23. Borrowings, other debt instruments and finance lease liabilities

	Note	Dec 31 2016	Dec 31 2015
Bank borrowings	23.1	5,082,926	6,481,034
Non-bank borrowings	23.2	81,833	92,146
Notes	23.3	213,014	218,100
Finance lease liabilities	23.4	179,503	208,028
Total		**5,557,276**	**6,999,308**
including:			
non-current		3,980,537	4,454,460
current		1,576,739	2,544,848

23.1 Bank borrowings

	Dec 31 2016	Dec 31 2015
Investment facilities	4,429,080	4,744,306
Working-capital facilities	161,805	883,818
Inventory financing and refinancing facility	836,316	1,170,728
Funds in bank deposits securing payment of interest and principal*	(344,275)	(317,818)
Total	**5,082,926**	**6,481,034**
including:		
non-current	3,769,785	4,197,008
current	1,313,141	2,284,026

* *In accordance with IAS 32, Grupa LOTOS S.A. offsets the financial asset (cash reserved for repayment of the facilities) against financial liabilities under the facilities as it has a legally enforceable title to set off the amounts and intends to realise the asset and settle the liability simultaneously. Accumulation of funds for the repayment of credit facilities is expressly provided for in the documentation relating to the investment facilities obtained to finance the 10+ Programme, and the inventory financing and refinancing facility*. The Company is required to set aside and maintain funds for repayment of principal and interest due over the next six months. The purpose of adopting the net-basis presentation approach in the statement of financial position is to reflect the expected future cash flows from the settlement of two or more financial instruments.

Repayment of the above facilities is secured with:

- power of attorney over bank accounts, blank promissory notes and bank guarantees,

- registered pledges over bank accounts, inventories, existing and future movables, and shares in subsidiaries,
- mortgage,
- transfer of title to property, plant and equipment,
- assignment by way of security of rights under insurance agreements, including insurance of inventories,
- assignment by way of security of rights under inventory storage agreements and the right to compensation from the State Treasury payable in the event that the Group is required to sell emergency stocks below market price,
- assignment by way of security of rights under licence agreements, design agreements and agreements for sale of products,
- assignment by way of security of rights under oil supply agreements,
- shares in subsidiaries,
- assignment by way of security of rights under a conditional loan agreement,
- representation on voluntary submission to enforcement.

Bank borrowings by currency

	Currency of credit facility advanced to the Group			
	EUR	USD	PLN	Total
Dec 31 2016	1	4,745,412	337,513	**5,082,926**
Dec 31 2015	9,620	5,546,432	924,982	**6,481,034**

Bank borrowings bear interest based on:

- 1M, 3M or 6M LIBOR (USD), depending on the interest period selected at a given time – in the case of USD-denominated facilities,
- 1M or 3M EURIBOR – in the case of EUR-denominated facilities,
- O/N, 1M or 3M WIBOR - in the case of PLN-denominated facilities.

Bank margins on the contracted facilities are within the range of 0.9pp. – 4.0pp.

As at December 31st 2016, the average effective interest rate for the credit facilities denominated in USD and EUR was approximately 2.85% (December 31st 2015: 2.55%). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities contracted by the Parent) was approximately 3.55% (3.59% as at December 31st 2015).

For sensitivity analysis of borrowings with respect to currency and interest rate risks, see Notes 28.3.1 and 28.4.1 respectively.

For analysis of contractual maturities of the borrowings, see Note 28.5.

In connection with its investment credit facilities and the credit facility incurred to finance and refinance inventories, the Parent is required to maintain its Tangible Consolidated Net Worth (TCNW) at the level specified in the facility agreements. 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 2016 and December 31st 2015, the Company complied with this requirement.

Proceeds from and repayment of bank borrowings

In 2016, proceeds from the Group's bank borrowings were PLN 379.3m (2015: PLN 798.2m), and cash outflows on repayment of borrowings were PLN 1,499.4m (2015: PLN 1,161.5m). These amounts are presented in the consolidated statement of cash flows as cash flows from financing activities under Proceeds from borrowings and Repayment of borrowings, respectively.

In 2016, proceeds from bank borrowings related to:

- investment facilities for the financing of the EFRA Project (PLN 133.2m),
- working capital facilities of LOTOS Asfalt Sp. o.o. (PLN 77m),
- working capital facilities of AB LOTOS Geonafta (PLN 169.1m).

In 2016, repayments of bank borrowings related mainly to:

- the Parent's investment facilities for the financing of the 10+ Project (PLN 526.3m),
- the Parent's credit facility for the financing and refinancing of inventories (PLN 421.5m),
- working capital facilities of LOTOS Asfalt Sp. o.o. (PLN 190.5m),
- LOTOS Paliwa Sp. z o.o.'s investment credit facilities for the financing and refinancing of the purchase of service stations (PLN 33.7 thousand),
- credit facilities of LOTOS Exploration and Production Norge AS (PLN 113.3m),
- credit facilities of AB LOTOS Geonafta (PLN 199.4m),
- SPV Baltic Sp. z o.o.'s investment facility for the purchase of the company's multi-purpose platform (PLN 9.7m).

In 2016 and 2015, there were no defaults under the facilities.

For more information on the Group's bank borrowings, see the Directors' Report on the operations of Grupa LOTOS S.A. and the LOTOS Group in 2016.

23.2 Non-bank borrowings

	Dec 31 2016	Dec 31 2015
Provincial Fund for Environmental Protection and Water Management in Gdańsk (WFOŚiGW)	7,713	8,498
Agencja Rozwoju Przemysłu S.A.	74,120	83,648
Total	**81,833**	**92,146**
including:		
non-current	69,366	80,966
current	12,467	11,180

The loan advanced by Agencja Rozwoju Przemysłu S.A. was intended for the financing of a purchase of a drilling rig; the other loans were taken out to partly finance upgrade of locomotives and a rail tank car cleaning facility, as well as upgrade of the dust removal unit at a CHP plant.

Repayment of the loans is secured with:

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

The loans are denominated in the Polish złoty. The loans bear interest based on 1M WIBOR or the rediscount rate.

As at December 31st 2016, the average effective interest rate for the loans was approximately 4.56% (December 31st 2015: 4.59%).

For interest rate risk sensitivity analysis of the loans, see Note 28.4.1.
For analysis of contractual maturities of the loans, see Note 28.5.

Proceeds from and repayment of non-bank borrowings

In 2016, proceeds from non-bank loans amounted to PLN 1.2m (in 2015, the Group did not contract any loans), whereas loan repayments were PLN 11.6m (2015: PLN 10.8m). These amounts were disclosed in the consolidated statement of cash flows from financing activities under *Proceeds from non-bank borrowings* and *Repayment of non-bank borrowings, respectively*.

23.3 Notes

In 2013, LOTOS Petrobaltic S.A. (upstream segment) issued medium-term notes (Series: A, B, C, D, and E, with a total par value of USD 65.9m) under an agreement with Bank Pekao S.A. of October 29th 2013. Pursuant to the agreement, LOTOS Petrobaltic S.A. may issue notes for up to the USD equivalent of PLN 200m. The notes were acquired by Bank Pekao S.A. As at December 31st 2016, the liability under the company's outstanding notes, net of issue costs, was PLN 213.0m (December 31st 2015: PLN 218.1m).

The security created in respect of the note issue programme comprises:

- assignment by way of security,
- power of attorney over bank accounts,
- blank promissory note,
- representation on voluntary submission to enforcement,
- mortgage,
- assignment by way of security of claims under property insurance agreements and agreement for drilling rig services.

Proceeds from and payments under notes

In 2016, notes with a total par value of USD 5m were redeemed. The related payments, of PLN 19.2m, were presented in the statement of cash flows from financing activities of the Group, under *Redemption of notes* (2015: PLN 19.4m).

For sensitivity analysis of the notes with respect to currency and interest rate risks, see Notes 28.3.1 and 28.4.1, and for information on their maturities see Note 28.5.

23.4 Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2016	Dec 31 2015	Dec 31 2016	Dec 31 2015
Up to 1 year	57,771	54,648	38,117	31,542
From 1 to 5 years	173,719	198,708	137,315	145,431
Over 5 years	4,345	34,135	4,071	31,055
Total	**235,835**	**287,491**	**179,503**	**208,028**
Less finance costs	(56,332)	(79,463)	-	-
Present value of minimum lease payments	**179,503**	**208,028**	**179,503**	**208,028**
including:				
non-current			141,386	176,486
current			38,117	31,542

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

For sensitivity analysis of finance lease liabilities with respect to currency and interest rate risks, see Notes 28.3.1 and 28.4.1, and for information on their maturities, see Note 28.5.

23.4.1 Undisclosed liabilities under operating lease agreements

As at December 31st 2016 and December 31st 2015, future minimum lease payments under non-cancellable operating leases were as follows:

	Dec 31 2016	Dec 31 2015
Up to 1 year	110,506	109,979
From 1 to 5 years	339,348	350,794
Over 5 years	3,836	48,171
Total	**453,690**	**508,944**

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