

Decade of growth



Grupa LOTOS S.A. Annual Report 2010

Financial, social and environmental results

 **LOTOS**



Report 2010

Grupa LOTOS is a leading industrial company and Poland's second largest oil major. In 2010, our share in the domestic fuel market exceeded 31%. As the only Polish company, we are directly engaged in exploration and production operations on the Baltic Sea.

About this Report

Highlights

Letter from the Chairman of the Supervisory Board

The year 2010 was exceptionally good for Grupa LOTOS. The Company successfully completed the 10+ Programme. The annual processing capacity was expanded to 10.5 million tonnes of crude, while the actual processed volumes exceeded 8 million tonnes. Grupa LOTOS' share of the domestic fuel market grew to over 31%, whereas - as compared to 2009 - sales revenue and operating profit rose by 37% and 82%, respectively.

Letter from the President of the Board

Since 2002 the Gdańsk refinery has evolved from an operation with annual capacities of 4.5 million tonnes and a monolithic structure into a vertically integrated oil conglomerate with annual throughput capacities of 10 million tonnes, which has built an upstream segment well-placed for international expansion.



About this Report

This Annual Report provides an overview of the activities of the Capital Group of Grupa LOTOS S.A. (“the LOTOS Group” or “the Group”), with a particular focus on the LOTOS Group’s parent company – Grupa LOTOS S.A. (“Grupa LOTOS”, “the Company” or “we”).

Grupa LOTOS is a leading industrial company and Poland’s second largest oil major. In 2010, our share in the domestic fuel market exceeded 31%. Moreover, as the only Polish company – through our subsidiary LOTOS Petrobaltic, – we are directly engaged in exploration and production operations on the Baltic Sea. The processing of crude oil at our refinery in Gdańsk is based on state-of-the-art technologies, designed to mitigate the environmental impact of industrial processes. The LOTOS Group employs more than 5,000 staff, ranking it as the largest employer in Pomerania and an important one in southern regions of Poland, where many of the LOTOS Group’s companies hold shares.

This Report is being released in what is a momentous time for Grupa LOTOS. In 2010, a strategically important stage in our development, involving primarily the implementation of the 10+ Programme launched in 2006, finally drew to a close. The year 2011 opens up new development prospects for our Company, which have been defined in our business strategy for 2011–2015 (adopted in November 2010) and development directions until 2020. This is a fitting time to recapitulate but also the right moment to lay out plans for the future and make a mature entry into another decade of growth, worthy of the 21st century.

The first decade of the new century, whose end was marked by the completion of the 10+ Programme, was a period of unprecedented expansion of the LOTOS Group. A period when – despite an extremely challenging business climate as well as the worldwide economic slowdown and recession – we managed to achieve nearly all of our strategic objectives. The success was rooted in the resolve, commitment and responsibility of the Company’s Management Board, its management staff and all employees of the LOTOS Group.

Responsible pursuit of clearly defined objectives involving all human resources is also the course to be followed in the next decade covered by the LOTOS Group’s new development strategy. The strategy whose goal is to develop into a strong, modern, vertically integrated oil conglomerate, relying on its own sources of feedstock, optimum processing capacities using cutting-edge technologies, as well as into a competitive trading organisation with a prominent market position.

The LOTOS Group is determined to implement this vision – as it did implement the strategy for the previous period – adhering to the principles of sustainability and social responsibility. One of our corporate priorities is to use economic, social and environmental resources in such a manner as to preserve them for generations to come.

Also high on our agenda are corporate transparency and openness, based on which we communicate with the outside world and with all stakeholder groups – including our employees, shareholders and investors. These principles form the basis for building the LOTOS brand, fostering its credibility and reputation, as well as the confidence it inspires. This approach has been delivering tangible benefits by reinforcing our market position and adding to its value. Grupa LOTOS was named winner of the *Investor Relations* category in the *Listed Company of the Year 2010* ranking, while its shares were once again included in the prestigious stock index RESPECT, which includes companies whose commitment to CSR, and adherence to corporate governance standards and best practices are rated as the best.

Economy, society and the environment – we view all these spheres as equally important and mutually complementary. This approach has found its reflection in this Report, with which we continue the inclusive reporting model adopted with the publication of last year’s report – the first integrated annual report to have been released by a Polish company, honoured with the *CSR Reports 2010* award for successful integration of the Company’s social and environmental performance into its reporting framework. This comprehensive approach to stakeholder communication gives all those with whom we interact a full picture of our operations – not only in their economic aspects, but also in the social and environmental dimension.

In reporting the latter areas, the Company applies the international standards codified in the Sustainability Reporting Framework of the Global Reporting Initiative (G3 GRI) as well as the UN Global Compact’s Principles derived from the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention Against Corruption. In preparing its consolidated financial and non-financial statements, Grupa LOTOS embraces the principles of accuracy, materiality, completeness, comparability, balance and credibility.

The performance indicators contained in the consolidated financial statements are supported by a narrative part in separate sections of this Report, which outlines the vision of the Company’s development, its strategic objectives, achievements and development plans by business area.

Additionally, this Report includes an index designed to facilitate search for specific performance indicators and descriptive parts relating to specific matters discussed in this Report, which is included in the Table of Content of the GRI and the Principles of the UN Global Compact.

Highlights

Grupa LOTOS – Selected Data

	Unit(**)	For year ending 31.12.2010	For year ending 31.12.2009	Change	Unit(**)	For year ending 31.12.2010	For year ending 31.12.2009	Change
Financial Data (*)			(restated)				(restated)	
Sales revenues	k PLN	18,124,675	12,696,912	43%	k EUR	4,526,190	2,925,151	55%
Operating profit	k PLN	308,266	108	285,331%	k EUR	76,982	25	307,828%
Profit before tax	k PLN	520,433	701,871	-26%	k EUR	129,965	161,699	-20%
Profit on continued activity	k PLN	464,954	591,327	-21%	k EUR	116,111	136,232	-15%
Total comprehensive income	k PLN	464,954	591,327	-21%	k EUR	116,111	136,232	-15%
Net cash flows from operating activities	k PLN	281,132	(25,227)	-	k EUR	70,206	(5,812)	-
Net cash flows from investment activities	k PLN	(407,232)	(2,403,315)	-	k EUR	(101,696)	(553,683)	-
Net cash flows from financial activities	k PLN	401,470	2,150,062	-81%	k EUR	100,257	495,338	-80%
Total net cash flows	k PLN	272,422	(277,298)	-	k EUR	68,031	(63,885)	-
Basic profit per one common share	PLN	3.58	4.88	-27%	EUR	0.89	1.12	-21%
Social investments	k PLN	1,240	793	56%	k EUR	310	183	69%
Environmental investments	k PLN	16,812	138,818	-88%	k EUR	4,198	31,981	-87%
		as at 31.12.2010	as at 31.12.2009			as at 31.12.2010	as at 31.12.2009	
			(restated)				(restated)	
Total assets	k PLN	14,686,730	12,559,630	17%	k EUR	3,708,489	3,057,210	21%
Equities	k PLN	5,945,053	5,480,099	8%	k EUR	1,501,162	1,333,942	13%
	Unit							
						For year ending 31.12.2010	For year ending 31.12.2009	Change
Non-financial Data							(comparative data)	

Employees	No. of employees	1,310	1,305	0.4%
Employment rotation	%	10.6	13.3	-2,7 p.p.
Lost Time Injury Frequency, LTIF (per 1m hours worked)		3.4	5.6	-39.3%
Total water consumption	m ³	3,961,494	3,766,240	5.2%
CO ₂ emissions	k tonnes/year	1,607	1,121	43%

LOTOS Group – Selected Consolidated Data

	Unit ^(**)	For year ending 31.12.2010	For year ending 31.12.2009	Change	Unit ^(**)	For year ending 31.12.2010	For year ending 31.12.2009	Change
Financial Data (*)		(restated)			(restated)			
Sales revenues	k PLN	19,680,533	14,321,041	37%	k EUR	4,914,727	3,299,323	49%
Operating profit	k PLN	763,315	419,793	82%	k EUR	190,619	96,713	97%
Profit before tax	k PLN	721,939	1,109,608	-35%	k EUR	180,286	255,635	-29%
Profit on continued activity	k PLN	681,353	911,812	-25%	k EUR	170,151	210,066	-19%
Profit on continued activity ascribed to parent entity shareholders	k PLN	679,180	900,761	-25%	k EUR	169,608	207,520	-18%
Profit on continued activity ascribed to non-controlling interest	k PLN	2,173	11,051	-80%	k EUR	543	2,546	-79%
Total comprehensive income	k PLN	678,609	928,661	-27%	k EUR	169,466	213,948	-21%
Comprehensive income attributable to owners of the Parent	k PLN	676,450	908,083	-26%	k EUR	168,927	209,207	-19%
Comprehensive income attributable to non-controlling interests	k PLN	2,159	20,578	-90%	k EUR	539	4,741	-89%
Operating activity cash flows net	k PLN	880,255	695,024	27%	k EUR	219,822	160,122	37%
Investment activity cash flows net	k PLN	(1,053,896)	(3,333,619)	-	k EUR	(263,184)	(768,009)	-
Financial activity cash flows net	k PLN	447,706	2,181,465	-79%	k EUR	111,804	502,572	-78%
Total cash flows net	k PLN	272,095	(454,491)	-	k EUR	67,949	(104,776)	-
Basic profit per one common share	PLN	5.23	7.44	-30%	EUR	1.31	1.71	-23%
Social investments	k PLN	1,485	839	77%	k EUR	371	193	92%
		as at 31.12.2010	as at 31.12.2009			as at 31.12.2010	as at 31.12.2009	
		(restated)				(restated)		
Total assets	k PLN	17,736,029	15,225,952	16%	k EUR	4,478,456	3,706,234	21%
Equity ascribed to the parent entity's shareholders	k PLN	7,498,819	6,809,393	10%	k EUR	1,893,498	1,657,513	14%
Non-controlling interest	k PLN	14,658	36,752	-60%	k EUR	3,701	8,946	-59%
Total equity	k PLN	7,513,477	6,846,145	10%	k EUR	1,897,199	1,666,459	14%
Non-financial Data		Unit			For year ending 31.12.2010			
					For year ending 31.12.2009			
					Change			
(comparative data)								
Employees		No. of				5,010	4,949	1.2%

employees

Lost Time Injury Frequency, LTIF (per 1m hours worked)		4.9	4.4	11.4%
Fuel market share	%	31.7	28.3	3.4 p.p.
Oil exploitation	k tonnes	186.5	175.4	6.3%
Gas exploitation	mn Nm ³	20.7	19.5	6.2%

(*) For a detailed presentation of financial results, see **Consolidated Financial Statements**.

(**) In order to convert an item of the report from a financial item in the table of "Basic figures" as at 31 December 2010, the NBP (National Bank of Poland) mid-rate of EUR was applied, binding on that day, i.e. 1 EUR = 3.9603 PLN. The items of the total income report and the cash flow statement presented in the table for the year ending 31 December 2010 were converted at the rate of 1 EUR = 4.0044 PLN (i.e. the rate being the arithmetic average of the mid-rates published by NBP on the last day of each finished month in the period from 1 January to 31 December 2010).

In order to convert an item of the report from a financial item in the table of "Basic figures" as at 31 December 2009, the NBP mid-rate of EUR was applied, binding on that day, i.e. 1 EUR = 4.1082 PLN. The items of the total income report and the cash flow statement presented in the table for the year ending 31 December 2009 were converted at the rate of 1 EUR = 4.3406 PLN (i.e. the rate being the arithmetic average of the mid-rates published by NBP on the last day of each finished month in the period from 1 January to 31 December 2009).

Letter from the Chairman of the Supervisory Board

Our human capital will serve as a basis for us achieving the objectives set out in the LOTOS Group's new strategy for the years 2011–2015.

Dear All,

2010 turned out to be a much more benevolent year for the global economy than 2009. The severe financial crisis was overcome, although its symptoms may yet resurface - on a larger or smaller scale. On the whole, however, the climate for business activity, also in the petroleum industry, warmed up and stabilised, which permits a brighter outlook on the external conditions for the Company's development.

All the more so that for Grupa LOTOS itself last year was exceptionally successful. First of all, the Company successfully completed the 10+ Programme, on which its resources and efforts had been concentrated since 2006. The annual processing capacity was expanded to 10.5 million tonnes of crude, while the actual volumes processed in 2010 exceeded - for the first time on record - 8 million tonnes. Also, the Company's market position strengthened. Its share of the domestic fuel market grew to over 31%, a target planned to be achieved only in 2012. Strong year-on-year increases were also posted in sales revenue and operating profit, which rose by 37% and 82%, respectively.

The Company was able to reap such large financial rewards not only thanks to its coherent business strategy, pursued by the Management Board with consistency and resolve. Above all, the strong performance was a fruit of years-long efforts to build an atmosphere of trust, commitment and integration of employees around the Company's strategic objectives. Without that human capital, which Grupa LOTOS views as its most precious asset, it would have been difficult to surmount the 2009 crisis and bring the 10+ Programme to its completion in 2010.

Based on its human capital, Grupa LOTOS also intends to implement the LOTOS Group's objectives set down in the new strategy for 2011–2015, along with the development directions until 2020, unveiled in November 2010. The strategy paints a vision of developing the LOTOS Group into one of Europe's most advanced oil conglomerates which relies on:

- its own sources of feedstock, securing production at the level of 1.2 million tonnes of crude annually,
- a technologically advanced base of processing facilities, allowing it to produce top quality, high-margin products,
- a strong sales force based on a chain of patronage and partner petrol stations, which will secure at least a 10% share of the Polish retail fuel market.

As always, Grupa LOTOS' business strategy will be aligned with the principles of sustainable growth and social responsibility and fully harmonised with the Company's core values of transparency, openness, innovativeness and responsibility.

In 2010, the Company closed the first historical five-year perspective of the "decade of growth" – if I may use the title of this Report here. 2011 opens up a new perspective of the decade – oriented towards the future and outlined in the strategy until 2015. I am deeply confident that, drawing on the Management Board's professionalism and determination, employee commitment and investor trust, the Company will be able to consistently deliver value for its shareholders, while realising its strategic development vision.

Yours faithfully,



Wiesław Skwarko
Chairman of the Supervisory Board
Grupa LOTOS S.A.



Wiesław Skwarko
Chairman of the Supervisory Board

Letter from the President of the Board

Sustainable development and corporate social responsibility are the basic criteria underlying the LOTOS Group's activities.

Pańsowie i Szanowni,

2010 was a truly landmark year for the LOTOS Group for three important reasons: firstly – its wide-ranging CAPEX project (10+ Programme) was completed, secondly – our market position was markedly strengthened both in the operational and marketing areas, and thirdly – a new strategy for 2011–2015, along with development directions until 2020, was adopted.

The completion of the 10+ Programme, in line with its objectives and within schedule, is for the Company, its Management Board, and for me personally, a source of enormous satisfaction. Especially that for more than a year – particularly in 2009 – our operating environment was marked by a profound financial crisis accompanied by a severe slowdown of the global economy and significantly elevated risks. We managed, however, to ward off its impact on the project implementation, with a strong dialogue-based contribution from our employees.

The 10+ Programme was the largest CAPEX project to have ever been undertaken by Grupa LOTOS, and one of the major initiatives carried out at that time in the Polish industrial sector and the European refining industry. With its completion, the Company's processing capacities have been expanded to 10.5 million tonnes of crude – up by 75% on the start year (2006). Moreover, the depth of conversion has been significantly increased, leading to a shift in the production structure towards the highest quality products attractive in market terms (such as diesel oils and aviation fuel) which on the one hand offer particularly high margins and are more profitable whereas on the other hand their quality guarantees better parameters with regard to environmental protection. It also increases export possibilities of high-margin products into more demanding foreign markets. Their share in the product mix has risen to 10%, which has obviously been reflected in the Company's financial performance and value.

The new facilities and units installed as part of the 10+ Programme are among the most sophisticated and technologically advanced, which has a positive effect on the quality of products, while mitigating the environmental impact of our industrial processes. For the Company, which has firmly embedded the principles of sustainable growth into its strategy, the environmental benefits offered by the 10+ Programme are as important as the purely production-related gains. We remain socially responsible in every aspect of our operations.

As it was nearing completion, the 10+ Programme delivered measurable and spectacular effects already in 2010. For the first time ever, the volume of crude oil processed by the Gdańsk refinery exceeded 8 million tonnes – an increment of more than 48% on a year earlier. That strong production potential allowed the Company to increase its share of the Polish fuel market from 28.3% to over 31%. In practice, it meant that the target market share envisaged for not earlier than 2012 in the LOTOS Group's strategy, effective until the end of 2010, was achieved in the year 2010.

The completion of the 10+ Programme has already substantially strengthened the Company's competitive and market position, laying down solid foundations for its sustainable and consistent growth, based on innovation and sustainability in all dimensions: social, environmental and economic. We are now excellently placed to establish a presence as a large and modern oil company and an important player in Central Europe. Grupa LOTOS will be pursuing that objective in line with its strategy for 2011–2015, along with development directions until 2020, adopted in November 2010.

Following the outlays on the operational segment, the Company's main development efforts will now focus on the upstream and downstream segments. Grupa LOTOS will intensify work on the Baltic Sea and on the licenses acquired, or planned to be acquired, on the North Sea. With that end in mind, in 2010 we undertook equity consolidation of the upstream assets; as part of this effort, we took over full control of Lithuanian production company AB Geonafta, through our subsidiary – LOTOS Petrobaltic. The strategic goal is to produce 1.2 million tonnes of crude oil by 2015.

In the downstream area, the strategic goal is to maintain the not lower than 30% share of the domestic fuel market, achieved in 2010, and to increase the share of the domestic retail market from 7% to 10%.

The overarching strategic objective remains to create and maximise the Company's shareholder value. In that context, the year 2010 was also highly successful. Sales revenue reached PLN 19.7bn – a 37% increase on the previous year, and operating profit amounted to PLN 763m, up 82% on 2009.

The fact that the Company has consistently reported robust financial performance, translated from the second quarter into relatively stable prices of its shares on the Warsaw Stock Exchange, while the release of the new strategy triggered their strong appreciation. This attests to the market's belief that Grupa LOTOS has sustainably staved off the threats arising from the global financial crisis, and to the investors' confidence in our ability to successfully deliver the strategic vision – of establishing Grupa LOTOS as a strong player in the European oil industry. That confidence is highly prized by the Company, its Management Board and me personally. I am convinced that it is equally grounded in the LOTOS Group's business achievements as in the fact that for many years the LOTOS Group's



Paweł Olechnowicz
President of the Board
Chief Executive Officer

strategy has been aligned with the sustainability principles and based on an open dialogue with employees – especially under the unique “Let’s talk about LOTOS” programme – and with investors.

The Company’s openness and transparency have gained attention and recognition. Our shares were again included in the RESPECT index, launched in 2009 by the Warsaw Stock Exchange. The LOTOS brand is also gaining strength – as evidenced by Rzeczpospolita’s ranking of the most valuable Polish brands, according to which the market value of the LOTOS brand rose 10% on the year before.

I wish to note with pride and satisfaction that since 2002 the Gdańsk refinery has evolved from an operation with annual capacities of 4.5 million tonnes and a monolithic structure into a vertically integrated oil conglomerate with annual throughput capacities of 10 million tonnes, which has built an upstream segment well-placed for international expansion. Over that time, Grupa LOTOS has posted a four-fold rise in revenues, while the LOTOS trademark has enjoyed a growing recognition in the international market. It is the pride and joy for the management personnel and all employees, as well as a source of immense satisfaction for the Management Board, that the role of the Pomerania region and Polish economy has been strengthened.

The consistency, openness, transparency, and respect for the principles of sustainable growth and corporate social responsibility are the basic criteria underlying the LOTOS Group’s economic, social and environmental performance. They determine the manner and quality of corporate management, forming the foundation on which Grupa LOTOS’ value and reputation, as well as confidence in the Company, are built. This approach has yielded measurable benefits in the form of improving hard business indicators – revenues, profit and margins – as well as more difficult to capture but no less important qualitative benefits associated with the mitigation of the Company’s environmental footprint and the Company’s perception by its social partners. These synergies constitute a huge capital of Grupa LOTOS. I assure you that we intend to develop it, while working towards improving Poland’s energy security and the strength of its economy.

Best regards,



Paweł Olechnowicz
President of the Board
Chief Executive Officer
Grupa LOTOS S.A.

Organisation profile

The LOTOS Group is a vertically integrated oil company, whose business encompasses exploration for and production of crude oil, processing of crude oil, as well as wholesale and retail sale of high-quality petroleum products.

Business profile and scope

The LOTOS Group is a vertically integrated oil company, whose business encompasses exploration for and production of crude oil, processing of crude oil, as well as wholesale and retail sale of high-quality petroleum products.

Shareholder structure

In 2010, the share of the State Treasury in Grupa LOTOS decreased by 10.78% whereas the share of ING OFE fell below 5%.

LOTOS Group

The LOTOS Group comprises Grupa LOTOS – as a parent company – and other companies such as LOTOS Czechowice, LOTOS Jasło and LOTOS Petrobaltic which is engaged in exploration for and production of crude oil and natural gas from the floor of the Baltic Sea, as well as 14 other subsidiaries using the LOTOS trademark.

Organisation

Management of the LOTOS Group is based on the segmental model. A segment is understood as a separate area of business activities managed at the LOTOS Group level by a designated member of the Management Board of Grupa LOTOS. The model effectively supports the process of strategy implementation by enhancing management efficiency and delivering cost and revenue synergies for the entire LOTOS Group.

Membership in organisations

Grupa LOTOS is a member of 24 leading industry, business and social organisations, with which it cooperates on a long-term basis.

Seven of them are international organisations. Within these organisations, representatives of Grupa LOTOS act for sustainable development and corporate social responsibility.

Business profile and scope

The LOTOS Group is a leader in production and sales of engine oils, modified bitumens and paraffin in Poland.

The LOTOS Group is a vertically integrated oil company, whose business encompasses exploration for and production of crude oil, processing of crude oil, as well as wholesale and retail sale of high-quality petroleum products. Grupa LOTOS is a major producer and supplier of such products as unleaded petrol, diesel oil and aviation fuel; we are also Poland's leading producer and supplier of engine oils, modified bitumens and paraffins. We operate a nationwide chain of petrol stations under the LOTOS brand.

Grupa LOTOS is incorporated as a joint-stock company, whose shares have been listed on the Warsaw Stock Exchange (WSE) since June 2005.

We operate across Poland and abroad. Grupa LOTOS is the parent company of the LOTOS Group which undertakes the management of the Gdańsk refinery. It comprises such companies as LOTOS Czechowice and LOTOS Jasło (both based in southern Poland), LOTOS Petrobaltic (engaged in exploration for and production of crude oil and natural gas from the floor of the Baltic Sea), as well as 14 other subsidiaries using the LOTOS trademark. Two of them are domiciled abroad – in Lithuania (LOTOS Baltija) and Norway (LOTOS Exploration and Production Norge AS). Both operate in the E&P segment, one on the Baltic Sea and the other on the Norwegian Continental Shelf.

The LOTOS Group's headcount as at the end of 2010 was 5,010 employees. Our sales of petroleum products grew in 2010 from nearly 7.6 million tonnes in 2009 to some 8.8 million tonnes. Over that period, the LOTOS Group's share in the total fuel market increased from 28.3% to 31.3%. Sales revenue for 2010 amounted to PLN 19.7bn, which represented a 37% growth relative to the previous year.

Adherence to the concept of sustainable development and socially responsible business constitutes an integral element of the operations of Grupa LOTOS across all their areas: the Company seeks to minimise its environmental impact, values the intellectual capital and experience of its employees and is committed to furthering the welfare of society.

Shareholder structure

In 2010, the share of the State Treasury in Grupa LOTOS decreased by 10.78% whereas the share of ING OFE fell below 5%.

The share capital of Grupa LOTOS comprises 129,873,362 fully paid-up ordinary shares with the par value of PLN 1, which carry the right to one vote at the General Shareholders Meeting and the right to dividend.

Change in the number of Grupa LOTOS shares held by the State Treasury

On January 22nd 2010, the State Treasury, represented by the Minister of the State Treasury, sold in block transactions an aggregate of 14,000,000 ordinary bearer shares in Grupa LOTOS, representing 10.78% of the Company's share capital and conferring the right to 14,000,000 votes, which represented 10.78% of the total vote at the Company. Following the transaction, the State Treasury held a total of 69,076,392 ordinary bearer shares in Grupa LOTOS, representing 53.19% of the Company's share capital and conferring the right to 69,076,392 votes, which represented 53.19% of the total vote at the Company.

Introduction to stock-exchange trading of Grupa LOTOS Series A shares, assimilation of Grupa LOTOS shares by the Polish National Depository of Securities (NDS)

On January 19th 2010, the Management Board of the Warsaw Stock Exchange (WSE) introduced, by way of the ordinary procedure, 57,987,030 Grupa LOTOS Series A shares with the par value of PLN 1 per share, marked by the Polish NDS with code PLLOTOS00033, to trading on the main market. On the same day, the Polish NDS assimilated the above specified ordinary bearer shares in Grupa LOTOS, created through a conversion of ordinary registered shares marked with code PLLOTOS00033, with 55,635,609 ordinary bearer shares in Grupa LOTOS marked with code PLLOTOS00025. The assimilated shares were marked with code PLLOTOS00025. On January 19th 2010, 113,622,639 Grupa LOTOS shares were marked with code PLLOTOS00025, whereas 77,361 Grupa LOTOS shares were marked with code PLLOTOS00033.

On April 12th 2010, the Polish NDS assimilated 8,250 ordinary bearer shares in Grupa LOTOS, created through a conversion on April 12th 2010 of 8,250 Series A ordinary registered shares marked with code PLLOTOS00033, with 113,622,639 ordinary bearer shares in Grupa LOTOS marked with code PLLOTOS00025. The assimilated shares were marked with code PLLOTOS00025. On the same day, the Management Board of the WSE introduced, by way of the ordinary procedure, the above specified shares in Grupa LOTOS to trading on the main market. Following the assimilation, on April 12th 2010 Grupa LOTOS shares were marked as follows:

- 113,630,889 shares were marked with code PLLOTOS00025;
- 69,111 shares were marked with code PLLOTOS00033.

Acceptance of Grupa LOTOS Series C shares into the depository of the Polish NDS, admission and introduction of Grupa LOTOS Series C shares to stock-exchange trading

The Polish NDS – by virtue of Resolution No. 895/10 adopted by its Management Board on December 29th 2010 – resolved to accept into the depository 16,173,362 Series C ordinary bearer shares in Grupa LOTOS, with the par value of PLN 1 per share, and mark them with code PLLOTOS00025.

On January 10th 2011, the above specified shares in Grupa LOTOS were registered by the Polish NDS. Following the registration, the total number of shares marked with ISIN code PLLOTOS00025 was 129,804,251. On the same day, the Management Board of the WSE introduced, by way of the ordinary procedure, the above specified Series C shares in Grupa LOTOS to trading on the main market.

Decrease of the share in the total vote at Grupa LOTOS held by ING Otworthy Fundusz Emerytalny

On February 7th 2011, the Management Board of Grupa LOTOS was notified that – as a result of sale of Company shares settled on February 2nd 2011 – the share in the total vote at Grupa LOTOS held by the open pension fund ING Otworthy Fundusz Emerytalny fell below 5%. Before the transaction, ING Otworthy Fundusz Emerytalny held 6,640,532 shares in Grupa LOTOS, representing 5.11% of the Company's share capital. On February 7th 2011, the number of Grupa LOTOS shares registered in the securities account held by ING Otworthy Fundusz Emerytalny was 5,957,442, which represented 4.59% of the Company's share capital.

Structure of Grupa LOTOS' share capital As at February 15th 2011

Shareholders	Number of shares	Number of votes	Par value of shares (PLN)	Percentage of share capital
State Treasury	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%

Structure of Grupa LOTOS' share capital

LOTOS Group

Two subsidiaries of the LOTOS Group are domiciled abroad: in Lithuania - LOTOS Baltija and in Norway - LOTOS E&P Norge AS.

Companies in which Grupa LOTOS holds shares in the share capital or in the total vote in the company's constitutive body:

Name	Registered office	Business profile	Method of consolidation/valuation of shares	Percentage of share capital held by the Company	
				Dec 31 2010	Dec 31 2009
Parent company					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	N/A	N/A	N/A
Direct subsidiaries					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS petrol station chain	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	Production and sale of bitumens	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 testing	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	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⁾	Aviation fuel trade	full	100.00%	100.00%

LOTOS Czechowice S.A. (parent company of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	97.55% ⁽⁵⁾	85.04% ⁽⁴⁾
LOTOS Jasło S.A. (parent company 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⁾
Petrobaltic S.A. ⁽⁶⁾ (parent company 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. (in bankruptcy by liquidation)	Kraków	- ⁽¹⁾			
Miliana Shipping Company Ltd.	Cypr	Provision of services, storage and transportation 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	Provision of maritime transport services	full	99.32%	99.32 % ⁽⁸⁾
Energobaltic Sp. z o.o.	Władysławowo ⁽¹³⁾	Production of electricity, thermal energy, LPG and 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 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, 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 LOTOS Group's indirect interests in the share capitals of the subsidiaries of Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.), LOTOS Czechowice S.A. and LOTOS Jaslo S.A.

(9) The shareholding changes described in item (5) above led to changes in the LOTOS Group's indirect interests in the share capitals of the subsidiaries of LOTOS Czechowice S.A. and LOTOS Jaslo 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 Jaslo S.A. acquired shares in PLASTEKOL Organizacja Odzysku S.A. As a result of the transactions, LOTOS Jaslo 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) On January 25th 2010, relocation of Energobaltic Sp. z o.o.'s registered office from Gdańsk to Władysławowo was registered.

(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, representing 100% of the company's share capital.

As at December 31st 2010, the LOTOS Group's shares in the total vote at the general shareholders meetings of its subsidiary companies is equal to its shares in their share capitals. As at December 31st 2009, the LOTOS Group's shares in the total vote at the general shareholders meetings of its subsidiary companies were equal to its shares in their share capitals, except in the case of LOTOS Park Technologiczny Sp. z o.o.

Structure of the LOTOS Group As at December 31st 2010



(1) employee shares – 2.45%

(2) employee shares – 1.88%

(3) other shareholders – 4.5%

(4) State Treasury – 0.01%, employee shares – 0.67%

(5) UAB Meditus – 59.41%

Additionally, Grupa LOTOS S.A. holds 8.97% of shares in P.P.P.P. NAFTOPORT Sp. z o.o. (a company of the PERN Przyjaźń group of Plock)

In 2010:

LOTOS Gaz S.A. was moved from the marketing segment to the management segment due to planned termination of its activity (in January 2011, the General Shareholders Meeting of the Company decided to dissolve the Company and open its liquidation);

as at 31st December 2010, UAB LOTOS Baltija is not listed in the management segment as on 9th December 2010 100% of its shares were sold to LOTOS Petrobaltic S.A. and since then the Company falls under the exploration & production segment;

in LOTOS Ekoenergia S.A., the status of business was changed from joint-stock company (S.A.) to limited liability company (Sp. z o.o.);

in LOTOS Ekoenergia Sp. z o.o. and LOTOS Park technologiczny Sp. z o.o. supervisory boards were liquidated;

the name of the company Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu „Petrobaltic” S.A. was changed into LOTOS Petrobaltic

Organisation

The LOTOS Group is divided into the marketing, operational, exploration and production, and management segments.

Decisions concerning the individual business areas of the LOTOS Group, including their development directions, evaluation of their activities and allocation of resources, rest with the management board of the parent company.

A business area is identified on the basis of the following key criteria:

1. it is engaged in business activities which may generate revenues and incur costs,
2. its operating results are regularly reviewed by the parent company's management board to make decisions about resources to be allocated to the segment and evaluate its performance,
3. discrete financial information relating to the area is available.

The following business areas have been identified within the LOTOS Group:

- **Oil and gas exploration and production (upstream)**, to which LOTOS Petrobaltic and its subordinated affiliates have been allocated,
- **Production and sale of petroleum products**, to which the other companies of the LOTOS Group have been allocated: LOTOS Paliwa, LOTOS Asphalt, LOTOS Oil, LOTOS Parafiny, LOTOS Tank, LOTOS Kolej, LOTOS Straż, LOTOS Lab, LOTOS Serwis, LOTOS Ochrona, LOTOS Czechowice with its subordinated affiliates and LOTOS Jasło with its subordinated affiliates,
- **Other**, which includes LOTOS Park Technologiczny, LOTOS Gaz and LOTOS Ekoenergia.

Management of the LOTOS Group is based on the segmental model. A segment is understood as a separate area of business activities managed at the LOTOS Group level by a designated member of the Management Board of Grupa LOTOS, the LOTOS Group's parent company. The segmental management model effectively supports the process of strategy implementation, by enhancing management efficiency and delivering cost and revenue synergies for the entire LOTOS Group.

Segmental management includes:

- implementation of consistent strategy,
- standardisation and coordination of centralised functions in the area of management of human resources, processes, systems management, corporate risks, finances, brand, CSR, safety at work and environment protection, physical security, IT, logistics, etc.,
- coordinated planning and controlling,
- coordination of investment projects at the LOTOS Group level,
- integrated operational management, including maintenance of the LOTOS Group's uniform corporate standards and leveraging synergies, by determining consistent goals and efficiency metrics.

The LOTOS Group is divided into the following segments:

Management segment: falls within the remit of President of the Board, Chief Executive Officer, i.e. head of the management segment. The segment's activities are focused on increasing the LOTOS Group's value through overall management of its operations, including formulation of strategies and monitoring their implementation, setting development directions for the individual business areas and coordination of the back-office function.

The following companies have been allocated to the management segment:

- LOTOS Ochrona,
- LOTOS Ekoenergia,

- LOTOS Park Technologiczny,
- LOTOS Gaz with its subordinated affiliates.

Exploration and production segment: falls within the remit of President of the Board, Chief Executive Officer, i.e. head of the exploration and production segment. The scope of the segment's activities includes formulation of development strategies for the LOTOS Group in the area of oil and gas exploration and production, management and supervision of the LOTOS Group's exploration and production activities and taking responsibility for the implementation of strategies related to that area.

The following company has been allocated to the exploration and production segment:

- LOTOS Petrobaltic with its subordinated affiliates.

Operational Segment: falls within the remit of Vice-President of the Board, Chief Operation Officer, i.e. head of the operational segment. The segment's key tasks include overall management, coordination and supervision of all affairs related to the processing of crude oil, refinery production and technologies, including implementation of the 10+ Programme. The segment's roles include preparation of policy objectives for refinery production, supervision of R&D work in the production area, coordination of investment projects in the area of technical and technological development and formulation of strategies to maintain and expand production facilities.

The following companies have been allocated to the operational segment:

- LOTOS Straż,
- LOTOS Serwis,
- LOTOS Lab,
- LOTOS Czechowice with its subordinated affiliates,
- LOTOS Jasło with its subordinated affiliates.

Marketing segment: falls within the remit of Vice-President of the Board, Chief Commercial Officer, i.e. head of the marketing segment. The scope of the segment's activities includes management of sales, procurement and distribution at the LOTOS Group level, including formulation and implementation of sales policies, sales planning for all business sectors, management of distribution channels, approval of marketing plans and policies and development of strategies to optimise the chain of supplies.

The following companies have been allocated to the marketing segment:

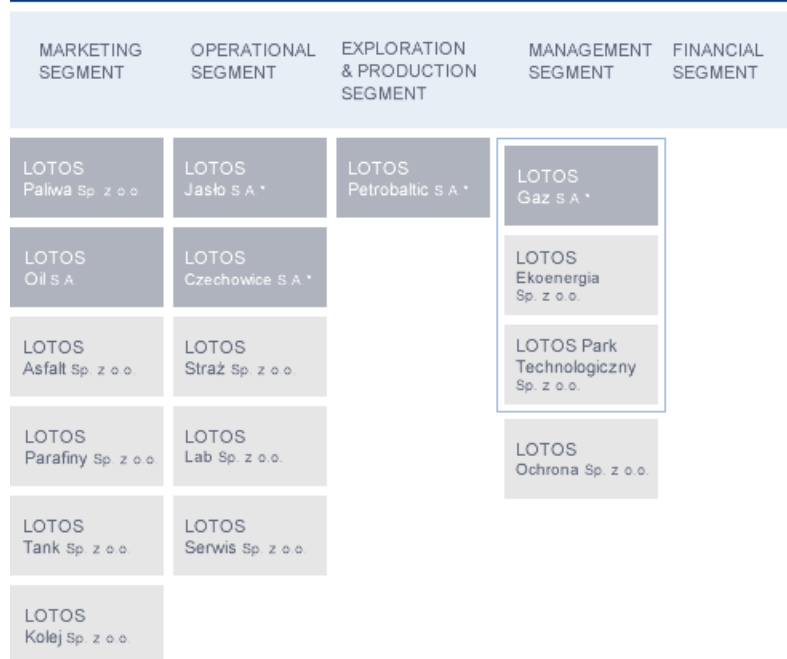
- LOTOS Paliwa,
- LOTOS Oil,
- LOTOS Asfalt,
- LOTOS Parafiny,
- LOTOS Kolej,
- LOTOS Tank.

Financial segment: falls within the remit of Vice-President of the Board, Chief Financial Officer, i.e. head of the financial segment. The scope of the segment's tasks includes overall management of the LOTOS Group's financial and accounting processes, including formulation of policies and monitoring the area of internal capital flows and dividends, formulation of financial, legal and insurance strategies and monitoring their implementation, management of budgeting and controlling, supervision of activities related to arrangement of financing for the LOTOS Group's development programmes, coordination of implementation and compliance with corporate governance standards, development and implementation of financial risk management strategies.

Within the LOTOS Group, the role of Grupa LOTOS is to ingrate the key management and support functions.

Chart of the operational segments As at December 31st 2010

Grupa LOTOS S.A.



■ the companies' governing bodies include: management board, supervisory board and general shareholders meeting

■ the companies' governing bodies include: management board and general shareholders meeting

— within the management segment ongoing supervision over the companies rests with Assets Management Director

* with subsidiaries

In 2010:

- LOTOS Gaz S.A. was moved from the marketing segment to the management segment due to planned termination of its activity (in January 2011, the General Shareholders Meeting of the Company decided to dissolve the Company and open its liquidation);
- as at 31st December 2010, UAB LOTOS Baltija is not listed in the management segment because on 9th December 2010 100% of its shares were sold to LOTOS Petrobaltic S.A. and since then the Company falls under the exploration & production segment;
- in LOTOS Ekoenergia S.A., the status of business was changed from joint-stock company (S.A.) to limited liability company (Sp. z o.o.);
- in LOTOS Ekoenergia Sp. z o.o. and LOTOS Park technologiczny Sp. z o.o., supervisory boards were disbanded;
- the name of the company Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu „Petrobaltic” S.A. was changed into LOTOS Petrobaltic S.A.

Membership in organisations

In 2010, on the initiative of i.a. Grupa LOTOS, Central Europe Energy Partners based in Brussels was established, an organisation acting for the regional energy security.

Grupa LOTOS is a member of the following Polish and international bodies:

Industry organisations

1. Conservation of Clean Air and Water In Europe (CONCAWE)
2. Polska Organizacja Przemysłu i Handlu Naftowego (POPiHN) [Polish Organisation of the Oil Industry and Trade]
3. Stowarzyszenie Naukowo - Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazownictwa [Polish Association of the Oil and Gas Industry Engineers and Technicians]
4. Center for Strategic and International Studies (CSIS)
5. Polish Exploration and Production Industries Organization
6. Polska Platforma Technologiczna Biopaliw i Biokomponentów [Polish Technology Platform for Biofuels and Biocomponents]

Business organisations

1. Business Centre Club (BCC)
2. Windsor Energy Group (WEG)
3. World Petroleum Council – Polish National Committee
4. Central Europe Energy Partners (CEEP)
5. European League for Economic Cooperation – Polish Section
6. Gdański Klub Biznesu [Gdańsk Business Club]
7. Klub Polskiej Rady Biznesu [Polish Business Roundtable Club]
8. Polskie Forum Akademicko-Gospodarcze (PFA-G) [Polish Higher Education - Business Forum]
9. Stowarzyszenie Pomorskie w Unii Europejskiej [“Pomorskie in the European Union” Association]

Organisations dedicated to promotion of the CSR concept

1. Forum Odpowiedzialnego Biznesu [Responsible Business Forum]
2. UN Global Compact

Specialist organisations

1. Pracodawcy Rzeczypospolitej Polskiej [Employers of Poland]
2. Klub Polskie Forum ISO 14000 [ISO 14000 Polish Forum Club]
3. Polskie Forum ISO 9000 [ISO 9000 Polish Forum]
4. Polskie Towarzystwo Ekonomiczne [Polish Economic Society]
5. Polska Okręgowa Izba Inżynierów Budownictwa [Polish District Chamber of Civil Engineers]

6. Stowarzyszenie Emitentów Giełdowych [Polish Association of Listed Companies]

7. Stowarzyszenie Księgowych w Polsce [Accountants Association in Poland]

Membership in supervisory bodies

1. The Gdańsk Business Club: Paweł Olechnowicz, as member of the Board
2. European League for Economic Cooperation – Polish Section: Paweł Olechnowicz as member of the Management Board
3. Polish Higher Education - Business Forum: Paweł Olechnowicz as member of the Management Board
4. Central Europe Energy Partners: Paweł Olechnowicz as Chairman of the Board of Directors.

Development vision

“Decade of growth” - an interview with Paweł Olechnowicz, President of the Board of Grupa LOTOS

Transparency and openness, an open disclosure policy, readiness to subject ourselves to thorough and comprehensive reviews and systematic reporting of all aspects of our operations are key to creating the atmosphere of confidence in and credibility of the Company. The integrated annual report plays a particularly important role in this context.

Business strategy

In November 2010, the LOTOS Group unveiled its new development strategy for 2011–2015, along with long-term development directions until 2020.

The new strategy focuses on rapid development of exploration for and production of hydrocarbons in the upstream segment and improvement of sales efficiency combined with optimisation of the operating area.

Progress in implementation of strategic objectives

In the operating and marketing areas, the LOTOS Group has managed to achieve the key objectives for 2010. With the completion of the 10+ Programme, the oil throughput was significantly increased in line with an increase of finished products output, while the share in the domestic fuel market exceeded the target level of 30%. The largest discrepancies were seen in the exploration and production segment.

Key risks, opportunities and challenges in the context of sustainable development

Grupa LOTOS operates in an environment and conditions which entail a large number of risks. The risks in the various areas of the Company's operations are first identified and assessed, and then reviewed to determine what further measures need to be taken.

“Decade of growth” - an interview with Paweł Olechnowicz, President of the Board of Grupa LOTOS

At Grupa LOTOS we have always attached great importance to acting in conformity with the Sustainable Development concept.

Paweł Olechnowicz
President of the Board, Grupa LOTOS S.A.



“Decade of growth” is the title you chose for the 2010 Annual Report of Grupa LOTOS S.A. How would you, as the Company’s President of the Board and CEO, interpret its message?

I look at it from a double perspective – historical and forward-looking. The first one relates primarily to the 10+ Programme, which from 2006 to 2010 was for us the absolute priority, taking precedence over all other projects carried out by Grupa LOTOS. Since its successful implementation was to be the key foundation underpinning the Company’s long-term growth, it was the main focus of the Management Board’s attention. After all, its goal was to expand the capacities of the Gdańsk refinery by as much as 75%, construct modern facilities relying on state-of-the-art and environmentally-friendly technologies and increase the share of top quality products, commanding the highest margins, in the oil refining mix. This is the historical perspective, going five years back.

The forward-looking perspective, which also spans a five-year period, relates primarily to the implementation of the strategy for 2011–2015, which was adopted in November 2010 and whose solid foundations were laid down by the completion – according to plan and schedule – of the 10+ Programme. It is a perspective of sustainable, steady, innovative and environmentally-friendly growth and expansion of a large, vertically integrated oil company, enjoying a strong competitive position in Central Europe. A company which – in addition to the production base built in the previous period – would have access to its own sources of feedstock, annual production of approximately 1.2 million tonnes of crude oil and a strong sales force ensuring at least a 10% share in the domestic fuel market.

It is a simple equation: five years of consistent and rapid growth which are already behind us plus another five years during which we will work towards achieving the vision outlined in our strategy add up to the titular “decade of growth”. The successful completion of the 10+ Programme provides solid grounds for an optimistic outlook on that future-oriented vision.

You were mainly referring to the business aspects of the “decade of growth”. However, the social and environmental contexts are equally important, are they not?

It is understood. At Grupa LOTOS we have always attached great importance – and are determined to do so in the future – to acting in conformity with the Sustainable Development concept. Let me remind you that the term was first used in the report of the UN World Commission on Environment and Development entitled Our Common Future (1987), where it was defined as the process of meeting the development needs of the present without compromising the ability of future generations to meet their own needs. Accordingly: economic growth yes, but with due respect for the environment and sustainable management of natural resources. And engagement in corporate social responsibility. All business decisions made at Grupa LOTOS are reviewed against those criteria.

Could you elaborate on that?

First: protection of natural resources and the environment. The business of Grupa LOTOS is based on the exploitation of non-renewable resources – crude oil and natural gas. That very fact imposes on the Company certain obligations towards the environment, the most important of them being to mitigate the environmental impact of its operations. In that area, we boast a track record of considerable achievement.

First of all, one of the 10+ Programme’s deliverables was a massive upgrade of the Gdańsk refinery. The plant currently operates using the most advanced technologies, guaranteeing a high level of desulphurisation of petroleum products and reduced emissions of hazardous substances and waste into the atmosphere and the immediate surroundings. Moreover, the newly installed facilities are highly energy efficient. Today the refinery deserves the name of the greenest, most environmentally-friendly refinery in the Baltic Sea region.

Grupa LOTOS is engaged in a project aimed to construct a CHP plant powered with heavy residue sourced directly from the refinery. The new plant will operate in the co-generation cycle, which means it will simultaneously produce heat and electricity, which in itself will enhance energy efficiency and reduce greenhouse emissions by 30%. The use of waste from petroleum processing will in turn eliminate its negative environmental impact. The launch of the plant with a target

capacity of 250 MW, which is being constructed under a consortium agreement with the ENERGA group, is scheduled for 2014.

It needs to be added that Grupa LOTOS already has its own CHP plant, whose process system enables co-generation of electricity and heat. In 2010, the Company obtained a certificate from the Energy Regulatory Office confirming the production of so-called "red" energy. As a condition of the certification, the Company had to meet a number of stringent requirements, for instance it had to prove a high degree of primary energy efficiency and a significant reduction of carbon emissions.

Among other steps taken by Grupa LOTOS with a view to reducing emissions I should mention our plans to connect the refinery to a gas pipeline and use gas supplied via the pipeline (as a fuel much cleaner than coal) to power the production processes. We also have plans to recover gas currently combusted in flare units and use it as a process fuel, which will reduce the overall atmospheric emissions of carbon dioxide.

All that makes for a significant contribution of Grupa LOTOS into the development of a low-emission economy in Poland, in line with the guidance laid down by the Climate and Energy Package, which proposes to reduce emissions of greenhouse gases by 20% and to reduce total energy consumption by 20% by the year 2020.

Second: quality of life of the communities in which we operate. Grupa LOTOS is the leading employer in Pomerania and an important one in the south of Poland, where several of its subsidiaries are located, including in regions in which unemployment is one of the gravest economic and social ailments. The Company, being an important part of the communities, cannot shun responsibility for its social environment.

It is not so much about various charities, educational or sponsoring projects, which are either initiated or partnered with by Grupa LOTOS, but rather about social responsibility in a broader sense, related to the well-being of the communities in which we are based.

This manifests itself chiefly in our indirect economic effect on a vast number of cooperating businesses, along the whole length of our complex chain of supplies. Thanks to that cooperation, they are able to maintain existing jobs and create new ones. A model example here is the 10+ Programme, which we implemented in cooperation with a large group of sub-suppliers from various parts of Poland – the number of employees of external firms engaged to work on that strategic project ran to several thousand.

Looking at a lower level, that of local markets, we could point to the example of LOTOS Asphalt, which operates in the vicinity of Jasło, a town where the problem of unemployment is especially grave. Following the company's expansion and deepening of its product mix, it was possible to create 100 new jobs. This naturally contributes to stimulating economic recovery in the regions which are often grappling with serious economic problems.

Third: openness, transparency and social development. On these pillars, inherent within the concept of sustainable development and corporate social responsibility, we have for years been building trust in the Company, its credibility and reputation: among its stakeholders, in employee relations and as part of the vertical communication process. This latter dimension is of particular importance in the case of an organisation as complex as the LOTOS Group, consisting of a large number of companies, with a total of over 5,000 staff.

Among the many initiatives and systemic solutions in that area, the one I would like to highlight is the internal communication programme called "Let's Talk about LOTOS". I am deeply convinced it is one of the most notable examples of our commitment to social development, to an open dialogue with the employees. That views-sharing platform was put in place by in 2006, as part of the communication process related to the new strategy and the 10+ Programme. Having proved to be an attractive and effective communication platform, it has become a fixture in the Company's social landscape. Within its framework, several dozen meetings are held every year, attended by a large number of employees. In 2010, at the level of the entire LOTOS Group there were 56 such "talks about LOTOS", which were attended by 53% of all staff.

The Company initiates a similar model of dialogue as it is strengthening and expanding the chain of petrol stations operating under the LOTOS brand. Our strategy in that area includes primarily the development of partner stations, managed by dealers directly interested in the achievement of the best possible economic results. Their acquisition and active involvement in the implementation of the Company's forward-looking vision, outlined in the strategy for 2011-2015, is essential for the success of Grupa LOTOS. Especially in the context of building the brand value and its perception by customers, who come into contact with the brand primarily at petrol stations.

In the Annual Report for 2010 you continue the integrated approach to reporting the Company's business, environmental and social performance, which was initiated by last year's Report. Apparently the practice, which you pioneered in Poland, has proved its merits?

Absolutely. And not just because of the fact that our Annual Report for 2009, entitled "Sustainable Development in the 10+ Perspective" was commended in the fourth edition of the "CSR Reports" award, organised by the consulting firm PwC, the Responsible Business Forum and CSR Consulting. I will say immodestly that we have become accustomed to such awards, as already our "Corporate Social Responsibility Report of the LOTOS Group for 2006-2007" was recognised as the best, and the next one, for 2008, received an honourable mention. Moreover, the last year's report was the first integrated report, covering both consolidated financial and non-financial statements, to be published by a Polish company – and for that very reason, it was a frontrunner.

Naturally, all those awards and distinctions are immensely gratifying for the Company, its Management Board, and for me personally. However, the crucial thing is to foster confidence in Grupa LOTOS. Transparency and openness, an open disclosure policy, readiness to subject ourselves to thorough and comprehensive reviews and systematic reporting of all aspects of our operations are key to creating that atmosphere of confidence and credibility. And annual reports, integrated and prepared in accordance with the internationally accepted standards of financial and non-financial reporting – like the reports for this year and for last year – play a particularly important role in this context.

The benefits of integrated reporting cannot be overestimated. It affords a wider perspective on the Company's business, enables better identification of risks and opportunities and a more in-depth analysis of the Company's impact on its environment, provides more comprehensive management information and enhances the process of communication with key stakeholder groups.

It is also appreciated by the market and investors. The LOTOS shares were again included in the prestigious RESPECT index, launched in 2009 on the Warsaw Stock Exchange, which primarily takes into account the qualitative aspects of the operation of public companies, mainly their business ethics and social responsibility. The Company itself won the *Listed Company of the Year 2010* ranking prepared by the *Puls Biznesu* daily, in the *Investor Relations* category.

The integrated approach to reporting adopted by Grupa LOTOS will certainly remain a permanent feature of its stakeholder communication process. In 2010, it was extended to include the environmental indicators for LOTOS Petrobaltic. In subsequent years, the Company wants its integrated annual reports to be increasingly more comprehensive in scope and coverage.

Business strategy

Our strategy calls for mitigating the negative environmental impact and valuing the intellectual capital of our employees.

In 2006, the LOTOS Group formulated a development strategy, which was updated two years later. The key project envisaged in the strategy was the 10+ Programme, designed to rapidly expand the LOTOS Group's capabilities, while significantly enhancing Poland's energy security.

In November 2010, the LOTOS Group unveiled its new development strategy for 2011–2015, along with long-term development directions until 2020.

The foundation on which the new strategy rests is the successful completion in 2010 of the 10+ Programme, as a result of which the annual capacities of the Gdansk refinery have been increased to over 10 million tonnes, in reliance on state-of-the-art technologies. These advanced technologies also mitigate the negative environmental impact of the industrial processes. Having developed such a strong processing base, in its new strategy the LOTOS Group focuses on:

- rapid development of exploration for and production of hydrocarbons (upstream segment),
- improvement of sales efficiency combined with optimisation of the operating area.

The main assumptions underlying the new strategy include:

- predictions that margins in the production sector will exceed oil processing margins in the long term,
- a gradual increase in fuel consumption,
- the need to diversify operating risks.

The LOTOS Group has remained committed to its overarching strategic objective of building shareholder value through optimal use of available intellectual resources and assets and through implementation of development programmes in the area of:

- exploration and production,
- oil processing,
- sales.

The strategy underscores the importance of developing those areas in compliance with the principles of sustainable development: striving to continuously reduce the environmental impact, while valuing the intellectual capital and experience of employees.

In the exploration and production area, the LOTOS Group intends to intensify efforts aimed at expanding its resource base, so as to capture the high margins projected for this sector in the long term.

The most important strategic objectives in the segment are:

- to increase production of hydrocarbons in line with the priorities of Poland's energy policy until 2030,
- to achieve in 2015 production volumes in the range of 24 thousand boe/d (*barrel of oil equivalent/day*) – equivalent to 1.2 million tonnes.

In the marketing area, the LOTOS Group will focus on further development of its sales force, based on the expanding distribution network and efficient product logistics, as well as rapid development of trading activities in the area of crude oil and petroleum products.

The key strategic objectives in this segment are:

- to uphold a 30% share in the domestic fuel market,
- to achieve fuel sales exceeding the fuel production capacities of the Company's refinery by 15%,
- to achieve a 10% share in the domestic retail market by the end of the effective term of the strategy,
- to develop the chain of petrol stations and enhance sales through the existing chain.

In the operating area, the LOTOS Group will focus on efficient utilisation of its expanded refining capacities, further increase of the conversion ratio and optimum exploitation of synergies between the refining and power generation sectors.

The key strategic objectives are:

- to achieve the world-class standards of production and maintain a strong competitive position among European refineries,
- to make optimum use of assets held and acquired as part of its growth strategy,
- to ensure safe and stable operation of the production and ancillary facilities, as measured by the minimum availability of 98% during the year,
- to further increase the conversion ratio and intensify processing.

The implementation of the strategy for 2011–2015 will enhance the position of the LOTOS Group as a strong, innovative and successfully developing entity, which plays a crucial role in ensuring Poland's energy security and operates in compliance with the CSR concept.

Progress in implementation of strategic objectives

The implementation of our new strategy will increase the value of the LOTOS Group, while enhancing Poland's energy security.

In the operating and marketing areas, the LOTOS Group has managed to achieve the key objectives for 2010, envisaged in the strategy adopted in 2006 and updated in 2008. With the completion of the 10+ Programme, the oil throughput was significantly increased which translated into an increase of finished products output, while the LOTOS Group's share in the domestic fuel market exceeded the target level of 30%.

The largest discrepancies between the target and actual performance were seen in the exploration and production segment. The objective, assuming production volumes equal to 10% of the 2012 throughput, proved impossible to achieve. The decisive factors here included the global financial crisis unfolding since 2008, the adverse macroeconomic climate and strong volatility in oil prices. The prevailing conditions made it impossible to borrow funds required to finance the development of exploration licences and planned acquisitions.

Given the emerging growth opportunities, a decision was made to develop a new strategy, that would place the strongest emphasis on the exploration and production segment. Its implementation will increase the LOTOS Group's value in the long term, while enhancing Poland's energy security.

Key risks, opportunities and challenges in the context of sustainable development

Compared to 2009, some of the operating, financial and market-related risks were relatively reduced.

Grupa LOTOS operates in an environment and conditions which entail a large number of risks. The risks inherent in the various areas of the Company's operations are first identified and assessed, and then reviewed to determine what further measures need to be taken. Compared with the previous reporting period, some of the operating, financial and market-related risks were relatively reduced thanks, among other things, to the efforts aimed to mitigate the impact of the global financial crisis, the successful completion of the 10+ Programme and the implementation of various measures aimed to mitigate the risks identified earlier.

Risks associated with the government strategy for the oil sector. Strategic legal risks

Given Poland's membership in the European Union, national normative acts passed by the Polish government bodies are not the only source of legal risk, which may also stem from EU directives. In order to identify that risk, Grupa LOTOS keeps track of the trends in EU policies with regard to both proposed and existing directives affecting the oil sector, and cooperates with state authorities responsible for preparing and implementing the government strategy for the oil sector. In addition, the Company is involved in the process of issuing opinions on the draft and effective legislation concerning its area of interest, particularly mandatory stocks of oil and fuels, as well as biocomponents and biofuels.

The key risk in the area of biofuels and biocomponents is still associated, like in the previous year, with a failure by Polish authorities to introduce regulations regarding transposing into national law the provisions of Directives 2009/30/EC and 2009/28/EC of the European Parliament and of the Council of April 23rd 2009, which provide for a higher biofuel content in standard fuels (B7, E10). Due to the lack of legal solutions provided for in the directives and the fact that National Indicative Targets (NCW) are annually increased, Grupa LOTOS is forced to market higher volumes of unprofitable biofuel B100.

In the area of mandatory stocks, it remains unclear in which direction the regulations will evolve. The time when mandatory stocks may start to be taken over from market operators by relevant governmental agencies is unknown, as is the speed of the process. According to the current draft law, the takeover of mandatory stocks is to span ten years.

A serious risk arising from the prolonged legislative process in Poland is the impossibility to predict dates of entry into force of various legal regulations and the related consequences for the Company and the entire industry.

It is also time to take into account the risks associated with the introduction from 2013 of more stringent CO₂ emission requirements and with changes to the rules governing the allocation of CO₂ emission allowances. The authorities have yet to announce the relevant decisions, which makes it impossible to develop an appropriate model on which specific investment decisions would be based.

Risks associated with changes in and interpretations of tax laws

The legal environment in which Grupa LOTOS operates has for many years been marked by significant instability. Newly enacted regulations and changes in interpretations of the provisions already in force affect the Company's operations, its objectives, as well as the tax policy and the amount of tax liabilities.

It should be noted, however, that changes in tax laws may be a source of both opportunities and risks for the Company. Grupa LOTOS looks at many new interpretations of those laws as an opportunity to benefit from tax optimisation. There are interpretations which confirm the correctness of the Company's approach to certain transactions. However, it is equally probable that changes in the interpretations of tax laws may give rise to tax risk in transactions where such risk was non-existent before.

Differences in interpretations of tax laws are frequent, both between various tax authorities and between such authorities and businesses, which leads to uncertainties and conflicts, and in foreign transactions may compromise the Company's reputation as a reliable business partner. This in turn may prompt the Company to give up profitable ventures or transactions for the sake of fiscal security.

These factors mean that the tax risk of doing business in Poland is significantly higher than in countries where tax regimes are better developed.

Another factor which necessitates a great deal of caution in managing tax risks is related to high potential penalties which may be imposed in the case of a fiscal

offence or other violation of tax legislation, and the generally restrictive approach manifested by the Polish tax authorities. When conducting business activities, an entrepreneur has to reckon with the risk that an erroneous interpretation of the law, a human error on the part of its employee or incompetence of civil servants may inadvertently result in tax arrears, as a consequence of which it may face charges of committing an offence.

Given the frequent interpretive changes and enactment of new legal regulations, which are often inconsistent, convoluted or incompatible with the EU laws, Grupa LOTOS reviews and updates its internal procedures on an ongoing basis to ensure compliance with the requirements currently in force and to identify and mitigate any tax risks, and in particular their effect on the Company's financial statements. The process involves employees who actively participate in numerous training courses concerned with tax issues.

In situations where a tax risk related to a possibility of disparate interpretations is identified, Grupa LOTOS avails itself of the right to request an individual written interpretation issued by the Minister of Finance. Compliance with such interpretations eliminates the tax risk to the extent covered by a given interpretation.

Furthermore, Grupa LOTOS, as a member of Poland's major organisations of employers and entrepreneurs, takes an active role in issuing opinions on draft legislation. This is primarily aimed at improving the quality of tax legislation, but also allows the Company's governing bodies to adequately respond to any changes in the legal environment.

Financial risks

The Financial Risk Management Committee operating at Grupa LOTOS is responsible for supervising the financial risk management process at the Company, seeking to achieve the following objectives:

- increase the probability that budget and strategic objectives will be met,
- limit volatility of cash flows,
- ensure short-term financial liquidity,
- maximise the result on market risk management, given an assumed level of risk.

The key financial risk from the point of view of the Company's operations is **the risk related to prices of raw materials and petroleum products**. The Company is in the process of developing a new policy for managing that risk, which will include the objectives connected with the introduction, with effect from January 1st 2011, of a new model of trade in raw materials and petroleum products within the LOTOS Group.

Currency risk is managed in line with the Strategy of Currency Risk Management at Grupa LOTOS, the basic guideline governing that area. The management horizon is determined in line with the rollover budgeting period. The natural currency of Grupa LOTOS' operating market is the US dollar (USD). Consequently, Grupa LOTOS has a structurally long position in USD on its operating activity. For this reason, it was decided that USD was the most appropriate currency for contracting and repaying long-term loans to finance the 10+ Programme.

Interest rate risk management is connected with the cash flows which depend on future interest rates, in particular the expected schedule of repayments under the loan extended to finance inventories and the implementation of the 10+ Programme, and the resulting interest calculated on the basis of a floating rate (LIBOR USD).

The risk related to prices of CO₂ allowances is managed in line with the objectives set forth in the *Strategy for Managing the Risk Related to Prices of CO₂ Allowances by Grupa LOTOS*. The management horizon is determined by the subsequent phases of the Kyoto protocol; the current management horizon runs until the end of 2012.

Liquidity risk management process consists in monitoring the forecast cash flows and available sources of financing, and then matching the maturities of assets and liabilities, analysing the working capital and maintaining access to various sources of financing. Liquidity management is consolidated to cover the entire LOTOS Group.

Measures designed to mitigate **the risk of restricting or change in conditions of access to external financing** include contracting loans with a wide group of financial institutions, the correct, complete and timely fulfillment of disclosure obligations, analysis and compliance with the financial indicators and covenants, as well as with other obligations towards banks stipulated in the loan agreements. In addition, Grupa LOTOS monitors the credit ratings and general standing of the banks with which it contracts financing.

Management of credit risk relating to counterparties in financial transactions consists in ongoing monitoring of the credit exposure in relation to the limits granted. The counterparties must have an appropriate credit rating, assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum rating requirement. Grupa LOTOS S.A. enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it cooperates.

As regards **management of credit risk relating to counterparties in non-financial transactions**, all customers requesting trade credit or payment limits undergo verification of their creditworthiness, whose results determine the amount of credit or limits to be granted. Decisions related to evaluation of business partners are made by the Credit Committees, set up within the marketing segment of the LOTOS Group.

In order to ensure that the financial risks are effectively managed and to minimise the risk of errors, all data used to support the process are very precise, and decisions are based on in-depth analyses, in accordance with the operating procedures which are in place.

The financial risk management policies and instruments and the impact of the key risk factors on the individual items of financial results have been presented in the **Notes** to the consolidated financial statements.

Risks related to the upstream business

Risks related to the upstream business include production and technical risks, exploration risks, risks related to the geological characteristics of the fields or simply weather-related risks. All of them are monitored and appropriate strategies are implemented with a view to mitigating them.

One of the major risks are **process risks** associated with the production of hydrocarbons. These include risks of oil spills, marine collisions, fires, gas eruptions and other failures. A number of preventive measures are applied, such as leakage testing, monitoring of fire risk parameters and eruption risk prevention, for example by securing the boreholes. Additionally, procedures have been put in place applicable in day-to-day work and when a threat of failure occurs. An important measure helping to reduce the risk is the provision of regular training courses and practical exercises for staff. In the event of an incident or accident, a thorough analysis is conducted, and the event itself is discussed at the training courses held at that time, with a view to preventing its recurrence.

Technical risks are associated with the equipment used to exploit hydrocarbons. It is mitigated through ongoing monitoring of the condition and performance of the equipment, as well as technical supervision (according to the schedule of periodic reviews) and performance of necessary tests. Regular training courses are also provided to staff to teach them how to operate the equipment/components in order to minimise the risk of human error.

The exploration risk follows largely from incorrect estimation of in-place resources. Therefore, such resources are always estimated (in accordance with the SPE 2007 resources classification system) for three scenarios P10/P50/P90, which means that quantities are given that can be potentially recovered with the 10%, 50% and 90% probability. In addition, the internal Chance of Success (CoS) rate is applied when evaluating the potential of the play covered by geological testing. Moreover, in the design phase there is the risk of having to conduct additional, in-depth geological analyses of high potential production plays.

Other risks in the upstream area are related, among other things, to possible occurrence or intensification of phenomena which may cause loss of wells or declines in well rates (e.g. falling reservoir pressures, entry of water), as well as bad weather, which may lead to a suspension of work or production.

Risks related to the supply of raw materials

Grupa LOTOS continues its efforts related to the strategy of diversification of crude oil supplies, focusing on two key aspects of this strategic goal:

- security of crude oil supplies: steady expansion of presence on the international oil market, regular contracting of various types of oil from offshore production, while creating conditions to radically increase their share in total supplies to the refinery, in case of a threat to the continuity of supplies from the main direction, increasing the role of own production,
- improvement of competitiveness: by fully capitalising on the coastal location of the Gdańsk refinery and the possibility to source oil supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of oil available through Naftoport.

An appropriate selection of types of oil and directions of supplies is the result of optimisation efforts, carried out on an ongoing basis, to maximise the integrated margin.

Risks related to operating activities

The management of risks related to operating activities covers various areas: from process and technology-related risks, to workplace safety and environmental risks, to legal risks relating to the respective areas.

Risks related to implementation of the 10+ Programme

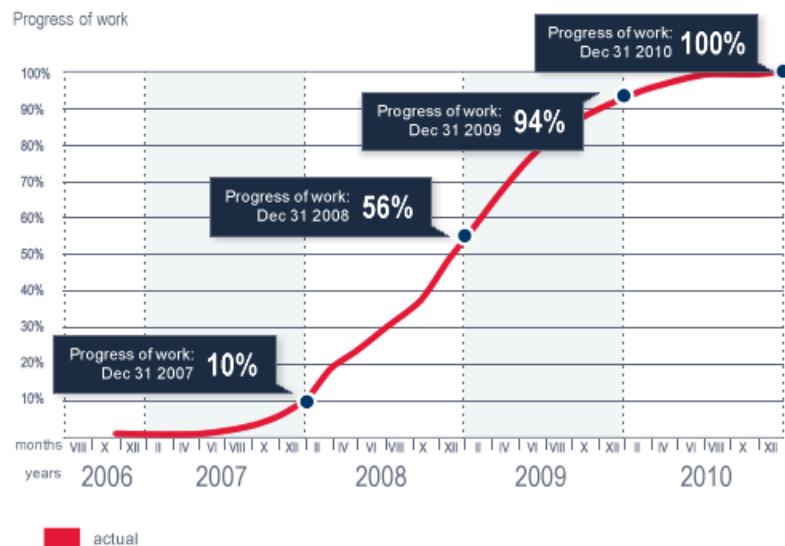
Risks related to the implementation of the 10+ Programme, which were quite significant in recent years, have either markedly diminished or been altogether eliminated. The credit for that is attributable to the mitigation measures applied by Grupa LOTOS with respect to those risks, as well as the fact that the implementation of the 10+ Programme (along with the construction of all its facilities) has now been completed, as a consequence of which the likelihood of the occurrence of such risks is now minimal.

Detailed analyses of major risks in the implementation area of this investment project were carried out, which allowed the Company to determine the best ways of dealing with them. The greatest risk was associated with possible delivery or fitting in of **defective installations/equipment and materials**, which could necessitate repairs and replacements, driving up costs and causing delays. The measures applied, including the preparation of a list of preferred suppliers and a list of entities with which contracts should be avoided, monitoring of critical equipment, inspection of fixtures, performance of the appropriate amount of diverse testing (e.g. tests of the chemical composition and thickness of selected pipeline components, identification of materials and quality of joints) and compliance with internal standards, allowed us to reduce the above risks. In terms of quality control, the measures undertaken helped to avert events which could have critically affected the project. Thanks to implemented controls, some risks were detected at a stage when it was still possible to eliminate them completely. In the few cases where any of the risks materialised, the scope of control was extended, which allowed to eliminate the risk of similar events in further work. It should be noted, however, that there is still a risk that any latent defects in the materials supplied may be identified during their lifetime. Despite the fact that a majority of the units built as part of the 10+ Programme have already been proven, tested and put into operation, the risk of identifying defects during the start-up and initial period of operation still exists with respect to those units which are currently in the start-up phase. Any such event may disorganise and/or delay the start-up work, affecting the implementation schedule of the entire Programme. Furthermore, in some cases, late detection of such defects, after a facility has already been put into service, may give rise to risks associated with workplace safety, fires and explosions.

The 10+ Programme also involves a number of other risks which have been subject to supervision and monitoring, as a result of which the project has so far been implemented according to schedule and within budget. Currently, the main risk related to the 10+ Programme has to do with the Company's ability to complete the entire project by the deadlines specified in the loan agreement and perform the required tests.

However, on the basis of experience gained while carrying out the 10+ Programme and managing the related risks, measures were designed to reduce the identified risks, also when new projects are implemented in various areas Grupa LOTOS' business.

Progress of work under the 10+ Programme



Environmental risks

Grupa LOTOS' operating activities entail certain environmental risks, the most important of them being:

- risk of failure to comply with the requirements of environmental laws (Polish and EU),
- risk related to shortage of CO₂ emission allowances,
- risk of serious industrial failure (described in detail further on, in the section devoted to the process and technology-related risks).

The likelihood that the risk of non-compliance with the legal requirements might materialise is minimised through ongoing monitoring of the Polish and EU laws, efficient implementation of their provisions and taking an active and effective role in the legislative process. Any identified environmental law requirements are notified, in the form of information or orders, to all those at Grupa LOTOS for whom such requirements are relevant. The processes of obtaining permits are carried out with a sufficient time reserve, taking into account the risk that administrative proceedings might last longer than expected, which guarantees that the relevant documents will be obtained in time.

Grupa LOTOS is making intensive efforts to mitigate the risk related to the need to secure a sufficient number of CO₂ emission allowances. Legislative changes at the level of Polish and EU laws are monitored on a routine basis. The Company has ongoing liaison with the National Administrator, while applications for new allowances are prepared sufficiently in advance.

For the refining units which participate in the EU Emissions Trading Scheme, including units constructed as part of the 10+ Programme which were commissioned in 2010 (CDU/VDU, HDS, HGU and ASR), the number of allowances will suffice until the end of the current trading period, i.e. 2012. Additional allowances were granted for the CHP, whose emissions have increased in connection with the supply of heat supporting the operation of the above units. Given that the last units covered by the 10+ Programme are being commissioned, in the near future Grupa LOTOS will apply for allowances from the national reserve for the MHC and ROSE units and for the CHP, whose emissions will increase further as the new refinery production units will be connected with the CHP. It is expected that a relevant decision is made by the National Administrator in mid-2011.

Process and technology-related risks, risks related to workplace safety

One of the key risks for Grupa LOTOS, addressed by specially designed preventive and preparatory measures, is the **risk of industrial failure**. Emergency events may disrupt the work of refining units, cause excessive emissions of pollutants into the environment or accidents at work. To prevent such events, a variety of precautions are taken, such as diagnosing the technical condition of the units and equipment, establishing an appropriate inspection agenda on the basis of analyses, e.g. corrosion reports, using lists of eligible vendors of equipment and providers of technical services, and the implementation of various operational procedures, including with respect to acceptance and inspection of supplies.

Grupa LOTOS also carries out criticality analyses of the equipment, as part of which it identifies and assesses risks and implements appropriate action plans for individual items of equipment, depending on their degree of criticality. All equipment supporting the work of units has been classified on the basis of the following criteria:

- safety for humans and the environment,
- the importance from the perspective of the refinery,
- the importance from the perspective of the units,
- probability of failure,
- complexity of repair.

The classification of a piece of equipment to a specific criticality group determines the selection and application of an optimal strategy for maintenance of its operations.

Installations built under the 10+ Programme are a special case in that respect. As many of these installations have only worked in the refinery for a short period of time, the adequate measures of managing process-related risks described above have not been implemented yet. Additionally, it is possible that defects originating in construction will be identified later. The risks of such defects are analysed above in the subchapter Risks related to the implementation of the 10+ Programme. However, the positive aspect of the newly-constructed installations is the fact that they perform technological processes which have already been performed before at the refinery, therefore it is possible to reserve the processing capacity for such an event. Hence, should any failure occur at any of the installations, it will not have such far-reaching consequences for the entire plant and the rest of the refinery will be able to work without any major disruptions.

A factor contributing to the increase in the risk of failure of the new installations is the insufficient training of staff. To mitigate this risk, a number of steps were taken at the refinery, including employing staff which were to operate new installations well, even up to 2 years, in advance so that the training process could be finished on time. Grupa LOTOS also invested in state-of-the-art training tools – training simulators – which are industrial equivalents of flight simulators applied in aviation. Thanks to them, the staff operating new installations can be trained in conditions which are very close to actual working conditions with a real installation.

The refinery also uses technologies and equipment meeting the BAT criteria (Best Available Techniques). Process units are equipped with adequate safety and security solutions, including multi-layered security systems (prevention, protection and counteraction layers). Alarm, emergency stop and shutdown systems are deployed in order to prevent uncontrolled development of an emergency situation and serious damage to machinery and equipment.

In order to mitigate the effects of the risk, failure response training and exercises are provided on a regular basis to all employees of the refinery, to ensure prompt and effective response to any actual failures.

If an emergency event does occur, a thorough analysis of its causes is performed (Root Cause Analysis). Based on its findings, measures are implemented designed to prevent the recurrence of such failures in future. Information gathered about the various failures and incidents is used in subsequent assessments of the technology-related risk.

Given the nature of Grupa LOTOS' production processes, **workplace safety** is an issue of utmost importance for the Company. Many jobs are exposed to hazardous or noxious factors, which is why each job is assessed in terms of inherent occupational risks, including risks related to explosive atmosphere, noise, vibration or presence of chemical and biological substances. On the basis of that assessment, individual and collective security systems are deployed.

New technical and organisational measures are also put in place to ensure safe working conditions for all persons staying and/or working on the premises of and for Grupa LOTOS. Regular checks of the procedures are undertaken and the requirements are enforced. In many cases, the rules implemented at Grupa LOTOS are more stringent than those required by law.

Grupa LOTOS attaches particular importance to raising employee awareness of occupational safety. This objective is being accomplished for instance through a series of above-standard initiatives and programmes designed to promote awareness of the health and safety-at-work issues in accessible and interesting ways. The Company also implements incentive schemes in that area.

All the above activities are designed to ensure safe conditions of the work and processes taking place at Grupa LOTOS, which is a priority concern for the Company.

Risk management in the operating area is also related to limiting the likelihood of **failure to comply with the legal requirements** applicable to the operations of Grupa LOTOS. This risk is minimised through ongoing monitoring of the Polish and EU laws, efficient implementation of their provisions and taking an active and effective role in the legislative process.

Risk of stricter quality requirements for petroleum products

Grupa LOTOS S.A. keeps a close eye on the proposed new standards and regulations relevant for its production and sales. The source of information about future changes in the quality requirements is Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids. Thanks to active participation in the work of the subcommittees of Technical Committee 222, Grupa LOTOS is able to issue opinions on proposed EU standards at the stage of their development.

Grupa LOTOS can also have a say on the quality requirements, especially for motor fuels, through participation in the Polish Organisation of Oil Industry and Trade (POPiHN). The Company's participation in that body's work substantially reduces the risks of delayed compliance with future quality standards for petroleum products. In 2010, a change was expected in the quality requirements for gasolines and diesel oils regarding the admissible content of biocomponents. Unfortunately the change, whereby the admissible content of FAME was to be raised to 7% of the total volume, was not effected, and is now expected in 2011. Work is also under way to admit to trading gasolines with ethanol content of up to 10% of the volume. Grupa LOTOS is already prepared for those changes and thus they do not pose any threat to the Company's continuing as a going concern.

Marketing risks

Risk management in the area of Grupa LOTOS' marketing activities covers both market-related and financial risks associated with the liquidity of its counterparties. For a description of the Company's strategy for managing the credit risk of its non-financial counterparties, see the financial risks section.

One of the key marketing risks to which Grupa LOTOS is exposed is the **risk of declining margins** due to price competition. The most important measure addressing the price risk is the ongoing monitoring of parameters related to prices and margins, in conjunction with the monitoring of sales volumes and results. The Company is planning to introduce tools and mechanisms that will allow it to fine-tune pricing to optimise achieved margins. In addition, in the retail sector, the Company is diversifying into market segments less susceptible to downward pressure on margins due to competition (both existing and potential), while

making efforts aimed to foster sustained customer loyalty, for example by enhancing the *Navigator* loyalty programme at LOTOS stations and the *LOTOS Biznes* schemes.

Grupa LOTOS also manages the **risk of decreased demand**. High availability of fuels (increased supply in the domestic market plus imports) is likely to drive down the prices, which in turn may result in lower sales volumes. To mitigate that risk, sales are made through various distribution channels, while the production processes are continuously enhanced.

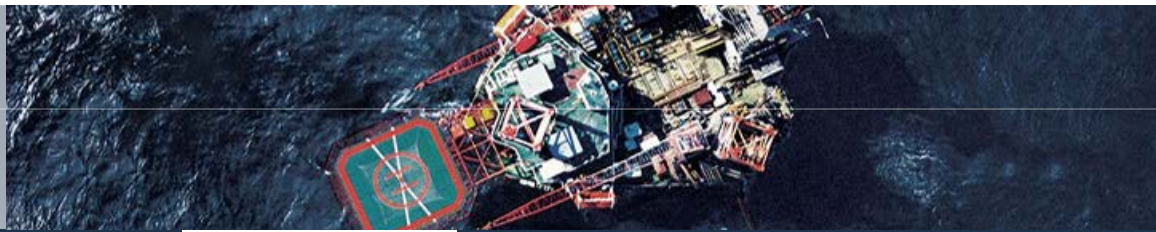
Risk management in the marketing area is also focused on maintaining uninterrupted supplies of products to the market. At Grupa LOTOS, the process is coordinated by the Supply Chain Management Committee, whose role is to guide the LOTOS Group's operating activities in the area of production, procurement, logistics and sales, in terms of the whole supply chain. Additionally, any logistical constraints are taken into account in the process of operational planning and optimisation. Moreover, the availability times of the distribution centres are constantly monitored.

In order to minimise the risks associated with loss of products as a result of theft or improper handling during storage or transport, agreements are only concluded with eligible suppliers, while the parameters throughout the logistic chain are constantly monitored. Mitigation measures are also taken to address the risk arising from the proposed legislative changes in respect of mandatory stocks, which may increase the costs of logistics.

In order to ensure effective and prompt response to the various risks and emergencies, Grupa LOTOS has developed crisis scenarios for the most strategic areas, including oil supplies, oil processing, fuel production, product storage and logistics.

Costs of implementation of hedging strategies

Many of the planned and implemented risk mitigation measures involve organisational or procedural changes, which usually entail negligible costs. However, some measures require large expenditures. In such cases, the ALARP principle ("As Low As Reasonably Practicable") is applied, whereby risks are reduced to a level as low as reasonably practicable. Risks are considered acceptable if it is impossible to reduce them any further or if the costs of their reduction outweigh the benefits to be gained. Any hedging strategies, including plans to mitigate risks or transfer them (e.g. by way of insurance), are therefore implemented following careful analysis, focused especially on the costs that would need to be incurred.



Achievements and forecasts

Business environment

In 2010, the world's largest economies pulled out of the recession, while emerging markets saw their growth rates accelerate. The Polish economy also performed well. Activities of Grupa LOTOS were defined by two of the Company's key projects – the completion of the 10+ Programme and formulation of a new strategy for the coming years.

Financial and economic standing

The performance we delivered in 2010, as well as our sound financial position, provide solid foundations for the Company's ambitious strategy for 2011-2015. The fact that debt ratios stayed within assumed ranges and liquidity ratios remained safe also confirms the soundness of our financing strategy, which has allowed us to implement key investment programmes without disruptions.

Stock market

In 2010, the LOTOS stock was included in the RESPECT index on the Warsaw Stock Exchange, the first index of socially responsible companies in Central and Eastern Europe. Following a review conducted at the beginning of 2011, the LOTOS stock was included in the index again in 2011.

Exploration and production (upstream business)

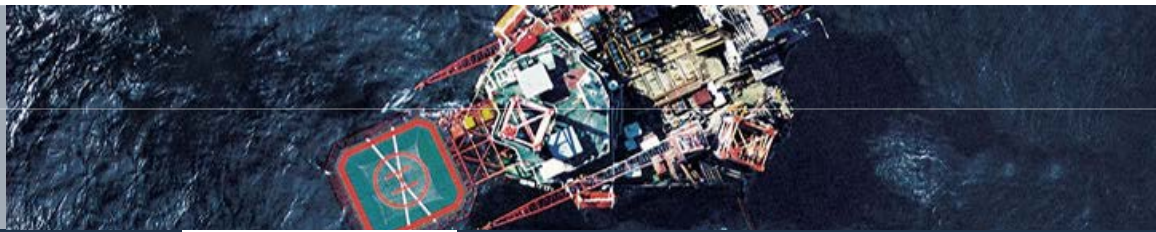
The LOTOS Group's strategic objective for its upstream business is to increase the production of hydrocarbons, in line with the priorities of Poland's energy security policy until 2030. The objective will be accomplished by obtaining direct access to hydrocarbon reserves and increasing the production volumes.

Operating segment

The LOTOS Group's operating segment is focused on carrying out refining operations and supplying the market with high quality products, while making optimum use of its production capacities and mitigating the environment impact.

Market activities

In line with its new strategy, the LOTOS Group's efforts in the marketing area will focus on further development of the sales force, based on the expanded distribution network and efficient product logistics, as well as rapid development of the trading business in the area of crude oil and petroleum products.

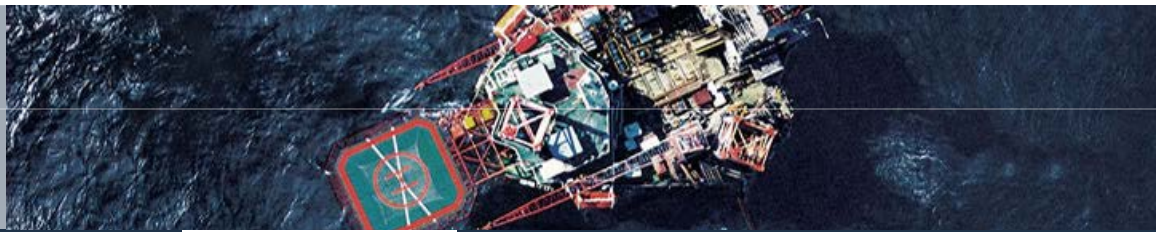


Business environment

The success of the 10+ Programme served as the basis for the strategy of Grupa LOTOS, focusing on the exploration & production and the marketing segment.

The economic climate in 2010 was markedly different from that seen in the previous year. The world's largest economies pulled out of the recession, while emerging markets saw their growth rates accelerate. Global GDP was on a fast track, although the worldwide recovery was still quite susceptible to any negative data.

To maintain positive GDP momentum in 2010, the states had to take an interventionist role and issue a number of guarantees intended to gradually rebuild economic relations. The role of the state authorities as the primary guarantors of access to capital will also be called for in 2011, especially to ensure monetary stability. The economic improvement observed in 2010 fuelled demand for oil, driving up the prices of that commodity.



Financial and economic standing

Financing structure of the 10+ Programme was well thought out and implemented. It proved resilient in the face of adverse market developments when the financial and economic crisis set in.

Dear Stakeholders,

The last months of 2010 saw the successful completion – on schedule and within budget – of the 10+ Programme – the largest refinery expansion project in Central and Eastern Europe.

Bringing that project, on a scale unmatched in Polish economy, to the finishing line was an achievement of strategic importance for the entire LOTOS Group, as it will entrench our market position for many years to come, while delivering value to our Stakeholders.

I have never doubted that the project would be anything but utter success, basing my conviction on its financing structure, which was well thought out and implemented. Thanks to our conservative approach, it proved resilient in the face of adverse market developments when the financial and economic crisis set in.

Following the expansion of the Gdańsk refinery, in 2010 we recorded a record-high oil throughput, in excess of 8 million tonnes. The upgrade has allowed us to intensify processing, resulting in a greater yield of high-margin products – especially diesel oil and aviation fuel. It should further be noted that the newly built units are capable of processing diverse types of crude oil, which has improved the refinery's flexibility and our ability to capitalise on changing market trends.

Thanks to the increased throughput, our sales volumes grew, while imported fuel components were replaced by our own product streams from the new units. As a result, in 2010 Grupa LOTOS posted PLN 763.3m in operating profit, up by nearly 82% year on year. Operating performance was also boosted by favourable trends in the prices of petroleum products on global markets.

The LOTOS Group's sales revenue also came to a record-high level of PLN 19.7bn, a 37.4% growth on a year earlier, chiefly on the back of higher sales volumes and soaring prices of crude oil and petroleum products on international markets. For instance, the average market price of Brent dtd in 2010 went up by 28.9% relative to 2009, while crack margins on diesel oil and gasoline rose over the same period by 24.8% and 13.8%, respectively.

The rapid growth of Grupa LOTOS' business and the resulting level of capital expenditure, which in 2010 ran to more than PLN 1.2bn, affected the structure of the Company's equity and liabilities. However, the fact that debt ratios stayed within assumed ranges and liquidity ratios remained safe confirms the soundness of our financing strategy, which has allowed us to implement key investment programmes without disruptions.

Going ahead, the Company will focus on deleveraging its business, using the increased cash flows generated by newly completed projects connected with the refinery's expansion and production of crude oil.

It is worthy of note that – being an oil company – Grupa LOTOS operates in a sector with potential environmental impacts and plays an important role in Poland's energy security. It is also one of the region's largest employers. This demonstrates the complexity of our Stakeholder map and the resulting importance of a transparent and open disclosure policy, offering a broad basis for assessment of our credibility. I view it as an important factor behind the Company's value creation.

The superior quality of the Company's communication with the capital market was highlighted by the highest laurels in the *Investor Relations* category of the *Listed Company of the Year* ranking, prepared by the *Pentor Research Institute* for the *Puls Biznesu* daily.

The performance we delivered in 2010, as well as our sound financial position, provide solid foundations for the Company's ambitious strategy for 2011–2015. I am fully convinced that the success of the 10+ Programme proves, and upholds the Stakeholder confidence, that we are able to accomplish the ambitious goals we set for ourselves and thus increase the Company's value.

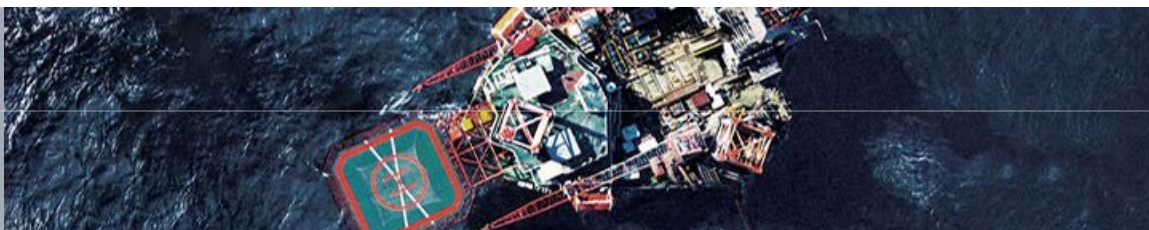
Yours faithfully,



Mariusz Machajewski
Vice-President of the Board
Chief Financial Officer



Mariusz Machajewski
Vice-President of the Board
Chief Financial Officer
Grupa LOTOS S.A.



Stock market

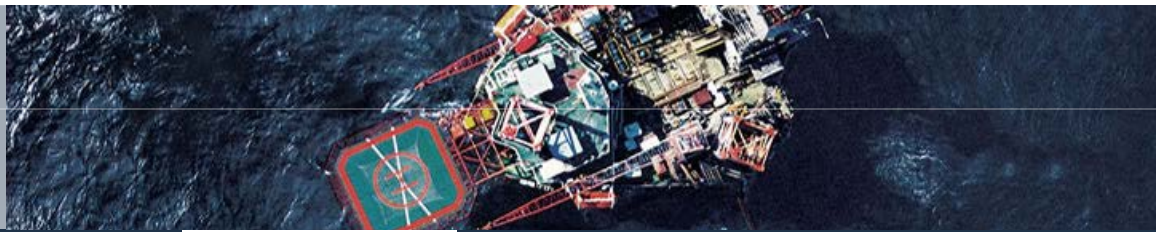
Grupa LOTOS came first in the *Investor Relations* category of the *Listed Company of the Year 2010* ranking.

Grupa LOTOS on the Stock Market

The year 2010 began on a bearish note on the Warsaw Stock Exchange. In February, the main indices rallied, however it was not until the second half of the year that the upward trend settled in. Over the whole year, the WIG and WIG20 indices advanced 16.5% and 12.3%, respectively, while the index comprising fuel companies – WIG FUELS – posted gains of 21.9%.

RESPECT Index

In 2010, the LOTOS shares were included in the RESPECT index, the first index of socially responsible companies in Central and Eastern Europe, which was inaugurated on the Warsaw Stock Exchange on November 19th 2009. Altogether, 16 A-rated companies met the criteria for inclusion in the index.



Grupa LOTOS on the Stock Market

The year 2010 began on a bearish note on the Warsaw Stock Exchange. In February, the main indices rallied, however it was not until the second half of the year that the upward trend settled in. Over the whole year, the WIG and WIG20 indices advanced 16.5% and 12.3%, respectively, while the index comprising fuel companies – WIG FUELS – posted gains of 21.9%.

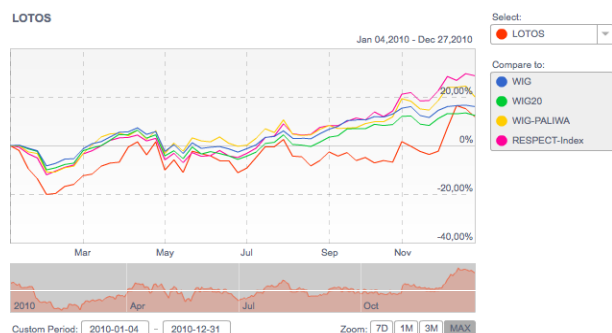
At the beginning of the year, the LOTOS stock clearly underperformed the market, bottoming out at its annual low of PLN 25.05 on the February 25th session. Thereafter, the stock started to follow the market, but only the release of the Company's new strategy in November provided a sufficient impulse to propel its dynamics past the 100% mark compared with the year's beginning, translating into positive returns, only slightly below the WIG20 performance. On December 17th, the Company's stock price reached its annual peak of PLN 37.85 per share. As at the end of 2010, its dynamics, relative to the period's beginning, was 110.3%, which meant a rise of 10% and PLN 3.40 in absolute terms. On December 31st 2010, the stock closed at PLN 36.35. The average daily volume of trading in 2010 was 234.5 thousand shares. The Company's market capitalisation as at the year's end was a little more than PLN 4.7bn.

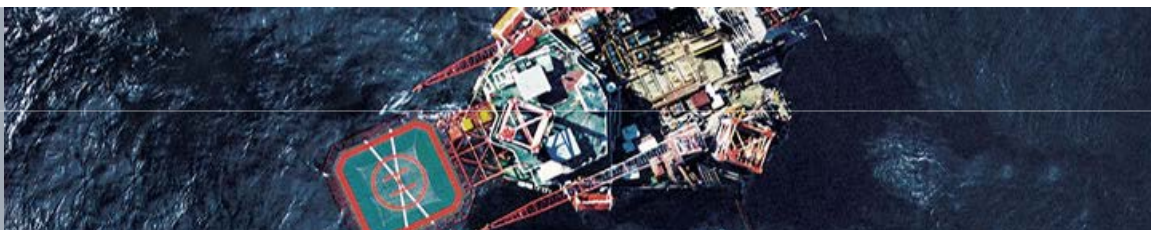
Quotations of Grupa LOTOS shares in 2010

Generally speaking, the performance of the LOTOS stock was, save for a temporary plunge in the first quarter, fairly stable. It would indicate that investors responded positively to the anti-crisis measures adopted by the Company in 2009 and its consistent implementation of the 10+ Programme.

The relative stability was reflected in investment recommendations regarding the Company's securities issued throughout 2010 by financial institutions. Positive recommendations slightly outnumbered negative ones: 13 (including four to "buy" and nine to "hold") to 12 (including six to "sell" and six to "reduce").

Quotations of Grupa LOTOS stocks vs. WIG, WIG20, WIG-Fuels and RESPECT indexes in 2010





RESPECT Index

In 2010, the LOTOS shares were included in the RESPECT index, the first index of socially responsible companies in Central and Eastern Europe, which was inaugurated on the Warsaw Stock Exchange on November 19th 2009. Altogether, 16 A-rated companies met the criteria for inclusion in the index.

Following a review announced on January 25th 2011, the LOTOS stock was included in the index again. In 2010, the index value was published twice daily. Starting from 2011, it is quoted in the continuous system, from the beginning to the end of a trading session.

The RESPECT project is intended to promote responsible management of WSE-listed companies. Similar indices have been launched on several dozen stock markets around the world, the most prominent of them being the Dow Jones Sustainability Index and FTSE4Good. The basic criteria for inclusion in the RESPECT Index are the results of the rating designed to assess the sustainability-driven companies. The analysis covered the companies listed on the regulated market of the Warsaw Stock Exchange which received the highest ratings in terms of their social responsibility efforts and are leaders in communication with the financial markets, sustainable development and corporate disclosure discipline.

To assess the WSE-listed companies (excluding the NewConnect market, foreign companies and companies whose shares are traded outside of the Warsaw Stock Exchange) and establish the RESPECT rating, corporate social responsibility was defined as a management strategy and conceptual approach to doing business. In 2009, Grupa LOTOS joined the project independently as one of the 120 companies that agreed to subject themselves to the assessment. Starting from 2011, the first two stages of the qualification process are run without the participation of the candidate companies. At present, the Warsaw Stock Exchange together with the Polish Association of Listed Companies – based on publicly available information – undertake the assessment of the listed companies as to their meeting the criterium of liquidity and then to the practices adopted by them in the areas of corporate and information governance as well as investor relations. It is only at the third stage of the process that the consent to be included in the project along with the detailed verification by the consulting firm Deloitte from the companies interested is required.

Companies which ranked highest in course of this qualification process were included in the RESPECT sustainability index, which is an income index, taking into account income from dividends and pre-emptive rights to evaluate the economic condition of companies considered to operate to the highest corporate standards.



Areas covered by assessment for inclusion in the RESPECT Index

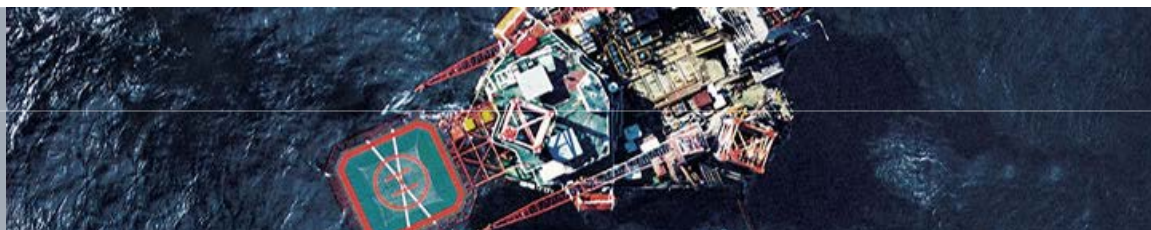
CSR policies	<ul style="list-style-type: none"> ● CSR strategy and CSR activities ● Person dedicated to the CSR area ● CSR reports ● Non-obligatory declarations, rules or codes observed by the Company and relating directly to social, economic or environmental issues
Management system	<ul style="list-style-type: none"> ● Internal control and risk management system ● Code of ethics ● CSR requirements vis-à-vis suppliers and contractors (ethical conduct clauses, audits) ● Stakeholder dialogue
Environmental management	<ul style="list-style-type: none"> ● Environmental policies



Starting from 2011, the assessment will be repeated every six months and may only cover companies whose shares are included in the WIG-20, mWIG-40 or sWIG-80 indices. The project is supervised by a steering committee composed of representatives of the organiser and the scientific council – a group of independent, reputed scientists and economists.

An important success confirming the high ratings achieved by Grupa LOTOS in the RESPECT assessment was the first award in the *Investor Relations* category of the *Listed Company of the Year 2010* ranking, prepared by the *Pentor Research Institute* for the *Puls Biznesu* daily. The winner was selected by capital market experts - stock analysts, investment advisers and brokers representing brokerage houses and offices, insurance companies, investment funds, capital departments of banks and consulting firms located all over Poland – in acknowledgement of the quality of Grupa LOTOS' dialogue with retail and institutional investors, as well as the promptness of its response to investor queries.

Results of Grupa LOTOS vs. results of all companies included in the RESPECT Index



Exploration and production (upstream business)

LOTOS Petrobaltic is the only company engaged in upstream oil operations in the Polish economic zone of the Baltic Sea.

Management approach

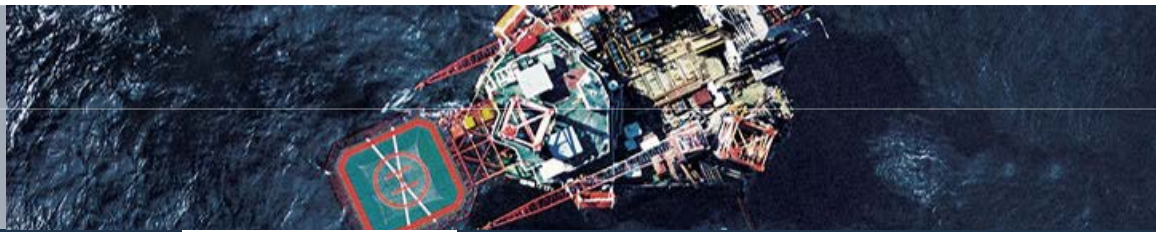
The vehicle through which the LOTOS Group pursues its objectives and projects in the area of exploration for and production of oil and gas is LOTOS Petrobaltic, the only company engaged in upstream oil operations in the Polish economic zone of the Baltic Sea.

Achievements

As at the end of 2010, LOTOS Petrobaltic delivered positive financial results, which turned out better than planned. Equally important was the maintenance of production volumes on a par with, or even slightly above, the previous year's level.

Development plans

Going forward, the objective for the upstream business is to develop international operations and hold a portfolio of assets with diversified risk profiles, comprising fields at various stages of development.



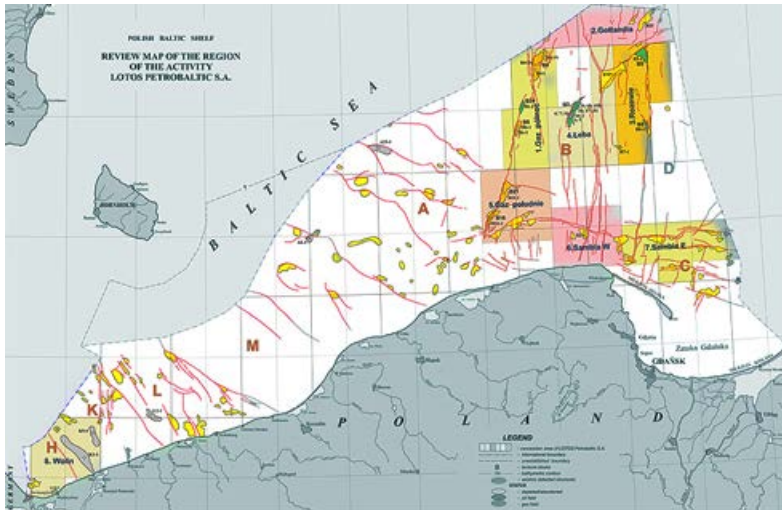
Management approach

The vehicle through which the LOTOS Group pursues its objectives and projects in the area of exploration for and production of oil and gas is LOTOS Petrobaltic, the only company engaged in upstream oil operations in the Polish economic zone of the Baltic Sea.

Its links with Grupa LOTOS go back to 2005, when the Company became the major shareholder of LOTOS Petrobaltic. LOTOS Petrobaltic operates offshore Poland, over an area covering approximately 29 thousand sq. km. Currently, work is underway on eight exploration and four production licences. LOTOS Petrobaltic is the parent company of its own group, which comprises six subsidiaries and associates.

The scope of the company's operations in 2010 included exploration and development work on the Baltic Sea, expansion of the portfolio of licences on the Norwegian Continental Shelf and development of the Yme Production Project. On the Norwegian Continental Shelf, LOTOS Petrobaltic conducts its exploration and production work through LOTOS E&P Norge (LOTOS Exploration & Production Norge AS) with its registered seat in Stavanger, Norway, which was established in 2007.

Grupa LOTOS, through its subsidiary LOTOS Petrobaltic, is the only Polish enterprise engaged in hydrocarbons production in the Polish economic zone of the Baltic Sea



LOTOS Petrobaltic is focused on pursuing the strategy of the LOTOS Group, while maximising its financial performance. Shareholder value is created in a sustainable manner, based on the management standards adopted by the LOTOS Group, that is with due regard to the principles of social intercourse and environmental protection.

In 2010, LOTOS Petrobaltic was covered by the LOTOS Group's non-financial reporting, which constitutes the basis for preparation of reports demonstrating the Company's adherence to the principles of sustainable growth. As part of that system, LOTOS Petrobaltic reports its environmental performance, which is another proof of the commitment of the whole LOTOS Group and of LOTOS Petrobaltic to corporate social responsibility.

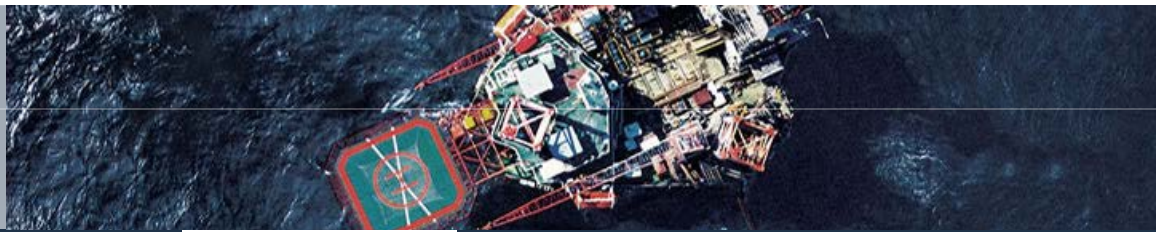
In November 2010, the LOTOS Group unveiled its new strategy for 2011–2015, along with development directions until 2020. The new strategy places a particular emphasis on intensifying the Company's upstream operations (exploration for and production of crude oil and natural gas). For LOTOS Petrobaltic this spells the need to embrace new challenges and initiatives, while indicating its growing role as member of the LOTOS Group.

The LOTOS Group's strategic objective for its upstream business is to increase the production of hydrocarbons, in line with the priorities of Poland's energy security policy until 2030.

The objective will be accomplished by:

- improving the security of supplies by obtaining direct access to hydrocarbon reserves,
- increasing the production volumes – thanks to the implementation of programmes aimed at increasing oil production rates from the Baltic offshore fields, as well as the execution of new projects outside of Poland – to:
 - 24,000 boe/d (*barrels of equivalent/day*), or 1.2 million tonnes per year, by 2015,

- 100,000 boe/d (*barrels of equivalent/day*), or 5 million tonnes per year, by 2020,
- holding equivalent reserves of 330 million boe.



Achievements

As at the end of 2010, LOTOS Petrobaltic delivered positive financial results, which turned out better than planned. Equally important was the maintenance of production volumes on a par with, or even slightly above, the previous year's level.

LOTOS Petrobaltic's oil and gas production

	2006	2007	2008	2009	2010
Oil [thousand tonnes]	265.5	190.6	257.8	175.4	186.5
Gas [million Nm ³]	29.9	21.0	29.3	19.5	20.7

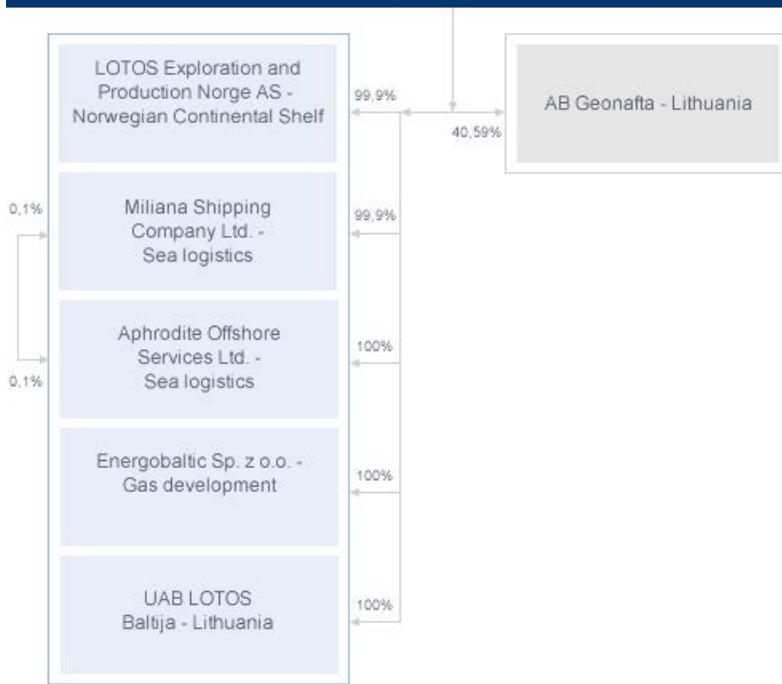
Management area of LOTOS Petrobaltic

Key achievements in 2010 included:

- continued efforts to achieve efficiency gains and streamline business processes, aligning them with the best industry practices,
- completion of negotiations and execution of an agreement for acquisition of full operating control over Lithuania's AB Geonafra, execution of an agreement with Nordea Bank to extend financing for the transaction,
- continued involvement in financing exploration and production projects on the Norwegian Continental Shelf,
- start of efforts aimed to develop the capability for shale gas exploration in Poland and establish contacts with international operators active in that field,
- start of efforts aimed to secure partners for ventures involving exploration for and development of structures and deposits located within LOTOS Petrobaltic's licences on the Baltic Sea, especially gas structures and deposits,
- execution of an agreement with Bank Pekao S.A. for a credit facility of up to PLN 200 m.

Structure of the Petrobaltic Group December 31st 2010

LOTOS Petrobaltic S.A.



Exploration and production area of LOTOS Petrobaltic

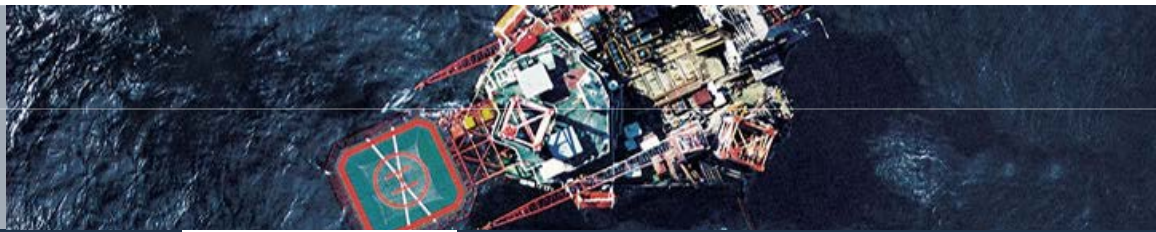
Key achievements in 2010 included:

- maintenance of oil production at the highest possible level – continued work on the B3 field, workover of production wells to sustain planned production rates,
- production and appraisal work carried out as part of the B8 field development,
- further geophysical and re-interpretation work aimed to evaluate the hydrocarbon potential within the acreage covered by licences included in the company's portfolio,
- extension of six licences for exploration and appraisal of oil and gas deposits: Gaz Północ, Łeba, Sambia Wschód, Sambia Zachód, Rozewie and Gotlandia. The scope of geological surveys was revised and six annexes were signed to mining usufruct agreements for the Gaz Południe, Gaz Północ, Łeba, Sambia Wschód, Rozewie and Gotlandia licences, expanding the scope of exploration to cover the Ordovician and Silurian formations, which will allow the company to simultaneously explore for unconventional hydrocarbons.

Exploration and production area of LOTOS E&P Norge

Key achievements in 2010 included:

- continued work on the Yme project – drilling work and installation of submarine equipment was completed, construction of a production platform was continued. In September 2010, the MOPU production platform was hauled from the Abu Dhabi shipyard to the Norwegian Rosenberg shipyard in Stavanger, where another stage of work and preparation to site the platform on the field is being executed. As soon as the shipyard work is over, the platform will be hauled to the Yme field and connected to the production facilities. The timing of the production launch will depend on the weather, as specific sea conditions are required for transporting the platform and connecting it to the field. It is provisionally scheduled that the Yme field will be brought on stream in the third quarter of 2011,
- acquisition of new licences as a result of execution of agreements as part of the APA 2009 Licensing Round:
 - 50% working interest and operatorship of the PL 556 licence,
 - 10% working interest in the PLN 497B licence, created by expanding the scope of existing PL 497 licence,
- submission of an application as part of the APA 2010 Licensing Round and award in January 2011 of a 25% working interest in the PL 503B licence, created by expanding the scope of existing PL 503 licence,
- drilling, analytical and re-interpretation work, as well as in-depth economic analyses, which found the hydrocarbon potential and prospectivity of the exploration licences PL 316CS (20% working interest) and PL 316DS (20% working interest) to be low. As a result, work on the licences was stopped and they were relinquished to the Norwegian government,
- preparation and submission of an application as part of the 21st Licensing Round – its outcome will be announced in the second quarter of 2011,
- execution of a loan agreement with PKO BP S.A. for the amount of USD 65 m.

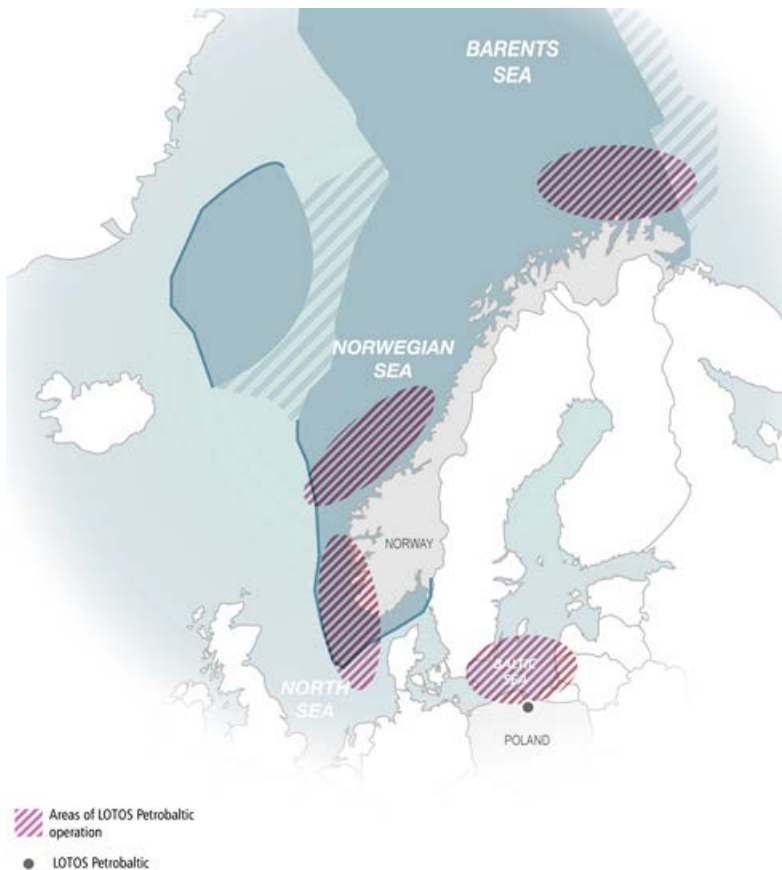


Development plans

Going forward, the objective for the upstream business is to develop international operations and hold a portfolio of assets with diversified risk profiles, comprising fields at various stages of development.

The exploration and production activities of the LOTOS Group will focus both on onshore and offshore areas of the Baltic Sea, the Norwegian Continental Shelf and Lithuania.

Areas covered by the LOTOS Group's operations



Development directions of the exploration and production segment:

Poland – Baltic Sea:

- stabilising the production rate from the B3 field,
- continued development of the B8 field,
- involvement in exploration for oil and gas in onshore Poland, including exploration for unconventional deposits,
- continuation of efforts aimed to secure partners for selected licences to speed up exploration and development under gas licences.

Norway – Norwegian Continental Shelf:

- completion of development and launch of production from the Yme field,
- development of the portfolio of exploration licences.

Lithuania:

- finalisation of the acquisition of control over AB Geonafta,
- business integration of the acquired company.

Remaining areas:

- monitoring projects with a low or moderate risk profile carried out in North Africa, the Caspian Sea basin and Central and Eastern Europe.

Exploration areas

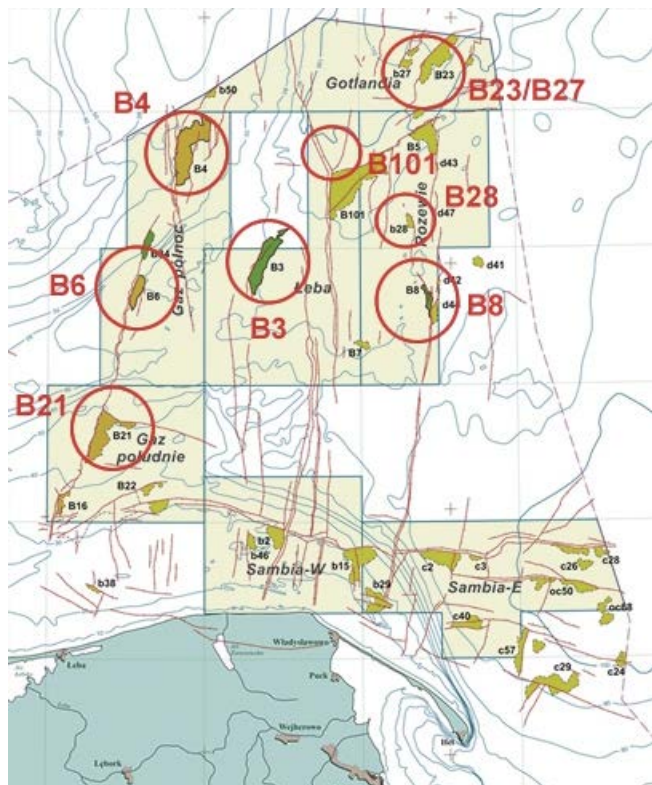
The exploration work on the Baltic Sea and Norwegian Continental Shelf is aimed to make new oil and gas discoveries, which will replace the existing developed and producing fields.

Oil and gas resources owned by the LOTOS Group, based on the Society of Petroleum Engineers/ World Petroleum Council Classification
As at December 31st 2010

Baltic Sea and Norwegian Continental Shelf – total		
Category (*)	oil million tonnes	gas billion m ³
Proved reserves 2P	6.238	0.521
Contingent resources 2C	1.349	6.464

(*) The table does not include prospective resources, potentially discoverable within the exploration licences.

Eight exploration and appraisal licences on the Baltic Sea:



1. GAZ POŁUDNIE (34/2001/p)
2. GAZ PÓLNOC (35/2001/p)
3. GOTLANDIA (36/2001/p)
4. ŁEBA (37/2001/p)
5. ROZEWIE (38/2001/p)

- 6. SAMBIA E (39/2001/p)
- 7. SAMBIA W (40/2001/p)
- 8. WOLIN (41/2001/p)

Four production licences on the Baltic Sea:

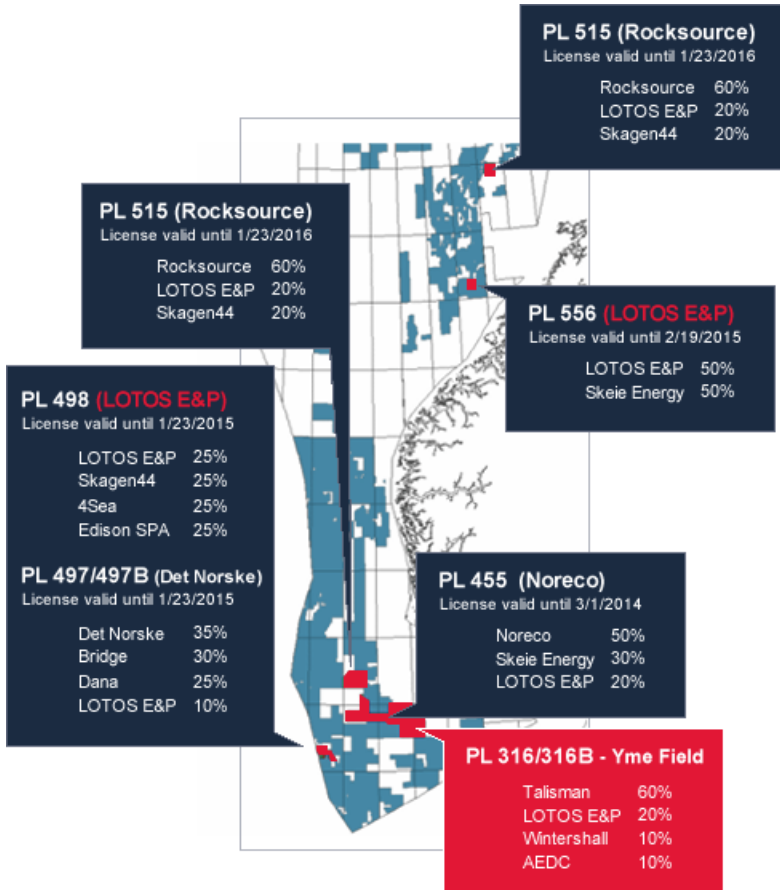
B3 field – recoverable reserves: 5.3 million tonnes; remaining to be recovered: 1.2m tonnes of oil, production licence valid until 2016;

B8 field - recoverable reserves: 3.7 million tonnes, remaining to be recovered: 3.5m tonnes of oil, production licence valid until 2031;

B6 field - recoverable reserves: 1.8 billion cubic metres (not on production), production licence valid until 2032, covers production of natural gas (gas condensate);

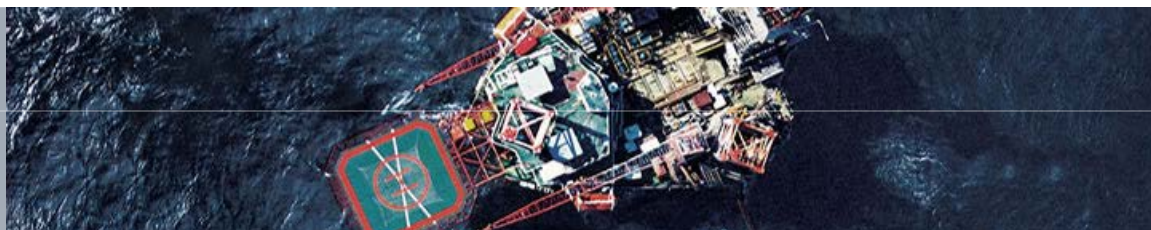
B4 field - recoverable reserves: 2.0 billion cubic metres (not on production), production licence valid until 2032, covers production of natural gas.

Nine exploration licences on the Norwegian Continental Shelf



One production licence on the Norwegian Continental Shelf:

YME field - LOTOS E&P Norge holds a 20% working interest. Recoverable reserves corresponding to the working interest: 1.73 million tonnes (not on production), production licence valid until June 18th 2030.



Operating segment

The 10+ Programme is the largest CAPEX project to have ever been undertaken by the LOTOS Group and one of the largest ever in the Polish industry.

Management approach

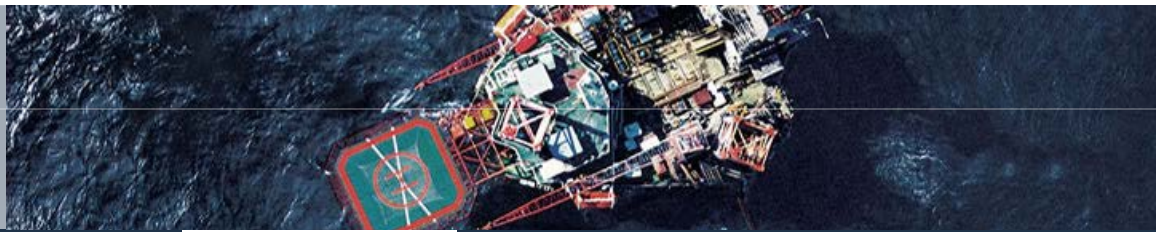
The LOTOS Group's operating segment is focused on carrying out refining operations and supplying the market with high quality products, while making optimum use of its production capacities and mitigating the environment impact.

Overview of achievements

The most important achievements of the LOTOS Group in the operating segment were linked to the completion of the 10+ Programme.

Development plans

The completion of the 10+ Programme does not mean that the Company's operating segment will cease to develop in the years to come. A major challenge for next year will be to maximise the utilisation of operated assets.



Management approach

The LOTOS Group's operating segment is focused on carrying out refining operations and supplying the market with high quality products, while making optimum use of its production capacities and mitigating the environment impact.

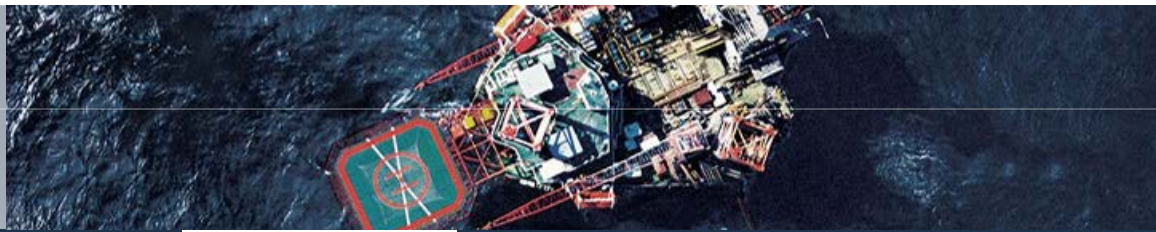
In line with the LOTOS Group's new strategy until 2015, the segment will focus on effective utilisation of the refining capacities expanded as part of the 10+ Programme, further increase of the conversion ratio and optimum exploitation of synergies between the refining and power generation sectors.

The LOTOS Group's strategic objectives for the operating area are:

- to achieve the world-class standards of production and maintain a strong competitive position among European refineries,
- to make optimum use of assets held and acquired as part of its growth strategy,
- to ensure safe and stable operation of the production and ancillary facilities, as measured by the minimum availability of 98% during the year,
- to further increase the conversion ratio and intensify processing.

In order to meet the ever stricter environmental requirements, the LOTOS Group adopts pro-environmental development criteria and the best available techniques, combined with solutions featuring low emissions and high production efficiency. This relates both to the production process itself and its output in the form of environmentally-friendly product streams. The degree to which these objectives are met will be confirmed by an indicator placing Grupa LOTOS among the safest refineries in Europe.

The LOTOS Group's operating segment comprises the operations of the Gdańsk refinery and of subsidiaries involved in production or support functions. These include: LOTOS Czechowice, LOTOS Jasło, LOTOS Serwis, LOTOS Lab and LOTOS Straż. The refinery operated by Grupa LOTOS is the largest of the LOTOS Group's production plants.



Overview of achievements

The most important achievements of the LOTOS Group in the operating segment were linked to the completion of the 10+ Programme.

In 2010, the key tasks of the operating segment included:

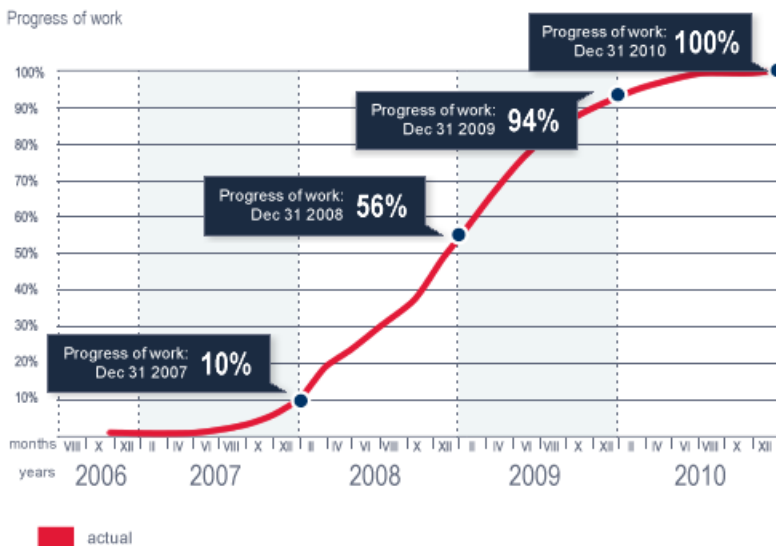
- successful completion of the 10+ Programme,
- optimum use of production assets,
- research and development of new technologies.

The major achievements of the LOTOS Group's operating segment centred around the implementation of the 10+ Programme. In 2010, the Programme entered its final stage, as the construction of all production units was completed. 2010 was also the first year in which the refinery reached its nameplate refining capacities of 10.5 million tonnes, which was related to the launch of the CDU/VDU unit.

10+ Programme

The 10+ Programme is the largest CAPEX project to have ever been undertaken by the LOTOS Group. Its goal was to increase the throughput capacities and depth of conversion of the Gdańsk refinery, and consequently to improve the Company's competitive position. 2010 saw the completion and launch of a number of key units constructed as part of the 10+ Programme. As at the end of December 2010, the progress of work under the 10+ Programme came to 100%, which means that the project was completed within schedule. The scope of engineering, procurement and construction work was completed with respect to all key and ancillary units.

Progress of work under the 10+ Programme



MHC (mild hydrocracking) unit, the largest facility constructed as part of the 10+ Programme, was assigned the RFSU (Ready For Start Up) status on October 10th 2010. On October 27th, feedstock was fed into the unit. The first product streams obtained from this facility in mid-January 2011 were of very high quality, with the conversion ratio – measured as a percentage of the highest value products – standing at 70% (the design conversion ratio is 60%). The main purpose of the MHC unit is to intensify oil processing and obtain a higher yield of top quality fuel components from each barrel of crude, which is a distinguishing parameter of the most advanced refineries in Europe and globally.

The residuum oil supercritical extraction (ROSE) unit, as the last of the 10+ Programme facilities, was assigned the RFSU (Ready For Start Up) on December 31st 2010, in line with the schedule.

Work on the 10+ Programme was executed without major disruptions, while the defined execution risks were kept to a minimum. The work was entrusted to

experienced contractors with sound technical and financial standing, able to execute projects irrespective of changing market conditions. The ongoing financial and economic crisis had no material impact on the implementation of the 10+ Programme.

Progress of work on the individual units of the 10+ Programme in 2010

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1 Nitrogen Production Unit (stage 2)		RFSU		PDU								
2 Upgrade of wastewater treatment plant and tanks for process waste		PDU										
3 HRU (Hydrogen Recovery Unit)			MC, RFSU			PDU						
4 Amine-Sulphur Recovery (ASR) unit – Sulphur Recovery Units (SRU)			PDU									
5 Amine-Sulphur Recovery (ASR) unit – the ARU (Amine Regeneration) and SWS (Sour Water Stripper) Units			PDU									
6 Systemy rurociągów IC - faza III				MC, RFSU								
7 P24 pumping station				MC, RFSU			PDU					
8 Nitrogen Unit (stage 1)				PDU								
9 Steam systems				PDU								
10 Boiler water system				PDU								
11 LPG storage tank (V=1.700m ³)				PDU								
12 Hydrowax pumping station				PDU								
13 Kerosene, light fuel oil and diesel pumps at P20 pumping station					MC	RFSU				PDU		
14 Pipeline to R7 port					PDU							
15 Hydrogen Generation Unit (HGU)					PDU							
16 IHydrocracking Diesel Desulphurisation (HDS) unit												
17 Upgrade of condensate stations 1 and 5					PDU							
18 Pyrolyse gasoline storage tanks (V=2x20.000m ³)					PDU							
19 Upgrade of existing power substations					PDU							
20 Warm cooling water unit						PDU						
21 Fan coolers							PDU					
22 Demi water storage tank							PDU					
23 VR/VGO heavy oil fraction storage tanks (V=4x20.000m ³)							PDU					
24 Amine-Sulphur Recovery (ASR) unit – LPG amine scrubbing unit							PDU					
25 Upgrade of water systems							PDU					
26 Diesel oil storage tanks (V=3x32.000m ³)								PDU				
27 Underground network systems									PDU			
28 MHC										MC, RFSU		
29 S31 station buildings										RFSU		
30 Crude and Vacuum Distillation Unit (CDU/VDU)										PDU		
31 S32/S33/TIR and H2S TIR station buildings										PDU		
32 P3 pumping station (1900-P96B pump)											MC, RFSU	

MC,

33	ROSE unit and ROSE tank	RFSU
34	Road systems and yards	RFSU

MC – Mechanical Completion

RFSU – Ready For Start Up

PDU – Transfer For Use

Other projects

In addition to the 10+ Programme, Grupa LOTOS was implementing other projects designed to enhance the efficiency, safety and technical performance of its assets, while mitigating their environmental impact. The key projects included:

- construction of a railway loading facility: to increase the loading capacities of the refinery operated by Grupa LOTOS. The project's deliverable is a railway loading facility capable of handling up to 2.6 million tonnes of diesel oil per year;
- replacement of existing burners in CHP boilers with low-emission ones: 2009 saw replacement of burners in the first boiler and 2010 – in the second boiler. The project increased the availability of steam used to power production units, in line with the emission caps specified in the Integrated Permit;
- air-tight sealing for tanks of the wastewater treatment plant: to mitigate the odour nuisance. The scope of work included the mounting of roof coverings, as well as the construction and launch of biofilters designed to purify the air coming from covered tanks of the refinery's wastewater treatment plant. Based on operational experience, assumptions were prepared for air-tight sealing for the remaining tanks of the wastewater treatment plant in 2011;
- upgrade of the fuel depots located in Rypin and Piotrków Trybunalski – as part of the project, gasoline vapour recovery units were built at the depots and road tanker loaders were upgraded by equipping them with systems for overfill prevention, monitoring and vapour collection.

Refining

At over 8 million tonnes, the crude throughput volume in 2010 grew substantially relative to previous years. The growth is attributable to the launch in the first quarter of 2010 of a new crude distillation unit with a nameplate annual capacity of 4.5 million tonnes. Taking into account the existing unit, the refinery's nameplate capacities now amount to 10.5 million tonnes of crude oil per year.

However, the relatively low refining margins in 2010 disinclined the Company to maximise crude throughput. The impact of the worldwide economic crisis was still being felt, while some of the units built as part of the 10+ Programme were not yet fully operational in 2010, which affected the efficiency of the refining process. The refinery's work load was being optimised based on market-derived data and for the better part of the year ranged around 23-27 thousand tonnes per day.

The dominant type of crude being processed by Grupa LOTOS was Russian REBCO crude, however it was the processing of other crudes that was intensified. With two independent crude distillation lines, the refinery had more flexibility in selecting crude blends, as a result of which it was able to optimise output. Hence the highest in years share of crudes imported by sea in the refinery's total mix of processed crudes.

The refinery's throughput and production volume

While in 2010, Russian REBCO crude still accounted for the largest share of Grupa LOTOS' total mix of processed crudes, its share was markedly reduced – especially in favour of Troll, Volve and Aasgard – crude types with well proven qualities, produced from North Sea offshore fields. The sources of feedstock were

more broadly diversified, which had an added benefit of significantly enhancing Poland's energy security.

Mix of processed crudes

Apart from crude oil, other production inputs included components and feedstock purchased for further processing, as well as enhancing additives. As a result, the total production volume of the Gdańsk refinery exceeds the volume of processed crude, although in 2010 the gap narrowed compared with 2007–2009. However, fuel components (such as ethanol, ETBE and FAME) and enhancing additives still remain indispensable production inputs.

The increase in the volume of crude processed by the Gdańsk refinery led to a significant reduction of imports of finished diesel oil to Poland. In previous years, Grupa LOTOS imported diesel oils so as to – through higher supply – develop a market for the product, which was introduced in 2010. The result of the 10+ Programme was the replacement of imported diesel oil with diesel output from the Gdańsk refinery.

A major success, related chiefly to the 10+ Programme but also to the ongoing output optimisation, was the maintenance in 2010 of a very high share of diesel oil in the fuel mix produced by Grupa LOTOS. This was accomplished despite the fact that the mild hydrocracking unit, a key one in diesel production, is not yet operating at its full capacity.

Production mix

In 2010, the utilisation rate of the refinery's installed capacities was adjusted to the prevailing market conditions. The greatest success was a record high (105.8%) utilisation rate of the capacity of the refinery's hydrocracker unit, which attests to both its excellent technical condition, as well as high qualifications of the operating staff.

With the start-up of the remaining 10+ Programme units, the refinery's configuration will be complemented, while the bottleneck related to the use of vacuum distillates in the hydrocracking process will be eliminated.

Capacity utilisation

Grupa LOTOS Meets the National Indicative Target

Methyl esters produced by LOTOS Biopaliwa in Czechowice-Dziedzice play an important role in implementation of the National Indicative Target. In 2010, the FAME unit ensure a stable production process, and produced 101.3 thousand tonnes of biocomponents, thus exceeding the project assumptions. The consumption of materials and chemicals, as well as energy consumption, was more advantageous than originally assumed. The quality of FAME produced was markedly higher than the applicable standards. LOTOS Biopaliwa made a registration filing under the REACH Regulation for the produced chemicals, and the chemicals were subsequently registered. This also means that production of FAME in 2011 will not be disrupted, and its volume and efficiency should be on a par with the 2010 level.

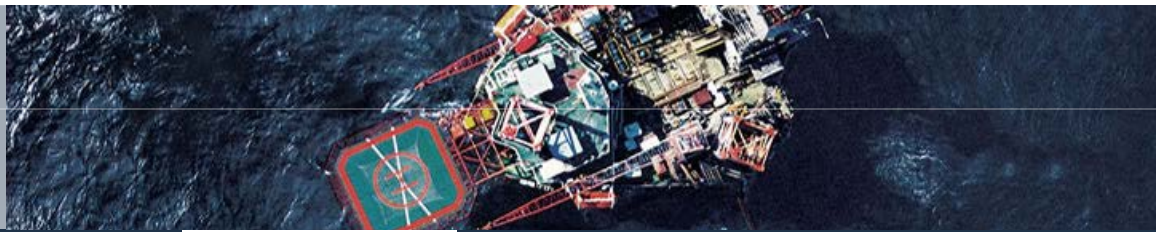
Research and Development

Following the launch of the Crude and Vacuum Distillation Unit (CDU/VDU) built under the 10+ Programme, in 2010 Grupa LOTOS started to produce and market a new product – naphtha. Additionally, the Company's R&D efforts focused on developing technologies for production of speciality products, based on further conversion of feedstock from the oil unit. The key R&D achievements in 2010 included:

- launch of the commercial production and sale of reduced-toxicity oil plasticizer for use in caoutchouc and rubber products, QUANTILUS T50. The new plasticizer type is a TDAE (treated distillate aromatic extract) plasticizer which meets the EU requirements for plasticizers used in the tyre industry, effective from January 1st 2010,
- launch of the production and sale of low-oil paraffin 64/25/0.5 as the main component for paraffin products (waxes),
- production and sale of the first batch of Ceresine as a component for production of white ceresine meeting the requirements set by the American Food and Drug Administration (FDA),
- launch of the sale of Filtrates made of medium and heavy slack wax, used as inputs for production of paraffin emulsions and anti-caking agents for artificial fertilisers. They are also used as impregnation agents for chipboard and kindling,
- launch of the sale of V1500 Bitumen used in production of various aggregate and bitumen mixtures,
- launch of the sale of 50 SDA Bitumen used for bitumen production based on air oxidation or blending.

In 2010, development work also focused on oil products produced by LOTOS Oil. The most important R&D activities related to lubricants included:

- commencement of research into ways of improving the quality of oils for passenger cars, in reliance on the Company's own base oils – the research is scheduled to be completed in 2011,
- introduction of ten new types of engine oils (including LOTOS Quazar C-4, LOTOS Quazar S, LOTOS Quazar K, LOTOS Traffic PRO 025A/B, LOTOS Traffic PRO 505.01),
- extension of 42 Approvals for lubricants,
- obtaining 6 Approvals for new oils.



Development plans

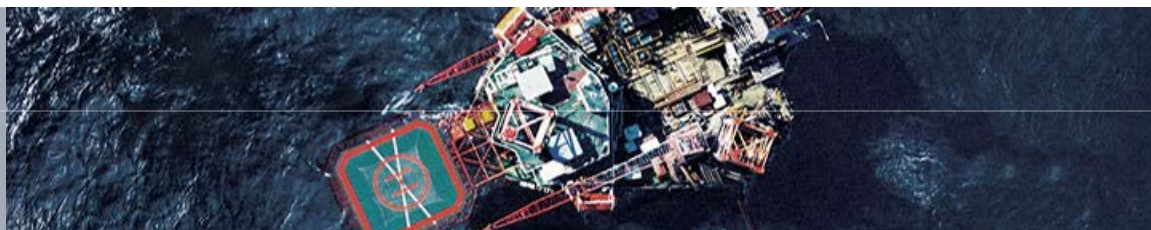
The completion of the 10+ Programme does not mean that the Company's operating segment will cease to develop in the years to come. A major challenge for next year will be to maximise the utilisation of operated assets.

The newly built units offer huge potential capacities, while increasing the refinery's flexibility. Ongoing output optimisation is becoming an issue of ever greater importance.

In order to better control the production flows, there are plans to deploy in 2011 a system for detailed scheduling of the refining process. It will allow Grupa LOTOS to monitor the implementation of its production plans on an ongoing basis and identify any deviations in time to take effective corrective measures.

- The Company is also engaged in investment activities. A number of projects are undertaken to increase the refinery's flexibility, achieve efficiency gains and mitigate the environmental impact of the refining process. The key projects scheduled for 2011 include:
- construction of xylene separation and reformate splitter unit: separation of xylene fraction from reformate will reduce the share of noxious aromatics in engine gasolines blended at the refinery, in line with prescribed standards and environmental protection trends. Sales of xylene will complement or replace sales of reformate, which is the current method of reducing the share of noxious aromatics in gasoline products,
- upgrade of the furfural extraction unit: the project is designed to increase the unit's capacity, thus increasing the availability of the TDAE plasticizer and reducing the unit's energy intensity. The project will include addition of a third stage of furfural regeneration and modification of the process furnace system,
- replacement of furnaces at the light distillate hydrorefining unit: the project is designed to replace obsolete, heavily depreciated, furnaces, which will improve the unit's energy efficiency and safety,
- extension of a high pressure gas pipeline to connect it to the refinery: the project is designed to connect the refinery facilities with the high pressure gas grid and use gas as a component for hydrogen generation and a fuel for the refinery's fuel gas network. The use of natural gas will significantly reduce atmospheric emissions of CO₂,
- construction of a flare gas recovery unit designed to reduce atmospheric emissions of pollutants and the plant's energy intensity. The project will involve the construction of a unit diverting gas which was burned in the flares from the discharge pipeline. The gas will be directed to fuel the process furnaces,
- air-tight sealing for tanks of the wastewater treatment plant – stage 2: the project, which is the continuation of the project executed in 2009-2010, is designed to mitigate the odour nuisance by sealing the air space of open tanks of the wastewater treatment plant and utilisation of degassing products on biofilters.

Work is also under way to define the scope of further expansion of the Gdańsk refinery, which is to involve the addition of a heavy residue gasification unit.



Market activities

In the Most Valuable Polish Brands ranking published by the *Rzeczpospolita* daily, the value of the LOTOS brand was estimated at PLN 675m in 2010 - an increase of 9.8% as compared to 2009.

Management approach

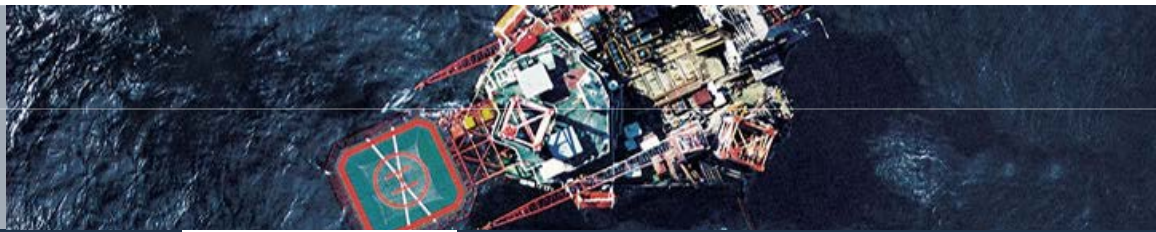
Marketing activities are carried out by the LOTOS Group's parent company – Grupa LOTOS, as well as subsidiaries: LOTOS Paliwa, LOTOS Tank, LOTOS Oil, LOTOS Asphalt, LOTOS Parafiny and LOTOS Kolej.

Overview of achievements

In 2010, Grupa LOTOS solidified its market position and reputation as a stable and reliable business partner, offering products of the highest quality.

Development plans

The development plans for the marketing segment in 2011 are focused around the segment-related objectives set out in the corporate strategy for 2011–2015.



Management approach

Marketing activities are carried out by the LOTOS Group's parent company – Grupa LOTOS, as well as subsidiaries: LOTOS Paliwa, LOTOS Tank, LOTOS Oil, LOTOS Asphalt, LOTOS Parafiny and LOTOS Kolej.

In 2010, functions in the marketing area were allocated as follows:

- The sales force located at Grupa LOTOS was responsible for sales of engine fuels to international companies, sales of aviation fuels, exports and intra-Community supplies of petroleum products, as well as purchases of feedstock, production inputs and goods for resale.
- The business of LOTOS Paliwa was the retail sale and wholesale of engine fuels and liquefied petroleum gas (LPG) on the domestic market.
- LOTOS Tank was engaged in the sale of aviation fuels on the domestic market.
- The business scope of LOTOS Oil included the production and distribution of lubricants: finished oils, automotive and industrial lubricants, as well as trade in base oils produced by Grupa LOTOS. Additionally, the company sold car-care products – automotive fluids – and expanded its offering to include plasticizer products (TDAE).
- LOTOS Asphalt produced and sold road and industrial bitumens, emulsions and binders, trading also in heavy fuel oil.
- The business of LOTOS Parafiny was the production and sale of high-quality paraffin and a wide range of paraffin mass and paraffin articles for the retail market.
- LOTOS Kolej organised and provided railway transport services to companies of the LOTOS Group and to third parties (mainly transport of petroleum products).

In line with its new strategy, the LOTOS Group's efforts in the marketing area will focus on further development of the sales force, based on the expanded distribution network and efficient product logistics, as well as rapid development of the trading business in the area of crude oil and petroleum products.

The specific objectives set for the individual areas of the marketing segment are as follows:

Fuels

The objective is to maximise the economic effect by flexibly controlling the product flows and further strengthening the market position:

- to uphold a 30% share in the domestic fuel market,
- to achieve sales exceeding the Gdańsk refinery's fuel production capacities by 15%.

Chain of petrol stations

The objective is to continue to rapidly develop the nationwide chain of LOTOS petrol stations, as a fully controlled and highly effective distribution channel by:

- securing a 10% share in the domestic retail market by the end of the time horizon covered by the strategy,
- expanding the chain of petrol stations and enhancing sales through the existing chain.

Other petroleum products

In the category of lubricating oils, the objective is to retain the lead of the Polish market, while in other product categories – to achieve the optimum economic effect by leveraging the available resources and market conditions.

Supply chain optimisation

In order to maximise its integrated margin, the LOTOS Group will focus on making optimum use of its assets and coordinating the key areas of the supply chain: planning, procurement, production and distribution.

Crude oil supplies

Thanks to its newly expanded processing capacities, the LOTOS Group will continue its policy aimed to diversify the routes and sources of crude oil supplies by:

- maintaining access to the sources of crude oil supplied via pipelines and by sea,
- flexibly selecting the types and routes of crude oil supplies, so as to maximise the integrated margin,
- intensifying its presence on the international oil market,
- increasing the share of its own production in crude oil supplies.



Overview of achievements

In 2010, Grupa LOTOS solidified its market position and reputation as a stable and reliable business partner, offering products of the highest quality.

A key element of the Company's market offering is service quality, understood not only in terms of basic parameters, such as uninterrupted supplies and adequate logistic infrastructure, but also as openness to novel solutions designed to facilitate mutual cooperation and settlement of accounts (e.g. electronic transfer of data, e-invoices). Another vital element of the Company's offering is the ability to deliver products tailor-made to meet specific requirements.

In 2010, the LOTOS Group achieved a 31.3% share in the Polish fuel market, the target planned in the LOTOS Group's strategy to be achieved only in 2012. In line with the new strategy for the years 2011–2015, unveiled in November 2010, this market share is to be upheld in the coming years.

Share of the LOTOS Group in the fuel market (%)

In 2010, the LOTOS Group's total sales volume amounted to 8.8 million tonnes on a consolidated basis, having grown 16% on the previous year. The major contributor to the increase were higher sales of diesel and heavy fuel oils. As the successive units constructed as part of the 10+ Programme were being launched, the volume and structure of Grupa LOTOS' turnover on the international markets was also changing. The more crude oil was being processed, the higher was the output of petroleum products for domestic and export sale. For instance, an increase was recorded in exports of engine gasolines, reformat and heavy fuel oil. In July 2010, export sales of naphtha – a new product in the LOTOS Group's portfolio – were launched.

LOTOS Group's sales (tonnes)

Source: LOTOS Group

Sales of engine fuels

In 2010, engine fuels were sold mainly on the Polish market to retail customers, foreign companies, institutions and petrol station operators.

The total volume of engine gasolines sold was 11% higher than a year before. Domestic sales of Grupa LOTOS' gasoline remained on a par with the 2009 level, which means that the market for the product was quite stable. Exports of engine gasolines grew 75% year on year, and were transported by sea to the UK, Swedish and Dutch markets.

LOTOS Group's sales – gasolines (tonnes)

Source: LOTOS Group

In 2010, a 2% year-on-year rise was recorded in sales of premium LOTOS Dynamic 98 gasolines.

Sales of LOTOS Dynamic 98 (tonnes)

Source: LOTOS Group

() In 2007, sales of LOTOS Dynamic 98 were only launched in October.*

In 2010, there was a nearly 10% growth in total sales of diesel oil relative to the previous year. This level of growth is mainly attributable to domestic sales of the product.

LOTOS Group's sales – diesel oils (tonnes)

Source: LOTOS Group

In the category of diesel oils, in addition to standard fuels for diesel engines, which are highly valued by operators of delivery vehicle and lorry fleets, another important product was the LOTOS Dynamic Diesel premium fuel. In 2010, its sales rose by 23% year over year.

Sales of LOTOS Dynamic Diesel (tonnes)

Source: LOTOS Group

() In 2007, sales of LOTOS Dynamic Diesel were only launched in October.*

Sales of light fuel oil¹

2010 brought an 18% year-on-year increase in sales of light fuel oil produced by the LOTOS Group. Sales better than initial expectations resulted from higher demand for the product as the heating season – due to the long and harsh winter – was prolonged.

LOTOS Group's sales – light fuel oil (tonnes)

Source: LOTOS Group

¹ Since November 2010, the product has been classified as diesel oil for heating purposes.

Sales of aviation fuels

The total volume of JET aviation fuel sold by the LOTOS Group fell in 2010 by 31% from the previous year's level. The decline was caused by lower sales on the Polish market and in seaborne export. In the domestic market, the decrease was the effect of lower demand for Grupa LOTOS' aviation fuel from Poland's key player on that market.

Seaborne exports were sent to Sweden, Finland and Denmark. As for export by land, in 2010 two new customers for aviation fuel were acquired on the Czech market, which translated into a 77% year-on-year rise in sales through that channel.

LOTOS Group's sales – aviation fuel (tonnes)

Source: LOTOS Group

Sales of engine, industrial and process oils

In 2010, a 17% increase was reported in total sales of lubricating and process oils on a year-on-year basis, of which the domestic volume remained basically flat, whereas export sales surged by 56%. The rise in total sales was driven largely by higher sales of process oils.

2010 was another year of slackening consumption of industrial oils in the wake of the crisis. While businesses were slowly rebuilding their production capacities, purchases of lubricants – a material cost item - were kept at a level lower than before 2009. Concurrently, increased market interest in innovative industrial products was recorded.

On the market of engine oils, interest in one-season mineral oils weakened further, chiefly on the back of modernisation of the agricultural machinery base. Similarly in the automotive market, a shift of demand from mineral engine oils to semi-synthetic or synthetic oils was seen. As the leader of the mineral oils segment, LOTOS Oil was hit the hardest by the falling demand for that product category. By adding LOTOS Quazar oils to its offering and focusing on sales of semi-synthetic and synthetic products, the Company is seeking to steadily increase its share in the market for those products.

LOTOS Group's sales – lubricating and process oils (tonnes)

Source: LOTOS Group

Sales of bitumens

Relative to 2009, 2010 saw a 5% growth in total sales of bitumens, driven by the launch of regular seaborne sales, which led to a nearly 50% growth in exports on a year-on-year basis. Bitumens were exported to such countries as Romania, the Baltic States, Nordic countries, Switzerland and the Czech Republic. Lower domestic demand for bitumens, due principally to the long and harsh winter followed by floods, pushed down sales by 8% year on year. It should be noted that in September 2010 demand for bitumens began to grow at a brisker rate, as road contracts planned under the National Roads Construction Programme were started.

LOTOS Group's sales – bitumens (tonnes)

Source: LOTOS Group

In 2010, sales of modified bitumens remained flat relative to the year before.

LOTOS Group's sales – modified bitumens (tonnes)

Source: LOTOS Group

Sales of heavy fuel oil

In 2010, total sales of Grupa LOTOS' heavy fuel oil surged 137% relative to the previous year, with domestic sales staying largely flat compared with 2009. As the units built under the 10+ Programme were being launched and the product yield grew, the Company needed to secure markets for those products with a favourable relationship between demand and prices. Consequently, in addition to the existing foreign markets, such as the Netherlands or Sweden, sales of

heavy fuel oil were also launched on markets outside Europe.

LOTOS Group's sales – heavy fuel oil (tonnes)

Source: LOTOS Group

Sales of paraffin

In 2010, total sales of paraffin remained unchanged compared with the previous year. Candle paraffin was sold mainly domestically, to leading manufacturers of candles and votive candles. Additionally, cooperation was developed with manufacturers of artificial fertilisers, wood-based products, paints and varnishes, rubber and building materials. The main export markets were Germany, the Netherlands and Slovenia.

LOTOS Group's sales – paraffin (tonnes)

Source: LOTOS Group

Development of the chain of petrol stations

The share of Grupa LOTOS in the retail fuel market in 2010 stood at 7.3%. As at the end of 2010, the chain of LOTOS petrol stations comprised 324 outlets, including:

- 154 own stations,
- 109 partner stations, and
- 61 patronage stations.

Number of LOTOS petrol stations

The aggregate number of own and partner stations rose by 21 relative to 2009. Within the chain of own stations, six new Motorway Service Areas were opened in 2010 – two pairs on the A4 motorway (Rachowice – Kozłów and Witowice – Oleśnica) and one pair at the Police- Łęka interchange on the A2 motorway.

The range of products available through the LOTOS petrol stations included both standard and premium (LOTOS Dynamic) fuels. Sales through own and partner stations grew by 17% year over year.

Sales of LOTOS Dynamic fuels through own stations (tonnes)

Source: LOTOS Group

In addition to fuels, LOTOS petrol stations sell a wide range of products typically offered by convenience-style shops – small retail outlets offering mainly groceries, confectionaries, beverages and other consumer staples such as newspapers and magazines, cigarettes, batteries, etc. Some stations have dedicated food service areas where snacks and refreshments may be bought. The offering is complemented by additional services, such as car wash or compressor services.

The Company's priority objective is to develop the chain of own stations. The target number of own stations which Grupa LOTOS plans to achieve is supposed to allow it to effectively run and develop customer loyalty schemes, intended to boost sales.

In 2011, the Company will resume plans to work towards entering the segment of low-cost stations. This should allow it to effectively acquire potential locations in areas with relatively lower purchasing power.

Plans also include further, gradual withdrawal from the patronage stations channel, assuming that cooperation with selected stations would be carried on under the partner stations formula.

Logistics

One of the logistics function's primary goals, both in 2010 and in subsequent years, is to develop a flexible system to accommodate changing needs in the area of sales and production. The logistics function's success is measured as a level of support it is able to provide for the Company's commercial activities, taking into account the seasonal nature of petroleum product sales, and the ability to flexibly respond to an unforeseen rise or fall in sales.

In 2010, Grupa LOTOS focused its efforts on adapting the logistics system so that it could handle the distribution of new products obtained following the completion of the 10+ Programme, the creation and replenishment of substantial amounts of mandatory stocks, as well as projects aimed to expand the handling capacities of its fuel depots. The Company completed the upgrade of two depots, as part of which the fuels handling technology was adapted to meet the latest

requirements.

Following the refinery's expansion as part of the 10+ Programme and the significant increase in fuel sales, the Company needed to increase the level of inventories and feedstock, which required adjustment of inventory levels to both current and future needs.

The network of depots used in 2010 was being optimised on an ongoing basis. The number of third-party depots, fuel volumes and fuel types distributed by independent operators were regularly adjusted to account for market needs and newly secured sources of supplies. Work was undertaken to control and minimise losses throughout the supply chain. A plan of mandatory stock turnover was implemented with a view to replenishing mandatory stocks in the most cost-effective way. Work on those projects is expected to be continued in the coming years.

In 2010, efforts were also made to identify potential synergies within the LOTOS Group in the logistics area, which would enable economies of scale to be achieved with respect to transport and storage.

Rail transport

In order to ensure highly effective use of their assets, as well as economically efficient, smooth and secure distribution of their products, the LOTOS Group companies commission rail transport services from a subsidiary, LOTOS Kolej.

Apart from the provision of services to other members of the LOTOS Group, the strategic objective of LOTOS Kolej is to diversify its revenue structure into internal and external sources of income. The minimum target share of external customers for rail transport services has been set at 10% (in 2010, the figure was 26%).

LOTOS Kolej offers its customers a comprehensive portfolio of services, which combines freight transportation (petroleum and chemical products, and intermodal transportation services), lease of freight cars, and rail siding management services in Gdańsk, Czechowice, Jasło and at the Rypin storage depot. This model guarantees low costs and high service quality.

LOTOS Kolej ranks third among the leading freight rail carriers in Poland (second among private carriers). According to the data of the Polish Rail Transportation Authority from December, after the first three quarters of 2010, the company's share in the domestic market for intermodal freight transportation services was 22% (as measured by freight activity).

Share in the domestic freight transportation market (January–September 2010)

Source: In-house figures based on the data published in the trade monthly Rynek kolejowy (issue 1/2011).

Key freight transportation routes operated by LOTOS Kolej in 2010

Source: In-house figures based on the data sourced from the LOTOS Group



Key transportation routes

- Zduńska Wola Karsznice
- Tarnowskie Góry
- Gniezno
- Emilianów

Key international freight transportation routes operated by LOTOS Kolej in 2010

Source: In-house figures based on the data sourced from the LOTOS Group



Freight volumes of LOTOS Kolej (thousand tonnes)

Source: LOTOS Group

Sea transport

Freight transport by sea is a vital element of Grupa LOTOS' logistics chain. The Company enjoys a considerable market advantage offered by the direct access to product pipelines linking the Gdańsk refinery to the liquid fuel handling facilities at Port Północny. In 2010, nearly 300 tankers docked at the Naftoport, Port Północny and Siarkopol terminals to unload crude oil, petroleum products and biocomponents, and to load petroleum products from Grupa LOTOS intended for exports. A major year-on-year rise in the number of ships handled at the facilities was caused by stronger export sales driven by the projects implemented as part of the 10+ Programme.

The liquid fuel handling terminal operated by Naftoport handles tankers with maximum draught of 15 metres and the capacity to load up to 150 thousand tonnes of crude oil or petroleum products. This allows Grupa LOTOS to export the surplus products and sell them on the markets in Scandinavia and Northern and Western Europe. The direct connection to the port also makes it easier to arrange for and carry out import deliveries of petroleum products, including diesel oils and the light fuel oil component.

Grupa LOTOS is in an advantageous position of having a refinery in a short distance from a cargo handling terminal, which allows it to diversify the sources of supply and facilitates the shipping of crude oil from the Company's own reserves under the Baltic Sea and, in the near future, crude oil produced from the reserves under the North Sea.

Grupa LOTOS is consistent in its efforts to take over the management of cargo transportation by sea. Apart from ensuring greater control, this would help streamline the planning process as regards cargo handling at ports and also reduce the frequency and costs of ship detention.

LOTOS brand

Building a strong brand and a distinctive brand image is a key theme of the LOTOS Group's strategic assumptions for 2011–2015 and development directions until 2020.

The corporate brand strategy is consistent with Grupa LOTOS' business strategy, with all individual product brands being subordinated to it. Our strategic goal is to enhance the brand value by building the image of:

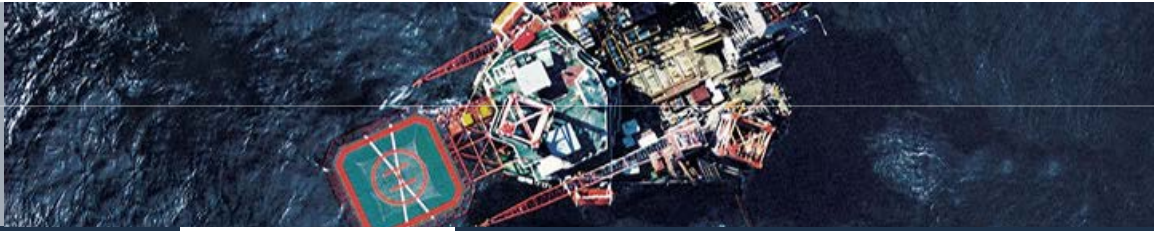
- a brand relying on the key values: modernity, development and partnership,
- a brand with international presence,
- a brand which stands for top quality products,
- a socially responsible brand.

Efforts have been undertaken to increase the LOTOS brand awareness and to position the Company as an organisation recognised for its professional management style which builds on quality, innovation, environmental awareness and security.

In the 7th edition of the Most Value Polish Brands Ranking published by the Rzeczpospolita daily in December 2010, the value of LOTOS brand was estimated at PLN 675m, which was 9.8% more than a year earlier. A consistent and dynamic upward trend in the brand value has prevailed since the first valuation was performed.

Value of the LOTOS brand (million PLN)

Source: Rzeczpospolita daily, December 2010



Development plans

The development plans for the marketing segment in 2011 are focused around the segment-related objectives set out in the corporate strategy for 2011–2015.

Engine fuels

The year 2011 will see further increase in sales volumes. Grupa LOTOS intends to maintain cooperation with international operators and considers the possibility of establishing business relations with hypermarket chains to become their fuel supplier. The Company will also continue to actively cooperate with wholesalers.

Expansion of the chain of petrol stations

In 2011, LOTOS Paliwa is set to continue efforts aimed at pursuing the strategic objectives of the LOTOS Group in the retail segment. Key goals to be achieved in this area include:

- launch of new own and patron stations,
- promotion of the premium fuels LOTOS Dynamic 98 and LOTOS Dynamic Diesel,
- extension of the LOTOS Biznes fleet programme,
- consistent improvement and monitoring of customer service,
- further phase-out of patronage station model, assuming continued cooperation with selected stations under the partner formula,
- a uniform interior design, launch of coffee stalls, and expanded food and drink offering.

Jet fuel

Grupa LOTOS plans to reinforce its jet fuel sales efforts to win new and strengthen relations with the existing customers. As regards airport sales, in 2011 LOTOS Tank aims to implement a CAPEX project at the Warszawa Okęcie airport, to launch projects at other airports, and to further consolidate its position at the Gdańsk Airport.

Lubricants

In the coming year, LOTOS Oil will focus on two major tasks: intensifying its marketing activities as well as building and strengthening the LOTOS brand. In addition, the company will continue to be actively involved in the efforts undertaken by the corporate sales forces and Authorised Distributors, particularly those targeted at garages, motor oil changing stations, and automotive chains (service stations, garages, KIA Motors Polska, Subaru Import Polska and other strategic partners).

Bitumens

In 2011, process-optimising efforts will be undertaken in the areas of marketing, production and logistics, particularly with respect to cost base, product availability and bitumen technologies.

Paraffin

LOTOS Parafiny aims to pursue an active sales policy, focused on building a market for high-margin products, such as specialty waxes, paraffin emulsions and anti-caking agents. Also, work continues on new products for industrial applications. The company plans to forge cooperation with business partners from the artificial fertiliser, wood processing, paint and varnish manufacturing, building materials manufacturing, and rubber industries.

Logistics

Key tasks in the area of logists include:

- consistent customer service improvement efforts,
- further integration of primary and secondary logistics,
- securing tank capacities necessary to meet the statutory requirements on mandatory stocks and ensure security of product distribution at the LOTOS Group, and
- efforts aimed at ensuring the overall security of product sales (including Health Safety Security Environment).

LOTOS Kolej will concentrate on securing resources necessary to handle the increased freight activity of the LOTOS Group companies and on developing its international freight transport operations.



Sustainability

Mission, vision, values

We declare the intention to pursue strategic goals in compliance with corporate social responsibility principles. Our commitment towards local communities and the environment is to ensure that no social or environmental damage is caused by our activities.

People

The strategy which aims to transform the human resources into the capital of the Company addresses the need to adjust the qualitative and quantitative employee structure to the fast-changing market environment, modify the internal labour market, and reward excellent employee performance with a variety of incentive mechanisms.

Environment

The environmental policy of the LOTOS Group is oriented towards a steady reduction of consumption of utilities and raw materials, reduction of pollutant emissions, waste management and security of industrial processes so as to effectively prevent failures.



Mission, vision, values

The core values of corporate social responsibility of the LOTOS Group are transparency, openness, innovativeness and responsibility.

Our mission is to pursue innovation-oriented sustainable development in the areas of exploration, production and processing of hydrocarbons and marketing of high- quality products, which is conducive to creating lasting value for shareholders, fully meeting customer expectations, enhancing and leveraging the employee potential, and which is carried out in compliance with the energy security policy, with due regard paid to the welfare of local communities and the natural environment.

We hope to emerge as the most reputable oil company in the Baltic Sea region, widely recognised for:

- high-quality petroleum products,
- best-quality customer service, and
- professional management style.

The overriding strategic objective pursued by the LOTOS Group is to create value for shareholders through optimised utilisation of human and material resources and implementation of development programmes in the field of:

- exploration and production,
- crude processing,
- marketing.

We declare the intention to pursue strategic goals in compliance with corporate social responsibility principles. Our commitment towards local communities and the environment is to ensure that no social or environmental damage is caused by our activities. We also assume responsibility for our products towards the government, market participants, business partners, customers and employees. This sense of responsibility is inherent in our corporate management strategy.

In all areas of our activity, we endorse and abide by the ten Principles of the UN Global Compact, a voluntary international corporate citizenship initiative of unprecedented reach. As the initiative's participant, the Company has committed to:

1. support and respect the protection of internationally proclaimed human rights,
2. make sure that it is not complicit in human rights abuses,
3. uphold the freedom of association,
4. eliminate all forms of forced or compulsory labour,
5. support the effective abolition of child labour,
6. effectively eliminate discrimination in respect of employment and occupation,
7. support a precautionary approach to environmental challenges,
8. undertake initiatives to promote greater environmental responsibility,
9. encourage the development and diffusion of environmentally-friendly technologies,
10. work against corruption in all its forms, including extortion and bribery.

The scope and implementation of our CSR commitments are presented in the consolidated non-financial statement, which for the second consecutive time forms a part of the Company's annual report.

The core values of corporate social responsibility have much in common with the needs, concerns and challenges we managed to identify through a dialogue with key stakeholders who have the power to influence our current and future activities:



TRANSPARENCY

stands for compliance with the most exacting environmental standards, commitment to ethical and fair competition, and counteracting human rights abuses.



OPENNESS

stands for the right attitude towards change, external needs and expectations, future-oriented approach, and dynamic growth on the domestic market and beyond.



INNOVATIVENESS

stands for appreciation of intellectual capital and recognition of skills and competencies offered by the employees, who are the driving power of our brand's success, and by members of local communities.



RESPONSIBILITY

stands for the right attitude towards mankind and its future, the environment, our home country and its security at an international level.

Our CSR efforts are focused around four major stakeholder groups:

internal environment: employees, subsidiaries, and the unions,

market environment: foreign and domestic counterparties, business partners, subcontractors, trade organisations, certification and licensing authorities, and peer companies,

social environment: shareholders, investors, local communities, government agencies, non-governmental organisations, consumers and consumer protection organisations, customers, employer organisations and the media,

natural environment: the biosphere, environmental organisations, and inhabitants residing in the vicinity of our production facilities and petrol stations.



People

The LOTOS Group conducts its pro-social activities in line with the mission and development strategy of the Company.

THE FIRST PILLAR OF THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY STRATEGY

PEOPLE = SOCIAL RESPONSIBILITY

task = to create social values

working conditions, diversity, human rights, preventing exclusion

Employees

The management of the LOTOS Group strives to build responsible relations with its employees through its recruitment policies, work relations, ensuring safety of the employees and developing the social dialogue within the LOTOS Group.

Society

Open relations with its social environment which are built on confidence and cooperation constitute an important value for the LOTOS Group. We have a significant non-economic influence on the society. The completion of the 10+ Programme serves as a clear proof for it. For years, the LOTOS Group has also invested in comprehensive projects aimed at counteracting social problems in its environment such as increasing traffic safety and protecting endangered species as well as in long-term sporting education programmes for children and youths.

Employees

The management of the LOTOS Group strives to build responsible relations with its employees through its recruitment policies, work relations, ensuring safety of the employees and developing the social dialogue within the LOTOS Group.

Grupa LOTOS observes the principles of corporate social responsibility in every area of its activity. This is also true about its comprehensive strategy-driven HR policy. The strategy which aims to transform the available human resources into the intellectual capital of the Company addresses the need to adjust the qualitative and quantitative employee structure to the fast-changing market environment, modify the internal labour market, and reward excellent employee performance with a variety of incentive mechanisms.

Headcount at LOTOS Group

Company	Dec 31 2008	Dec 31 2009	Dec 31 2010
Parent			
Grupa LOTOS	1,246	1,305	1,310
Direct subsidiaries			
LOTOS Petrobaltic	446	421	431
LOTOS Norge	12	13	17
LOTOS Czechowice and subsidiaries	268	250	240
LOTOS Jasło and subsidiaries	179	152	104
LOTOS Serwis	734	725	711
LOTOS Lab	168	153	153
LOTOS Straż	72	76	86
LOTOS Ochrona	176	194	159
LOTOS Park Technologiczny	31	15	1
LOTOS Paliwa	244	261	261
LOTOS Oil	327	331	341
LOTOS Asfalt	214	249	290
LOTOS Gaz	82	28	5
LOTOS Parafiny	279	274	259
LOTOS Kolej	407	504	582
LOTOS Tank	12	16	18
UAB LOTOS Baltija	8	6	7
Energobaltic	b.d.	b.d.	35
Total	4,878	4,949	5,010

The key goals of our HR policy are to:

- ensure efficient deployment and utilisation of human resources across the LOTOS Group,
- create a work environment conducive to delivering expected results – improvements in corporate culture (change of employee conduct, increased motivation and dedication, team work, enhanced communication) and ensuring greater sense of job security (medical insurance

packages, employee benefits, an investment and pension benefits fund, etc.),

- harness the maximum potential from the employees,
- refine the periodic performance evaluation system by adding a goal setting and development-oriented task assigning mechanism,
- create conditions conducive to effective development and practical application of the acquired skills and competencies (the LOTOS Academy training and development scheme),
- enhance the existing incentive tools – linking financial and non-financial incentives to employee performance, and
- implement employee surveys.

It is the underlying assumption of the HR management strategy to treat employees as our most valuable asset.

Remuneration policy

The Company has an up-to-date and transparent remuneration system in place. Its key component is the base salary determined on the basis of national payroll reports compiled by professional HR consultancies. Base salaries received by the employees of Grupa LOTOS and its subsidiaries have risen by 2% since January 2010. In addition to the base pay, employees may also receive annual bonuses, special bonuses, length-of-services awards, and severance pays on retirement due to old age or disability. They are also eligible for the company social benefits fund. A new component was added to the remuneration system in 2010 – a quarterly incentive bonus allocated per organisational unit. Its amount can range from 3% to 10% of total base salaries payable to the unit employees. The incentive bonus is a discretionary component of the remuneration package and all supervisors (masters, foremen and team leaders) participate in the bonus award process.

The employee remuneration policy, set out in the Grupa LOTOS Employee Collective Bargaining Agreement, has been in force and effect since April 20th 2005 and provides for the following remuneration constituents:

- monthly base salary,
- allowances payable under the labour law (night duty allowance, holiday pay, and overtime allowance),
- annual bonus of up to 10% of the annual remuneration, paid in the first half of the ensuing year, provided that corporate performance targets (such as revenues or net profit) are achieved,
- quarterly incentive bonus allocated per organisational unit whose amount ranges from 3% to 10% of total quarterly base salaries.

In addition, the Company sets aside a pool of special bonuses, paid as reward for excellent individual performance, work on project teams or extra effort.

Apart from the standard remuneration package, the employees are entitled to receive the following:

- length-of-service award paid at five-year intervals after 15 years of service,
- one-off severance pay received on retirement due to old age or disability, which is disbursed on the employment contract termination date.

It is the Company's aim to ensure that the remuneration paid is market-competitive and attractive for the employees. For each position, a market median has been set as a target against which the remuneration should be benchmarked. The medians were computed based on the data furnished by external HR consultancies.

Twice a year, base salary levels are compared against the pre-determined market medians and raised by the supervisors as appropriate. In 2010, this benchmarking procedure was combined with the periodic remuneration review provided for in the Collective Bargaining Agreement. Hence, the benchmark pay adjustments coincided with by pay increases awarded to employees recognised for outstanding performance.

Social benefits scheme

The employees are eligible to participate in the company social benefits fund on the terms defined in the Rules of Participation in the Company Social Benefits Fund.

Grupa LOTOS and the subsidiaries covered by the common social policy arrangements have increased the base contribution to the company social benefits fund provided for in the Act of March 4 1994 to 100% of the average monthly salary in Poland per each employee and to 6.25% of the average monthly salary per each retiree. This led to achieving an almost 100% performance on the management- and union-approved social expenditure budget for 2010.

Under the Rules, the persons covered by the social benefits scheme include: the employees of Grupa LOTOS and its subsidiaries, their children aged from six to eighteen, retired employees, spouses of deceased employees and retired employees, and persons eligible for pre-retirement allowances. The entitled persons are offered various forms of social support provided for in the approved budget: holiday allowances, rehabilitation allowances for children with disabilities confirmed by a doctor certificate, housing loans, and non-refundable financial aid to persons in a difficult life situation.

Social expenditure is on the rise due to a dynamic corporate growth and ever-higher number of newly recruited personnel who consider a satisfactory wage and rich social benefits package an important factor when applying for a job.

Expenditure on the Company Social Benefits Fund in 2010

Type of benefit	No. of beneficiaries	Amount (PLN)
Summer holidays – employees	4,493	7,286,000
Summer holidays – children	1,916	2,170,000
Non-refundable financial aid	250	22,000
Housing loans	17	477,500
Leisure activities for employees and their families, and Christmas goodie bags for children	2,200	430,000

Recruitment policy

During a recruitment process, we appreciate high qualifications and skills offered by potential employees and we understand the need to provide new staff members with professional development opportunities. Therefore, internal recruitment is a priority and each job application received from the LOTOS Group's employee is taken into consideration. This approach facilitates knowledge transfers across the LOTOS Group.

At the same time, the Company recruits persons from outside the organisation – through classifieds, online ads, media announcements and career fairs – who contribute the skills and competencies necessary to successfully deal with new tasks.

Recruitment procedures are carried out in a professional and transparent manner, in accordance with the adopted and continuously refined standards. Details concerning recruitment procedures and policies are posted on the intranet and the internet.

Internship and training programmes

The LOTOS Group is an active promoter of educational and professional development of university undergraduates and secondary school students. In 2010, 128 persons participated in our internship programme, including students from the Gdańsk University of Technology, University of Gdańsk, University of Science and Technology in Kraków, Cracow University of Technology, Technical University of Łódź and Gdańsk Maritime University. 33 students from secondary schools in Gdynia, Gdańsk and Sopot enrolled in our vocational training scheme.

The Company also helps university graduates and undergraduates take their first steps on the labour market. It once again participated in the *Wakacyjny Staż* (*Summer Internship*) programme organised by the Gdańsk town hall under the patronage of the Mayor of Gdańsk. As part of the efforts aimed at strengthening the links between the academic community and the business world, the Company funded 18 graduate and undergraduate internships.

LOTOS Academy



Launched in 2004, the LOTOS Academy is a training and development programme which aims to build a partnership-oriented corporate team able to deliver the task of creating a transparent, modern, efficient and powerful organisation, which would be well-positioned to successfully compete on the EU market. The mission of the Akademia LOTOS initiative is to entrench a work culture and a management philosophy built around a model employee, one who consciously participates in the process of creating added value for customers and shareholders and whose main attributes include competence, values, responsibility and creativity.

When designing the Akademia LOTOS training and professional development programmes, the Company is guided by the principles of:

- **coherence** – a training scheme must be consistent with the Company's mission, strategy and long-term development plans, and aligned with other HR management areas,
- **accountability** – all participants in the design and implementation of a training and development programme are accountable for its effects,
- **accessibility** – trainings are meant for all employee groups,
- **continuity** – professional development planning is a continuous process, aligned with the periodic performance evaluation system, individual career paths, succession planning and development programmes designed for a particular employee group,
- **flexibility** – training scheme planning and implementation process must account for the fast-changing external conditions and changes in the qualifications expectations.

The following tools are applied when defining the employee development directions:

- **Skills map** – a set of key skills required to properly perform a task,
- **Codes of ethics** – adopted codes of conduct (the Code of Conduct for Grupa LOTOS' Employees, the Code of Managers, the Corporate Decalogue),
- **Periodic Performance Assessment System (SOOP)** – facilitates reviewing the employees' skills and competencies, and target setting.

As part of its Training Calendar of the LOTOS Academy in 2010, the Company helped the employees develop their skills and competencies during the following training sessions:

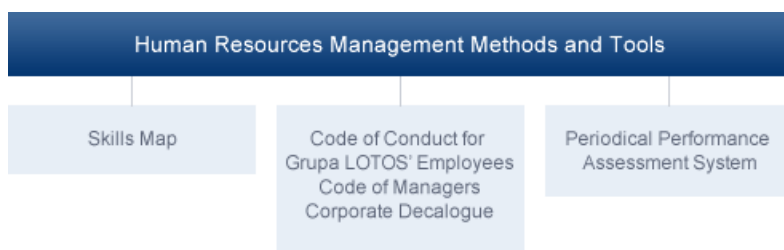
- Enhanced efficiency – stress management techniques,
- Creative thinking and creative problem solving,
- Public speaking – presentation skills,
- Work planning and scheduling,
- Team leading,
- Work-Life Balance,
- MS Office,
- Task delegation and execution,
- Handling difficult conversations,
- Employee motivation and evaluation.

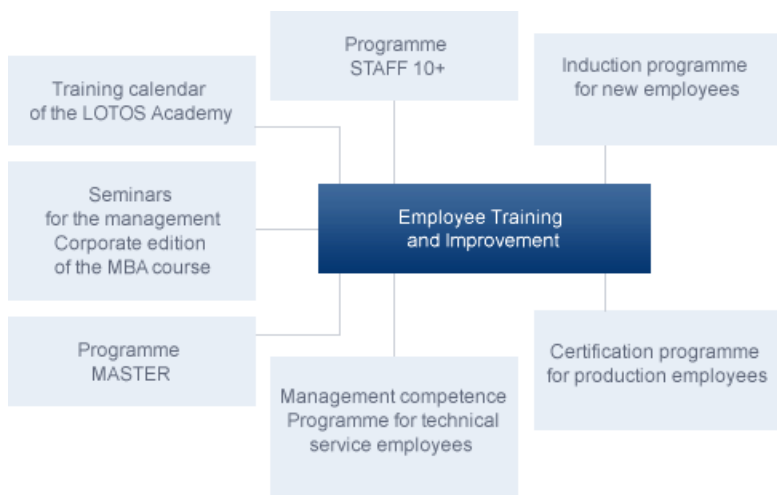
The agendas and schedules of training sessions held as part of the Training Calendar are available on **LOTOSTRADA**, the corporate intranet, under the LOTOS Academy tab, administered by the Office for Human Resources Management. The themes to be covered during the training sessions are determined based on the analysis of the skills map, the SOOP results, and employee development plans at individual organisational units. Also, they take into account the corporate development requirements.

The other type of education and professional development programmes implemented as part of the LOTOS Academy initiative are those dedicated to particular employee groups. The most important ones include:

- Induction programme for new employees,
- Certification programme for production employees,
- Seminars for the management,
- Programme Staff 10+,
- Programme MASTER,
- Management competence programme for technical service employees,
- Series of training sessions titled “Management by objectives – financial incentive systems”,
- Corporate edition of the MBA (Master of Business Administration) course.

Detailed information on the LOTOS Academy programmes and trainings - [[link](#)]





Trade unions

Six multi-employer trade unions operate at Grupa LOTOS, representing persons employed at Grupa LOTOS and its subsidiaries. The largest trade union active at Grupa LOTOS has 240 members, while the largest trade union operating in the entire LOTOS Group comprises some 500 members.

A modest increase has been recorded in the trade union membership at Grupa LOTOS.

Trade union membership at Grupa LOTOS

2009		2010	
Quarter	Trade union members as percentage of total workforce	Quarter	Trade union members as percentage of total workforce
Q1	34.50	Q1	38.90
Q2	37.53	Q2	39.00
Q3	37.59	Q3	39.14
Q4	38.20	Q4	39.60

Freedom of collective bargaining

Grupa LOTOS is bound by the provisions of the Collective Bargaining Agreement, which was executed in 2004 and subsequently supplemented and amended by four annexes. The collective bargaining mechanism is the most widely used method of negotiating the terms of employer-employee relationships in companies comprising the LOTOS Group. As a rule, collective negotiations are also used to deal with any matters subject to collective labour laws, particularly salary increase rates and the issues of conflict elimination.

A good example for how the corporate dialogue and adequate communication are put to use to solve a conflict is how the dispute which emerged at the turn of 2009 and 2010 was solved. The dispute concerned regulations of the Collective Bargaining Agreement and the Anti-Crisis Package signed, on February 10 2009. Despite justified doubts on part of the employer about the compliance of the demands made with the Labour Law provisions which regulate collective bargaining (confirmed by two opinions of leading labour law experts), negotiations with social partners were commenced, which – after a month and a half – put an end to the conflict when a mutually satisfactory agreement was concluded.

Social partners in the field of Health, Safety and Environment

The social labour inspectorate function at Grupa LOTOS is a platform for cooperation between the employer and the trade unions in matters concerned with Health, Safety and Environment (HSE). Currently, the Social Labour Inspectorate comprises four members appointed for the years 2008–2011, who are released from their employee duties in order to more effectively monitor the level of compliance with the HSE regulations. The Social Labour Inspectorate, together with the employer's representatives, was also responsible for monitoring whether the HSE regulations were observed by subcontractors responsible for the delivery of projects under the 10+ Programme.

In 2010, Mr. Krzysztof Chyliński, the Social Labour Inspector at Grupa LOTOS, was awarded an honorary distinction by the Regional Labour Inspector in Gdańsk as the most devoted Social Labour Inspector.

Employee Council

In Autumn 2010, an election was held among the employees of Grupa LOTOS to elect the seven members of the Employee Council of the second term. Two election rounds were held, and the overall turnout was approximately 37%. The terms of cooperation between the employer and the Council are set out in the

agreement executed with the Employee Council of the first term, which was amended an annex reflecting the amendments to the legal framework.

Let's talk about LOTOS Programme

Launched in 2006, the *Let's talk about LOTOS* programme is a unique platform for an open social dialogue at the Company, as part of which several dozen sessions with employees are held each year. Participants discuss the corporate strategy, current efforts undertaken to achieve strategic objectives, and common problems concerning the Company's functioning. This offers a double advantage of providing all employees with access to information and creating opportunities to exchange views between workers and executives. The Management Board attaches great importance to this particular formula of intracompany dialogue and considers it a vital tool in building the intellectual capital, the Company's most precious asset.

In 2010, eight *Let's talk about LOTOS* meetings were held at the Company level and 56 meetings were held at the LOTOS Group level, which were attended by, respectively, 572 employees (44% of total workforce) and 2,581 employees (53% of total workforce). The initiative received positive feedback from the vast majority of participants (95.3%).

Answers to the question "Do you think regular meetings should be held to discuss the current situation at Grupa LOTOS and the entire LOTOS Group?"

Safety at work

The safety of our employees and contractors is our priority. Particular attention is paid to efforts aimed at maintaining high safety standards, minimising risks, reducing accident rates, and raising awareness of and promoting a safe working culture. This has helped Grupa LOTOS earn the reputation of an employer offering a workplace that is safe, well-equipped and well-organised.

We spare no effort to ensure that:

- the workplace is properly organised,
- regular workplace surveys are performed,
- the best possible precautionary measures are applied as regards technical processes and people's health,
- the threat identification and man-machine-environment risk assessment system is up-to-date,
- consulting, oversight and inspection tasks are performed on a regular basis,
- hands-on trainings and dedicated workshops are organised,
- partnerships are fostered with the public administration, domestic trade organisations, and scientific and research institutions,
- experience is shared with partner organisations from the Polish chemicals industry,
- employee awareness and commitment is raised to achieve a safe working culture.

As regards safety at the workplace, Grupa LOTOS is held in high esteem by international companies, visiting external auditors, and insurance companies. We concentrate our efforts on developing safety standards for the entire LOTOS Group.

Workplace safety awareness is raised among employees by:

- trainings and other skill-development initiatives;
- education on HSE-related matters;
- encouraging involvement in the development and implementation of the corporate HSE policy,

- organising awareness campaigns and knowledge testing in an appealing form.

The year 2010 saw the first pilot edition of the HSE Day at Grupa LOTOS. The Company is also engaged in a number of non-obligatory initiatives designed to promote the HSE themes in an easy-to-understand and engaging manner. These involve:

- using the most advanced process tools and methods,
- keeping employees abreast of the current situation at the plant, and industry news from Poland and abroad, with the use of available communication channels. The most noteworthy initiatives seeking to improve HSE-related communication with the LOTOS Group's employees include:
 - publishing articles devoted to health and safety at work in each issue of the *LOTOSFERA* monthly staff newsletter,
 - publishing the *Bezpiecznik* monthly (in 2009, it won a distinction from the Custom Publishing Association in the internal newsletter category, in recognition of "uninterrupted reporter-like vigilance of the HSE unit employees who offer practical tips how to avoid hazards using on-site examples"),
 - dedicated workplace safety displays with materials promoting accident-free work environment, examples of dangerous occurrences provided by the employees, and answers to enquiries submitted via HSE boxes or in e-mails,
 - "Accident Rate" boards placed on the premises of the refinery, providing detailed figures on accidents and hazardous occurrences reported at plants and subsidiaries,
 - "Workplace safety" intranet panel providing employees with access to tips on how to stay healthy and fit, video tutorials, training materials, trade news from the world, and knowledge tests,
 - "Workplace safety" binder to be found on the industrial premises, containing educational materials on safety at work;
- developing the employee training system:
 - producing a video tutorial designed for employees, visitors, and contractors, featuring potential hazards, site rules, a to-do and not-to-do list, rules covering protective clothing and equipment, jobs involving fire risks, and fire precautions,
 - practicing emergencies (accidents at work, chemical alerts, and evacuations), and practising emergency scenarios set out in the Safety Report, jointly with LOTOS Straż and the Refinery Response Team,
 - organising trainings for a dedicated first-aid team of production workers responsible for providing medical care until the arrival of a doctor.

Aids and tools used during trainings include video tutorials, photos, multimedia presentations, educational games, and group and individual exercises.

Considering the implementation of the 10+ Programme projects, intense construction and assembly work, and a large number of external contractors' employees moving around the refinery, a need arose to promote awareness of issues related to responsible on-site behaviour, safe performance of work activities and compliance with internal HSE and fire safety rules. To this end, the management staff and employees of external contractors:

- are furnished with Grupa LOTOS Site Rules and the internal safety requirements for Grupa LOTOS;
- before entering the premises of the refinery, are handed the leaflet "General site rules at Grupa LOTOS";
- prior to commencement of work, receive training in internal safety rules and safe performance of work activities; a video tutorial for employees, visitors and subcontractors was recorded in 2010.;
- are regularly assessed for compliance with the internal HSE requirements;
- are penalised with fines or temporarily/permanently prohibited from entering the Company premises in the event of non-compliance with the HSE rules and procedures;
- attend meetings with Grupa LOTOS' employees devoted to internal work safety standards and most frequent irregularities in the area of health and safety at work.

The HSE team and representatives of external contractors monitor work done under a project. Moreover, the Company delegates its representatives to project sites who provide support and advice to site supervisors.

Short-term plans:

- management staff engagement programme designed to encourage compliance with safety rules and procedures among employees,
- raising workplace safety awareness by organising and encouraging participation in the World Day for Safety and Health at Work,
- putting in place an incentive system to reward contractors' staff for safe behaviour and for encouraging proper attitudes,
- implementation of a uniform assessment system for testing production plants and subsidiaries for compliance with the HSE and fire safety requirements.

Medium-term and long-term plans:

- building a safe work culture with the support from the management and lower-level staff,
- implementation of a programme based on the lessons learnt by Grupa LOTOS and other organisations around the world, as a preventive measure in the area of safety at work,

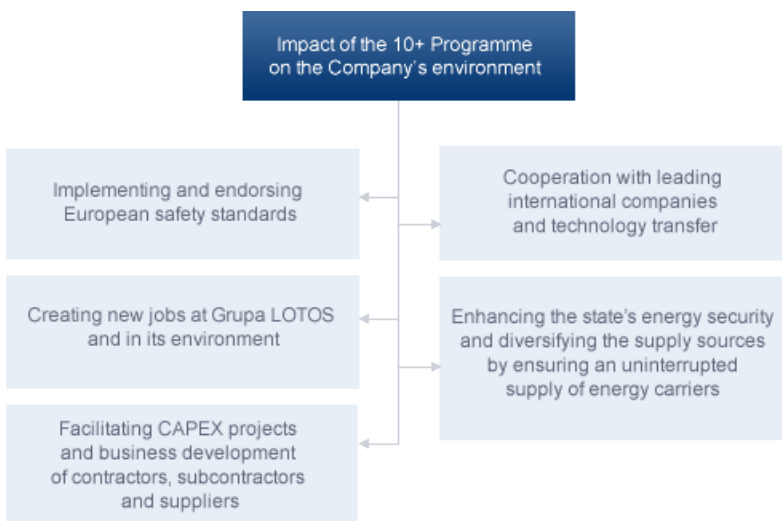
- establishing uniform safety standards across the LOTOS Group,
- reducing the lost time injury frequency ratio below the average for European refineries by eliminating injury risks and implementing working conditions improvement projects on the basis of the most advanced solutions and methods known in the world.

Society

Open relations with its social environment which are built on confidence and cooperation constitute an important value for the LOTOS Group. We have a significant non-economic influence on the society. The completion of the 10+ Programme serves as a clear proof for it. For years, the LOTOS Group has also invested in comprehensive projects aimed at counteracting social problems in its environment such as increasing traffic safety and protecting endangered species as well as in long-term sporting education programmes for children and youths.

Impact of the 10+ Programme on the Company's environment

The capital expenditure programme dubbed 10+ Programme made a major indirect impact on the Company's immediate environment. The aspects of that impact are presented in the chart below:



Implementing and endorsing European safety standards

Seeking to ensure a high level of safety during the implementation of the 10+ Programme, the Company had a clause on cooperation in and coordination of the overall HSE activity incorporated in the agreement with the Project Managing Contractor (PMC).

HSE procedures and instructions

Considering the scale of the 10+ Programme, a number of procedures and instructions for contractors were developed in order to facilitate the monitoring of the HSE performance (HSE plans). The purpose of doing so was to compile a set of guidelines and recommendations on the health, safety and environmental protection management during large-scale capex projects such as the 10+ Programme. The documents were attached as schedules to agreements and contracts signed with contractors.

HSE best practices

Multiple brochures were produced in order to more effectively promote the issues concerning health, safety and environmental protection at the workplace. All general contractors were provided with the brochures and the subcontractors were placed under an obligation to read them.

Safety boards

Adequate monitoring and assessment tools were called for to help build a positive safety culture during the 10+ Programme implementation. To spur healthy competition among contractors, special safety boards were placed at the construction sites.

HSE site inspections

To monitor the construction site for health, safety and environmental protection performance, the Company and the PMC, jointly with the site managers, the contractor's HSE team and the construction site inspectors, carried out weekly HSE inspections. Each time, a post-inspection report was prepared by Grupa LOTOS and sent to the contractor concerned. If any corrective actions were required, the contractor was expected to deliver a report on the corrective measures performed.

HSE reviews

In line with the procedures developed for the 10+ Programme, the Company and the PMC performed a series of HSE reviews at key contractors. This was done to assess the progress of implementation by contractors and subcontractors of the HSE guidelines and recommendations set forth in the documents prepared for the purposes of the 10+ Programme and of the overall implementation of HSE measures at the construction sites.

Monthly HSE coordination meetings

In order to promote cooperation between the project owner and the contractors, Grupa LOTOS and the PMC held meetings with the personnel responsible for ensuring and monitoring the health, safety and environmental protection performance. During the meetings, the contractors reported on the progress of work aimed at improving the HSE standards, and recapitulation of the past month and action plans for the coming month were made, whose major purpose was to increase the overall safety level.

Creating new jobs at Grupa LOTOS and in its sphere of influence

New projects entail new jobs. To fulfil the staffing needs arising in connection with the launch of technological units built as part of the 10+ Programme, Grupa LOTOS hired and trained 120 new personnel, including 30 persons with an engineering degree. In addition, 3,450 external workers were engaged to work on the construction sites for the 10+ Programme.

Facilitating CAPEX projects and business development of contractors, subcontractors and suppliers

As at the end of 2010, the total amount paid by Grupa LOTOS to contractors under contracts for the engineering, procurement and construction works under the 10+ Programme reached PLN 5.5bn.

Value of services purchased under the 10+ Programme (PLN bn) as at December 31 2010

It should be noted that 41% of the expenditure incurred by Grupa LOTOS to contract services under the 10+ Programme was spent on the domestic market, of which PLN 0.51bn (26%) was paid to contractors from the Gdańsk region, and PLN 1.66bn (74%) – to contractors from the rest of the country.

Value of services purchased on the domestic market under the 10+ Programme (PLN bn) as at December 31 2010

Cooperation
with leading
international
companies
and
technology
transfer

The technology solutions implemented as part of the 10+ Programme were selected from among the most advanced and most efficient ones. The technology providers included global leaders: Shell Global Solutions, Kellogg Brown and Root, Lurgi GmbH, and Chevron Lummus Global. Under the offset arrangements with the Polish government related to the purchase of the F-16 fighter aircraft, the US-based company Lockheed Martin helped finance the technology transfer and provided support for the entire Programme. The world's leading industrial engineering firms, boasting proven track-records in the provision of engineering and project management services for large refining and chemical projects, were contracted for the 10+ Programme: Technip (Italy), ABB Lummus Global (Germany), Lurgi (Germany/Poland), Fluor (Netherlands/Poland). A major contribution towards the implementation of individual projects, particularly in the area of assembly and construction, was made by contractors from the Gdańsk region and construction companies from all over Poland.

Enhancing the state's energy security and diversifying the supply sources by ensuring an uninterrupted supply of energy carriers

The new technical ability of the Gdańsk refinery to process various types of crude oil, as well as own hydrocarbon reserves and close vicinity of freight-handling marine terminals add to energy security and promote diversification of the supply sources.

CSR initiatives

The LOTOS Group's CSR activity is focused on projects and initiatives matching the corporate mission, growth strategy and values embodied in the LOTOS brand, which are designed to benefit customers and local communities. The Company seeks to align its business and CSR objectives. Two key priority areas for action have been identified:

- **environmental protection and wildlife conservation** – with a particular focus placed on the preservation of natural systems of the Baltic Sea,
- **people and their environment** – which involves providing support to public healthcare institutions, the disabled, and the initiatives promoting science and education, sports, and physical education among the young generation.

Environmental projects

In line with its CSR strategy, the LOTOS Group is engaged in pro-environmental work, understood as any activity that helps preserve the structure or function of a natural ecosystem. As part of its environmental commitment, the Company initiates or supports projects aimed at increasing environmental awareness and encouraging pro-environmental behaviours.

Cooperation with the Foundation for the Development of the University of Gdańsk

In 2009, Grupa LOTOS forged partnership with the Foundation for the Development of the University of Gdańsk and the Hel Marine Station of the University's Institute of Oceanography. Joint efforts were undertaken to prevent the extinction of the endangered marine species, notably the harbour porpoise, also known in Poland as the Baltic Sea dolphin. Apart from these efforts, the partnership paved the way for further projects which aim to promote knowledge on the Baltic Sea biodiversity and provide information on how the endangered species may be protected. Furthermore, the Company financed the purchase of specialist equipment which helps prevent the accidental by-catch of porpoises. A project called "**Active protection of the porpoise against by-catch**" is implemented in the Puck Bay area. Grupa LOTOS made a cash donation to fund diverse environmental measures, including the protection of the harbour porpoise, which was expended to purchase hydroacoustic detectors and pots for fishing.

As part of joint efforts to protect the ecosystems of the Baltic Sea, the Company, for another consecutive year, co-organised the Porpoise Day, an event held to educate the public on the behaviour and protection of that particular species. Cooperation with the Company's partners also resulted in the project "**Learn about and protect biodiversity of the Baltic Sea**", which aimed to increase awareness about natural resources conservation and to address the issues concerning marine mammals living in the Baltic Sea. In 2010, a competition was held among 53 junior high school students to test their knowledge on the biodiversity of the Baltic Sea and its protection. Also, an awareness campaign titled "**Wildlife in the water under the keel**" was run, promoting protection of the Natura 2000 areas and encouraging the public to get involved in the conservation planning process. The campaign was conducted onboard vessels operated by Żegluga Gdańska between May 1 and August 31 2010. 75,000 leaflets were handed out and ten education boards were installed. To complement these efforts, advertising hoardings were displayed in Gdańsk, Gdynia, Sopot and the Hel Peninsula, promoting the conservation of habitats in the Natura 2000 designated areas.

Grupa LOTOS' cooperation with the Foundation for the Development of the University of Gdańsk and the Hel Marine Station of the University's Institute of Oceanography was recognised by the participants of the CSR Best Practices Trade Fair organised by the Responsible Business Forum and held on the premises of the Warsaw University Library in Autumn 2010. The Company's biodiversity protection projects won second place among 28 corporations and NGOs participating in the fair.

Clean Up the Baltic Sea, Clean Up the World

As part of the international Clean Up the Baltic Sea and Clean Up the World campaigns, the Company launched the project "**Let's clean up the Baltic Sea! Let's clean up the world!**", targeted at students from primary and secondary schools in Gdańsk, Gdynia and Sopot. Its purpose was to develop the sense of responsibility for the environment, particularly the Baltic Sea, including the responsibility for keeping it clean. The event was located on the Sobieszewska Island, which is in close proximity to the Company's premises and which has considerable environmental value. The students cleaned up a stretch of woods and beach and then joined in a special educational and entertainment event focused around environmental themes. Some 300 children from ten preschools and primary

schools participated in the project, and around 60 sixty-litre garbage bags were filled.

Cooperation with the foundation Agency of Regional Air Quality Monitoring

As the Company's business encompasses the chemicals sector, we feel particularly responsible for the environment. Apart from running education campaigns, we cooperate with environmental organisations, including the foundation Agency of Regional Air Quality Monitoring (ARMAAG). In 2010, Grupa LOTOS provided financial assistance to the foundation to facilitate the extension of the SoundPlan IT system and upgrade of the AM2 monitoring station in Gdańsk Kaczeńce. The purpose of these efforts was to develop, maintain and improve the regional monitoring system in the Gdańsk agglomeration and in Tczew, which is a step towards achieving the ultimate goal – building a modern air quality information system and tools for assessing the impact of emitters on the air quality.

Community projects

LOTOS Safety Academy

The LOTOS Safety Academy (*Akademia Bezpieczeństwa LOTOS*) programme comprises a number of initiatives aimed to prevent road traffic accidents involving young children, this being achieved through traffic safety educational projects promoting the rules of safe behaviour on the road among children and adults. The following projects were implemented in 2010 as part of the programme:

- LOTOS – Safe Journey to School (*LOTOS – Bezpieczna droga do szkoły*),
- Free Reflectors (*Uwolnić odbłaski*) art competition (promoting the reflective clothing and accessories)
- Auto Rally and Traffic Safety Picnic in Sopot,
- Communication efforts targeted at the employees.

The LOTOS Safety Academy projects are aimed at members of the general public (mainly children and young people) and at the LOTOS Group's employees.

LOTOS – Safe Way to School (*LOTOS - Bezpieczna droga do szkoły*) is an education and accident prevention programme run jointly with the Polish Police and road safety experts, designed to prevent traffic accidents involving schoolchildren. Targeted principally at first graders, the programme seeks to encourage students to pay attention to road safety issues, and to teach them safe traffic behaviour. The low level of traffic safety, particularly among pedestrians, is a widespread social problem in Poland. The programme offers an opportunity to participate in educational meetings with police officers and road safety experts to learn about traffic safety rules and safe places to play. All participants are presented with reflective accessories and road safety educational materials funded by the Company.

The programme is implemented in the areas of operation of selected LOTOS Group subsidiaries: in the Province of Gdańsk and in the counties lying within the sphere of influence of LOTOS Czechowice and LOTOS Jasło. The *LOTOS - Safe Way to School* initiatives have been implemented in the Gdańsk region, Jasło and Czechowice since 2001, 1998 and 2004, respectively.

Over the past five years, the Company has funded some 61 thousand reflective accessories and 38 thousand educational packages (13 thousand items of each type in 2010 alone).

Free Reflectors (*Uwolnić Odbłaski*) competition forms an integral part of the LOTOS Safety Academy programme and is devised for first-grade students from the Province of Gdańsk and the counties of Jasło and Bielsko-Biała, particularly those participating in the LOTOS – Safe Way to School project. Its overall aim is to warn children about road traffic dangers and to help them develop a habit of wearing reflective accessories which reduce the likelihood of accidents.

LOTOS Safety Academy in figures – 2010:

participants of the *LOTOS – Safe Way to School* programme: 13,000 children, including 9,000 in the Province of Gdańsk, 2,000 in Jasło and 2,000 in Czechowice-Dziedzice,

participants of the *Free Reflectors* art competition: 500 students from 70 schools,

participants of the Auto Rally and Traffic Safety Picnic in Sopot: 5,000.

In 2010, the value of the *LOTOS Safety Academy* programme was recognised by the Home&Market; magazine which awarded Grupa LOTOS the title of the Best Partner in Business in the Corporate Social Responsibility category and strongly emphasised the Company's commitment to road traffic safety.

LOTOS Safety Academy was also shortlisted for inclusion in the 2010 Best Practices Report compiled by the Responsible Business Forum. The report serves to honour corporate practices which offer an innovative approach to a problem and at the same time bring tangible benefits to the organisation, thus creating added value for the organisation itself or for its local communities.

Good Neighbour programme

The *Good Neighbour* (*Dobry Sąsiad*) programme was launched in 2006. It is implemented in the city of Gdańsk, the Company's immediate sphere of influence. Its overall objective is to raise environmental awareness and promote eco-friendly behaviour among young children. This overall objective is achieved through:

- involvement in the life of local communities (i.e. organising family events, sporting events, etc.),
- involvement in the environmental projects run in the refinery's immediate vicinity, notably the Sobieszewska Island,
- offering support to selected local government projects which seek to improve the quality of life of inhabitants in the districts covered by the

programme,

- developing the local inhabitants' understanding of the refinery's operation and assuring them that it has state-of-the-art environmental security controls,
- tackling social inequalities by providing support to public benefit institutions and organisations, especially those helping children,
- involvement in long-standing initiatives aimed at inhabitants of Grupa LOTOS' neighbouring districts, with a particular focus on children (construction of playgrounds and sports fields, and park revitalisation work).

In pursuit of the programme's objective, Grupa LOTOS, in cooperation with the Ornithology Station of the Museum and Institute of Zoology (MILZ) of the Polish Academy of Sciences, the *Kuling* Waterbird Research Group, and the Association of Sobieszewska Island Lovers, devised and implemented the "**Protect the Wildlife of the Sobieszewska Island**" programme. The following efforts were undertaken as part of the programme:

- **proper infrastructure was built to minimise threats to the *Mewia Łacha* bird reserve:** a three-kilometre eco-route was laid out. The final section is delineated by a rope fence, with 16 information boards installed alongside.
- **awareness and education campaign was run:** the campaign was devised for local inhabitants and tourists to show them the extraordinary natural charm of the Sobieszewska Island; twelve information boards, featuring the flora and fauna of the island, were installed and 2,000 copies of the *Echa Wyspy* periodical were printed, presenting natural wonders of the Sobieszewska Island,
- **education campaign for children was run:** educational lectures were delivered, which were attended by 1,048 primary and junior high school students from Gdańsk and the Pruszcz Gdański commune, and the brochure *Reedbed birds* was prepared as a teaching aid used during the campaign, of which 13,000 copies were printed and distributed among participants.

Other community projects

As part of its social commitment, Grupa LOTOS supports projects which cater for the needs and expectations of its local communities. Particular importance is attached to initiatives aiming to bridge social gaps among children and provide help to those placed in children's homes or raised in poor or dysfunctional families. In 2010, the Company was again engaged in the preparation of the Children's Day festivities, held at the Gdańsk-Oliwa zoo, and St. Nicholas gift-giving events in Gdańsk, Jasło and Czechowice-Dziedzice.

To deliver on its corporate social responsibility policy objectives, Grupa LOTOS supports initiatives which aim to ensure equal opportunities for the disabled. In 2010, Grupa LOTOS was a partner in the following projects:

- *III Międzynarodowe Spotkania Artystyczne* (3rd International Art Fairs), organised by Centrum Spotkań Europejskich Światowid in Elbląg,
- *Muzyka pamięcią serca* (Music as Memory of the Heart) concert for the disabled, organised by the Nuta Nadziei foundation in Smętowo Graniczne.

Grupa LOTOS also supports fundraising initiatives for people in need. In 2010, the Company provided assistance to the following projects:

- *XIV Aukcja Rotariańska* (14th Rotary Auction) Rotary International, organised by Elbląski Klub Rotary,
- *Pomóż sobie i Innym* (Help yourself, help others) charity concert, organised by the Gdańsk branch of the Polish Red Cross,
- *XVIII Uroczysty Wieczór Koncertowy* (18th Ceremonial Concert Night), organised by Stowarzyszenie Lion Club Neptun,
- *Charytatywny Koncert Świąteczny* (Holiday Charity Concert), organised by Gdańska Fundacja Innowacji Społecznych in Gdańsk,
- charity auction held during the Charity Ball organised by Sopot Rotary International Club
- *Zeszyt dla ucznia* (Notebook for a Student) fair, organised by Centrum Wspomagania Organizacji Pozarządowych in Gdańsk,
- *Planeta Marzeń* (Wonder Planet) fair for children, organised by the social welfare centre Miejski Ośrodek Pomocy Społecznej in Gdańsk.

The community projects run by Grupa LOTOS gain wide recognition. In 2010, the Company was among the nominees to the Firma Dobrze Widziana (Well-Perceived Company) award. The winner will be announced at a gala to be held in Spring 2011 in Warsaw. The competition is administered by Business Centre Club as part of the Human Capital Operational Programme, which promotes education campaigns and research into corporate social responsibility and supports the implementation of CSR-compliant management techniques at Polish companies. The judging criteria include CSR performance, and the quality of work environment, market communications, environmental efforts and CSR reporting.

For a number of years now, the Company has been involved in important cultural events arranged in the areas of the LOTOS Group's operation and beyond. In 2010, Grupa LOTOS co-organised the following cultural and social events:

- *II Festiwal Solidarity of Arts* (2nd Solidarity of Arts Festival),
- *Światowy Zjazd Gdańszczan* (World Gdańsk Reunion),
- *Miesiąc Heweliusza* (Johannes Hevelius Month),
- *Święto ulicy Bohaterów Monte Cassino* (Bohaterów Monte Cassino Street Celebrations),
- *Festiwal Polskich Filmów Fabularnych* (Polish Feature Film Festival),
- *Cuda Wianki – Lato zaczyna się w Gdyni* (an event marking the beginning of summer)
- *Bieszczadzkie Spotkania ze Sztuką "Rozsypaniec"* (the *Rozsypaniec* Bieszczady Encounters with Art),

- XXVIII Międzynarodowe Obchody Święta Kultury Łemkowskiej “Łemkowska Watra” (28th International Lemkos Culture Celebration),
- LOTOS Jazz Festival – Bielska Zadymka Jazzowa

LOTOS for sports

The Company regards its CSR sporting initiatives, designed to promote sporting development of young athletes and develop sports talent that will later join local clubs or the national team, as an element of its CSR efforts reflecting its responsibility for the environment in which it operates. Education through sports is also a way to counteract incipient social pathologies, properly spend leisure time and educate young people in the spirit of healthy competition and fair play.

Sporting education

Grupa LOTOS together with its Partner – the Polish Ski Federation – is running one of the widest-ranging projects in the area of sporting education – “**LOTOS Cup – Looking for the Champion’s Successors**”, organised under the National Programme for the Development of Ski Jumping. The project came into being in 2004 and for the five subsequent seasons has been a huge organisational and sporting success, attracting considerable media attention and becoming one of the leading CSR sporting projects in Poland. The cornerstones of the initiative are to promote, on an unprecedented scale, ski jumping among kids and teenagers and discover the finest ski-jumping talent.

The key objective behind the programme was to launch a system designed to actively support young athletes training at ski-jumping clubs which run their own youth sections. In the years 2004-2010, 185 pairs of skis complete with binding, 161 suits, 100 helmets and 150 ski-jumping boots were purchased for the most talented young ski jumpers from 19 clubs all over Poland. By donating a total of 596 sets of professional sports equipment, the programme made it possible to provide training to the youngest age groups. In this way Grupa LOTOS launched the largest CSR project aimed to support talented ski jumpers from Polish clubs. In addition, sports scholarships were awarded to 72 ski jumpers from the age groups 11-12 and 15-16 who finished in the top six places in the general classification of the LOTOS Cup tournament in the 2004-2010 seasons.

In each of the 48 LOTOS Cup youth competitions, held between 2005 and 2010 to the World Cup format on the ski jumps in Szczyrk, Wisła, Zagórz and Zakopane, the number of competitors was 170. Three years from its inception, the first athlete trained under the “Looking for the Champion’s Successors” programme was called up to the national senior team. Maciej Kot from the Start Krokiew club of Zakopane took part in the team event of the FIS World Cup held in Finnish Lahti (March 2007) and thus one of the main objectives behind the initiative – to discover the finest Polish ski-jumping talent who could represent Poland at the world’s most famous jump sites – was accomplished. Also Kamil Stoch, who has been improving his performance from season to season and who in 2011 for the first time won one of the World Cup events (held in Zakopane), has been trained under the programme.

In the 2007/2008 season, a Nordic combined youth team was selected from the wide group of talented ski jumpers – beneficiaries of the “Looking for the Champion’s Successors” programme. The coaches were assigned the mission to restore Nordic combined in Poland. In the 2010-2011 season, the programme’s beneficiaries formed the core of the Nordic combined youth team. Taking into account the goal set by the Polish Ski Federation, as well as the results of training to date, a decision was made that in 2010/2011 the scope of the “Looking for the Champion’s Successors” project would be expanded to include three LOTOS Cup Nordic combined competitions, which would be run on the facilities in Szczyrk, Wisła and Zakopane among all the age groups covered by the programme, including open senior and A junior categories.

Another field of the Company’s activity connected with the support of young sportspeople is our cooperation with two youth groups training with the Lechia Gdańsk football club, on the basis of which an indoor football tournament for youthful players is held under the name of “Golden Gdańsk Lions”. The latest event attracted 78 teams of teenagers born between 1995-2000 from all around Poland, including a total of 1,073 young players. Junior GDAŃSK 2012 is a scheme operated by the Social Committee of Euro 2012 Support.

As part of its work on the Social Committee of Euro 2012 Support established by the Mayor of the City of Gdańsk, of which the Company’s President is member and President of the Council of Sponsors, Grupa LOTOS has sponsored a project involving the construction of football pitches with artificial turf to be located within school grounds. The project is being implemented under the Junior Gdańsk 2012 scheme, whose objective is to build a network of football pitches within the grounds of various Gdańsk schools, with the financial support of enterprises active in the region of Pomerania. Grupa LOTOS, as the only company, has sponsored the construction of two pitches – in 2010 the first project was completed at the Primary School No. 61 in Gdańsk, while the other project has been commenced at the Junior High School No. 20 in Gdańsk.

In 2010, our financial support was extended to junior ice-hockey teams. As part of that cooperation, in December 2010 an international ice-hockey tournament was played with teams coming over from Russia, Belarus and Poland, and at the beginning of 2011, the team of sub juniors supported by Grupa LOTOS won the gold medal at the Polish Youth Winter Olympic Games in Krynica Zdrój.

In the area of motorsports, like in the case of other disciplines supported by Grupa LOTOS, the Company helps a group of beginners at motorcycle speedway. In 2010, an agreement was concluded with the Wybrzeże Gdańsk Speedway Club Association, which trains a new generation of racers with the utmost diligence and dedication to making the sport more popular with kids and teenagers. The aim of the Speedway Youth School is to develop young racers to join the first team of the club of GKS Wybrzeże S.A., the owner of the LOTOS Wybrzeże Gdańsk team.

In the very first months after the School was opened, representatives of LOTOS Wybrzeże managed to score above-average successes, as the title of Poland’s individual speedway champion went to a thirteen year old from Gdańsk.

In the previous season, the LOTOS Wybrzeże Gdańsk team also won golden “circles” of Poland Minispeedway Club Pairs Cup. Grupa LOTOS has supported training of young motorcycle racers since 2006. In previous years, the School was run by the Foundation, chaired by prominent sportsman Zenon Plech. The greatest success achieved in the period 2006-2009 was the title of Poland’s individual speedway champion won by one of the School’s pupils.

The quality of the Company’s efforts aimed to promote sporting education of young people is confirmed by a Sport & Business Statuette in the “Youth Sport Programme” category of the DEMES 2010 Sport & Business Awards in recognition of the National Programme for the Development of Ski Jumping “Looking for the Champion’s Successors”, run jointly with the Polish Ski Federation. Successes of future sportsmen depend largely on the professional development of children, which is why it is so important to encourage them to spend their leisure actively. As part of the programme, a professionally organised cyclical LOTOS Cup competition is held, allowing ski-jumping beginners to compete with their peers, while promoting education through sports and objectively enforcing the rules of

competition and fair play.

Sporting sponsorship

Grupa LOTOS has a strategic, long-term approach to its sponsorship of sports. Its activity focuses on team sports, which have greatly gained in popularity in recent years on the back of international successes, as well as motorsports and winter sports.

Basketball and volleyball

For over 12 years, Grupa LOTOS has been the titular sponsor of women's basketball team LOTOS Gdynia, which holds 11 Poland's Championships, five Poland Cups (2005, 2007, 2008, 2010, 2011) and one Poland Super Cup. It has also been the team vice-champion of the World League, vice-champion of the Euroleague (in 2002 and 2004), and has played in the Euroleague continuously since 1998.

Additionally, Grupa LOTOS supports two men's volleyball teams: LOTOS TREFL Gdańsk (since 2009) and TREFL Sopot (since 2010).

Skiing

For six years now, the Company has been Poland's General Skiing Sponsor. Under the cooperative arrangement with the Polish Ski Federation, it supports ski jumpers from the A and youth teams, cross country skiers from the A and youth teams, as well as the Nordic combined team. As the General Sponsor, Grupa LOTOS also supports Justyna Kowalczyk (winner of three Olympic Games medals from Turin (2006) and Vancouver (2010), a double World Champion from Liberec (2009), winner of two World Championship medals in Oslo (2011) and a World Champion and World Cup winner in the 2008/2009 and 2009/2010 seasons), as well as Adam Małysz (winner of Olympic Games medals from Salt Lake City (2002) and Vancouver (2010), four individual World Championships, four World Cup titles and three Summer Grand Prix wins and winner of a World Championship medal in Oslo (2011).

Motorsports

In addition to the LOTOS Baltic Cup Rally sponsored by Grupa LOTOS for six years and Poland's Mountain Rally Championships, 2010 saw the involvement of product companies LOTOS Paliwa and LOTOS Oil in cyclical rally events. The companies cooperated with two teams: the team comprised of Kajetan Kajetanowicz and Jarek Baran, which won Poland's championship title in the general ranking of Poland's Rally Championship 2010, and the Dynamic World Rally Team (Michał Kościuszko and Maciej Szczepaniak), which ranked fifth in the SWRC World Championship.

For a few years, Grupa LOTOS has supported speedway racers from Gdańsk, and for two seasons has acted as Titular Sponsor of the LOTOS Wybrzeże team, which competes in the First Speedway League. The team includes both Poles and foreigners and will compete for entry into the Speedway Extraleague in the 2011 season.

The Company's CSR efforts are described in more detail on its corporate website. [[link](#)]



Environment

State-of-the-art technology applied at the Gdańsk refinery goes far beyond the environmental protection requirements.

THE SECOND PILLAR OF THE LOTOS GROUP'S CORPORATE SOCIAL RESPONSIBILITY STRATEGY

ENVIRONMENT = ENVIRONMENTAL RESPONSIBILITY

task = to create environmental values

environmental efficiency, projects delivering "twofold benefits"

Mitigation of environmental impact

For many years, the Company has striven to align its environmental policy with the principles of sustainable growth, in compliance with the environmental standards prescribed by law and with due regard to corporate social responsibility.

Development plans

In the years to come, the environmental impact of the individual industrial processes and the refinery as a whole will be mitigated by a range of investment and renovation programmes. When the projects are completed, the level of atmospheric emissions will be significantly reduced.

Mitigation of environmental impact

For many years, the Company has striven to align its environmental policy with the principles of sustainable growth, in compliance with the environmental standards prescribed by law and with due regard to corporate social responsibility.

The achievement of these objectives is possible thanks to orienting the environmental policy towards:

- **cleaner production, involving steady reduction of consumption of utilities and raw materials,**
- **reduction of pollutant emissions,**
- **waste management,**
- **security of industrial processes so as to effectively prevent failures.**

The sustainability and corporate social responsibility principles also entail the delivery of high quality products, leaving the smallest environmental footprint possible.

The Company takes measures aimed at reducing its environmental impact, acting in cooperation and/or consultation with local authorities and social organisations responsible for environmental protection in a given area. Below are examples of measures taken by the Company with a view to minimising its harmful environmental impact:

The negative environmental impact is minimised by:

- on-going monitoring of ambient air and water pollutant concentration and of hydrocarbon concentration in the area immediately surrounding the refinery, enabling quick response if the metrics reflecting the refinery's environmental impact show any undesirable upward trends,
- discharge of wastewater whose quality is fully compliant with legal requirements thanks to a three-stage wastewater treatment plant,
- reuse of treated wastewater to produce process water,
- strict supervision over waste management,
- use of equipment and measures designed to help protect the environment, such as:
 - double sealing of tanks with floating roofs,
 - ensuring air tightness of all process facilities and connecting them to the emergency discharge system, where hydrocarbons are burned in flares,
 - ensuring that the process of pumping fuel to road tankers and railway tank-cars is performed using the airtight vapour recovery system.

The organisational unit within Grupa LOTOS responsible for issues relating to environmental protection is the specialised Environmental Protection Office. Apart from monitoring how and to what extent the Company's production facilities impact the environment and reviewing the quantitative and qualitative compliance of emitted pollutants, produced waste, discharged wastewater and water and emitted noise, the Office is also tasked with the coordination of efforts aimed to ensure compliance with the environmental requirements imposed by law and establishment of environmental standards for the entire LOTOS Group. The scope of the Office's remit also includes monitoring of CO₂ emissions and activities related to the EU Emissions Trading Scheme (ETS). The monitoring and reporting of CO₂ emissions from the Company's industrial facilities covered by the ETS is unobjectionable, as evidenced by positive annual assessments by an accredited verifier – a world leading provider of certification services.

When discussing the Company's approach to environmental management, we should mention its efforts designed to raise the staff's environmental awareness through internal communication channels, which involve education of staff on issues related to environmental protection, understood as at an individual, corporate, regional and global level.



Development plans

In the years to come, the environmental impact of the individual industrial processes and the refinery as a whole will be mitigated by a range of investment and renovation programmes. When the projects are completed, the level of atmospheric emissions will be significantly reduced.

Grupa LOTOS is involved in the construction of a high-efficiency gas-fired power plant, which will partly replace the existing oil-fuelled CHP plant. Before then, other projects are also planned, e.g. the upgrade of the CHP plant's boilers, which will involve fitting them in with low-NO_x emission burners. Conceptual design work is also under way to switch to natural gas as the basic fuel for the refinery (both as an energy source and feedstock in hydrogen production) and utilise discharge gases currently burned in flares.

Management of chemicals

The Polish and EU legislation requires Grupa LOTOS to specify the impact of all its products on human health and safety. All products from crude oil refining are subject to classification, and thus to a health-impact and safety assessment. Throughout 2010, Grupa LOTOS was working intensively to ensure compliance with the requirements of the REACH (Registration Evaluation Authorisation of Chemicals) Regulation, as amended. In late September/early October 2010, the Company completed the REACH registration process and in December 2010 submitted the classification of substances marketed but not subject to obligatory registration under REACH. It needs to be noted that the meeting of the prescribed registration and classification deadlines was possible thanks to good coordination of work under the REACH Project, which was started well in advance.

The registration was made jointly with other refineries, based on relevant agreements concluded through the agency of international organisation of oil companies CONCAWE, whose research covers water and air quality. As part of the registration process, common classification criteria were agreed, labelling was proposed and the results of toxicity, ecotoxicity, physicochemical and identification testing were presented. Thanks to acting jointly, the cost of research done under the REACH Project was brought down some 25-fold relative to initial estimates.

Thanks to steps taken under the REACH programme, the Company's customers have the guarantee that they will continue to receive certified high-quality products and that deliveries will be made in compliance with the provisions of applicable laws. Information between the individual companies as part of SIEF (Scientific Information Exchange Forum) and with the European Chemicals Agency based in Helsinki, Finland, was exchanged via electronic channels.

The REACH system at the LOTOS Group was supported by the integrated IT system, made available to all companies subject to the obligation to register refinery product streams. The system is compatible with other systems used by product consortia of other petrochemical companies. The IT tools included: free European data base and website, which was used for sending registration files. Grupa LOTOS is reviewing the progress of compiling so-called SVHC (substances of very high concern) Candidate Lists, taking all necessary steps to meet the obligations imposed by the REACH Regulation.

None of the substances produced and marketed by Grupa LOTOS is currently included in the SVHC Candidate List published by the European Chemicals Agency, and none is subject to the authorisation procedure.



Management

Corporate governance

To the major goals of corporate governance at Grupa LOTOS belong confidence in its relations with stakeholders, and openness and consistent building of the Company's shareholder value.

Management systems

For Grupa LOTOS, being certified with the Integrated Management System is not a goal in its own right. We also take steps which allow for attaining tangible values from the implemented systems. The standards provide universal solutions increasing the chance of finding the added value, thus making the implemented system effective and more useful.

Risk management

At Grupa LOTOS, the Enterprise Risk Management system is meant to provide comprehensive knowledge on threats and opportunities linked to the activities of the LOTOS Group, to facilitate taking quick and effective decisions, based on risk analysis, and to prepare the organisation for an immediate reaction in case any risk materialises.

Supervisory Board

The Supervisory Board is charged with exercising day-to-day supervision over Grupa LOTOS in all aspects of its activities. It may also delegate its members to individually perform certain functions and may set up ad hoc or standing committees to exercise supervision in specific areas of the Company's activities.

Management Board

The Management Board represents the Company before third parties and manages its affairs. This does not apply to matters reserved to the General Shareholders Meeting or the Supervisory Board, nor matters falling outside the scope of ordinary management duties delegated to individual Management Board members.

Corporate governance

Grupa LOTOS publishes the Management Board's annual statement on compliance with the corporate governance rules every year.

The major goals of corporate governance at Grupa LOTOS are:

- the transparency of its operation as a listed company,
- confidence in its relations with stakeholders,
- openness and consistent building of the Company's shareholder value.

Since its stock market debut in June 2005, Grupa LOTOS complied with most recommendations set out in the document entitled the *Best Practices of Public Companies*, and since January 1st 2008, it applied most corporate governance principles published as the *Code of Best Practice for WSE Listed Companies*, adopted by the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange - WSE) on July 4th 2007. Since July 1st 2010, the Company has applied the *Code of Best Practice for WSE Listed Companies* as updated by WSE on May 19th 2010. The full text of the Code is publicly available on the WSE website and in the investor relations profile on the website of Grupa LOTOS.

Code of Best Practice for WSE Listed Companies [[link](#)]

Every year, Grupa LOTOS publishes the Management Board's annual statement on compliance with the corporate governance rules which is available on the Company's website.

Persuant to the "comply or explain" principle, based on which public companies should ensure compliance with all best practices and report only incidental or permanent non-compliance with them, the Company's Management Board published a list of corporate governance principles that were not complied with, including reasons for non-compliance, in 2008 and in the following years.

Management Board's annual statement on compliance with the corporate governance rules in 2008 [[link](#)]

In 2010, Grupa LOTOS did not publish any separate statements regarding non-compliance with the principles set out in the *Code of Best Practices for WSE Listed Companies*.

Grupa LOTOS takes steps to implement best practices for environmental protection, work safety and management systems, which go beyond the requirements provided for by the Polish law. Since November 19th 2009, the Company has been included in the first index of socially responsible companies in the Central and Eastern Europe – the RESPECT Index (Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency) – comprising 16 companies listed in the regulated market of the Warsaw Stock Exchange which were awarded an A rating as leaders of sustainable development, information governance and capital market communication. In January 2011, the Company was once again chosen to be included in the RESPECT Index.

Also, Grupa LOTOS was named winner of the *Investor Relations* category in the *Listed Company of the Year 2010* ranking prepared by the *Pentor Research Institute* for the *Puls Biznesu* daily. The winner was selected by capital market experts - stock analysts, investment advisers and brokers representing brokerage houses and offices, insurance companies, investment funds, capital departments of banks and consulting firms located all over Poland – in acknowledgement of the quality of Grupa LOTOS' dialogue with retail and institutional investors, as well as the promptness of its response to investor queries.

Management systems

The management approach in Grupa LOTOS assumes continuous improvement of the organisation. In 2010, the Company initiated its periodical Organisational Maturity Assessment, which included the evaluation of implemented management systems.

Management approach

For Grupa LOTOS, being certified with the Integrated Management System is not a goal in its own right. We also take steps which allow for attaining tangible values from the implemented systems. The standards provide universal solutions increasing the chance of finding added value, thus making the implemented system effective and more useful.

Internal Control System

The Internal Control System in Grupa LOTOS is a set of organisational and procedural solutions regarding the whole organisation as well as of procedures determining the functioning of the individual processes. The system guarantees the organised and effective conduct of the Company's activities in line with its business objectives and in compliance with legal and internal regulations.

Main changes to the systems and key projects executed in 2010

Grupa LOTOS strives to reach the expected level of professionalisation of its organisational culture. This factor determines its chances of succeeding in protecting and building stakeholder value.

Development plans

In 2011, the Company will continue to work on its current and newly implemented projects which respond to the requirements of the internal process of organisational improvement.

Management approach

For Grupa LOTOS, being certified with the Integrated Management System is not a goal in its own right. We also take steps which allow for attaining tangible values from the implemented systems. The standards provide universal solutions increasing the chance of finding added value, thus making the implemented system effective and more useful.

Our goal is to raise our competitive advantage in an organised and responsible manner but also in a way that remains transparent and accessible for all our employees.

The main beneficiaries of the system are the organisation itself as well as our customers and contractors. Therefore, we take steps to increase the involvement of the process participants in actions put in place, keeping close order of their coordination at many levels.

The Integrated Management System is a well-established system in Grupa LOTOS. The experience gained through the many years of its functioning in the Company helps to ensure the proper functioning of unified management systems in the entire LOTOS Group towards which the Company is heading and will also facilitate their further development and building a common management platform, which will take into account the characteristics of each of its subsidiaries.

Integrated Management System

For customers: guaranteed care for product and service quality

For the environment: proven care for the environment

For employees: ensured safety at work

Management systems at the LOTOS Group January 30th 2011

Company name	Management systems in place
Grupa LOTOS	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001; implemented requirements of the Allied Quality Assurance Publication (AQAP) 2110 as well as the requirements of the Internal Control System for trading in raw materials of strategic importance in compliance with the PN-N-19001 norm.
LOTOS Asphalt	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001. Implemented and certified Internal Production Control system.
LOTOS Kolej	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001. Implemented Railway Transport Safety Management System (SMS).
LOTOS Lab	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001. Accreditation of the Polish Centre for Accreditation in compliance with PN-EN ISO/IEC 17025:2005.
LOTOS Ochrona	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Oil	Implemented and certified Integrated Management System in compliance with ISO 9001 and with the Allied Quality Assurance Publication (AQAP) 2110; also, implemented requirements of ISO 14001 and PN-N-18001.
LOTOS Parafiny	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001. Implemented systems: ISM Code (Safe Ship Operation and Pollution Prevention Management System), ISPS Code (Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001. Implemented quality requirements

regarding welding of metal materials in compliance with the PN-EN ISO 3834-2:2007 norm.

LOTOS Straż	Implemented and certified Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Czechowice	Implemented Integrated Management System in compliance with ISO 9001, ISO 14001, PN-N-18001.
LOTOS Paliwa	Implemented and certified Integrated Management System in compliance with ISO 9001.
LOTOS Jasło	The Company is implementing the requirements of the Integrated Management System.
LOTOS Tank	The Company is implementing the requirements of the Integrated Management System.

Audits of the Integrated Management System

Audits are one of the main tools aimed at improving the Integrated Management System in the LOTOS Group. Audit results give the management access to information regarding the effectiveness of the processes put in place, and thus make it possible for them to take proper management decisions.

The number of audits carried out at Grupa LOTOS has remained stable at over 60 audits annually over the last years and one audit lasts on average 3 audit days.

Numer of audits in the years 2007-2010

Audits carried out at Grupa LOTOS are mainly:

- **internal audits** in the organisational sections of Grupa LOTOS, in the production plants and in the fuel bays, as well as cross-section audits concerning a particular issue in a particular part of the organisation,
- **corporate audits** carried out in the subsidiaries of Grupa LOTOS, aimed to evaluate the implementation of corporate requirements,
- **contractor audits** carried out mainly at companies commissioned to carry out renovation and construction work at the premises of Grupa LOTOS, aimed to evaluate the compliance with the requirements given to the contractors (in particular, regarding safety at work and environmental protection), due to the implementation of the 10+ Programme the number of these audits increased since 2008.

Audits in the years 2009-2010 by type

Structure of internal audits in 2009

Structure of internal audits in 2010

Within their management systems, the subsidiaries of the LOTOS Group also carry out their own internal audits and – if the need arises – contractor audits as well.

In the LOTOS Group, we strive to develop a consistent auditing policy. In order to get added value from the audits carried out in our Company, each year our requirements for the auditors are increased. Also, under our Auditor School programme we continue to train the auditors on the different business areas of the LOTOS Group.

Internal Control System

The Internal Control System in Grupa LOTOS is a set of organisational and procedural solutions regarding the whole organisation as well as of procedures determining the functioning of the individual processes. The system guarantees the organised and effective conduct of the Company's activities in line with its business objectives and in compliance with legal and internal regulations.

The Internal Control System of Grupa LOTOS is organisationally expressed through:

- the organisational structure determining the principles of reporting,
- the rules and regulations determining goals and tasks of the individual organisational sections,
- the scope of duties, rights and responsibilities for all employees,
- varying levels of access to information, documents and stored data,
- systems of authorisations, proxies and formally granted substitutions,
- limitations of access to rooms, especially those of special character where confidential information, personal data etc. are stored, etc.

along with the adapted principles of:

- security and protection,
- defining the goals,
- documenting activities (in particular operational, financial and accounting, and trading activities).
- creating internal regulations,
- internal reporting.

The remaining solutions which form the Internal Control System in the Company are embedded in each of the operational processes defined in the organisation.

Supervision of the system has been allotted to the respective functions within the organisational structure of the Company. Moreover, an internal auditing unit has been put in place which among other things evaluates the solutions adopted in the Internal Control System. The results of its audits are then reported to the Management Board and to the Audit Committee of the Supervisory Board of Grupa LOTOS.

Main changes to the systems and key projects executed in 2010

Grupa LOTOS strives to reach the expected level of professionalisation of its organisational culture. This factor determines its chances of succeeding in protecting and building stakeholder value.

Organisational Maturity Assessment

During the period under report, an Organisational Maturity Assessment of Grupa LOTOS was conducted. The assessment referred to the year 2010 and – as it is the first assessment of the Company ever done – it shall serve as a model for future assessments.

Organisational maturity of a company is the professionalisation level of its key organisational systems, processes and activities which is achieved by the company as well as their compliance with best practices in the area of its functioning and management.

In line with the management approach adopted by Grupa LOTOS, which assumes continuous improvement, the Company has decided to take steps to obtain the objective reassurance that the solutions it adopted in the areas of:

- internal control,
- risk management,
- compliance,
- abuse prevention,
- corporate governance

meet the criteria of maturity as defined above.

In order to conduct the internal assessment of the maturity of these systems, the Company – in cooperation with an external advisor – has developed an assessment model using best practices set out in the GRC Capability Model (Government, Risk Management and Compliance) designed by the Open Compliance and Ethics Group. Other documents including the *Code of Best Practice for WSE Listed Companies* and methodology drawn up by the external advisor for risk management and abuse risk management also provided the basis for work on the model.

The developed model calls for a unified approach to conducting the review and formulating assessments of the structure of the individual systems as well as of the effectiveness of their operation. It enables the company to both formulate an assessment for any of the systems separately and to carry out a comprehensive organisational maturity assessment of the entire Company. Therefore, this approach helps to identify the areas in which improvement or deterioration of the results have taken place as well as to formulate recommendations and to initiate corrective measures.

The assessment of the Internal Control System mainly concerns the internal control environment. The main area of interest for the assessment of the risk management system is how this process is managed and how the risks are identified and assessed. The compliance system is assessed with regard to the correctness of the solutions adopted to ensure compliance with external regulations of the applied measures and actions taken. In the assessment of the abuse prevention system mainly the solutions which aim to prevent abuse, including those aimed at building and cultivating appropriate ethical positions as well as the approach adopted to identify and assess the areas of abuse are assessed. Important elements of the corporate governance assessment are management effectiveness and organisational efficiency of the Company, including shaping the corporate culture, setting goals, communication, monitoring, control, etc.

The aggregate organisational maturity assessment of the Company shows that Grupa LOTOS is an organisation which strives to professionalise its activities and to adopt solutions which constitute best practices in the functioning and management of the organisation. However, it can be also noticed that the level of development, understood as design and efficiency, of the separate systems influencing the organisational maturity of the Company differs markedly between the systems.

The high assessment rating achieved in the process by Grupa LOTOS results mainly from efforts made in previous years to preserve the value and functioning of the company. The efficient internal control system as well as the solutions adopted in corporate governance and compliance systems are the effects of these efforts.

This result was also possible thanks to actions taken to establish the risk management system in the organisation. The consistent implementation and linking of this system to decision-taking processes undertaken in the Company will possibly become an important factor in the process of creating shareholder and stakeholder value.

Grupa LOTOS intends to conduct organisational maturity assessments also in the coming years, on an annual basis.

Requirements of Grupa LOTOS for its Contractors software system

One of the priorities of Grupa LOTOS is to provide secure working conditions both for its own employees and for the employees of external companies, commissioned to do work on the premises of the Company. Following these priorities and the results of contractor audits, a need arose to refine the distribution channel of Grupa LOTOS' requirements to its contractors. Bearing in mind the consistent effort to raise the effectiveness of communication with its stakeholders – one group of which are the contractors, – Grupa LOTOS devised a new electronic system aimed at distributing current internal requirements and rules applicable on the Company's premises, in particular the ones regarding safety at work, health care, physical safety and fire protection in their broad sense.

The software system *Requirements of Grupa LOTOS for its Contractors*, which was implemented as of January 1st 2011, will be available only for authorised persons through a protected, dedicated website. It also constitutes a platform for information exchange regarding safety at work between the contractors and the HSE service of Grupa LOTOS.

Information Security Management System

In Grupa LOTOS, Data Loss Prevention – a sensitive information protection system – is currently being implemented. The system enables the company to control the flow of information within the organisation and to prevent uncontrolled or unauthorised leakage or transmission of information which are of uppermost importance to the Company outside it, in compliance with its information security rules.

Enterprise Risk Management

The LOTOS Group continues to implement its Enterprise Risk Management (ERM) system which is aimed at ensuring the secure and effective execution of the LOTOS Group's strategic and operational goals. The system supports the organisation in taking prompt, accurate and informed decisions based on the results of the previously conducted risk analysis whereas the implemented principles of identifying and evaluating risks allow the company to react early to existing threats and to eliminate them, partially or totally. The system also allows to prepare for the scenario when the given risk materialises by drawing up suitable action plans and to identify arising chances and opportunities for Grupa LOTOS which the Company strives to take advantage of. Thanks to the ERM system, Grupa LOTOS can take actions – within the acceptable risk limit – which are optimum from the point of view of its business activities.

Development plans

In 2011, the Company will continue to work on its current and newly implemented projects which respond to the requirements of the internal process of organisational improvement.

This year, new projects dictated by the Company's true needs are planned to be included in the existing Integrated Management System. The key ones among them are:

- the implementation of the Enterprise Risk Management (ERM) system – detailed information on the ERM system in Grupa LOTOS, including the adopted principles and tools, are to be found in chapter *Development vision*,
- the implementation of the requirements of the Energy Management System (EnMS) aimed to support actions taken to improve the energy efficiency in Grupa LOTOS. The implementation process will be executed in compliance with the goals of the *Polish Energy Policy until 2030* (with respect to improving the energy efficiency and reducing environmental impact) and quantity targets of greenhouse gas emissions by 2020. The Company intends to use the potential of the projects raising the energy efficiency which have been completed so far as well as to implement best practices along with technical solutions and standards aimed to save energy (including projects implementing the recommendations of the EU Directives),
- the implementation of enterprise project management in the LOTOS Group aimed to develop tools and methods which help to execute the Company's strategy effectively. Based on the best world standards and our employees' experience, we are going to introduce a unified system allowing:
 - to choose the best undertakings helping to accomplish our strategic goals,
 - to effectively complete these undertakings,
 - to efficiently monitor their completion,
 - to fairly evaluate the achieved results,
- the improvement and expansion of the LOTOS Group's Integrated Management System Portal used to distribute internal requirements and information regarding legal acts as well as to gather information on environmental protection, granted proxies and references,
- the improvement of the software system aimed to distribute internal requirements and rules applicable on the premises of Grupa LOTOS to our contractors,
- the execution of the next stage of training courses under the Auditor School programme aimed to prepare adequately qualified and experienced auditors who will be carrying out audits in the LOTOS Group's companies using top and unified corporate standards.

Risk management

For all registered risks, adequate controlling measures and prevention mechanisms are indicated along with methods of monitoring them.

Management approach

In 2010, detailed rules concerning identification and evaluation of risks, methods of monitoring and reporting them as well as verification of the effectiveness of actions taken were set out. The procedure is aimed at ensuring that the actions planned for the LOTOS Group are being completed periodically, that the applied methodology is optimum and adequate to the various areas of activities and also that the risk management process itself is consistent and effective.

Key instruments

Grupa LOTOS identifies the risks for accomplishing both its strategic as well as procedural and operational goals. This identification is mainly done at group workshops but all employees are also entitled and obliged to report threats and opportunities which are linked to the processes they take part in and can have influence on accomplishing the defined goals.

Development plans

In Grupa LOTOS, works are underway on the preparation of the IT tool which will support the corporate risk management system.

Management approach

In 2010, detailed rules concerning identification and evaluation of risks, methods of monitoring and reporting them as well as verification of the effectiveness of actions taken were set out. The procedure is aimed at ensuring that the actions planned for the LOTOS Group are being completed periodically, that the applied methodology is optimum and adequate to the various areas of activities and also that the risk management process itself is consistent and effective.

At Grupa LOTOS, the Enterprise Risk Management (ERM) system is aimed :

- to provide comprehensive knowledge on threats and opportunities linked to the activities of the LOTOS Group,
- to facilitate taking quick and effective decisions, based on risk analysis,
- to prepare the organisation for an immediate reaction in case any risk materialises.

In order to execute the above principles, a systemic approach to risk management is being implemented, including:

- the identification of the risks and their quality and quantity evaluation,
- the preparation of a strategy of dealing with a particular risk category,
- the implementation of the planned actions,
- the verification of the effectiveness of the actions taken,
- constant monitoring and control of both the risk level and the status of the actions implemented,
- the standardisation of communication and reporting principles.

In Grupa LOTOS, the reaction to risks involves four types of actions:

- limiting the possibility of the risk materialising, e.g. through controlling measures, changing the process, etc.,
- transferring, i.e. shifting the risk onto another entity, eg. through insurance, outsourcing, etc.,
- avoiding risk by withdrawing from the given risk area or not conducting given activities (however, this strategy remains most infrequent)
- accepting the given risk level if it cannot be further limited or if the risk is so low that it is not necessary.

Basic rules and the scope of responsibilities relating to the system are defined in *The LOTOS Group's Enterprise Risk Management Policy*. In Grupa LOTOS, there is also a Strategy and Enterprise Risk Management Committee which serves a consultative function. It is mainly responsible for making sure that the actions planned by the Company to limit the risks are consistent from the point of view of the entire LOTOS Group's functioning and do not result in increasing the risk to a dangerous level in a different area of activities.

Each year, an annual evaluation of the Enterprise Risk Management system is done, whose results are used to further improve the system. Reports on the functioning of the ERM system are then submitted to the Management Board and to the Audit Committee of the Supervisory Board of Grupa LOTOS.

Key instruments

Grupa LOTOS identifies the risks for accomplishing both its strategic as well as preceudal and operational goals. This identification is mainly done at group workshops but all employees are also entitled and obliged to report threats and opportunities which are linked to the processes they take part in and can have influence on accomplishing the defined goals.

The risk assessment is done in two time horizons: within the next year and till the end of the period for which the current LOTOS Group's Strategy is valid, that is till the year 2015. For all risk types, the probability of their materialising is estimated and then the financial consequences which would be incurred as well as the possible effect on reputation of the LOTOS Group are calculated should the given risk materialise. The human safety and the environmental impact along with the expected reception by the Company's stakeholders is also taken into account in this calculation.

For all registered risks, adequate controlling measures and prevention mechanisms put in place are indicated along with the method of monitoring them. Each risk has its own so-called risk owner who is responsible for its supervision and monitoring, using the pre-set indicators. The monitoring results are then reported in compliance with the adopted principles.

Based on this risk assessment, the aggregated Risk Map for the LOTOS Group is prepared. It is a dynamic document which is subject to changes due to the changeable character of the business environment, the business processes being put in place in the organisation, finalising the completion of some investments and starting new ones as well because of the actions being taken to limit the identified risk.

All risk types which were assessed as significant from the point of view of the goals which are set to be accomplished by the Company are then subjected to detailed analysis with regard to the factors of the given risk and the current system of managing and monitoring it. Further to the analysis, plans aimed at limiting the risk and action plans in case of its materialising are prepared.

In Grupa LOTOS, the project risk management is also put in place, especially for investment projects. The risk assessment criteria differ slightly from the ones discussed above as they have been adapted to the area of project management. However, the principles of how the risk itself should be handled are consistent in the whole Grupa LOTOS and help to complete the planned projects efficiently and safely.

Development plans

In Grupa LOTOS, works are underway on the preparation of the IT tool which will support the corporate risk management system.

The tool currently applied helps to evaluate the risks and visualise them on a map. However, the new comprehensive tool will also allow the company to constantly monitor the levels of different risks, using pre-set Key Risk Indicators (KRI). To facilitate its functioning, the new tool will be integrated with other systems used by Grupa LOTOS (eg. with SAP) so as to enable it to gain direct access to and use data stored by them.

Also, the incident base for the entire Grupa LOTOS is being prepared, containing events which can influence different risks materialising, and highlight new risks, which have not been identified so far.

Supervisory Board

The Supervisory Board is charged with exercising day-to-day supervision over Grupa LOTOS in all aspects of its activities.

Powers and duties

Members of the Supervisory Board are appointed by the General Shareholders Meeting.

Composition

The Company's Articles of Association state that the Supervisory Board should comprise six to nine members, including the chairperson, vice-chairperson and secretary. It is the General Shareholders Meeting's role to determine the number of Supervisory Board members.

Standing committees of the Supervisory Board

Standing committees appointed by the Supervisory Board include the Audit Committee, Strategy and Development Committee, and Organisation and Management Committee.

Remuneration

The determination of the remuneration policy for members of the Supervisory Board rests within the scope of powers of the General Shareholders Meeting. Remuneration of the Supervisory Board members is subject to limitations prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Journal of Laws (Dz.U.) of 2000 No 26, item 306, as amended).

Independent members

Rule 6 contained in Section III of the Code of Best Practice for WSE Listed Companies provides as follows: "At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company."

Avoidance of conflicts of interest

The provisions of Art. 387 of the Commercial Companies Code prohibit a current member of the Company's Management Board, proxy, liquidator, head of a division or production facility, or internal chief accountant, counsel or lawyer from serving on the Supervisory Board.

Commitment to sustainable development

The interest of the Supervisory Board of Grupa LOTOS is focused on the Company's activities in the perspective of sustainable development as regards the access to raw materials as well as the social and environmental impact of the Concern.

Powers and duties

Members of the Supervisory Board are appointed by the General Shareholders Meeting.

The Supervisory Board is a collective body. However, it may also delegate its members to individually perform certain tasks or functions and may set up ad hoc or standing committees to exercise supervision in specific areas of the Company's activities. Standing committees include the Audit Committee, Strategy and Development Committee and Organisation and Management Committee.

The procedures to be followed by the Board are defined in the Company's Articles of Association and the Rules of Procedure for the Supervisory Board. Said documents are available on the Company's website.

Articles of Association of Grupa LOTOS [[link](#)]

Regulations of the General Shareholders Meeting of Grupa LOTOS [[link](#)]

By-laws of the Supervisory Board of Grupa LOTOS [[link](#)]

Composition

The Company's Articles of Association state that the Supervisory Board should comprise six to nine members, including the chairperson, vice-chairperson and secretary. It is the General Shareholders Meeting's role to determine the number of Supervisory Board members.

Members are appointed and removed from office by the General Shareholders Meeting in a secret ballot, by an absolute majority of votes. The General Shareholders Meeting may appoint new members to the Supervisory Board from an unlimited number of candidates. Notwithstanding the above, as long as the State Treasury remains a shareholder in the Company, it is entitled to appoint and remove from office one member of the Supervisory Board. The Chairperson of the Supervisory Board is appointed by the General Shareholders Meeting. The term of office of the Supervisory Board is a joint term of three years.

As of December 31st 2010 and as of the release date of this report, the Company's Supervisory Board of the seventh term of office was composed of the following persons:

- Wiesław Skwarko – Chairman,
- Leszek Starosta – Vice-Chairman,
- Oskar Pawłowski – Secretary,
- Małgorzata Hirszel – Member,
- Michał Rumiński – Member,
- Rafał Wardziński – Member,
- Ewa Sibrecht-Ośka – Member,
- Rafał Lorek – Member.



Wiesław Skwarko

Chairman of the Supervisory Board

Wiesław Skwarko was appointed Chairman of the Supervisory Board on June 30th 2008. As part of his roles and responsibilities, he coordinates the work of and presides over the Supervisory Board and represents it before the other governing bodies and before third parties. In addition, since August 12th 2008 Mr Skwarko has served as Chairman of the Strategy and Development Committee, and since March 19th 2009 – as member of the Audit Committee.

Under its decision of August 12th 2008, the Supervisory Board delegated Wiesław Skwarko to individually supervise the implementation of the 10+ Programme, including in particular to:

- monitor the progress of work against the schedule,
- oversee the delivery of the raw material procurement strategy,
- oversee the delivery of the finished product sales strategy,
- coordinate the logistics processes.

Wiesław Skwarko graduated from the Faculty of Foreign Trade of the Warsaw School of Economics.



From 1987 to 1994, Mr Skwarko worked as an assistant reader at the Warsaw School of Economics. From 1990 to 1999 he was partner at Access Sp. z o.o., then became member of the Management Board of Rothschild Polska Sp. z o.o. In 2005–2006, Mr Skwarko served as Head of the Privatisation Office at Nafta Polska S.A. In 2006, he took the position of the Financial Strategy and Capital Development Director, initially at CTL Maczki Bór of Sosnowiec and then at CTL Logistics S.A. of Warsaw. In 2008–2009 Mr Skwarko served as Member of the Management Board of Nafta Polska S.A., and since January 1st 2010, he has been acting as the Liquidator at Nafta Polska S.A. w likwidacji (in liquidation). He was Chairman of the Supervisory Board of ZAK S.A., and since October 27th 2010 he has served as Vice-President of the Management Board of ZAK S.A. of Kędzierzyn Koźle.

Leszek Starosta

Vice-Chairman of the Supervisory Board

Leszek Starosta was appointed to the Supervisory Board on June 30th 2008. As Vice-Chairman since August 12th 2008, he may exercise all powers vested in the chairperson of the Supervisory Board under the Articles of Association and the Rules of Procedure for the Supervisory Board if authorised by or in the absence of the chairperson. Mr Starosta is also Chairman of the Organisation and Management Committee and member of the Strategy and Development Committee.

Under the Supervisory Board's decision of August 12th 2008, Leszek Starosta was delegated to individually supervise the implementation of the capital expenditure scheme implemented by Grupa LOTOS, the 10+ Programme, in particular in the areas of contract award procedures and laws governing investment processes.

Mr Starosta graduated from the Faculty of Law and Administration at the Adam Mickiewicz University of Poznań. Professor Extraordinary, Doctor (habilitated) of Law, Dean of the Faculty of Law and Prorector responsible for development at the Academy of International Economic and Political Relations in Gdynia, Head of the Institute of European Studies in Gdynia. In 1991–2000, Mr Starosta was Advisor to the Management Board of Rafineria Gdańska S.A. From 1995 to 1998, he served as Advisor and Consultant to the President of the Management Board of Petrochemia Płock S.A. He has authored over 20 studies and analyses concerning the oil and fuel sector, which he prepared for various entities, including government agencies. Between 1998 and 2007, he was Member and Vice-Chairman of the Supervisory Board of Prokom Software S.A. Mr Starosta is an attorney and a member of the Council of the Bar in Gdańsk. He is also Vice-President of the Employers of Poland organisation, and member of the Sports Law Commission of the Polish Olympic Committee.



Oskar Pawłowski

Secretary of the Supervisory Board

Oskar Pawłowski was appointed to the Supervisory Board on February 11th 2010. As Secretary of the Supervisory Board since March 2nd 2010, he has been charged with coordinating and recording the Board's work and providing organisational and technical support.

Since March 2nd 2010, Mr Pawłowski has been member of the Organisation and Management Committee and the Audit Committee.

Mr Pawłowski is a graduate of the Faculty of Law and Administration at the Adam Mickiewicz University of Poznań, and Cambridge University (majored in British and EU law). In 2006, he completed legal counsel training held by the Board of the District Chamber of Legal Counsels in Poznań and was entered in the list of legal counsels.

Currently, Mr Pawłowski is Managing Partner at Oskar Pawłowski i Wspólnicy Sp. k. law firm; earlier he was a lawyer at D. Janczak i Wspólnicy Sp.k./Domański Zakrzewski Palinka Sp.k. – Ernst & Young Law Alliance – Grupa Energetyczna and Głowacki, Grynhoff, Hałaziński s.j. He specialises in the regulatory environment of the energy sector and in legal services for real estate trade and investment processes. He has extensive experience in company law and mergers and acquisitions. He is Energy Arbitrator at the Arbitration Court of the Chamber of Industrial Power and Energy Customers. He also serves as President of the Management Board of Diapol sp. z o.o. and Member of the Supervisory Board of Instal Lublin S.A.

He authored the following papers: "The Rights of Electricity Consumers and the Methods of Protecting Them" in *Rynek Energii* (2/2009); "Legal Due Diligence of Real Estate" in *Investor* (1/2010).



Michał Rumiński

Member of the Supervisory Board

Michał Rumiński was appointed to the Supervisory Board on February 11th 2010. Since March 2nd 2010, he has attended meetings of the Strategy and Development Committee and the Organisation and Management Committee, and since August 2nd 2010 he has served as Chairman of the Audit Committee.

He holds an MBA degree from the University of Chicago, Booth School of Business, a degree in economics from the Warsaw School of Economics and a degree in law from the Warsaw University.

Since 2007, Mr. Rumiński has cooperated with MCI Euroventures (investment fund), holding the following positions: Investment Partner, Member of the Management Board of ABC Data Holding S.A., President of the Management Board and Managing Partner of Cleantech Venture Partners, Member of the Supervisory Board of Grupa Lew Sp. z o.o. In 2000–2007, Mr. Rumiński worked for the KBC Group. In 2004, he assumed the position of Corporate Finance Director at the investment bank KBC Securities N.V.

Mr Rumiński is the author of the following publications: "The 1997 Currency Crisis vs. Restructuring of the Financial and Corporate Sectors in South Korea", *Narodowy Bank Polski* (September 2004); "Free Flow of Capital in the European Community", *INFOR* (February 2000).

Małgorzata Hirszel

Member of the Supervisory Board

Małgorzata Hirszel was appointed to the Supervisory



Board under Par. 11.2 of the Articles of Association on July 1st 2008. Since August 12th 2008, she has also served on the Strategy and Development Committee and the Organisation and Management Committee.

Ms Hirszel is a graduate of the Warsaw University, Faculty of Law and Administration, she also completed a post-graduate programme in European Studies run by the Warsaw University Faculty of Journalism and Political Science. Currently Ms Hirszel is pursuing doctoral studies at the Polish Academy of Sciences, the Institute of Legal Sciences.

In 2000, she joined the Chancellery of the Prime Minister, where she was the Chief Specialist/Counsel to the Head of the Chancellery until 2002, and then Counsel to the Vice-President and President of the Council of Ministers (the Prime Minister) in the Economic and Social Department (later transformed into the Council of Ministers Committee Department). In 2002–2006, Ms Hirszel served as Acting Deputy Head of the Economic Division of the Council of Ministers Committee Department, and then as Acting Head of the Programme Department of the Chancellery. In 2007, she became Head of the Council of Ministers Committee Department and Secretary of the Council of Ministers Standing Committee.

Ms Hirszel passed the examination for candidates for supervisory board members in state-stock companies in 2002.



Rafał Wardziński

Member of the Supervisory Board

Rafał Wardziński was appointed to the Supervisory Board on February 11th 2010. Since March 2nd 2010, he has also served on the Strategy and Development Committee. Mr Wardziński holds a master's degree from the Jean Monnet European Integration Department of the University of Szczecin; he completed supplementary studies at the Faculty of Law of the University of Liège, Belgium. He was also awarded a scholarship funded by the European Commission.

In 2003–2004, Mr Wardziński was employed at the European Integration Department of the Marshal's Office of the Province of Szczecin. Then, in 2004–2007, he worked as a consultant for the European Parliament Committee on Industry, Research and Energy in Brussels. From 2007 to 2008, he held the position of Director of the Regional Office of the Province of Szczecin in Brussels. Since 2008, he has worked at the Polish Ministry of State Treasury, currently as Deputy Director of the Department of Strategic Companies.

He was Chairman of the Supervisory of PERN Przyjaźń and Members of the Supervisory Board of Kopalnie i Zakłady Chemiczne Siarki Siarkopol S.A. Currently, he serves on the Supervisory Board of Operator Gazociągów Przesyłowych GAZ-SYSTEM S.A.

Ewa Sibrecht-Ośka

Member of the Supervisory Board



Ewa Sibrecht-Ośka was appointed to the Supervisory Board on June 28th 2010. Since August 2nd 2010, she has also served on the Organisation and Management Committee.

Ms Sibrecht- Ośka graduated from the Law Department at the University of Łódź. She has practiced as a legal counsel since 1994, having completed her legal counsel training held in Warsaw. From 1991 to 2001 she was employed at the Legal Department of the Ministry of Finance. In the same period, she was employed at a bank (1992–1995), at the Baker McKenzie law office (1995–1996), at the Cavere law office (1998–2001) and at the Office of the Committee for European Integration (2000–2001).

In 2001–2006, she worked for Nafta Polska S.A. In 2007, she worked as a legal counsel at the Corporate Supervision Department of the Capital City of Warsaw Municipal Office. Since November 2007, Ms Sibrecht-Ośka served as a legal counsel to the Minister at the Department of Corporate Supervision and Privatisation I of the Ministry of State Treasury. From May 2009 she was Head of the Department of Analyses at the Ministry of State Treasury, and since December 2010 – Head of the Department of Owner Supervision.

Ms Ewa Sibrecht-Ośka participated in the work on the draft Tax Advisory Services Act and on the Act on Compensation Proceedings at Entities of Particular Importance to the Polish Shipyard Industry. She also participated in the preparation of Grupa LOTOS to the listing on the stock exchange and in the process of privatisation of the Polish Heavy Chemical Sector, and more specifically in the project involving preparation of the sale of shares in the Heavy Chemical Sector companies, which included receipt of pre-privatisation analyses, work on agreements with the privatised companies, and negotiation of agreements with investors, including negotiation of public assistance issues.



Rafał Lorek

Independent Member of the Supervisory Board

Rafał Lorek was appointed to the Supervisory Board on June 28th 2010. Since August 2nd 2010, he has also served on the Audit Committee.

Mr Lorek is a graduate of Warsaw School of Economics. Most of his professional career is associated with the capital market in Poland. He worked for a number of leading institutions providing investment banking and wealth management services. Mr. Lorek started his career working as a stockbroker at Bank Handlowy and then at Societe Generale Securities Polska, in the period of 1995–2000. From 2001 to 2005 he worked for CAIB Investment Management S.A. as Account Manager and Deputy Director of Account Managers Team. Between 2005 and 2007, he served as Senior Wealth Manager at Citibank Polska. From 2007 to 2008, Mr Lorek worked for Bank Sal. Oppenheim Jr. & CIE Austria AG as Vice-President Private Banking. Since 2008, he has been running his own consulting company, R.S.P. LOREK. Since June 2010, he has served as President of the Management Board of Lorek Pawlak i Wspólnicy Sp. z

In 2010, the Supervisory Board of the seventh term of office comprised the following persons:

- Wiesław Skwarko – Chairman,
- Leszek Starosta – Vice-Chairman,
- Mariusz Obszyński – Secretary,
- Radosław Barszcz – Member,
- Małgorzata Hirszel – Member,
- Jan Stefanowicz – Member,
- Ireneusz Fąfara – Member.

On February 11th 2010, the Extraordinary Shareholders Meeting of Grupa LOTOS removed from office Mariusz Obszyński, Radosław Barszcz and Jan Stefanowicz, and appointed Oskar Pawłowski, Michał Rumiński and Rafał Wardziński in their place to serve on the Board for the remainder of the term. In the grounds for its request to make this change, the majority shareholder argued that it would help enhance supervision over the Company's activities.

Accordingly, as of February 11th 2010, the Supervisory Board comprised the following persons:

- Wiesław Skwarko – Chairman,
- Leszek Starosta – Vice-Chairman,
- Oskar Pawłowski – Secretary,
- Ireneusz Fąfara – Member,
- Małgorzata Hirszel – Member,
- Michał Rumiński – Member,
- Rafał Wardziński – Member.

Following the resignation of Ireneusz Fąfara on March 29th 2010, until June 28th 2010 the number of the Supervisory Board members remained lower than the number prescribed in Resolution 34 of the Annual General Shareholders Meeting of June 30th 2008, whereby the number of members of the Supervisory Board of the seventh term of office was set at seven. Considering the circumstances and the said resolution of the Annual General Shareholders Meeting, and in order to ensure smooth operation and proper discharge of duties by the Supervisory Board, a need arose to fill the vacancy. Moreover, the State Treasury, acting as a shareholder, recommended that the number of members be increased to ensure more effective operation and discharge of duties by the Supervisory Board. Accordingly, on June 28th 2010, the Annual General Shareholders Meeting adopted Resolution 20, whereby the number of the Supervisory Board members was set at eight, and whereby Ewa Sibrecht-Ośka and Rafał Lorek were appointed members of the Supervisory Board of the seventh term of office.

Standing committees of the Supervisory Board

Standing committees appointed by the Supervisory Board include the Audit Committee, Strategy and Development Committee, and Organisation and Management Committee.

Audit Committee

The Audit Committee is responsible for the provision of ongoing advisory support to the Supervisory Board with respect to proper implementation of the policies related to budgetary and financial reporting, the Company's internal control function and cooperation with its auditors.

In 2010 and as of the publication date of this report, the Audit Committee comprised the following persons:

January 1st–February 11th 2010:

- Jan Stefanowicz – Chairman
- Mariusz Obszyński
- Wiesław Skwarko
- Radosław Barszcz
- Ireneusz Fąfara.

During its first meeting held after the membership changes were made by the General Shareholders Meeting on February 11th 2010 (*members removed from office: J. Stefanowicz, M. Obszyński, R. Barszcz; new members: R. Wardziński, M. Rumiński, O. Pawłowski*), the Supervisory Board filled the vacancies on the Audit Committee and appointed Oskar Pawłowski and Rafał Wardziński as members and Ireneusz Fąfara as chairman of the Committee.

March 2nd–29th 2010:

- Ireneusz Fąfara – Chairman
- Wiesław Skwarko
- Oskar Pawłowski
- Rafał Wardziński.

Following the resignation of Ireneusz Fąfara from the Supervisory Board on March 29th 2010, the vacancy on the Audit Committee lasted from March 29th until August 2nd 2010. As provided for under Par. 2.3 of the Rules of Procedure for the Audit Committee, the Committee meetings were called by Wiesław Skwarko, Chairman of the Supervisory Board, until a new chairman was appointed.

On August 2nd 2010, during its first meeting held after the membership changes were made by the General Shareholders Meeting on June 28th 2010 (*new members: E. Sibrecht-Ośka, R. Lorek*), the Supervisory Board resolved to fill vacancies on the Audit Committee and appointed Rafał Lorek as member and Michał Rumiński as Chairman of the Audit Committee.

Accordingly, in the period from August 2nd until December 31st 2010, and as of the publication date of this report, the Audit Committee comprised the following persons:

- Michał Rumiński – Chairman
- Wiesław Skwarko
- Oskar Pawłowski
- Rafał Wardziński
- Rafał Lorek.

Organisation and Management Committee

The Organisation and Management Committee is responsible for providing the Supervisory Board with opinions and recommendations regarding the management structure, including organisation-related solutions, remuneration system and recruitment of personnel, with a view to enabling the Company to achieve its strategic objectives.

In 2010 and as of the publication date of this report, the Organisation and Management Committee comprised the following persons:

January 1st–February 11th 2010:

- Leszek Starosta – Chairman
- Małgorzata Hirszel
- Mariusz Obszyński.

During its first meeting held after the membership changes were made by the General Shareholders Meeting on February 11th 2010 (*members removed from office: J. Stefanowicz, M. Obszyński, R. Barszcz; new members: R. Wardziński, M. Rumiński, O. Pawłowski*), the Supervisory Board filled the vacancies on the Organisation and Management Committee, and appointed Michał Rumiński and Oskar Pawłowski as Committee members.

Accordingly, in the period from March 2nd until August 2nd 2010, the Organisation and Management Committee comprised the following persons:

- Leszek Starosta – Chairman
- Małgorzata Hirszel
- Michał Rumiński
- Oskar Pawłowski.

During its first meeting held after the membership changes were made by the General Shareholders Meeting on June 28th 2010 (*new members: E. Sibrecht-Ośka, R. Lorek*), the Supervisory Board filled the vacancy on the Organisation and Management Committee and appointed Ewa Sibrecht-Ośka as Committee member.

Accordingly, in the period from August 2nd until December 31st 2010, and as of the publication date of this report, the Organisation and Management Committee comprised the following persons:

- Leszek Starosta – Chairman
- Małgorzata Hirszel
- Michał Rumiński
- Oskar Pawłowski
- Ewa Sibrecht-Ośka.

Strategy and Development Committee

The Strategy and Development Committee is responsible for providing the Supervisory Board with opinions and recommendations regarding planned capital expenditure projects with a material bearing on the Company's assets and relating to the Company's long-term strategies.

In 2010 and as of the publication date of the report, the Strategy and Development Committee comprised the following persons:

January 1st–February 11th 2010:

- Wiesław Skwarko – Chairman
- Radosław Barszcz
- Leszek Starosta
- Jan Stefanowicz
- Małgorzata Hirszel.

During its first meeting held after the membership changes were made by the General Shareholders Meeting on February 11th 2010 (*members removed from office: J. Stefanowicz, M. Obszyński, R. Barszcz; new members: R. Wardziński, M. Rumiński, O. Pawłowski*), the Supervisory Board filled the vacancies on the Strategy and Development Committee, and appointed Rafał Wardziński and Michał Rumiński as Committee members.

Accordingly, in the period from March 2nd until December 31st 2010 and as of the publication date of this report, the Strategy and Development Committee comprised the following persons:

- Wiesław Skwarko – Chairman
- Rafał Wardziński
- Leszek Starosta

- Michał Rumiński
- Małgorzata Hirszel.

Remuneration

The determination of the remuneration policy for members of the Supervisory Board rests within the scope of powers of the General Shareholders Meeting. Remuneration of the Supervisory Board members is subject to limitations prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Journal of Laws (Dz.U.) of 2000 No 26, item 306, as amended).

Acting in accordance with the Act, in 2000 the Extraordinary General Shareholders Meeting defined a remuneration policy for the Supervisory Board members, which provides as follows:

- Board members receive monthly remuneration equal to the average monthly salary in the non-financial corporate sector net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by the President of the GUS (Central Statistics Office),
- the remuneration is payable irrespective of the frequency of Board meetings. This, however, does not apply if in a given month a member of the Board is absent from all meetings held in that month without a valid reason,
- if a Board member is appointed or removed from office during a calendar month, the remuneration amount is calculated according to the number of days in office,
- the Company covers all costs and expenses incurred in the performance of duties by members of the Supervisory Board and, acting pursuant to the Act on Personal Income Tax, it assesses and withholds tax payments on their remuneration income.

Remuneration of the Supervisory Board members in 2010

Name	Amount (PLN)
Wiesław Skwarko (*)	3,455
Leszek Starosta	41,888
Mariusz Obszyński	8,585
Radosław Barszcz	8,585
Jan Stefanowicz	8,585
Małgorzata Hirszel	41,888
Oskar Pawłowski	33,304
Michał Rumiński	33,304
Rafał Wardziński	33,304
Ewa Sibrecht-Ośka	17,273
Rafał Lorek	17,273
Ireneusz Fąfara	13,917

* Until October 31st 2010, no remuneration was paid to Wiesław Skwarko for his serving on the Supervisory Board of Grupa LOTOS

None of the Supervisory Board members holds any shares in the Company.

Independent members

Rule 6 contained in Section III of the Code of Best Practice for WSE Listed Companies provides as follows: "At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company."

"The independence criteria should be applied under Annex II to the Commission Recommendation of February 15th 2005 on the roles of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting."

The Company does not fully comply with the rule as it received relevant confirmation of independence with respect to only one member of the Supervisory Board, namely Mr Rafał Lorek. Full compliance will be ensured after the Company receives relevant confirmation that at least two existing or newly appointed members of the Supervisory Board satisfy the independence criteria, as stipulated by Annex II to the Commission Recommendation of February 15th 2005.



Avoidance of conflicts of interest

The provisions of Art. 387 of the Commercial Companies Code prohibit a current member of the Company's Management Board, proxy, liquidator, head of a division or production facility, or internal chief accountant, counsel or lawyer from serving on the Supervisory Board.

In addition, members of the Company's Supervisory Board, upon appointment, are required to make a representation to the effect that they are not engaged in any activities competing with the Company's business, and that they are not partners in any competing partnership under civil law or another type of partnership, nor members of a governing body of an incorporated company or of any other competing legal entity.

Commitment to sustainable development

The interest of the Supervisory Board of Grupa LOTOS is focused on the Company's activities in the perspective of sustainable development as regards the access to raw materials as well as the social and environmental impact of the Concern.

In 2010, the Supervisory Board met nine times and adopted 41 resolutions, two of them being written resolutions. In its work, the Board focused on a number of strategic areas and considerations, including the assessment of performance, opportunities and risks pertinent to sustainable growth. These included:

- progress of work under the 10+ Programme,
- upstream opportunities,
- LOTOS Group's strategy for 2011–2015 and development directions until 2020,
- implementation of the of Anti-Crisis Package,
- financing of CSR projects, and
- corporate sponsorships.

Management Board

The Management Board applies best practices in its communication with the external and internal groups of stakeholders.

Powers and duties

The Management Board represents the Company before third parties and manages its affairs. This does not apply to matters reserved to the General Shareholders Meeting or the Supervisory Board, nor matters falling outside the scope of ordinary management duties delegated to individual Management Board members.

Composition

Pursuant to the Articles of Association of Grupa LOTOS, the Management Board is composed of three to seven members, including the president and vice-presidents. The number of members of the Management Board is defined by way of a resolution of the Supervisory Board.

Remuneration

As the State Treasury's equity interest in the Company exceeds 50%, Grupa LOTOS is subject to the provisions of the Compensation Cap Act.

Avoidance of conflicts of interest

As a means to avoid conflicts of interest, the Company complies with the provisions of the Commercial Companies Code, the Rules of Procedure of the Management Board and the "Code of Best Practice for WSE Listed Companies".

Powers and duties

The Management Board represents the Company before third parties and manages its affairs. This does not apply to matters reserved to the General Shareholders Meeting or the Supervisory Board, nor matters falling outside the scope of ordinary management duties delegated to individual Management Board members.

The Management Board of Grupa LOTOS acts in accordance with the Articles of Association and the Rules of Procedure for the Management Board. The documents are available on the Company's website.

Management Board Regulations of Grupa LOTOS [[link](#)]

In 2010, the Management Board met 51 times and adopted 128 resolutions.

Composition

Pursuant to the Articles of Association of Grupa LOTOS, the Management Board is composed of three to seven members, including the president and vice-presidents. The number of members of the Management Board is defined by way of a resolution of the Supervisory Board.

The Supervisory Board appoints the Management Board, first appointing the President of the Board, and then – acting upon the president's proposal – vice-presidents and the other Management Board members. The term of office of the Management Board is a joint term of three years.

In the period from January 1st until December 31st 2010, the Management Board of Grupa LOTOS of the seventh term of office comprised the following four persons:

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



Paweł Olechnowicz

President of the Board, Chief Executive Officer

Paweł Olechnowicz was appointed President of the Board on March 12th 2002. In this capacity, he is in charge of, and takes responsibility for, the overall management and direction of the Company's operations. He is also acting Vice-President of the Management Board responsible for Oil and Gas Exploration & Production.

Paweł Olechnowicz graduated from the Faculty of Technology and Mechanisation of Foundry Engineering at the AGH University of Science and Technology in Kraków. He also holds a post-graduate diploma from the Gdańsk University of Technology (Organisation, Economics and Management of Industry) and an MBA degree from INSEAD in Fontainebleau, France. He has completed a number of specialist leadership and management courses, both in Poland and abroad. In 1977, he started his professional career at Zakłady Mechaniczne Zamech of Elbląg (from 1990 – ABB Zamech Sp. z o.o.). In 1990-1996, he was President of the Management Board and CEO of ABB Zamech Ltd. Subsequently, for two years Paweł Olechnowicz worked at the head office of ABB Ltd in Zurich, Switzerland, as vice-president for Central and Eastern Europe. In 1999-2000, Mr Olechnowicz served as vice-president and deputy CEO of ZML Kęty S.A., and from 2001 he ran his own consulting business: Paweł Olechnowicz – Consulting. He is currently Chairman of the Polish Higher Education-Business Forum and Chairman of the Board of Directors of Central Europe Energy Partners.

Marek Paweł Sokołowski

Vice-President of the Board, Chief Operation Officer



Marek Paweł Sokołowski was appointed Vice-President of the Board on April 19th 2002. In this capacity, he is in charge of, and takes responsibility for, the overall management, coordination and direction of the production, technology and development divisions, as well as the refinery expansion division (which is implementing the 10+ Programme). He is also charged with oversight of companies allocated to the LOTOS Group's operating segment.

Marek Paweł Sokołowski graduated from the Faculty of Electrical Engineering at the Gdańsk University of Technology. He has also completed post-graduate studies in the implementation of investment projects in industry and a number of specialist leadership and management courses, both in Poland and abroad. In 1973, Marek Sokołowski joined Rafineria Gdańska S.A. (currently: Grupa LOTOS), where in 1990 he became Technical Director and Member of the Management Board. For three consecutive terms in office, his chief responsibility was the refinery's plant engineering and execution of investment projects. In 1996–2000, he was in charge of an investment programme involving the refinery's expansion and technical upgrade. In mid-2000, he was appointed Chief of Technical Service and the Company's Commercial Proxy. In his capacity as Vice-President of the Board, he implemented an extensive programme of the operating segment's restructuring. He initiated the Operational Excellence Programme, aimed to implement professional training methods for operators of production processes and to apply mathematical optimisation methods to manage refinery production.

One of his greatest achievements has been the execution of several successive development programmes at the Gdańsk refinery, as a result of which the plant's production capacities have been expanded from 3 to 10.5 million tonnes of crude oil per year. The largest of them, i.e. the 10+ Programme, which was prepared by Marek Sokołowski as Vice-President of the Board, has just been completed, placing Grupa LOTOS among the top European refineries.

Mariusz Machajewski

Vice-President of the Board, Chief Financial Officer

Mariusz Machajewski was appointed Vice-President of the Board on June 19th 2006. In this capacity, is in charge of, and takes responsibility for, the overall management of the Company's economic, financial and accounting activities.

Mariusz Machajewski graduated from the Faculty of Economics of the University of Gdańsk. Additionally, he has completed a number of specialist courses in leadership, management and economics, both in Poland and abroad. In 1994–1997, he worked at Stocznia Gdynia S.A. In 1997, he joined Rafineria Gdańska S.A. (currently: Grupa LOTOS) and in 1999 he was put in charge of the Company's controlling function. Since mid-2002, he has held the position of Chief Financial Officer. In the period April 2005 - June 2006, he served as the Company's Commercial Proxy. In April 2010, he received the prestigious *Chief Financial Officer of the Year 2009* title.





Maciej Szozda

Vice-President of the Board, Chief Commercial Officer

Maciej Szozda was appointed Vice-President of the Board on July 1st 2009. In this capacity, he is charged with, and takes responsibility for, the overall management of the Company's marketing division. He is also charged with oversight of companies allocated to the LOTOS Group's marketing segment.

Maciej Szozda graduated from the Warsaw School of Economics (Faculty of Economics). In 1980, he started to work for PHZ Labimex. In 1983–1984, he was managing director at KWM Engineering. Then, until 1986, he worked in the US as Contract Manager. In 1986, he joined Przedsiębiorstwo Zagraniczne Ipaco, where he held the position of Director, while in 1987–1989 he was Export Manager for Sinexim GmbH of West Berlin. Starting from 1989, he operated as a sole trader, which included work for Easey Garments UK Ltd. as Head of the Representative Office for Poland and the CIS countries. In 2002, he joined PKN Orlen S.A., where he served (in chronological order) as Director of the Office of Planning and Development of Retail Network, Director of the Office of Development of Retail Network – Europe, and Retail Sales Executive Director. From October 2008 to February 2009, Maciej Szozda was Member of the Supervisory Board of Orlen Deutschland AG. From 2007 to March 2009, he served as Member and then President of the Management Board of AB VENTUS NAFTA of Vilnius, a company of the ORLEN Group.

Positions held by members of the Management Board of Grupa LOTOS at companies of the LOTOS Group in 2010

Paweł Olechnowicz	Chairman of the Supervisory Board	LOTOS Petrobaltic S.A. (until July 1st 2010)
	Chairman of the Board of Directors	LOTOS Exploration and Production Norge AS
Marek Sokołowski	Chairman of the Supervisory Board	LOTOS Czechowice S.A.
	Chairman of the Supervisory Board	LOTOS Biopaliwa Sp. z o.o.
Mariusz Machajewski	Member of the Supervisory Board	LOTOS Paliwa Sp. z o.o.
	Chairman of the Supervisory Board	RCEkoenergia Sp. z o.o.
Maciej Szozda	Chairman of the Supervisory Board	LOTOS Paliwa Sp. z o.o.
	Vice-Chairman of the Supervisory Board	LOTOS Biopaliwa Sp. z o.o.

Remuneration

As the State Treasury's equity interest in the Company exceeds 50%, Grupa LOTOS is subject to the provisions of the Compensation Cap Act.

In 2000, the powers to determine the remuneration policy for members of the Management Board rested with the General Shareholders Meeting, which exercised its powers by adopting, in August 2000, of resolutions setting out the rules of remuneration and employment of members of the Company's Management Board. The resolutions remained in effect until June 30th 2009, when the Annual General Shareholders Meeting amended the Company's Articles of Association regarding the division of powers between the General Shareholders Meeting and the Supervisory Board, so that the powers to determine the remuneration policy for members of the Management Board, the amount of monthly remuneration for members of the Management Board and the amount of the annual bonus for President of the Board, were transferred from the General Shareholders Meeting to the Supervisory Board. The amendments were introduced to render the Articles of Association flexible enough to incorporate a general principle set forth in Art. 378.1 of the Commercial Companies Code, whereby the powers to determine the remuneration of Management Board members rest with the Supervisory Board, with the proviso: "unless specifically provided for otherwise in applicable laws", which refers to the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Dz. U. of 2000, No. 26, item 306, as amended).

The proposal of the Supervisory Board concerning the transfer of powers from the General Shareholders Meeting to the Supervisory Board, put to vote at the General Shareholders Meeting, was justifiable and not in conflict with the provisions of the Compensation Cap Act by which the Company was bound, since the same General Shareholders Meeting approved an increase in the Company's share capital by way of a non-cash contribution in the form of shares in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic, LOTOS Czechowice and LOTOS Jasło held by the State Treasury. By virtue of the General Shareholders Meeting's decision, the share capital of Grupa LOTOS was increased from PLN 113,700,000 to PLN 129,873,362, through the issue of 16,173,362 new Series C ordinary bearer shares, which were offered to the State Treasury in private placement, with the pre-emptive rights of existing shareholders waived. In return, the State Treasury transferred to Grupa LOTOS 2,801,400 shares in Petrobaltic, 375,000 shares in LOTOS Czechowice and 300,000 shares in LOTOS Jasło. As a result of the transaction, upon the registration of the share capital increase by the competent court (on July 17th 2009), the Company's ownership structure changed. The equity interest of shareholder Nafta Polska S.A. fell from 51.91% to 45.45%, and consequently Grupa LOTOS ceased to be subject to the provisions of the Compensation Cap Act.

However, on July 22nd 2009, the State Treasury acquired another significant block of shares in Grupa LOTOS based on an agreement of July 16th 2009 between Nafta Polska and the Minister of the State Treasury. In performance of the agreement, Nafta Polska transferred to the State Treasury a total of 59,025,000 shares in Grupa LOTOS. As a result, Nafta Polska does no longer hold any shares in the Company, while the State Treasury's equity interest has risen to 63.97%.

In connection with the transaction, the provisions of the Compensation Cap Act are again applicable to Grupa LOTOS. Accordingly, as provided for in the Act, the powers to determine the remuneration policy for President of the Board are vested with the General Shareholders Meeting, acting upon a proposal from the Supervisory Board, whereas the powers to determine the rules and amounts of remuneration for other members of the Management Board rest with the Supervisory Board.

Given that the State Treasury's equity interest in the Company exceeds 50% (50% of all shares), Grupa LOTOS is subject to the provisions of Art. 8.4 of the Act.

In view of the foregoing, on November 13th 2009, the Supervisory Board – acting within the powers vested in it by Par. 13.2.1 of the Company's Articles of Association and the Act of March 3rd 2000 – decided that Vice-Presidents of the Company's Management Board would receive remuneration equal to six-fold the average monthly salary in the non-financial corporate sector, net of bonuses paid from profit in the fourth quarter of the preceding year, as announced by President of the GUS (Central Statistics Office), and proposed that the General Shareholders Meeting determine the remuneration for President of the Board at the same level.

Concurring with the proposal of the Supervisory Board, contained in Resolution No. 63/VII/2009 of November 13th 2009, on December 17th 2009 the Extraordinary General Shareholders Meeting determined the remuneration policy for President of the Board, while repealing the General Shareholders Meeting's resolution of August 18th 2000, which until then defined the rules of remuneration for members of the Management Board.

On January 22nd 2010, the State Treasury sold 14,000,000 ordinary bearer shares in Grupa LOTOS, which however did not affect the rules of remuneration for members of the Management Board, as the provisions of the Compensation Cap Act continue to apply to Grupa LOTOS. Following the above transaction, the State Treasury currently holds a total of 69,076,392 ordinary bearer shares, representing 53.19% of the Company's share capital and conferring the right to 53.19% of the total vote.

Furthermore, pursuant to individual employment contracts, members of the Management Board are entitled – for the duration of their respective employment contracts – to fringe benefits including:

- the costs of life insurance (incl. monthly premiums),

- above-standard medical care, provided by non-public healthcare establishments in Poland and abroad, for members of the Management Board and their families.

In addition, the President of the Board and Vice-President of the Management Board, Chief Commercial Officer, are entitled to a fringe benefit in the form of tied accommodation in the Gdańsk-Gdynia-Sopot conglomeration (inc. payment of rent and service charges), although the above persons have not yet claimed that benefit.

At the same time, pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities dated March 3rd 2000 (Dz. U. of 2000, No. 26, item 306, as amended) and the Regulation of the Minister of State Treasury concerning Detailed Rules and Procedure for Granting Annual Bonuses to the Management Staff of Certain Legal Entities, dated March 12th 2001 (Dz. U. of 2001, No. 22, item 259), members of the Management Board may receive annual bonuses. Annual bonuses may be awarded if the Company:

- improved its financial performance,
- strengthened its position on the market or in the industry,
- successfully implemented restructuring or growth plans,
- did not exceed the maximum annualised average monthly remuneration growth ratio,
- settled public charges in a timely manner.

Annual bonuses may only be granted after the financial statements have been approved. Eligibility to receive an annual bonus is limited to members of the Management Board who served in that capacity for the full financial year and during that time were not found guilty of gross dereliction of duty, their employment was not terminated for reasons attributable to them, their management contracts were not terminated or they were not removed from office for reasons constituting grounds for summary dismissal. In accordance with the applicable regulations, the maximum amount of annual bonus is equal to three-fold the average monthly salary in the year preceding the bonus award. A decision to grant an annual bonus to the President of the Board rests with the General Shareholders Meeting, upon a proposal from the Supervisory Board. In the case of the other members of the Management Board, a decision to grant annual bonuses rests with the Supervisory Board.

Remuneration of the Management Board members in 2010

Name	Amount (PLN)
Paweł Olechnowicz	301,842
Marek Sokołowski	300,808
Mariusz Machajewski	300,808
Maciej Szozda	261,613

Marek Sokołowski, Vice-President of the Board, holds 8,636 shares in Grupa LOTOS. The other members of the Management Board do not hold any shares in the Company.



Avoidance of conflicts of interest

As a means to avoid conflicts of interest, the Company complies with the provisions of the Commercial Companies Code, the Rules of Procedure of the Management Board and the “Code of Best Practice for WSE Listed Companies”.

Pursuant to the Rules of Procedure of the Management Board, in conjunction with Art. 377 of the Commercial Companies Code, if there occurs a conflict between the interests of the Company and those of a Management Board member or any persons to whom the Management Board member is personally related, then the Management Board member should refrain from participating in the resolution of a given matter. Furthermore, in accordance with the “Code of Best Practice for WSE Listed Companies”, a Management Board member should notify the Management Board of any conflict of interests which has arisen or may arise, and should refrain from taking part in the discussion and from voting on resolutions on the issue which gives rise to such conflict of interests. Pursuant to the Rules of Procedure of the Management Board, the Supervisory Board’s approval is required for members of the Management Board to hold positions on the supervisory or management bodies of other companies. Concurrently, the provisions of the Commercial Companies Code apply which prohibit a current member of the Management Board from serving on the Supervisory Board. This also applies to other persons reporting directly to a Management Board member.



Statements

Consolidated financial statements

The consolidated financial statement for the year ending 31 December 2010 has been drawn up in compliance with the International Financial Reporting Standards. An opinion by a licensed auditor has been enclosed with the statement.

Consolidated non-financial statement

The 2010 consolidated non-financial statement has been prepared based on the Reporting Framework and Version 3 of the Global Reporting Initiative Guidelines (G3 GRI) as well as the Principles of the United Nations Global Compact regarding human rights, working conditions, the natural environment and corruption prevention.



Consolidated financial statements

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

Auditor's opinion	▶
Financial highlights – consolidated	▶
Consolidated statement of comprehensive income	▶
Consolidated statement of financial position	▶
Consolidated statement of cash flows	▶
Consolidated statement of changes in equity	▶
Notes to the financial statements	▶

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.

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'

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.

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
--------------	-----------	-----------	-----------	-----------

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).

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.

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		-	-

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.

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

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.

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

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.

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

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.

Notes to the financial statements

- | | |
|--|--|
| 1. General Information | 25. Non-Current Receivables |
| 2. Composition of the Group | 26. Trade and Other Receivables |
| 3. Composition of the Management and Supervisory Boards of the Parent Undertaking | 27. Prepayments and Accrued Income |
| 4. Approval of the Consolidated Financial Statements | 28. Current Financial Assets |
| 5. Going Concern | 29. Employee Benefits |
| 6. Duration of the Group | 30. Cash and Cash Equivalents |
| 7. Balance-Sheet Date and the Period Covered by the Financial Statements | 31. Cash Structure in the Statement of Cash Flows |
| 8. Measurement Currency and Reporting Currency | 32. Share Capital |
| 9. Basis of Preparation of the Consolidated Financial Statements | 33. Non-Controlling Interests |
| 10. Accounting Policies | 34. Interest-Bearing Loans and Borrowings |
| 11. Business Segments | 35. Bonds |
| 12. Income and Expenses | 36. Provisions |
| 13. Income Tax | 37. Trade and Other Payables, Accruals and Deferred Income, and Other Liabilities |
| 14. Assets for Social Purposes and Liabilities of the Company's Social Benefits Fund | 38. Contingent Liabilities |
| 15. Earnings per Share | 39. Related Parties |
| 16. Dividends | 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. |
| 17. Property, Plant and Equipment and Tangible Assets under Construction | 41. Financial Risk Management |
| 18. Intangible Assets | 42. Financial Instruments |
| 19. Investment Property | 43. Employment Structure |
| 20. Business Combinations | 44. Other Information |
| 21. Investments in Associated Undertakings | 45. Capital Management |
| 22. Assets Held for Sale | 46. Material Events Subsequent to the Balance-Sheet Date |
| 23. Non-Current Financial Assets | 47. Signatures of the Management Board Members and the Person Responsible for Keeping the Accounting Books of Grupa LOTOS S.A. |
| 24. Inventories | |

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.

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).

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.

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.

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.

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.

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.

6. Duration of the Group

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

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.

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](#)).

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.

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.

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.

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 zloty) 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 zloty at relevant zloty 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 the statement of comprehensive income as finance income or expenses. An entire contract can be designated as financial assets as 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 as 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
--------------	--------------	-------------------	--------------	-------------------

(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.

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.

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
----------	------	---------------------------	---------------------------

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
--------------	----------------	----------------

(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

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.

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).

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.

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

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.

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.

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.



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.

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.

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).

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.

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).

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.

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.

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.

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).

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.

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).

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.

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 PLN 10,200 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](#)).

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.

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.

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.

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

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.

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

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.

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.

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.

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

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.

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).

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.

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).

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.

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).

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.

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)

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.

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 Otwarty 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*.

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.

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 Geonaftha	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 400,563	-	-	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 Gdańsk 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	-	-					
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	
Bank Consortium (4)	-	USD 200,000 or equivalent		181,163	USD 63,559	-	-	Overdraft facility	-	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					
TOTAL				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.

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.

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).

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.



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.

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.

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
Beneficiary						
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			

(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
----------------------	---	---	---	-------------	------------------------	---

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
---------	-----------------------	------------------------	------------------------	-------	------------------------------

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 Asphalt 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	nderlying 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.

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.



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

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.

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.

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.



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.

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.

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.

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.



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

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.



Consolidated non-financial statement

Grupa LOTOS declares to have reached Level A within the three-level reporting system of GRI Application Levels.

Profile of the statement

The 2010 consolidated non-financial statement has been prepared based on the Reporting Framework and Version 3 of the Global Reporting Initiative Guidelines (G3 GRI). Grupa LOTOS is at the Application Level A¹ in the three-level reporting system.

GRI application level	C	C+	B	B+	A	A+
Self-declaration					✓	

This statement provides an overview of the LOTOS Group activities in the financial year 2010. It also covers important corporate events occurring in the first three months of 2011, that is shortly before the report release date.

This consolidated non-financial statement is the fourth in a series of publications which present the non-financial aspects of the LOTOS Group's operations. A sustainability overview formed an integral part of the 2009 Annual Report, which was the first integrated report ever released by a Polish company. It received accolades in the 2010 best social report competition organised by PwC, the Responsible Business Forum and CSR Consulting. The distinction was granted in recognition of the successful incorporation of social and environmental reporting into the corporate reporting system, as well as for the LOTOS Group's determination to prepare integrated corporate reports encompassing the financial and non-financial aspects of its activities. This Annual Report is a continuation of the adopted practice, but at the same time the scope of its non-financial section has been extended to include the exploration and production company, LOTOS Petrobaltic in addition to the parent Grupa LOTOS and its service and distribution subsidiaries, which were covered by the 2009 report.

The previous reports are available at www.csr.lotos.pl.

The Management Board of Grupa LOTOS resolved to start publishing reports on the progress in the implementation of the CSR strategy on a yearly basis.

The Office for Sponsorship, Social Affairs and Corporate Social Responsibility is in charge of coordinating the sustainability reporting processes at the LOTOS Group. Interested parties may contact the Office at csr@grupalotos.pl. For further contact details, see the closing sections of the report.

¹ The individual Application Levels were assigned the letters from C (lowest grade), through C+ (where "+" is given if the report has been verified by an independent external certification body) B, B+, A to A+. The reporting criteria used for each level measure the extent to which the Guidelines and the GRI Reporting Framework have been applied.



Scope of the report

In determining the content of the consolidated non-financial statement and other non-financial sections of the Annual Report, we were guided by the GRI Reporting Framework.

The information contained in the statement was selected based on the materiality criterion, which we define as the potential to impact the LOTOS Group's compliance with the sustainable development principles and the power to influence the LOTOS Group's external stakeholders looking for reliable, comparable and accurate information and data which then affect their decisions and choices.

This statement was prepared using the full range of core indicators, including economic, environmental and social performance indicators, as well as the majority of additional indicators provided for in the GRI Guidelines. As no relevant sector supplement was available at the time of drafting the statement, no sector-specific performance indicators were applied except for those included in the core set. The methods used to calculate the figures presented in the financial statement were the same as applied for the purposes of preparing the LOTOS Group's consolidated financial statements for 2010, i.e. in accordance with the International Financial Reporting Standards (IFRS) effective as at December 31 2010.

For a vast majority of thematic areas, the facts and figures presented in the statement pertain to Grupa LOTOS, the parent company. However, all due care and consideration was given to account for the consolidated data where possible. In sections devoted to product responsibility, information relating to service and distribution companies was disclosed, while in sections focusing on environmental responsibility, we provided data on LOTOS Petrobaltic, our exploration and production subsidiary. In each case, a clear distinction was made by specifically indicating the subsidiary currently discussed. In the previous reporting period, no material changes occurred with respect to the LOTOS Group's subsidiaries which would affect the overall assessment of the organisation, both in terms of specific aspects of its activities and domestic peer comparison.

GRI indicators reported by LOTOS Asphalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny and LOTOS Petrobaltic, relevant to their activities in 2010

Aspect	Indicator
Products and services	EN26, EN27
Transport	EN29
Customer health and safety	PR1
Product and service labelling	PR3, PR5
Marketing communications	PR7, PR8
Customer privacy	PR8
Compliance	PR2, PR4, PR9
Biodiversity	EN11
Indirect economic impacts	EC9
Market presence	EC5, EC6, EC7

In the course of work on the 2010 Annual Report, 74 GRI reporting indicators were applied.

Data verification

All data contained in the statement was gathered in a reliable and responsible manner and certified by members of senior management staff of Grupa LOTOS and selected subsidiaries, who are responsible for the respective reporting areas.

The financial information is consistent with the data disclosed in the consolidated financial statements for the respective periods.

The content of the consolidated non-financial statement was not verified by an independent external certification body. It should be emphasised, however, that the bulk of the data for the previous financial year contained in this statement was subject to a review by auditors with Ernst&Young Audit Sp. z o.o.; who audited the LOTOS Group's consolidated financial statements.

Grupa LOTOS has implemented the Integrated Management System which is certified for compliance with ISO 9001, ISO 14001, and PN-N-18001. In addition, the requirements of AQAP 2110 (Allied Quality Assurance Publication) and requirements of the Internal Control System for trading in strategic materials (consistent with the PN-N-19001 standard) are met.

In July 2010, the Integrated Management System recertification audit was successfully completed at the Company. The audit is designed to determine whether the management system is compliant with the ISO 9001, ISO 14001, and PN-N-18001 standards. The recertification audit is performed every three years. Both recertification and surveillance audits (carried out annually) are performed by an independent external certification body.

Moreover, internal audits are carried out at the LOTOS Group which aim to monitor the progress achieved in the implementation of the Integrated Management System requirements, as well as the efficiency of related processes. For more information on the audits of the Integrated Management System, see subsection *Management systems*.

Acting in line with the adopted principles of transparent communication with stakeholders, Grupa LOTOS has its CSR performance regularly reviewed by external experts: it participates in professional surveys which serve to compare the achievements of socially responsible companies. A major accomplishment in this area in 2010 was the participation in:

- 2010 Responsible Company Ranking – compiled by Business Ethics Centre of the Kozminski University and Responsible Business Forum. Grupa LOTOS' performance and achievements on which the ranking was based were reviewed by PricewaterhouseCoopers, the project partner;
- RESPECT Rating – providing the basis for selecting companies eligible for the Warsaw Stock Exchange's RESPECT Index. The CSR activities undertaken by Grupa LOTOS were reviewed by the accounting firm Deloitte during the selection process.

In both cases, auditors verified information furnished by the Company by holding interviews with its representatives and by analysing the provided documents.

Economic aspects

In its decision-making processes, the LOTOS Group takes into account their indirect impact on the organisations's environment. By cooperating with local suppliers and business partners, the Concern can improve the quality of life and stimulate the spirit of entrepreneurship in local communities. The financial data related to social responsibility illustrate the flow of capital between all groups involved in the Company along with the economic impact of the entire organisation on the society as a whole.

Economic performance

GRI	INDICATOR
EC 1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments

Grupa LOTOS	2006	2007	2008	2009	2010
k PLN					
Revenues, net	11,630,382	11,867,884	14,900,794	12,711,611	18,132,827
Operating costs	10,712,102	10,851,429	14,867,282	12,116,519	17,104,229
Employee compensation and other employee benefits	82,771	94,724	115,587	131,585	136,840
Payments to capital providers	3,093	65,680	61,497	127,114	126,842
Payments to governments	5,249,087	6,730,682	7,108,738	8,557,314	9,425,916
Community investments	1,876	1,121	651	793	1,240

On June 28th 2010, the General Shareholders Meeting of Grupa LOTOS passed a resolution on the distribution of net profit for 2009. Pursuant to the resolution, PLN 1,000 thousand was transferred to a special-purpose fund used by Grupa LOTOS to finance CSR projects.

LOTOS Group	2006	2007	2008	2009	2010
k PLN					
Revenues, net	12,834,708	13,143,463	16,309,960	14,344,851	19,695,002
Operating costs	10,978,033	11,368,625	15,314,995	12,775,790	17,562,048
Employee compensation and other employee benefits	359,998	388,418	422,506	462,948	497,043
Payments to capital providers	32,845	96,768	99,729	176,338	174,154
Payments to governments	5,968,567	7,194,536	7,519,904	8,951,791	9,804,980
Community investments	2,352	1,362	898	839	1,485

GRI	INDICATOR
EC 3	Coverage of the organisation's defined benefit plan obligations

As Grupa LOTOS has obligations under the Collective Bargaining Agreement, it recognises provisions for severance pays and length-of-service awards.

Grupa LOTOS	2006	2007	2008	2009	2010
k PLN					
Provisions for severance pays and length-of-service awards:					
- long-term	15,150	19,072	27,612	28,820	31,420
- short-term	2,189	2,753	3,666	4,348	4,973
Total provisions	17,339	21,825	31,278	33,168	36,393

Contributions under insurance contract with investment fund covering Grupa LOTOS employees (Pillar 3 of the Polish pension system)	1,453	2,496	3,105	3,439	3,800
--	-------	-------	-------	-------	-------

LOTOS Group					
k PLN					
Provisions for severance pays and length-of-service awards:					
- long-term	54,232	60,295	82,587	87,961	95,370
- short-term	7,472	8,888	9,505	10,733	12,459
Total provisions	61,704	69,183	92,092	98,694	107,829
Contributions under insurance contract with investment fund covering LOTOS Group employees (Pillar 3 of the Polish pension system)					
	4,524	7,068	8,720	10,195	10,174

GRI	INDICATOR
EC 4	Significant financial assistance received from government

Grupa LOTOS	2006	2007	2008	2009	2010
k PLN					
Subsidies received	3,416	2,808	-	5,908	-
Subsidies settled	-	-	-	-	-
Subsidies at end of year	16,560	19,368	19,368	25,276	25,276

LOTOS Group					
k PLN					
Subsidies received	3,486	4,322	19	5,908	791
Subsidies settled	634	601	663	744	1,122
Subsidies at end of year	20,819	24,540	23,896	40,343	40,012

LOTOS Asphalt conducts its operations within the Tarnobrzeg Special Economic Zone, EURO-PARK WISŁOSAN, under Permit No. 158/ARP S.A./2008 issued on

January 23rd 2008. The permit is valid through November 15th 2017. In light of the applicable regulations, LOTOS Asfalt is exempt from corporate income tax over the period covered by the permit. The company assesses the taxable income in accordance with the Act on Corporate Income Tax of February 15th 1992. For the purposes of calculating the taxable income and tax exempt income, LOTOS Asfalt makes a distinction between costs and income associated with in-zone operations and out-of-zone operations. The tax exemption is applied under the Act on Special Economic Zones of October 20th 1994 and Permit No. 158/ARP S.A./2008 of January 23rd 2008. Also, owing to the fact that its investments are conducted within the Tarnobrzeg Special Economic Zone, LOTOS Asfalt is entitled to a tax exemption which allows it to reduce the income tax due by an amount not exceeding 50% of total investment expenditures incurred within the Tarnobrzeg Special Economic Zone.

Market presence

GRI	INDICATOR
EC 5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operations

No.	Location	Minimum base pay in 2010 (PLN)	Ratio of minimum base pay to national minimum wage in 2010 of PLN 1,317 (%)
Grupa LOTOS			
1.	Gdańsk	2,550	194
2.	Czechowice	2,755	209
3.	Jasło	2,600	197
4.	Kraków	4,284	325
5.	Piotrków Trybunalski	4,419	336
6.	Poznań	2,900	220
7.	Rypin	3,162	240
8.	Warszawa	3,490	265
LOTOS Asfalt			
1.	Gdańsk	2,500	190
2.	Czechowice	2,464	187
3.	Jasło	1,500	114
LOTOS Kolej			
1.	Gdańsk	2,600	197
2.	Czechowice	2,421	184
3.	Jasło	2,475	188
4.	Zduńska Wola	2,700	205
LOTOS Oil			
1.	all locations	2,199	167
LOTOS Paliwa			
1.	all locations	2,550	194
LOTOS Oil			
1.	all locations	1,600	121

In 2010, the minimum national wage in Poland was PLN 1,317.

GRI	INDICATOR
EC 6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operations

As one of the largest business enterprises in the Gdańsk region, Grupa LOTOS feels responsible for the local communities and their dynamic growth. In the course of doing business, the Company is guided by the principles of sustainable development and corporate social responsibility. This means that ethics, transparency and openness play an important role in its day-to-day activities.

According to in-house estimates, local suppliers account for 84% of all business partners in the Company's key locations (Gdańsk, Warsaw and Kraków), and

50% of all contracts are signed with suppliers from the region of Pomerania. The chart below presents the percentage shares of liabilities to business partners having registered offices in the Company's key locations.

Percentage shares of liabilities to business partners having registered offices in Grupa LOTOS' key business locations (2010)

No. of contracts with business partners having registered offices in Grupa LOTOS' key business locations (2010)

Registered office	No. of contracts
Gdańsk and the region of Pomerania	385
Warsaw	197
Kraków	59
Other	125
Total	766

LOTOS Paliwa: The company purchases nearly 100% of its fuel stocks for resale from Grupa LOTOS. A major portion of the fuel is produced domestically at the Gdańsk refinery.

LOTOS Asfalt: In the process of choosing service and product suppliers, the company must follow a selection procedure which defines the rules to be applied and the course of action to be taken when purchasing products or services of any kind, with the key criteria being the quality and environmental impact of the product or service, compliance with health and safety regulations by the supplier, and the proposed terms of payment and warranty. The strategic supplier of feedstock to LOTOS Asfalt (Gdańsk, Jasło, Czechowice) is Grupa LOTOS. The share of local suppliers in the company's supply structure is 5%, with Polish importers and international producers of raw materials and semi-finished products accounting for the balance.

LOTOS Kolej: The company's procurement team seeks to optimise the purchasing process, including by selecting the best possible supplier, with one of the criteria being its location in the region. The largest item under costs of materials is the cost of spare parts for the rolling stock. A vast majority of spare part suppliers operate in the south of Poland, therefore only a portion of the supplies may be procured from local partners operating in the region of Pomerania.

LOTOS Parafiny: The company operates production plants in the towns of Czechowice and Jasło, where local means from the south of Poland. Approximately 60% of transport services to or from Jasło and Czechowice are provided by local firms. As regards procurement of investment- or overhaul-related services, no special rules or restrictions apply as to the supplier's location. In 2010, the local versus non-local supplier breakdown for the Jasło and Czechowice plants was 68%/32% and 85%/15%, respectively.

LOTOS Oil: The company tends to follow a supplier selection policy which enables it to secure at least two sources of supplies in each product category. If a monopoly is identified, the company monitors the market for any changes in the status quo on a regular basis. In line with the currently applied procurement policy, the company searches local markets for potential suppliers, and, if a reliable prospective partner is found, it is invited to participate in a tender procedure. In 2010, the procurement structure by value (net of services), accounting for all production units, the Distribution Centre, and business arrangements with Grupa LOTOS, was as follows: local suppliers represented 82% of total purchases, with the other 18% attributable to non-local suppliers. As regards the structure of service purchases by value, local providers accounted for 90% and non-local providers – for 10% of total purchases.

GRI	INDICATOR
EC 7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation

Grupa LOTOS hires members of senior management staff according to the job profile and skills required for the position. Only those candidates are selected who best satisfy the employment criteria. Managerial positions are often filled by persons selected in an internal recruitment process. At the Company's key locations, 76.4% of senior management staff are persons from local communities.

LOTOS Asfalt: When creating a new job, or filling a managerial vacancy, priority is given to persons from the local labour market, provided that their skills and qualifications meet the relevant criteria. In 2010, local-community members represented, respectively, 82%, 100%, and 75% of the management staff employed in Gdańsk, Czechowice and Jasło.

LOTOS Kolej: When selecting senior managers, the company is guided by a pragmatic evaluation of the candidates, including their expertise and skills required for a given position. During a recruitment process, internal candidates, i.e. the Company's or the LOTOS Group's current employees, are considered first. All senior executives employed at the company come from the region of Pomerania.

LOTOS Oil: The company has adopted a global recruitment policy: the same procedures apply at each of its branches. The policy provides for no special treatment of candidates from the local labour market. However, all senior management staff members (directors, deputy directors, plant managers, heads of office) employed at the company's key business locations (the Gdańsk Branch, the Czechowice Branch, the Jasło Branch and the Distribution Office in Piotrków Trybunalski) are locals. Similarly, 100% of staff employed at the offices established across the country as part of the management function diversification process are members of local communities.

LOTOS Parafiny: The company selects well-qualified candidates for senior executive positions in line with relevant procedures. During a recruitment process, applications from the existing employees of the LOTOS Group are considered first. Ninety-one percent of senior management staff employed at the company's key locations represent local communities.

LOTOS Paliwa: The company does not follow the global policy of favouring local community members in the recruitment of managerial personnel. Due to the nature of the Company's operations, management staff members across Poland are hired on an as needed basis.

Indirect economic impacts

GRI	INDICATOR
EC 8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement

Detailed information on Grupa LOTOS activities in this area are available on the Company's website [[link](#)].

GRI	INDICATOR
EC 9	Understanding and describing significant indirect economic impacts, including the extent of impacts – cooperation with suppliers at significant location of operation

Grupa LOTOS seeks to align its decision-making process with the corporate social responsibility strategy by giving due consideration to the potential impact of its decisions on local communities and the development of the Gdańsk region as a whole. Half of the contracts for the supply of goods or services are signed with local suppliers. Around 35% of all contracts are recurring or long-term arrangements entered into with small and medium-sized enterprises operating on local markets. This fact alone demonstrates our commitment to the local market and its economic prosperity.

By contracting locally, the Company indirectly contributes to improved financial standing of local populations. For many small and medium-sized businesses in the region, Grupa LOTOS is a source of additional capital, which fuels their operations and helps increase employment rates in the SME sector. This, in turn, supports improvement in the living standards, stimulates consumer spending, including on luxury goods and services, and encourages investment in education and intellectual resources, which the Company considers pillars of the economy. Intellectual assets offer measurable benefits: hired by Grupa LOTOS, the competent and well-educated members of the Gdańsk region community build the Company's potential and innovation at the local, national and international levels.

LOTOS Asfalt: The company is a wholesaler of bitumens, heavy fuel oil, bunker fuel and waterproofing materials. These are produced and sold under business-to-business (B2B) arrangements. Accordingly, by establishing business links with its partners, the company has an indirect impact on their growth prospects and economic standing. Moreover, the company contributes to maintaining or increasing employment rates and stimulates economic activity on its local markets. Since 2009, LOTOS Asfalt's indirect economic impact on the Jasło region, suffering from an economic slowdown, took the form of investments in a new manufacturing business, the Waterproofing Materials Production Plant. The large-scale project located in the Tarnów Special Economic Zone in the south-east of Poland helped improve the local labour market, affected by unemployment concerns. Launched in 2009, the plant, after becoming fully operational, created 104 new jobs (data as at the end of 2010). As at the end of 2009 the headcount was 69 persons. Thanks to relevant training, employees of the newly launched modern production facility were offered an opportunity to gain hands-on experience and skills in operating technologically advanced manufacturing equipment and to learn how to function in organisational, logistics and distribution systems based on contemporary IT tools.

LOTOS Kolej: Although no monitoring takes place in this area, certain aspects of the company's activities may be classified as having an indirect economic impact. One such aspect is the company's consistent efforts to upgrade the operated rolling stock. Purchases of new road locomotives strengthen the company's competitive edge and position it among leading carriers that invest in new technologies. In late 2009, the company signed a contract for the sale of ST 43 Diesel locomotives (the last engine of this type left the company's premises in 2010). In September 2009, LOTOS Kolej signed a contract for the delivery of the highly advanced TRAXX F140 DE diesel locomotives with Bombardier Transportation GmbH and an operating lease of 14 TRAXX F140 MS electric locomotives with Railpool GmbH. As a result, the company owns the most modern railroad plant and equipment in Poland, adding to the technological advancement of the local market.

LOTOS Oil: In distributing its products, the company supports employment at its business partners operating locally and nationally. Entering into cooperation agreements at home and abroad, LOTOS Oil obtains access to new technologies. The company undertakes efforts to upgrade its processes, enhance the quality of its products and services, and provide employees with opportunities to improve their professional qualifications through training. These efforts make the company the most sought after employer in the country, which offers prospects for improvement and development and attracts specialists with extensive experience.

LOTOS Parafiny: The company's indirect economic impact on local communities is reflected in its efforts to create new jobs across the supply chain and improve professional qualifications and skills on the local labour markets, which is linked with recruiting more suppliers.

Social performance

Human rights and product responsibility are linked to the LOTOS Group's social impact and are an important element of sustainable growth. Social indicators illustrate the organisation's impact on local communities along with methods applied to build relations with social institutions. Significant information is provided by data on bribery and corruption, participation in public policy development, monopoly practices and compliance with laws and regulations concerning areas other than the environment and workforce.

Labour practices and decent work

Employment

GRI	INDICATOR
LA 1	Total workforce by employment type, employment contract and region

Workforce	As at Dec 31 2006		As at Dec 31 2007		As at Dec 31 2008		As at Dec 31 2009		As at Dec 31 2010	
	Headcount	%	Headcount	%	Headcount	%	Headcount	%	Headcount	%
Grupa LOTOS	945	15	1,098	16	1,246	13	1,305	5	1,310	0.4
LOTOS Group	5,624	3	4,764	-15	4,878	2	4,949	1	5,010	1

Workforce by employment type and region

	As at Dec 31 2010
- indefinite-term employment	
Gdańsk	993
Czechowice	33
Jasło	16
Kraków	6
Piotrków Trybunalski	9
Poznań	4
Rypin	10
Warsaw	16
Total:	1,087
- fixed-term or temporary employment	
Gdańsk	212
Czechowice	0
Jasło	1
Kraków	0
Piotrków Trybunalski	0
Poznań	2

Rypin	1
Warsaw	7
Total:	223

	As at Dec 31 2010
- full-time employees	
Gdańsk	1,192
Czechowice	32
Jasło	16
Kraków	2
Piotrków Trybunalski	9
Poznań	6
Rypin	11
Warsaw	20
Total:	1,288
- part-time employees	
Gdańsk	13
Czechowice	1
Jasło	1
Kraków	4
Piotrków Trybunalski	0
Poznań	0
Rypin	0
Warsaw	3
Total:	22

GRI	INDICATOR
LA 2	Total number of employee departures and employee turnover by age group, gender and region

In 2010, the employee turnover rate at Grupa LOTOS was 10.6%.

GRI	INDICATOR
LA 3	Benefits provided to full-time employees that are not provided to part-time or temporary employees, by significant locations of operation

Grupa LOTOS offers all its employees, i.e. employees working under indefinite-term (permanent) contracts or fixed-term (temporary) contracts, on a full-time or part-time basis, the same package of social benefits, guaranteed under the Collective Bargaining Agreement and the Rules of the Social Benefits Fund. The benefits offered to the Company's employees include a unit-linked life insurance, additional medical care provided by a non-public healthcare establishment, parental leave for mothers and fathers, and social benefits in the form of loans, allowances, and partial financing of holidays for employees and their children.

Labour/management relations

GRI	INDICATOR
LA 4	Percentage of employees covered by collective bargaining agreements

The Collective Bargaining Agreement in place at the Company covers 95.5% of its employees.

GRI	INDICATOR
LA 5	Minimum notice periods regarding significant organisational changes, including whether it is specified in collective bargaining agreements

In accordance with the labour law provisions, the minimum notice period for an indefinite-term employment contract depends on the duration of work with the employer. The minimum notice period is two weeks if an employee has worked less than six months and three days if an employee has been employed as a substitute.

Occupational health and safety

GRI	INDICATOR
LA 6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes

In accordance with the labour law provisions, Grupa LOTOS has set up a Health and Safety-at-Work Committee. It is composed of:

- proxy for trade unions,
- staff responsible for health and safety,
- doctor responsible for prophylactic care of employees,
- the Company's Social Labour Inspector,
- trade union representatives.

GRI	INDICATOR
LA 7	Rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities by region

The most frequent accident-related injuries at the LOTOS Group are injuries of upper and lower limbs. Incidents have mostly occurred while moving around or operating machinery and equipment. In 2010, there were no serious accidents or fatalities.

2010 saw a year-on-year decline of the rate of accidents at work and the LTIF value at Grupa LOTOS. This was attributable to higher employee awareness regarding occupational safety, resulting, among other things, from large-scale awareness initiatives, increased commitment and fostering the culture of occupational safety. Employees took part in training and informal sessions focusing on occupational safety. Other communication channels were also made available for that purpose. The above initiatives have delivered the expected results, as the level of employee awareness has been steadily rising. At the same time, the focused and planned process aimed at raising employee awareness and fostering the culture of occupational safety is meant to be a long-term effort and pursued also in the years to come. In recent years, there has been a welcome downward trend in accident frequency at Grupa LOTOS, which shows that our efforts in the area of health and occupational safety have put the Company on the right track. A major problem, however, has been a lack of harmonisation between Polish and EU laws. If the applicable legal regimes were harmonised, it would be possible to adopt a uniform approach to the classification and statistical reporting of accidents. This in turn would significantly reduce the number of accidents at work occurring at Grupa LOTOS, while allowing fair benchmarking between Grupa LOTOS and other businesses from the global chemical industry.

Grupa LOTOS	2006	2007	2008	2009	2010
Number of employees	945	1,098	1,246	1,305	1,310
Accidents at work	7	6	7	13	9
Post-accident absenteeism (calendar days). Lost days are counted from the day when the injured employee obtains a sick leave certificate from a doctor	177	133	171	537	287
Occupational diseases	none	none	none	none	none
The lost time injury frequency (LTIF) (per 1 million hours worked)	4.5	3.1	2.86	5.6	3.4
The lost day incident rate (LDIR) (per 200 thousand hours worked)	0.8	0.6	0.6	1.1	0.7

LOTOS Group	2006	2007	2008	2009	2010
Number of employees	5,624	4,764	4,878	4,949	5,010

Accidents at work	70	50	49	45	55
Post-accident absenteeism (calendar days). Lost days are counted from the day when the injured employee obtains a sick leave certificate from a doctor	2,819	2,008	1,375	1,257	2,502
Occupational diseases	none	none	none	none	none
The lost time injury frequency (LTIF) (per 1 million hours worked)	6.9	5.6	5.2	4.4	4.9
The lost day incident rate (LDIR) (per 200 thousand hours worked)	1.4	1.2	0.9	0.9	1.2

The LOTOS Group classifies accidents at work in accordance with the Polish legislation. In addition, the LOTOS Group records and keeps statistics of incidents according to the European scale, i.e. dangerous occurrences (including dangerous states and incidents with potential to cause an injury), accidents resulting in incapacity for work lasting more than one day (LTI – Lost Time Injury), based on which the LITIF (Lost Time Injury Frequency) rate is computed, incidents requiring first-aid treatment and road accidents.

In line with the guidelines contained in the ILO (International Labour Organization) Code of Practice *Recording and notification of occupational accidents and diseases*, companies of the LOTOS Group:

- have established uniform procedures to address accidents at work,
- perform cause and effect analysis of accidents at work,
- draw conclusions and take appropriate corrective and preventive measures to eliminate the risk of recurrence of similar incidents,
- document accidents at work and other dangerous occurrences,
- identify and analyse dangerous occurrences, based on which they take appropriate proactive and reactive measures to prevent their recurrence.

GRI	INDICATOR
LA 8	Education, training, counselling, preventive and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases

The obligatory actions which the Company is required to take under applicable laws concerning occupational safety and health, as well as safety of processes and technologies, are presented on the Company's corporate website [[link](#)].

GRI	INDICATOR
LA 9	Health and safety topics covered in formal agreements with trade unions

Polish law does not provide for the possibility of concluding agreements related specifically to health and safety at work. The issue is governed by mandatory provisions of law. To the extent provided for by law, representatives of employees have their say in all matters related to the whole area of occupational health and safety, as evidenced by their membership in and attendance of meetings of the Health and Safety-at-Work Committee, an advisory body of the employer. In this way, the obligation to consult employees on all matters related to occupational health and safety is fulfilled.

Training and education

GRI	INDICATOR
LA 10	Average hours of training per year per employee, and by employee category

Employee category	2006	2007	2008	2009	2010
Senior management	51.6	41.5	45.8	35.2	61.2
Lower management	60.6	38.3	44.7	51.9	60.3
Back-office staff	24.8	35.9	33.1	38.7	29.6
Production staff	13.4	13.8	10.2	10.3	12.6

GRI	INDICATOR
LA 11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings

All employees of Grupa LOTOS, irrespective of age and time left to retirement, are offered the opportunity to attend internal (the LOTOS Academy) and third-party training programmes designed to help them acquire and enhance knowledge and professional qualifications and develop general skill sets. Development of staff's skills is ensured through financing or co-financing of learning, paid leave to travel and attend training courses aimed to enhance their professional qualifications, as well as educational leave.

Moreover, the Company's employees may declare that they want to retire early. Employees who at any time during the two years before their due retirement date choose to switch from an indefinite-term to a fixed-term employment contract are offered a one-off 8.5% rise of their monthly base pay, paid under the amended employment contract.

Retiring employees are entitled to a one-off cash severance payment, whose amount depends on the length of service. Its amount may range from an employee's monthly pay where his or her length of service does not exceed 15 years to 500% of the base amount if the employee has worked 35 years.

GRI	INDICATOR
LA 12	Percentage of employees receiving regular performance and career development reviews

	2006	2007	2008	2009 r.	2010
Employees receiving regular performance and career path reviews (%)	69	86	79	87	(*)

(*) Employee reviews for 2010 will be performed in Q3 2011.

Based on the Periodic Evaluation of Employees Procedure, all employees working with Grupa LOTOS under employment contracts (save for Management Board members) are subject to evaluation, provided that they have worked for at least 6 months at a given organisational unit at the time when a periodic evaluation is performed. The direct superior of an employee who performs the evaluation must also hold the position for least 6 months at the time of the evaluation. Accordingly, depending on the rate of organisational changes and number of newly recruited staff, the percentage of employees subject to evaluation varies from year to year. The evaluation results are consistent with assumptions.

Diversity and equal opportunity

GRI	INDICATOR
LA 13	Composition of management and supervisory bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity

Composition of the management and supervisory bodies of Grupa LOTOS and breakdown according to gender

	As at Dec 31 2010	%
- men		
Management Board	4	0.31
Senior management	39	2.98
Middle management	36	2.75
Total:	79	6.03
- women		
Management Board	0	0.00
Senior management	8	0.61
Middle management	15	1.15
Total:	23	1.76

Composition of the management and supervisory bodies of Grupa LOTOS and breakdown according to age

	As at Dec 31 2010	%
--	-------------------	---

– up to 30 years		
Management Board	0	0.00
Senior management	0	0.00
Middle management	1	0.08
Total:	1	0.08
– 30 – 50 years		
Zarząd	1	0.08
Senior management	31	2.37
Middle management	29	2.21
Total:	61	4.66
– over 50 years		
Management Board	3	0.23
Senior management	16	1.22
Middle management	21	1.6
Total:	40	3.05

GRI	INDICATOR
LA 14	Ratio of base pay of women to men by employee category

Base pay at Grupa LOTOS according to gender, as at December 31st 2010

Employee category	Women		Men		Ratio of base pay of women to men (%)
	number	average base pay (PLN)	number	average base pay (PLN)	
Management Board	0	-	4	20,728	-
Senior management	7	20,286	24	21,832	106
Lower management	39	10,040	81	12,276	118
Back-office staff	348	5,244	250	7,386	126
Production staff	1	3,653	542	6,185	79
TOTAL	395	5,776	901	6,867	114

Human rights

Investment and procurement practices

GRI	INDICATOR
HR 1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening

To date, Grupa LOTOS has not incorporated human rights concerns into its agreements or contracts, however work is under way to prepare relevant contractual provisions. A document entitled "Ethical principles to be followed by employees of Grupa LOTOS in their dealings with business partners" has also been drafted. The draft document, which is a sort of "Code of Ethics", is now being reviewed and awaiting approval. It contains provisions designed to counteract violation of human rights.

GRI	INDICATOR
HR 2	Percentage of significant suppliers and contractors that have undergone human rights screening, and actions taken

Grupa LOTOS has not yet undertaken human rights screening when selecting its suppliers and contractors or during the ensuing cooperation.

GRI	INDICATOR
HR 3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to business operations, including the percentage of employees trained

Grupa LOTOS has provided 550 hours of employee training on policies and procedures concerning aspects of human rights that are relevant to its business operations. In total, such training has been provided to 22.6% of employees.

Non-discrimination

GRI	INDICATOR
HR 4	Total number of incidents of discrimination and corrective actions taken

At Grupa LOTOS there have been no incidents of discrimination against employees on account of their race, colour, gender, religion, political leanings, national origins or social background.

Freedom of association and collective bargaining

GRI	INDICATOR
HR 5	Operations identified in which the right to exercise the freedom of association and collective bargaining may be at risk, and actions taken to support these rights

At Grupa LOTOS there have been no operations in which the right to exercise the freedom of association or collective bargaining would be at risk.

Child labour

GRI	INDICATOR
HR 6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour

At Grupa LOTOS there have been no operations deemed as involving significant risk for incidents of labour of children and minors in which they would be put in danger of developing health problems and losing their lives.

Forced and compulsory labour

GRI	INDICATOR
HR 7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of all forms of forced and compulsory labour

At Grupa LOTOS there have been no incidents of forced or compulsory labour.

Security practices

GRI	INDICATOR
HR 8	Percentage of security personnel trained in the organisation's policy or procedures concerning aspects of human rights that are relevant to business operations

In accordance with the policy and procedures concerning aspects of human rights that are relevant to the Company's business operations, training has been provided to 90.9% of security personnel. In the case of the external firm providing Grupa LOTOS with security services, similar training has been provided to 84.5% of personnel.

Product responsibility

Customer health and safety

GRI	INDICATOR
PR 1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant product and service categories subject to such procedures

The Polish and EU legislation requires Grupa LOTOS to assess the impact of all its products on human health and safety. All products of crude oil refining are subject to classification, and thus to a health and safety impact assessment. Most products of crude oil refining are subject to registration or at least classification, and thus to a health and safety impact assessment. These activities are defined by the REACH (Registration Evaluation Authorisation of Chemicals) Regulation, together with numerous amendments – an EU initiative aimed to provide a systematic and disciplined framework for placing chemical

substances on the market [Regulation EC 1907/2006 of the European Parliament and of the Council of 18 December 2006]. Articles demonstrating the level of the Company's fulfilment of its obligation to assess health and safety impacts of its products are available on the corporate website [[link](#)].

GRI	INDICATOR
PR 2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services

No incidents of non-compliance with regulations concerning health and safety impacts of products occurred at the LOTOS Group in the reporting period.

Products and service labelling

GRI	INDICATOR
PR 3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements

Under applicable laws, documents referred to as Material Safety Data Sheets are drafted for all products manufactured by Grupa LOTOS. They provide information on the product's health and environmental impacts, presence of hazardous ingredients, exposure controls, measures to take in the case of a fire or product release to the environment, as well as on waste disposal.

Our products' Material Safety Data Sheets are available at the Internet portal of Grupa LOTOS [[link](#)].

Grupa LOTOS

Scope of product and service information required by the reporting organization's procedures	Yes
The sourcing of components of the product or service	x
Content, particularly with regard to substances that might produce and environmental or social impact	x
Safe use of the product or service	x
Disposal of the product and environmental/social impacts	x
Other: handling during storage and transport, physical and chemical properties, stability and reactivity, waste handling	x

Details on the type of product and service information required under internal procedures and published by individual commercial companies of the LOTOS Group, can be found on the Company's website. [[link](#)].

GRI	INDICATOR
PR 4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

No incidents of non-compliance with regulations and codes concerning product information were identified at the LOTOS Group in the reporting period.

GRI	INDICATOR
PR 5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction

Major service and distribution companies of the LOTOS Group conduct customer satisfaction surveys on a regular basis. Methodologies used in such surveys, along with their scopes and findings, are posted on the Company's website. [[link](#)].

Marketing communications

GRI	INDICATOR
PR 6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship

The following rules are strictly applied in the management of the overall process relating to the corporate brand strategy, product brands, promotion strategies, value creation, creation of the desired image of the LOTOS brand, promotional materials distribution and marketing research:

- compliance with the effective laws,
- no deliberate harm or damage,
- accountability,
- putting to good use the education, professional background and experience of our personnel.

All our operations are carried out with regard for human dignity and gender equality; without presenting controversial content which may offend social groups, and without inciting negative emotions. These rules complement the effective and unconditionally binding laws and regulations, in particular: the Constitution of the Republic of Poland and the following Polish Acts: the Civil Code, the Act on Combating Unfair Competition, the Press Law Act, the Radio and Television Act, the Act on Protection of Certain Consumer Rights, the Act on Provision of Electronic Services, the Act on Personal Data Protection, the Act on Copyrights and Related Rights, the Act on Industrial Property, and the Code of Ethics in Advertising.

Internal procedures are governed by the Rules of the Committee for Marketing and Communication, whose purpose is to ensure appropriate marketing across the LOTOS Group.

The LOTOS Group's partners for marketing communications are under an obligation to comply with the International Code of Advertising Practice, published by the International Chamber of Commerce.

In its sponsorship activities, Grupa LOTOS adheres to standards and applies rules spelled out in voluntary codes of conduct published e.g. by unions of entrepreneurs, whose members carry out operations in the area of promotion, advertising or sponsorship, as well as by organisations which promote good business practices. All sponsorship contracts are transparent in terms of their nature, and clearly specify all obligations of the parties to such contracts. Grupa LOTOS does not engage itself in any events which may cause damage to objects or facilities of historical or artistic value, or events which could have an adverse environmental impact.

With respect to marketing communications and sponsorship, the Company, as a member of the Global Compact, acts on the Global Compact's Principle 7 related to responsibility for natural environment, which states that businesses should support a precautionary approach to environmental challenges, and on Principle 8, which calls for undertaking initiatives to promote greater environmental responsibility.

GRI	INDICATOR
PR 7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by types of outcomes

No incidents of non-compliance with regulations and codes concerning marketing communications were identified in the reporting period.

Customer privacy

GRI	INDICATOR
PR 8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

No complaints regarding breaches of customer privacy or loss of data were received by the distribution and service companies of the LOTOS Group.

Compliance

GRI	INDICATOR
PR 9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

No significant incidents concerning the provision and use of products and services occurred in 2010. Accordingly, no administrative or court sanctions, imposed on business entities as a result of their non-compliance with laws or regulations concerning the provision and use of products and services, were placed on members of the LOTOS Group. However, in 2010 proceedings were pending within this subject matter, which are described under **Anti-competitive behaviour**.

Society

Corruption

GRI	INDICATOR
SO 2	Percentage and total number of business units analyzed for risks related to corruption

Internal regulations, procedures and instructions implemented at the LOTOS Group have embedded controls, whose aim is also to mitigate the risk of malpractice or corrupt practices.

In addition, internal regulations are defined for the Company which specify desirable ethical and moral behaviours. These include:

- the Code of Conduct of LOTOS Group' Employees,
- the Code of Managers of the LOTOS Group,
- Corporate Decalogue,
- Internal Auditor Code of Ethics.

There are also solutions in place at the Company which seek to counteract abuse and corrupt practices in certain areas, such as physical security, information

security, transacting, or business partner selection process. Furthermore, if events or areas exposed to corrupt practices are identified at the Company, there is a procedure in place providing for ad-hoc audits, which facilitate a speedy response to such risks or practices. Grupa LOTOS also clearly communicates, through its website, its adherence to the Global Compact Principles, which require the Company to counteract all forms of corruption, including extortion and bribery.

GRI	INDICATOR
SO 3	Percentage of employees trained in organization's anti-corruption policies and procedures

Type of position	Trained employees (%)
Management	3.5
Other	3.1

GRI	INDICATOR
SO 4	Actions taken in response to incidents of corruption

No corrupt practices which would require litigation were identified in the reporting period.

Public policy

GRI	INDICATOR
SO 5	Public policy positions and participation in public policy development and lobbying

Grupa LOTOS operates in the oil sector, a part of the larger energy sector, which is strategic to the state. The majority shareholder of the Company is the Polish Treasury. However, even if this was not the case, the state would still be granting certain rights to and imposing certain obligations on companies from the strategic sectors by using regulation. One such obligation is the requirement to cooperate on energy sector security.

Accordingly, Grupa LOTOS is an active participant in the process of developing and guiding the public policy in the area of the broad energy sector. Our experts are members of expert teams set up by public institutions to develop new legislative solutions in the energy sector, who actively participate in the public consultation of draft laws regulating the sector.

Such activities include e.g. cooperation with the Ministry of Economy on the report for the International Energy Agency concerning the fuel industry, participation in the work of the Poland-Ukraine Intergovernmental Committee for Economic Cooperation, or of the Interdepartmental Team for Shale Gas.

Legislation-related work in 2010 included provision of opinions on the bills on biocomponents and liquid fuels, and on mandatory stock of crude oil and liquid fuels. Grupa LOTOS provides ongoing information to the Ministry of Economy and the Ministry of Treasury regarding the energy sector for top-level departmental meetings.

Being a member of the Polish Academic and Economic Forum, Grupa LOTOS is an active contributor to initiatives aimed at strengthening cooperation between academic and business communities, promoting innovation and building a knowledge-based economy.

The Company is also monitoring the European Union regulations on the energy sector on an ongoing basis, and cooperates with state authorities in the process of developing documents which implement EU directives into the national law.

On the initiative of Grupa LOTOS, supported by three other entities, namely Energa, Jastrzębska Spółka Węglowa and Kulczyk Investments, as well as by the Polish Academic and Economic Forum, a non-profit organisation Central European Energy Partners (CEEP) was registered in Brussels in June 2010. The organisation represents the energy sector from Central Europe (including crude oil, natural gas, coal, electricity, renewable energy sources, nuclear energy, interconnectors, etc.). The prime objective of the organisation as defined by its charter is to contribute to integration of the Central European energy sector under a common energy and security policy for the EU's energy sector. To that end, CEEP initiated close cooperation with recognised international think tanks, such as the Center for Strategic & International Studies (Washington), the Windsor Energy Group (London, UK), the King's College (London), the Atlantic Council (Washington), and such organisations as the International Energy Agency (Paris), or Europa (Brussels). CEEP is an active stakeholder in all major events in the energy sector organised under the auspices of the European Union. It is also a keen participant of consultations organised by the European Commission, is involved in preparing expert materials for the EU institutions, as well as attends working group meetings, including the Berlin Fossil Fuels Forum. President of the Management Board of Grupa LOTOS Paweł Olechnowicz is the Chairman of CEEP's Directors' Council.

Grupa LOTOS is also involved in the development of policies and regulations regarding a wide range of energy sector-related matters, in particular those pertaining to the fuel sector, also through membership in the various organisations.

As a member of the Windsor Energy Group (WEG), Grupa LOTOS maintains its active involvement in discussing and analysing global energy matters and challenges, with top experts of the private and public sector also involved in the process. The organisation boasts a long list of recognised personalities, who have decided, and will decide on the lines of development of the oil and gas industry worldwide. In February 2010, the Company hosted an international conference, named "North European Energy Security Forum", with energy sector security in the European Union and globally on the conference's agenda.

GRI	INDICATOR
SO 6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions

Anti-competitive behaviour

GRI	INDICATOR
SO 7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes

1. By decision of President of the UOKIK (Polish Office for Competition and Consumer Protection), dated March 21st 2005, anti-trust proceedings were instigated in connection with a suspected restrictive agreement between Polski Koncern Naftowy ORLEN S.A. of Plock and Grupa LOTOS of Gdańsk, concerning a concurrent termination of production and distribution of U95 gasoline. Since the production and sale of U95 continued, the Management Board of the Company claimed that the UOKIK's charges were unfounded and, in April 2005, applied for a decision that Grupa had not been engaged in restrictive practices. In July 2005, the Company filed a complaint with the Anti-Trust Court against the UOKIK's decision, arguing it had had limited access to some case-related evidence. Notwithstanding the complaint, in September 2005 the Company filed another application for a decision that would expressly state that Grupa LOTOS had not been involved in monopolistic practices. In October 2005, another decision was issued by the UOKIK, concerning limited access to some case-related evidence, that the Company complained against to the Anti-Trust Court. The Competition and Consumer Protection Department of the Regional Court dismissed the complaints. Grupa LOTOS filed complaints with the Court of Appeal in Warsaw concerning the dismissal of the previous complaints, which again were dismissed.

By decision of April 18th 2007 Grupa LOTOS' right of access to evidence in the anti-trust proceedings, namely the materials collected in the course of an inspection at PKN ORLEN S.A. in Plock, and specifically certain annexes to the report from the inspection at Plock offices, was restricted upon a motion from PKN ORLEN S.A., and access to the report from the inspection of their Warsaw offices, and annexes thereto, was also restricted. By the same decision, PKN ORLEN S.A.'s petition for restriction of the right of access to evidence, being the report from the inspection of the petitioner's Plock offices, was dismissed. On April 26th 2007, Grupa LOTOS filed a complaint against the decision restricting Grupa LOTOS' right of access to evidence. On May 9th 2007, Grupa LOTOS was served a notice from the UOKIK, whereby the latter demanded information on the change in U95 and Pb95 fuel prices. The Company provided the required information to the UOKIK on the same day. On August 2nd 2007, a notice of termination of U95 petrol production was delivered by Grupa LOTOS to the UOKIK. On December 31st 2007, President of the UOKIK imposed a fine of PLN 1,000 thousand on Grupa LOTOS. An appeal against the decision was subsequently filed with the Regional Court in Warsaw on January 17th 2008.

On September 23rd 2008, the Competition and Consumer Protection of the Regional Court in Warsaw, forwarded the UOKIK President's reply to the appeal against the UOKIK President's decision. In the reply to Grupa LOTOS' appeal, the UOKIK President stated that Grupa LOTOS' arguments, where they related to both substantive and formal provisions, were unfounded, and applied for dismissal of the petitioner's case in entirety, and award of legal representation costs from the petitioner. On April 27th 2010, the Court adjourned the decision until May 6th 2010. On May 6th 2010, the Regional Court in Warsaw issued a judgment dismissing the appeal against the UOKIK's decision in the anti-trust proceedings instigated on own initiative by the UOKIK President on March 21st 2005 and concerning distribution of U95 gasoline, and upheld the fines imposed by UOKIK on Grupa LOTOS, totalling PLN 1,000 thousand, and fines on PKN ORLEN S.A., totalling PLN 4,000 thousand. On June 15th 2010, the judgment dismissing the appeal against the UOKIK President's decision was served. On June 28th 2010, Grupa LOTOS appealed against the judgment. Subsequently, Grupa LOTOS and the UOKIK filed a reply to PKN ORLEN S.A.'s appeal, whereas PKN ORLEN S.A. and the UOKIK filed a reply to Grupa LOTOS' appeal. The court announced a judgment dismissing the appeal by Grupa LOTOS and PKN ORLEN S.A. on February 11th 2011. After examining the grounds for the judgment, the Company will consider filing a last resort appeal. The case is pending. Provisions for potential liabilities resulting from lost litigation were made in the amount of PLN 1,000,000. On March 10th 2011, the Company paid off the liability amounting to PLN 1,000,000 following the court ruling of February 11th 2011.

2. By petition of May 18th 2001, PETROECCO JV Sp. z o.o. filed for award of PLN 6,975 thousand, and statutory interest charged from May 1st 1999, in compensation for the damage suffered by PETROECCO JV Sp. z o.o. as a result of monopolistic practices of the Company involving the sale of BS base oil in a way which put certain recipients at an advantage, by having a disproportionately higher volume of their orders delivered as compared to deliveries of orders made by PETROECCO JV Sp. z o.o. Engagement of the Company in such monopolistic practices was ascertained by decision of the Anti-Trust Office of September 26th 1996. By the same decision, the Office ordered that the Company should discontinue such practices. The Company appealed against the decision. By judgement of October 22nd 1997, the Anti-Trust Department of the Provincial Court in Warsaw made some editing changes only to the decision, and also ordered discontinuation of the monopolistic practices. The Supreme Court dismissed the Company's last resort appeal by judgment of June 2nd 1999. By ruling of December 21st 2002, the Regional Court in Gdańsk dismissed the petition for compensation, acknowledging in entirety the Company's defence that the petition was time-barred. The ruling was however rescinded by the Court of Appeal in Gdańsk on December 4th 2003, case ref. I ACa 824/03, and referred for re-examination to the Regional Court in Gdańsk. The Court of Appeal found that the time-bar defence was unwarranted. As argued by the Court, it was not until June 2nd 1999 (date of the Supreme Court judgment) that it came to PETROECCO JV Sp. z o.o.'s attention that the damage they had suffered was an effect of monopolistic practices, resulting in the Company's liability in tort and, only on that date, as argued by the Court, did the three-year time-bar period for compensation claims commence. The case was examined by the Regional Court in Gdańsk (court of first instance), file ref. IX GC 134/04. The Company replied with substantive defences (by challenging the fact that any damage had been suffered by PETROECCO JV Sp. z o.o., and also challenged the value of the damage, and the presence of a causal relation between the monopolistic practice and the damage). Following the hearing in June 2005, the Regional Court in Gdańsk tasked a court expert in accounting and economy with drafting an opinion on the determination of the value of damage that the petitioner had suffered as a result of Grupa LOTOS' actions. The expert stated in the opinion that, based on materials provided by PETROECCO JV Sp. z o.o., it was not possible to determine the value of the damage, or ascertain that it actually existed. The court expert also found that the opinion should be drafted by an expert in a field other than accounting. No evidence to support the drafting of such opinion frustrated the petitioner in being granted the claim for appointment of another expert. The hearing took place on March 27th 2007. Announcement of the judgment was originally scheduled for April 10th 2007, but subsequently rescheduled to April 20th 2007. By judgment of April 20th 2007, the petition was dismissed. On May 17th 2007, the Company appealed against the decision on the costs of proceedings. On June 4th 2007, PETROECCO JV Sp. z o.o. appealed against the judgment of April 20th 2007. On August 12th 2007, Grupa LOTOS filed a reply to the appeal. On December 20th 2007, the court dismissed PETROECCO JV Sp. z o.o.'s appeal against the judgment by the Regional Court. On March 19th 2008, a petition for enforcement against PETROECCO JV Sp. z o.o. was filed with the court enforcement officer. On April 17th 2008, PETROECCO JV Sp. z o.o. filed a last resort appeal against the judgment of December 20th 2007. The appeal was served to Grupa LOTOS on June 17th 2008. On June 30th 2008, a reply to the appeal was served. The case was referred for preliminary examination, to be held on November 14th 2008. On January 14th 2009, the Supreme Court rescinded the judgement which was appealed against, and referred the case to the Court of Appeal in Gdańsk for re-examination. On March 10th 2009, files of the case were submitted to the Court of Appeal. On April 3rd 2009, the court enforcement officer served a decision on discontinuation of the enforcement procedure. On May 14th 2009, the Court of Appeal referred the case to the Regional Court for re-examination. In a session held on November 3rd 2009, the court ordered that PETROECCO JV Sp. z o.o. appoint an expert. A hearing was held on October 1st 2010, where the expert gave testimony. The case is pending. The position of

the Management Board of the Company is that the risk of losing the dispute is insignificant and therefore no provisions for potential compensation have been made.

Compliance

GRI	INDICATOR
SO 8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations

In 2010, companies of the LOTOS Group did not pay any significant fines, and no significant non-monetary sanctions were imposed on the companies for non-compliance with laws and regulations. However, in 2010 proceedings were pending within this subject matter, which are described under **Anit-competitive behaviour**.

Environment

The companies of the LOTOS Group monitor their environmental impact with a range of indicators referring to the level of emissions, energy and water consumption, and the use of materials. Also, impacts of products and services on the LOTOS Group's environment are examined, including the compliance of its activities with legal regulations in the aspect of managing the environmental impact.

Materials

GRI	INDICATOR
EN 1	Materials used by weight or volume

Crude oil processing

Item	2006	2007	2008	2009	2010
Total crude oil	6,098,600	6,156,431	6,203,414	5,461,540	8,095,655
Raw materials and components		1,088,605	1,146,989	1,699,034	844,327
Refining additives		2,052	1,825	2,229	2,010

GRI	INDICATOR
EN 2	Percentage of materials used that are recycled input materials

Only a small proportion of recycled products can be used by Grupa LOTOS owing to the inherent properties of its operations. Each company of the LOTOS Group involved in production is subject to the statutory requirement to submit spent materials for recycling through independent Recovery Organisations. Still, the potential for reuse of recycled materials is negligible.

Energy

GRI	INDICATOR
EN 3	Direct energy consumption by primary energy source

Item	Unit	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Total direct energy consumption
Natural gas	GJ	1,244,784			1,244,784
Heating gas	GJ		8,085,394		8,085,394
HSFO fuel oil	GJ		2,660,714		2,660,714
LSFO fuel oil	GJ	1,153,159			1,153,159
HON light fuel oil			103,973		103,973
Electricity	GJ			8,471	-8,471
Heat	GJ			0	0
Total	GJ	3,397,943	15,221,725	8,471	17,628,139

GRI	INDICATOR
EN 4	Indirect energy consumption by primary source

Item	Unit	Intermediate energy purchased
Electricity	GJ	1,263,049

GRI	INDICATOR
EN 5	Energy saved due to conservation and efficiency improvements

In 2010, a computer system Visual Mesa by Soteica used to visualise and optimise energy consumption continued to be used. The system supervises energy infrastructure of the refineries on a continuous basis, including gas and heating oil systems, and the process steam system, and uses optimisation algorithms to suggest changes to the energy system which reduce energy system costs. Production processes are continuously monitored.

GRI	INDICATOR
EN 6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives

Ingredients and their shares in fuel products produced by Grupa LOTOS comply with requirements for the implementation of the National Indicative Target concerning the share of renewable materials in road fuels. Both gasolines and Diesel oils contain biocomponents produced with the use of renewable materials.

In addition, assessment of greenhouse gas emissions over the entire production cycle is conducted (LCA, Life Cycle Assessment). The assessment addresses regulations of the European Union aiming to reduce greenhouses gas emissions at the stage of fuel production.

Water

GRI	INDICATOR
EN 8	Total water withdrawal by source

[m ³]	2006	2007	2008	2009	2010
ground water	168,110	144,907	179,735	209,147	195,024
surface water	2,559,165	2,598,158	2,520,603	3,557,093	3,766,470
total	2,727,275	2,743,065	2,700,338	3,766,240	3,961,494

GRI	INDICATOR
EN 9	Water sources significantly affected by withdrawal of water

Grupa LOTOS' operations do not significantly affect its surface water source, which means that the value of environmental flow determined for Motława river (0.56 m³/s) is not exceeded. The average annual withdrawal is below 5% of the river's average flow.

GRI	INDICATOR
EN 10	Percentage and total volume of water recycled and reused

[m ³]	2006	2007	2008	2009	2010
production of grey water from treated sewage	801,575	891,708	845,397	870,230	1,555,969

Biodiversity

GRI	INDICATOR
EN 11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

Details on the location and size of land owned, leased or managed by Grupa LOTOS and the LOTOS Group's service and distribution companies in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas are available on the Company's website [[link](#)].

GRI	INDICATOR
EN 12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas

The proper use of products by Grupa LOTOS does not generate a significant environmental impact.

GRI	INDICATOR
EN 14	Strategies, current actions, and future plans for managing impacts on biodiversity

No adverse impact of Grupa LOTOS' production operations on the level of biodiversity in land, freshwater and marine environments was found to exist. Actions undertaken in this respect by service and distribution companies of the LOTOS Group and by LOTOS Petrobaltic are presented on the Company's website [[link](#)].

GRI	INDICATOR
EN 15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk

Operations of Grupa LOTOS do not affect IUCN Red List species. There are no conservation list species, and there is no risk of their extinction, in areas affected by the Grupa LOTOS' operations.

Emissions, effluents and waste

GRI	INDICATOR
EN 16	Total direct and indirect greenhouse gas emissions by weight

Emissions [thousand tonnes per year]

	2006	2007	2008	2009	2010
CO ₂	1,154	1,153	1,135	1,121	1,607

GRI	INDICATOR
EN 18	Initiatives to reduce greenhouse gas emissions and reductions achieved

Grupa LOTOS has undertaken a number of initiatives to that end. These are:

- recovery and reuse of flare gas,
- use of natural gas for hydrogen production,
- introduction of natural gas to Grupa LOTOS' energy system,

GRI	INDICATOR
EN 19	Emissions of ozone-depleting substances by weight

Grupa LOTOS does not use or emit substances which deplete the ozone layer.

GRI	INDICATOR
EN 20	NO _x , SO _x and other significant air emissions by type and weight

Emissions [tonnes per year]

	2006	2007	2008	2009	2010
SO ₂	4,859	4,808	5,022	4,170	4,758

Maximum permitted

for SO ₂	8,256	6,056	6,056	6,470	6,470
NO₂	1,601	1,583	1,317	1,132	1,315
Maximum permitted for NO ₂	2,262	2,262	2,095	2,405	2,475
Particulate matter /Particulate matter from CHP	364 94	282 82	306 86	220 84	260
Maximum permitted for particulate matter/ CHP	- 163	- 163	- 163	521 209	538

GRI	INDICATOR
EN 21	Total water discharge by quality and destination

Volume of effluents discharged [m³]

	2006	2007	2008	2009	2010
Receiving waters					
Rozwójka	3,960,830	3,873,534	3,294,540	4,083,604	3,880,741
Martwa Wisła		379,080	724,249	1,094,220	1,306,041
Total	3,960,830	4,252,614	4,018,789	5,177,824	5,186,782

Parameters of treated effluents discharged to receiving waters by Grupa LOTOS were as follows:

Rozwójka

	2006	2007	2008	2009	2010
pH	7.9	7.8	--	--	--
permitted value	6.5 – 9.0	6.5 – 9.0	--	--	--
BOD [mg O ₂ /dm ³]	7.4	7.5	--	--	--
permitted value	20	20	--	--	--
COD [mg O ₂ /dm ³]	43.4	50.9	--	--	--
permitted value	100	100	--	--	--
total suspended solids [mg/dm ³]	7.2	7.3	9.0	9.6	9.9
permitted value	35	35	35	35	35
volatile phenols [mg/dm ³]	0.009	0.011	--	--	--
permitted value	0.08	0.08	--	--	--
petroleum ether-extracted substances [mg/dm ³]	1.1	2.2	--	--	--
permitted value	40	40	--	--	--
hydrocarbons of petroleum origin [mg/dm ³]	1.7	1.25	1.54	1.64	1.02
permitted value	5	5	5	5	5
total nitrogen [mg N/dm ³]	5.7	4.9	--	--	--
permitted value	25	25	--	--	--
total phosphorus [mg P/dm ³]	0.50	0.40	--	--	--
permitted value	2.5	2.5	--	--	--
sulphides [mg S/dm ³]	0.008	0.01	--	--	--
permitted value	0.16	0.16	--	--	--
nickel [mg Ni/dm ³]	0.0158	0.0127	--	--	--

permitted value	0.4	0.4	--	--	--
vanadium[mg V/dm ³]	0.0660	0.0243	--	--	--
permitted value	1.6	1.6			--
aluminium [mg Al/dm ³]	0.0712	0.0867			--
permitted value	2.4	2.4			--

Martwa Wisia

	2006	2007	2008	2009	2010
pH	--	7.5	7.9	7.5	7.5
permitted value	--	6.5 – 9.0	6.5 – 9.0	6.5 – 9.0	6.5 – 9.1
BOD [mg O ₂ /dm ³]	--	2.6	3.9	5.5	4.6
permitted value	--	20	20	25	25
COD [mg O ₂ /dm ³]	--	56.4	54.8	51.5	51.4
permitted value	--	100	100	125	125
total suspended solids [mg/dm ³]	--	5.6	8.6	12.5	6.2
permitted value	--	35	35	35	35
volatile phenols [mg/dm ³]	--	0.002	0.003	0.005	0.006
permitted value	--	0.08	0.08	0.1	0.1
petroleum ether-extracted substances [mg/dm ³]	--	2.7	1.2	1.21	2.56
permitted value	--	40	40	50	50
hydrocarbons of petroleum origin [mg/dm ³]	--	1.1	0.51	0.73	0.38
permitted value	--	5	5	5	5
total nitrogen [mg N/dm ³]	--	3.1	4.0	4.3	3.6
permitted value	--	25	25	30	30
total phosphorus [mg P/dm ³]	--	0.4	0.4	0.9	1.0
permitted value	--	2.5	2.5	3.0	3.0
sulphides [mg S/dm ³]	--	0.004	0.01	0.01	<0.01
permitted value	--	0.16	0.16	2.0	2.0
nickel [mg Ni/dm ³]	--	0.0124	0.0089	0.0548	0.0077
permitted value	--	0.4	0.4	0.5	0.5
vanadium [mg V/dm ³]	--	0.0296	0.0254	0.0679	0.0178
permitted value	--	1.6	1.6	2.0	2.0
aluminium [mg Al/dm ³]	--	0.0320	0.0383	0.0420	0.0243
permitted value	--	2.4	2.4	3.0	3.0

GRI	INDICATOR
EN 22	Total weight of waste by type and disposal method (in tonnes)

Year	2006	2007	2008	2009	2010
Waste generated in the year,	8,294	9,100	8,806	10,305	11,472
including:					
Hazardous waste	3,919	4,151	4,126	4,242	4,218
Non-hazardous waste	4,375	4,949	4,680	6,063	7,254
Waste stored as at the end of the previous year	3,882	3,446	3,680	3,367	2,215
Total: waste to be managed in the year	12,176	12,546	12,486	13,672	13,687
Permitted value (data from the integrated permit)	57,991	57,991	57,991	89,627	89,627
Recovered waste (recovery)	8,369	8,765	8,964	10,215	10,836
Waste disposed of, including:	361	101	155	1,243	607
incineration		36	99	966	519
landfill		65	56	277	81
Waste stored as at the end of the year,	3,446	3,680	3,367	2,214	2,244
including:					
hazardous	1,119	970	988	953	1,044
non-hazardous	2,327	2,710	2,379	1,261	1,200

GRI	INDICATOR
EN 23	Total number and volume of significant spills

Out of seven emergency cases in 2007, no significant spills were identified from the standpoint of environmental impact.

GRI	INDICATOR
EN 24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally

Grupa LOTOS did not ship waste internationally in 2010.

GRI	INDICATOR
EN 25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff

Receiving bodies for water and effluents generated by Grupa LOTOS do not have the protected status. No significant influence on biodiversity of the discharges of water and runoff exists.

Products and services

GRI	INDICATOR
EN 26	Initiatives to mitigate environmental impacts of products and services and extend of impact mitigation

Detailed information on Grupa LOTOS activities in this area are available on the Company's website [[link](#)].

GRI	INDICATOR
EN 27	Percentage of products sold and their packaging materials that are reclaimed by category

Detailed information on Grupa LOTOS activities in this area are available on the Company's website [[link](#)].

Compliance

GRI	INDICATOR
EN 28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

No fines/non-monetary sanctions were imposed in 2010 on the LOTOS Group companies for non-compliance with environmental laws and regulations.

Transport

GRI	INDICATOR
EN 29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce

A detailed description of the environmental impact of Grupa LOTOS as a result of transport is posted on the Company's website [[link](#)].

Environmental protection expenditures

GRI	INDICATOR
EN 30	Total environmental protection expenditures and investments by type

Charges for economic use of the environment incurred by Grupa LOTOS:

Emissions (PLN thousand)					
	2006	2007	2008	2009	2010
Air emissions	3,518	3,521	3,181	3,089	3,817
Water withdrawal	109	100	113	211	160
Effluent discharge	266	280	213	260	306
Total	3,893	3,902	3,508	3,560	4,283

Expenditure on environmental protection incurred by Grupa LOTOS:

Expenditure (PLN thousand)					
	2006	2007	2008	2009	2010
Total expenditure	284,104	858,462	1,910,687	2,271,034	587,610
Environmental expenditure	34,387	99,880	224,723	138,818	16,812

Charges for economic use of the environment incurred by the LOTOS Group:

Emissions (PLN thousand)					
	2006	2007	2008	2009	2010
Air emissions	4,122	4,061	3,708	3,576	4,306
Water withdrawal	172	156	172	288	245
Effluent discharge	416	389	323	401	528
Waste landfilling	0	0	1	5	2
Total	4,710	4,606	4,204	4,270	5,081

Expenditure on environmental protection incurred by the LOTOS Group:

Expenditure (PLN thousand)					
	2006	2007	2008	2009	2010
Total expenditure	585,335	1,087,273	2,141,754	2,495,553	759,510

Environmental expenditure	54,455	120,692	255,240	153,893	33,648
---------------------------	--------	---------	---------	---------	--------



Additional information

[Agenda 2010](#)

[The Table of Content
of the GRI and the
Principles of the UN
Global Compact](#)

[Sector glossary](#)

[Glossary of social
terms](#)



Agenda 2010

January 2010

LOTOS E&P Norge acquires a 50% working interest and operatorship of the PL 556 production licence. The shares are distributed by the Norwegian Ministry of Oil and Energy within the APA 2009 Licensing Round. The PL 556 licence is located in the Norwegian Sea.

Events

January 2010

Grupa LOTOS receives the award and title *For the Renovator of the Polish Industry* for the second time. In the 10th edition of the award, Grupa LOTOS was honoured for the 10+ Programme. The organiser of the programme is the *Nowy Przemysł* monthly and the business portal *wnp.pl*.

Awards

January 2010

Inter Cars and LOTOS Oil conclude an agreement on strategic cooperation within the development of trading and distribution activities.

Events

January 2010

Grupa LOTOS, LOTOS Tank and Przedsiębiorstwo Państwowe 'Porty Lotnicze' sign a letter of intent concerning cooperation in delivering aviation fuel, lubricants and other technical materials for aircraft operating at the Chopin Airport in Warsaw.

Events

January 2010

The Minister of the State Treasury sells 14 million shares in Grupa LOTOS. The 10.8% stake is acquired by financial investors for over PLN 400m (PLN 29 for one share).

Events

February 2010

LOTOS Paliwa launches the first pair of Motorway Service Areas – Rachowice and Kozłów – at the A4 motorway near Gliwice.

Events

February 2010



Paweł Olechnowicz, who has managed Grupa LOTOS for 8 years, is awarded the title of the *President CEO of the Year 2009*, which is granted by the *Parkiet* daily. The President of the Board of Grupa LOTOS receives the statuette of the *Bulls and Bears* in the listing hall of the Warsaw Stock Exchange. The annual ceremony is to award and thus promote institutions and professionals who contribute to the development, propagation and expansion of the capital market.

Awards

February 2010

Grupa LOTOS and Windsor Energy Group organise the North European Energy Security Forum in Gdańsk. It is the first such a prestigious meeting of the representatives of the EU, the Polish government, the business and experts of the energy sector from all over the world ever held in Gdańsk.

Events

February 2010

LOTOS Kolej receives the *Forbes Diamonds 2010* title. The winning companies are awarded for the most dynamic growth in the last 3 years. It is the second *Forbes Diamond* for LOTOS Kolej.

Awards

February 2010

Following a resolution of the General

March 2010

Shareholders Meeting of Grupa LOTOS, the composition of the Supervisory Board is changed. Mr. Jan Stefanowicz, Mr. Radosław Barszcz and Mr. Mariusz Obszyński are removed from the Supervisory Board and in their places, Mr. Rafał Wardziński, Mr. Michał Rumiński and Mr. Oskar Pawłowski are appointed by the General Shareholders Meeting.

Events

March 2010

LOTOS Oil launches its new modern semi-synthetic concentrate of emulsifying oil – Emulsin Color Plus. It can be used for steel, cast iron and copper alloy machining, both in machine tools with digital steering and in conventional ones. Emulsin Color Plus is particularly suitable for cutting, grinding, rolling, machining, stamping, drilling and forming.

Events

March 2010



The chain of LOTOS petrol stations is recognised in the ranking of *Service Quality 2009*, which summarizes the observations of customer service at petrol stations. According to the consumers, last year the LOTOS station chain improved the quality of its services almost twofold, earning it the 1st place among all assessed stations, including for service time and the personnel's competence. The ranking was published by the *Rzeczpospolita* daily. The organisers of the report collected opinions from 200 thousand customers who filled in questionnaires after a visit to a shop or a petrol station.

Awards

March 2010

In the *Responsible Business in Poland 2009. Good Practices* report prepared by the Responsible Business Forum, Grupa LOTOS was mentioned in 3 out of 4 management categories:

business versus workplace – for the *Let's talk about LOTOS* programme of direct meetings between the employees and the management which is put in place in all companies of the LOTOS Group,
business versus environment – for its cooperation with the Foundation for the Development of the University of Gdańsk and the Hel Marine Station of the University's Institute of Oceanography
business versus society – for the CSR Report of the LOTOS Group

Awards

March 2010

Mr. Ireneusz Fąfara resigns from his position of a Member of the Supervisory Board of Grupa LOTOS.

Events

March 2010



During the international Intellectual Property Management Forum, Grupa LOTOS receives the 1st award for professional management of intellectual property and building a competitive advantage based on the Company's intellectual capital.

Awards

March 2010

The CDU/VDU system of the 10+ Programme is put into operation at the Gdańsk refinery. With this new system, Grupa LOTOS will increase its production capacities of top-quality diesel fuel.

Events

March 2010

LOTOS Kolej starts the lease of another 6 (out of 9) modern Bombardier TRAXX F140 MS locomotives with electrical drive.

Events

March 2010



LOTOS Oil's oil service is awarded with the European Medal granted by the Office of the Committee for the European Integration, the Business Centre Club and the European Economic-Social Committee, one of the most important institution in the EU from the entrepreneurs' point of view.

Awards

March 2010

The basketball players of LOTOS Gdynia win the Polish Cup for the 11th time in the history of the club.

Events

April 2010

LOTOS Paliwa opens its 150th own station in Ząbki, near Warsaw.

Events

April 2010



The 3rd edition of the *Navigator* loyalty programme commences. Under the programme, customers can collect points and pick up prizes at over 250 LOTOS stations all around Poland.

Events

May 2010

LOTOS Paliwa and Alior Bank conclude an agreement to launch a new product – a personal account with the LOTOS *Navigator* loyalty programme.

Events

May 2010

LOTOS Oil is awarded by the Business Centre Club with the title of *The Ambassador of the Polish Economy* in the *Exporter* category. According to the data from the Ministry of Finance, more than 70% of lubricant exports from Poland last year came from LOTOS Oil and its products reached 45 countries all around the world.

Awards

May 2010

Grupa LOTOS receives the title of *The Pearl of the Polish Stock Exchange*, thus becoming the most valuable listed company in the *Raw Materials and Energy* category. This prestigious title is granted by the *Parkiet* daily, the newspaper of the Warsaw Stock Exchange.

Awards

April 2010

In recognition of his outstanding performance and professional competence, Mr. Mariusz Machajewski – the Vice-President of the Management Board and the Chief Financial Officer of Grupa LOTOS – receives the main award and the prestigious title in this year's edition of the *Chief Financial Officer of the Year* competition.

Awards

May 2010

In Brussels, Grupa LOTOS signs the founding act of the Central Europe Energy Partners (CEEP) – a non-profit organisation which associates business entities, research and development institutions and other organisations from Central Europe which are active in the energy sector.

Events

May 2010

LOTOS Gdynia – the female basketball team – wins the Polish Cup for the 11th time. After an injection of fresh blood, LOTOS Gdynia played better and better in the basketball league regular season, although not all games ended in a victory. In the playoffs, the contest became even tougher, but in the final games the players managed to stand up to the challenge and win.

Awards

May 2010

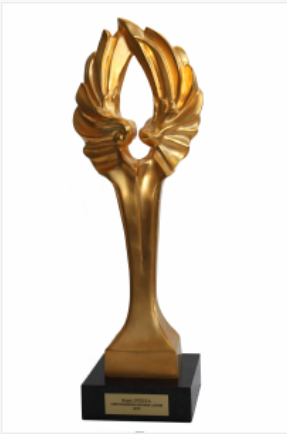


Grupa LOTOS comes second in the CSR 24/7 rating that assesses the social responsibility of companies. It is the second ranking summing up the results of research on CSR policies in Polish companies.

Awards

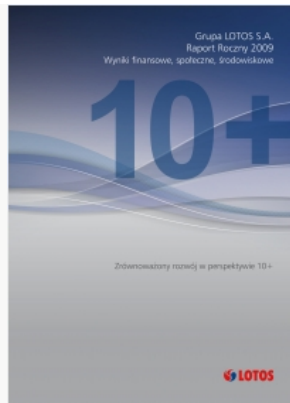
June 2010

June 2010



Grupa LOTOS receives the Golden Statuette and the title of *The Leader* for remarkable achievements in all areas of HR management at the 11th ceremony of the Leader of Human Resources Management Competition.

Awards



The LOTOS Group releases the Annual Report 2009 entitled *Sustainable development in the 10+ perspective* which is the first integrated report in the Company's history. The publication presents basic figures, the management approach and plans for all aspects of the company's activities: economic, social and environmental.

Events

June 2010

LOTOS Oil is among the winners of the prestigious *Leaders of Export to the East* ranking conducted by the *Dziennik – Gazeta Prawna* daily.

Awards

June 2010

Grupa LOTOS concludes an agreement with the Polish Oil and Gas Company (PGNiG) for supplies of natural gas to the refinery in Gdańsk. The estimated value of this agreement shall reach over PLN 2.2bn in the next five years.

Events

June 2010

Grupa LOTOS signs a declaration on sustainable development of the energy sector in Poland, herewith supporting the initiative aimed at increasing the efficiency and energy security of Poland.

Events

June 2010



LOTOS Kolej receives two MOBILE 2010 awards in the ranking of leading Polish companies from the transport, spedition and logistics sector. The company is declared winner in the *Railway transport as a main source of income in 2009* category and the runner-up in the *Gross Profit in 2009* listing.

Awards

June 2010

Ms. Ewa Sibrecht-Ośka and Mr. Rafał Lorek are appointed as new Members of the Supervisory Board of the 7th term.

Events

June 2010



The Corporate Press Association awards the intranet portal of Grupa LOTOS *Lotostrada* with the highest prize in the category of electronic publications in the *Columns of the Year 2010* competition. *Lotostrada* is awarded for the clear layout, the possibility to put up own photographs by the employees, house-made multimedia materials, etc.

Awards

July 2010

In the Gdańsk refinery of Grupa LOTOS, the modern railway diesel oil loading facility is launched. It is yet another investment completed on schedule and within budget under the 10+ Programme. The annual capacity of the loading facility from both arms amounts to 2.6m tonnes.

Events

July 2010

The Integrated Management System certificate in the areas of quality management, environment management and HSE for Grupa LOTOS is renewed. Auditors of the Polish Centre for Testing and Certification confirm the compliance of the Company's activities with the requirements of the PN-EN ISO 9001:2009 (quality management), PN-EN ISO 14001:2005 (environment management) and PN-N-18001:2004 (HSE management) standards.

Events

September 2010



LOTOS Oil launches new products suitable for technologically advanced motor cars, including LOTOS Quazar K oils dedicated for KIA cars.

Events

September 2010

Grupa LOTOS is chosen to become the exclusive representative of all refineries producing or importing petroleum products in the EU in the REACH Programme. It reflects the trust of e.g. the members of CONCAWE – the scientific organisation gathering European and non-European refineries.

Events

September 2010



LOTOS petrol station chain receives the prestigious statuette of the *Customer Service Quality Emblem 2010*. LOTOS stations are ranked among the companies with highest quality of customer service. According to the customers, LOTOS stations were the best in terms of offer, price and range of products among all other petrol stations surveyed. Also, the service time and service organisation as well as the knowledge and competence of its personnel were acknowledged. What is more, LOTOS was listed in the TOP 100 of Service Quality, taking into account all sectors in Poland.

Awards

July 2010

LOTOS Kolej concludes an agreement with the German Railpool group to lease another 5 electric locomotives Bombardier TRAXX MS.

Events

August 2010

The Polish Ski Federation and Grupa LOTOS sign a cooperation agreement for the coming years. In the 2010/2011 season, Grupa LOTOS shall be the General Sponsor of Polish Skiing. Also, the letter of intent is signed concerning cooperation during the preparation period of the Polish national team for the 22nd Winter Olympic Games in Soczi in 2014.

Events

September 2010

Grupa LOTOS is awarded with the statuette of Business Innovation Award for the execution of the 10+ Programme, one of the largest CAPEX projects in the Polish economy in the last 20 years judging by its scale and value. The award is granted by the *Polish Market* magazine and the Centre for Eastern Studies, the organiser of the Economic Forum in Krynica.

Awards

September 2010

Mr. Kajetan Kajetanowicz and Mr. Jarek Baran, who are sponsored by LOTOS Dynamic and LOTOS Oil, win the Polish Rally Championship 2010.

Awards

September 2010

LOTOS Jantar, the Standard Formation Dancing Club from Elbląg, wins the Polish Standard Dancing Championship for the 16th time in a row.

Awards

October 2010

Grupa LOTOS becomes the new titular sponsor of the Gdańsk men handball team – LOTOS Trefl Gdańsk – in the 2010/2011 season.

Events

October 2010



Mr. Wojciech Szczurek, the Mayor of Gdynia, awards Mr. Paweł Olechniewicz,

October 2010

The Minister of the State Treasury initiates the privatisation process of Grupa LOTOS. The invitation is published on October 30 and is directed to all interested entities, particularly those with petroleum production as their objects of economic activity.

Events

October 2010



Grupa LOTOS is awarded with the title of the *Best Business Partner* in the category of corporate social responsibility in the competition organised by the *Home&Market* monthly.

Awards

the President of the Board of Grupa LOTOS, with the *Civitas e mari – The City of the Sea* medal. The occasional medal is awarded to outstanding figures from the business world who over the years have contributed to the development of the economy of the town of Gdynia.

Awards

October 2010

LOTOS Jantar, the Standard Formation Dancing Club from Elbląg, wins the World Standard Dancing Championship for the 2nd time.

Awards

October 2010



Gear oil Transmil Synthetic is awarded with the golden medal at the Trade Fair for Hydraulics, Pneumatics, Drive and Control Systems in Katowice.

Awards

November 2010

Grupa LOTOS and Mitsubishi International GmbH conclude a 3.5-year agreement for sale of xylene fraction to Mitsubishi International GmbH. The estimated value of the contract is PLN 805.3m.

Events

November 2010



Engine oils LOTOS Quazar are awarded with the European Medal which is granted to products and services meeting the European standards. Other factors taken into account are the company's dynamics as well as the awards and certificates it received.

Awards

November 2010



The Management Board of Grupa LOTOS unveils its new development strategy for 2011-2015, along with long-term development directions until 2020. The key elements of the new strategy for the coming years are rapid development of exploration for and production of hydrocarbons (upstream segment) and further development of the sales force.

Events

November 2010

Grupa LOTOS is declared leader of the most actively investing companies in 2009 in the ranking prepared by *Dziennik – Gazeta Prawna* daily.

Awards

November 2010

Grupa LOTOS and Lechia Gdańsk sign a sponsorship contract. The agreement for sponsoring the senior team shall last for 3 years.

November 2010

In the Platts Top 250 Global Energy Company Rankings of the most valuable energy companies in the world, Grupa LOTOS is ranked on the high 21st place among the world's top performing oil production companies.

Awards

December 2010

LOTOS Petrobaltic acquires full operating control over the Lithuanian oil exploration company – AB Geonafta.

Events

December 2010



For the second time in a row, LOTOS Dynamic fuels are awarded with the *Golden Consumer Laurel 2010* in the *Premium Fuels* category. *Consumer Laurel* is a consumer programme held annually aimed to reward the most popular products and brands in different categories.

Awards

December 2010

LOTOS Tank and P.P. Porty Lotnicze conclude a lease agreement of the land located at the Chopin Airport in Warsaw, on which an aviation fuel handling facility will be built.

Events

December 2010

Grupa LOTOS signs a PLN 4bn contract for petrol supplies to be delivered to Shell Polska Sp. z o.o. in 2011. Thanks to this contract, LOTOS becomes the major supplier of PB95 petrol and diesel oil to the Polish chain of Shell petrol stations in 2011.

Events

December 2010

Grupa LOTOS is honoured with the title of the *Super Patron of the Year 2010* at the 8th Gdańsk Sport Gala Event. The winner is chosen by the jury comprising persons appointed by the Gdańsk Sport Council, including Mr. Leszek Blanik, Mr. Maciej Turnowiecki, Mr. Maciej Polny, Mr. Mateusz Kusznierevich and Mr. Dariusz Michalczewski.

Awards

Events

November 2010



The National Programme for the Development of Ski Jumping "Szukamy Następców Mistrza" (*Looking for the Champion's Successors*) – organised by the Polish Ski Federation and Grupa LOTOS – wins in the *DEMES 2010 Sport and Business Awards* in the category *Youth Sport Programme*.

Awards

December 2010

In the 7th edition of the Most Valuable Polish Brands ranking published by the *Rzeczpospolita* daily, the value of the LOTOS brand is estimated at PLN 675m, which constitutes an increase of 10% as compared to 2009. The LOTOS brand upholds its high 18th position among 330 other ranked brands.

Events

December 2010



For the 10th time, LOTOS Czechowice is awarded with the certificate and the Platinum Statuette of *The Fair-Play Company of the Year 2010* by the Polish Chamber of Commerce.

Awards

December 2010

In the 4th edition of the Social Reports competition, Grupa LOTOS receives a distinction for the first of its kind publication *Sustainable development in the 10+ perspective*. Grupa LOTOS is awarded for the successful attempt at including social and environmental issues in its integrated reporting. The annual

January 2011

Grupa LOTOS signs a PLN 1.7bn contract for petrol supplies to be delivered to BP in Poland in 2011. Thanks to this contract, LOTOS becomes the major supplier of petrol and diesel oil to the Polish chain of BP petrol stations.

Events

report of the Company receives the jury's recognition in the competition organised by PricewaterhouseCoopers, Responsible Business Forum and CSR Consulting for the 3rd time in a row.

Awards

January 2011



In the Gdańsk refinery of Grupa LOTOS, the mild hydrocracking (MHC) installation is launched. It is the penultimate installation under the 10+ Programme.

Events

January 2011

LOTOS Czechowice and its President, Mr. Tadeusz Szkudlarski, are awarded with the Platinum Laurel of Skills and Competence of *The Socially Responsible Company*. For 19 years, the awards have been granted by the Regional Chamber of Commerce to persons and companies that actively support the process of changes in the region and in the entire country.

Awards

January 2011

In the poll by *Gazeta Wyborcza* daily, Grupa LOTOS receives the title of the *Sport Patron of the Year 2010* in the Pomeranian voivodeship.

Awards

January 2011

LOTOS Exploration & Production Norge AS – a subsidiary of LOTOS Petrobaltic – is granted the operatorship and a 25% working interest in the PL 503B license, situated in the south of the North Sea. It is already the 8th licence of Grupa LOTOS in Norway.

Events

January 2011

Grupa LOTOS is again included in the exclusive group of 16 companies comprising the new index of socially responsible companies – the RESPECT Index.

Events

February 2011



Grupa LOTOS receives the first award in the *Investor Relations* category of the *Listed Company of the Year 2010* ranking, prepared by the *Pentor Research Institute* for the *Puls Biznesu* daily.

Awards

February 2011

Grupa LOTOS is ranked among the leaders of the *BI-NGO 2010 Index*. The Index evaluates how well the 500 largest companies listed by the *Rzeczpospolita* daily communicate their CSR efforts over the Internet.

Events

February 2011

LOTOS Kolej, LOTOS Asphalt and LOTOS Parafiny are awarded with the titles of *Forbes Diamonds 2011*, granted every year by the *Forbes* monthly to companies whose value has risen most dynamically over the last 3 years.

Awards

March 2011



In the Gdańsk refinery of Grupa LOTOS,



Grupa LOTOS receives the *Business Superbrand Polska* title in the third edition of the prestigious *Business Superbrands* project. The decision to honour Grupa LOTOS was taken by the Brand Council, an independent collective body of experts on marketing, advertising and branding, based on the brand recognition, its unique character and customer loyalty.

Awards

the Residium Oil Supercritical Extraction (ROSE) installation is launched. It is the last installation under the 10+ Programme.

Events



The Table of Content of the GRI and the Principles of the UN Global Compact

The following table may help determine the location of content concerning specific information or performance data required by the Global Reporting Initiative as well as resulting from Grupa LOTOS adopting and applying the ten fundamental Principles of the UN Global Compact.

Issue	Place of publication	Global reporting Initiative Index	Un Global Compact Principles	More
Strategy and analysis within sustainability:	Letter from the President of the Board Interview with the President of the Board			
Statement from the senior management		[1.1]		
Key impacts, opportunities and risks	Key risks, opportunities and challenges in the context of sustainable development	[1.2]		
Organisation profile:		[2.1]-[2.9]		Achievements and forecasts Highlights
Name of the organisation	Organisation profile			
Primary products				
Location of the headquarters				
Number of countries where the firm operates				
Nature of ownership				
Operational structure				
Markets served				
Scale of operation				
Changes during the reporting period				
Awards and distinctions	Additional information/Agenda 2010	[2.10]		
Report parameters:	Consolidated non-financial statement/Scope of the report	[3.1]-[3.3], [3.5]-[3.13]		
Reporting period				
Date of the most recent previous report				
Reporting cycle				
Scope of the report				
Content defining				
Applied GRI indexes				
Explanation of any revisions / changes from previous reports				
Verification				
Contact	Additional information	[3.4]		
Governance:	Management/Supervisory Board	[4.1]-[4.3], [4.5]-[4.7], [4.9], [4.10]		
Governance structure				
Independent members				
Mechanisms to provide recommendations				
Remuneration				
Avoidance of conflicts of interest				

Commitment:

Mission, values	Sustainability	[4.8]
Codes of conduct	Consolidated non-financial statement/Society	[SO2]
Attitude to risk management	Management/Risk management	[4.11]

Sustainability: [4.12] **1-10**

Supported external initiatives	Sustainability/Mission, vision, values
--------------------------------	--

Membership in organisations	Organisation profile/Membership in organisations	[4.13]
-----------------------------	--	--------

Stakeholder engagement: Sustainability/People [4.14]

Filing recommendations

Issues discussed	[4.15]-[4.17]
------------------	---------------

Performance indicators:

ECONOMIC ASPECTS OF ACTIVITIES

Economic performance	Consolidated non-financial statement	[EC1]-[EC4]	
Market presence	Consolidated non-financial statement	[EC5]-[EC7]	6
Indirect economic impacts	Consolidated non-financial statement	[EC8]	
	Consolidated non-financial statement	[EC9]	Sustainability/Impact of the 10+ Programme on the Company's environment

SOCIAL ASPECTS OF ACTIVITIES

Society

Local community	Sustainability/Society	[SO1]	8
Corruption	Management/Management systems [the scope of GRI and GC]	[SO2]-[SO4]	10
	Consolidated non-financial statement [the scope of GRI and GC]		
Public policy	Consolidated non-financial statement	[SO5]	
		[SO6]	
Anti-competitive behaviour	Consolidated non-financial statement	[SO7]	
Compliance	Consolidated non-financial statement	[SO8]	

Product responsibility

Customer health and safety	Consolidated non-financial statement	[PR1],[PR2]	
Products and service labelling	Consolidated non-financial statement	[PR3]-[PR5]	
Marketing communications	Consolidated non-financial statement	[PR6],[PR7]	7,8
Customer privacy	Consolidated non-financial statement	[PR8]	
Compliance	Consolidated non-financial statement	[PR9]	

Human rights

Investment and procurement practices	Consolidated non-financial statement	[HR1]-[HR3]	1,2
Non-discrimination	Consolidated non-financial statement	[HR4]	6
Freedom of association and collective bargaining	Consolidated non-financial statement [the scope of GRI and GC]	[HR5]	3 Sustainability/Employees
Child labour	Consolidated non-financial statement	[HR6]	5
Forced and compulsory labour	Consolidated non-financial statement	[HR7]	4
Security practices	Consolidated non-financial statement	[HR8]	1,2

Labour practices and decent work

Employment	Consolidated non-financial statement	[LA1]-[LA3]	1,2
	Sustainability/Employees		
Labour/management relations	Consolidated non-financial statement	[LA4],[LA5]	1,2
Occupational health and safety	Consolidated non-financial statement	[LA6]-[LA9]	
	Sustainability/Employees		
Training and education	Consolidated non-financial statement	[LA10]-[LA12]	
			Sustainability/Employees
Diversity and equal opportunity	Consolidated non-financial statement	[LA13],[LA14]	
ENVIRONMENTAL ASPECTS OF ACTIVITIES			
Materials	Consolidated non-financial statement	[EN1],[EN2]	
Energy	Consolidated non-financial statement	[EN3]-[EN6]	7,9
Water	Consolidated non-financial statement	[EN8]-[EN10]	
Biodiversity	Consolidated non-financial statement	[EN11],[EN12], [EN14],[EN15]	
Emmissions, effluents and waste	Consolidated non-financial statement	[EN16], [EN18]-[EN25]	7,9
	Sustainability/Environment		
Products and services	Consolidated non-financial statement	[EN26],[EN27]	7,9
	Sustainability/Environment		
Compliance	Consolidated non-financial statement	[EN28]	
Transport	Consolidated non-financial statement	[EN29]	
Environmental protection expenditures	Consolidated non-financial statement	[EN30]	
	Sustainability/Environment		



Sector glossary

A

APC

(Advanced Process Control) is a computerized manufacturing process control system in place in the Gdańsk Refinery since 2001. APC simultaneously controls a large number of technological process parameters at the industrial plant. With the help of this system, one can optimize the plant operations, increasing the yield of the desired products and keep the plant working safely.

ARA

the market with its territory delineated by the ports of Antwerp – Rotterdam – Amsterdam.

Atmospheric distillation

a physicochemical process used to separate component products of a mixture, using differences in the boiling point temperatures of individual components. In the process of atmospheric distillation, individual fractions of gases, benzene, paraffin and diesel oils become separated. Heavier hydrocarbons constitute so-called atmospheric remnants. Atmospheric distillation is a process carried out at a pressure close to atmospheric pressure.

Audit recertifying the Integrated Management System (renewal)

an audit aimed at assessing the compliance of the management system with the requirements of the standards. A recertifying audit is carried out in the period determined by the certifying entity to extend the validity or issue a new IMS certificate.

B

Barrel (of crude oil)

a primary unit of measure used in crude oil production. One barrel encompasses 159 litres.

Base oil

unrefined oil, without improvers, obtained in the processing of crude oil. It represents the base raw material in the manufacture of lubricant oils.

Biofuel

fuel manufactured by adding more than 5% biocomponents to gasoline or diesel oil.

Biocomponent

an additive used in fuel production made in biomass processing of e.g. oil plants or corn.

B100 (fuels)

a determination of fuels produced solely from a biocomponent.

B3 Oil Field

a marine natural gas and oil field located about 73 km north of Rozewie. In operation since 1992, it hosts the Marine Oil Mine (Morska Kopalnia Ropy). It is the main source of crude oil produced by LOTOS Petrobaltic.

B8 Oil Field

a marine natural gas and oil field located about 68 km northeast of Rozewie.

C

CD Process (Continuous Deglycerolization Process)

a manufacturing process of fatty acid methyl esters used at the installation located in Czechowice-Dziedzice.

CDU/VDU (installation)

a basic installation system used for crude oil processing comprising a Crude Distillation Unit (CDU) and Vacuum Distillation Unit (VDU).

CODO stations (company-owned, dealer-operated)

stations owned by LOTOS Paliwa and managed by external companies.

Component for bitumen production

usually a heavy vacuum distillate fraction obtained from crude oil, which can be further processed on the installation for bitumen manufacture.

Confirmed resources

the volume of oil production that may be estimated based on geological analyses and engineering data with reasonable certainty as commercially available for production since a specific date, from the known deposit horizons and in specific economic conditions, using the defined operational methods and based on determined administrative regulations.

Conversion

conversion processes usually involve technological cracking processes. In such processes, components with high boiling temperatures (heavy distillates) are used to manufacture light products used for fuel production. The most common conversion processes are thermal cracking, catalytic cracking and hydrocracking.

Crack

a refining margin.

D

DAO (De-Asphalted Oil)

oil produced with an SDA installation used as a raw material for further refining. It may be the basis for producing base oils or an input for a cracking process.

DODO stations (dealer-owned, dealer-operated)

stations operating under the logo of the Gdańsk Refinery under patronage contracts.

DOFO stations (dealer-owned, franchise-operated)

stations operating under the LOTOS brand within trading partnership under long-term franchise agreements.

E

ETBE (Ethyl Tert-Butyl Ether)

the name of a high-octane biocomponent used in gasoline production. It is manufactured in petrochemical complexes with ethanol and isobutylene.

Ethanol

ethyl alcohol used e.g. as a biocomponent for producing fuels and biofuels used in cars with ignition engines.

F

FAME (Fatty Acid Methyl Ester)

such esters are biocomponents used to manufacture fuels and biofuels for diesel engine vehicles. FAME is manufactured by the transesterification of oil with methanol in the presence of a catalyst.

Forties Blend

a type of crude oil from the North Sea. Forties Blend is light petroleum with a low content of sulphur and a high potential in gasoline production.

Furfurol extraction

a technology applied to increase the quality of base mineral oils. During the process unfavourable aromatic hydrocarbons are separated, which increases the so-called viscosity index.

G

Gasoline isomerisation

a refining process that creates a higher octane number of the gasoline fraction by changing the chemical structure of particles.

Gasoline natural gas

natural gas that contains, apart from methane and ethane, a certain quantity of heavier hydrocarbons.

Gasoline reforming

a refining process that involves a reaction with a catalyst creating high-octane aromatic hydrocarbons and hydrogen.

General nitrogen

the content of nitrogen for nitrogen bound in all possible chemical forms.

H

HDS (Hydrodesulphurisation Diesel Unit)

a system for the hydrodesulphurization of diesel oils.

Heavy fuel oil

an oily liquid representing a residue from the distillation of crude oil. Heavy fuel oil finds its use in industrial installations of large manufacturing or processing facilities, as well as in combined power plants. It is also used as bunker fuel for ships.

HGU (Hydrogen Generation Unit)

a system for hydrogen production.

Hydrocracking

a refining process used to produce high quality fuel components during the reaction of vacuum distillates with hydrogen with a catalyst. Hydrocracking processes usually take place at a very high pressure and provide components that are free of sulphur and contaminations.

Hydrotreating (of slack wax)

a process of purifying paraffin during the reaction with hydrogen in a catalyst.

I

ISO

International Organization for Standardization.

J

Jet A1

aviation fuel for jet and turbine engines.

K

KAS (installation)

an amine-sulphur complex of installations for purifying refining gases of hydrogen sulphide and for the production of liquid sulphur.

L

LCA (Life Cycle Assessment)

the assessment of a product life aimed at determining the environmental impact (emission of greenhouse gases during individual stages of production, processing and transport). LCA also determines the environmental impact resulting from obtaining biomass, transport and its processing into biofuels vs. the impacts that occur in the life cycle of fossil fuels.

Light fuel oil

a product obtained in crude oil processing characterized by a lower sulphur content and density than heavy heating oil. The light fuel oil is mainly used in household boiler rooms, in SMEs and institutions. It is also successfully used as the heating fuel

in the boiler rooms of residential estates.

LPG (Liquefied Petroleum Gas)

a liquefied gas, being a mixture of propane and butane, obtained in the processing of crude oil. Among its other applications, LPG is used as engine fuel or as fuel for household gas stoves.

LPG amine washing installation

a system for removing sulphur from liquid gas fractions in the form of hydrogen sulphide.

Lubricant oil

a composition of base oil and improvers. The quantity, type and relative proportions of these components are decisive for the class of the oil manufactured. Their main task is to reduce friction between the surfaces of the movable parts of mechanical devices that touch each other and work together. Lubricant oils are used in the automotive industry and for industrial applications.

M

Mechanical Completion (MC)

completing building-assembly work by signing a protocol between OS (Refinery Development Division) and the contractor, which confirms that all work has been completed in compliance with the design and applicable regulations. A so-called Punch List may be enclosed with the protocol, i.e. a list of work to be performed at later stages, which does not prevent the start of the next process phase, i.e. precommissioning and the introduction of start-up assemblies.

MHC (Mild Hydrocracking)

a hydrocracking installation that operates in slightly milder conditions than a standard hydrocracking system.

Modified asphalts

asphalts characterized by improved quality parameters, thanks to the interaction between asphalt and an applied modifier.

MTBE (Methyl Tert-Butyl Ether)

a high-octane component used for gasoline production. Unlike ETBE, it is not a biocomponent.

N

Naphtha

a fluid fraction of crude oil composed of hydrocarbons whose particles contain 9-16 atoms of carbon. Naphtha can be processed into aviation fuel and diesel oils.

National Index Target

a minimum share of biocomponents in the total volume of liquid fuels and liquid biofuels used during a calendar year in transport, calculated according to the caloric value.

O

Oil transesterification

a chemical reaction resulting in the formation of fatty acid methyl esters. The transesterification reaction of oils is a reaction of oil with methanol in the presence of a catalyst.

P

Paraffin

a mixture of solid saturated hydrocarbons, separated from the fractions of crude oil. It is used, among others, to manufacture candles, as a floor polish and as an insulation material.

Plasticizers

plasticizing improvers added to polymer products. Grupa LOTOS manufactures hydrocarbon plasticizers for the rubber industry.

Ppm (parts per million)

a popular measuring method used to express the concentration of extremely diluted solutions of chemical compounds. This measure tells how many particles of a chemical compound are to be found among one million particles of the solution.

Provisional Acceptance Protocol

a document signed with a contractor that confirms the achievement of the guaranteed parameters by a system, while any other contractual obligations have also been fulfilled.

R

REACH

Regulation of the European Parliament and Council concerning the safe application of chemicals through their registration and assessment and in some cases granting commercial permits and restrictions as regards the application. It came into force on 1 June 2007 and replaces several dozen previous community legal acts, both regulations and directives introduced into Polish legislation with the Act of 11 January 2001 on chemical substances and preparations.

Ready For Start Up (RFSU)

the condition of readiness for start-up achieved by the system (introduction of production media) confirmed with a formal protocol approved by the Refinery Development Division.

REBCO (Russian Export Blend Crude Oil)

a commercial name of Russian crude oil from the Ural.

ROSE (Residual Oil Supercritical Extraction)

a technology used at the Gdańsk Refinery in the SDA installation under construction.

S

SDA (Solvent Deasphalting)

an installation used to separate vacuum remnants after crude oil processing into lighter fractions, i.e. deasphalted oil (DAO) and heavier fractions, namely a bitumen component.

Slack wax

a semi-product received in crude oil processing. It is used to produce wax.

T

Transfer for tests

the synonym of transferring the responsibility and the right to manage the facility by the Production Division/Technique Division. The transfer for tests does not end the investment process (the system remains an investment facility in the Refinery Development Division). The acceptance protocol enables a user to commence all work related to the start of the system. The Refinery Development Division remains responsible for any contacts with the main contractor with regard to remedying defects and the performance of any postponed work, for obtaining opinions or decisions of any external institutions as well as for any contractual consultation related to the test start-up.

Transfer for use

the last stage of the investment process that is confirmed formally with the acceptance protocol (from the Refinery Development Division to the Production Division/Technique Division by the Acceptance Commission). The document ends the investment process based on the requirements of the building law and the law on environmental protection.

Troll Blend

a type of crude oil from the North Sea. The Troll Blend is an average crude oil with a low sulphur content and a high potential within the production of diesel oils.

V

Vacuum distillate

a fraction of hydrocarbons separated from a more complex mixture with distillation under a reduced atmospheric pressure. Vacuum distillates produced from crude oil are usually used to produce base oil, and also as input for cracking processes.

Vacuum distillation

a process analogical to the process of atmospheric distillation, conducted, however, at a reduced ambient pressure. It uses a physical property, whereby the boiling point decreases as the ambient pressure is reduced. It makes it possible to separate vacuum distillates in the atmospheric residuals. Heavy remnants of the distillation process are so-called vacuum residuals.



Glossary of social terms

B

Business ethics

Taking account of the moral aspect in business, i.e. applying solutions that combine moral requirements with the strategic interests of a firm. Business ethics determines ethical standards of behaviour, norms and values as well as conduct in a business.

C

Code of ethics

A set of rules that regulate moral life. A code of ethics in business indicates specific 'behaviours' of an organization, in addition to general guidelines concerning reliability and integrity required in business and actions that are conducive to social development and not contradictory to moral standards and collective customs.

Corporate community involvement

Involvement of a firm in social issues and participating in solutions of social problems. This concept is narrower than corporate social responsibility and it refers to different activities of a company in a community. It includes various forms of involvement, such as financial support, material assistance and voluntary work of employees. Community involvement makes a firm more reliable in the eyes of the general public and builds a positive image.

Corporate social responsibility

The strategy that provides for a firm to take account voluntarily of social interests while trying to achieve its economic aims, taking decisions and actions. CSR includes the consideration for ethical rules, rights of employees and human rights as well as the social and natural environment. It is assumed that the corporate social responsibility should be an integral part of the business policy, together with its economic objectives.

Corporate volunteering

This involves employees of a firm in voluntary work for social organizations. Employees (volunteers) perform various types of work for those in need, by using their skills and abilities and developing their talents in such areas. A firm supports its employees in such actions and, depending on its organizational culture, appoints employees to work as a volunteers during working time or provides material assistance or logistic and financial support.

D

Donation

A form of an agreement by which a donor undertakes to provide free-of-charge performance with its assets. A donation may be granted by individuals or corporations. The subject matter of the donation may include real properties, movables, money as well as rights or may involve free provision of services.

G

GRI

The Global Reporting Initiative (GRI) is an independent institution with its seat in the Netherlands that develops and promotes so-called Sustainability Reporting Guidelines. GRI Guidelines are applied all over the world. They may be used by all companies that are ready to submit comprehensive reports on their economic, environmental and social activity. Since 2006,

the third version of the GRI Guidelines applies, so-called G3. The organization has introduced a three-level system of applications: from the highest that includes the largest scope of revealed information, i.e. about 80 reporting indexes (A, A+), to the smallest, with less than 40 indexes (C, C+). A plus before each level means the external verification of the report by an independent certifying authority.

H

Human capital

Employees of a firm who contribute to its operation and development and have specific knowledge, skills and talents.

L

Local community

The group of people who live in the area and are connected by social bonds, common tradition and culture. A local community is formed by inhabitants of villages, towns, cities or municipalities.

M

Mission

A set of fixed aims and targets of a firm. It contains values that are upheld by the management board and are the basis for determining its actions. The mission determines the identity of a firm and its organizational culture.

N

Non-governmental organization (NGO)

A voluntary organization that operates independently of state or political structures and whose operation is not profit oriented. It works for social issues and development. Its operation is based mostly on voluntary work.

O

Organizational culture

A set of standards, values, forms of behaviour, attitudes, premises and symbols that determine the mode of thinking and acting in a company and define standards of communication and conduct.

S

Social dialogue

The exchange of information and presentation of positions concerning social problems and issues between parties that may be public institutions, entrepreneurs or NGOs. It is a form of representing the interests of parties. The source of success is reliable information exchanged between the parties and cooperation.

Social programme

Planned actions aimed at solving or counteracting a specific social problem. They may be implemented jointly or independently by public institutions, businesses or social organizations.

Social report

A report issued by a firm that presents its whole strategy and social policy. It takes account of economic, social and ecological aspects of its operations.

Sponsoring

Joint obligations of two parties – a sponsor and a sponsor. A sponsor provides funds, material assistance or services to the sponsor in return for promotion. Sponsoring is a planned and conscious act aimed at creating a positive image of a firm. It is often a part of the long-term marketing strategy of a business.

Stakeholder

A person or entity interested in the operation of a firm and incurring various types of risks related to its business or the persons or entities that are affected by a firm through its activities. Unlike shareholders, who are primarily interested in the profits of the company, stakeholders include a much wider group, e.g. employees, customers, creditors, suppliers, government administration and, in a wider context, local communities, the natural environment and public opinion. The term was first introduced by the Stanford Research Institute in 1963.

Sustainable development

The path of social and economic development that is in harmony with the natural environment. The idea of sustainability provides for the skilful use of resources (social, human and natural), so that they can be used in the future.

The social responsibility terms have been prepared based on information from the web sites: www.filantropia.org.pl, www.fob.org.pl and www.pfcg.org.pl