

10. Income tax

10.1 Tax expense

	Note	2016	2015
Current tax		115,379	82,052
Deferred tax	10.3	448,816	(14,026)
Total income tax charged to net profit or loss	10.2	564,195	68,026
Tax expense recognised in other comprehensive income (net), including:		(25,953)	(66,191)
- cash flow hedging	21	(26,254)	(67,620)
- actuarial gain/(loss) relating to post-employment benefits		301	1,429

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

In the case of Norwegian subsidiary LOTOS Exploration and Production Norge AS, the marginal tax rate is 78% of the tax base. LOTOS Exploration and Production Norge AS's activities are subject to taxation under two parallel tax systems: the corporate income tax system (25% tax rate) and the petroleum tax system (additional tax rate of 53%). In 2017, the tax rates will be 24% under the corporate income tax system and 54% under the petroleum tax system, which affects the amount of deferred income tax recognised in the current reporting period.

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

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

	Note	2016	2015
Pre-tax profit/(loss)		1,579,412	(195,274)
Income tax at 19%		300,088	(37,102)
Permanent differences:		15,073	53,612
- VAT expense	30.1	7,479	30,753
- interest on past-due public charges		1,192	14,832
- other permanent differences		6,402	8,027
Tax effect of tax losses incurred in the period		-	(198)
Tax effect of tax losses deducted in the period		(435)	(5,273)
Tax effect of share in profit of equity-accounted entities		(550)	5,903

Adjustments disclosed in current year related to tax for previous years	(1,046)	(1,588)
Difference resulting from the application of tax rates other than 19%:	252,901	50,323
- Norway ⁽¹⁾	249,132	44,900
- Lithuania	1,115	5,114
- Cyprus	2,694	343
- Netherlands Antilles	(40)	(34)
Other differences	(1,836)	2,349
Income tax	564,195	68,026

⁽¹⁾ Including the tax effect of a PLN 80,893 thousand (2015: PLN 29,612 thousand) reduction in deferred tax assets related to the tax investigation at LOTOS Exploration and Production Norge AS (see [Note 30.1](#)).

10.3 Deferred income tax

	Note	Statement of financial position		Change
		Dec 31 2016	Dec 31 2015	
Deferred tax assets		596,034	924,478	(328,444)
Deferred tax liabilities		(57,358)	(47,626)	(9,732)
Net deferred tax assets/(liabilities)	10.3.1	538,676	876,852	(338,176)
Exchange differences on translating deferred tax of foreign operations				(59,732)
Deferred tax disclosed under other comprehensive income/(loss), net	10.1			(25,953)
Effect of accounting for the acquisition price of the Sleipner assets ⁽¹⁾				(24,955)
Deferred tax expense recognised in net profit or loss	10.1			(448,816)

⁽¹⁾ In accordance with the agreement providing for the acquisition of the Sleipner assets from ExxonMobil Exploration and Production Norway AS, made on October 30th 2015 (see [Note 13.1.3](#) to the *Consolidated financial statements for 2015*), within three months from the acquisition date the parties revised the transaction settlement, as a result of which on April 4th 2016 the Group paid USD 4.76m to ExxonMobil Exploration and Production Norway AS. The revision had no effect on the Group's statement of comprehensive income.

Taxable temporary differences are expected to expire in 2017–2083.

As at December 31st 2016, the value of unrecognised tax assets on account of tax losses was PLN 266 thousand (December 31st 2015: PLN 683 thousand).

10.3.1 Deferred tax assets and liabilities

Note	Dec 31 2015	Deferred tax charged to net profit or loss	Deferred tax disclosed under other comprehensive income/(loss)	Exchange differences on translating deferred tax of foreign operations	Other differences	Dec 31 2016
------	-------------	--	--	--	-------------------	-------------

Deferred tax assets						
Employee benefit obligations	54,871	1,880	(301)	220	-	56,670
Inventory write-downs	50,912	(50,454)	-	6	-	464
Impairment losses on property, plant and equipment and other intangible assets	297,553	12,978	-	33,923	-	344,454
Negative fair value of derivative financial instruments	25,594	(11,300)	-	-	-	14,294
Exchange differences on revaluation of foreign-currency denominated items	1,228	1,426	-	(37)	-	2,617
Impairment losses on receivables	16,893	(504)	-	-	-	16,389
Finance lease liabilities	39,373	(6,283)	-	-	-	33,090
Provisions for/assets related to decommissioning of oil and gas extraction facilities and land reclamation	268,972	175,995	-	29,410	-	474,377
Unrealised margin assets	3,479	2,132	-	-	-	5,611
Tax losses carried forward	781,746	(494,803)	-	32,271	24,955	344,169
Other provisions	11,676	(557)	-	1	-	11,120
Cash flow hedge accounting	164,407	-	26,254	-	-	190,661
Other	20,685	(2,693)	-	272	-	18,264
	1,737,389	(372,183)	25,953	96,066	24,955	1,512,180
Deferred tax liabilities						
Difference between current tax base and carrying amount of property, plant and equipment and other intangible assets	724,707	9,445	-	33,023	-	767,175
Difference between current tax value and carrying amount of settlements under joint operations (Norwegian fields)	952	50,296	-	2,610	-	53,858
Positive fair value of derivative financial instruments	37,921	(26,070)	-	-	-	11,851
Tax liabilities associated with acquired exploration and production licences in Lithuania	18,828	(1,673)	-	699	-	17,854
Accrued interest	67,576	16,727	-	2	-	84,305
Other	10,553	27,908	-	-	-	38,461
	860,537	76,633	-	36,334	-	973,504

Net deferred tax assets/(liabilities)	10.3	876,852	(448,816)	25,953	59,732	24,955	538,676

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