income	376.7	-	376.7
Finance costs	(166.0)	7.5	(158.5)
Profit before tax	**955.2**	**4.3**	**959.5**
Corporate income tax	(120.9)	(0.8)	(121.7)
Net profit	**834.3**	**3.5**	**837.8**

*The column presents the amounts determined in such a manner as if IAS 17 and the related interpretations applied in the current reporting period.

Effect on equity

The implementation of IFRS 16 had no effect on retained earnings or equity as at January 1st 2019 due to the fact that the right-of-use assets and lease liabilities were recognised in the same amount.

Effect on financial ratios

Given the fact that practically all leases were recognised in the consolidated statement of financial position, the implementation of IFRS 16 by the Group affected its balance sheet ratios, including the debt to equity ratio. In addition, the implementation of IFRS 16 resulted in changes to the profit metrics (e.g. operating profit, EBITDA) and to cash flows from operating activities. The Group analysed the implications of these changes for the fulfilment of covenants contained in its credit facility agreements. No risk of default was identified.

5. Material judgements and estimates

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

Although the assumptions and estimates are based on the management's best knowledge of the current and future events and developments, the actual results might differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any change in an accounting estimate is recognised in the period in which it 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.

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

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

Employee benefit obligations

Employee benefit obligations are estimated using actuarial methods. For information on the actuarial assumptions and valuation of employee benefit obligations, see Note 25.

Depreciation and amortisation

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Company reviews the useful lives of its assets annually, on the basis of current estimates. The relevant estimate update which had an effect on the Company's financial statements for 2019 resulted in a PLN 1.4m increase in depreciation/amortisation expense.

Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate valuation methods and assumptions, the Company relies on professional judgement.

For more information on the assumptions adopted for the measurement of fair value of financial instruments, see Notes 7.17 and 7.19.

Deferred tax assets

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

For information on deferred tax assets, see Note 10.3.

Impairment of cash-generating units and individual 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. Indications of impairment may be based on external sources and relate to market variables (including fluctuations in prices, FX rates, stock prices, interest rates and other variables related to current economic trends), as well as plans, actions and developments at the Company, such as decisions concerning change, discontinuation, limitation or development of its business, technological changes, or efficiency and investment initiatives.

If there is any indication of impairment, the Group estimates the recoverable amounts of assets and cash-generating units. While determining the recoverable amount, such key variables as discount rates, growth rates and price indices are taken into account.

As a result of an analysis of cash flows generated by the individual cash-generating units, no indication of impairment was identified which in the Management Board's opinion would require impairment tests leading to potential adjustments.

For information on assets, see Notes 13, 14 and 15.

Leases

<u>Discount rate</u>

For each type of contract, the Company estimates the discount rate which will affect the final value of the contracts. The Company takes into account characteristics of the contract, the duration of the contract, the currency of the contract and the potential margin it would have to pay to external financial institutions if it wanted to enter into such a transaction on the financial market.

The process of determining a current incremental borrowing rate consists of the following steps:

- analysis of the lessee's current financing structure (e.g., the debt instruments held by the lessee and their terms);
- determination of the appropriate reference rate – assuming specific currency, economic conditions and lease term;
- analysis of other material lease terms, including the nature of the underlying assets.

To calculate discount rates for leasing purposes, the Company assumes that the discount rate should reflect the cost that it would have to pay to borrow the funds necessary to purchase the leased asset.

The Company enters into lease contracts based on the three principal currencies to which it has assigned the base discount rate, These are PLN at the WIBOR base rate for short-term periods and interest rates on government bonds for long-term periods, EUR at the EURIBOR base rate for short-term periods and interest rate on government bonds for long-term periods, and USD at the LIBOR base rate for short-term periods and interest rate on government bonds for long-term periods.

Determination of current discount rates is performed cyclically every quarter, and the discount rates so determined are then used for lease calculations in accordance with IFRS 16 for the period lasting until the next determination of the discount rates.

Identification of lease contracts under the EFRA project

Grupa LOTOS S.A. and its subsidiary LOTOS Asfalt Sp. z o.o. executed the EFRA project under which a number of contracts were entered into, including contracts for delivery of raw material and utilities to LOTOS Asfalt Sp. z o.o., sale of products from the EFRA unit to Grupa LOTOS S.A., as well as provision of maintenance services and tank handling services. The Company analysed a group of these contracts to determine whether they contain leases.

The assessment process included the following steps:

- determination of the underlying asset,
- analysis of the Company's right to obtain substantially all economic benefits from the use of the identified asset,
- determination whether the Company has the right to control how and for what purpose the asset is used throughout its useful life.

Based on an analysis of the facts and circumstances, the Company determined that the contractual arrangements meet the definition of a lease in accordance with IFRS 16.

Given that lease payments related to the operation of the unit are variable and do not contain a substantially fixed component, they are not included in the initial amount of the lease liability and the initial measurement of the right-of-use asset.

6. Change of information presented in previous reporting periods and correction of errors

In the statement of comprehensive income, the Company changed the presentation of a provision to cover the deficit of carbon dioxide emission allowances (CO_2) by transferring the provision from other activities to core activities (Taxes and charges). As a result of the change in the statement of comprehensive income for 2018, other expenses decreased (see Note 9.5) and cost of sales increased by PLN 26.3m. The comparative data presented in Note 9.2 Expenses by nature was also changed under: Taxes and charges and Cost of sales. These items increased by PLN 26.3m.

7. Accounting policies

These financial statements have been prepared in accordance with the historical cost principle, with the exception of those financial instruments which are measured at fair value.

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

7.1 Revenue

Revenue from contracts with customers is recognised when the Company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). In the statement of comprehensive income, revenue from contracts with customers is recognised as revenue from the Company's day-to-day operations (i.e. revenue from sales of products, services, merchandise and materials), adjusted for the result on settlement of instruments hedging future cash flows. Contracts with customers are presented in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the Company's performance and the customer's payment. Only the Company's unconditional rights to receive consideration are presented on a separate basis as trade receivables (e.g., where an invoice has been issued to a customer or where it received another legal title requiring it to make payment by a specified deadline). Conditional rights (where the passage of time is not the only condition for payment) are presented as contract assets. If several obligations arise under a single contract with respect to which both contract assets and contract liabilities have been recognised, such assets and liabilities are presented in net amounts in the statement of financial position. Contract assets are recognised and measured in accordance with IFRS 9 *Financial Instruments*.

Identifying contracts with customers

The Company carries out an analysis to determine whether the following criteria have been met before a contract is considered a 'contract with a customer':

- The contract between two or more parties has been concluded in writing, orally or in accordance with other customary business practices and has been approved by the parties;
- The contract identifies each party's rights and obligations regarding the goods or services and payment terms – the contract should clearly indicate the point in time when control over the goods sold or services provided is passed to the customer. In the case of sale of goods, the point in time when control is passed is usually the time when goods are transferred to the customer. In the case of provision of services, especially over a longer period of time, the point in time at which control passes may not be readily identifiable. If the point in time at which control is passed has not been not specified in the contract or is not a customary business practice, then the contract fails to meet the criterion as the seller is unable to determine the time when revenue is recognised. The contract must also specify the payment method, amount and date;
- Each party expects to perform its contractual obligations and it is probable that for the transferred goods or services consideration will be collected which the Company is able to determine. When assessing the probability of payment at this stage, the Company considers only the customer's ability and intention to pay the consideration when it is due, and does not evaluate the amount of consideration to be received from the customer (such amount may differ from the contract price as a result of future discounts, rebates or other elements of variable consideration);
- The contract has commercial substance, which means that upon its performance the risk, time and amount of the Company's future cash flows will change. If these parameters are not expected to change, it is rather unlikely that the contract has commercial substance. Planned cash flows do not have to change only through additional cash flows received from the customer, but also through decreasing outgoing cash flows from the seller, for example by receiving non-cash consideration from the customer;
- It is probable that the Company will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identifying performance obligations

At the inception of the contract, the Company assesses the goods or services that have been promised to the customer and identifies as a performance obligation any promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct if both of the following criteria are met:

- the customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- the Company's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The Company recognises revenue from a contract with a customer at the point in time when control over a good is passed to the customer. Control of an asset is defined as the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The Company considers the following factors confirming the satsifasction of a performance obligation:

- the Company has a present right to payment for the asset,
- the legal title to the asset has been transferred to the customer,
- the physical possession of the asset has been transferred to the customer,
- significant risks and rewards have been transferred to the customer,
- the customer has accepted the asset.

Determination of transaction price

In determining the transaction price, the Company takes into account not only fixed consideration, but also other components of consideration, such as variable consideration (i.e. the consideration amount that is contingent on the occurrence of a future event), non-monetary consideration, consideration due to the customer, and a significant financing arrangement. The price does not include amounts collected on behalf of another entity, i.e. VAT and other sales taxes (excise duty, fuel charge).

Variable consideration

Some contracts with customers may contain variable remuneration amounts because of discounts, rebates, refunds, credits, incentives, performance bonuses, penalties, price concessions or other similar items.

The Company includes variable consideration in the transaction price if, and to the extent that, it is highly probable that its inclusion will not result in a significant revenue reversal in the future (prudence principle) and makes an estimate applying one of the following methods, depending on which one will make it possible to more accurately predict the amount of consideration to which it is entitled:

- the expected value method (the sum of the products of consideration amounts and the probabilities of their occurrence), which is applied if a large number of similar contracts are concluded and the contract may have more than two possible outcomes;
- the most likely outcome method (i.e. the most likely amount) if the contract has only two possible outcomes (e.g. with or without a bonus).

The selected method is consistently applied to the contract. The estimate is remeasured as at each reporting date. Adjustments to recognised revenue are disclosed in the period in which the remeasurement takes place – the total amount of recognised revenue should be equal to the amount which would have been recognised if the new information had been known to the Company from the beginning.

Non-cash consideration is measured at fair value and where it is not possible to make a reasonable estimate – directly by reference to the standalone selling price of the promised goods or services.
Consideration due to the customer reduces the transaction price unless it is a payment for the goods or services purchased from the customer. Revenue will be reduced upon the occurrence of the latter of the following events:

- the Company recognises revenue from the transfer of related goods or services to the customer; and
- the Company pays or undertakes to pay consideration (even if such payment is contingent on the occurrence of a future event).

At the end of each reporting period occurring during the term of the contract, the Company updates its estimates affecting the transaction price. Any change in the transaction price is allocated to all performance obligations unless the variable consideration relates to only one or more than one (but not all) such obligations.

Allocating the transaction price to performance obligations

The Company allocates the transaction price to each performance obligation (or to a distinct good or service) in an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Satisfaction of performance obligations

If a performance obligation is satisfied at a point in time, revenue is recognised as control over a product, good or service is passed (i.e., when the ability to direct the use and obtain substantially all benefits from that product, good or service is passed).

Factors that may indicate the point in time at which control passes include, but are not limited to:

- the Company has a present right to payment for the asset,
- the customer has legal title to the asset,
- the customer has physical possession of the asset,
- the customer has the significant risks and rewards related to the ownership of the asset,
- the customer accepted the asset.

Revenue from sale of products, merchandise and materials is recognised in profit or loss on a one-off basis at a point in time being the time when the performance obligation is satisfied (defined, in particular, on the basis of INCOTERMS).

In the case of contracts for continuing services, under which the Company is entitled to receive from a customer a consideration in an amount that corresponds directly to the value of the services which the customer has received so far, the Company recognises the revenue in the amount it is entitled to invoice.

Principal versus agent considerations

When another party is involved in providing goods or services to a customer, the Company determines whether its performance obligation is to provide the good or service itself (i.e., the Company is a principal) or to arrange for another party to provide the good or service (i.e., the Company is an agent).

The Company is a principal if it controls the promised good or service before transferring it to the customer. However, the entity is not acting as a principal if it obtains legal title to a specified good only momentarily before legal title is transferred to a customer. A principal may satisfy its performance obligation to provide the specified good or service itself or it may engage another party (e.g. a subcontractor) to satisfy some or all of the performance obligation on its behalf. In such circumstances, the Company recognises revenue in the gross amount to which it expects to be entitled in exchange for the specified goods or services transferred.

The Company is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In such a case, the Company recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Significant financing component

With regard to contracts with customers for whom the interval between transfer of the promised goods or services and payment by the customer is expected to be more than one year, the Company determines whether the contracts include a significant financing component. In order to determine the transaction price, the Company adjusts the promised amount of consideration for a significant financing component using the discount rate that would be reflected in a separate financing transaction between the entity and the customer at contract inception.

The Company has decided not to adjust the promised amount of consideration for the effect of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to the customer and when the customer pays for that good or service will be one year or less. Therefore, the Company does not identify a significant financing component for short-term advance payments.

Non-cash consideration

Where a customer promises consideration in a form other than cash, in order to determine the transaction price the Company measures the non-cash consideration (or promise of non-cash consideration) at fair value. When the fair value of the non-cash consideration cannot be reasonably estimated, the consideration is measured indirectly by reference to the stand-alone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

Guarantees

The Company provides a guarantee for sold products, ensuring that a product conforms to the specifications agreed upon by the parties. The Company recognises such guarantees in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
Some non-standard contracts with customers may contain extended guarantees. Such guarantees form a separate service which is recognised as a performance obligation and to which part of the transaction price is allocated.

Capitalised costs to obtain a contract

The Company recognises incremental costs of obtaining a contract with a customer as an asset if the costs are expected to be recovered. The additional costs to obtain a contract are those costs incurred by an entity to obtain a contract with a customer which the entity would not have incurred if the contract had not been concluded. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense when incurred, unless the costs are explicitly chargeable to the customer regardless of whether the contract is obtained. The Company recognises incremental costs to obtain a contract as an expense when they are incurred if the amortisation period of the asset that would otherwise be recognised by the Company is one year or less. An asset is amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The Company updates the amortisation period to reflect a significant change in the expected timing of transfer to the customer of the goods or services to which the asset relates.

Contract assets

As contract assets, the Company recognises the right to consideration in exchange for goods or services transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance). The Company assesses whether there is any impairment of a contract asset in the same way as in the case of a financial asset in accordance with IFRS 9.

Receivables

Under receivables, the Company recognises the right to consideration in exchange for goods or services transferred to a customer if the right is unconditional (only the passage of time is required before payment of that consideration is due.). The Company recognises a receivable in accordance with IFRS 9. On initial recognition of a contract receivable, any difference between the measurement of the receivable in accordance with IFRS 9 and the corresponding amount of revenue previously recognised are recognised as an expense (impairment loss).

Contract liabilities

Under contract liabilities, the Company recognises such consideration received or receivable from a customer which relates to the obligation to transfer goods or services to the customer.

Right of return assets

Under right of return assets, the Company recognises the right to recover products from customers on settling the refund liability.

Refund liabilities

The Company recognises a refund liability if, having received consideration from a customer, the Company expects to refund a part or all of that consideration to the customer. A refund liability is measured as the amount of consideration received (or receivable) to which the Company does not expect to be entitled (i.e. amounts not included in the transaction price). The refund liability (as well as a corresponding change in the transaction price and the related change in the contract liability) is updated at the end of each reporting period for changes in circumstances.

7.2 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.

7.3 Interest income

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

7.4 Taxes

7.4.1 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. The net profit (loss) for tax purposes differs from the 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 items which will never be accounted for in tax settlements. The tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, tax liabilities are calculated taking into account all temporary differences existing as at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts as disclosed in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting pre-tax profit nor taxable 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 reversal of 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 the reporting period and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of the deferred tax assets would be generated.

Deferred tax assets and deferred tax liabilities are measured 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.

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

7.4.2 Value-added tax, excise duty, fuel charge and emission charge

Revenue, costs, assets and liabilities are recognised net of value added tax, excise duty, fuel charge and emission charge, except for:

- where the value-added tax paid on the purchase of assets or services is not recoverable from the tax authorities (in such a case it is recognised in the cost of a given asset or as part of the cost item), and
- receivables and payables which are recognised inclusive of value added tax, excise duty, fuel charge and emission charge.

The net amount of value added tax, excise duty, fuel charge and emission charge recoverable from or payable to tax authorities is carried in the statement of financial position under receivables or liabilities, as appropriate.

7.5 Foreign currency transactions

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

- the exchange rate actually applied on that date due to the nature of the transaction – in the case of sale or purchase of foreign currencies;
- the mid 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 in the case of other transactions.

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

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

The Company calculates 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,
- financial profit or loss: in the case of borrowings, investment commitments, and cash and cash equivalents.

Exchange differences arising on valuation as at the end of the reporting period of short-term investments (e.g. 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 following exchange rates, determined on the basis of the exchange rates quoted by the National Bank of Poland, were used for the purpose of the valuation of items of the statement of financial position:

NBP’s mid rate quoted for:	Dec 31 2019 (1)	Dec 31 2018 (2)
USD	3.7977	3.7597
EUR	4.2585	4.3000

(1) NBP’s mid rates table effective for December 31st 2019.
(2) NBP’s mid rates table effective for December 31st 2018.

7.6 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.

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, provided that relevant recognition criteria are fulfilled. Costs incurred on an asset which is already in service, such as costs of repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

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

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

Buildings, structures	1 year–80 years
Plant and equipment	1 year–25 years
Other	1 year–15 years

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

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 comprise property, plant and equipment which are under construction or assembly and are recognised at cost.

Finance costs capitalised in property, plant and equipment under construction include costs of servicing the debt incurred to finance the assets, in line with the policies described in Note 7.16.

7.7 Intangible assets

Intangible assets are recognised if the Company is likely to obtain future economic benefits attributable directly to the assets. Intangible assets are initially recognised at cost if they are acquired in separate transactions. Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

Intangible assets include software licences, patents, trademarks, CO_2 emission allowances acquired, and intangible assets under development.

Intangible assets other than goodwill are amortised over their estimated useful lives, using the straight-line method. The expected useful lives of the Company'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 consumption of the future economic benefits embodied in an asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates. The useful lives are reviewed on an annual basis and adjusted – if required – with effect as of the beginning of the next financial year.

With the exception of capitalised development expenditure, expenditure on intangible assets produced by the Company is not capitalised and is charged to expenses in the period in which it was incurred.

7.8 Leases

Accounting policies applied since January 1st 2019 (IFRS 16)

The Company as a lessee

The Company uses a single accounting model for leases under which the lessee recognises right-of-use assets and lease liabilities for all leases except short-term leases and leases of low-value assets.

Short-term leases are leases with a term of 12 months or less, containing no purchase options. In particular, the Company defines as short-term leases contracts made for an indefinite term which may be terminated on a short notice (up to 12 months) without any significant penalty imposed on the party.

The materiality threshold defined by the Company to identify low-value leases is PLN 20 thousand. The value of the underlying asset is measured based on the value of the asset when it is new, regardless of the age of the leased asset.

An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer.
The Company recognises a right-of-use asset and a lease liability upon commencement of a contract under which control of the use of specified assets is transferred for a certain period of time. The date of commencement of a lease contract is the date on which the leased asset is made available to the Company as the lessee.
A right-of-use asset is initially measured at cost which includes:
- the amount of the lease liability initially measured,
- any lease payments made at or prior to commencement, less any lease incentives received,
- any initial direct costs incurred by the lessee,
- the initial estimate of the costs of dismantling and removing the underlying asset and restoring the site on which it is located.

Right-of-use assets are recognised in the statement of financial position as property, plant and equipment. Perpetual usufruct right to land acquired for a consideration or received free of charge is recognised in the same manner as other lease contracts (as right-of-use assets and lease liabilities). To calculate assets and liabilities related to perpetual usufruct, the Company conducts an analysis to determine the anticipated term of perpetual usufruct. Once the anticipated term of perpetual usufruct has been determined, the lease liability is calculated in accordance with general principles. The perpetual usufruct rights to land recognised as at December 31st 2018 have been reclassified by the Company as right-of-use assets and recognised based on the amount determined before the date of transition to IFRS 16.

After the lease commencement date, the right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses. If there is a lease modification, the right-of-use asset is adjusted to the remeasurement of the lease liability (reflecting changes resulting from the lease modification or revision of the discount rate).

The right-of-use asset is amortised on a straight-line basis over the period corresponding to the estimated useful life of the asset. In the case of perpetual usufruct rights to land for which the amount of right-of-use assets was calculated in accordance with the perpetual usufruct formula, depreciation is not calculated. For other perpetual usufruct rights to land, depreciation is calculated in accordance with the term of the agreement.

If the lease transfers the ownership of an asset to the Company before the end of the lease term, or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. In other cases, the Company depreciates the right-of-use assets from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

Decommissioning costs are capitalised as part of the right-of-use asset and amortised over the estimated useful life of the asset. The fair value of decommissioning costs is estimated by the Company in accordance with the methodology specified in IFRIC 1.

A lease liability is initially measured at the present value of lease payments outstanding at that date, including:
- fixed lease payments net of any lease incentives;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if exercise of that option by the lessee is reasonably certain;
- lease termination penalties if the lessee is entitled to exercise the option to terminate the lease.

Lease payments do not include variable charges that depend on external factors. Variable lease payments not included in the initial measurement of a lease liability are recognised directly in profit or loss.

After initial recognition, the Company measures lease liabilities by:
- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made, and
- remeasuring the carrying amount in order to take into account a lease reassessment or modification, or to take account of revised substantially fixed lease payments, including increases or reductions due to index changes in the case of index-linked contracts.

Upon lease commencement, and to the extent that the costs are not included in the carrying amount of another asset in accordance with applicable standards other than IFRS 16, the lessee recognises in profit or loss both interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers payment occurs.

Lease payments are discounted using the interest rate implicit in the lease or the Company’s incremental borrowing rate when the interest rate implicit in the lease cannot be readily determined. To determine the incremental borrowing rate, the Company takes into account the type of contract, the duration of the contract, the currency of the contract and the potential margin it would have to pay to external financial institutions if it wanted to enter into such a transaction on the financial market.

The Company determined incremental borrowing rates in a breakdown by contract currency and taking into account contract term, based on the time brackets presented below:
- short-term contracts (12 months or shorter),
- contracts for a term of 1 to 2 years (inclusive),
- contracts for a term of 2 to 5 years (inclusive),
- contracts for a term of 5 to 10 years (inclusive),
- contracts for a term of more than 10 years.

The process of determining a current incremental borrowing rate consists of the following steps:
- analysis of the lessee’s current financing structure (e.g., the debt instruments held by the lessee and their terms);
- determination of the appropriate reference rate – assuming specific currency, economic conditions and lease term;
- analysis of other material lease terms, including the nature of the underlying assets.

To calculate discount rates for the purposes of IFRS 16, the Company assumes that the discount rate should reflect the cost that it would have to pay to borrow the funds necessary to purchase the leased asset.

The Company enters into lease contracts mainly in the Polish złoty, for which it has assigned WIBOR for a given term as the base discount rate.

Accounting policies applied until December 31st 2018 (IAS 17)

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 leases are treated by the Company as operating leases.

The Company as a lessee

Assets used under a finance lease are recognised as Company assets and 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 charged to the statement of comprehensive income.

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term.

7.9 Shares in subsidiaries and jointly-controlled entities

Shares in subsidiaries and jointly-controlled entities are measured at historical cost less impairment losses.

7.10 Impairment losses on non-financial non-current assets

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

The recoverable amount of an asset is equal to the higher of the fair value of the asset or cash generating unit less costs to sell, or its value in use. The recoverable amount is determined for 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, reducing the asset's carrying amount to the established recoverable amount.

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

The Company assesses at the end of each reporting period whether there is any indication that previously recognised impairment of an asset no longer exists or should be reduced. If there is such indication, the Company estimates the recoverable amount of the asset. A recognised impairment loss is reversed if and only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased up to its recoverable amount.

Such increased amount may not exceed the carrying amount of the asset that would have been determined (net of accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in 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 Company offsets corresponding items of other income and expenses in line with IAS 1 *Presentation of Financial Statements* (Section 34), with the resultant net amount disclosed in the statement of comprehensive income.

7.11 Inventories

Inventories are measured at the lower of cost and net realisable value.

Costs incurred in order to bring an inventory item to its present location and condition are accounted for in the following manner:

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

Decrease in inventories is established with the weighted average method.

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

The Company complies with the emergency stocks regulations effective since April 7th 2007, introduced based on the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, and on Procedures to be Followed in the Event of Threat to National Fuel Security or Disruptions on the Petroleum Market of February 16th 2007 (Dz.U. No. 52, item 343, dated March 23rd 2007, as amended). The act defines the rules for creating, maintaining and financing stocks of crude oil and petroleum products. The emergency stocks include crude oil, petroleum products (liquid fuels) and LPG. Emergency stocks are disclosed as current assets given their short turnover cycle.

Write-downs of products or semi-finished products, resulting from revaluation based on net realisable value, are posted to production costs. Write-downs of merchandise are charged to cost of merchandise sold.

As at the end of the reporting period, the Company estimates (based on an individual assessment of the usefulness of inventories for the purposes of its business) the amount of write-down of stored materials. If crude oil and refining product prices go down, the Company recognises an inventory write-down to adjust the carrying amount of inventories, given the difference between their cost and net realisable value, in accordance with IAS 2. Write-downs of stored materials due to their impairment are charged to costs.

If the reason for making an inventory write-down no longer exists, the value of the inventory item is increased by an equivalent of the whole or a part of the write-down. For the sake of clarity and because of the economic substance of the operation, if a write-down is used, its reversal is reflected in operating activities.

7.12 Cash and cash equivalents

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

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

7.13 Equity

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

The share capital of Grupa LOTOS S.A. 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.

7.14 Bank borrowings

All bank borrowings are initially recognised at cost, equal to the fair value, less cost of obtaining the funds.

Following initial recognition, interest-bearing borrowings are measured at amortised cost, using the effective interest rate method. Amortised cost includes the cost of obtaining the funds as well as discounts or premiums obtained on settlement of the liability. Upon removal of the liability from the statement of financial position or recognition of an impairment loss, gains or losses are charged to the statement of comprehensive income.

7.15 Employee benefit obligations

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

In accordance with the Collective Bargaining Agreement, Company 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 Company's social benefits are entitled to benefits from a separate social fund, which is established pursuant to applicable Polish regulations (Company Social Benefits Fund).

According to IAS 19 *Employee Benefits*, old-age and disability retirement severance (lump sum) payments, as well as contributions to the 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 represents the discounted value of future payments the employer will have to make to fulfil its obligations related the employees' services in previous periods (until the end of the reporting period), defined individually for each employee, taking into account employee turnover (probability of employees leaving), without including future employees.

The value of future employee benefit obligations includes length-of-service awards, old-age and disability retirement severance payments, as well as benefits paid to currently retired employees and the amount of estimated death benefits.

Length-of-service awards are paid after a specific period of employment. Old-age and disability retirement severance payments are one-off and paid upon retirement. Amounts of severance payments and length-of-service awards depend on the length of employment and the average remuneration of an employee. The amount of death benefit depends on the length of employment of the deceased employee, and the benefit is payable to the family, in accordance with the rules set forth in the Polish Labour Code.

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

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

Obligations under other employee benefits also include bonuses and awards granted as part of the Company's incentive pay systems.

For detailed information on employee benefits, see Note 25, containing the individual items of employee benefit obligations and employee benefits expense, actuarial assumptions, as well as an analysis of the sensitivity of estimates to changes of those assumptions. The Company recognises the cost of discount on its employee benefit obligations in finance costs.

7.15.2 Profit allocated 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 in which the profit allocation was approved by the General Meeting.

7.16 Borrowing costs

Borrowing costs are expensed in the period in which they were incurred, except for costs that are directly attributable to acquisition, construction or production of a qualifying asset (including foreign exchange losses on interest and fees and commissions). Such costs are capitalised in the cost of the asset. To the extent that funds are borrowed specifically for the purpose of acquiring a qualifying asset, 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 to the acquisition of a qualifying asset, the amount of the borrowing costs which may be capitalised is determined by applying the capitalisation rate to the amount of expenditure on that asset.

7.17 Financial assets and liabilities

Financial assets

Grupa LOTOS S.A. classifies financial assets into the following measurement categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,

The classification depends on the model adopted by the Company to manage financial assets and on the terms of contractual cash flows. Grupa LOTOS S.A. reclassifies investments in debt instruments only when the management model changes.

The Company assesses the model of managing debt financial assets (including trade receivables) based on the following three possible criteria:

- held to collect cash flows,
- held to collect cash flows and sell,
- other (effectively meaning assets held for disposal).

Measurement upon initial recognition

On initial recognition, Grupa LOTOS S.A. measures a financial asset at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset if it is not measured at fair value through profit or loss. Transaction costs related to financial assets at fair value through profit or loss are recognised in profit or loss.

Derecognition

Financial assets are recognised when the Company becomes a party to the contractual provisions covering the instrument. Financial assets are derecognised when the rights to receive cash flows from financial assets have expired or have been transferred, and the Company has transferred substantially all risks and rewards related to ownership of assets.

Measurement after initial recognition

Financial assets measured at amortised cost

Debt instruments held to collect contractual cash flows which comprise solely payments of principal and interest ("SPPI") are measured at amortised cost. Interest income is calculated using the effective interest rate method and recognised under interest income in profit or loss. Impairment losses are recognised in accordance with the accounting policy set out in Section 7.18 and presented under Impairment losses on financial assets.

In this category, the Company classifies in particular:

- trade receivables other than factoring receivables within the factoring limit granted to the Company,
- loans that meet the SPPI classification test and, in line with the business model, are recognised as 'held to collect cash flows',
- cash and cash equivalents,
- deposits, security deposits, investment receivables and other receivables.

Financial assets measured at amortised cost are classified as non-current assets if they mature more than 12 months after the reporting date.

If the effect of time value of money is material, the value of receivables is determined by discounting the projected future cash flows to their present value using a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as finance income.

Financial assets measured at fair value through other comprehensive income

Debt instruments giving rise to cash flows which are solely payments of principal and interest and which are held to collect contractual cash flows and to sell are measured at fair value through other comprehensive income. Changes in the carrying amount are recognised through other comprehensive income, except for impairment gains and losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. If a financial asset is derecognised, the total gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised as other gains/(losses). Interest income on such financial assets is calculated using the effective interest rate method and recognised under 'interest income'. Impairment due to expected credit losses is recognised in accordance with the accounting policy applicable to impairment of financial assets and presented under Impairment allowance for expected credit losses.

Financial assets at fair value through profit or loss

Assets which do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

In particular, Grupa LOTOS S.A. classifies loans that do not meet the SPPI test (i.e. cash flows from these loans are not solely payments of principal and interest) at fair value through profit or loss.

The fair value of trade receivables subject to factoring within the limit available as at the last day of the reporting period is determined on the basis of the factoring agreement with the factor.

Gain or loss on fair value measurement of debt investments is recognised in profit or loss and presented under 'Gains/(losses) on changes in the fair value of financial instruments' in the period in which they arise. Gains/(losses) on fair value measurement include interest received on financial instruments classified as measured at fair value.

The instruments classified at fair value through profit or loss include the derivative instruments described in Note 7.19.

Equity instruments measured at fair value through other comprehensive income.

Interests in other entities include such equity instruments in other entities which do not confer control, joint control or significant influence over such entities.

Interests in other entities are initially recognised at fair value plus transaction costs. Subsequently, they are measured at fair value. For all its investments, the Company has elected to present gains and losses on changes in the fair value of equity instruments in other comprehensive income as such investments are not held for short-term returns. If such election is made, gains and losses on changes in fair value are not reclassified to profit or loss when the investment is derecognised. Impairment losses (and reversals of impairment losses) on equity investments measured at fair value through other comprehensive income are not presented separately from other changes in fair value.

Dividends from such investments are recognised in profit or loss once the Company's right to receive payment is established.

Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs and subsequently at amortised cost using the effective interest rate method.

The instruments classified at fair value through profit or loss include the derivative instruments described in Note 7.19.

Under financial liabilities at amortised cost, Grupa LOTOS S.A. recognises mainly trade payables, investment commitments and other liabilities, borrowings, and debt instruments. Such liabilities are recognised in the statement of financial position under: bank borrowings, non-bank borrowings, notes and lease liabilities; trade payables; other liabilities and provisions.

Financial liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the date of the transaction. Foreign exchange gains and losses on settlement of those liabilities and translation at the exchange rates existing at the reporting date are recognised in profit or loss unless their recognition in other comprehensive income is deferred when they qualify as cash flow hedging.

If contractual terms of a financial liability are modified in a way that does not result in derecognition of the existing liability, the gain or loss is immediately recognised in profit or loss. Profit or loss is calculated as the difference between the present value of modified and original cash flows, discounted using the original effective interest rate of the liability.

7.18 Impairment of financial assets

As at the last day of each reporting period, Grupa LOTOS S.A. estimates expected credit losses on debt instruments measured at amortised cost and at fair value through other comprehensive income, whether or not there has been any evidence of impairment. Grupa LOTOS S.A. applies the following impairment recognition approaches:

- general (basic) approach,
- simplified approach.

With respect to short-term trade receivables without a significant financing component, the Company applies the simplified approach and measures impairment losses in the amount of credit losses expected over the entire life of the receivable since its initial recognition. Grupa LOTOS S.A. applies the provision matrix for calculating impairment losses on trade receivables classified in different age groups or delinquency periods.

For the purpose of determining expected credit losses, receivables are grouped based on the similarity of credit risk characteristics. To determine the overall default rate, an analysis of collectability of receivables for the last three years is carried out. Default rates are calculated for the following periods:

- up to 30 days;
- from 30 to 90 days;
- from 90 to 180 days;
- more than 180 days.

To determine the default rate for a given period, the amount of written off trade receivables is compared with the amount of outstanding receivables. The calculation takes into account the effect of future factors on the amount of credit losses.

Impairment losses are calculated taking into account default rates adjusted for the effect of future factors and the amount of receivables outstanding at the reporting date for each period.
Material individual items of receivables (representing more than 5% of total receivables) are tested on a case-by-case basis.

Intra-group receivables carry a different credit risk than receivables from third parties due to existing links and control. In the event of financial difficulties, Grupa LOTOS S.A. usually supports its subsidiaries. Therefore, poor financial performance and position of a subsidiary do not necessarily translate into higher credit risk. In such a case, the Company estimates impairment based on individual analysis. In other cases, where the number of items is significant, they may form a separate portfolio of intra-group receivables based on a portfolio analysis.

Grupa LOTOS S.A. applies a three-stage impairment model with respect to financial assets other than trade receivables:

- Stage 1 – financial instruments that have not had a significant increase in credit risk since initial recognition. Expected credit losses are determined based on the probability of default within 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur over the next 12 months);
- Stage 2 – financial instruments that have had a significant increase in credit risk since initial recognition, but there is no objective evidence of impairment; expected credit losses are calculated based on the probability of default over the lifetime of the asset;
- Stage 3 – instruments for which there is objective evidence of impairment.

Trade receivables are included in Stage 2 or Stage 3:

- Stage 2 – trade receivables for which a simplified approach to lifetime expected credit losses was applied, except for trade receivables included in Stage 3;
- Stage 3 – trade receivables that are more than 180 past due or are identified as not serviced.

To the extent necessary – according to the general approach – to assess whether there has been a significant increase in credit risk, the following factors are taken into account by Grupa LOTOS S.A.:

- delinquency period of at least 30 days;
- any legislative, technological or macroeconomic changes with a material adverse effect on the debtor;
- a significant adverse event has been reported concerning the loan or another loan taken by the same debtor from another lender, such as termination of a loan agreement, breach of its terms and conditions, or its renegotiation due to financial difficulties, etc.;
- the debtor has lost a significant customer or supplier or has experienced other adverse developments on its market.

Financial assets are written off, in whole or in part, when the Company has used practically all measures to collect them and determines that they cannot be reasonably expected to be recovered. This is usually the case when the asset is past due 180 days or more.

7.19 Derivative financial instruments

Derivative financial instruments used by the Company to hedge against currency risk include in particular FX forwards. In addition, the Company relies on full barrel swaps and commodity swaps to hedge its exposure to risk related to raw material and petroleum product prices. The Company uses futures contracts to manage its exposure to prices of carbon dioxide (CO_2) emission allowances, and enters into interest rate swaps (IRSs) and forward rate agreements (FRAs) to hedge its interest rate exposure. Such financial derivatives are measured at fair value in line with the fair value hierarchy.

Based on the fair value measurement methods applied, the Company 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 in the case of which all significant input data is observable on the market either directly (as prices) or indirectly (based on prices).
- Level 3: Financial assets and liabilities whose fair values are measured using measurement models in the case of which the input data is not based on observable market data (unobservable input data).

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 provided by an external consultancy (Level 2 in the fair value hierarchy).

Fair value of spots, forwards and currency swaps is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the interest rate curve implied in FX swaps (Level 2 in the fair value hierarchy).

Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction (Level 2 in the fair value hierarchy).

To manage risk related to carbon dioxide emission allowances, the Company 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 prices of CO_2 emission allowances, the Company enters into EUA, CER and ERU futures contracts. The fair value of such 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 Company through physical delivery, with the intention to potentially use the allowances to offset the Company's actual CO_2 emissions. The valuation of futures contracts to purchase carbon dioxide emission allowances that are planned to be settled through physical delivery is not disclosed under financial assets/liabilities in the financial statements. However, the Company internally monitors and performs the valuation of its open futures positions as part of an overall assessment of the effectiveness of its CO_2 risk management (off the balance sheet).

For information on the limit of free carbon dioxide emission allowances allocated to the Company and description of the Company's risk management process, see Note 28.2.

In the statement of financial position, financial derivatives are presented separately as either current or non-current, depending on the expected time of realisation of assets and liabilities. If their amount is immaterial, they are recognised under other assets and liabilities.

The Company 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. For more information on hedge accounting, see Note 7.20.

7.20 Hedge accounting

The Company has elected the option to continue to apply the existing requirements of IAS 39 as of January 1st 2019 and not to apply the new hedge accounting requirements of IFRS 9 until the International Accounting Standards Board has completed work on accounting for macro hedging.

GRUPA LOTOS S.A applies cash flow hedge accounting for USD-denominated borrowings designated as a hedging instrument for future highly probable revenues from the sale of USD-denominated raw materials and petroleum products exposed to the risk of USD/PLN exchange rate movements.

The objective of cash flow hedge accounting is to guarantee a specific Polish złoty value of revenue generated in USD. The hedged items comprise a number of highly probable and planned USD-denominated refined 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 USD-denominated revenue in that calendar month, or if the amount of revenue in the 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, in accordance with the principal repayment schedule.

Changes in the fair value of instruments designated as cash flow hedges are charged as follows:

- the portion which constitutes an effective hedge – directly to other comprehensive income,
- the portion which constitutes an ineffective hedge – to other finance income or costs in the reporting period.

At the time when a hedge is undertaken, the Company formally designates and documents the hedging relationship, as well as its risk management objective and strategy for undertaking the hedge. The relevant documentation specifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk, as well as how the Company will assess the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged item or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed at inception and on an ongoing basis to determine whether it remains highly effective during all the reporting periods for which it was undertaken.

7.21 Provisions

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

7.22 Trade and other payables, and accruals and deferred income

Short-term trade and other payables are reported at nominal amounts payable.

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

Other non-financial liabilities include in particular VAT, excise duty and fuel charge liabilities to tax authorities and liabilities under received prepayments that are to be settled by delivery of goods or property, plant and equipment, or performance of services. Other non-financial liabilities are measured at nominal amounts payable.

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

7.23 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.

7.24 Contingent liabilities and assets

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

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

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

In compliance with the IFRSs, the Company 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, but 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 impacts are neither known nor fully controlled by the entity. For more information on pending court proceedings and other contingent liabilities, see Note 30.1 and Note 30.2, respectively

7.25 Carbon dioxide (CO_2) emission allowances

CO_2 emission allowances are presented by the Company in its financial statements in accordance with the net liability approach, meaning that the Company recognises only those liabilities that result from exceeding the limit of emission allowances granted. The Company reviews the limits granted to it on an annual basis. The liability is recognised only after the Company actually exceeds the limit. Income from sale of unused emission allowances is recognised in the statement of comprehensive income at the time of sale.

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

7.26 Energy certificates

Property rights arising under energy certificates are presented as merchandise.

Purchased energy certificates are recognised at cost. Energy certificates granted free of charge are recognised as merchandise at fair value, with a corresponding entry under liabilities/deferred income made in Grants.

The value of surrendered energy certificates is measured at the weighted average price and charged to operating expenses in proportion to the volume of electricity sold and consumed. In the case of certificates received free of charge, the relevant grant is accounted for in proportion to the amount credited to other income.

Sales of energy certificates are recognised as sales of merchandise and credited to revenue from sale of merchandise.

Impairment losses on energy certificates are made as at the reporting date and charged to other expenses.

To give effect to the matching principle with respect to expenses and revenue from consumption and sale of electricity, and a lack of purchased or granted property rights, a provision for energy certificates is recognised. The amount of the provision is charged to operating expenses.

8. Business segments

The 2019 results by operating segments are presented in Note 8 to the consolidated financial statements for 2019, given that the Group companies have been allocated to the identified business segments. Grupa LOTOS S.A. is classified in the refining and marketing segment. The results of operations are assessed based on operating profit or loss at the Company (unconsolidated) level.

9. Income and expenses

9.1 Revenue

Type of goods or services	2019	2018
Revenue from contracts with customers		
Revenue from sale of products and rendering of services:	**26,064.3**	**26,254.3**
Revenue from sale of products	25,896.6	26,102.4
Revenue from rendering of services	167.7	151.9
Revenue from sale of merchandise and materials	**379.9**	**574.6**
Total revenue from contracts with customers	**26,444.2**	**26,828.9**
Effect of cash flow hedge accounting	(131.2)	(91.6)
Total revenue	**26,313.0**	**26,737.3**
- including to related entities	16,437.6	15,646.2

Sales by products, merchandise and services	2019	2018
Gasolines	4,160.2	4,301.6
Naphtha	938.3	1,157.1
Diesel oil	15,525.6	14,339.9
Light fuel oil	603.3	625.5
Heavy fuel oil	1,416.6	1,824.1
Aviation fuel	1,114.2	1,421.7
Bunker fuel	161.7	183.4
Bitumen production components	756.0	891.0
Base oils	583.9	697.8
Liquid gas	356.1	385.0
Crude oil	-	320.7
Xylene fraction	235.4	250.4
Slack wax	140.1	115.4
Other refinery products, merchandise and materials	261.5	136.0
Other merchandise and materials	23.6	27.4
Services	167.7	151.9
Effect of cash flow hedge accounting	(131.2)	(91.6)
Total	**26,313.0**	**26,737.3**

Geographical structure od sales	2019	2018
Poland	22,482.0	21,623.2
Belgium	329.9	536.0
Czech Republic	175.6	258.2
Denmark	167.6	257.1
Netherlands	1,726.6	2,284.2
Germany	141.1	278.1
Sweden	529.6	528.7
United Kingdom	359.4	452.0
Other countries	532.4	611.4
Effect of cash flow hedge accounting	(131.2)	(91.6)
Total	**26,313.0**	**26,737.3**

LOTOS Paliwa Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) was Grupa LOTOS S.A.'s largest customer, accounting for over 50% of the Company's total revenue in 2019 and 2018. In both periods, there were no other customers whose share in the Company's total revenue would exceed 10%.

9.2 Expenses by nature

	Note	2019	2018 (restated data)
Depreciation and amortisation		393.6	367.0
Raw materials and consumables used [(1)]		22,707.4	23,116.0
Services		1,021.2	968.4
Taxes and charges		497.5	479.2
Employee benefits expense	9.3	294.5	238.4
Other expenses by nature		93.0	110.3
Merchandise and materials sold		349.1	550.3
Total expenses by nature		**25,356.3**	**25,829.6**
Change in products and adjustments to cost of sales		191.7	(488.7)
Total		**25,548.0**	**25,340.9**
including:			
Cost of sales		24,509.4	24,369.0
Distribution costs		775.8	747.5
Administrative expenses		262.8	224.4

[(1)] Including PLN 66.1m of foreign exchange gains related to operating activities, recognised as cost of sales (2018: PLN 65.5m of foreign exchange losses).

9.3 Employee benefits expense

	Note	2019	2018
Current service costs		220.0	182.3
Social security and other employee benefits		58.8	50.0
Length-of-service awards, retirement and other post-employment benefits	25.2	15.7	6.1
Total employee benefits expense	9.2	**294.5**	**238.4**
Change in products		1.0	(3.2)
Total		**295.5**	**235.2**
including:			
Cost of sales		121.2	100.1
Distribution costs		13.9	10.4
Administrative expenses		160.4	124.7

9.4 Other income

	Note	2019	2018
Grants		13.6	8.7
Fines and compensation		1.2	2.6
Other		0.9	1.2
Total		**15.7**	**12.5**

9.5 Other expenses

	Note	2019	2018 (restated data)
Loss on disposal of non-financial non-current assets		0.3	6.8
Impairment losses on receivables	27.2	30.8	1.9
Charitable donations		0.1	11.3
Tax risk provision	30.1	-	52.5
Membership fees		3.0	1.2
Other		2.0	6.0
Total		**36.2**	**79.7**

9.6 Finance income

	Note	2019	2018
Dividends:		**313.3**	**371.8**
- from related entities	31.1	310.7	369.7
- from other entities	27.2	2.6	2.1
Interest calculated using the effective interest rate method:		**29.3**	**29.7**
- on deposits	27.2	24.5	21.2
- on loans advanced	27.2; 31.1	3.5	7.6
- other		1.3	0.9
Revaluation of derivative financial instruments:		**32.2**	**-**
- measurement	27.2	47.8	-
- settlement	27.2	(15.6)	-
Commission fees on conditional loan	31.1	**1.9**	**1.8**
Other		**-**	**1.0**
Total		**376.7**	**404.3**

The Company offsets similar transaction items in accordance with IAS 1 *Presentation of Financial Statements*, Sections 34 and 35. The Company discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

9.7 Finance costs

	Note	2019	2018
Interest:		**96.7**	**99.4**
● interest calculated using the effective interest rate method:		**94.4**	**97.0**
- on bank borrowings	27.2	86.4	96.2
- on lease liabilities	27.2	7.5	-
- other		0.5	0.8
● other interest:		**2.3**	**2.4**
- cost of discount on employee benefit obligations	25.2	1.8	1.9
- other		0.5	0.5
Exchange differences:		**37.3**	**19.0**
- on bank borrowings	27.2	21.7	28.9
- on loans advanced	27.2	3.2	(5.6)
- on commission on conditional loan		-	(0.4)
- on realised foreign-currency transactions in bank accounts	27.2	12.0	(1.5)
- on cash		0.6	(2.8)
- on investment commitments		(0.2)	0.4
Revaluation of derivative financial instruments:		**-**	**4.0**
- measurement	27.2	-	113.0
- settlement	27.2	-	(109.0)
Bank fees		**27.7**	**12.6**
Tax risk provision	30.1	**4.1**	**17.1**
Other		**0.2**	**0.2**
Total		**166.0**	**152.3**

The Company offsets similar transaction items in accordance with IAS 1 *Presentation of Financial Statements*, Sections 34 and 35. The Company discloses material items of income and expenses charged to profit or loss separately, as presented in the table above.

10. Income tax

10.1 Tax expense

	Note	2019	2018
Current tax		72.1	198.8
Deferred tax	10.3	48.8	48.5
Total income tax charged to net profit or loss	**10.2**	**120.9**	**247.3**
Tax expense recognised in other comprehensive income/(loss) (net), including:	10.3	19.1	(14.8)
- cash flow hedging	21	19.9	(14.8)
- actuarial gain/(loss) relating to post-employment benefits		(0.8)	-

The income tax expense was calculated at the rate of 19% of the income tax base.

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

	2019	2018
Pre-tax profit/(loss)	955.2	1,581,2
Income tax at 19%	**181.5**	**300.4**
Tax effect of dividends received	(59.5)	(70.6)
Tax effect of other differences:	(1.1)	17.5
- tax risk provision	-	13.6
- other differences	(1.1)	3.9
Income tax	**120.9**	**247.3**
Effective tax rate	**12.7%**	**15.6%**

10.3 Deferred income tax

		Statement of financial position			Statement of comprehensive income	
	Note	Dec 31 2019	Dec 31 2018	Jan 1 2018	2019	2018
Deferred tax assets:						
Employee benefit obligations		26.2	21.6	19.9	4.6	1.7
Negative fair value of derivative financial instruments		2.9	5.4	6.0	(2.5)	(0.6)
Cash flow hedges		47.8	67.7	52.9	(19.9)	14.8
Other		41.7	29.3	13.9	12.4	15.4
		118.6	**124.0**	**92.7**	**(5.4)**	**31.3**
Deferred tax liabilities:						
Temporary differences related to property, plant and equipment and intangible assets		411.6	379.9	307.4	31.7	72.5
Difference on accounting and tax measurement of lease contracts		29.5	-	-	29.5	-
Positive fair value of derivative financial instruments		0.3	2.6	7.9	(2.3)	(5.3)
Other		6.0	2.4	4.6	3.6	(2.2)
		447.4	**384.9**	**319.9**	**62.5**	**65.0**
Deferred tax expense recognised in:					**(67.9)**	**(33.7)**
- net profit or loss	10.1				(48.8)	(48.5)
- other comprehensive (income)/loss, net	10.1				(19.1)	14.8
Net deferred tax assets/(liabilities)		**(328.8)**	**(260.9)**	**(227.2)**		

Taxable temporary differences are expected to expire in 2020–2098.

11. Earnings per share

	2019	2018
Net profit (PLNm) (A)	834.3	1,333.9
Weighted average number of shares (million) (B)	184.9	184.9
Earnings per share (PLN) (A/B)	**4.51**	**7.21**

Earnings per share for each reporting period are calculated by dividing net profit for the reporting period by the weighted average number of shares in the reporting period.

Diluted earnings per share are equal to basic earnings per share as there are no instruments with a dilutive effect.

12. Dividends

As at December 31st 2019, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends pursuant to a credit facility agreement of July 2nd 2019 entered into to refinance the 10+ Programme credit facilities, discussed in Note 23.1. The agreement limits the ability of Grupa LOTOS S.A. to pay dividends and makes it conditional on achievement of certain levels of financial ratios.

As at December 31st 2018, Grupa LOTOS S.A. was restricted in its ability to distribute funds in the form of dividends under the credit facility agreement entered into on June 27th 2008 to finance the 10+ Programme. The agreement limited Grupa LOTOS S.A. ‘s ability to pay dividend and its amount was subject to certain conditions, including generation of sufficient free cash and achievement of certain levels of financial ratios. In 2019, the Company repaid its debt incurred to finance the 10+ Programme (see Note 23.1). Therefore, there were no restrictions in place at December 31st 2019.

On June 28th, the General Meeting of Grupa LOTOS S.A. passed a resolution on the allocation of the Company’s net profit for 2018. Under the resolution, the 2018 net profit of PLN 1,333.9m was applied towards:

- dividend payment – PLN 554.6m,
- statutory reserve funds – PLN 779.3m.

The dividend was paid on September 27th 2019. The dividend per share was PLN 3, gross.

13. Property, plant and equipment

	Dec 31 2019	Dec 31 2018
Land	328.3	203.6
Buildings, structures	2,144.8	2,105.6
Plant and equipment	2,926.9	3,098.0
Vehicles, other	47.9	43.9
Property, plant and equipment under construction	259.4	385.3
Total	**5,707.3**	**5,836.4**
including:		
Owned	5,401.2	5,836.4
Right-of-use assets	306.1	-

Change in property, plant and equipment

	Note	Land	Buildings, structures	Plant and equipment	Vehicles, other	Property, plant and equipment under construction	Total
Gross carrying amount Dec 31 2018		**205.6**	**3,497.2**	**5,409.4**	**147.2**	**386.1**	**9,645.5**
Effect of changes in accounting policies	13.1	128.8	3.1	-	0.2	-	132.1
Gross carrying amount Jan 1 2019		**334.4**	**3,500.3**	**5,409.4**	**147.4**	**386.1**	**9,777.6**
Purchase		-	-	-	10.6	97.7	108.3
Transfer from property, plant and equipment under construction		-	166.1	70.2	0.3	(236.6)	-
Leases	13.1	0.5	-	-	1.2	-	1.7
Borrowing costs		-	-	-	-	13.0	13.0
Sale		-	(0.4)	(6.1)	(0.3)	-	(6.8)
Gross carrying amount Dec 31 2019		**334.9**	**3,666.0**	**5,473.5**	**159.2**	**260.2**	**9,893.8**
Accumulated depreciation Jan 1 2019		**2.0**	**1,391.6**	**2,311.4**	**103.3**	**-**	**3,808.3**
Depreciation and amortisation		4.6	129.9	241.2	8.3	-	384.0
Sale		-	(0.3)	(6.0)	(0.3)	-	(6.6)
Accumulated depreciation Dec 31 2019		**6.6**	**1,521.2**	**2,546.6**	**111.3**	**-**	**4,185.7**
Impairment losses Jan 1 2019		**-**	**-**	**-**	**-**	**0.8**	**0.8**
Recognised		-	-	-	-	-	-
Used / Reversed		-	-	-	-	-	-
Impairment losses Dec 31 2019		**-**	**-**	**-**	**-**	**0.8**	**0.8**
Net carrying amount Dec 31 2019		**328.3**	**2,144.8**	**2,926.9**	**47.9**	**259.4**	**5,707.3**
Gross carrying amount Jan 1 2018		**205.6**	**3,341.0**	**5,283.0**	**137.1**	**531.2**	**9,497.9**
Purchase		-	-	-	9.9	123.9	133.8
Transfer from property, plant and equipment under construction		-	156.4	128.4	1.1	(285.9)	-
Borrowing costs		-	-	-	-	17.4	17.4
Sale		-	(0.2)	(2.0)	(0.9)	(0.5)	(3.6)
Gross carrying amount Dec 31 2018		**205.6**	**3,497.2**	**5,409.4**	**147.2**	**386.1**	**9,645.5**
Accumulated depreciation/amortisation Jan 1 2018		**1.6**	**1,270.4**	**2,081.1**	**101.4**	**-**	**3,454.5**
Depreciation and amortisation		0.4	121.3	232.3	2.6	-	356.6
Sale		-	(0.1)	(2.0)	(0.7)	-	(2.8)
Accumulated depreciation/amortisation Dec 31 2018		**2.0**	**1,391.6**	**2,311.4**	**103.3**	**-**	**3,808.3**
Impairment losses Jan 1 2018		**-**	**-**	**-**	**-**	**0.8**	**0.8**
Recognised		-	-	-	-	-	-
Used / Reversed		-	-	-	-	-	-
Impairment losses Dec 31 2018		**-**	**-**	**-**	**-**	**0.8**	**0.8**
Net carrying amount Dec 31 2018		**203.6**	**2,105.6**	**3,098.0**	**43.9**	**385.3**	**5,836.4**

In 2019, the Company incurred capital expenditure of PLN 108.3m mainly on: EFRA Project, catalysts, spare parts, construction of Hydrogen Recovery Unit (HRU) and railway loading station (2018: PLN 133.8m).

As at December 31st 2019, borrowing costs capitalised as cost of property, plant and equipment under construction were PLN 24.5m (December 31st 2018: PLN 25.5m).

In 2019, borrowing costs capitalised as cost of property, plant and equipment under construction were PLN 13.0m (2018: PLN 17.4m).

Allocation of depreciation	2019	2018
Cost of sales	363.3	330.4
Distribution costs	9.8	8.9
Administrative expenses	13.7	12.5
Change in products	(2.8)	4.8
Total	**384.0**	**356.6**

As at December 31st 2019, the Company's property, plant and equipment were not encumbered with mortgage or pledge. As at December 31st 2018, the amount of property, plant and equipment pledged as security for the Company's liabilities under the 10+ Programme credit facilities was to PLN 5,281.4m. In 2019, the Company repaid these loans and therefore all mortgages and pledges over property, plant and equipment were deleted from the relevant registers (see Note 23.1).

As at December 31st 2019, the amount of the Company's future contractual commitments for expenditure on property, plant and equipment not disclosed in the statement of financial position was to PLN 61.7m and were chiefly related to the construction of the railway loading station. As at December 31st 2018, the amount of the Company's future contractual commitments for expenditure on property, plant and equipment not disclosed in the statement of financial position was to PLN 67.3m. The contractual commitments were mainly related to the construction of a delayed coking unit (EFRA Project), construction of a hydrogen recovery unit (HRU) at the Refinery, and upgrade of the unit for solvent-based removal of paraffins.

13.1 Right-of-use assets

Change in right-of-use assets

	Land	Buildings, structures	Vehicles other	Total
Gross carrying amount Dec 31 2018	**-**	**-**	**-**	**-**
Effect of changes in accounting policies	128.8	3.1	0.2	132.1
Gross carrying amount Jan 1 2019	**128.8**	**3.1**	**0.2**	**132.1**
New leases	-	-	1.2	1.2
Lease modifications	0.5	-	-	0.5
Reclassification to right-of-use assets	180.0	-	-	180.0
Gross carrying amount Dec 31 2019	**309.3**	**3.1**	**1.4**	**313.8**
Accumulated depreciation Jan 1 2019	**-**	**-**	**-**	**-**
Depreciation and amortisation	4.6	1.0	0.2	5.8
Reclassification to right-of-use assets	1.9	-	-	1.9
Accumulated depreciation Dec 31 2019	**6.5**	**1.0**	**0.2**	**7.7**
Net carrying amount Dec 31 2019	**302.8**	**2.1**	**1.2**	**306.1**

Leasing costs recognised in the statement of comprehensive income		2019
Depreciation and amortisation	Expenses by nature	5.8
Short-term leases	Expenses by nature: Services	34.6
Interest on lease liabilities	Finance costs	7.5
Total		**47.9**

Allocation of depreciation	2019
Cost of sales	3.8
Distribution costs	0.7
Administrative expenses	1.3
Total	**5.8**

14. Intangible assets

	Dec 31 2019	Dec 31 2018
Licences, patents and trademarks	71.5	65.7
Carbon dioxide (CO_2) emission allowances	10.2	10.2
Other	4.6	5.3
Intangible assets under development	6.6	5.2
Total	**92.9**	**86.4**

Allocation of depreciation	2019	2018
Cost of sales	4.0	4.9
Distribution costs	0.2	0.3
Administrative expenses	5.4	5.1
Change in products	-	0.1
Total	**9.6**	**10.4**

As at December 31st 2019, the Company had no future contractual commitments for expenditure on intangible assets which would not be recognised in the statement of financial position (December 31st 2018: PLN 0.6m related to the purchase of licences to expand the system of optimisation and blending of gasolines and diesel fuel).

Change in intangible assets

	Licences, patents and trademarks	Carbon dioxide (CO_2) emission allowances	Other	Intangible assets under development	Total
Gross carrying amount Jan 1 2019	**180.2**	**10.2**	**14.9**	**5.2**	**210.5**
Purchase	-	-	-	15.8	15.8
Transfer from intangible assets under development	14.7	-	-	(14.7)	-
Borrowing costs	-	-	-	0.3	0.3
Gross carrying amount Dec 31 2019	**194.9**	**10.2**	**14.9**	**6.6**	**226.6**
Accumulated depreciation Jan 1 2019	**114.5**	**-**	**9.6**	**-**	**124.1**
Depreciation and amortisation	8.9	-	0.7	-	9.6
Accumulated depreciation Dec 31 2019	**123.4**	**-**	**10.3**	**-**	**133.7**
Impairment losses Jan 1 2019	**-**	**-**	**-**	**-**	**-**
Recognised	-	-	-	-	-
Used / Reversed	-	-	-	-	-
Impairment losses Dec 31 2019	**-**	**-**	**-**	**-**	**-**
Net carrying amount Dec 31 2019	**71.5**	**10.2**	**4.6**	**6.6**	**92.9**
Gross carrying amount Jan 1 2018	**179.1**	**16.7**	**14.1**	**4.3**	**214.2**
Purchase	-	-	0.1	3.2	3.3
Transfer from intangible assets under development	1.8	-	0.7	(2.5)	-
Borrowing costs	-	-	-	0.2	0.2
Sale	(0.7)	(6.5)	-	-	(7.2)
Gross carrying amount Dec 31 2018	**180.2**	**10.2**	**14.9**	**5.2**	**210.5**
Accumulated depreciation/amortisation Jan 1 2018	**105.4**	**-**	**8.9**	**-**	**114.3**
Depreciation and amortisation	9.7	-	0.7	-	10.4
Sale	(0.6)	-	-	-	(0.6)
Accumulated depreciation/amortisation Dec 31 2018	**114.5**	**-**	**9.6**	**-**	**124.1**
Impairment losses Jan 1 2018	**-**	**-**	**-**	**-**	**-**
Recognised	-	-	-	-	-
Used / Reversed	-	-	-	-	-
Impairment losses Dec 31 2018	**-**	**-**	**-**	**-**	**-**
Net carrying amount Dec 31 2018	**65.7**	**10.2**	**5.3**	**5.2**	**86.4**

15. Shares

	Note	Dec 31 2019	Dec 31 2018
Shares in related entities	15.1	2,986.7	2,648.2
- including investments in joint ventures (1)	15.1	6.9	6.9
Shares in other entities	27.1; 28.6	6.3	6.3
Total		**2,993.0**	**2,654.5**

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

Shares in other entities are measured at fair value, with gains/(losses) recognised in other comprehensive income. Dividends received from other entities are presented in Notes 9.6 and 27.2.

As at December 31st 2019 and December 31st 2018, impairment losses on shares totalled PLN 16.6m, including PLN 16.3m on shares in related entities. Impairment losses on shares in related entities were recognised for LOTOS Gaz S.A. w likwidacji (in liquidation). An impairment loss for the entire shareholding in the company was recognised in 2008.

15.1 Significant investments in subsidiaries and joint ventures

Name	Registered office	Business profile	Ownership interest	Carrying amount of shares	
				Dec 31 2019	Dec 31 2018
Investments in subsidiaries					
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%	1,049.4	1,049.4
LOTOS Upstream Sp. z o.o. (parent of another group: LOTOS Upstream Group)	Gdańsk	Activities of head offices and holdings	100%	1,224.5 (1)	886.0
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%	114.7	114.7
LOTOS Oil Sp. z o.o.	Gdańsk	Manufacturing and sale of lubricating oils and lubricants, and sale of base oils	100%	0.5	0.5
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100%	450.1	450.1
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100%	0.2	0.2
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, overhaul and repair services	100%	4.0	4.0
LOTOS Lab Sp. z o.o. (parent of another group: LOTOS Lab Group)	Gdańsk	Laboratory testing	100%	98.1	98.1
LOTOS Straż Sp. z o.o.	Gdańsk	Fire service activities	100%	3.9	3.9
LOTOS Ochrona Sp. z o.o.	Gdańsk	Security services	100%	0.4	0.4
LOTOS Terminale S.A. (parent of another group: LOTOS Terminale Group)	Czechowice-Dziedzice	Storage and distribution of fuels	100%	28.2	28.2
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	66.95%	5.8	5.8
Investment in a joint venture:					
LOTOS-Air BP Polska Sp. z o.o.	Gdańsk	Sale of aviation fuel and logistics services	50%	6.9	6.9

(1) In 2019, the share capital of LOTOS Upstream Sp. z o.o. was increased by a total of PLN 338.5m (2018: PLN 366.0m) through the issue of 3,385,000 new shares (2018: 3,659,950 shares) with a par value of PLN 100 per share. All the new shares were taken up by Grupa LOTOS S.A. for a cash contribution of PLN 338.5m. Expenditure on acquisition of new shares is presented in the statement of cash flows from investing activities under Acquisition of shares in LOTOS Upstream Sp. z o.o.

As at December 31st 2019 and December 31st 2018, shares in LOTOS Asfalt Sp. z o.o. were fully encumbered with financial and registered pledges. The pledges were established to secure a credit facility agreement executed by LOTOS Asfalt Sp. z o.o. with a syndicate of financial institutions in connection with the financing of the EFRA Project.

For information on material related-party transactions, see Note 31.1.

16. Trade receivables and other assets

	Note	Dec 31 2019	Dec 31 2018
Non-current financial assets:		**27.9**	**6.4**
Loans advanced to related parties	27.1; 31.1	2.5	-
Security deposit – ICE Futures	27.1	17.1	-
Commission fees on conditional loan from LOTOS Asfalt Sp. z o.o.	27.1; 31.1	8.3	6.4
Current financial assets:		**2,620.7**	**1,882.0**
Trade receivables	27.1	2,598,0	1,815.4
- including from related entities	31.1	1,545,6	1,351.7
Loans advanced to related parties	27.1; 31.1	19.5	17.8
Deposits	27.1	-	33.9
Security deposit for a bank guarantee	27.1	0.4	0.4
Security deposit related to the use of gas fuel distribution and transmission system	27.1	1.2	14.0
Other	27.1	1.6	0.5
Financial assets		**2,648.6**	**1,888.4**
Non-current non-financial assets		**0.9**	**1.4**
Current non-financial assets:		**79.0**	**74.3**
Other receivables from the state budget other than corporate income tax		2.1	-
Property and other insurance		0.9	16.9
Excise duty on inter-warehouse transfers		60.6	49.3
Prepaid deliveries		5.0	0.2
Fees for access to specialist information sites		1.4	0.6
Fee for IT services		5.8	4.7
Other		3.2	2.6
Non-financial assets		**79.9**	**75.7**
Total		**2,728.5**	**1,964.1**
including:			
non-current		28.8	7.8
current:		2,699.7	1,956.3
- trade receivables		2,598.0	1,815.4
- other		101.7	140.9

As at December 31st 2018, deposits comprised deposits securing payment of interest on the 10+ Programme credit facilities and the inventory financing and refinancing facility. Following repayment of the 10+ Programme facilities and the amendment of the inventory financing and refinancing facility, as at December 31st 2019 the deposits did not serve as security for repayment of interest on the facilities (see Note 23.1).

As at December 31st 2019, trade receivables were not assigned. As at December 31st 2018, trade receivables of PLN 1,346.6m were assigned by way of security for the facilities contracted to finance the 10+ Programme (see Note 23.1). Following repayment of the facilities, the security expired.

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

For description of financial instruments, see Note 7.17. For description of objectives and policies of financial risk management, see Note 28.
For maximum credit risk exposure of financial assets, see Note 28.6.
For currency risk sensitivity analysis of financial assets, see Note 28.3.1.
For interest rate risk sensitivity analysis of financial assets, see Note 28.4.1.

16.1 Change in impairment losses on receivables

	2019	2018
At beginning of the period	**26.9**	**24.8**
Recognised	38.8	2.2
Used	(0.6)	-
Reversed	(8.0)	(0.1)
At end of the period	**57.1**	**26.9**

Ageing of unimpaired past due receivables:	Dec 31 2019	Dec 31 2018
Up to 1 month	5.0	15.3
From 1 to 3 months	0.5	0.9
From 3 to 6 months	0.1	7.4
From 6 months to 1 year	0.3	0.6
Over 1 year	0.8	-
Total	**6.7**	**24.2**

As at December 31st 2019, the share of trade receivables from the Company's largest customer, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.), did not exceed 54% of total receivables (December 31st 2018: 69%). As at December 31st 2019, the share of trade receivables of the next largest customer, which were the BP Group companies, was 20%. As at December 31st 2018, the combined share of trade receivables from the Company's other customers did not exceed 10% of total trade receivables.

In the Company's opinion, except for receivables from the above-mentioned large customer, there is no material concentration of credit risk. The Company's maximum exposure to credit risk as at the end of the reporting period is best represented by the carrying amounts of those instruments.

17. Inventories

	Dec 31 2019	Dec 31 2018
Finished goods	1,108.4	1,247.5
Semi-finished products and work in progress	494.8	518.0
Merchandise	187.3	116.4
Materials	2,735,7	2,648.2
Total	**4,526.2**	**4,530.1**

As at December 31st 2019, the value of inventories serving as collateral for Grupa LOTOS S.A.'s liabilities under the inventory financing and refinancing facility discussed in Note 23.1 was PLN 4,073.5m (December 31st 2018: PLN 4,082.7m).

17.1 Change in inventory write-downs

	2019	2018
At beginning of the period	**31.0**	**2.4**
Recognised	-	28.7
Reversed	(29.1)	(0.1)
At end of the period	**1.9**	**31.0**

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

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

18. Cash and cash equivalents

	Dec 31 2019	Dec 31 2018
Cash and cash equivalents in the statement of financial position	319.0	1,193.7
Overdraft facilities	-	(3.0)
Total cash and cash equivalents in the statement of cash flows	**319.0**	**1,190.7**

Cash at banks bears interest at variable rates linked to the overnight interest rate. Short-term deposits are placed for different terms, from one day to three months, depending on the Company's current cash requirement, and earn interest at rates set for them.

In July 2018, the Company began using the VAT split payment mechanism. As at December 31st 2019, the cash balance in VAT accounts was PLN 35.1m (December 31st 2018: PLN 0.9m).

As at December 31st 2019, the Company had undrawn credit of PLN 379.8 (December 31st 2018: PLN 749.0m) under working capital facilities for which all conditions precedent are met.

As at 2019, cash in the Company's bank accounts was not encumbered with registered pledge. As at December 31st 2018, the amount of cash in bank accounts used as security for the Group's liabilities was PLN 225.6m. The funds were pledged as security for liabilities under credit facilities contracted by Grupa LOTOS S.A. in 2008 to finance the 10+ Programme. In 2019, the Company entered into credit agreements to refinance the 10+ Programme facilities and repaid the entire debt then outstanding under the credit facilities contracted in 2008 (see Note 23). Following the repayment of the 10+ Programme facilities, all registered pledges used to these loans, including the registered pledge over bank accounts, were deleted from relevant registers.

19. Share capital

	Dec 31 2019	Dec 31 2018
Series A shares	78.7	78.7
Series B shares	35.0	35.0
Series C shares	16.2	16.2
Series D shares	55.0	55.0
Total	**184.9**	**184.9**

As at December 31st 2019 and December 31st 2018, the share capital comprised 184,873,362 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share confers the right to one vote at the General Meeting and carries the right to dividend.

20. 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.

	Series B	Series C	Series D	Total
Share premium	980.0	340.8	940.5	2,261.3
Costs directly attributable to the share issue	(9.0)	(0.4)	(23.6)	(33.0)
Total	**971.0**	**340.4**	**916.9**	**2,228.3**

21. Cash flow hedging reserve

Cash flow hedging reserve comprises changes in the valuation of foreign-currency bank borrowings used as cash flow hedges for USD-denominated sales, less the effect of deferred income tax.

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

	Note	2019	2018
At beginning of the period		**(288.2)**	**(225.2)**
Valuation of cash flow hedging instruments	27.2	104.5	(77.8)
- effective portion		107.3	(78.7)
- ineffective portion [1]		(2.8)	0.9
Income tax on valuation of cash flow hedging instruments	10.1	(19.9)	14.8
At end of the period		**(203.6)**	**(288.2)**

[1] The ineffective portion, charged to finance income/expenses.

22. Retained earnings

Retained earnings comprise capital reserves created and used in accordance with the rules stipulated by applicable laws and the Company's Articles of Association, as well as profit for the reporting period.

As at December 31st 2019 and December 31st 2018, Grupa LOTOS S.A. was restricted in its ability to distribute dividends; as described in detail in Note 12.

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

23. Bank borrowings and lease liabilities

	Dec 31 2019	Dec 31 2018
Bank borrowings:	1,730.7	2,285.9
- inventory financing and refinancing facility	190.1	752.8
- investment facilities	1,540.6	1,948.9
- working capital facilities	-	3.0
- funds in bank deposits securing payment of interest and principal	-	(418.8)
Leases	189.6	-
Total	**1,920.3**	**2,285.9**
including:		
non-current	1,340.2	1,295.6
current	580.1	990.3

	Bank borrowings	Leases	Total
Dec 31 2018	**2,285.9**	**-**	**2,285.9**
Effect of changes in accounting policies	-	132.1	**132.1**
Jan 1 2019	**2,285.9**	**132.1**	**2,418.0**
Net repayments	(1,030.0)	(7.1)	**(1,037.1)**
Interest, fees and commissions paid	(95.0)	(1.9)	**(96.9)**
New leases	-	1.3	**1.3**
Interest, fees and commissions accrued	104.9	7.5	**112.4**
Prepayments and accruals	19.1	-	**19.1**
Exchange differences	30.0	-	**30.0**
Change in overdraft facilities	(3.0)	-	**(3.0)**
Change in deposits securing payment of interest and principal	418.8	-	**418.8**
Other	-	57.7	**57.7**
Dec 31 2019	**1,730.7**	**189.6**	**1,920.3**

	Bank borrowings	Leases	Total
Jan 1 2018	**2,739.7**	**-**	**2,739.7**
Net repayments	(632.5)	-	**(632.5)**
Interest, fees and commissions paid	(112.5)	-	**(112.5)**
Interest, fees and commissions accrued	113.0	-	**113.0**
Prepayments and accruals	9.2	-	**9.2**
Exchange differences	224.8	-	**224.8**
Change in overdraft facilities	2.9	-	**2.9**
Change in deposits securing payment of interest and principal	(58.7)	-	**(58.7)**
Dec 31 2018	**2,285.9**	**-**	**2,285.9**

23.1 Bank borrowings

Inventory financing and refinancing facility

On December 3rd 2019, an annex was signed to the agreement for the financing and refinancing of inventories of October 10th 2012. The annex extended the term of the agreement until December 18th 2020. The composition of the bank syndicate party and the share of individual banks in the amount of the facility was changed. The covenant requiring that The Company holds deposits securing repayment of interest on the facility was also removed from the agreement.

As at December 31st 2019, the nominal amount drawn under the facility was PLN 189.9m (USD 50m). As at December 31st 2018, the amount was PLN 751.9m (USD 200m).

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 or below the level specified in the facility agreement. As at December 31st 2019 and December 31st 2018, the Company complied with these requirements.

Refinancing of the 10+ Programme credit facilities

On July 2nd 2019, Grupa LOTOS S.A. and a bank syndicate comprising:

- ING Bank Śląski S.A.,
- Bank PEKAO S.A.,
- PKO BP S.A.,
- Sumitomo Mitsui Banking Corporation Bank EU AG,
- Intesa Sanpaolo S.p.A,
- Caixabank S.A. (Spółka Akcyjna),
- Industrial and Commercial Bank of China (Europe) S.A.,
- and Erste Group Bank AG,

signed credit facility agreements for a total amount of USD 500m to refinance the 10+ Programme credit facilities contracted in 2008.

Under the agreements, the bank syndicate extended to the Company:

- a USD 400m term facility,
- a USD 100m working capital facility, disbursable in USD, EUR or PLN.

The facilities must be repaid within five years of disbursement. They bear interest at variable rates based on LIBOR, EURIBOR and WIBOR. Repayment is secured by a declaration of voluntary submission to enforcement. The other terms and conditions of the credit facility agreements do not differ from standard terms commonly applied in agreements of such type.

On July 15th 2019, the PLN 1,515.6m credit facility (USD 400m) was disbursed. At the same time, through settlements between the banks, the entire amount of the facility was transferred to repay debt under the facility agreements executed in 2008 to finance the 10+ Programme. The balance of debt related to the financing of the 10+ Programme, of PLN 200.1m (USD 53.4m), was repaid with Grupa LOTOS S.A.'s cash, as presented in the statement of cash flows from financing activities under: Repayment of bank borrowings. Following the repayment of the 10+ Programme facilities, all related security interests, including registered pledges and mortgages created over the Company's assets, were released.

Under the facility agreements discussed above, Grupa LOTOS S.A. is required to maintain its net debt/ EBITDA ratio at or below the level specified in the agreements. As at December 31st 2019, the Company complied with these requirements.

As at December 31st 2019, the nominal amount of funds drawn under the facilities was PLN 1,519.1m (USD 400m). As at December 31st 2018, the nominal amount of funds drawn under the 10+ Programme credit facilities was PLN 1,951.2m (USD 519m).

Other credit agreements

On December 5th 2019, Grupa LOTOS S.A. and PKO BP S.A. signed a EUR 2.0m credit facility agreement. The purpose of the agreement is to finance the Pure H2 project to build and launch infrastructure for the production and sale of high-purity hydrogen. The facility is repayable by December 23rd 2023 and bear interest at variable rates based on 3M EURIBOR. Repayment is secured by a declaration of voluntary submission to enforcement. As at December 31st 2019, the Company did not have any liabilities under the facility.

Also, in addition to amounts available to the Company under the overdraft facilities specified in Note 18, the Company has access to working-capital facilities with a total amount of PLN 150m. As at December 31st 2019, the Company carried no liabilities under these facilities.

Proceeds from and repayment of bank borrowings

In 2019, repayment of bank borrowings amounted to PLN 1,030.0m and included repayment of investment loans (PLN 453.9m) and the inventory refinancing and financing facility (PLN 576.1m). This amount was disclosed in the statement of cash flows from financing activities, under: Repayment of bank borrowings.

In 2018 and 2019, the Company did not default on its borrowings.

As at December 31st 2019 and December 31st 2018, the Company had borrowings denominated in USD. The interest rate on these is based on 1M, 3M or 6M LIBOR rates, depending on the interest period selected at the time of drawing funds.
As at December 31st 2019, the average effective interest rate under the USD-denominated credit facilities was approximately 3.18% (December 31st 2018: 4.10%).

The facilities are collateralised with:

- registered pledges over bank accounts,
- registered pledges over assets,
- assignment by way of security of rights under inventory insurance and inventory storage agreements,
- representation on voluntary submission to enforcement.

For currency risk sensitivity analysis of the liabilities under bank borrowings, see Note 28.3.1.
For interest rate sensitivity analysis of the liabilities under bank borrowings, see Note 28.4.1.
For information on maturities of the liabilities under bank borrowings, see Note 28.5.

23.2 Lease liabilities

Dec 31 2019	Minimum lease payments	Present value of minimum lease payments
Up to 1 year	66.6	64.7
From 1 to 5 years	32.7	2.8
From 5 to 10 years.	38.5	1.5
From 10 to 30 years.	152.2	9.6
From 30 to 50 years.	150.9	30.4
From 50 to 90 years.	140.8	80.6
Total	**581.7**	**189.6**
Less finance costs	(392.1)	-
Present value of minimum lease payments	**189.6**	**189.6**
including:		
non-current		124.9
current		64.7

Lease liabilities relate mainly to usufruct rights to land.

For interest sensitivity analysis of the lease liabilities see Note 28.4.1 and maturities are presented in Note 28.5.

24. Derivative financial instruments

	Note	Dec 31 2019	Dec 31 2018
Non-current financial assets		**0.1**	**2.1**
Commodity swaps (raw materials and petroleum products)		0.1	2.1
Current financial assets		**24.3**	**14.1**
Commodity swaps (raw materials and petroleum products)		1.5	11.7
Currency forward and spot contracts		13.2	-
Currency swap		9.6	2.4
Financial assets	**27.1**	**24.4**	**16.2**
Non-current financial liabilities		**3.0**	**6.6**
Commodity swaps (raw materials and petroleum products)		3.0	6.6
Current financial liabilities		**12.4**	**46.8**
Commodity swaps (raw materials and petroleum products)		12.3	15.0
Currency forward and spot contracts		-	21.4
Interest rate swap (IRS)		-	6.6
Currency swap		0.1	3.8
Financial liabilities	**27.1**	**15.4**	**53.4**

For description of the derivative financial instruments, see Note 7.19. For description of objectives and policies of financial risk management, see Note 28.
For sensitivity analysis of derivative financial instruments in terms of market risk related to changes in raw material and petroleum product prices, see Note 28.1.1.
For currency risk sensitivity analysis of derivative financial instruments, see Note 28.3.1.
For interest rate sensitivity analysis of derivative financial instruments, see Note 28.4.1.
For information on maturities of derivative financial instruments, see Note 28.5.
For information on maximum credit risk exposure of derivative financial instruments (financial assets), see Note 28.6.

24.1 Fair value hierarchy

	Dec 31 2019	Dec 31 2018
	Level 2	
Financial assets		
Commodity swap	1.6	13.8
Currency forward and spot contracts	13.2	-
Currency swap	9.6	2.4
Total	**24.4**	**16.2**
Financial liabilities		
Commodity swap	15.3	21.6
Currency forward and spot contracts	-	21.4
Interest rate swap (IRS)	-	6.6
Currency swap	0.1	3.8
Total	**15.4**	**53.4**

25. Employee benefit obligations

	Note	Dec 31 2019	Dec 31 2018
Non-current liabilities:	**25.1**	**75.5**	**60.6**
Post-employment benefits	25.1	18.0	13.8
Length-of-service awards and other benefits	25.1	57.5	46.8
Current liabilities		**57.7**	**53.0**
Post-employment benefits	25.1	3.6	3.7
Length-of-service awards and other benefits	25.1	5.5	4.5
Bonuses, awards and unused holidays		37.6	34.6
Salaries and wages payable		11.0	10.2
Total		**133.2**	**113.6**

25.1 Future employee benefit obligations

In accordance with Grupa LOTOS S.A.'s remuneration systems, the Company employees are entitled to post-employment benefits upon retirement. Length-of-service awards are paid after a specific period of employment. Therefore, based on a valuation prepared by a professional actuarial firm or based on its own estimates, the Company recognises the present value of obligations under length-of-service awards and post-employment benefits. The table below shows the obligation amounts and a reconciliation presenting changes in the obligation during the reporting period.

		Post-employment benefits		Length-of-service awards and other benefits		Total	
	Note	2019	2018	2019	2018	2019	2018
Jan 1		**17.5**	**18.3**	**51.3**	**49.8**	**68.8**	**68.1**
Current service cost	25.2	1.0	0.9	3.9	3.8	4.9	4.7
Cost of discount	9.7; 25.2	0.4	0.5	1.4	1.4	1.8	1.9
Benefits paid		(1.4)	(2.2)	(4.4)	(5.1)	(5.8)	(7.3)
Actuarial (gains)/losses under profit or loss	25.2	-	-	10.8	1.4	10.8	1.4
Actuarial (gains)/losses under other comprehensive income	25.2	4.1	-	-	-	4.1	-
Dec 31		**21.6**	**17.5**	**63.0**	**51.3**	**84.6**	**68.8**
including:							
non-current	25	18.0	13.8	57.5	46.8	75.5	60.6
current	25	3.6	3.7	5.5	4.5	9.1	8.2

25.2 Total cost of future employee benefit payments disclosed in the statement of comprehensive income

	Note	2019	2018
Items recognised in profit or loss:		**17.5**	**8.0**
Length-of-service awards, retirement and other post-employment benefits	9.3	15.7	6.1
- current service cost	25.1	4.9	4.7
- actuarial (gains)/losses	25.1	10.8	1.4
Cost of discount	9.7; 25.1	1.8	1.9
Items recognised in other comprehensive (income)/loss:		**4.1**	**-**
Actuarial (gains)/losses	25.1	4.1	-
Total comprehensive income		**21.6**	**8.0**

25.3 Actuarial assumptions

Key assumptions adopted by the actuary	Dec 31 2019	Dec 31 2018
Discount rate (%)	2.00%	3.00%
Expected inflation rate (%)	2.50%	2.50%
Employee turnover ratio (%)	3.35%	3.30%
Expected growth rate of salaries and wages (%) in the following year	5.00%	1.30% + PLN 150
Expected growth rate of salaries and wages (%) in the following years	2.50%	2.50%

- The employee attrition probability is based on the historical data on employee turnover at the Company and statistical data on the Polish labour market. The employee turnover ratios applied by the actuary were determined separately for five age categories in ten-year intervals. 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 2016, published by Statistics Poland (GUS), and assume that the Company's employee population is representative of the average Polish population in terms of mortality (December 31st 2018: Life Expectancy Tables of Poland for 2016).
- 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.
- The discount rate on future benefits was assumed at 2.0%, i.e. reflecting the assumption made at the corporate level (December 31st 2018: 3.0%, i.e. reflecting the assumption made at the corporate level).

25.4 Termination benefits

In 2019, termination benefits and compensation payable in respect of the non-compete obligation totalled PLN 5.9m (2018: PLN 5.8m).

(PLNm)

25.5 Sensitivity analysis: effect of changes in actuarial assumptions on employee benefits

Initial obligation balance

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total
base	base	56.1	18.4	4.6	5.5	84.6
base + 1%	base	61.1	20.5	5.0	6.7	93.3
base - 1%	base	51.5	16.7	4.2	4.7	77.1
base	base + 0.5%	53.7	17.5	4.4	5.1	80.7
base	base - 0.5%	58.5	19.4	4.8	6.1	88.8

Current service cost projected for 2020

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total
base	base	4.7	1.1	0.4	0.3	6.5
base + 1%	base	5.3	1.3	0.4	0.4	7.4
base - 1%	base	4.2	0.9	0.3	0.2	5.6
base	base + 0.5%	4.5	1.0	0.4	0.2	6.1
base	base - 0.5%	5.0	1.2	0.4	0.3	6.9

Cost of discount projected for 2020

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total
base	base	1.0	0.3	0.1	0.1	1.5
base + 1%	base	1.1	0.3	0.1	0.1	1.6
base - 1%	base	0.9	0.3	0.1	0.1	1.4
base	base + 0.5%	1.2	0.3	0.1	0.1	1.7
base	base - 0.5%	0.8	0.2	0.1	0.1	1.2

Total current service cost and cost of discount projected for 2020

Salaries and wages growth rate	Discount rate	Length-of-service awards	Old-age and disability retirement severance payments	Death benefits	Social benefits fund	Total
base	base	5.7	1.4	0.5	0.4	8.0
base + 1%	base	6.4	1.6	0.5	0.5	9.0
base - 1%	base	5.1	1.2	0.4	0.3	7.0
base	base + 0.5%	5.7	1.3	0.5	0.3	7.8
base	base - 0.5%	5.8	1.4	0.5	0.4	8.1

26. Trade and payables, and other liabilities and provisions

	Note	Dec 31 2019	Dec 31 2018
Non-current financial liabilities:		**13.3**	**15.4**
Liabilities towards the Polish National Foundation	27.1	13.3	15.3
Investment commitments	27.1	-	0.1
Current financial liabilities:		**2,009.7**	**1,966.8**
Trade payables	27.1	1,968.6	1,900.7
- including to related entities	31.1	281.5	240.8
Investment commitments	27.1	35.9	20.6
- including to related entities	31.1	1.7	1.9
Liabilities towards the Polish National Foundation	27.1	2.5	2.5
Security deposit – ICE Futures	27.1	-	32.7
Liabilities towards the LOTOS Foundation	27.1	1.0	9.1
Other	27.1	1.7	1.2
Financial liabilities		**2,023.0**	**1,982.2**
Non-current non-financial liabilities:		**0.7**	**0.3**
Current non-financial liabilities:		**1,714.9**	**1,449.9**
Value-added tax payable		507.5	415.3
Excise duty and fuel charge payable		877.0	785.5
Emissions charge payable		55.5	-
Other liabilities to the state budget other than corporate income tax		47.7	67.2
Grants	26.1	20.9	28.5
Provision for deficit in CO_2 emission allowances	28.2	70.3	40.7
Provision for NIT emission charge		29.6	-
Tax risk provision		83.1	79.0
Provision for RES fees		14.1	18.6
Other		9.2	15.1
Non-financial liabilities		**1,715.6**	**1,450.2**
Total		**3,738.6**	**3,432.4**
including:			
non-current		14.0	15.7
current:		3,724.6	3,416.7
- trade receivables		1,968.6	1,900.7
- other		1,756.0	1,516.0

Trade payables do not bear interest and are usually paid in 14–30 days. Other liabilities do not bear interest and their average payment period is one month. The amount of difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is typically settled within 14 days from the date of issue of an interest payment notice by the trading partner.

For currency risk sensitivity analysis of financial liabilities, see Note 28.3.1.
For information on maturities of financial liabilities, see Note 28.5.

26.1 Grants

	Note	Dec 31 2019	Dec 31 2018
At beginning of the period		**28.8**	**25.8**
Grants received in the period		7.4	11.7
Deferred grants		(14.6)	(8.7)
At end of the period		**21.6**	**28.8**
including:			
non-current		0.7	0.3
current	26	20.9	28.5

Grants mainly include licences received free of charge.

27. Financial instruments

27.1 Carrying amount

		IFRS 9											
		Measurement at amortised cost		Measurement at fair value through: Profit or loss		Measurement at fair value through: Other comprehensive income		Total		outside IFRS 9		Total	
	Note	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Financial assets													
Trade receivables	16	2,598.0	1,815.4	-	-	-	-	2,598.0	1,815.4	-	-	2,598.0	1,815.4
Derivative financial instruments	24	-	-	24.4	16.2	-	-	24.4	16.2	-	-	24.4	16.2
Equity investments	15	-	-	-	-	6.3	6.3	6.3	6.3	-	-	6.3	6.3
Cash and cash equivalents	18	319.0	1,193.7	-	-	-	-	319.0	1,193.7	-	-	319.0	1,193.7
Other financial assets:		50.6	73.0	-	-	-	-	50.6	73.0	-	-	50.6	73.0
Loans advanced to related entities	16	22.0	17.8	-	-	-	-	22.0	17.8	-	-	22.0	17.8
Deposits	16	-	33.9	-	-	-	-	-	33.9	-	-	-	33.9
Security deposits (margins)	16	18.7	14.4	-	-	-	-	18.7	14.4	-	-	18.7	14.4
Commission fees on conditional loan	16	8.3	6.4	-	-	-	-	8.3	6.4	-	-	8.3	6.4
Other	16	1.6	0.5	-	-	-	-	1.6	0.5	-	-	1.6	0.5
Total		**2,967.6**	**3,082.1**	**24.4**	**16.2**	**6.3**	**6.3**	**2,998.3**	**3,104.6**	**-**	**-**	**2,998.3**	**3,104.6**
Financial liabilities													
Bank borrowings	23	1,730.7	2,285.9	-	-	-	-	1,730.7	2,285.9	-	-	1,730.7	2,285.9
Lease liabilities	23	-	-	-	-	-	-	-	-	189.6	-	189.6	-
Derivative financial instruments	24	-	-	15.4	53.4	-	-	15.4	53.4	-	-	15.4	53.4
Trade payables	26	1,968.6	1,900.7	-	-	-	-	1,968.6	1,900.7	-	-	1,968.6	1,900.7
Other financial liabilities	26	54.4	81.5	-	-	-	-	54.4	81.5	-	-	54.4	81.5
Total		**3,753.7**	**4,268.1**	**15.4**	**53.4**	**-**	**-**	**3,769.1**	**4,321.5**	**189.6**	**-**	**3,958.7**	**4,321.5**

(PLNm)

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

	Note	IFRS 9								outside IFRS 9		Total	
		Measurement at amortised cost		Measurement at fair value through: Profit or loss		Measurement at fair value through: Other comprehensive income		Total					
		2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Trade receivables:													
Foreign exchange (gains)/losses recognised in cost of sales	9.2	8.4	22.1	-	-	-	-	8.4	22.1	-	-	8.4	22.1
Impairment gains/(losses)	9.4; 9.5	0.5	(1.9)	-	-	-	-	0.5	(1.9)	-	-	0.5	(1.9)
Equity investments:													
Dividend income	9.6	-	-	-	-	2.6	2.1	2.6	2.1	-	-	2.6	2.1
Other financial assets:													
Interest income on deposits, loans advanced and cash pool	9.6	28.0	28.9	-	-	-	-	28.0	28.9	-	-	28.0	28.9
Foreign exchange gains/(losses) on non-bank borrowings recognised in finance costs	9.7	(3.2)	5.6	-	-	-	-	(3.2)	5.6	-	-	(3.2)	5.6
Impairment losses	9.5	(31.3)	-	-	-	-	-	(31.3)	-	-	-	(31.3)	-
Derivative financial instruments (financial assets/liabilities):													
Gains/(losses) on fair value measurement of derivative financial instruments	9.6; 9.7	-	-	47.8	(113.0)	-	-	47.8	(113.0)	-	-	47.8	(113.0)
Gains/(losses) on realisation of derivative financial instruments	9.6; 9.7	-	-	(15.6)	109.0	-	-	(15.6)	109.0	-	-	(15.6)	109.0
Bank borrowings:													
Interest expense	9.7	(86.4)	(96.2)	-	-	-	-	(86.4)	(96.2)	-	-	(86.4)	(96.2)
Gains/(losses) on cash flow hedge accounting charged against revenue	9.1	(131.2)	(91.6)	-	-	-	-	(131.2)	(91.6)	-	-	(131.2)	(91.6)
Foreign exchange gains/(losses) on bank borrowings recognised in finance costs	9.7	(21.7)	(28.9)	-	-	-	-	(21.7)	(28.9)	-	-	(21.7)	(28.9)
Foreign exchange gains/(losses) on realised foreign-currency transactions in bank accounts recognised in finance costs	9.7	(12.0)	1.5	-	-	-	-	(12.0)	1.5	-	-	(12.0)	1.5
Gains/(losses) on measurement of cash flow hedges recognised in other comprehensive income	21	104.5	(77.8)	-	-	-	-	104.5	(77.8)	-	-	104.5	(77.8)
Lease liabilities:													
Interest expense	9.7	-	-	-	-	-	-	-	-	(7.5)	-	(7.5)	-
Trade and other payables:													
Foreign exchange (gains)/losses recognised in cost of sales	9.2	57.7	(87.6)	-	-	-	-	57.7	(87.6)	-	-	57.7	(87.6)
Total		**(86.7)**	**(325.9)**	**32.2**	**(4.0)**	**2.6**	**2.1**	**(51.9)**	**(327.8)**	**(7.5)**	**-**	**(59.4)**	**(327.8)**

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

28. Objectives and policies of financial risk management

Grupa LOTOS S.A. is exposed to financial risks, including:

- market risk (risk related to raw material and petroleum product prices, risk related to prices of CO_2 allowances, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The Company has appropriate units (Finance Management Office, Financial Risk Analysis and Control Office together with the Credit Risk and Transaction Documentation Team) reporting to the Chief Financial Officer, who coordinates and exercises ongoing supervision of the LOTOS 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 of budget and strategic objectives being met,
- limit cash flow volatility,
- ensure short-term financial liquidity,
- optimise the expected level of cash flows and risk,
- support operating, investment and financial processes, and create value in the long term.

With a view to implementing the above objectives, Grupa LOTOS S.A. has put in place appropriate tools and developed a number of documents, approved at the relevant decision-making levels, defining the framework for ensuring effectiveness and safety of the Company'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,
- separation of responsibilities for execution of transactions, risk analysis and control, documentation of and accounting for transactions, and their allocation to different corporate units.

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

In July 2019, as part of the refinancing of foreign-currency facilities used to finance the 10+ Programme, the existing hedging relationships were terminated and new financing agreements were created to maintain the type of hedge accounting applied (cash flow hedge) and designated as the hedged item for future sales of oil products denominated in USD.

28.1 Risk related to commodity and petroleum product prices

The Company considers risk related to raw material and petroleum product prices to be particularly important.

Grupa LOTOS S.A. identifies the following factors of this risk:

- volatility of the refining margin, measured as the difference between liquid indices of a reference petroleum product basket (e.g. aviation fuel, gasoline, diesel oil, fuel oil) and a liquid index of reference commodity (e.g. Urals crude),
- volatility of prices with respect to the commodity and product inventory volumes deviating from the required levels of emergency 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 trade contracts.

Grupa LOTOS S.A. has in place "Grupa LOTOS S.A.'s raw material and petroleum products price risk management policy", which defines the classification system for transaction portfolios and their business functions, describes how risk is understood and how portfolio exposures are measured, specifies permitted financial instruments and limitations on their use, and transaction execution standards, and also provides guidelines on how to evaluate risk management performance and set relevant limits. Transaction limits falling within the scope of that policy are delegated by the Management Board to lower-level decision-makers.

To support the achievement of the policy objectives, the Company uses a leading Energy Trading and Risk Management system (Allegro). Under the approved policy, the Company may continue to offer its customers petroleum products at fixed prices.

Considering the sale of bitumen components at fixed prices, in 2019 the Company entered into commodity swaps to preserve the original price risk profile.

Open commodity swaps as at December 31st 2019:

Type of contract	Underlying index	Valuation period	Amount in tonnes in the valuation period	Fair value measurement	
				Financial assets	Financial liabilities
Commodity swap	3.5 PCT Barges FOB Rotterdam	MAR 2020 − SEP 2021	171,422	1.1	(14.3)
Commodity swap	Gasoil 0.1 pct Crg CIF NWE_ARA	MAR 2020 − SEP 2021	(15,839)	0.5	(1.0)
			Total	**1.6**	**(15.3)**

These swap transactions for a total of 171,422 tonnes based on the 3.5 PCT Barges FOB Rotterdam liquid index in the period from March 2020 to September 2021 and (15,839) tonnes based on the Gasoil 0.1 pct Crg CIF NWE ARA liquid index in the same period 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 2018:

Type of contract	Underlying index	Valuation period	Amount in tonnes in the valuation period	Fair value measurement	
				Financial assets	Financial liabilities
Commodity swap	3.5 PCT Barges FOB Rotterdam	MAR 2019 − JUN 2021	183,433	0.5	(21.5)
Commodity swap	Gasoil 0.1 pct Crg CIF NWE_ARA	MAR 2019 − JUN 2021	(17,010)	3.3	(0.1)
			Total	**3.8**	**(21.6)**

The above swap transactions for a total of 183,433 tonnes based on the 3.5 PCT Barges FOB Rotterdam liquid index in the period from March 2019 to June 2021 and (17,010) tonnes based on the Gasoil 0.1 pct Crg CIF NWE ARA liquid index in the same period 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.

Type of contract	Underlying index	Valuation period	Amount in cubic metres in the valuation period	Fair value measurement	
				Financial assets	Financial liabilities
Commodity swap	Ethanol T2 FOB Rdam Barge Eur/cm	JAN 2019 – DEC 2019	24,300	10.0	-
			Total	**10.0**	**-**

Furthermore, in connection with the execution of an annual contract for the purchase of ethanol, in 2018 the Company entered into commodity swaps to hedge the price risk.

28.1.1 Sensitivity analysis: market risk related to commodity and petroleum product price movements

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 2019 and December 31st 2018.

	Dec 31 2019			Dec 31 2018		
	Carrying	Change*		Carrying	Change**	
	amount	+ implied volatility	- implied volatility	amount	+ implied volatility	- implied volatility
Financial assets	1.6	9.0	(9.0)	13.8	1.5	(1.5)
Financial liabilities	15.3	(54.9)	54.9	21.6	(62.1)	62.1
Effect on profit/loss		**63.9**	**(63.9)**		**63.6**	**(63.6)**

*With respect to instruments held as at December 31st 2019, the above deviations of underlying index prices were calculated based on the implied annual volatility of the underlying index for December 31st 2019, as published by SuperDerivatives. The volatility was +/- 45.12% for the 3.5 PCT Barges FOB Rotterdam index and +/- 22.98% for the Gasoil 0.1 pct Crg CIF NWE_ARA index.

**With respect to instruments held as at December 31st 2018, the above deviations of underlying index prices were calculated based on the implied annual volatility of the underlying index for December 31st 2018, as published on the SuperDerivatives website. The volatility was +/- 37.28% for the 3.5 PCT Barges FOB Rotterdam index, +/- 38.11% for Gasoil 0.1 pct Crg CIF NWE_ARA, and +/- 16.42% for Ethanol T2 FOB Rdam Barge Eur/cm.

The effect of the underlying index price changes on the fair value was examined assuming that the currency exchange rates remain unchanged.

28.2 Risk related to prices of carbon dioxide (CO_2) emission allowances

The risk related to prices of carbon dioxide emission allowances is managed within the Company on an ongoing basis in line with the assumptions set forth in the strategy for managing the risk approved by the Grupa LOTOS Management Board. The Company balances its future CO_2 emission allowance deficits and surpluses depending on the market situation and within defined limits. In line with the approved strategy and limits, the Company executes the following transactions for emission units:

- EUA (Emission Unit Allowance) – represents an allowance to emit one tonne of CO_2,
- CER (Certified Emission Reduction unit) – represents one tonne of CO_2 equivalent (tCO_2e) effectively reduced. CERs are obtained in connection with investment projects implemented in developing countries where no CO_2 emission limits have been defined.
- ERU (Emission Reduction Unit) – represents one tonne of CO_2 equivalent (tCO_2e) effectively reduced. ERUs are certified emission units, obtained through investment projects implemented in countries where CO_2 reduction costs are lower.

As at December 31st 2019, the deficit of allowances in the 2013–2020 trading period (Phase III) was estimated at 1,033,226 tonnes. However, taking into account derivative transactions for a total of 1,595,000 tonnes, the Company has surplus emission allowances for 561,774 tonnes, which were purchased in view of the market situation and the strategic nature of emission allowances deficit expected after 2020.

As at December 31st 2018, the deficit of allowances in the 2013–2020 trading period (Phase III) was estimated at 1,142,876 tonnes. However, taking into account derivative transactions for a total of 1,159,000 tonnes, the Company had surplus emission allowances for 16,124 tonnes, which were purchased in view of the market situation and the strategic nature of emission allowances deficit expected after 2020.

To manage the risk related to carbon dioxide emission allowances, the Company evaluates the risk of deficit of free emission allowances allocated under the National Allocation Plan (NAP) on a case-by-case basis.

The CO_2 emission allowances for 2013–2020 presented below include allowances granted pursuant to the Regulations of the Council of Ministers, as well as other free allowances allocated by the European Commission.

Number of free CO_2 emission allowances for 2013–2020 and actual CO_2 emissions:

in million tonnes	2013	2014	2015	2016	2017	2018	2019	2020	Total
Allowances allocated under the National Allocation Plan[(1)]	1.7	1.6	1.6	1.6	1.6	1.5	1.5	1.4	12.5
Actual CO_2 emissions	1.7	1.8	1.9	1.9	1.7	1.9	1.8 [(2)]	-	12.7

[(1)] Number of free CO_2 allowances allocated to Grupa LOTOS S.A. 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)] CO_2 emissions, calculated based on the production data for the installations covered by the emissions trading scheme. The data is verified in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011.

As at December 31st 2019, taking into account the allocation limit for 2019 under the EU ETS "European Union Emissions Trading System/Scheme") and carbon dioxide emissions at the Company were shortened and therefore recognised a PLN 70.3m provision as at December 31st 2019 (December 31st 2018: PLN 40.7m). The PLN 29.6m effect of the provision on EBIT is presented under cost of sales (2018: PLN 26.3m).

If required, futures contracts to purchase carbon dioxide (CO_2) allowances open as at the last day of the reporting period are settled by the Company through physical delivery, with the intention to potentially use the allowances to offset the Company's actual CO_2 emissions. The valuation of contracts settled through physical delivery is not disclosed under financial assets/liabilities in the financial statements. However, the Company internally monitors and performs the valuation of such contracts as part of an overall assessment of the effectiveness of its CO_2 risk management (off the balance sheet).

EUA futures contracts open as at December 31st 2019 and December 31st 2018 which the Company considered likely to be settled through physical delivery and used for the Company'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.

Below is presented the contract position as at December 31st 2019 and December 31st 2018.

Open CO_2 allowances contracts as at December 31st 2019:

Type of contract	Contract settlement period	Contract volume (in tonnes)	Phase	Fair value measurement*	
				Financial assets	Financial liabilities
EUA Futures	DEC 2020	1,595,000	Phase III	3.3	(1.1)

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

Open CO_2 allowances contracts as at December 31st 2018:

Type of contract	Contract settlement period	Contract volume (in tonnes)	Phase	Fair value measurement*	
				Financial assets	Financial liabilities
EUA Futures	DEC 2019 – DEC 2020	1,159,000	Phase III	50.1	(0.8)

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

28.2.1 Sensitivity analysis: market risk related to movements in prices of carbon dioxide (CO_2) emission allowances

As at December 31st 2019 and December 31st 2018, the Company held futures for the purchase of carbon dioxide (CO_2) emission allowances.

The Company does not perform a sensitivity analysis for the fair value of futures contracts to purchase CO_2 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 allowance deficits under the carbon emission reduction system. Therefore, no sensitivity analysis was performed for EUA futures held as at December 31st 2019 and December 31st 2018.

28.3 Currency risk

In its operations the Company 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.

Currency risk is managed by the Company in line with the assumptions of the Grupa LOTOS S.A. Currency Risk Management Policy. Under the policy, exposure is understood as material positions exposed to currency risk, affecting liquidity within the management horizon when the risk arises. The central risk metric is Cash-Flow-at-Risk (CFaR), computed based on the CorporateMetrics™ methodology, with the CFaR value limit and the maximum hedge ratio being the key limits. The exposure management horizon is linked with the budget forecast horizon, which varies from three to six consecutive quarters depending on the time of the year.

Grupa LOTOS S.A. actively manages its currency exposure by optimising the expected values of cash flows and risk within applicable 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 as this would reduce the structural long position and, consequently, also the strategic currency risk.

Grupa LOTOS S.A. 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 repayments).

Open currency contracts as at December 31st 2019:

Type of contract	Purchase/sale	Contract settlement period	Currency pair (base/quote)	Amount in base currency (million)	Fair value measurement	
					Financial assets	Financial liabilities
Currency spot	Purchase	JAN 2020	USD/PLN	20.8	-	-
Currency spot	Sales	JAN 2020	EUR/PLN	(0.1)	-	-
Currency forward	Purchase	JUN 2020	EUR/USD	17.0	0.3	-
Currency forward	Sales	JAN – APR 2020	USD/PLN	(130.0)	12.9	-
Currency swap	Purchase	JAN – MAR 2020	EUR/USD	70.0	0.6	-
Currency swap	Sales	JAN – APR 2020	USD/PLN	(225.4)	8.5	-
Currency swap	Sales	JAN – MAR 2020	EUR/PLN	(19.5)	0.5	-
				Total	**22.8**	**-**

Open currency contracts as at December 31st 2018:

Type of contract	Purchase/sale	Contract settlement period	Currency pair (base/quote)	Amount in base currency (million)	Fair value measurement	
					Financial assets	Financial liabilities
Currency spot	Sales	JAN 2019	EUR/PLN	(1.6)	-	-
Currency forward	Purchase	JAN 2019	USD/PLN	11.5	-	(0.4)
Currency forward	Purchase	JAN – DEC 2019	EUR/USD	100.0	-	(13.7)
Currency forward	Sales	JAN – JUN 2019	USD/PLN	(110.0)	-	(7.3)
Currency swap	Purchase	MAY 2019	EUR/USD	19.0	-	(0.6)
Currency swap	Purchase	JAN 2019	EUR/PLN	60.0	0.1	-
Currency swap	Sales	JAN – JUL 2019	USD/PLN	(249.9)	2.3	(3.2)
				Total	**2.4**	**(25.2)**

28.3.1 Sensitivity analysis: market risk related to USD exchange rate movements (for selected financial instruments)

	Note	(million) USD	USD translated into PLN	(million) USD	USD translated into PLN
		Dec 31 2019		Dec 31 2018	
Financial assets					
Trade receivables		48.7	185.1	61.6	231.6
Cash and cash equivalents		3.0	11.3	65.7	247.1
Other financial assets – deposits		-	-	9.0	33.9
Other financial assets – loans advanced to related entities		0.7	2.6	-	-
Other financial assets – commission fees on conditional loan		2.2	8.3	1.7	6.4
Total		**54.6**	**207.3**	**138.0**	**519.0**
Financial liabilities					
Bank borrowings	23	455.7	1.730,7	606.0	2.285,9
Trade payables		373.5	1.418,5	374.0	1.406,0
Other financial liabilities		3.4	13.1	0.2	0.9
Total		**832.6**	**3.162,3**	**980.2**	**3.692,8**

Apart from the instruments listed above, the Company may hold foreign-currency derivative financial instruments, including commodity swaps and interest-rate swaps, as well as currency spot contracts, forwards and swaps. Depending on the type of derivative, the Company 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 derivative financial instruments (for more detailed information on derivative measurement methods see Note 7.19). The tables below, presenting sensitivity of financial instruments to currency risk as at December 31st 2019 and December 31st 2018, also present the effect of currency exchange rate movements on the carrying amounts of the derivative financial instruments.

(PLNm)

	Effect of USD exchange rate increase/decrease on net profit/loss for the year					
	+7.088%		-7.088%	+9.950%		-9.950%
	2019			2018		
Financial assets						
Trade receivables	13.1		(13.1)	23.0		(23.0)
Derivative financial instruments	(115.9)		115.9	(43.0)		43.0
Cash and cash equivalents	0.8		(0.8)	24.6		(24.6)
Other financial assets – deposits	-		-	3.4		(3.4)
Other financial assets − loans advanced to related entities	0.2		(0.2)	-		-
Other financial assets − fees related to conditional loans	0.6		(0.6)	0.6		(0.6)
Total financial assets	**(101.2)**		**101.2**	**8.6**		**(8.6)**
Financial liabilities						
Bank borrowings	15.0	(1)	(15.0)	35.2	(2)	(35.2)
Trade payables	100.5		(100.5)	139.9		(139.9)
Derivative financial instruments	1.1		(1.1)	140.6		(140.6)
Other financial liabilities	0.9		(0.9)	0.1		(0.1)
Total financial liabilities	**117.5**		**(117.5)**	**315.8**		**(315.8)**
Total	**(218.7)**		**218.7**	**(307.2)**		**307.2**

(1) The calculation of the effect of an exchange rate movement on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 7.088% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (107.7)m/PLN 107.7m in the fair value of borrowings.

(2) The calculation of the effect of an exchange rate movement on the balance-sheet item takes into account the effect of cash flow hedge accounting. Assuming a 9.950% change of the USD/PLN exchange rate, the effect of cash flow hedge accounting would potentially lead to a change of PLN (194.1)m/PLN 194.1m in the fair value of borrowings. Furthermore, the calculation takes into account the effect of paid upfront 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 1.9m/PLN (1.9)m in the fair value of borrowings, assuming a 9.950% change of the USD/PLN exchange rate.

The above deviations of carrying amounts in the złoty that are dependent on currency exchange rates were calculated on the basis of the implied annual volatility of the exchange rates for December 31st 2019, which was 7.088% for USD/PLN, as published by Reuters (December 31st 2018: 9.950%). The sensitivity analysis was performed based on significant instruments held as at December 31st 2019 and for comparative data.

28.4 Interest rate risk

Grupa LOTOS S.A is exposed to the risk of changes in cash flows caused by interest rate movements, as interest income and expense related to certain assets and liabilities accrues based on floating interest rates. This is driven primarily by the expected facility repayment schedules, as well as the amount of interest computed by reference to the floating LIBOR USD rate. The Company manages the interest rate risk within the set limits using interest rate swaps.

As at December 31st 2019, Grupa LOTOS S.A. had no open interest rate transactions.

Open interest rate contracts as at December 31st 2018:

Type of contract	Period	Notional amount (USDm)	Company receives	Fair value measurement	
				Financial assets	Financial liabilities
Interest rate swap (IRS)	JAN 2015 − JAN 2019	200	3M LIBOR	-	(6.6)
			Total	**-**	**(6.6)**

28.4.1 Sensitivity analysis: market risk related to interest rate movements

Dec 31 2019	Note	Carrying amount	Change	
			+0.37%	-0.37%
Financial assets				
Cash and cash equivalents	18	319.0	1.2	(1.2)
Other financial assets:		39.5	0.2	(0.2)
Loans advanced to related parties	16	22.0	0.1	(0.1)
Security deposit (margin)		17.5	0.1	(0.1)
Total		**358.5**	**1.4**	**(1.4)**
Financial liabilities				
Bank borrowings	23	1.730,7	6.4	(6.4)
Leases	23	189.6	0.5	(0.5)
Total		**1.920,3**	**6.9**	**(6.9)**

Dec 31 2018	Note	Carrying amount	Change	
			+0.26%	-0.26%
Financial assets				
Cash and cash equivalents	18	1,193.7	3.1	(3.1)
Other financial assets:		52.1	0.1	(0.1)
Loans advanced to related parties	16	17.8	0.0	(0.0)
Deposits	16	33.9	0.1	(0.1)
Security deposit (margin)		0.4	0.0	(0.0)
Total		**1,245.8**	**3.2**	**(3.2)**
Financial liabilities				
Bank borrowings	23	2,285.9	4.6 [(1)]	(4.6) [(1)]
Derivative financial instruments [(2)]	24	6.6	-	-
Security deposit (margin)	26	32.7	0.1	(0.1)
Total		**2,325.2**	**4.7**	**(4.7)**

[(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 0.26%, 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 movement increases the interest rate by 0.26%, in the second case it reduces the interest rate by 0.26%).

The sensitivity analysis was performed for the instruments held as at December 31st 2019 and December 31st 2018. The effect of the interest rate changes on the fair value was examined assuming that the currency exchange rates remain unchanged. In the case of derivative instruments held as at December 31st 2019 and December 31st 2018, for the purpose of interest rate sensitivity analysis the interest rate curve was moved up or down by the historical annual volatility for December 31st 2019 and December 31st 2018, calculated based on historical volatility data for interest rates on interest rate swaps expiring in one year, as published by Reuters.

28.5 Liquidity risk

The liquidity risk management process at the Company 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 physical cash pooling arrangement, whereby Grupa LOTOS S.A. manages the subsidiaries’ structure on an ongoing 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 financial risk management. In the mid- and long term, it is monitored as part of the planning process, which helps to develop a long-term financial strategy.

In the area of financial risk, in addition to active management of market risk, the Company applies the following liquidity management rules:

- no margins in derivative financial instrument trading on the OTC market,
- limited possibility of early termination of financial transactions,
- limits for low-liquidity spot financial instruments,
- credit risk limits for counterparties in financial and trade transactions,
- ensuring adequate availability of diversified sources of funding of appropriate structure and quality,
- internal control processes and organisational efficiency facilitating prompt contingency response.

As at December 31st 2019 and December 31st 2018, the maturities of financial liabilities were as follows:

Maturities of financial liabilities	Note	Carrying amount	Contractual cash flows	Up to 6 months	6 - months 12th	1–2 years	2–5 years	Over 5 years
Dec 31 2019								
Bank borrowings (other than overdraft facilities)	23	1,730.7	1,867.0	388.5	174.1	672.0	632.4	-
Leases	23	189.6	581.7	65.8	0.8	9.3	23.4	482.4
Trade payables	26	1,968.6	2,040.7	2,040.7	-	-	-	-
Other financial liabilities	26	54.4	54.5	41.2	-	2.0	8.9	2.4
Total		**3,943.3**	**4,543.9**	**2,536.2**	**174.9**	**683.3**	**664.7**	**484.8**
Dec 31 2018								
Bank borrowings (other than overdraft facilities)	23	2,282.9	2,861.4	301.2	1,196.5	625.5	738.2	-
Overdraft facilities	23	3.0	3.0	3.0	-	-	-	-
Trade payables	26	1,900.7	1,900.7	1,900.7	-	-	-	-
Other financial liabilities	26	81.5	81.5	66.1	-	6.2	6.8	2.4
Total		**4,268.1**	**4,846.6**	**2,271.0**	**1,196.5**	**631.7**	**745.0**	**2.4**

Maturities of derivative financial instruments	Note	Carrying amount*	Contractual cash flows	Up to 6 months	6 - months 12th	1–2 years	2–5 years	Over 5 years
Dec 31 2019								
Commodity swap	24	(13.7)	(13.9)	(2.8)	(8.1)	(3.0)	-	-
Currency forward and spot contracts		13.2	13.2	13.2	-	-	-	-
Currency swap		9.5	9.5	9.5	-	-	-	-
Total		**9.0**	**8.8**	**19.9**	**(8.1)**	**(3.0)**	**-**	**-**
Dec 31 2018								
Commodity swap	24	(7.8)	(8.4)	3.3	(6.9)	(4.7)	(0.1)	-
Currency forward and spot contracts		(21.4)	(21.6)	(15.7)	(5.9)	-	-	-
Currency swap		(1.4)	(1.4)	(1.4)	-	-	-	-
Interest rate swap (IRS)		(6.6)	(6.6)	(6.6)	-	-	-	-
Total		**(37.2)**	**(38.0)**	**(20.4)**	**(12.8)**	**(4.7)**	**(0.1)**	**-**

* Carrying amount (fair value gains on derivative financial instruments minus fair value losses on derivative financial instruments) represents the fair value of derivative financial instruments disclosed in the statement of financial position (excluding CO_2 emission allowance futures purchased with the intention of settlement).

28.6 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 exposures against the granted limits.
Credit exposure includes bank deposits, cash balances in bank accounts, measurement of derivative financial instruments, and granted security.

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

As at December 31st 2019 and December 31st 2018, the concentration of credit risk exposure to any single counterparty in financial transactions of Grupa LOTOS S.A. did not exceed PLN 399.0m and PLN 542.7m, respectively (3.86% and 5.44% of the Company's equity, respectively).

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 possible credit limit amounts. In 2016, the Company completed development of a rating model which supports assigning credit limits to counterparties. The Company 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 Group.

As at December 31st 2019 and December 31st 2018, the concentration of credit risk exposure to any single counterparty in the Company's trade transactions did not exceed PLN 531.0m and PLN 116.4m, respectively (5.14% and 1.17% of the Company's equity).

Credit risk is measured by the maximum exposure to risk of each class of financial assets. Carrying amounts of financial assets represent the maximum credit risk exposure.

Maximum credit risk exposure of financial assets	Note	Dec 31 2019	Dec 31 2018
Shares	15	6.3	6.3
Derivative financial instruments (assets)	24	24.4	16.2
Trade receivables	16	2,598.0	1,815.4
Cash and cash equivalents	18	319.0	1,193.7
Other financial assets:	16	50.6	73.0
Loans advanced to related entities		22.0	17.8
Deposits		-	33.9
Security deposits (margins)		18.7	14.4
Commission fees on conditional loan		8.3	6.4
Other		1.6	0.5
Total		**2,998.3**	**3,104.6**

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 Note 16.1.

For discussion of credit risk concentrations for trade receivables, see Note 16.1.
For ageing analysis of receivables past due but not impaired, see Note 16.1.

29. Capital management

The objective of the Grupa LOTOS S.A.'s financial policy is to maintain long-term liquidity while using an appropriate level of financial leverage to support the achievement of the principal goal of maximising the return on equity for the shareholders.

This is achieved by constant effort to develop the desired capital structure. Grupa LOTOS S.A. monitors its financing structure using the debt to equity ratio, calculated as net debt to equity.

Net debt comprises bank borrowings and lease liabilities less cash and cash equivalents.

	Note	Dec 31 2019	Dec 31 2018
Non-current liabilities			
Bank borrowings	23	1,215.3	1,295.6
Leases	23	124.9	-
Total		**1,340.2**	**1,295.6**
Current liabilities			
Bank borrowings	23	515.4	990.3
Leases	23	64.7	-
Total		**580.1**	**990.3**
Cash and cash equivalents	18	(319.0)	(1,193.7)
Net debt		**1,601.3**	**1,092.2**
Total equity		10,339.3	9,978.3
Net debt to equity		**0.15**	**0.11**

30. Contingent liabilities and assets

30.1 Material court, arbitration or administrative proceedings and other risks

Tax settlements

In 2015, the Company's VAT settlements for 2010 were subject to inspection by tax inspection authorities. On June 23rd 2015, the Company received a post-inspection report and challenged some of the findings contained in the report. On September 30th 2015, the Company received a decision issued by the Director of the Tax Audit Office in Bydgoszcz, in which the Tax Audit Office assessed the VAT amount payable by the Company for the period from January to December 2010, identifying VAT arrears of PLN 48.4m. The Company dismissed the allegations of the Director of the Tax Audit Office as entirely groundless and on October 14th 2015 filed an appeal with the Director of the Tax Chamber in Gdańsk. The Director of the Tax Chamber in Gdańsk upheld the decision of the Director of the Tax Audit Office in Bydgoszcz, whereas the complaint lodged by the Company with the Provincial Administrative Court on June 8th 2016 was dismissed. On August 25th 2016, the Company lodged a cassation complaint with the Supreme Administrative Court of Warsaw. On April 17th 2019, the Supreme Administrative Court dismissed the Company's complaint against the ruling of the Provincial Administrative Court of Gdańsk.

Furthermore, as at December 31st 2019, the Company disclosed a provision for tax risk recognised in connection with other tax inspections concerning value added tax (VAT); see Note 26.

30.2 Other contingent liabilities

In the period between the end of the previous financial year, i.e. December 31st 2018, and the date of issue of these financial statements, there were no changes in the Company's other material contingent liabilities, with the exception of sureties granted to subsidiaries (see Note 31.1).

31. Related parties

31.1 Material transactions with related entities in which Grupa LOTOS S.A. holds equity interests

	Note	2019	2018
Subsidiaries			
Sales	9.1	15,955.8	15,020.5
Purchases		1,771.7	1,434.1
Purchase of property, plant and equipment and intangible assets		14.3	26.7
Dividends received	9.6	308.9	367.8
Interest income on loans advanced	9.6	3.5	7.6
Commission fees on conditional loan	9.6	1.9	1.8
Joint ventures			
Sales	9.1	481.8	625.7
Dividends received	9.6	1.8	1.9
		Dec 31 2019	**Dec 31 2018**
Subsidiaries			
Trade receivables	16	1,507.3	1,329.1
Receivables under loans	16	22.0	17.8
Commission fees on conditional loan	16	8.3	6.4
Trade and other payables		340.4	242.7
Joint ventures			
Trade receivables	16	38.3	22.6

As at December 31st 2019, the amount of assigned trade from related parties was nil (December 31st 2018: PLN 1,346.6m).

As at December 31st 2019 and December 31st 2018, sureties were issued for:
- B8 spółka z ograniczoną odpowiedzialnością BALTIC spółka komandytowo-akcyjna ("B8") in favour of Bank Gospodarstwa Krajowego S.A. in connection with B8's note programme for up to USD 91.5m;
- LOTOS Kolej Sp. z o.o. – to secure financing of PLN 51.8m for the purchase of modern rolling stock for intermodal connections.

In 2019, the Company provided security in the form of assignment of receivables to secure claims under the loan agreement of February 20th 2019 between Grupa LOTOS S.A. and LOTOS Exploration and Production Norge AS, and potential future loan agreements. As at December 31st 2019 the loan was repaid.

As at December 31st 2019 and December 31st 2018, Grupa LOTOS S.A.'s shares in LOTOS Asfalt Sp. z o.o. were fully encumbered with financial and registered pledges. The pledges were established to secure a credit facility agreement executed by LOTOS Asfalt Sp. z o.o. with a syndicate of financial institutions in connection with the financing of the EFRA Project. The credit facility agreement of LOTOS Asfalt Sp. z o.o. is also secured by a declaration of submission to enforcement submitted by Grupa LOTOS S.A. and assignment of rights under a loan agreement of June 2015 made between Grupa LOTOS S.A. (lender) and LOTOS Asfalt Sp. z o.o. (borrower). The agreement provides for a conditional revolving loan of up to USD 53m maturing on January 17th 2026. The loan is secured by a blank promissory note and a promissory note declaration and it bears interest at a variable annual rate based on 6M USD LIBOR plus margin. The loan is to provide funds for the EFRA Project if LOTOS Asfalt Sp. z o.o. fails to generate sufficient own funds, and to ensure financial liquidity for LOTOS Asfalt Sp. z o.o.

In 2019, the Company advanced loans to the following companies: LOTOS Exploration & Production Norge AS, LOTOS Upstream Sp. z o.o. and SPV Petro Sp. z o.o. – PLN 90.0m, PLN 10.8m and PLN 2.5m, respectively (2018: to LOTOS Upstream Sp. z o.o, of PLN 7.5m). Amounts disbursed under the loans are presented in the statement of cash flows as cash flows from investing activities under Loans advanced to related parties.

In 2019 LOTOS Exploration & Production Norge AS and LOTOS Upstream Sp. z o.o. repaid PLN 86.8m and PLN 8.8m, respectively, under the loans (2018: LOTOS Petrobaltic S.A. repaid a loan advanced in previous years of PLN 171.7m). Repayment of the loans is presented in cash flows from investing activities under Decrease in loans advanced to related parties.

Loans advanced by Grupa LOTOS S.A. to related entities as at December 31st 2019:

Related entity	Principal as per loan agreement		Maturity date	Security	Financial terms (interest rate)
	PLN (million)	Currency (million)			
ENERGOBALTIC Sp. z o.o.	10.0	-	Mar 31 2020	mortgage and blank promissory note with a 'protest waived' clause and promissory note declaration	the loan bears interest at a variable annual rate based on 6M WIBOR plus margin
LOTOS Upstream Sp. z o.o.	9.6	-	Jun 30 2020	blank promissory note with a 'protest waived' clause and promissory note declaration	the loan bears interest at a variable annual rate based on 3M WIBOR plus margin
SPV Petro Sp. z o.o.	2.5	0.7 USD	Dec 31 2022	blank promissory note with a 'protest waived' clause and promissory note declaration as well as security over non-current assets	the loan bears interest at a variable annual rate based on 1M WIBOR plus margin

Moreover, in 2019 Grupa LOTOS S.A. made cash contributions for new shares in the increased share capital of LOTOS Upstream Sp. z o.o. in the amount of PLN 338.5m; see Note 15.1 (2018: PLN 366.0m). Expenditure on acquisition of new shares is presented in the statement of cash flows from investing activities under Acquisition of shares in LOTOS Upstream Sp. z o.o.

31.2 Entity exercising control of the Company

As at December 31st 2019 and December 31st 2018, the State Treasury held a 53.19% interest in Grupa LOTOS S.A. In 2018 and 2019, no material transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

31.3 Transactions with related entities of which the State Treasury has control or joint control or on which the State Treasury has significant influence

In 2019 and 2018, Grupa LOTOS S.A. executed transactions with parties related to it through the State Treasury, the aggregate value of which was material. The transactions were concluded at arm's length in the course of the Company's day-to-day business and involved mainly purchase and sale of fuels, purchase of crude oil and natural gas, and transport services.

	2019	2018
Sales	472.3	519.6
Purchases	1,428.1	1,751.3
	Dec 31 2019	**Dec 31 2018**
Receivables	51.6	2.8
Liabilities	191.0	188.2

In addition, as at December 31st 2019, the Company had borrowings from banks of which the State Treasury has control or joint control or over which it exercises significant influence, in the total amount of PLN 305.5m (from PKO BP S.A. and PEKAO S.A.) (December 31st2018: PLN 601.7m).

31.4 Remuneration of members of the Company's governing bodies and its key management staff

Remuneration paid to members of the Company's Management and Supervisory Boards	2019	2018
Management Board		
Short-term employee benefits (salaries):	**6.42**	**3.08**
Jarosław Wittstock	0.81	0.16
Marian Krzemiński	0.22	-
Jarosław Kawula	1.42	0.69
Zofia Paryła	0.24	-
Mateusz Bonca(1)	1.63	0.71
Patryk Demski(2)	0.97	0.37
Robert Sobków(3)	0.75	0.35
Marcin Jastrzębski(4)	0.38	0.59
Mariusz Machajewski(5)	-	0.09
Piotr Ciach	-	0.12
Supervisory Board		
Short-term employee benefits (salaries):	**0.66**	**0.60**
Piotr Ciach	0.08	0.07
Dariusz Figura	0.08	0.08
Mariusz Golecki	0.07	0.08
Beata Kozłowska-Chyła	0.10	0.10
Katarzyna Lewandowska	0.08	0.08
Adam Lewandowski	0.08	0.08
Grzegorz Rybicki	0.08	0.03
Agnieszka Szklarczyk-Mierzwa	0.09	0.08
Total (6)	**7.08**	**3.68**
including variable remuneration paid:	**2.17**	**-**
Management Board		
Jarosław Wittstock	0.12	-
Jarosław Kawula	0.73	-
Mateusz Bonca	0.70	-
Patryk Demski	0.24	-
Marcin Jastrzębski	0.38	-

Other employee benefits	Dec 31 2019	Dec 31 2018
Management Board		
Current liabilities due to variable remuneration: (7)	**2.87** (8)	**3.26**
Jarosław Wittstock	0.51	0.17
Marian Krzemiński	0.22	-
Jarosław Kawula	0.51	1.01
Zofia Paryła	0.22	-
Mateusz Bonca	0.50	0.90
Patryk Demski	0.27	0.30
Robert Sobków	0.47	0.30
Marcin Jastrzębski	-	0.58
Mariusz Machajewski	0.17	-
Total	**2.87**	**3.26**

(1) Including severance pay for termination of the management service contract paid in 2019.
(2) Including a severance pay for termination of the management service contract and non-compete compensation paid in 2019.
(3) Including a severance pay for termination of the management service contract and non-compete compensation paid in 2019.
(4) Including a severance pay for termination of the management service contract and non-compete compensation paid in 2018.
(5) Non-compete compensation paid in 2018.
(6) The amount reflects changes in the composition of the Company's Management and Supervisory Boards.
(7) Pursuant to the Act on Rules of Remunerating Persons Who Manage Certain Companies. Payment of the variable remuneration is conditional on the achievement of targets set for the Management Board members and consent of the Supervisory Board.
(8) The amount includes an outstanding current liability due to variable remuneration for 2018.

In 2018 and 2019, the Company did not enter into any material transactions with any Management Board or Supervisory Board members, did not advance any loans, make any advance payments, issue any guarantees to or conclude any other agreements with any Management Board or Supervisory Board member which would be advanced, made, issued or concluded otherwise than on an arm's length basis or which would have material bearing on these financial statements.

Based on representations submitted by members of the Company's Management and Supervisory Boards, in 2018 and 2019 the Company was not aware of any transactions concluded with the Company or another company of the LOTOS Group by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of members of the Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

Remuneration paid to members of key management staff (other than members of the Grupa LOTOS Management Board)	2019	2018
Short-term employee benefits (salaries), including:	24.4	23.3
- annual bonus paid	3.7 (1)	3.8 (2)
- length-of-service award paid	0.4	0.4
Other employee benefits	Dec 31 2019	Dec 31 2018
Post-employment benefits, length-of-service awards and other benefits	6.2	5.0
Current liabilities under annual bonus	5.4	5.5
Total	**11.6**	**10.5**

(1) Remuneration paid in 2019 on account of the annual bonus for 2018.
(2) Remuneration paid in 2018 on account of annual bonus for 2017.

In 2019 and 2018, the Company did not advance any loans to its key management personnel.

31.5 Transactions with related parties of members of the Management Board and the Supervisory Board

In 2019, Grupa LOTOS S.A. did not enter into material transactions with parties related to it through members of the Management and Supervisory Boards.

In 2018, Grupa LOTOS S.A. executed transactions with parties related to it through members of the Management Board and Supervisory Board. Those transactions were connected with the Company's day-to-day operations and related mainly to the purchase of liability insurance policies and property insurance policies for PLN 21.5m. As at December 31st 2018, unsettled transactions with parties related to the Company through members of the Management and Supervisory Boards totalled PLN 1.0.

All transactions with parties related to the Group through members of the Management Board and the Supervisory Board were executed on an arm's length basis.

32. Financial statements by types of energy business – selected items

As an energy company, Grupa LOTOS S.A., acting in compliance with Art. 44 of the Act Amending the Energy Law and Certain Other Acts, dated July 26th 2013 (Dz.U. of 2013, item 984), identifies three types of the energy business, for which it separately records revenue and expenses, profits and losses, as well as items of the statement of financial position.

In accordance with the licences it has been granted, the Company's energy business comprises:

- gas fuel trading,
- distribution of gas fuels,
- generation of energy in the form of heat,
- transmission of energy in the form of heat,
- transmission of electricity,
- electricity trading.

Revenue from sale of the energy products and costs of the energy products are allocated directly to the respective types of the energy business, whereas the general overhead costs, other income and expenses and finance income and costs are apportioned based on appropriate allocation keys. Costs are distributed proportionately to the cost of products sold, while revenue − according to net revenue.

Items of the statement of financial position are allocated directly to the respective types of the energy business, or apportioned based on appropriate allocation keys.

Property, plant and equipment and intangible assets relate directly to assets used for production or transmission of energy and gas fuels. Their value has been assigned to the individual types of the energy business based on the ratio of the energy volume sold to the energy volume produced and the ratio of the volume of gas fuel sold to the volume of gas fuel purchased.

Deferred tax assets or liabilities include deferred tax related to employee benefit obligations and the difference between tax and accounting depreciation/ amortisation of assets used in energy production. These items have been apportioned to the respective types of the energy business based on the volume ratio defined above.

Inventories assigned to the energy business include materials. The key to their allocation is the ratio of the cost of energy products sold to total cost of all products sold.

Receivables are assigned directly to the individual types of the energy business on the basis of sale invoices.

Cash and cash equivalents have been allocated to the respective types of the energy business pro rata to revenue generated from this business.

Items presented under retained earnings include net profits or losses from the individual types of the energy business as reported in the statement of comprehensive income, accumulated profits brought forward and components balancing assets and equity and liabilities.

Employee benefits and other liabilities and provisions have been apportioned among the individual types based on the ratio of the energy volume sold to the energy volume produced and the ratio of the volume of gas fuel sold to the volume of gas fuels purchased.

For trade payables, the allocation key is the ratio of the cost of energy products sold to total cost of all products sold.

The Company earned no income from exercising ownership rights to the transmission network in 2019 or 2018.

Below are presented a separate statement of comprehensive income for 2019 and statement of financial position as at December 31st 2019 by types of the energy business, along with selected additional notes.

(PLNm)

	Note	2019	2018 (restated data)
Revenue	9.1	26,313.0	26,737.3
- from principal business		26,215.2	26,714.0
- from gas fuel trading activities		63.0	13.7
- from gas fuel distribution activities		5.5	-
- from heat generation business		10.6	3.1
- from heat transmission business		1.2	0.4
- from electricity transmission business		4.9	2.4
- from electricity trading business		12.6	3.7
Cost of sales	9.2	(24,509.4)	(24,369.0)
- from principal business		(24,416.5)	(24,348.7)
- from gas fuel trading activities		(60.6)	(12.0)
- from gas fuel distribution activities		(5.1)	-
- from heat generation business		(11.7)	(2.9)
- from heat transmission business		(1.9)	(0.3)
- from electricity transmission business		(3.5)	(0.6)
- from electricity trading business		(10.1)	(4.5)
Gross profit/(loss)		**1,803.6**	**2,368.3**
- from principal business		**1,798.7**	**2,365.3**
- from gas fuel trading activities		**2.4**	**1.7**
- from gas fuel distribution activities		**0.4**	**-**
- from heat generation business		**(1.1)**	**0.2**
- from heat transmission business		**(0.7)**	**0.1**
- from electricity transmission business		**1.4**	**1.8**
- from electricity trading business		**2.5**	**(0.8)**
Distribution costs	9.2	(775.8)	(747.5)
- from principal business		(775.8)	(747.5)
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		-	-
- from heat generation business		-	-
- from heat transmission business		-	-
- from electricity transmission business		-	-
- from electricity trading business		-	-
Administrative expenses	9.2	(262.8)	(224.4)
- from principal business		(261.9)	(224.2)
- from gas fuel trading activities		(0.6)	(0.1)
- from gas fuel distribution activities		(0.1)	-
- from heat generation business		(0.1)	-
- from heat transmission business		-	-
- from electricity transmission business		-	-
- from electricity trading business		(0.1)	(0.1)
Other income	9.4	15.7	12.5
- from principal business		15.7	12.5
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		-	-
- from heat generation business		-	-
- from heat transmission business		-	-
- from electricity transmission business		-	-
- from electricity trading business		-	-
Other expenses	9.5	(36.2)	(79.7)
- from principal business		(36.2)	(79.7)
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		-	-
- from heat generation business		-	-
- from heat transmission business		-	-
- from electricity transmission business		-	-
- from electricity trading business		-	-
Operating profit (loss)		**744.5**	**1,329.2**
- from principal business		**740.5**	**1,326.4**
- from gas fuel trading activities		**1.8**	**1.6**
- from gas fuel distribution activities		**0.3**	**-**
- from heat generation business		**(1.2)**	**0.2**
- from heat transmission business		**(0.7)**	**0.1**
- from electricity transmission business		**1.4**	**1.8**
- from electricity trading business		**2.4**	**(0.9)**
Finance income	9.6	376.7	404.3
- from principal business		375.3	404.1
- from gas fuel trading activities		0.8	0.2
- from gas fuel distribution activities		0.1	-
- from heat generation business		0.2	-
- from heat transmission business		-	-
- from electricity transmission business		0.1	-
- from electricity trading business		0.2	-
Finance costs	9.7	(166.0)	(152.3)
- from principal business		(165.4)	(152.2)
- from gas fuel trading activities		(0.4)	(0.1)
- from gas fuel distribution activities		-	-
- from heat generation business		(0.1)	-
- from heat transmission business		-	-
- from electricity transmission business		-	-
- from electricity trading business		(0.1)	-

(PLNm)

	Note	2019	2018 (restated data)
Pre-tax profit (loss)		**955.2**	**1,581.2**
- from principal business		**950.4**	**1,578.3**
- from gas fuel trading activities		**2.2**	**1.7**
- from gas fuel distribution activities		**0.4**	**-**
- from heat generation business		**(1.1)**	**0.2**
- from heat transmission business		**(0.7)**	**0.1**
- from electricity transmission business		**1.5**	**1.8**
- from electricity trading business		**2.5**	**(0.9)**
Income tax	10.1	(120.9)	(247.3)
- from principal business		(119.5)	(246.6)
- from gas fuel trading activities		(0.4)	(0.3)
- from gas fuel distribution activities		(0.1)	-
- from heat generation business		-	-
- from heat transmission business		-	-
- from electricity transmission business		(0.4)	(0.4)
- from electricity trading business		(0.5)	-
Net profit (loss)		**834.3**	**1,333.9**
- from principal business		**830.9**	**1,331.7**
- from gas fuel trading activities		**1.8**	**1.4**
- from gas fuel distribution activities		**0.3**	**-**
- from heat generation business		**(1.1)**	**0.2**
- from heat transmission business		**(0.7)**	**0.1**
- from electricity transmission business		**1.1**	**1.4**
- from electricity trading business		**2.0**	**(0.9)**

	Note	Dec 31 2019	Dec 31 2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	5,707.3	5,836.4
- principal business		5,685.4	5,829.8
- gas fuel trading activities		-	-
- gas fuel distribution activities		2.3	-
- heat generation business		4.6	1.3
- heat transmission business		3.6	1.1
- electricity transmission business		11.4	4.2
- electricity trading business		-	-
Intangible assets	14	92.9	86.4
- principal business		92.9	86.4
- gas fuel trading activities		-	-
- gas fuel distribution activities		-	-
- heat generation business		-	-
- heat transmission business		-	-
- electricity transmission business		-	-
- electricity trading business		-	-
Shares	15	2,993.0	2,654.5
Deferred tax assets		-	-
- principal business		-	-
- gas fuel trading activities		-	-
- gas fuel distribution activities		-	-
- heat generation business		-	-
- heat transmission business		-	-
- electricity transmission business		-	-
- electricity trading business		-	-
Derivative financial instruments	24	0.1	2.1
Other non-current assets	16	28.8	7.8
Total non-current assets		**8,822.1**	**8,587.2**
- principal business		**8,800.2**	**8,580.6**
- gas fuel trading activities		**-**	**-**
- gas fuel distribution activities		**2.3**	**-**
- heat generation business		**4.6**	**1.3**
- heat transmission business		**3.6**	**1.1**
- electricity transmission business		**11.4**	**4.2**
- electricity trading business		**-**	**-**
Current assets			
Inventories	17	**4,526.2**	**4,530.1**
- principal business		**4,526.1**	**4,529.6**
- including emergency stocks		**3,026.6**	**2,874.2**
- gas fuel trading activities		**-**	**-**
- gas fuel distribution activities		**-**	**-**
- heat generation business		**0.1**	**0.4**
- heat transmission business		**-**	**-**
- electricity transmission business		**-**	**0.1**
- electricity trading business		**-**	**-**

	Note	Dec 31 2019	Dec 31 2018
Trade receivables	16	2,598.0	1,815.4
- principal business		2,585.1	1,809.7
- gas fuel trading activities		6.0	4.5
- gas fuel distribution activities		0.6	-
- heat generation business		3.2	0.6
- heat transmission business		0.4	0.1
- electricity transmission business		0.7	0.2
- electricity trading business		2.0	0.3
Current tax assets		84.3	-
Derivative financial instruments	24	24.3	14.1
Other current assets	16	101.7	140.9
Cash and cash equivalents	18	319.0	1,193.7
- principal business		310.5	1,192.4
- gas fuel trading activities		6.6	0.6
- gas fuel distribution activities		0.5	-
- heat generation business		0.1	0.1
- heat transmission business		-	-
- electricity transmission business		0.2	0.1
- electricity trading business		1.1	0.5
Total current assets		**7,653.5**	**7,694.2**
- principal business		**7,632.0**	**7,686.7**
- gas fuel trading activities		**12.6**	**5.1**
- gas fuel distribution activities		**1.1**	**-**
- heat generation business		**3.4**	**1.1**
- heat transmission business		**0.4**	**0.1**
- electricity transmission business		**0.9**	**0.4**
- electricity trading business		**3.1**	**0.8**
Non-current assets (or disposal groups) held for sale		**-**	**-**
Total assets		**16,475.6**	**16,281.4**
- principal business		**16,432.2**	**16,267.3**
- gas fuel trading activities		**12.6**	**5.1**
- gas fuel distribution activities		**3.4**	**-**
- heat generation business		**8.0**	**2.4**
- heat transmission business		**4.0**	**1.2**
- electricity transmission business		**12.3**	**4.6**
- electricity trading business		**3.1**	**0.8**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	184.9	184.9
Share premium	20	2,228.3	2,228.3
Cash flow hedging reserve	21	(203.6)	(288.2)
Retained earnings	22	8,129.7	7,853.3
- principal business		8,102.6	7,844.6
- gas fuel trading activities		0.9	0.8
- gas fuel distribution activities		2.5	-
- heat generation business		7.5	2.3
- heat transmission business		4.0	1.2
- electricity transmission business		11.4	4.4
- electricity trading business		0.8	-
Total equity		**10,339.3**	**9,978.3**
- principal business		**10,312.2**	**9,969.6**
- gas fuel trading activities		**0.9**	**0.8**
- gas fuel distribution activities		**2.5**	**-**
- heat generation business		**7.5**	**2.3**
- heat transmission business		**4.0**	**1.2**
- electricity transmission business		**11.4**	**4.4**
- electricity trading business		**0.8**	**-**
Non-current liabilities			
Borrowings and lease liabilities	23	1,340.2	1,295.6
Derivative financial instruments	24	3.0	6.6
Deferred tax liabilities	10.3	328.8	260.9
- principal business		328.2	260.8
- gas fuel trading activities		-	-
- gas fuel distribution activities		-	-
- heat generation business		0.1	-
- heat transmission business		-	-
- electricity transmission business		0.5	0.1
- electricity trading business		-	-
Employee benefit obligations	25	75.5	60.6
- principal business		75.3	60.6
- gas fuel trading activities		-	-
- gas fuel distribution activities		-	-
- heat generation business		0.2	-
- heat transmission business		-	-
- electricity transmission business		-	-
- electricity trading business		-	-
Other liabilities and provisions	26	14.0	15.7
Total non-current liabilities		**1,761.5**	**1,639.4**
- principal business		**1,760.7**	**1,639.3**
- gas fuel trading activities		**-**	**-**
- gas fuel distribution activities		**-**	**-**

	Note	Dec 31 2019	Dec 31 2018
- heat generation business		**0.3**	**-**
- heat transmission business		**-**	**-**
- electricity transmission business		**0.5**	**0.1**
- electricity trading business		**-**	**-**
Current liabilities			
Bank borrowings and lease liabilities	23	580.1	990.3
Derivative financial instruments	24	12.4	46.8
Trade payables	26	1,968.6	1,900.7
- principal business		1,953.0	1,895.4
- gas fuel trading activities		11.7	4.3
- gas fuel distribution activities		0.9	-
- heat generation business		0.1	0.1
- heat transmission business		0.2	-
- electricity transmission business		0.4	0.1
- electricity trading business		2.3	0.8
Employee benefit obligations	25	57.7	53.0
- principal business		57.7	53.0
- gas fuel trading activities		-	-
- gas fuel distribution activities		-	-
- heat generation business		-	-
- heat transmission business		-	-
- electricity transmission business		-	-
- electricity trading business		-	-
Other liabilities and provisions		1,756.0	1,672.9
- principal business		1,756.0	1,672.9
- gas fuel trading activities		-	-
- gas fuel distribution activities		-	-
- heat generation business		-	-
- heat transmission business		-	-
- electricity transmission business		-	-
- electricity trading business		-	-
Total current liabilities		**4,374.8**	**4,663.7**
- principal business		**4,359.2**	**4,658.4**
- gas fuel trading activities		**11.7**	**4.3**
- gas fuel distribution activities		**0.9**	**-**
- heat generation business		**0.1**	**0.1**
- heat transmission business		**0.2**	**-**
- electricity transmission business		**0.4**	**0.1**
- electricity trading business		**2.3**	**0.8**
Total liabilities		**6,136.3**	**6,303.1**
- principal business		**6,119.9**	**6,297.7**
- gas fuel trading activities		**11.7**	**4.3**
- gas fuel distribution activities		**0.9**	**-**
- heat generation business		**0.4**	**0.1**
- heat transmission business		**0.2**	**-**
- electricity transmission business		**0.9**	**0.2**
- electricity trading business		**2.3**	**0.8**
Total equity and liabilities		**16,475.6**	**16,281.4**
- principal business		**16,432.1**	**16,267.3**
- gas fuel trading activities		**12.6**	**5.1**
- gas fuel distribution activities		**3.4**	**-**
- heat generation business		**7.9**	**2.4**
- heat transmission business		**4.2**	**1.2**
- electricity transmission business		**12.3**	**4.6**
- electricity trading business		**3.1**	**0.8**

32.1 Income and expenses

32.1.1 Revenue

	Note	2019	2018
Revenue from sale of products	9.1	25,896.6	26,102.4
Revenue from rendering of services	9.1	167.7	151.9
- with respect to heat generation		10.6	3.1
- with respect to heat transmission		1.2	0.4
- with respect to electricity transmission		4.9	2.4
- gas fuel distribution		5.5	-
- other		145.5	146.0
Total revenue from sale of products and rendering of services	9.1	**26,064.3**	**26,254.3**
Revenue from sale of merchandise and materials			
- gas fuels		63.0	13.7
- electricity		12.6	3.7
- other merchandise and materials		304.3	557.2
Total revenue from sale of merchandise and materials	9.1	**379.9**	**574.6**
Total revenue from contracts with customers		**26,444.2**	**26,828.9**
Effect of cash flow hedge accounting	9.1	(131.2)	(91.6)
Total revenue	**9.1**	**26,313.0**	**26,737.3**
- including to related entities	9.1	16,437.6	15,646.2

(PLNm)

32.1.2 Expenses by nature

	Note	2019	2018 (restated data)
Depreciation and amortisation	9.2	393.6	367.0
- from principal business		392.1	366.5
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		0.2	-
- from heat generation business		0.3	0.1
- from heat transmission business		0.2	0.1
- from electricity transmission business		0.8	0.3
- from electricity trading business		-	-
Raw materials and consumables used	9.2	22,707.4	23,116.0
- from principal business		22,698.8	23,113.2
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		-	-
- from heat generation business		8.3	2.7
- from heat transmission business		0.3	0.1
- from electricity transmission business		-	-
- from electricity trading business		-	-
Services	9.2	1,021.2	968.4
- from principal business		1,009.6	968.1
- from gas fuel trading activities		0.2	-
- from gas fuel distribution activities		4.8	-
- from heat generation business		3.0	-
- from heat transmission business		1.3	0.1
- from electricity transmission business		2.3	0.2
- from electricity trading business		-	-
Taxes and charges	9.2	497.5	479.2
- from principal business		497.3	479.2
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		0.1	-
- from heat generation business		-	-
- from heat transmission business		-	-
- from electricity transmission business		0.1	-
- from electricity trading business		-	-
Employee benefits expense	9.2; 9.3	294.5	238.4
- from principal business		293.4	238.1
- from gas fuel trading activities		0.4	0.1
- from gas fuel distribution activities		0.1	-
- from heat generation business		0.2	0.1
- from heat transmission business		0.1	-
- from electricity transmission business		0.2	0.1
- from electricity trading business		0.1	-
Other expenses by nature	9.2	93.0	110.3
- from principal business		93.0	110.3
- from gas fuel trading activities		-	-
- from gas fuel distribution activities		-	-
- from heat generation business		-	-
- from heat transmission business		-	-
- from electricity transmission business		-	-
- from electricity trading business		-	-
Merchandise and materials sold	9.2	349.1	550.3
- from principal business		278.4	533.8
- from gas fuel trading activities		60.6	12.0
- from electricity trading business		10.1	4.5
Total expenses by nature	9.2	**25,356.3**	**25,829.6**
- from principal business		**25,262.6**	**25,809.2**
- from gas fuel trading activities		**61.2**	**12.1**
- from gas fuel distribution activities		**5.2**	**-**
- from heat generation business		**11.8**	**2.9**
- from heat transmission business		**1.9**	**0.3**
- from electricity transmission business		**3.4**	**0.6**
- from electricity trading business		**10.2**	**4.5**
Change in products and adjustments to cost of sales		191.7	(488.7)
Total	9.2	**25,548.0**	**25,340.9**
- from principal business		**25,454.3**	**25,320.5**
- from gas fuel trading activities		**61.2**	**12.1**
- from gas fuel distribution activities		**5.2**	**-**
- from heat generation business		**11.8**	**2.9**
- from heat transmission business		**1.9**	**0.3**
- from electricity transmission business		**3.4**	**0.6**
- from electricity trading business		**10.2**	**4.5**

32.1.3 Other income

	Note	2019	2018
Other income	9.4	**15.7**	**12.5**
- from principal business		**15.7**	**12.5**
- from gas fuel trading activities		**-**	**-**
- from gas fuel distribution activities		**-**	**-**
- from heat generation business		**-**	**-**
- from heat transmission business		**-**	**-**
- from electricity transmission business		**-**	**-**
- from electricity trading business		**-**	**-**

32.1.4 Other expenses

	Note	2019	2018 (restated data)
Other expenses	9.5	**36.2**	**79.7**
- from principal business		**36.2**	**79.7**
- from gas fuel trading activities		**-**	**-**
- from gas fuel distribution activities		**-**	**-**
- from heat generation business		**-**	**-**
- from heat transmission business		**-**	**-**
- from electricity transmission business		**-**	**-**
- from electricity trading business		**-**	**-**

AUTHORISATION OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management Board on March 9th 2020.

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

Paweł Jan Majewski

Vice President of the Management Board,
Chief Investment and Innovation Officer

Marian Krzemiński

Vice President of the Management Board,
Chief Refining and Marketing Officer

Jarosław Kawula

Vice President of the Management Board,
Corporate Affairs

Jarosław Wittstock

Vice President of the Management Board,
Chief Financial Officer

Zofia Paryła

Finance and Accounting Centre Director –
Chief Accountant

Tomasz Południewski