

9. Income and expenses

9.1 Expenses by nature

	Note	2016	2015
Depreciation and amortisation	8	1,067,894	714,568
Raw materials and consumables used ⁽¹⁾		14,469,826	16,860,134
Services		1,503,922	1,434,003
Taxes and charges		456,771	408,976
Employee benefits expense	9.2	688,968	685,254
Other expenses by nature		247,721	222,462
Merchandise and materials sold		859,861	1,336,113
Total expenses by nature		19,294,963	21,661,510
Change in products and adjustments to cost of sales		(362,297)	331,484
Total		18,932,666	21,992,994
including:			
Cost of sales		17,215,704	20,249,028
Distribution costs		1,291,069	1,284,846
Administrative expenses		425,893	459,120

⁽¹⁾ Including PLN 2,720 thousand of foreign exchange gains related to operating activities, recognised as cost of sales (2015: foreign exchange gains of PLN 11,107 thousand), see [Note 27.3](#).

9.2 Employee benefits expense

	Note	2016	2015
Current salaries and wages		526,067	531,551
Social security and other employee benefits		157,372	148,628
Length-of-service awards, retirement and other post-employment benefits	25.2	5,529	5,075
Total employee benefits expense	9.1	688,968	685,254
Change in products and adjustments to cost of sales		(2,394)	(152)

Total	686,574	685,102
including:		
Cost of sales	414,834	396,122
Distribution costs	32,227	34,384
Administrative expenses	239,513	254,596

9.3 Other income

	Note	2016	2015
Gain on disposal of non-financial non-current assets and certificates of origin for electricity from cogeneration ⁽¹⁾		13,216	5,215
Grants	26.2	5,724	7,353
Provisions:		59,587	-
- remeasurement of provision for costs of decommissioning of the offshore oil and gas extraction facilities in the Heimdal field		40,895	-
- remeasurement of provision for costs of decommissioning of the offshore oil and gas extraction facilities in the B-3 field		8,333	-
- remeasurement of provision for contingent payments – Sleipner assets acquisition agreement		27,697	-
- revaluation of estimated provision for future cost of removal of MOPU from the YME field		(8,905)	-
- provision for deficit in CO ₂ emission allowances	28.2	(8,731)	-
- other provisions		298	-
Reversal of impairment losses on receivables	16.1	-	1,927
- reversal of impairment losses		-	10,021
- impairment losses		-	(8,094)
Compensation ⁽²⁾		17,709	16,870
Gain on sale of organised part of business		-	2,834
Reimbursed excise duty		3,738	6,846
Other		7,091	7,246
Total		107,065	48,291

⁽¹⁾ Including PLN 13,785 thousand on sale of certificates of origin for electricity from cogeneration (2015: PLN 7,578 thousand). Cash proceeds from these transactions are presented in the statement of cash flows under Sale of property, plant and equipment and other intangible assets.

⁽²⁾ In 2016 the amount included chiefly PLN 12,347 thousand (2015: PLN 12,764 thousand) attributable to penalties for failure to collect guaranteed delivery amounts under contracts.

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

9.4 Other expenses

	Note	2016	2015
Impairment loss on property, plant and equipment and intangible assets:		156,459	85,817
Impairment losses:		170,505	88,296
· exploration and evaluation assets:	13.2.1	138,118	12,098
- Poland: the Gaz Południe licence area, including the B-21 field		64,754	-
- Poland: Słupsk area		-	2,071
- Norway: PL 797 licence		5,749	-
- Norway: Utgard field assets		67,615	-
- Lithuania: costs of seismic surveys		-	10,027
· development assets: Norway: YME field	13.2.2	-	1,485
· production assets: Lithuania: the Auksoras, Vėžaičiai, Kretinga, and Ablinga fields	13.2.2	12,437	58,733
· refinery and other non-current assets:		19,950	15,980
- service stations	13.1.1	13,122	10,228
- ships		5,333	4,499
- other assets		1,495	1,253
Reversal of impairment losses:		(14,046)	(2,479)
· production assets:	13.2.2	(11,849)	-
- Norway: Heimdal production assets		(4,357)	-
- Lithuania: Girkalai field		(7,492)	-
· refinery and other non-current assets:		(2,197)	(2,479)
- service stations		(2,041)	(2,416)
- other assets		(156)	(63)
Loss on discontinued projects		12,714	27,395
- Norway: PL643 and PL655 licences	13.2.1	12,327	-
- Norway: Heimdal area (Fulla licences: PL035B and PL362), PL503 licence	13.2.2	-	14,846
- Poland: Sambia area	13.2.1	-	12,378

- Poland: Słupsk area	13.2.1	73	-
- other assets		314	171
Impairment loss on assets held for sale		-	36,634
Impairment losses on receivables:	16.1	1,554	-
- impairment losses		3,489	-
- reversal of impairment losses		(1,935)	-
Provisions:		-	16,072
- provision for deficit in CO ₂ emission allowances	28.2	-	1,059
- revaluation of estimated provision for future cost of removal of MOPU from the YME field		-	10,287
- other provisions		-	4,726
Fines and compensation		1,176	1,546
Damage to property caused in ordinary course of business		2,141	1,718
Costs relating to the Polish National Foundation ⁽¹⁾		29,019	-
Charitable donations		5,346	1,866
VAT expense	30.1	39,365	160,909
Other		3,058	9,384
Total		250,832	341,341

⁽¹⁾ As one of the founders of the Polish National Foundation created in 2016 ("PFN"; number in the National Court Register: KRS 0000655791), Grupa LOTOS S.A. is required to make annual contributions for the next 10 years to finance the activities provided for in the foundation's constitutional documents. The total amount of the Company's commitment to finance PFN's activities was established at the amount of discounted future payments, equal to PLN 29,019 thousand. On December 30th 2016, the Company contributed PLN 5,000 thousand to PFN's founding capital, and the amount of the Company's outstanding commitment under PFN's constitutional documents as at December 31st 2016 was PLN 24,019 thousand (including PLN 5,000 thousand presented under current financial liabilities and PLN 19,019 thousand presented under non-current financial liabilities, see [Note 26](#)).

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

9.5 Finance income

	Note	2016	2015
Dividends		2,435	1,120
Interest:		15,359	20,697
- on deposits	27.3	11,919	16,181
- on trade receivables	27.3	2,290	2,847
- other		1,150	1,669
Exchange differences:		7,840	-
- on bank borrowings	27.3	(73,532)	-
- on intercompany loans ⁽¹⁾	27.3	64,700	-
- on realised foreign-currency transactions in bank accounts	27.3	12,165	-
- on intercompany notes ⁽¹⁾	27.3	15,216	-
- on deposits and other cash	27.3	(11,271)	-
- other		562	-
Revaluation of financial assets:		-	78,809
- valuation of derivative financial instruments	27.3	-	290,447
- settlement of derivative financial instruments	27.3	-	(211,638)
Other		1,043	11
Total		26,677	100,637

⁽¹⁾ In accordance with IAS 21 *Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses on intercompany foreign currency transactions are recognised in the Group's net profit or loss.

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

9.6 Finance costs

	Note	2016	2015
Interest:		241,152	284,148
- on bank borrowings	27.3	150,421	150,364
- on non-bank borrowings	27.3	4,035	7,870
- on notes	27.3	4,145	3,819
- on finance lease liabilities	27.3	20,808	10,152

- discount related to provisions for oil production facilities and for land reclamation, and other provisions	26.1	49,127	22,202
- cost of discount on employee benefit obligations	25.1; 25.2	5,109	5,058
- on liabilities to the state budget	30.1	6,297	77,932
- other		1,210	6,751
Exchange differences:		-	344,940
- on bank borrowings	27.3	-	175,425
- on translation of intercompany loans ⁽¹⁾	27.3	-	47,750
- on realised foreign-currency transactions in bank accounts	27.3	-	108,419
- on notes, including intercompany notes ⁽¹⁾	27.3	-	41,975
- on deposits and other cash	27.3	-	(29,309)
- other		-	680
Revaluation of financial assets, including:		33,511	-
- valuation of derivative financial instruments	27.3	206,567	-
- settlement of derivative financial instruments	27.3	(173,056)	-
Bank fees		19,145	20,978
Bank guarantees		5,720	5,317
Write-off of bank fees related to the financing of the B8 project		-	29,212
Other		5,288	3,648
Total		304,816	688,243

⁽¹⁾ According to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, foreign exchange gains and losses on intercompany foreign currency transactions are recognised in the Group's net profit or loss.

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

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)