

Consolidated financial statements

In Grupa LOTOS, financial statements are verified by an independent auditor.

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The notes to the financial statements, presented on following pages, are their integral part.

Auditor's opinion

To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of Capital Group Grupa LOTOS S.A. ('the Group'), for which the holding company is Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, for the year ended 31 December 2010 containing, the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of cash flow, the consolidated statement of changes in equity for the period from 1 January 2010 to 31 December 2010 and the additional notes and explanations ('the attached consolidated financial statements').
2. The truth and fairness ⁽¹⁾ of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly ⁽²⁾ reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,
 in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. The consolidated financial statements for the prior financial year ended 31 December 2009 were subject to an audit by a key certified auditor acting for another authorised audit firm who issued a qualified opinion with an emphasis of matter on these financial statements, dated 26 April 2010. The qualification concerned the lack of ability to verify the impact of the issues, which were the subject of the qualifications in the auditors' opinion issued to the consolidated financial statements of the Lithuanian Capital Group of AB Geonafta on the value of the shares held by the Group in the dominant entity of the AB Geonafta Capital Group. The emphasis of matter concerned the assets related to capital expenditures incurred on the exploration of gas fields B-4 and B-6 as well as the costs of drilling in the total amount of 47.8 million zlotys.
5. In our opinion, the attached consolidated financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position ⁽³⁾ as at 31 December 2010;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
 - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
6. As disclosed in note No. 17 of the additional notes and explanations to the attached consolidated financial statements, the Group recognized under construction in progress the expenditures incurred by LOTOS Exploration and Production Norge AS for the purchase of 20% interest in Norwegian production licenses relating to the YME field as well as the costs of drilling and other costs of said field exploration in the total amount of 1,151 million zlotys. The Group carried out an impairment test for the said assets described in the mentioned note, based on the analysis of discounted cash flows for the 20% interest held in hydrocarbons' reserves acquired as part of the production licenses for the development of the YME field. Without qualifying our opinion, we draw attention to the uncertainty indicated by the Company's Management concerning recoverability of these assets recognized in the attached consolidated financial statements in respect of the YME field due to the fact that the forecasted cash flows are determined by a series of future events, in particular, by market volatility of crude oil prices.
7. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

on behalf of
 Ernst & Young Audit sp. z o.o.
 Rondo ONZ 1, 00-124 Warsaw

Key Certified Auditor

Marcin Zieliński
certified auditor
No. 10402

Warsaw, 11 April 2011

Partner

Jacek Hryniuk

(1) Translation of the following expression in Polish: 'rzetelność i jasność'

(2) Translation of the following expression in Polish: 'rzetelne i jasne'

(3) Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

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Financial highlights – consolidated

	PLN'000	PLN'000	EUR'000	EUR'000
The LOTOS Group	Year ended Dec 31 2010	Year ended Dec 31 2009	Year ended Dec 31 2010	Year ended Dec 31 2009
		(restated)		(restated)
Sales revenue	19,680,533	14,321,041	4,914,727	3,299,323
Operating profit	763,315	419,793	190,619	96,713
Pre-tax profit	721,939	1,109,608	180,286	255,635
Net profit from continuing operations	681,353	911,812	170,151	210,066
Profit from continuing operations attributable to owners of the Parent	679,180	900,761	169,608	207,520
Profit from continuing operations attributable to non-controlling interests	2,173	11,051	543	2,546
Total comprehensive income	678,609	928,661	169,466	213,948
Comprehensive income attributable to owners of the Parent	676,450	908,083	168,927	209,207
Comprehensive income attributable to non-controlling interests	2,159	20,578	539	4,741
Net cash provided by / (used in) operating activities	880,255	695,024	219,822	160,122
Net cash provided by (used in) investing activities	(1,053,896)	(3,333,619)	(263,184)	(768,009)
Net cash provided by/(used in) financing activities	447,706	2,181,465	111,804	502,572
Total net cash flow	272,095	(454,791)	67,949	(104,776)
Basic earnings per share (PLN/EUR)	5.23	7.44	1.31	1.71
Diluted earnings per share (PLN/EUR)	-	-	-	-
	PLN'000	PLN'000	EUR'000	EUR'000
	As at Dec 31 2010	As at Dec 31 2009	As at Dec 31 2010	As at Dec 31 2009
		(restated)		(restated)
Total assets	17,736,029	15,225,952	4,478,456	3,706,234
Equity attributable to owners of the Parent	7,498,819	6,809,393	1,893,498	1,657,513
Non-controlling interests	14,658	36,752	3,701	8,946

Total equity	7,513,477	6,846,145	1,897,199	1,666,459
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Items of the statement of financial position as at December 31st 2010, presented in the "Financial Highlights" table, were translated using the euro mid-exchange rate quoted by the National Bank of Poland for that date, i.e. EUR 1 = PLN 3.9603. Items of the statement of comprehensive income and the statement of cash flows for the year ended December 31st 2010, presented in the "Financial Highlights" table, were translated at the exchange rate of EUR 1 = PLN 4.0044 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st – December 31st 2010).

Items of the statement of financial position as at December 31st 2009, presented in the "Financial Highlights" table, were translated using the euro mid-exchange rate quoted by the National Bank of Poland for that date, i.e. EUR 1 = PLN 4.1082. Items of the statement of comprehensive income and the statement of cash flows for the year ended December 31st 2009, presented in the "Financial Highlights" table, were translated at the exchange rate of EUR 1 = PLN 4.3406 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st – December 31st 2009).

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Consolidated statement of comprehensive income

Consolidated statement of comprehensive income for the year ended December 31st 2010 and December 31st 2009

(PLN '000)	Note	Year ended Dec 31 2010	Year ended Dec 31 2009
			(restated)
Sales revenue	12.1	19,680,533	14,321,041
Cost of sales	12.5	(17,562,048)	(12,775,790)
Gross profit		2,118,485	1,545,251
Selling costs	12.5	(871,290)	(726,367)
General and administrative expenses	12.5	(401,143)	(332,666)
Other operating income	12.2	56,959	74,264
Other operating expenses	12.4	(139,696)	(140,689)
Operating profit		763,315	419,793
Finance income	12.3	225,940	954,912
Finance expenses	12.6	(285,965)	(303,879)
Share of investments in associates	21	18,649	8,227
Loss of control over subsidiary	2	-	30,555
Pre-tax profit		721,939	1,109,608
Corporate income tax	13.1	(40,586)	(197,796)
Net profit from continuing operations		681,353	911,812
Other comprehensive income			
Exchange differences on translation of foreign operations		(2,005)	14,378
Other	21	(739)	2,471
Other comprehensive income (net)		(2,744)	16,849
Total comprehensive income		678,609	928,661
Net profit from continuing operations attributable to:			
Owners of the Parent	15	679,180	900,761
Non-controlling interests		2,173	11,051
		681,353	911,812
Total comprehensive income attributable to:			
Owners of the Parent		676,450	908,083
Non-controlling interests		2,159	20,578
		678,609	928,661
Net earnings from continuing operations per share (PLN)			
Weighted average number of shares (in thousands)		129,873	121,144

- basic	15	5.23	7.44
- diluted		-	-

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Consolidated statement of financial position

Consolidated statement of financial position as at December 31st 2010 and December 31st 2009

(PLN '000)	Note	Dec 31 2010	Dec 31 2009	Jan 1 2009
			(restated)	(restated)
ASSETS				
Non-current assets				
Property, plant and equipment	17	6,173,798	3,438,629	2,948,598
Tangible assets under construction	17	4,213,684	6,240,316	3,948,173
Goodwill	20	46,688	46,688	45,562
Intangible assets	18	94,825	89,240	55,921
Investment property	19	3,376	3,762	4,898
Investments in associates accounted for using the equity method	21	93,064	88,255	59,048
Non-current financial assets	23	64,358	93,076	88,059
Deferred tax assets	13.4	159,901	74,267	101,168
Non-current receivables	25	28,612	22,061	9,152
Prepayments and accrued income	27	4,003	5,087	12,759
Total non-current assets		10,882,309	10,101,381	7,273,338
Non-current assets held for sale	22	6,018	5,209	8,631
Current assets				
Inventories, including:	24	4,506,791	3,023,144	2,447,247
- mandatory stocks	24	2,980,241	2,196,965	1,679,925
Trade and other receivables	26	1,821,939	1,536,854	1,364,881
Current income tax receivable	13.3	47,492	131,299	199,971
Prepayments and accrued income	27	32,674	25,982	45,863
Current financial assets	28	45,647	47,029	305,912
Cash and cash equivalents	30	391,266	355,054	674,106
Total current assets		6,845,809	5,119,362	5,037,980
Current assets held for sale, including:	22	1,893	-	-
- cash and cash equivalents		77	-	-
- other current assets		1,816	-	-
Total assets		17,736,029	15,225,952	12,319,949

EQUITY AND LIABILITIES

Equity				
Share capital	32	129,873	129,873	113,700
Statutory reserve funds		1,311,348	1,311,348	970,951
Retained earnings		6,045,317	5,353,895	4,430,214
Translation of foreign operations		12,281	14,277	7,060
Equity attributable to owners of the Parent		7,498,819	6,809,393	5,521,925
Non-controlling interests	33	14,658	36,752	396,078
Total equity		7,513,477	6,846,145	5,918,003
Non-current liabilities				
Interest-bearing loans and borrowings	34	4,403,453	4,942,590	3,412,245
Long-term provisions	36	320,722	275,057	267,903
Deferred tax liabilities	13.4	123,143	90,611	10,411
Other financial liabilities	37.2	179,096	300,389	176,387
Accruals and deferred income and other liabilities	37.1	40,141	52,130	9,107
Total non-current liabilities		5,066,555	5,660,777	3,876,053
Current liabilities				
Trade payables, accruals and deferred income, and other liabilities	37.1	2,960,776	1,890,654	1,886,440
Current income tax payable	13.3	15,188	11,867	8,069
Interest-bearing loans and borrowings	34	1,932,006	758,481	507,360
Bonds	35	52,670	-	-
Short-term provisions	36	20,218	38,897	80,470
Other financial liabilities	37.2	174,966	19,131	43,554
Total current liabilities		5,155,824	2,719,030	2,525,893
Liabilities related to assets held for sale	37.1	173	-	-
Total liabilities		10,222,552	8,379,807	6,401,946
Total equity and liabilities		17,736,029	15,225,952	12,319,949

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Consolidated statement of cash flows

Consolidated statement of cash flows for the year ended December 31st 2010 and December 31st 2009

(PLN '000)	Note	Year ended Dec 31 2010	Year ended Dec 31 2009
			(restated)
Cash flows from operating activities			
Net profit from continuing operations		681,353	911,812
Adjustments:			
Share in net profit of subordinated undertakings valued with equity method	21	(18,649)	(8,227)
Depreciation and amortisation	31	389,901	284,793
Foreign exchange (gains)/losses		155,700	(456,019)
Interest and dividends		58,344	37,390
(Profit)/loss on investing activities		87,097	16,580
Income tax paid		(84,219)	(187,291)
Current income tax	13.1	40,586	197,796
(Increase) in receivables	31	(298,709)	(187,480)
(Increase) in inventories	31	(1,483,647)	(575,767)
Increase in liabilities and accruals and deferred income	31	1,156,657	692,711
Increase/(decrease) in provisions	31	9,851	(48,866)
(Increase)/decrease in prepayments and accrued income	31	(6,969)	19,045
Settlement and valuation of financial instruments		193,036	(1,453)
Other adjustments		(77)	-
Net cash provided by/(used in) operating activities		880,255	695,024
Cash flows from investing activities			
Dividends received		10,490	1,737
Interest received		1,378	4,252
Sale/(purchase) of tangible and intangible assets	31	(1,009,937)	(3,072,664)
Sale/(purchase) of current financial assets		83	2,758
(Purchase) of non-current financial assets		(14)	-
Acquisition of Energobaltic Sp. z o.o., net of cash acquired	20	-	(1,526)
Other cash provided by financial assets		-	6,050
Prepayments for tangible assets under construction		(57,064)	(258,581)
Cash related to loss of control over subsidiary		-	(367)

Other items, net		1,168	(15,278)
Net cash provided by/(used in) investing activities		(1,053,896)	(3,333,619)
Cash flows from financing activities			
Increase in loans and borrowings		1,262,315	2,263,790
Issue of bonds	35	102,670	-
Cash flows attributable to changes in interest in a subsidiary undertaking not resulting in loss of control over non-current financial assets		(11,554)	-
Repayment of loans and borrowings		(630,530)	(195,696)
Redemption of bonds	35	(50,000)	-
Interest paid		(97,804)	(100,446)
Dividends paid		-	(15)
Decrease in finance lease liabilities		(4,786)	(1,737)
Settlement of financial instruments		(119,585)	216,047
Other items, net		(3,020)	(478)
Net cash provided by/(used in) financing activities		447,706	2,181,465
Effect of exchange rate fluctuations on cash held		(1,970)	2,339
Change in net cash		272,095	(454,791)
Cash and cash equivalents at beginning of period	31	(155,660)	299,131
Cash and cash equivalents at end of period	31	116,435	(155,660)
- restricted cash	30	42,319	20,420

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Consolidated statement of changes in equity

Consolidated statement of changes in equity for the year ended December 31st 2010 and December 31st 2009

(PLN '000)	Note	Share capital	Statutory reserve funds	Retained earnings	Translation of foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2009		113,700	970,951	4,297,823	7,060	5,389,534	396,078	5,785,612
Capitalisation of perpetual usufruct right to land	9.2	-	-	132,391	-	132,391	-	132,391
Jan 1 2009 (restated)		113,700	970,951	4,430,214	7,060	5,521,925	396,078	5,918,003
Net profit from continuing operations for the year ended Dec 31 2009		-	-	900,761	-	900,761	11,051	911,812
Other total comprehensive income for the year ended Dec 31 2009		-	-	105	7,217	7,322	9,527	16,849
Dividend to shareholders – distribution of profit for 2008		-	-	-	-	-	(19)	(19)
Share issue	32	16,173	-	-	-	16,173	-	16,173
Share premium	32	-	340,773	-	-	340,773	-	340,773
Issue expenses including deferred tax	32	-	(376)	-	-	(376)	-	(376)
Changes in ownership interest		-	-	22,835	-	22,835	(379,647)	(356,812)
Changes in the Group's organisational structure		-	-	(20)	-	(20)	(238)	(258)
Dec 31 2009 (restated)		129,873	1,311,348	5,353,895	14,277	6,809,393	36,752	6,846,145
Jan 1 2010 (restated)		129,873	1,311,348	5,353,895	14,277	6,809,393	36,752	6,846,145
Net profit from continuing operations for the year ended Dec 31 2010		-	-	679,180	-	679,180	2,173	681,353
Changes in ownership interest	2	-	-	12,976	-	12,976	(24,253)	(11,277)

Other total comprehensive income for the year ended Dec 31 2010	-	-	(734)	(1,996)	(2,730)	(14)	(2,744)
Dec 31 2010	129,873	1,311,348	6,045,317	12,281	7,498,819	14,658	7,513,477

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Notes to the financial statements

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1. General Information

Grupa LOTOS S.A. (“the Company”, “the Parent Undertaking”), the parent undertaking of the LOTOS Group (“the Group”) was established by virtue of the Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (currently the District Court for Gdańsk - Północ, VII Commercial Division of the National Court Register), under entry No. KRS 0000106150. The Company was assigned the Industry Identification Number (REGON) 190541636.

The Company’s registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

In 2003, by virtue of its decision of May 28th 2003, the District Court of Gdańsk, XII Commercial Division of the National Court Register, changed the Company’s name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

The Group’s core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group’s business also includes exploration and extraction of crude oil and natural gas.

The Parent Undertaking holds the following licences related to its core business:

- Licence for production of liquid fuels, issued by the President of the Polish Energy Regulatory Office on November 28th 1998 and extended until December 31st 2025 by virtue of the decision of the President of the Energy Regulatory Office of October 5th 2007,
- Licence for trade in liquid fuels, issued by the President of the Polish Energy Regulatory Office on December 23rd 1998 and extended until December 31st 2025 by virtue of the decision of the President of the Energy Regulatory Office of October 5th 2007,
- Licence for storage of liquid fuels valid until October 15th 2016, issued by the President of the Polish Energy Regulatory Office on October 10th 2006,
- Licence for generation of electricity in co-generation units, issued by the President of the Polish Energy Regulatory Office on September 29th 2000 and extended until September 1st 2018 by virtue of the decision of the President of the Polish Energy Regulatory Office of July 16th 2009,
- Licence for trade in electricity, issued by the President of the Polish Energy Regulatory Office on September 5th 2001 and extended until September 1st 2021 by virtue of decision of the President of the Polish Energy Regulatory Office of July 12th 2010.
- Licence for transmission and distribution of electricity valid, issued by the President of the Polish Energy Regulatory Office on September 5th 2001 and extended until September 1st 2021 by virtue of decision of the President of the Polish Energy Regulatory Office of July 12th 2010.

In addition, the companies of the LOTOS Group hold the following licences:

- Licences for oil and natural gas exploration and appraisal in certain areas of Poland (in the Gaz Południe area – valid until December 14th 2012, in the Gaz Północ area – valid until December 14th 2013, in the Gotlandia area – valid until December 14th 2016, in the Łeba and Rozewie areas – valid until December 14th 2014, in the Sambia E area – valid until May 14th 2011, in the Sambia W area – valid until December 14th 2014, and in the Wolin area – valid until June 14th 2011), issued by the Minister of the Environment,
- Licences to conduct production on particular fields, issued by the Minister of the Environment (B6 field – licence valid until November 7th 2032, B-3 field – licence valid until July 29th 2016, B-8 field – licence valid until September 5th 2031, and B-4 field – licence valid until May 11th 2032),
- Licences issued by the Norwegian Ministry of Energy and Petroleum to conduct exploration for and appraisal and production of hydrocarbons in licence areas PL 316, PL 316B covering the 20% interest in the YME field (from August 29th 2008), licence areas PL 316CS and PL 316DS (licences expired on June 18th 2010), and in the PL 455 licence area – 20% interest in the Norwegian Continental Shelf,
- Interests in the following exploration licences in the southern area of the North Sea and in the Norwegian Sea, granted by the Norwegian Ministry of Energy and Petroleum as an outcome of the pre-qualification round APA 2008:

1. Exploration licence PL 497: LOTOS Exploration and Production Norge AS – 10% interest
2. Exploration license PL 498: LOTOS Exploration and Production Norge AS (Operator) – 25% interest
3. Exploration license PL 503: LOTOS Exploration and Production Norge AS (Operator) – 25% interest
4. Exploration license PL 515: LOTOS Exploration and Production Norge AS – 20% interest

- A 50% interest in and operator status with respect to licence PL 556 located in the North Sea (until February 19th 2011, see **Note 46**) and 10% interest in licence PL 497B (an extension of licence PL497), granted by the Norwegian Ministry of Energy and Petroleum as an outcome of the APA 2009 licence round.
- A 25% interest in and operator status with respect to licence PL 503B located in the North Sea, granted by the Norwegian Ministry of Energy and Petroleum as an outcome of the APA 2010 licence round.
- Licences issued by the President of the Energy Regulatory Office for the following activities: production of and trade in liquid fuels, transmission and distribution of heat, generation, transmission and distribution of electricity, and trade in electricity,
- Licences for production, storage and marketing of biocomponents (methyl ester), issued by the President of the Agricultural Market Agency (Agencja Rynku Rolnego),
- Licence for freight transport by rail and traction vehicles renting issued by the President of the Railway Transport Authority (Urząd Transportu Kolejowego).

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2. Composition of the Group

As at December 31st 2010, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent Undertaking) and 25 production and service companies, including:

- 16 subsidiaries of Grupa LOTOS S.A.
- 9 indirect subsidiaries of Grupa LOTOS S.A.

In addition, as at December 31st 2010 and as at December 31st 2009, the Group held an indirect equity interest of 40.31% in associated undertaking AB Geonafta (see [Note 21](#))

The following table presents the subsidiary undertakings of the LOTOS Group, their business profiles, consolidation method, and the Group's stakes in their share capitals.

Name	Registered office	Business Profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2010	Dec 31 2009
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Gaz S.A. ⁽¹⁾	Mława	The company is not conducting operations	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A. ⁽²⁾	Gdańsk	The company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%

LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk ⁽³⁾	Trading in aviation fuel	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	97.55% ⁽⁵⁾	85.04% ⁽⁴⁾
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Services related to distribution of petroleum products, storage of fuels, building and maintenance of fuel stocks; production and processing of refined petroleum products and their wholesale and retail sale	full	98.12% ⁽⁵⁾	85.01% ⁽⁴⁾
LOTOS Petrobaltic S.A. ⁽⁶⁾ (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	full	99.32%	99.32% ⁽⁴⁾
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company is not conducting operations	full	100.00% ⁽⁷⁾	0.29% ⁽⁷⁾
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	97.55% ^(9, 10)	85.04% ⁽⁸⁾
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME) ⁽¹¹⁾	full	97.55% ^(9, 10)	85.04% ⁽⁸⁾
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Provision of services	full	93.70% ⁽⁹⁾	81.18% ^(8, 12)
KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)	Kraków	- ⁽¹⁾			
Miliana Shipping Company Ltd.	Cypr	Services consisting in the storage and transport of crude oil	full	99.32 %	99,32 % ⁽⁸⁾
LOTOS Exploration and Production Norge AS	Stavanger Norway	Oil exploration and production on the Norwegian continental shelf, provision of services related to oil exploration and production	full	99.32% ⁽¹³⁾	99.32 % ⁽⁸⁾
Aphrodite Offshore Services N.V.	Netherlands Antilles	Sea transport services	full	99,32%	99.32 % ⁽⁸⁾
Energobaltic Sp. z o.o.	Władysławowo ⁽¹⁵⁾	Production of electricity, heat, LPG and natural gas condensate	full ⁽¹⁴⁾	99,32%	99.32 % ⁽¹⁴⁾
UAB LOTOS Baltija	Vilnius, Lithuania	Business and legal advisory services	full	99.32 % ⁽¹⁶⁾	100.00%

⁽¹⁾ Until July 23rd 2009, LOTOS Gaz S.A. controlled KRAK-GAZ Sp. z o.o., a subsidiary. On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a bankruptcy petition with the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery. On July 23rd 2009, the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery, resolved to declare KRAK-GAZ Sp. z o.o.'s bankruptcy by liquidation of the company's assets.

On January 10th 2011, the General Shareholders Meeting of LOTOS Gaz S.A. adopted a resolution to dissolve LOTOS Gaz S.A. by way of its liquidation.

⁽²⁾ On May 6th 2010, a change in the company's legal form (from a joint stock company to a limited liability company) was registered. Currently the company operates under the name LOTOS Ekoenergia Sp. z o.o.

⁽³⁾ On August 12th 2009, the registered office of LOTOS Tank Sp. z o.o. was relocated from Jasło to Gdańsk.

⁽⁴⁾ On July 9th 2009, an agreement was signed providing for the acquisition by the State Treasury of Grupa LOTOS S.A. shares. In exchange, the State Treasury made non-cash contributions to Grupa LOTOS S.A. in the form of 30.32% of shares in LOTOS Petrobaltic S.A., 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A.

⁽⁵⁾ By December 31st 2020, Grupa LOTOS S.A. acquired from non-controlling interests an additional 12.51% of shares in LOTOS Czechowice S.A. and 13.11% of shares in LOTOS Jasło S.A.

⁽⁶⁾ On March 31st 2010, a change in the name of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic Spółka Akcyjna to LOTOS Petrobaltic Spółka Akcyjna (abbreviated name: LOTOS Petrobaltic S.A.) was entered in the National Court Register.

⁽⁷⁾

On November 20th 2009, the then shareholders of LOTOS Park Technologiczny Sp. z o.o. sold their shares to LOTOS Park Technologiczny Sp. z o.o.:

- Grupa LOTOS S.A. – 9,400 shares out of the total of 9,500 shares held,
- LOTOS Czechowice S.A. – the entire stake of 12,314 shares,
- LOTOS Jasło S.A. – the entire stake of 9,866 shares,
- LOTOS Serwis Sp. z o.o. – the entire stake of 2,834 shares,
- Partner Holding Management Sp. z o.o. – the entire stake of 100 shares.

LOTOS Park Technologiczny Sp. z o.o. acquired its own shares with a view to their voluntary retirement by way of reduction of the share capital.

Following the transaction, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. was as follows:

- LOTOS Park Technologiczny Sp. z o.o. – 99.71%,
- Grupa LOTOS S.A. – 0.29%.

Grupa LOTOS S.A. retained control over LOTOS Park Technologiczny Sp. z o.o. given the GM powers vested in Grupa LOTOS S.A. as the only shareholder. On March 31st 2010, a reduction in the share capital of LOTOS Park Technologiczny Sp. z o.o. to PLN 50 thousand was registered. The share capital of LOTOS Park Technologiczny Sp. z o.o. is divided into 100 shares. Following registration of the changes in the National Court Register, Grupa LOTOS S.A. holds a 100% stake in LOTOS Park Technologiczny Sp. z o.o.

⁽⁸⁾ The shareholding changes described in item ⁽⁴⁾ above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Petrobaltic S.A., LOTOS Czechowice S.A. and LOTOS Jasło S.A.

⁽⁹⁾ The shareholding changes described in item ⁽⁵⁾ above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Czechowice S.A. and LOTOS Jasło S.A.

⁽¹⁰⁾ On November 5th 2010, Grupa LOTOS S.A. acquired from LOTOS Czechowice S.A. one share in LOTOS Biopaliwa Sp. z o.o., representing 0.005% of the company's share capital, and one share in RCEkoenergia Sp. z o.o., representing 0.005% of the company's share capital.

⁽¹¹⁾ On March 1st 2009, LOTOS Biopaliwa Sp. z o.o. commenced operations.

⁽¹²⁾ In May – June 2008 and January – December 2009, LOTOS Jasło S.A. acquired shares in PLASTEKOL Organizacja Odzysku S.A. As a result of the transactions, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased to 95.5%.

⁽¹³⁾ On November 15th 2010, the share capital of LOTOS Exploration and Production Norge AS was increased by NOK 1. The new share in the company with a par value of NOK 1 (the equivalent of PLN 0.4822 as translated using the NOK mid exchange rate quoted by the National Bank of Poland for November 15th 2010) was acquired by Grupa LOTOS S.A.

⁽¹⁴⁾ On November 27th 2009, LOTOS Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o.

⁽¹⁵⁾ The relocation of Energobaltic Sp. z o.o.'s registered office from Gdańsk to Władysławowo was registered on January 25th 2010.

⁽¹⁶⁾ On December 9th 2010, Grupa LOTOS S.A. entered into an agreement with LOTOS Petrobaltic S.A. on sale of 5,876 shares in UAB LOTOS Baltija, representing 100% of the company's share capital.

As at December 31st 2009, the Group's shares in the total vote at the general shareholders meetings of its subsidiary undertakings were equal to its shares in their share capitals, As at December 31st 2009, the Group's shares in the total vote at the general shareholders meetings of its subsidiary undertakings were equal to its shares in their share capitals, except in the case of LOTOS Park Technologiczny Sp. z o.o.

Loss of Control over KRAK-GAZ Sp. z o.o. (Subsidiary of LOTOS Gaz S.A.)

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a bankruptcy petition with the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery.

On July 1st 2009, a provisional court supervisor was appointed. On July 13th 2009, the supervisor submitted a report containing an analysis of the debtor's documentation and condition of its business.

On July 23rd 2009, the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery, resolved to declare KRAK-GAZ Sp. z o.o.'s bankruptcy by liquidation of the company's assets (KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)).

On July 1st 2009, as a result of the provisional appointment of a court supervisor, LOTOS Gaz S.A. lost control over its subsidiary KRAK-GAZ Sp. z o.o. within the meaning of the revised IAS 27 *Consolidated and Separate Financial Statements*. Consequently, KRAK-GAZ Sp. z o.o. has not been consolidated in these consolidated financial statements of the LOTOS Group for the year ended December 31st 2009 and as at December 31st 2009.

Accounting for the Loss of Control over KRAK-GAZ Sp. z o.o.

(PLN '000)	Dec 31 2009
Net assets of KRAK-GAZ Sp. z o.o. as at the date of control takeover ⁽¹⁾	4,684
Change in net assets of KRAK-GAZ Sp. z o.o. from the date of control takeover to the date of loss of control	(35,239)
Net assets of KRAK-GAZ Sp. z o.o. as at the date of loss of control	(30,555)
Fair value of KRAK-GAZ Sp. z o.o. shares	0
Impact of the loss of control over KRAK-GAZ Sp. z o.o. on the consolidated financial result of the LOTOS Group	30,555

⁽¹⁾ The company was consolidated with the full method from July 7th 2007.

By December 31st 2009, LOTOS Gaz S.A. recognised an impairment loss on the full value of KRAK-GAZ Sp. z o.o. shares (PLN 17,329 thousand). Moreover, in 2008 an impairment loss was recognised on the goodwill of PLN 12,645

thousand which had arisen on the acquisition of control of KRAK-GAZ Sp. z o.o. on July 7th 2007. Until the date of loss of control, other operating expenses of the LOTOS Gaz Group included an impairment loss on receivables from KRAK-GAZ Sp. z o.o., in the amount of PLN 21,243 thousand (previously, the impairment loss had been subject to intra-Group eliminations).

The net profit of KRAK-GAZ Sp. z o.o. by the date of the loss of control, accounted for in the consolidated statement of comprehensive income for 2009, amounts to PLN (16,423) thousand.

Reduction of the Share Capital of UAB LOTOS Baltija

On September 21st 2009, the reduction of the share capital of UAB LOTOS Baltija from LTL 720.2 thousand to LTL 381.9 thousand was registered. Following the reduction, the Company's share capital is divided into 5,876 ordinary registered shares with a par value of LTL 65 per share.

Registration of Reduction in the Share Capital of LOTOS Park Technologiczny Sp. z o.o.

On November 20th 2009, the then-shareholders of LOTOS Park Technologiczny Sp. z o.o. sold their shares to LOTOS Park Technologiczny:

- Grupa LOTOS S.A. – 9,400 shares out of the total of 9,500 shares held,
- LOTOS Czechowice S.A. – the entire stake of 12,314 shares,
- LOTOS Jasło S.A. – the entire stake of 9,866 shares,
- LOTOS Serwis Sp. z o.o. – the entire stake of 2,834 shares,
- Partner Holding Management Sp. z o.o. – the entire stake of 100 shares.

LOTOS Park Technologiczny Sp. z o.o. acquired its own shares with a view to their voluntary retirement by way of reduction of the share capital.

Following the transaction, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. was as follows:

LOTOS Park Technologiczny Sp. z o.o. – 99.71%,

Grupa LOTOS S.A. – 0.29%.

Grupa LOTOS S.A. retained control over LOTOS Park Technologiczny Sp. z o.o. given the GM powers vested in Grupa LOTOS S.A. as the only shareholder.

On March 31st 2010, reduction in the share capital of LOTOS Park Technologiczny Sp. z o.o. to PLN 50 thousand was registered. The share capital of LOTOS Park Technologiczny Sp. z o.o. is divided into 100 shares. Following registration of the changes in the National Court Register, Grupa LOTOS S.A. holds a 100% stake in LOTOS Park Technologiczny Sp. z o.o.

Acquisition of LOTOS Jasło S.A. Shares

On February 4th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Jasło S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Jasło S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares through donation directly from such persons. The offer was valid until March 22nd 2010. The purchase price offered for the shares was PLN 4.90 per share in the period from February 8th 2010 to March 8th 2010, and PLN 4.23 per share in the period from March 9th 2010 to March 22nd 2010. On May 20th 2010, Grupa LOTOS S.A. made another offer to purchase shares in LOTOS Jasło S.A. at a price of PLN 4.45 per share. The offer was addressed to all remaining shareholders and was valid until June 11th 2010. The share purchase process was completed at the end of 2010. With respect to the remaining shares held by minority shareholders, on November 30th 2010 the General Shareholders Meeting of LOTOS Jasło S.A. adopted a resolution regarding minority squeeze-out.

Acquisition of LOTOS Czechowice S.A. Shares

On February 4th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Czechowice S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Czechowice S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares through donation directly from such persons. The offer was valid until March 22nd 2010. The purchase price offered for the shares was PLN 7.98 per share in the period from February 8th 2010 to March 8th 2010, and PLN 6.89 per share in the period from March 9th 2010 to March 22nd 2010. On May 20th 2010, Grupa LOTOS S.A. made another offer to purchase shares in LOTOS Czechowice S.A. at a price of PLN 7.25 per share. The offer was addressed to all remaining shareholders and was valid until June 11th 2010. The share purchase process was completed at the end of 2010. With respect to the remaining shares held by minority shareholders, on December 1st 2010 the General Shareholders Meeting of LOTOS Czechowice S.A. adopted a resolution regarding minority squeeze-out (see [Note 46](#)).

Accounting for the Acquisition of Shares in LOTOS Jasło S.A. and LOTOS Czechowice S.A. from Non-Controlling Interests

By December 31st 2010 Grupa LOTOS S.A. acquired 938,701 shares in LOTOS Czechowice S.A. with the total value of PLN 7,574 thousand, representing 12.51% of the company's share capital, and 786,924 shares in LOTOS Jasło S.A.

with the total value of PLN 3,980 thousand, representing 13.11% of the company's share capital.

As at December 31st 2010, following completion of the share purchase transactions, Grupa LOTOS S.A. held 97.55% of the share capital of LOTOS Czechowice S.A. and 98.12% of the share capital of LOTOS Jaslo S.A.

In line with the revised IAS 27 *Consolidated and Separate Financial Statements*, the transaction described above was accounted for as an equity transaction, as a result of which an amount of PLN 12,976 thousand was recognised under retained earnings attributable to the Parent.

Accounting for the acquisition of LOTOS Jaslo S.A. and LOTOS Czechowice S.A. shares from non-controlling interests, as at December 31st 2010:

(PLN '000)	
Value of non-controlling interests as at Dec 31 2010 (A)	24,253
Value of (price paid for) the acquired 12.51% of shares in LOTOS Czechowice S.A. and 13.11% of shares in LOTOS Jaslo S.A. (B)	11,554
Costs related to the acquisition (C)	(277)
Excess of the value of non-controlling interests over the value of the acquired shares (A-B-C)	12,976

Share Capital Increase at LOTOS Gaz S.A.

On December 14th 2009, an Extraordinary General Shareholders Meeting of LOTOS Gaz S.A. was held, during which the share capital of LOTOS Gaz S.A. was increased from PLN 3,680 thousand to PLN 10,080 thousand, i.e. by PLN 6,400 thousand, by way of raising the par value of the existing 160,000 shares from PLN 23 to PLN 63 per share. The share capital increase at LOTOS Gaz S.A.'s was not registered, and the payment in the amount of PLN 6,400 thousand made by the Company in connection with the increase was returned. In connection with the foregoing, Grupa LOTOS S.A. reversed PLN 6,400 thousand of previously recognised impairment losses on financial assets.

Change in the Legal Form of LOTOS Ekoenergia Sp. z o.o.

On May 6th 2010, a change in the company's legal form from a joint stock company to a limited liability company was registered. Currently the company operates under the name LOTOS Ekoenergia Sp. z o.o.

Acquisition of Shares in LOTOS Biopaliwa Sp. z o.o. and RCEkoenergia Sp. z o.o.

On November 5th 2010, Grupa LOTOS S.A. acquired from LOTOS Czechowice S.A. one share in LOTOS Biopaliwa Sp. z o.o. for the price of PLN 3 thousand and one share in RCEkoenergia Sp. z o.o. for the price of PLN 1 thousand.

Following the transaction, the shareholder structure of LOTOS Biopaliwa Sp. z o.o. is as follows:

LOTOS Czechowice S.A. – 99.995%,
Grupa LOTOS S.A. – 0.005%.

Following the transaction, the shareholder structure of RCEkoenergia Sp. z o.o. is as follows:

LOTOS Czechowice S.A. – 99.995%,
Grupa LOTOS S.A. – 0.005%.

Acquisition of New Issue Shares in LOTOS Exploration and Production Norge AS

On November 15th 2010, the share capital of LOTOS Exploration and Production Norge AS was raised by NOK 1, to NOK 430,000,001 (the equivalent of PLN 207,346,000, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for November 15th 2010). One new share with a par value of NOK 1 (the equivalent of PLN 0.4822, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for November 15th 2010) was acquired by Grupa LOTOS S.A.

Following the transaction, the shareholder structure of LOTOS Exploration and Production Norge AS is as follows:

LOTOS Petrobaltic S.A. – 99.9999998%,
Grupa LOTOS S.A. – 0.0000002%.

The share capital increase at LOTOS Exploration and Production Norge AS was registered by the Norwegian companies registrar Brønnøysundregistrene on December 2nd 2010.

Disposal of UAB LOTOS Baltija Shares

On December 9th 2010, Grupa LOTOS S.A. and LOTOS Petrobaltic S.A. executed an agreement for the sale of 5,876 shares in UAB LOTOS Baltija, representing 100% of the company's share capital, for a total price of PLN 485 thousand.

Offer to Purchase LOTOS Petrobaltic S.A. Shares

On December 17th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Petrobaltic S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Petrobaltic S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated

August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares through donation directly from such persons. The offer was valid until January 30th 2011. The purchase price was PLN 126 per share. As at the date of approval of these consolidated financial statements, the share purchase process has not been completed.

By April 7th 2011, Grupa LOTOS S.A. has purchased from minority shareholders 56,486 LOTOS Petrobaltic S.A. shares, representing 0.61% of the company's share capital. As a result of the executed transactions, Grupa LOTOS S.A. currently holds 99.93% of the share capital of LOTOS Petrobaltic S.A.

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The notes to the financial statements, presented on following pages, are their integral part.

3. Composition of the Management and Supervisory Boards of the Parent Undertaking

In the period from January 1st 2010 until the date of approval of these consolidated financial statements, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

- Paweł Olechnowicz – President of the Management Board, Chief Executive Officer,
- Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,
- Marek Sokołowski – Vice-President of the Management Board, Chief Operation Officer,
- Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

As at January 1st 2010, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

- Wiesław Skwarko – Chairman of the Supervisory Board,
- Leszek Starosta – Deputy Chairman of the Supervisory Board,
- Mariusz Obszyński – Secretary of the Supervisory Board,
- Radosław Barszcz – Member of the Supervisory Board
- Małgorzata Hirszel – Member of the Supervisory Board,
- Jan Stefanowicz – Member of the Supervisory Board,
- Ireneusz Fąfara – Member of the Supervisory Board.

On February 11th 2010, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution to remove Mr Mariusz Obszyński, Mr Radosław Barszcz and Mr Jan Stefanowicz from their positions on the Supervisory Board. Next, Messrs Oskar Pawłowski, Michał Rumiński and Rafał Wardziński were appointed as members of the Supervisory Board of the seventh term of office.

On March 29th 2010, the Company received a resignation by Mr Ireneusz Fąfara, Member of the Supervisory Board of Grupa LOTOS S.A., from his position as Member of the Company's Supervisory Board.

On June 28th 2010, the following persons were appointed to the Supervisory Board of Grupa LOTOS S.A. of the seventh term of office: Ms Ewa Sibrecht-Ośka – as Member of the Supervisory Board, and Mr Rafał Lorek – as Independent Member of the Supervisory Board.

As at December 31st 2010 and as at the date of approval of these consolidated financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

- Wiesław Skwarko – Chairman of the Supervisory Board,
- Leszek Starosta – Deputy Chairman of the Supervisory Board,
- Oskar Pawłowski – Secretary of the Supervisory Board,
- Małgorzata Hirszel – Member of the Supervisory Board,
- Michał Rumiński – Member of the Supervisory Board,
- Rafał Wardziński – Member of the Supervisory Board,
- Ewa Sibrecht-Ośka – Member of the Supervisory Board,
- Rafał Lorek – Independent Member of the Supervisory Board.



4. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board on April 11th 2011.

5. Going Concern

These consolidated financial statements were prepared on the assumption that the Group companies would continue their business activities in the foreseeable future. As at the date of approval of these consolidated financial statements no facts or circumstances have been identified that might pose a threat to the Group's companies continuing as going concerns in the 12 months following the balance-sheet date.

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6. Duration of the Group

The duration of the Parent Undertaking and its subsidiary undertakings is unlimited.

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The notes to the financial statements, presented on following pages, are their integral part.

7. Balance-Sheet Date and the Period Covered by the Financial Statements

These consolidated financial statements of the LOTOS Group comprise the balance-sheet data as at December 31st 2010, comparable data as at December 31st 2009 and data as at January 1st 2009. The statement of comprehensive income, statement of cash flows and statement of changes in the Group's equity present the data for the period January 1st – December 31st 2010 along with the comparable data for January 1st – December 31st 2009.

The financial information as at December 31st 2010 and December 31st 2009, and for the years then ended, contained in these consolidated financial statements, was audited. The financial information as at December 31st 2009 and for the year then ended was audited and an opinion on it was issued by the auditor on April 26th 2010 (this does not refer to selected restated financial information, as mentioned in [Note 9.2](#)).

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The notes to the financial statements, presented on following pages, are their integral part.

8. Measurement Currency and Reporting Currency

The measurement and reporting currency of these consolidated financial statements is the Polish zloty (PLN). These consolidated financial statements are presented in the zloty (PLN), and all the figures are presented in thousands of zloty, unless indicated otherwise.

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The notes to the financial statements, presented on following pages, are their integral part.

9. Basis of Preparation of the Consolidated Financial Statements

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and the IFRS endorsed by the European Union which have been published and are in effect as at December 31st 2010.

The IFRS include the standards and interpretations approved by the International Accounting Standards Board ("the Board", "IASB") and the International Financial Reporting Interpretation Committee ("IFRIC").

As at the date of approval of these financial statements for publication, taking into account the ongoing process of implementation of the IFRS in the EU and the business activities conducted by the Company, as far as the accounting policies applied by the Company are concerned, there is no difference between the IFRS that have become effective and the IFRS endorsed by the EU.

The Parent Undertaking and LOTOS Petrobaltic S.A., LOTOS Exploration and Production Norge AS, LOTOS Asphalt Sp. z o.o., LOTOS Oil S.A., LOTOS Paliwa Sp. z o.o., LOTOS Kolej Sp. z o.o., LOTOS Tank Sp. z o.o., and LOTOS Serwis Sp. z o.o. maintain their accounting books in accordance with the accounting policies prescribed by the International Financial Reporting Standards. The other Group companies maintain their accounting books in accordance with the accounting standards defined in the Polish Accountancy Act of September 29th 1994 and the accounting policies and standards applicable at their foreign locations. These consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings applying standards other than IFRS, and which have been introduced to ensure consistency of the undertakings' financial information with the IFRS.

The Group chose to early apply - as of January 1st 2009 - the revised IFRS 3 *Business Combinations* and the revised IAS 27 *Consolidated and Separate Financial Statements*. Application of the revised IFRS 3 and IAS 27 had no material effect on the previous periods.

In April 2009, the International Accounting Standards Board released the second collection of amendments to its accounting standards, which aim to eliminate any inconsistencies or ambiguities. Different transitional provisions apply to the individual standards. Implementation of the amendments to the standards listed below led to changes in the Group's accounting policies, but had no impact on the Group's financial standing or performance as presented in the financial statements.

IAS 7 *Statement of Cash Flows*. It has been made clear that only expenditure which leads to recognition of an asset may be classified as cash flows from investing activities.

IAS 36 *Impairment of Assets*. The amendment clarifies that the largest unit to which goodwill acquired in a business combination may be allocated for the purpose of impairment testing is an operating segment, as defined in IFRS 8, before aggregation for reporting purposes. The change had no impact on the Group's consolidated financial statements.

IFRS 8 *Operating Segments*. It has been clarified that segment assets and liabilities should be disclosed only when such assets and liabilities are included in the measures used by the chief operating decision maker. As the Group's chief operating decision maker reviews segment assets, the Group continues to disclose the required information in **Note 11**.

The Group has reviewed the new interpretations, standards and amendments to the existing standards. The new interpretations, standards and amendments to the existing standards which are in effect and have been adopted by the European Union, have no material impact on the accounting policies applied by the Group.

9.1 New Standards and Interpretations

The following new standards, amendments to existing standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee, but have not been adopted by the European Union:

- IFRS 9 *Financial Instruments* (effective for periods beginning on or after January 1st 2013),
- Amendments to IFRS 7 – *Financial Instruments: Disclosures: Transfers of Financial Assets* (effective for annual periods beginning on or after July 1st 2011),

- Amendments to IAS 12 – *Deferred Tax: Recovery of Underlying Assets* (effective for periods beginning on or after January 1st 2012),
- Amendments to IFRS 1 – *First-Time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* (effective for periods beginning on or after July 1st 2011).

The Group has not decided to choose the option of early application of any other standard, interpretation, or amendment to an existing standard which has been published but has not yet become effective.

By the date of approval of these financial statements, the first phase of IFRS 9 - *Financial Instruments: Classification and Measurement* (effective for annual periods beginning on or after January 1st 2013) has not been endorsed by the European Union. During the next phases, the International Accounting Standards Board will focus on hedge accounting and impairment. The project is scheduled for completion in mid-2011. Implementation of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will analyse this effect along with the effect from the other phases of the project after their publication, in order to present a coherent picture.

The Management Board does not expect the introduction of the new standards and interpretations specified above to have any material impact on the accounting policies applied by the Group or the Group's financial standing or performance as presented in the financial statements.

The following new interpretations, standards and amendments to the existing standards, which have been adopted by the European Union, are effective in periods beginning after January 1st 2010:

- IAS 32 – *Financial Instruments: Presentation: Classification of Rights Issues* (effective for annual periods beginning on or after February 1st 2010),
- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters* (effective for annual periods beginning on or after July 1st 2010),
- Amendments to IFRIC 14 *IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirement* (effective for periods beginning on or after January 1st 2011),
- *Revised IAS 24 Related Party Disclosures* (effective for annual periods beginning on or after January 1st 2011),
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after July 1st 2010),
- Changes introduced as part of the improvements to IFRSs published in May 2010 (some changes are effective for annual periods beginning on July 1st 2010, some for annual periods beginning on January 1st 2011).

9.2 Changes in Accounting Policies and Correction of Errors

The accounting policies and calculation methods adopted by the Group in the preparation of these consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for the year ended December 31st 2009, except that since January 1st 2010 the Group has applied amendments to IAS 17 *Leases*, as a result of which perpetual usufruct right to land obtained free of charge was capitalised at fair value and presented under property, plant and equipment (equity was increased accordingly as the related liabilities could not have been determined). Previously, the perpetual usufruct right to land obtained free of charge was classified by the Group as operating lease and disclosed at fair value as an off-balance-sheet item. In connection with the disclosure of the land perpetual usufruct rights obtained free of charge in the balance sheet, the Group adjusted the data presented in these financial statements. As a result of the adjustment, as at December 31st 2009 and January 1st 2009, the value of property, plant and equipment rose by PLN 163,446 thousand, deferred tax liabilities increased by PLN 31,055 thousand, and equity (retained earnings) grew by PLN 132,391 thousand, taking into account the effect of deferred income tax.

As at December 31st 2009, the Group reclassified certain items which had earlier been presented as restricted cash and cash equivalents into non-current financial assets. These items included the PLN 5,819 thousand (as at January 1st 2009: PLN 31,440 thousand) deposit securing the repayment of interest on the loan intended for financing of inventory, and the PLN 1,205 thousand (as at January 1st 2009: PLN 7,255 thousand) security deposit (margin). In connection with the foregoing, cash flows from investing activities and cash flows from financing activities changed respectively by PLN 6,050 thousand and PLN 25,621 thousand.

Furthermore, as at December 31st 2009 the Group presented in restricted cash PLN 18,320 thousand of its cash in bank account on which a hold had been placed.

In the statement of cash flows for the year ended December 31st 2009, valuation of financial instruments previously disclosed under "(Profit)/loss on investing activities" (of PLN 214,433 thousand) and under "Foreign exchange (gains)/losses" (of PLN 161 thousand) was transferred to "Settlement and valuation of financial instruments".

In the year ended December 31st 2009, the Group reclassified costs relating to transport between storage terminals. For the year ended December 31st 2009, general and administrative expenses decreased by PLN 25,248 thousand with the corresponding increase reflected in cost of sales.

In the year ended December 31st 2010, foreign exchange gains and losses were netted off at the Group level. For the year ended December 31st 2009, finance income and expenses related to foreign exchange differences decreased by PLN 40,012 thousand.

In connection with the purchase of an organised part of business in the form of the LPG Trading Division of LOTOS Gaz S.A. by LOTOS Paliwa Sp. z o.o. from LOTOS Gaz S.A. in December 2009, in order to ensure comparability of the data disclosed in **Note 11**, the sales revenue, operating profit (EBIT), depreciation and amortisation, and operating profit before depreciation and amortisation (EBITDA) related to the LPG trading business of the LOTOS Gaz Group have been presented in the downstream segment.

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.

10. Accounting Policies

These consolidated financial statements have been prepared in accordance with the historical cost principle, except with respect to financial derivatives, which are measured at fair value.

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

10.1. Basis of Consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent Undertaking and financial statements of the undertakings it controls, prepared as at December 31st 2010.

The financial statements of the subsidiaries, subject to the restatements made to ensure compliance with the IFRS, are prepared for the same reporting period as the financial statements of the Parent Undertaking, with the use of consistent accounting policies and in accordance with uniform accounting policies applied for transactions and economic events of a similar nature. Adjustments are made in order to eliminate any discrepancies in the adopted accounting policies.

All significant balances and transactions between the Group's undertakings, including significant unrealised profits on intra-group transactions, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of an impairment of value.

Subsidiary undertakings are consolidated starting from the date when the Group assumes control over them and cease to be consolidated when control is lost. The Company is deemed to exert control when it holds, directly or through its subsidiary undertakings, more than 50% of votes in a given undertaking unless it is possible to prove that the ownership of over 50% of votes is not tantamount to exerting control. The Company's ability to influence a given undertaking's financial and operational policies is also deemed exerting control.

10.2. Investments in Associated Undertakings

Investments in associated undertakings are accounted for using the equity method. Associated undertakings are the undertakings over which the Parent Undertaking has significant influence, either directly or indirectly through its subsidiary undertakings, and which are neither its subsidiary undertakings nor interests in joint ventures. The financial statements of associated undertakings serve as a basis for the equity method valuation of the shares held by the Parent Undertaking. Associated undertakings' financial years coincide with the Parent Undertaking's financial year.

Investments in associated undertakings are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Parent Undertaking's share in the net assets of the associated undertakings, and reduced by impairment losses, if any. The statement of financial position includes the Parent Undertaking's share of the profits and losses of the associated undertakings. In the case of a change recognised directly in an associated undertaking's equity, the Parent Undertaking recognises its share in such change and, if applicable, discloses it in the statement of changes in equity.

10.3. Intangible Assets

Intangible assets are recognised if the Group 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. Intangible assets acquired as part of a business combination are capitalised at their fair value on acquisition date. Following initial recognition, intangible assets are valued at cost less accumulated amortisation and impairment losses.

The Group capitalises and recognises as an intangible asset both the fees under the licences for crude oil and natural gas exploration and the royalties under the concluded mining use agreements granting the right to conduct crude oil and natural gas exploration. Exploration work cannot be conducted without obtaining a relevant licence and executing the mining use agreement.

Intangible assets are amortised using the straight-line method over their estimated useful lives.

The expected useful lives of the Group's intangible assets range from 2 to 33 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 the asset are reflected by changing the amortisation period or amortisation method, as appropriate, and are treated as changes in accounting estimates.

Useful lives are also reviewed each year and, if required, they are adjusted with effect from the beginning of the following financial year.

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

10.4. Goodwill Related to Subordinated Undertakings

The acquirer recognises goodwill on acquisition, equal to the excess of the sum of (i) consideration transferred, measured at its acquisition-date fair value, (ii) the amount of any non-controlling interests in the acquiree, and (iii) in the case of a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair values. In the case of a business combination achieved in stages, the acquirer re-measures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the statement of comprehensive income.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Group calculates any impairment of value by estimating the recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its carrying value, the Group recognises an impairment loss. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the carrying value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, pro-rata to the interest in the retained part of the cash-generating unit.

10.5. Property, Plant and Equipment

Items of property, plant and equipment other than land are valued at cost less accumulated depreciation and impairment losses.

Land is valued at cost less impairment losses. In the case of perpetual usufruct rights to land, cost is understood to mean the amount paid for the right to a third party.

Perpetual usufruct rights to land obtained free of charge are capitalised in the accounting books.

Initial value of a tangible asset 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, if 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.

Tangible assets (including their components), other than land and tangible assets used for crude oil production, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and structures	1–80 years
Plant and equipment	1–25 years
Vehicles	1–15 years
Other tangible assets	1–10 years

Tangible assets used in petroleum production are depreciated using the units-of-production depreciation method, i.e. depreciation per unit of produced crude oil is charged to expenses. The depreciation rate is estimated in reference to forecasts of crude oil production from a given geological area. If the estimated reserves (2P – proved and probable reserves) change significantly as at the balance-sheet date, depreciation per unit of produced crude oil is re-valued. Then, starting from the new financial year, the re-valued depreciation rate is applied.

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 removal of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying value of the asset) are disclosed in the statement of comprehensive income in the period of removal.

The residual value, useful economic life and depreciation method are reviewed on an annual basis and adjusted – if required – with effect from the beginning of the next financial year.

The costs of each overhaul are included in the carrying value of property, plant and equipment, if relevant recognition criteria are fulfilled.

In its consolidated financial statements, under tangible assets the Group discloses an asset corresponding to the value of provision for the decommissioning of Offshore Oil and Gas Facilities. The asset was created in accordance with IAS 16 *Property, Plant and Equipment*, which reads: “The cost of an item of property, land and equipment comprises ... the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period”. The Group’s obligation to incur costs of decommissioning of the Offshore Oil and Gas Facilities results directly from the reasons specified in IAS 16. Under Paragraph 63 of the same standard, the entities applying the IAS are obliged to test the value of the asset periodically, at least at each balance-sheet date. It should further be emphasised that the International Financial Reporting Interpretations Committee (IFRIC) has issued Interpretation IFRIC 1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Interpretation directly refers to, *inter alia*, IAS 16, including in particular to the revaluation of the asset recognised as future decommissioning cost.

Revaluation of the asset so recognised may be caused by:

- change in estimated cash outflow necessary to ensure performance of the decommissioning obligation,
- change in the current market discount rate,
- increase in the value resulting from the passage of time – shortening of the time remaining until decommissioning, leading to the adjustment of the discount rate.

The Group complied with IFRIC’s requirement in this respect, therefore these consolidated financial statements show the asset at its present value.

10.6. Tangible Assets under Construction

Tangible assets under construction are valued at the amount of aggregate costs directly attributable to the acquisition or production of such assets, including finance expenses, less impairment losses, if any. Tangible assets under construction are not depreciated until completed and placed in service.

Tangible assets under construction comprise tangible assets which are under construction or assembly and are recognised at cost.

Finance expenses capitalised in tangible assets under construction include costs of servicing the debt incurred to finance the assets.

The cost of exploration for crude oil and natural gas is capitalised as tangible assets under construction until the size of an oil/gas field and the economic viability of production are determined. Upon confirmation of the existence of reserves whose extraction is technically and economically viable, the expenditure incurred on exploration is transferred to tangible assets and is subsequently depreciated. If exploration drillings do not result in discovery of any reserves whose extraction is technically and economically viable, impairment losses on tangible assets under construction are recognised in the profit or loss of the period in which it is found that commercial production from the discovered fields is not viable.

10.7. Exploration and Evaluation Assets

Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the Group’s accounting policy. Exploration and evaluation expenditures are expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and evaluation of mineral resources is the search for mineral resources, including oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. The Group classifies the exploration and evaluation assets as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner. When the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, exploration and evaluation assets are no longer classified as such. The Group presents and discloses impairment losses on exploration and evaluation assets in accordance with IFRS 6 and evaluates such assets in accordance with IAS 36. Impairment losses are recognised in profit or loss, in accordance with IAS 36.

The Group examines the need to recognise impairment losses on exploration and evaluation assets by considering, *inter alia*, the following circumstances in relation to a specific area:

- the period for which the entity has the right to explore in the specific area has expired during the period or will

expire in the near future, and is not expected to be renewed;

- no substantive expenditure on further exploration for and evaluation of mineral resources is anticipated;
- exploration for and evaluation of mineral resources have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

10.8. Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership onto the lessee. All other types of leases are treated as operating leases.

The Group as a Lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for the given reporting period calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Income from operating leases is recognised in the statement of financial position on a straight-line basis over the lease term.

The Group as a Lessee

Assets used under a finance lease are recognised as assets of the Group and at initial recognition are measured at fair value 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 expense is charged to statement of comprehensive income.

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

10.9. Non-Current Assets Held For Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to be met only if the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

10.10. Impairment Losses on Non-Financial Non-Current Assets

As at each balance-sheet date, the Group assesses whether there is any evidence of impairment of any of its assets. If the Group finds that there is such evidence, or if the Group is required to perform annual impairment tests, the Group estimates the recoverable value of the given asset.

The recoverable value of an asset is equal to the higher of the fair value of the asset or cash generating unit, less the transaction costs, or its value in use. The recoverable value is determined for the individual assets, unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying value of an asset is higher than its recoverable value, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable value. 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. Impairment losses related to the assets used in the continued operations are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at each balance-sheet date, the Group assesses whether there is evidence that any impairment loss recognised in the previous periods with respect to a given asset is no longer necessary or should be reduced. If there is such

evidence, the Group estimates the recoverable value of the given asset. The recognised impairment loss is reversed only when following the recognition of the last impairment loss there has been a change in the estimates used to determine the recoverable value of the asset. In such a case, the carrying value of the asset is increased up to its recoverable value. The increased value may not exceed the carrying value of the asset that would have been determined (net of accumulated amortisation/depreciation) if the impairment loss related to that asset had not been recognised in the previous years. Reversal of an asset impairment loss is immediately recognised as income in the statement of comprehensive income. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to the given asset is adjusted so that over the remaining useful life of that asset its revised carrying value, less its residual value, can be regularly written off.

10.11. Investment Property

Investment property is valued at cost less accumulated depreciation and impairment losses.

Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Group does not use for its own purposes but which will generate benefits in the form of value appreciation or rent income.

10.12. Inventories

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

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

- materials and goods for resale – acquisition cost calculated on weighted average basis,
- finished goods and work-in-progress – the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity.

Net realisable value is the selling price estimated as at the balance sheet date 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.

Mandatory stocks are disclosed as non-current assets given their turnover in a short term.

10.13. Trade and Other Receivables

Trade receivables, which typically become due and payable in 7 to 60 days, are recognised and carried at amounts initially invoiced, less impairment losses on doubtful receivables. Impairment losses on receivables are estimated when the collection of the full amount of receivables is no longer probable. Uncollectible receivables are written off through the statement of comprehensive income when recognised as unrecoverable accounts.

If the effect of time value of money is significant, 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.

10.14. Foreign Currency Transactions

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

1. buy or sell rate of the bank at which the transaction is effected – in the case of sale and purchase of currencies and payment of receivables and payables; or
2. mid-exchange rate quoted for the given currency by the National Bank of Poland as at that date unless a different exchange rate is specified in another document binding on a given undertaking.

Monetary assets and liabilities denominated in foreign currencies as at the balance-sheet date are translated into the złoty at relevant złoty mid-exchange rates quoted by the National Bank of Poland as at that date. The resulting foreign exchange gains and losses are carried as finance income/(expense) or cost of sales, except for foreign exchange gains and losses which are considered a part of borrowing costs and are capitalised in property, plant and equipment (foreign exchange gains and losses on interest). Foreign-exchange gains and losses on valuation of foreign-currency denominated loans are charged against finance income or expenses. Non-monetary assets and liabilities recognised at historic cost expressed in a foreign currency are recognised at the historic exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities disclosed at fair value expressed in a foreign currency are translated as at the balance-sheet date at the exchange rate effective as at the date of determining the fair value.

Exchange rates applied for the purposes of balance-sheet valuation:

Mid-exchange rate quoted by the NBP for:	Dec 31 2010	Dec 31 2009
USD	2.9641	2.8503
EUR	3.9603	4.1082
NOK	0.5071	0.4946
LTL	1.1469	1.1898

The financial statements of foreign undertakings are translated into the Polish currency at the following exchange rates:

- items of the statement of financial position – at the mid-exchange rate quoted by the National Bank of Poland for the balance-sheet date;
- items of the statement of comprehensive income – at the exchange rate computed as the arithmetic mean of mid-exchange rates quoted by the National Bank of Poland for the days ending each financial month. The resulting currency-translation differences are recognised directly in equity as a separate component.

At the time of disposal of a foreign undertaking, the accumulated deferred currency-translation differences recognised in equity and relating to this foreign undertaking are transferred to the statement of comprehensive income.

10.15. Cash and Cash Equivalents

Cash in hand and at banks, as well as and non-current deposits held to maturity are valued at face value.

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

10.16. Accruals and Deferrals

The Group recognises prepayments if they relate to future reporting periods.

Accrued expenses are recognised at probable values of current-period liabilities.

Employees of the Group undertakings are entitled to holidays in accordance with the rules set forth in the Polish Labour Code, The Group recognises the cost of employee holidays on an accrual basis using the liability method, The amount of the provision for unused holidays is calculated on the basis of the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time.

10.17. Equity

Equity is recognised in the consolidated financial statements by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of the LOTOS Group is the share capital of the Parent Undertaking and 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.

10.18. Provisions

Provisions are created when the Group has an obligation (legal or following from commercial practice) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation may be reliably estimated. If the Group anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate item of assets, 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 gross discount rates reflecting the current market estimates of the time value of money and risks, if any, related to a given obligation. If the discount method is applied, an increase in provisions as a result of lapse of time is recognised as finance expenses.

10.19. Retirement Severance Pays and Length-of-Service Awards

In accordance with the company remuneration systems applied by the LOTOS Group companies, the Group's employees are entitled to length-of-service awards and severance pays upon retirement due to old age or disability. Length-of-service awards are paid out after a specific period of employment. Old-age and disability retirement

severance pays are one-off and paid upon retirement. Amounts of severance pays and length-of-service awards depend on the length of employment and the average remuneration. The Company creates a provision for future liabilities under retirement severance pays and length-of-service awards in order to assign costs to the periods in which they are incurred. According to IAS 19 *Employee Benefits*, length-of-service awards are classified as other long-term employee benefits, while retirement severance pays – as defined post-employment benefit plans. The present value of the obligations as at each balance-sheet date is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account the employment turnover, and relate to the period ending at the given balance-sheet date. Information concerning demographics and employment turnover is sourced from historical data. Actuarial gains and losses are recognised in profit or loss.

Furthermore, the Company creates a provision for the benefits to which employees and other eligible persons are entitled as part of the Company Social Benefits Fund.

10.20. Profit Distribution for Employee Benefits and Special Accounts

According to the business practice followed in Poland, company shareholders have the right to allocate a part of profit for employee benefits by making contributions to the Company's social benefits fund and to other special accounts. In the financial statements prepared in accordance with the IFRS such distributions are charged to operating expenses in the period to which profit distribution relates.

10.21. Interest-Bearing Bank Loans, Borrowings, and Debt Securities

All bank loans, borrowings, and debt securities are initially recognised at cost, equal to the fair value of funds received, less cost of obtaining the loan.

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

10.22. Borrowing Costs

Borrowing costs are disclosed as the costs of the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed, which are capitalised as a part of the cost of such an asset.

To the extent that the funds are borrowed specifically for the purpose of acquiring the asset being completed, 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 loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that the funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the borrowing costs which may be capitalised is determined by applying the capitalisation rate to the capital expenditure on that asset.

The accounting policies with respect to capitalisation of currency exchange differences have been described in **Note 10.14 Foreign Currency Transactions**.

10.23. Government Subsidies

If there is reasonable certainty that the subsidy will be received and that all related conditions will be fulfilled, government subsidies are recognised at fair value.

If a subsidy 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 statement of comprehensive income over the estimated useful life of the asset.

10.24. Carbon Dioxide (CO₂) Emission Allowances

The Group recognises carbon dioxide (CO₂) emission allowances in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the limit of emission allowances granted, and the liability is recognised only after the Company actually exceeds the limit.

The Group analyses the limits granted to it on an annual period basis. Income from the sale of unused emission allowances is credited against the statement of comprehensive income at the time of sale.

10.25. Taxes

10.25.1 Income Tax

Mandatory decrease of profit/(increase of loss) comprises: current income tax (CIT) and deferred income tax. The current portion of the income tax is calculated based on the net profit/(loss) (taxable income) for a given financial year. The net profit (loss) established for tax purposes differs from the net profit (loss) established for financial reporting purposes to the extent of the income which is taxable and costs which are deductible in future years and the expenses and income items which will never be subject to deduction/taxation. The tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, the Company creates deferred tax liabilities using the balance-sheet liability method in relation to all temporary differences existing as at the balance-sheet date between the tax base of assets and liabilities and their carrying value as disclosed in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except to the extent that the deferred tax liabilities arise 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 profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiary or associated undertakings, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference 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 profit nor taxable profit (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated undertakings 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 value of deferred tax assets is revised as at each balance-sheet date 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 calculated using tax rates expected to be effective at the time of realisation of particular asset or release of particular provision, based on tax rates (and tax legislation) effective as at the balance-sheet date or tax rates (and tax legislation) certain to be effective as at the balance-sheet date in the future.

Income tax related to items posted directly to equity is disclosed under equity rather than in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position in the amount obtained after they are offset for particular undertakings consolidated within the Group.

10.25.2 Value-Added Tax, Excise Duty and Fuel Charge

Revenue, expenses, assets and liabilities are recognised net of the VAT, excise duty and fuel charge:

- except 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 the given asset or as part of the cost item, and
- except in the case of receivables and payables, which are recognised inclusive of the VAT, excise duty and fuel charge.

The net amount of the VAT, excise duty and fuel charge which is recoverable from or payable to tax authorities is carried in the balance sheet as part of receivables or liabilities.

10.26. Financial Assets

Financial assets are classified into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through profit or loss,
- Loans and receivables,
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which are quoted on an active market and which the Group has the positive intention and ability to hold to maturity, other than those:

- designated at fair value through profit or loss upon initial recognition,
- designated as available for sale,
- which qualify as loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest method. Financial assets held to maturity are classified as non-current assets if they mature more than 12 months after the balance-sheet date.

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. Financial assets are classified as held for trading if they:

- have been acquired principally for the purpose of being sold in the near future,
- are part of a portfolio of identified financial instruments that are managed together and for which there is probability of profit-taking in the near future,
- are derivatives (except for those which are part of hedge accounting or financial guarantee contracts),

b) it has been assigned to this category on initial recognition (in accordance with IAS 39).

Financial assets at fair value through profit or loss are measured at fair value, based on their market value on the balance-sheet date, without reflecting sales transaction costs. Any changes in the value of these instruments are recognised directly in the statement of comprehensive income as finance income or expenses. An entire contract can be designated as financial assets at fair value through profit or loss if it contains one or more embedded derivatives. The above does not apply when an embedded derivative has no significant impact on the cash flows generated under the contract or when it is clear without an analysis or following a superficial analysis that if a similar hybrid instrument was first considered, separation of the embedded derivative would have been prohibited. Financial assets may be designated as financial assets at fair value through profit or loss on initial recognition if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch); or (ii) the assets are part of a group of financial assets that are managed and measured based on fair value, according to a well-documented risk management strategy; or (iii) the assets contain embedded derivatives which should be presented separately.

Loans and receivables are financial assets with fixed or determinable payments not classified as derivatives and not traded on any active market. They are disclosed under current assets if they mature within 12 months from the balance-sheet date. Loans and receivables with maturities exceeding 12 months from the balance-sheet date are classified as non-current assets.

Financial assets available for sale are financial assets that are not derivative instruments, and have been classified as available for sale or do not belong to any of the previous three categories. Financial assets available for sale are recognised at fair value increased by the transaction costs which may be directly attributed to an acquisition or issue of a financial asset. If quoted market prices from an active market are not available and the fair value cannot be reliably measured using alternative methods, available-for-sale financial assets are measured at cost less impairment. The positive or negative differences between the fair value of available-for-sale financial assets (if they have a market price derived from an active market or their fair value can be established in any other reliable manner) and their cost are recognised net of deferred tax in other comprehensive income. Impairment losses on available-for-sale financial assets are recognised in finance expenses.

Any purchase or sale of financial assets is recognised at the transaction date. On initial recognition, financial assets are recognised at fair value including – in the case of financial assets other than those at fair value through profit or loss – transaction costs directly attributable to the purchase.

Financial assets are derecognised when the Group loses control over contractual rights comprising particular financial instruments; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

10.27. Impairment of Financial Assets

As at each balance-sheet date the Group determines whether there is objective evidence of impairment of a financial

asset or a group of financial assets.

Assets Carried at Amortised Cost

If there is objective evidence that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying value of a financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying value of an asset is reduced directly or by creating relevant provisions. The amount of loss is recognised in the statement of comprehensive income.

First the Group determines whether there exists objective evidence of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective evidence of impairment of an individually tested asset, regardless of whether it is material or not, the Group includes the asset into the group of financial assets with similar credit risk profile and tests it for impairment together with the other assets from this group. Assets which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.

If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortised cost as at the reversal date.

Financial Assets Carried at Cost

If there exists objective evidence of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial Assets Available for Sale

If there exists objective evidence of impairment of a financial asset available for sale, the amount of the difference between the cost of that asset (less any principal payments and depreciation/amortisation charges) and its current fair value, reduced by any impairment losses previously recognised in the statement of comprehensive income, is derecognised from equity and charged to the statement of comprehensive income. Reversal of an impairment loss concerning equity instruments qualified as available for sale may not be recognised in the statement of comprehensive income. If the fair value of a debt instrument available for sale increases in the next period, and the increase may be objectively associated with an event that occurred subsequent to the impairment loss recognition in the statement of comprehensive income, the amount of the reversed impairment loss is recognised in the statement of comprehensive income.

10.28. Derivative Financial Instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. In addition, the Group relies on full barrel swaps and commodity swaps to hedge its exposure to raw material and petroleum product prices, uses futures contracts to manage its exposure to prices of carbon dioxide (CO₂) emission allowances, and enters into interest rate swaps (IRSS) and forward rate agreements (FRAs) to hedge its interest rate exposure.

Derivative financial instruments of this type are measured at fair value. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

In the statement of financial position, financial instruments are presented as either current or non-current, depending on the expected time of realisation of assets and liabilities classified as held for trading.

10.29. Trade and Other Payables

Current trade payables are reported at nominal amounts payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading, and financial liabilities initially designated as financial liabilities at fair value through profit or loss. Financial liabilities are classified as held for trading if they were acquired for the purpose of being sold in the near future. Derivative financial instruments, including separated embedded instruments, are also classified as held for trading, unless they are considered as effective hedges. Financial liabilities may be designated as financial liabilities at fair value through profit or loss on initial recognition, if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or

recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, (ii) the liabilities are part of a group of financial liabilities that are managed and measured based on fair value, according to a well-documented risk management strategy, or (iii) the financial liabilities contain embedded derivative instruments which should be presented separately.

Financial liabilities at fair value through profit or loss are carried at fair value, reflecting their market value as at the balance sheet date, excluding sale transaction costs. Changes in the fair value of such instruments are recognised in profit or loss as finance income or expenses.

Other financial liabilities, not classified as financial liabilities at fair value through profit or loss, are carried at amortised cost using the effective interest method.

The Group removes a financial liability from the balance sheet 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 Group treats such replacement as if the former financial liability was extinguished and recognises a new liability. Similarly, material modifications in 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 values 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 the tax authorities and liabilities under received prepayments, which are to be settled by delivery of goods and tangible assets, or performance of services. Other non-financial liabilities are measured at nominal amounts payable.

10.30. Recognition of Revenue

Revenue is recognised in the amount of probable economic benefits to be derived by the Group which may be reliably estimated.

10.31. Sales of Products, Goods for Resale and Services

Sales revenue is disclosed at the fair value of payments received or due, and it represents the accounts receivable for the products, goods for resale and services provided in the ordinary course of business, less discounts, VAT and other sales-related taxes (excise duty, fuel charge). The sales of products and goods for resale are recognised at the moment of delivery, when material risk and benefits resulting from the ownership of the products and goods have been transferred to the purchaser.

10.32. Interest

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

10.33. Dividend

Dividend is recognised as finance income as of the date on which the appropriate governing body of the Company adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

10.34. Management Estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of judgments and estimates which affect the value of items disclosed in the financial statements and in the notes thereto. Although the judgments and estimates are based on the Management Board's best knowledge of the current and future events and developments, the actual results might differ from the estimates. The areas in which the Management Board made estimates include provisions, property, plant and equipment, as well as intangible assets, goodwill, merger transactions, financial assets, and deferred tax assets.

Material assumptions used in the estimates are described in the relevant notes.

Measurement of Provisions

Provisions for employee benefits are estimated using actuarial methods once a year, unless major changes to the assumptions underlying the estimates occur during a given year.

The assumptions adopted for the measurement of provisions have been described at greater length in **Note 36**.

Depreciation/Amortisation Charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

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 methods and assumptions, the Group relies on professional judgment.

The assumptions adopted for the measurement of fair value of financial instruments have been described in **Note 42**.

Deferred Tax Assets

The Group recognises deferred tax assets if it is assumed that taxable profit will be generated in the future against which the asset can be utilised. If taxable profit deteriorates in the future, this assumption may prove invalid.

The assumptions adopted for the measurement of deferred tax assets have been described in **Note 13.4**.

Impairment of Cash-Generating Units, Individual Items of Property, Plant and Equipment, Intangible Assets and Goodwill

The main assumptions used to determine recoverable value relate to evidence of potential impairment, models, discount rates, and growth rates.

For information on impairment of property, plant and equipment, intangible assets and goodwill, see Notes **17**, **18** and **20**. Other than enumerated above, there were no indicators of impairment of value of any of the assets.

Crude Oil Production Forecasts

On the basis of geological data and identified reservoir characteristics, as well as test production, subsequent production data and the schedule of work adopted for the long-term strategy, the Group evaluates, revises and updates its 2P (proved and probable) reserves and forecasted production volumes from the individual fields, which serve as the basis for calculation of depreciation (using the units-of-production depreciation method) of the Offshore Oil and Gas Facility assets. For information on crude oil reserves, see **Note 17**.

Provision for Decommissioning of Offshore Oil and Gas Facilities and Provision for Land Reclamation

As at each balance-sheet date, the Group analyses the costs necessary to decommission the Offshore Oil and Gas Facilities in the Baltic Sea and the Norwegian Continental Shelf, and the costs to be incurred on future land reclamation. As a result of these analyses, the Group corrects the value of the land reclamation provision set up in previous years by adjusting its value to the amount of indispensable future costs. Any changes in the time value of money are also reflected in the increase of the provision amount. For information of crude oil reserves, see **Note 36**.

10.35. Net Earnings/(Loss) per Share

Earnings/(loss) per share for each period are calculated by dividing the net profit/(loss) for a given period by the weighted average number of shares in this reporting period. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue, or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively. If such changes occur after the balance sheet date but before the financial statements are authorised for issue, the earnings per share calculations for those and any prior period financial statements presented are based on the new number of shares.

The Group does not disclose the diluted earnings/(loss) per share, since there are no dilutive instruments outstanding.

10.36. Contingent Liabilities and Receivables

A contingent liability is understood as a duty to discharge an obligation which is conditional upon the occurrence of certain circumstances. 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 funds embodying economic benefits is negligible. Contingent receivables are not recognised in the statement of financial position, however information on them is disclosed if the inflow of funds embodying economic benefits is likely to occur.

10.37. Joint Venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (strategic financial, operating and political decisions relating to the activity require the unanimous consent of the venturers). When a Group member becomes directly involved in activities as part of a joint venture, the Group's share of jointly controlled assets and liabilities incurred jointly with the other venturers is disclosed in the financial statements of such Group member and classified in accordance with its nature. Liabilities and costs incurred directly in connection with a share in jointly controlled assets are accounted for using the accrual method. Income from the sale or use of the Group's share of the output produced by jointly controlled assets and the share of expenses

incurred by the joint venture are recognised when the inflow/transfer by the Group of the economic benefits connected with relevant transactions becomes probable, provided that they can be measured reliably.

10.38. Segment Reporting

International Financial Reporting Standard 8 Operating Segments ("IFRS 8") requires the disclosure of information on the Group's operating segments based on internal reports that are regularly reviewed by the chief operating decision makers to make decisions about resources to be allocated to each segment and to assess the segments' performance.

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

The Group's operating activity comprises two main reportable operating segments:

- upstream segment – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production,
- downstream segment – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

The segments are identified at the Group level. The Parent Undertaking is included in the downstream segment. The upstream segment is comprised of the LOTOS Petrobaltic Group (excluding Energobaltic Sp. z o.o.).

Segment performance is assessed on the basis of sales revenue, EBIT (= operating profit/(loss)) and EBITDA (= operating profit/(loss) before depreciation and amortisation).

The segments' sales revenue, EBIT and EBITDA do not account for intersegment adjustments.

Financial information of the operating segments used by the chief operating decision makers to assess their performance is presented in **Note 11**.

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.

11. Business Segments

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Year ended Dec 31 2010					
Sales revenue:	327,089	19,702,395	21,084	(370,035)	19,680,533
Intersegment sales	326,766	33,265	10,004	(370,035)	-
External sales	323	19,669,130	11,080	-	19,680,533
Operating profit/(loss) (EBIT)	24,672	705,254	(1,382)	34,771	763,315
Amortisation and depreciation	60,065	321,184	10,009	(1,357)	389,901
Operating profit/(loss) before amortisation and depreciation (EBITDA)	84,737	1,026,438	8,627	33,414	1,153,216

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Dec 31 2010					
Total assets	2,103,955	16,069,180	148,131	(585,237)	17,736,029
- including net exploration and appraisal assets	73,193	-	-	-	73,193

⁽¹⁾ Includes LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. and Energobaltic Sp. z o.o.

External sales – Geographical Structure

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidated
Year ended Dec 31 2010				
Domestic sales:	323	15,993,288	11,080	16,004,691
- products	154	15,704,962	11,066	15,716,182
- goods for resale and materials	169	288,326	14	288,509
Export sales:	-	3,675,842	-	3,675,842
- products	-	3,377,808	-	3,377,808
- goods for				

resale and materials	-	298,034	-	298,034
Total	323	19,669,130	11,080	19,680,533

(1) Includes LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. and Energobaltic Sp. z o.o.

PLN '000	Upstream segment	Downstream segment (1)	Other (2)	Consolidation adjustments	Consolidated
Year ended Dec 31 2009 (restated)					
Sales revenue:	235,280	14,434,329	2,136	(350,704)	14,321,041
Intersegment sales	229,229	121,202	273	(350,704)	-
External sales	6,051	14,313,127	1,863	-	14,321,041
Operating profit/(loss) (EBIT)	(6,652)	444,873	(444)	(17,984)	419,793
Amortisation and depreciation	53,373	231,051	950	(581)	284,793
Operating profit/(loss) before amortisation and depreciation (EBITDA)	46,721	675,924	506	(18,565)	704,586

PLN '000	Upstream segment	Downstream segment (3)	Other (4)	Consolidation adjustments	Consolidated
Dec 31 2009 (restated)					
Total assets	1,858,851	13,791,018	152,173	(576,090)	15,225,952
- including net exploration and appraisal assets	86,438	-	-	-	86,438

(1) Includes the LPG trading business of the LOTOS Gaz Group.

(2) Includes LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o. and Energobaltic Sp. z o.o. (from the date of acquiring control by LOTOS Petrobaltic S.A.).

(3) Including an organised part of business in the form of the LPG Trading Division of LOTOS Gaz S.A., acquired by LOTOS Paliwa Sp. z o.o. from LOTOS Gaz S.A.

(4) Includes LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. and Energobaltic Sp. z o.o.

External Sales – Geographical Structure

PLN '000	Upstream segment	Downstream segment (1)	Other (2)	Consolidated
Year ended Dec 31 2009 (restated)				
Domestic sales:	3,281	12,412,755	1,863	12,417,899
- products	2,787	10,910,400	1,848	10,915,035
- goods for resale and materials	494	1,502,355	15	1,502,864
Export sales (3):	2,770	1,900,372	-	1,903,142
- products	2,770	1,743,216	-	1,745,986
- goods for resale and materials	-	157,156	-	157,156

Total	6,051	14,313,127	1,863	14,321,041
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(1) Includes the LPG trading business of the LOTOS Gaz Group.

(2) Includes LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o. and Energobaltic Sp. z o.o. (from the date of acquiring control by LOTOS Petrobaltic S.A.).

(3) Allocated jointly to all the foreign countries where the Group generates revenue.

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The notes to the financial statements, presented on following pages, are their integral part.

12. Income and Expenses

12.1 Sales Revenue

PLN '000	Note	Year ended Dec 31 2010	Year ended Dec 31 2009
Domestic sales of products		23,834,002	17,045,097
Export sales of products		3,377,808	1,745,986
Total sales of products		27,211,810	18,791,083
Domestic sales of goods for resale and materials		431,171	2,357,384
Export sales of goods for resale and materials		298,034	157,156
Total sales of goods for resale and materials		729,205	2,514,540
Total		27,941,015	21,305,623
- including sales to related undertakings	39.1	-	3,170
Elimination of excise duty and fuel charge		(8,260,482)	(6,984,582)
Total		19,680,533	14,321,041

PLN '000	Note	Year ended Dec 31 2010	Year ended Dec 31 2009
Sales of products		27,039,899	18,677,580
Sales of services		171,911	113,503
Total sales of products		27,211,810	18,791,083
Sales of goods for resale		703,844	2,483,145
Sales of materials		25,361	31,395
Total sales of goods for resale and materials		729,205	2,514,540
Total		27,941,015	21,305,623
- including to related undertakings	39.1	-	3,170
Elimination of excise duty and fuel charge		(8,260,482)	(6,984,582)
Total		19,680,533	14,321,041

Transactions with related undertakings are presented in Note 39.1.

12.2 Other Operating Income

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Gain on disposal of non-financial non-current assets	7.662	16.256
Gain on disposal of assets held for sale	-	27
Subsidies	1.122	773
Provisions released	17.233	26.403
Net reversal of impairment losses on non-financial assets	9.761	14.728
- receivables	4.827	12.980
- property, plant and equipment and intangible assets	817	1.748
- assets held for sale	4.117	-
Compensations/damages received	8.581	11.359
Other	12.600 ⁽¹⁾	4.718
Total	56.959	74.264

⁽¹⁾ Including PLN 5,999 thousand in refund resulting from the adjustments to the Parent Undertaking's excise duty and fuel charge returns for the previous years.

12.3 Finance Income

PLN '000	Note	Year ended Dec 31 2010	Year ended Dec 31 2009 (restated)
Dividend received		715	-
Interest		19,428	22,221
Foreign exchange gains		199,400	634,665
- on foreign-currency denominated loans		(182,668)	368,821
- on foreign-currency denominated borrowings		19,211	49,450
- realised foreign exchange differences on foreign-currency transactions in bank accounts		360,290	216,914
- on debt securities		2,279	-
- other foreign exchange differences		288	(520)
Gains on disposal of investments		-	688
Revaluation of financial assets, including:		2	44,354
- valuation of derivative financial instruments		2	2,574
- valuation of Energobaltic Sp. z o.o. shares previously held by LOTOS Petrobaltic S.A. at their acquisition-date fair value	20	-	12,525
Settlement of derivative financial instruments		3,110	219,666
Provisions released		-	26,021 ⁽¹⁾
Other		3,285	7,297
Total		225,940	954,912

⁽¹⁾ Released provision for Energobaltic Sp. z o.o., referred to in Note 36.1.

12.4 Other Operating Expenses

PLN '000	Note	Year ended Dec 31 2010	Year ended Dec 31 2009
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Loss on disposal of non-financial non-current assets		4,115	444
Loss on disposal of assets held for sale	22	224	-
Net revaluation of non-financial assets:		102,674	123,641
- receivables		12,556	41,758
- property, plant and equipment and intangible assets		87,318	81,878
- assets held for sale		2,800	5
Provisions created, including:		14,391	5,139
- special account	16	1,000	-
Fines and damages		3,054	1,860
Other		15,238	9,605
Total		139,696	140,689

12.5 Costs by Type

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009 (restated)
Depreciation and amortisation	389,901	284,793
Raw materials and energy used	16,780,290	10,812,315
Contracted services	943,105	881,320
Taxes and charges	104,256	89,899
Salaries and wages	452,110	401,069
Social security and other benefits	117,163	107,936
Other costs by type	169,608	128,612
Goods for resale and materials sold	515,150	1,607,751
Total	19,471,583	14,313,695
Change in products and adjustments to cost of sales	(637,102)	(478,872)
Total operating expenses:	18,834,481	13,834,823
Cost of sales	17,562,048	12,775,790
Selling costs	871,290	726,367
General and administrative expenses	401,143	332,666

12.6 Finance Expenses

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009 (restated)
Interest, including:	184,642	183,386
- discount on provision for Offshore Oil and Gas Facilities ⁽¹⁾	10,087	7,048
Bank fees	14,924	14,128
Amounts capitalised as part of the cost of qualifying assets	(111,842)	(117,840)
Settlement of derivative financial instruments	120,201	3,619
Revaluation of financial assets, including:	75,950	218,668
- valuation of derivative financial instruments	75,947	217,168
Other	2,090	1,918

Total	285,965	303,879
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(1) Referred to in Note 36.1.

12.7 Depreciation/Amortisation and Impairment Losses, and Foreign Exchange Gains/Losses on Operating Activities

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Items recognised in cost of sales:		
Depreciation of tangible assets and amortisation of intangible assets	288,271	193,429
Effect of revaluation of inventories	(1,665)	(207,814)
Net foreign exchange losses	262,485	185,229
	549,091	170,844
Items recognised in selling costs:		
Depreciation of tangible assets and amortisation of intangible assets	53,203	49,642
	53,203	49,642
Items recognised in general and administrative expenses:		
Depreciation of tangible assets and amortisation of intangible assets	34,549	33,817
	34,549	33,817
Items recognised in change in products and adjustments in cost of sales:		
Depreciation of tangible assets and amortisation of intangible assets	13,878	7,905
	13,878	7,905

12.8 Costs of Employee Benefits

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Salaries and wages	452,110	401,069
Social security and other benefits	117,163	107,936
Total, including:	569,273	509,005
Cost of current salaries and wages	426,888	379,281
Cost of social security and other employee benefits	116,022	106,114
Cost of retirement and other post-employment benefits	26,363	23,610
Change in products and adjustments to cost of sales	(15,281)	(7,141)
Total cost of employee benefits, including:	553,992	501,864
Items recognised in cost of sales	331,298	294,895
Items recognised in selling costs	30,938	27,459
Items recognised in general and administrative expenses	191,756	179,510

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The notes to the financial statements, presented on following pages, are their integral part.

13. Income Tax

13.1 Tax Expense

The main components of the tax expense for the year ended December 31st 2010 and for the year ended December 31st 2009 are as follows:

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Corporate income tax	94,810	84,239
Deferred tax	(54,224)	113,557
Total tax charged to consolidated profit	40,586	197,796
Income tax expense recognised in the statement of changes in equity	-	88
Income tax expense recognised in other comprehensive income	(2,877)	-

For entities operating in Poland, the current portion of income tax was calculated at the rate of 19% of the corporate income tax base. In the case of foreign 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 (28% tax rate) and the petroleum tax system (additional tax rate of 50%).

13.2 Income Tax Calculated at Effective Tax Rate and Reconciliation of Pre-tax Profit (Loss) to Taxable Income

The change in deferred tax assets and liabilities charged to the statement of comprehensive income in 2010 is primarily attributable to the fact that as of January 1st 2010 Grupa LOTOS S.A. and some Group companies have applied the tax method to measure the foreign exchange differences for the purpose of corporate income tax settlements. In 2007-2009, the Parent Undertaking and some Group companies used the accounting method to measure the foreign exchange differences for the purpose of corporate income tax settlements.

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Pre-tax profit/(loss)	721,939	1,109,608
Income tax at the rate of 19%	137,168	210,826
Tax effect of tax losses incurred in period	693	2,761
Tax effect of interest in investments in associated undertakings	(3,543)	(1,563)
Income tax disclosed in the statement of changes in equity	-	88
Bio-component tax relief adjustment	(3,296)	-
Adjustments disclosed in current year related to tax for previous years	(3,334)	(29)
Difference resulting from tax charged at rates other than 19%	(61,973)	(6,521)
Permanent differences	20,500	(6,698)
Tax effect of bio-component tax relief	(19,964)	-
Tax effect of special economic zone tax relief	(4,755)	-
Other differences	(20,910)	(1,068)

Total	40,586	197,796
Income tax at effective tax rate	5.6%	17.8%

The difference between the tax amount disclosed in the statement of comprehensive income and the amount calculated by applying the tax rate to pre-tax profit results from the following items:

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Pre-tax profit/(loss) of companies subject to 19% tax rate	759,768	1,047,841
Income tax at the rate of 19%	144,356	199,090
Tax effect of revenue/income not classified as revenue/income under tax regulations	(145,063)	(117,541)
Tax effect of expenses which are non-deductible under tax regulations	210,752	114,941
Tax effect of tax losses deducted in period	(62,945)	(65,751)
Tax effect of tax losses incurred in period	693	2,761
Tax effect of interest in investments in associated undertakings	(3,543)	(1,563)
Other	(21,119)	(11,145)
Total	123,131	120,792
Income tax disclosed in the statement of changes in equity	-	88
Bio-component tax relief adjustment	(3,296)	-
Adjustments disclosed in current year related to tax for previous years	(3,334)	(29)
Income tax of companies subject to 19% tax rate	116,501	120,851
Tax effect of foreign operations ^(a)	(21,691)	(36,612)
Total income tax disclosed in the statement of comprehensive income	94,810	84,239
Pre-tax profit/(loss) of foreign operations subject to 28% and 50% tax rate	(37,829)	61,767
Revenue/income not classified as revenue/income under tax regulations	2,156	(16,707)
Expenses which are non-deductible under tax regulations	(187,141)	(179,386)
Other differences	(3,209)	(3,669)
Tax base – taxation at the tax rate of 28%	(226,023)	(137,995)
Tax credit in connection with higher depreciation of assets	(61,359)	(44,674)
Other	33,320	(9,451)
Tax base – taxation at the tax rate of 50%	(254,062)	(192,120)
Income tax at the rate of 28%	(63,286)	(38,639)
Income tax at the rate of 50%	(127,031)	(96,060)
Accrued tax loss carry-forward	165,404	96,460
Other differences	3,222	1,627
Tax effect of foreign operations ^(a)	(21,691)	(36,612)

13.3 Corporate Income Tax Receivable and Payable

PLN '000	Dec 31 2010	Dec 31 2009
Corporate income tax receivable	47,492	131,299
Expected tax refund ⁽¹⁾	47,492	131,299

Corporate income tax payable	15,188	11,867
Income tax expected to be paid	15,188	11,867

(1) The Parent Undertaking offset corporate income tax receivable against VAT payable in 2009 and 2010.

13.4 Deferred Income Tax

As at December 31st 2010, December 31st 2009 and January 1st 2009, the net deferred tax assets (liabilities) comprised the following items:

PLN '000	Statement of financial position			Statement of comprehensive income for the year ended	
	Dec 31 2010	Dec 31 2009 (restated)	Jan 1 2009 (restated)	Dec 31 2010	Dec 31 2009 (restated)
<i>Deferred tax liabilities</i>					
Difference between present tax and accounting value of property, plant and equipment and intangible assets	518,132	373,262	207,580	144,870	165,682
Positive valuation of derivatives	13,180	10,508	20,635	2,672	(10,127)
Finance lease	16,089	16,452	180	(363)	16,272
Exchange differences on translation of foreign operations recognised in equity	2,877	-	-	2,877	-
Exchange differences on revaluation of foreign-currency denominated items	21,146	20,216	13	930	20,203
Other	21,475	12,558	3,888	8,917	8,670
Deferred tax liabilities	592,899	432,996	232,296	159,903	200,700
<i>Deferred tax assets</i>					
Provision for employee benefits	34,783	18,903	19,412	15,880	(509)
Impairment losses on inventories	1,473	1,531	40,108	(58)	(38,577)
Impairment losses on property, plant and equipment and intangible assets	23,264	11,036	113	12,228	10,923
Negative valuation of derivatives	52,036	41,875	29,339	10,161	12,536
Exchange differences on revaluation of foreign-currency denominated items	35,985	1	-	35,984	1
Impairment losses on receivables	18,011	20,772	16,002	(2,761)	4,770
Finance lease	14,415	15,729	183	(1,314)	15,546
Difference between oil and gas facilities decommissioning provision and asset	15,551	10,932	8,055	4,619	2,877
Unrealised margin assets	1,789	8,026	5,465	(6,237)	2,561
Accrued tax loss carry-forward	380,561	269,653	127,189	110,908	142,464
Other provisions	8,997	3,986	2,012	5,011	1,974
Tax relief on biocomponents	19,964	-	-	19,964	-
Special economic zone tax relief	4,755	-	-	4,755	-
Other	18,073	14,208	75,175	3,865	(60,967)
Deferred tax assets	629,657	416,652	323,053	213,005	93,599
Deferred tax expense				(53,102)	107,101
Exchange differences on translation of foreign operations				(1,108)	6,810
Other differences				(14)	(354)
Deferred tax expense recognised in the statement of comprehensive income				(54,224)	113,557
Net deferred tax assets/liabilities, including:	36,758	(16,344)	90,757		
Deferred tax assets – continuing operations	629,657	416,652	323,053		

Deferred tax assets – discontinued operations	-	-	-
Deferred tax liabilities – continuing operations	(592,899)	(432,996)	(232,296)
Deferred tax liabilities – discontinued operations	-	-	-

As at December 31st 2009, asset related to accrued tax loss carry-forward in the amount of PLN 88 thousand was recognised in the statement of changes in equity.

Since the Group companies are separate taxpayers, deferred tax assets and deferred tax liabilities are calculated at each company individually. Deferred tax assets and deferred tax liabilities are offset by the Group companies.

Consequently, consolidated balance-sheets present deferred tax assets and liabilities as follows:

PLN '000	Dec 31 2010	Dec 31 2009
Deferred tax assets	159,901	74,267
Deferred tax liabilities	(123,143)	(90,611)
Net deferred tax assets/(liabilities)	36,758	(16,344)

Taxable temporary differences are expected to expire in 2011–2085.

As at December 31st 2010, the value of losses with respect to which no deferred tax assets were recognised in the balance sheet amounted to PLN 78,937 thousand (December 31st 2009: PLN 66,761 thousand).

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14. Assets for Social Purposes and Liabilities of the Company's Social Benefits Fund

The Act on Employee Benefits Fund of March 4th 1994, as amended, stipulates that each employer of more than 20 staff (in full-time job equivalents) should create the Social Benefits Fund. In accordance with the statute and internal rules of procedure, the Group creates such fund and makes regular contributions to it, which are charged to costs. The purpose of the Social Benefits Fund is to subsidise social activities of the Group companies, finance loans to employees and other social spending. The Group offset the Fund's assets against its liabilities towards the Fund as the assets are not fully controlled by the LOTOS Group companies.

The table below sets forth the Company's Social Benefits Fund's assets and liabilities.

PLN '000	Dec 31 2010	Dec 31 2009
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	2,483	2,465
Receivables from employees under the Company's Social Benefits Fund	3,810	3,885
Other	66	38
Total	6,359	6,388
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	6,348	6,257
Other	11	131
Total	6,359	6,388

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15. Earnings per Share

Earnings per share for each period are calculated by dividing the profit from continuing operations for a given period by the weighted average number of shares in the period.

	Year ended Dec 31 2010	Year ended Dec 31 2009
Profit from continuing operations attributable to owners of the parent (PLN '000) (A)	679,180	900,761
Weighted average number of shares (in thousands) (B)	129,873	121,144 ⁽¹⁾
Earnings per share (PLN) (A/B)	5.23	7.44

⁽¹⁾ Earnings per share were computed on the basis of the weighted average number of shares in the period January 1st – December 31st 2009. In connection with the registration of a share capital increase at Grupa LOTOS S.A. on July 17th 2009, the weighted average number of shares includes new Series C shares issued as part of the new issue (see [Note 32](#)).

The Group does not present diluted earnings per share, since it has no instruments with a potential dilutive effect.

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16. Dividends

On June 28th 2010, the General Shareholders Meeting of Grupa LOTOS S.A. adopted Resolution No. 6 concerning distribution of the Company's net profit for 2009. Pursuant to the resolution, the Company's net profit for the year ended December 31st 2009, totalling PLN 591,327 thousand, was applied as follows:

- PLN 590,327 thousand was transferred to the Company's statutory reserve funds,
- PLN 1,000 thousand was transferred to a Special Account to finance corporate social responsibility (CSR) projects.

In these consolidated financial statements, the Company presented profit after distribution under retained earnings. In addition, the allocation of profit to the Special Account was recognised as an expense in the year ended December 31st 2010 and presented under short-term provisions.

As at the date of publication of these consolidated financial statements, the Management Board of the Company has not yet adopted a resolution on distribution of the profit for 2010.

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17. Property, Plant and Equipment and Tangible Assets under Construction

PLN '000	Dec 31 2010	Dec 31 2009 (restated)
Land	398,030	395,869
Buildings and structures	2,851,534	1,931,190
Plant and equipment	2,535,512	771,728
Vehicles and other	388,722	339,842
Total property, plant and equipment	6,173,798	3,438,629
Tangible assets under construction	4,197,422	6,086,780
Prepayments for tangible assets under construction	16,262	153,536
Total tangible assets under construction	4,213,684	6,240,316
Total	10,387,482	9,678,945

As at December 31st 2010, financing costs capitalised in tangible assets under construction and prepayments for tangible assets under construction amounted to PLN 155,474 thousand (as at December 31st 2009: PLN 191,703 thousand).

Changes to Property, Plant and Equipment and Prepayments for Tangible Assets under Construction

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction		- exploration and evaluation assets Prepayments for tangible assets under construction	Total
					- exploration and evaluation assets ⁽¹⁾	- exploration and evaluation assets		
Gross book value as at Jan 1 2009 (restated)	400,485	2,181,906	1,305,173	505,837	2,788,049	94,710	1,200,713	8,382,163
Increase	7,326	357,255	257,014	169,541	3,443,277	(3,511)	(1,047,177)	3,187,236
- purchase	-	34	1,887	51,332	2,642,403	22,543	258,581	2,954,237
- transfer from investments	5,653	258,896	202,916	106,828	(589,781)	(26,054)	-	(15,488)
- change in Group structure	1,605	79,887	48,797	184	105	-	-	130,578
- transfer	42	2,340	3,689	7,947	(6,463)	-	-	7,555
- reclassified to assets held for sale	-	-	(167)	(20,729)	-	-	-	(20,896)
- reclassified from assets held for sale	26	-	-	-	-	-	-	26
- exchange differences on translation of foreign operations	-	-	(157)	(3,354)	69,827	-	7	66,323

- settled prepayments	-	-	-	-	1,272,779	-	(1,272,779)	-
- borrowing costs	-	-	-	-	38,943	-	(32,986)	5,957
- assets related to decommissioning of the Offshore Oil and Gas Facilities	-	15,853	-	-	15,178	-	-	31,031
- other	-	245	49	27,333	286	-	-	27,913
Decrease	(1,118)	(19,396)	(14,051)	(13,512)	(70,965)	(20,360)	-	(119,042)
- sale	(675)	(5,140)	(6,859)	(8,556)	(48,575)	-	-	(69,805)
- liquidation	-	(1,717)	(4,680)	(4,198)	(303)	-	-	(10,898)
- change in Group structure	(443)	(12,539)	(2,512)	(595)	(710)	-	-	(16,799)
- other	-	-	-	(163)	(21,377)	(20,360)	-	(21,540)
Gross book value as at Dec 31 2009 (restated)	406,693	2,519,765	1,548,136	661,866	6,160,361	70,839	153,536	11,450,357
Gross book value as at Jan 1 2010	406,693	2,519,765	1,548,136	661,866	6,160,361	70,839	153,536	11,450,357
Increase	3,787	1,060,148	1,896,719	146,096	(1,822,732)	31,860	(137,194)	1,146,824
- purchase	-	-	6,094	31,422	929,016	31,860	57,075	1,023,607
- transfer from investments	4,246	1,061,710	1,901,476	111,402	(3,091,898)	-	-	(13,064)
- transfer	(16)	(1,481)	59	405	-	-	-	(1,033)
- reclassified to assets held for sale	(443)	(8,987)	(11,164)	(529)	-	-	-	(21,123)
- exchange differences on translation of foreign operations	-	-	116	2,943	23,603	-	-	26,662
- settled prepayments	-	-	-	-	194,269	-	(189,901)	4,368
- borrowing costs	-	-	-	-	116,210	-	(4,368)	111,842
- assets related to decommissioning of the Offshore Oil and Gas Facilities	-	8,906	-	-	6,066	-	-	14,972
- other	-	-	138	453	2	-	-	593
Decrease	(660)	(5,727)	(16,894)	(14,240)	(3,592)	(188)	(80)	(41,193)
- sale	(628)	(2,814)	(6,006)	(10,078)	(708)	-	-	(20,234)
- liquidation	(28)	(2,875)	(10,882)	(4,162)	(614)	-	-	(18,561)
- other	(4)	(38)	(6)	-	(2,270)	(188)	(80)	(2,398)
Gross book value as at Dec 31 2010	409,820	3,574,186	3,427,961	793,722	4,334,037	102,511	16,262	12,555,988
Accumulated depreciation as at Jan 1 2009 (restated)	8,743	471,674	683,198	262,210	-	-	-	1,425,825
Increase	1,572	114,456	97,882	69,485	-	-	-	283,395
- depreciation	1,546	112,879	94,489	63,864	-	-	-	272,778

- transfer	-	1,577	3,657	4,326	-	-	-	9,560
- reclassified to assets held for sale	-	-	(158)	(9,445)	-	-	-	(9,603)
- reclassified from assets held for sale	26	-	-	-	-	-	-	26
- exchange differences on translation of foreign operations	-	-	(108)	(2,200)	-	-	-	(2,308)
- other	-	-	2	12,940	-	-	-	12,942
Decrease	(6)	(4,440)	(9,652)	(10,083)	-	-	-	(24,181)
- sale	(4)	(2,516)	(5,090)	(6,492)	-	-	-	(14,102)
- liquidation	-	(705)	(4,131)	(3,448)	-	-	-	(8,284)
- change in Group structure	(2)	(1,219)	(429)	(97)	-	-	-	(1,747)
- other	-	-	(2)	(46)	-	-	-	(48)
Accumulated depreciation as at Dec 31 2009 (restated)	10,309	581,690	771,428	321,612	-	-	-	1,685,039
Accumulated depreciation as at Jan 1 2010	10,309	581,690	771,428	321,612	-	-	-	1,685,039
Increase	1,339	138,191	134,221	94,175	-	-	-	367,926
- depreciation	1,339	144,286	140,409	91,934	-	-	-	377,968
- transfer	-	(829)	87	1,189	-	-	-	447
- reclassified to assets held for sale	-	(5,266)	(6,385)	(526)	-	-	-	(12,177)
- exchange differences on translation of foreign operations	-	-	78	1,578	-	-	-	1,656
- other	-	-	32	-	-	-	-	32
Decrease	(266)	(1,246)	(13,563)	(10,809)	-	-	-	(25,884)
- sale	(6)	(327)	(3,212)	(8,237)	-	-	-	(11,782)
- liquidation	-	(908)	(10,349)	(2,572)	-	-	-	(13,829)
- other	(260)	(11)	(2)	-	-	-	-	(273)
Accumulated depreciation as at Dec 31 2010	11,382	718,635	892,086	404,978	-	-	-	2,027,081
Impairment losses as at Jan 1 2009 (restated)	425	4,986	5,404	8,163	40,589	15,444	-	59,567
Increase	101	14,454	2,282	7,798	33,655	10	-	58,290
Decrease	-	(1,557)	(710)	(15,492)	(663)	-	-	(18,422)
Change in Group structure	(11)	(10,998)	(1,996)	(57)	-	-	-	(13,062)
Impairment losses as at Dec 31 2009 (restated)	515	6,885	4,980	412	73,581	15,454	-	86,373
Impairment losses as at Jan 1 2010	515	6,885	4,980	412	73,581	15,454	-	86,373

Increase	-	3,254	299	142	63,047	47,692	-	66,742
Reclassified to assets held for sale	-	(1,687)	(4,414)	(3)	-	-	-	(6,104)
Decrease	(107)	(4,435)	(502)	(529)	(13)	-	-	(5,586)
Impairment losses as at Dec 31 2010	408	4,017	363	22	136,615	63,146	-	141,425
Net book value as at Jan 1 2009 (restated)	391,317	1,705,246	616,571	235,464	2,747,460	79,266	1,200,713	6,896,771
Net book value as at Dec 31 2009 (restated)	395,869	1,931,190	771,728	339,842	6,086,780	55,385	153,536	9,678,945
Net book value as at Dec 31 2010	398,030	2,851,534	2,535,512	388,722	4,197,422	39,365	16,262	10,387,482

(1) The value of exploration and evaluation assets comprises the value of expenses capitalised until technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

As at December 31st 2009, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 5,970,414 thousand (as at December 31st 2009: PLN 2,133,547 thousand).

The cost of servicing the liabilities incurred to finance tangible assets under construction and prepayments for tangible assets under construction in the year ended December 31st 2010 amounted to PLN 111,842 thousand (December 31st 2009: PLN 117,840 thousand).

As at December 31st 2010, the net value of the oil and gas facilities decommissioning asset referred to in **Note 36.1** amounted to PLN 112,929 thousand (December 31st 2009: PLN 106,600 thousand).

In the year ended December 31st 2010, the cost of depreciation of property, plant and equipment in respect of which technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 6,146 thousand (December 31st 2009: PLN 5,827 thousand).

Costs of direct purchases of materials and investment services related to exploration and evaluation assets amounted to PLN 15,098 thousand (2009: PLN 7,525 thousand), including direct cash flows from investing activities related to exploration and evaluation assets of PLN 14,965 thousand (2009: PLN 7,452 thousand). As at December 31st 2010, investment liabilities amounted to PLN 133 thousand (December 31st 2009: PLN 73 thousand).

In the year ended December 31st 2010, impairment losses on exploration and evaluation assets amounted to PLN 47,692 thousand (December 31st 2009: PLN 10 thousand). Furthermore, in 2010 the Group charged depreciation on exploration and evaluation assets in the amount of PLN 36 thousand.

In the year ended December 31st 2010, the Group recognised an impairment loss related to the IGCC project in the amount of PLN 14,230 thousand (December 31st 2009: PLN 33,588 thousand).

Prospects for Development of the B-4 and B-6 Gas Fields

The item "Tangible assets under construction" includes expenditure of PLN 48,113 thousand incurred by LOTOS Petrobaltic S.A. on gas exploration at the B-4 and B-6 fields (including exploration and evaluation assets of PLN 47,520 thousand), on which an impairment loss was recognised in 2010 (the impairment loss was charged to other operating expenses). According to the findings of the analyses which have been carried out, significant capital expenditure is required to obtain profitable commercial production of hydrocarbons. Given the results of the activities carried out to date with the aim of finding a partner for a joint development of the B-4 and B-6 gas fields, the Management Board of LOTOS Petrobaltic S.A. made a decision to intensify the process. In the medium term, LOTOS Petrobaltic S.A. does not plan to incur any material expenditure on development of the B-4 and B-6 gas fields, until there are any concrete arrangements regarding the terms of potential cooperation with a business partner as part of a joint venture.

Information on Interests in Norwegian Production and Exploration Licences

The item "Tangible assets under construction" includes expenditure of NOK 2,345,122 thousand (the equivalent of PLN 1,189,212 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010) incurred by LOTOS Exploration and Production Norge AS on the purchase of interests in Norwegian production licences and on the YME field development, additionally adjusted by the tax effect connected with the YME field purchase transaction, of NOK 75,966 thousand (i.e. PLN 38,522 thousand, translated at the mid-exchange rate for

NOK quoted by the National Bank of Poland for December 31st 2010).

The Group tested these assets for impairment based on a discounted cash flow analysis of LOTOS Exploration and Production Norge AS's interests in the hydrocarbon reserves held under the acquired production licences covering the YME field development project. As at December 31st 2010, the carrying value of these interests amounted to NOK 2,270 million, taking into account the tax effect connected with the YME field purchase transaction.

The YME field impairment test as at December 31st 2010 was carried out assuming a change in crude oil prices by +/- 15%/bbl relative to Brent crude oil spot and forward prices as at January 3rd 2011, a +/-15% change on the USD/NOK forward rate as at January 3rd 2011, and a +/-15% change in the YME field reserves, analysing a weighted average cost of capital of 6.5% to 9% subject to a 78% marginal tax rate.

The Group determines the recoverable amount of the YME field based on the values in use, using the discounted cash flow method. Future cash flows were calculated by LOTOS Exploration and Production Norge AS based on 10-year production volume and cost forecasts prepared by Talisman Energy AS (the field operator).

As at December 31st 2010, the carrying amount of the assets related to the YME field was within the limits of the recoverable amount ranges, determined by assuming a +/-15%/bbl change in crude oil prices, a +/-15% change in the USD/NOK exchange rate and a +/-15% change in the field reserves, and analysing a weighted average cost of capital of 6.5% to 9% after tax. Therefore, the Management Board concluded that the tests did not demonstrate any necessity to recognise impairment losses.

Sensitivity to Changes in the Adopted Assumptions

Calculation of the YME field's recoverable amount is most sensitive to the following variables:

- Volatility in crude oil prices
- Volume of recoverable crude oil reserves in the YME field
- NOK/USD exchange rate fluctuations
- Discount

Due to high market volatility, in particular with respect to crude oil prices, the adopted assumptions might be subject to reasonable changes, as a result of which the YME field's carrying amount may exceed its recoverable amount. Therefore, it is uncertain whether the assets recognised in connection with the YME field will be realised, as the projected cash flows depend on a number of factors in the future, in particular crude price fluctuations.

Given the specific structure of the project, involving significant tax benefits and the related tax shield, and provided that the assumptions adopted at the end of 2010 remain unchanged, the major part of the projects' recoverable amount will be absorbed in 2011-2014. Therefore, when applying the units-of-production depreciation method (which consists in charging to expenses the depreciation attributable to a unit of produced crude oil) the carrying amount of the YME field related assets may be decreasing at a slower rate than their recoverable amount, which may entail the necessity to make charges to expenses to decrease the assets' carrying amount in excess of the recoverable amount.

As at December 31st 2010, LOTOS Exploration and Production Norge AS held exploration licences PL 316 and PL 316B (20% interest in the YME field) and the following exploration licence interests: 20% interest in licence PL 455, 10% interest in licence PL 497/497B, 25% interest in licence PL 498, 25% interest in licence PL 503, 20% interest in licence PL 515, and 50% interest in licence PL 556.

Furthermore, under "Intangible assets" LOTOS Exploration and Production Norge AS recognised expenditure of NOK 115,892 thousand as at December 31st 2010 (the equivalent of PLN 58,769 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010) incurred on the exploration licences, and in particular the PL 455 licence. The balance sheet item "Intangible assets" is additionally adjusted by the tax effect of NOK 271 thousand (i.e. PLN 138 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2010, the net value of intangible assets related to exploration licences, net of impairment loss, amounts to NOK 60,246 thousand (the equivalent of PLN 30,551 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010) (see **Note 18**).

Volume of the Crude Oil and Natural Gas Reserves Held by the LOTOS Group

The volume of crude oil and natural gas reserves held by the LOTOS Group is as follows:

	Dec 31 2010	Dec 31 2009
Crude oil (2P*)	6.2 million tonnes	6.4 million tonnes
Crude oil (2C**)	1.3 million tonnes	0.8 million tonnes
Natural gas (2P*)	0.5 billion cubic metres	4.5 billion cubic metres
Natural gas (2C**)	6.5 billion cubic metres	2.4 billion cubic metres

*2P - proved and probable reserves

**2C - contingent resources

As at December 31st 2010, the Group reclassified gas reserves from 2P (proved and probable reserves) to 2C (contingent resources), until there are any concrete arrangements regarding the terms of potential cooperation with a business partner as part of a joint venture and development of the B-4 and B-6 fields advances, enabling commercial production.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

An element of the growth strategy of the LOTOS Group is the implementation of the 10+ Programme, designed to increase the throughput capacity of the Gdańsk Refinery by approximately 75%, that is to 10.5m tonnes of crude oil p.a., at a higher conversion ratio.

As at December 31st 2010, the 10+ Programme reached a 100% completion status, meaning it was completed as scheduled. All the work connected with the engineering design, procurement and construction has been completed for all the basic and auxiliary installations.

In 2010, the following basic units reached the Ready For Start Up status:

- mild hydrocracker (MHC),
- residue oil supercritical extraction (ROSE).

On December 31st 2010, the Final Acceptance Commission signed the Ready for Start Up Certificate for the ROSE unit, the last of the installations constructed as part of the 10+ Programme to have been officially handed over for start up to the target user (the Crude Oil Distillation Complex).

Also the following auxiliary infrastructure entered the Ready For Start Up phase in 2010:

- nitrogen production unit,
- hydrogen recovery unit (HRU),
- inter-facility pipeline connection systems (phase III),
- pumping stations,
- buildings of the S31 electrical substation,
- roads and yards commissioned gradually together with the installations.

The majority of the 10+ Programme units and facilities have been placed in operation in 2010, including:

- amine sulphur recovery unit (ASR),
- hydrogen generation unit (HGU),
- hydrodesulphurisation unit (HDS),
- refinery-harbour product pipeline,
- hydrogen recovery unit (HRU),
- crude distillation unit (CDU/VDU),
- product tanks,
- pumping stations.

Work on the 10+ Programme units which has been scheduled for 2011 includes mainly work related to start up of the MHC and the ROSE units, as well as additional work related to operational recommendations for the CDU/VDU unit and extension of the utilities and off-sites.

At present, Grupa LOTOS S.A. is making preparations to launch in 2012-2015 the second phase of the 10+ Programme, which will focus on the management of heavy residue. As at December 31st 2010, capitalised expenditure on the IGCC project, including a reduction of production lines capacity and a different method of processing of gases, was PLN 6,239 thousand (as at December 31st 2009: PLN 20,468 thousand).

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18. Intangible Assets

PLN '000	Dec 31 2010	Dec 31 2009
Development expense	184	184
Software	3,914	4,686
Patents, trademarks and licences	81,136	79,031
Other	9,591	5,339
Total	94,825	89,240

Changes to Intangible Assets

PLN '000	Development expense	Software	Patents, trademarks and licences	Other	Total	- including: exploration and evaluation assets ⁽¹⁾ (restated)
Gross book value as at Jan 1 2009	528	17,966	88,416	7,420	114,330	6,179
Increase	-	298	46,553	4,061	50,912	34,967
- purchase	-	970	35,811	-	36,781	35,249
- transfer from investments	-	341	11,113	4,034	15,488	-
- change in Group structure	-	10	-	33	43	-
- transfer	-	(975)	(89)	(6)	(1,070)	-
- reclassified to assets held for sale	-	(38)	-	-	(38)	-
- exchange differences on translation of foreign operations	-	(10)	(282)	-	(292)	(282)
Decrease	-	(3,363)	(915)	(66)	(4,344)	-
- sale	-	(10)	-	(3)	(13)	-
- liquidation	-	(3,353)	(915)	(63)	(4,331)	-
Gross book value as at Dec 31 2009	528	14,901	134,054	11,415	160,898	41,146
Gross book value as at Jan 1 2010	528	14,901	134,054	11,415	160,898	41,146
Increase	-	1,589	33,042	5,544	40,175	26,160
- purchase	-	965	21,873	3,040	25,878	21,872
- transfer from investments	-	551	10,009	2,504	13,064	3,080
- transfer	-	-	(48)	-	(48)	-
- exchange differences on translation of foreign operations	-	40	1,208	-	1,248	1,208

- other	-	33	-	-	33	-
Decrease	-	(126)	(47)	(28)	(201)	-
- sale	-	(45)	-	-	(45)	-
- liquidation	-	(81)	(47)	(28)	(156)	-
Gross book value as at Dec 31 2010	528	16,364	167,049	16,931	200,872	67,306
Accumulated amortisation as at Jan 1 2009	371	11,928	40,952	5,134	58,385	3,292
Increase	-	1,391	8,838	997	11,226	988
- amortisation	-	2,415	8,878	1,003	12,296	988
- transfer	-	(982)	(40)	(6)	(1,028)	-
- reclassified to assets held for sale	-	(38)	-	-	(38)	-
- currency translation differences on foreign operations	-	(4)	-	-	(4)	-
Decrease	-	(3,240)	(583)	(55)	(3,878)	-
- sale	-	(10)	-	-	(10)	-
- liquidation	-	(3,230)	(583)	(55)	(3,868)	-
Accumulated amortisation as at Dec 31 2009	371	10,079	49,207	6,076	65,733	4,280
Accumulated amortisation as at Jan 1 2010	371	10,079	49,207	6,076	65,733	4,280
Increase	-	2,364	8,533	1,288	12,185	981
- amortisation	-	2,345	8,517	1,288	12,150	981
- transfer	-	-	16	-	16	-
- exchange differences on translation of foreign operations	-	19	-	-	19	-
Decrease	-	(123)	(47)	(24)	(194)	-
- sale	-	(45)	-	-	(45)	-
- liquidation	-	(78)	(47)	(24)	(149)	-
Accumulated amortisation as at Dec 31 2010	371	12,320	57,693	7,340	77,724	5,261
Impairment losses as at Jan 1 2009	(27)	51	-	-	24	-
Increase	-	85	5,867	-	5,952	5,864
Exchange differences on translation of foreign operations	-	-	(51)	-	(51)	(51)
Impairment losses as at Dec 31 2009	(27)	136	5,816	-	5,925	5,813
Impairment losses as at Jan 1 2010	(27)	136	5,816	-	5,925	5,813
Increase	-	-	21,950	-	21,950	21,950
Exchange differences on translation of foreign operations	-	-	454	-	454	454
Decrease	-	(6)	-	-	(6)	-
Impairment losses as at Dec 31 2010	(27)	130	28,220	-	28,323	28,217
Net book value as at Jan 1 2009	184	5,987	47,464	2,286	55,921	2,887
Net book value						

as at Dec 31 2009	184	4,686	79,031	5,339	89,240	31,053
Net book value as at Dec 31 2010	184	3,914	81,136	9,591	94,825	33,828

(1) The value of exploration and evaluation assets comprises the value of expenses capitalised until technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

In the year ended December 31st 2010, the cost of amortisation of intangible assets in respect of which technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 804 thousand (December 31st 2009: PLN 56 thousand).

The cost of amortisation of exploration and evaluation assets recognised under intangible items amounted to PLN 981 thousand in the year ended December 31st 2010 (December 31st 2009: PLN 988 thousand).

In the year ended December 31st 2010, impairment losses on exploration and evaluation assets recognised under intangible assets amounted to PLN 21,950 thousand (December 31st 2009: PLN 5,864 thousand).

In 2010, cash flows used in investing activities related to exploration and evaluation assets amounted to NOK 53,152 thousand (PLN 26,581 thousand translated using the arithmetic mean of exchange rates quoted for NOK for the year ended December 31st 2010) (2009: NOK 82,414 thousand, or PLN 41,116 thousand translated using the arithmetic mean of exchange rates quoted for NOK for the year ended December 31st 2009).

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19. Investment Property

PLN '000	Dec 31 2010	Dec 31 2009
Gross value at beginning of period	5,768	6,785
Increase:	2,134	7
- transfer from property, plant and equipment	2,134	-
- transfer from intangible assets	-	7
Decrease:	(113)	(1,024)
- transfer to property, plant and equipment	(113)	(260)
- loss of control over subsidiary	-	(764)
Gross value at end of period	7,789	5,768
Impairment losses at beginning of period	2,006	1,887
Increase:	2,464	222
- transfer from property, plant and equipment	1,399	-
- transfer from intangible assets	-	6
- revaluation	1,065	216
Decrease:	(57)	(103)
- transfer to property, plant and equipment	(57)	(62)
- loss of control over subsidiary	-	(41)
Impairment losses at end of period	4,413	2,006
Net value at beginning of period	3,762	4,898
Net value at end of period	3,376	3,762

As at December 31st 2010 and December 31st 2009, the Group classified as investment property (which comprises investments in land, perpetual usufruct rights to land, and buildings and structures) also such property which is not used by the Group for its own needs but which generates benefits in the form of value appreciation or rent income.

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20. Business Combinations

PLN '000	Dec 31 2010	Dec 31 2009
Carrying value of consolidation goodwill:		
- LOTOS Partner Sp. z o.o.	1,862	1,862
- LOTOS Gaz S.A. ⁽¹⁾	10,009	10,009
- Energobaltic Sp. z o.o. ⁽²⁾	1,126	1,126
Total	12,997	12,997
Carrying value of acquisition goodwill ⁽³⁾ :		
- purchase of ESSO service stations network	31,759	31,759
- purchase of Slovnaft Polska service stations network	1,932	1,932
Total	33,691	33,691
Total goodwill	46,688	46,688

⁽¹⁾ Formerly LOTOS Mazowsze S.A. The goodwill relates to an organized part of LOTOS Gaz S.A.'s business (wholesale of fuels) acquired by LOTOS Paliwa Sp. z o.o.

⁽²⁾ Acquisition of Shares in Energobaltic Sp. z o.o. by LOTOS Petrobaltic S.A.

On October 29th 2009, the Extraordinary General Shareholders Meeting of Energobaltic Sp. z o.o. adopted a resolution to increase Energobaltic Sp. z o.o.'s share capital in accordance with the Arrangement with the Creditors of Energobaltic Sp. z o.o., which was approved by the Court. The key provisions of the Arrangement with the Creditors are as follows:

1. Bank Ochrony Środowiska S.A. will grant a grace period whereby the beginning of repayment of the principal amounts of all the loans will be postponed until June 30th 2014,
2. The loans granted by the shareholders (LOTOS Petrobaltic S.A. and Stablewood Power Ventures (Wladyslawowo) Ltd. will be converted into shares in Energobaltic Sp. z o.o.,
3. LOTOS Petrobaltic S.A. will submit declarations to the effect that:
 - a) gas deliveries from the B8 field will commence on January 1st 2014,
 - b) the agreement with Energobaltic Sp. z o.o. will be extended by 7 years, that is until 2025,
 - c) the gas delivery price and the current pricing formula will remain unchanged for the period by which the agreement is to be extended,
4. LOTOS Petrobaltic S.A. will also agree to provide a security deposit of EUR 500 thousand (in the zloty) to secure the repayment of interest by Energobaltic Sp. z o.o. to Bank Ochrony Środowiska S.A., until June 30th 2014.

Energobaltic Sp. z o.o. Recovery Proceedings

On March 13th 2009, the Management Board of Energobaltic Sp. z o.o. filed a declaration of instituting recovery proceedings with the District Court for Gdańsk. On March 30th 2009, following examination of the case of Energobaltic Sp. z o.o.'s declaration, the District Court for Gdańsk, VI Commercial Division, appointed (under Art. 497.1 of the Act on Bankruptcy and Recovery of February 28th 2003) a court supervisor for Energobaltic Sp. z o.o. recovery proceedings. As part of the proceedings, an Arrangement was entered into by Energobaltic Sp. z o.o. and Bank Ochrony Środowiska S.A., LOTOS Petrobaltic S.A. and Stablewood Power Ventures (Wladyslawowo) Ltd. on June 29th 2009.

The Arrangement entered into by Energobaltic Sp. z o.o. and the creditors as part of the recovery proceedings instituted at the request of Energobaltic Sp. z o.o. was approved by the District Court in Gdańsk, VI Commercial Division, after a hearing held on September 1st 2009. The court's decision regarding approval of the Arrangement became final on September 9th 2009.

Total (A+B) the creation of the new shares, LOTOS Petrobaltic S.A. acquired 1,985 new shares, while Stablewood Power Ventures (Wladyslawowo) Ltd. acquired 1,769 shares; the par value of the shares acquired by both companies was PLN 8,100 per share. LOTOS Petrobaltic S.A.'s stake increased from 46.61% to 50.92%. Amendments to the Articles of Association of Energobaltic Sp. z o.o. were registered by the District Court of Gdańsk, VII Commercial Division of the National Court Register, on November 9th 2009.

On October 28th 2009, LOTOS Petrobaltic S.A., Stablewood Power Ventures (Wladyslawowo) Ltd. and Stablewood Power Ventures Ltd. executed a preliminary agreement concerning for the acquisition of the remaining 49.08% stake in Energobaltic Sp. z o.o. by LOTOS Petrobaltic S.A. In performance of the preliminary agreement, on November 27th 2009 LOTOS Petrobaltic S.A. acquired from Stablewood Power Ventures (Wladyslawowo) Ltd. and from Stablewood Power Ventures Ltd. respectively 2,512 shares (representing 45.18% of the share capital) and 217 shares (3.90% of the share capital) in Energobaltic Sp. z o.o., as a result of which Petrobaltic S.A. came to hold 100% of the shares in Energobaltic Sp. z o.o. Amendments to the Articles of Association of Energobaltic Sp. z o.o. were registered by the District Court of Gdańsk, VII Commercial Division of the National Court Register, on January 25th 2010.

The above transaction was accounted for and presented in these consolidated financial statements as a business combination achieved in stages within the meaning of the revised IFRS 3 *Business Combinations*, based on the fair values of identifiable assets acquired and liabilities assumed.

Below are presented the fair values of identifiable assets acquired and liabilities assumed, as well as the accounting for the goodwill as at the acquisition date, that is November 27th 2009:

(PLN '000)	November 27th 2009
Consideration transferred (acquisition-date fair value) (A)	34,179
Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (B)	35,456
Total (A+B)	69,635
Equity interest in the acquiree	100.00%
Current assets, including:	8,164
Cash and cash equivalents	4,561
Non-current assets	130,620
Total assets	138,784
Provisions	10,303
Non-current liabilities	45,660
Current liabilities, and accruals and deferred income	14,312
Total liabilities and provisions	70,275
Net assets	68,509
Company's share in net assets	68,509
Excess of the share in net assets over acquisition cost (goodwill)	1,126

In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the statement of comprehensive income. The remeasurement of LOTOS Petrobaltic S.A.'s previously held equity interest in Energobaltic Sp. z o.o. at its acquisition-date fair value was posted to finance income in 2009 in the amount of PLN 12,525 thousand. Determination of the fair value of the consideration transferred had to take into account the valuation of the liabilities and receivables taken over by LOTOS Petrobaltic S.A. as part of the business combination, of PLN 321 thousand.

By December 31st 2010, LOTOS Petrobaltic S.A. had discharged its liabilities connected with the acquisition of shares, amounting to PLN 3,035 thousand (as at December 31st 2009: 3,035 thousand).

As at the balance-sheet date, that is December 31st 2010, LOTOS Petrobaltic S.A.'s liability under the acquisition of shares in Energobaltic Sp. z o.o. from Stablewood Power Ventures (Wladyslawowo) Ltd. amounted to PLN 31,669 thousand (as at December 31st 2009: PLN 30,011 thousand).

(3) Goodwill Arising on Acquisition of an Organised Part of Business from ExxonMobil Poland and Slovnaft Polska

As at December 31st 2010 and December 31st 2009, the Group disclosed goodwill from the acquisition of an organised part of business from ExxonMobil Poland and Slovnaft Polska, with a net value of PLN 31,759 thousand and PLN 1,932 thousand, respectively.

The Group determines the recoverable amount of goodwill based on the value in use, using the discounted cash flow method. Future cash flows were calculated based on five-year cash-flow projections. The residual value for the discounted cash flows was calculated using the growing perpetuity formula. A fixed growth rate of 2.23% (2009: 2.76%) was used to extrapolate cash-flows projections beyond the five-year period. The extrapolation was based on a quantitative forecast of the fuel consumption growth rate in Poland in 2009–2015. To test goodwill for impairment, the Group assumed net weighted average cost of capital (WACC) of 8.61% (2009: 8.86%). Discounted cash flows calculated separately for each cash-generating unit were grossed up.

As at December 31st 2010 and December 31st 2009, the Group tested its assets for impairment. As at December 31st 2010 and December 31st 2009, no additional impairment loss on the goodwill was recognised (impairment tests of goodwill allocated to individual cash-generating units did not reveal the need to recognize any impairment losses).

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21. Investments in Associated Undertakings

As at December 31st 2010 and December 31st 2009, the Group carried investments in the following associated undertakings:

Company name	Registered office	Business profile	Dec 31 2010	Dec 31 2009
AB Geonafta (prior to the merger - AB „Naftos Gavyba“) (parent undertaking of another group)	Gargždai, Lithuania	Exploration for and production of crude oil, drilling services, and purchase and sale of crude oil	40.31%	40.31% ⁽¹⁾

⁽¹⁾ On June 1st 2009, a new Shareholders Agreement was executed between UAB Meditus and LOTOS Petrobaltic S.A. in connection with the planned merger of AB Naftos Gavyba and AB Geonafta. The Shareholders Agreement provides that the agreement of July 18th 2000 concerning the transfer of AB Geonafta shares to UAB Meditus and LOTOS Petrobaltic S.A. by AB Naftos Gavyba is to be performed at least three days before the date on which AB Naftos Gavyba and AB Geonafta adopt resolutions on the companies' merger. The agreement of July 18th 2000 was actually performed on July 1st 2009 with the effect that LOTOS Petrobaltic S.A. acquired directly AB Geonafta shares accounting for 12.20% of AB Geonafta's share capital (shares acquired by UAB Meditus account for 16.37% of the share capital). Changes to AB Geonafta's share capital were registered on July 9th 2009. The resolutions of AB Naftos Gavyba's and AB Geonafta's General Shareholders Meetings approving the merger of the two companies were adopted on July 20th 2009.

The merger of AB Naftos Gavyba and AB Geonafta was registered on August 7th 2009 and on the same date AB Naftos Gavyba was removed from the relevant register. LOTOS Petrobaltic S.A. and UAB Meditus hold (subsequent to the merger) shares accounting for 40.59% and 59.41% of AB Geonafta's share capital, respectively.

As at December 31st 2009, AB Geonafta was owned by LOTOS Petrobaltic S.A., holding 40.59% of its share capital, and UAB Meditus, holding 59.41% of its share capital. The Group holds indirectly 40.31% of AB Geonafta's share capital (as at December 31st 2008: 29.46% of AB Naftos Gavyba's share capital). AB Geonafta is the parent undertaking of its own group ("AB Geonafta Group") which comprises subsidiary undertaking UAB Geñciu Nafta and two jointly-controlled undertakings: UAB Minijos Nafta and UAB Manifoldas.

Investments in associated undertakings are accounted for using the equity method. The carrying value of investments in associated undertakings is as follows:

PLN '000	Dec 31 2010	Dec 31 2009
GK AB Geonafta	93,064 ⁽¹⁾	88,255 ⁽²⁾
Energobaltic Sp. z o.o.	-	- ⁽³⁾
Total investments in associated undertakings	93,064	88,255

⁽¹⁾ The value of investments in associated undertakings accounts for dividend of PLN 9,782 thousand, in line with the resolution adopted by the General Shareholders Meeting of AB Geonafta on May 17th 2010.

⁽²⁾ As at December 31st 2009, the Group presents its share in the net assets of the AB Geonafta Group after accounting for the changes in the company's shareholder structure as a result of the merger of AB Naftos Gavyba and AB Geonafta.

⁽³⁾ On November 27th 2009, LOTOS Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see **Note 20**).

Net assets of material undertakings accounted for using the equity method::

PLN '000	Dec 31 2010	Dec 31 2009
GK AB Geonafta	229,278	217,418
Energobaltic Sp. z o.o.	-	-(1)

(1) On November 27th 2009, LOTOS Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 20).

Liabilities and provisions for liabilities of material undertakings accounted for using the equity method:

PLN '000	Dec 31 2010	Dec 31 2009
GK AB Geonafta	37,941	38,061
Energobaltic Sp. z o.o.	-	-(1)

(1) On November 27th 2009, LOTOS Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 20).

Sales revenue of undertakings accounted for using the equity method:

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
GK AB Geonafta	189,233	144,463
Energobaltic Sp. z o.o.	-	17,773 (1)

(1) Until the day of acquisition of control by LOTOS Petrobaltic S.A. (see Note 20).

Net profit/(loss) of material undertakings accounted for using the equity method:

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
GK AB Geonafta	45,944	20,269
Energobaltic Sp. z o.o.	-	(2,562) (1)

(1) Until the day of acquisition of control by LOTOS Petrobaltic S.A. (see Note 20).

Share in net profit (loss) of undertakings accounted for using the equity method, recognised in the Group's statement of comprehensive income:

PLN '000	Year ended Dec 31 20	Year ended Dec 31 2009
GK AB Geonafta	18,649	8,227
Total	18,649	8,227

Moreover, in the statement of changes in equity for the year ended December 31st 2010, the Group disclosed its share in the change in equity of the AB Geonafta Group in the amount of PLN (739) thousand (2009: PLN 2,471 thousand).

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22. Assets Held for Sale

PLN '000	Dec 31 2010	Dec 31 2009
Land	443	1,376
Buildings and structures	3,172	2,676
Plant and equipment	2,401	33
Vehicles	2	1,124
Total non-current assets	6,018	5,209
Financial assets held for sale, including:	77	-
- cash and cash equivalents	77	-
Other current assets held for sale	1,816	-
Total current assets	1,893	-
Total assets held for sale	7,911	5,209

Assets held for sale represent items that the Group intends to sell within twelve months from the change of their classification.

Assets held for sale at the Group as at December 31st 2010 included perpetual usufruct rights to land, buildings, structures, plant and equipment associated mainly with the processing of crude oil and catalytic processing of plastics business areas and assets of the heavy fuel oil production department in the form of an organised part of business, as well as assets associated with PLASTEKOL Organizacja Odzysku S.A.

Assets held for sale at the Group as at December 31st 2009 included, inter alia, owned land, perpetual usufruct rights to land, buildings, structures, plant and equipment related to service stations and the storage and reloading base (logistics assets), as well as vehicles (railway engines). During the year ended December 31st 2010, these assets were sold, at the loss of PLN 224 thousand (see [Note 12.4](#)).

On February 11th 2011, LOTOS Jaslo S.A. entered into an agreement with an external entity concerning sale of five investment areas, including an organised part of business and a block of 95.5% shares in PLASTEKOL Organizacja Odzysku S.A., for a total amount of PLN10,200 thousand.

Assets held for sale presented in the downstream segment as at December 31st 2010 amounted to PLN 7,911 thousand (as at December 31st 2009: PLN 2,409 thousand).

During the year ended December 31st 2010, the Group recognised under other operating expenses an impairment loss on non-current assets held for sale in the amount of PLN 2,800 thousand (as at December 31st 2009: PLN 5 thousand) (see [Note 12.4](#)).

During the year ended December 31st 2010, the Group reversed and carried as other operating income an impairment loss on non-current assets held for sale in the amount of PLN 4,117 thousand (as at December 31st 2009: the Group did not reverse any impairment losses on non-current assets held for sale) (see [Note 12.2](#)).

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23. Non-Current Financial Assets

PLN '000	Dec 31 2010	Dec 31 2009
		(restated)
Shares in other undertakings	9,915	9,917
Positive valuation of derivative financial instruments:	29,667	54,862
- futures (CO ₂ emissions)	580	95
- interest rate swap (IRS)	29,087	54,767
Other non-current financial assets	24,776	28,297
- decommissioning fund	21,668	18,851
- deposits ⁽¹⁾	-	6,130
- security deposits (margins) ⁽²⁾	3,108	3,316
Total	64,358	93,076

⁽¹⁾ Deposits as at December 31st 2009 serve as security for the repayment of interest on the loan contracted to finance inventories (PLN 5,819 thousand).

⁽²⁾ Security deposits (margins) include (among other items) an amount of PLN 998 thousand (as at December 31st 2009: PLN 1,205 thousand) which has been provided by Grupa LOTOS S.A. as margin to Marex Financial, a brokerage firm, to enable execution of transactions on the ICE Futures internet platform.

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24. Inventories

PLN '000	Dec 31 2010	Dec 31 2009
Finished products	1,171,917	776,413
Semi-finished products and work in progress	449,497	310,380
Goods for resale	251,531	177,779
Materials	2,633,846	1,758,572
Net inventories	4,506,791	3,023,144

As at December 31st 2010, the carrying value of inventories measured at cost stood at PLN 4,492,232 thousand. The value of inventories measured at net realisable value was PLN 14,559 thousand (as at December 31st 2009 respectively PLN 3,011,463 thousand and PLN 11,681 thousand).

As at December 31st 2010, the value of inventories serving as collateral for the Group's liabilities amounted to PLN 3,896,635 thousand (as at December 31st 2009: PLN 2,758,999 thousand).

Impairment Losses on Inventories

PLN '000	Dec 31 2010	Dec 31 2009
Finished products	1,120	2,259
Semi-finished products and work in progress	19	173
Goods for resale	43	29
Materials	6,404	6,790
Total impairment losses on inventories	7,586	9,251

During the year ended December 31st 2010, the Group recognised an impairment loss on inventories in the amount of PLN 935 thousand (December 31st 2009: PLN 2,624 thousand), used an impairment loss on inventories in the amount of PLN 529 thousand and reversed an impairment loss on inventories in the amount of PLN 2,071 thousand (December 31st 2009: PLN 210,438 thousand).

Mandatory Stocks of Liquid Fuels

In 2009 – 2010, Grupa LOTOS S.A. complied with the new regulations applicable to mandatory stocks which were introduced by virtue of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007), as amended.

The new regulations became effective on April 7th 2007. The mandatory stocks include crude oil, petroleum products (liquid fuels) and LPG. The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz. U. of 2007, No. 52, item 343, dated March 23rd 2007), as amended, has defined the basis for calculation of the required amount of mandatory stocks as well as for identification of the entities subject to the requirement to increase mandatory stocks to 73 days in 2007 and to 76 days from 2008 onwards (does not apply to LPG).

Detailed rules are set forth in the following regulations of the Minister of Economy, effective as of May 25th 2007:

- Regulation concerning the detailed list of commodities and petroleum products included in the intervention stocks, dated April 24th 2007 (Dz. U. No. 81 item 546), as amended,
- Regulation concerning the detailed procedure for creation and maintenance of mandatory stocks of crude oil or fuels and determining their amount, dated April 24th 2007 (Dz. U. No. 81 item 547), as amended,

- Regulation concerning the register of producers and traders obliged to create and maintain mandatory stocks of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 548),
- Regulation concerning the detailed procedure for the reduction of the amount of mandatory stocks of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 549).

The gross value of mandatory stocks created on the basis of the above regulations is as follows:

PLN '000	Dec 31 2010	Dec 31 2009
Mandatory stocks	2,980,241	2,196,965

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25. Non-Current Receivables

PLN '000	Dec 31 2010	Dec 31 2009
		(restated)
Receivables under franchise agreements, including: (1)	11,198	10,672
- investment receivables under start-up packages	5,623	4,854
Investment receivables	1,044 (2)	-
Security deposits receivable	12,594	10,757
Other receivables	3,776	632
Total	28,612	22,061

(1) Non-current receivables under franchise agreements represent mainly the expenditure on branding DOFO service stations, operated by dealers under 5–10 year contracts.

(2) Including receivables on which an impairment loss of PLN 141 thousand was recognised (see Note 26).

The table below presents the age analysis of investment receivables under start-up packages as at December 31st 2010 and December 31st 2009:

PLN '000	Dec 31 2010	Dec 31 2009
Over 1 year to 2 years	1,871	379
Over 2 years to 5 years	3,752	3,047
Over 5 years to 10 years	-	1,428
Total	5,623	4,854

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26. Trade and Other Receivables

PLN '000	Dec 31 2010	Dec 31 2009
		(restated)
Trade receivables	1,740,890	1,460,751
Receivables from the state budget other than corporate income tax	39,914	43,103
Receivables under franchise agreements, including:	1,919	1,167
- investment receivables under start-up packages	1,919	1,167
Security deposits receivable	4,896	3,442
Investment receivables	2,298	57
Other receivables ⁽¹⁾	32,022	28,334
NNet receivables	1,821,939	1,536,854
Impairment losses on receivables	182,213	180,497
Gross receivables	2,004,152	1,717,351

⁽¹⁾ Including the amount relating to excise tax on inter-warehouse transfers in the amount of PLN 20,911 thousand (December 31st 2009: PLN 13,504 thousand).

The payment period for trade receivables in the regular course of business is 7–60 days. The concentration of risk related to sales is limited due to a large number of business partners.

As at December 31st 2010, the Group's receivables in the amount of PLN 2,143 thousand were subject to assignment by way of security for liabilities under loans and credit facilities (as at December 31st 2009: PLN 1,497 thousand).

Impairment Losses on Receivables

PLN '000	Note	Year ended Dec 31 2010	Year ended Dec 31 2009
At beginning of period		180,497	155,611
Increase ⁽¹⁾ , including:		13,481	44,791
- changes in Group structure	2	-	21,243
Reversal ⁽²⁾		(5,008)	(12,980)
Use, including:		(6,616)	(6,925)
- changes in Group structure		-	(3,596)
At end of period		182,354 ⁽³⁾	180,497

⁽¹⁾ Including the amounts charged to other operating expenses (2010: PLN 12,556 thousand, 2009: PLN 41,758 thousand) and to interest expense under finance expenses.

⁽²⁾ Including the amounts charged to other operating expenses (2010: PLN 4,827 thousand, 2009: PLN 12,980 thousand).

⁽³⁾ Including an impairment loss on non-current investment receivables in the amount of PLN 141 thousand (see Note 25).

The table below presents the age analysis of past due receivables on which no impairment losses had been recognised as at December 31st 2010 and December 31st 2009.

PLN '000	Dec 31 2010	Dec 31 2009
Up to 1 month	53,961	52,186
From 1 to 3 months	8,862	5,688
From 3 to 6 months	2,765	175
From 6 months to 1 year	261	2,850
Over 1 year	5,754	538
Total	71,603	61,437

There is no significant concentration of credit risk regarding trade receivables of the Group. As at the balance-sheet date, the Group's maximum exposure to credit risk is best represented by the carrying amounts of these instruments.

The Group manages credit risk related to the payment terms under commercial contracts using such forms of security as security (deposit) mortgage on real estate (hipoteka kaucyjna), bank and insurance guarantees, agreements on assignment of receivables or term deposits, registered pledges, promissory notes and sureties.

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27. Prepayments and Accrued Income

PLN '000	Dec 31 2010	Dec 31 2009
Property and other insurance	24,076	18,124
Overhauls	273	48
Rent and lease payments	1,566	3,865
Commissions on credit facilities, amortised over time	5,066	4,041
Other	5,696	4,991
Total	36,677	31,069
Non-current portion	4,003	5,087
Current portion	32,674	25,982

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28. Current Financial Assets

PLN '000	Dec 31 2010	Dec 31 2009
Positive valuation of derivative financial instruments:	39,703	47,017
- commodity swaps (raw materials and petroleum products)	1,472	-
- futures (CO ₂ emissions)	35	442
- currency forward and spot contracts	37,541	46,575
- forward rate agreements (FRAs)	655	-
Deposits ⁽¹⁾	5,932	-
Shares in other undertakings	12	12
Total	45,647	47,029

⁽¹⁾ Deposits of PLN 5,932 thousand serve as security for the repayment of interest on the loan contracted to finance inventories. As at December 31st 2009, deposits of PLN 5,819 thousand were disclosed under non-current financial assets.

As at December 31st 2010, positive valuation of financial instruments related to mandatory hedging contracts over which an assignment was created as security for the credit facility referred to in **Note 34** amounted to PLN 1,326 thousand (December 31st 2009: PLN 41,698 thousand).

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29. Employee Benefits

29.1 Retirement Benefits and Other Post-employment Benefits

In accordance with the Group's remuneration systems, the Group's employees are entitled to severance pays when retiring due to old age or disability. Length-of-service awards are paid out after a specific period of employment. Therefore, based on a valuation prepared by professional actuary firms, the Group creates provisions for the present value of its obligation to provide old-age and disability retirement severance pays and length-of-service awards. The table below provides information on the amount of the provisions and a reconciliation presenting changes in the provisions during the financial period.

	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance as at beginning of period	98,694	92,092
Provision created, including:	32,695	36,603
- change in Group structure	-	35
Benefits paid	(10,970)	(10,432)
Provision released	(6,332)	(12,993)
Provision used	(6,258)	(6,576)
Balance as at end of period	107,829	98,694

The table below presents the key assumptions adopted by the actuary as at the balance sheet date to calculate the amount of the obligation.

	Dec 31 2010	Dec 31 2009
Discount rate (%)	5.8%	6.2%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%) ⁽¹⁾	2.9%-27%	5.3%-36.6%
Expected growth rate of salaries and wages (%)	0%-5%	0%-6.1%
Expected growth rate of salaries and wages (%) in the following years	1.5%-7%	1.5%-7%

⁽¹⁾ The probability of employee attrition is based on the historical data on employee turnover at the Group.

29.2 Termination Benefits

In 2010, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 2,236 thousand (2009: PLN 573 thousand).

In 2010, provisions for termination benefits totalled PLN 806 thousand (2009: PLN 830 thousand).

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30. Cash and Cash Equivalents

PLN '000	Dec 31 2010	Dec 31 2009
		(restated)
Cash at bank	390,660	354,164
Cash in hand	273	243
Other cash	333	647
Total	391,266	355,054

Cash at banks bears interest at variable rates set according to the short-term interbank interest rates. Short-term deposits are placed for various periods, ranging from one day to one month, depending on the Group's current demand for cash, and bear interest at the interest rates set for them.

As at December 31st 2010, the amount of undrawn funds available to the Group under working capital loans in respect of which all conditions precedent had been fulfilled (including the working capital loan contracted with Bank Consortium (4); see [Note 34](#)) was PLN 781,210 thousand (PLN 323,857 thousand as at December 31st 2009).

As at December 31st 2010, restricted cash amounted to PLN 42,319 thousand (PLN 20,420 thousand as at December 31st 2009), and included mainly:

- the amount of PLN 14,335 thousand, held in an account dedicated to servicing the payments related to the 10+ Programme investment projects,
- the amount of PLN 8,665 thousand (December 31st 2009: PLN 9,929 thousand) held in an account dedicated to payments related to repayment of principal and interest on loans/credit facilities contracted in connection with the 10+ Programme.
- the amount of PLN 18,320 thousand (December 31st 2009: PLN 18,320 thousand) in a bank account on which a hold has been placed by a court enforcement officer in connection with court proceedings concerning WANDEKO (see [Note 38.4](#)).

In the statement of financial position, restricted cash is disclosed under "Cash in hand and cash at banks" and "Other cash".

As at December 31st 2010, cash in bank accounts serving as security for the LOTOS Group's liabilities amounted to PLN 446 thousand (as at December 31st 2009: PLN 540 thousand).

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31. Cash Structure in the Statement of Cash Flows

PLN '000	Dec 31 2010	Dec 31 2009 (restated)
Cash at bank	390,660	354,164
Cash in hand	273	243
Other cash	333	647
Overdraft facilities	(274,831)	(510,714)
Total cash and cash equivalents	116,435	(155,660)

Breakdown of the Company's Activities as Disclosed in the Statement of Cash Flows

Operating activities include transactions and events related to the core business of an undertaking and other activities which are not included in investing or financing activities.

Investing activities include transactions and events which consist in the purchase or sale of property, plant and equipment (tangible assets, tangible assets under construction, prepayments for tangible assets under construction), intangible assets, non-current investments and current financial assets (excluding cash and cash equivalents), as well as related monetary costs and benefits, excluding those related to income tax.

Financing activities include transactions and events which consist in the raising and repayment of funds from sources other than operating activities, related monetary costs and benefits, excluding those related to income tax, and settlement of financial instruments related to financing activities. The occurrence of cash flows in the financing activities gives rise to changes in the amount of equity and financial indebtedness and the proportion between them.

Causes of Differences between Changes in Certain Items as Shown by the Statement of Financial Position and as Shown by the Statement of Cash Flows

Receivables PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance-sheet change in net non-current and current receivables	(207,829)	(116,210)
Change in income tax receivables	(12,687)	(68,672)
Set-off of corporate income tax receivables against VAT liabilities	(71,120)	-
Change in investment receivables	2,958	2,022
Change in Group structure	-	291
Change in dividends receivable	-	(1,343)
Change in receivables under settlement of derivative financial instruments	-	(3,167)
Other	(10,031)	(401)
Change in receivables as disclosed in the statement of cash flows	(298,709)	(187,480)

Inventories PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance-sheet change in inventories	(1,483,647)	(575,897)
Change in Group structure	-	130
Change in inventories as disclosed in the statement of cash flows	(1,483,647)	(575,767)

Liabilities, accruals and deferred income PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance-sheet change in non-current and current liabilities, and accruals and deferred income	1,783,227	1,932,080
Change in non-current and current loans and borrowings	(634,388)	(1,781,466)
Change in investment liabilities	22,358	505,213
Change in liabilities related to acquisition of shares	(1,926)	(35,083)
Change in liabilities related to issue of bonds	(52,670)	-
Change in Group structure	-	5,604
Finance lease liabilities	8,874	(81,824)
Change in income tax expense	(3,321)	(3,798)
Set-off of corporate income tax receivables against VAT liabilities	77,937	-
Change in liabilities related to negative valuation of derivative financial instruments	(43,436)	(17,845)
Other	2	169,830
Change in liabilities and accruals and deferred income as disclosed in the statement of cash flows	1,156,657	692,711

Provisions PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance-sheet change in provisions	59,518	45,781
Change in Group structure	-	2,471
Change in deferred tax liabilities	(32,532)	(80,200)
Creation of provision for Offshore Oil and Gas Facilities	(17,135)	(31,031)
Other	-	14,113
Change in provisions as disclosed in the statement of cash flows	9,851	(48,866)

Prepayments and accrued income PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance-sheet change in prepayments and accrued income	(91,242)	54,454
Change in Group structure	-	(680)
Change in deferred tax assets	85,634	(26,901)
Other	(1,361)	(7,828)
Change in prepayments and accrued income as disclosed in the statement of cash flows	(6,969)	19,045

Cash PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009 (restated)
Balance-sheet change in cash	36,212	(319,052)
Change in interest-bearing overdraft facilities	235,883	(135,739)
Change in cash as disclosed in the statement of cash flows	272,095	(454,791)

Causes of Differences between the Items Disclosed in the Notes to the Financial Statements and the Items of the Statement of Cash Flows

Depreciation/amortisation PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Depreciation/amortisation as disclosed in changes to property, plant and equipment and intangible assets	390,118	285,074
Depreciation directly related to expenditure on	(217)	(281)

tangible assets under construction

Depreciation/amortisation as disclosed in the statement of cash flows	389,901	284,793
(Purchase)/sale of tangible and intangible assets as disclosed in changes to property, plant and equipment and intangible assets		
(Purchase)/sale of tangible and intangible assets as disclosed in changes to property, plant and equipment and intangible assets	(1,041,033)	(2,935,312)
Change in investment liabilities	(22,358)	(505,213)
Change in investment receivables	(2,958)	(2,022)
Prepayments on tangible assets under construction	57,064	258,581
Acquisition of tangible assets under a lease	4,828	83,469
Other	(5,480)	27,833
(Purchase)/sale of tangible and intangible assets as disclosed in the statement of cash flows	(1,009,937)	(3,072,664)

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32. Share Capital

The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2010 was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held ⁽¹⁾
State Treasury ⁽²⁾	69,076,392	69,076,392	69,076,392	53.19%
ING OFE ⁽³⁾	6,524,479	6,524,479	6,524,479	5.02%
Other shareholders	54,272,491	54,272,491	54,272,491	41.79%
Total	129,873,362	129,873,362	129,873,362	100.00%

⁽¹⁾ The percentage of share capital held equals the percentage share in the total vote.

⁽²⁾ In accordance with the shareholder's representation delivered to Grupa LOTOS S.A. on January 29th 2010. By the date of publication of these consolidated financial statements, the Company has not received from the shareholder any other representation concerning any changes in the number of the Company shares held.

⁽³⁾ In accordance with the shareholder's representation delivered to Grupa LOTOS S.A. on November 23rd 2009. At the General Shareholders Meeting of Grupa LOTOS S.A. which was held on June 28th 2010, ING Otworthy Fundusz Emerytalny registered 8,500,000 Company shares, representing 6.54% of Grupa LOTOS S.A.'s share capital.

The share capital comprises 129,873,362 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 Shareholders Meeting and carries the right to dividend.

The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2009 was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held ⁽¹⁾
State Treasury	83,076,392	83,076,392	83,076,392	63.97%
ING OFE ⁽²⁾	6,524,479	6,524,479	6,524,479	5.02%
Other shareholders	40,272,491	40,272,491	40,272,491	31.01%
Total	129,873,362	129,873,362	129,873,362	100.00%

⁽¹⁾ The percentage of share capital held equals the percentage share in the total vote.

⁽²⁾ In accordance with the shareholder's representation delivered to Grupa LOTOS S.A. on November 23rd 2009.

As at December 31st 2009, the share capital comprised 129,873,362 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 Shareholders Meeting and carries the right to dividend.

Increase in the Share Capital of Grupa LOTOS S.A.

On July 17th 2009, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, issued a decision on registration of Grupa LOTOS S.A.'s share capital increase by way of issue of Series C shares. Following the registration, the share capital amounted to PLN 129,873,362 and was divided into 129,873,362 shares. After the registration of the share capital increase, the total number of votes attached to all the shares in Grupa LOTOS S.A. was 129,873,362 votes.

Following the registration, the structure of Grupa LOTOS S.A.'s share capital was as follows:

- 78,700,000 Series A shares,
- 35,000,000 Series B shares,
- 16,173,362 Series C shares.

Pursuant to Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A. of June 30th 2009, all Series C shares were offered to the State Treasury in a private placement, under Art. 431.2.1 of the Commercial Companies Code, with disapplication of the remaining shareholders' pre-emptive rights to Series C shares..

On July 9th 2009, an agreement was signed providing for the acquisition by the State Treasury of Grupa LOTOS S.A. shares. Pursuant to Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A. of June 30th 2009, all Series C shares were acquired by the State Treasury. In exchange, the State Treasury transferred to Grupa LOTOS S.A. non-cash contributions in the form of 2,801,400 shares in LOTOS Petrobaltic S.A., 375,000 shares in LOTOS Czechowice S.A. and 300,000 shares in LOTOS Jasło S.A. The value of the non-cash contributions in the form of 30.32% of LOTOS Petrobaltic S.A. shares, 5% of LOTOS Czechowice S.A. shares and 5% of LOTOS Jasło S.A. shares totalled PLN 356,946 thousand. The par value of the Series C shares amounted to PLN 16,173 thousand. The share premium was PLN 340,773 thousand. The costs of issue of Series C shares, including income tax, amounted to PLN (376) thousand.

In accordance with the revised IAS 27 *Consolidated and Separate Financial Statements*, the above transaction was accounted for as an equity transaction (i.e. as a transaction with owners acting as the entity owners) and resulted in the recognition of an amount of PLN 22,701 thousand under retained earnings.

Accounting for the Acquisition of LOTOS Petrobaltic S.A., LOTOS Czechowice S.A. and LOTOS Jasło S.A. Shares from Non-Controlling Interests

(PLN '000)	
Value of non-controlling interests as at the transaction settlement date (A)	379,647
Value of non-cash contributions in the form of 30.32% of shares in LOTOS Petrobaltic S.A., 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A. (B)	356,946
Excess of the value of non-controlling interests over the value of non-cash contributions (A-B)	22,701

Transfer of Grupa LOTOS S.A. Shares from Nafta Polska S.A. to the State Treasury

On July 22nd 2009, in performance of the agreement of July 16th 2009 between the State Treasury and Nafta Polska S.A., by way of payment for the Nafta Polska S.A. shares bought back from the State Treasury with a view to their voluntary retirement, Nafta Polska S.A. transferred to the State Treasury all the 59,025,000 Grupa LOTOS S.A. shares held by Nafta Polska S.A., representing 51.91% of Grupa LOTOS S.A.'s share capital and conferring the right to 59,025,000 votes, which represented 51.91% of the total vote in Grupa LOTOS S.A.

Following these transactions, as at December 31st 2009 the State Treasury held shares representing 63.97% of Grupa LOTOS S.A.'s share capital.

Change in the Number of Grupa LOTOS S.A. Shares Held by ING Otworthy Fundusz Emerytalny

As a result of acquisition of Grupa LOTOS S.A. shares in transactions on the Warsaw Stock Exchange, settled on November 19th 2009, ING Otworthy Fundusz Emerytalny ("the Fund") came to hold Company shares in a number conferring the right to more than 5% of the total vote at the Company's General Shareholders Meeting.

Prior to the acquisition, the Fund held 6,464,479 shares in Grupa LOTOS S.A., representing 4.98% of the Company's share capital, and was entitled to 6,464,479 votes, or 4.98% of the total vote, at the Company's General Shareholders Meeting.

Following the acquisition, the Fund held 6,524,479 shares in Grupa LOTOS S.A., representing 5.02% of the Company's share capital and conferring the rights to 6,524,479 votes, or 5.02% of the total vote, at the Company's General Shareholders Meeting.

Reduction of ING Otworthy Fundusz Emerytalny's Share of Total Vote at the General Shareholders Meeting of Grupa LOTOS S.A.

On February 7th 2011, the Management Board of Grupa LOTOS S.A. received a notification to the effect that following a disposal of the Company shares, settled on February 2nd 2011, ING Otworthy Fundusz Emerytalny reduced its share in the total vote at the Company's General Shareholders Meeting below the 5% threshold.

Prior to the disposal, ING Otworthy Fundusz Emerytalny held 6,640,532 shares in Grupa LOTOS S.A., representing 5.11% of the Company's share capital and carrying the right to 6,640,532 votes, or 5.11% of the total vote, at the Company's General Shareholders Meeting. On February 7th 2011, 5,957,442 Grupa LOTOS S.A. shares were registered on the securities account of ING Otworthy Fundusz Emerytalny, representing 4.59% of the Company's share capital and conferring the right to 5,957,442 votes, or 4.59% of the total vote, at the Company's General Shareholders Meeting.

Change in the Number of Grupa LOTOS S.A. Shares Held by the State Treasury

Based on orders placed and accepted on January 22nd 2010, on January 22nd 2010 the State Treasury sold in block transactions an aggregate of 14,000,000 ordinary bearer shares in Grupa LOTOS S.A., representing 10.78% of Grupa LOTOS S.A.'s share capital and conferring the rights to 14,000,000 votes, or 10.78% of the total vote, in the Company.

Prior to the change, the State Treasury, represented by the Minister of State Treasury, held in aggregate 83,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing 63.97% of the Company's share capital and conferring the rights to 83,076,392 votes, or 63.97% of the total vote, in Grupa LOTOS S.A.

After the change, the State Treasury, represented by the Minister of State Treasury, holds in aggregate 69,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing in aggregate 53.19% of the Company's share capital, and 69,076,392 votes, or 53.19% of the total vote in Grupa LOTOS S.A.

Introduction of Grupa LOTOS S.A. Series A Shares to Stock-Exchange Trading; Assimilation of Grupa LOTOS S.A. Shares by the Polish NDS

By virtue of Resolution No. 26/2010 of January 18th 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to trading on the main market, on January 19th 2010, by way of the ordinary procedure, 57,987,030 Series A shares in Grupa LOTOS S.A., with a par value of PLN 1 per share, designated by the National Depository for Securities with code No. PLLOTOS00033.

By virtue of Resolution No. 33/10 of its Management Board, the National Depository for Securities decided to assimilate, on January 19th 2010, 57,987,030 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion, on January 19th 2010, of 57,987,030 ordinary registered shares (code No. PLLOTOS00033) with 55,635,609 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The assimilated shares were assigned code No. PLLOTOS00025.

As of January 19th 2010, 113,622,639 shares in Grupa LOTOS S.A. were marked with code No. PLLOTOS00025, and 77,361 shares in Grupa LOTOS S.A. were marked with code No. PLLOTOS00033.

By virtue of Resolution No. 316/2010 of April 1st 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to trading on the main market, on April 12th 2010, by way of the ordinary procedure, 8,250 Series A shares in Grupa LOTOS S.A., with a par value of PLN 1 per share, designated by the National Depository for Securities with code No. PLLOTOS00033.

By virtue of Resolution No. 185/10 of its Management Board, the National Depository for Securities decided to assimilate, on April 12th 2010, 8,250 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion, on April 12th 2010, of 8,250 ordinary registered shares (code No. PLLOTOS00033), with 113,622,639 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The assimilated shares were assigned code No. PLLOTOS00025.

Following the assimilation, as at April 12th 2010 shares in Grupa LOTOS S.A. were marked as follows:

- 113,630,889 shares were marked with code No. PLLOTOS00025, and
- 69,111 shares were marked with code No. PLLOTOS00033.

Acceptance of Grupa LOTOS S.A. Series C Shares for Registration with the Polish NDS and their Admission and Introduction to Stock-Exchange Trading

By virtue of Resolution No. 895/10 of the Management Board of the Polish National Depository for Securities (the Polish NDS), dated December 29th 2010, the Polish NDS decided to accept the deposit of 16,173,362 Series C ordinary bearer shares in Grupa LOTOS S.A. with a par value of PLN 1 per share, assigning them code No. PLLOTOS00025, provided that a decision is made by the market operator to introduce these shares to trading on the regulated market on which other Grupa LOTOS S.A. shares marked with code No. PLLOTOS00025 are traded.

By virtue of Resolution No. 16/2011 of January 4th 2011, the Management Board of the Warsaw Stock Exchange decided to admit 16,173,362 Series C ordinary bearer shares in Grupa LOTOS S.A. with a par value of PLN 1 per share to stock-exchange trading on the main market. Pursuant to the above resolution, the WSE Management Board decided to introduce the Grupa LOTOS S.A. Series C shares referred to above to trading on the main market, by way of the ordinary procedure, as of January 10th 2011.

In line with an announcement by the Operations Department of the Polish NDS, on January 10th 2011 16,173,362 Grupa LOTOS S.A. shares were registered with the Polish NDS and assigned code No. ISIN PLLOTOS00025. Following the registration, the total number of shares marked with ISIN code PLLOTOS00025 was 129,804,251.

As at the date of release of these consolidated financial statements, the shareholder structure of Grupa LOTOS S.A. was as follows:

Par value of

	Number of shares	Number of votes	shares (PLN)	% of share capital held ⁽¹⁾
State Treasury ⁽²⁾	69,076,392	69,076,392	69,076,392	53.19%
Other shareholders	60,796,970	60,796,970	60,796,970	46.81%
Total	129,873,362	129,873,362	129,873,362	100.00%

⁽¹⁾ The percentage of share capital held equals the percentage share in the total vote.

⁽²⁾ In accordance with the shareholder's representation delivered to Grupa LOTOS S.A. on January 29th 2010. By the date of publication of these consolidated financial statements, the Company has not received from the shareholder any other representation concerning any changes in the number of the Company shares held.

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.

33. Non-Controlling Interests

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Balance at beginning of period	36,752	396,078
Share in profit/(loss) of subsidiary undertakings	2,173	11,051
Share in other comprehensive income	(14)	9,527
Changes in the structure of non-controlling interests at subsidiary undertakings	-	(238)
Dividends paid out by subsidiary undertakings	-	(19)
Changes in ownership interest	(24,253) ⁽¹⁾	(379,647) ⁽²⁾
Balance at end of period	14,658	36,752

⁽¹⁾ See *Note 2*.

⁽²⁾ See *Note 32*.

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The notes to the financial statements, presented on following pages, are their integral part.

34. Interest-Bearing Loans and Borrowings

PLN '000	Dec 31 2010	Dec 31 2009
Bank loans	6,302,467	5,666,207
Borrowings	32,992	34,864
Total	6,335,459	5,701,071
Non-current portion	4,403,453	4,942,590
Current portion	1,932,006	758,481

Loans and Borrowings by Lender

PLN '000	Dec 31 2010	Dec 31 2009
Non-current portion		
Kredyt Bank S.A.	20,987	26,987
Pekao S.A.	27,590	13,190
PKO BP S.A.	18,125	-
National Fund for Environmental Protection and Water Management	18,556	25,056
Raiffeisen Bank Polska S.A.	2,000	4,000
Bank Ochrony Środowiska S.A.	36,902	36,902
Stablewood Power Ventures (Władysławowo) Ltd.	-	8
AB Geonafra	7,936	-
Bank consortium (1)*	-	1,139,513
Bank consortium (2)**	3,120,146	2,750,485
Bank consortium (3)***	1,020,870	772,661
Bank consortium (5)*****	130,341	173,788
Total non-current portion	4,403,453	4,942,590
Current portion		
Kredyt Bank S.A.	6,000	7,619
Pekao S.A.	186,263	37,101
ING Bank Śląski S.A.	32,036	25,533
PKO BP S.A.	110,872	23,049
National Fund for Environmental Protection and Water Management	6,500	9,800
Raiffeisen Bank Polska S.A.	1,985	1,952
Nordea Bank Polska S.A.	-	74,867
Nordea Bank Norge ASA	-	65,434
DnB NOR Bank ASA	23,624	-
BRE Bank S.A.	3,207	-
Bank consortium (1)*	1,187,413	1,670

Bank consortium (2)**	91,439	6,477
Bank consortium (3)***	37,214	1,760
Bank consortium (4)****	201,979	459,756
Bank consortium (5)*****	43,474	43,463
Total current portion	1,932,006	758,481
Total	6,335,459	5,701,071

*Bank consortium (1): Pekao S.A., PKO BP S.A., BRE Bank S.A. and Rabobank Polska S.A.

**Bank consortium (2): Banco Bilbao Vizcaya Argentaria S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., Pekao S.A., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Credit Agricole CIB (formerly Calyon), DnB Nor Bank ASA, DnB Nord Polska S.A., ING Bank Śląski S.A., KBC Finance Ireland, Kredyt Bank S.A., Nordea Bank AB, PKO BP S.A., The Royal Bank of Scotland plc, Société Générale S.A., Bank Zachodni WBK S.A., Rabobank Polska S.A., Bank Gospodarki Żywnościowej S.A. and Sumitomo Mitsui Banking Corporation Europe Ltd.

***Bank consortium (3): Banco Bilbao Vizcaya Argentaria S.A. and BNP Paribas S.A.

****Bank consortium (4): Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

*****Bank consortium (5): Pekao S.A., PKO BP S.A.

Bank Loans Contracted by the Parent Undertaking

As at December 31st 2010, the Company had drawn under the term loan facility USD 1,464,596 thousand (in nominal terms) (the equivalent of PLN 4,341,209 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2010). As at December 31st 2009, the Company had drawn under the term loan facility USD 1,268,257 thousand (in nominal terms) (the equivalent of PLN 3,614,913 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2009). The working capital loan was made available to Grupa LOTOS S.A. in the form of overdraft facilities which are used by the Company on an as-needed basis. By the date of these consolidated financial statements, funds drawn under the facility were used by Grupa LOTOS S.A. according to its needs.

Bank loans and borrowings as at December 31st 2010, by currency and by maturity

PLN '000	EUR loans	USD loans	NOK loans	PLN loans	Total
2011	19,656	1,656,709	23,624	232,017	1,932,006
2012	2,334	238,365	-	61,006	301,705
2013	2,334	242,190	-	58,506	303,030
2014	2,334	330,567	-	27,093	359,994
2015	10,270	343,314	-	19,457	373,041
beyond 2015	-	2,986,580	-	79,103	3,065,683
Total	36,928	5,797,725	23,624	477,182	6,335,459

The above table presents loans and borrowings by maturity date.

Bank loans and borrowings as at December 31st 2009, by currency and by maturity

PLN '000	EUR loans	USD loans	PLN loans	Total
2010	2,447	337,886	418,148	758,481
2011	2,421	1,223,154	57,995	1,283,570
2012	2,421	193,696	57,995	254,112
2013	2,421	196,949	55,495	254,865
2014	2,421	272,140	55,551	330,112
beyond 2014	2,422	2,777,643	39,866	2,819,931
Total	14,553	5,001,468	685,050	5,701,071

The above table presents loans and borrowings by maturity date.

As at December 31st 2010, the average effective interest rate for the loans (including loans in USD and EUR) was approx. 2.44% (3.15% as at December 31st 2009). The average effective interest rate for PLN-denominated loans other than the Parent Undertaking's syndicated loans is approximately 4.81% (as at December 31st 2009: 4.72%).

Loans and borrowings as at December 31st 2010:

Bank name; form of incorporation	Registered office	Registered office		Outstanding loan amount (current portion) ⁽¹⁾		Outstanding loan amount (non-current portion) ⁽¹⁾		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN ('000)	Foreign currency ('000)	PLN ('000)	Foreign currency ('000)	PLN ('000)	Foreign currency ('000)	Current portion	Non- current portion		
Bank Consortium (1)	-	-	USD 400,000	1,187,413	USD 400,553	-	-	Dec 20 2011	-	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
Bank Consortium (2)	-	-	USD 1,125,000	91,439	USD 30,775	3,120,146	USD 1,049,856	Jul 15 2011	Jan 15 2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and management of the 10+ Programme, assignment of rights under insurance agreements relating to the C-dąbski refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10,000 thousand per year, submission to enforcement
Bank Consortium (3)	-	-	USD 425,000	37,214	USD 12,550	1,020,870	USD 344,228	Jul 15 2011	Jan 15 2021	fixed interest rate	3M WIBOR + bank's margin
Bank Consortium (4)	-	USD 200,000 or equivalent	76,328	-	-	-	-	Overdraft facility	-	3M EURIBOR + bank's margin	3M LIBOR USD + bank's margin
			17,322	EUR 4,374	-	-					
			108,329	USD 36,547	-	-					
Pekao S.A.	Warsaw	150,000	-	30,165	-	-	-	Overdraft facility ⁽²⁾	-	1M WIBOR + bank's margin	submission to enforcement
Bank Consortium (5)	Warsaw	340,000	-	43,474	-	130,341	-	Dec 31 2011	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	20,987	-	Dec 31 2011	Jun 30 2015	1M WIBOR + bank's margin	mortgage
PKO BP S.A.	Warsaw	20,000	-	1,500	-	18,125	-	Dec 31 2011	Dec 31 2019	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Warsaw	20,000	-	1,500	-	18,125	-	Dec 31 2011	Dec 31 2019	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Warsaw	14,000	-	9,170	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account, representation on submission to enforcement
Raiffeisen Bank Polska S.A.	Rzeszów	10,000	-	1,985	-	2,000	-	Dec 31 2011	Dec 28 2012	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, security (deposit) mortgage (hipoteka kaucyjna), assignment of rights under insurance policy, registered pledge over inventories, registered pledge over tangible assets
PKO BP S.A.	Warsaw	14,000	-	2,143	-	-	-	Jun 17 2011	-	1M WIBOR + bank's margin	assignment of receivables, power of attorney over bank account
Pekao S.A.	Kraków	26,837	EUR 7,060	2,334	EUR 589	9,336	EUR 2,357	Oct 31 2011	Oct 31 2015	1M EURIBOR + bank's margin	mortgage
Pekao S.A.	Kraków	30,000	-	14,186	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	assignment of receivables, pledge over inventories
Pekao S.A.	Kraków	44,754	-	33	-	129	-	Oct 31 2011	Oct 31 2015	1M WIBOR + bank's margin	mortgage
NFOŚiGW	Warsaw	35,000	-	6,500	-	18,556	-	Dec 20 2011	Dec 20 2014	0.8 of the rediscount rate for promissory notes	bank guarantee, promissory note
BRE Bank S.A.	Warsaw	30,000	-	3,207	-	-	-	Overdraft facility	-	O/N WIBOR + bank margin	blank promissory note
ING Bank Śląski S.A.	Warsaw	35,000	-	32,036	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
Pekao S.A.	Warsaw	30,000	-	3,790	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account

Bank Ochrony Srodowiska S.A.	Warsaw	68,000	-	-	-	22,312	-	-	Jun 30 2016		mortgage, transfer of ownership of tangible assets, assignment of rights under insurance policy, promissory note, assignments of rights under sales agreements
Bank Ochrony Srodowiska S.A.	Warsaw	14,688	-	-	-	9,490	-	-	Jun 30 2016	1M WIBOR + bank's margin	
Bank Ochrony Srodowiska S.A.	Warsaw	5,100	-	-	-	5,100	-	-	Dec 20 2016		
DnB NOR Bank ASA	Stavanger Norway	-	NOK 180,000	23,624	NOK 46,586	-	-	-	Dec 22 2011	9M NIBOR + bank's margin	tax receivable - refunded exploration expenses
PKO BP S.A.	Warsaw	-	USD 32,500	96,766	USD 32,500	-	-	-	Nov 30 2011	1M LIBOR USD + bank's margin	pledge, guarantee
PKO BP S.A.	Warsaw	-	USD 32,500	10,463	USD 3,523	-	-	-	Overdraft facility	1M LIBOR USD + bank's margin	pledge, guarantee
Pekao S.A.	Warsaw	160,000 or equivalent in USD or EUR	-	125,085	USD 42,200	-	-	-	Nov 15 2011	3M LIBOR USD + bank's margin	blank promissory note
AB Geonafra	Gargždai, Lithuania	-	EUR 2,000	-	-	7,936	EUR 2,004	-	Dec 31 2015	fixed interest rate	none
				232,017	-	245,165	-				
				1,656,709	USD 558,648	4,141,016	USD 1,394,084				
		TOTAL		19,656	EUR 4,963	17,272	EUR 4,361				
				23,624	NOK 46,586	-	-				
				1,932,006	-	4,403,453	-				

(1) Measured at amortised cost, including arrangement fees.

(2) Not treated as cash equivalents.

The bank margins on the contracted loans and borrowings are in the range of 0.45 pp. – 3.50 pp.

Loans and borrowings as at December 31st 2009:

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion) ⁽¹⁾		Outstanding loan amount (non-current portion) ⁽¹⁾		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN ('000)	Foreign currency ('000)	PLN ('000)	Foreign currency ('000)	PLN ('000)	Foreign currency ('000)	Current portion	Non-current portion		
Bank Consortium (1)	-	-	USD 400,000	1,670	USD 549	1,139,513	USD 399,751	Mar 15 2010	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
Bank Consortium (2)	-	-	USD 1,125,000	6,477	USD 2,016	2,750,485	USD 962,395	Mar 15 2010	Jan 15 2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and
Bank Consortium (3)	-	-	USD 425,000	1,760	USD 680	772,661	USD 271,852	Mar 15 2010	Jan 15 2021	fixed interest rate	management of the 10+ Programme, assignment of rights under insurance agreements relating to the Gdansk refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10,000 thousand per year, submission to enforcement
Bank Consortium (4)	-	USD 200,000 or equivalent	-	278,567	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				26	EUR 6	-	-			3M EURIBOR + bank's margin	
				181,163	USD 63,559	-	-			3M LIBOR USD + bank's margin	
Pekao S.A.	Warsaw	100,000	-	2,263	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Consortium (5)	Warsaw	340,000	-	43,463	-	173,788	-	Dec 31 2010	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Kredyt Bank S.A.	Warsaw	60,000	-	7,619	-	26,987	-	Dec 31 2009	Jun 30 2015	1M WIBOR + bank's margin	mortgage
PKO BP S.A.	Warsaw	25,000	-	18,248	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	none
								Overdraft		1M WIBOR +	power of attorney over bank account, representation on submission to enforcement,

Pekao S.A.	Warsaw	15,000	-	114	-	-	-	facility	-	bank's margin	registered pledge over inventories, assignment of rights under insurance policy
Raiffeisen Bank Polska S.A.	Rzeszów	10,000	-	1,952	-	4,000	-	Dec 31 2009	Dec 28 2012	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, security (deposit) mortgage (hipoteka kaucyjna), assignment of rights under insurance policy, registered pledge over inventories, registered pledge over tangible assets
Pekao S.A.	Warsaw	15,000	-	4,452	-	-	-	Jun 30 2010	-	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, registered pledge over inventories
ING Bank Śląski	Katowice	23,500	-	22,592	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski	Katowice	4,500	-	2,941	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	5,000	-	4,801	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables, promissory notes, pledge over inventories
NFOŚiGW	Warsaw	15,000	-	3,300	-	-	-	Sep 30 2010	-	0.5 of the rediscount rate for promissory notes	surety, promissory note
Pekao S.A.	Kraków	26,837	EUR 7,060	2,421	EUR 590	12,106	EUR 2,945	Oct 31 2010	Oct 31 2015	1M EURIBOR + bank's margin	mortgage
Pekao S.A.	Kraków	30,000	-	21,304	-	-	-	Jun 25 2010	-	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Kraków	44,754	-	32	-	161	-	Oct 31 2010	Oct 31 2015	1M WIBOR + bank's margin	mortgage
NFOŚiGW	Warsaw	35,000	-	6,500	-	25,056	-	Dec 20 2010	Dec 20 2014	0.8 of the rediscount rate for promissory notes	bank guarantee, promissory note
Pekao S.A.	Warsaw	56,409	USD 14,800	6,515	USD 2,286	923	USD 324	Dec 31 2010	Feb 28 2011	1M LIBOR USD + bank's margin	mortgage
Nordea Bank Polska S.A.	Gdynia	100,000	-	74,867	USD 26,315	-	-	Nov 18 2010	-	Depending on the loan currency, 3M WIBOR, EURIBOR or LIBOR USD + bank's margin	blank promissory note, assignment of receivables under crude oil sales agreements, submission to enforcement
Nordea Bank Norge ASA	Stavanger	-	USD 8,000	22,837	USD 7,994	-	-	Jul 31 2010	-	1W LIBOR + bank's margin	Bank guarantee
Nordea Bank Norge ASA	Stavanger	-	USD 11,000	31,179	USD 10,911	-	-	Jul 31 2010	-	1W LIBOR + bank's margin	surety
Nordea Bank Norge ASA	Stavanger	-	USD 4,000	11,418	USD 3,996	-	-	Jul 31 2010	-	1W LIBOR + bank's margin	Bank guarantee
Bank Ochrony Srodowiska S.A.	Warsaw	68,000	-	-	-	22,312	-	-	Jun 30 2016	-	mortgage, transfer of ownership of tangible assets, assignment of rights under insurance policy, promissory note, assignments of rights under sales agreements
Bank Ochrony Srodowiska S.A.	Warsaw	14,688	-	-	-	9,490	-	-	Dec 20 2016	1W LIBOR + bank's margin	
Bank Ochrony Srodowiska S.A.	Warsaw	5,100	-	-	-	5,100	-	-	Jun 30 2016	-	
Stablewood Power Ventures (Wladyslawowo) Ltd.	Worcester	8	-	-	-	8 ⁽²⁾	-	-	Dec 31 2017	1W LIBOR + bank's margin	blank promissory note
				418,148	-	266,902	-				
				337,886	USD 118,306	4,663,582	USD 1,634,322				
				2,447	EUR 596	12,106	EUR 2,945				
				758,481	-	4,942,590	-				

(1) Measured at amortised cost, including arrangement fees.

(2) On March 1st 2010, LOTOS Petrobaltic S.A. concluded an agreement on assignment of claims with Stablewood Power Vetures (Wladyslawowo) Ltd., whereby LOTOS Petrobaltic S.A. acquired from Stablewood Power Vetures (Wladyslawowo) Ltd. a debt claim of PLN 8 thousand related to the outstanding amount of the shareholder loan advanced to Energobaltic Sp. z o.o. under the agreement of November 12th 2001, as amended. The price for the acquisition of the debt claims from Stablewood Power Vetures (Wladyslawowo) Ltd. was paid by LOTOS Petrobaltic S.A. on March 30th 2010.

The bank margins on the contracted loans and borrowings are in the range of 0.20pp. – 4.00pp.

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.



35. Bonds

On July 27th 2010, LOTOS Asphalt Sp. z o.o. signed a Bond Issue Programme Agreement. As part of the Bond Issue Programme, LOTOS Asphalt Sp. z o.o. may carry out numerous bonds issues. The company's total liabilities under bonds outstanding at any given time may not exceed PLN 300,000 thousand (based on the par value of the bonds). The term of the Programme is five years. The bonds which have been issued are denominated in the Polish zloty and have been offered in a private placement. The bonds were issued as unsecured zero-coupon bearer bonds in book-entry form. The bonds will be redeemed at their par value.

As at December 31st 2010, the par value of issued bonds was PLN 53,000 thousand.

As at December 31st 2010, the Group's liabilities under outstanding notes were PLN 52,670 thousand.

All the bonds issued in 2010 were acquired by external investors.ętrzn.

No.	Issue date	Redemption date	Yield	Par value per bond (PLN '000)	Par value of series (PLN '000)	Discount (PLN '000)
1.	Nov 30 2010	Feb 28 2011	4.35%	100	20,000	141
2.	Dec 21 2010	Jan 21 2011	4.15%	100	20,000	48
3.	Dec 30 2010	Mar 30 2011	4.43%	100	13,000	141

During the year ended December 31st 2010, the par value of the bonds issued by the Group was PLN 103,000 thousand. During the year ended December 31st 2010, the company redeemed bonds with a total par value of PLN 50,000 thousand.

Proceeds from the bonds issued by the Group during the year ended December 31st 2010 totalled PLN 102,670 thousand, while costs incurred under the bonds issued by the Group during the same year totalled PLN 50,000 thousand.

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36. Provisions

PLN '000	Dec 31 2010	Dec 31 2009
Long-term provisions		
Provision for land reclamation	40,986 ⁽¹⁾	26,656
Length-of-service awards and retirement severance pays	95,370	87,961
Provision for Offshore Oil and Gas Facilities	183,950	160,026
Other provisions	416	414
Total non-current provisions	320,722	275,057
Current provisions		
Provision for land reclamation	130	2,744
Length-of-service awards and retirement severance pays	12,459	10,733
Provision for Offshore Oil and Gas Facilities	2,400	2,400
Other provisions	5,229	23,020
Total current provisions	20,218	38,897
Total	340,940	313,954

⁽¹⁾ including PLN 34,599 thousand comprising the value of the provision for land reclamation and the cost of dismantlement and decommissioning of retired installations at LOTOS Czechowice S.A. An assessment of the land and water environment, geological structure of the area and an analysis of the potential costs of land reclamation methods used at LOTOS Czechowice S.A., carried out by an independent entity as at December 31st 2010, enabled the Group to determine a revalued amount of the provision at PLN 18,900 thousand, which in the Group's opinion, is a reliable estimate. The cost of dismantlement and decommissioning of retired installations was estimated at by a qualified property appraiser also at LOTOS Czechowice S.A. The revalued provision for the indispensable costs of dismantlement and decommissioning of permanently retired installations amounted to PLN 15,699 thousand.

The Group's computation of the provisions for employee benefits was based on the following assumptions:

- the long-term annual growth rate of remuneration: within the range 0% – 5%; in the following years: 1.5%– 7% (December 31st 2009: the long-term annual growth rate of remuneration: within the range 0% – 6.1%; in the following years: 1.5% – 7%),
- the discount rate for future payments of employee benefits is 5.8% (i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2009: 6.2%),
- the probability of employee attrition is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry,
- the adopted mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2009, published by the Polish Central Statistics Office (GUS) and assume that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2009: Life Expectancy Tables of Poland for 2008),
- it is assumed that the Company employees will retire according to the standard system, i.e. men – after reaching the age of 65, women – after reaching the age of 60, except for those employees who, based on the information provided by the Group, meet the conditions for early retirement.

36.1 Change in Provisions

The changes in provisions were as follows:

PLN '000	Provision for land reclamation	Length-of-service awards and retirement severance pays	Provision for Offshore Oil and Gas Facilities ⁽²⁾	Other provisions ⁽³⁾	Total
as at Jan 1 2009 (restated)	38,783	92,092	124,419	93,079	348,373
Increase, including:	7,800	36,603	39,792	5,823	90,018
- change in Group structure	5,255	35	-	829	6,119
- currency translation differences on foreign operations	-	-	1,024	5	1,029
Release	(3,068)	(12,993)	(1,785)	(51,437)	(69,283)
Use, including:	(14,115)	(17,008)	-	(24,031)	(55,154)
- changes in the Group's structure	-	-	-	(8,587)	(8,587)
Dec 31 2009 (restated)	29,400 ⁽¹⁾	98,694	162,426	23,434	313,954
Jan 1 2010	29,400	98,694	162,426	23,434	313,954
Increase, including:	15,210	32,695	25,774	4,778	78,457
- currency translation differences on foreign operations	-	-	716	2	718
Release	(3,494)	(6,332)	(1,836)	(17,272)	(28,934)
Use	-	(17,228)	(14)	(5,295)	(22,537)
Dec 31 2010	41,116	107,829	186,350	5,645	340,940

⁽¹⁾ In connection with the sale of the perpetual usufruct right to land by the LOTOS Czechowice Group to an unrelated third party, and considering that the LOTOS Czechowice Group was freed from all obligations under any administrative decisions relating directly to the said land, a portion of the provision for land reclamation was released (PLN 3,068 thousand) and a portion of the provision was used to pay the purchaser of the land a fee of PLN 14,115 thousand to cover the cost of performance of the obligations assumed by the purchaser.

⁽²⁾ As at December 31st 2010, the Management Board of LOTOS Petrobaltic S.A. analysed the costs needed to be incurred to decommission the Offshore Oil and Gas Facilities in the B-3 and B-8 mining areas, which were also worked in the previous years. The analysis found that the costs necessary to be incurred in future on decommissioning of the Offshore Oil and Gas Facilities in the mining areas increased in 2010 due to changes in the expected expenses due to price changes - by PLN 8,906 thousand (2009: PLN 15,853 thousand), and due to the passage of time and the related change in the time value of money - by PLN 8,038 thousand, charged to finance expenses in 2010 (2009: PLN 7,048 thousand).

As at the balance-sheet date, i.e. December 31st 2010, LOTOS Exploration and Production Norge AS recognised a provision for future costs related to the decommissioning of the Offshore Oil and Gas Facilities at the YME field in the amount of NOK 64,400 thousand (or PLN 32,657 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010). The liquidation of non-current assets of the Offshore Oil and Gas facilities at the YME field and land reclamation are scheduled for 2021. Compared with the provision of NOK 48,202 thousand (or PLN 23,841, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009) assessed as at December 31st 2009, the provision was increased by an upward adjustment in the estimated future costs amounting to NOK 12,129 thousand (PLN 6,151 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010) and by a discount representing the estimated changes in the time value of money amounting to NOK 4,097 thousand (PLN 2,078 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010). The amount of the provision was reduced due to the use of NOK 27,000 (PLN 14,000, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010).

Another change in the provision resulted from the fact that the amount corresponding to the contributions calculated and transferred to the bank account of the Mining Facilities Decommissioning Fund (pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) was released from the provision. For 2010, this amount totalled PLN 1,836 thousand (2009: PLN 1,485 thousand) jointly in respect of the B-3 and B-8 fields. As at December 31st 2010 the provision for decommissioning of the B-3 and B-8 Offshore Oil and Gas Facilities totalled PLN 153,963 thousand (December 31st 2009: PLN 138,585 thousand), and the value of the related asset was PLN 82,901 thousand as at December 31st 2010 (as at December 31st 2009: PLN 83,311 thousand).

⁽³⁾ The item "Other provisions" includes the following:

PLN '000	Provision for RN GLIMAR	Provision for Energobaltic	Special Account ⁽⁶⁾	Provision for business risk	Restructuring provision	Other	Total
as at Jan 1 2009	15,853	26,073	2,134	22,061	1,000	25,958	93,079
Increase, including:	-	-	-	459	1,464	3,900	5,823
- change in Group structure	-	-	-	-	-	829	829
- translation of foreign operations	-	-	-	-	-	5	5
Release	(15,853) ⁽⁴⁾	(26,073) ⁽⁵⁾	-	(2,400)	-	(7,111)	(51,437)
Use, including:	-	-	(671)	(7,820)	-	(15,540)	(24,031)
- change in Group structure	-	-	-	(7,361)	-	(1,226)	(8,587)
Dec 31 2009	-	-	1,463	12,300	2,464	7,207	23,434
Jan 1 2010	-	-	1,463	12,300	2,464	7,207	23,434
Increase, including:	-	-	1,000	-	-	3,778	4,778
- translation of foreign operations	-	-	-	-	-	2	2
Release	-	-	-	(12,103)	(1,028)	(4,141)	(17,272)
Use	-	-	(1,966)	-	(292)	(3,037)	(5,295)
Dec 31 2010	-	-	497	197	1,144	3,807	5,645

⁽⁴⁾ Grupa LOTOS S.A. and Rafineria Nafty GLIMAR S.A. signed loan agreements for the aggregate amount of PLN 90m, providing for the financing of Rafineria Nafty GLIMAR S.A.'s operating and investing activities, including in particular, the Glimar Hydrocomplex investment project. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty GLIMAR S.A. under these agreements. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. As at December 31st 2010 and December 31st 2009, impairment losses had been recognised on the full amounts of the assets under the advanced loans. Grupa LOTOS S.A. had also carried a provision for other liabilities under these agreements, in the amount of PLN 15,853 thousand, which was released in the year ended on December 31st 2009. *wiązana*.

⁽⁵⁾ In connection with the business combination described in **Note 20**, LOTOS Petrobaltic S.A. released a provision for business risk. The release of the provision, which covered debt claims under an agreement for a loan extended by Stablewood Power Ventures (Władysławowo) Ltd. to Energobaltic Sp. z o.o. and the par value of shares in Energobaltic Sp. z o.o. held by Stablewood Power Ventures (Władysławowo) Ltd., was recognised as finance income.

⁽⁶⁾ On June 28th 2010, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the 2009 net profit. Under the resolution, a portion of the Company's net profit, in the amount of PLN 1,000 thousand, was transferred to the Company's special account dedicated to financing corporate social responsibility (CSR) projects. Amounts contributed to the special account provision are charged against other operating expenses. In the year ended December 31st 2010, the Company used funds from the special account in the amount of PLN 1,966 thousand (in 2009: PLN 671 thousand).

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37. Trade and Other Payables, Accruals and Deferred Income, and Other Liabilities

37.1 Trade and Other Payables, Accruals and Deferred Incomeee biernie

PLN '000	Dec 31 2010	Dec 31 2009 (restated)
Trade payables	1,832,545	893,737
Liabilities to the state budget other than corporate income tax	759,184	670,275 ⁽¹⁾
Special accounts	21,871	19,054
Salaries and wages payable	13,052	17,346
Accrued expenses	137,281	112,558
Deferred income, including:	48,315	46,195
- subsidies	40,012	40,343
- other	8,303	5,852
Investment liabilities	139,530	109,708
Liabilities towards insurers	22,201	15,717
Other liabilities	26,938	58,194
Liabilities related to assets held for sale	173 ⁽²⁾	-
Total	3,001,090	1,942,784
Non-current portion	40,141	52,130
Current portion	2,960,776	1,890,654
Liabilities related to assets held for sale	173	-

⁽¹⁾ The value of public charges other than corporate income tax as at December 31st 2009 was presented net of fuel charge of PLN 22,644 thousand incurred in relation to imported diesel oil and fuel sales. The fuel charge wrongly paid on fuel sales and diesel oil imports was reimbursed to the Company by the customs office by the end of 2010.

⁽²⁾ Relates to PLASTEKOL Organizacja Odzysku S.A. (see Note 22).

Transactions with related undertakings are presented in Note 39.1.

Trade payables do not bear interest and are, as a rule, settled on a 3–60 day basis. Other liabilities do not bear interest, and their average payment period is three months. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

Pursuant to Art. 8 of the Excise Duty Act of December 6th 2008 (Dz. U. No. 3, item 11/2008), a tax liability arises e.g. at the moment of taking harmonised excise goods out of a bonded warehouse. The Parent Undertaking and some other Group companies operate registered bonded warehouses, in which harmonised excise goods are subject to suspended-excise-tax procedure and may be the object of the actions provided for in the Excise Duty Act.wym.

37.2 Other Financial Liabilities

PLN '000	Dec 31 2010	Dec 31 2009
Negative valuation of derivative financial instruments:	279,807	236,371

- commodity swaps (raw materials and petroleum products)	3,517	-
- futures (CO ₂ emissions)	463	675
- currency forward and spot contracts	41,654	12,798
- forward rate agreements (FRAs)	340	-
- interest rate swap (IRS)	227,897	219,720
- currency swap	5,936	3,178
Lease liabilities	74,255	83,149
Total financial liabilities	354,062	319,520
Non-current liabilities	179,096	300,389
Current liabilities	174,966	19,131

As at December 31st 2010, negative valuation of financial instruments related to mandatory hedging agreements over which an assignment was created as security for the credit facility referred to in **Note 34** amounted to PLN 120,822 thousand (December 31st 2009: PLN 159,689 thousand).

37.3 Finance Lease Liabilities

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2010	Dec 31 2009	Dec 31 2010	Dec 31 2009
Up to 1 year	21,115	24,700	2,696	2,845
From 1 to 5 years	86,070	114,101	32,774	23,822
Over 5 years	51,762	74,222	38,785	56,482
Total	158,947	213,023	74,255	83,149
Less future finance charges	(84,692)	(129,874)	-	-
Present value of minimum lease payments	74,255	83,149	74,255	83,149
Non-current portion			71,559	80,304
Current portion			2,696	2,845

Rolling stock is the largest category of assets used by the Group under finance leases.

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38. Contingent Liabilities

38.1 Contingent Liabilities under Issued Sureties, Guarantees and Promissory Notes

Contingent Liabilities under Issued Sureties and Guarantees

December 31st 2010 (PLN '000)	Value of contingent liability in foreign currency	Currency of contingent liability	Value of contingent liability in PLN ⁽¹⁾	Contingent liability expiry date	Bank or other institution which issued the contingent liability instrument	Type of contingent liability instrument issued / information on debtor
Contingent liability instruments issued by or upon the instructions of Grupa LOTOS S.A.						
VITOL S.A.	9,130	USD	27,062	Jan 15 2011 ⁽²⁾	Deutsche Bank S.A.	Stand-by letter of credit
Other (each with a unit value of less than PLN 1,000 thousand)	734	PLN	734	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	169	EUR	669	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	36	USD	107	-	-	Bank guarantees
Total contingent liability instruments issued by or upon the instructions of Grupa LOTOS S.A.			28,572			
Contingent liability instruments issued by or upon the instructions of the LOTOS Group companies						
Government of Norway	-	-	-	unspecified	LOTOS Petrobaltic S.A.	Guarantee covering all the activities undertaken by LOTOS Exploration and Production Norge AS as part of its exploration and production operations on the Norwegian Continental Shelf
National Fund for Environmental Protection and Water Management	25,056 ⁽³⁾	PLN	25,056	Feb 20 2015	Bank Pekao S.A.	Bank guarantee
Other, including:	15,975	PLN	15,975	-	-	-
bank guarantees	5,614	PLN	5,614	-	-	-
bank performance bonds	10,361	PLN	10,361	-	-	-
Other (EUR)	143	EUR	566	-	-	-
Total other contingent liability instruments issued by or upon the instructions of the LOTOS Group companies			41,597			

TOTAL FOR THE GROUP

70,169

(1) Contingent liabilities in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2010.

(2) Contingent liabilities expired upon the lapse of their validity term.

(3) The bank guarantee secures the PLN 35,000 thousand loan of June 29th 2007 contracted by LOTOS Biopaliwa Sp. z o.o. with the National Fund for Environmental Protection and Water Management.

December 31st 2009 (PLN '000)	Value of contingent liability in foreign currency	Currency of contingent liability	Value of contingent liability in PLN ⁽¹⁾	Contingent liability expiry date	Bank or other institution which issued the contingent liability instrument	Type of contingent liability instrument issued / information on debtor
Beneficiary						
Contingent liability instruments issued by or upon the instructions of Grupa LOTOS S.A.						
Head of the Customs Office in Pruszków	1,500	PLN	1,500	Feb 26 2010 ⁽²⁾	Bank PKO BP S.A.	Bank guarantee
TOTAL DEUTSCHLAND GmbH	10,500 ⁽³⁾	USD	29,928	Jan 29 2010 ⁽³⁾	Deutsche Bank Polska S.A.	Bank guarantee of payment
TOTAL DEUTSCHLAND GmbH	10,500	USD	29,928	Jan 31 2010 ⁽⁴⁾	Bank Pekao S.A.	Bank guarantee of payment
Gunvor International B.V.	852 ⁽⁵⁾	USD	2,428	Jan 15 2010 ⁽⁴⁾	Deutsche Bank Polska S.A.	Documentary letter of credit – security for a contract
Gunvor International B.V.	8,800	USD	25,083	Feb 15 2010 ⁽⁴⁾	Bank Pekao S.A.	Stand-by letter of credit – security for a contract
Head of the Customs Office in Pruszków	16,000	PLN	16,000	Feb 26 2010 ⁽⁶⁾	Bank PKO BP S.A.	Bank guarantee
Head of the Customs Office in Pruszków	1,700	PLN	1,700	Jul 15 2010 ⁽⁴⁾	Bank PKO BP S.A.	Bank guarantee
Head of the Customs Office in Pruszków	3,300	PLN	3,300	Jul 15 2010 ⁽⁴⁾	Bank PKO BP S.A.	Bank guarantee
Head of the Customs Office in Pruszków	5,000	PLN	5,000	Jul 15 2010 ⁽⁴⁾	Bank PKO BP S.A.	Bank guarantee
Other (each with a unit value of less than PLN 1,000 thousand)	550	PLN	550	-	-	Bank guarantee
Other (each with a unit value of less than PLN 1,000 thousand)	123	EUR	505	-	-	Bank guarantee
Other (each with a unit value of less than PLN 1,000 thousand)	36	USD	103	-	-	Bank guarantee
Total contingent liability instruments issued by or upon the instructions of Grupa LOTOS S.A.			116,025			

Contingent liability instruments issued by or upon the instructions of the LOTOS Group companies

Government of Norway	-	-	-	unspecified	LOTOS Petrobaltic S.A.	Guarantee covering all the activities undertaken by LOTOS Exploration and Production Norge AS as part of its exploration and production operations on the Norwegian Continental Shelf
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National Fund for Environmental Protection and Water Management	31,556 ⁽⁷⁾	PLN	31,556	Feb 20 2015	Bank Pekao S.A.	Bank guarantee
Other, including:	13,177	PLN	13,177	-	-	-
bank guarantees	1,185	PLN	1,185	-	-	-
bank performance bonds	10,415	PLN	10,415	-	-	-
Other (EUR)	253	EUR	1,039	-	-	-
Total other contingent liability instruments issued by or upon the instructions of the LOTOS Group companies			45,772			
TOTAL FOR THE GROUP			161,797			

⁽¹⁾ Contingent liabilities in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2009.

⁽²⁾ The original validity term of the guarantee was December 31st 2009, but was subsequently extended until September 30th 2010 and then, on November 20th 2009, until October 31st 2010. As the security for excise duty expired, the original guarantee document was returned to the issuer and on February 26th 2010 the liability ceased to exist.

⁽³⁾ With effect from August 1st 2009, the guarantee amount was changed from USD 18,000 thousand to USD 10,500 thousand. The guarantee expired upon the lapse of its validity term.

⁽⁴⁾ Guarantee/letter of credit expired upon the lapse of its validity term.

⁽⁵⁾ Documentary letter of credit issued for the amount of USD 7,150 thousand.

⁽⁶⁾ The guarantee was to expire on September 30th 2010. As the security for excise duty expired, the original guarantee document was returned to the issuer and on February 26th 2010 the liability ceased to exist.

⁽⁷⁾ The bank guarantee secures the PLN 35,000 thousand loan of June 29th 2007 contracted by LOTOS Biopaliwa Sp. z o.o. with the National Fund for Environmental Protection and Water Management.

Contingent Liabilities under Promissory Notes

December 31st 2010 (PLN '000)	Amount of promissory note(s) in foreign currency	Currency of promissory note(s)	Amount of promissory note(s) in PLN ⁽¹⁾	Expiry date of promissory note(s)	Type
Promissory notes issued by Grupa LOTOS S.A.					
Head of the Customs Office in Gdańsk	240,000	PLN	240,000	Aug 19 2011	Lump sum security for a tax liability of PLN 800,000 thousand
PKO BP S.A.	200,000	PLN	200,000	Aug 25 2011 ⁽²⁾	Security for a bank loan
Total promissory notes issued by Grupa LOTOS S.A.			440,000		
Promissory notes issued by the LOTOS Group companies					
Head of the Customs Office in Gdańsk	10,000	PLN	10,000	Apr 30 2011	Security for a tax liability
Head of the Customs Office in Gdańsk	5,000	PLN	5,000	Feb 28 2011 ⁽³⁾	Security for a tax liability
National Fund for Environmental Protection and Water Management	1,500	PLN	1,500	Sep 30 2012	Security for a subsidy
Head of the Customs Office in Bielsko-Biała	7,000	PLN	7,000	Feb 29 2012 ⁽⁴⁾	Security for excise duty
BRE Bank S.A.	30,000	PLN	30,000	Mar 15 2012 ⁽⁵⁾	Security for a bank loan
PKO BP S.A.	100,000	PLN	100,000	Apr 16 2011 ⁽⁶⁾	Security for a bank loan

Head of the Customs Office in Bielsko-Biala	13,174	PLN	13,174	Jun 30 2011	Global excise duty security (guarantee) related to the movement of excise goods between warehouses under a duty suspension arrangement
Bank Polska Kasa Opieki S.A.	200,000	PLN	200,000	-(7)	Security for a bank loan
Stablewood Power Ventures (Wladyslawowo) Ltd.	13,000	USD	38,533	Jun 30 2013 (8)	Security for cash liabilities under acquisition of shares and debt claims
Bank Ochrony Środowiska S.A.	27,413	PLN	27,413	Jun 30 2016	Security for liabilities under bank loan agreements
Bank Ochrony Środowiska S.A.	9,490	PLN	9,490	Dec 20 2016	Security for liabilities under bank loan agreements
BRE BANK S.A.	20,000	PLN	20,000	Jun 15 2011	Security for liabilities under bank loan agreements
Millennium Leasing Sp. z o.o.	11,192 (9)	EUR	44,324 (10)	-	Security for liabilities under lease agreements
NORDEA FINANCE POLSKA S.A.	18,582 (9)	EUR	73,590 (11)	-	Security for liabilities under lease agreements
Other (each with a unit value of less than PLN 1,000 thousand)	1,490	PLN	1,490	-	-
Total promissory notes issued by the LOTOS Group companies			581,514		
TOTAL FOR THE GROUP			1,021,514		

(1) Contingent liabilities in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2010.

(2) On August 25th 2010, an annex to the credit facility agreement was executed under which the credit facility term end date was changed to August 25th 2011 and the credit facility amount was changed from PLN 250,000 thousand to PLN 200,000 thousand.

(3) Contingent liability expired upon the lapse of its validity term.

(4) The original validity term (February 28th 2011) was extended until February 29th 2012.

(5) The original validity term was extended until March 15th 2012.

(6) The original validity term was extended until April 16th 2011.

(7) Bank loan agreement of November 15th 2010.

(8) The date of payment of the last instalment of the price for the acquisition of shares and debt claims from Stablewood Power Ventures (Wladyslawowo) Ltd.

(9) The value of leased assets.

(10) As at December 31st 2010, the value of liabilities under lease payments was PLN 14,959 thousand.

(11) As at December 31st 2010, the value of liabilities under lease payments was PLN 43,381 thousand.

December 31st 2009 (PLN '000)	Amount of promissory note(s) in foreign currency	Currency of promissory note(s)	Amount of promissory note(s) in PLN(1)	Expiry date of promissory note(s)	Type
Promissory notes issued by Grupa LOTOS S.A.					
Head of the Customs Office in Gdańsk	200,000	PLN	200,000	Jul 8 2010 (2)	Security for a tax liability
Head of the Customs Office in Gdańsk	200,000	PLN	200,000	Jul 6 2010 (2)	Security for a tax liability
Head of the Customs Office in Gdańsk	400,000	PLN	400,000	Jan 13 2011 (3)	Security for a tax liability

PKO BP S.A.	250,000	PLN	250,000	Aug 25 2010	Security for a bank loan
Total promissory notes issued by Grupa LOTOS S.A.			1,050,000		
Promissory notes issued by the LOTOS Group companies					
Head of the Customs Office in Gdańsk	10,000	PLN	10,000	Apr 30 2010 ⁽²⁾	Security for a tax liability
Head of the Customs Office in Gdańsk	5,000	PLN	5,000	Feb 28 2011	Security for a tax liability
National Fund for Environmental Protection and Water Management	1,500	PLN	1,500	Sep 30 2012	Security for a subsidy
Nafta Polska S.A.	9,000	PLN	9,000	Jan 19 2010 ⁽⁴⁾	Performance bond
Minister of Economy	5,675	PLN	5,675	Mar 31 2010 ⁽⁵⁾	Performance bond
PKO BP S.A.	11,000	PLN	11,000	Jun 30 2012 ⁽⁶⁾	Security for a bank loan
National Fund for Environmental Protection and Water Management	4,181	PLN	4,181	Mar 30 2011 ⁽⁷⁾	Security for a loan
Nordea Bank Polska S.A.	50,000	PLN	50,000	- ⁽⁸⁾	Security for a working capital overdraft facility
Nordea Bank Polska S.A.	100,000	PLN	100,000	- ⁽⁹⁾	Security for a revolving working capital facility, bank guarantees and letters of credit
Stablewood Power Ventures (Władysławowo) Ltd.	13,000	USD	37,054	Jun 30 2013 ⁽¹⁰⁾	Security for cash liabilities under acquisition of shares and debt claims
Bank Ochrony Środowiska S.A.	27,413	PLN	27,413	Jun 30 2016	Security for liabilities under bank loan agreements
Bank Ochrony Środowiska S.A.	9,490	PLN	9,490	Dec 20 2016	Security for liabilities under bank loan agreements
NORDEA FINANCE POLSKA S.A.	18,582 ⁽¹¹⁾	EUR	76,339 ⁽¹²⁾	-	Security for liabilities under lease agreements
Other (each with a unit value of less than PLN 1,000 thousand)	1,716	PLN	1,716	-	-
Total promissory notes issued by the LOTOS Group companies			348,368		
TOTAL FOR THE GROUP			1,398,368		

⁽¹⁾ Contingent liabilities in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2009.

⁽²⁾ Contingent liabilities expired upon the lapse of their validity term.

⁽³⁾ On November 16th 2010, the promissory note was returned to Grupa LOTOS S.A. The Company withdrew the security for excise duty in the form of the promissory note as it obtained the right to provide partial flat-rate security.

⁽⁴⁾ On February 16th 2010, nine blank promissory notes issued for the benefit of Nafta Polska S.A. were returned to LOTOS Jasło S.A.

⁽⁵⁾ On June 15th 2010, the blank promissory note was returned to LOTOS Jasło S.A.

⁽⁶⁾ On July 22nd 2010, the blank promissory notes were returned to LOTOS Jasło S.A. following the termination of the loan agreement with PKO BP S.A. as of May 27th 2010.

⁽⁷⁾ As at September 30th 2010, the loan had been repaid and on November 29th 2010 the promissory note was returned.

⁽⁸⁾ The credit facility was made available for the period from May 19th 2009 to November 18th 2010, the promissory note was returned.

⁽⁹⁾ The credit facility was made available for the period from May 19th 2009 to November 18th 2010, the promissory note was returned.

⁽¹⁰⁾ The date of payment of the last instalment of the price for the acquisition of shares and debt claims from Stablewood Power Ventures (Władysławowo) Ltd.

⁽¹¹⁾ The value of leased assets.

(12) As at December 31st 2009, the value of liabilities under lease payments was PLN 25,764 thousand.

Other Material Changes in Contingent Liabilities

1. On July 24th 2009, the District Court of Katowice decided to enter in the register of pledges a pledge over the inventories of LOTOS Biopaliwa Sp. z o.o. which – along with an assignment of the insurance policy pursuant to an annex to the loan agreement – served as security for the repayment of the entire amount of the PLN 30,000 thousand loan advanced by Bank Pekao S.A. At the company's request and with the bank's consent, on April 1st 2010 the District Court of Katowice deleted the pledge from the register of pledges.
2. In compliance with the provisions of the investment loan agreement of December 14th 2006, on January 8th 2010 by virtue of a decision of the District Court of Katowice a pledge over a set of movables of LOTOS Biopaliwa Sp. z o.o. (in the form of the fatty acid methyl esters (FAME) production installation) for up to PLN 113,546 thousand was entered into the register of pledges.
3. On February 11th 2010, by virtue of a decision of the District Court of Katowice, a pledge over a set of inventories of LOTOS Biopaliwa Sp. z o.o. for up to PLN 45,000 thousand was registered. The pledge constitutes security for repayment of an overdraft facility contracted with Bank Pekao S.A. of Warsaw on February 4th 2010 (contractual overdraft facility limit: PLN 30,000 thousand).
4. In connection with the loans advanced by Bank Ochrony Środowiska S.A. (the "Bank") to Energobaltic Sp. z o.o. ("Energobaltic") under (i) the investment loan agreement of September 11th 2001, and (ii) the preferential investment loan agreement of September 11th 2001 for environmental protection purposes, on December 12th 2001 LOTOS Petrobaltic S.A. made a representation to the Bank, amended by a representation made by the shareholders on November 6th 2006, whereby it agreed (below are presented currently binding terms and conditions):
 - to apply a part of net profit (whose amount in a given year may not exceed the amounts shown in the Bank-approved final financial projection for the project financed with the loan) towards share capital increase at Energobaltic Sp. z o.o.;
 - not to dispose of or encumber its shares in Energobaltic Sp. z o.o. without a prior consent of the Bank, provided that the Bank's consent may not be unreasonably withheld.

Failure to discharge the Shareholders' Obligation may result in termination of the loan agreements by the Bank. Concurrently, LOTOS Petrobaltic S.A. will be released from the Shareholders' Obligation if each of the following conditions is met:

- LOTOS Petrobaltic S.A. provides the Bank and Energobaltic Sp. z o.o. with a written notification to the effect that production from the B-8 oil field has commenced, and – after the first three months of production from the B-8 field – LOTOS Petrobaltic S.A. confirms in the same manner that the gas volume estimates for the field included in the gas supply forecast of December 7th 2005, submitted to the Bank by Energobaltic Sp. z o.o., were correct, and
- the economic and financial standing of Energobaltic Sp. z o.o. poses no threat to timely repayment of the loans.

38.2 Contingent Investment Commitments

As at December 31st 2010, the Company's commitments under material agreements related to expenditure on property, plant and equipment (the 10+ Programme) amounted to PLN 29.8m (PLN 590m as at December 31st 2009).

38.3 Carbon Dioxide (CO₂) Emission Allowances

As at December 31st 2010 and December 31st 2009, the Group reported an excess of the carbon dioxide (CO₂) emission allowances it had been allocated over its actual carbon dioxide (CO₂) emissions (see **Note 41**).

On July 1st 2008, the Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Dioxide (CO₂) Emission Allowances for 2008-2012, issued under the EU carbon dioxide (CO₂) emission trading scheme to existing installations and installations undergoing modification (Dz. U. of November 14th 2008, No. 202, item 1248). In accordance with the current legislation, allowances under Phase II (2008-2012) were allocated free of charge to all the installations covered by the emission trading scheme.

The aggregate annual average carbon dioxide (CO₂) allowance granted to the Group companies in 2010 was 1,236 thousand tonnes. Additionally, by virtue of the decision of the Marshal of the Gdańsk Province, dated January 18th 2011, Grupa LOTOS S.A. obtained allowances for 143 thousand tonnes, to be used by the Company's CHP. In total, for 2010 the Group companies were granted allowances for 1,379 thousand tonnes of carbon dioxide (CO₂).

In the year ended December 31st 2010, the actual carbon dioxide (CO₂) emissions from the Group's installations to which the regulation applies were 1,171 thousand tonnes.

In line with the Council of Ministers' regulation, for 2011-2012 the Group was granted average annual allowance of

1,228 thousand tonnes of carbon dioxide (CO₂). Additionally, by virtue of the decisions of the Marshal of the Gdańsk Province of January 18th 2011, per each of the years 2011–2012 Grupa LOTOS S.A. was granted allowances for 143 thousand tonnes for the CHP plant, and for 433 thousand tonnes for the refinery. In total, for each of the years in the period 2011-2012 the Group was granted allowances for 1,804 thousand tonnes of carbon dioxide (CO₂).

38.4 Material Court, Arbitration or Administrative Proceedings and Other Risks Relating to the Parent Undertaking or its Subsidiaries

Material Proceedings Pending before Public Administration Authorities in Connection with the Parent Undertaking's Business

On March 21st 2005, the President of the Competition and Consumer Protection Office issued a decision whereby anti-trust proceedings were instigated ex officio to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Plock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the U95 universal gasoline. In the opinion of the Company's Management Board, given that in fact the production and sale of the U95 universal gasoline were not discontinued, the allegations of the Competition and Consumer Protection Office are unfounded. In April 2005, the Management Board motioned for issuing a decision to the effect that Grupa LOTOS S.A. has not been found to use practices restricting competition.

In July 2005, the Company appealed to the Anti-Monopoly Court against the Competition and Consumer Protection Office's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005 the Company filed another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use monopolistic practices. In October 2005, the Company received another decision of the Competition and Consumer Protection Office concerning limitation of access to a part of the evidence, against which the Company appealed to the Anti-Monopoly Court. The Regional Court - Competition and Consumer Protection Court, dismissed the appeals. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Court's decisions, but those appeals were dismissed as well.

Pursuant to a Decision of April 18th 2007, Grupa LOTOS S.A.'s right of access to evidence in the anti-trust proceedings, namely to the materials obtained during inspections at PKN ORLEN S.A.'s offices, was restricted on the basis of a petition submitted by PKN ORLEN S.A. The restriction concerned the report on inspection of the offices in Warsaw together with appendices to the report, and a part of appendices to the report on inspection of the offices in Plock. Under the same Decision, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Plock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to the Office on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to the Office to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of the Office imposed a fine of PLN 1,000 thousand on Grupa LOTOS S.A. Consequently, on January 17th 2008, an appeal against the decision was filed with the Regional Court of Warsaw.

On September 23rd 2008, the Regional Court of Warsaw - Competition and Consumer Protection Court sent a response by the President of the Competition and Consumer Protection Office to the appeal submitted by Grupa LOTOS S.A. against the President's decision. In response to Grupa LOTOS S.A.'s appeal, the President of the Competition and Consumer Protection Office stated that Grupa LOTOS S.A.'s objections both with reference to substantive and procedural laws were unfounded and requested that the appeal be dismissed in its entirety and that the President be awarded the costs of legal representation.

On April 27th 2010, the Court adjourned the rendering of judgment until May 6th 2010. On May 6th 2010, the Regional Court of Warsaw passed a decision dismissing the appeal against the decision of the Competition and Consumer Protection Office concerning anti-trust proceedings initiated ex officio as a result of the decision issued by the President of the Competition and Consumer Protection Office on March 21st 2005 concerning distribution of the U95 universal gasoline, and upheld the fines of PLN 1,000 thousand and PLN 4,000 thousand imposed by the Competition and Consumer Protection Office respectively on Grupa LOTOS S.A. and PKN ORLEN S.A. The court ruling dismissing the appeal against the President's decision was received on June 15th 2010. On June 28th 2010, Grupa LOTOS S.A. lodged an appeal against the court ruling. Subsequently, Grupa LOTOS S.A. and the Competition and Consumer Protection Office responded to the appeal by PKN ORLEN S.A., while PKN ORLEN S.A. and the Competition and Consumer Protection Office responded to the appeal by Grupa LOTOS S.A. On February 11th 2011, the Court issued a ruling dismissing the appeal lodged by Grupa LOTOS S.A. and PKN ORLEN S.A. Having analysed the grounds for this decision, the Company will consider filing a cassation complaint. As at the date of approval of these consolidated financial statements, the case was pending.

Provisions for potential liabilities in the amount of PLN 1,000 thousand were created in these consolidated financial statements to cover the risk of losing a potential dispute. On March 10th 2011, the Company paid the liability of PLN 1,000 thousand, imposed under the court ruling of February 11th 2011.

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Czechowice S.A.'s Business

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

Proceedings Related to Value Added Tax for Certain Months of 1998

In connection with the tax inspections and the resulting decisions related to the value added tax, on December 29th 2003 Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) filed complaints with the Supreme Administrative Court against three decisions of the Head of the Tax Chamber of Katowice, concerning the value added tax for October 1998, July 1998 and May 1998. The total value of the disputed claims amounted to PLN 1,229 thousand. Decisions were issued in all of the above cases. Cassation complaints have been filed against all of the above decisions by Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.), in the case of the tax for July 1998, and by the Tax Chamber Head, in the case of the tax for October 1998, for July 1998 and for May 1998.

LOTOS Czechowice S.A. paid the amounts of VAT together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

In December 2005, LOTOS Czechowice S.A. received the following decisions of the Supreme Administrative Court:

- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for October 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for May 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
- a decision upholding the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for July 1998); the Supreme Administrative Court resolved not to award costs of cassation proceedings.

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against rulings by the Provincial Administrative Court of Gliwice of April 27th 2006 in the following cases:

- the case relating to the tax for May 1998 (PLN 318 thousand),
- the case relating to the tax for October 1998 (PLN 618 thousand).

By virtue of decision of November 27th 2006, the Provincial Administrative Court of Gliwice dismissed the cassation complaint concerning the tax for October 1998. Currently, the proceedings are pending before the Constitutional Court concerning breach of the Constitution, committed by issuing a decision on dismissal of the cassation complaint.

With respect to the case concerning overpayment of VAT for August 1998, in the amount of PLN 292.7 thousand, the Provincial Administrative Court of Gliwice dismissed the complaint against the decision of the Tax Chamber Head by virtue of the ruling of June 26th 2007. The ruling was appealed against by LOTOS Czechowice S.A. to the Supreme Administrative Court; the case is pending.

On December 29th 2007, the Supreme Administrative Court dismissed the cassation complaint concerning the tax for May 1998. The company appealed to the last instance authority and lodged a complaint to the Constitutional Court, which may repeal the decisions of the tax authorities as issued on the basis of unconstitutional provisions of the regulations of the Minister of Finance. The objection in the complaint concerns exceeding the statutory competence of the Minister of Finance as regards issuing regulations.

The proceedings do not pose any financial threat to the company as additional liabilities resulting from the decisions issued by the tax authorities were paid along with interest in the previous years and may only be a source of additional income for LOTOS Czechowice S.A.

Proceedings Related to Excise Duty for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against LOTOS Czechowice S.A., related to the decisions concerning excise duty for certain months of 1998, against which the LOTOS Czechowice S.A. submitted appeals to the administrative court. The total value of the claims disputed under appeal proceedings is PLN 2,881 thousand.

The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise duty for September 1998, August 1998 and June 1998. By virtue of the Supreme Administrative Court's ruling, the Provincial Administrative Court's decision regarding excise duty for September 1998, August 1998 and June 1998 was repealed in full and remanded for re-examination.

LOTOS Czechowice S.A. paid the amounts of excise duty together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against the decisions of the Provincial Administrative Court of Gliwice dated April 27th 2006 in the cases concerning taxes for:

- September 1998 – PLN 52.5 thousand,
- August 1998 – PLN 842 thousand,

- June 1998 – PLN 468.8 thousand,

Considering the case of the tax for October 1998, in the amount of PLN 1,138.8 thousand, the Provincial Administrative Court of Gliwice suspended the proceedings.

No negative tax consequences for LOTOS Czechowice S.A. may arise in connection with these proceedings; they may only be a source of additional income.

By virtue of the decision of the Provincial Administrative Court of Gliwice, dated October 16th 2006, issued in the proceedings regarding tax for August 1998 (with respect to the request for returning the difference between the court fee actually paid and the court fee due), the Provincial Administrative Court decided to return PLN 57.9 thousand to LOTOS Czechowice S.A.

On December 29th 2007, the Supreme Administrative Court issued a ruling dismissing the cassation complaints in the following cases:

- the case relating to the tax for September 1998 (PLN 52.5 thousand),
- the case relating to the tax for August 1998 (PLN 842 thousand),
- the case relating to the tax for June 1998 (PLN 468.8 thousand).

The company appealed to the last instance authority and lodged a complaint to the Constitutional Court, which may repeal the decisions of the tax authorities as issued on the basis of unconstitutional provisions of the regulations of the Minister of Finance. The objection stated in the complaint refers to the fact that in issuing the regulations the Minister of Finance acted beyond the scope of his statutory mandate.

The proceedings do not pose any financial threat to the company, and may only be a source of additional income (as additional liabilities resulting from the decisions issued by the tax authorities were paid along with interest in the previous years).

Inspection Related to Excise Duty Liabilities for Certain Months of 2004

At LOTOS Czechowice S.A., the Head of the Customs Office of Bielsko-Biala carried out an inspection to determine the correct amount of excise duty payable for the period from January 1st 2004 to September 30th 2004, in connection with the sale of oil for B ceramic moulds. As a result of the inspection, fiscal proceedings were instigated on May 18th 2005 on an ex officio basis. On May 5th 2006, LOTOS Czechowice S.A. received four decisions issued by the Head of the Customs Office of Bielsko-Biala, determining the excise duty liability for January, February, and March 2004. The proceedings aimed at determining the excise duty liability for April 2004 were discontinued. On May 19th 2006, the company filed with the Director of the Customs Chamber an appeal against the aforementioned decisions as well as requests to stay execution of the decisions. In August 2006, the company received decisions issued by the Head of the Customs Office, which discontinued the proceedings concerning excise duty for May–September 2004. On October 17th 2006, LOTOS Czechowice S.A. received a decision of the Director of the Customs Chamber of Katowice, setting the deadline by which the appeals against the decisions issued by the Head of the Customs Office of Bielsko-Biala, determining the excise duty liability for January–March 2004, would be considered, i.e. December 13th 2006. In the decision of February 9th 2007, Director of the Customs Chamber of Katowice set the deadline for resolving the case at April 13th 2007. By virtue of the decision of June 17th 2007, Director of the Katowice Customs Chamber set yet another deadline for resolving the case – August 13th 2007, and pursuant to its most recent decision of August 13th 2007, the Director of the Customs Office of Katowice set October 13th 2007 as the deadline for considering the appeal. On October 19th 2007, LOTOS Czechowice S.A. received three decisions issued by the Director of the Customs Chamber of Katowice, repealing in full the decisions determining the amount of excise duty liability for January, February, and March 2004, passed by the Head of the Customs Office of Bielsko-Biala. The case was remanded for re-examination by the first instance body. On November 19th 2007, LOTOS Czechowice S.A. filed with the Provincial Administrative Court three complaints against the decisions issued by the Director of the Customs Chamber of Katowice which repealed the decisions of the Head of the Customs Office of Bielsko-Biala and remanded the cases back to the Head of the Customs Office of Bielsko-Biala. On April 2nd 2008, court hearings were held concerning the aforementioned complaints, and rulings were issued whereby the complaints were dismissed. After LOTOS Czechowice S.A. had requested and received the written statements of reasons, the Management Board resolved not to file complaints to the Supreme Administrative Court. As a result, the cases were remanded back to the first instance body, i.e. to the Head of the Customs Office of Bielsko-Biala, for re-examination.

By virtue of its decisions of January 7th 2009, the Head of the Customs Office of Bielsko-Biala set March 18th 2009 as a new deadline for resolving the cases concerning the excise duty liability for the period January – March 2004. Subsequently, by virtue of the decisions issued on June 29th 2009 by the Head of the Customs Office of Bielsko-Biala, a new deadline for resolving the cases concerning the excise duty liability for the period January – March 2004 was set for July 31st 2009.

LOTOS Czechowice S.A. received three decisions, dated July 27th 2009, issued by the Head of the Customs Office of Bielsko-Biala, determining the amounts of excise duty liability which exceeded the excise duty liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 1,239 thousand – with respect to the excise duty liability for January 2004,

- by PLN 538 thousand – with respect to the excise duty liability for February 2004,
- by PLN 8 thousand – with respect to the excise duty liability for March 2004.

On August 13th 2009, LOTOS Czechowice S.A. lodged an appeal against the decisions with the Director of the Customs Chamber of Katowice. Upon examination of the appeals, by virtue of decisions issued on November 17th 2009, the Director of the Customs Chamber of Katowice reversed the decisions appealed against and remanded the case for re-examination by the first instance body.

By virtue of the decisions of March 3rd 2010, the Head of the Customs Office of Bielsko-Biala set the deadline for resolving the case at May 5th 2010.

On April 19th 2010, LOTOS Czechowice S.A. received the decisions issued on April 14th 2010 by the Head of the Customs Office of Bielsko-Biala relating to excise duty liabilities for January–March 2004, which again determined the amounts of excise duty liabilities exceeding the excise duty liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 1,239 thousand - with respect to the excise duty for January 2004
- by PLN 538 thousand - with respect to the excise duty for February 2004
- by PLN 8 thousand - with respect to the excise duty for March 2004.

On May 4th 2010, appeals were lodged against the above decisions with the Director of the Customs Chamber of Katowice through the agency of the Head of the Customs Office of Bielsko-Biala. On June 7th 2010, LOTOS Czechowice S.A. sent to the Director of the Customs Chamber of Katowice a court paper to which it attached a supplementary expert opinion confirming the correctness of its position.

On September 3rd 2010, the Director of the Customs Chamber of Katowice issued a decision whereby it revoked the decision of the Head of the Customs Office of Bielsko-Biala concerning excise duty for the period January - March 2004 and discontinued the proceedings.

Proceedings Concerning Excise Duty Liabilities for the Period September 1st – December 31st 2003

On April 12th 2006, the Head of the Customs Office in Bielsko-Biala instigated proceedings concerning LOTOS Czechowice S.A. to determine the correct amount of the excise duty payable for the period September 1st – December 31st 2003 in connection with the sale of oil for B ceramic moulds. Before the proceedings are completed, it is difficult to determine whether the excise duty liabilities will be reassessed, and if so, what their amounts will be. By virtue of the decision of March 19th 2006, the Head of the Customs Office of Bielsko-Biala set the deadline for resolving the case at May 30th 2007. By virtue of the decision of August 13th 2007, the Head of the Customs Office of Bielsko-Biala set another deadline for resolving the case – October 17th 2007. By virtue of the decision issued on January 1st 2008, the Head of the Customs Office of Bielsko-Biala set June 30th 2008 as the new date for resolving the case. By virtue of the decisions of June 27th 2008, the Head of the Customs Office of Bielsko-Biala set August 31st 2008 as the new deadline for resolving the case concerning excise duty payable for the period September – December 2003, but under later decisions of September 3rd 2008 the deadline was extended again – until October 31st 2008.

On November 13th 2008, the Head of the Customs Office of Bielsko-Biala issued decisions determining the amounts of excise duty liability for September, October, November and December 2003, which exceeded the excise duty liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 3,588 thousand – with respect to the excise duty liability for September 2003,
- by PLN 12,189 thousand – with respect to the excise duty liability for October 2003,
- by PLN 8,887 thousand – with respect to the excise duty liability for November 2003,
- by PLN 6,223 thousand – with respect to the excise duty liability for December 2003.

On November 21st 2008, LOTOS Czechowice S.A. filed a request with the Head of the Customs Office of Bielsko-Biala to stay enforcement of the decisions related to the excise duty liability for September – December 2003. On December 1st 2008, LOTOS Czechowice S.A. filed an appeal against the decision issued by the Head of the Customs Office determining the excise duty liabilities in amounts exceeding those declared by the company, with the Director of the Customs Chamber of Katowice, through the agency of the Head of the Customs Office in Bielsko-Biala. On December 4th 2008, the Director of the Customs Chamber in Katowice initiated enforcement proceedings against LOTOS Czechowice S.A. by issuing enforcement orders with respect to the decisions of the Head of the Customs Office in Bielsko-Biala regarding excise duty liabilities for September – December 2003, and by seizing the amounts owed from LOTOS Czechowice S.A.'s bank accounts. The additional excise duty liability amounts payable under the decisions were increased by the costs of enforcement proceedings in the total amount of PLN 2,460 thousand and late interest determined as at the date of issuing the enforcement orders in the total amount of PLN 10,121 thousand.

On December 12th 2008, the company filed requests with the Director of the Customs Chamber of Katowice to stay the enforcement proceedings instigated by virtue of the enforcement orders.

On December 12th 2008, the Head of the Customs Office of Bielsko-Biała granted the request filed by the company on November 21st 2008 and issued Decision to stay enforcement of the decision concerning the excise duty liability for December 2003.

On the same day, the Director of the Customs Chamber of Katowice issued decisions to stay enforcement of the decisions concerning the excise duty liabilities for the period September – November 2003, and, invoking the decisions to stay enforcement of the Customs Office Head's decisions concerning the period September – December 2003, issued decisions to suspend the enforcement proceedings.

On December 15th 2008, the Director of the Customs Chamber in Katowice filed eight requests with the District Court of Pszczyna, along with enforcement orders, to register compulsory ordinary mortgages (*hipoteka przymusowa zwykła*) each with the value of PLN 5,446 thousand (PLN 43,569 thousand in total) encumbering LOTOS Czechowice S.A.'s properties in the relevant Land and Mortgage Register entries.

On December 17th and 18th 2008, the District Court of Pszczyna registered the seven ordinary compulsory mortgages as was requested. On December 23rd 2008, the Court resolved to dismiss one of the requests filed by the Director of the Customs Chamber in Katowice on the grounds of having encountered obstacles in registration (inconsistencies between the contents of the Land and Mortgage Register entry and the request).

On February 23rd 2009, LOTOS Czechowice S.A. received four decisions of the Director of the Customs Chamber of Katowice repealing the earlier decisions of the Head of the Customs Office of Bielsko-Biała and remanding the cases for re-examination.

Given the decisions of the Director of the Katowice Customs Chamber of March 4th 2009 to discontinue the enforcement proceedings concerning the excise duty liabilities for September – December 2003, the Director of the Katowice Customs Chamber filed relevant requests with the District Court of Pszczyna to de-register the mortgages.

On May 4th, May 6th, and May 14th 2009, LOTOS Czechowice S.A. received notices from the District Court of Pszczyna to the effect that the compulsory mortgages, previously registered at the request of the Director of the Customs Chamber in Katowice, were de-registered.

By virtue of the decisions of the Head of the Customs Office of Bielsko-Biała dated August 28th 2009, the deadline for resolving the cases concerning the excise duty liabilities for the period September – December 2003 was extended to October 28th 2009. On October 23rd 2009 the company sent a letter to the Head of the Customs Office of Bielsko-Biała presenting its position that an order issued by the Director of the Customs Chamber in Katowice concerning a matter of key importance for resolving the case had not been carried out. By virtue of his subsequent decisions, the Head of the Customs Office of Bielsko-Biała extended the deadline for resolving the cases concerning the excise duty liabilities for the period September–December 2003 until December 28th 2009.

By virtue of his decision dated December 18th 2009, the Head of the Customs Office of Bielsko-Biała extended the deadline for resolving the cases concerning the excise duty liabilities for the period September – December 2003 until February 28th 2010. Subsequently, by virtue of decisions dated February 25th 2010, the Head of the Customs Office of Bielsko-Biała set May 28th 2010 as a new deadline for resolving the cases.

On May 17th 2010, the Head of the Customs Office in Bielsko-Biała issued decisions determining the amounts of excise duty liability for September, October, November and December 2003, which exceeded the excise duty liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 3,588 thousand – with respect to the excise duty liability for September 2003,
- by PLN 12,189 thousand – with respect to the excise duty liability for October 2003,
- by PLN 8,887 thousand – with respect to the excise duty liability for November 2003,
- by PLN 6,223 thousand – with respect to the excise duty liability for December 2003.

On June 2nd 2010, LOTOS Czechowice S.A. lodged appeals against the above decisions with the Director of the Customs Chamber of Katowice through the agency of the Head of the Customs Office of Bielsko-Biała. The company attached to the appeals a supplementary expert opinion confirming the correctness of its position.

On October 12th 2010, the Director of the Customs Chamber of Katowice issued a decision whereby it revoked the decision of the Head of the Customs Office of Bielsko-Biała concerning excise duty for the period September - December 2003 and discontinued the proceedings.

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Paliwa Sp. z o.o.'s Business

Proceedings Concerning Value Added Tax Liabilities for January and March 2005

On March 30th 2006, LOTOS Paliwa Sp. z o.o received a decision of the Gdańsk Tax Office of March 28th 2006 relating to the determination of the value added tax liability for January 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability against the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.). On July 25th 2006, LOTOS Paliwa Sp. z o.o. received decision of

the Head of the Gdańsk Tax Chamber, dated July 21st 2006, in which the Head of the Gdańsk Tax Chamber revoked in full the decision of the Gdańsk Tax Office determining the value added tax liability for January 2005 and assessing an additional tax liability, and remanded the case for re-examination by the Gdańsk Tax Office. On July 6th 2007, LOTOS Paliwa Sp. z o.o. was notified of decision No. PV/4400-96/124/VT/06/AR issued by the Head of the Gdańsk Tax Office, stating that the amount of tax difference to be refunded to the company was exceeded by PLN 23 thousand and requiring the company to additionally pay PLN 7 thousand on account of tax. LOTOS Paliwa Sp. z o.o. decided not to appeal against the decision as it considered it favourable for the company. According to a previous decision relating to the same matter and issued on March 28th 2006 (decision No. PV/440-95/124/VT/AG), the Head of the Gdańsk Tax Office decided that the company had understated its tax liability by PLN 24,055 thousand and obliged the company to additionally pay PLN 7,850 on account of tax (the decision was later repealed by virtue of a decision issued by the Head of the Tax Chamber in Gdańsk on July 21st 2006).

On July 6th 2007, the Head of the Gdańsk Tax Office issued decision No. VT/440-185/07/WP/DP on instigation of tax proceedings against LOTOS Paliwa Sp. z o.o to investigate the correctness of VAT settlements for March 2005. On September 11th 2007, LOTOS Paliwa Sp. z o.o. received a decision of the Gdańsk Tax Office of September 10th 2007 relating to the determination of the value added tax liability for March 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability against the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. Decision No. PV/4400-170/185/VT/07/DP stated that the amount of tax difference to be refunded was exceeded by PLN 26,141 thousand and required the company to pay an additional PLN 7,842 thousand on account of tax for March 2005. The amounts specified in the decision were paid by LOTOS Paliwa Sp. z o.o. On September 24th 2007, the company appealed against the decision of the Gdańsk Tax Office.

On January 18th 2008, the Head of the Tax Chamber of Gdańsk issued decision No. PC/4407-660/07/13 upholding decision No. PV/4400-96/124/VT/06/AR of the Head of the Gdańsk Tax Office, dated September 10th 2007, stating that the excess of input VAT over output VAT for March 2005 was PLN 5,292 thousand and that the amount of tax difference to be returned was PLN 5,292 thousand, and requiring the company to additionally pay PLN 7,842 thousand on account of value added tax for March 2005. On February 1st 2008, LOTOS Paliwa Sp. z o.o. appealed to the Provincial Administrative Court of Gdańsk against decision No. PC/4407-660/07/13 issued by the Head of the Tax Chamber of Gdańsk.

The decision concerns the right to reduce the tax amount due as settlement for the month in which the seller was provided by the buyer with a confirmation of receipt of an adjusting invoice, arising from settlement of the acquisition of an organised part of business of LOTOS Gaz S.A., and compliance of additional tax sanctions in this respect with the constitution.

On June 24th 2008, a hearing was held before the Provincial Administrative Court of Gdańsk, whose judgement reversed the appealed decision of the Head of the Tax Chamber of Gdańsk and declared it unenforceable, awarding the costs of the proceedings against the Head of the Tax Chamber of Gdańsk.

On July 31st 2008, the Head of the Gdańsk Tax Chamber filed with the Supreme Administrative Court of Warsaw a cassation complaint against the decision of the Provincial Administrative Court of Gdańsk dated June 24th 2008.

On January 19th 2010, the Supreme Administrative Court of Warsaw reversed the decision issued in respect of LOTOS Paliwa Sp. z o.o. by the Provincial Administrative Court of Gdańsk concerning the correctness of VAT settlements for March 2005 and remanded the case for re-examination. On June 17th 2010, the Provincial Administrative Court of Gdańsk dismissed LOTOS Paliwa Sp. z o.o.'s complaint. In connection with the foregoing, the previously reported amount receivable in connection with the sanction paid by LOTOS Paliwa Sp. z o.o. concerning an additional tax liability of PLN 7,850 thousand, was included in other operating expenses of LOTOS Paliwa Sp. z o.o. for 2010. LOTOS Paliwa Sp. z o.o. does not expect any additional costs related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. On August 25th 2010, LOTOS Paliwa Sp. z o.o. lodged a cassation complaint with the Supreme Administrative Court of Warsaw. As at the date of approval of these consolidated financial statements, the case was pending.

Court Proceedings Instigated by WANDEKO

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik, conducting business activity under the business name of WANDEKO. On October 28th 2009, District Court of Gdańsk, Commercial Division IX, issued a default judgement awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. LOTOS Paliwa Sp. z o.o. created a provision for the amount awarded against it along with interest in the amount of PLN 15,318 thousand. The company appealed against the judgement by lodging an objection to the default judgement with the Regional Court of Gdańsk on November 10th 2009. Due to the objection, the case is under examination as to its merits by the first instance court. The default judgement does not constitute an enforceable document as the judgement was reversed following the intervention by the company. Concurrently, as by virtue of statutory provisions a default judgement constitutes an interlocutory injunction, LOTOS Paliwa Sp. z o.o. filed an application requesting that also this restriction be lifted. By virtue of its non-final decision of April 14th 2010, the Regional Court of Gdańsk lifted the interlocutory injunction in its entirety in compliance with LOTOS Paliwa Sp. z o.o.'s request. Following a complaint by Mr Andrzej Wójcik of May 18th 2010, in its decision of October 13th 2010 the Gdańsk Court of Appeals changed the aforesaid decision of the Regional Court of Gdańsk, as a result of which the default judgement still constitutes an interlocutory injunction. By virtue of its decision of December 28th 2010, the Court of Appeals dismissed Mr Andrzej Wójcik's complaint against the decision issued by the Regional Court of Gdańsk rejecting reversal of a decision to lift court order making default judgement immediately enforceable, and awarded reimbursement of the cost of proceedings to LOTOS Paliwa Sp. z o.o. As at the date of approval of these consolidated financial statements, the case was

pending.

Material Court Proceedings Instigated against Grupa LOTOS S.A.

Proceedings Brought by PETROECCO JV Sp. z o.o. Seeking Compensation for Losses Incurred as a Result of Monopolistic Practices

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest from May 1st 1999, as compensation for damage incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o. The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Monopoly Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation, fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals, in case No. I ACa 824/03, and remanded for re-examination by the Regional Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

The case was pending before the Regional Court of Gdańsk (First Instance Court); court docket No. IX GC134/04. The Company has also defended itself by raising objections as to the merits of the case (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following a hearing held in June 2005, the Regional Court of Gdańsk ordered an court expert in accountancy and economics to draw up an opinion concerning the extent of the damage which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the court expert stated that based on the materials presented by PETROECCO JV Sp. z o.o. it was not possible to establish the amount of the losses or even state whether any losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an court expert in a field other than accountancy. The lack of evidence required to issue an opinion prevented the plaintiff from procuring the appointment of another expert witness. Another hearing was held on March 27th 2007. Announcement of the ruling was scheduled for April 10th 2007, and subsequently postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the action was dismissed. On May 17th 2007, the Company filed an appeal against the court's decision regarding the cost of the proceedings. On June 4th 2007, PETROECCO JV Sp. z o.o. lodged an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the Regional Court's decision. On March 19th 2008, an enforcement motion was filed with a Court Enforcement Officer against PETROECCO JV Sp. z o.o. On April 17th 2008, PETROECCO JV Sp. z o.o. lodged a cassation complaint against the ruling of December 20th 2007. The complaint was delivered to Grupa LOTOS S.A. on June 17th 2008. On June 30th 2008, Grupa LOTOS S.A. sent a response to the complaint. The case was referred to pre-trial proceedings scheduled for November 14th 2008. On January 14th 2009, the Supreme Court reversed the ruling appealed against and remanded the case for re-examination by the Court of Appeals in Gdańsk. On March 10th 2009, the case files were delivered to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer sent the decision on discontinuation of the enforcement proceedings. On May 14th 2009, the Court of Appeals referred the case to the Regional Court for re-examination. During a hearing held on November 3rd 2009, the Court obliged PETROECCO JV Sp. z o.o. to appoint an expert. On October 1st 2010, a hearing was held during which the expert was heard. As at the date of approval of these consolidated financial statements, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were created in these consolidated financial statements.

Proceedings Brought by the Minister of State Treasury Seeking Invalidation of the Share Purchase Agreement Concerning Shares in Naftoport Sp. z o.o.

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court of Gdańsk, IX Commercial Division, issued a ruling dismissing the suit in its entirety. On June 8th 2006, the Minister of State Treasury appealed against the ruling of April 21st 2006 which dismissed the Minister's nullity suit regarding the agreement of August 18th 1998. On June 30th 2006, the Company filed its response to the appeal. On December 28th 2006, the Court of Appeals passed a ruling reversing the challenged decision of April 21st 2006 and declaring the agreement on the sale of two shares in Naftoport Sp. z o.o. as invalid. On April 6th 2007, the Company filed a cassation complaint and a request to stay enforcement of the decision of the second instance. By virtue of the ruling of the Court of Appeals of Szczecin dated April 20th 2007, the request to stay enforcement of the decision of the second instance was dismissed. On August 10th 2007, the Supreme Court issued a decision to accept the cassation complaint for consideration. On November 21st 2007, the Supreme Court issued a decision to remand the

case back to the Court of Appeals of Szczecin. The hearing was held on May 7th 2008. The court dismissed the claim in its entirety and decided that the costs of the proceedings in the amount of PLN 100 thousand would be returned to Grupa LOTOS S.A. On May 7th 2008, the court's decision became final. On August 20th 2008, the State Treasury lodged a cassation complaint. On December 11th 2008, the case files arrived at the Supreme Court, Civil Chamber Division II. In a closed session held on March 6th 2009, the court accepted the complaint for consideration. The date of the hearing was set for May 6th 2009; during the hearing, the Supreme Court remanded the case for re-examination by the Szczecin Court of Appeals. At the hearing held on September 30th 2009, the Court of Appeals dismissed the action and awarded reimbursement of the cost of court proceedings to Grupa LOTOS S.A. by the State Treasury. On January 11th 2010, the State Treasury lodged a cassation complaint against the ruling to the Court of Appeals. The complaint, along with the court's decision to accept the complaint for consideration, was served on the Company on June 6th 2010. On July 8th 2010, the Supreme Court overruled the Court of Appeals' judgment and remanded the case for re-examination.

On February 17th 2011, a hearing was held before the Court of Appeals in Szczecin, but the Court did not issue any ruling due to the complexity of the case. As at the date of approval of these financial statements, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were created in these consolidated financial statements.

Tax Settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within governmental authorities and between those authorities and businesses, leading to uncertainty and conflicts. Consequently, the tax-related risk in Poland is significantly higher than in countries where tax systems are better developed.

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company. In the Company's opinion, as at December 31st 2010 it had adequate provisions for identified and measurable tax risks.

Court Proceedings Instigated by or against the Company or the Companies of Its Group

Court Proceedings Instigated by Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) against a Private Individual

On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of LOTOS Jasło S.A., whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, LOTOS Jasło S.A. submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security (deposit) mortgage (hipoteka kaucyjna). As at December 31st 2010, subject to the execution of the terms of the arrangement, the amount receivable was PLN 370 thousand. LOTOS Jasło S.A. recognized an impairment loss on the receivable described above.

Other Proceedings Involving LOTOS Gaz S.A. as a Party

As at December 31st 2010, proceedings were pending involving LOTOS Gaz S.A. as a party. These proceedings are discussed below.

On June 20th 2008, the Tax Supervision Authority in Kraków issued a post-inspection report as part of the proceedings instituted on November 21st 2006 (i.e. prior to the purchase of shares in KRAK-GAZ Sp. z o.o. by LOTOS Gaz S.A.) in order to review the correctness of settlement of excise duty for the years 2003–2004 by KRAK-GAZ Sp. z o.o. In the course of the proceedings, it was established that KRAK-GAZ Sp. z o.o. failed to pay the excise duty due in the total amount of PLN 7,545 thousand plus interest (the figure as at June 30th 2008).

On October 31st 2008, the Director of Tax Supervision Authority in Kraków issued a decision whereby the excise duty liability for the years 2003–2004 was established at PLN 16,408 thousand. On November 25th 2008, KRAK-GAZ Sp. z o.o. appealed against that administrative decision. The appeal has not yet been considered by the appellate body. With the letter of February 6th 2009, the Director of the Customs Chamber in Kraków notified KRAK-GAZ Sp. z o.o. that there was a delay in processing the appeal, and set March 31st 2009 as the new deadline for considering it.

On November 26th 2008, the Director of the Customs Chamber initiated enforcement proceedings against KRAK-GAZ Sp. z o.o. by issuing enforcement orders covering the amount specified in the decision issued by the Director of Tax Supervision Authority. On December 8th 2008, KRAK-GAZ Sp. z o.o. appealed against the decision to initiate enforcement proceedings. In accordance with the letter of December 17th 2008, the Director of the Customs Chamber decided to allow the appeal concerning errors in calculating the amount of excise duty arrears and to discontinue the proceedings.

On December 19th 2008, the company received another final decision and enforcement orders from the Customs

Chamber, for the revised amounts of excise duty arrears and interest. The excise duty due and payable for 2003-2004 was established at PLN 8,309 thousand, including interest and costs of enforcement proceedings.

On December 29th 2008, KRAK-GAZ Sp. z o.o. submitted objections against the aforementioned enforcement orders, citing, inter alia, incorrect identification of the creditor. By virtue of a decision of January 19th 2009, the Director of the Customs Chamber in Kraków dismissed the objections as groundless. On January 27th 2009, KRAK-GAZ Sp. z o.o. filed a complaint against the decision of January 19th 2009 directly with the Head of the Kraków Tax Chamber, who by virtue of his decision of March 9th 2009 upheld the Customs Chamber Director's decision of January 19th 2009. Through the Director of the Customs Chamber, KRAK-GAZ Sp. z o.o. lodged an appeal against the decision, in a letter dated April 6th 2009, with the Provincial Administrative Court of Kraków.

Furthermore, KRAK-GAZ Sp. z o.o. submitted with the Director of Tax Supervision Authority in Kraków a request to stay execution of the decisions and, if this request were not to be granted, a request to allow payment of the tax arrears in instalments. By virtue of a decision of February 24th 2009, the Director of the Customs Chamber in Kraków dismissed the request to stay the execution of the decisions. KRAK-GAZ Sp. z o.o. lodged a complaint against the dismissal on March 9th 2009, seeking reversal of the decision of February 24th 2009 and stay of execution of the decision issued by the Director of Tax Supervision Authority on October 31st 2008.

Concurrently, KRAK-GAZ Sp. z o.o. filed an appeal against the decision by the Director of the Customs Office in Kraków of October 31st 2008, establishing the amount of excise duty liability for the years 2003–2004. By virtue of his decisions of May 6th 2009, the Director of the Customs Chamber in Kraków upheld the decisions issued by the Director of the Customs Office. On June 8th 2009, KRAK-GAZ Sp. z o.o. filed complaints with the Provincial Administrative Court against the decisions of the second instance authority. These complaints have not yet been considered.

On July 20th 2009, the Director of the Customs Chamber in Kraków submitted to the Provincial Administrative Court responses to the 16 complaints by KRAK-GAZ Sp. z o.o. against the decisions of May 6th 2009.

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a petition requesting a declaration of its bankruptcy by liquidation of assets. On July 23rd 2009, District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending.

Taking into consideration the decision issued by the Director of Tax Supervision Authority in Kraków and the contents of the post-inspection report prepared by the Tax Supervision Authority in Kraków on June 20th 2008, the Management Board of LOTOS Gaz S.A. made two representations (on July 11th 2008 and December 9th 2008) towards the sellers of shares in KRAK-Gaz Sp. z o.o. regarding reduction of the purchase price of shares in KRAK-GAZ Sp. z o.o. by a total amount of PLN 16,368 thousand. Accordingly, the sellers' claim for payment of the last instalment of the Purchase Price in the amount of PLN 1,500 thousand expired.

On July 28th 2008, the Management Board of LOTOS Gaz S.A. called upon the former owners of shares in KRAK-GAZ Sp. z o.o. to enter into mandatory negotiations, in line with the provisions of the share purchase agreement.

On December 15th 2008, the Management Board of LOTOS Gaz S.A. instigated arbitration proceedings against the sellers of shares in KRAK-Gaz Sp. z o.o. On April 14th 2010, the Arbitration Court issued its award in the case instituted by LOTOS Gaz S.A. against the sellers of KRAK-GAZ Sp. z o.o., and in the cross action for payment instituted against LOTOS Gaz S.A. by the sellers. The court awarded (i) to LOTOS Gaz S.A.: PLN 4,155 thousand along with interest from December 19th 2008 until the payment date, to be paid jointly and severally by the defendants, and (ii) to the sellers, based on the cross action: PLN 1,682 thousand along with interest from July 5th 2009 until the payment date, to be paid by LOTOS Gaz S.A. Furthermore, as reimbursement of the costs of proceedings, the court awarded PLN 209 thousand to LOTOS Gaz S.A. to be paid by the sellers, and PLN 98 thousand to the sellers to be paid by LOTOS Gaz. S.A. Any other mutual claims for reimbursement of costs/expenses between the parties were cancelled by the court. Following a complaint submitted by LOTOS Gaz S.A. requesting reversal of the Arbitration Court's award, by virtue of its decision of August 13th 2010, the Regional Court of Kraków stayed enforcement of the Arbitration Court's award in full. The complaint lodged by the sellers against this decision was dismissed; the ruling dismissing the complaint became final on October 15th 2010. As at the date of approval of these consolidated financial statements, the case was pending.

LOTOS Gaz S.A. additionally obtained a decision from the Regional Court of Kraków, dated November 17th 2008, establishing a claim bond to secure LOTOS Gaz S.A.'s claims against the sellers of the shares up to the amount of PLN 5,975 thousand (the enforcement clause was appended on January 20th 2009). On February 2nd 2009, the sellers petitioned for cancellation of the claim bond. In its decision of April 23rd 2009, the Regional Court of Kraków declared cancellation of the claim bond. Next, following a complaint filed by LOTOS Gaz S.A., by virtue of its decision of June 15th 2009, the Kraków Court of Appeals changed the decision appealed against in such a manner that the sellers' petition for cancellation of the claim bond was dismissed. On the basis of the final decision granting the claim bond, LOTOS Gaz S.A. instigated enforcement proceedings concerning the claim bond before the court enforcement officer of the District Court for Gdańsk-Północ in Gdańsk. As at the date of approval of these consolidated financial statements the proceedings were closed ineffectively, i.e. no sellers' property has been seized.

On December 10th 2008, a notification of suspected offence against KRAK-GAZ Sp. z o.o. was submitted with the Regional Prosecutor's Office of Kraków Podgórze in Kraków, alleging an offence consisting in failure to fulfil professional duties by former members of the company's Management Board. The proceedings were finally discontinued on June 28th 2010.

On January 29th 2009, two former members of KRAK-GAZ Sp. z o.o.'s Management Board received calls for payment

of PLN 801 thousand as remedy for the damage done to the company. Following declaration of bankruptcy of KRAK-GAZ Sp. z o.o., the right to seek compensation was transferred to the bankruptcy administrator of KRAK-GAZ Sp. z o.o. However, by the date of approval of these consolidated financial statements, the bankruptcy administrator of KRAK-GAZ Sp. z o.o. has not taken court action against the former members of KRAK-GAZ Sp. z o.o.'s Management Board.

In May 2009, LOTOS Gaz S.A. filed a notification of suspected offence of fraud to the detriment of LOTOS Gaz S.A. by the sellers of KRAK-GAZ Sp. z o.o. An investigation was launched by the prosecutor's office and is still under way. In February 2010, the proceedings were extended to investigate the issue of whether the persons who participated in the process of acquisition KRAK-GAZ Sp. z o.o. on the Grupa LOTOS S.A.'s side exercised due care. As at the date of approval of these consolidated financial statements, the proceedings were suspended due to the need to obtain an expert's opinion as to whether a damage was sustained and as to its value.

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.

39. Related Parties

39.1 Transactions with Non-Consolidated Related Undertakings

Transactions with related undertakings are executed on market terms.

PLN '000	Year ended Dec 31 2010			Dec 31 2010
	Sales to related undertakings (incl, excise duty and fuel charge)	Purchases from related undertakings (incl, excise duty and fuel charge)	Receivables from related undertakings	Payables to related undertakings
Associated undertakings accounted for using the equity method	-	-	-	7,936
Non-consolidated undertakings	-	-	-	-
Total	-	-	-	7,936

In the period from January 1st to December 31st 2010, total value of finance expenses related to transactions with related undertakings valued with equity method amounted to PLN 15 thousand and comprised interest on loans.

In the period from January 1st to December 31st 2010, total value of loans advanced by related undertakings valued with equity method was PLN 7,921 thousand (or EUR 2,000 thousand).

PLN '000	Year ended Dec 31 2009			Dec 31 2010
	Sales to related undertakings (incl, excise duty and fuel charge)	Purchases from related undertakings (incl, excise duty and fuel charge)	Receivables from related undertakings	Payables to related undertakings
Associated undertakings accounted for using the equity method	3,141	4,381	-	-
Non-consolidated undertakings	29	140	-	-
Total	3,170	4,521	-	-

In the period from January 1st to December 31st 2009, total value of finance income from transactions with non-consolidated related undertakings amounted to PLN 237 thousand and comprised other interest.

In the period from January 1st to December 31st 2009, total value of finance expenses from transactions with non-consolidated related undertakings amounted to PLN 1,287 thousand and comprised interest on advanced loans.

In the period from January 1st to December 31st 2009, the Group reversed impairment losses on receivables from non-consolidated related undertakings in the amount of PLN 1,671 thousand.

In the period from January 1st to December 31st 2009, total value of other operating expenses connected with transactions with non-consolidated related undertakings amounted to PLN 7 thousand (other operating expenses).

39.2 Transactions with Undertakings in which the State Treasury Holds Equity Stakes

Transactions with undertakings in which the State Treasury holds equity stakes are executed on standard market terms.

Transactions between the Group and material ⁽¹⁾ related undertakings of the State Treasury:

PLN '000	Sales to related undertakings incl, excise duty and fuel charge	Purchases from related undertakings incl, excise duty and fuel charge
Year ended Dec 31 2010	19,538	161,622
Year ended Dec 31 2009	21,799	176,718

PLN '000	Net receivables from related undertakings	Payables to related undertakings
Dec 31 2010	1,752	6,054
Dec 31 2009	2,311	8,935

⁽¹⁾ i.e. undertakings whose share capital exceeds PLN 100,000 thousand, based on the list of companies in which the State Treasury holds a majority stake or 100% of the shares prepared as at December 31st 2010 or the list of companies in which the State Treasury holds equity stakes as at December 31st 2009 (data for 2009).

In 2010 and 2009, the largest transactions with an undertaking in which the State Treasury held an equity stake were the transactions with Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŻŃ S.A.

39.3 Entity with Significant Influence over the Group

As at December 31st 2010, the State Treasury held a 53.19% stake in Grupa LOTOS S.A.

In the year ended December 31st 2010, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

Nafta Polska S.A. (controlled by the State Treasury) held a 51.91% stake in Grupa LOTOS S.A. until July 22nd 2009.

In the period from January 1st to July 22nd 2009, no transactions were concluded between Grupa LOTOS S.A. and Nafta Polska S.A.

In the period from January 1st to December 31st 2009, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury, except for the transaction described in **Note 32** to these financial statements, as a result of which the State Treasury came to hold a 63.97% stake in Grupa LOTOS S.A.

39.4 Remuneration of the Management and the Supervisory Board Members and Information on Loans and Other Similar Benefits Granted to Members of the Parent Undertaking's Management and Supervisory Staff

The remuneration paid to the members of the Company's Management and Supervisory Boards was as follows:

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Management Board		
Short-term employee benefits (salaries)	1,165	713

Length-of-service awards	-	-
Share-based employee benefits	-	-
Supervisory Board		
Short-term employee benefits (salaries)	261	233
Management Board – subsidiary undertakings ⁽¹⁾		
Short-term employee benefits (salaries)	432	278
Total remuneration paid ⁽²⁾	1,858	1,224

⁽¹⁾ Remuneration paid to the members of the Management Board of Grupa LOTOS S.A. for serving on the Supervisory Boards and the Boards of Directors of direct and indirect subsidiaries.

⁽²⁾ The value of remuneration reflects changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. during the reporting period.

Moreover, the Company created a provision for length-of-service awards and retirement severance payments for the members of Grupa LOTOS S.A.'s Management Board in the amount of PLN 260 thousand (2009: PLN 221 thousand).

Also, acting in line with the Act on Remunerating Persons Who Manage Certain Legal Entities, the Company created a provision for the maximum value (as determined in line with the act) of the annual bonuses for 2010 to be paid to the members of Grupa LOTOS S.A.'s Management Board, in the amount of PLN 284 thousand (2009: PLN 145 thousand, as shown in the above table under 2010).

As at December 31st 2010 and December 31st 2009, the Company did not grant any loans or similar benefits to members of its management and supervisory staff.

39.5 Remuneration Paid or Payable to Other Members of the Key Management Staff

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Short-term employee benefits (salaries)	27,243	19,078
Total remuneration paid to key management staff (except for Management and Supervisory Boards members of Grupa LOTOS S.A.)	27,243	19,078

The Group also created a provision for length-of-service awards and retirement severance payments for the key management staff, in the amount of PLN 6,351 thousand (2009: PLN 4,879 thousand).

Moreover, the Group created a provision for annual bonuses expected to be paid to key management staff for 2010, in the amount of PLN 6,738 thousand (for 2009: PLN 5,912 thousand, shown in the above table under 2010).

As at December 31st 2010, loans and similar benefits granted by the Group to members of key management staff totalled PLN 39 thousand (as at December 31st 2009: PLN 56 thousand).

In the period January 1st – December 31st 2010 and January 1 – December 31st 2009, the Group did not grant any loans or similar benefits to members of key management staff.

39.6 Other transactions with Members of the Company's Management or Supervisory Boards, Their Spouses, Siblings, Ascendants, Descendants or Other Close Persons

Transactions with Members of the Company's Executive or Supervisory Boards, Their Spouses, Siblings, Ascendants, Descendants or Other Close Persons

In the year ended December 31st 2010 and December 31st 2009, the Company and the Group members executed no significant transactions with members of the Management and Supervisory Boards⁽¹⁾, their spouses, relatives or relatives by affinity in the direct line up to the second degree, persons related through guardianship or adoption or with other persons with whom they have personal relationships. The Company and members of the Group advanced no loans, made no advances, issued no guarantees and concluded no agreements to or with any such persons which would provide for considerable benefits to Grupa LOTOS S.A. or its subsidiary or associated undertakings.

⁽¹⁾ Taking into account changes in the composition of the Supervisory Board (see Note 3 to these financial statements).

Transactions between the Company or the Group Members and Entities Related through Members of the Management and Supervisory Boards

Below are presented transactions concluded in 2010 (based on representations made by members of the Management and Supervisory Boards concerning transactions with related parties).

Type of relationship (PLN '000)	Sale	Purchase	Receivables	Payables
Supervisory staff	1,307	-	-	-
Management staff	-	-	-	-
TOTAL	1,307	-	-	-

Type of relationship (PLN '000)	Sale	Purchase	Receivables	Payables
Supervisory staff	1,270	1,778	70	181
Management staff	-	-	-	-
TOTAL	1,270	1,778	70	18

39.7 Additional Information on Results of the LOTOS Group Member Undertakings

PLN '000	Net profit (loss) ⁽¹⁾	
	Year ended Dec 31 2010	Year ended Dec 31 2009
LOTOS Paliwa Sp. z o.o.	63,800	109,971
LOTOS Gaz S.A. ⁽²⁾	(1,239)	(2,716)
LOTOS Oil S.A.	39,755	36,138
LOTOS Asfalt Sp. z o.o.	149,277	179,496
LOTOS Ekoenergia S.A.	(1)	(3)
LOTOS Kolej Sp. z o.o.	19,398	32,570
LOTOS Serwis Sp. z o.o.	7,947	4,852
LOTOS Lab Sp. z o.o.	4,478	2,100
LOTOS Straż Sp. z o.o.	258	797
LOTOS Ochrona Sp. z o.o.	462	1,447
LOTOS Parafiny Sp. z o.o.	15,564	10,920
LOTOS Tank Sp. z o.o.	794	4,478
Grupa Kapitałowa LOTOS Czechowice S.A.	27,561	16,764
Grupa Kapitałowa LOTOS Jasło S.A.	(2,579)	(445)
Grupa Kapitałowa LOTOS Petrobaltic S.A.	101,495	111,445
UAB LOTOS Baltija	4 ⁽³⁾	(13)
LOTOS Park Technologiczny Sp. z o.o.	(18)	321

⁽¹⁾ In accordance with the consolidation packages (see Note 9).

⁽²⁾ Until July 23rd 2009 LOTOS Gaz S.A. controlled subsidiary undertaking KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) (see Note 2).

⁽³⁾ Net profit (loss) for the 11 months ended November 30th 2010, until the date of control takeover by the LOTOS Petrobaltic Group (see Note 2).

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.



40. Information on the Agreement with and Remuneration Payable to the Qualified Auditor of Financial Statements, and Information on the Appointment of the Qualified Auditor to Audit the Financial Statements of Grupa LOTOS S.A.

Based on the resolution adopted by the Supervisory Board of Grupa LOTOS S.A. on December 17th 2009, Ernst & Young Audit Sp. z o.o., entered in the register of entities qualified to audit financial statements maintained by the National Board of Chartered Auditors under entry No. 130, was selected as the qualified auditor to audit the Company's financial statements for 2010, 2011 and 2012.

On May 18th 2010, Grupa LOTOS S.A. and Ernst & Young Audit Sp. z o.o. of Warsaw concluded an agreement providing amongst other things for:

- review of the separate and consolidated financial statements for the first six months of
- 2010, 2011 and 2012
- audit of the separate and consolidated financial statements in 2010–2012.

The total remuneration for the audit, review and verification procedures is set forth below.

PLN '000	2010	2009 ⁽¹⁾
Audit of the annual separate and consolidated financial statements of Grupa LOTOS S.A.	351 ⁽²⁾	466
Audit of the annual separate and consolidated financial statements of selected members of the LOTOS Group ⁽³⁾	514	468
Confirmation services, including:	234	388
- review of the semi-annual separate and consolidated financial statements of Grupa LOTOS S.A.	234	243
- other confirmation services for the LOTOS Group companies	-	15
Other services	10 ⁽⁴⁾	-
Tax advisory services	-	-
TOTAL	1,109	1,322

⁽¹⁾ The remuneration for the audit, review and verification of the financial statements, as well as for other services provided by Deloitte Audyt Sp. z o.o. under the agreement of June 29th 2007 regarding the review of the separate and consolidated financial statements for the first six months of 2007, 2008 and 2009 and for the audit of the separate and consolidated financial statements in 2007– 2009.

⁽²⁾ The remuneration for the audit, review and verification of the financial statements, as well as for other services provided by Deloitte Audyt Sp. z o.o. under the agreement of May 18th 2010 regarding the review of the separate and consolidated financial statements for the first six months of 2010, 2011 and 2012 and for the audit of the separate and consolidated financial statements in 2010–2012.

⁽³⁾ The remuneration for the audit of selected members of the LOTOS Group is payable on the basis of separate agreements between a qualified auditor of financial statements and individual companies.

⁽⁴⁾ Fees paid for auditor training services.

41. Financial Risk Management

The Group is exposed to financial risk, including chiefly:

- market risk (risk related to the prices of raw materials and petroleum products, risk related to prices of CO₂ emission allowances, currency risk, interest rate risk)
- liquidity risk
- credit risk related to financial and trade transactions.

The Financial Risk Management Committee ("FRMC") operating within the Parent Undertaking is responsible for the supervision and coordination of the financial risk management process at Grupa LOTOS S.A. In order to ensure the efficiency and operational security of this process, the following areas have been distinguished: financial transaction area (front-office), risk analysis and control area (middle-office), and transaction documentation and settlement area (back-office).

The key objectives sought to be achieved through financial risk management are as follows:

- limiting volatility of cash flows,
- increasing the probability that budget and strategic objectives will be met,
- ensuring short-term financial liquidity,
- maximising the result on market risk management, at the assumed risk level.

In order to achieve these objectives, documents have been prepared and approved at appropriate decision-making levels of the Parent Undertaking. These documents specify the necessary framework for effective and secure functioning of the financial risk management process, including principally:

- methodology for quantifying exposures to particular risks (risk mapping),
- acceptable financial instruments,
- method of assessing financial risk management,
- limits within risk management,
- reporting method,
- credit limits for counterparties in financial transactions.

The Parent Undertaking monitors all managed market risks on an ongoing basis. Opening a position with respect to risks which do not arise as part of the Company's core activity is prohibited. The Parent Undertaking uses liquid derivatives which it is able to value by applying commonly applied valuation models. The valuation of the underlying position and derivatives is performed based on market data received from reliable providers.

Starting from January 1st 2011, the Parent Undertaking has introduced hedge accounting with respect to cash flow hedges (i.e. foreign-currency denominated loans intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions).

Risk Related to Prices of Raw Materials and Petroleum Products

The Company regards management of the risk related to prices of raw materials and petroleum products, as well as the currency risk, as an issue of utmost importance.

The concept for the management of the risk related to prices of raw materials and petroleum products expired at the end of 2010. The main objective of the concept was to increase the probability of generating cash flows guaranteeing safe financing of investment projects under the 10+ Programme.

Currently, the Company is preparing a new policy for managing this risk, which is to cover objectives connected with the introduction of the new raw materials and petroleum products trading model within Grupa LOTOS S.A. as of January 1st

2011.

The last refining margin hedging transactions expired on September 30th 2009. Due to adverse market conditions, the LOTOS Group resolved not to enter into hedging transactions until margins improve to levels which are satisfactory to the Company.

There were no open refining margin transactions as at December 31st 2010 or December 31st 2009.

In 2010 the Company entered into commodity swaps in connection with sales of bitumen components at fixed prices, to ensure that the original risk profile remains unchanged. As at December 31st 2009, there were no open commodity transactions.

Open commodity swaps as at December 31st 2010:

Company	Type of transaction	Transaction execution date	Beginning of the valuation period	End of the valuation period	Number of tonnes	Price (USD/tonne)	Fair value as at Dec 31 2010 (PLN '000) ⁽¹⁾
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Apr 1 2011	Apr 30 2011	2,692	476	64
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	May 1 2011	May 31 2011	5,000	476	142
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Jun 1 2011	Jun 30 2011	3,974	476	133
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Jul 1 2011	Jul 31 2011	3,846	476	144
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Aug 1 2011	Aug 31 2011	5,000	476	207
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Sep 1 2011	Sep 30 2011	2,692	476	121
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Oct 1 2011	Oct 31 2011	1,026	476	50
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Apr 1 2011	Apr 30 2011	(592)	716	(109)
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	May 1 2011	May 31 2011	(1,100)	716	(210)
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Jun 1 2011	Jun 30 2011	(874)	716	(175)
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Jul 1 2011	Jul 31 2011	(846)	716	(176)
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Aug 1 2011	Aug 31 2011	(1,100)	716	(240)
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Sep 1 2011	Sep 30 2011	(592)	716	(133)
Grupa LOTOS S.A.	Commodity swap	Mar 11 2010	Oct 1 2011	Oct 31 2011	(226)	716	(52)
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Jun 1 2011	Jun 30 2011	1,282	473	55
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Jul 1 2011	Jul 31 2011	1,282	473	60
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Aug 1 2011	Aug 31 2011	1,282	473	65
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Sep 1 2011	Sep 30 2011	1,282	473	70
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Oct 1 2011	Oct 31 2011	1,923	473	113
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Nov 1 2011	Nov 30 2011	2,564	473	160
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Jun 1 2011	Jun 30 2011	(282)	715	(57)
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Jul 1 2011	Jul 31 2011	(282)	715	(60)
	Commodity			Aug 31			

Grupa LOTOS S.A.	swap	Mar 17 2010	Aug 1 2011	2011	(282)	715	(62)
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Sep 1 2011	Sep 30 2011	(282)	715	(64)
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Oct 1 2011	Oct 31 2011	(423)	715	(98)
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Nov 1 2011	Nov 30 2011	(564)	715	(132)
Grupa LOTOS S.A.	Commodity swap	Apr 30 2010	Sep 1 2011	Sep 30 2011	6,410	518	(500)
Grupa LOTOS S.A.	Commodity swap	Apr 30 2010	Oct 1 2011	Oct 31 2011	6,410	518	(474)
Grupa LOTOS S.A.	Commodity swap	Apr 30 2010	Nov 1 2011	Nov 30 2011	6,410	518	(449)
Grupa LOTOS S.A.	Commodity swap	Apr 30 2010	Sep 1 2011	Sep 30 2011	(1,410)	796	19
Grupa LOTOS S.A.	Commodity swap	Apr 30 2010	Oct 1 2011	Oct 31 2011	(1,410)	796	14
Grupa LOTOS S.A.	Commodity swap	Apr 30 2010	Nov 1 2011	Nov 30 2011	(1,410)	796	9
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Mar 1 2011	Mar 31 2011	1,667	495	(62)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Apr 1 2011	Apr 30 2011	2,821	495	(91)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	May 1 2011	May 31 2011	3,205	495	(88)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Jun 1 2011	Jun 30 2011	3,205	495	(71)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Jul 1 2011	Jul 31 2011	3,205	495	(58)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Aug 1 2011	Aug 31 2011	3,846	495	(54)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Sep 1 2011	Sep 30 2011	3,846	495	(40)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Oct 1 2011	Oct 31 2011	3,846	495	(25)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Mar 1 2011	Mar 31 2011	(367)	787	11
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Apr 1 2011	Apr 30 2011	(621)	787	16
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	May 1 2011	May 31 2011	(705)	787	13
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Jun 1 2011	Jun 30 2011	(705)	787	6
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Jul 1 2011	Jul 31 2011	(705)	787	0
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Aug 1 2011	Aug 31 2011	(846)	787	(8)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Sep 1 2011	Sep 30 2011	(846)	787	(13)
Grupa LOTOS S.A.	Commodity swap	Dec 13 2010	Oct 1 2011	Oct 31 2011	(846)	787	(16)
					61,400	TOTAL, including:	(2,045)
						positive	1,472
						negative	(3,517)

As at December 31st 2010, positive fair value of commodity swaps was (PLN '000): 1,472

As at December 31st 2010, negative fair value of commodity swaps was (PLN '000): (3,517)

¹⁾ Fair value of commodity swaps is established by reference to future cash flows connected with the executed transactions, calculated on the basis of the

difference between the average market price and the transaction price. The fair value has been established on the basis of prices quoted on active markets, as provided by an external consultancy (Level 2 in the fair value hierarchy).

Risk Related to Prices of Carbon (CO₂) Allowances

The risk related to prices of carbon dioxide (CO₂) allowances is managed in line with the assumptions set forth in *The Strategy for Managing the Risk Related to Prices of carbon dioxide (CO₂) Allowances by Grupa LOTOS S.A.* The period covered by the management is determined by the individual phases of the Kyoto protocol; currently, it is the period until the end of 2012.

A position limit is defined based on the number of allowances granted for a given phase. The position in a given phase comprises the aggregate of positions for individual years within the phase. The maximum loss limit is defined based on the Company's equity.

Depending on the market situation and allowances granted, the Company maintains an appropriate position in carbon allowances by entering into financial transactions.

The basic risk map takes into account the allowances granted and the carbon dioxide (CO₂) emissions planned for a given phase, which can be reliably determined both with respect to the existing installations and the installations which are planned to be constructed.

Underlying CO₂ allowances position as at December 31st 2010:

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(55,924)	49,863	(6,061)

Underlying CO₂ allowances position as at December 31st 2009:

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(122,789)	82,010	(40,779)

Due to uncertainty as to the number of allowances to be granted for the units constructed under the 10+ Programme, the Company sought to minimise the size of its open position in the CO₂ emission allowances. In 2010, the Company entered into EUA/CER swap transactions, as that was justified by the spread between these two types of emission allowances.

Open CO₂ allowances transactions as at December 31st 2010:

Company	Type of transaction	Transaction execution date	Transaction settlement date	No. of CO ₂ allowances	Price (EUR/tonne)	Fair value as at Dec 31 2010 (PLN '000) ⁽²⁾
Grupa LOTOS S.A.	CER Futures	Nov 2 2009	Dec 20 2012	1,000	14	(10)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	5,000	13	(40)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	25,000	13	(201)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	20,000	13	(162)
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	3
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	3
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	3
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(8,000)	15	26
Grupa LOTOS S.A.	CER Futures	May 28 2010	Dec 20 2012	5,000	12	(19)
Grupa LOTOS S.A.	EUA Futures	Dec 3 2010	Dec 20 2012	(11,000)	15	34
Grupa LOTOS S.A.	EUA Futures	Dec 3 2010	Dec 20 2012	(24,000)	15	73
Grupa LOTOS S.A.	EUA Futures	Dec 3 2010	Dec 20 2012	(30,000)	15	91
Grupa LOTOS S.A.	EUA Futures	Dec 3 2010	Dec 20 2012	(1,000)	15	3
Grupa LOTOS S.A.	EUA Futures	Dec 3 2010	Dec 20 2012	(5,000)	15	17
Grupa LOTOS S.A.	EUA Futures	Dec 7 2010	Dec 20 2012	(14,000)	16	50
Grupa LOTOS S.A.	EUA Futures	Dec 7 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 7 2010	Dec 20 2012	(35,000)	16	133

Grupa LOTOS S.A.	CER Futures	Dec 7 2010	Dec 20 2012	14,000	11	(1)
Grupa LOTOS S.A.	CER Futures	Dec 7 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 7 2010	Dec 20 2012	35,000	11	(15)
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(10,000)	15	34
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(10,000)	15	34
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(10,000)	15	34
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	3
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	3
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(1,000)	16	3
Grupa LOTOS S.A.	EUA Futures	Dec 8 2010	Dec 20 2012	(10,000)	16	34
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	10,000	11	(3)
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	10,000	11	(3)
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	10,000	11	(3)
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	(1)
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	(1)
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	(1)
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 8 2010	Dec 20 2012	10,000	11	(3)
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	5,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	10,000	11	1
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	1,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	4,000	11	0
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	20,000	11	1
Grupa LOTOS S.A.	CER Futures	Dec 15 2010	Dec 20 2012	1,000	11	-
				16,000	TOTAL, including:	152
					positive	615
					negative	(463)

Open CO₂ allowances transactions as at December 31st 2009:

Type of	Transaction execution	Transaction settlement	No. of CO ₂	Price	Fair value as at Dec 31 2009
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Company	transaction	date	date	allowances	(EUR/tonne)	(PLN '000) ⁽²⁾
Grupa LOTOS S.A.	EUA Futures	Nov 2 2009	Dec 20 2012	(1,000)	16	9
Grupa LOTOS S.A.	CER Futures	Nov 2 2009	Dec 20 2012	1,000	14	(9)
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(27,000)	15	237
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(1,000)	15	9
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(3,000)	15	27
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(9,000)	15	80
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(10,000)	15	89
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 23 2010	10,000	13	(73)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 23 2010	22,000	13	(162)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 23 2010	10,000	13	(75)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	5,000	13	(35)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	25,000	13	(178)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	20,000	13	(143)
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	8
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	8
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	8
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(8,000)	15	62
				31,000	TOTAL, including:	(138)
					positive	537
					negative	(675)

⁽²⁾ Fair value of futures contracts for carbon dioxide (CO₂) allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the European Climate Exchange (ECX) for the valuation date, and the transaction price (Level 1 in the fair value hierarchy).

Total CO₂ allowances position as at December 31st 2010:

Period	EUA position			CER position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
Phase II (2008-2012)	(55,924)	(182,000)	(237,924)	49,863	198,000	247,863

Pozycja całkowita w uprawnieniach do emisji na dzień 31 grudnia 2009 roku przedstawia się następująco:

Period	EUA position			CER position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
Phase II (2008-2012)	(122,789)	(62,000)	(184,789)	82,010	93,000	175,010

Currency Risk

Currency risk is managed in line with the assumptions stipulated in *The Strategy of Currency Risk Management at Grupa LOTOS S.A.* The exposure management horizon is connected with the introduction of a budget roll over into four quarters in advance as a permanent component of planning activities at the Company. The four quarter period is treated as the basis for determining the exposure management time horizon. The base map of currency positions takes into account principally the volumes and price formulae for purchases of raw materials and sales of products, investments, loans denominated in foreign currencies, as well as valuation of derivatives, and may be adjusted for a ratio reflecting the volatility in the prices of raw materials and petroleum products. The strategy provides for the calculation of the following limits:

- transaction position limit (open currency transactions must not increase the Company's underlying position and must not exceed the volume of the underlying position);
- maximum loss and liquidity limits are expressed as a percentage of the Company's equity (the liquidity limit is

calculated in order to reduce the risk of excessive accumulation of financial transactions over a limited period of time, the settlement of which could result in liquidity and operating problems);

- gross total and global currency position limits applicable for the entire management period as well as for sub-periods.

For the purpose of the limits calculation, equity is remeasured on a quarterly basis. Moreover, when a loss on risk management exceeds a defined threshold, limits are immediately revised in order to prevent any significant exceeding of the maximum loss limit set by the Management Board of Grupa LOTOS S.A.

The strategy allows for the possibility of consolidated risk management at the Group level.

USD is used in market price quotations for crude oil and petroleum products. For this reason it has been decided that USD is the most appropriate currency for contracting and repaying long-term loans to finance the 10+ Programme, as such an approach contributes to reducing the structurally long position, and consequently to reducing the strategic currency risk.

Under the agreement on the financing of the 10+ Programme, Grupa LOTOS S.A. has the obligation to maintain a specified level of the hedge ratio for the currency risk (EUR/USD and USD/PLN) which arises in connection with the fact that the currency in which the investment projects are financed is different from the currencies in which project execution contracts are denominated. This obligation remains binding only with respect to payments under the 10+ Programme projects execution contracts to be made by mid-2011.

Underlying currency position as at December 31st 2010:

Period	USD	EUR
2011	322,577,414	(266,115,943)

Underlying currency position as at December 31st 2009:

Period	USD	EUR
2010	406,436,729	(287,449,821)

Grupa LOTOS S.A. actively manages its currency position and changes it depending on the expected market developments.

Open currency transactions as at December 31st 2010:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2010 (PLN '000) ⁽³⁾
Grupa LOTOS S.A.	Currency forward	May 6 2010	Feb 10 2011	EUR/USD	5,000,000	1.3	(6,396,500)	840
Grupa LOTOS S.A.	Currency forward	May 6 2010	Feb 14 2011	EUR/USD	10,000,000	1.3	(12,795,500)	1,671
Grupa LOTOS S.A.	Currency forward	May 6 2010	Mar 10 2011	EUR/USD	5,000,000	1.3	(6,398,500)	831
Grupa LOTOS S.A.	Currency forward	May 6 2010	Mar 15 2011	EUR/USD	10,000,000	1.3	(12,800,000)	1,652
Grupa LOTOS S.A.	Currency forward	May 6 2010	Mar 16 2011	USD/PLN	(5,000,000)	3.3	16,282,500	1,384
Grupa LOTOS S.A.	Currency forward	May 6 2010	Mar 17 2011	USD/PLN	(15,000,000)	3.3	48,759,000	4,060
Grupa LOTOS S.A.	Currency forward	May 7 2010	Jan 12 2011	USD/PLN	10,000,000	3.3	(33,293,000)	(3,635)
Grupa LOTOS S.A.	Currency forward	May 7 2010	Jan 13 2011	USD/PLN	6,000,000	3.3	(20,019,600)	(2,223)
Grupa LOTOS S.A.	Currency forward	May 10 2010	Jan 14 2011	USD/PLN	20,000,000	3.1	(61,930,000)	(2,610)
Grupa LOTOS S.A.	Currency forward	May 14 2010	Jan 14 2011	EUR/PLN	2,500,000	4	(10,118,250)	(211)

Grupa LOTOS S.A.	Currency forward	Aug 10 2010	May 16 2011	EUR/PLN	4,500,000	4	(18,204,750)	(230)
Grupa LOTOS S.A.	Currency forward	Aug 10 2010	May 17 2011	EUR/USD	2,500,000	1.3	(3,284,500)	160
Grupa LOTOS S.A.	Currency forward	Aug 10 2010	Jun 15 2011	EUR/PLN	10,000,000	4.1	(40,510,000)	(482)
Grupa LOTOS S.A.	Currency forward	Sep 28 2010	Jan 10 2011	EUR/PLN	9,000,000	4	(36,013,500)	(357)
Grupa LOTOS S.A.	Currency forward	Oct 1 2010	Apr 1 2011	EUR/USD	9,000,000	1.4	(12,330,000)	(914)
Grupa LOTOS S.A.	Currency forward	Nov 9 2010	Jan 13 2011	EUR/USD	15,000,000	1.4	(20,830,650)	(2,338)
Grupa LOTOS S.A.	Currency forward	Nov 9 2010	Mar 15 2011	EUR/USD	10,000,000	1.4	(13,866,000)	(1,504)
Grupa LOTOS S.A.	Currency forward	Nov 9 2010	Apr 15 2011	EUR/USD	15,000,000	1.4	(20,808,480)	(2,291)
Grupa LOTOS S.A.	Currency forward	Nov 9 2010	May 6 2011	EUR/USD	10,000,000	1.4	(13,855,000)	(1,480)
Grupa LOTOS S.A.	Currency forward	Nov 9 2010	Jul 11 2011	EUR/USD	15,000,000	1.4	(20,777,250)	(2,221)
Grupa LOTOS S.A.	Currency forward	Nov 9 2010	Sep 9 2011	EUR/USD	20,000,000	1.4	(27,647,000)	(2,814)
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	Feb 14 2011	USD/PLN	31,000,000	3	(93,889,700)	(1,745)
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	May 16 2011	USD/PLN	(42,000,000)	3	127,785,000	2,152
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	Jun 15 2011	USD/PLN	42,000,000	3	(128,076,900)	(2,156)
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	Jul 11 2011	USD/PLN	7,000,000	3.1	(21,466,200)	(436)
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	Jul 11 2011	USD/PLN	10,000,000	3.1	(30,622,000)	(580)
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	Sep 12 2011	USD/PLN	(31,000,000)	3.1	95,154,500	1,620
Grupa LOTOS S.A.	Currency forward	Dec 6 2010	Aug 10 2011	USD/PLN	(38,000,000)	3.1	116,557,400	2,160
Grupa LOTOS S.A.	Currency forward	Dec 7 2010	Aug 11 2011	USD/PLN	(19,800,000)	3.1	60,489,000	883
Grupa LOTOS S.A.	Currency forward	Dec 9 2010	Aug 10 2011	EUR/PLN	21,000,000	4.1	(85,915,200)	(1,530)
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Jan 10 2011	USD/PLN	(34,100,000)	3	103,916,340	2,803
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	May 16 2011	USD/PLN	(30,000,000)	3.1	92,001,000	2,255
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Jun 06 2011	USD/PLN	(30,000,000)	3.1	92,215,500	2,324
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Jun 13 2011	EUR/PLN	8,000,000	4	(32,352,000)	(335)
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Jun 22 2011	USD/PLN	(40,000,000)	3.1	122,960,000	2,956
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Jul 12 2011	EUR/PLN	5,000,000	4.1	(20,256,000)	(205)
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Oct 5 2011	EUR/USD	10,000,000	1.3	(13,129,300)	634
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Oct 17 2011	EUR/USD	10,000,000	1.3	(13,147,500)	578
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Nov 07 2011	EUR/USD	20,000,000	1.3	(26,259,000)	1,254
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Dec 12 2011	USD/PLN	30,000,000	3.1	(93,460,500)	(2,321)
Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Dec 13 2011	USD/PLN	30,000,000	3.1	(93,426,000)	(2,281)

Grupa LOTOS S.A.	Currency forward	Dec 20 2010	Dec 22 2011	EUR/PLN	20,000,000	4.1	(81,820,000)	(749)
Grupa LOTOS S.A.	Currency forward	Dec 21 2010	Jan 24 2011	USD/PLN	(34,000,000)	3	103,436,500	2,527
Grupa LOTOS S.A.	Currency forward	Dec 21 2010	Apr 04 2011	USD/PLN	20,000,000	3.1	(61,160,000)	(1,514)
Grupa LOTOS S.A.	Currency forward	Dec 21 2010	May 10 2011	USD/PLN	(20,000,000)	3.1	61,298,000	1,495
Grupa LOTOS S.A.	Currency forward	Dec 21 2010	Aug 5 2011	USD/PLN	(15,000,000)	3.1	46,260,000	1,114
Grupa LOTOS S.A.	Currency forward	Dec 21 2010	Nov 10 2011	USD/PLN	15,000,000	3.1	(46,605,000)	(1,144)
Grupa LOTOS S.A.	Currency forward	Dec 22 2010	Jul 7 2011	USD/PLN	7,000,000	3.1	(21,514,500)	(490)
Grupa LOTOS S.A.	Currency forward	Dec 22 2010	Jul 8 2011	USD/PLN	10,000,000	3.1	(30,734,000)	(696)
Grupa LOTOS S.A.	Currency forward	Dec 23 2010	Feb 18 2011	EUR/USD	4,000,000	1.3	(5,259,400)	250
Grupa LOTOS S.A.	Currency forward	Dec 23 2010	Jul 11 2011	USD/PLN	5,000,000	3.1	(15,368,000)	(346)
Grupa LOTOS S.A.	Currency forward	Dec 23 2010	Jul 12 2011	USD/PLN	8,000,000	3.1	(24,588,800)	(552)
Grupa LOTOS S.A.	Currency forward	Dec 27 2010	Jan 12 2011	EUR/USD	10,000,000	1.3	(13,166,000)	578
Grupa LOTOS S.A.	Currency forward	Dec 27 2010	Jan 12 2011	USD/PLN	(10,000,000)	3	30,223,000	567
Grupa LOTOS S.A.	Currency forward	Dec 28 2010	Jan 31 2011	EUR/USD	3,500,000	1.3	(4,630,815)	134
Grupa LOTOS S.A.	Currency forward	Dec 28 2010	Jan 31 2011	USD/PLN	(1,000,000)	3	3,016,000	47
Grupa LOTOS S.A.	Currency forward	Dec 28 2010	Jul 13 2011	USD/PLN	13,000,000	3.1	(39,679,900)	(622)
Grupa LOTOS S.A.	Currency forward	Dec 28 2010	Dec 1 2011	USD/PLN	(13,000,000)	3.1	40,033,500	586
Grupa LOTOS S.A.	Currency spot	Dec 30 2010	Jan 3 2011	USD/PLN	3,000,000	3	(8,998,500)	(106)
Grupa LOTOS S.A.	Currency spot	Dec 30 2010	Jan 3 2011	USD/PLN	10,000,000	3	(29,979,000)	(339)
Grupa LOTOS S.A.	Currency spot	Dec 30 2010	Jan 3 2011	USD/PLN	4,000,000	3	(12,000,400)	(144)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	1,000,000	4	(3,957,000)	3
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	2,000,000	4	(7,909,000)	12
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	1,000,000	4	(3,950,000)	10
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	600,000	4	(2,382,600)	(6)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	10,000,000	3	(29,642,000)	(1)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	5,000,000	3	(14,820,500)	-
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	4,000,000	3	(11,901,200)	(45)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	5,000,000	3	(14,821,500)	(1)
							TOTAL, including:	(4,114)
							positive	37,540
							negative	(41,654)

Open currency transactions as at December 31st 2009:

Company	Type of transaction	Transaction execution date	Transaction execution date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2009 (PLN '000) ⁽³⁾
Grupa LOTOS S.A.	Currency forward	May 27 2009	Jan 8 2010	USD/PLN	(15,000,000)	3.2	48,297,000	5,532
Grupa LOTOS S.A.	Currency forward	May 27 2009	Jan 14 2010	USD/PLN	(15,000,000)	3.2	48,394,500	5,610
Grupa LOTOS S.A.	Currency forward	May 27 2009	Jan 28 2010	USD/PLN	(18,000,000)	3.2	58,024,800	6,627
Grupa LOTOS S.A.	Currency forward	May 27 2009	Feb 19 2010	USD/PLN	(15,000,000)	3.2	48,637,500	5,732
Grupa LOTOS S.A.	Currency forward	May 27 2009	Mar 11 2010	USD/PLN	(15,000,000)	3.2	48,547,500	5,576
Grupa LOTOS S.A.	Currency forward	May 27 2009	Mar 18 2010	USD/PLN	(14,000,000)	3.3	45,592,400	5,465
Grupa LOTOS S.A.	Currency forward	May 27 2009	Apr 8 2010	USD/PLN	(4,000,000)	3.2	12,960,000	1,479
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Jan 28 2010	USD/PLN	7,700,000	3	(22,730,400)	(748)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Feb 19 2010	USD/PLN	15,000,000	3	(44,332,500)	(1,444)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Mar 11 2010	USD/PLN	10,000,000	3	(29,579,000)	(947)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Mar 18 2010	USD/PLN	19,000,000	3	(56,215,300)	(1,790)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Apr 8 2010	USD/PLN	4,000,000	3	(11,858,000)	(385)
Grupa LOTOS S.A.	Currency forward	Sep 21 2009	Jan 8 2010	USD/PLN	15,000,000	2.9	(42,817,500)	(55)
Grupa LOTOS S.A.	Currency forward	Sep 21 2009	Jan 14 2010	USD/PLN	15,000,000	2.9	(42,835,500)	(56)
Grupa LOTOS S.A.	Currency forward	Sep 21 2009	Jan 28 2010	USD/PLN	10,300,000	2.9	(29,435,855)	(33)
Grupa LOTOS S.A.	Currency forward	Oct 14 2009	Apr 16 2010	USD/PLN	(7,000,000)	2.9	20,064,800	(19)
Grupa LOTOS S.A.	Currency forward	Oct 16 2009	Jan 21 2010	USD/PLN	(2,000,000)	2.8	5,687,200	(19)
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Jan 25 2010	USD/PLN	(19,500,000)	2.9	56,181,450	527
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Jan 29 2010	USD/PLN	(6,000,000)	2.9	17,206,800	78
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Jan 14 2010	USD/PLN	12,000,000	2.9	(34,563,600)	(340)
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Apr 8 2010	USD/PLN	7,000,000	2.9	(20,279,000)	(204)
Grupa LOTOS S.A.	Currency forward	Nov 17 2009	Jan 15 2010	USD/PLN	(1,800,000)	2.8	4,969,800	(164)
Grupa LOTOS S.A.	Currency forward	Dec 16 2009	Jan 4 2010	USD/PLN	(1,500,000)	2.9	4,301,400	26
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jan 15 2010	EUR/USD	6,000,000	1.4	(8,618,850)	83
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jan 20 2010	USD/PLN	(40,000,000)	2.9	116,888,000	2,761
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jan 21 2010	EUR/USD	10,000,000	1.4	(14,328,500)	241
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 11 2010	EUR/USD	10,000,000	1.4	(14,327,850)	241
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Mar 15 2010	EUR/USD	10,000,000	1.4	(14,309,000)	292

Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Mar 17 2010	EUR/USD	10,000,000	1.4	(14,341,400)	200
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Apr 15 2010	EUR/USD	10,000,000	1.4	(14,307,500)	294
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	May 20 2010	EUR/USD	10,000,000	1.4	(14,338,300)	200
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jul 15 2010	EUR/USD	10,000,000	1.4	(14,332,850)	203
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jul 22 2010	EUR/USD	10,000,000	1.4	(14,295,500)	308
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Sep 15 2010	EUR/USD	10,000,000	1.4	(14,325,650)	205
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Sep 22 2010	EUR/USD	10,000,000	1.4	(14,288,250)	309
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Oct 21 2010	EUR/USD	10,000,000	1.4	(14,340,500)	153
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Nov 22 2010	EUR/USD	10,000,000	1.4	(14,316,000)	214
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Dec 9 2010	EUR/USD	10,000,000	1.4	(14,332,000)	164
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 18 2010	EUR/PLN	10,000,000	4.2	(42,025,000)	(821)
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 23, 2010	EUR/PLN	10,000,000	4.2	(42,052,000)	(834)
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 24 2010	EUR/PLN	10,000,000	4.2	(42,045,000)	(825)
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 25 2010	EUR/PLN	5,000,000	4.2	(21,024,000)	(413)
Grupa LOTOS S.A.	Currency forward	Dec 22 2009	Jun 17 2010	USD/PLN	10,000,000	3	(29,583,500)	(761)
Grupa LOTOS S.A.	Currency forward	Dec 23 2009	Jan 8 2010	EUR/USD	25,000,000	1.4	(35,625,750)	1,160
Grupa LOTOS S.A.	Currency forward	Dec 23 2009	Jan 13 2010	EUR/USD	20,000,000	1.4	(28,500,400)	929
Grupa LOTOS S.A.	Currency forward	Dec 23 2009	Jan 8 2010	EUR/USD	(40,000,000)	1.4	57,020,000	(1,803)
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Jan 14 2010	USD/PLN	(15,000,000)	2.9	43,390,500	610
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Jan 15 2010	USD/PLN	(10,000,000)	2.9	28,927,000	405
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Feb 4 2010	EUR/USD	(16,700,000)	1.4	24,081,400	35
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Mar 16 2010	USD/PLN	(20,000,000)	2.9	58,069,000	793
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Apr 15 2010	EUR/USD	10,000,000	1.4	(14,400,000)	31
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Aug 30 2010	EUR/USD	10,000,000	1.4	(14,380,000)	57
Grupa LOTOS S.A.	Currency forward	Dec 29 2009	Jan 6 2010	USD/PLN	5,000,000	2.9	(14,393,500)	(141)
Grupa LOTOS S.A.	Currency forward	Dec 29 2009	Feb 19 2010	EUR/PLN	10,900,000	4.2	(45,283,505)	(370)
Grupa LOTOS S.A.	Currency spot	Dec 30 2009	Jan 4 2010	USD/PLN	6,000,000	2.9	(17,275,800)	(175)
Grupa LOTOS S.A.	Currency spot	Dec 30 2009	Jan 4 2010	USD/PLN	6,800,000	2.9	(19,530,280)	(149)
Grupa LOTOS S.A.	Currency spot	Dec 30 2009	Jan 4 2010	USD/PLN	3,000,000	2.9	(8,628,000)	(78)
Grupa LOTOS S.A.	Currency forward	Dec 30 2009	Jan 6 2010	USD/PLN	5,000,000	2.9	(14,402,400)	(150)
Grupa LOTOS S.A.	Currency forward	Dec 31 2009	Jan 21 2010	EUR/USD	12,000,000	1.4	(17,283,480)	35

Grupa LOTOS S.A.	Currency forward	Dec 31 2009	Jan 6 2010	USD/PLN	9,000,000	2.9	(25,728,480)	(74)	
								TOTAL including:	33,777
								positive	46,575
								negative	(12,798)

⁽³⁾ Fair value of currency spots and forwards 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).

Total currency position of the Parent Undertaking as at December 31st 2010:

Period	USD/PLN position			EUR/PLN position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
2011	322,577,414	(320,281,395)	2,296,019	(266,115,943)	268,600,000	2,484,057

Total currency position of the Parent Undertaking as at December 31st 2009:

Period	USD/PLN position			EUR/PLN position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
2010	406,436,729	(282,890,380)	123,546,349	(287,449,821)	202,200,000	(85,249,821)

The LOTOS Group companies executed transactions to hedge their currency risk and transactions to hedge the USD exchange rate in connection with the purchase of notes from a LOTOS Group member.

Open currency transactions as at December 31st 2010:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2010 (PLN '000) ⁽³⁾	
LOTOS Asfalt Sp. z o.o.	Currency swap	Nov 9 2010	Feb 10 2011	USD/PLN	(41,100,000)	2.8272	116,197,920	(5,936)	
								TOTAL, including:	(5,936)
								positive	-
								negative	(5,936)

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2010 (PLN '000) ⁽³⁾	
LOTOS Parafiny Sp. z o.o.	Currency forward	Apr 28 2010	Jan 28 2011	EUR/PLN	(74,500)	3.9860	296,957	1	
								TOTAL, including:	1
								positive	1
								negative	-

Open currency transactions as at December 31st 2009:

Fair

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	value as at Dec 31 2009 (PLN '000) ⁽³⁾
LOTOS Asphalt Sp. z o.o.	Currency swap	Nov 12 2009	Nov 12 2010	USD/PLN	(20,500,000)	2.8355	58,127,750	(1,758)
LOTOS Asphalt Sp. z o.o.	Currency swap	Nov 12 2009	Nov 12 2010	USD/PLN	(19,500,000)	2.8354	55,290,300	(1,420)
							TOTAL, including:	(3,178)
							positive	-
							negative	(3,178)

Interest Rate Risk

The base map of interest rate positions is related to the cash flows which depend on future interest rates; in particular it is based on the planned schedule of repayments under the loan for financing of inventories and implementation of the 10+ Programme and the associated interest calculated on the basis of a floating LIBOR USD rate. The structure of limits is based on the underlying's nominal value hedge ratio. In a long-term perspective, a partial risk mitigation effect was achieved through the choice of a fixed interest rate for the SACE sub-tranche under the investment loan granted to finance the 10+ Programme described in Note 34.

The agreement on the financing of the 10+ Programme provides for the obligation to maintain a specified hedge ratio for the interest rate risk, i.e. the risk connected with the LIBOR USD floating interest rate on the loan to finance the 10+ Programme in the period until mid-2011.

Underlying interest rate position as at December 31st 2010 (USD '000):

Period	Underlying position
2011	(1,913,471)
2012	(1,831,610)
2013	(1,373,687)
2014	(1,267,629)
2015	(1,143,396)
2016	(1,012,072)
2017	(876,641)
2018	(728,732)
2019	(562,495)
2020	(395,211)

Underlying interest rate position as at December 31st 2009 (USD '000):

Period	Underlying position
2010	(1,782,231)
2011	(1,820,792)
2012	(1,388,528)
2013	(1,302,032)
2014	(1,201,506)
2015	(1,083,753)
2016	(959,280)
2017	(830,913)
2018	(690,720)

2019	(533,154)
2020	(374,596)

In connection with its obligation to maintain the hedge ratio prescribed in the loan agreement and given its intention to partly mitigate the interest rate risk which is not covered by mandatory hedges, the Company executed hedging transactions. Taking advantage of the improved market conditions prevailing at the long end of the USD interest rate curve, the Company hedged a part of its exposure in a time horizon of up to ten years.

Open interest rate transactions as at December 31st 2010:

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Notional amount (USD)	Company pays	Company receives	Fair value as at Dec 31 2010 (PLN '000) ⁽⁴⁾
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 9 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.40%	LIBOR 6M	(6,650)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 13 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.60%	LIBOR 6M	(6,908)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 16 2008	Oct 15 2008	Jun 30 2011	100,000,000	3.70%	LIBOR 6M	(14,220)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Jul 15 2009	Jun 30 2011	122,000,000	4.10%	LIBOR 6M	(19,599)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Oct 15 2008	Jun 30 2011	208,000,000	3.80%	LIBOR 6M	(30,735)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 26 2008	Jan 15 2009	Jun 30 2011	100,000,000	4.30%	LIBOR 6M	(16,943)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 27 2008	Jul 15 2009	Jun 30 2011	150,000,000	4.30%	LIBOR 6M	(25,768)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.80%	LIBOR 6M	(27,521)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.50%	LIBOR 6M	(25,060)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	LIBOR 6M	4.00%	29,087
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.50%	LIBOR 6M	(24,792)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	Jan 15 2013	100,000,000	4.20%	LIBOR 6M	(14,102)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Mar 19 2009	Jul 15 2011	Jan 15 2018	100,000,000	3.30%	LIBOR 6M	(3,860)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Apr 15 2009	Jul 15 2011	Jan 15 2018	50,000,000	3.50%	LIBOR 6M	(3,444)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 8 2009	Jul 15 2011	Jan 15 2018	50,000,000	4.00%	LIBOR 6M	(8,295)
TOTAL, including:								(198,810)
positive								29,087
negative								(227,897)

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Notional amount (USD)	Company pays	Company receives	Fair value as at Dec 31 2010 (PLN '000) ⁽⁴⁾
Grupa LOTOS S.A.	Forward rate agreement (FRA)	Jan 19 2010	Jan 18 2011	Apr 15 2011	(100,000,000)	LIBOR 3M	1.2250%	655
Grupa LOTOS S.A.	Forward rate agreement (FRA)	Apr 19 2010	Jan 18 2011	Apr 15 2011	100,000,000	0.8%	LIBOR 3M	(340)
TOTAL								315

Open interest rate transactions as at December 31st 2009:

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Notional amount (USD)	Company pays	Company receives	Fair value as at Dec 31 2010 (PLN '000) ⁽⁴⁾
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 9 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.4%	6M LIBOR	-9,058
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 13 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.6%	6M LIBOR	-9,473
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 16 2008	Oct 15 2008	Jun 30 2011	100,000,000	3.7%	6M LIBOR	-19,598
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Jul 15 2009	Jun 30 2011	122,000,000	4.1%	6M LIBOR	-20,42
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Oct 15 2008	Jun 30 2011	208,000,000	3.8%	6M LIBOR	-42,633
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 26 2008	Jan 15 2009	Jun 30 2011	100,000,000	4.3%	6M LIBOR	-23,991
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 27 2008	Jul 15 2009	Jun 30 2011	150,000,000	4.3%	6M LIBOR	-27,254
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.8%	6M LIBOR	-23,222
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	-20,125
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	6M LIBOR	4.0%	25,194
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	-19,787
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	Jan 15 2013	100,000,000	4.2%	6M LIBOR	-4,159
Grupa LOTOS S.A.	Interest rate swap (IRS)	Mar 19 2009	Jul 15 2011	Jan 15 2018	100,000,000	3.3%	6M LIBOR	18,07
Grupa LOTOS S.A.	Interest rate swap (IRS)	Apr 15 2009	Jul 15 2011	Jan 15 2018	50,000,000	3.5%	6M LIBOR	7,914
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 8 2009	Jul 15 2011	Jan 15 2018	50,000,000	4.0%	6M LIBOR	3,589
TOTAL, including:								(164,953)
positive								54,767
negative								(219,720)

⁽⁴⁾ WFair value of IRSs/FRA 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).

Total interest rate position as at December 31st 2010:

Period	Underlying position	Fixed interest rate loans	Transaction position	Variable interest rate deposits	Total position	Hedge ratio
2011	(1,913,471,448)	415,619,121	740,000,000	27,709,808	(730,142,519)	62%
2012	(1,831,610,416)	401,678,125	500,000,000	68,602,578	(861,329,713)	53%
2013	(1,373,687,500)	376,656,250	200,000,000	72,506,923	(724,524,327)	47%
2014	(1,267,628,750)	347,575,625	200,000,000	89,910,022	(630,143,103)	50%
2015	(1,143,396,250)	313,511,875	200,000,000	92,393,815	(537,490,560)	53%
2016	(1,012,072,500)	277,503,750	200,000,000	94,878,009	(439,690,741)	57%
2017	(876,641,250)	240,369,375	200,000,000	94,354,545	(341,917,330)	61%

2018	(728,732,500)	199,813,750	-	101,292,185	(427,626,565)	41%
2019	(562,495,000)	154,232,500	-	102,468,228	(305,794,272)	46%
2020	(395,211,250)	108,364,375	-	74,265,210	(212,581,665)	46%

Total interest rate position as at December 31st 2009:

Period	Underlying position	Fixed interest rate loans	Transaction position	Total position	Hedge ratio
2010	(1,782,230,827)	357,329,116	980,000,000	(444,901,711)	75%
2011	(1,820,792,177)	420,654,375	740,000,000	(660,137,802)	64%
2012	(1,388,528,072)	401,678,125	500,000,000	(486,849,947)	65%
2013	(1,302,032,010)	376,656,250	200,000,000	(725,375,760)	44%
2014	(1,201,505,590)	347,575,625	200,000,000	(653,929,965)	46%
2015	(1,083,753,414)	313,511,875	200,000,000	(570,241,539)	47%
2016	(959,279,889)	277,503,750	200,000,000	(481,776,139)	50%
2017	(830,913,122)	240,369,375	200,000,000	(390,543,747)	53%
2018	(690,719,718)	199,813,750	-	(490,905,968)	29%
2019	(533,153,644)	154,232,500	-	(378,921,144)	29%
2020	(374,595,895)	108,364,375	-	(266,231,520)	29%

To optimise the interest balance, the cashpooling service for the LOTOS Group members is used. The service consists in the application of favourable interest rates for debit and credit balances, which are subject to offsetting as at the end of each business day.

Liquidity Risk

The liquidity risk management process within the Group consists in monitoring the forecast cash flows, matching maturities of assets and liabilities, analysing working capital and maintaining access to various financing sources.

In the period covered by the budget, liquidity is monitored on an ongoing basis across the Group as part of the financial risk management. In the mid and long term, it is monitored as part of the planning process, which helps create a long-term financial strategy.

In the area of financial risk, in addition to an active management of market risk, the Company follows the following rules with respect to liquidity management:

- employs no margins with respect to trade in derivatives on the over-the-counter market,
- limits the possibility of an early termination of financial transactions,
- establishes limits for spot financial instruments of low liquidity,
- establishes credit limits for counterparties in financial transactions,
- ensures adequate quality of the available credit lines,
- implements internal control processes and ensures organisational efficiency, which facilitates prompt reaction in case of emergencies.

Maturity structure of derivative financial instruments as at December 31st 2010:

Beginning of period	End of period	Period	Net cash flows (EUR '000)	Net cash flows (USD '000)	Net cash flows (PLN '000)
Jan 1 2011	Jan 31 2011	Up to 1 month	44,600	(40,621)	(61,144)
Feb 1 2011	Mar 31 2011	1–3 months	44,000	(46,533)	(28,848)
Apr 1 2011	Dec 31 2011	3–12 months	180,009	(274,487)	(31,006)
Jan 1 2012	Dec 31 2016	1–5 years	29	(21,055)	-
Jan 1 2017	Dec 31 2030	Over 5 years	-	(5,264)	-

Note 30 presents additional free cash remaining at the Group's disposal. Note 42.4 contains information on the contractual maturities of financial liabilities as at December 31st 2010 and December 31st 2009.

Credit Risk

Management of credit risk relating to counterparties in financial transactions consists in ongoing monitoring of credit

exposure in relation to the limits granted. The counterparties must have an appropriate credit rating assigned by leading rating agencies or hold guarantees granted by institutions meeting the minimum rating requirement. The Group enters into financial transactions with well-established firms with good credit standing.

As at December 31st 2010, the concentration of credit risk with respect to a single counterparty in financial transactions did not exceed 0.35% of the Group's balance-sheet total.

As regards management of credit risk relating to counterparties in trade transactions, all customers requesting trade credit undergo verification of their financial reliability, whose results determine the level of credit limits to be granted. Furthermore, due to the fact that the Group's receivables are monitored on an ongoing basis, the risk of it holding uncollectible receivables is low.

Carrying values of financial assets represent the maximum credit risk exposure. The maximum credit risk exposure as at the balance-sheet date stood at:

PLN '000	Note	Dec 31 2010	Dec 31 2009 (restated)
Shares:		9,927	9,929
- non-current	23	9,915	9,917
- current	28	12	12
Derivative financial instruments:		69,370	101,879
- non-current	23	29,667	54,862
- current	28	39,703	47,017
Decommissioning fund	23	21,668	18,851
Deposits:		5,932	6,130
- non-current	23	-	6,130
- current	28	5,932	-
Security deposits (margins)	23	3,108	3,316
Trade and other receivables:		1,810,637	1,515,812
- non-current	25	28,612	22,061
- current		1,782,025	1,493,751
Cash and cash equivalents		391,266	355,054
Total		2,311,908	2,010,971

The age analysis of past due financial assets as at December 31st 2010 and December 31st 2009 is shown in [Note 26](#).

This is a translation of a document originally issued in Polish

The notes to the financial statements, presented on following pages, are their integral part.

42. Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

The Group discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading. Under financial assets and liabilities held for trading the Company discloses valuation of the following types of derivatives: swaps, futures, forwards, options, interest-rate swaps, forward rate agreement.

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 has been established on the basis of prices quoted on active markets, as provided by an external consultancy (Level 2 in the fair value hierarchy).

Fair value of futures contracts for carbon dioxide (CO₂) allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the European Climate Exchange (ECX) for the valuation date, and the transaction price (Level 1 in the fair value hierarchy).

Fair value of spots and currency forwards 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).

Apart from the parameters used in the valuation of currency forwards, implied volatility is additionally taken into account in calculating the value of currency options (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. This is considered Level 2 in the fair value hierarchy.

Financial Assets Available for Sale

Non-current financial assets available for sale measured at fair value as at December 31st 2010 and December 31st 2009 include mainly shares and equity interests for which there is no active market.

Loans Advanced and Receivables

1. On September 23rd 2003 and April 8th 2004, Grupa LOTOS S.A. signed with Rafineria Nafty GLIMAR S.A. loan agreements for the financing of operating and investing activities, including, in particular, the Glimar Hydrocomplex investment project, for an aggregate amount of PLN 90m. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty GLIMAR S.A. under these agreements. Additionally, in connection with the Letter of Comfort signed by Grupa LOTOS S.A. on February 12th 2004 for Bank Przemysłowo-Handlowy S.A., the Company undertook commitments relating to the co-financing of the Glimar Hydrocomplex investment project and maintaining of an appropriate financial standing of Rafineria Nafty GLIMAR S.A. In the opinion of the Company's Management Board, these commitments do not represent financial liabilities as at the balance-sheet date.

As at December 31st 2010 and December 31st 2009, an impairment loss was carried for the full value of the receivables under these loans.

Financial Liabilities Measured at Amortised Cost

Financial liabilities measured at amortised cost include loans, overdraft facilities, and liabilities under finance lease.

None of the following economic events or situations requiring disclosure occurred at the Group during the reporting periods ended December 31st 2010 and December 31st 2009:

The Group did not reclassify any financial assets (IFRS 7, paragraph 12);

- No collateral was established for the benefit of the Group on any class of assets, which would result in credit enhancements (IFRS 7, paragraph 15);
- The Group did not issue any instrument that contains both a liability and an equity component (IFRS 7, paragraph 17);
- The Group met all contractual provisions (IFRS 7, paragraph 18);
- Interest income in connection with impaired financial assets was recognised by the Group as immaterial (IFRS 7, paragraph 20.d);
- The Group does not apply hedge accounting due to the fact that formal requirements are not met; accordingly, changes in fair value of derivative instruments are charged against profit or loss (IFRS 7, paragraph 22);
- The Group did not acquire any financial assets at a price different from their fair value (IFRS 7, paragraph 28);
- The Group did not obtain any assets by taking possession of collateral held as security (IFRS 7, paragraph 38).

42.1 Fair Value of Financial Instruments

Dec 31 2010 (PLN '000)	Note	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Shares:		-	-	9,927	-	-	9,927
- non-current	23	-	-	9,915	-	-	9,915
- current	28	-	-	12	-	-	12
Decommissioning fund	23	-	21,668	-	-	-	21,668
Deposits:		-	5,932	-	-	-	5,932
- non-current	23	-	-	-	-	-	-
- current	28	-	5,932	-	-	-	5,932
Security deposits (margins)	23	-	3,108	-	-	-	3,108
Derivative financial instruments:		69,370	-	-	-	-	69,370
- non-current	23	29,667	-	-	-	-	29,667
- current	28	39,703	-	-	-	-	39,703
Trade and other receivables:		-	1,810,637	-	-	-	1,810,637
- non-current	25	-	28,612	-	-	-	28,612
- current		-	1,782,025	-	-	-	1,782,025
Cash and cash equivalents	30	-	391,266	-	-	-	391,266
Trade and other payables:	37.1	-	-	-	-	(2,034,439)	(2,034,439)
- non-current		-	-	-	-	(26,211)	(26,211)
- current		-	-	-	-	(2,008,228)	(2,008,228)
Loans and borrowings:	34	-	-	-	-	(6,335,459)	(6,335,459)
- non-current		-	-	-	-	(4,403,453)	(4,403,453)
- current		-	-	-	-	(1,932,006)	(1,932,006)
Notes	35	-	-	-	-	(52,670)	(52,670)
- non-current		-	-	-	-	-	-
- current		-	-	-	-	(52,670)	(52,670)
Financial liabilities:		-	-	-	(279,807)	(74,255)	(354,062)
Lease liabilities:	37.3	-	-	-	-	(74,255)	(74,255)

- non-current	-	-	-	-	(71,559)	(71,559)
- current	-	-	-	-	(2,696)	(2,696)
Derivative financial instruments:	37.2	-	-	-	(279,807)	(279,807)
- non-current	-	-	-	-	(107,537)	(107,537)
- current	-	-	-	-	(172,270)	(172,270)
Total		69,370	2,232,611	9,927	(279,807)	(8,496,823)
					(6,464,722)	

As at December 31st 2010, the Group held no financial assets whose terms would be renegotiated due to the possibility of default or impairment.

As at December 31st 2010, the Group did not carry any financial assets or liabilities measured at fair value through profit or loss whose components would be designated as measured at fair value through profit or loss on initial recognition (fair value option).

As at December 31st 2010, the Group did not carry any financial assets held to maturity.

As at December 31st 2010, the carrying value of loans, receivables and financial liabilities measured at amortised cost did not significantly differ from their fair value (not applicable to loans and borrowings bearing interest at a fixed rate). The majority of non-current contracted loans and borrowings bore interest at floating rates, with interest payable in a short term.

As at December 31st 2010, financial assets available for sale measured at fair value comprised mainly shares for which there was no active market.

The methods and assumptions used to measure the fair value of financial instruments have been described in [Note 10](#) and [Note 42](#).

Dec 31 2009 (restated) (PLN '000)	Note	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Shares:		-	-	9,929	-	-	9,929
- non-current	23	-	-	9,917	-	-	9,917
- current	28	-	-	12	-	-	12
Decommissioning fund	23	-	18,851	-	-	-	18,851
Deposits		-	6,130	-	-	-	6,130
- non-current	23	-	6,130	-	-	-	6,130
- current	28	-	-	-	-	-	-
Security deposits (margins)	23	-	3,316	-	-	-	3,316
Derivative financial instruments:		101,879	-	-	-	-	101,879
- non-current	23	54,862	-	-	-	-	54,862
- current	28	47,017	-	-	-	-	47,017
Trade and other receivables:		-	1,515,812	-	-	-	1,515,812
- non-current	25	-	22,061	-	-	-	22,061
- current		-	1,493,751	-	-	-	1,493,751
Cash and cash equivalents	30	-	355,054	-	-	-	355,054
Trade and other payables:	37.1	-	-	-	-	(1,094,702)	(1,094,702)
- non-current		-	-	-	-	(38,894)	(38,894)
- current		-	-	-	-	(1,055,808)	(1,055,808)
Loans (contracted):	34	-	-	-	-	(5,701,071)	(5,701,071)

- non-current	-	-	-	-	(4,942,590)	(4,942,590)
- current	-	-	-	-	(758,481)	(758,481)
Financial liabilities	-	-	-	(236,371)	(83,149)	(319,520)
Lease liabilities: 37.3	-	-	-	-	(83,149)	(83,149)
- non-current	-	-	-	-	(80,304)	(80,304)
- current	-	-	-	-	(2,845)	(2,845)
Derivative financial instruments: 37.2	-	-	-	(236,371)	-	(236,371)
- non-current	-	-	-	(220,085)	-	(220,085)
- current	-	-	-	(16,286)	-	(16,286)
Total	101,879	1,899,163	9,929	(236,371)	(6,878,922)	(5,104,322)

As at December 31st 2009, the Group held no financial assets whose terms would be renegotiated due to the possibility of default or impairment.

As at December 31st 2009, the Group did not carry any financial assets or liabilities measured at fair value through profit or loss whose components would be designated as measured at fair value through profit or loss on initial recognition (fair value option).

As at December 31st 2009, the Group did not carry any financial assets held to maturity.

As at December 31st 2009, the carrying value of loans, receivables and financial liabilities measured at amortised cost did not significantly differ from their fair value (not applicable to loans bearing interest at a fixed rate). The majority of non-current contracted loans and borrowings bore interest at floating rates, with interest payable in a short term.

As at December 31st 2009, financial assets available for sale measured at fair value comprised mainly shares for which there was no active market.

The methods and assumptions used to measure the fair value of financial instruments have been described in **Note 10** and **Note 42**.

42.2 Items of Income, Expenses, Gains and Losses Disclosed in the Statement of Comprehensive Income by Category of Financial Instrument

Year ended Dec 31 2010 (PLN '000)	Note	Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income / (expense)	12.3 12.6	-	18,829	-	(173,267) ⁽¹⁾	(154,438)
Foreign exchange gains/ (losses)	12.3 12.7	-	(78,776)	-	15,848	(62,928)
Reversal/ (recognition) of impairment losses	12.2 12.4 12.6	-	(7,729)	(2)	-	(7,731)
Gains/ (losses) on fair value measurement of derivative financial instruments	12.3 12.6	(75,945)	-	-	-	(75,945)
Gains/ (losses) on realisation of derivative financial instruments	12.3 12.6	(117,091)	-	-	-	(117,091)
Gains/ (losses) on disposal		-	-	-	-	-
Total		(193,036)	(67,676)	(2)	(157,419)	(418,133)

⁽¹⁾ Including amounts capitalised as part of the cost of qualifying assets in the amount of PLN 111,842 thousand (see **Note 12.6**).

Year ended Dec 31 2009 (restated) (PLN '000)	Note	assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income / (expense)	12.3 12.6	-	22,196	-	(169,264) ⁽¹⁾	(147,068)
Foreign exchange gains/ (losses)	12.3 12.7	-	(64,005)	-	513,441	449,436
Reversal/ (recognition) of impairment losses	12.2 12.4 12.6	-	(28,778)	-	-	(28,778)
Gains/ (losses) on fair value measurement of derivative financial instruments	12.3 12.6	(214,594)	-	-	-	(214,594)
Gains/ (losses) on realisation of derivative financial instruments	12.3 12.6	216,047	-	-	-	216,047
Gains/ (losses) on disposal	12.3	-	-	688	-	688
Total		1,453	(70,587)	688	344,177	275,731

⁽¹⁾ Including amounts capitalised as part of the cost of qualifying assets in the amount of PLN 117,840 thousand (see Note 12.6).

42.3 Sensitivity Analysis with Respect to Market Risk Related to Fluctuations in FX Rates, Interest Rates, Prices of Carbon Dioxide (CO₂) Emission Allowances and Prices of Raw Materials and Petroleum Products

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2010, along with the effect of such a risk on the financial performance, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN currency exchange rates and constant levels of all other variables:

Dec 31 2010 (PLN '000)	Note	Carrying value in a foreign currency, translated into PLN as at the balance- sheet date	+4% change in exchange rate, effect on year's result		-4% change in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	26	213,769	6,404	2,144	(6,404)	(2,144)
Financial assets – derivative financial instruments		69,370	(56,694)	14,855	56,694	(14,855)
Financial assets – other		6,929	237	40	(237)	(40)
Cash and cash equivalents	30	67,049	1,569	1,113	(1,569)	(1,113)
Trade and other payables	37.1	(1,630,563)	(61,098)	(4,123)	61,098	4,123
Loans and borrowings	34	(5,834,653)	(235,866)	(1,478)	235,866	1,478
Financial liabilities – derivative financial instruments	37.2	(279,807)	10,783	27,526	(10,783)	(27,526)
Finance lease liabilities	37.2	(72,475)	-	(2,897)	-	2,897
Total		(7,460,381)	(334,665)	37,180	334,665	(37,180)

As at December 31st 2010, the Parent Undertaking held futures for the purchase of carbon dioxide (CO₂) EU emission allowances (EUA), measured at fair value.

As at December 31st 2010, the financial assets related to positive valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances amounted to PLN 615 thousand.

As at December 31st 2010, the financial liabilities related to negative valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances were PLN 463 thousand.

A change in the price of the carbon dioxide (CO₂) emission allowances up or down by 10% could potentially lead to a change in the fair value of financial assets and liabilities related to the futures for the purchase of carbon dioxide (CO₂) emission allowances of PLN (176) 176 thousand.

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2009, along with the effect of such a risk on the financial performance, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN currency exchange rates and constant levels of all other variables:

Dec 31 2009 (restated) (PLN '000)	Note	Carrying value in a foreign currency, translated into PLN as at the balance- sheet date	+4% change in exchange rate, effect on year's result		-4% change in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	26	78,389	1,469	1,668	(1,469)	(1,668)
Financial assets – derivative financial instruments		101,879	(53,432)	32,158	53,432	(32,158)
Financial assets – other		7,335	234	59	(234)	(59)
Cash and cash equivalents	30	26,895	550	527	(550)	(527)
Trade and other payables	37.1	(803,944)	(28,753)	(3,405)	28,753	3,405
Loans (contracted)	34	(5,016,021)	(199,674)	(584)	199,674	584
Financial liabilities – derivative financial instruments	37.2	(236,371)	14,685	938	(14,685)	(938)
Finance lease liabilities	37.2	(81,344)	-	(3,232)	-	3,232
Total		(5,923,182)	(264,921)	28,129	264,921	(28,129)

As at December 31st 2009 the Parent Undertaking held futures for the purchase of carbon dioxide (CO₂) EU emission allowances (EUA), measured at fair value.

As at December 31st 2009, the financial assets related to positive valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances amounted to PLN 537 thousand.

As at December 31st 2009, the financial liabilities related to negative valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances were PLN 675 thousand.

A change in the price of the carbon dioxide (CO₂) emission allowances up or down by 10% could potentially lead to a change in the fair value of financial assets and liabilities related to the futures for the purchase of carbon dioxide (CO₂) emission allowances of PLN 107 (107) thousand.

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2010, assuming a 0.2% increase or decrease in the interest rate:

Dec 31 2010 PLN '000	Note	Carrying value	Change	
			+0,2%	-0,2%
Cash and cash equivalents	30	391,266	783	(783)
Decommissioning fund	23	21,668	43	(43)
Financial assets – derivative financial instruments ⁽¹⁾		29,742	(1,358)	1,366
Financial assets – other ⁽²⁾		9,040	18	(18)
Loans (contracted)	34	(6,335,459)	(10,583)	10,583
Finance lease liabilities		(74,255)	(149)	149
Financial liabilities – derivative financial instruments ⁽¹⁾		(228,237)	13,690	(13,839)
Total		(6,186,235)	2,444	(2,585)

⁽¹⁾ Including interest rate swap (IRS) and forward rate agreements (FRAs).

⁽²⁾ Including deposits, security deposits (margins).

As at December 31st 2010, the carrying value of financial assets and liabilities (cash and cash equivalents, decommissioning fund, deposits, security deposits (margins), derivative financial instruments and liabilities under contracted loans, finance leases and derivative financial instruments) which are sensitive to interest rate risk amounted to PLN (6,186,235) thousand net.

A change in interest rates up or down by 0.2% could potentially lead to a change in financial assets and liabilities as at December 31st 2010 of PLN 2,444 (2,585) thousand net.

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2009, assuming a 0.2% increase or decrease in the interest rate:

Dec 31 2009 (restated) PLN '000	Note	Carrying value	Change	
			+0,2%	-0,2%
Cash and cash equivalents	30	355,054	710	(710)
Decommissioning fund	23	18,851	38	(38)
Financial assets – derivative financial instruments ⁽¹⁾		54,767	4,120	(4,225)
Financial assets – other ⁽²⁾		9,446	19	(19)
Loans (contracted)	34	(5,701,071)	(9,901)	9,901
Finance lease liabilities		(83,149)	(166)	166
Financial liabilities – derivative financial instruments ⁽¹⁾		(219,720)	12,426	(12,508)
Total		(5,565,822)	7,246	(7,433)

⁽¹⁾ Including interest rate swap (IRS).

⁽²⁾ Including deposits, security deposits (margins).

As at December 31st 2009, the carrying value of financial assets and liabilities (cash and cash equivalents, decommissioning fund, deposits, security deposits (margins), derivative financial instruments and liabilities under contracted loans, finance leases and derivative financial instruments) which are sensitive to interest rate risk amounted to PLN (5,565,822) thousand net.

A change in interest rates up or down by 0.2% could potentially lead to a change in the value of financial assets and liabilities as at December 31st 2009 of PLN 7,246 (7,433) thousand net.

42.4 Maturity Structure of Financial Liabilities and Derivative Financial Instruments

Maturity structure of financial liabilities as at December 31st 2010:

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Secured bank loans and borrowings (other than overdraft facilities)	34	6,060,628	6,153,502	83,942	1,576,180	359,355	1,009,547	3,124,478
Overdraft facilities	34	274,831	275,548	255,198	20,350	-	-	-
Notes	35	52,670	52,670	52,670	-	-	-	-
Finance lease liabilities	37.3	74,255	74,255	1,250	1,446	5,693	27,081	38,785
Trade and other payables	37.1	2,034,439	2,034,439	1,985,605	22,623	24,918	1,293	-
Total		8,496,823	8,590,414	2,378,665	1,620,599	389,966	1,037,921	3,163,263

Maturity structure of financial liabilities as at December 31st 2009:

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Secured bank loans and borrowings (other than overdraft facilities)	34	5,190,356	5,291,777	140,616	116,197	1,295,279	864,392	2,875,293

Overdraft facilities	34	510,715	510,715	510,600	115	-	-	-
Finance lease liabilities	37.3	83,149	83,149	1,159	1,686	3,873	19,949	56,482
Trade and other payables	37.1	1,094,702	1,094,702	1,046,171	9,637	15,728	23,166	-
Total		6,878,922	6,980,343	1,698,546	127,635	1,314,880	907,507	2,931,775

Maturity structure of derivative financial instruments as at December 31st 2010:

PLN '000	Note	Carrying value *	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Commodity swap	28 37.2	(2,045)	(2,045)	(423)	(1,622)	-	-	-
Futures (CO ₂ emissions)	23 28 37.2	152	152	-	35	117	-	-
Currency forward and spot contracts	28 37.2	(4,113)	(4,113)	4,045	(8,158)	-	-	-
Forward rate agreements (FRAs)	28 37.2	315	315	315	-	-	-	-
Interest rate swap (IRS)	23 37.2	(198,810)	(198,810)	(120,823)	-	-	(62,388)	(15,599)
Currency swap	37.2	(5,936)	(5,936)	(5,936)	-	-	-	-
Total		(210,437)	(210,437)	(122,822)	(9,745)	117	(62,388)	(15,599)

* Carrying value (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative financial instruments.

Maturity structure of derivative financial instruments as at December 31st 2009:

PLN '000	Note	Carrying value *	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Futures (CO ₂ emissions)	23 28 37.2	(138)	(138)	-	132	86	(356)	-
Currency forward and spot contracts	28 37.2	33,777	33,777	32,165	1,612	-	-	-
Interest rate swap (IRS)	23 37.2	(164,953)	(164,953)	-	-	(152,428)	(42,098)	29,573
Currency swap	37.2	(3,178)	(3,178)	(3,178)	-	-	-	-
Total		(134,492)	(134,492)	28,987	1,744	(152,342)	(42,454)	29,573

* Carrying value (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative instruments.

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43. Employment Structure

Average employment by category (FTEs):

	Year ended Dec 31 2010	Year ended Dec 31 2009
Blue-collar jobs	2,664	2,614
White-collar jobs	2,312	2,307
Total	4,976	4,921

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44. Other Information

44.1 Special Rights of the State Treasury and How These Rights Are Exercised in Companies

The Act on Special Rights Vested in the Minister Competent for the State Treasury and How Those Rights Should Be Exercised at Certain Companies or Groups of Companies Operating in the Power, Crude Oil and Gaseous Fuels Sectors, dated March 18th 2010 (Dz.U. No. 65, item 404) ("the Act"), introduced the institution of a special officer responsible for the protection of critical infrastructure. Under the Act, the minister competent for the State Treasury has the right to raise and objection against a resolution adopted, or any other act in law performed, by the Company's Management Board to make a disposition with respect to any of the assets included in the single list of facilities, installations, equipment, and services comprising critical infrastructure, referred to in Art. 5b.7.1 of the Polish Crisis Management Act of April 26th 2007, if such disposition constitutes a real threat for the operation, continuity of operation and integrity of critical infrastructure. The minister competent for the State Treasury may also raise an objection with respect to any resolution by the Company's governing body providing for:

- dissolution of the Company,
- changes in the intended use or discontinuation of use of any of the Company's assets⁽¹⁾ included in the single list of facilities, installations, equipment, and services comprising critical infrastructure, referred to in Art. 5b.7.1 of the Polish Crisis Management Act of April 26th 2007,
- change in the Company's business profile,
- sale or lease of the Company's business or its organised part, or creation of any proprietary interest therein,
- adoption of the budget, plan of investment activities, or a long-term strategic plan,
- relocation of the Company's registered office abroad,

if the implementation of any such resolution could constitute a real threat for the operation, continuity of operation and integrity of critical infrastructure.

⁽¹⁾ such assets comprise:

- in the power sector – infrastructure used for the purpose of generation or transmission of electricity;
- in the oil sector – infrastructure used for the purpose of production, refining, processing, storage and transmission via pipelines of crude oil and petroleum products, as well as seaports used for handling crude oil and petroleum products;
- in the gaseous fuels sector – infrastructure used for the purpose of production, refining, processing, storage and transmission via gas pipelines of gaseous fuels, as well as LNG terminals.

In accordance with the Act, the Company's Management Board, acting in consultation with the minister competent for the State Treasury and the Head of the Government Centre for Security, has the right to appoint and remove from office a special officer responsible for critical infrastructure protection at the Company. The special officer's duties include in particular providing the minister competent for the State Treasury with information on the execution by the Company's governing bodies of any of the acts in law referred to above, providing the Head of the Government Centre for Security with information on critical infrastructure whenever requested, and – in cooperation with the Head of the Government Centre for Security – providing and receiving to or from other entities information on any threats to the critical infrastructure.

The special officer responsible for protection of critical infrastructure is authorised to request from company governing bodies any documents or explanations regarding the issues referred to above, and, having analysed them, is required to submit the same to the minister competent for the State Treasury and the Head of the Government Centre for Security, along with the officer's written position, including grounds, regarding any issue at hand.

Until the approval of these consolidated financial statements, Grupa Lotos S.A. has not received any notification to the effect that any of its assets have been included in the list of facilities, installations, equipment, and services comprising critical infrastructure, and therefore has not appointed a special officer responsible for protection of critical infrastructure.

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45. Capital Management

The objective of the LOTOS Group'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 attributable to the shareholders.

The achievement of the above objectives is done by striving to develop the desired financing structure at the Group level.

The LOTOS Group monitors its financing structure using a debt to equity ratio calculated as net debt by equity.

Net debt is the sum of interest-bearing loans and borrowings less cash and cash equivalents. Equity includes equity attributable to owners of the Parent increased by non-controlling interests.

PLN '000	Year ended Dec 31 2010	Year ended Dec 31 2009
Non-current interest-bearing loans and borrowings	4,403,453	4,942,590
Current interest-bearing loans and borrowings	1,932,006	758,481
Cash and cash equivalents	(391,266)	(355,054)
Net debt	5,944,193	5,346,017
Equity attributable to owners of the Parent	7,498,819	6,809,393
Non-controlling interests	14,658	36,752
Total equity	7,513,477	6,846,145
Net debt to equity	0.79	0.78

The Group monitors its financing structure in order to achieve the goal set in Strategy for the LOTOS Group for the years 2011–2015, providing for a reduction of debt in order to achieve a debt to equity ratio of no more than 0.4 at the end of the Strategy term.

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46. Material Events Subsequent to the Balance-Sheet Date

No material events occurred in the period from the balance-sheet date until the date of these consolidated financial statements except for the following:

1. Starting from January 1st 2011, the Parent Undertaking has introduced hedge accounting with respect to cash flow hedges (i.e. foreign-currency denominated loans intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions).
2. As of January 1st 2011, Grupa LOTOS S.A. has used the accounting method to measure the foreign exchange differences for the purpose of corporate income tax settlements.
3. Starting from January 1st 2011, the Group changed its accounting policies as regards the exchange rates used to translate business transactions denominated in foreign currencies. As of January 1st 2011, such business transactions will be recognised as at the transaction date (i) using the exchange rate actually applied on that date given the nature of the transaction – in the case of sale or purchase of foreign currencies, and (ii) using the mid-exchange rate quoted for a given currency by the National Bank of Poland for a day preceding the transaction date – in the case of payment of receivables or liabilities where there is no rationale for using the actual exchange rate, and in the case of other transactions. Application of the new accounting policies will not affect the Group's total net result, but will affect the values presented in the operating and financial parts of the statement of comprehensive income.
4. On January 10th 2011, the General Shareholders Meeting of LOTOS Gaz S.A. adopted a resolution to dissolve LOTOS Gaz S.A. by way of its liquidation. Furthermore, on January 3rd 2011 the Management Board of LOTOS Gaz S.A. filed a petition with the Commercial Division of the District Court of Plock requesting a declaration of bankruptcy of LOTOS Gaz S.A. According to the information received by the Company, the petition was effectively withdrawn, and the bankruptcy proceedings were discontinued on January 7th 2011.
5. On January 18th 2011, following completion of the APA 2010 licence round, LOTOS Exploration and Production Norge AS was granted a 25% interest in, and the operator status with respect to, license PL 503B located in the Norwegian Sea. The remaining 75% interest in the license was distributed in equal parts among three other companies, including Skagen 44AS, Edison International Norway Branch and 4Sea Energy AS.

In line with a programme of work for the aggregate area covering licence PL503 and the adjacent licence PL 503B described above (i.e. an area of approx. 1,500 sq km), 3D seismic surveys are planned to be carried out in mid-2011, on the basis of which a decision will be made whether to drill an exploration well. The cost of the work corresponding to the 25% license interest is estimated at NOK 17.5m (i.e. PLN 8.7m, translated at the NOK mid-exchange rate quoted by the National Bank of Poland for January 19th 2011).

6. Following approvals by the General Shareholders Meeting of LOTOS Petrobaltic S.A. and the Lithuanian anti-trust authority, on February 3rd 2011 UAB LOTOS Baltija (a subsidiary of LOTOS Petrobaltic S.A.) acquired 100% of shares in UAB Meditus, which holds 59.41% of shares in AB Geonafta. LOTOS Petrobaltic S.A. directly holds 40.59% of shares in AB Geonafta, therefore, as a result of the transaction, LOTOS Petrobaltic S.A. gained control of AB Geonafta.

AB Geonafta is the parent undertaking of its own group, which comprises:

- UAB Minijos Nafta (50% of shares held by AB Geonafta),
- UAB Genciu Nafta (100% of shares held by AB Geonafta),
- UAB Manifoldas (50% of shares held by AB Geonafta).

As at December 31st 2010, the AB Geonafta Group's net assets amounted to PLN 229m (see [Note 21](#)).

The business of AB Geonafta and its group members, including UAB Genciu Nafta, UAB Minijos Nafta and UAB Manifoldas, consists in oil exploration and production in Lithuania. Oil production operations are conducted on shore. As at the transaction date, the volume of crude oil reserves and resources (2P and 2C) attributable to the AB Geonafta Group was approximately 1 million tonnes.

The price of acquisition of UAB Meditus, which holds 59.41% of shares in AB Geonafta, comprises EUR 56.8m adjusted for net debt and a portion of the potential payment to be received from one of AB Geonafta's debtors. Pursuant to the agreement, the final acquisition price will be determined not later than within 90 days from the transaction closing date.

Given the fact that as at the business combination date, the Group held a 40.59% stake in AB Geonafta, acquired jointly with its group through the purchase of 100% shares in UAB Meditus by UAB LOTOS Baltija, the business combination will be accounted for and presented as a business combination achieved in stages within the meaning of the revised IFRS 3 Business Combinations, based on the fair values of identifiable assets acquired and liabilities assumed. In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss in finance income or expenses. As at the date of approval of these consolidated financial statements, the provisional accounting for the business combination referred to above was not yet complete. The business combination will be provisionally accounted for in the consolidated financial statements for the first quarter of 2011.

7. On February 11th 2011, LOTOS Jaslo S.A. entered into an agreement with an external partner concerning sale of five investment areas, including an organised part of business and a block of 95.5% shares in PLASTEKOL Organizacja Odzysku S.A.
8. On February 21st 2011, the Management Board of Grupa LOTOS S.A. was notified that LOTOS Exploration and Production Norge AS had relinquished the 50% interest in licence PL 556 in the Norwegian Sea, awarded to it as part of the APA 2009 license round.

As the operator of licence PL 556 (the remaining 50% interest in the licence having been awarded to Skeie Energy AS), LOTOS Exploration and Production Norge AS had recommended that no commitments be made to undertake exploratory drilling as part of another phase of the field development process. LOTOS Exploration and Production Norge AS's recommendation and decision to relinquish its rights to licence PL 556 were based on an evaluation of the geological potential of the licence area, made as part of the first exploration phase which ended on February 19th 2011.

9. On March 23rd 2011, LOTOS Petrobaltic S.A. and Grupa LOTOS S.A. executed an agreement whereby Grupa LOTOS S.A. purchased 1 share in AB Geonafta for LTL 3 thousand (PLN 3.5 thousand).

Following the transaction, the shareholder structure of AB Geonafta is as follows:

LOTOS Petrobaltic S.A. – 40.59%,

UAB Meditus – 59.41%,

Grupa LOTOS S.A. – 0.00062%.

10. On April 7th and April 8th 2011, following the transactions carried out as part of the squeeze-out described in [Note 2](#) hereof and after relevant entries were made in the share books of LOTOS Czechowice S.A. and LOTOS Jaslo S.A., Grupa LOTOS S.A. held 100% of the share capital in LOTOS Czechowice S.A. and 100% in the share capital of LOTOS Jaslo S.A.

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47. 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, Chief Executive Officer	(-) Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	(-) Mariusz Machajewski
Vice-President of the Management Board, Chief Operation Officer	(-) Marek Sokółowski
Vice-President of the Management Board, Chief Commercial Officer	(-) Maciej Szozda
Chief Accountant	(-) Tomasz Południewski

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