Grupa LOTOS S.A.
Integrated Annual Report 2011

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Responsible decisions

LOTOS Annual Report 2011 / Home / State-of-the-art refinery on the Baltic Sea

State-of-the-art refinery on the Baltic Sea

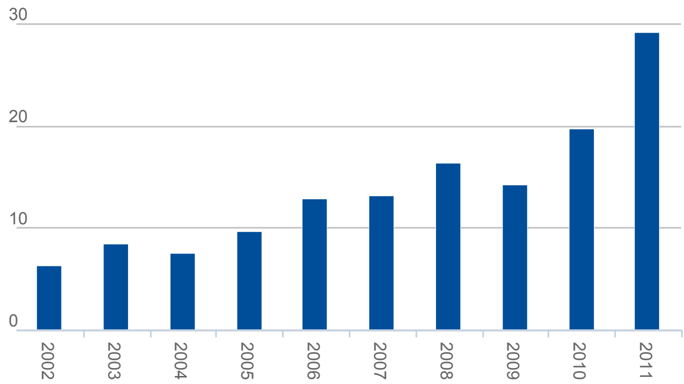
March 2011 saw the completion, after three and a half years, of a major investment project designated as 10+ Programme. As part of that project, one of the largest in Poland, we have constructed and upgraded 50 installations. As a result, the Gdańsk refinery's annual capacity has increased to 10.5m tonnes and the refinery has become one of Europe's most energy efficient facilities.

The value of the project also bespeaks its importance – approximately PLN 5.5bn was invested in equipment design, construction and procurement. The upgrade of the refinery, increase in its processing capacities and improved product quality have significantly strengthened the Company's market position, contributing to its record-breaking financial performance.

29.2 bn PLN

These are the consolidated sales revenues of LOTOS in 2011, which is an increase of almost 50% on 2010. Thanks to this increase, LOTOS has become the second largest company in Poland.

Program 10 + it is a foundation of the subsequent development



Sales revenues 2002-2011 (PLN bn)

See in the Report → Operating segment Progress in implementation of strategic objectives

LOTOS meets customer needs

With a record-high number of 63 new locations launched in 2011, the LOTOS portfolio was the fastest developing chain of service stations in Poland.

For the most part, the rapid growth was driven by the LOTOS Optima economy brand. With the highest quality fuels offered at competitive prices, the new brand has been well-received by customers and partners alike. Also the Premium chain and Motorway Service Areas located along Polish motorways and expressways have been successful in optimum development throughout Poland. Accordingly, with 369 service stations, we have become the fourth largest chain in our country, with further plans of vigorous development.

One in four cars in Poland uses LOTOS engine oil

LOTOS Asfalt production allowed to build over **1000 km of motorways** in 2011 alone

50 LOTOS Optima economy stations

opened in 2011

Chain of LOTOS Optima stations in 2011

See in the Report → Market activities Indirect economic impacts

LOTOS Annual Report 2011 / Home / Oil and gas from LOTOS

Oil and gas from LOTOS

We operate in the area of exploration and production in Poland, Norway and Lithuania, producing crude oil and natural gas from onshore and offshore deposits.

In 2011, the volume of our crude oil production reached nearly 230 thousand tonnes, which makes us one of the leading oil companies in Poland. We are also Poland's only company to operate offshore platforms, extracting oil from the Baltic Sea. We hold a total of 22 exploration and production licences for crude oil and natural gas, and we are actively involved in the exploration for shale gas in Poland and Lithuania. In our E&P operations, we pay due respect to the environment, taking efforts to protect its biodiversity.

53.2 m barrels

This is the amount of crude oil resources and reserves owned by LOTOS, estimated as at December 31st 2011. It equals 6.935m tonnes.

Exploration on the land - Lithuania

Exploration at sea - Baltic Sea

See in the Report →

Exploration and production

Progress in implementation of strategic objectives

A sustainable approach to business

Grupa LOTOS believes in doing business responsibly. We understand CSR as a way of doing business with due consideration for the needs of our environment. Our business operations and strategy are successfully aligned with social and environmental concerns, ethics, as well as human and customer rights.

Since November 2009, we have been included in the RESPECT Index of the Warsaw Stock Exchange, among other market leaders satisfying the highest standards of responsible management. Why is this important? Experience shows that a strategic approach to CSR delivers benefits not only for a company, but also for its environment and investors. Those benefits relate to risk management, cost reduction, access to capital, customer relations, HR management, environmental protection and innovation.

Prof. Krzysztof E. Skóra - Protection of the biodiversity

Kamil Stoch - "In Search for the Champion's Successors"

Apoloniusz Tajner - Together for the 9th season

Prof. Antoni Tajduś - Cooperation with Education

Mirella Panek-Owsiańska - What is CSR?

Robert Sroka - Socially Responsible Investing

See in the Report → Corporate governance

The Organization and the Report

Grupa LOTOS is an oil company, whose business consists in the exploration, production and processing of crude oil, as well as sale of high-quality petroleum products. The Report presents economic, social and environmental achievements of the LOTOS Group in 2011 in an integrated manner.

About us

Apart from Grupa LOTOS, which manages the refinery in Gdańsk, the LOTOS Group comprises 15 other companies under the LOTOS brand.

Integrated reporting

The Report integrates financial and non-financial data, and meets the criteria for the Global Reporting Initiative Application Level A+.

Stakeholders

The LOTOS Group manages its relations with the key stakeholder groups in a responsible manner.

Awards and distinctions

The Company takes pride in the distinctions received from external specialists and experts.

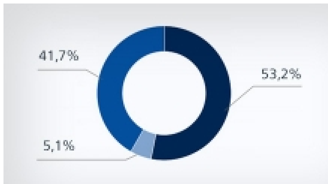
About us

Apart from Grupa LOTOS, which manages the refinery in Gdańsk, the LOTOS Group comprises 15 other companies under the LOTOS brand.

Business profile

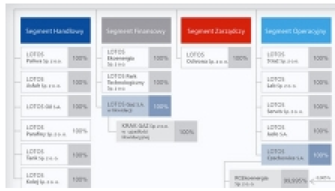
The Company produces and markets i.a. unleaded gasoline, diesel oil, aviation fuel, lubricant oils and bitumens.

Shareholder structure



In 2011, the State Treasury held 53.17% of the share capital of Grupa LOTOS, while ING OFE's share dropped below 5%.

Structure of the organization



Adopted solutions increase the efficiency of management processes and ensure cost and revenue synergy within the LOTOS Group.

Business profile

The Company produces and markets i.a. unleaded gasoline, diesel oil, aviation fuel, lubricant oils and bitumens.

This Annual Report provides an overview of the activities of the Group of Grupa LOTOS S.A. ("the LOTOS Group" or "the Group"), with a particular focus on the LOTOS Group's parent entity – Grupa LOTOS S.A. ("Grupa LOTOS", "the Company" or "we").

Grupa LOTOS is one of the largest companies in Poland. It is an oil company, whose business consists in the extraction and processing of crude oil, as well as wholesale and retail sale of high-quality petroleum products.The Company produces and markets products such as unleaded gasoline, diesel oil, diesel oil for heating purposes (light fuel oil), aviation fuel and heavy fuel oil. Grupa LOTOS also specialises in the production and sale of lubricant oils and bitumens in Poland.

The main market served by the LOTOS Group is Poland. In 2011, the volume share of domestic sales in the LOTOS Group's total sales reached 73.4%.

The 2011-2015 strategy provides for the consolidation of the LOTOS Group's position 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 principles of social responsibility and sustainable growth.

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

According to its Articles of Association, the Company operates in Poland and abroad. Apart from Grupa LOTOS (the parent entity and operator of the refinery in Gdańsk), the LOTOS Group currently comprises 15 other companies operating under the LOTOS name. One of them is based in Lithuania and another one in Norway.

Through LOTOS Petrobaltic S.A. and LOTOS Exploration and Production Norge AS, Grupa LOTOS is engaged in the exploration for and production of crude oil from the Baltic Sea and the Norwegian Continental Shelf. The Company also has access to onshore oil deposits in Lithuania through its subsidiary AB LOTOS Geonafta. Further development of the exploration and production segment is the priority of the 2011-2015 strategy, which assumes that in 2015 the LOTOS Group will produce 1.2 million tonnes of crude oil per year. Through the company UAB Minijos Nafta, a subsidiary of AB LOTOS Geonafta, Grupa LOTOS is also the first company which is planning to drill a test well in Lithuania in 2012 to confirm the country's shale gas deposits.

Following the completion of projects executed under the 10+ Programme, the volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest level in the Gdańsk refinery's history.

A country-wide chain of around 370 service stations (the fourth largest in Poland) operates under the LOTOS brand. Through its chain, Grupa LOTOS offers products and services in the premium segment, to which motorway service stations belong. Since 2011, we have also offered products and services in the economy segment, which is represented by the recently launched LOTOS Optima chain. By 2015, Grupa LOTOS plans to gain a 10% share in the retail market and maintain its share in the domestic fuel market at 30%. As at the end of 2011, the LOTOS Group's share in retail fuel sales in Poland was 7.6%, while its share in the domestic fuel market stood at 33.5%.

The LOTOS Group's headcount as at the end of 2011 was 5,168. Sales revenue was PLN 29,258.5m, up by nearly 49% on the 2010 result. Operating profit stood at PLN 1,016.5m in 2011, with net profit at PLN 654.2m.

In the ranking of the largest Polish companies in 2010 (**the "500 List"**) published by the Polityka weekly, Grupa LOTOS was ranked:

5th among the largest Polish companies from the industrial, service and fuel sector,

4th among the 50 largest listed companies,

9th among the 50 largest exporters, and

10th among the 50 most profitable companies.

Grupa LOTOS ranked **11th** in the **“EUROPA 500”** ranking of the 500 largest CEE companies, prepared by the Rzeczpospolita daily together with Deloitte, a consultancy firm. Analysts selected the leaders from among 943 companies based in 19 countries.

Related content:

Key data 2011 **Glossary of industry terms** **Mission, vision, values**

Shareholder structure

In 2011, the State Treasury held 53.17% of the share capital of Grupa LOTOS, while ING OFE's share dropped below 5%.

The share capital of Grupa LOTOS 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.

Structure of Grupa LOTOS' share capital As at December 31st 2011

Shareholders	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held
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**	**100.00**

In 2011, the State Treasury held 53.19% of the share capital of Grupa LOTOS. Following the reduction in the shareholding of the open pension fund ING Otwarty Fundusz Emerytalny below the 5% threshold in February 2011, the free float of Grupa LOTOS at the Warsaw Stock Exchange was 46.81%.

Decrease of the share in the total vote at the General Shareholders Meeting of Grupa LOTOS by ING Otwarty Fundusz Emerytalny

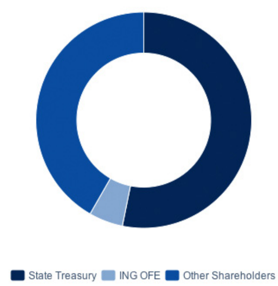
On February 7th 2011, Grupa LOTOS reported that the open pension fund ING Otwarty Fundusz Emerytalny, following the sale of Grupa LOTOS shares settled on February 2nd 2011, reduced its share in the total vote at the General Shareholders Meeting of Grupa LOTOS to below 5%. Before the transaction, ING Otwarty Fundusz Emerytalny held 6,640,532 Grupa LOTOS shares, which represented 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 Otwarty Fundusz Emerytalny was 5,957,442, which represented 4.59% of the Company's share capital.

Shares in Grupa LOTOS held by management and supervisory personnel

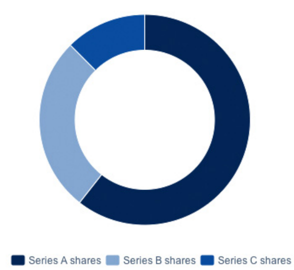
On December 31st 2011, Marek Sokołowski, Vice-President of the Board held, as in the previous year, 8,636 Grupa LOTOS shares. The other members of the Board and the Supervisory Board do not hold any shares in the Company.

Shareholder structure of Grupa LOTOS As at December 31st 2011 (%)

Shareholder structure of Grupa LOTOS As at December 31st 2010 (%)



Grupa LOTOS shares by series As at December 31st 2011



Change in the holding of shares in Grupa LOTOS by the person acting as a registered proxy of the Company

On February 1st 2011, Grupa LOTOS received a notification of transactions in Company shares executed in 2010 by the person acting as a registered proxy of Grupa LOTOS. The person purchased 200 Company shares for PLN 31.20 on September 16th 2010 and then sold them for PLN 33.17 on December 7th 2010. Both transactions were executed on the regulated market during a regular trading session. The total value of the transactions did not exceed EUR 5,000. As at December 31st 2011, the person referred to above did not serve as a registered proxy of the Company.

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

The Polish National Depository for Securities (NDS), by virtue of its Resolution No. 895/10 of December 29th 2010, resolved to accept into the depository 16,173,362 Series C ordinary bearer shares in Grupa LOTOS, with a par value of PLN 1 per share, and mark them with code PLLOTOS00025.

On January 10th 2011, the Grupa LOTOS shares specified above were registered with the Polish NDS and the WSE Management Board decided to introduce them, by way of the ordinary procedure, to trading on the main market. Following the registration under ISIN code PLLOTOS00025, the total number of shares was 129,804,251.

Related content:

Stock market **Corporate governance**

Structure of the organization

Adopted solutions increase the efficiency of management processes and ensure cost and revenue synergy within the LOTOS Group.

As at December 31st 2011, the LOTOS Group comprised Grupa LOTOS, as the parent entity, and 33 production and service companies, including:

- 16 direct subsidiaries of Grupa LOTOS,
- 17 indirect subsidiaries of Grupa LOTOS (including one company - KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) - over which Grupa LOTOS does not have any control),

and two associated companies.

On January 10th 2012, Grupa LOTOS sold 100% of the shares in LOTOS Parafiny Sp. z o.o. to an entity from outside the LOTOS Group. The transaction changed the structure of the LOTOS Group. There are currently 15 direct subsidiaries of Grupa LOTOS.

Subsidiaries comprising the LOTOS Group

Name	Registered office	Business profile	Method of consolidation/valuation of shares	Percentage of share capital held by Grupa LOTOS	
				Dec 31 2011	Dec 31 2010
Parent entity					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale. (4)	Not applicable	Not applicable	Not applicable
Direct subsidiaries					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station chain.	Full	100	100
LOTOS Gaz S.A. w likwidacji (in liquidation) (1)	Kraków (2)	The company is not conducting business operations.	Full	100	100
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricant oils and lubricants, and sale of base oils.	Full	100	100
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens.	Full	100	100
LOTOS Ekoenergia S.A.	Gdańsk	The company has not commenced	Full	100	100

		operations.			
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport.	Full	100	100
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs.	Full	100	100
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing.	Full	100	100
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection.	Full	100	100
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection.	Full	100	100
LOTOS Parafiny Sp. z o.o. (3)	Jasło	Production and sale of paraffin.	Full	100	100
LOTOS Tank Sp. z o.o.	Gdańsk	Until October 16th 2011 - trading in aviation fuel, presently - logistics services. (4)	Full	100	100
LOTOS Czechowice S.A. (parent of another group)	Czechowice-Dziedzice	Storage and distribution of fuels.	Full	100 (5)	97.55
LOTOS Jasło S.A. (6)	Jasło	Storage and distribution of fuels; renting and operating of own or leased real estate - from March 24th 201.	Full	100 (7)	98.12
LOTOS Petrobaltic S.A. (parent of another group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation.	Full	99.95 (8)	99.32
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company is not conducting business operations.	Full	100	100
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas.	Full	100 (9)	97.55
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME).	Full	100 (9)	97.55
„PLASTEKOL Organizacja Odzysku” S.A.	Jasło	Provision of services.		- (6)	93.70
Aphrodite Offshore Services N.V.	Curaçao, the Netherlands Antilles	The company has not conducted business operations since October 17th 2011.(10)	Full	99.95 (8)	99.32
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production at the Norwegian Continental Shelf, provision of services	Full	99.95 (8)	99.32

		related to oil exploration and production.			
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate.	Full	99.95 (8)	99.32
AB LOTOS Baltija (10)	Vilnius, Lithuania	Business and legal advisory services.	Full	- (10)	99.32
AB LOTOS Geonafta (parent of another group) (10)	Gargždai, Lithuania	Crude oil exploration and production, drilling services, purchase and sale of crude oil.	Full	99.95 (8,10)	40.31
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production in the Republic of Lithuania.	Full	99.95 (8)	40.31
Miliana Shipholding Company Ltd. (formerly Miliana Shipping Company Ltd.) (parent of another group) (11,12)	Nicosia, Cyprus	Storage and transport of crude oil and management of own financial assets.	Full	99.95 (8)	99.32
Miliana Shipmanagement Ltd. (11)	Nicosia, Cyprus	Sea transport services.	Full	99.95	-
Miliana Shipping Group Ltd. (parent of another group) (11)	Nicosia, Cyprus	Management of own assets.	Full	99.95	-
Kambr Navigation Company Ltd. (11)	Nicosia, Cyprus	Ship charter.	Full	99.95	-
Petro Aphrodite Company Ltd. (11)	Nicosia, Cyprus	Ship charter.	Full	99.95	-
Petro Icarus Company Ltd. (11)	Nicosia, Cyprus	Ship charter.	Full	99.95	-
Granit Navigation Company Ltd. (11)	Nicosia, Cyprus	Ship charter.	Full	99.95	-
St. Barbara Navigation Company Ltd. (11)	Nicosia, Cyprus	Ship charter.	Full	99.95	-
Bazalt Navigation Company Ltd. (11)	Nicosia, Cyprus	Ship charter.	Full	99.95	-
Other companies					
UAB Minjos Nafta	Gargždai, Lithuania	Crude oil exploration and production.	Proportional method	49.98 (8)	20.15
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production.	Proportional method	49.98 (8)	20.15

(1) On January 10th 2011, the Extraordinary General Shareholders Meeting of LOTOS Gaz S.A. adopted a resolution to dissolve LOTOS Gaz S.A. by liquidation. On February 14th 2011, the District Court for the Capital City of Warsaw, XIV Commercial Division of the National Court Register, registered the opening of the liquidation proceedings.

(2) On June 7th 2011, the Extraordinary General Shareholders Meeting of LOTOS Gaz S.A. w likwidacji (in liquidation) adopted a resolution to relocate its registered office from Mława to Kraków. On July 8th 2011, the District Court for the Capital City of Warsaw, XIV Commercial Division of the National Court Register, registered the relocation of the company's registered office from Mława to Kraków.

(3) On January 10th 2012, Grupa LOTOS sold 100% of the shares in LOTOS Parafiny Sp. z o.o. to Krokus Chem Sp. z o.o. (third-party investor), in which Nova Polonia Natexis LP II and the management staff of LOTOS Parafiny Sp. z o.o. hold shares.

(4) Till October 16th 2011, LOTOS Tank Sp. z o.o. was operating on the aviation fuel market, where it was engaged in trading and logistics. In 2011, LOTOS Tank Sp. z o.o. underwent reorganization whereby the logistics business was left at LOTOS Tank Sp. z o.o., while the core trading operations were transferred to Grupa LOTOS.

(5) On December 1st 2010, the Extraordinary General Shareholders Meeting of LOTOS Czechowice S.A. adopted a resolution regarding minority squeeze-out. On April 7th 2011, the minority squeeze-out process involving the purchase of LOTOS Czechowice S.A. shares from minority shareholders was completed by entering the acquired shares into the share register and cancelling the

shares which had not been surrendered by minority shareholders. As a result of the above process, as of April 7th 2011 Grupa LOTOS has held 100% of the share capital of LOTOS Czechowice S.A.

(6) On February 11th 2011, LOTOS Jasło S.A. executed an agreement for the sale of 95.5% of the shares in PLASTEKOL Organizacja Odzysku S.A., a direct subsidiary, and ceased to have a group.

(7) On November 30th 2010, the Extraordinary General Shareholders Meeting of LOTOS Jasło S.A. adopted a resolution regarding minority squeeze-out. On April 8th 2011, the minority squeeze-out process involving the purchase of LOTOS Jasło S.A. shares from minority shareholders was completed by entering the acquired shares into the share register and cancelling the shares which had not been surrendered by minority shareholders. As a result of the above process, as of April 8th 2011 Grupa LOTOS has held 100% of the share capital of LOTOS Jasło S.A.

(8) In 2011, Grupa LOTOS purchased employee shares from minority shareholders of LOTOS Petrobaltic S.A. as part of a voluntary sale process. As a result of the above process, the Company's interest in the share capital of LOTOS Petrobaltic S.A. increased from 99.32% to 99.94%. On November 29th 2011, the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, registered an increase in the share capital of LOTOS Petrobaltic S.A. Following the share capital increase, the interest of Grupa LOTOS in the share capital of LOTOS Petrobaltic S.A. increased from 99.94% to 99.95%.

(9) On September 26th 2011, the General Shareholders Meeting of Aphrodite Offshore Services N.V. adopted a resolution to sell the Aphrodite I ship. On October 17th 2011, the new owner of the ship, Petro Aphrodite Company Ltd., was entered in the register of Saint Vincent and the Grenadines, upon which Aphrodite Offshore Services N.V. ceased to conduct operating activities.

(10) In 2011, the equity restructuring process at the LOTOS Petrobaltic Group was in progress.

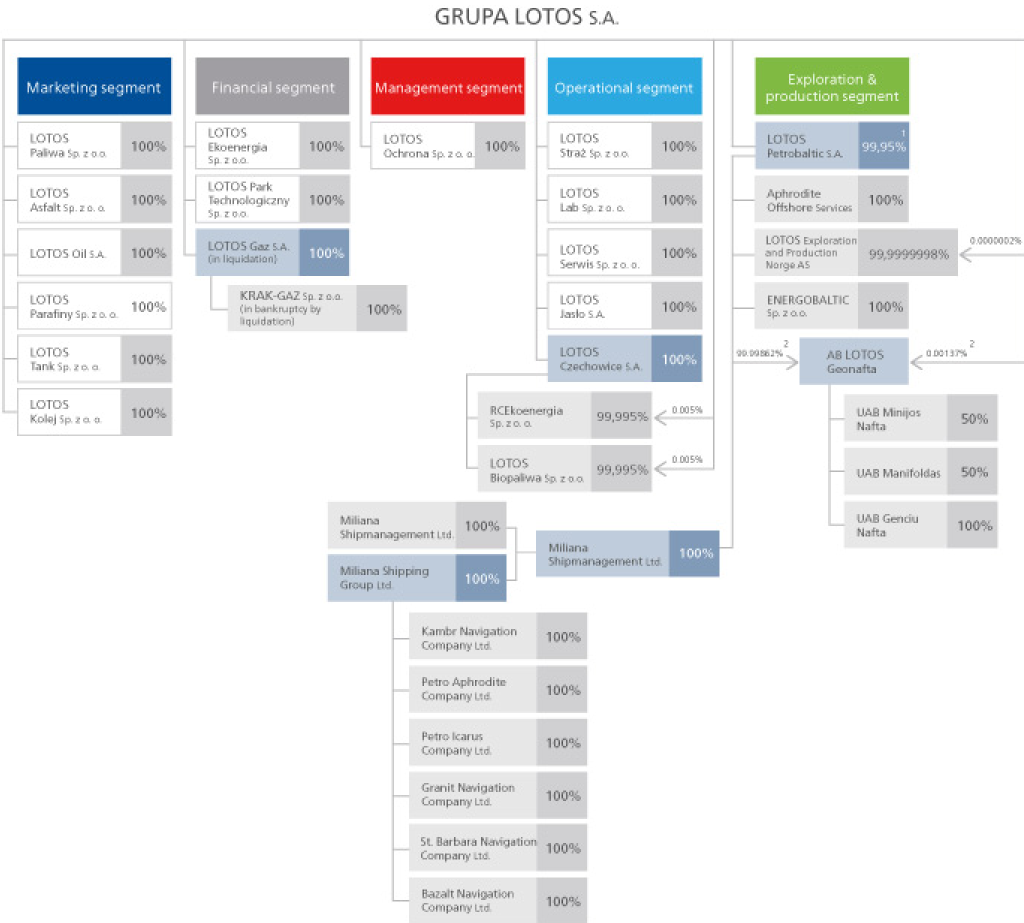
- On May 23rd 2011, a change in the legal form of UAB LOTOS Baltija to AB LOTOS Baltija was registered in the Register of Legal Entities of the Republic of Lithuania.
- On February 3rd 2011, the acquisition of full control over AB Geonafta was finalised (in performance of the conditional agreement for the purchase of 59.41% shares in AB Geonafta, dated December 14th 2010).
- On March 23rd 2011, LOTOS Petrobaltic S.A. sold one share in AB Geonafta to Grupa LOTOS.
- On May 10th 2011, a change in the legal form of UAB LOTOS Meditus to AB LOTOS Meditus was registered in the Register of Legal Entities of the Republic of Lithuania.
- On November 30th 2011, the merger of AB Geonafta, AB Meditus and AB LOTOS Baltija as well as the name change from AB Geonafta to AB LOTOS Geonafta were registered in the Register of Legal Entities of the Republic of Lithuania. In connection with the merger, the ownership structure of AB Geonafta changed as follows:
  - before the merger:
    - AB Meditus (a wholly-owned subsidiary of AB LOTOS Baltija, which in turn is wholly owned by LOTOS Petrobaltic S.A.) – 59.41% of the share capital,
    - LOTOS Petrobaltic S.A. – 40.59% of the share capital,
    - Grupa LOTOS S.A. – 0.00062% of the share capital;
  - following the merger:
    - LOTOS Petrobaltic S.A. – 43.19808% of the share capital (99.99862% of the total vote at the General Shareholders Meeting),
    - Grupa LOTOS S.A. – 0.0005934% of the share capital (0.00137% of the total vote at the General Shareholders Meeting),
    - treasury shares – 56.80132% of the share capital (treasury shares carry no voting rights at the General Shareholders Meeting).

(11) In 2011, the restructuring of the sea transport business of the LOTOS Petrobaltic Group was in progress.

- On July 22nd 2011, Miliana Shipping Company Ltd. established two new companies:
  - Miliana Shipmanagement Ltd. and
  - Miliana Shipping Group Ltd.
- Both companies are wholly owned by Miliana Shipping Company Ltd. and incorporated in the Republic of Cyprus.
  - On September 13th 2011, Miliana Shipping Company Ltd. received a formal confirmation of the ownership of six companies based in Cyprus: Bazalt Navigation Company Ltd., Granit Navigation Company Ltd., Kambr Navigation Company Ltd, St. Barbara Navigation Company Ltd., Petro Icarus Company Ltd. and Petro Aphrodite Company Ltd. Miliana Shipping Company Ltd. acquired the companies to provide ship charter services.
  - On December 12th and 13th 2011, Cypriot certificates were issued confirming transfer of shares in the six companies from Miliana Shipping Company Ltd. to Miliana Shipping Group Ltd., which marked the completion of the process aimed at forming the target equity structure for the sea transport business of the LOTOS Petrobaltic Group.

(12) On January 23rd 2012, a name change from Miliana Shipping Company Ltd. to Miliana Shipholding Company Ltd. was registered.

Structure of the LOTOS Group
As at December 31st 2011



[1] State Treasury - 0.01%, employee shares - 0 .04%

[2] Share in the total vote at the General Shareholders Meeting (percentage of shares held by individual shareholders in AB LOTOS Geonafta: 43.19808% -LOTOS Petrobaltic S.A.; 0.0005934% - Grupa LOTOS; 56.80132% - treasury shares)

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

Within the LOTOS Group, the role of Grupa LOTOS as the parent entity is to ingrate the key management and support functions. To perform its role, Grupa LOTOS has implemented a segmental management model. A segment is understood as a separate area of business activities managed at the LOTOS Group level by a designated member of the Board of Grupa LOTOS. The implemented model enhances management efficiency, delivering Group-wide cost and revenue synergies. The segmental management includes: implementation of a consistent strategy, coordinated planning and controlling, integrated operational management and maintenance of uniform corporate standards.

The LOTOS Group is divided into the following industry 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 process support function.

LOTOS Ochrona has been allocated to the management segment.

Exploration & production segment: falls within the remit of President of the Board, Chief Executive Officer, i.e. head of the exploration & 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, as well as management and supervision of the exploration and production activities.

LOTOS Petrobaltic and its subordinated affiliates have been allocated to the exploration & production segment.

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 tasks include coordination and supervision of all affairs related to the processing of crude oil, refinery production and technologies. The segment's roles also 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.

LOTOS Straż, LOTOS Serwis, LOTOS Lab, LOTOS Jasło and LOTOS Czechowice with their subordinated affiliates have been allocated to the operational segment.

Marketing segment: falls within the remit of Vice-President of the Board, Chief Commercial Officer, i.e. head of the marketing segment. The segment's tasks include effective management of sales, supplies of crude oil and petroleum products, and distribution. The segment is also responsible for the development of trading and optimisation activities.

LOTOS Paliwa, LOTOS Oil, LOTOS Asfalt, LOTOS Kolej and LOTOS Tank have been allocated to the marketing segment. Till January 10th 2012, i.e. before its sale, LOTOS Parafiny was also allocated to this segment.

Financial segment: falls within the remit of Vice-President of the Board, Chief Financial Officer, i.e. head of the financial segment. The segment's tasks include overall management of financial and accounting processes, including formulation of financial, legal and insurance strategies and monitoring their implementation, management of budgeting and controlling, development and implementation of financial risk management strategies and overall management of assets and restructuring processes.

LOTOS Ekoenergia, LOTOS Park Technologiczny and LOTOS Gaz w likwidacji (in liquidation) – together with its affiliate, KRAK-GAZ w upadłości likwidacyjnej (in bankruptcy by liquidation) – have been allocated to the financial segment. They were allocated to the financial segment following reclassification on May 1st 2011 connected with Grupa LOTOS's internal restructuring. Previously, the companies had been allocated to the management segment.

In 2011, there were significant changes to the LOTOS Group's organizational structure. The changes were made with a view to achieving specific Group-wide objectives. The objectives include:

- ensuring the implementation of the business strategy until 2015,
- streamlining the corporate processes and enhancing the organizational efficiency,
- fostering the desirable image and improving communication,
- improving the management model and segmental reporting,
- raising the standing, decision-making powers, responsibility and effectiveness of the segments, and
- optimising the processes (e.g. by combination).

Chart of the operational segments
As at December 31st 2011

Related content:

Management systems

Integrated reporting

The Report integrates financial and non-financial data, and meets the criteria for the Global Reporting Initiative Application Level A+.

The Annual Report of the LOTOS Group for 2011 is an integrated report covering the organization's operations in the financial year 2011, which coincides with the calendar year. It also covers important events occurring in the first quarter of 2012, that is shortly before the release date of the Report. The previous integrated annual report was published in April 2011.

In 2007-2009, Grupa LOTOS published separate reports on the financial and non-financial aspects of its activity. In 2010, the Company's Board decided to integrate reports for stakeholders presenting the organization's management approach and performance across all aspects of its activity, i.e. economic, social and environmental. The change of the reporting model was driven mainly by the need to provide key stakeholders with a full picture of corporate achievements, with respect to the results of its core business, and in the areas of CSR initiatives and reduction of environmental impact. This decision coincided with the inclusion of Grupa LOTOS in Central and Eastern Europe's first index of socially responsible companies – the RESPECT Index listed on the Warsaw Stock Exchange. This publication is the Company's third integrated report.

The Board's intent is to enable the organization's stakeholders to make a comprehensive, measurable and objective assessment of the entirety of Grupa LOTOS' involvement in sustainable development through the integrated and reader-friendly presentation of its financial statements and non-financial reports for a given financial year. The Company follows the best communication practices applicable to public companies:

- **for financial reporting, it adheres to the International Financial Reporting Standards (IFRS) as endorsed by the European Union, published and effective as at December 31st 2011,**
- **for non-financial reporting, it adheres to the Guidelines and the Sustainability Reporting Framework of the Global Reporting Initiative (G3 GRI) and the United Nations Global Compact's Principles. Grupa LOTOS is at the Application Level A+* in the three-level GRI reporting system.**

* The individual Application Levels were assigned letters from C (the lowest level), to C+ (where "+" is given if a report has been verified by an independent assurance body), B, B+, A, through to A+. The reporting criteria used for each level measure the extent to which the Guidelines and the GRI Reporting Framework have been applied.

The application of the GRI reporting standard and integrated reporting are an international trend for sustainability and social responsibility management among a growing number of companies around the world. The CSR reporting guidelines prepared by GRI have been in use for over 10 years. For integrated reporting, there are currently no internationally recognised and uniform standards.

In the middle of 2010, the Global Reporting Initiative and Prince Charles' Accounting for Sustainability Project established the International Integrated Reporting Committee (IIRC), whose aim is to establish an internationally recognised framework of integrated reporting. IIRC comprises representatives of the reporting sector, insurers, policy-makers, corporations, investors, non-profit organizations and higher education institutions. Until the preparation of this Report, IIRC had published a discussion paper "Towards Integrated Reporting – Communicating Value in the 21st Century", which was subject to public consultations until the end of 2011. IIRC believes that integrating financial analysis with analysis of the social, environmental and economic context of a company's operations is a valuable source of information allowing the company's stakeholders to assess its long-term profitability.

Guided by similar considerations, Grupa LOTOS is looking to improve its reporting model. Given the current lack of applicable standards for preparation of integrated reports, when preparing its Annual Report for 2011 the Company adhered to the best available practices for financial and non-financial reporting. We also embraced the key principles of accuracy, materiality, completeness, comparability, balance and credibility.

All data contained in this Report was collected in a reliable and responsible manner, and authenticated as consistent with facts.

The Consolidated financial statements of the LOTOS Group included in this Report were audited by independent auditors, Ernst & Young Audit Sp. z o.o. with registerd seat in Warsaw, pursuant to the provisions of Chapter 7 of the Polish Accountancy Act of September 29th 1994 (Journal of Laws (Dz.U.) of 2009, No. 152, item 1223, as amended), and the Polish financial auditing standards issued by the National Council of Statutory Auditors (Krajowa Rada Biegłych

Rewidentów), and the auditors issued an opinion without reservations. To ensure an appropriate level of transparency and credibility, in 2011 the Board of Grupa LOTOS decided that third-party assurance of non-financial data included in the Annual Report for 2011 should be provided by an independent body. The Company commissioned this task to Deloitte Advisory Sp. z o.o. with its registered seat in Warsaw. The Report was also drawn up under the conceptual supervision of Martis CONSULTING in the area of CSR.

This task was entrusted to Deloitte, which carried it out using the applicable **International Standard on Assurance Engagements 3000** (ISAE 3000). ISAE 3000, the International Standard on Assurance Engagements (assurance engagements other than audits or reviews of historical financial information), was established by the International Federation of Accountants (IFAC). It is based on parts A and B of IFAC's Code of Conduct and the International Standard of Quality Control (ISQC-1), and used to provide assurance with respect to CSR reports. The Standard defines the key principles and procedures for assurance engagements, including "limited assurance" engagements.

The Board of Grupa LOTOS resolved to publish reports on the progress in the implementation of the LOTOS Group's CSR strategy on a yearly basis. The Annual Report for 2011 is our first report with independently verified CSR information. Besides the above procedure, the Company has made every effort to ensure proper quality of the data collecting process (both in the case of current and previous reports). The process is supported by the organization's management systems

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 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, see subchapter "Management systems". Link → (http://raportroczny.lotos.pl/en/corporate-governance/management-systems/)

Grupa LOTOS is publishing this Report in electronic form only, which is driven by environmental concerns, but also by the intention to provide readers with the broadest possible range of convenient solutions that would make this publication a friendly tool for readers to perform their own analyses.

Marcin Zachowicz
Head of Information Office of Grupa LOTOS

Grupa LOTOS is publishing this Report in electronic form only, which is driven by environmental concerns, but also by the intention to provide readers with the broadest possible range of convenient solutions that would make this publication a friendly tool for readers to perform their own analyses.

The functional solutions embedded in the electronic format are regularly improved, e.g. based on consultations with internal stakeholders carried out in 2011, or the appraisal of traffic on the Company's website featuring the Report. Readers can display selected numerical data by periods, GRI indicators, operating segments, etc. Information included in the Report is integrated with the contents of the Company's website, including previous years' reports. Readers can also submit feedback. Accessibility options, such as voice over, increased contrast and text zoom, were added for people with disabilities, the elderly and the vision impaired. Environmental friendliness is ensured by the economical printout option.

Marcin Zachowicz
– Head of Information Office of Grupa LOTOS

The previous reports are available at Link→ (http://www.lotos.pl). For contact details, refer to the "Useful information" chapter. Link→ (http://raportroczny.lotos.pl/en/useful-information/).

Related content:

Management systems

Scope and reach

In determining the content of non-financial sections of the Annual Report, we were guided by the GRI Reporting Framework. The information contained in the Report was selected based on the materiality criterion, which we define as the potential to affect the LOTOS Group's compliance with the sustainable development principles, as well as to influence the Group's external stakeholders looking for reliable, comparable and accurate information and data, to inform their decisions and choices.

This Report, to the extent relating to non-financial information, 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 established at the time of drafting this Report ("GRI Oil & Gas Sector Supplement"), no sector-specific performance indicators were applied except for those included in the core set. The methods used to calculate the figures presented in this Report were the same as those applied for the purposes of preparing the LOTOS Group's Consolidated financial statements for 2011, i.e. in accordance with the IFRS effective as at December 31st 2011.

For a vast majority of thematic areas, the facts and non-financial data presented in the Report pertain to Grupa LOTOS, the parent entity. However, all due care and consideration was given to account for the LOTOS Group's consolidated data where possible. In sections devoted to product and environmental responsibility, information relating to the marketing companies was disclosed as well, while in sections focusing on environmental responsibility, we provided data for LOTOS Petrobaltic. In each case, a clear distinction was made by specifically indicating the LOTOS Group's entity currently discussed.

In the previous reporting period, no material changes or other circumstances occurred with respect to the LOTOS Group's entities which would affect the overall assessment of the organization, both in terms of individual aspects of its activity and domestic peer comparison. After the end of the financial year 2011, in January 2012, Grupa LOTOS sold 100% of the shares in LOTOS Parafiny, one of its marketing segment companies. However, given that LOTOS Parafiny was a company of the LOTOS Group in the period covered by this Report, its performance for 2011 is also included.

A new wording for GRI LA13 was introduced in this Report, as its previous version was incorrectly translated. In accordance with the recommendation of an independent auditor and willingness to ensure full clarity of the Report, a new method of data presentation was applied with regard to GRI EC1 indicator.

GRI indicators as reported by the LOTOS Group companies: LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny and LOTOS Petrobaltic

GRI aspects	GRI indicators reported in 2010	Subsidiaries	GRI indicators reported in 2011	Subsidiaries
Products and services	EN26	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	EN26	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny, LOTOS Petrobaltic (group)
	EN27	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	EN27	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Transport	EN29	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny, LOTOS Petrobaltic	EN29	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny, LOTOS Petrobaltic (group)
Customer health and safety	PR1	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	PR1	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Product and service labelling	PR3	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	PR3, PR5	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
	PR5	LOTOS Oil, LOTOS		

		Paliwa, LOTOS Parafiny		
Marketing communication	PR6, PR7	LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	PR6	LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
			PR7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Customer privacy	PR8	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	PR8	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
Compliance	PR2, PR4	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	PR2, PR4, PR9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny
	PR9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny		
Biodiversity	EN11, EN12, EN13	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	EN11	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa LOTOS Petrobaltic (group)
			EN12	LOTOS Asfalt, LOTOS Paliwa, LOTOS Petrobaltic (group)
	EN14	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny, LOTOS Petrobaltic	EN13	LOTOS Paliwa
			EN14	LOTOS Asfalt, LOTOS Oil, LOTOS Paliwa LOTOS Petrobaltic (group)
Indirect economic impact	EC9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Parafiny	EC9	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa
Market position	EC5, EC6, EC7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny	EC5, EC6, EC7	LOTOS Asfalt, LOTOS Kolej, LOTOS Oil, LOTOS Paliwa, LOTOS Parafiny

The Annual Report for 2011 accounts for a total of 76 GRI indicators, relative to 74 indicators in 2010. Grupa LOTOS decided to discontinue reporting of three indicators: the HR6 and HR7 core indicators, and the HR9 additional indicator, as the issues they cover were deemed immaterial for the organization. In 2011, as in previous years, we sought to increase the number of indicators reported by subsidiaries, depending on data availability. In the Report for 2011, LOTOS Petrobaltic included data of its subsidiaries: AB LOTOS Geonafta, Energobaltic and LOTOS E & P Norge.

An index designed to facilitate search for specific performance indicators and descriptive parts relating to specific issues discussed in this Report is included in the Table of Content of the GRI Performance Indicators and Global Compact Principles in the “Useful information” chapter of this Report. Link → (http://raportroczny.lotos.pl/en/useful-information/gri-performance-indicators-and-global-compact-principles/)

Audit and review

Grupa LOTOS presents the independent auditors' opinions of Ernst & Young Audit regarding the Financial statements of Grupa LOTOS and the Consolidated financial statements of the LOTOS Group for 2011 as well as the independent assurance report of Deloitte Advisory regarding the non-financial part of the Integrated Annual Report for 2011.

Independent auditors' opinion of Ernst & Young Audit Sp. z o.o. regarding the Financial statements of Grupa LOTOS for 2011.

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached financial statements for the year ended 31 December 2011 of Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, containing statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity for the period from 1 January 2011 to 31 December 2011 and the additional notes and explanations ('the attached financial statements').

2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records 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 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 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, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached 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 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 financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: *'rzetelność i jasność'*
[2] Translation of the following expression in Polish: *'rzetelnie i jasno'*

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. Without qualifying our opinion, we draw attention, that in the attached financial statements the Company has presented shares in the subsidiaries and associates at cost[4] less any impairment write down. In accordance with the accounting policies resulting from International Financial Reporting Standards, the Capital Group of Grupa LOTOS S.A. ('The LOTOS Group'), of which the Company is the dominant entity, prepared its consolidated financial statements dated 17 April 2012. The consolidated net profit from continuing operations of The LOTOS Group for the year ended 31 December 2011 amounts to PLN 649,322 thousand, the consolidated equity as at 31 December 2011 amounts to PLN 7,782,383 thousand and the consolidated assets amounts to PLN 20,423,220 thousand.
6. We have read the Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached 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 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor	Partner
Maricin Zieliński certified auditor No. 10402	Jacek Hryniuk

Warsaw, 17 April 2012

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'
[4] Translation of the following expression in Polish language: "*cena nabycia*"

Independent auditors' opinion of Ernst & Young Audit Sp. z o.o. regarding the Consolidated financial statements of the LOTOS Group for 2011.

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' 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 2011 containing, the consolidated statement of financial position as at 31 December 2011, 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 2011 to 31 December 2011 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 2010 were subject to our audit and on 11 April 2011 we have issued an unqualified opinion with an emphasis of matter on these financial statements concerning the uncertainty indicated by the Company's Management relating to the recoverability of the assets recognized due to the purchase of interest and exploration expenses incurred in respect of the YME oil field.

[1] Translation of the following expression in Polish: *'rzetelność i jasność'*
[2] Translation of the following expression in Polish: *'rzetelne i jasne'*

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 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;
   - 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 licences relating to the YME field as well as the costs of drilling and other costs of said field exploration. 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 licences for the development of the YME field, and as the result in 2011 recognized an impairment allowance in the amount of 256 million zloty (with an impact on the net financial result amounted to 90 million zloty after deferred tax adjustment), revaluating the amount of capitalized expenditures to the total amount of 1218 million zloty. Without qualifying our opinion, we draw attention to the uncertainty indicated by the Company's Management concerning recoverability of the remaining 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 futures events, in particular, by market volatility of crude oil prices as well as the ability of obtaining further significant funding required to start the production.
7. We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 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 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor	Partner
Maricin Zieliński certified auditor No. 10402	Jacek Hryniuk

Warsaw, 17 April 2012

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

Independent assurance report of Deloitte Advisory Sp. z o.o. regarding the non-financial part of the Integrated Report of the LOTOS Group for 2011.

Deloitte.

Deloitte Advisory Sp. z o.o.
z siedzibą w Warszawie
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Polska

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Independent assurance report pertaining to the non-financial part of the Integrated Report of the LOTOS Group for 2011

To the Management Board of the LOTOS Group

We have reviewed the non-financial part of the Integrated Report of the LOTOS Group ("Sustainable Development Report" or "Report") with the registered address in Gdańsk, at ul. Elbląska 135 ("Company"), with respect to indicators developed based on G3 Sustainable Development Reporting Guidelines for A level issued by Global Reporting Initiative (GRI). The assurance works covered the period from 1 January 2011 to 31 December 2011 with relation to quantity and quality of available evidence.

The Management Board of the Company is responsible for reliable, correct and fair information and for correct preparation of the documentation. Our task was to issue an independent assurance report based on the Sustainable Development Report.

Our procedures did not include assessment of the fairness, correctness and completeness of documents provided by the Company, nor did they constitute an audit of the internal control system implemented therein. Therefore, we do not express an opinion regarding correctness of the system. Our procedures did not constitute an audit of financial statements as defined in the Accounting Act. Therefore, we do not express an opinion concerning the auditor's Report nor do we make statements regarding the financial statements of the Company as determined in regulations applicable to certified auditors.

Planning and performing our works had the nature of a limited assurance engagement performed in line with ISAE 3000 (Assurance Engagements Other than Audits or Reviews of Historical Financial Information), which requires us to plan and perform the engagement in a manner which allows for limited assurance that the Sustainable Development Report does not include significant misstatements. The scope and methodology of a review of the Sustainable Development Report significantly differ from those applied during an audit, which is aimed at expressing reasonable assurance. The purpose of the review is not to issue an opinion on correct, true and fair nature of the Sustainable Development Report, and therefore no such opinion has been issued. The procedures followed during the review of the Sustainable Development Report comprised:

- Identifying issues and results significant for the content of the Report from the viewpoint of the corporate social responsibility policy followed by the Company and stakeholders' expectations;
- Comparing data included in the Sustainable Development Report to those presented in the Financial Statements of the LOTOS Group for 2011;
- Interviewing individuals in charge of the implementation of the corporate social responsibility policy in the Company and of the preparation of non-financial part of the Report;
- Verifying the information included in the Report for compliance with the internal documentation of the Company;
- Assessing the level of compliance with Sustainable Development Reporting Guidelines and GRI Reporting Framework.

Based on the review we obtained limited assurance that the information concerning indicators reported by the Company included in the Sustainable Development Report developed by the LOTOS Group is free from material misstatements and it is compliant with G3 Sustainable Development Reporting Guidelines for level A issued by Global Reporting Initiative.

Deloitte Advisory Sp. z o.o.

Deloitte Advisory Sp. z o.o.

Warsaw, 18 April 2012

Sąd Rejonowy m. st. Warszawy, KRS 0000004728, NIP: 527-020-73-28, REGON: 006233202,
Kapitał zakładowy: 16 000 500 zł
Member of Deloitte Touche Tohmatsu Limited

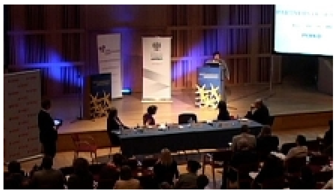
LOTOS Annual Report 2011 / Home / The Organization and the Report / Stakeholders

Stakeholders

The LOTOS Group manages its relations with the key stakeholder groups in a responsible manner.

Stakeholders' involvement

Membership in organizations



Stakeholders’ involvement

The LOTOS Group’s social responsibility strategy defines target groups to which its initiatives are addressed. The organization endeavours to build positive relations with all these groups as each of them, albeit to various extent, affects the LOTOS Group’s performance, especially in the process of creating economic, social and environmental values. This also means that the LOTOS Group seeks to take into account the interests of the individual groups affecting its operations when making business, social and environmental decisions.

The groups are treated as the organization’s stakeholders, that is entities, whether natural persons or otherwise, which may influence or be influenced by the organization’s activities.

In 2011, the LOTOS Group performed a review of the stakeholder groups which had been identified in the course of preparing the Social Responsibility Strategy in 2007. Based on the analyses performed, the organization identified three key stakeholder groups.

Key stakeholders groups of the LOTOS Group

Group I Internal environment	Group II Social environment	Group III Market environment
Employees: management, production, back-office staff, retired employees, employees of all LOTOS service stations, employees’ family members The LOTOS Group’s companies Trade unions Employee Council	Local communities: inhabitants of the provinces where the LOTOS Group operates, in particular inhabitants residing in the vicinity of production plants, storage depots, service stations and other facilities owned by the LOTOS Group as well as professional groups using natural resources of the Baltic Sea NGOs Local government units of all levels Public authorities Science and research institutes and educational centres, including higher education institutions and secondary schools educating would-be employees Employer organizations Media Environmental activists	(Internal and external) contractors and subcontractors (Domestic and foreign) suppliers (Existing and future) end customers Business partners Competitors Industry organizations and international institutions Regulatory and monitoring organizations granting certificates, approvals, licences and recommendations Capital market participants: shareholders, investors, analysts and fund managers

The organization evaluates the effect of individual stakeholder groups on its operations in terms of development opportunities, but also threats which might arise if it omits to act or if the cooperation goes wrong.

In line with the guidelines included, inter alia, in the ISO 26000 standard Guidance on Social Responsibility, the organization acknowledges that the key condition for the implementation of its social responsibility strategy is the establishment and maintenance of stakeholder relations whose distinctive feature would be a high level of involvement of all process participants in the pursuit of set objectives. In the management of its relations with individual stakeholder categories, the LOTOS Group uses a differentiated set of methods and tools, tailored to the identified needs and expectations.

Selected tools and methods for building relations with main stakeholder categories in 2011

Main stakeholder categories	Relations management forms
Employees	In-person meetings, intranet platform, intranet kiosks, mobile service, corporate newsletter, training, opinion polling
Local communities	Social programmes and campaigns, internet service, opinion polling, consultation meetings with representatives of the communities
NGOs	In-person meetings, social programmes, internet service; annual report, opinion polling
Capital market participants	Current and periodic reports, annual report, in-person meetings, conferences, internet service, Investor Day
Public authorities	Annual report, lobbying, in-person meetings, conferences
Customers	Call service, internet service, information furnished through products, direct contact, social campaigns as part of the loyalty programme; satisfaction survey
Suppliers, subcontractors, business partners	Meetings with sales representatives, audits, cooperation assessment
Science and research institutes and centres	R&D projects, scholarship grants, in-person meetings

The noteworthy initiatives undertaken in 2011 include:

1. opinion polling among key groups of stakeholders;
2. involving the management staff and employees in perfecting social responsibility practices;
3. initiatives addressing key issues in the business environment.

Opinion polling among key groups of stakeholders

The chief objective of the opinion polls carried out by Grupa LOTOS in 2011 was to gather knowledge which would enable the

Company to appropriately draft the updated Social Responsibility Strategy of the LOTOS Group for 2012–2015. The polls were of both quantitative and qualitative nature. Their specific objectives were to gather knowledge on the perception of CSR in general and of efforts undertaken by the LOTOS Group in the CSR area to date, together with their evaluation, conclusions and expectations relating to further development of CSR by representatives of the LOTOS Group's key stakeholders. The opinion polls also covered the process of communicating CSR activities.

Surveyed areas

The quantitative stakeholder opinion surveys were conducted from August to September 2011 on a sample of around 1,900 respondents representing: inhabitants residing in the immediate vicinity of the LOTOS Group's facilities; inhabitants of the Gdańsk Province, Municipality of Jasło and Municipality of Czechowice-Dziedzice; entrepreneurs operating in Pomerania; as well the LOTOS Group's production and back-office staff.

Geographic reach of the survey

The qualitative surveys conducted as in-depth interviews with individual stakeholders covered 36 representatives of key stakeholder groups, including:

- local government units of various levels in the main areas of the LOTOS Group's operations;
- central authorities at the national and EU levels;
- higher education institutions educating specialists in the fields or implementing projects relevant to the LOTOS Group's operations;
- NGOs of which Grupa LOTOS is a member or with which it cooperates on project execution, including employer organizations,

industry associations and organizations dealing with social issues;

- business community represented by Grupa LOTOS' business partners, contractors involved in the execution of the 10+ Programme and dealers of LOTOS service stations;
- the LOTOS Group's management staff representing key aspects of the LOTOS Group's business and locations important for the establishment of relations with local communities.

The qualitative stakeholder opinion surveys were conducted between September and November 2011, and in December 2011 Grupa LOTOS organized a consultation meeting with a group of 23 stakeholders representing different stakeholder groups to evaluate the strategic and operational objectives underlying the updated Social Responsibility Strategy of the LOTOS Group.

Involving the management staff and employees in perfecting social responsibility practices

Since 2010, the LOTOS Group has implemented "the CSR Day" programme. The name is symbolic, as the event is actually longer. "The CSR Day" lasts two full days. Its participants include the entire management of the LOTOS Group: presidents and directors of all of the LOTOS Group's companies. Their total number is around 90. The managers attend lectures and are involved in team work. The lectures, delivered by external experts, present recent trends in CSR management by Polish and foreign enterprises, with a special focus on issues relevant for the oil industry, capital market considerations as well as issues broadening the knowledge of different aspects of CSR. Also, the most important achievements in this area in the given year are presented, alongside challenges and issues to be addressed in subsequent months. The practical part of the event is devoted to problem-oriented workshops whose participants improve their skills in managing corporate social responsibility. The managers learn about various CSR management methods, and analyse best practices implemented by other organizations as well as the results of research into different aspects of corporate responsibility and attitudes towards CSR expressed by individual stakeholder groups.

During "the CSR Day" held in 2011, the LOTOS Group's management staff participated in a panel discussing development directions in the CSR area in the context of updating the LOTOS Group's CSR strategy.

Also in 2011, workshops devoted to the strategy were held, attended by approximately 90 employees representing the LOTOS Group's operating areas of key importance from the point of view of its CSR efforts. It was the first project of this kind, involving in-house experts. In October 2011, working in five different problem areas (workplace, health and safety at work, social relations, market environment and environmental protection), they devoted a total of 80 hours to discussing development directions for the LOTOS Group's CSR area.

Initiatives addressing key issues in the business environment

Representatives of Grupa LOTOS, working closely with other business entities and social partners, actively participate in initiatives designed to solve problems of key importance to the industry and the Company's business environment.

Grupa LOTOS participates in the activity of the Polish Higher Education-Business Forum (PFAG), with a view to intensifying the cooperation between business and the academic community, designed to support innovation and knowledge-based economy. The Forum also serves as a view sharing and opinion leading platform with respect to matters of key importance to Poland for representatives of business and the country's leading higher education institutions. The discussion panels and other initiatives are designed to make a positive difference in the country's economic and social life, while establishing mutual understanding and willingness to cooperate among entities representing the business and social sectors. President Paweł Olechnowicz has been involved in the Forum's activities as chairman of its board.

Through its membership in the Windsor Energy Group (WEG), Grupa LOTOS is actively involved in discussing and analysing global energy challenges, together with top experts of the private and public sectors. The organization 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. The membership enables the Company to participate in a panel of energy experts, who are able to influence the world's economic development in the area of oil and energy. Being an active member of WEG, the Company is able to present its views concerning future development of the industry in Central and Eastern Europe, which may translate into actual influence on the industry development.

Grupa LOTOS is a founding member of Central Europe Energy Partners (CEEP), a regional organization bringing together energy-sector companies from Central Europe. CEEP's registered office is located in Brussels, because key regulations governing the operation of businesses, including energy companies, are enacted by the European Parliament and the European Commission, while the member states' legal regulations are harmonised in this scope. President Paweł Olechnowicz is Chairman of CEEP's Board of Directors, the highest position in its organizational structure.

Related content:

Relationships with the local community

Membership in organizations

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

Industry organizations

1. **Con**servation of **C**lean **A**ir and **W**ater In **E**urope (CONCAWE),
2. Central Europe Energy Partners,
3. Organizacja Polskiego Przemysłu Poszukiwawczo-Wydobywczego (Polish Exploration and Production Industry Organization),
4. Polska Organizacja Przemysłu i Handlu Naftowego (Polish Organisation of the Oil Industry and Trade),
5. Stowarzyszenie Naukowo-Techniczne Inżynierów i Techników Przemysłu Naftowego i Gazownictwa (Polish Association of the Oil and Gas Industry Engineers and Technicians),
6. Windsor Energy Group,
7. World Petroleum Council - Polish National Committee.

Business organizations

1. Business Centre Club,
2. European League for Economic Cooperation – Polish Section,
3. Gdański Klub Biznesu (Gdańsk Business Club),
4. Klub Polskiej Rady Biznesu (Polish Business Roundtable Club),
5. Polskie Forum Akademicko-Gospodarcze (Polish Higher Education-Business Forum),
6. Stowarzyszenie „Pomorskie w Unii Europejskiej” (“Pomorskie in the European Union” Association),
7. Forum Dialogu i Współpracy Województwa Pomorskiego "Energia i Samorządność" (Dialogue and Cooperation Forum of the Gdańsk Province – Energy and Self-Government).

Organizations dedicated to CSR promotion

1. Forum Odpowiedzialnego Biznesu (Responsible Business Forum),
2. United Nations Global Compact.

Specialist organizations

1. Klub Polskie Forum ISO 14000,
2. Polskie Forum ISO 9000,
3. Polskie Towarzystwo Ekonomiczne (Polish Economic Society),
4. Polska Okręgowa Izba Inżynierów Budownictwa (Polish District Chamber of Construction Engineers),
5. Pracodawcy RP (Employers of Poland),
6. Stowarzyszenie Emitentów Giełdowych (Polish Association of Listed Companies),
7. Stowarzyszenie Księgowych w Polsce (Accountants Association in Poland),

Membership in supervisory bodies

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

Related content:

Participation in government policies **Declarations**

Awards and distinctions

The Company takes pride in the distinctions received from external specialists and experts.

Members of the LOTOS Group have received numerous awards and distinctions in areas of key importance, such as corporate social responsibility, quality of products and services, and corporate management. Presented below are the distinctions earned by members of the LOTOS Group in 2011, by categories.

Corporate social responsibility

1. Grupa LOTOS won the **1st place in the "Investor relations" category** of the annual ranking "Listed Company of the Year", and the **5th place in the "Listed Company of the Year" ranking** prepared by the Pentor Institute for the Puls Biznesu weekly. The first place in the "Investor relations" category speaks of the high quality of the information and market communication policies in place at Grupa LOTOS. In this category, the strongest focus was placed on how the Company engages in dialogue with individual and institutional investors, as well as how promptly it responds to investors' inquiries. "Listed Company of the Year" is a ranking of the best companies listed on the Warsaw Stock Exchange, compiled according to the following criteria: competence of the board, achievements in a given year, growth prospects, investor relations and quality of services and products. Winners are 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.
2. Grupa LOTOS received a distinction in the **"Corporate governance and corporate social responsibility"** category of the Business Award of the President of the Republic of Poland. The purpose of this prestigious award is to honour companies which have a strong stimulating effect on Poland's economy, while contributing to its prestige and positive image abroad.
3. Grupa LOTOS was awarded the **"Fair Play Company"** certificate in a contest organized by the Institute for Private Enterprise and Democracy. The "Fair Play Company" programme was created to promote reliable and ethical businesses operating in Poland, which uphold high moral values and fulfil their duties towards customers and suppliers in an exemplary manner. Such companies stand out for their teams of committed, creative and satisfied employees, as well as above-average corporate social responsibility, social sensitivity and charity policies.
4. Our scholarship programme – "LOTOS Cup – In Search for the Champion's Successors" – received an award in the **"Corporate scholarship programme"** category of a contest organized by the Good Network Foundation and the Polish-American Freedom Foundation. The award was presented during the "Civic scholarship programmes" conference. The purpose of this award is to set high standards for scholarship programmes, so they would allow young people to successfully cultivate their talents and make choices in life based on dreams and abilities only. Good scholarship programmes foster the development of local communities, providing a solid foundation for the future social and human capital.
5. Grupa LOTOS is among the **leaders of the BI-NGO 2010 Index**. The index focuses on the quality of internet communications related to social commitment of the 500 largest Polish companies, as listed by the Rzeczpospolita daily. The Company received the maximum score in the ranking. The BI-NGO Index surveys the following main areas: a company's policy and leadership, CSR strategy, relationship building, financial transparency, performance measurement and communication.
6. Grupa LOTOS **won the Human Resources Management Leader awards**, receiving **the Amber Statuette**. For the fifth consecutive time we were awarded by the Institute of Labour and Social Studies – this time for human resources development under our internally developed programme named "The Master". The prize is given annually in recognition of achievements in the following fields: workforce restructuring, employee evaluation systems, employee training and development, advanced human resources management methods, and work–private life balance. The selection of winners was preceded by audits and the assessment committee's recommendations. The judging panel awarding the title includes the Minister of Labour and Social Policy and Director of the Institute of Labour and Social Studies, as well as representatives of the National Bank of Poland, the Polish Confederation of Private Employers Lewiatan, the Polish Human Resources Management Association and the Polish Business Roundtable. The contest is organized under the auspices of Waldemar Pawlak, Deputy Prime Minister and Minister of Economy, to promote knowledge and facilitate sharing valuable practical experience in HR management, by singling out companies which are successful in this area of management.
7. Grupa LOTOS came **second in the ranking of the best energy sector employers**, prepared by Antal International. In 2011, the Company was named one of the most desirable employers by over 1,900 Polish experts and managers working in different fields. As the most sought-after characteristics of an employer they indicated its size and prestige, as well as management style and organizational culture.
8. Grupa LOTOS ranked **first at the national level of the competition "Employer - Provider of Safe Work"**, in the category of companies with headcounts of over 250. The award is granted by the Regional Award Committee of the State Labour Inspection Authority in Gdańsk. As the winner, **Grupa LOTOS was entered on the Golden List of Employers**, thus joining a group of employers widely recognised for their responsible approach to workplace safety and staff's well-being. The State Labour Inspection Authority has stressed that work safety leaders, apart from implementing effective systemic solutions and supplementary measures, are also expected to put considerable effort into raising workplace safety awareness and adequately preparing staff to their duties.
9. Grupa LOTOS ranked **first in the "Employer - Provider of Safe Work" competition in the Province of Gdańsk**. The award was granted in the large employers category. The aim of the award is to promote best practice in occupational safety and health, and

to encourage employers to create safe and ergonomic workplaces.

10. Grupa LOTOS received **a prize from the Office of Technical Inspection** for the long standing cooperation and active contribution to the creation of the Polish system of technical safety.
11. LOTOS Parafiny won the **first award in the "Employer - Provider of Safe Work" competition in the Province of Rzeszów**, in the category of companies with headcounts of over 250. The competition was organized by the Regional Labour Inspector of Rzeszów.
12. LOTOS Jasło received the golden statuette **"2011 Patron of Culture"** from the Mayor of Jasło for supporting the town's cultural events. The distinction is awarded to sponsors of cultural events.
13. LOTOS Czechowice received the **Platinum Laurel of Skills and Competence "Socially Responsible Business"**. The Regional Chamber of Commerce in Katowice awards Platinum Laurels to outstanding individuals, organizations and institutions that operate on national and international levels, engaging in work of universal value and exemplary character.
14. Grupa LOTOS was awarded the title of the **"2010 Patron of Sports in the Province of Gdańsk"**. The winner was chosen through a poll carried out by the Gazeta Wyborcza Trójmiasto daily as part of the "2010 Sport Stars of the Gdańsk-Gdynia-Sopot Agglomeration" competition.

The LOTOS brand – quality of products and services

1. The LOTOS brand received a **Business Superbrand** distinction from The Superbrands Ltd. – an independent organization operating in over 80 countries worldwide. The purpose of the initiative is to promote and award brands which have earned a high reputation in the consumer or business sectors and have gained a significant competitive edge by offering unique value to customers. The Business Superbrand title is awarded by an independent judging panel of marketing, advertising and branding experts, who also take into account the opinions of 2,700 consumer survey participants.
2. LOTOS Oil products once again won the **European Medal** for products and services meeting the highest European standards of quality. In 2011, the judging panel selected the LOTOS Quazar K oil line for the award. LOTOS Quazar K oils have been designed for use in KIA cars, KIA being a long-term strategic partner of LOTOS Oil. Every nominated product or service must meet the legal requirements and hold the relevant licenses and patents. A company's growth rate and previous awards and certificates are also important when selecting winners.
3. The LOTOS service station located in Bydgoszcz, ul. Wojska Polskiego, received the full score – 100 per cent – in an international **mystery shopping survey aimed at reviewing the service quality of service stations in Poland and abroad**. The survey was carried out by International Service Check. According to its results, the entire LOTOS chain ranked 3rd in Poland. The survey involved 9 countries, 31 service station chains and 52 stations.
4. For the third consecutive time, LOTOS Dynamic fuels won the 1st place in the "Consumer's Laurel" programme in the premium category, thus securing the special prize – the **"2011 Consumer's Laurel Grand Prix"**. LOTOS Paliwa is the only company in the fuel sector to have received the award.
5. LOTOS Kolej was distinguished as a **"2011 Leader of Rail Transport"** in the carrier category. The title is granted to licenced rail carriers of both passengers and cargo. The competition is organized by the Rail Transport Forum, the editorial board of Transport i Komunikacja bimonthly and the Polish Association of Engineers and Technicians of Transportation. Winners in each category are selected by a judging panel composed of recognised researchers, experts, as well as representatives of industry organizations and the media. The company received the award for its dynamic growth, the transition from a regional operator of a railway siding to a major rail carrier on the Polish market, significant investments in motive power units and the application of advanced IT solutions for transport, which result in higher quality of services offered by Polish carriers.
6. LOTOS Parafiny received the **"Polish Product 2011"** certificate from the Judging Panel of the Central Office for National Certification – Company of the Year category. The purpose of the certificate is to promote Polish businesses and products on the domestic and international markets.

Management quality

1. Grupa LOTOS was awarded the **"Master of Business"** title in the Energy and Raw Materials category by the Businessman.pl monthly. The award is known for a wide range of criteria involved. The judging panel reviewed a variety of criteria, including economic performance, bold business vision, excellent management skills, ability to cope with adversities, expansion into new markets, good staffing policy and corporate social responsibility.
2. Grupa LOTOS and LOTOS Oil received the **"Ambassador of Polish Economy"** title in the Exporter category. The competition was organized by Business Centre Club under the auspices of the Minister of Foreign Affairs. The prime objective of the initiative is to encourage domestic entrepreneurs to become more involved in promoting Poland internationally as a reliable business partner.
3. Paweł Olechnowicz, President of the Board of Grupa LOTOS, received the **"Golden Oxer"** business award from the Employers of Pomerania, in recognition of the successful implementation of the 10+ Programme. Oxer is a double horse jumping obstacle; horses often stumble on oxers, sometimes throwing their riders off the saddle. Accordingly, the award is given to businessmen who have made a great leap into a new economic dimension.
4. Paweł Olechnowicz, President of the Board of Grupa LOTOS, received a distinction in the Business Ethics category of the **"Faces of Business"** ranking organized by the Dziennik Gazeta Prawna daily and TVN CNBC.
5. Grupa LOTOS was named the **"2011 Refinery Plant of the Year"** during the Central and Eastern European Refining and Petrochemicals conference organized by the World Refining Association. WRA is an independent British organization established 14 years ago to support the development of the industrial and energy sector. The Company received the award for its successful implementation of the 10+ Programme from an international judging panel of sector experts.
6. Grupa LOTOS received the **"Golden Laurel for the Company with the best IT-systems of 2011"** in the "Teleinfo 100" competition run by the editorial board of the Businessman.pl monthly in the Power and Fuel Sector category. The distinction was awarded for three IT projects: CRM database, Enterprise Risk Management (ERM) system and Governance Risk Compliance (GRC) system.
7. LOTOS Asfalt and LOTOS Kolej received distinctions in the **"2011 Forbes' Diamonds"** ranking of companies with annual revenues exceeding PLN 250m. In the largest companies category for the Province of Gdańsk, LOTOS Kolej ranked 5th and LOTOS Asfalt – 8th. LOTOS Parafiny received the same distinction, coming 23rd on the Rzeszów Province's list of middle-sized

enterprises with revenues of PLN 50–250m. The ranking was prepared by Dun & Bradstreet and included companies from all around Poland which recorded the most dynamic value growth within the last three years.

8. LOTOS Oil received a special diploma from the Ministry of Economy **in recognition of its successful business cooperation with Uzbekistan**. Thanks to its rapid foreign expansion, the company is now present in over 45 countries and continues to strengthen its position on foreign markets. For several years now, LOTOS Oil has operated a strong distribution network in Uzbekistan.
9. LOTOS Czechowice received the **"2011 Super Company"** title granted by entrepreneurs of Czechowice-Dziedzice.
10. LOTOS Parafiny won the **"2011 Business Cheetah"** title in the Province of Rzeszów, in the "Market value increase and dynamic growth" category. The mission of the initiative is to foster the development of Polish banks and businesses. The title is awarded by Magazyn Przedsiębiorców Europejska Firma, the Business Cheetah Club and ULAN Sp. z o.o.
11. At the gala event to celebrate the official completion of the 10+ Programme by Grupa LOTOS, persons who rendered greatest service to this investment received **Polish civil state awards** granted by the President of the Republic of Poland. Paweł Olechnowicz, President of the Board of Grupa LOTOS, received the Officer's Cross of the Order of Polonia Restituta. The Knight's Crosses of the Order of Polonia Restituta were awarded to the Vice-Presidents of the Board of Grupa LOTOS, Marek Sokołowski and Mariusz Machajewski, as well as to Zbigniew Paszkowicz, Refinery Expansion Programme Director, Marek Herra, Production Director, Stanisław Pokojski, Head of Financing Arrangement Office, and Karol Sęp, expert of the Technology Office. Maciej Szozda, the Vice-President of the Board, received the Golden Medal for Long Service.
12. Dominik Tomczyk, President of the Board of LOTOS Parafiny, was granted an **Honorary Medal of the Foundry Research Institute of Kraków** in recognition for his invaluable services to the institute.

Related content:

Important events calendar 2011

LOTOS Annual Report 2011 / Home / Achievements and forecasts

Achievements and forecasts

In 2011, the LOTOS Group managed to prove that, even amid extremely challenging circumstances, it could remain on track to achieving its strategic goals: strengthening the market position, adding value for shareholders and ensuring customer satisfaction.

Key data 2011

In 2011, sales revenues stood at PLN 29,259.5m, which was a nearly 49% increase on 2010.

Letter from the Chairman of the Supervisory Board

Vision, reason and flexibility are the keys to the LOTOS Group's business efficiency.

Letter from the President of the Board

Grupa LOTOS is a modern and dynamically managed company, driven by a realistic strategy, and highly qualified and motivated staff.

Progress in implementation of strategic objectives

The strategy consolidates the Company's position as an entity which plays a crucial role in ensuring security in the energy sector.

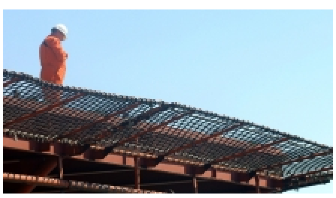
Key risks, opportunities and challenges in the context of sustainable development

Grupa LOTOS has adjusted its strategy to the changeable market conditions and global macroeconomic threats.

Interview with the President of the Board

The Company strives to build salt caverns in Pomerania, which is a perfect place for a regional energy hub.

Business environment



2011 brought an increase in geopolitical risks stemming from the regions which are major global oil suppliers.

Letter from the Vice-President of the Board

The 2011 economic results provide an excellent springboard for further development of the Company.

Stock market

In 2011, Grupa LOTOS won the 1st place in the “Investor relations” category of the annual ranking “Listed Company of the Year”.

Exploration and production

Further development of the exploration and production segment is the priority of the Company's 2011-2015 strategy.

Operating segment

The new installations of the 10+ Programme provide high quality products and offer the deepest level of conversion.

Market activities

A total of 63 new service stations launched by the Company in 2011 is a record-high annual increase on the Polish retail fuel market.

Key data 2011

In 2011, sales revenues stood at PLN 29,259.5m, which was a nearly 49% increase on 2010.

Grupa LOTOS – Selected Data

	Unit(**)	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change	Unit(**)	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
Financial Data (*)			(restated)				(restated)	
Sales revenues	k PLN	27,289,314	18,124,675	51%	k EUR	6,591,463	4,526,190	46%
Operating profit	k PLN	603,398	606,305	0%	k EUR	145,745	151,410	-4%
Profit before tax	k PLN	324,345	520,433	-38%	k EUR	78,342	129,965	-40%
Profit on continued activity	k PLN	307,670	464,954	-34%	k EUR	74,315	116,111	-36%
Total comprehensive income	k PLN	(111,611)	464,954	-124%	k EUR	(26,959)	116,111	-123%
Net cash flows from operating activities	k PLN	138,906	282,395	-51%	k EUR	33,551	70,521	-52%
Net cash flows from investment activities	k PLN	(29,986)	(407,232)	-	k EUR	(7,243)	(101,696)	-
Net cash flows from financial activities	k PLN	(113,629)	401,470	-128%	k EUR	(27,446)	100,257	-127%
Total net cash flows	k PLN	21,079	273,685	-92%	k EUR	5,091	68,346	-93%
Basic profit per one common share	PLN	2.37	3.58	-34%	EUR	0.57	0.89	-36%
Social investments	k PLN	706	1,240	-43%	k EUR	171	310	-45%
Environmental investments	k PLN	12,116	16,812	-28%	k EUR	2,926	4,198	-30%
		As at Dec 31st 2011	As at Dec 31st 2010			As at Dec 31st 2011	As at Dec 31st 2010	
			(restated)				(restated)	
Total assets	k PLN	16,449,524	14,678,065	12%	k EUR	3,724,308	3,706,301	0%
Equities	k PLN	5,833,442	5,945,053	-2%	k EUR	1,320,739	1,501,162	-12%

	Unit	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
Non-financial Data			(comparative data)	
Employees	No. of employees	1,329	1,310	1%
Employment rotation	%	12,4	10.6	1.8 p.p.
Lost Time Injury Frequency, LTIF (per 1m hours worked) (***)		2,4	3.4	-29.5%
Total water consumption	m^3	3,809,856	3,961,494	-3.8%
CO_2 emissions	k tonnes/year	2,045	1,607	27%

LOTOS Group – Selected Consolidated Data

	Unit[**]	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change	Unit[**]	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
Financial Data [*]			**(restated)**				**(restated)**	
Sales revenues	k PLN	29,259,586	19,662,804	49%	k EUR	7,067,362	4,910,300	44%
Operating profit	k PLN	1,084,794	1,061,354	2%	k EUR	262,021	265,047	-1%
Profit before tax	k PLN	551,379	721,939	-24%	k EUR	133,180	180,286	-26%
Profit on continued activity	k PLN	649,322	681,353	-5%	k EUR	156,837	170,151	-8%
Profit on continued activity ascribed to parent entity shareholders	k PLN	648,994	679,180	-4%	k EUR	156,758	169,608	-8%
Profit on continued activity ascribed to non-controlling interest	k PLN	328	2,173	-85%	k EUR	79	543	-85%
Total comprehensive income	k PLN	277,628	678,609	-59%	k EUR	67,058	169,466	-60%
Comprehensive income attributable to owners of the Parent	k PLN	277,271	676,450	-59%	k EUR	66,972	168,927	-60%
Comprehensive income attributable to non-controlling interests	k PLN	357	2,159	-83%	k EUR	86	539	-84%
Operating activity cash flows net	k PLN	902,359	882,693	2%	k EUR	217,956	220,431	-1%
Investment activity cash flows net	k PLN	(846,943)	(1,055,590)	-	k EUR	(204,571)	(263,608)	-
Financial activity cash flows net	k PLN	(35,582)	458,688	-108%	k EUR	(8,594)	114,546	-108%
Total cash flows net	k PLN	43,319	283,821	-85%	k EUR	10,463	70,877	-85%
Basic profit per one common share	PLN	5.00	5.23	-4%	EUR	1.21	1.31	-8%
Social investments	k PLN	837	1,485	-44%	k EUR	202	371	-46%
Environmental investments	k PLN	34,709	33,648	3%	k EUR	8,384	8,403	0%
		As at Dec 31st 2011	**As at Dec 31st 2010**			**As at Dec 31st 2011**	**As at Dec 31st 2010**	
			(restated)				**(restated)**	
Total assets	k PLN	20,423,220	17,727,364	15%	k EUR	4,623,986	4,476,268	3%
Equity ascribed to the parent entity's shareholders	k PLN	7,781,436	7,498,819	4%	k EUR	1,761,781	1,893,498	-7%
Non-controlling interest	k PLN	947	14,658	-94%	k EUR	214	3,701	-94%
Total equity	k PLN	7,782,383	7,513,477	4%	k EUR	1,761,996	1,897,199	-7%

Non-financial Data	Unit	For year ending Dec 31st 2011	For year ending Dec 31st 2010	Change
			(comparative data)	
Employees	No. of employees	5,168	5,010	3%
Lost Time Injury Frequency, LTIF (per 1m		3.3	4.9	-44%

hours worked) [***]				
Fuel market share	%	33.5	31.7	1.8 p.p.
Oil exploitation	k tonnes	227.1	186.5	22%
Gas exploitation	mn Nm^3	16.1	20.7	-22%

[*] For a detailed presentation of financial results, see Consolidated Financial Statements Link→ (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/).

[**] In order to convert an item of the Statement of financial position in the table “Selected data” and “Consolidated selected data” as at December 31st 2011, the NBP (National Bank of Poland) mid-rate of EUR w as applied, binding on that day, i.e. 1 EUR = 4,4168 PLN. The items of the Statement of comprehensive income and the Statement of cash flow s presented in the table “Selected financial data” for the year ending December 31st 2011 w ere converted at the rate of 1 EUR = 4,1401 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 January 1st to December 31st 2011).

In order to convert an item of the Statement of finacial position in the table “Selected data” and “Consolidated selected data” as at December 31st 2010, the NBP mid-rate of EUR w as applied, binding on that day, i.e. 1 EUR = 3,9603 PLN. The items of the Statement of comprehensive income and the Statement of cash flow s presented in the table “Selected financial data” for the year ending December 31st 2010 w ere 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 January 1st to December 31st 2010).

[***] LTIF – number of occurrences resulting in inability to w ork x106/number of w orking hours, as calculated for the average number of employees during the year.

Letter from the Chairman of the Supervisory Board

Vision, reason and flexibility are the keys to the LOTOS Group's business efficiency.

Dear All,

2011 was a year dominated by uncertainty and unpredictability. Anxieties resulting from the instability and possible insolvency of the eurozone shook both the European and global economy. Their impact was also felt in Poland. Our country's economy, however, continues to show great resilience in the face of the turmoil, and Grupa LOTOS has set an example of agile adaptation to the changing market conditions and operational efficiency amid threats and tensions.

It was a good year for Grupa LOTOS. First of all, it confirmed the soundness of the Company's strategy for 2011-2015, as the steps taken in its first year have laid down solid foundations for the future.

Moreover, 2011 was a year of several landmarks for Grupa LOTOS. In March, the Company officially celebrated the completion of the 10+ Programme. Also in the first quarter it signed an agreement on the acquisition of 100% of the shares in AB Geonafta, a Lithuanian company operating in the field of hydrocarbon exploration and production. This segment of the LOTOS Group's activity was further strengthened when LOTOS Exploration and Production Norge AS became the operator of, and acquired a 25% interest in, another North Sea licence.

The launch of a new, economy chain of service stations under the brand of LOTOS Optima has proved the right response to the situation faced by the retail fuel market in 2011. The brand was eagerly received by customers, who appreciated the combination of high product and service quality with the optimal pricing.

The Company's leading position was confirmed by the 2011 ranking of 500 largest CEE companies, in which it moved up eight places, to the eleventh position.

According to all analyses, the prices of crude oil will remain high. The trend will favour petroleum companies relying on their own oil resources and efficient refineries, as they are positioned to deliver the best performance. Therefore, it is all the more important to continue to pursue its strategy in the coming years, with the goal of increasing its own production of hydrocarbons, for instance by launching the exploitation of the YME field. The state-of-the art technologies introduced to the Gdańsk refinery as part of the 10+ Programme have opened up excellent growth prospects for Grupa LOTOS.

High quality management and human capital are the Company's major assets. By following global economic, financial and industry trends, it is able to flexibly adjust to the dynamically changing conditions. Keeping in mind the 2008-2009 financial crisis, in late 2011 the Company's managers developed the Optimal Expansion Programme, which envisages action plans for several scenarios, depending on how the market situation develops. I believe that the year 2012 will see Grupa LOTOS solidify its market position and role in the Polish economy, while contributing to the country's energy security.

Yours faithfully,

Wiesław Skwarko

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

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Letter from the President of the Board

Grupa LOTOS is a modern and dynamically managed company, driven by a realistic strategy, and highly qualified and motivated staff.

Dear All,

2011 was yet another year of unstable conditions and volatility in the global markets connected with the international financial crisis. It was a time of dramatic developments in the European currency markets, which led to a significant weakening of the Polish złoty in relation to both the US dollar and the euro.

At the same time, the price of crude oil was also staying on a high level, which was accompanied by social and political anxieties related to the continuously rising prices of fuel. Under the pressure of unpredictable macroeconomic conditions and social sentiments, fuel companies found themselves in a situation of limited room for manoeuvre.

Grupa LOTOS, thanks to its communication openness and good management, did not record any negative impact of these sentiments on its sales and implementation of the development programme. Once again, we managed to prove that we were able to remain on track to achieving, even amid extremely challenging circumstances, our strategic goals, such as:

- strengthening of our market position,
- adding value for shareholders,
- ensuring customer satisfaction.

We also managed to enlarge our own resource base by purchasing 100% of the shares in AB Geonafta, a Lithuanian company producing 100 thousand tonnes of crude oil per year. Another stage of realigning the capital structure of LOTOS Petrobaltic was also completed, which brought significant economic and social benefits.

The efficient management, dynamic marketing policy but, first and foremost, superior quality of our fuels, achieved thanks to state-of-the-art installations at the Gdańsk refinery - all these factors contributed to our excellent performance in 2011. The perfectly planned and executed 10+ Programme - one of the biggest investment projects of the kind in the refining sector in Europe - has laid the perfect foundation for further healthy and dynamic development of Grupa LOTOS. It should be firmly stressed that the power of this foundation are the people.

However, despite external volatility and uncertainties troubling the Polish market, we managed to post robust sales results. 2011 was yet another growth period for the LOTOS Group's consolidated sales. With more than 10 million tonnes of products sold, we recorded a 14% growth on the 2010 level. Thanks to the sales revenues of nearly PLN 30 million, LOTOS has become the second largest company in Poland in this respect. Further increase of our share in the fuel market to more than 33% testifies for the effectiveness of our market activities.

An important achievement of 2011, boosting both our market position and image, was the dynamic growth of our new chain of economy service stations branded as LOTOS Optima. The concept of providing high-quality fuels at optimal prices, adjusted to the reality of a market which is very sensitive to the level of retail prices, proved a positive success. This was also our proactive response to the social and economic situation in Poland, as well as a means of meeting the expectations of our partners and customers.

We also recorded successful results in the oils and bitumens segments, where - despite intense competition - the LOTOS Group retained its position as a market leader. Both engine and industrial oils supplied by the LOTOS Group occupy top positions in their respective sales groups.

Another strong aspect of our activities in 2011 was the operation of LOTOS Kolej, which is now the third largest rail freight operator in Poland with regard to the volume of the freight carried. It is one of the most dynamically developing railway transport companies in Poland.

In late 2011, the Board of Grupa LOTOS developed the Optimum Expansion Programme, with a view to adjusting the 2012 strategy to the changeable market conditions and threats brought about by the macrofinancial and macroeconomic processes worldwide. The estimated financial effect of the Programme is PLN 220 million. The Board of Grupa LOTOS managed to combine cost-cutting measures and postponement of selected projects in an optimum way, thus providing much needed support and focus on the achievement of the Company’s key strategic objectives.

We will continue to dynamically pursue our plans to develop the upstream (exploration and production) segment in all areas of our interest. The service station chains of both the economy (LOTOS Optima) and premium segments will be further developed.

The reasonable, realistic and extremely disciplined financial policy of the LOTOS Group has by now become a widely known benchmark of high-quality corporate management. We always focus our efforts on the objectives of sustainable development. On the one hand, this strategy safeguards continuous expansion of our Company and the whole LOTOS Group; on the other, it provides us with financial security.

Grupa LOTOS is currently occupying top positions in all rankings as a modern and dynamically managed company, driven by a realistic strategy and excellent managers leading highly qualified and motivated staff. The crisis affecting European finances and economy continues to breed an atmosphere of danger and uncertainty. However, I deeply believe that the perfectly executed investment effort, which we dubbed the 10+ Programme, has positioned Grupa LOTOS to derive great benefits from an expected improvement in the macroeconomic climate. Europe is now witnessing a shortage of modern crude oil processing capacities. The installations of Grupa LOTOS’ refinery provide high quality products while offering the deepest level of conversion, which makes the refining process more efficient in financial terms and strengthens the Company’s leading position in the market. These benefits will be even more visible in 2012.

In its operations, Grupa LOTOS follows the strategy of sustainable development, while carefully considering the criteria of corporate social responsibility. This approach is in line with modern trends in the management of large industrial organizations, where the social factor is playing an increasingly important part. On the one hand, it shapes the Company’s market environment; on the other, it affects those political decisions which are crucial for its development. Corporate social responsibility is thus a measure of efficient and modern management. In all CSR-related rankings, Grupa LOTOS occupies top positions, which is confirmed by the Company’s uninterrupted presence in the RESPECT Index of the Warsaw Stock Exchange.

According to all forecasts for 2012, crude oil prices will either remain unchanged (at approx. USD 100/barrel) or rise still further. It can be assumed that this is a permanent trend, and that crude oil is likely to become increasingly more expensive rather than cheaper. In such circumstances, oil companies which have their own resources and deep conversion technologies are set to be the market winners. Grupa LOTOS meets both these criteria. The coming year and the years to follow will thus be a time of our growth and activities aimed at increasing Poland’s energy security, strengthening our market position and boosting our financial performance. The process of further expansion and the strengthening of the Company's position on the European market will be accompanied by growing satisfaction of our customers, investors and shareholders, as well as with growing pride of working for LOTOS - of all our employees.

Yours faithfully,

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

Related content:

Interview with the President of the Board

Progress in implementation of strategic objectives

The strategy consolidates the Company's position as an entity which plays a crucial role in ensuring security in the energy sector.

The LOTOS Group's operational priorities are set forth in the LOTOS Group's strategy for 2011–2015 and development directions until 2020. Most efforts are focused on furthering the growth of the hydrocarbons exploration and production segment, as well as on improvement of trading efficiency and optimisation of the operating area. Implementation of the strategic objectives has significantly progressed following the successful completion of the 10+ Programme in 2010, which increased the Gdańsk refinery's annual capacity by over 10m tonnes of crude.

The overarching 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 area of oil exploration and production, processing and trading. It has been assumed that the development will comply with the principles of sustainable development, understood by the Company as striving to continuously reduce its environmental footprint, but always with due regard to the intellectual capital and experience of the personnel.

In the exploration and production area, the LOTOS Group intensifies efforts aimed at expanding its resource base, in order to take advantage of the high margins projected for this sector in the long term.

The primary strategic objectives in this area include:

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

In the operating area, the LOTOS Group focuses on efficient utilisation of its expanded refining capacities following the 10+ Programme, further increase of the conversion ratio and optimum use of synergies between the refining and the power sectors.

The primary strategic objectives in this area include:

- achieving the world-class standards of production and maintaining a strong competitive position among European refineries;
- making optimum use of assets held and acquired as part of its growth strategy;
- ensuring safe and stable operation of the production and ancillary facilities, as measured by the minimum availability of 98% during the year;
- further increasing the conversion ratio and intensifying processing.

In the marketing area, the LOTOS Group focuses 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 primary strategic objectives in this area include:

- maintaining a 30% share in the domestic fuel market;
- achieving fuel sales exceeding the fuel production capacities of the Company's refinery by 15%;
- securing a 10% share in the domestic retail market by the end of the period covered by the forecast;
- developing our chain of service stations and intensifying sales through the existing chain;
- maintaining the leading position on the Polish market for lubricant oils.

2011 was the first year of the strategy implementation. Despite the highly volatile market conditions and the first signs of economic slowdown, the strategic objectives set at the beginning of that year did not change. The strategy's long-term perspective supports a planned and comprehensive approach to execution of particular tasks, which allows flexibility in responding to potential new threats and opportunities.

In the operating and marketing areas, the LOTOS Group's implementation of the strategic objectives and achieving relevant ratios set for intermediate stages of the process progressed in line with the original assumptions in 2011. The LOTOS Group achieved a 33.5% share in the domestic fuel market (diesel oil, gasoline, light fuel oil), exceeding the minimum level set out in the strategy; the LOTOS Group's share in the retail market (diesel oil, gasoline) was 7.6%. The strategic objective will be implemented based on further consistent roll-out of the stations chain in the premium segment (including motorway stations) and dynamic development of the LOTOS Optima chain.

The key prerequisite for the success of the LOTOS Group's sustainable development strategy is to intensify the exploration and production activities. Achieving this objective by the end of 2015 will enable creation of a strong and stable oil conglomerate, with production activities contributing a significant portion of profits. In 2011, crude output was 227.1 thousand tonnes, including 78.1 thousand tonnes produced in Lithuania.

Development directions

The undertaken development activities are focused on increasing the LOTOS Group’s value through innovative and sustainable development with due regard to the stakeholders’ principles and values. Given the high oil prices and volatility of currency markets, a high share of own production relative to refinery’s processing volumes improves company’s stability and enhances profitability. The LOTOS Group strives to build a vertically integrated and economically efficient conglomerate, which requires commitment to optimal development of other segments of the business.

The primary development directions until 2020 remain the same as in 2010:

- further optimisation of the management model aimed at the best possible efficiency,
- access to proven recoverable reserves of hydrocarbons of approximately 330m boe in 2020,
- increasing production to approximately 110 thousand boe/day (equal to 5m tonnes of crude a year),
- maintaining a 30% share in the domestic fuel market,
- maintaining sales exceeding the fuel production capacities of the Company’s refinery by 15%,
- maintaining a 10% share in the domestic retail market,
- further improving the economic efficiency of crude processing, ensuring full utilisation of the LOTOS Group’s assets,
- taking steps to optimise the power management processes at the LOTOS Group’s refinery through extension of its connections with other power systems.

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

Grupa LOTOS has adjusted its strategy to the changeable market conditions and global macroeconomic threats.

Risks are inherent in the nature of Grupa LOTOS's business. The Company is gradually improving its tools and methods used to identify and assess the risks. It is worth noting that, relative to previous years, the Company has been able to consistently reduce the expected level of certain operational, financial and market risks. This has been possible thanks to such developments as the launch of new installations constructed as part of the 10+ Programme and progressive implementation of measures mitigating the identified operational risks.

Risks and opportunities in the context of the government's and the European Union's strategy for the petroleum sector

Legal risks in Grupa LOTOS' operations arise from the Polish government's normative acts and EU directives. In order to identify legal risks, the Company monitors the European Union's policy with respect to the petroleum sector and cooperates on a regular basis with government authorities responsible for the preparation and implementation of governmental strategies for the sector. The Company issues opinions on drafts of EU and Polish legal acts, and monitors relevant regulations, concerning in particular mandatory stocks of crude oil, fuels, bio-components and biofuels.

In 2011, the key risk in the area of **biofuels and bio-components** was associated, like in the previous year, with the failure of Polish authorities to transpose 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. In January 2012, the notification procedure was completed for domestic regulations allowing a higher bio-component content in standard fuels (B7). Introduction of the possibility to use diesel oil with a 7% ester content (B7) had been long expected as in previous years the National Indicative Target (NIT) required by law exceeded the level possible to achieve by adding 5% of bio-components to diesel oil (B5) and gasoline (E5). Admission of the B7 diesel to the market significantly improves the economics of the Polish biofuels policy. As a result of amendments to the Polish regulations in 2011, the use of higher quantities of bio-components in gasoline (E10) is no longer allowed. Due to the lack of legal solutions in the directives and the annual increase of the National Indicative Target (NIT), Grupa LOTOS is forced to market higher volumes of unprofitable biofuel B100. The planned act allowing the use of the E10 gasoline in Poland should mitigate the risk in 2013. The 2011 statutory regulations enacting the NIT reduction as of 2012 entail the risk of imposing financial penalties on entities attaining the NIT for potential breach of the act by suppliers.

In Poland, the National Indicative Target is attained exclusively through the use of bio-components and biofuels. As bio-components and biofuels are more expensive than mineral fuels, achieving the target level has a tangible effect on transport energy costs, leading to higher fuel prices. The adverse effect of the biofuel policy on transport fuel prices is further exacerbated by the fact that the NIT set in Poland significantly exceeds the average target levels attained in other EU countries.

Pursuant to the amended Biofuels Act of May 2011, upon fulfilment of certain statutory requirements concerning the source of origin of bio-components, entities obliged to attain the NIT may in 2012 lower the target level by a reduction ratio of 0.85. Under this solution, it is possible to reduce (relative to the 2011 levels) the content of bio-components and biofuels in the total volume of transport fuels, which will have a positive impact on fuel prices in Poland.

Although the amendment is a step forward, Grupa LOTOS is convinced that stronger measures need to be taken and that the NIT should be determined on the basis of fuel quality standards, so that the legally required content of bio-components and biofuels in transport fuels in the coming years does not exceed the bio-component content in standard fuels. A level of the NIT higher than provided for in the fuel quality standards necessitates the introduction of 100 per cent biodiesel (B100) to the market, as it happened in previous years. Given the current fuel prices, the use of B100 must be minimised, as its market launch will have even more adverse financial effects than the use of bio-components in standard fuels.

While in 2012 the application of the NIT reduction ratio and approval of the B7 use since February will contribute to minimising the sale of B100, next year it will be impossible due to the growing NIT level.

Therefore, it is expected that the next step will involve launch of gasoline with a 10% bioethanol content (E10) and approval of the oil co-hydrogenation technology (co-HVO) in the production of diesel oil in Poland. It is also expected that the possibilities of achieving the NIT will be expanded to include the use of other renewable energy sources, such as biogas or green power. At the same time, the Company waits for new generation of bio-components to be commercially available at competitive prices.

The European Commission’s proposals aimed at changing the **energy taxation system**, including transport energy, are designed to make tax rates depend on fuel's calorific value and CO_2 emissions. Such modifications may entail the risk of altering the structure of transport fuel demand by 2020, as a result of changing of diesel oil, gasoline and LPG prices. The new system assumes that the price of gasoline to be the base price, while diesel oil tax will be higher than gasoline tax by 15%. LPG taxation will increase fourfold relative to the current EU minimum tax rates.

The planned introduction of **new tax solutions concerning the extraction of minerals** involves the risk of deterioration of the E&P segment’s performance.

Additionally, the European Commission is working on **improving safety of hydrocarbon off-shore production**, which may increase production costs.

The timing and scope of changes of the existing legal requirements concerning **mandatory stocks** are unknown. The date when mandatory stocks may start to be taken over from market operators by relevant governmental agencies, as well as the speed of the process have not been specified yet. Draft assumptions to the amended Act on Stocks of Crude Oil and Liquid Fuels have been included in the list of documents put on legislative hold, and by the Council of Ministers’ decision of February 15th 2011, continued work on the draft requires approval by the Prime Minister. As the Act on Mandatory Stocks must be amended in 2012, following the implementation of Directive 2009/119/UC of the Council of the European Union, there is a significant risk that the legal regulations will not be aligned with the industry's requirements, given the short time left for preparing the amendment.

However, the risks associated with the implementation as of 2013 of **more stringent CO_2 emission requirements** and with changes to the rules governing the allocation of CO_2 emission allowances should be taken into account at this point.

Given the increasingly complex geopolitical situation, there is a potential risk of crude oil supplies becoming unavailable at acceptable prices due to **the lack of sufficient storage capacities**. Storage facilities in salt caverns may be a solution for the future. However, their construction depends on the decision of the Polish government administration.

The **prolonged legislative process** in Poland entails another serious risk – the impossibility to predict the dates when legal regulations become effective and the related consequences of such uncertainty for the Company and the entire industry.

Risks associated with changes in and interpretations of tax laws

Grupa LOTOS operates in a highly unstable legal environment. A source of risk, the instability affects our functioning, the course of action taken, our tax policies, and the amounts of tax payable.

Changes in the interpretations of tax laws may give rise to tax risk in transactions where such risk was non-existent before. An additional hurdle is the indolence of tax authorities in their handling of applications and conducting tax proceedings. The differing interpretations of tax rules increase business uncertainty and, as regards international trading, may tarnish our reputation as a reliable partner and force the Company to give up on valuable projects or transactions.

The tax risk faced by businesses in Poland is high. One of the risk factors is non-observance by the legislator of the *vacatio legis* principle while enacting amendments to tax laws. This prevents businesses from adjusting to the new requirements on time and increases the likelihood of incurring additional costs or sanctions. Rather strict standards of the Polish tax authorities are another factor that calls for extra caution when managing tax risks. In doing business, 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 on-going basis to ensure compliance with the requirements and to identify and mitigate any tax risks, and in particular their effect on the Company's financial statements.

In situations where a tax risk related to a possibility of disparate interpretations is identified, Grupa LOTOS avails itself of the right to request a binding interpretation of tax law by the Minister of Finance. Furthermore, the Company, as a member of Poland’s major organizations of employers and entrepreneurs, takes a role in issuing opinions on draft legislation. This is primarily aimed at improving the quality of tax legislation, but also allows to adequately respond to any changes in the legal environment.

Financial risks

In 2011, the former Financial Risk Management Committee at Grupa LOTOS was replaced by the Price Risk and Trading Committee responsible for the oversight and coordination of the price risk management process and for monitoring and coordination of trading activities requiring cross-segment interaction.

The powers of the Financial Risk Management Committee in the area of currency risk, interest rate risk and credit risk management have been vested directly in the Chief Financial Officer. In addition, a Team for liquidity optimisation and coordination of financing has been set up to coordinate and supervise key efforts in the area of liquidity risk management, arrangement of financing, and debt structure management at the LOTOS Group.

The key financial risk faced by Grupa LOTOS is **the risk related to prices of raw materials and petroleum products**. We continue research and work on a new policy for managing the risk, which ties in closely with our plans to upscale trading operations. Concurrently, to enable implementation of specific price risk management processes, streamline management functions and improve security of operations in the broad price risk and trading area, the Company has launched the process of selecting a new Energy Trading and Risk Management system.

Currency risk is managed in line with the Strategy of Currency Risk Management at Grupa LOTOS. The management horizon is determined in line with the rollover budgeting period. The US dollar (USD) is the currency of Grupa LOTOS' operating market. Consequently, the Company has a structurally long position in USD on its operating activities. Therefore, the US dollar was chosen as the most adequate currency for contracting and repaying long-term loans, including loans used to fund the 10+ Programme.

Interest rate risk management is connected with the expected schedule of payments under the loans taken out to finance inventories and the implementation of the 10+ Programme, and the resulting interest accruing at floating rates (LIBOR USD).

The risk related to prices of carbon dioxide (CO_2) allowances is managed in line with the objectives set forth in the Strategy for Managing the Risk Related to Prices of CO_2 Allowances by Grupa LOTOS. The management horizon is determined by the particular phases of the Kyoto protocol; the current management horizon runs until the end of 2012.

Liquidity risk is subject to weekday monitoring which involves collecting and analysing data in respect of projected cash flows and the financing sources available now or in the future.
Based on results of the analysis, appropriate working-capital decisions are taken whose aim is to match maturity dates of assets and liabilities as closely as possible and to secure and retain access to diverse sources and forms of internal and external financing. Efforts are currently being taken to centralise liquidity management within the LOTOS Group.

The risk of restricted access to external financing or changes in lending terms is minimised by entering into cooperation with a diversified group of creditworthy partners, using the largest possible range of financial instruments in day-to-day operations, the correct, complete and timely fulfilment of disclosure obligations, monitoring of and compliance with the financial ratios, covenants and any other obligations towards banks stipulated in the outstanding loan agreements. We also monitor the financial position and overall standing of the banks financing the activity of the LOTOS Group, as well as any factors driven by developments on the global financial markets that may threaten our ability to raise financing.

Management of counterparty credit risk in financial transactions consists in monitoring of credit exposures in relation to the limits granted. Our counterparties must have an appropriate credit rating, assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum acceptable rating requirements. Grupa LOTOS 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 who request trading on credit terms are subject to credit assessment, whose results determine credit eligibility. The responsibility for taking credit decisions rests with employees in charge of finance at the LOTOS Group companies.

In order to ensure that the financial risks are effectively managed and to minimise the risk of error, all data used to support the process are thoroughly verified, and decisions are based on in-depth analyses, in accordance with the adopted risk management policy, credit structure and operating procedures. The financial risk management policies and instruments and the impact of risk factors on the individual items of financial results are entered in the Notes to the financial statements. Link → (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/)

Risks related to the exploration and production business

Risks related to the upstream business include production and technical risks, exploration risks, risks related to the geological characteristics of the fields and weather-related risks, all of which are monitored. The year 2011 saw continued implementation of adequate mitigation procedures.

Considering the nature of our operations, the LOTOS Group's key concern are the **risks associated with production of hydrocarbons** which have the potential for environmental contamination. These include risks of oil spills, marine collisions, fires, gas eruptions and other failures. A broad range of preventive measures are taken, such as leakage testing, monitoring of fire risks and blow-out 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 the personnel. In the event of an incident or accident, a thorough analysis is conducted, and the event itself is discussed at the training courses, with a view to preventing its recurrence.

Technical risks are associated with the equipment used to explore and produce hydrocarbons. It is mitigated through monitoring of the condition and performance of the equipment, as well as technical supervision and performance of necessary tests. Regular training courses are also organised to teach the personnel how to operate the equipment. The production and process systems are subject to technical inspections, reliability testing and related risk assessment. With due regard paid to the nature of our operations, the maintenance management system is being developed and the prevention-centred approach is being furthered through on-going monitoring of the best available technical solutions.

Exploration risk follows largely from potentially incorrect estimation of in-place resources. Therefore, in line with the SPE 2007 rules three confidence levels are used to estimate a reserve: P10, P50 and P90 (with the estimated quantity having, respectively, a 10%, 50% and 90% probability of being recovered). Also, the internal chance-of-success indicator is analysed while estimating the potential of an area covered by geological survey. Moreover, in the design phase there is the risk of having to conduct additional, in-depth geological analyses of plays with high production potential. One example is the 3D seismic surveying carried out in the first half of 2011 on the PL 503 and PL 503B North Sea licenses.

Other risks in the upstream area are related 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). The risk is reduced with the use of methods involving continuous monitoring of reserve parameters. Weather is a vital factor in offshore oil extraction. In extreme cases, unfavourable weather conditions may halt planned work or crude production. To reduce adverse effects of risks that materialise, systems have been deployed to monitor the weather conditions and to trigger appropriate safety procedures when necessary.

Guided by the need to increase the volumes of own production from new licenses and to implement projects under consortium agreements, the Company takes steps to secure as exhaustive data and research as possible. Project-related risk assessment, market research, due diligence, feasibility studies, and legal and financial risk analyses are performed to effectively minimise the risk inherent in joint ventures, particularly those in which LOTOS Petrobaltic holds minority interests.

Risks related to the supply of raw materials

Grupa LOTOS continually strives to diversify the directions and sources of oil supply. The objectives of the diversification policy are attained by placing focus on security of supplies and improved competitiveness. Security of crude supplies is enhanced through progressive expansion of our presence on the international oil market, regular contracting of various types of crude transported by sea, creating conditions to radically increase their share in total supplies to the refinery, and increasing the role of own production. Our competitive position is improved by fully capitalising on the coastal location of the Gdańsk refinery and the possibility to source crude supplies through two independent channels: Russian oil through the Druzhba Pipeline and various types of oil available through Naftoport (offshore oil terminal).

An appropriate selection of types of crude and directions of supplies is the result of efforts to maximise the integrated margin. Moreover, diversification-related risks, including risks related to potential disruptions at multiple sources of oil supply, are identified and mitigated.

Risks related to operating activities

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

The year 2011 was the first year when the Gdańsk refinery operated in the target configuration provided assumed in the 10+ Programme. This was possible following commissioning of the last two process units delivered as part of the 10+ Programme: the MHC hydrocracking unit (commissioned in January) and the SDA/ROSE unit (commissioned in March). Upon completion of the programme's implementation phase, the **operational risks related to the 10+ Programme** identified earlier were either reduced or eliminated. Measures taken to identify and minimise the key risks yielded the desired effect, as confirmed during the test run carried out in May in the presence of representatives of licensors and contractors.

A key risk of the 10+ Programme related to the operation of the Gdańsk refinery at the beginning of 2011 was the uncertainty of results of the integrated system test run at maximum capacity, as required under the loan agreements and supervised by bank inspection representatives and technical consultants. The results of the test run held in June 2011 were in line with the targets agreed with the banks.

However, it should be remembered that the risk of possible discovery of latent defects in procured materials or equipment during operation continues, although probability of any such occurrence is becoming increasingly lower. Any materialisation of the risk may disrupt the plant operation, pose threat to its safety and cause fire or explosion hazards. As no serious defects were discovered during commissioning, start-up, initial operation, and regular operation of the MHC and SDA/ROSE units until the end of 2011, the risk of latent defects has been reduced to low and is managed through planned maintenance and monitoring of the process infrastructure on a daily basis.

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

- risk of failure to comply with the requirements of the Polish and EU environmental laws,
- risk related to shortage of CO_2 emission allowances,
- risk of serious industrial failure (described in detail further in this Report).

The likelihood that the risk of non-compliance with the legal requirements might materialise is minimised through on-going monitoring of the Polish and EU laws, efficient implementation of their provisions and taking an active and effective role in the legislative process. 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.

Grupa LOTOS makes every effort to mitigate the risk related to CO_2 emissions allowances. Legislative changes at the level of Polish and EU laws are monitored on a routine basis. Cooperation is also maintained with the National Administrator of the Emissions Trading Scheme.

For the refining units which participate in the EU Emissions Trading Scheme, including units constructed as part of the 10+ Programme and commissioned in 2010, the number of allowances will be sufficient 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 need to supply heat necessary to support the operation of the above units. Grupa LOTOS applied for emissions allowances from the national reserve for the last two 10+ Programme units commissioned in 2011. The allowances were awarded in the middle of the year.

One of the key risks inherent in our day-to-day operations, addressed with specifically designed preventive and preparatory measures, is the **risk of industrial failure**. Emergency events may disrupt the work of refining units, cause fire, explosion, excessive emissions of pollutants into the environment or occupational work. Various comprehensive measures have been deployed to monitor the technical condition of the plant and equipment and to prevent failure. Appropriate technical standards and procedures are in place, including qualified supplier and technical service lists or deliveries collection and control procedures, to ensure high quality of overhaul and project delivery services and guarantee high quality of materials and spare parts used.

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. Most of the equipment critical for the operational safety has been classified based on the following criteria: safety for people and the environment, significance relative to the entire unit or plant and failure probability. The classification of a piece of equipment to a specific criticality group determines the selection and application of an optimal strategy for the equipment maintenance.

The units delivered as part of the 10+ Programme have been in full commercial operation for more than a year now, and hence, thanks to experience gained so far and regular inspections, the risk of latent defects or maintenance or repair errors is gradually decreasing. Conveniently, the new units allow us to reserve large portions of the existing capacity. Hence, a failure occurring in one unit does not affect the operation of the entire plant, and the refinery may continue operation without any major disruption.

A factor contributing to an increased risk of failure on the new units is the personnel lacking adequate experience. A number of measures have been taken to address the risk, including a policy whereunder new unit operators are employed long, even two years, in advance to enable them to go through the entire training process before new units have been commisioned. As in 2010, Grupa LOTOS purchased training simulators, state-of-the-art operation training tools, an industrial equivalent of flight simulators used in aviation. The simulators are used to train personnel in unit operation under conditions very close to reality.

The refinery also uses technologies and equipment meeting the BAT *(Best Available Techniques)* criteria. Process units are equipped with safety and protection 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 the plant and equipment.

In order to mitigate the effects of failures, practical 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 a failure does occur, it is subject to a thorough analysis and relevant preventive measures are implemented as a follow-up. Gathered information is used in subsequent assessments of the technology-related risk.

Given the nature of the production processes, **workplace safety** is a matter 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 or presence of hazardous chemical and biological substances. Based on such assessment, individual and collective security systems are deployed.

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

Risk of stricter quality requirements for petroleum products

Grupa LOTOS 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. Through its participation in the work of the subcommittees of Technical Committee 222, the Company is able to present its opinions on proposed EU standards as early as at the stage of their development.

Grupa LOTOS may also have a say on quality requirements, in particular requirements applicable to engine fuels, through participation in the works of an industry association, the Polish Organisation of Oil Industry and Trade. The participation substantially reduces the risks of delayed compliance with future quality standards for petroleum products.

Marketing risks

The background for the LOTOS Group's marketing activities is the ever-present price competition and the fast-changing global macroeconomic environment. This requires constant refinement of tools used to monitor price- and margin-related parameters. As for retail sales, we pursue market diversification, including diversification into segments less prone to competitor-induced margin erosion, as well as other initiatives aimed at winning and retaining customers.

Grupa LOTOS also manages **the risk of reduced domestic demand** for its products. Lower demand may be an effect of increased price competition or overall decline in demand due to macroeconomic factors. The risk is managed using various techniques, including diversification of distribution channels, operation of a competitive pricing policy and optimisation of operating expenses.

Risk management in the marketing area is also focused on maintaining uninterrupted supplies of products to the market. These efforts are coordinated at the Company level by ensuring cooperation between marketing, logistics, production, trading and optimisation functions, and the objective behind these efforts is to set a coherent, most favourable course of action across the supply chain.

Costs of implementation of hedging strategies

For high-cost mitigation measures, we apply the ALARP *(As Low As Reasonably Practicable)* principle 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 expenditure that would need to be incurred.

Related content:

Risk management **Commitment to sustainable development**

Optimum. Responsible decisions – interview with the President of the Board

The Company strives to build salt caverns in Pomerania, which is a perfect place for a regional energy hub.

Interview with Paweł Olechnowicz, President of the Board and CEO of Grupa LOTOS S.A.

- The Annual Report's title is "Optimum. Responsible Decisions". The main idea behind the publication is thus an optimum approach to pursuing goals, optimum meaning the best possible in given circumstances. Would that be your description of the activities carried out by the LOTOS Group in 2011?

2011 was the first year in which we could expect to see the measurable effects of the successfully completed 10+ Programme. However, it also brought a new wave of financial and economic uncertainties worldwide. The Company was focused on carrying out its business in a way ensuring that its potential is fully leveraged and sustainable growth is guaranteed, while maintaining market confidence. By making responsible decisions, we aimed to reduce excessive business risks, while at the same time delivering added social and economic value, much needed by the country in this difficult period.

As Grupa LOTOS takes a realistic and optimal view of its opportunities and business conditions, its market practice guarantees security, stability, confidence and trust – values that are particularly desirable in a crisis economy. This is intended to prove that we are firmly convinced of the enormous value of sustainable growth both for a business and for its social environment.

The Company's values and competences, which make us stand out against competitors, have further gained in importance amid these adverse circumstances. Not only are we open to the needs of our key stakeholders and have a thorough understanding of their expectations, but we also feel a sense of responsibility towards them. This approach prompts us to keep exploring novel solutions. Our adherence to those values was reflected in 2011 not only in transparent communication with the capital market, which enhanced our credibility, but also in sound performance of our core business and the fact that we were able to adjust our product and service offering to new economic and social challenges.

It was in 2011 that we brought to the market the new brand LOTOS Optima, designating a chain of economy service stations, which is being continually expanded. The value-oriented economy segment is now regarded as the most rapidly growing and prospective part of the market. As customers become increasingly more pragmatic, we provide them with products and services delivering maximum benefits and added value, tailored to the financial standing of most Poles. Optima is the Company's response to new expectations.

- The Company's strategy is also focused on environmental issues and energy security.

Grupa LOTOS strives to mitigate its impact on the environment on an ongoing basis, by following the applicable hydrocarbon mining, production and processing standards, and by complying with stringent environmental requirements related to the production, transportation and sale of petroleum products. Our production activities are carried out in reliance on the best available techniques and procedures, and the Company tries to keep abreast of opportunities offered by the latest technologies.

We strive to identify and develop the possibilities of producing energy from renewable and non-conventional sources. As early as in 2012, Grupa LOTOS wants to start exploring for shale gas and is planning to take part in new tenders for hydrocarbon exploration and production licences in Lithuania. But even now, thanks to the 10+ Programme completed in 2011, the refinery in Gdańsk has energy-efficient technologies in place. By applying methods designed to enhance energy efficiency, we intend to reduce our carbon footprint by 6% by the year 2020.

In the weeks to come, the refinery will be switched to a new fuel – natural gas. The switch-over will bring environmental benefits both to the Company and its surroundings, as natural gas emits less sulphur dioxide and nitrogen oxides, as well as greenhouse gases (mainly CO_2), than the currently used fuels.

Our responsibility is also manifest in the Company's approach to improving Poland's energy security. Grupa LOTOS supports the Polish government in its efforts to modify the existing system of mandatory stocks, which constitutes a pillar of the country's energy security. Not only do we ensure stable supplies of crude oil, which is an important energy resource, but we have also undertaken an initiative aimed at building storage facilities for crude oil and liquid fuels, such as diesel and light fuel oil, in salt caverns. Given its geological features, direct access to the sea as well as extensive port infrastructure, Pomerania is a perfect place for a regional energy hub.

- Grupa LOTOS is actively involved in the implementation of the Polish government's energy policy. What were the key activities carried out in this area in 2011, besides the projects you have just mentioned?

Our constant role is to take part in the work of expert teams appointed by the government in order to develop new legislative solutions for the energy sector, as well as in public consultations of draft legislation pertaining to the sector.

Grupa LOTOS cooperates with the Ministry of Economy in preparing information materials on the fuel industry for the International Energy Agency, and is involved in the work of the Inter-Ministerial Oil Law Group. The scope of legislative work in 2011 included issuing opinions on the draft act on bio-components and liquid bio-fuels and the act on crude oil and fuel reserves. In addition, we attend meetings of the Intergovernmental Committees of Russia, Kazakhstan, Azerbaijan, Ukraine and Belarus. The Company participates on a regular basis in the highest level meetings dedicated to the energy sector organized by the Ministries of Economy, State Treasury, Foreign Affairs and Environment. In 2011, Grupa LOTOS was engaged i.a. in a project, carried out together with several universities, entitled "Education and training of workforce for the Libyan energy sector" in connection with a visit to Libya of the Deputy Minister of Foreign Affairs with a group of Polish entrepreneurs.

In the second half of the year, we assisted the government in connection with the Polish presidency of the European Union Council. The Company was a host of two important meetings organized by the Ministry of Economy – a visit of Permanent Representatives of EU Member States and a visit of the energy attachés of Community Member States.

- You serve as Chairman of the Board of Directors of Central Europe Energy Partners, which in 2011 was very actively involved in efforts to develop an energy efficient economy of the European Union.

Modern day business wants to be actively involved in transformation processes. This is why it enters into discussions with social, business and government partners. A climate of openness to cooperation, aimed at building a better future for both businesses and their social and economic environment, prevails. The need to face global challenges, not only those related to climate change, is very conducive to cooperation. It evidences responsible and wise leadership at the level of managements, but also business entities regarded as industry leaders. By maintaining close links with scientific and research organizations and lobbying on the international arena, we contribute to the development of innovative solutions focusing on sustainable growth.

Our activity at Central Europe Energy Partners (CEEP), a non-profit organization of which Grupa LOTOS is a founding member, represents an example of such commitment on our part. This international association was established with the objective to help integrate the Central European energy sector around the European Union's common energy and energy security policy. To this end, CEEP closely cooperates with a number of recognized think-tanks, including the Center for Strategic & International Studies and the Atlantic Council in Washington, the Windsor Energy Group and King's College in London, as well as organizations such as the International Energy Agency in Paris and Europia in Brussels.

CEEP attends all major EU events related to the energy sector held by the European Commission, including also in various working groups. In 2011, CEEP joined in the discussion held by the European Commission regarding the outlook for the European Union's energy sector until 2050. As one of the members of CEEP, Grupa LOTOS is an active participant of consultations and helps prepare expert materials for EU institutions.

Related content:

Participation in government policies

Business environment

2011 brought an increase in geopolitical risks stemming from the regions which are major global oil suppliers.

The economic situation in 2011 was worse than expected. The largest world economies retained growth in the positive territory, but growth rates were lower than a year earlier. The key decelerating factors included slower recovery of retail demand in developed countries and the return to financial instability, particularly in the European markets.[1]

2011 was predominated by the sovereign debt crisis spreading in Europe. Rescue plans were implemented, often encountering strong social protests. Speculations abounded, both among economists and publicists, concerning a potential break-up of the eurozone, or even of the entire European Union. This uncertainty had a negative impact on the development prospects of the global economy. And there was the natural disaster - the earthquake and tsunami in Japan - which came as a blow to many markets, including the petroleum market.

There were also some significant geopolitical changes, entailing conflicts and unrest in North Africa, a region with a significant crude oil production potential. Social unrest and rebellions, e.g. in Saudi Arabia, Egypt, Syria, Yemen, Kuwait, and Nigeria have sparked serious concerns about disruptions of crude oil supplies to Europe. The revolt which led to a civil war in Libya reduced the supplies of crude from this country. The effects of limited production from Libyan oil fields will continue to be felt for a long time. The International Energy Agency (IEA) estimates the aggregate drop in oil production in Libya, Syria and Yemen in 2011 at approximately 450 million barrels[2]. This shortfall in supplies was partly offset through a release of IEA reserves. According to the Agency, the effects of the Libyan uprising would have been more acute if it were not for the economic crisis and limited demand for the commodity in Europe.

In the closing weeks of 2011 Iran, which pursues its own nuclear programme, emerged as another trouble point. The build-up of the conflict around the potential closing of the Strait of Hormuz, which concentrates a vast share of the global seaborne oil shipments, the possible EU embargo on Iranian crude and the risk of an armed conflict between Israel and Iran all sent oil prices soaring.

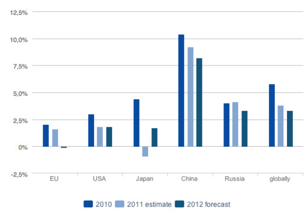
The geopolitical risks stemming from the regions which are major global oil suppliers lifted the average Dtd Brent prices in 2011 to a historical high of 111.5 USD/bbl (compared with 79.5 USD/bbl in 2010). Combined with a depreciation of the złoty against the dollar, the high prices of the commodity pushed fuel prices at Polish service stations to new historical highs.

But more than by anything else, the problems of the eurozone may become the most serious deterrent to the global economic recovery. The eurozone's problems are visible already in estimates of the 2011 GDP growth rate, which amounted to 3.8% for the global economy (0.2pp below September 2011 forecasts). The forecast for 2012 has been affected by a stronger downward correction (of 0.7pp), which has set the expected GDP growth rate at 3.3%. The new forecast takes into account a shallow recession (of -0.1% GDP) in the European Union[3].

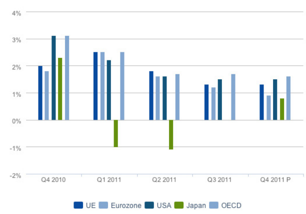
To overcome the economic problems in developed countries, reforms of budgetary policies will be needed in order to eliminate the financial imbalance in the public sector. This restricts the governments' ability to intervene in the real economy.

[1] World Economic Outlook, International Monetary Fund, September 2011.
[2] Oil&Gas Journal, January 2012.

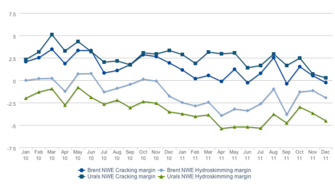
GDP growth in 2010-2012 (%)



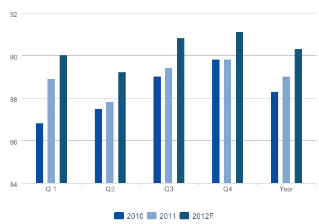
GDP growth in 2010 and 2011 (year-on-year change) (%)



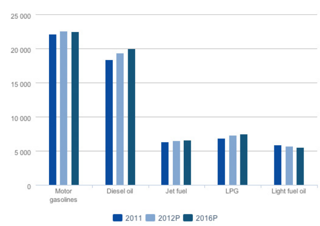
Refining margins (USD/bbl)



Demand for crude oil (mb/d)



Global consumption of fuels (thousand b/d)



Forecast global consumption of fuels (thousand b/d)

[3] World Economic Outlook Update, January 2012.

Condition of the refining industry

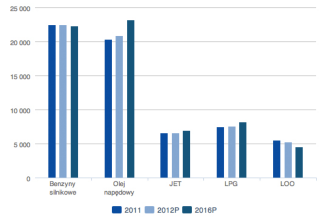
Due to the economic problems in Europe, the refining margins in the region were on a decline. In the first half of 2011, those refineries which could purchase and process Urals crude, enjoyed an additional premium on the Brent/Urals differential. However, in the second part of the year the differential was almost to zero, closing the gap between the margins generated by refineries processing Urals crude and the margins relying on Brent as the reference crude.

The difficult situation on the European refining market affected chiefly those refineries which are technologically less advanced (hydroskimming), and which produce less high-value-added fuels from crude than modern facilities (cracking). Many of the hydroskimming refineries generated negative margins. In late 2011, this negative tendency found its confirmation in the form of financial distress experienced by Petroplus, an independent refiner operating several refineries in Western Europe.

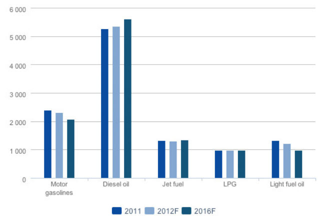
Gasoline was the product with the most volatile margins in 2011. It started the year with strong increases, but close to its end the refining margin contracted close to 0 USD/bbl. Gasoline reacts faster than other fuels to price changes or changes in the economic climate and financial situation of consumers. What is more, the European refining industry suffers from a structural excess of gasoline distillates. High supply of gasolines, combined with increasingly more limited possibilities to export them to the American continent, had a negative effect on the margins.

Margins on middle distillates, particularly on diesel oil, remained stable. Middle distillates are the group of products enjoying the highest demand in Europe, and stayed strong even in spite of the economic uncertainty. Another noteworthy development was the strengthening of margins on heavy fuel oil, seen close to the end of the year on the back of the introduction of new fiscal policies in Russia and the resulting drop in supply of the product from the East.

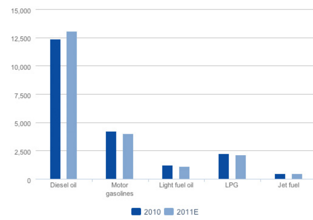
The economic growth seen in 2011 contributed to higher consumption of crude oil. There was an overall increase in demand for crude oil, especially due to higher consumption on the developing markets[4], as well as an increase in crude prices. Industry organizations are estimating average demand for the commodity in 2011 at 88.3 mb/d, which is about 1% (0.9 mb/d) more than a year earlier. At the same time, average consumption of crude in 2012 is expected to come in at 89.5 mb/d, up by 1.3%[5]. Medium-term forecasts by the International Energy Agency predict that demand for crude will reach 95 mb/d in 2016, meaning a compound average growth rate (CAGR) of 1.3%.



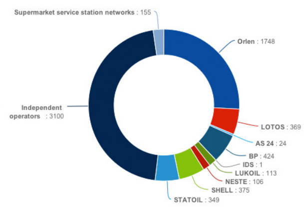
Forecast consumption of fuels in Europe (thousand b/d)



Consumption of fuels in Poland (thousand tonnes)



Service stations in Poland as at the end of 2011



IEA estimates indicate that the global growth is driven by rising demand for the commodity in developing countries. In 2011, the growth in non-OECD countries was 1.2 mb/d, and it may accelerate to 1.6 mb/d in 2012. Concurrently, consumption in developing countries fell by 0.5 mb/d (2011), and may decline by a further 0.3 mb/d in 2012.

Estimated demand for crude in Europe was 15 mb/d in 2011, against a forecast 2012 consumption figure of 14.8 mb/d.[6]

[4] Oil Market Report, IEA, December 2011.
[5] In-house compilation based on OPEC, IEA and US EIA data.
[6] Oil Market Report, IEA, December 2011.

International fuel market[7]

It is estimated that demand for oil refining products rose in 2011 by 1.2% globally. An increase in demand was seen primarily in the diesel oil and LPG segments (up by 3.3% and 2.3%, respectively), while consumption of engine fuels remained stable (down by 0.2%). Consumption of light fuel oil fell again (down by 2.8%). These changes in global consumption of fuels came as a result of the weak economic growth.

According to forecasts, global consumption of refining products is expected to grow by 6% until 2016. Relative to 2011, demand for diesel fuel and LPG is expected to surge by 14% and 10%, respectively. Consumption of gasolines may decline by a little short of 1%. A drop in consumption of light fuel oil (-17%) is also predicted.

Demand on the European market is expected to fall in 2011 by 0.8%. Higher consumption was recorded only with respect to middle distillates. Consumption of diesel fuel rose by 0.6%, and demand for JET fuel - by 1.2%. Consumption fell in the case of motor gasolines (-3.6%), LPG (-0.4%) and light fuel oil (-4.4%).

By 2016, demand for refining products in Europe is expected to fall by 3.2%, which will mostly be attributable to a considerable (over 13%) decline in consumption of gasolines. At the same time, demand for middle distillates is expected to grow significantly, by 6.4% in the case of diesel oils and by 2.0% in the case of jet fuel.

In the European car market, new passenger car registrations fell slightly (by 1.4%) in 2011, to 13.6m new cars, whereas in the utility vehicles segment new registrations rose by 10%, to 2m vehicles. In the group of registered new passenger cars, an increasing interest in diesel fuelled cars was visible. In Q1 2011, the share of such cars in the total new car registrations was 55%, compared with 52% in 2010 and 46% in 2009.

[7] Mid-Term Oil Market Outlook 2011-2016, JBC Energy, October 2011.
[8] European Automobile Manufacturers' Association.

Poland – macroeconomic environment

In 2011, the Polish economy recorded a good economic performance. Real GDP growth was 4.3% (against 3.9% in 2010) on higher internal consumption and investments. Last year's average annual inflation was 4.3%.

There were also positive signals from the labour market, where employment was up by 3.2%, and salaries in the non-financial corporate sector rising by 5%. At the end of 2011, unemployment was 12.5%, staying relatively flat over the previous year's figure.

Polish fuel market

In 2011, the Polish economy was in the growth phase of another economic cycle. According to initial estimates by the Central Statistics Office, GDP grew by 4.3%. Internal demand recovered (up by 3.8%), and investment projects (up by 8.7%) that had been postponed in the previous years now stimulated the economy.

The good economic conditions prevailing in the country throughout 2011 had a positive impact on demand for transport services and on growing capacities of the transport sector, contributing to stronger demand for diesel oil, the key fuel used in transport. In 2011, demand for diesel oil exceeded 13.3m tonnes, and was up year on year 8%.[9]

Growing demand for diesel oil, combined with such factors as increasing dieselisation of the market and price volatility on the global petroleum markets, resulted in a drop of demand for gasoline and a nearly 5% lower consumption of this fuel in 2011 relative to 2010 (4m tonnes in 2011). Similar trends in fuels consumption were observed across all of Europe.

In parallel with the drop in demand for gasoline, there was a 4% decline in consumption of LPG, which fell from 2.2m tonnes in 2010 to approximately 2.1m tonnes in 2011. There was also a decline in consumption of light fuel oil, which fell in 2011 mainly due to a relatively warmer winter close to the end of the year and due to permanent changes in heating fuel consumption patterns. Demand for light fuel oil fell by 11%.

In aggregate, demand for liquid fuels, including diesel oil, gasoline, LPG and light fuel oil, rose by 2.9% relative to 2010, on the back of high consumption of diesel oil and a dynamic development of this market segment.

Economic forecasts for Poland are fairly optimistic, so the economy's good performance may be expected to stimulate demand for fuels in the following years. According to forecasts, demand for fuels should be growing at an annual rate of about 3%.

Owing to the increased number of airline passengers and aviation operations, in 2011 demand for jet fuel rose by 3% year on year. Prospects for jet fuel for the following years are good – higher air passenger traffic in connection with the Euro 2012 championships and the growing mobility of Poles as they become increasingly wealthier provide grounds to expect future consumption of this fuel to grow by about 5% a year.

[9] Estimates based on the Polish Organisation of Oil Industry and Trade (POPiHN) data.

Retail fuel market in Poland

2011 saw further consolidation of the retail segment and optimisation of the service station chain. At the end of the year, there were 6,764 service stations operating on the Polish retail fuel market, a number similar to the 2010 figure.

Data show that there was a drop in the number of service stations owned by independent operators, while in the case of large Polish and foreign chains the numbers rose. There were also some changes in the segment of motorway service stations. At the end of the year, there were 38 such stations in Poland, operating as Motorway Service Areas. This market segment is expected to grow further over the next few years.

Important events in the retail market in 2011 include the launch of a new brand in the economy segment - LOTOS Optima. At the end of the year, there were 50 service stations operating under this brand.

Development prospects

Two confronting trends may be expected to affect the development of crude prices. On the one hand, growing consumption of crude oil and its derivatives in the developing countries, unstable geopolitical situation and commodity speculation may be driving prices upwards. On the other hand, relative stagnation of the developed economies, gradual launch of production from new reserves and the growing use of non-conventional energy sources may confine the price increase, balancing supply and demand.

KBC[1] forecasts presented in December 2011 show that in the near term the price of oil will be on an upward trend, creating favourable prospects for upstream operations, including exploration and production from offshore and unconventional reserves.

Prospects for development of the downstream (production and trading) operations will be determined by the demand for petroleum products and achievable margins. The European Commission predicts that the GDP growth in Poland over the next few years (2.5% in 2012, 2.8% in 2013) will be well above the EU average (0.6% in 2012, 1.5% in 2013), which will be a factor of paramount importance for the growth of demand for fuels. Therefore, in terms of demand for petroleum fuels, prospects for the producers in Poland are good. A steady upward trend is visible particularly in the case of diesel oil, which is the Gdańsk refinery's key product. Prospects for the gasoline market in Poland are neutral. However, the recent fiscal changes in Poland, i.e. increase of the excise duty and of the toll surcharge on diesel fuel and LPG, may prompt new car buyers to opt for spark ignition cars, and in consequence change the structure of demand in favour of gasoline.

[1] World Long-Term Oil & Energy Outlook 2011, December 2011.

Dear Stakeholders,

2011 was a year of a much more difficult economic situation for the oil industry than the previous one. Amid harsh external conditions, high volatility in the financial markets and political upheaval in different parts of the world, which all resulted in rising crude oil prices, Grupa LOTOS managed to post healthy financial results. PLN 29,260 million – it is the sales revenue generated by the Company after all four quarters of 2011. As compared to 2010, it translates into an increase of almost 49%. The operating profit of the Company amounted to PLN 1,085 million and the net profit stood at PLN 649 million.

The Company's performance testifies to the efficiency of the 10+ Programme, which was completed in March 2011 and resulted in the expansion of processing capacities at the refinery in Gdańsk. Over the last 12 months, Grupa LOTOS has proved its ability to use the new installations effectively. High operational flexibility of the refinery achieved thanks to the expansion has also enabled the Company to adapt quickly to the dynamically changing market environment.

As a result of the completion of the 10+ Programme investment project, in 2011 a record-high volume of crude oil processed of 9.2 million tonnes was achieved, which is a 13% increase on 2010. Also, the structure of the our product mix has changed in favour of high-margin fuels, in particular diesel oil and aviation fuel. This in turn has boosted the profitability of the Gdańsk refinery, giving it a competitive edge over less technologically advanced facilities.

Moreover, when talking about the important changes brought about by the completion of the 10+ Programme, the financial security it provides should also be mentioned. As the 10+ Programme was very precisely and accurately defined, its execution guarantees long years of safe operation for the refinery in accordance with the highest technical parameters, while at the same time enabling Grupa LOTOS to achieve the expected financial results. Therefore, the decision to take out a bank loan to finance the 10+ Programme has more than proved to be a correct one. Although the loan servicing costs are affecting the financial result of the Company now, it allowed Grupa LOTOS to take advantage of the opportunity to join the ranks of the most technologically advanced and most efficient refineries in Europe.

The successful completion of the investment project which was the key element of the previous strategy has also allowed us to concentrate on the challenges of the new LOTOS Group Strategy for the years 2011-2015. Despite unfavourable macroeconomic conditions, significant steps have already been made towards achieving its main pillars.

In the marketing segment, the Company has significantly increased the number of the LOTOS service stations, i.a. by launching a total of 50 new stations in our newly-established LOTOS Optima economy chain in 2011. Amid rising fuel prices, providing our customers with a competitively-priced product has proved to be the right decision with regard to increasing the Company's market share.

In the exploration and production segment, an important step on the way to implementing the Strategy was the finalized acquisition of full control over the Lithuanian production company AB Geonafta, as well as further steady expansion of our activities in the Baltic Sea. Unfortunately, due to circumstances outside our control, Grupa LOTOS experienced another delay in the execution of the YME project on the Norwegian Continental Shelf, which forced us to make a revaluation write-off for the assets of this project.

Another important issue worth stressing is the fact that, in face of the prevailing difficult economic situation in Europe, we have decided to implement the Optimum Expansion Programme for 2012. The Programme provides for the launch of a number of projects designed to improve the efficiency of the Company's activities, while keeping the key strategic projects going as planned. Grupa LOTOS proved before its ability to enforce austerity measures when the Anti-Crisis Package was implemented in 2009. The success of the Anti-Crisis Package allows to believe that also this time the results will be even more than satisfactory.

All in all, the results achieved in 2011 and the stable financial situation provide an excellent springboard for achieving the objectives set out for the coming years, and the development projects completed in 2011 and their effects testify to the Company' ability to meet its most ambitious strategic goals.

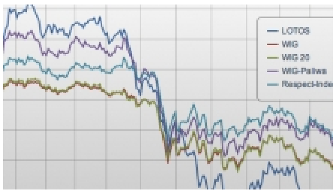
Yours faithfully,

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

Stock market

In 2011, Grupa LOTOS won the 1st place in the “Investor relations” category of the annual ranking “Listed Company of the Year”.

Grupa LOTOS on the stock market



As at the end of 2011, the market capitalization of Grupa LOTOS was PLN 3,026bn.

Grupa LOTOS in RESPECT Index

Taking into account the CSR criteria in the process of portfolio building can help reduce investment risk.

Grupa LOTOS on the stock market

As at the end of 2011, the market capitalization of Grupa LOTOS was PLN 3,026bn.

Grupa LOTOS debuted on the Warsaw Stock Exchange (WSE) on June 9th 2005. Under the Issue Prospectus, 78,700,000 ordinary Series A shares with a par value of PLN 1 per share and 35,000,000 ordinary Series B shares with a par value of PLN 1 per share were introduced to public trading. Following the issue of Series B shares, on June 28th 2005, the increase in Grupa LOTOS's share capital to PLN 113,700,000 was registered.

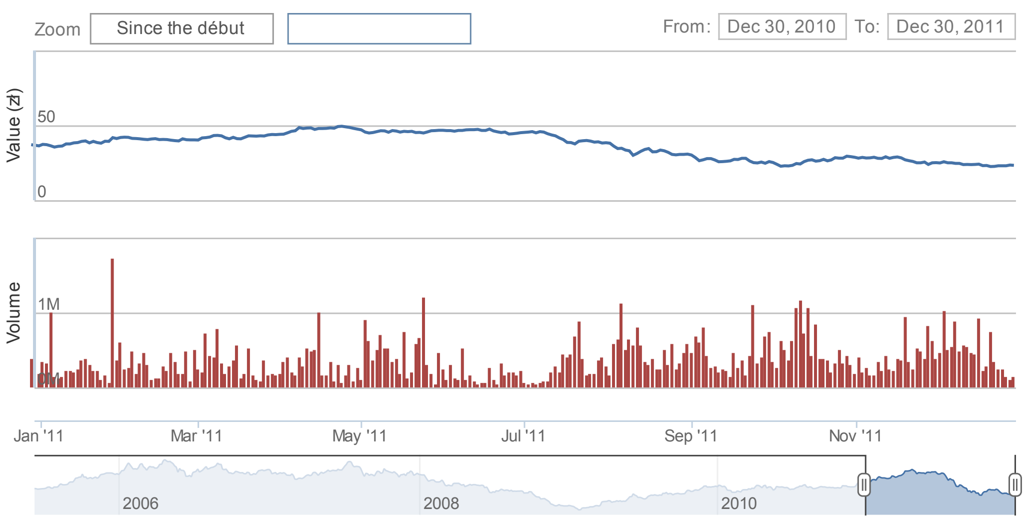
The issue price was set at PLN 29, and after the trading started, the market price rose to PLN 32, that is by 10.34%.

Through the public offering, Grupa LOTOS raised proceeds of PLN 1,015,000 thousand. They were applied towards the acquisition of shares in Rafineria Czechowice S.A. (80.04% ownership interest), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. (91.54%) and Petrobaltic S.A. (69%), as well as for the execution of the Comprehensive Technological Development Programme of the Company's refinery in Gdańsk (later called the 10+ Programme).

On July 17th 2009, another increase in Grupa LOTOS's share capital was registered, effected by way of the issue of 16,173,362 ordinary Series C shares covered with a non-cash contribution in the form of shares in LOTOS Petrobaltic, LOTOS Jasło and LOTOS Czechowice.

The current total number of Company shares is 129,873,362.

Stock price performance and trading volume



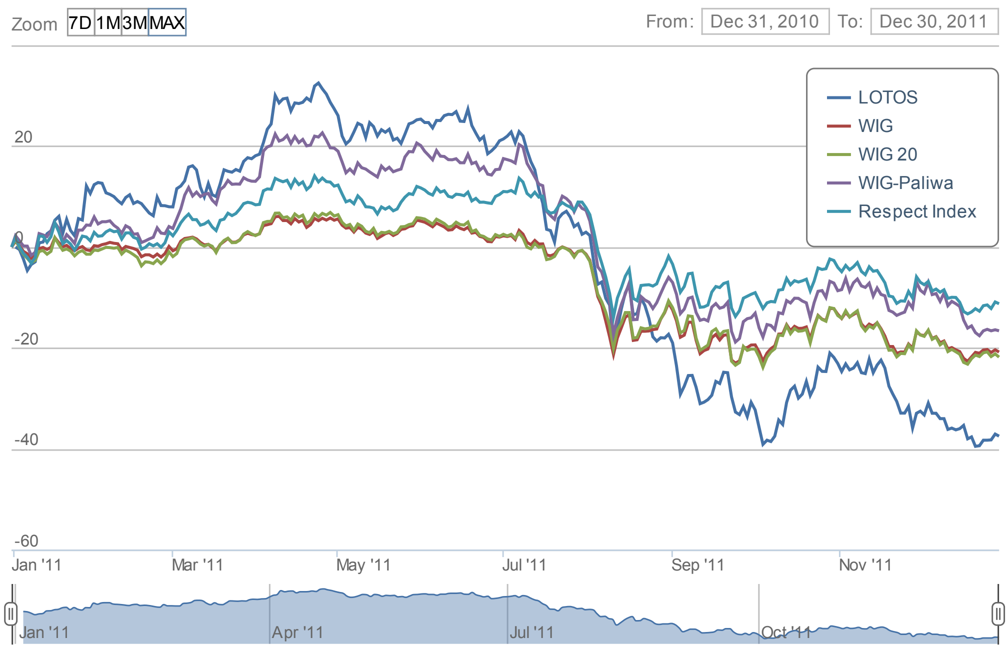
Shares' relative performance vs. stock-exchange indices

2011 was the time of falling stock prices and turbulences on the stock exchange. In the wake of the economic deceleration and the sovereign debt crisis in the eurozone, share prices on Warsaw Stock Exchange slid. Over the entire year, the WIG index lost 20.8% and WIG-20 - 21.9%. The index of fuel companies, WIG-PALIWA, fell by 16.6% in 2011 relative to 2010.

During the first half of the year, the price of Grupa LOTOS shares followed an uptrend, yielding a positive rate of return in the range from 10% to 30% at the beginning of the period. At the beginning of the year, the Company's shares outperformed significantly the WIG, WIG-20 and WIG-PALIWA indices. On April 21st 2011, the price of Company shares reached its all-year high of PLN 49.50 per share.

In the second half of 2011, the trend reversed and the Company's shares followed the market. At session close on December 31st 2011, the price was PLN 23.30 per share. The rate of return for the year 2011 was -35.90%. The Company's market capitalization as at the end of 2011 was PLN 3,026bn.

Grupa LOTOS price performance vs. market indices in 2011



All-year low and high closing prices of Grupa LOTOS shares and closing prices on the WSE

At year end

Year	Low (PLN)	High (PLN)	Closing price (PLN)
2009	7.21	32.80	31.80
2010	25.05	37.85	36.35
2011	22.26	49.50	23.30

Source: In-house analysis based on WSE data.

By month – 2011

Month	Low (PLN)	High (PLN)	Closing price (PLN)
January	35.01	42.69	41.25
February	39.12	43.15	40.27
March	40.09	44.30	44.15
April	44.00	49.50	47.51
May	43.10	48.00	46.70
June	43.57	47.80	45.15
July	37.00	46.43	38.23
August	28.00	39.49	30.84
September	23.70	31.00	25.24
October	22.32	30.00	28.68
November	22.89	29.24	25.00
December	22.26	26.45	23.30

Source: In-house analysis based on WSE data.

Rate of return

At year end

Year	Rate of return at end of period (%)	Rate of return at beginning of period (%)
2009	166.11	166.11
2010	14.31	14.31

2011	-35.90	-35.90

Source: In-house analysis based on WSE data.

By month – 2011

Month	Rate of return at end of period (%)	Rate of return at beginning of period (%)
January	13.48	13.48
February	-2.38	10.78
March	9.64	21.46
April	7.61	30.70
May	-1.70	28.47
June	-3.32	24.21
July	-15.33	5.17
August	-19.33	-15.16
September	-18.16	-30.56
October	13.63	-21.10
November	-12.83	-31.22
December	-6.80	-35.90

Source: In-house analysis based on WSE data.

According to data furnished by the WSE, the total value of trades on the Company shares, that is the aggregate value of all transactions on Grupa LOTOS securities concluded in 2011, was PLN 3,299.07m. 73.10% of Grupa LOTOS share were traded in 2011. The average daily trading volume was 377 thousand shares per session.

Company shares trading volume and value

At year end

Year	Trading value (PLN m)	Share in trade on the WSE (%)	Turnover rate (%)*	Average trading volume per session
2009	3642.56	1.11	173.00	381,938
2010	3684.33	0.88	53.40	234,464
2011	3299,.07	1.31	73,.10	377,048

* Turnover rate – the ratio of annualised trade for a current period to market capitalization at end of period.

Source: In-house analysis based on WSE data.

By month – 2011

Month	Trading value (PLN m)	Share in trade (%)	Turnover rate (%)	Average trading volume per session
January	272.12	1.33	5.50	350,709
February	248.99	1.26	4.70	303,908
March	305.68	1.28	5.60	313,718
April	285.75	1.51	4.60	315,443
May	445.54	1.94	7.50	464,260
June	171.52	0.77	2.90	177,348
July	230.24	1.19	4.40	274,450
August	345.68	1.29	8.10	478,356
September	258.08	1.18	7.50	442,567
October	287.72	1.41	8.60	532,307
November	209.86	1.06	6.00	391,731
December	237.88	1.57	7.60	467,967

Source: In-house analysis based on WSE data.

Stock market ratios

End of year, December 31

Year	Number of shares (million)	Weighted average number of shares (million)	Capitalisation at year end (PLN m)	Book value (PLN m)	Earnings per share (PLN)	P/E*	P/BV*
2009	129.87	121.144	4,130	6,809.4	7.44	4.28	0.61
2010	129.87	-	4,721	7,498.8	5.23	7.00	0.63
2011	129.87	-	3,026	7,781.4	5.00	4.66	0.39

* Based on the year-end price.

Source: In-house analysis based on the Company and WSE data.

Related content:

Shareholder structure **Corporate governance**

Grupa LOTOS in RESPECT Index

Taking into account the CSR criteria in the process of portfolio building can help reduce investment risk.

- R Responsibility
- E Ecology
- S Sustainability
- P Participation
- E Environment
- C Community
- T Transparency

Since November 19th 2009, Grupa LOTOS has been continuously included in the index of socially responsible companies listed on the Warsaw Stock Exchange – the RESPECT Index, which is the first such index in Central and Eastern Europe.

Since 2011, the composition of the index is updated twice a year. This means that in 2011 the Company has twice undergone external review for meeting the index criteria. The project is designed to identify companies managed in a responsible and sustainable manner. It also emphasises the attractiveness of investing in listed companies.

The analysis covers the companies listed on the WSE, except for companies listed on the NewConnect market, as well as foreign and dual-listed companies. Following the preliminary classification of companies against the free-float criterion, the further evaluation covers companies' corporate governance, information governance and investor relations practices, as well as practices in the area of environmental protection, social responsibility and employee relations. The correctness of the evaluation process is ensured by Deloitte, the audit firm.

We assess that the value *of Socially Responsible Investing (SRI)* has been constantly growing globally. The transparent and open information policy, which strengthens the Company's credibility among stakeholders and opens way for its assessment enabling by a broad range of entities, is an important element of the CSR strategy of Grupa LOTOS as a listed company.

Related content:

Awards and distinctions

Exploration and production (Upstream business)

Further development of the exploration and production segment is the priority of the Company's 2011-2015 strategy.

Management approach

LOTOS Petrobaltic implements the best solutions with respect to environmental protection, supporting the biodiversity of the Baltic Sea.

Achievements

In 2011, the acquisition of full control over the Lithuanian production company AB Geonafta was finalised.

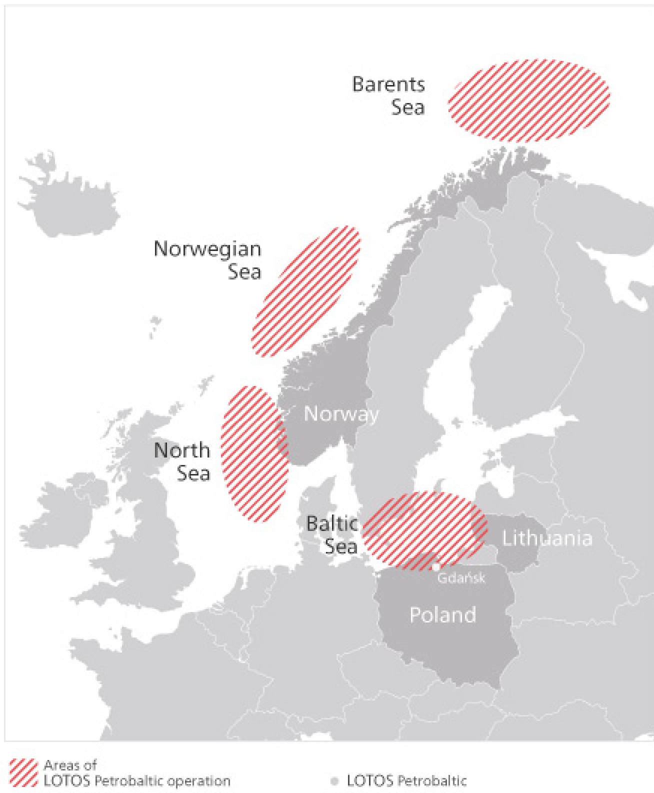
Development plans

In Norway, the completion of development and launch of production from the YME field is planned in 2012.

Management approach

LOTOS Petrobaltic implements the best solutions with respect to environmental protection, supporting the biodiversity of the Baltic Sea.

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's equity links to Grupa LOTOS date back to 2005. The company operates in Poland, Lithuania and Norway.



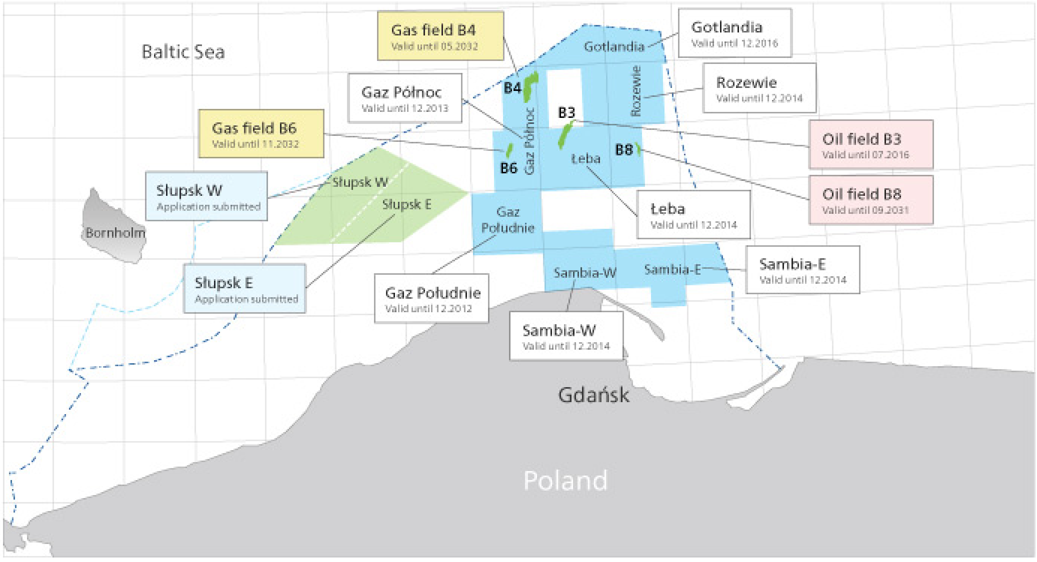
In Poland, exploration and production activities are conducted in seven exploration license areas (Gaz Północ, Gaz Południe, Gotlandia, Łeba, Rozewie, Sambia W and Sambia E) and four production license areas (Łeba, Smołdzino, Lubiatowo and Kuźnica). In the Baltic Sea, LOTOS Petrobaltic produces from the B3 field and develops the B8 field. LOTOS Petrobaltic operates offshore in Poland's economic area, over approximately 29 thousand sq. km.

Crude oil is also produced in Lithuania, through AB LOTOS Geonafta of Gargždai, Lithuania. LOTOS Petrobaltic is the sole shareholder in the company.

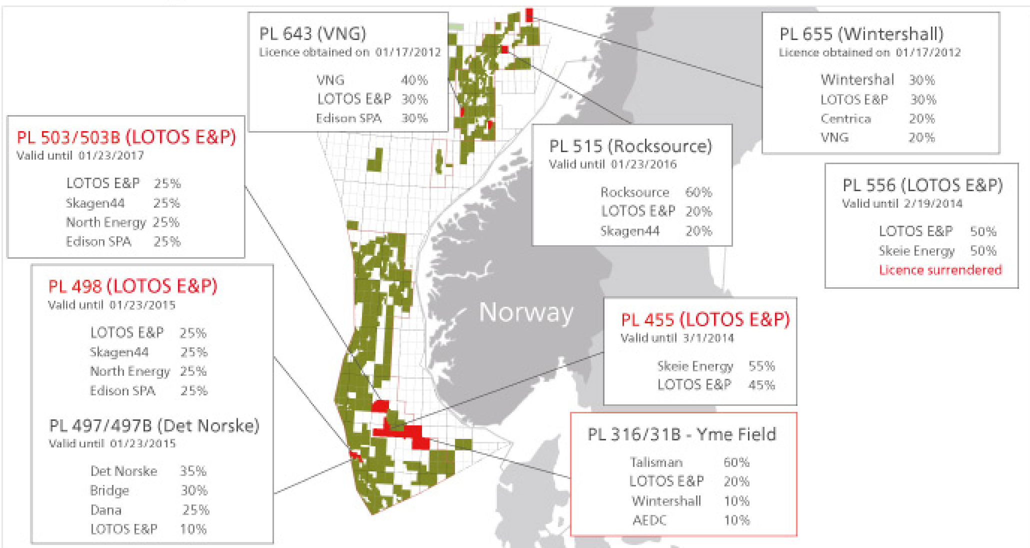
Intensive work is also on-going on the preparation of hydrocarbons production from the YME field in Norway, through LOTOS E&P Norge (LOTOS Exploration and Production Norge AS) of Stavanger, Norway, a company established in 2007.

Main areas of exploration and production operations

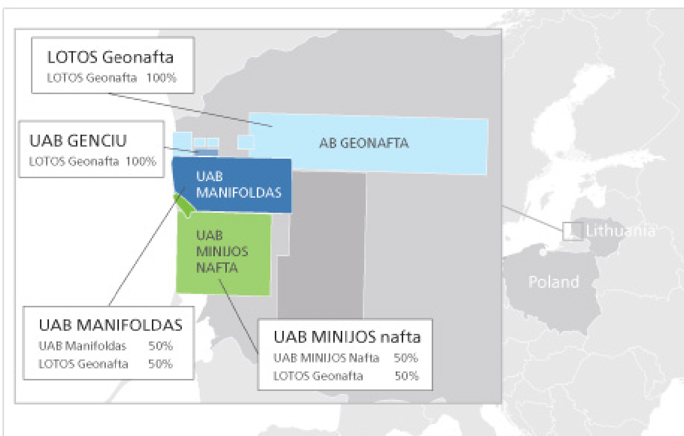
LOTOS Petrobaltic



LOTOS E&P Norge



AB LOTOS Geonafta



Strategic objectives in the area of exploration and production are pursued in line with the following development directions:

- continued operation in the Baltic Sea, on the Norwegian Continental Shelf and in Lithuania;
- identification of partially developed fields or fields in the closing stages of development, with a view to a prompt launch of production;
- joining growth projects and acquisition of new licenses, including onshore licenses;
- looking for growth opportunities in market niches, such as involvement in exploration and production in Lithuania;
- in acquiring hydrocarbon deposits, including shale gas - focusing on areas with low and moderate risk levels.

Related content:

Structure of the organization

Achievements

In 2011, the acquisition of full control over the Lithuanian production company AB Geonafta was finalised.

Major achievements in the hydrocarbon exploration and production business in 2011 included:

Poland:

- continued production from the B3 field,
- work aimed at developing the B8 field, including positive results obtained from the B8-Z5 injection well, which confirmed parameters of the assumed development concept,
- work, in partnership with other companies, on developing the gas fields (the B4 and B6 fields and the B21 prospect) in the Gaz Północ and Gaz Południe license areas,
- building competence in the shale gas exploration in Poland,
- submitting two license applications, concerning Słupsk W and Słupsk E license areas,
- performing a restructuring of the maritime transport area.

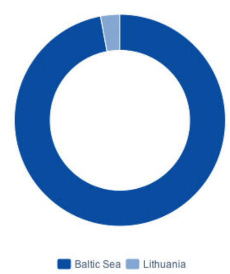
Lithuania:

- closing of the transaction of acquisition of control over the Lithuanian assets - the interest in AB LOTOS Geonafta increased from 40.59% to 100%,
- five production wells were drilled in by companies of the AB LOTOS Geonafta Group.

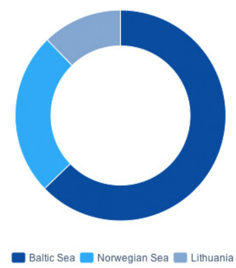
Norway – Norwegian Continental Shelf:

- LOTOS E&P Norge's continued participation in development of the YME field,
- acquisition of seismic data for the PL 503 license, where LOTOS E&P Norge is the operator,
- award of a 25% interest in the PL 503B license in January 2011,
- licenses PL 497/PL 497B and PL 498 – preparations for drilling of exploration wells,
- license PL 556: based on the estimates of potential reserves and assessment of the risk with respect to drilling a well in the Snowlion prospect, the operator, acting in agreement with its partners, made a decision not to recommend entry into the second stage of exploration (drilling of a well) – an application was made to abandon the license,
- license PL 455: based on the findings made by the license partners, a decision was made to submit a letter to the Ministry of Petroleum and Energy requesting a change of duration (prolongation) of stage I of the exploration work by 12 months, i.e. until information is available from the Gafdorfa well, planned to be drilled in 2011 in a neighbouring license area (PL 406). The ministry accepted the application for extension by 12 months of the time to make a decision whether to drill a well or abandon the license, and it also changed the structure of the license interests (Skeie 55%, LOTOS E&P Norge 45%), awarding operatorship of the license to LOTOS E&P Norge,
- continuation of exploration projects – following submission of license applications in 2011, two new licenses were awarded in January 2012, in which LOTOS E&P Norge holds an interest (PL 643 – LOTOS E&P Norge 30%; PL 655 – LOTOS E&P Norge 30%).

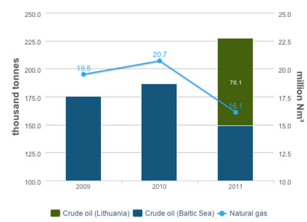
2C crude oil resources (thousand tonnes)



2P crude oil reserves (thousand tonnes)



Oil and gas production



In 2011, crude oil output totalled 227.1 thousand tonnes, of which:

- 78.1 thousand tonnes were produced in Lithuania,
- 149 thousand tonnes were produced in Poland.

As at December 31st 2011, crude oil reserves and resources held by the LOTOS Petrobaltic Group classified as 2P - amounted to 6.9 million tonnes (53.5m bbl) and those classified as 2C - 1.4 million tonnes (10.8m bbl), whereas its natural gas reserves and resources were 0.5 billion cubic metres (classified as 2P) and 6.4 billion cubic metres (classified as 2C).

In 2011, the situation of the LOTOS Group and the entire hydrocarbon exploration and production sector was determined mostly by the level of crude oil prices on global markets and the situation on the currency market. As a result of the crisis on the global financial markets, capital was withdrawn from stock exchanges and invested in non-financial assets, such as commodities, driving upwards the prices of crude. High prices of crude oil translated directly into higher revenues generated by LOTOS Petrobaltic. The economic slowdown and uncertainty as to whether eurozone countries such as Greece, Italy or Spain will be able to repay their debt, resulted in a significant depreciation of the developing countries' currencies, including the Polish currency. The uncertainty in the region also affects the perception of risk inherent in the upstream business development projects and an assessment of attractiveness of such projects by financing institutions.

Related content:

Progress in implementation of strategic objectives **Glossary of industry terms**

Development plans

In Norway, the completion of development and launch of production from the YME field is planned in 2012.

The following action plan has been adopted for the hydrocarbon exploration and production business for 2012:

Poland:

- 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,
- search for a potential partner to enter into cooperation in order to accelerate exploration activities and development of the gas reserves under the licenses held.

Lithuania:

- business consolidation of AB LOTOS Geonafta.

Norway – Norwegian Continental Shelf:

- completion of development and launch of production from the YME field,
- development of the portfolio of exploration licenses.

The plans also include monitoring other areas with a view to identifying potential projects with a low or moderate risk profile in North Africa, the Caspian Sea basin and Central and Eastern Europe.

AB LOTOS Geonafta

The LOTOS Geonafta Group comprises the following companies: AB LOTOS Geonafta, UAB Genciu, UAB Manifoldas and UAB Minijos Nafta. The transaction aimed at acquiring full control of AB Geonafta was closed on February 3rd 2011. In 2011, the Lithuanian assets were consolidated with a view to streamlining the structure of the LOTOS Petrobaltic Group.

LOTOS E&P Norge

At the end of 2011, activities were conducted in Norway in six exploration and appraisal license areas. Work was also under way to launch production from the YME field. After leaving the Abu Dhabi port on August 16th 2010, the production platform arrived at Stavanger on September 19th 2010, and then was towed to the YME 24 field on June 24th 2011. The operation of anchoring and installing the platform on location was carried out on June 26th 2011. Work is now under way to hook up the connections and prepare the platform for start-up and launch of production.

External factors material for the development priorities of the LOTOS Group in the upstream segment include:

- economic conditions on the global markets, including the commodity market, particularly with respect to oil and gas,
- political, fiscal and economic stability of Poland and of those countries where the LOTOS Group conducts or plans to conduct operations,
- legislative changes in the area of exploration and production,
- prices of materials and services offered in the oil and gas production industry, as well as their availability,
- currency exchange rates, including chiefly USD, LTL, NOK as well as EUR and GBP exchange rates,
- risk aversion by financing institutions and potential LOTOS Petrobaltic's business partners,
- sufficient market supply of potential assets which meet LOTOS Petrobaltic's criteria, and the assets' liquidity,
- level of activity on the M&A market.

Internal factors material from the point of view of the development and priorities of the LOTOS Group in the upstream segment include ensuring sufficient financial and human resources and know-how in the segment's competence centre.

Operating segment

The new installations of the 10+ Programme provide high quality products and offer the deepest level of conversion.

Management approach

High operational flexibility of the refinery enables the Company to adapt quickly to the dynamically changing market environment.

Achievements

The volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest in the history of Grupa LOTOS' refinery in Gdańsk.

Development plans

The most important challenges for the refinery business are related to the climate and energy package of the European Union.

Management approach

High operational flexibility of the refinery enables the Company to adapt quickly to the dynamically changing market environment.

The LOTOS Group’s operating activity focuses on refining operations and supplying the market with high quality products, while making optimum use of the LOTOS Group's production capacities and minimising its adverse environmental impact.

The LOTOS Group’s operating segment comprises the operations of the Gdańsk refinery and of its production or support subsidiaries, including: 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.

Related content:

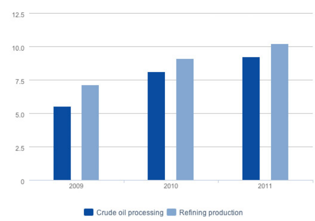
Occupational health and safety **Structure of the organization**

Achievements

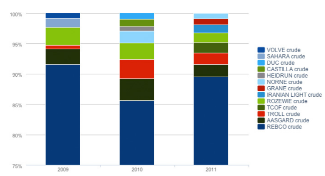
The volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest in the history of Grupa LOTOS' refinery in Gdańsk.

In 2011, LOTOS Group's activities in the operating segment were centred around the finalisation of the 10+ Programme. In December 2010, construction of all the production units was completed. At the beginning of the second quarter of 2011, the last key installation built as part of the programme was launched, and the Gdańsk refinery started working in a complete technological configuration designed as part of the 10+ Programme.

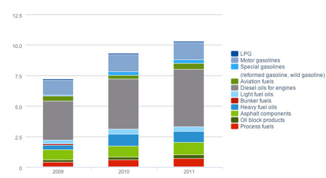
Crude oil processing and refining production (m tonnes)



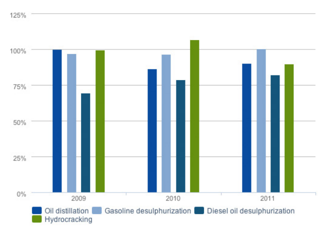
Types of crude oil processed (%)



Refinery's products



Utilization of production capacities of the refinery's main production units (%)



10+ Programme

The 10+ Programme was the largest CAPEX project to have ever been undertaken by Grupa LOTOS. 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. In 2011, the last two of the 10+ Programme installations - hydrocracking and solvent deasphalting - were launched. In line with the license and construction agreements, test operation of the two installations was carried out, and in June 2011 a 72-hour test run of the entire refinery was conducted. This test was one of the key requirements of the credit facility agreement executed for the purposes of the 10+ Programme. All test runs confirmed the correctness of the assumptions adopted for construction of the installations and implementation of the entire project.

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:

- modernisation of the catalyser regeneration control system on the reforming installation: the purpose of the project was to improve the reliability of the system,
- Computerised Maintenance Management Systems: the purpose of the project was to improve the safety and reliability of the installations' operation by integrating information on the units' technical condition, the manner of implementing preventive measures for particular units, and the cost of such measures. The system provides for optimisation of the costs of maintenance of equipment, and for improving the effectiveness of planning and managing continuity of the refinery's operations.
- modernisation of the 2000 S-20 tank: the purpose of the project was to adapt the tank to and ensure its compliance with the jet fuel storage standards.

Refining

The volume of crude oil processed in 2011 reached 9.2 million tonnes, the highest in the history of the Gdańsk refinery.

The volatility of refining margins in 2011 and dynamic changes of the market conditions were not conducive to maximising the throughput. The refinery worked at a load factor that was optimum given the market situation.

The main type of crude processed by Grupa LOTOS was Russian REBCO crude, however processing of other crude oil types, particularly those originating from the North Sea, 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 its output. Depending on the market environment, by appropriately selecting the crudes, the refinery maximised its diesel- and gasoline-production capacities, and limited the heavy fuel oil output.

As in the previous years, the crude transported by sea had a considerable share in the total refining volume.

In 2011, Russian REBCO crude continued to have the largest share in the total volume of crude refined by Grupa LOTOS, but a notable portion of the total refining volume was also represented by other crude types, namely Aasgard, Troll, Grane and Norne, produced from wells in the North Sea. Besides those crude types, the refinery processed also one shipment of crude originating from the Middle East - Iranian Light. This way the sources of feedstock were more broadly diversified, which in the context of the Grupa LOTOS's involvement in implementation of national policies had an added benefit of significantly enhancing Poland’s energy security.

Apart from crude oil, other production inputs included components and feedstock purchased for further processing, as well as enhancing additives. 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 diesel oil imports to Poland. In previous years, Grupa LOTOS was a major importer of diesel oils so as to – through higher supply – build a market for its own product, which was then introduced in 2010. Following the launch of new installations, built as part of the 10+ Programme, it was possible to replace imported diesel oil with diesel oil produced at the Gdańsk refinery of Grupa LOTOS.

One of the major successes in 2011 was reaching a record high share of diesel oils and jet fuel in the total fuels output (the combined share of diesel oils and jet fuel was 56.5%).

Utilisation of the refinery's installed capacity in 2011 was adjusted to the current market situation, and maximising the refining margin volume was the overarching operational objective, reflected in the optimised - from the economic point of view - crude throughput volume.

Another major achievement related to high utilisation (89.9%) of the production capacities of the two hydrocracking installations which are operational. Similarly, the refinery also reported record high utilisation of processing capacities of the gasolines desulphurisation installations (100.1%).

Solomon – comparative study

In 2011, Grupa LOTOS's refinery once again took part in the Solomon Associates comparative study of the refining industry, for the financial year 2010. The fuel refinery was included in the *Europe, Africa & The Middle East Fuels Refinery Performance Analysis*, which in 2011 covered 111 refineries from these geographical regions. The lube refinery of Grupa LOTOS was included in the *Worldwide Paraffinic Lube Refinery Performance Analysis*, which addressed 38 refineries in 2011.

2010 was a breakthrough period for Grupa LOTOS' fuel refinery. For the first time, the Solomon Associates study featured data on new refinery units erected as part of the 10+ Programme. However, due to the start up schedule, two key units, namely the mild hydrocracking unit (MHC) and solvent deasphalting unit (ROSE), were not yet operational in 2010. Therefore, the Solomon study for 2010 does not reflect the full potential of the Gdańsk refinery.

Yet, Grupa LOTOS's refinery scored very high among its peers. Despite limited utilisation of its processing capacity, the refinery managed to retain very high energy efficiency, while several key organizational initiatives brought positive results. Notably, the period between overhaul shutdowns was extended from three to four years. In addition, the overhaul shutdown carried out in 2009 was more efficient than the previous one and took 30% less time to complete, at reduced maintenance costs. All these factors contributed to the significant improvement of the Grupa LOTOS's refinery's position in mechanical availability and maintenance costs.

The Staff 2009 programme was also important for the refinery's efficiency. The programme envisaged hiring and training of personnel to operate the new units. Thanks to organizational changes at the Production Division and the fact that the new built units had their previous equivalents at the refinery, the number of new hires was not substantial, which led to an improvement of employment ratios at the plant.

As the refinery was not fully operational in 2010, maintaining the net cash margin and return on equity at levels similar to those posted in 2008 was a fully satisfactory result.

Extension of the period between overhaul shutdowns had also a positive effect on the performance of Grupa LOTOS's lube refinery (the line where oil bases, slack waxes, and paraffin products are produced). Although the oil unit has not been modernised for years, production technologies are optimised on a regular basis and new products are launched, which leads to improvements of individual ratios. The changes resulting from the start-up of new units built under the 10+ Programme are also of significance for the oil unit's future. The 10+ Programme had no effect on the oil unit's infrastructure, but the integration of new units within the refinery offered new opportunities for the oil unit as well.

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 2011, the FAME plant operated in a stable manner, and produced 103.6 thousand tonnes of bio-components, thus exceeding the project assumptions. The consumption of materials, chemicals and energy was more advantageous than originally assumed. The quality of FAME produced was markedly higher than the applicable standards.

Research and Development

Following the launch of the mild hydrocracking unit (MHC) built under the 10+ Programme, in 2011 Grupa LOTOS started to produce and market a new product, namely paraffin fraction. Additionally, Grupa LOTOS's R&D efforts focused on developing technologies for the Oil Unit's products. The key R&D achievements in 2011 included:

- R&D work on production of Group II base oils from paraffin fraction,
- production and sale of the first batch of base oils with sulphur residue below 0.5%m/m, to be used as feedstock for production of higher quality engine oils,
- upgrade of Group I base oils production technology using the new product – paraffin fraction, which led to improved oil efficiency and enabled production of SAE 30/95 base oil with kinematic viscosity of >90cSt at 40^0C. Physical and chemical properties of base oils were improved (viscosity coefficient in particular),
- upgrade of heavy extract production technology using the new product – paraffin fraction, which has higher share of aromatic hydrocarbons, an advantage in synthetic rubber and rubber compounds production,
- launch of regular production and sale of ceresin as a component for production of white ceresin meeting the requirements set by the American Food and Drug Administration (FDA).

In the area of road bitumen production technologies, R&D work was carried out to design production technology for environmentally friendly bitumen-rubber binders for use with road mineral-bitumen compounds. In addition, the efficiency of demulsification of oxidation waste at LOTOS Asfalt's production units was reviewed with a view to improving its quality.

In 2011, development work also focused on oil products produced by LOTOS Oil. The most important lubricant-related R&D activities included:

- completion of research into ways of improving the quality of oils for passenger cars, in reliance on the Company's own base oils, to meet the ACEA 2008 specification, and commencement of research to meet the ACEA 2010 specification – the research and Approval procedures are scheduled for completion in 2012,
- commencement of research into ways of improving the quality of oils for trucks, in reliance on the Company's own base oils, and obtaining of Approvals – the research is scheduled for completion in 2012,
- completion of compliance tests of industrial transmission oils – made with the Company's own base oils – with the Flender/Siemens MD issue 13 specification. It was the first mineral oil to meet the Flender/Siemens MD quality requirements,
- introduction of six new engine oil types (incl.: LOTOS Quazar S 0W-20, LOTOS Quazar K/FE, LOTOS Synthetic Plus),
- extension of 40 Approvals for lubricant oils,
- obtaining of 16 Approvals for new oils.

Related content:

Progress in implementation of strategic objectives **Glossary of industry terms**

Development plans

The most important challenges for the refinery business are related to the climate and energy package of the European Union.

In the coming years, the operating segment's activities will focus on efficient use of the expanded processing capacities brought by the successfully completed investment programme. Additionally, efforts to introduce natural gas as a process fuel at the refinery's units are to be completed, which will have a positive effect on greenhouse gas emissions and will allow us to launch new petroleum products.

The Company is also preparing for an overhaul shutdown in 2013, i.e. shutdown of primary and auxiliary units in order to carry out periodical maintenance, cleaning, equipment repairs and replacement, technical inspection, and catalysts replacement.

For the refinery business, the most important challenges at the moment are those related to the climate and energy package. Regulations comprising this package introduce comprehensive approach to greenhouse emissions management across in the entire EU and are aimed at achieving EU's objectives for prevention of climate change adopted by the European Council in March 2007. Implementation of the directive of November 24th 2010 on industrial emissions (2010/75/EU) and review of the BREF reference documentation and BATs outlined therein may necessitate changes to the maximum values of harmful emissions from process furnaces allowed under the integrated permit.

In 2012, the new legal framework related to meeting of the National Indicative Target will be important for Grupa LOTOS, as will other regulations, including proposed directives relating to the climate package, i.e. amendments to the energy law, amendments to the act on biofuels or the act on renewable energy sources. Also, new taxation on minerals' production is expected, which may have a significant impact on the performance of the upstream segment.

For the implementation of renewable energy sources in transport, Grupa LOTOS will pursue the National Indicative Target within the limits set by relevant regulations. Planned introduction of diesel oil with the 7% admixture of bio-components will help reduce the costs of meeting this statutory obligation.

It seems probable that, due to new regulations enabling a reduction of the National Indicative Targets, a significant number of entities will take advantage of their statutory rights, which will result in a decreased amount of bio-components and biofuels made available on the market in 2012 compared to 2011. This may favourably affect fuel prices, as there will be less pressure to offset the high prices of bio-components added to fuels.

Projects launched in 2011 will be continued in the coming years. The key projects 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 currently the method of reducing the share of noxious aromatics in gasoline products,
- replacement of furnaces at the furfural extraction unit and the hydrodesulphurisation and gasolines separation unit: both projects are aimed at improvement of energy efficiency and safety levels of the units and the entire refinery,
- extension of a high pressure gas pipeline to connect it to the refinery: the project is designed to connect the refinery 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 and CHP plant; use of natural gas will significantly reduce emissions of gases (CO_2, SO_2, NO_x) and dust to the atmosphere,
- construction of a flare gas recovery unit designed to reduce atmospheric emissions of gas pollutants and the plant's energy intensity. The project will consist in construction of a unit redirecting part of the gases from the discharge pipeline to the refinery's fuel gas system to fuel 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 bio-filters.

The most important new projects launched in the previous years and continued in 2012 include:

- construction of a Vapour Recovery Unit (VRU) at the railway tank filling facility in Gdańsk: the project involves construction of a recovery unit for vapours originating during the filling process and improvement of the existing VRU's capacity. The project is implemented in connection with the expected increased utilisation of the filling facility, as well as of environmental protection regulations imposing new obligations for air-tight sealing of petroleum products filling process, including filling of products other than gasolines (Regulation of the Minister of Economy of November 21st 2005 on technical conditions to be met by liquid fuel bases and stations, long-distance transmission pipelines which transport petroleum and petroleum products, and their locations),

- Energy Trading Risk Management: the ETSM system is the key element enabling efficient trading and risk management activities, which significantly reduces the operational risk inherent in real and financial transactions related to trading in raw materials and products, as well as currency hedging,
- transfer of production control systems from the Central Control House to a building that can withstand an outside explosion. Apart from the concentration of control station and operator equipment in one place, the project involves construction of a building with cloakroom for 290 shift employees of three complexes,
- upgrade of the liquid gases separation unit: the project is to increase the unit's production capacity, which will in turn enable the use of all process liquid gases to produce LPG suitable for use in winter conditions,
- construction of a river bank loading and unloading terminal: the project is to increase logistic capability and efficiency through the use of barges and small vessels to transport refinery products and imported fuel components. Completion of the project will facilitate dispatch and collection of certain products in quantities larger than it is possible with the use of rail tanks. The project will also relief the current load on the filling facilities and rail transport, and will enhance flexibility of our efforts to attract new customers (both domestic and foreign).

Design and concept work will be continued to define the scope of further expansion of the Gdańsk refinery, which is to involve the addition of a heavy residue gasification unit. Its aim is minimise the production of heavy fractions, as it has a negative impact on the refinery's margin. The concept work will focus on better use of paraffin fraction from mild hydrocracking (MHC) in production of fuels and lubricant oils, through construction of a new unit to separate paraffin fraction and include it in the refinery's technological configuration, which will be related to future work designed to upgrade and change the manner in which the Oils Unit is utilised.

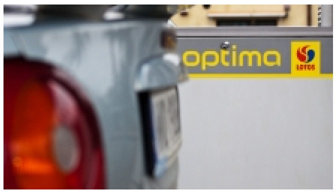
Market activities

A total of 63 new service stations launched by the Company in 2011 is a record-high annual increase on the Polish retail fuel market.

Management approach

New processing capacities enabled changes in the volume and structure of the Company's petroleum product sales in 2011.

Achievements



In 2011, the LOTOS Group's share in the domestic fuel market increased to 33.5%, whereas total sales exceeded 10 million tonnes.

Development plans

As for the position on the retail market, the strategic objective is to develop consistently the premium and value segments.

Management approach

New processing capacities enabled changes in the volume and structure of the Company's petroleum product sales in 2011.

In 2001, marketing activities were carried out by the LOTOS Group's parent as well as its subsidiaries: LOTOS Paliwa, LOTOS Tank, LOTOS Oil, LOTOS Asfalt, LOTOS Parafiny and LOTOS Kolej.

Key products of the marketing segment

Fuel products	
	LOTOS DYNAMIC 98 gasoline – modern fuel offering better performance and engine protection than standard products. It contains antioxidants and washing additives. The increased content of the washing additive supports better cleaning of the engine, lengthens its useful life and economises fuel consumption.
	LOTOS DYNAMIC DIESEL diesel oil – perfect fuel for modern diesel engines. Owing to the use of friction-reducing components, it offers more power efficiency of the engine and guarantees start-up even at -32°C. The additives significantly improve nozzle flow capacity and engine lubricity, extends useful life and improves performance of the engine.
	LOTOS RED heating diesel oil (ONDCO) – owing to its unique additives and low sulphur content, the product has the best-in-the-class parameters in terms of oxidation resistance, anti-corrosive action and maintaining cleanness of nozzles, thus extending the useful life of heating equipment. Owing to its features, the product guarantees optimised combustion process and meets all requirements of furnaces of the newest generation. These properties are also highly environment friendly, owing to significantly reduced emissions of noxious combustion products.
	IZ40 diesel oil – meets the requirements of arctic fuels, guarantees engine start-up at very low temperatures (CFPP of -32°C).
Non-fuel products	
Engine oils	**LOTOS Quazar** – premium engine oil, high-end product line in the LOTOS Oil product offering, designed for distribution through the chain of Authorised Service Stations, mostly of the Subaru and KIA brands, but also for a broad range of other customers.
	LOTOS Thermal Control – product line dedicated to passenger cars and comprising synthetic semi-synthetic and mineral products. The automotive product line is supplemented by products dedicated to older cars (City line), as well as gear oils and consumable fluids.
	Turdus – product for modern lorries.
	RG Trans – product for older lorries.
	Superol and Agrol – products for the agriculture segment.
	Marinol – highly specialised marine oils.
Industrial oils	**Transmil** – gear oils.
	Hydromil – hydraulic oils.
	Remiz turbine oils, as well as machine oils and industrial lubricants.
Plasticizers	**TDAE** and **RAE** class plasticizers offered under the QUANTILUS T50 and QUANTILUS T60 brands, used by tire and rubber manufacturers. These products meet the requirements of the EU REACH directive concerning the registration of chemical products and have been approved by global tire manufacturers.
Bitumens	**MODBIT** – modified bitumens, enhancing pavement resistance to rutting, extending pavement durability and increasing resistance to extreme weather conditions. These bitumens have been used in the construction of A1, A2 and A4 Motorways, as well as numerous national roads and airport pavements (e.g., at the Warsaw Chopin Airport).

The LOTOS Group operates on both the domestic and foreign markets. In 2011, the geographical coverage of individual product groups was as follows:

Engine fuels – sales mainly focused in Poland, principally to retail customers, international corporations, institutional customers, service station dealers and wholesalers supplying local markets.

Additionally, as part of LOTOS Biznes's fleet operation, the LOTOS Group acquired customers, mainly road carriers in the Baltic states (Lithuania, Latvia and Estonia), with a view to encourage foreign entities to purchase fuels at LOTOS service stations. In those countries, LOTOS Paliwa also operated as ExxonMobil Deutschland's sales agent, acquiring customers for a fleet product, the LOTOS/ESSO card. As part of cooperation with WOG, a Ukrainian company, whereby LOTOS accepts fuel cards issued by WOG, LOTOS Paliwa sells fuels to Ukrainian and Russian road carriers through its station chain.

Fuel products manufactured by Grupa LOTOS's refinery in 2011 were also exported to the United Kingdom, Sweden, the Netherlands, France, the Baltic states, the Czech Republic and even as far as Spain.

Aviation fuel – combusted in plane engines both in Poland and in the Baltic area, as well as planes using the Prague Ruzyne Airport. Aviation fuel was sold in Poland through two distribution channels: at the Gdańsk airport in cooperation with Statoil and through the wholesale channel, where the customers included the Polish Helicopter Emergency Medical Service and Petrolot, a national distributor of aviation fuel. Seaborne exports were performed under forward contracts and spot transactions, mostly to Scandinavia (Sweden, Finland and Norway).

Engine and industrial oils – domestically, sales were performed through the wholesale channel – Regional Distributors – and directly to end customers, which enabled the Company to gather knowledge of the market and thus to promptly and effectively respond to the market needs. In this channel, customers included industry, transport depots, authorised and non-authorised garages, service station chains, automotive part distributors and large-area retail chains.
In 2011, the Company recorded material increase in sales on all most important foreign markets, including primarily EU countries, Central Asia and the Middle East. However, the strongest growth was seen in exports to the neighbouring countries. Oils and lubricants under the LOTOS brand are sold to over 45 countries all over the world. On some of the foreign markets, support services are being actively developed through Oil Service of LOTOS Oil. Intensive support of the Authorised Distributors' sales on foreign markets has strengthened LOTOS Oil's image abroad.

Bitumens – main customers are road and bridge contractors, using bitumen to produce mineral and bituminous mixtures. Other customers include manufacturers of road emulsions, bitumen felts and waterstop materials. The European Union is the main market for the LOTOS Group's bitumens. In 2011, the key markets were: Poland, Germany, Scandinavia, Austria, Baltic states, Russia, Romania, the Czech Republic, Slovakia, Hungary, Ukraine, the Netherlands, Switzerland, France, the United Kingdom and Moldova.

Heavy fuel oil – domestic sales were mainly to entities with their own generators of heat in the form of heat water and process steam.
2011 saw continued sales of heavy fuel oil to the Scandinavian countries. The product was also sold at ports on the Baltic Sea, whence it was re-exported to distant markets, mainly the US.

Paraffins – in 2011, products in this group were sold to the following customers on the domestic market:

- candle paraffins – candle and votive candle manufacturers;
- dedicated industrial paraffins and waxes:
  - paraffin emulsions – chipboard manufacturers,
  - anti-caking agents – artificial fertiliser manufacturers,
  - low-oil waxes WOSKOP – rubber and tire manufacturers.

In 2011, paraffins were exported mainly to Germany, the Netherlands and Slovenia, as well as to Ukraine, Lithuania, Hungary, Italy, the Czech Republic, France, Belgium, the United Kingdom and Spain.

Related content:

Product and service labelling **Customer health and safety** **Structure of the organization**

Achievements

In 2011, the LOTOS Group's share in the domestic fuel market increased to 33.5%, whereas total sales exceeded 10 million tonnes.

Through strengthening its main sales channels and searching for new growth opportunities, the LOTOS Group has been steadily strengthening its market position. Emphasis on high service quality, meant as not only reliable uninterrupted supplies and appropriate logistics infrastructure, but also openness to solutions facilitating cooperation and settlements (e.g. electronic data transfer and e-invoices), brought about a further increase in the LOTOS Group's market share. The LOTOS Group's share in the domestic fuels market was 33.5% in 2011.

2011 saw further increase in LOTOS Group's consolidated sales. Total sales exceeded 10 million tonnes, up 14% higher year on year. Sales of diesel oils and bitumens were the largest contributors to the increase. The launch of new processing capacities under the 10+ Programme resulted in changes in the volume and structure of the LOTOS Group's sales. Following the expansion of crude processing capacities, the volumes of petroleum products sold in Poland and abroad. Increased exports volumes were recorded chiefly for diesel oils, aviation fuels and engine gasolines.
In 2011, Grupa LOTOS launched a new product: paraffin fraction. Following the inclusion of the Lithuanian AB Geonafta company into the LOTOS Petrobaltic Group, the LOTOS Group's sales volume included crude oil from Lithuanian fields, sold to third-party customers.

Sales of engine fuels

Domestic sales of LOTOS Group's gasolines went down by 6% on 2010, mainly due to weaker demand for the products suppressed chiefly by higher fuel prices. Exports of engine gasolines grew by 22% (65 thousand tonnes) year on year. The products were transported by sea to the UK, Sweden, the Netherlands and Estonia.

The highest sales increase was recorded for diesel oil; it was another year of the uptrend observed for a number of years. Grupa LOTOS effectively exploits the growing demand for diesel oil from the growing domestic freight services sector. In 2011, there was a 16% year-on-year growth in total sales of diesel oil. Domestic sales of the product grew by 13%. In 2011, the share of diesel oil exports in total exports was over 2%, compared with 0.4% in 2010. The key export markets were the United Kingdom, France, Spain, the Czech Republic and Denmark.

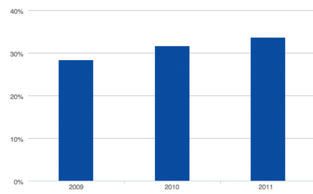
Sales of heating diesel oil

In 2011, sales of heating diesel oil increased by 4% year on year. As in 2010, the product was sold only in Poland. The sales increase was attributable to stronger demand driven by the weather conditions which lengthened the heating season. Other contributing factors included extension of the network of regional dealers of heating diesel oil and enhanced availability of the product at fuel depots, which helped optimise the distribution.

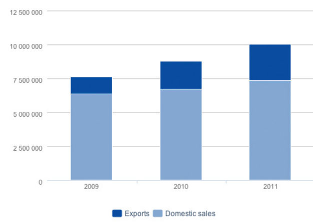
Sales of aviation fuels

Relative to 2010, total sales volume of JET fuel by the LOTOS Group grew by

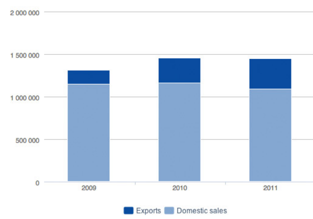
The LOTOS Group's share in the domestic fuels market (%)



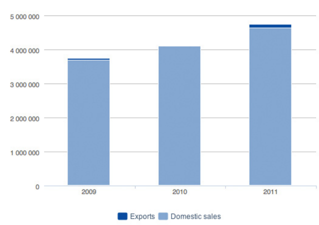
LOTOS Group's sales (tonnes)



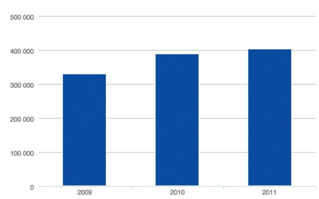
LOTOS Group's sales – gasolines (tonnes)



LOTOS Group's sales – diesel oils (tonnes)



LOTOS Group's sales – heating diesel oil (tonnes)



LOTOS Group's sales – aviation

82%. The key distribution channel for the product was seaborne export, mainly to the Scandinavian markets. Aviation fuel was sold in Poland through two distribution channels: at the Gdańsk airport in cooperation with Statoil and through the wholesale channel, where the customers included Petrolot, a national distributor of aviation fuel.

Sales of oil products

Total volume of oil product sales increased by 14% relative to 2010, thus exceeding 262 thousand tonnes. Domestic sales and exports grew by 4% and 19%, respectively.

The main foreign markets for LOTOS Group's oil products were the EU countries, as well as countries in Central Asia and the Middle East.

On the market of engine oils, interest in single-grade mineral oils weakened further, chiefly on the back of the modernisation of agricultural machinery. 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.

In an attempt to identify new growth opportunities, LOTOS Oil has continuously worked on developing the production of process oils, i.e. plasticizers. Owing to the consistent expansion of sales in 2011, the company entered the group of important major suppliers of modern TDAE plasticizers, both in Europe and beyond.

The positive dynamics of base oils sales was attributable to the global economic situation, with growing prices and limited supply of these products.

Sales of bitumens

There was an 18% year-on-year growth in total bitumen sales in 2011. Advanced sale supporting tools, carefully planned logistics and excellent distribution of bitumens for road construction projects in Poland and for exports, all materially contributed to the increase. The exports markets included Switzerland, Sweden and Romania. The volume of domestic sales of bitumens increased by 22% (or by nearly 124 thousand tonnes) year on year. Such high demand was driven by the execution of road construction projects planned in line with the Programme for Construction of National Roads and Motorways in Poland, as part of the country's preparation to EURO 2012. LOTOS Asfalt's products were supplied for the most prestigious road construction projects in Poland, including the completed Nowe Marzy-Toruń section of A1 Motorway.

A 16% year-on-year increase was also in sales of modified bitumens. The high sales volume was possible owing to the completion of an investment project in Jasło, where the third (after Gdańsk and Czechowice) modified bitumen unit was launched, with production capacity of 300 thousand tonnes of road bitumens per year.

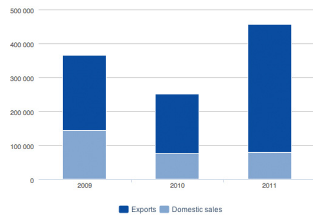
Sales of heavy fuel oil

In 2011, total volume of heavy fuel oil sales dropped by 8% year on year. The volume decreased by 12% on the domestic market and by 7% on export markets. This resulted mainly from redirecting heavy residue flows to a new product group, i.e. bitumens. Heavy fuel oil was exported to Norway and Estonia, as well as to ports on the Baltic Sea, whence the product was re-exported.

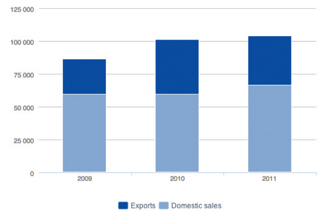
Sales of paraffins

In 2011, total sales of paraffins remained practically unchanged year on year. Products marketed domestically were mainly candle paraffins sold to leading

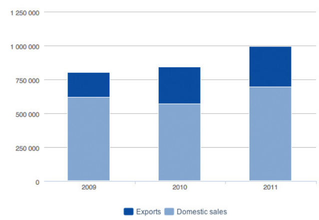
fuel (tonnes)



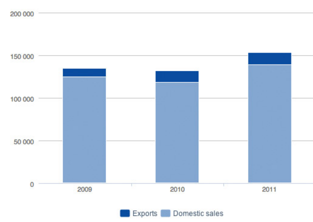
LOTOS Group's sales – oil products (tonnes)



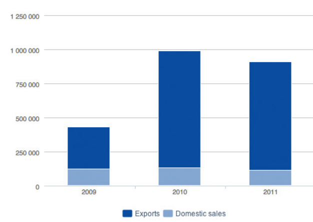
LOTOS Group's sales – bitumens (tonnes)



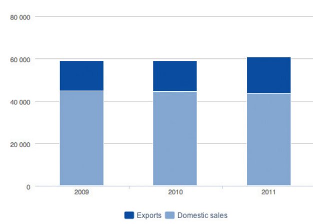
LOTOS Group's sales – modified bitumens (tonnes)



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

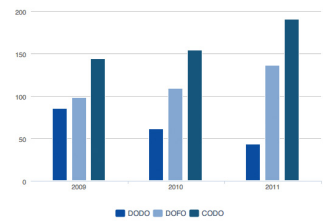


LOTOS Group's sales – paraffins (tonnes)

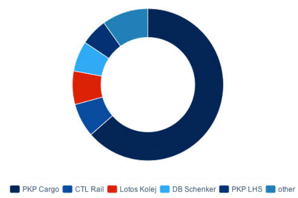


Changing structure of the LOTOS retail chain

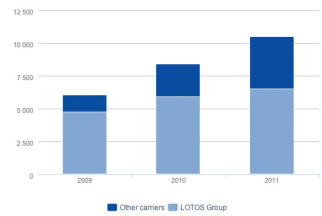
manufacturers of candles and votive candles. The main export markets were Germany, the Netherlands and Slovenia.



Share in the domestic freight market in 2011 (%)



Volume of rail freight in 2009-2011 (thousand tonnes)



Development of the service station chain

The LOTOS Group's efforts in the Polish retail market are focused on achieving sales allowing it to meet its strategic objective for that business area, which has been defined as achieving a 10% market share in 2015. The LOTOS Group closed 2011 with a 7.6% market share, which confirmed the continued trend of strengthening of its market position.

As at the end of 2011, the chain of LOTOS service stations comprised 369 outlets, including:

- 190 own stations,
- 136 partner stations, and
- 43 patronage stations.

The total number of own and partner stations rose by 63 relative to 2010.

A new chain of service stations, which will operate as either own or partner outlets, is being built under the LOTOS Optima economy brand.

The chain of partner stations, operating under the LOTOS Family Commercial Partnership Programme, has been dynamically expanded. In 2011, ten new premium stations and 17 new LOTOS Optima economy stations were added to the partner chain. In most cases, these were inclusions which, apart from taking over the sales volumes of acquired locations, also provided an opportunity for taking over the sales of other stations operating in the respective local markets.

In 2011, three new Premium stations operating in the Motorway Service Areas and 33 LOTOS Optima economy stations were added to the own station chain. As regards the expansion of the chain of own stations, the process of acquiring properties is currently in progress, with the most important criterion for selecting a location being the sales potential of the local market.

The fuel offering of the LOTOS stations is targeted at two main customer groups: retail customers and fleet customers who use their LOTOS Biznes fleet cards to purchase fuel.

To supplement their fleet operations, LOTOS stations also try to attract foreign customers, mainly from among road transport companies in the Baltic states. In those countries, LOTOS Paliwa also operates as a sales agent for ExxonMobil Deutschland. As part of cooperation with WOG, a Ukrainian company, whereby LOTOS accepts fuel cards issued by WOG, LOTOS Paliwa sells fuels to Ukrainian and Russian road carriers through its station chain.

In addition to fuels, LOTOS service stations also sell a wide range of products typically offered by convenience-style outlets. Some stations have dedicated food service areas where snacks and refreshments are sold. The offering is complemented by additional services, such as car wash or tire air compressor services.

In the Premium segment, the main areas of expansion in 2012 will be:

- self-service (touchfree) car washes,
- stores – bringing the outlets up to the current market standards by re-designing shop interiors, providing the stores with ergonomic furniture, display equipment and stalls with fast-food snacks and drinks for travellers, as well as increasing the number of stations with the *Pierożkowy Kubek* (*Pierogi Mug* - with traditional Polish cuisine specialties) offering;
- more effective management of non-fuel product lines through the development of professional IT tools.

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

The strategy of the LOTOS Group provides for continued roll out of the chain. In 2012, another 50 LOTOS Optima stations are planned to be opened. Further consistent development of the Premium segment (including motorway stations) is also planned.

The market of service stations in Poland is divided into three segments:

- premium,
- supermarket stations/self-service stations, and
- economy (value).

Changes taking place on the fuel market in Poland suggest an evolution of the latter sector, which grows at a much faster rate than the two other segments and already in 2010 accounted for 11% of the total retail sales volume.[1]

The value segment is defined as stations which attract pragmatic customers looking for quality products at attractive prices.

Responding to the needs of the market, the LOTOS Group began to develop a new formula of service stations under the LOTOS Optima economy brand. As part of the effort, the LOTOS Group will implement its strategic objective: to be present on and develop two retail segments – the premium and value segments.

[1] Nation-wide PENTOR survey, 2010.

The role and goals of the LOTOS Optima brand are to:

- diversify the LOTOS offering into different service station categories
- increase sales by acquiring new customer groups
- maintain the integrity of the LOTOS brand's image – high-quality offering at competitive prices by excluding value-added services from the economy offering
- help achieve the goals of the LOTOS brand – increase the share in the retail market to 10% in 2015, and develop a nation-wide service station chain

The new concept of LOTOS Optima economy stations was presented at the eighteenth edition of the Stacja Paliw trade fair in May 2011. In July, the first three LOTOS Optima stations were officially opened in Warsaw. Further stations were built in the Masuria region. By the end of 2011 r., as many as 50 LOTOS Optima stations were already operational, in line with the roll-out strategy.
LOTOS Optima stations are located in regions with varied sales growth potentials in order to ensure the optimal development of the entire chain. Optima outlets operate in in most of the Polish provinces, i.e. the provinces of Gdańsk, Olsztyn, Białystok, Poznań, Bydgoszcz, Warsaw, Wrocław, Łódź, Kielce, Opole, Katowice and Kraków. The roll-out of the economy segment allowed the LOTOS Group to effectively take over locations in the areas with a relatively lower purchasing power of the population.

Logistics

The increase in the volume of fuels sold by Grupa LOTOS in 2011 and the need to constantly adapt to the requirements of the changing market environment prompted the Company to step up its efforts to expand its distribution network and the network of depots. The entire logistics chain was optimised based on the assessment of economic gains and losses, including through the integration of primary and secondary logistics. The quality of customer service was constantly improved and the flexibility of the logistics system was enhanced. The necessary back-up facilities were provided to handle the distribution of an increased volume of products as well as the new products following from the completion of the 10+ Programme.

In 2011, the plan providing for mandatory stock replacement and building of new mandatory stocks was fully implemented. The plan of increasing the volumes of mandatory stocks provided for the highest possible share of moving stocks in total mandatory stocks. The structure of mandatory stocks was optimised on an on-going basis to minimise costs and steadily increase revenue from the provision of the stock ticket service, based on the crude oil production capacity.

The network of depots was fully monitored to meet all the requirements of the fuel trading activities. Thorough quality tests performed at each stage of the transport and storage processes ensured high and consistent quality of the fuels offered to the customers.

Work was continued to control and minimise losses throughout the supply chain. Appropriate logistics support, necessary to meet the National Indicative Target, was also provided.

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 LOTOS Kolej.

The key strategic objective of LOTOS Kolej is to provide comprehensive railway services to the LOTOS Group and to diversify its revenue structure into internal and external sources of income.

LOTOS Kolej offers one of the most comprehensive services among all railway carriers in Poland. Its offering covers all stages of the freight rail transport, from forwarding services, to transport and rail siding management services (offered in Gdańsk, Czechowice, Jasło, Rypin, Poznań, Górczyn and Piotrków Trybunalski), to technical maintenance services for rolling stock combined with rail tanker washing and cleaning services. As the only non-PKP S.A. Group rail carrier in Poland, LOTOS Kolej is able to offer both single-car and full-train freight services on most railway lines, which is a significant competitive advantage on the market. LOTOS Kolej operates an innovative rail logistics system and the most modern locomotive fleet in Poland. This guarantees high quality, efficiency and safety of freight services offered, as well as cost optimisation.

LOTOS Kolej provides rail transport services in Poland and, in cooperation with foreign carriers, also internationally.

Domestic rail connection network of LOTOS Kolej

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

International rail connection network of LOTOS Kolej

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

LOTOS Kolej is one of the leading freight rail carriers in Poland, ranking third with a 7.13% market share (second among non-PKP S.A. Group carriers). According to the data of the Railway Transport Authority (*Urząd Transportu Kolejowego*), following the first three quarters of 2011, LOTOS Kolej was also the second largest intermodal freight carrier in Poland, with a 22.56% share in the market for intermodal freight services (both figures as measured by freight work done).

Sea transport

Freight transport by sea is a vital element of the LOTOS Group's logistics chain. The Company enjoys a considerable advantage offered by the direct access to product pipelines linking the Gdańsk refinery to the liquid fuel handling facilities at Port Północny. In 2010, 370 tankers docked at the ports of Gdańsk and Gdynia to unload crude oil, petroleum products and components, and to load petroleum products intended for exports. A major year-on-year rise in the number of ships handled at the facilities in 2011 was caused by stronger fuel 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 mainly on the markets of Scandinavia, Northern and Western Europe and the Baltic states. The direct connection to the port also makes it easier to arrange for and carry out import deliveries of petroleum products, mainly 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 marine cargo transport, or to control the transport process on the longest possible section of the supply chain, from the affreightment of ships to the formal handling of sea transport. This ensures greater control and helps streamline the planning process as regards cargo handling at sea ports, allowing the Company to reduce the frequency of ship detention and optimise the related costs.

Related content:

Progress in implementation of strategic objectives **Marketing communication**

Development plans

As for the position on the retail market, the strategic objective is to develop consistently the premium and value segments.

The development prospects of the LOTOS Group in the current market environment should be viewed as good. This results from the adjustment of the LOTOS Group's business profile to the needs of the market.

Grupa LOTOS expects changes in the laws regulating the creation and financing of the intervention stocks of crude oil and petroleum products, resulting from the need requirement to implement Directive 2009/119/EC. The Company expects that relevant systemic solutions will be adopted, which will guarantee sufficient level of stocks and reduce, as of 2013, the requirement to finance 1/10th of the value of stocks. As regards the new mandatory stock regulations, Grupa LOTOS is interested in regulatory changes, as well as in the development of new hydrocarbon storage capacities in salt caverns.

Following the completion of the 10+ Programme, Grupa LOTOS produces and sells higher fuel volumes, with an increased share of middle distillates. This product group accounts for the largest share of the consumption of fuels in Europe and has demonstrated an upward trend. Diesel oil consumption increases not only as a reaction to the growing demand from business customers, but also due to the increasingly stronger demand from the segment of passenger cars. As the economy recovers, the demand for aviation fuel is also expected to grow, not only domestically, but also on international markets.

Higher industrial output as well as the expansion and operation of the car fleet drive the demand for different types of industrial and motor oils - the market where the LOTOS Group is a major player. The sustained and high demand for bitumens, which follows from the implementation of the government's programme of construction and modernisation of national and local roads in Poland, is also an important factor.

The development plans of the marketing segment for 2012 and the following years result from the performance of the objectives set for the marketing segment in the LOTOS Group's 2011-2015 strategy.

Engine fuels

Following the completion of the 10+ Programme, the volume of products sold will increase in 2012 relative to the previous years. Grupa LOTOS will continue and expand its cooperation with international operators. The Company will also actively cooperate with wholesalers in the B2B distribution channel. Grupa LOTOS also considers plans to supply fuels to service station chains operated by hypermarkets. Commodity trading will be intensified as part of the development of the trading activities.

Development of the service station chain

LOTOS Paliwa, in performance of the LOTOS Group's strategy for retail sales of fuels, will continue its efforts to achieve the strategic objective in that segment. The key tasks include:

- launching new stations,
- development of the LOTOS Optima sales channel,
- promotion of the premium fuels LOTOS Dynamic 98 and LOTOS Dynamic Diesel,
- extension of the LOTOS Biznes fleet programme,
- sustained improvement and monitoring of customer service,
- gradual phase-out of the patronage model, assuming continued cooperation with selected stations under the partner formula,
- ensuring uniform interior design across the chain,
- development of the stations' offering of foods and beverages.

Aviation fuel

The LOTOS Group plans to step up its jet fuel sales by strengthening relations with the existing customers and acquiring new customers. As regards airport sales, the LOTOS Group will take steps to increase sales at domestic airports.

Lubricant oils

In the coming year, LOTOS Oil will focus on two major tasks: enhancing its marketing activities and building and strengthening the LOTOS brand. In addition, the company will continue to be actively involved in the efforts undertaken by the corporate sales teams 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 the bitumens segment, complementary efforts will be undertaken with a view to optimising the existing processes in the areas of production, logistics and marketing, particularly with respect to cost base, product availability and bitumen technologies.

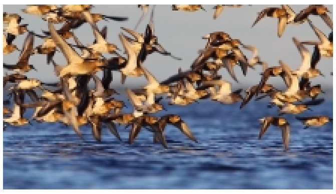
Logistics

The key tasks in the logistics area include optimisation of the logistics chain based on the assessment of economic costs and benefits, further integration of primary and secondary logistics, securing necessary tank capacities, consistent improvement of the customer service standards and ensuring security of product distribution at the LOTOS Group.
LOTOS Kolej focuses primarily on securing resources necessary to handle the increased freight activity of the LOTOS Group companies following the completion of the 10+ Programme, and on developing further its transport operations for external customers, including international freight transport.

Environment

As a member of the UN Global Compact community, Grupa LOTOS declares that it acts in accordance with the principles of a precautionary approach to environmental challenges, undertakes initiatives designed to promote environmental responsibility and uses environmentally-friendly technologies.

Environmental policy



The Company's objective is to deliver high quality products, leaving the smallest environmental footprint possible where they are used.

Mitigation of environmental impact

By 2020, methods designed to ensure efficient use of energy will help reduce GHG emissions over the fuels life cycle by 6%.

Environmental policy

The Company's objective is to deliver high quality products, leaving the smallest environmental footprint possible where they are used.

The LOTOS Group's core activity comprises exploration for and production of hydrocarbons, deep conversion of petroleum for the purpose of fuel production, and trading in high-value added petroleum products. As it has declared in its mission statement, the LOTOS Group is seeking to operate and develop all areas of its business in a sustainable manner, with due regard to all legally defined environmental requirements and in accordance with the principles of corporate social responsibility.

Aware of the scale and nature of its impact, the Company has made a commitment to observe all internationally recognised standards expected to be met by companies if they want to excel in actively managing their environmental impact. That commitment is expressed in the form of publicly proclaimed support to, and an undertaking to observe the rules defined by, the world's largest organization promoting the ideas of corporate social and environmental responsibility - United Nations Global Compact. As a member of the UNGS community, Grupa LOTOS declares that in its environmental policy it will seek to:

1. support a precautionary approach to environmental challenges,
2. undertake initiatives designed to promote environmental responsibility,
3. encourage development and diffusion of environmentally-friendly technologies.

The areas where the LOTOS Group's production facilities are located are not protected on account of their natural values or impact on biological balance. Still, the LOTOS Group's business is managed in a sustainable manner, in line with best practice, with a view to:

- meeting the environmental quality standards,
- meeting the emission standards,
- ensuring effective management of raw materials and other production inputs,
- ensuring efficient energy management,
- ensuring safe management of hazardous substances,
- protecting the environment against the effects of a major industrial failure.

That is connected with the Company's environmental policy, which is focused on clean production, understood as a constant process aimed at reducing consumption of materials and utilities, efficient waste management, and safe operation of industrial processes in such a way as to prevent failures.

The sustainability and corporate social responsibility principles also entail the delivery of high quality products, which leave the smallest environmental footprint possible in the location where they are used.

As part of its integrated management system, Grupa LOTOS takes and develops initiatives imposed by the requirements of the environmental management system. The environmental management system assumes the existence of procedures to identify environmental aspects at all stages of the Company's operations, determine environmental goals and objectives, manage waste and monitor the processes and operations which have an impact on the environment. A detailed environmental monitoring plan is developed, encompassing all areas of the Company's operations. Corrective action is initiated whenever it is found that any of the assumed parameters is not fully met. If a potential threat to the environment is detected, appropriate preventive action is taken.

Issues relating to environmental protection are managed within Grupa LOTOS by a dedicated organizational unit. 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 unit is also tasked with the coordination of efforts aimed to ensure compliance with the environmental requirements imposed by law and establishment of LOTOS Group-wide environmental standards. In the context of the Company's operations, it is also necessary to monitor CO_2 emissions and conduct activities related to the EU Emissions Trading Scheme (ETS). The monitoring and reporting of CO_2 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.

The Company also places considerable emphasis on raising its staff's environmental awareness via internal communication channels, which involves education of staff on issues related to environmental protection, understood as an individual, corporate, regional and global effort. Acting in cooperation with numerous partners, Grupa LOTOS takes a number of environmental initiatives focused on developing desired social attitudes to environmental protection.

Related content:

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

Mitigation of environmental impact

By 2020, methods designed to ensure efficient use of energy will help reduce GHG emissions over the fuels life cycle by 6%.

With a view to limiting the environmental arduousness of its operations, the strategy for 2011-2015 envisages that the LOTOS Group will exclusively implement environmentally friendly technologies, based on the best available solutions characterised by low emissions and highly efficient production processes. In order to ensure that all the requirements resulting from recently introduced or anticipated changes in environmental standards are met, a high pressure natural gas pipeline will be built leading to Grupa LOTOS' refinery. The gas which is to flow through the pipeline will be one of the basic fuels used to satisfy the refinery's energy requirements.

The LOTOS Group's strategy along with the identified development directions until 2020 also accounts for the changing Polish and European legislation. These changes set the general direction for the industry's transformation, by forcing the industry to significantly reduce its environmental impact in the form of emissions of CO_2, SO_2, nitric oxides and dust, both in the process of production and use of products.

In cooperation with local authorities and social organizations responsible for environmental protection, a number of measures are being taken with the aim of reducing the environmental impact of the LOTOS Group members.

In the case of the LOTOS Group's key production facility, namely the Gdańsk refinery, the means leading to minimisation of its adverse impact include:

- 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,
- use of treated wastewater to produce process water,
- use of condensate to produce boiler feedwater,
- 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.

Related content:

Commitment to sustainable development

Environment protection spending

The scale of initiatives undertaken is confirmed by the environmental spending and investment projects recently implemented by Grupa LOTOS, as well as other members of the LOTOS Group.

In the years for which the LOTOS Group has prepared CSR reports, i.e. 2006-2011, the amount spent by the LOTOS Group on environmental projects ran to PLN 652,637 thousand. Charges for economic use of the environment incurred during the same time by the LOTOS Group totalled PLN 28,373 thousand.

Environmental spending and investment projects

LOTOS Group			
Expenditure [PLN thousand]			
	2009	2010	2011
Total investments	2,495,553	759,510	296,699
Environmental investments	153,893	33,648	34,709
Spending on environmental protection*			37,534

* Exclusive of the cost of investment projects and charges for economic use of the environment.

Grupa LOTOS			
Expenditure [PLN thousand]			
	2009	2010	2011
Total investments	2,271,034	587,610	78,000
Environmental investments	138,818	16,812	12,116
Spending on environmental protection*			22,981

* Exclusive of the cost of investment projects and charges for economic use of the environment.

Charges for economic use of the environment

LOTOS Group			
Emissions [PLN thousand]			
	2009	2010	2011
Air emissions	3,576	4,306	4,805
Water withdrawal	288	245	210
Wastewater discharge	401	528	487
Waste landfilling	5	2	0
Total	4,270	5,081	5,502

Grupa LOTOS			
Emissions [PLN thousand]			
	2009	2010	2011
Air emissions	3,089	3,817	4,268

Water withdrawal	211	160	144
Wastewater discharge	260	306	313
Total	3,560	4,283	4,725

As one of the Polish market leaders, the LOTOS Group seeks to be perceived as the best petroleum company operating in the Baltic Sea region, when assessed on the basis of its product and customer service quality, and professional management.

Wojciech Blew
Technology Development & HSE Director of Grupa LOTOS

As one of the Polish market leaders, the LOTOS Group seeks to be perceived as the best petroleum company operating in the Baltic Sea region, when assessed on the basis of its product and customer service quality, and professional management. Our ability to maintain the market lead will inextricably depend on our respect for the principles of sustainable development, in particular the rational use of natural resources, as well as minimising the impact of all the LOTOS Group members on the natural environment. The respect for the principles of sustainable development is manifest in our constant commitment – already at the stage of designing and then construction and operation of production units – to using state-of-the-art technologies, involving solutions intended to minimise emissions thanks to material and energy saving processes and thanks to low consumption of electricity, water and non-renewable resources.

Our installations are equipped with multiple failure prevention systems, such as alarm systems or cutting-edge distributed computer control systems, featuring process optimisation and an option to immediately block any developments that could pose a hazard to the installations, equipment or the environment. We have classified the risk of an industrial failure as one of our key risks, which is why in our daily activities we place such strong emphasis on preventive measures. We perform checks to diagnose the condition of our equipment, while organizing regular training and drills to practise failure response, etc. Any failure that does occur is subject to thorough analysis and is discussed during current training in order to prevent its reoccurrence.

The monitoring system we employ provides for ongoing control of the production processes and their impact on the environment. Measurements of air emissions and ambient air pollutant concentrations enable quick reaction whenever there is an unfavourable growing trend in any metrics reflecting the refinery's environmental impact. We constantly monitor the intake of water and the quality of treated wastewater discharge, in order to properly assess its impact on receiving waters.

The data on emissions contained in this year's report (measurements taken in 2011) clearly shows how we have implemented one of the most basic principles of sustainable development, namely the principle of decoupling, which consists in a disproportionately lower increase in environmental pressures relative to gains in throughput capacities. Our water or waste recovery rates (more than 45% and more than 90%, respectively) confirm that environmental concerns are at the very top of our agenda.

Even though relevant regulations have not yet been written into law, Grupa LOTOS monitors greenhouse gas emissions throughout the fuel life cycle, from production, to processing, to logistics and use by the end customer. Greenhouse gas emission volumes over the product life cycle are measured for the engine fuels: LPG, gasoline and diesel oil. The GHG (greenhouse gas) emissions computed for the individual fuels are presented per units, i.e. in CO_2 eq per 1 MJ of energy contained in the fuel. The overriding objective of all activities in this respect is to achieve a GHG emissions reduction of 6% by 2020, by using methods designed to ensure efficient use of energy.

Other installations built as part of the 10+ Programme and launched in 2011 have enhanced the refinery's flexibility with respect to processing various types of crude. This has allowed the Company to diversify its crude purchases, which in turn provides for the most efficient processing from the economic point of view, e.g. heavy crudes are processed when demand for bitumen components grows, but at the same time light crudes, suitable for the production of fuels and oil bases, can be processed on the second distillation line. The newly launched mild hydrocracking unit (MHC) has been supplying a new stream, namely paraffin fraction, with respect to which there have been plans to ultimately sell it as a commercial product. Owing to various optimisation steps, the fraction is now used in whole inside the refinery, contributing to a broadening of the range of engine fuels and increasing the output of base oils. That translates directly into higher efficiency of the oils unit. In late 2011 we carried out performance tests of vacuum distillation of refined paraffin fraction, the initial results of which give a real chance for the production of high-quality group II bases. Group II bases are characterised by a low sulphur content (below 0.03%), making them suitable to be used as bases for the production of modern lubricants.

We also attach great importance to the quality of our products, acknowledging their secondary environmental impact in the place of application or consumption. Our fuels have very low sulphur content. They contain additive packages, i.e. specially selected blends of complex chemical compounds which improve their properties, delivering significant environmental benefits. The additives improve combustion, protect engines from contaminants, etc., as confirmed by tests carried out by leading European laboratories.

Our gasolines and diesel oils are manufactured with the use of biocomponents, obtained from renewable resources. All our products have Safety Data Sheets (SDS), drafted based on the applicable legal requirements (REACH Regulation). The information included in SDS warns users – where necessary – of potential threats connected with using a particular product.

Wojciech Blew
– Technology Development & HSE Director of Grupa LOTOS

Emissions

Grupa LOTOS does not use or emit substances which deplete the ozone layer.
Higher carbon dioxide emissions recorded in 2010–2011 were caused by the gradual commissioning of new units, built for the Gdańsk refinery as part of the strategic 10+ Programme. Its purpose was to expand the annual oil throughput capacity from 6m tonnes to 10.5m tonnes, while increasing the depth of conversion. Comparative data on feedstock use by the Gdańsk refinery is presented in the table below. For calculating emissions, the CO_2 reference emission factor for energy production (provided by the National Centre for Emissions Management (Krajowy Ośrodek Bilansowania i Zarządzania Emisjami - KOBiZE) has been applied.

Total direct and indirect greenhouse gas emissions of Grupa LOTOS by weight

Direct emissions [thousand tonnes per year]			
	2009	2010	2011
CO_2	1,121	1,607	2,045
Indirect emissions* [thousand tonnes per year]			
	2009	2010	2011
CO_2	225	285	365

* Indirect emissions are attributable to energy purchased by Grupa LOTOS.

NO_x, SO_x and other significant air emissions of Grupa LOTOS by type and weight

Emissions [tonnes per year]			
	2009	2010	2011
SO_2 emissions	4,170	4,758	5,708
permitted level of SO_2	6,470	6,470	7,137
NO_2 emissions	1,132	1,315	1,620
permitted level of NO_2	2,405	2,475	2,650
Dust emissions	220	260	344
permitted level of dust	521	538	556

Feedstock and other materials used by Grupa LOTOS

Crude oil processing [tonnes]			
Item	2009	2010	2011
Total crude oil	5,461,540	8,095,655	9,163,836
Feedstock and components	1,699,034	844,327	1,062,156
Additives	2,229	2,010	2,254

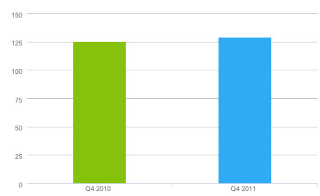
In 2012-2013, the following projects will be executed to mitigate the environmental impact of individual industrial processes and the refinery as a whole:

- recovery and reuse of flare gas,
- use of natural gas for hydrogen production,
- introduction of natural gas to the energy mix of Grupa LOTOS,
- replacement of process furnaces in the light distillate hydrorefining units and furfurol extraction units.

The Company will present their first measurable effects in 2012.

Energy

Change in the number of company cars at Grupa LOTOS



In line with “Poland’s Energy Policy until 2030”, whose main objectives are to improve energy efficiency and mitigate the environmental impact of industrial processes, in 2011 Grupa LOTOS began implementing an energy management system compliant with the EN 16001:2009 and ISO 50001:2011 standards. Steps have been taken to introduce systemic solutions in the area of energy management. They are designed to improve energy efficiency, for example by identifying key energy aspects of the Company’s operations, which include upgrade and development work related to energy efficiency.

In 2011, an Energy Efficiency Team was set up within the operating segment of Grupa LOTOS. Its role is to initiate projects aimed at monitoring and improving energy efficiency. In addition, it will work to maintain and enhance efficiency at all stages of the Gdańsk refinery’s operations.

A computer system Visual Mesa by Soteica is currently used by Grupa LOTOS to visualise and optimise energy consumption. 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.

The ingredients and their proportions in fuel products of Grupa LOTOS comply with requirements following from the National Indicative Target concerning the proportion of renewable materials in road fuels. Both gasolines and diesel oils contain biocomponents obtained from renewable materials.

Direct energy consumption of Grupa LOTOS by primary energy source

Item	Unit	Direct energy sources purchased	Direct energy sources produced	Direct energy sources sold	Direct, total energy consumption
Natural gas	GJ	1,383,334			1,383,334
Fuel gas	GJ		10,053,891	194,860	9,859,031
HSFO fuel oil	GJ		3,434,143		3,434,143
LSFO fuel oil	GJ	4,382,235	1,177,603		5,559,838
HON light fuel oil			134,188		134,188
Electricity	GJ			79,499	-79,499
Heat	GJ			86,541	-86,541
Total	**GJ**	**5,765,569**	**14,799,825**	**360,900**	**20,204,494**

Indirect energy consumption of Grupa LOTOS by primary energy source

Item	Unit of measurement	Intermediate energy purchased
Electricity	GJ	4,163,239

Grupa LOTOS undertakes various initiatives aimed to limit its indirect energy consumption. This may be illustrated by our car fleet policy. The makes and models of company cars are selected every three years. During the decision-making process, the Company takes into account the financial aspect, but also CO_2 emissions, fuel consumption levels and engine capacities. Currently, the Company has no cars with engine capacities in excess of 2 litres. This policy will be continued in the coming years, with an option to use cars with even smaller engine capacities.

In 2011, experts from Grupa LOTOS, working with rally drivers and a test group of car users, created the “Optimum Driving” programme, which involves teaching 12 key principles of optimum driving. The principles are a tool allowing drivers to use their cars efficiently, thus achieving cost savings (lower fuel consumption and spare parts use), reducing harmful gas emissions and improving driving safety. The programme is targeted at employees, customers of LOTOS fuel stations and the

Company's social environment at large. Changing bad driving habits may limit fuel consumption by as much as 30%.

Fuel consumption of company cars at Grupa LOTOS [litres]

Period:		Fuel	
		Unleaded gasoline	Diesel oil
2010	H 1	56,634.20	20,605.61
	H 2	53,811.05	36,217.01
2011	H 1	51,305.63	32,690.38
	H 2	58,103.62	31,633.70

Water

The operations of Grupa LOTOS do not significantly affect surface or underground water sources.

Total water withdrawal of Grupa LOTOS by source [m^3]

	2009	2010	2011
Underground water	209,147	195,024	202,429
Surface water	3,557,093	3,766,470	3,607,427
Total	**3,766,240**	**3,961,494**	**3,809,856**

The implemented technological solutions allow the Company to reuse water. The percentage of recycled water is calculated by dividing the sum of process water obtained from treated wastewater and condensate by its total process water requirement.

Percentage and total volume of water recycled and reused by Grupa LOTOS [m^3]

	2009	2010	2011
Process water obtained from treated wastewater	870,230	1,555,969	1,179,317
Treated condensate	1,118,213	1,546,726	2,030,131
Percentage of recycled water	**34.6%**	**43.9%**	**45.7%**

After being treated, process, sanitary and oily wastewater is released directly to the Martwa Wisła River. Stormwater and water which has passed through the drainage system is released to the Martwa Wisła through the Rozwójka River.

The volumes of treated wastewater discharged to receiving waters by Grupa LOTOS over the years were as follows:

Total wastewater discharge by quality and destination [m^3]

	2009	2010	2011
Rozwójka	4,083,604	3,880,741	3,874,089
Martwa Wisła	1,094,220	1,306,041	1,354,015
Total	**5,177,824**	**5,186,782**	**5,228,104**

Material parameters of treated wastewater discharged to receiving waters by Grupa LOTOS over the years were as follows:

Rozwójka

Contaminants	2009	2010	2011
total suspended solids [mg /dm^3]	10	10	12
permitted value	35	35	35
hydrocarbons of petroleum origin [mg /dm^3]	2	1	2
permitted value	5	5	5

Martwa Wisła

Contaminants	2009	2010	2011
BZT [mg O2/ dm^3]	6	5	3
permitted value	25	25	25
COD [mg O_2/ dm^3]	52	51	34
permitted value	125	125	125
total suspended solids [mg / dm^3]	13	6	8
permitted value	35	35	35
volatile phenols [mg/ dm^3]	0.005	0.006	0.001
permitted value	0.1	0.1	0.1
hydrocarbons of petroleum origin [mg / dm^3]	0.7	0.4	0.8
permitted value	5	5	5
total nitrogen [mg N/ dm^3]	4	4	3
permitted value	30	30	30
total phosphorus [mg P/ dm^3]	0.9	1	1
permitted value	3	3	3

The land occupied by Grupa LOTOS is of no special natural value and is not subject to any form of nature protection. The Rozwójka and Martwa Wisła rivers, the two receiving bodies for water and wastewater generated by Grupa LOTOS, do not have the protected status, either. The discharge of water and wastewater does not materially affect biodiversity of the water bodies or related habitats. No adverse impact of Grupa LOTOS' production operations on the level of biodiversity in land, freshwater and marine environments was found to exist.

The Company's operations pose no risk to any of the species included in the IUCN Red List or national lists of endangered species. In areas surrounding the Gdańsk refinery, there are no known habitats of conservation list species and no risk of their extinction.

However, because Grupa LOTOS withdraws surface water from the Motława River, it has committed to support the biodiversity of the region by co-financing work aimed at restoring fish population within Motława fishing district No. 3. Moreover, a protective belt of trees was planted on the side of national road No. 7, which is exposed to heavy traffic, and on the perimeter of the refinery's wastewater treatment plant.

Out of 10 emergency cases reported at the refinery of Grupa LOTOS in 2011, no spills were identified with a material environmental impact.

In 2009–2010, only one out of 23 incidents had a material impact on the natural environment. It was a diesel oil spillage occurring for reasons not attributable to the Company, but caused by illegal drilling in the pipelines transporting the oil to the port.

Waste

The LOTOS Group manages its waste in a manner that is environmentally safe. Waste that cannot be avoided is segregated and stored at designated and labelled sites, in accordance with the terms of relevant decisions.

In accordance with the waste management policies, hazardous and non-hazardous waste is transported by entities licensed to do so, first to undergo recovery processes and then to be treated or disposed of.
The recipients of waste at the LOTOS Group hold appropriate permits to conduct waste management activities.

Total weight of waste generated at Grupa LOTOS by type and disposal method [tonnes per year]

Year	2009	2010	2011
Waste generated during the year	10,305	11,472	12,384
including:			
Hazardous waste	4,242	4,218	7,338
Non-hazardous waste	6,063	7,254	5,046
Waste stored as at the end of the previous year	3,367	2,215	2,244
Total: waste to be managed in the year	13,672	13,687	14,628
Permitted value (data from the integrated permit)	**89,627**	**89,627**	**89,627**
Waste recovered (waste recovery)	10,215	10,836	12,428
Waste treated or disposed of	1,243	607	4
including:			
Incineration	966	519	4
Landfilling	277	81	0
Waste stored on site as at the end of the year	2,214	2,244	2,196
including:			
Hazardous	953	1,044	1,977
Non-hazardous	1,261	1.,200	219

Weight of waste transported, imported, exported or treated by Grupa LOTOS in 2011, deemed hazardous under the Basel Convention [tonnes]

Total weight of hazardous waste transported	6,426
Weight of hazardous waste transported to the refinery from external sources - suppliers from outside the LOTOS Group	21
Weight of hazardous waste transported from the refinery to external sources in Poland	6,286
Weight of hazardous waste transported from the refinery to external sources outside of Poland	119
	%
Percentage of waste transported across international borders	1.86

The fact that in 2011 no fine or other sanction was imposed on any of the LOTOS Group companies for non-compliance with environmental laws and regulations attests to the LOTOS Group's high environmental protection standards and shows that the LOTOS Group assigns high priority to environmental protection issues.

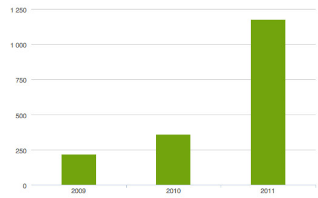
Grupa LOTOS duly performs all its obligations resulting from the environmental protection laws, as well as product quality and labelling requirements. If used correctly, Grupa LOTOS' products do not generate any significant environmental impacts.

Products and services

Every year, Grupa LOTOS and the LOTOS Group's trading companies take a number of measures to reduce the impact of their products and services on the environment.

Grupa LOTOS meets the highest European standards relating to compliance with the laws and regulations concerning addition of biocomponents to motor fuels. In 2011, Poland had one of the highest biocomponent targets in the European Union, set at 6.20% (calculated on the basis of fuel calorific value). In 2011, the Company met the target by achieving a 6.25% biocomponent content in its fuels.

Quantity of waste generated by LOTOS Kolej [tonnes]



Given the specific nature of **LOTOS Petrobaltic's** business, which consists in the exploration for and production of crude oil and natural gas, the company's priority is to ensure effective protection against the risk of sea pollution by spills of extracted crude oil and other substances used in the extraction process, and to limit to the minimum the environmental impact of such spills, should they occur. LOTOS Petrobaltic has in place an Oil Spill Response Plan for spills resulting from the exploration and production work carried out by Petrobaltic within its licence areas. The plan has been approved by the Maritime Office in Gdynia. In 2011, LOTOS Petrobaltic took part in an oil spill response exercise together with the Maritime Search and Rescue Service. Moreover, the condition of the environment is constantly monitored prior to, in the course of, and after the completion of operations. Appropriate management of waste from platforms and seagoing vessels is also very important given that the ban on discharge of any waste or pollutants from platforms has become one of the key policy objectives. Therefore, in 2011, the relevant procedure was updated and an industrial shed for hazardous waste was built within the onshore base.

Similarly, **AB LOTOS Geonafta** uses only drilling techniques which do not cause any damage to the environment. The company is also actively involved in the reduction of gas emissions: gas obtained during the mining of crude oil is used to generate electricity and heat for the production installations.

LOTOS Petrobaltic, through its subsidiary **Energobaltic**, owns a combined heat and power plant in Władysławowo which is fired by fuel gas obtained in the process of separation of gas transmitted from the offshore platform. This has led to the elimination of tens of thousands of tonnes of air emissions per year as a result of liquidation of boiler plants (mainly coal fired) in Władysławowo and ending the practice of flaring waste gas at the platform.

In 2011, **LOTOS Paliwa** continued its investment projects designed to mitigate the negative environmental impact of the operations of the LOTOS service stations. The projects implemented by LOTOS Paliwa included: installation of separators, upgrade of stormwater, sanitary and industrial sewerage systems, installation of leak-proof surfaces, installation of gasoline fume absorption systems, installation of equipment to measure and monitor petroleum product stocks, installation of leakage alert systems for detecting leakage of petroleum products into soil, surface water and underground water, installation of soil contamination monitoring equipment, replacement of single-jacket tanks with double-jacket tanks and replacement of air-conditioning units.

In 2011, LOTOS Paliwa launched a new environmental protection project to use renewable energy by installing heat pumps at new service stations located in the Motorway Service Areas along the A1 motorway and S3 expressway. The heat pumps use renewable energy from ambient air and transform it into energy used to provide heating and hot water in buildings.

In 2011, **LOTOS Kolej** launched a major investment project involving the upgrade and overhaul of the rail tanker cleaning facility. The project-related work will continue until August 2012. Once completed, the project will substantially reduce the environmental impact of the cleaning facility and significantly improve the Health and Safety at Work conditions. Air sealing of the technological processes, changing the technology for cleaning rail tankers and utilising modern equipment in the cleaning process will lead to lower consumption of utilities and reduced generation of oily wastewater.

In 2011, LOTOS Kolej recorded a 16% increase in the consumption of energy for non-traction purposes (to 2,053 MWh) relative to 2010 (1,760 MWh). The increase followed from the expansion of its operations which led, among other things, to the need to use more equipment. In order to reduce electricity consumption, lighting systems were provided with automatic controls. New electronic ignition and ballast units for high-pressure discharge lamps fitted with a microchip controller are also being tested.

In 2011, at the **LOTOS Oil's** production branch in Czechowice-Dziedzice, nine tanks with capacities from 50 to 200 cubic meters, used for raw material and finished product storage, were fitted with double bottoms and a leakage alert system. Repair of three tank trays to prevent penetration of petroleum-based products into the soil was also completed. Similar preventive work was also performed under the tracks and the road located near the road tanker loading facility in

Czechowice.

In 2011, **LOTOS Parafiny** purchased new product pumps and an emulsion homogenizer for its facilities in Jasło. The replacement of those units allowed the company to eliminate pollutant penetration into the environment. The upgrade of the railway loading facility in Czechowice-Dziedzice, commenced in 2011, will be completed in Q1 2012. The upgrade involves the replacement of loading arms with rigid units employing a system of counterweights. This will completely eliminate pollutant penetration into the environment.

In line with **LOTOS Asfalt's** strategy adopted in previous years, measures were initiated in 2011 to eliminate hydrocarbon emissions from the production, storage and dispatch of bitumens, which generate olfactory nuisance, chiefly within the production sites. The projects already completed in pursuance of the strategy include: installation of a process gas thermal oxidiser, air sealing of tanks and connection of air-sealed tanks and bitumen filling terminals to the thermal oxidiser – in Jasło, as well as inclusion of two double-station car tanker filling terminals and two double-station rail tanker filling terminals in the fume extraction system, connection enabling disposal of extracted fume in thermal oxidisers and construction of a stand-by filling process-extracted fume disposal unit in activated charcoal adsorbers – completed in Gdańsk.
EU funding was secured for the project designed to reduce emissions of odorous hydrocarbons in Gdańsk. Once the project has been fully completed (in 2013), the air quality at the production site in Gdańsk will improve significantly. The upgrades of production facilities in Gdańsk and Jasło have improved their efficiency, while markedly reducing the energy intensity per unit of production.

In the case of many products manufactured by the LOTOS Group companies, their effect on the environment during production and after the end of their useful lives is not negative. The same is true of the packaging in which products are marketed. In accordance with the applicable laws and regulations, the individual LOTOS Group companies have contracted recovery organizations to perform their obligations related to the recovery and recycling of packaging materials introduced on the domestic market.

LOTOS Paliwa does not sell products in packaging which is subject to the recycling/recovery requirement. However, the company's service stations sell packaged products containing hazardous substances. After being used, the packaging containing traces of such substances becomes hazardous waste, which customers may leave at the station. At service stations which sell automotive and general-use batteries, there are special designated areas for storage of hazardous waste in the form of general-use batteries (in special containers provided by suppliers) and automotive batteries (in areas designated by the station's management, which is not accessible to unauthorised persons). The handling of hazardous waste at service stations is governed by the internal waste management procedure.

In 2011, a repeated analysis of the quantity of waste generated by **LOTOS Kolej** was performed. Based on the results of the analysis, the company applied to the competent authorities for amendment of its waste generation permit to allow for increased waste generation.

The 227% increase in the quantity of waste generated by LOTOS Kolej is due mainly to the ongoing work on the upgrade and overhaul of the rail tanker cleaning facility and the construction of a new building near the facility. An increase of over 11% in cargo transport and reclamation work commenced on areas leased by the company were also factors affecting the 2011 figure.
In 2012, LOTOS Kolej plans to perform an upgrade of its industrial sewage pipeline to reduce the risk of sewage penetration into the environment, and to construct a water treatment plant to eliminate drinking water from the industrial process.

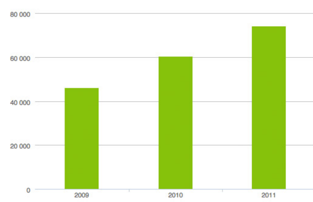
LOTOS Asfalt's products (bitumen and heavy fuel oil) are mostly transported in tankers. Packaged products include tar paper produced at the waterproofing materials production site (Zakład Materiałów Hydroizolacyjnych) in Jasło, as well as bitumens and pitches in primary packaging, also used for waterproofing purposes. Sales of primary packaging bitumens and pitches accounted for less than 0.1% of the overall bitumen sales by LOTOS Asfalt in 2011. 55% of all packaging was recovered.

The recovery and recycling rates achieved by the recovery organization contracted by **LOTOS Oil** in 2011 were as follows: waste oil – recovery at 50%, including recycling at 35%; plastic packaging waste – recycling at 19%; paper and cardboard packaging waste – recycling at 54%; steel packaging waste – recycling at 37%; wood packaging waste – recycling at 15%; total packaging – recovery at 55%, and recycling at 40%.

The recovery and recycling rates achieved by the recovery organization contracted by **LOTOS Parafiny** in 2011 were as follows: plastic packaging waste – recycling at 19%; paper and cardboard packaging waste – recycling at 54%; steel packaging waste – recycling at 37%; wood packaging waste – recycling at 15%; total packaging – recovery at 55%, and recycling at 40%.

Transport

Use of traction electricity by electric locomotives of LOTOS Kolej [MWh]



The LOTOS Group companies analyse the environmental impact from transporting products, goods and other materials used in their business.

No negative environmental impact has been identified from the transport for the needs of **LOTOS Petrobaltic**. The company uses six seagoing vessels to carry supplies to, and to take away waste and contaminants for disposal or treatment from, the offshore platforms. The same vessels are used to carry crews to and from the platforms. The vessels are powered by low-sulphur diesel oil, which complies with the requirements of Annex VI to the Marpol Convention 73/78. All contaminants and waste from vessels generated during their operations are taken to the shore for disposal or treatment. A potential risk to the marine environment arises in the case of a potential collision of the tanker with another vessel and double-hull leakage. The tanker transports crude oil to the petroleum port in Gdańsk. In 2011, the tanker covered the distance of about 60 km from the B3 field to the port five times, carrying the crude produced from the field. All the ships of Miliana Shipping Company providing sea transport services to LOTOS Petrobaltic have all the required certificates valid and meet the highest standards applicable to such vessels. They do not generate any significant environmental impact.

LOTOS Asfalt has embarked on a number of investment projects the purpose of which is to mitigate the environmental impacts of the company's transport activities. Products are handled at LOTOS Asfalt depots in modern handling terminals, where emissions of harmful fumes into the air are minimised. Air sealing of road tanker filling stations reduces air emissions of harmful gases, such as hydrogen sulphide, and improves the occupational safety of staff involved in road tanker filling.
In 2011, work was completed at the Gdańsk loading terminal on the installation of mass flow meters. The mass flow meters provide for precise control of the volume of cargo loaded and help eliminate events which might arise from exceeding the gross vehicle weight rating by vehicles providing transport services to LOTOS Asfalt. This mitigates the destruction of roads by overloaded vehicles.
From LOTOS Asfalt branches, bitumen is carried to end customers by specialised providers of road haulage services. Each of them meets the highest quality standards as far as environmental protection and customer service are concerned. They operate modern transport fleets that meet European standards, thus ensuring safe, economical and environmentally friendly delivery of products to their destinations. In 2011, several dozen new road tractors meeting the relevant environmental requirements were added to the company's fleet of transport vehicles. The new road tractors consume less fuel and meet the Euro4 and Euro5 exhaust emission standards, markedly reducing the environmental emissions of harmful exhaust gases. The vehicles providing international road transport services meet the requirements concerning low noise emissions, as confirmed by relevant signage. The road tankers are properly insulated, which limits the need to heat up products, thus markedly reducing environmental pollution.
Sea shipping of bitumens continued in 2011, with the handling volume at over 100 thousand tonnes per year. With a higher share of sea shipping in the total transport volume, the economies of scale make it possible to reduce harmful environmental emissions and fuel consumption per unit of shipped cargo.

LOTOS Oil does not have its own transport fleet. Goods are carried by providers of transport or forwarding services whose customer service and environmental protection standards must meet strict quality requirements, usually confirmed by the ISO 9001 certification. In piece-goods transport, the ISO 14001 certification is required. An internal control system is also in place which helps monitor and supervise the following areas related to transport services: energy consumption, emission of gases into the air, production of wastewater, production of waste, noise emissions and – potentially – leakages. The carriers must have insurance covering risks related to the distribution of all LOTOS Oil products. With respect to the identification of significant environmental aspects and procedures to be followed while transporting, loading and unloading hazardous materials, the company operates on the basis of its own internal rules. Ongoing analyses are carried out with respect to hazards generated by the company's operations involving land transport.
In line with the applicable laws, carriers have the duty to maintain appropriate records of fuel consumption and to report the emission of gases into the atmosphere as a result of providing transport services.

The transport of liquid fuels sold by **LOTOS Paliwa** has been entrusted to specialised companies: LOTOS Kolej in the case of rail transport, and external providers of haulage services in the case of road transport. Transport of fuels is subject to strict regulation under the Polish and international laws concerning transport of hazardous materials, the purpose of which is to minimise the negative environmental impact from transport. Irrespective of the legal requirements, the company has taken a number of measures in order to mitigate the environmental impact of road transport. For instance, it has developed safety requirements for delivery points, prepared safe loading, transport and unloading procedures as well as regular controls of whether these procedures are observed, put in place emergency response procedures, and started to monitor the service providers' vehicles – to check if they meet the relevant technical requirements – as well as the system of selection and training of staff employed to handle the transport operations. Rail transport of fuels is done at the customer's risk and

responsibility, whereas road transport – at the risk and responsibility of LOTOS Paliwa.
For a total number of 43,744 deliveries made in 2011, no occurrences involving leakage of fuel were identified as part of the road transport monitoring process. All costs of removal or elimination of air pollutants as a result of emissions, remedial measures, as well as environmental management and prevention connected with transport services, are borne by the service providers and are not reported by LOTOS Paliwa. Out of a total of 4,835 thousand cubic metres of fuels sold in 2011: 586 thousand cubic metres (or 12% of the total volume sold) were transported using rail tankers, and 1,164 thousand cubic metres (or 24% of the total volume sold) were transported using road tankers. The balance was collected from storage terminals by the customers' own means of transport.

2011 was another year during which the quantities of cargo transported by **LOTOS Kolej** using electric traction increased relative to Diesel traction. The motive power units were also gradually upgraded. As a result, the consumption of engine fuels was further reduced, as were the environmental emissions of exhaust gases and noise emissions by locomotives. Modern TRAXX DE locomotives have Stage IIIA compliant Diesel engines.
In 2011, about 85.5% of all transport work done by LOTOS Kolej (expressed in btkm) relied on electric locomotives. At the end of 2011, the company had 96 locomotives, including 50 electric ones and 46 Diesel ones. Modern locomotives accounted for about 35% of the company's motive power units. Thus, LOTOS Kolej operates one of the most modern locomotive fleets among Polish rail carriers.

Diesel oil consumption by Diesel locomotives of LOTOS Kolej [litres]

	2009	2010	2011
H 1	1,938	3,861	2,739
H 2	3,232	3,299	3,059
Total	5,170	7,159	5,798

Source: In-house compilation based on operational data.

The 19% reduction in the consumption of diesel fuel in 2011 relative to 2010 was due to the use of electric locomotives, as well as the gradual withdrawal from service of older types of locomotives, which were being replaced by modern ones consuming less energy. As a result, the consumption of diesel oil per one tonne of transported product has been falling.

Consumption of gasoline at LOTOS Kolej for non-traction purposes [tonnes]

	2009	2010	2011
Consumption of gasoline	8.5	7.73	3.88

Source: In-house compilation based on operational data.

In 2011, the consumption of unleaded fuel for non-traction purposes fell considerably as compared with 2010. Fuel consumed for non-traction purposes included almost entirely fuel consumed by company cars used by LOTOS Kolej staff. The reduction was a result of the gradual phasing out of unleaded gasoline-powered cars.

The 22.5% increase in the consumption of traction electricity at LOTOS Kolej in 2011 relative to 2010 is attributable to the growing scale of the company's transport operations and the growing share of work performed using electric traction in the total work.

The transport of products sold by **LOTOS Parafiny** is contracted out to specialised third-party providers, which are required to hold the relevant licences and approvals for the means of transportation to carry hazardous materials. Operators of such means of transportation must hold the required qualification certificates and licences. In most cases, insulated road and rail tankers are used to carry paraffin products. Additional technical requirements are related to weather conditions - the haulage vehicles need to be fitted with a heating system (in winter) or a cooling system (in summer).
All costs related to emissions of pollutants into the air, as well as costs of environmental management to the extent related to transport services, are borne by the service providers.

The company operates production sites in Czechowice-Dziedzice and Jasło. Products are sold directly from those sites. Transport of finished products in packaging to the warehouse, from where the products are shipped to customers, relies on forklift trucks, most of which are LPG-powered, as well as electric trucks. By phasing out older Diesel trucks, the quantity of exhaust gas emissions has been reduced. As part of measures undertaken with the aim of minimising the impact of transport on the environment, LOTOS Parafiny has developed emergency response procedures and started monitoring the vehicles to check if they meet the relevant technical requirements.

Biodiversity

The production facilities of **Grupa LOTOS** in Gdańsk occupy land with an area of 234.50 ha, for which there are effective zoning plans in place. In the zoning plans, the land has been designated for production and service facilities, as well as for accommodating depots and storage facilities. The land is of no special natural value and is not subject to any form of nature protection. However, there are areas subject to various forms of protection in the vicinity of the refinery.

Nature reserves:

- “Ptasi Raj”, located on the Zatoka Gdańska coastline, at the mouth of the Wisła Śmiała, which an arm of the Vistula River. The reserve encompasses two eutrophic lakes which have gradually been overgrowing with vegetation, and lies along one of the birds’ main migration routes. The reserve is located within the boundaries of the “Ujście Wisły” Special Bird Protection Area (PLB220004).
- “Mewia Łacha”. The reserve encompasses an alluvial cone in the artificial Vistula River bed (Przekop Wisły), which is characterised by varied floral assemblages and serves as a breeding site for terns and a dwelling place for various species from the charadriidae and anatidae families. Also this reserve is located within the boundaries of the “Ujście Wisły” Special Bird Protection Area (PLB220004).

Landscape parks:

- Trójmiejski Park Krajobrazowy (Tricity Landscape Park) covers a part of the morainic plateau near the Tricity (the Gdańsk-Gdynia-Sopot conurbation). The park is characterised by diversified land relief, and as such it encompasses a variety of habitats and microclimates. Around 90% of its area is covered by woods.
- Park Krajobrazowy Mierzeja Wiślana. The park covers a section of the Mierzeja Wiślana bay-mouth bar from Sztutowo to Piaski, with ranges of dunes overgrown with pine forest mixed with oak and beech. All these are 19th century plantings. In 1994, the park was notified for entry in the list of Baltic Sea Protected Areas HELCOM BSPA.

Protected Landscape Areas:

- The Wyspa Sobieszewska Protected Landscape Area, encompassing also a section of the Mierzeja Wiślana bay-mouth bar. In this area we encounter a zonal system of dunal flora, and in the Vistula River mouth - rush-plants and halophyte sites. The coastline section of the Wyspa Sobieszewska Protected Landscape Area has been included in the “Ujście Wisły” bird habitat protection area (PLB 220004).
- The Żuławy Gdańskie Protected Landscape Area, covering the Vistula River mouth plain, which features a complicated washland and gravitation melioration system.

NATURA 2000 areas:

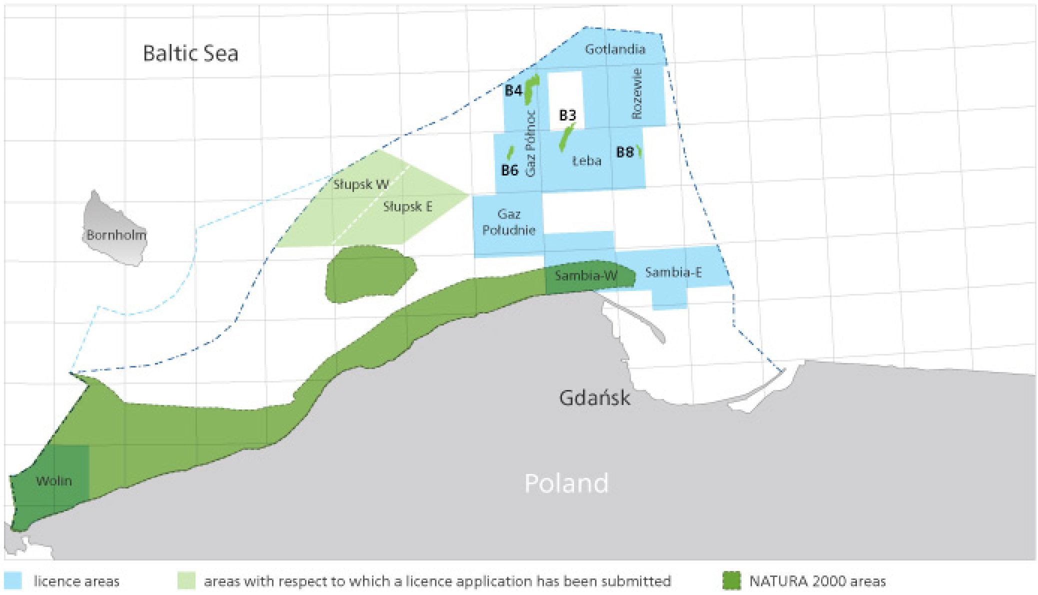
NATURA 2000 areas located closest to Grupa LOTOS’ industrial facilities include:

- special bird protection areas: “Ujście Wisły” (PLB220004) and “Zatoka Pucka” (PLB220005),
- special habitats protection areas: “Twierdza Wisłoujście” (PLH220030) and “Ujście Wisły” (PLH220044).

LOTOS Petrobaltic owns two land properties. The first one with an area of 25,630 sq m accommodates the company’s onshore base. The second one with an area of 24,025 sq m accommodates the gas-fired power plant in Władysławowo, operated by Energobaltic. Within Poland’s offshore territory, the company currently holds seven licences to explore for and extract crude oil and natural gas.

In December 2011, LOTOS Petrobaltic filed two applications to be granted oil and gas exploration and appraisal licences covering the “Słupsk E” block with an area of 1,139.10 sq km and the “Słupsk W” block with an area of 1,021.20 sq km, concurrently requesting to be awarded mining usage rights over those areas.

General map of area of operations of LOTOS Petrobaltic.



These areas are adjacent to NATURA 2000 sites, but the operations for which licences have been requested by LOTOS Petrobaltic will have no impact on the protected areas, as clearly demonstrated in the "Environment Impact Assessment Report for the Project Consisting in Exploration for Crude Oil and Natural Gas in Baltic Sea Licence Areas A1, A2, A3, A4, and A5".

The report, prepared by the Gdańsk Submarine Geology Division of the National Geological Institute – National Research Institute, served as the basis for the environmental decision issued by the Regional Environmental Protection Directorate of Gdańsk. Currently, LOTOS Petrobaltic is awaiting a decision from the Ministry of Environment regarding its licence and mining usage rights applications.

In 2011, LOTOS Petrobaltic commenced activities aimed at developing the B8 field and prepared for performing offshore seismic surveys within the "Gaz Południe" licence area, which ultimately ended in submitting an investment project application. Currently, only one licence area ("Sambia W") is adjacent to or overlaps with coastal zones of the Baltic Sea protected under the Birds Directive.

The areas in which LOTOS Petrobaltic holds licence interest are not characterised by any considerable biodiversity, and the impact of the company's operations on these areas is negligible.

In Lithuania, some of the oil production facilities are immediately adjacent to, or lie in close vicinity of, NATURA 2000 sites. However, the National Authority for Protected Areas has not identified any negative impacts from industrial operations on the protected areas. The heat and power plant in Władysławowo is located in an industrial/port zone, on a parcel of land with an area of 24,025 sq m. This land is owned by the State Treasury and is held by Energobaltic in perpetual usufruct. It covers the topmost part of the Hel peninsula, and is located within the Nadmorski Park Krajobrazowy landscape park protection zone.

The licence areas in which LOTOS Petrobaltic has the right to conduct operations are generally situated outside the Baltic Sea Protected Areas. The only licence area located entirely within the boundaries of a protected area was the Wolin Licence, which expired in October 2011 pursuant to a decision by the Ministry of Environment.

LOTOS Asfalt' production operations are carried out at three sites, which also accommodate storage and distribution facilities. They are located on the refinery premises in Gdańsk, Jasło and Czechowice-Dziedzice.

The company also holds industrial land in perpetual usufruct or under lease agreements, whose area is approximately 234.5 ha in Gdańsk (property of Grupa LOTOS), approximately 13.4 ha in Jasło (property of LOTOS Jasło) and approximately 2 ha in Czechowice (property of LOTOS Czechowice).

There is no form of nature protection applying to land controlled by LOTOS Asfalt or to areas in its immediate vicinity. The installations held by the company in Gdańsk and in Jasło require an integrated permit, and as such should meet all the environmental requirements associated with the use of best available techniques, in particular they must not cause the relevant emission limits to be exceeded. To note, observing the emission limits implied by the use of best available techniques does not release an entity from the obligation to meet the applicable environmental standards.

LOTOS Oil has production sites located in Gdańsk, Czechowice-Dziedzice and Jasło. The company also operates a Distribution Centre in Piotrków Trybunalski. The production site in Gdańsk is located within Grupa LOTOS' premises. The land is not located within protected zones, or within areas of high biodiversity value outside protected areas.

Another production site is situated in Czechowice-Dziedzice, in Silesia Province. The land, along with the structures and installations it accommodates, is situated within the premises of a former oil refinery, built at the turn of the 19th and 20th centuries, and is not located within any protected areas.

The nearest NATURA 2000 site is the "Dolina Górnej Wisły" Upper Vistula Valley Special Bird Protection area, located about two kilometres away from the production site's location. The protected area covers the Goczałkowickie Lake, numerous fish pond clusters and forested areas. Most bird species having their habitats within the area are rare, including species listed in

the European Commission's Directive.
The third production site is located within the premises of a former oil refinery in Jasło, in the Province of Rzeszów. This land is not located within a protected area or an area of high biodiversity, either.

In the case of **LOTOS Paliwa's** business, which is conducted via a chain of service stations, an environmental impact assessment report is drafted already at the construction planning stage, in order to assess the potential impacts on adjacent areas that the planned facility would generate, with a special emphasis on protected areas and areas of high biodiversity value.
For existing stations, impacts on protected sites are analysed only if required for instance in connection with a planned upgrade, or if a major environmental accident occurs.
Currently, one station located in the immediate vicinity of protected areas has been identified from among those added to the company's chain in 2011. The inventory-taking records relating to stations included in the company's chain in 2010 show that two of those stations, not mentioned in the 2010 report, are located in close vicinity of such areas.

Features	Service station No. 801 Police, Service station No. 802 Łęka (both added in 2010)	Service station No. 807 Wysoka (added in 2011)
Geographical location	NATURA 2000 site – the "Dolina Środkowej Warty" Middle Warta River Valley Special Bird Protection Area, approximately 1 km to the east of the MOP Police Motorway Service Area; site code PLB200002.	Wysoczyzna Łaska (Łask Upland) and Kotlina Szczercowska (Szczerców Basin)
Status relative to protected area	adjacent	adjacent
Type of operations	trading	trading
Size/area of the operating unit in sq km	0.0058	0.0049
Features of protected area	ecosystem – biodiversity	freshwater ecosystem
Protection status	NATURA 2000	NATURA 2000

Based on the opinions obtained from local environmental institutions, the locations of the stations, as well as the technical solutions applied, ensure no adverse impact on protected areas.

Impact of conducted operations on biodiversity

Grupa LOTOS duly performs all its obligations resulting from the environmental protection laws, as well as product quality and labelling requirements. If used correctly, the Company's products do not generate any significant environmental impacts.

The operations conducted by **LOTOS Petrobaltic** in the Baltic Sea consist in the exploration for and extraction of crude oil from the sea floor. Exploration operations may be divided into two stages:

1. performance of seismic surveys, which show where a hydrocarbon accumulation may be located,
2. drilling a trial borehole to make a preliminary estimate of the size of a deposit (the reserves).

Seismic surveys consist in generating acoustic waves, which also affect the sea fauna. The influence is not significant, but before any such survey may be carried out, an Environmental Impact Assessment Report needs to be prepared. The report, along with an application for approval of specific work, is submitted to the Regional Directorate of Environmental Protection, which, having procured an opinion on the report and the application from the Marine Supervision Authority (Urząd Morski), issues an Environmental Decision, in which it specifies the requirements which must be met when conducting the planned work. The second stage of work that must be done before production from a field can be launched, is drilling a trial borehole. Although the oil deposits beneath the Baltic Sea floor are low pressure reservoirs, the possibility of an eruption during appraisal work must be taken into account. Therefore, all the best practice and best technology solutions are employed to prevent an eruption.
The main output of the production process is crude oil, but also some natural gas is produced, with an admixture of small quantities of various types of other hydrocarbons. The gas is sent via a transmission pipeline to Energobaltic, where it is used to generate electricity.

Given the fact that the licence areas in which LOTOS Petrobaltic operates are located in zones characterised by limited biodiversity, the impact from the company's operations in those waters is marginal or close to none. If used correctly, the products of **AB LOTOS Geonafta** do not generate any significant environmental impacts, either.

The premises occupied by **Energobaltic** are controlled by a processes and emissions monitoring system, which helps to minimise the environmental impact from the company's installations. In 2011, analyses were carried out of flue gas emissions and underground water quality with respect to compliance with the applicable standards. The analyses were performed by laboratories and measurement teams accredited by the Polish Centre for Accreditation. The flue gases emitted by the CHP plant meet all the emission standards, both those laid down in the environmental laws, and those specified in the permit to release gases and dust into the air issued by the Puck County Governor's Office (Starostwo Powiatowe w Pucku). An investigation made with regard to the monitoring of near-surface waters within the CHP plant's premises has proven that there are no sources of pollution with petroleum related substances.

LOTOS Exploration & Production Norge holds a 20% interest in Yme Development, of which Talisman Energy of Norway is the operator. The company regularly reports the scale and nature of its environmental impact to the Norwegian authorities.

Production platform on the YME field

YME Development takes measures the purpose of which is to minimise the environmental impact of the company's operations. The drilling work completed in 2012 did not result in any oil spills.

The platform operations on the YME field entail air emissions and generation of waste, which is transported to the shore. In this respect, the company operates in compliance with the relevant permit it has obtained.

The environmental report prepared for the Norwegian authorities confirms that the operations of YME Development are conducted in compliance with the environmental standards and pose no risk to the biodiversity of the North Sea.

The operations conducted by **LOTOS Asfalt** do not have any significant impact on the biodiversity of protected areas or areas of high biodiversity value outside protected areas. The emissions released into all parts of the environment meet the applicable legal requirements, as well as the BAT requirements for the refining industry. No environmental quality standards or emission standards are exceeded due to the operation of the company's installations. Energy, water, raw materials and fuels are used in a rational and efficient manner.

No environmental quality standards are breached in any of the neighbouring areas due to the impact from the installations. The plant operation, even at its maximum capacity, should not result in any deterioration of the parameters recorded to date. The launch of new or modernised installations has improved the local acoustic climate on the plant premises. The air sealing of loading terminals has eliminated fugitive emissions accompanying shipment of bitumens at road and rail tanker loading stations, and has limited emissions of malodorous substances which, until recently, were generated during shipment and storage of the products.

LOTOS Paliwa conducts fuel trading operations through its service stations, which are classified as facilities having no significant impact on the environment. Harmful emissions are limited thanks to air sealing of the processes of fuel reception and dispensing, as well as rainwater and meltwater treatment, which ultimately guarantees that the stations do not interfere with the natural environment.

Any possible negative impacts on wildlife of protected areas is neutralised by retaining a protective belt immediately adjacent to a wildlife protection site (selected individually for a given form of wildlife protection), as a safeguard against any potential threats which might stem from the company's operations.

Reclaimed habitats

In 2011, no events were recorded at **LOTOS Paliwa** which in consequence would require any reclamation work to be carried out. LOTOS service stations are designed, constructed and operated using the best technical, technological and organizational solutions, based on the assumption that environmental standards must be complied with both along the project site borders and beyond.

With respect to registered sites adjacent to protected areas, additional security measures are applied in the form of monitoring of underground waters, more frequent analyses of wastewater discharged into the environment, or extra restrictions applied by authorities with respect to volumes of emissions into the environment.

As in the case of other LOTOS Group companies engaged in the trading business, no need to carry out any protection or reclamation projects was identified at LOTOS Paliwa in 2011. Such a project is being implemented though as part of the Corporate Social Responsibility Strategy of the LOTOS Group.

In line with its CSR strategy, the **LOTOS Group** supports environmental efforts, i.e. all activities connected with the structure and processes of nature. One of the examples of the company's involvement in reclamation efforts concerning the Baltic Sea is its cooperation with the Gdańsk University Development Foundation and the Marine Station of the Gdańsk University Oceanography Institute in Hel. The joint efforts, which have already continued for three years, were undertaken to prevent the extinction of endangered marine species, notably the harbour porpoise. 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 can be protected. In previous years, the Company provided funds to finance the purchase of equipment (hydroacoustic detectors and fishing pots) that helps protect harbour porpoises against by-catch.

The cooperation with our partners brought results in the form of various educational and information campaigns carried out in 2011. A series of exhibitions were organized, devoted to the Baltic Sea fauna and flora, entitled "Okiem Mewy" ("The Seagull's View").

Just like in previous years, an information and education campaign entitled "Natura pod kilem" ("Nature under the Keel") was organized on the ships of the Gdańsk tourist fleet to promote the protection of NATURA 2000 sites and encourage Poles to contribute to developing plans aimed to protect those sites. During the campaign, over 240 thousand passengers travelled on ships of the Gdańsk tourist fleet.

A promotion and information campaign was also organized on the trójmiasto.pl website, the purpose of which was to draw attention to the problem of effective protection of animals in the light of the international obligations that Poland must implement as a signatory of various conventions and agreements, and as a member of the European Union.

A number of other actions were undertaken in 2011 in cooperation with the partners named above for the purpose of reaching the circles and persons who can influence the manner of the Baltic Sea exploitation and of changing their current attitudes.

Managing impact on biodiversity

The Biodiversity Convention of 1992 states that the greatest human-generated threats to biodiversity include:

1. destroying flora and fauna habitats,
2. climatic changes the speed of which is such that certain species find it impossible to adjust themselves to the changing living conditions,
3. introducing other species originating from other geographical regions, which results in displacement of local species.

The operations of **LOTOS Petrobaltic** do not pose any threat to biodiversity in the areas where they are conducted, because they involve none of the elements enumerated above. The company's licence areas are situated outside the NATURA 2000 sites, currently called Baltic Sea Protected Areas. As the animal and plant life in the areas where LOTOS Petrobaltic conducts its activities is very poor, the impact from the company's operations on the ecological system and biodiversity of the areas is practically non-existent. LOTOS Petrobaltic does not transfer any unwanted living organisms from other geographical and climatic regions, which could endanger the species native to the Baltic Sea.

It is important to note that as part of any strategic planning concerning new installations and technologies, e.g. ones which are to be used to produce oil from the B8 field, or gas from the B4 and B6 fields, the environmental aspects and legal requirements pertaining to environmental protection are the crucial elements of project viability studies.

One of the most important objectives for the company regarding its operations in the Baltic Sea is to implement the best available solutions with respect to environmental protection, thus supporting the full biodiversity of the Baltic Sea. LOTOS Petrobaltic is working towards completion of its projects aimed to implement the Baltic Sea Action Plan, which stipulates zero discharge from offshore platforms.

The company has entered into negotiations with a Polish company which prepares muds for drilling operations. LOTOS Petrobaltic wants to phase out the harmful red chemicals, which, when confined to a closed system, are not in any contact with the environment. At the same time, the company wants to meet the requirements of the Baltic Sea Action Plan and substitute the red chemicals with green ones, which cause no harm to the marine environment, being friendly to both its flora and fauna.

Concurrently, it is assumed that all waste, including greywater and industrial waste, generated by offshore drilling rig and production platform operations, is to be transported to the shore. In 2011, an installation was constructed on the B3 field the purpose of which is to inject formation water back into the formation. As far as the environmental aspects are concerned, one of the priorities for 2012 relates to the continued implementation of the Baltic Sea Action Plan, both through technological and systemic solutions.

LOTOS Petrobaltic will also seek to meet the latest requirements and standards imposed by HELCOM with respect to treatment of sanitary sewage on its platforms. The company wants to conduct its operations based on the best available technologies and best practice concerning extraction of hydrocarbons from offshore reservoirs, in order to mitigate its impact on the Baltic Sea's biodiversity.

Impact of LOTOS Petrobaltic's operations on biodiversity		Environmental actions undertaken in line with the Baltic Sea Action Plan (BSAP)	
Destruction of wildlife and plant	**Negligible impact**	Formation and oily water re-injection	**Positive impact**

habitats			
Climate change	**No impact**	Technological and systemic solutions concerning cuttings generated in the drilling process	**Positive impact**
Climate change	**No impact**	Transfer of all waste from offshore platforms to the shore	**Positive impact**

LOTOS Paliwa is involved in activities the purpose of which is to investigate biodiversity-related hazards posed by its existing filling stations. They include an assessment of the existing facilities' locations relative to identified protected areas and areas of high biodiversity value outside protected areas, made on the basis of the existing environmental impact assessment reports for such facilities with a view to meeting the effective laws and requirements.

The activities of **LOTOS Oil** focusing on biodiversity-related issues relate to three aspects: product characteristics, product manufacturing and product functionalities.

The company's products are designed based on production inputs such as oil bases and additives, and are marketed in labelled packaging. All production inputs are classified as chemical substances or mixtures, and as such are subject to the registration, evaluation, authorisation and restriction of chemicals (Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)). Among other things, the REACH regulation requires that such substances be evaluated from the point of view of their effect on reproduction of living organisms. At present, the REACH registration requirements do not apply to components used for the production of lubricants (lubricant soaps). For these substances, the obligatory registration date is 2013. The company has been taking steps in order to collect materials necessary for their registration.

Products marketed by LOTOS Oil undergo the process of natural ageing, and therefore must be replaced with new ones. Dealing with used oils is regulated by the environmental laws, which require that some proportion of marketed products be collected back and utilised in a manner that is not arduous to the environment. The company has therefore entered into relevant agreements with providers of recovery and recycling services.

Some of the oil products are biodegradable, i.e. if used correctly for the purpose for which they are intended, they enter the environment and become decomposed into components which cause no harm to the environment. The company is planning to launch such products. Plasticizers meeting the REACH requirements and intended for the rubber industry, whose production was launched in previous years, will continue to be developed. The products are characterised by a low (legally defined) content of polycyclic aromatic hydrocarbons.

Some of the products which the company wants to introduce will be produced by new installations, the designing and operation of which is subject to the currently applicable laws, which take into account the environmental aspects.

The products planned to be launched are designed with a particular focus on those functional characteristics which would enable them to be used in solutions designed to reduce negative environmental impacts. These are, for instance, products for wind farms and engines fuelled with landfill gas or natural gas, or motor oils intended for low-emission engines meeting the Euro5 standards. The company has also been considering the launch of production of biodegradable form oils for the construction industry. Demand for these products depends to a large extent on legal regulations which are in effect.

In accordance with its existing environmental management system (ISO 14001), **LOTOS Asfalt** has set certain goals as far as the environmental aspects of its operations are concerned. The goals include:

- reduction of emissions of bitumen fumes generated during dispatch of products from the Gdańsk facility, which has the largest capacity and actually load the highest volumes of bitumen into vehicles,
- reduction of emissions of bitumen fumes generated during storage of products at the Gdańsk facility, which has the largest throughput and the largest storage base for bitumen products.

These goals were set in 2010 and still apply. All the investment work with respect to the first of the goals was scheduled for completion in 2012, while the modernisation work concerning the tank park was scheduled to be finished by the end of 2013.

An environmental management programme was developed at the company, which comprises investment, organizational and training activities the purpose of which is to reduce any significant, identified environmental impacts, taking into account their technical and economic viability.

Related content:

Product responsibility **Relationships with the local community**

LOTOS Annual Report 2011 / Home / Society

Society

In its operations, the LOTOS Group follows the strategy of sustainable development, while carefully considering the criteria of corporate social responsibility, both in managing the organization and building its relations with the social environment.

Practices in relations with employees

Creating safe working environment and conditions conducive to employee developement are the objectives of the Company's HRM policy.

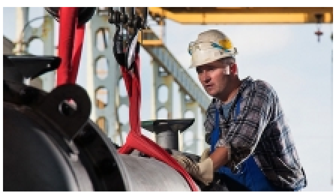
Impact on the society

The Company contributes to the road traffic safety, equal opportunities initiatives, and environmental protection and awareness.

Product responsibility

To eliminate hazards, all stages of the product life cycle are assessed with view to their impact on human and environmental safety.

Human rights



Counteracting discrimination in employment and upholding the freedom of association are central to the corporate culture of Grupa LOTOS.

Practices in relations with employees

Creating safe working environment and conditions conducive to employee developement are the objectives of the Company's HRM policy.

The mission of the LOTOS Group highlights the importance of continuous development of employees and efficient use of their potential, as prerequisites for innovative and sustainable growth. Employees are regarded as the LOTOS Group’s main asset, which is why developing their competences and creating conditions conducive to their increased identification with the fundamental values underlying the LOTOS Group’s organisational culture determine our practices in employment relations.

Thanks to high standards of work and safety, as well as attractive terms of employment combined with multi-directional communication with employees and retired employees, the LOTOS Group enjoys the reputation of a reliable and appreciated employer.

Particular attention is paid to eliminating threats to health and safety at work. Communication, considered one of the key tools to achieving assumed objectives, is also of great significance, as reflected in the mechanisms for involving employees in the process of shaping best practice in many areas of our operations.

As a member of United Nations Global Compact – an organisation promoting corporate social responsibility around the world – Grupa LOTOS has committed to comply with certain principles relating to basic spheres of social life, for instance to effectively counteract discrimination at the workplace. This commitment underscores the importance we attach to the quality of human resources management.

The main objectives of the LOTOS Group’s HR policy are to:

- ensure optimum deployment and utilisation of human resources across the LOTOS Group,
- create a work environment conducive to delivering expected results – improvements in corporate culture through changing employee conduct, increased motivation and dedication, promoting team work, enhanced communication and ensuring a greater sense of job security through developing extensive social benefit package for employees,
- fully harness the potential of employee skills and expertise,
- enhance the Periodic Employee Evaluation System by adding a goal setting and development-oriented task assigning mechanism,
- create conditions conducive to effective development and practical application of acquired skills and competencies (the extensive LOTOS Academy training and development system),
- enhance the existing incentive tools – linking financial and non-financial incentives to employee performance, and
- conduct employee surveys.

The global quality, technical and social challenges faced by businesses today contribute to growing importance of human resources management.

Joanna Tyszka
Director of Human Resources Office
of Grupa LOTOS

The global quality, technical and social challenges faced by businesses today contribute to growing importance of human resources management. In order to achieve its business objectives, the LOTOS Group seeks to attract and retain employees, as well as motivate them to perform at their best. HR management is linked closely to the pursued corporate strategy. Striving for a corporate culture marked by responsibility, innovation, openness and cleanliness, we place much emphasis on such qualities as loyalty, commitment, cooperation and transparency. When recruiting personnel, we have long-term employment as well as their professional and individual development in mind.

The LOTOS Group observes the principles of corporate social responsibility in every area of its activities. This is also true about its comprehensive, strategy-driven HR policy. The strategy – which aims to transform the available human resources into intellectual capital – 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 incentives.

In 2011, Grupa LOTOS won the 12th edition of the Human Resources Management Leader awards, receiving the Amber Statuette. For the fifth consecutive time we were awarded by the Institute of Labour and Social Studies – this time for human resources development under our internally developed programme named “The Master”. It has been designed to select, prepare and train candidates for the position of supervisors at production plants, in connection with the increased number and complexity of crude oil processing facilities following the completion of the 10+ Programme and retirement of senior personnel. The fact that our best practice has gained recognition and become a source of inspiration to external HR experts and managers serves as confirmation that the Company’s HR management is developing in the right direction.

Joanna Tyszka
– Director of Human Resources Office of Grupa LOTOS

The LOTOS Group is seeking to implement procedures enabling efficient monitoring and implementation of remedial measures, if needed, to meet the adopted LOTOS Group-wide HR policy objectives. Steps are being taken aimed at determining uniform communication and evaluation rules with respect to human resources management.

As part of the ongoing cooperation, subsidiaries are obliged to provide the most important information to Grupa LOTOS. Such information (in the form of periodic reports, plans and procedures) is mainly related to personnel, remuneration budget, employment, training plans and stage of their completion, as well as the periodic employee evaluation system. At least 14 days before the adoption of the Board’s resolution, subsidiaries are also required to submit for approval proposals of changes to internal regulations, such as the organisational rules, work regulations, remuneration policy or other HR management solutions. These communication requirements, specified in the Board’s resolutions, are applicable to 13 subsidiaries.

Related content:

Declarations **Mission, vision, values**

Employment

Responsible recruitment policy

Recruitment at the LOTOS Group is carried out based on clearly defined procedures and objective criteria. In 2009, uniform rules for recruitment, selection and employment were established by introducing solutions previously adopted by Grupa LOTOS at all the LOTOS Group's companies.

As qualifications and skills are valued the most by the LOTOS Group's companies, applications from employees of the LOTOS Group are given priority in the internal recruitment process. This approach facilitates knowledge transfers across the LOTOS Group. Simultaneously, a database is maintained of candidates from outside the LOTOS Group who would like to join it.

Information on recruitment procedures and current vacancies is available on the Company's website and intranet site. Applications are selected based on precisely defined recruitment criteria described in job offers. Each job requires specialist knowledge and skills necessary to perform tasks assigned to a given position. However, there are certain abilities which must be possessed by all employees of the LOTOS Group and which are required from candidates for any position at the LOTOS Group. These include business awareness, creativity and innovativeness, ease of adaptation and communication, and ability to work in a team.

The recruitment and selection process involves several stages, whose number and level depend on competences sought for a given position. The process comprises three stages and involves an analysis of candidates' theoretical knowledge, practical skills and development potential. The first two stages consist in a review of documents and an interview with the candidate. The third stage, involving a case study as well as a set of theoretical, psychological and specialist linguistic tests, is designed and performed with respect to specialist and managerial positions. At this stage, the tools applied to examine candidates' abilities are tailored and specifically designed to match the main tasks to be performed in a given position.

Before a recruitment meeting, candidates receive full information concerning the form of the meeting and advice on how to prepare for the interview.

Headcount at the LOTOS Group

Company	Dec 31st 2009	Dec 31st 2010	Dec 31st 2011
Parent			
Grupa LOTOS	1,305	1,310	1,329
Direct subsidiaries			
LOTOS Petrobaltic and subsidiaries	440	472	550
LOTOS Czechowice and subsidiaries	250	240	236
LOTOS Jasło and subsidiaries	152	104	74
LOTOS Serwis	725	711	697
LOTOS Lab	153	153	152
LOTOS Straż	76	86	88
LOTOS Ochrona	194	159	160
LOTOS Park Technologiczny	15	1	1
LOTOS Paliwa	261	261	263
LOTOS Oil	331	341	340
LOTOS Asfalt	249	290	301
LOTOS Gaz (in liquidation)	28	5	1
LOTOS Parafiny	274	259	248
LOTOS Kolej	504	582	717

LOTOS Tank	16	18	11
Total	**4,949**	**5,010**	**5,168**

Workforce of Grupa LOTOS by employment type and region

Item	Total Dec 31st 2011
Indefinite-term employment	
Gdańsk	1,081
Czechowice	33
Jasło	9
Kraków	4
Piotrków Trybunalski	9
Poznań	5
Rypin	10
Warszawa	14
Total:	**1,165**
Fixed-term or temporary employment	
Gdańsk	158
Czechowice	0
Jasło	0
Kraków	0
Piotrków Trybunalski	0
Poznań	1
Rypin	1
Warszawa	4
Total:	**164**

Item	Total Dec 31st 2011
Full-time employees	
Gdańsk	1,227
Czechowice	32
Jasło	7
Kraków	0
Piotrków Trybunalski	9
Poznań	6
Rypin	11
Warszawa	18
Total:	**1,310**
Part-time employees	
Gdańsk	12
Czechowice	1
Jasło	2
Kraków	4
Piotrków Trybunalski	0
Poznań	0
Rypin	0

Warszawa	0
Total:	**19**

In 2011, the employment turnover rate at Grupa LOTOS was relatively low at 12.41% (women: 3.91%, men: 8.50%[1]). Employees usually left through natural attrition, related to retirement of people who were over 50 years of age due to disability or old age.

[1] calculated according to the formula:

$$\frac{\text{Number of employees who left} + \text{Number of new people employed in 2011}}{\text{Number of all employees as at the end of 2011}} \times 100$$

Total number and percentage of Grupa LOTOS employees who left in 2011

Age of employees	Number of employees	Percentage
up to 30 years old	15	20
30-50 years old	26	35
over 50 years old	34	45
Total	**75**	**100**

The LOTOS Group 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 for Employees of Grupa LOTOS and Rules of Participation in the Company Social Benefits Fund.

The benefits offered to employees include a unit-linked life insurance, additional medical care provided by non-public healthcare establishments, dental care, parental leave for mothers and fathers, additional maternity leave and social benefits in the form of loans, allowances, and partial financing of holidays for employees and their children. Additionally, employees who retire due to disability or old age receive retirement severance pay on terms more favourable than those provided for in the Polish Labour Code. Old age and disability pensioners have also access to additional medical care provided by non-public healthcare establishments and dental care at their former employer's cost.

Incentive schemes

The LOTOS Group has a transparent remuneration system in place, whose key components are base salary and annual bonus. The base salary is determined on the basis of national payroll reports compiled by professional HR consultancies.

Base salaries received by the LOTOS Group's employees have risen by 4.5% since January 2011. It is the Company's aim to ensure that the remuneration paid is market-competitive and attractive to employees. For each position, a market median has been set as a target against which the remuneration should be benchmarked. If performance targets set by the Board (i.e. financial criteria defined in the budget) are met, employees are entitled to annual bonus equal to 10% of their annual salary.

Another component of the incentive system are special awards, granted by the CEO in recognition of outstanding effort and commitment. To reward long service and experience, length-of-service awards are granted to employees in keeping with the rules laid down in the Collective Bargaining Agreement. Length-of-service awards are paid at five-year intervals after 15 years of service. Employees retiring due to old age or ill health are entitled to receive severance pay. In H2 2010, the LOTOS Group introduced one more remuneration component – a quarterly incentive bonus awarded to employees by their immediate superior. In 2011, the amount allocated to quarterly incentive bonus payments amounted to 5% of the total base pay.

The employee remuneration policy, set out in the Collective Bargaining Agreement for Employees of Grupa LOTOS, has been in place since 2005 and provides for the following remuneration constituents:

- monthly base salary,
- allowances under the labour law,
- annual bonus of up to 10% of the annual remuneration, paid in the first half of the year following the year for which it is due, provided that certain 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 the total monthly base pay.

Twice a year, base salary levels are compared against the pre-determined market medians and raised by the superiors, as appropriate.

In 2011, this benchmarking procedure was combined with the periodic remuneration review stipulated under the Collective Bargaining Agreement, which provided a good opportunity to increase the salaries of employees whose performance was above average. The remuneration benchmarking and reviews were also carried out at the LOTOS Group's subsidiaries.

Social benefits scheme

Grupa LOTOS and other LOTOS Group companies (LOTOS Lab, LOTOS Serwis, LOTOS Straż, LOTOS Ochrona, LOTOS Oil, LOTOS Asfalt, LOTOS Tank, and LOTOS Kolej) are covered by an agreement whereby they run a common social benefits scheme. A clause was written into their Collective Bargaining Agreements to increase the base contribution to the company social benefits fund to 100% of the average monthly salary in Poland per each employee and to 6.25% of the average monthly salary per each retiree. As a result, holiday allowance for the lowest-income employees was raised to PLN 2,222, a level higher than that prescribed by applicable laws (in 2010, the figure was PLN 1,980).

Under the Rules of Participation in the Company Social Benefits Fund, persons covered by the social benefits scheme include: employees of the LOTOS Group, their children aged from six to eighteen, retired employees, spouses of deceased employees and retired employees, and persons eligible for pre-retirement allowances. The eligible persons are offered various forms of social support provided for in the budget approved by the companies' boards and trade unions: holiday allowances, rehabilitation allowances for children with disabilities confirmed by a doctor certificate, housing loans, and non-refundable financial aid to persons in difficult personal circumstances.

Thanks to sound management of the Company Social Benefits Fund, the actual expenditure was 93% of the management- and union-approved social expenditure budget for 2011.

Expenditure on the Company Social Benefits Fund in 2011

Type of benefit	No.	Allowance amount [PLN]
Summer holidays – employees	4,590	8,368,492
Summer holidays – children of employees	1,952	2,063,852
Non-refundable financial aid	250	570,600
Housing loans	19	507,500
Leisure activities for employees and their families, and Christmas goodie bags for children	2,200	437,472

The LOTOS Group provides its employees with a selection of pension plans to choose from, as it considers the Pillar 3 retirement saving scheme an important aspect of responsible planning for one's financial future.

	2009	2010	2011
	Grupa LOTOS (PLN thousand)		
Premiums under unit-linked insurance policies (Pillar 3 of the Polish pension system)	3,439	3,800	3,465
	LOTOS Group (PLN thousand)		
	10,195	10,174	10,339

Most companies take out group insurance coverage, which for the last ten years has been provided by one of insurance companies in the form of unit-linked life insurance. The history of capital markets shows that investment funds, despite short-term fluctuations in unit values, always deliver attractive returns in the long term. Regular payments made by the employer towards the unit-linked scheme protect the invested money against market fluctuations. The option to pay additional monthly contributions over long-term horizon will enable employees to benefit from more generous pensions that those offered by the state, helping to close the salary-pension gap, or the difference between the final salary and retirement income.

At present, individual employee accounts are credited with premiums paid by the employer. The scheme participation is voluntary and available to insurable employees under 70 years of age, employed under employment contracts other than temporary substitute employment contracts. Employees who have previously terminated insurance coverage are not eligible to participate in the scheme.

Premiums paid by the employer are accumulated in individual employee accounts. Their value is expressed in the Polish złoty. Investment returns are a percentage of the accumulated capital. This transparent and easy to understand fund structure offers clear information on the cash value of each individual account, with no need to convert the values of financial instruments (fund units) into cash. The individual accounts are brought together into one Accounts Fund administered by one of insurance companies. Once a year, in the first quarter of each year, the employees receive statements of their investment accounts. The scheme is flexible and tailored to employee needs.

- As at December 31st 2011, 87.9% of Grupa LOTOS' employees and 61.5% of the LOTOS Group's employees were covered by the group insurance scheme.
- LOTOS Paliwa employees may participate in a group pension insurance scheme. The insurance policy is unit-linked, with premiums being invested in line with the general insurance policy terms. The unit-linked fund aims to achieve steady capital appreciation over long-term horizon, while seeking to preserve the value of invested capital in real terms and minimise investment risks, by investing assets in low-risk securities and bank deposits. As at December 31st 2011, 61.22% of LOTOS

Paliwa's employees were covered by the pension plan.

- At LOTOS Petrobaltic, 76% of all employees participate in the employee pension plan managed by one of insurance companies.

Employment relations

The Collective Bargaining Agreement in place at Grupa LOTOS covers 95.18% of all its employees. The percentage is similar at the LOTOS Group subsidiaries.

Providing employees with access to information on planned changes to the corporate strategy or other important events with an impact on the Company's situation represents an important building block of our corporate culture.

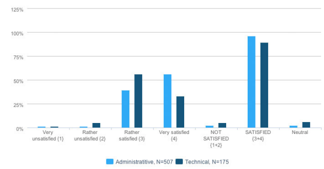
In keeping with the existing legal requirements, the LOTOS Group makes every effort to ensure that any major operational change within the organisation is presented for discussion at least 30 days in advance. It also seeks to provide opportunities for employee representatives to become involved in the negotiation and implementation of changes which affect the Company's functioning. As part of good corporate practice, meetings are held with members of the Employee Council and Union representatives. The meetings provided a forum for detailed discussion of the LOTOS Group's strategy for 2011–2015 along with development directions until 2020.

The time limits for and methods of communicating important operational changes are defined in applicable laws. However, Grupa LOTOS has for many years worked to develop an internal communication model that would foster the culture of dialogue and facilitate information flow between different structures and levels within the organisation. The conventional top-down one-way communication model has been departed from in favour of multi-directional, open and feedback-oriented communication. Accordingly, a range of advanced communication solutions have been implemented, such as internet kiosks, which were installed at selected production workstations in 2011 to keep shift workers abreast of current developments.

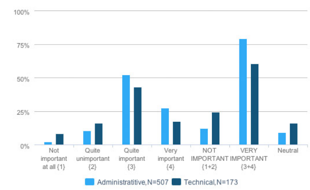
In addition to electronic communication channels, we attach much importance to in-person meetings between employees and management, during which company affairs are discussed. The meetings are often essential to winning employees' understanding and acceptance of difficult decisions.

An initiative designed to increase the involvement of employees, as the Company's stakeholders, in the decision-making process was implemented in 2011. Representatives of key operating segments attended strategic workshops held to identify new objectives for the updated LOTOS Group Corporate Social Responsibility Strategy for 2012–2015. The workshops were attended by 90 in-house specialists. It was the first strategy-oriented project relying exclusively on the knowledge, competence and experience of our employees. The initiative gave them real power to influence the quality of processes in many areas, from HR management, to health and safety, to customer and business partner relations.

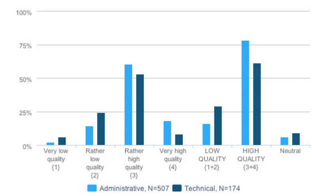
Assessment of job satisfaction at the LOTOS Group. (%)



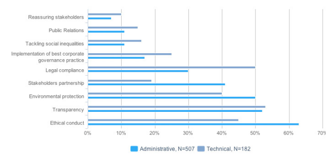
Assessment of the importance of the fact that the LOTOS Group has implemented best practices in the CSR area from the point of view of its employees. (%)



Assessment of the quality of internal communication at the LOTOS Group. (%)



The way the LOTOS Group's employees understand the notion of corporate social responsibility.



The strategic workshops, preceded by an employee survey conducted at the LOTOS Group, were designed to deliver results that would best accommodate employee needs and expectations. In line with our HR policy, employees were asked in the survey to rate their job satisfaction and the quality of internal communication.

The survey was conducted in September 2011. Presented below are some of the results.

Employees were asked about their needs and expectations regarding access to information, including information required to perform their duties. Opinions were also sought on what kind of educational, social, research, market and other initiatives and projects employees would expect the Company to undertake. The survey results underpinned the work on updating the CSR strategy, which is a comprehensive document addressing a wide range of matters, including HR investments, safety, integration with local communities, management of natural resources in the production processes, ethics and abuse prevention, market partnerships, communication of changes and access to information.

Related content:

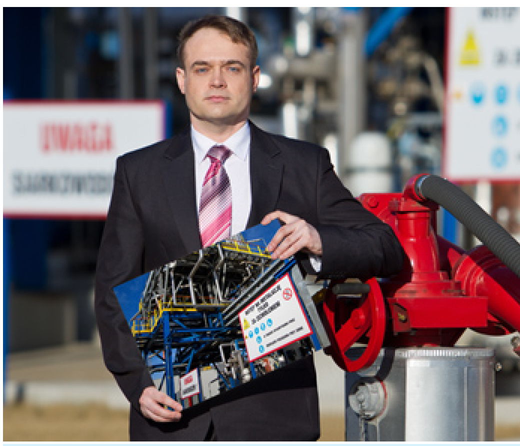
Freedom of association and collective bargaining **Stakeholders' involvement** **Impact on the society**

Occupational health and safety

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

The LOTOS Group fulfils all its obligations under applicable laws in the area of occupational health and safety, as well as safety of processes and technologies. The obligatory measures in the area of occupational health and safety at the LOTOS Group include:

- controls and inspections of workstations,
- audits,
- OHS Committee,
- collaboration with the social labour inspectorate, a doctor responsible for medical care of employees and external entities,
- OHS and fire safety training,
- identification of hazards and appraisal of occupational risks associated with the presence of chemical and biological agents, noise or explosive atmospheres,
- adaptation of workstations to comply with legal requirements and principles of ergonomics,
- provision of safe working environment, workwear, and use of personal and collective protective equipment,
- provision of work organisation and workstations ensuring protection against accident hazards and exposure to health damaging and arduous conditions, with due regard to employees' mental and physical characteristics,
- adoption of systemic rather than ad-hoc solutions, to eliminate any detected irregularities, causes of workplace accidents, hazardous situations, etc.,
- elimination of health and life hazards, mainly through the adoption of non-hazardous technologies, equipment, materials and substances.



At the LOTOS Group, our primary rule of safety states that no work is important or urgent enough to disregard safety.

Jarosław Jóźwiak
Head of Health & Safety Office of Grupa LOTOS

At the LOTOS Group, our primary rule of safety states that no work is important or urgent enough to disregard safety. This rule applies not only to the LOTOS Group's employees, but to all persons working on the premises of the refinery or other production facilities. Many years of building a culture of high occupational safety are still ahead. Grupa LOTOS believes that awareness makes a safe employee, one who knows the consequences of their actions, but can also draw on their professional experience. When designing and implementing various safety solutions, we take advantage of the knowledge and experience of Company employees, while keeping track of the latest developments in the global refining industry. We draw on the experience of other companies. If an accident happens at a chemical plant, we inquire into its causes and analyse whether our safety measures are sufficient in this respect. Although we ourselves set the most stringent safety standards to work by, we are happy to see our efforts appreciated by insurance companies, external auditors and state authorities. In 2011, our efforts to improve occupational health and safety were recognised by the National Labour Inspectorate, which awarded Grupa LOTOS at the Pomeranian, and later at the national level, of the "Employer - provider of safe work conditions" competition, as a result of which the Company was entered on the Golden List of Employers. The distinction will certainly encourage us to take further initiatives for improvement of occupational safety, with active participation of the LOTOS Group's employees. We also have to adjust to the changing regulatory environment. We are full of ideas for "engaging" OHS. However, their success depends on joint effort and commitment of all employees. We will continue to ensure that the LOTOS Group's employees, contractors and guests feel safe and comfortable on our premises, that they remember to take care of their health and enthusiastically participate in all educational and training initiatives, and that they report any issues for us to resolve them. This is our duty, this is why we are here.

Jarosław Jóźwiak
– Head of Health & Safety Office of Grupa LOTOS

The LOTOS Group spares no effort to ensure that:

- the workplace is properly organised,
- regular workplace surveys are performed,
- the best possible precautions 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 culture of safe work.

All these elements are our priority in the area of occupational safety, fire safety and health protection. Putting strong emphasis, at all levels of the organisation, on the staff's commitment to building a high occupational safety culture is a task for the years to come.

Workplace safety awareness is raised by:

- training and other staff development initiatives,
- education on OHS-related matters, fire safety and health protection,
- encouraging staff's involvement in developing and implementing the corporate OHS policy,
- encouraging staff's involvement in developing and implementing the corporate OHS policy,

The Company is equally committed to ensuring safety of its guests and contractors. To this end, third-party contractors:

- are given access to a dedicated website which distributes information on OHS/fire safety standards and requirements; and are furnished with the "Grupa LOTOS Site Rules and internal safety procedures",
- before entering the premises of the refinery, are handed the booklet "General Site Rules at Grupa LOTOS",
- before commencing work, they undergo training in internal safety rules and proper execution of work,
- are regularly assessed for compliance with the internal OHS requirements,
- attend meetings with the LOTOS Group's employees devoted to internal work safety standards and most frequent irregularities in the area of health and safety at work.

Occupational Health and Safety Committee

In accordance with the labour law provisions, as an employer with more than 250 employees, Grupa LOTOS has set up an Occupational Health and Safety Committee, which is and advisory and consultative body. The Committee comprises both representatives of the employer (the OHS unit personnel and doctor responsible for prophylactic care of employees), and of employees (including the Company's Social Labour Inspector and trade unions representatives). A representative of the employer, i.e. the Proxy for Employee Representation, is the Committee's chairperson, while the Company's Social Labour Inspector is its deputy chairperson. The Committee represents the interests of all employees, regardless of the fact whether they are or not members of the corporate trade union organizations.
The Committee reviews working conditions, periodically assesses the state of occupational health and safety measures, issues opinions on measures taken by the employer to prevent accidents at work and occupational diseases, prepares recommendations aimed to improve working conditions, and collaborates with the employer in its efforts to ensure compliance with OHS requirements.
At Committee meetings, the employer also fulfils its obligation to consult OHS matters with employees or their representatives. The Committee meets during working hours. When agreed with the employer, the Committee may use third-party expert appraisals and opinions at the employer's cost.

In 2011, the OHS Committee at Grupa LOTOS reviewed working conditions at railway loading facilities. In addition, the following issues were discussed:

- rules of procedure for work carried out pursuant to written permits, security guidelines for work performed inside tanks and apparatuses, and fire precautions for hot work,
- occupational health and safety monitoring,
- working conditions improvement plan for 2012,
- rules of using and maintaining workwear and personal protective equipment,

- accident reporting and investigation,
- guidelines for medical examinations.

Health and safety issues have also been covered in formal agreements with trade unions, including the Collective Bargaining Agreement for Employees of Grupa LOTOS. Apart from appointing the OHS Committee, the employer carries out consultations with regard to personal protective equipment, while employee representatives take part in controls, audits and accident investigations; and may lodge complaints or initiate periodic inspections.

The Company has established the Social Labour Inspector function. In 2008, a team of social labour inspectors was appointed by ballot at Grupa LOTOS for a four-year term of office ended January 31st 2012. Following the ballot, the person serving as the Company's Social Labour Inspector was – at a request submitted by six trade unions – released from normal work duties for the duration of his term of office. This decision of the employer allowed the staff representative to carry out his social supervision duties more efficiently, especially in the field of OHS. Halfway through his term of office, the Social Labour Inspector received an award from the Regional Labour Inspector of Gdańsk for outstanding diligence in performing his duties. Recognising the importance of employee involvement in improving work safety, the employer decided that, following the expiry of his term of office, the Social Labour Inspector would continue to exercise social supervision. Thus, as agreed with the Company's trade unions, the former Social Labour Inspector was assigned the task of controlling the technical safety of work at Grupa LOTOS. To provide the inspector with a necessary level of independence, a direct reporting line (both functional and organisational) was established between the inspector and a member of the Company's management.

Accident rate

The most frequent accident-related injuries at the LOTOS Group are injuries of upper limbs, but also of hands and trunk. Most accidents have occurred during walking, loading and unloading, storage handling and transport.

2011 saw a year-on-year decline in the number of accidents at work and the LTIF value at the LOTOS Group. This was attributable to higher employee awareness regarding occupational safety resulting, among other things, from large-scale awareness initiatives, increased commitment and efforts to foster a culture of occupational safety. Employees took part in training and informal sessions focused on occupational safety. Other communication channels were also made available for that purpose. The above initiatives have delivered the expected result, as the level of employee awareness has demonstrably increased. This focused and planned process aimed at raising employee awareness and fostering a culture of occupational safety is meant to be a long-term effort, and so it will be pursued in the years to come. In recent years, there has been a welcome downward trend in accident rates at the LOTOS Group, which shows that our efforts in the area of health and occupational safety have put the LOTOS Group on the right track.

Grupa LOTOS	**2009**	**2010**	**2011**
Number of employees[1]	1,305	1,315	1,318
Accidents at work	13	9	5
Post-accident absenteeism (calendar days). Lost days are counted from the day when the injured employee obtains a sick leave certificate from a doctor	537	287	168
Occupational diseases	none	none	none
The lost time injury frequency (LTIF)[2] (per 1 million hours worked)	5.6	3.4	2.1
The lost day incident rate (LDIR)[3] (per 200 thousand hours worked)	1.1	0.7	0.42

[1] Average annual employment.

[2] LTIF – number of occurrences resulting in inability to work $x10^6$/number of working hours.

[3] LDIR – number of occurrences resulting in inability to work $x2*10^5$/number of working hours.

LOTOS Group	**2009**	**2010**	**2011**
Number of employees[1]	4,949	4,946	5,004
Accidents at work	45	56	31
Post-accident absenteeism (calendar days). Lost days are counted from the day when the injured employee obtains a sick leave certificate from a doctor	1,257	2,502	1,558
Occupational diseases	none	none	none
The lost time injury frequency (LTIF)[2] (per 1 million	4.4	5.9	3.3

hours worked)			
The lost day incident rate (LDIR)[3] (per 200 thousand hours worked)	0.9	1.2	0.7

[1] Average annual employment.

[2] LTIF – number of occurrences resulting in inability to w ork x10^6/number of w orking hours.

[3] LDIR – number of occurrences resulting in inability to w ork x2*10^5/number of w orking hours.

Work absence rate at Grupa LOTOS in 2011	**Blue-collar jobs**	**White-collar jobs**	**Total**
	day / employee	day / employee	day / employee
absence	36.45	47.17	43.00
including: illness	8.99	8.27	8.55

The LOTOS Group classifies accidents at work in accordance with Polish legislation. In addition, Grupa LOTOS 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 LTIF *(Lost Time Injury Frequency)* rate is computed, and incidents requiring *first-aid treatment*.

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 hazardous situations, and
- identify and analyse dangerous occurrences, based on which they take appropriate proactive and reactive measures to prevent their recurrence.

Best practices

The LOTOS Group undertakes educational and training initiatives and preventive programmes designed to minimise the consequences of employee illnesses.

Taking care of its employees' health, Grupa LOTOS provides them with a wide array of medical services, cooperating with chosen hospitals and clinics. Each employee holding a "Patient Card" can benefit from medical services available throughout the country. Additionally, employees are offered specialist help and counselling in personal and family problems by a dedicated team of psychologists employed by the Company.

In 2011, specialised training in first aid for children was carried out. Also, a preventive campaign was organised aimed at early osteoporosis detection. Thanks to specialist equipment, over 150 employees had their bone mineral density measured. Medical examinations and tests were also carried out, including tests for blood sugar and cholesterol levels, blood pressure, body fat metering, and BMI index specification.

The Company carries out regular educational programmes concerned with workplace risks and hazards. The most important ones included: classes in stress management, programmes focusing on the subjects of healthy eating habits, quitting smoking, safety when handling heavy objects, physical exercise and activity, office ergonomics, organisation of work at the workstation, safe use of chemicals, and noise protection.

In 2011, Grupa LOTOS was also engaged in a number of non-obligatory initiatives designed to promote occupational health and safety issues in an easy-to-understand and engaging manner. These included:

- Organisation of the 2nd OHS Day combined with prophylactic activities.
- Organisation of OHS workshops for management personnel of the production division.
- Installation of automated external defibrillators (AED) in high-traffic Company buildings in Gdańsk, and training aimed to teach a group of employees how to properly use the devices.
- Preparation of a video tutorial in two languages for third-party employees and guests, containing information on safety requirements and rules at the Company.
- Upgrade of the electronic system for monitoring the validity of contractor training in safety and working rules at Grupa LOTOS.
- Preparation of workplace accident cost estimate methodology, which takes into account a broad scope of factors behind such

occurrences.

- Commencement of collaboration with the National Labour Inspectorate and the State Fire Service concerning self-control of work condition reviews.
- Introduction of a modern electronic solution “Contractor Portal” (available also in English) to facilitate communication between the Company and contractors of works carried out at the refinery, and to provide current OHS and fire safety requirements and standards to external companies.
- Organisation of training for a dedicated first-aid team of production workers responsible for providing medical care until the arrival of a doctor.
- Continued emergency drills (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.
- Provision of efficient means of communication in the area of OHS and fire safety between the OHS unit and employees of the LOTOS Group, to facilitate reporting of hazards, and communicating of novel solutions employed in Poland or in the world, and proposals for improvement of work conditions. The most interesting initiatives include:
  - publishing the “Bezpiecznik” OHS quarterly (in 2009, it won a distinction from the Corporate Publishing Association in recognition of “uninterrupted reporter-like vigilance of OHS unit employees, who offer practical tips on how to avoid hazards using on-site examples”),
  - “Workplace safety” intranet panel, providing employees with tips on how to stay healthy and fit, video tutorials, training materials, trade news from the world, and knowledge tests,
  - publishing articles devoted to health and safety at work in each issue of the LOTOSFERA monthly staff newsletter,
  - dedicated workplace safety displays with materials promoting accident-free work environment, examples of dangerous occurrences provided by employees, and answers to enquiries submitted via OHS boxes or e-mail,
  - “Accident Rate” boards placed on the premises of the refinery, providing detailed figures on accidents and hazardous occurrences reported at different production plants and Group companies.

Improvement plans concerning occupational health and safety

Short-term plans:

- Raising workplace safety awareness by organising and encouraging participation in the World Day for Safety and Health at Work;
- Implementing a uniform assessment system for testing production plants and subsidiaries for compliance with the OHS and fire safety requirements;
- Organising OHS workshops for management personnel of the production division;
- Developing various incentive methods for the purposes of periodic OHS training;
- Developing technical, OHS and fire safety standards for Grupa LOTOS investment projects, based on Polish and global legal requirements and standards;
- Preparation of workplace accident cost estimate methodology, with respect to technical, organisational and human resources aspects.

Medium-term plans:

- Implementing of a revised work permit system with the use of IT tools at the LOTOS Group entities in Gdańsk (by 2013);
- Implementing the Lockout-Tagout safety system during repair work on the refinery’s active production units;
- Establishing uniform safety standards across the LOTOS Group;
- Organising regular training for the Company’s employees on how to properly use the AEDs;
- Upgrading the LOTOS Group’s OHS and fire protection requirements and standards for contractors;
- Reviewing employee energy spending; Energy spending is a basic parameter specifying the amount of energy spent by a person at work. An assessment of energy spending for various work activities helps to prepare jobs descriptions, making it easier to recruit candidates for particular positions.
- Modifying emergency drills (accidents at work, chemical alerts and evacuations, practising emergency scenarios with the use of new simulation devices, such as colourful flares applied depending on the type of threat, use of training manikins and medical bags with a wide selection of specialist equipment for first aid practice;
- Organising driving improvement courses for company car owners, employees who use company cars most frequently and all professional drivers at the Company;
- Organising road accident rescue training and team-building programmes for employees who use company vehicles for the purpose of social campaigns;
- Introducing the calendar of monthly events concerning safety at work and health protection.

Long-term plans:

- Fostering a culture of safe work, with the support from management and lower-level staff;
- Fostering a culture of safe work with the support from contractors;
- Implementing a programme based on lessons learnt by Grupa LOTOS and other organisations around the world, as a preventive measure in the area of safety at work;
- Achieving the best standards of production in the oil refining industry through the implementation of measures designed to maintain the downward trend in LTIF;
- Carrying out regular workplace assessments, including with respect to noise pollution and exposures to chemical substances;

- Continuing the Programme of standardising the work safety system at the LOTOS Group;
- Carrying out regular workstation inspections and reviews in order to identify and eliminate any hazards;
- Continuing training and preventive activities with respect to safety at work.

Related content:

Awards and distinctions **Customer health and safety**

Training and education

As a modern and dynamically growing business, the LOTOS Group takes proper care to ensure continuous development of its employees. Therefore, the LOTOS Academy is still subject to improvement.

The LOTOS Academy is a training and development programme which aims to build a partnership-oriented corporate team. Its mission is to entrench a work culture and management philosophy built around a model employee who consciously participates in the process of creating added value for customers and shareholders.

When designing the LOTOS Academy programmes, the Company is guided by the principles of:

- accessibility – training is targeted at all employee groups,
- coherence – the 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 of the process (senior management, line managers and the Human Resources Office) are responsible for the training results and development,
- continuity – professional development planning is a continuous process, aligned with the results of periodic performance evaluation, individual career paths, succession planning and development programmes designed for a particular employee group,
- flexibility – training planning and implementation must account for the fast-changing external conditions and desirable changes in the employees' qualifications.

In 2011, employees' development was fostered with the use of the following tools:

- **Skills map** – a set of key competencies 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 Employee Evaluation System (PEES)** – review of the employees' skills and competencies, and target setting.

In 2011, the Periodic Employee Evaluation System covered employees of Grupa LOTOS and its subsidiaries: LOTOS Paliwa, LOTOS Asfalt, LOTOS Oil, LOTOS Tank, LOTOS Kolej, LOTOS Ochrona, LOTOS Straż, LOTOS Lab, LOTOS Serwis, LOTOS Petrobaltic and LOTOS Parafiny.

In total, 89.02% of all the LOTOS Group employees were subject to evaluation. In 2011, the percentage stage of the periodic evaluation completion (number of employees evaluated relative to the total number of employees) at individual companies ranged from 76% to 97%.

The PEES consists in evaluating key competences, including availability, decisiveness, creativity and innovativeness, ability to work in a team, leadership skills, adaptability to change, change management skills, work quality and performance, as well as management quality. The evaluation also rates the employees' achievement of goals and assignments in the previous year, while a training and development path for the next year is planned.

Training programmes

Akademia LOTOS for all staff, or the Training Calendar

The programme and schedule of training organised as part of the LOTOS Academy Training Calendar are available for all employees via the intranet system. The themes to be covered during the training sessions are determined based on the analysis of the competence map, the PEES results, and employee development plans at individual organisational units. Also, they take into account the corporate development requirements.

In 2011, individual employees' competences were developed through the following training:

1. Creative thinking and creative problem solving,
2. Business English in contracts,
3. Communication and cooperation of cross-functional project teams,
4. Work planning and scheduling – work efficiency,
5. Presentation and public speaking skills,
6. Team work,
7. Middle and lower-level management communication,
8. Project management,
9. Motivation workshops for management staff,
10. Negotiations – simulation game,
11. Communication – simulation game,
12. Assertiveness and conflict management,
13. 13. Business manners, or class and elegance in professional life,
14. Information handling techniques, fast reading,
15. Team leading,
16. Microsoft Office training,
17. Effective communication.

AKADEMIA LOTOS

Akademia LOTOS "tailor-made"

Induction programme for new employees – familiarisation with the LOTOS Group's values and organisational culture, encouragement of desirable behaviour, reducing the time necessary to effectively perform tasks, team integration, reducing change-related stress, increase in employees' commitment and satisfaction.

Seminars for management – general management competence development. The seminars cover a range of topics, including the strategic and economic aspects of a company's operations in a fast-changing environment, as well as demonstration of modern management methods and tools.

The MASTER Programme – developing uniform methods for selecting, preparing and training candidates for the position of supervisors at production plants in connection with vacancies expected in the coming years as senior staff retires and the number of facilities increases following the 10+ Programme. In 2011, 36 selected employees participated in the following training: Communication, Management for supervisors, Production team management, Task delegation, Setting objectives for employees, Production game, Conflicts and assertiveness, Let's talk about difficult issues, Coaching.

The Auditor School – preparing well-trained and experienced auditors, who will perform audits at the LOTOS Group's companies in line with the highest, uniform corporate standards. In 2011, both the employees who participated in the first edition of the Auditor School (in 2008) and future auditors who have only recently been selected had an opportunity to raise their qualifications. The training curriculum included the following themes: Internal Auditor of Integrated Management Systems, Practice workshop for Internal Auditors of Integrated Management Systems, Auditor – positive trends leader, Processes audit, Effective communication as a prerequisite for qualitative changes at a company, Internal audit focused on corporate risks, Supplier audit – supply chain audit.

AKADEMIA LOTOS

Akademia LOTOS knowledge sharing – internal training projects

Induction Training – dedicated to new employees of the LOTOS Group. It is organised as part of the Induction Programme for newly recruited employees, which has been in place at the Company since 2007. During the training, more experienced employees share their knowledge on the Company's organisational culture, processes and procedures, as well as crude oil processing and the refinery's work.

Basic training for newly recruited production staff – transferring technical knowledge necessary to properly perform a unit operator's tasks. During a two week-training cycle, a group of qualified internal trainers share their specialist knowledge in particular fields. The training ends with a written exam.

Periodic Employee Evaluation System – training for employees who perform and undergo the evaluation, with the use of an internal procedure, evaluation sheets, electronic system and general rules for carrying out an evaluation interview.

LOTOS 2011–2015 Conference – discussing key aspects of the segments' operations (exploration and production, operating segment and market activities) in the context of the Company's strategic objectives. In connection with the LOTOS Group's new strategy, its main objectives along with the development directions until 2020 were presented by the officers in charge of the LOTOS Group's key operating areas. About 700 employees participated in the three conferences organised in 2011.

The average number of training hours per employee, by employment structure at Grupa LOTOS

Employee category	2009	2010	2011
Senior management	35.2	61.2	40.0
Lower management	51.9	60.3	38.0
Back-office staff	38.7	29.6	30.7
Production staff	10.3	12.6	13.2

Programmes for skills improvement and lifelong learning, regardless of age

All employees of the LOTOS Group, irrespective of age and time left to planned 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. Improvement 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.

It is worth noting that experienced employees are encouraged to take care of their younger colleagues, assuming the role of internal coaches. With respect to production staff, coaching is targeted at developing practical knowledge and skills in managing production processes and achieving better performance. Coaching targeted at participants of development projects, delivered by experienced managers, is designed to develop the participants' professional career in line with values professed by Grupa LOTOS.

Moreover, the LOTOS Group's employees can 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 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 amount equal to 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.

Improvement plans concerning personnel qualifications development

Short- and medium-term plans:

- The LOTOS Group Succession Programme – selection and proper preparation of reserve staff, who in due course would be able to fill strategic positions at the LOTOS Group. The Programme is aimed to support the LOTOS Group's business strategy by ensuring continuous staffing.
- The MASTER Programme – continuing the selection and training programme for 36 participants, process and unit operators, potential supervisors. Another year of the Programme involves a theoretical part designed to allow its participants to complement or acquire the necessary knowledge on production operations. The Programme will be supplemented by personalised training tailored to the needs of individual participants, such as assertiveness development, stress resilience, graduate and specialist postgraduate studies.
- A series of courses in production team management for experienced production personnel who have held the position of supervisors for many years.
- Implementing the STL® team leadership model for management staff of Grupa LOTOS. Enhancing team efficiency by developing leadership skills through another licensed training (following the cycle of the SL II® situational leadership training), prepared on the basis of techniques developed by the Ken Blanchard team.
- Counteracting mobbing at work – an e-learning course.
- The Auditor School – continuing training to establish uniform auditing standards across the LOTOS Group.

- Seminars for Management – continuing development initiatives targeted at management staff by organising new seminars, such as The 21st Century Leadership or Full POWER – Personal and Professional Efficiency.
- Continuing training for all the LOTOS Group's employees as part of the LOTOS Academy Training Calendar.

Every year, based on the periodic employee evaluation (PEES), the LOTOS Group prepares an **Employee Training Schedule in terms of budget** for the following year. The Schedule includes obligatory training, training related to acquiring qualifications required for a given position (e.g. for power generation and electricity engineering, shunting, crane and gantry crane operation, scaffold assembly, filling tanks with hazardous substances in compliance with the RID and ADR regulations), training related to new tasks and changes in applicable laws (law, economics, environmental protection, trade, finance, technology), language courses, system training (PN-EN ISO 9001:2009 – Quality Management Systems, PN-EN ISO 14001:2005 – Environmental Management Systems, PN-N-18001:2004 – Management Systems for Occupational Safety and Hygiene), industry conferences in Poland and abroad and seminars.

Related content:

Investment and procurement practices **Counteracting abuse**

Diversity and equality of opportunities

In 2010, the Warsaw Stock Exchange introduced the following provision to the Code of Best Practice for WSE Listed Companies: "The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business." As a listed company, Grupa LOTOS shares the belief that employment diversity may increase a company's competitiveness and strengthen its development prospects. However, gender diversity is not always a key factor in HR decision making, particularly in the industry in which Grupa LOTOS operates. The Company manages the Gdańsk refinery. Due to the nature of its activities, a great part of the Company's employees are engineers and specialists in hydrocarbon production and processing. In Poland, as well as in other parts of the world, this segment is dominated by men. This is also confirmed by the prevalence of men among engineering students in Poland. The tendency is reflected in the Company's employment structure. Despite the policy of equal opportunities in the recruitment process, women are more numerous in back-office functions, whereas men – in production and technology.

Composition of the management and supervisory bodies of Grupa LOTOS by age and gender is as follows:

Item	Total as at Dec 31st 2011	%
up to 30 years old		
Supervisory Board	0	0.00
30 - 50 years old		
Supervisory Board	5	83.33
over 50 years old		
Supervisory Board	1	16.67

Item	Total as at Dec 31st 2011	% of all employees
up 30 years old		
Board	0	0.00
Senior management	0	0.00
Lower management	2	0.15
Back-office staff	76	5.72
Production staff	117	8.80
Total:	**195**	**14.67**
30 - 50 years old		
Board	1	0.08
Senior management	28	2.11
Lower management	83	6.25
Back-office staff	365	27.46
Production staff	285	21.44
Total:	**762**	**57.34**
over 50 years old		
Board	3	0.23

Senior management	13	0.98
Lower management	41	3.09
Back-office staff	166	12.49
Production staff	149	11.21
Total:	**372**	**27.99**

The ratio of men’s base pay to women’s base pay by position held at Grupa LOTOS is as follows:

Base pay at Grupa LOTOS according to gender, as at December 31st 2011

Employee category	Women		Men		Ratio of men’s base pay to women’s base pay
	Number	Minimum base pay	Number	Minimum base pay	
Supervisory Board	1	3,454	5	3,454	100%
Board	0	-	4	20,728	-
Senior management	7	17,000	34	13,063	77%
Lower management	41	5,748	85	7,000	122%
Back-office staff	355	2,400	252	3,490	145%
Production staff	1	3,818	550	3,000	79%
Relation of minimum base pay		**2,400**		**3,000**	**125%**

Grupa LOTOS wants to offer attractive base pay rates to its employees. However, the Company needs to take into account the nature of a given labour market and certain internal considerations. In 2011, the ratio of men's base pay to women's base pay was 125%, in favour of men. The largest disparities exist in the case of the Finance and Accounting Centre – a self-financing back-office unit, which has to take into account the effect of staff expenses on its profitability. In 2011, several new junior accountants were employed at the Centre to stand in for employees on maternity or parental leave. Since the position requires fewer qualifications and lower education, it entails lower remuneration. The temporary substitute employment contracts are the reason behind lower remuneration of women working in the back-office area.

Related content:

Composition of the Board **Composition of the Supervisory Board**

Impact on the society

The Company contributes to the road traffic safety, equal opportunities initiatives, and environmental protection and awareness.

The LOTOS Group's CSR strategy focuses on the optimum utilisation of the organization's resources and capabilities to generate economic and social benefits for the company and its surroundings. To ensure its successful implementation, the social, environmental, ethical, and human rights issues covered by the strategy have been integrated into our core operations and business strategy.

The LOTOS Group's prime objective in the area of corporate social responsibility is to take systemic and dynamic approach to problems arising in the LOTOS Group's social environment and aligning its business objectives with important social and environmental issues. Our responsibility for local communities is manifest in the commitment to ensure that our production activities are carried out in accordance with the sustainability principles and cause no social or environmental damage in our surroundings.

Our strategic approach to corporate social responsibility contributes to:

- strengthening of the LOTOS Group's competitive position,
- increased involvement of internal and external stakeholders,
- proper identification and limitation of social and environmental risks entailed by the organization's operations,
- counteracting material problems and challenges identified in the Company's surroundings.

When making business decisions, the LOTOS Group's entities take into account their indirect impact on local communities and development of the regions where they operate. This refers in particular to responsible relations with business partners, including small and medium-sized enterprises playing an important role on local markets. We seek to have influence over the quality of vocational training in those disciplines which in the coming years are set to drive the innovative and dynamic development of both the LOTOS Group and the entire industry.

The robust financial performance for 2011, achieved on the back of additional capacities of the 10+ Programme units, increased oil throughput and higher sales, allowed to pursue the social and environmental projects envisaged for the period. Given the prevailing difficult conditions on the European financial markets, which may result in an economic slowdown in Poland, and with the intention to ensure the LOTOS Group's secure development, Grupa LOTOS launched in early 2012 the Optimal Expansion Programme. The programme provides for the launch of a number of projects designed to improve the efficiency of the Grupa LOTOS's activities, for instance in the sponsorship area. The objective behind the projects is to ensure optimal and sustainable conditions for the Company's development, taking into consideration the indirect financial impact we have on our stakeholders.

The LOTOS Group's involvement in important social and environmental issues, as well as the scale and nature of its economic impact on external and internal stakeholders both locally and nationwide, have all followed from the Social Responsibility Strategy for 2008-2012.

Jowita Twardowska
Communication & CSR Director of Grupa LOTOS

The LOTOS Group's involvement in important social and environmental issues, as well as the scale and nature of its economic impact on external and internal stakeholders both locally and nationwide, have all followed from the Social Responsibility Strategy for 2008-2012. As the validity period of the document (adopted by the Board of Grupa LOTOS in 2008) is soon due to end, in 2011 work began to review the objectives behind the organization's social, environmental and economic impact which were adopted four years ago.

The main reasons prompting us to update the existing strategy include: the adoption of the business strategy for 2011-2015 along with development directions until 2020, and the resulting need to support the key business processes with appropriate CSR efforts; and the completion of the 10+ Programme, in the course of which we identified new challenges related to sustainable development. As the existing strategy has spanned a long period, it is necessary to review its premises by analysing the effects of actions undertaken in that period with respect to the organization's internal achievements and the changing external conditions. We also want to adjust our activities to emerging trends and directions of CSR development in Poland and across the EU.

Work on the updated strategy began in the middle of 2011. Our CSR management system provides for annual assessments of the completed and planned activities in this area, carried out at meetings of the LOTOS Group's management staff. The initiative, called "the CSR Day", brings together approx. 90 managers responsible for the key business areas. In the middle of 2011, the management staff began to define the key and operating CSR objectives for the new 2012-2015 timeframe. The objectives were defined in greater detail and refined during 80 hours of strategic workshops with the LOTOS Group's specialists. Understanding the expectations of our external stakeholders was a thing of utmost importance. To this end, a series of opinion polls were conducted, along with consultations with broadly represented key stakeholder groups - representatives of NGOs, various state authorities, academics and businessmen.

The feedback gathered from the consultations has given us a better insight into the challenges and problems faced by the Company's social environment. In addition, our aim was to explain to the stakeholders the conditions of our business and the resulting financial and organizational capabilities with respect to key social and environmental issues. Having focused in our work on the two perspectives, we believe that the LOTOS Group's CSR strategy until 2015 will help to make the best use of the Company's capabilities, enabling us to successfully respond to the needs of our environment.

Jowita Twardowska
– Communication & CSR Director of Grupa LOTOS

Significant financial assistance received from the government

Grupa LOTOS	**2009**	**2010**	**2011**
			PLN thousand
Subsidies received	5,908	-	5,206
Subsidies settled	-	-	433
The balance sheet value of subsidies as at the end of the year [1]	25,276	25,275	23,580
LOTOS Group	**2009**	**2010**	**2011**
			PLN thousand
Subsidies received	5,908	791	7,431
Subsidies settled	744	1,122	1,654
The balance sheet value of subsidies as at the end of the year [2]	40,343	40,012	39,321

[1] Licences granted free of charge.
[2] Including mostly licences granted free of charge and subsidies from EcoFund to use w aste gas from an off-shore crude oil extraction platform for heating purposes.

During the year finished on December 31st 2011, the LOTOS Group made a write-off for the loss in value of its expenditures, including for licences granted free of charge, to the amount of PLN 6,468 thousand (as described in Note 17 in the Notes to the Consolidated Financial Statement of the LOTOS Group for the reporting year finished as at December 31st 2011 Link→ (/assets/dokumenty/ec4_nota_17.pdf)).

Until April 30th 2011, Grupa LOTOS benefited from a tax advantage, aimed at supporting the use of biocomponents, in the areas of excise duty and fuel duty – the so-called biocomponents advantage – as regulated by the following legal provisions:

- the Excise Duty Act of December 6th 2008 (Journal of Laws (Dz. U.) of 2009, No 3, item 11, as amended) – Art. 89, section 1, points 3, 7, 8;

- the Regulation of the Minister of Finance of February 24th 2009 on excise duty exemptions (Journal of Laws (Dz. U.) of 2009, No 32, item 228) – § 11;

- Act of October 27th 1994 on Paid Motorways and the National Road Fund (Journal of Laws (Dz. U.) of 2004, No 256, item 2571, as amended) – Art. 37h.

Under the aforementioned regulations, which had been approved (notified) by the European Commission, Polish authorities applied two mechanisms of financial support with regard to excise duty and fuel duty – an excise duty reduction and a fuel duty exemption.
State aid under these regulations was approved by the decision of the Commission N 57/08 of September 18th 2009

authorising Poland to grant operational aid for biocomponents. The Commission's authorisation for applying the tax advantage expired on April 30th 2011.

Until April 30th 2011, the LOTOS Group (in particular, LOTOS Biopaliwa Sp. z o.o.) benefited from the tax advantage on biocomponent production, as regulated by the Corporate Income Tax Act of February 15th 1992 (Journal of Laws (Dz. U.) of 2011, No 74, item 397 t.j., as amended) – Art. 19a. State aid under these regulations was approved by the decision of the Commission N 57/08 of September 18th 2009 authorising Poland to grant operational aid for biocomponents. Under the advantage, manufacturers of biocomponents were allowed to deduct from the income tax due the amount of max. 19% of the excess of the value of their biocomponent production over the value of their liquid fuel production of the same calorific value, as calculated on the basis of average prices. The Commission's authorisation for applying the tax advantage expired on April 30th 2011. The still outstanding amount of the tax advantage is now being settled in the current advance corporate tax payments.

LOTOS Asfalt 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. 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.

Related content:

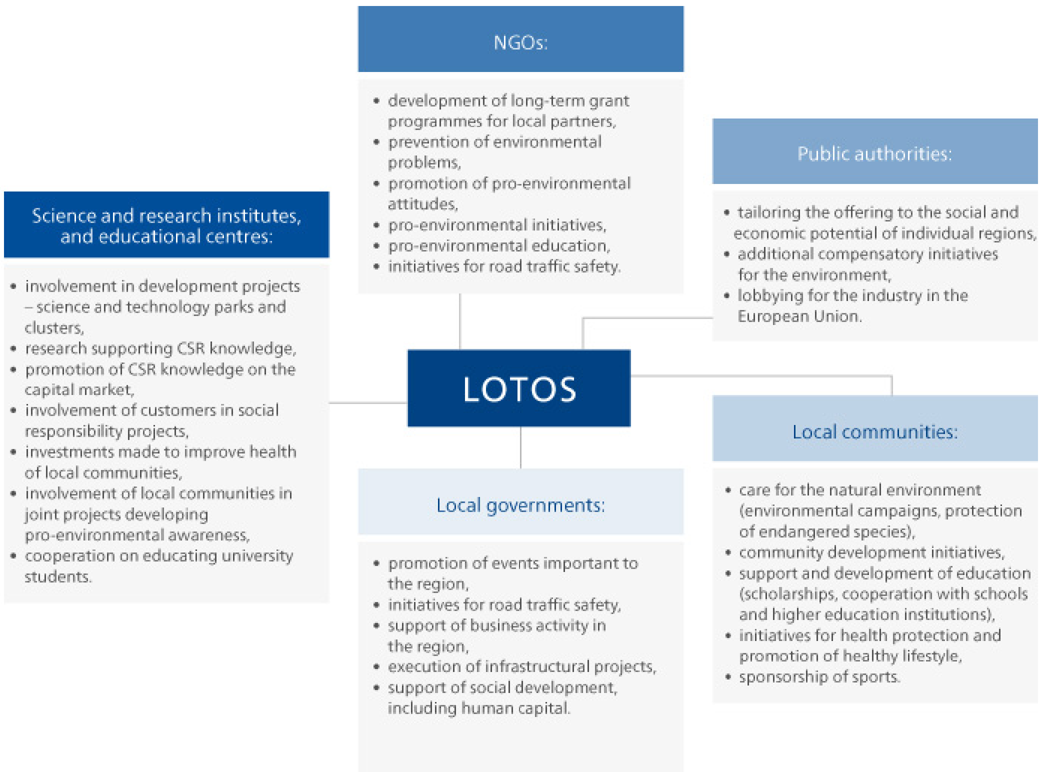
Declarations **Grupa LOTOS in RESPECT Index** **Interview with the President of the Board**

LOTOS Annual Report 2011 / Home / Society / Impact on the society / Relationships w ith the local community

Relationships with the local community

In 2011, Grupa LOTOS carried out broad-based opinion polling and consultations with representatives of its key stakeholder groups, especially the local communities living in the vicinity of the LOTOS Group's main production facilities, i.e. in Gdańsk, Czechowice-Dziedzice and Jasło. In each of those locations, several entities of the LOTOS Group operate, including the Gdańsk refinery and former Southern Refineries, currently operating as LOTOS Czechowice and LOTOS Jasło.

In the course of its consultations with stakeholders, among whom - besides residents of the immediate vicinity of the LOTOS Group's facilities - were residents of the key municipalities and provinces, representatives of NGOs, local government units of all levels, public authorities, as well as R&D and educational institutions, the Company identified key involvement areas on which, in the stakeholders' opinion, it should focus its endeavours.



Based on the results obtained, the Company re-evaluated the existing directions of its CSR initiatives. During strategy-related workshops organized at the LOTOS Group in 2011, **the LOTOS Group's competences were identified in the following areas of social life:**

- **road traffic safety, which Grupa LOTOS influences through the quality of its products and comprehensive educational campaigns;**
- **equal opportunity initiatives and prevention of social exclusion, especially among children and youth, to whom Grupa LOTOS addresses its scholarship grants, environmental education projects and sports-based education projects;**
- **environmental protection and promotion of environmental awareness, especially with respect to biodiversity of the Baltic Sea given the seaboard location of the Grupa LOTOS' refinery, as well as other areas of great natural value located in the imminent vicinity of LOTOS Group companies.**

Decisions regarding strategic objectives of the LOTOS Group's social involvement are made by the Board of Grupa LOTOS. The Communications and CSR Director Division, separated within the organizational structure of Grupa LOTOS, reports directly to the Board. Current initiatives are being implemented in line with the strategy approved in 2008. In 2012, new objectives for the Company's CSR activity are to be set down, aligned with its business strategy, i.e. until 2015.

In the areas where the LOTOS Group uses its competences to prevent material social and environmental issues, numerous initiatives were carried out in 2011, many of which had already been run for several years as long-term programmes.

On June 27th 2011, the Ordinary General Shareholders Meeting of Grupa LOTOS adopted a resolution on distribution of the profit for 2010. Under the resolution, part of Grupa LOTOS' net profit in the amount of PLN 1,500 thousand was earmarked for the special account used to finance Grupa LOTOS' CSR projects, including projects related to health care and promotion of health.

In 2011, the total amount of donations transferred by Grupa LOTOS to beneficiaries from outside the Company stood at PLN 706 thousand, as compared to PLN 1,240 thousand in 2010. The total amount of donations transferred to external beneficiaries by the LOTOS Group was PLN 837 thousand in 2011, whereas in 2010 it was PLN 1,485 thousand.

Grupa LOTOS grants support in the form of donations from the special account to the LOTOS Group's employees and their families, as well as old-age and disability pensioners who suffer from serious health problems. In 2011, seven employees received donations totalling PLN 93.4 thousand.

Responsibility for the quality of life in the immediate environment of the facilities operated by the LOTOS Group is a distinctive feature of our approach to social issues.

Katarzyna Sikorska
Head of Sponsoring, Public Matters & CSR Office of Grupa LOTOS

Responsibility for the quality of life in the immediate environment of the facilities operated by the LOTOS Group is a distinctive feature of our approach to social issues. The LOTOS Group runs its business with due regard to the needs of local populations, as well as key social and environmental challenges arising in the areas influenced by our operations. We agree with the European Union's definition of CSR as a company's responsibility for its impact on society.

Making a positive contribution to society is one of the key premises of our CSR strategy. However, the mere fact that we have formulated such a strategy demonstrates that our activities are well-oriented and focused on certain areas determined by the LOTOS Group's competencies. And by competencies we mean the organization's ability to combine people's expertise and resources in pursuit of strategic objectives. The awareness of various social and environmental aspects of the LOTOS Group's operations, as well as its human, technological and organizational resources, are factors determining our competencies, but also materially affecting our decisions as to the purpose and nature of our social involvement. In line with the CSR strategy adopted by the Board of Grupa LOTOS, the LOTOS Group focuses its efforts on areas posing problems and challenges important not only for a given population, but also for the LOTOS Group's business. Thanks to that community of interests, we have a chance to make a real contribution to social development.

The CSR strategy is our response to problems identified in the LOTOS Group's environment, reflecting the conviction that through our efforts we can remedy those problems or prevent their further exacerbation. At the same time, we strive to maximise our positive impact by optimally leveraging our competencies and knowledge gained in the course of cooperation with social partners specialising in specific social and environmental issues.

The LOTOS Group is involved in three key areas: road traffic safety, equal opportunities and prevention of social exclusion, and environmental protection.

A high level of road traffic risks is an acute social problem both in Poland and elsewhere in the world. Aware of their consequences, in 2009 Grupa LOTOS signed the European Road Safety Charter – an initiative of the European Commission. As an oil company marketing fuels and bitumens of the highest quality, we contribute to the quality of driving in Poland. Well-placed to join accident prevention efforts, the Company serves the cause both through the quality of its products and through comprehensive educational initiatives launched as part of "Akademia Bezpieczeństwa LOTOS" ("LOTOS Safety Academy"). The Academy's key project is the "LOTOS – Bezpieczna droga do szkoły" ("LOTOS – Safe Journey to School") programme, focusing on the safety of the youngest road users – schoolchildren, as well as their parents and carers. The first initiatives in this area were taken in the LOTOS Group back in 1998. Every year, the LOTOS Group provides comprehensive education to hundreds of programme participants from regions lying within the sphere of its influence: the Province of Gdańsk and Counties of Czechowice–Dziedzice and Jasło, where the LOTOS Group companies are based. LOTOS Group is aided in its efforts by police officers and road safety experts.

The second important area covered by the LOTOS Group's CSR strategy involves tackling social inequalities and preventing social exclusion, especially among children and youth, to whom we extend various forms of assistance. In order to choose the most effective and adequate form of help, we rely on our insight into real problems gained thanks to the proximity to and good relations with local communities living within the LOTOS Group's immediate neighbourhood. These communities are beneficiaries of the Company's projects under the "Dobry Sąsiad" ("Good Neighbour") programme, an internally developed social initiative. People living in the vicinity of our plants struggle with various problems, frequently having their roots in a lower social status or even social ills. That is why we are committed to improving the quality of these people's lives, with a special focus on children and adolescents, for whom we strive to create conditions more conducive to development. We attach great importance to this objective, as one of the LOTOS values is strong orientation towards the future, which will soon be shaped by these young people around us. In order to make their future as bright as possible, we undertake a variety of initiatives. The LOTOS Group co-finances summer and winter holidays for the most needy children, initiates campaigns to raise environmental awareness and supports the development of modern sports infrastructure, which enables children to pursue their passions and interests and may bring a lot of benefits in the future. Thanks to the cooperation with Caritas Polska, a Catholic charity, we run the “Skrzydła z Grupą LOTOS” (“Wings with Grupa LOTOS”) scholarship programme, addressed to talented youth from low-income families.

Another key issue for us is environmental protection. The Company focuses its efforts primarily on the biodiversity of the Baltic Sea, given the seaside location of Grupa LOTOS’ refinery. In cooperation with the Gdańsk University Development Foundation and the Marine Station of the Gdańsk University Oceanography Institute in Hel, we are committed to protecting endangered species of the Baltic flora and fauna, in particular the very rare porpoise, as well as raising environmental awareness of local communities and tourists visiting Pomerania. To that end, we have launched numerous information and education campaigns. The LOTOS Group takes similar measures with respect to areas of great natural value in the imminent vicinity of the LOTOS Group companies, in particular NATURA 2000 sites and animal reserves. The Company's competence in this area is based on the extensive expertise of its specialists, gained thanks to the priority treatment of environmental issues. Our facilities comply with the strictest environmental criteria, while the quality standards set for particular product groups and processes are more stringent than those imposed by the European Union. Our continuous improvement in this area has increased our sensitivity to environmental protection issues, enabling us to select social projects with the highest potential.

The LOTOS Group’s approach to the above spheres of social activity is marked by consistency and long-term commitment. Such initiatives infuse a new quality into the relations between the LOTOS Group and its social partners. By building social trust in the LOTOS Group, we lay solid foundations for the achievement of our business objectives. In turn, our contribution to social life within the sphere of our influence brings positive developments for the LOTOS Group’s key stakeholders.

Katarzyna Sikorska
– Head of Sponsoring, Public Matters & CSR Office of Grupa LOTOS

Road traffic safety

Grupa LOTOS sees its involvement in the enhancement of road traffic safety as a priority. To this purpose, Grupa LOTOS has established the dedicated “Akademia Bezpieczeństwa LOTOS” (“LOTOS Safety Academy”) programme, which comprises a number of initiatives aimed to prevent road traffic accidents involving young children, this being achieved through traffic safety education projects promoting the rules of safe behaviour on the road among children and adults. The events organized by the “LOTOS Safety Academy” in 2011 included another iteration of the “LOTOS - Bezpieczna droga do szkoły” (“LOTOS – Safe Journey to School”) programme and the art contest “Uwolnić odblaski” (“Free reflectors” – intended to promote reflective clothing and accessories).

“LOTOS – Safe Journey to School” is a social education and accident prevention programme run jointly with the Polish Police and road traffic safety experts, designed to prevent traffic accidents involving young schoolchildren. The programme is addressed to primary-school first graders and is designed to draw their attention to issues related to safe use of roads by both pedestrians and drivers, for instance their parents. Another objective behind the programme is to develop proper behaviour and attitudes while taking part in road traffic. The high road accident rate is a pressing social issue in Poland. Pedestrians, as the least protected participants of road traffic, are a particularly vulnerable group. At the beginning of every school year, the programme offers an opportunity to participate in classes with police officers and road safety instructors to learn about road traffic safety and safe places to play. All participants are presented with road safety reflectors and special road safety educational packages funded by the Company.

The programme is implemented in areas of operation of selected LOTOS Group subsidiaries: in the Province of Gdańsk and in the municipalities lying within the sphere of influence of LOTOS Czechowice and LOTOS Jasło. The programme was first implemented in Jasło, in 1998. In the Gdańsk Province, it has been run since 2001, while in Czechowice since 2004.

In the 2010/2011 school year, Grupa LOTOS distributed a total of 13,000 road safety reflectors and the same number of educational packages. Over the previous five years, the participating pupils received around 61,000 road safety reflectors and 38,000 road safety packages. To date, the programme has reached 61,000 children.

“The Free Reflectors” contest forms an integral part of the LOTOS Safety Academy programme and is devised for first-grade pupils, particularly those participating in the “LOTOS – Safe Journey to School programme. Its overall aim is to warn children about road traffic risks and to help them develop a habit of wearing reflective accessories, which reduce the likelihood of accidents. Police statistics show that most children become casualties of road accidents during summer holidays. According to the Polish Chief Police Headquarters’ report, in 2010 in the Gdańsk Province alone, children were involved in 354 road accidents. This means that the Gdańsk Province, where Grupa LOTOS has its principal place of business, ranked shamefully among the five Polish provinces with the highest number of such accidents.

Considering the statistics, in 2011 again, Grupa LOTOS and its partners, including the Gdańsk Province Police Headquarters and the Jasło Motor and Road Rescue Club, organized the Free Reflectors at contest. The contest, addressed to schoolchildren of the Gdańsk Province and the Counties of Bielsko-Biała and Jasło, is meant to remind them of the rules of road traffic safety, in particular of the importance of wearing road safety reflectors. This is important all year round – in spring and summer, when road traffic is intensified, and in autumn and winter, in the period of limited visibility.

The contest was run from April to June. Each school which responded to the invitation of the contest organizer selected and submitted up to ten children's artworks. From among the entries, the best works were selected in the Gdańsk Province, County of Bielsko-Biała and County of Jasło. First-place winners were awarded bicycles with safety enhancing accessories. Additionally, the schools of the winners were awarded mini road-sign kits and bicycles with safety enhancing accessories. Second-place winners received roller blade sets with accessories, while third-place winners – educational game sets.

Equal opportunity initiatives

Initiatives aimed at ensuring equal opportunities and preventing social exclusion, especially among children and youth, have been Grupa LOTOS' focus for a number of years. Openness to the future is among key social values of the LOTOS brand, thence the special emphasis placed by the Company on projects promoting young people's personal development. The Company also feels responsible for the future of children and youth living in the immediate vicinity of its production facilities, including in particular the districts of Gdańsk encircling the refinery.

Since 2006, the dedicated social programme **"Dobry Sąsiad"** ("Good Neighbour") has been addressed to this stakeholder group. Its overall objective is to raise environmental awareness and promote pro-environmental behaviour among the youngest. The specific objectives pursued by Grupa LOTOS as part of the programme are to:

- involve the Company in the life of local communities (i.e. organizing family events, sporting events, etc.);
- offer support to environmental projects run in the refinery's immediate vicinity, notably the Sobieszewska Island;
- offer support to selected local government projects seeking to improve the quality of life of people residing in the districts covered by the programme;
- develop the local inhabitants' understanding of Grupa LOTOS' refinery's operation and assure them that it has state-of-the-art environmental security controls;
- raise environmental awareness among children, youth and adult inhabitants of the districts;
- tackle social inequalities by providing support to non-profit organizations, with a special focus on children;
- involve the Company in long-standing initiatives targeted at inhabitants of its neighbouring districts, with a particular focus on children (construction of playgrounds and sports fields, and park revitalisation work, etc.).

Grupa LOTOS has adopted a strategic approach to equal opportunity initiatives addressed to talented children at risk of social exclusion. Under the **"Skrzydła z Grupą LOTOS"** ("Wings with Grupa LOTOS") programme, the Company has assisted 70 pupils from low-income families in three regions of Poland. Thus, the Company joined the group of strategic partners of the "Skrzydła" ("Wings") programme implemented by Caritas Polska, a charity.

"Wings" is a programme of long-term assistance for children – pupils of primary, junior high and high schools who, given the insufficient means of their families, need assistance in the form of school lunch, school kits, as well as co-financing of school trips and educational activities. The programme invites business entities and natural persons to take financial care of a pupil for at least one school semester. Under the Wings" programme, a sponsor can choose the form of assistance and tailor it to the needs of a child and the sponsor's financial resources.

Grupa LOTOS has extended assistance to the most needy junior high and high school pupils from the regions where LOTOS Group companies conduct their business activities, that is the Gdańsk Province, the Jasło County and the Czechowice-Dziedzice Municipality. The assistance takes the form of the "Skrzydła na przyszłość" ("Wings for the Future") programme with a view to ensuring equal opportunities for all children to pursue their plans and ambitions. During the inauguration of the second edition of the programme, in September 2011, integrating and educational meetings for the supported pupils were held in Gdańsk and Jasło. In Gdańsk, the pupils participated in the street game "W pogoni za bursztynem" ("The Quest for Amber"). The participants visited the most important historical places and monuments of Gdańsk, thus getting to know better the city's past. In Jasło, the participants visited the open-air archaeological museum "Karpacka Troja" ("Carpathian Troy"), thus familiarising themselves with the history of the region.

The observations and accounts of tutors watching over the participating pupils reveal that the programme has had a very positive effect on them. A large proportion of the participants have achieved the objectives set for a given year, including improved progress in school and better behaviour, as well as increased involvement in extra-curricular activities. Thanks to the financial assistance, a number of pupils have enrolled in extra-curricular activities to develop their interests and talents, which they would not have been able to afford otherwise. The financial assistance and work with the tutors have raised their self-confidence, self-respect and sense of security in the majority of participating children. The financial standing of the participants' families has improved, adding to their self-esteem and enhancing their motivation to study and pursue their interests.

The Company is also actively involved in social and sports projects designed to support the development of sports skills among children and youth, to train future generations of sportsmen, who would join local or national teams. Grupa LOTOS participates in such initiatives treating them as proof of its responsibility for the local communities in which it operates. Education through sports is also a way to spend leisure time properly, educate young people in the spirit of healthy competition and fair play, and counteract incipient social pathologies.

Since 2004, Grupa LOTOS together with its partner – the Polish Ski Federation – has run one of the widest-ranging projects in the area of sports education – **"LOTOS Cup – In Search for the Champion's Successors"**, organized under the National Ski Jumping Development Programme.

During the six consecutive seasons, the programme has proved to be a sporting and organizational success. The main objectives of the initiative are to promote, on an unprecedented scale, ski jumping among kids and teenagers and to discover the finest ski-jumping talents. The original objective behind the programme was to launch a system designed to actively support young athletes practising at ski-jumping clubs which run their own youth sections.

In the years 2004–2011, Grupa LOTOS purchased 185 pairs of skis complete with bindings, 161 suits, 100 helmets and 150 ski-jumping boots 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 contributed to the launch and development of the largest CSR project aimed to support talented ski jumpers from Polish clubs. In addition, one-year sports scholarships were awarded to 84 ski jumpers from the 11–12 and 15–16 age groups who finished in the top six places in the general classification of the LOTOS Cup tournament in the 2004–2011 seasons. In each of the 56 LOTOS Cup youth competitions, held between 2005 and 2011 to the World Cup format on the ski jumps in Szczyrk, Wisła, Zagórz and Zakopane, the number of competitors exceeded 150.

In the 2011 season, the National Ski Jumping Development Programme "In Search for the Champion's Successors" was extended to include Nordic combined. The project is designed to rebuild a strong Polish national team in Nordic combined.

In the 2011 season, 12 out of 15 ski jumpers appointed to National Team A and national youth team, as well as all Nordic combined skiers of the Polish Ski Federation, were former or current scholarship holders of the "In Search for the Champion's Successors" Programme.
The "In Search for the Champion's Successors" Programme has been noticed and appreciated. In 2011, the Programme received an award in the corporate scholarship programme category of a contest organized by the Good Network Foundation and the Polish-American Freedom Foundation.

Another field of the Company's activity connected with the support of young sportsmen is our cooperation with youth groups practising with the Lechia Gdańsk football club. A total of nearly 160 players are practising at the club, and in 2011 four of the practising groups won regional championships. Apart from professional training, the cooperation included the organization of a series of indoor youth football tournaments Złote Lwy Gdańskie (Gold Lions of Gdańsk). 14 Polish and foreign teams of young footballers born between 2000 and 2001 participated in the most recent tournament.

As part of its work on the Social Committee of Euro 2012 Support set up by the Mayor of Gdańsk, of which the Company's President is member and Chairman of the Sponsors Board, Grupa LOTOS has sponsored a project involving the construction of artificial turf football pitches to be located within school grounds. The project is being implemented under the "**Junior Gdańsk 2012"** Programme, whose objective is to build a network of football pitches within the grounds of Gdańsk schools, with the financial support of enterprises active in the Gdańsk Province. Grupa LOTOS has, as the only company, sponsored the construction of two pitches – in 2010 the first project was completed at Primary School No. 61 in Gdańsk, and in September 2011 at Junior High School No. 20 in Gdańsk.

In 2011, the Company started to co-finance the training of girls basketball teams at the Gdynia Basketball Society (GTK). A total of around 300 young basketballers practise there and the sports achievements and prizes it has won, including Poland's Championship medals in 2010–2011, prove that the club is a model of management in the organizational and sports terms. Grupa LOTOS sponsors the 1st women basketball team LOTOS Gdynia, for which GTK girls form a rookie pool.

Also in the area of motor sports, like in the case of other sports supported by Grupa LOTOS, the Company helps a group of young speedway riders. In 2011, cooperation was continued with the Wybrzeże Gdańsk Speedway Club Association, which trains a new generation of riders with diligence and dedication to making the sport more popular with kids and teenagers. The aim of the Speedway Youth School is to develop young riders to join the first team of the GKS Wybrzeże club, the owner of the LOTOS Wybrzeże Gdańsk team. As in previous years, in 2011, the team of young GKS riders participated in the Team Championship of Poland, where they ranked fourth, while in the Individual Championship of Poland, Damian Kossakowski ranked seventh.

Protection of the Baltic Sea biodiversity

As the Company is located near the Baltic Sea, it pays particular attention to cooperating with partners specialising in areas related specifically to the region's environmental conditions. Those partners include: the Foundation for the Development of Gdańsk University (FRUG) and the Marine Station of the Gdańsk University's Institute of Oceanography (IOUG). Together with these institutions, since 2009 Grupa LOTOS has implemented projects aimed at protecting the natural riches of the Baltic Sea. Joint efforts have been mainly focused on saving from extinction the most endangered species of marine fauna, notably the harbour porpoise.

One of the most mysterious mammals of the Baltic Sea, the protected harbour porpoise is in danger of extinction. Harbour porpoises are frequently called the Baltic cousins of dolphins but, unlike dolphins, they shy away from boats, which makes their observation and study difficult. They are the smallest and shortest-lived of whales – the species including also sperm whales, killer whales and dolphins. They are the only whales permanently inhabiting the Baltic Sea, mainly off the coast of Denmark, Germany, the south coast of Sweden, as well as the Gdańsk, Puck and Pomeranian Bays in Poland.

The Company's activities in the Puck Bay area are part of the project called "Active protection of the porpoise against by-catch". Grupa LOTOS donated cash to co-fund efforts aimed to protect the harbour porpoise, which was expended to purchase hydroacoustic detectors and pots for fishing. As part of joint efforts to protect the ecosystem of the Baltic Sea, the Company, for another consecutive year, co-organized the Porpoise Day, an event held to educate the public on the behaviour and protection of the species. In 2011, a series of exhibitions devoted to the animal and plant life of the Baltic Sea was held in Gdańsk and Hel. One of them is a permanent exhibition on the premises of the Seal Centre at the Marine Station.

Like in previous years, an awareness campaign designated as **"Wildlife in the water under the keel"** was run, promoting the protection of areas covered by the NATURA 2000 network and encouraging the public to get involved in the conservation planning process. The campaign was run onboard vessels operated by Żegluga Gdańska, from the end of April to the end of August 2011. As part of the campaign, 40,000 leaflets were handed out and ten education boards were displayed onboard the ships.

The key measure adopted to assess the project's impact was turnout, especially in the case of knowledge promotion and educational efforts, designed to raise public awareness and change attitudes towards identified environmental issues. Analyses show that these efforts have met with the interest of both local communities and tourists. The associated events of the International Day of the Baltic Harbour Porpoise attracted nearly 5,000 visitors, while the Marine Station's stand at the Baltic Science Festival was visited by over 3,000 persons.

In 2011, the events forming part of the education campaign attracted some 18,000 visitors. More than 50,000 copies of information materials and 150 copies of an educational documentary were handed out. The www.morswin.pl site was visited 14,000 times over the year.

The project's strategic objective is to provide financing for the Hel Marine Station's ambitious initiative called "Active protection of the porpoise against by-catch". One of the main reasons behind the mammal's high mortality rate is the use of gill nets in marine fishery, which are impossible to detect by the porpoise echolocation system. Apart from the harbour porpoise, a number of diving birds as well as seal cubs get killed in the nets. There is therefore an urgent need to modify the fishing techniques, so as to save many animals from unnecessary death. Accordingly, the efforts undertaken so far have primarily resulted in reaching communities and individuals whose decisions influence the exploitation of the Baltic Sea resources and bringing about a change in their attitudes.

Communication efforts are also focused on spreading the knowledge of Baltic Sea animals and plants and methods of their protection. Activities designed to achieve this objective include lectures for schoolchildren held as part of the Błękitna Szkoła (Blue School) project, which in 2011 were attended by 4,000 participants (children and carers), while the Seal Centre in Hel attracted 434,000 visitors.

In 2011, the Company participated in another edition of the **Marine Education Programme**, implemented by the Gdańsk Foundation at the request of the Mayor of Gdańsk. The programme was initiated by Mateusz Kusznierewicz, the Ambassador for Maritime Affairs of the City of Gdańsk. Under the programme, Grupa LOTOS started a series of classes devoted to the protection of the Baltic Sea environment. The activities, targeted mainly at students of junior high schools from Gdańsk, are aimed to expand their knowledge of the environment, sailing and maritime heritage of Gdańsk in the most interesting manner, ensuring that they actively participate in the classes and thus readily acquire knowledge and practical skills.

Each year, from May to June and throughout September, all first class students of junior high schools from Gdańsk go on educational cruises along the Gdańsk harbour channel and around the Gdańsk Bay, which last several hours at a time.

As part of the Marine Education Programme, an environmental competition is also held. In 2011, it was run under the slogan "The Baltic Sea under protection" and was addressed to students of junior high schools from the entire Province of Gdańsk. The competition was designed to make the young people more sensitive to the local environment, in particular to issues affecting the Baltic Sea. The theoretical framework for the competition was provided by Grupa LOTOS' partners: the Foundation for the Development of Gdańsk University (FRUG) and the Marine Station of the Gdańsk University's Institute of Oceanography (IOUG). The winners were awarded two-week holiday cruises on Marine Education Programme yachts around the Gdańsk Bay and an all-day training at the Marine Station in Hel and its Seal Centre.

Over the last two years, more than 7,000 schoolchildren have gone on daily cruises around Gdańsk waters. In 2011, participants of the Marine Education Programme covered a total distance of about 8,000 nautical miles within 102 days of cruising. "The Baltic Sea under protection" competition attracted 100 pupils from 40 schools, 15 of whom were awarded. In order to evaluate the programme, teachers were asked to fill in evaluation surveys, while students were tested for knowledge acquired during the cruises. In 2011, 88 teachers took part in the programme evaluation and 807 children filled in the tests, the results of which are monitored. Based on answers given by pupils, the elements which they find most difficult are discussed during the cruises which follow. The average percentage of good answers ranges from 70% to 80%. The idea and implementation of the programme is well-received by the teachers, who particularly value the practical knowledge they and their students acquire under the programme.

Contribution to infrastructure development

In 2011, Grupa LOTOS provided support to a number of projects contributing to infrastructure development and bringing benefits to local communities, particularly in the areas of health care and health promotion, science, education, environmental protection and wildlife conservation, safety, culture and sports. Funds were invested in medical equipment for public health-care institutions, equipment necessary to implement environmental projects, as well as equipment for schools and centres established to promote sports and physical education. The investments were designed for the public good. The data below illustrate the scale of the Company's commitment.

No..	Institution	City/town	Purpose of grant
1.	Municipality of Elbląg	Elbląg	Co-financing of the purchase of a personnel car for the City Headquarters of the State Fire Service in Elbląg
2.	Municipality of Ciechocinek	Ciechocinek	Renewal of the proscenium of the historical outdoor concert stage in the health resort park
3.	Distinguished Seamen Academic High School No. 1	Gdynia	Equipping the chemistry lab
4.	Public Junior High School in Przejazdowo	Wiślina	Co-financing of new school fencing as part of the Dobry Sąsiad (Good Neighbour) programme
5.	Józef Wybicki Primary School No. 61 in Gdańsk	Gdańsk	Equipping the gymnasium as part of the Dobry Sąsiad (Good Neighbour) programme
6.	Food and Chemical Industry School Complex	Gdańsk	Equipping the chemistry lab
7.	University Clinical Centre	Gdańsk	Purchase of medical equipment for the Traumatology Centre
8.	Specialist Hospital in Jasło	Jasło	Purchase of medical equipment
9.	Ambulance Station	Gdańsk	Purchase of medical equipment
10.	Ornithological Station at the Museum and Institute of Zoology of the Polish Academy of Sciences (PAN)	Gdańsk	Purchase of educational equipment
11.	Foundation for the Development of Gdańsk University	Gdańsk	Equipping the ambulance unit
12.	Commune of Stężyca	Stężyca	Purchase of sports equipment
13.	Commune sports club Wieżyca 2011	Stężyca	Purchase of sports equipment

Related content:

Glossary of social terms **Stakeholders' involvement**

Indirect economic impacts

In making business decisions, companies of the LOTOS Group are guided by the principles of the CSR strategy, which requires them to give due consideration to the indirect impact they may have on local communities and economic development of the respective regions. Grupa LOTOS focuses in particular on its impact on vocational education related to the industry's needs, as well as development of entrepreneurship and economic potential in the communities in which it operates.

LOTOS Scholarship programme

Grupa LOTOS supports higher education providers and research institutes, thus strengthening cooperation and building bridges between the industry and academic community. The Company cooperates with higher education institutions on a mutually beneficial basis.

In the academic year 2004/2005, Grupa LOTOS entered into cooperation with the Gdańsk University of Technology, which is involved in fostering a knowledge-based economy, as evidenced by the impressive publication, patent and implementation track record of the University's faculty, doctoral candidates and undergraduates. The cooperation has also delivered tangible benefits for the Company, which operates in the area of highly advanced technologies. As part of that cooperation, Grupa LOTOS sponsors scholarships, provides work placement opportunities under the supervision of industry experts and helps students write their MSc dissertations on topics connected with the Company's operations, which are later reviewed by the Company's experts.

In the academic year 2010/2011, the Company granted ten scholarships to the best students of the Gdańsk University of Technology from the Chemical Faculty, the Faculty of Electronics, Telecommunications and Informatics, the Faculty of Electrical and Control Engineering and the Faculty of Mechanical Engineering. Additionally, Grupa LOTOS granted two scholarships to doctoral students from the Chemical Faculty and two awards in recognition of the best Chemical Faculty MSc theses.

The recipients were selected by a special committee composed of representatives of Grupa LOTOS and the Gdańsk University of Technology. Scholarships for doctoral students from the Chemical Faculty were granted following a competition announced in the academic year 2009/2010.

In the academic year 2007/2008, similar cooperation was forged with the AGH University of Science and Technology in Kraków. In the academic year 2010/2011, the Company granted six scholarships for the outstanding students of the Faculty of Geology, Geophysics and Environment Protection, the Faculty of Mining Surveying and Environmental Engineering, the Faculty of Drilling, Oil and Gas and the Faculty of Energy and Fuels. The Company also granted two awards for the best MSc theses written at the Faculty of Drilling, Oil and Gas.

The LOTOS Scholarship Programme, run as a joint scheme with the Gdańsk University of Technology and the AGH University of Science and Technology in Kraków, is being continued in the academic year 2011/2012. This year, Grupa LOTOS is sponsoring ten scholarships for the best undergraduates and one doctoral scholarship, and will fund two awards for the best dissertations, at the Gdańsk University of Technology. The Company is also sponsoring five scholarships for the best students, and will fund two awards for the best dissertations, at the AGH University of Science and Technology in Kraków.

Since the academic year 2004/2005, Grupa LOTOS has granted a total of nearly PLN 1.1m to fund scholarships and awards for 212 undergraduates and doctoral students of the Gdańsk University of Technology and the AGH University of Science and Technology in Kraków.

An integral element of the Company's cooperation with higher education providers and its involvement in the higher education process are work placements, during which students have a chance to expand their knowledge under the supervision of a tutor – an industry expert. In 2011, work placements were provided to 143 university undergraduates and secondary school students, including 75 students of the Gdańsk University of Technology and 11 students of the AGH University of Science and Technology in Kraków.

In addition, as part of a joint scheme with the Food and Chemical Industry School Complex in Gdańsk, in 2011 Grupa LOTOS funded four scholarships for future chemical engineering technicians who distinguished themselves for the best performance and activity for the school, and provided promotional materials as prizes in the "Chemistry is all around us" competition. Eight students of the school were invited to undertake work placements at the Company.

Impact on regional development

Grupa LOTOS estimates that approximately 52% of all contracts for the supply of goods or services are signed with suppliers operating in the Province of Gdańsk. This fact alone demonstrates our commitment to the local market and its economic prosperity.

By contracting locally, the Company indirectly contributes to increasing the affluence of local populations, offers stable and secure employment to local workforce and thus reduces social inequalities. For many small and medium-sized businesses in the region, Grupa LOTOS is an important source of capital, which fuels their operations, helps increase employment in the SME sector and, in consequence, materially improves the financial standing of local communities. This, in turn, helps improve the living standards, stimulates consumer spending, including on luxury goods and services, and encourages investment in education and intellectual resources, active support of academic communities as well as staff-development initiatives, all of which are elements crucial for the Company. Development of intellectual assets offers the Company measurable benefits: hired by Grupa LOTOS, competent and well-educated members of the Gdańsk region community help build the Company's potential and innovation at the local, national and international levels, forming the regional pool of future business leaders.

The other companies of the LOTOS Group have similar indirect impact on Pomerania and the south of Poland.

LOTOS Asfalt manufactures and sells bitumens, heavy fuel oil, bunker fuel and waterproofing materials. The products are sold under business-to-business (B2B) arrangements. Thus, by maintaining business links with its partners, the company indirectly contributes to their growth prospects and economic standing. LOTOS Asfalt contributes to employment growth on its local markets and stimulates economic activity in the region of Jasło, where apart from the bitumen production facility operated for many years, the company built a modern Waterproofing Materials Production Plant, operated since 2009. The large-scale project located within the Tarnobrzeg Special Economic Zone in the south-east of Poland has improved the situation on the local labour market, affected by unemployment concerns. Launched in 2009, the plant had 101 employees as at the end of 2011. To compare, two years before the headcount was 69 persons.

LOTOS Kolej has been gradually increasing the number of locomotives in service and taking consistent efforts to upgrade its motive power units. Purchases of new, technologically advanced locomotives strengthen the company's competitive edge and position it among leading carriers investing in new technologies. These efforts have been steadily increasing the company's transport capacity. In the last few years, LOTOS Kolej has focused on purchases of modern locomotives, both electric and Diesel-powered, which now account for approximately 35% of the motive power units. As a result, the company owns one of the most modern locomotive fleets in Poland.

The upgrade of the operated motive power stock required the company to adapt its existing technology infrastructure to be able to service the advanced equipment. One of the crucial steps to that end was to develop the expertise and skills of the technical staff responsible for engine overhauls and repairs. As their qualifications were raised, the company was able to partially service the advanced locomotives on its own.

Furthermore, in 2011, the company launched the **Graduate at LOTOS Kolej** programme, addressed to graduates and fifth-year students of selected technical universities from all over Poland. The programme provides them with an opportunity to gain the first professional experience through work placements at the Engine or Car Maintenance Units. A number of trainees demonstrating both extensive knowledge and strong work motivation were then employed by the company.

LOTOS Oil has been the leader on the Polish engine oil market for several years. Apart from high-quality technologically advanced lubricants, the company offers less expensive products to satisfy the market's needs. As a result, lubricants are easily available and purchased by a wide group of customers. By distributing its products, LOTOS Oil supports employment at its business partners operating locally and nationally.

Thanks to cooperation agreements executed at home and abroad, LOTOS Oil secures 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 an employer of choice, offering prospects for improvement and development and attracting specialists with extensive professional experience. LOTOS Oil's positive image as an employer is indirectly reflected in high opinions on the company's products among customers.

In 2011, **LOTOS Paliwa** considerably broadened the scope of its operations, through dynamic expansion of the LOTOS service stations chain, thus creating new jobs.

The chain development involved both the construction of new service stations and acquisition of existing sites. After taking over an existing service station, LOTOS Paliwa expands its business through sales-boosting techniques, such as addition of new services, introduction of modern management methods and improvement of customer service quality. In the end, all these efforts translate into higher employment at the stations, which is of particular importance in regions affected by high jobless rates.

At LOTOS Paliwa we seek to give due consideration to social aspects at each stage of our operations. In our business approach, we are guided by the conviction that business is done by people with people and for people, and that all our decisions affect the company's environment.

Paweł Lisowski
President of the Board of LOTOS Paliwa

At LOTOS Paliwa we seek to give due consideration to social aspects at each stage of our operations. In our business approach, we are guided by the conviction that business is done by people with people and for people, and that all our decisions affect the company's environment. And by that I mean not only local communities, employees, dealers and business partners, but also the natural environment. What matters in business is ethics, as the basis of relations with business partners, end customers, intermediaries and wholesalers. I believe that this management approach distinguishes the entire LOTOS Group.

Our business philosophy was reflected in the brand concept for new economy service stations. Launched in 2011, the LOTOS Optima chain is our response to Poland's social and economic situation, in particular to the yet unmet expectations of the highest quality products at competitive prices.

Already a month after the launch of the first LOTOS Optima stations, we posted sales results ahead of initial estimates, which clearly demonstrates that the stations are perfectly tailored to the market's needs and their offering has been very well received by customers, both in terms of prices and quality. LOTOS Optima stations are located primarily in areas with lower potential, micro-markets, where customers base their decisions chiefly on these two criteria.

Given the key objectives of the LOTOS Group's CSR strategy, the launch of the LOTOS Optima brand has also had significant social implications. The new chain has created some 360 jobs on local markets.

It is worth mentioning that our new offering provides for special franchise arrangements, which may indirectly affect local labour markets in this service segment.

The LOTOS Optima chain may be joined by every owner or lessee of a service station or by land owners with a permit to construct a service station. First and foremost, the company can guarantee them stable supplies of high-quality fuels. Business partners can count on our help in running their stations, in the form of personnel training, as well as support and assistance of the manager responsible for cooperation with a given outlet. LOTOS Optima partner stations will soon accept Biznes fleet cards offered by LOTOS Paliwa. All partners are free to decide about their non-fuel product offering and choose their own suppliers, including local ones.

They can also improve the standard of their stations thanks to an investment package we offer. It covers alterations to ensure a uniform design of the entire chain, redesigning the store area to match the LOTOS standard, as well as the installation of advanced sales-support systems and computer equipment.

It is also worth noting that LOTOS Paliwa has prepared a clear and easy to understand franchise agreement and offers competitive fees. The terms of cooperation allow the company's business partners to display their names or logos next to the LOTOS trademark on forecourt totems, which strengthens their position on local markets.

In line with our plans, by the end of 2011 we had launched 50 LOTOS Optima service stations. Thus, LOTOS Paliwa celebrated a double success as in the same period it also opened 13 new outlets in the premium segment. A total of 63 newly opened service stations is a record-high annual increase on the Polish retail fuel market, according to the Polish Organisation of Oil Industry and Trade, which has been monitoring the market since 2005. The record confirms the commitment and responsibility of LOTOS Paliwa's employees, as well as the trust of and good relations with our business partners. I hope this will also be appreciated by customers, because our business model has been developed with their needs in mind.

Paweł Lisowski
– President of the Board of LOTOS Paliwa

LOTOS Optima stations complement the premium chain in terms of geographical coverage. Moreover, the LOTOS Optima offering was prepared to ensure optimum co-existence of the two chains. As a rule, LOTOS Optima stations do not sell LOTOS Dynamic fuels and do not run the Navigator loyalty scheme. However, they offer basic travel-related services and accept LOTOS Biznes fleet cards and payment cards. By optimising the offering in this way, the company was able to bring down costs and offer more competitive prices to those customers who focus on economical travel rather than additional services available at premium stations.

In 2012, we plan to open 50 new stations in the economy segment.

Related content:

Market activities

Market presence

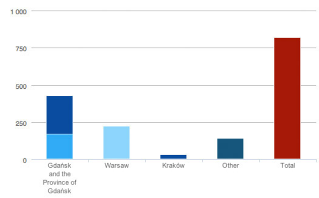
In line with the corporate social responsibility strategy in place at Grupa LOTOS, the Company, as one of the fastest growing oil companies in Central Europe and one of the largest corporations in Poland and the Province of Gdańsk, feels responsible for its surroundings – the natural environment and society, as well as the Company's employees and business partners. Grupa LOTOS is committed to ensuring strong economic growth of the entire region. Seeing corporate social responsibility as a management philosophy and organizational improvement process, the Company strives to make business ethics, transparency and openness its distinguishing features.

According to estimates, local suppliers account for 83% of all **Grupa LOTOS'** business partners in key locations (Gdańsk and the Province of Gdańsk, Warsaw and Kraków). Moreover, 52% of all contracts are signed with suppliers operating in the Province of Gdańsk, 31.5% of which are based in Gdańsk.

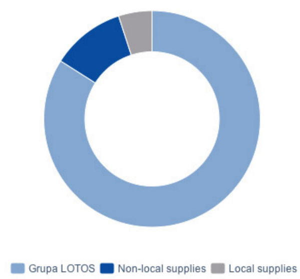
Given the nature of the production operations in place at companies of the LOTOS Group, the locality criterion is not always applicable to their procurement policy. Similarly, it is difficult to establish a uniform definition of this criterion at the entire LOTOS Group.

As in previous years, **LOTOS Kolej** is taking steps to optimise its purchasing process, for example by choosing local suppliers from the Province of Gdańsk, Czechowice, Jasło, Zduńska Wola and Wrocław. Despite delivering certain economic benefits, such as lower delivery costs, shorter delivery times and lower costs related to handling complaints, if any, cooperation with local suppliers is not always possible.

Shares of liabilities to business partners having registered offices in Grupa LOTOS' key business locations (2011)



Structure of supplies to LOTOS Oil in 2011 (%)



The company is not able to estimate the volume of purchases from local suppliers.

In the case of its largest cost items, purchases cannot be made locally. The largest cost items of LOTOS Kolej are fees for access to railway infrastructure and payments for traction electricity, payable to PKP Polskie Linie Kolejowe and PKP Energetyka, respectively. Both companies are state-controlled monopolies. Locomotive fuel is bought in different parts of Poland, depending on the current requirements and location of a given engine.

In most cases it is also impossible to purchase spare parts and consumables used in newer locomotives on local markets, given that during warranty periods the company is forced to choose suppliers specified by the manufacturer. However, whenever it has the opportunity and permission to substitute spare parts or consumables, LOTOS Kolej always tries to buy them from local suppliers.

In the case of other purchases, when faced with prospective suppliers offering similar business terms, the company gives priority to local enterprises. In the company's opinion, such decisions have a positive impact on local markets.

LOTOS Oil's suppliers are based in Poland and Europe. Given that the company has branches throughout Poland and taking into consideration the specific nature of supplies and services involved, any supplier operating in Poland will be considered a local supplier. Purchases include raw materials, packaging, car-care products and consumable fluids for vehicles, base oils, base oil and brightstock extracts, plasticizers, as well as repair and investment services.

Purchases at the company are made on the basis of an internal tender procedure. As purchases of base oils and additives depend on the formulas for finished products meeting certain quality standards, suppliers are usually selected through negotiations. Depending on the product or service in question, the main criteria for selecting suppliers include: the price (at least 50% of the overall score), technological usefulness, delivery times, payment deadlines, buffer warehouse and warranties. The criteria are based on the premise that all suppliers fully meet the quality requirements set by the company.

The company follows a supplier selection policy whereby it seeks to secure at least two sources of supplies in each product category. In the case of a monopoly, the company periodically takes steps to verify its monopoly status by looking for an alternative supplier. 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.

The strategy of **LOTOS Paliwa** assumes that the company will purchase nearly 100% of its fuel stocks for resale from

Grupa LOTOS, the vast majority of the fuel being produced domestically, at the Gdańsk refinery.
The company purchases 100% of its LPG stocks for wholesale from Grupa LOTOS and other members of the LOTOS Group, e.g. Energobaltic – a subsidiary of LOTOS Petrobaltic, while approx. 50% of LPG sold through LOTOS own service stations comes from external suppliers, with no preference given to suppliers located in the Province of Gdańsk.

Due to the nature of its operations, **LOTOS Asfalt** does not apply the locality criterion in its procurement policy. Internal procedures define the rules to be applied when purchasing products and services, with the key criteria being the quality and environmental impact of the product or service, compliance with occupational health and safety regulations by the supplier, and the proposed terms of payment and warranty.

As one of the largest companies in the Provinces of Rzeszów and Katowice, **LOTOS Parafiny** strives to support local enterprises. At the company's key locations, i.e. Czechowice-Dziedzice and Jasło, 100% of the services contracted in 2011, including acquisition of pallets, cartons and steel packaging (barrels), were sourced from local companies.

The LOTOS Group employs members of its senior management staff according to the job profile and description. Only candidates best satisfying the employment criteria are recruited. The Company has in place a set of standards related to recruitment and selection. In the light of these guidelines, candidates are compared based on their expertise, experience and skills required for a given position. Senior management positions are often filled by persons selected in an internal recruitment process. The Company does not have any global policy of favouring local community members in the recruitment for management positions.

The companies' key locations are locations where the number of employees represents a significant percentage of the total headcount.

Senior management positions at **Grupa LOTOS** include the positions of director, chief accountant, plant manager, CEO proxy and fuel depot manager. In 2011, 82.19% of senior management staff at the Company's key locations were members of local communities.

Ratio of minimum national monthly pay to minimum base pay at key locations of Grupa LOTOS in 2011

Location	Minimum base pay at Grupa LOTOS [PLN]	Minimum national pay in Poland* [PLN]	Ratio of /2/ to /3/ [%]
/1/	/2/	/3/	/4/
Gdańsk	2,400	1,386	173
Kraków	4,477	1,386	323
Warszawa	5,373	1,386	388

* Source: in-house data and: Journal of Laws (Dz. U.) of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709. Link → (http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spolecznych/1591/809,Minimalne-wynagrodzenie-za-prace-.html)

LOTOS Kolej recruits senior managers (e.g. directors) on the basis of a pragmatic evaluation of candidates, their expertise and skills required for a given position. Internal candidates, that is the company's or the LOTOS Group's current employees, are given preference during the recruitment process.
In 2011, 100% of senior management staff at the company's key locations were members of local communities.

The payroll policy in place at LOTOS Kolej is compliant with applicable procedures and best practices implemented at all the LOTOS Group companies. Poland is the company's key and only location. Apart from its registered office in Gdańsk, LOTOS Kolej has departments in Zduńska Wola, Czechowice-Dziedzice and Jasło, as well as a dispatching office in Wrocław. In 2011, there were no differences in remuneration levels at LOTOS Kolej depending on the location.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Kolej in 2011

Minimum national pay in Poland [PLN]	1,386
Minimum base pay at LOTOS Kolej [PLN]	2,530
LOTOS Kolej / Poland [%]	182.54

Regardless of the location of its branches, **LOTOS Oil** follows a uniform recruitment policy. The policy, set forth in the company's internal documents, provides for no special treatment of candidates from the local labour market, the local labour market being defined as the area within a distance of 100 km from a branch or an office.
According to an analysis of the employment structure of senior management staff (directors, plant managers, office directors), by locations of the company's operations (Gdańsk Branch, Czechowice-Dziedzice Branch, Jasło Branch and the Distribution Office in Piotrków Trybunalski), in 2011 100% of the employees were from the local labour markets. The company employs members of its senior management staff according to the job profile and description.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Oil in 2011

Minimum national pay in Poland [PLN]	1,386
Minimum base pay at LOTOS Oil [PLN]	2,298

LOTOS Oil / Poland [%]	166

LOTOS Paliwa selects its staff and senior managers (directors, deputy directors, office directors) based on a number of criteria. Given the nature of the company's operations, management staff across Poland are recruited on an as-needed basis. In 2011, there were no differences in remuneration levels at LOTOS Paliwa depending on the location.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Paliwa in 2011

Minimum national pay in Poland [PLN]	1,386
Minimum base pay at LOTOS Paliwa [PLN]	2,760
LOTOS Paliwa / Poland [%]	199

LOTOS Asfalt operates at three key locations: Jasło and Czechowice-Dziedzice in the south, and Gdańsk in the north of Poland. The recruitment process for newly created positions gives precedence to members of the local community (the relevant county and towns within a distance of 100 km), provided that the initial requirements related to candidates' qualifications are met. Similar rules apply to candidates for management positions at LOTOS Asfalt, which include directors, heads, managers, and deputy managers.
In 2011, local community members represented the following percentages of senior management staff: Jasło – 78% Gdańsk – 82%, and Czechowice-Dziedzice –100%.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Asfalt in 2011

Location	Minimum base pay at LOTOS Asfalt [PLN]	Minimum national pay in Poland* [PLN]	Ratio of /2/ to /3/
/1/	/2/	/3/	/4/
Gdańsk	3,190	1,386	230
Czechowice	2,750	1,386	198
Jasło	1,500**	1,386	108

* Source: in-house data and: Journal of Laws (Dz. U.) of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709. Link → (http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spolecznych/1591/809,Minimalne-wynagrodzenie-za-prace-.html)

** The lowest pay in Jasło is received by first-time employees in auxiliary positions.

LOTOS Parafiny's recruitment policy related to senior management positions (directors, office directors, plant managers, organizational unit managers) provides for no special treatment of local community members. Local community members represent the following percentages of senior management staff employed at the company's key locations: Jasło – 100%, Czechowice – 100%, and Kraków – 50%.

Ratio of minimum national monthly pay to minimum base pay at key locations of LOTOS Parafiny in 2011

Location	Minimum base pay at LOTOS Parafiny [PLN]	Minimum national pay in Poland* [PLN]	Ratio of /2/ to /3/
/1/	/2/	/3/	/4/
Czechowice	1,667	1,386	120
Jasło	1,967	1,386	142

* Source: in-house data and: Journal of Laws (Dz. U.) of 2007 No. 171 item 1209, M.P. of 2008 No. 55 item 499, M.P. of 2009 No. 48 item 709. Link → (http://www.infor.pl/wskazniki/prawo-pracy-i-ubezpieczen-spolecznych/1591/809,Minimalne-wynagrodzenie-za-prace-.html)

Related content:

Employment

Participation in government policies

In line with its business strategy for 2011-2015 along with development directions until 2020, the LOTOS Group intends to increase its role in enhancing the security of Poland's energy sector, by intensifying activities aimed to increase hydrocarbon production and oil conversion ratio, improving the country's fuel balance and exploiting synergies between the refining and energy sectors.

The LOTOS Group will launch initiatives and engage in cooperation on the national and international arenas with a view to fostering integration of the energy sector as part of EU's common policy designed to ensure energy security.

The expansion of the LOTOS Group's distribution logistics base, currently under way, will be a factor enhancing Poland's energy security. The strategy implemented by the LOTOS Group is geared towards dynamic development of the upstream segment (hydrocarbon exploration and production). This is fully consistent with the policy envisaging the LOTOS Group's active participation in strengthening Poland's energy security.

In its mission statement, the LOTOS Group declares, among other things, innovative development, which must be consistent with the country's energy security policy. The inclusion of this element in the Company's mission statement, one of the crucial corporate documents, is clearly a manifestation of the importance which the Company and the entire LOTOS Group attach to this issue in their day-to-day activities.

Efforts focusing on energy security

1. Extension of the refinery – the 10+ Programme

The last two installations built as part of the 10+ Programme were placed in service on March 28th 2011, marking the completion of the several-year long investment effort. The programme was completed on schedule and below budget. The LOTOS Group has achieved a significant increase in its crude processing capacities (about 40%), while the Gdańsk refinery has joined the group of large European refineries with the highest conversion ratio (a measure of processing efficiency). Thanks to the 10+ Programme, the refinery's nominal throughput capacities have increased to 10.5 million tonnes per year. The new installations are capable of processing various types of crude. Thanks to the hydrodesulphurisation of middle distillates (HDS) unit, the output of diesel oil has risen by 2.5 million tonnes per year. The Gdańsk refinery has the capacities to produce about 2.3 million tonnes of gasoline and 5.5 million tonnes of diesel oil and aviation fuel per year.

2. Crude oil exploration and production (upstream segment)

Throughout 2011, the LOTOS Group was developing its exploration and production business. Apart from enhancing Poland's security with respect to supplies of crude oil, which is a strategic commodity, the upstream business development is first and foremost a business venture. For many years, the LOTOS Group has procured mainly Russian oil. This is connected with the relative profitability of Russian supplies (Russian crude supplied via a pipeline remains less expensive than crude supplied by sea), and given the fact that Grupa LOTOS is listed on the Warsaw Stock Exchange, economic aspects must be and are the key considerations for shareholders.

Following licensing round awards, on January 18th 2011, LOTOS Exploration & Production Norge AS, a subsidiary of LOTOS Petrobaltic, was awarded the operator status with respect to, and a 25% interest in, a licence area located in the southern part of the North Sea. In total, the company holds interests in eight North Sea licences.

The LOTOS Group is also engaged in hydrocarbon exploration and production in Lithuania. In February 2011, Grupa LOTOS took control of AB Geonafta, which produces crude oil in the territory of Lithuania. In 2011, AB Geonafta produced 78.1 thousand tonnes of crude oil.

3. Salt caverns

The GL-PERN cavern project working group, appointed on June 15th 2011 by the Boards of Grupa LOTOS and PERN Przyjaźń, has taken a number of steps to analyse the possibility of using underground salt structures present in the Pomerania region as crude oil and natural gas storage facilities. Such facilities could serve as an important security buffer enhancing Poland's energy security.

The surveys and analyses carried out by the working group have revealed that caverns are used for storage of crude oil and natural gas by a number of countries, to the largest extent by the US. A study of the storage requirements in Poland has demonstrated that the first thing needed would be underground storage facilities with capacities of at least 6-7 million cubic metres. Such storage facilities could also be used by other EU countries. The investigation made shows that the governments of a number of countries get directly involved in the construction of cavern storage facilities. Relevant materials on the subject have been submitted to the Ministry of State Treasury for further decisions.

4. Change of the mandatory stocks system

Grupa LOTOS remains interested in participating in work aimed to change the mandatory stocks management system in Poland (the cavern project could be a significant element of such involvement), planned with a view to harmonising the laws and regulations effective in Poland with EU requirements (Directive 2009/119/EC).

Lobbying for the energy sector

The ethical principles embraced by the LOTOS Group stipulate a non-partisan policy and no support for any political groups.

Given the role that the Company plays in the energy sector, it becomes involved in projects supporting key initiatives designed to promote that sector's development.

Central Europe Energy Partners AISBL (CEEP)

In 2011, Grupa LOTOS actively participated in the activities of CEEP, an international think-tank representing the interests of the Central European energy sector on the EU forum. The organization's membership and geographical coverage have been steadily growing. As at January 1st 2012, it had 14 members, representing four Central European countries.

In 2011, CEEP brought up a number of issues of material importance for the energy sector in Central Europe, including vapour pressure in fuel production, promotion of coal in the European Union's energy mix, reduction of CO_2 emissions, derogations, and activities fostering integration of the Central European energy sector. The organization takes part in all consultations concerning the energy sector. In December 2011, it opened a representative office in Berlin.

Energy and self-governance

On May 23rd 2011, Grupa LOTOS joined Forum Dialogu i Współpracy Województwa Pomorskiego Energia i Samorządność (the Dialogue and Cooperation Forum of the Gdańsk Province – Energy and Self-Government). The forum was established with a view to ensuring that the local social and economic potential is properly leveraged in connection with the possible location of a nuclear power plant in the Gdańsk Province as well as investments in other energy sources, while guaranteeing optimum security to the region's inhabitants and maintaining high standards of social coherence, self-governance and entrepreneurship. The forum was established on the initiative of the Marshal and the Governor of the Gdańsk Province.

Plans for the future

Over the next few years, Grupa LOTOS will be implementing the strategy it has adopted for 2011-2015 along with development directions until 2020. The investment activity will concentrate primarily in the upstream segment. Hydrocarbon production from fields located on the Baltic Sea, as well as in Lithuania and on the Norwegian Sea, will continue. Production of crude from the YME field is planned to be launched in 2012, and work will be conducted with a view to developing the other licence areas within the Norwegian Economic Zone. In 2015, crude oil production is expected to reach 1.2 million tonnes per year.

Furthermore, work will be under way to explore for shale gas within the licence areas on the Baltic Sea and in Lithuania.

Related content:

Interview with the President of the Board **Progress in implementation of strategic objectives**

Counteracting abuse

Intent on creating a proper organizational culture that would be both open and transparent, and at the same time being responsible for monitoring and identifying any risks associated with the organization's functioning, Grupa LOTOS has decided to initiate steps aimed at designing and implementing solutions to help the organization achieve optimum level of resilience to abuse.

According to assumptions, a company resilient to abuse is an entity which, being aware of the actual and perceived risks of abuse associated with its operations, has put in place and ensures the implementation of solutions - best adjusted to the nature and scale of the risks involved - focused on counteracting, detecting and reacting to abuse.

As one component of such solutions, in 2011 the Company started to perform periodic assessments of the organization's resilience to abuse, which are a source of information on how well the Company is prepared to effectively manage the risk of abuse. As part of the assessments, the defined processes within Grupa LOTOS are graded, and choice is made of those in the case of which the risk of abuse is the highest from the point of view of the Company as a whole. In reliance on the results of this exercise, actions are planned in order to carry out in-depth reviews of selected processes (or selected process areas) with a view to identifying and potentially modifying measures designed to reduce the likelihood of abuse, both of external and internal nature.

Additionally, for a few years now, whenever there is suspicion of abuse, an investigation is carried out within the LOTOS Group the principal goal of which is to collect information necessary to correctly classify a given occurrence and determine the basis for taking appropriate action.

In 2011, no completed court proceedings initiated against the Company or its employees in connection with corruption practices were identified.

Training concerning anti-corruption policies and procedures is regularly provided within the organization. Such training is undertaken in line with the standards of work applicable at Grupa LOTOS, depending on current needs. The following anti-corruption training programmes were carried out in 2011:

- "Induction Programme",
- "Corruption Risks in Business Processes" – training provided by the Central Anti-Corruption Office.

Percentage of employees trained in 2011 in Grupa LOTOS' anti-corruption policies and procedures

Type of position	Total number of employees	Number of employees who underwent training	Percentage of employees who completed training
Management positions	158	14	8.9
Other positions	1,171	87	7.4

Related content:

Organizational maturity

Anti-competitive behaviour

In 2011, Grupa LOTOS was a party to an anti-trust decision issued by the President of UOKiK (Polish Office for Competition and Consumer Protection) on March 21st 2005 in connection with a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Płock and Grupa LOTOS of Gdańsk concerning simultaneous termination of the production and distribution of the universal U95 gasoline, as described in detail in the 2010 Annual Report 2010 Link → (http://raportroczny2010.lotos.pl/en/statements/consolidated_non-financial_statement/social_performance#so7). On February 11th 2011, the court published a ruling dismissing the appeal lodged by Grupa LOTOS and PKN ORLEN. On March 10th 2011, the Company paid the liability of PLN 1,000 thousand under the court ruling of February 11th 2011, using the provision created earlier for the purpose. On May 30th 2011, Grupa LOTOS lodged a cassation complaint against the ruling, in which it appealed against the ruling in its entirety and requested that it be overruled. A cassation complaint by PKN ORLEN was filed on the same day. On June 17th 2011, a response to Grupa LOTOS' cassation complaint was filed by the President of UOKiK, in which the President requested that the complaint be dismissed and that UOKiK be awarded reimbursement of the cost of the proceedings. On December 2nd 2011, the Supreme Court refused to review the cassation complaints. The case was finally closed.

Furthermore, in 2011 Grupa LOTOS was a party to proceedings described in greater detail in the 2010 Annual Report Link → (http://raportroczny2010.lotos.pl/en/statements/consolidated_non-financial_statement/social_performance#so7), initiated following a petition filed on May 18th 2001 by PETROECCO JV Sp. z o.o., in which PETROECCO JV Sp. z o.o. sought to be awarded PLN 6,975 thousand together with statutory interest for the period from May 1st 1999 as compensation for the damage it had allegedly suffered as a result of the Company's monopolistic practices involving the sale of BS base oils in a way which put certain customers at an advantage, because a disproportionately higher volume of their orders were delivered as compared with those placed by PETROECCO JV Sp. z o.o. The monopolistic practices alleged against the Company were ascertained by a decision of the Anti-Trust Office of September 26th 1996. By the same decision, the Office ordered the Company to discontinue the practices. As part of the proceedings, the following developments took place in 2011: On May 16th 2011, Grupa LOTOS sent a response to the request to make a representation as to whether it maintains its petition to seek an expert opinion as evidence and to make a downpayment of PLN 23 thousand towards the cost of the expert opinion. On May 18th 2011, a court paper was filed by PETROECCO JV Sp. z o.o., in which the company upheld its previous position regarding the matter. On March 14th 2012, an opinion was filed by the Oil and Gas Institute in Kraków, to which Grupa LOTOS took a stance on March 28th 2012. On March 22nd 2012, a court paper was filed by PETROECCO JV Sp. z o.o. The case is pending.

In 2011, companies of the LOTOS Group did not pay any significant fines. Similarly, no significant non-monetary sanctions were imposed on any of the companies for legal or regulatory non-compliance. However, concerning this matter, the proceedings described above were pending in 2010-2011, and on March 10th 2011 Grupa LOTOS paid the liability of PLN 1,000 thousand imposed under the court ruling of February 11th 2011, using the provision earlier created for the purpose.

Product responsibility

To eliminate hazards, all stages of the product life cycle are assessed with view to their impact on human and environmental safety.

The LOTOS Group assesses the impact of all its products obtained from crude oil refining on human health and safety, as required by the REACH Regulation concerning the registration, evaluation and authorisation of chemicals. The Regulation is an extensive EU-wide legal act adopted to systematise and codify the requirements aimed to ensure protection of human health and the environment during production, use and import of chemicals.

The implementation of the REACH Regulation is expected to take 11 years, however the majority of measures regarding the registration of substances were completed in 2010.

The registration was made jointly with other refineries, based on relevant agreements concluded through the agency of CONCAWE, an organization of oil companies 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 and office work was considerably reduced relative to the Company's initial estimates.

Grupa LOTOS was automatically placed on several SIEFs (*Scientific Information Exchange Forum*). Information between individual companies as part of SIEF and with the European Chemicals Agency (ECHA) based in Helsinki, Finland, is exchanged via electronic channels. In 2012, the Company set up a Product Safety Team responsible for cooperation as part of SIEF.

It should be noted that the registration dossiers are reviewed on an on-going basis to reflect any newly identified hazards and updated by Grupa LOTOS' Product Safety Team, if need be. Also, the Team prepares Safety Data Sheets and Hazards Identification to communicate key information down the supply chain.

The complete list of the documents effective at the LOTOS Group is published on Grupa LOTOS' website Link → (http://www.lotos.pl/handlowy). The Company's customers may therefore rest assured that they receive registered and high-quality products.

Companies of the LOTOS Group perform health-impact and safety assessment at all stages of the product life cycle. These steps are aimed to fully eliminate or at least minimise potential hazards to the natural environment and human safety.

Related content:

Membership in organizations **Declarations** **Biodiversity**

Customer health and safety

As regards bitumen products manufactured by **LOTOS Asfalt**, there is an ongoing debate whether bitumen fumes released at high temperatures are harmful (150-180°C - during production of aggregate and bitumen mixtures at elevated temperatures, and above 250°C - while using bitumen for special waterproofing applications). Although there is no scientific evidence that bitumen fumes are harmful and bitumens are not listed among hazardous substances under current regulations, LOTOS Asfalt includes the most recent recommendations on how to handle bitumen products safely in Information Sheets for substances or admixtures for which a Safety Data Sheet is not required.

Paving grade bitumens, which account for more than 95% of the company’s production volume, are subject to conformity assessment, whose outcome represents a warranty for the customer that the product has the appropriate functional properties and meets the construction industry requirements. LOTOS Asfalt’s products have declarations of conformity with technical specifications. There are procedures in place at the company which seek to ensure that any amendments to legal requirements affecting the company’s operations are identified.

In order to ensure safe use of its products, the company has applied safety-enhancing measures also to transport and distribution. Safety rules and instructional videos are in place for bitumen loading, haulage and unloading. Providers of transport services are also assessed for compliance with LOTOS Asfalt’s safety standards.

Life cycle stages at which the impact of LOTOS Asfalt’s products on health and safety is improved	Yes	No
Concept of product development	x	-
Research and development	x	-
Certification	x	-
Manufacturing and production	x	-
Marketing and promotion	x	-
Stocks distribution and supply	x	-
Use and service	x	-
Disposal, reuse or recycling	-	x

In 2011, LOTOS Asfalt recorded no incidents of non-compliance with the regulations and voluntary procedures concerning health and safety impacts of the company’s products at all stages of product life cycles.

LOTOS Kolej, as a rail carrier, specialises in transport of dangerous goods and provides a comprehensive range of rail transport services within the entire territory of Poland under licence No. WPR/007/2003 to transport goods, granted by the President of the Railway Transport Authority. LOTOS Kolej provides comprehensive service for the companies of the LOTOS Group.

LOTOS Kolej transports dangerous goods in compliance with:

- Rail Transport Act of March 28th 2003,
- Act on Transport of Dangerous Goods by Rail of March 19th 2011,
- Regulations pertaining to transport of dangerous goods, including:
  - Regulations concerning the International Carriage of Dangerous Goods by Rail (RID), appended to the Convention concerning International Carriage by Rail (COTIF);
  - Annex 2 to regulations concerning carriage of dangerous goods to the Agreement on International Goods Transport by Rail (SMGS).

In order to ensure a high service quality, LOTOS Kolej provides its employees with regular training in OHS and transport of dangerous goods. Every new employee, prior to starting any activities related to rail transport, undergoes the mandatory training and authorisation procedure, confirmed by a traction or railroad car instructor. In addition, every employee engaged in rail traffic participates in biannual updates, during which they are briefed on any amendments to applicable rail transport rules.

In 2011, the company transported 6.6 million tonnes of dangerous goods, i.e. 63% of the total transported load.

In the same period, there were 15 accidents and 8 incidents involving LOTOS Kolej's employees and rolling stock (according to the classification provided for in the Regulation of the Minister of Transport, dated April 30th 2007). One of the accidents was caused by a company employee, an engine-driver, who failed to comply with rail safety rules. The company was not responsible for the other accidents and incidents.

All products manufactured by **LOTOS Oil** have Safety Data Sheets (SDS), drafted based on the applicable requirements of the REACH Regulation. On the basis of the relevant SDS, products are classified as either safe or dangerous. The product description in an SDS advises users of potential hazards that the product may generate with respect to human health and the natural environment. In addition, an SDS contains information on dangerous ingredients in the product, exposure controls/personal protection, fire-fighting and environmental release measures, as well as empty container handling.
A description of hazards is also provided on the product label in the case of products which are classified as dangerous. The SDS and label also provide a contact telephone number where further information on the product can be obtained.

Life cycle stages at which the impact of LOTOS Oil's products on health and safety is improved	Yes	No
Concept of product development	x	-
Research and development	x	-
Certification	x	-
Manufacturing and production	x	-
Marketing and promotion	x	-
Stocks distribution and supply	x	-
Use and service	x	-
Disposal, reuse or recycling	x	-

The products are supplied to customers along with relevant quality certificates. If a product is classified as dangerous, the relevant SDS is each time enclosed with the documents submitted with the first delivery of the product. Otherwise, the customer is provided with the SDS on demand. Safety Data Sheets and other process documents are updated on an regular basis, as required by the procedures of the Integrated Management System.

In 2011, LOTOS Oil recorded no incidents of non-compliance with applicable regulations, rules and codes concerning health and safety impacts of the company's products.

LOTOS Paliwa takes care of the transport with respect to some 30% of all fuels sold (wholesale and retail combined), including all deliveries to LOTOS' own stations and all deliveries by rail. The remaining portion of the sales volume is collected by customers using their own means of transport.
Road fuel transport is outsourced to entities from outside the LOTOS Group. The safety of this service stage is controlled through contractual and procedure-based requirements for and supervision of deliveries. Rail transport is handled by LOTOS Kolej.

In the case of road transport, health and safety control involves the monitoring of:

- loading at depots,
- safe passage of tankers on controlled routes,
- unloading site safety,
- unloading compliant with the handling procedure and performance indicator,
- procedure in case of spills or failures,
- corrective actions to address any non-compliances.

LOTOS Paliwa regularly monitors fuels sold through the own and partner chain in terms of their quality parameters. Each station has the whole range of fuels inspected once a year.

As regards fuel sale from own stations, the company sets the standards, and supervises adherence to those standards by fuel station managers. The process is governed by separate agreements and effective working procedures, which are improved on a continuous basis. In terms of health and safety standards, the aspects controlled and assessed for compliance include the following stages:

- fuel deliveries,
- infrastructure control,
- procedures in case of accidents or failures,
- safety rules for customer service and fuel sale,
- environmental management in compliance with PN-EN ISO 14001:2005,
- occupational health and safety management in compliance with PN-N-1800.

The Quality Management System in place at LOTOS Paliwa has a certificate of compliance with PN-EN ISO 9001:2009 for wholesale trading in motor fuels and light fuel oils, sale of fuels to business customers, and retail fuel sale management.

In order to ensure safety at LOTOS service stations, the company implements various diagnostic and preventive measures, including:

- assessment of risk and consequences of failures,
- monitoring of OHS and environmental protection standards in place,
- development and implementation of appropriate procedures and rules,
- training of dealers and testing of emergency procedures,
- monitoring of buildings, structures as well as equipment under the administration of LOTOS Paliwa.

The training programme for dealers managing service stations covers such areas as: servicing of fire-fighting equipment, regulations governing the supervision and execution of hot work, preparation of fire safety procedures and explosion protection documents, procedures to be followed during an emergency and safety-related obligations of dealers as employers and managers of service stations.

In 2011, no incidents of non-compliance with the relevant legal regulations where LOTOS Paliwa would be at fault were identified.

In the entire year 2011, as part of the fuel quality monitoring throughout LOTOS Paliwa's logistics chain the following incidents were reported:

- a total of four incidents in fuel transport which involved quality deterioration that might have affected the safety of fuel use,
- a total of 19 incidents in fuel trade which involved quality deterioration that might have affected the safety of fuel use.

A thorough analysis of the incidents confirmed that they did not pose any hazards to customers.

LOTOS Parafiny, as the other companies, has implemented health and safety procedures for all stages of product and service life cycles. At the design stage, available raw materials and their sources of origin are identified, along with the scope of necessary research and testing for the raw materials and the product being designed. The potential environmental impact of the future product is also identified. An appropriate in-process production control system is in place, and occupational safety is ensured at the manufacturing stage. In terms of finished products, research and testing is conducted based on the current testing schedule, along with ad-hoc tests to assess the impact of the product on user health and safety.

Based on the Integrated Management System rules, a set of tools has been implemented to facilitate control and identification of irregularities of the individual processes:

- Testing schedule – determines the scope and frequency of testing and analyses for raw materials, production in progress and finished products;
- Technical and process documents – describing the production process, approved raw materials and requirements to be met by finished products;
- Control system for substance/mixture Safety Data Sheets is in place, ensuring safe use of raw materials during production, and products placed on the market. In addition, the system ensures that SDSs are up-to-date and comply with the applicable regulations (REACH, CLP);
- Environmental monitoring plan;
- Procedure in case of spills or failures;
- Waste management procedure. In addition, the company holds a permit for recovery of paraffin waste;
- Product safety and product quality monitoring procedure at the Paraffin Business Unit: clean status of packaging is inspected prior to transport, to ensure that finished products are protected against contamination and damage.
- Periodic product inspection system is in place to determine the content of carcinogenic substances and heavy metals,
- Good Manufacturing Practice (GMP) System, along with selected Good Hygienic Practices is in place at Zakład Produkcji Parafin Jasło (Jasło Paraffin Production Plant) with respect to the manufacturing of food-grade products.

The products are supplied to customers along with quality certificates, the applicable technical requirements and Product Sheets, or Safety Data Sheets. Technical documentation is updated on a regular basis. The procedures apply to all products of the company.

In June 2011, LOTOS Parafiny completed a two-year research and implementation project entitled "Development of new-generation pattern materials for precision casting and launch of their production". The project allowed the company to develop soft pattern material meeting the requirements of Polish precision foundries employing the lost-wax method. The product is marketed under the name FORMOWAX. Also, the project involved an environmental task aimed to assess whether soft pattern material may be reclaimed. On March 28th 2011, the company submitted a patent application to the Polish Patent Office concerning the method of preparation of pattern material. The application was assigned No. P.394360 by the Patent Office.

As in 2013 the company plans to register two substances with the ECHA, it has already started work to obtain all data necessary to complete the procedure.

Life cycle stages at which the impact of LOTOS Parafiny's products on health and safety is improved	Yes	No
Concept of product development	x	-
Research and development	x	-
Certification	x	-
Manufacturing and production	x	-
Marketing and promotion	-	x
Stocks distribution and supply	x	-
Use and service	x	-
Disposal, reuse or recycling	x	-

All products of LOTOS Parafiny were assessed.

In 2011, LOTOS Parafiny recorded no incidents of non-compliance with applicable regulations, rules and codes concerning health and safety impacts of the company's products.

Related content:

Occupational health and safety

Product and service labelling

LOTOS Asfalt complies with the requirements of the Construction Products Act of April 16th 2004, which stipulates that a construction product may be placed on the market if it is suitable for use in construction works in line with its functional properties and intended use, that is if its functional properties are such that properly designed and constructed buildings in which it is to be permanently applied would meet basic standards.

In April 2011, the European Parliament and the Council issued a new Common Provisions Regulation specifying harmonised conditions for marketing of construction products. The Regulation permits product marketing within the European Union in the transition period, i.e. until June 30th 2013.

Construction materials manufactured by LOTOS Asfalt, which include such product groups as paving grade bitumens, modified bitumens, bituminous emulsions, bituminous adhesives, compounds, solutions and waterproofing materials, require submission of full product information. Construction product information, along with appropriate product marking either with the CE mark or the Polish building mark "B", is particularly important. Mandatory submission of product-related information is required for over 95% of the total volume of products sold.

Next to the required marking, the documents supplied with each delivery of the product being sold (such as proof of issue, quality certificate, etc.) provide the following information:

- address of the manufacturer and the production site where the product was manufactured,
- product name and grade/class based on the technical specification (standard or technical approval), and trade name,
- number and publication date of the Polish standard or technical approval that the product conforms to,
- number and issue date of the national declaration of conformity,
- name of the certification body (if involved in the applied conformity assessment system).

In 2011, following harmonisation of the EN 14023 standard concerning classification of polymer modified bitumens, LOTOS Asfalt completed the certification process for the Site Production Control management system, confirming compliance of the Gdańsk, Jasło and Czechowice production facilities with the requirements of the above standard. Thus, the company has achieved compliance with the EU's legal requirements concerning marketing of construction products.

Although petroleum bitumens are not listed among hazardous substances, LOTOS Asfalt includes information on substances contained in the product and the most recent recommendations on how to handle the product safely in the Information Sheet for substances or admixtures for which a Safety Data Sheet is not required.

Scope of product and service information required by LOTOS Asfalt's internal procedures:	Yes
Source of the product or service components.	x
Content, particularly with regard to substances that might produce environmental or social impacts.	x
Safe use of the product or service.	x
Disposal of the product and environmental/social impacts.	x
Other: Hazards which may be involved in the product use. Details required by the technical specifications (harmonised standards, approvals) to be included in the information supplied with the product. Marking/labelling based on legal requirements (building law).	x

In 2011, LOTOS Asfalt identified no incidents of non-compliance with the regulations and voluntarily applied procedures concerning marking and providing information on products and services, by outcome.

Pursuant to the Regulations concerning the International Carriage of Dangerous Goods by Rail (RID), applied by **LOTOS Kolej**, a dangerous good may be classified into one of thirteen groups. Classification of dangerous goods consists in assigning a given material or product to the appropriate hazard class and packaging group, as well as specifying the good's identification number (the UN number), hazard identifier and classification code. The hazard class is determined based on the characteristics of the major hazard posed by a given hazardous product, in line with the classification criteria of a given class.

Hazardous goods are products and materials containing hazardous substances which – given their physical, chemical or biological properties – pose a potential threat to human health or life, the natural environment or property if not properly handled in transport, in case of a failure or accident.

Consignors of hazardous goods are obliged to place orange-coloured information plates on each side of the railroad car. The obligation to place information plates applies also to empty, uncleaned railroad cars and containers in which hazardous substances were carried. In the case of the LOTOS Group companies' products, LOTOS Kolej is responsible for proper marking of railroad cars for carriage.

In 2011, no penalties were imposed on LOTOS Kolej for incorrect or defective marking of hazardous goods consignments.

As LOTOS Oil sells both packaged and bulk products, information on a given product is provided to recipients in various forms. In the case of packaged products, the required information is given on labels, while bulk product information is available in Safety Data Sheets. If a product is classified as dangerous, the relevant SDS is each time enclosed with the documents submitted with the first delivery of the product. Otherwise, the customer is provided with the SDS on demand.

Under the applicable regulations, the following product information is provided with LOTOS Oil's products being classified as dangerous:

- product name,
- names of hazardous substances contained in the product,
- name and address of the manufacturer,
- appropriate warning symbols and their designations,
- appropriate R-phrases,
- appropriate S-phrases,
- product quantity in the packaging,
- information on empty container handling,
- product description and use,
- approvals and specifications,
- and, frequently, a bar code.

For the company's products which are not classified as dangerous, the following information is provided on the labels:

- product name,
- product description and use,
- approvals and specifications,
- manufacturer address,
- product quantity in the packaging,
- and, frequently, a bar code.

LOTOS Oil has put in place a procedure for technical and process documentation control, which specifies the rules concerning inscriptions to be placed on product labels. It has also designated persons responsible for inscription, packaging and label information templates.
Other documents of the company's Quality Management System include: production process procedure, inspection and testing procedure, non-compliant product handling procedure, process instructions, technical requirements, and label and print templates.

Scope of product and service information required by LOTOS Oil's internal procedures:	Yes
Source of the product or service components.	x
Content, particularly with regard to substances that might produce environmental or social impacts.	x
Safe use of the product or service.	x
Disposal of the product and environmental/social impacts.	x
Other: Hazards which may be involved in the product use. Details required by the technical specifications (harmonised standards, approvals) to be included in the information supplied with the product. Marking/labelling based on legal requirements.	x

In 2011, no incidents of non-compliance with regulations and codes concerning product information were identified at LOTOS Oil.

To ensure access to product impact information, **LOTOS Paliwa** complies with the requirements specified by the applicable laws and internal procedures, which provide for making such information available.
As regards wholesale and retail sale, information concerning the properties of all fuels sold by the company is provided at a customer's request in the form of Safety Data Sheets for dangerous substances.

Fuel station managers are required to provide, at a customer's request, Safety Data Sheets for hazardous goods available in stores at the fuel stations.

Scope of product and service information required by LOTOS Paliwa's internal procedures:	Yes	No
Source of the product or service components.	*Within the scope of Grupa LOTOS*	
Content, particularly with regard to substances that might produce environmental or social impacts.	x	
Safe use of the product or service.	x	
Disposal of the product and environmental/social impacts.	x	
Other: Identification of hazards, procedure for inadvertent environmental release, transport information.	x	

In 2011, no incidents of non-compliance with the regulations and voluntary codes concerning product information were identified at LOTOS Paliwa.

LOTOS Parafiny provides information required under the effective Technical Requirements on the primary packaging of each product. Full information complies with the Integrated Management System procedure for product identification. The information includes:

- name of the manufacturer,
- product name,
- production date,
- Technical Requirements document number,
- ID (material number),
- nominal product quantity,
- batch number,
- safety and handling marks (where applicable).

The following information may also be provided:

- general product information (content, expiry date, storage conditions),
- bar code,
- manufacturer's certificate,
- approvals,
- advertising phrases,
- customer-required information.

For all products manufactured by LOTOS Parafiny, Product Sheets or Safety Data Sheets are drafted based on the applicable legal requirements (REACH Regulation, CLP Regulation). They provide information on the product's health and environmental impacts, presence of dangerous ingredients, REACH registration number (for substances), exposure controls, measures to be taken in case of fire or environmental release, as well as waste disposal.

Under the Integrated Management System, a number of documents are used by the company, which indirectly and directly govern the manufacture of products, including in particular: new product development procedure, product identification procedure, product safety and quality monitoring procedure, safe use of substance and chemical preparation data control instruction, document control procedure, and production and process documentation control procedure.

Scope of product and service information required by LOTOS Parafiny's internal procedures:	Yes
The sourcing of components of the product or service.	x
Content, particularly with regard to substances that might produce environmental or social impacts.	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

In 2011, no incidents of non-compliance with the regulations and codes concerning product information were identified at LOTOS Parafiny.

Customer satisfaction survey

Grupa LOTOS and the major marketing companies of the LOTOS Group conduct customer satisfaction surveys on a regular basis.

Company	Survey frequency	Customers by segment	Common survey areas
Grupa LOTOS	once a year	Conglomerates, sulphur, aviation fuel	• cooperation assessment, • product quality assessment, • market position survey, • customer expectations, • assessment of commercial and marketing activities.
LOTOS Asfalt	once a year	Bitumen, HFO	
LOTOS Oil	once a year	Industry, automotive, regional distributors, motorcyclists	
LOTOS Paliwa	once every two years	LDS, fleet, wholesalers, independent stations, partner stations, retail customers	
LOTOS Kolej	twice a year	Key business partners	
LOTOS Parafiny	once a year	Key business partners	

In 2011, a satisfaction survey was carried out among **Grupa LOTOS** customers to probe their opinions about the cooperation with the Company in the first half of the year. The survey covered the following distribution segments: conglomerates, sulphur and aviation fuel.

The questionnaire consisted of several close-ended questions with space for comments, and an open-ended question. Thanks to the questionnaires distributed in electronic form, the customers of Grupa LOTOS had a chance to evaluate:

1. interactions with Company representatives, including assessment of their competences,
2. response times for requests for proposal and orders,
3. product quality,
4. product availability,
5. timeliness of deliveries,
6. availability of product information,
7. price competitiveness.

The cooperation satisfaction survey was sent out to 27 commercially active customers. Thirteen questionnaires were filled in and returned, two of which came from a single conglomerate. This means that 44% of our customers took part in the survey.

The results of the survey suggest that the majority of our customers are willing to continue to cooperate with Grupa LOTOS: out of ten customers providing affirmative answers, seven justified their answers by stating that:

- LOTOS is a reliable supplier,
- LOTOS takes proper care to ensure product quality and availability,
- they are satisfied with the cooperation to date,
- they have no objections as to the cooperation to date,
- fuel availability is the decisive factor,
- LOTOS meets all their expectations.

One of the customers involved in a tender procedure for aviation fuel indicated that it had no choice but to work with Grupa LOTOS as the product supplier. None of the respondents declared unwillingness to continue their cooperation with the Company.

LOTOS Asfalt conducts an annual satisfaction survey among its business partners. The questionnaires are distributed via e-mail to customers in Poland and abroad who purchased large quantities of LOTOS Asfalt's products in the period covered by the survey. The process of market data acquisition is carried out simultaneously in two main areas, i.e. among customers purchasing bitumen and customers purchasing heavy fuel oil.

The questionnaire consists of several close-ended questions with space for comments, and an open-ended question, and has been designed to survey and analyse the quality of the cooperation to date. The customer satisfaction questionnaire included spaces for the respondent to suggest changes and improvements to the current or future business interactions with the company. The questions related to the following issues:

- pre- and after sales support,
- quality of products supplied,
- general assessment and evaluation of LOTOS Asfalt.

In 2011, the questionnaire was distributed among 228 customers. The return rate was 40%. According to the results of the survey, customers appreciate the superior quality of products and services offered by the company, and ongoing interactions

with its representatives. High scores were given to timeliness of deliveries, which is of key importance to businesses depending on bitumen products.
Findings derived from summary survey scores allow the company to assess the operations of its individual departments, and to define further steps to be taken in order to ensure that its business partners are fully satisfied. Each remark or comment from our customer is verified. If any of them is confirmed, corrective measures are implemented.

High quality of freight services is crucial for **LOTOS Kolej**'s continuing expansion on the Polish rail freight market. Customer satisfaction depends on several factors, such as highly specialised human resources, timeliness and predictability of deliveries, high quality of customer service, reliable and up-to-date information about consignments provided to customers, strong focus on customer needs, as well as flexible and customisable terms of business.

The managers of LOTOS Kolej acquire general customer satisfaction data in the course of direct interactions with customers. Such information concerns terms of contracts, including price terms. Additionally, in order to monitor customer satisfaction on an ongoing basis, LOTOS Kolej has introduced a survey-based system for evaluating its cooperation with customers. The surveys are carried out twice a year and concern the company's rail freight services. The questionnaire is distributed in paper form among selected customers; the participation is voluntary. After filling in the questionnaire forms, customers return them to LOTOS Kolej, where its sales force analyse the results. Later, they are also discussed in detail during the annual review of the Integrated Management System in place at the company.

The questionnaire consists of questions related to the following areas of cooperation:

- timeliness of deliveries,
- delivery times (as compared with other companies offering similar services),
- freight of products without damaging them,
- rolling stock quality (cleanliness, labelling, suitability),
- overall service quality,
- customer service quality (friendliness, competence, accessibility),
- customer interactions with the company's management staff,
- customer interactions with the technical personnel operating the rolling stock,
- scope of services (wide range of services on offer),
- service prices (as compared with similar companies),
- payment options, payment deadlines, possibility of obtaining a discount,
- response to complaints,
- credibility (management staff, financial credibility),
- overall evaluation of LOTOS Kolej.

In 2011, the survey involved 13 customers. On average, the score received by the company was 4.65 (on a scale from 1 to 5, 1 being the lowest). Compared with the survey conducted in 2010 among 17 customers, the service quality rating increased by 0.01.

The acquired data suggests that what the customers of LOTOS Kolej value the most is credibility, understood as reliability of employees and management staff, as well as financial credibility. Credibility was rated as "very good". Compared with that of its competitors, the ability of LOTOS Kolej to meet contractual deadlines also attracted high scores. In addition, customers stressed the high quality of communication with the management staff. LOTOS Kolej received the lowest marks for "service prices (as compared with similar companies)". However, even in this category the company's grade was "good".

LOTOS Oil conducts cyclical customer satisfaction surveys, covering two areas of its operations:

- wholesale channel, where the survey respondents are Authorised Distributors,
- direct sales channel, where customers from the industrial and automotive segments are the respondents.

The methodology of the surveys relies on a narrow definition and adaptation of key surveyed areas to the specific features of the oil market in a given distribution channel and to the operations of LOTOS Oil. To date, the surveys have covered the following areas:

- cooperation,
- range,
- products,
- sales,
- marketing,
- oil service,
- proposals for customer support.

In 2011, 185 customers from the three segments were invited to take part in the satisfaction survey. The return rate was 77.3%.

The surveys indicate that customers highly value those activities by LOTOS Oil which contribute to high service level, high and consistent product quality, and adequate after sales support, including good working relations with commercial representatives, information on new product launches, product training and training related to proper selection of lubricants. One of the most important elements of such activities are the available added value benefits offered by the company. These include oil services for customers from the industrial and automotive segments, e.g. oil consultancy and analysis, or comprehensive oil management monitoring.

The above findings are derived from summary survey scores, and contribute to the work improvement process, primarily enabling the company to fine-tune its current operations to customer requirements. The customer satisfaction measurement is an evaluation of the overall level of service and product quality, and a measure of the company's success. In the current business setting, awareness of the customer satisfaction level is a prerequisite for maintaining a strong market position.

LOTOS Paliwa regularly measures the customer satisfaction level, in line with internal procedures of the Integrated Management System and ISO 9001, which focuses on the notion of "Customer-Driven Approach". The frequency and methodology of the measurement is defined in internal process sheets, and is different for retail and institutional customers.

Retail customers

Measure identifier	Measurement frequency	Procedure
Brand awareness indicator	1–2 times a year	Data analysed by the Director of Marketing at LOTOS Paliwa and used to formulate future marketing plans
Quality evaluation indicator	once a year / once every two years	Data analysed by the top management of LOTOS Paliwa to design and implement actions aimed at improving the indicator
Overall station evaluation (image) indicator	once a year / once every two years	Data analysed by the Director of Marketing at LOTOS Paliwa and used to formulate future marketing plans

The conducted surveys suggest that individual clients have diverse expectations regarding service stations. LOTOS Paliwa takes steps to ensure that the specific needs of our strategic customer groups are increasingly satisfied.

Premium customers appreciate a wide variety of non-fuel and food services offered by LOTOS service stations, as well as the LOTOS Dynamic fuels and Navigator loyalty programme. At the same time, *value-oriented* customers have access to service stations which are ever more friendly, staffed with polite, competent and skilful personnel, working on quality equipment and selling quality, affordable fuels. Successful market communications have led to a prevailing upward trend in unprompted awareness of the LOTOS brand and LOTOS Dynamic fuels.

To meet diverse customer expectations, in 2011 the company launched a new service station chain in the economy segment. The LOTOS brand is currently present in two segments: premium (LOTOS stations) and economy (LOTOS Optima stations).

Moreover, an external company monitors customer service quality at LOTOS service stations on an ongoing basis, using the Mystery Shopper method.

The standards for service stations and customer service are described in the Manual of Standards, which is available at every station. It presents the recommended standards of behaviour and conduct, as well as the requirements concerning customer service and the station's operation, targeted at staff. Compliance with the standards is monitored at specified intervals. Based on research findings reports, the company prepares staff training and improvement programmes, and amends the standards and evaluation criteria.
Thanks to constant improvement of research tools and increasingly stringent criteria, LOTOS Paliwa's performance improves year on year. In Q4 2011, 269 service stations were evaluated after 535 visits. Compliance with standards at LOTOS service stations was 95%, up by 4% year on year. The target compliance rate (95%–100%) was met in 161 out of 269 cases (Q4 2010: 70 out of 250). In Q4 2011, the level of customer service quality assessment at LOTOS service stations went up by 11% year on year, to 87%.
In the same period, customer service quality was rated as satisfactory (95%–100%) at 116 service stations – a significant increase from 39 such stations in Q4 2010.

In 2011, the company carried out an opinion survey among institutional customers, based on the following guidance.

Institutional customers

Measure identifier	Measurement frequency	Procedure
Customer cooperation satisfaction index	once a year / once every two years	Data analysed by the top management at management at LOTOS Paliwa to design and implement actions aimed at improving the indicator
Account manager satisfaction index		
Customer Service Office satisfaction index		

Functionality evaluation index		
Brand image index		Data analysed by the Director of Marketing at LOTOS Paliwa and used to formulate future marketing plans

Institutional customers value the improving quality of cooperation with LOTOS Paliwa, which follows from better performance of the account managers and the company's efforts to promote its image as an innovative partner standing out against competitors. According to institutional customers, the comprehensive fuel offering and environmental awareness are the company's strengths.

Apart from the market research described above, measurements are also performed internally at LOTOS Paliwa. The company has a Contact Centre, where its customers can learn about its products and provide feedback on service stations or trade services. The company uses diverse channels of communication (the telephone, Internet, fax, etc.) to reach its customers.
Rules governing collection, distribution and processing of survey data are set out in the internal procedure of LOTOS Paliwa. The Contact Centre gathers and records customer opinions, and relays them to competent organizational units, where the data is analysed. In some cases, a reply is delivered. Furthermore, members of the top management periodically receive a report on customer opinions.

LOTOS Parafiny carries out annual satisfaction surveys among its key business customers. The survey has the form of a questionnaire, which in 2011 covered 85% of the customers. Apart from the company ranking (Likert five-point scale) and top competitor ranking, the survey included open-ended questions designed to gain insight into customer expectations and opinions.

Key evaluation criteria used in LOTOS Parafiny's surveys were determined by customers. They are as follows:

- product: quality, range, delivery shortcomings, packaging formats and methods (lumping of packaged products, possibility of using packaged products, e.g. granulate, pellets, slabs, product released to cartons),
- sales quality (administrative support), release of goods – loading,
- offering alignment with machinery,
- cooperation with the manufacturer.

In 2011, product quality was the most important criterion for customers, with the average score of 4.45, up by 0.04 compared with 2010. Administrative support, scoring 4.1, was considered the least important. On average, the company received the score of 4.45 in 2011, whereas its best competitor scored 4.21 on average. In 2010, the company scored 4.41, and its best competitor – 4.27.

In terms of the key factor group, that is offering quality and comprehensiveness, the company scored an average of 4.04, slightly more than competitors, scoring 3.98. This result came on the back of an unsatisfactory rating related to delivery shortcomings, where the company scored 3.94 on average (competitors: 4.25). The company evaluation histogram for the factor group shows that outliers (0 or 1) had a significant impact on the overall score. As in 2010, the majority of scores ranged between 4 and 5.
Most objections were voiced with regard to packaged products and products containing plant oils. Frequency and quality of direct interactions received the highest scores.

The responses to open-ended questions identified key customer expectations, including:

- extension of the range of available products,
- longer payment deadlines,
- extension of trade credit payment dates and amounts.

Compared with the 2010 survey, the quality of direct commercial interactions, substantive nature of negotiations and new product ideas attracted very high scores. The main complaint related to low quantities of certain products and high prices.

Related content:

Stakeholders' involvement **Awards and distinctions**

Marketing communication

In the LOTOS Group's strategy for 2011–2015 along with development directions until 2020, fostering the strong LOTOS brand and a distinctive brand image is one of key elements of its corporate management strategy. All individual product brands are subordinated to the corporate brand strategy, which is consistent with the business strategy of Grupa LOTOS.

Our strategic goal is to enhance the LOTOS brand value by building its image as:

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

Fostering the image and strength of the LOTOS brand is one of the strategic priorities for Grupa LOTOS. Efforts have been made to increase the brand awareness and to position Grupa LOTOS as an organization recognised for its professional management style, building on quality, innovation, environmental awareness and security.

Periodic marketing research confirms the increasing awareness, quality and prestige of the LOTOS brand. In the 8th edition of the Most Valuable Polish Brands Ranking published by the Rzeczpospolita daily in December 2011, the value of the LOTOS brand was estimated at PLN 865.1m, an increase of 28% relative to 2010. In the past five years, the value of the LOTOS brand has grown over three-fold.

Value of the LOTOS brand (PLN m)

Year	PLN m
2009	**614.9**
2010	**675.0**
2011	**865.1**

Source: Rzeczpospolita daily, December 2011.

Standards of operation

The following rules are strictly applied in the overall management of the corporate brand strategy, product brands, promotion strategies, value creation, creation of the desired image of the LOTOS brand, advertising, promotion and sponsorship activities, as well as marketing research of the LOTOS Group:

- compliance with applicable laws,
- no deliberate harm or damage,
- accountability,
- putting to good use the education, professional background and experience of personnel.

We conduct our operations without using any discriminatory or controversial content, which may offend certain social groups or abuse the trust of recipients of our communications, and without inciting negative emotions. These rules complement the effective and unconditionally binding laws and regulations, including: 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 Neighbouring Rights, and the Act on Industrial Property.

In their sponsorship activities, Grupa LOTOS and marketing companies LOTOS Oil and LOTOS Paliwa, apply the rules defined for wholly and partially state-owned companies in Directive No. 5 of the Minister of State Treasury, dated February 13th 2009.

Additionally, in its marketing communications efforts, Grupa LOTOS adheres to the standards and applies the rules spelled out in voluntary codes of conduct published e.g. by entrepreneur organizations. In its sponsorship activities, the LOTOS Group complies with the standards and rules of the code of ethics developed by the Polish Confederation of Private Employers Lewiatan. All sponsorship contracts are transparent and clear, and precisely identify all interested parties and obligations of the sponsored entity. 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.

The Company adheres to the regulations contained in the Culture Sponsorship Code of 2011, a joint initiative of the National Centre for Culture, the Polish Confederation of Private Employers Lewiatan and the Warsaw Stock Exchange. The Culture Sponsorship Code was created based on common experience of institutions of culture, non-government organizations and private entities. In its sponsorships activities, Grupa LOTOS applies the Code's principles relating to balanced operations, transparency, accessibility and development.

On its website, the Company has published the objectives of its sponsorship and charity policies. Link (http://www.lotos.pl/korporacyjny/spolecznie_odpowiedzialni/polityka_sponsoringowa_i_dobroczynna)

Grupa LOTOS, as a Global Compact member, applies in its operations the fundamental principles advanced by that organization, including those related to environmental protection. As regards responsibility for the natural environment, in the area of marketing communications and sponsorship, the Company applies the principles stating that businesses should support a precautionary approach to environmental challenges and promote greater environmental responsibility. The application of those principles is reflected, among other things, in the use of certified environmentally friendly paper (e.g. FSC paper) for the Company's publications and informing the recipients of that fact.

The above corporate practices in the area of marketing communications are applicable to Grupa LOTOS and all the marketing companies of the LOTOS Group, i.e. companies which – given their business profile – distribute communications regarding their products and services to wider audiences.

The consistency of marketing communications across the LOTOS Group is overseen by the appropriate units at Grupa LOTOS, which issue opinions on key marketing and sponsorship projects. All marketing content provided to customers is also reviewed in advance by the marketing offices of LOTOS Oil and LOTOS Paliwa and the appropriate units at Grupa LOTOS, i.e. the Brand Management Office, the Sponsorship, Social Affairs and CSR Office, and the Press Office – depending on the type of content and the scope of a given unit's responsibilities. Internal procedures related to that area were also governed in 2011 (until July) by the Rules of the Committee for Marketing and Communication, whose purpose was to ensure appropriate marketing across the LOTOS Group.

LOTOS Oil, LOTOS Paliwa and LOTOS Parafiny, which are responsible for product brand communications addressed to the general public, have adopted their own supplementary regulations.

Recognising the impact of marketing activities on the market and consumers, **LOTOS Oil** in its activities in the area of marketing communications, including advertising, promotion and sponsorship, adheres (on a voluntary basis) to the standards of the Code of Ethics in Advertising, developed by the Polish Board of Advertising and the Polish Advertising Standards Committee. At **LOTOS Paliwa** the development of marketing content and standards of conduct, including standards of communication with customers, are regulated by the following internal documents, approved by the company's Board:

- Communication and Positioning Strategy for the LOTOS and LOTOS Optima Service Stations,
- Communication and Positioning Strategy for the LOTOS Dynamic brand,
- Strategy of Sponsorship and Motorsports Involvement.

Marketing communications at **LOTOS Parafiny** are compliant with guidelines laid down in Polish and international laws and regulations, including the International Code of Advertising Practice. LOTOS Parafiny communicates with customers in an honest and responsible manner, and answers all questions and concerns relating to its products by publishing information on its website, conducting dialogue and organizing meetings with customers, using other marketing materials and applying other such tools.

LOTOS Asfalt and LOTOS Kolej have not adopted any separate marketing communications procedures, as their activities in that area are insignificant.

No incidents of non-compliance with the applicable laws, regulations and best practice codes concerning marketing communications, including advertising, promotion and sponsorship, were identified in 2011 at Grupa LOTOS or the LOTOS Group's marketing companies..

Sponsorship of sports

Grupa LOTOS and the LOTOS Group's marketing companies, LOTOS Oil and LOTOS Paliwa, have adopted a strategic, long-term approach to their sponsorship of sports, focused on the exposure of the corporate brand and product brands in areas guaranteeing extensive reach to the key target groups of marketing communications. In line with the core values of the LOTOS brand, sponsorship activities in that area are focused on team sports, which have greatly gained in popularity in recent years on the back of international successes.

Team sports

For over 13 years, Grupa LOTOS has been the titular sponsor of women's basketball team LOTOS Gdynia, which holds 11 Poland's Championships (1996, 1998-2005, 2009, 2010), 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 men's volleyball team LOTOS TREFL Gdańsk (since 2009), men's basketball team TREFL Sopot (since 2010), and football team Lechia Gdańsk (since 2011). In 2011, the Company commenced cooperation with Stowarzyszenie Piłki Ręcznej Spójnia Wybrzeże Gdańsk, a handball team promoted to the first league in the 2011 season.

Skiing

For seven 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 Poland's General Skiing Sponsor, the Company supports the talents of:

- Justyna Kowalczyk, three-time medallist of the Olympic Games in Turin and Vancouver, double World Champion from Liberec, winner of two World Championships medals in Oslo, as well as World Champion and World Cup winner;
- Adam Małysz, medallist of the Olympic Games in Salt Lake City and Vancouver, four-time individual World Champion, four-time World Cup winner, three-time Summer Grand Prix winner and medallist of the World Championships in Oslo (2011);
- Kamil Stoch, the first sportsman to receive a scholarship under the "In Search for the Champion's Successors" programme sponsored by Grupa LOTOS; last year, he scored his first podium result at the World Cup event in Zakopane.

Motorsports

It is obvious that Grupa LOTOS, as a fuel company, should also be involved in motorsports. In 2011, the Company was involved in the LOTOS Baltic Cup Rally and the Poland's Mountain Rally Championships.

Since 2011, LOTOS Paliwa, with its LOTOS Dynamic fuel brand, has been involved in the LOTOS Dynamic Rally Team project, comprising two rally teams which compete in international events. In Polish rallies, LOTOS Dynamic Rally Team is represented by the 2010 and 2011 Poland's Rally Champion Kajetan Kajetanowicz and his co-driver Jarek Baran. Outside Poland, Michał Kościuszko and Maciek Szczepaniak, two-time runners-up in the World Rally Championships (PWRC 2011 and JWRC 2009), compete under the LOTOS Dynamic Rally Team colours. LOTOS Oil is the sponsor of LOTOS - Subaru Poland Rally Team (comprising Wojciech Chuchała and Kamil Heller), which won the 2011 Polish Rally Championship in Group N.
In 2011, LOTOS Oil, in cooperation with KIA, organised a racing car event under the name of KIA LOTOS Race. It was the fifth edition of the project, which was previously known as KIA LOTOS Cup.

The presence of the LOTOS Dynamic fuel brand in motorsports attests to the benefits communicated to the public: improvement in dynamics and performance, better utilisation of a car's power. LOTOS Dynamic is a fuel brand carrying a strong emotional context, which guarantees the highest quality parameters. Its presence in sports is aligned with the positioning strategy. The brand's association with motorsports is desirable and follows naturally from the specific nature of the product. The brand's appearance in motorsports on cars and outfits of specific teams involves the greatest media visibility and is the most emotional form of advertising for Premium fuels. The activities promoting the image of the LOTOS Dynamic brand support the image of the entire LOTOS station chain, rendering the message communicated by the stations more credible.

LOTOS Oil's sponsorship activities in the area of motorsports complement the LOTOS brand's trading and marketing cooperation in the segment of oil products with KIA and Subaru car makers. The sponsorship projects described above complement the communications and primary media activities of the LOTOS brand. From the point of view of the brand's image promotion, the technological advancement and the quality of oil products are confirmed by the car make – the application of products in standard passenger cars and sports cars under extreme conditions. The activities are targeted at a wide communication group, as well as at the business group of Manufacturer Authorised Service Centres and independent garages.

In 2011, the LOTOS brand also supported the RMF Caroline Team with Adam Małysz, who having ended his ski jumping career found a new challenge behind the steering wheel of an off-road car.

For several years, Grupa LOTOS has supported speedway racers from Gdańsk and has acted as the Titular Sponsor of the LOTOS Wybrzeże Gdańsk team, which was promoted to the Polish Speedway Extraleague in 2011. The team includes both Poles and foreigners. In the 2011 season, three young riders trained by the club competed in the LOTOS Wybrzeże Gdańsk team, including Krystian Pieszczek who won the Pomerania Junior Speedway Championship (individually and as a team) and finished first in the Western Junior Speedway League (individually).

Socially engaged marketing

In 2011, LOTOS Paliwa continued its cooperation, started a year earlier, with the SOS Children's Villages Association in Poland. Each participant of the Navigator loyalty programme, available only at LOTOS service stations, could donate their credits to orphaned or abandoned children under the care of SOS Children's Villages. The initiative is in line with the objectives of the LOTOS Group's CSR strategy.

Credits may be donated is a very simple way. A customer has only to declare his/her intention to donate credits to SOS Children's Villages while shopping at one of LOTOS stations. Funds raised from donated credits are applied towards the costs of living, health care and education of children. They help ensure equal opportunities and prepare the children for future independent lives.
By donating any multiple of 5 Navigator credits, our customers contribute to the monthly support of each child, which can be broken into the following categories:

40 credits	75 credits	275 credits	750 credits
Health care	School expenses	Clothes	Food

LOTOS Paliwa transfers to SOS Children's Villages the amount equivalent to the value of credits donated by participants of the Navigator loyalty programme.

The SOS Children's Villages Association in Poland provides care to abandoned children, orphans and children at risk of losing parental care. The Association has been present in Poland for 27 years and has 1,250 children under its care. It runs four SOS Children's Villages in Biłgoraj, Kraśnik, Siedlce and Karlin, three Temporary Family Homes, ten daytime support centres and three rural kindergartens. The association is a part of SOS-Kinderdorf International, an international organization present in 132 countries all over the world.

In 2012, the Company also supported the nation-wide "donate 1% of your tax" campaign carried out by the SOS Children's Villages Association in Poland. It also continues to transfer credits from the Navigator programme to the Association.

Related content:

Mission, vision, values **Market activities**

Legal and regulatory compliance

In 2011, no complaints regarding breaches of costumer privacy or loss of data were received by Grupa LOTOS or the LOTOS Group's marketing companies: LOTOS Kolej, LOTOS Oil, LOTOS Paliwa and LOTOS Parafiny.

No significant incidents concerning the provision and use of products and services were reported in 2011. Consequently, no significant penalties for non-compliance with laws or regulations concerning the provision and use of products and services were imposed on any member of the LOTOS Group.

However, the proceedings described in the "Impact on the society" chapter of this Report, Link → (http://raportroczny.lotos.pl/en/society/impact-on-the-society/anti-competitive-behaviour), concerning the anti-trust action taken by the President of the Competition and Consumer Protection Office, were pending in 2010-2011. On March 10th 2011, Grupa LOTOS paid the liability of PLN 1,000 thousand imposed on it by the court ruling of February 11th 2011, using the provision created earlier for the purpose.

In 2011, the proceedings of the Polish Energy Regulatory Office (URE) concerning negative results of the fuel quality inspection conducted at LOTOS Paliwa in 2009 were also completed. A fine of PLN 50 thousand was imposed on LOTOS Paliwa (the highest administrative sanction in the reporting period). The Regional Court of Warsaw allowed the company's appeal against the above decision of the President of URE and reduced by half the original fine amount (PLN 100 thousand). In the grounds to the decision, the court also confirmed that the event under review was not a consequence of LOTOS Paliwa's negligence, but resulted from wilful and unauthorised actions of third parties, which, however, did not release the company from its legal responsibility in the case.

Human rights

Counteracting discrimination in employment and upholding the freedom of association are central to the corporate culture of Grupa LOTOS.

As a member of United Nations Global Compact, the world's largest corporate citizenship organisation, Grupa LOTOS has undertaken to support and respect internationally proclaimed human rights, eliminate human rights abuse, uphold the freedom of association and effectively counteract discrimination in respect of employment. The concerns listed above are regarded by the Company as central to shaping its corporate culture. We take active measures to meet international human rights standards, endeavouring – where practicable – to exceed the requirements imposed by law.

Human rights related to collective employment relations are set out in Convention 87 and Convention 98 of the International Labour Organisation ratified by Poland, and include freedom of association and protection of union rights, as well as the right to organise and collective bargaining. These rights, referred to as fundamental social rights by Council of Europe sources, have been incorporated into the European Social Charters and include freedom of assembly and association, the right to bargain, the right to information and consultation, and the right to participate in determination and improvement of working conditions and environment. They have also been recognised in the Polish Constitution and other laws effective in Poland, including the Labour Code, the Trade Union Act, the Act on Resolving Collective Disputes, the Act on Information and Consultation of Employees and the Act on Social Labour Inspectorate.

In exercise of their rights and in discharge of their obligations under these legal enactments, the LOTOS Group members enable and facilitate the exercise of participation rights by their employees. A formal recognition of these rights is the bargaining approach widely applied by employers within the LOTOS Group to negotiate terms of employment.

All LOTOS Group members with headcounts of more than 20 have negotiated and signed Corporate Collective Bargaining Agreements. Each of them has been repeatedly amended by way of supplementary protocols in consultation with the respective trade unions, which clearly demonstrates that the right to collective bargaining is a matter of normal practice and is respected by the employers. In line with the Corporate Collective Bargaining Agreements, changes to employee salaries are agreed by negotiation and relevant arrangements are made on an annual basis.
Human rights considerations are addressed during sessions held under the Induction Programme for new employees at selected LOTOS Group companies. OHS training programmes also cover human rights issues, as required under applicable laws. Before the Induction Programme was launched in 2007, human rights had been a theme of annual meetings between the LOTOS Group's management and employees. During the meetings, employees had received relevant materials, including copies of the Code of Conduct for Grupa LOTOS' Employees.

Related content:

Declarations **Table of Content of the GRI Performance Indicators and Global Compact Principles**

Non-discrimination

In 2011 or in previous reporting periods, there were no instances of discrimination against employees of the LOTOS Group on account of their race, colour, gender, religion, political leanings, national origins or social background. Any reported discrimination incidents are investigated by the HR Management Office of Grupa LOTOS.

Related content:

Diversity and equality of opportunities

Investment and procurement practices

To date, Grupa LOTOS has not incorporated human rights concerns into its investment agreements. However, in line with the assumptions underlying the LOTOS Group's Corporate Social Responsibility Strategy and the principle of cleanliness, understood as counteracting humans rights abuse, one of the key social values underpinning our corporate culture, we plan to incorporate a relevant human rights clause into such agreements. When this report was being prepared, work was under way on the draft wording of the clause.

For the time being, a human rights clause is inserted into RFPs to bidders participating in contract award procedures. Bidding firms are required to present a statement to the effect that they are not in arrears with any taxes, charges or social security contributions, and that their owners have not been convicted by a final court decision of an offence against paid workers' rights.

Given the absence of human rights clauses in procurement agreements and procedures, Grupa LOTOS has not yet undertaken human rights screening when selecting suppliers and contractors, or during the ensuing cooperation.

The LOTOS Group seeks to ensure that human right concerns are addressed during training sessions for employees.

We place special emphasis on promoting desirable attitudes among new employees. Hence, as part of the Induction Programme, a considerable amount of time is spent familiarising new employees with our core values and organisational culture of the LOTOS Group, as well as modelling positive employee behaviour, particularly in relations with business partners. The sessions are run by senior staff with adequate experience. Topics covered include the LOTOS Group's policies in the area of human rights protection.

During induction sessions, highlights are presented of our human rights policy embodied in the corporate mission, vision and strategy, as well as in the Code of Conduct for Grupa LOTOS' Employees, which sets out the standards of work and communication, organisational culture, model patterns of behaviour, and key employee values. Employee matters, such as the benefits package, working hours and medical care schemes, are also discussed in the light of the Corporate Collective Bargaining Agreement and the Rules of Participation in the Company Social Benefits Fund, with which newly employed staff are acquainted. In addition, human rights are covered during the Periodic Employee Evaluation System training, concerning procedures, key competencies and rules for preparing and conducting periodic employee performance reviews, as well as during training devoted to the Company's Integrated Management System.

A total of 2,090 hours of human rights-related training were provided at Grupa LOTOS in the period 2008–2011. The proportion of training participants relative to total headcount ranged from 11% (in 2009) to 23% (in 2008).

Even though there is no separate procedure in this respect, training under the Induction Programme is also held outside Grupa LOTOS – at LOTOS Serwis, LOTOS Petrobaltic, LOTOS Oil, LOTOS Straż, LOTOS Asfalt and LOTOS Lab.

Procedures and policies concerning human rights – total number of training hours and percentage of Grupa LOTOS employees trained in 2011

Total headcount (as at December 31st 2011)	Number of employees trained on human rights	Total number of training hours	Number of human rights training hours	Percentage of employees trained on human rights
1,329	291	31,504	724	21.9

Human rights issues are an important aspect of the security area within our organisation. The responsibility for ensuring security and providing property and personal protection services to all members of the LOTOS Group lies with the personnel of LOTOS Ochrona.

In accordance with the policy and procedures concerning human rights aspects relevant to the LOTOS Group's operations, in 2011 training was provided to 88.8% of all LOTOS Ochrona security personnel. Nearly all security operatives (security staff) receive relevant training once every three months.

Freedom of association and collective bargaining

In 2011, no activities were identified at the LOTOS Group which could put at risk the right to freedom of association or collective bargaining.

Eight trade unions are active at the LOTOS Group companies based in Gdańsk and five trade unions operate at companies located in southern Poland.

The LOTOS Group's trade unions include MZZ Pracowników Ruchu Ciągłego (Inter-Enterprise Trade Union of Continuous Operation Employees), ZZ Inżynierów i Techników (Trade Union of Engineers and Technicians), Wolny ZZ Pracowników Grupy LOTOS (Free Trade Union of Grupa LOTOS Employees), KM NSZZ Solidarność w Grupie LOTOS (Inter-Enterprise Committee of the Independent Self-Governing Trade Union Solidarność in Grupa LOTOS), Branżowy ZZ GL (Industry Trade Union of Grupa LOTOS), MZZ Obrony Pracowników (Inter-Enterprise Trade Union of Employees' Defence), KZ NSZZ Solidarność Petrobaltic (Enterprise Commission of the Independent Self-Governing Trade Union Solidarność Petrobaltic), and ZZ Pracowników Ruchu Ciągłego Petrobaltic (Trade Union of Continuous Operation Employees Petrobaltic). The unions representing the LOTOS Group's employees are members of all the three nation-wide trade union federations: KK NSZZ Solidarność (National Commission of the Independent Self-Governing Trade Union Solidarność), Forum ZZ (Trade Unions Forum) and OPZZ (All-Poland Alliance of Trade Unions). Three out of the eight trade unions based in Gdańsk are multi-employer organisations, which also represent workers employed at companies located in the south of Poland.

The rate of growth in trade union membership serves as clear evidence that the right to trade union participation and the principles of union self-governance and independence are observed within the LOTOS Group. As at the end of Q4 2008, trade union membership was declared by 38.5% of all employees, compared with 41.1% as at the end of Q4 2011. LOTOS Ochrona has the largest proportion of trade union members relative to total headcount (74%). The largest trade union active at the LOTOS Group is Wolny Związek Zawodowy Pracowników Grupy LOTOS (Free Trade Union of Grupa LOTOS Employees), with 612 members as at the end of 2011.

Out of six unions operating at Grupa LOTOS, two enjoy presumption of representativeness: Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego (Inter-Enterprise Trade Union of Continuous Operation Employees) and Związek Zawodowy Inżynierów i Techników (Trade Union of Engineers and Technicians). Their members account for 18.5% and 14.1% of total workforce, respectively.

Employee consultations through Employee Councils

Seven Group companies have Employee Councils in place, while all the companies with headcounts in excess of 250 have set up OHS Committees to facilitate employee participation in the area of occupational safety. The Committees serve as platforms through which employees enforce their right to be consulted on health and safety matters.

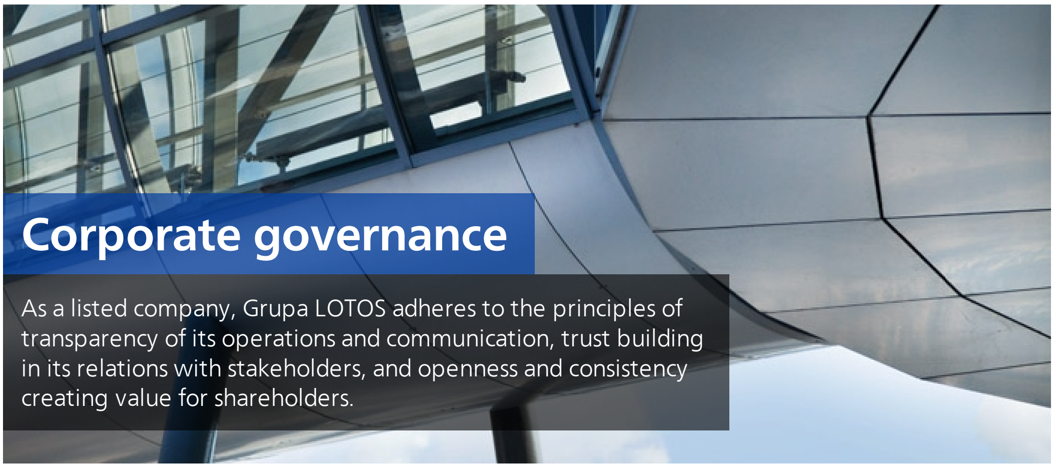
The right to information and consultation, within the meaning ascribed to it in the Act on Information and Consultation of Employees, is exercised through the Employee Councils. Access to information provided by the LOTOS Group employers is broader compared with that prescribed by law.

The ballot to elect the second Grupa LOTOS Employee Council, a body of seven members, was held in 2010. Three members were re-elected for the second term of office.

The Grupa LOTOS Employee Council enjoys a special position within the LOTOS Group, as it operates at the LOTOS Group's parent company. Thus, the scope of information provided to the Council covers all employers comprising the LOTOS Group. The Council holds monthly meetings with Grupa LOTOS management, which have become an important platform of communication with employees.

Related content:

Occupational health and safety **Employment relations**



Corporate governance

As a listed company, Grupa LOTOS adheres to the principles of transparency of its operations and communication, trust building in its relations with stakeholders, and openness and consistency creating value for shareholders.

Mission, vision, values

The Corporate Social Responsibility values of the Company originate from the commonly accepted ethical and environmental standards.

Management approach

The Company adheres to the internationally accepted best practices of responsible and sustainable business.

Management systems

In order to uniform standards of management and behaviour for the LOTOS Group, codes of best practices have been adopted.

Risk management

Risk management supports decision-making processes and choosing the most beneficial solutions for the Company.

Organizational maturity

The results of the assessment for 2011 testify that Grupa LOTOS is oriented towards professionalization of its activities.

Supervisory Board

The Supervisory Board analyses sustainable development issues, i.a. access to raw materials and the social and environmental impact.

Board

In 2011, the Board of Grupa LOTOS received Polish civil state awards for the successful completion of the 10+ Programme.

Mission, vision, values

The Corporate Social Responsibility values of the Company originate from the commonly accepted ethical and environmental standards.

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, ensuring customer satisfaction, enhancing and leveraging the employee potential, and which is carried out:

- in accordance with corporate social responsibility principles,
- in an environmentally friendly manner, and
- in compliance with the energy security policy.

The LOTOS Group strives 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.

Our responsibility for local communities and the environment is manifest in the commitment to ensure that our production activities cause no social or environmental damage. We also assume responsibility for our products towards the government, market participants, business partners, customers and employees.

Values underlying the LOTOS Group's corporate social responsibility:

- **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 expansion of international operations,
- **innovativeness** – stands for the capacity to recognise people's intellectual capital and skills driving the strength and prospects of the LOTOS brand,
- **responsibility** – stands for the right attitude towards mankind and its future, the environment, security of our home country and its international position.

Related content:

About us

Management approach

The Company adheres to the internationally accepted best practices of responsible and sustainable business.

Declarations

The principles of conducting its business activities publicly declared by Grupa LOTOS.

Submission of recommendations

The Company's stakeholders exercise their rights to submit comments and recommendations on its activities.

Declarations

The principles of conducting its business activities publicly declared by Grupa LOTOS.

Since its stock market debut in June 2005, Grupa LOTOS adhered to most recommendations set out in the “Best Practices for Public Companies”, and since 2008 it has followed the **“Code of Best Practice for WSE Listed Companies”**, amended by the WSE’s Supervisory Board in its Resolution of October 19th 2011. The latter document comprises a set of principles designed to establish best practices of corporate governance and bring corporate supervision in line with EU standards.

Being a public company, Grupa LOTOS takes care to build relationships of partners with its investors, that are satisfactory to both sides, in line with the principles *of corporate governance*. For the Company, corporate governance stands for a collection of rules of ethical business conduct, but also for regulations aiming to provide a balance between the interests of all participants of the capital market engaged in the functioning of companies.

The primary objectives that Grupa LOTOS pursues by adhering to the rules of corporate governance include:

- transparency of its operations as a listed company,
- trust in its relations with stakeholders,
- openness and consistency in creating value for shareholders.

Pursuant to new disclosure standards embodied in the Code of Best Practice, the Company reports to its stakeholders all instances of breaching a corporate governance principle, whether incidentally or permanently. Such reports, similarly to current reports, are published in two language versions on the Company’s investor relations website.

In all areas of our activity, we endorse and abide by the ten principles of **United Nations 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.

Grupa LOTOS is also a signatory of the Declaration on Sustainable **Development in the Energy Sector in Poland**, initiated by Polskie Górnictwo Naftowe i Gazownictwo SA, which emphasises:

- the need to ensure efficient functioning of companies and the entire industry, with due regard to both energy security and environmental protection,
- the need to jointly promote energy-efficient solutions, develop and implement cleaner and more efficient technologies, overcome investment barriers in the energy sector and take environmental impacts into consideration at all stages of project execution,
- the need to build an open market, where customers and energy providers can successfully assert their rights,
- the need to take care of customers, including socially vulnerable ones, by deploying schemes aimed to facilitate their access to energy,
- participation in development of renewable energy sources, and harnessing to this end the potential offered by scientific and technological innovation, as well as working towards a consistent and stable regulatory framework,

- improvement of occupational safety and health and taking initiatives aimed to ensure equal career opportunities for men and women.

Related content:

Society **Environment**

Submission of recommendations

The Company's stakeholders exercise their rights to submit comments and recommendations on its activities.

The Company has in place mechanisms enabling its shareholders and employees to submit recommendations and other comments directly to members of the bodies supervising the correctness of its management processes. In line with the Polish Commercial Companies Code, the Articles of Association of Grupa LOTOS and the Rules of Procedure for its General Shareholders Meeting address these issues in detail. They define the rules governing participation in the General Shareholders Meeting and exercising voting rights, the manner of convening and closing the General Shareholders Meeting, its opening and proceedings.

Pursuant to the above regulations, shareholders, by virtue of their rights, may influence the Company's operations and review the activities undertaken by the Company's management and supervisory bodies. A key shareholder right is the right to participate in the General Shareholders Meeting, which accrues to all persons who are Company shareholders sixteen days prior to the date of the General Shareholders Meeting, i.e. on the record date. Additionally, the right to participate in the General Shareholders Meeting entitles shareholders to:

- submit motions prior to and during the General Shareholders Meeting,
- request that certain items be placed on the agenda of the General Shareholders Meeting,
- propose draft resolutions concerning items which have been or are to be placed on the agenda prior to the General Shareholders Meeting,
- propose draft resolutions concerning items included in the agenda, or placed on the agenda during the General Shareholders Meeting,
- take the floor during the General Shareholders Meeting,
- object to or appeal against resolutions of the General Shareholders Meeting.

Moreover, shareholders may request that an Extraordinary General Shareholders Meeting be convened and certain items be placed on its agenda.

General Shareholders Meetings in 2011

In 2011, the General Shareholders Meeting was held twice: as the Ordinary General Shareholders Meeting on June 27th, and as an Extraordinary General Shareholders Meeting on August 8th.

The Ordinary General Shareholders Meeting of Grupa LOTOS reviewed and approved the financial statements and Directors' Report on the Operations of the Company and of the LOTOS Group in 2011; granted discharge in respect of performance of duties to Members of the Supervisory Board and Members of the Board; and appointed a new Supervisory Board for the 8th joint term of office.

During the Meeting, two persons: Mr J. Kotecki, a shareholder's (Stowarzyszenie Inwestorów Indywidualnych - Polish Retail Investors Association) proxy and a non-controlling shareholder Mr B. Kamola exercised their right to take the floor during the Meeting. The proposals and comments submitted by the shareholders related to the Company's operations, primarily to financial and economic issues, and the YME project. Questions asked by the shareholders and answers provided by the Board have been published on the Company's website.

Management systems

In order to uniform standards of management and behaviour for the LOTOS Group, codes of best practices have been adopted.

At Grupa LOTOS, the holding of an Integrated Management System certificate is not an end in itself. Solutions are implemented to allow the organization to benefit from the management system. The standards are seen as guidelines towards universal and optimal solutions from the point of view of the Company's business, which would increase the chances of delivering added value, i.e. make the implemented system more efficient and useful.

An Integrated Management System (IMS) is firmly footed in the organization. Many years of experience allow us to improve it and establish uniform systems – the LOTOS Group-wide standards of management. Our aim is to further develop the IMS and build a shared management platform within the LOTOS Group, which would account for the specific characteristics of its subsidiaries.

We are aware that we cannot improve the management processes or introduce new systems separately from Grupa LOTOS' segment management and business risk management systems.

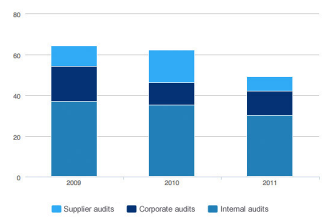
Halina Stasiewicz
Director of Business Process Management Office
of Grupa LOTOS

We are aware that we cannot improve the management processes or introduce new systems separately from Grupa LOTOS' segment management and business risk management systems. This approach warrants success in the increasingly changing environment, and makes it easier to adapt to changes, while overcoming communication and organizational barriers.

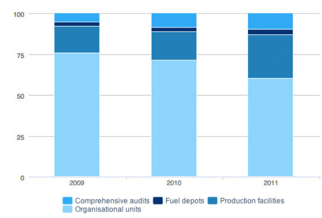
We always strive to take advantage of the cross-dependencies and links between various areas of Grupa LOTOS' operations, and therefore universal solutions are never implemented without taking into account the processes going on at the Company. We realise that these processes and their participants stand behind the quality of the organization.

A well organised and measured process, accounting for the Company's strategic objectives as well as any identified and assessed risks (with the use of the ERM system), may be a source of lasting competitive advantage

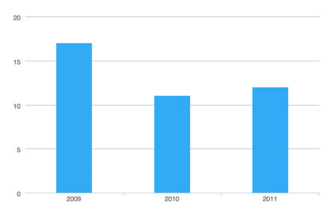
Structure of audits



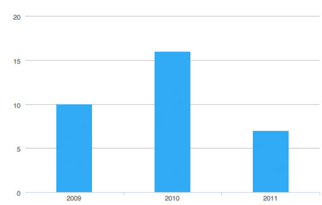
Structure of internal audits



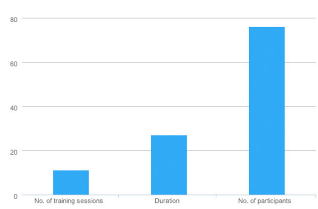
Corporate audits



Supplier audits

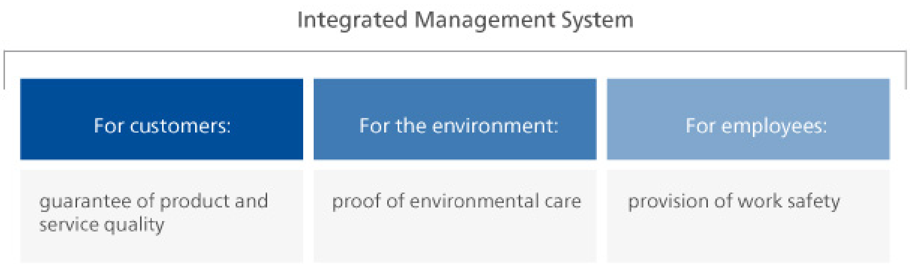


Auditor School 2011



and provide the foundation for successful pursuit of the adopted strategy.

Halina Stasiewicz
– Director of Business Process Management Office of Grupa LOTOS



The LOTOS Group's management systems
As at December 31st 2011

Company name	Implemented management systems
Grupa LOTOS	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. 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.
LOTOS Asfalt	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified Site Production Control management system.
LOTOS Kolej	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented and certified Railway Transport Security Management System (SMS).
LOTOS Lab	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Certificate of compliance with PN-EN ISO/IEC 17025:2005 issued by the Polish Centre for Accreditation.
LOTOS Ochrona	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Oil	Implemented and certified Integrated Management System compliant with ISO 9001 and AQAP 2110 (Allied Quality Assurance Publication). Requirements of ISO 14001 and PN-N-18001 have also been implemented.
LOTOS Parafiny	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Petrobaltic	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented ISM Code (for compliance with the International Management Code for the Safe Operation of Ships and for Pollution Prevention) and ISPS Code (International Ship and Port Facility Security System).
LOTOS Serwis	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001. Implemented requirements for welding quality assurance compliant with PN-EN ISO 3834-2:2007.
LOTOS Straż	Implemented and certified Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Czechowice	Implemented Integrated Management System compliant with ISO 9001, ISO 14001, and PN-N-18001.
LOTOS Paliwa	Implemented and certified Integrated Management System compliant with ISO 9001. Requirements of ISO 14001 and PN-N-18001 have also been implemented.
LOTOS Jasło	The company is currently implementing the Integrated Management System.
LOTOS Tank	The company is currently implementing the Integrated Management System.

Audits of the Integrated Management System

Audits are a basic tool used to enhance the Integrated Management System and support the achievement of strategic and operational objectives of the LOTOS Group.

Nearly 300 audits have been performed at Grupa LOTOS in the last five years, and the number of audits carried out each year is comparable. The audits at Grupa LOTOS may be divided into three categories:

- internal audits,
- corporate audits,
- supplier audits.

The findings of **internal audits** reveal areas where the processes, existing system solutions and efficiency can be improved, while being a valuable source of information on process efficiency. Thus, the audits enable the management of Grupa LOTOS to make informed management and operational decisions.

Corporate **audits carried** out at Grupa LOTOS' subsidiaries, assess the implementation of requirements set out in relevant standards and corporate paradigms.

Supplier audits confirm whether individual suppliers are able to meet Grupa LOTOS' requirements. As an additional tool of supplier supervision, such audits enable the Company to assess its suppliers and improve the quality of relationships between the business partners. The Company primarily audits suppliers performing construction works and repairs at the Gdańsk refinery, where compliance with OHS and environmental protection requirements is of paramount importance.

Additionally, other companies of the LOTOS Group carry out internal audits as part of their internal management systems, and supplier audits (where necessary).

Key system changes and projects completed in 2011

Enterprise Risk Management System *(ERM)*

To ensure secure and effective pursuit of its strategic and operational objectives, the LOTOS Group has been consistently implementing and developing the enterprise risk management system. The system supports fast, appropriate and informed decision making based on prior risk analysis. The existing rules of risk identification and assessment allow us to promptly respond to threats, so as to mitigate or altogether eliminate them. Thanks to response plans, the ERM system makes it possible to adequately prepare for the occurrence of a given risk. The LOTOS Group also identifies newly emerging opportunities and possibilities, and strives to exploit them. The enterprise risk management enables the Company to undertake activities optimal for its business (within the acceptable risk limits). The ERM website, built an implemented in reliance on Grupa LOTOS' existing IT infrastructure, is an important element supporting the ERM system.

Process management

Process management – which is adapted dynamically to both inside and outside changes – has been in place at Grupa LOTOS for years. In 2011, new tools started to be implemented that will allow process owners, taking into account their own best practices, to communicate their performance so as to optimise a given process with the use of all available and relevant information.

Project management

Based on positive experience of implementing investments in property, plant and equipment, including the 10+ Programme, the process of introducing the project management methodology with respect to other projects executed at Grupa LOTOS has begun. In 2011, the existing practices and needs were reviewed, whereupon the relevant implementation model and project management rules were defined.

Energy Management System *(EnMS)*

In 2011, the implementation of the energy management system compliant with EN 16001:2009 and ISO 50001:2011 was started. Steps were taken to introduce systemic solutions in the area of energy management, in order to improve Grupa LOTOS' energy efficiency through:

- systematised and standardised approach to the management of energy (in all its forms),
- identification of significant energy aspects of Grupa LOTOS' operations,
- documentation of sub-tasks undertaken in areas covered by the EnMS,
- identification of upgrade and development work required to achieve energy efficiency.

Auditor School

A series of Auditor School training sessions took place at the LOTOS Group in 2011, as part of its efforts aimed at developing a consistent audit policy and a team of well-trained auditors. The training was tailored to the specific needs and situation of the LOTOS Group, and focused on practical development of all auditor skills.

Development plans

The plans for 2012 envisage the continuation of existing projects and implementation of new ones to meet the LOTOS Group's actual needs. The projects are going to be included in the Integrated Management System, which provides for:

- implementation of the Enterprise Risk Management System (ERM). For information on the Enterprise Risk Management System at the LOTOS Group, see the “Risk management” chapter,
- implementation of the Energy Management System (EnMS) in order to support measures aimed at improving the LOTOS Group’s energy efficiency. The process will comply with the objectives of Poland’s Energy Policy until 2030 (with respect to energy efficiency and environmental impact), and with quantitative targets relating to a reduction of greenhouse gas emissions by 2020. Grupa LOTOS intends to harness the potential of the already completed energy efficiency projects and to implement best practices, solutions and technical standards designed to save energy,
- continuous development of process management by implementing IT tools intended to facilitate the work of process owners (publishing and making available the results of process monitoring) and providing process participants with access to all required information. Optimal solutions or their elements will be selected from the available process management concepts,
- implementation of project management at the LOTOS Group is aimed at developing tools and methods for effective strategy delivery. Drawing on the world’s best models and experience and using IT support, a uniform system will be introduced to enable:
  - selection of optimal projects to further the achievement of strategic objectives;
  - successful implementation of the projects;
  - effective monitoring of the implementation process;
  - reliable assessment of their results,
- improvement and extension of the Integrated Management System portal operated by the LOTOS Group – a tool for communicating internal requirements and legal acts, and for collecting information on environmental protection, as well as any powers of proxy granted and credentials issued.

Related content:

Structure of the organization

Risk management

Risk management supports decision-making processes and choosing the most beneficial solutions for the Company.

The procedure set forth in the LOTOS Group's Integrated Management System document specifies detailed rules for risk identification and assessment, monitoring and reporting methods, and reviews aimed to check if the measures taken have brought the expected results. The procedure is designed to ensure that the planned activities are carried out regularly, the applied methodology is optimal and suitable for various areas of operations, and the risk management process is coherent and effective.

Enterprise Risk Management (ERM) at the LOTOS Group is designed to:

- support stable and sustainable growth with a view to meeting the stated objectives through regular and recurrent identification of risks which may hinder their achievement;
- provide comprehensive information on risks inherent in the LOTOS Group's operations (both threats and opportunities);
- enable swift and effective decision-making based on risk analysis;
- prepare the LOTOS Group to respond promptly if a risk materialises.

In order to meet the above objectives, a systemic approach to risk management is being implemented, which covers:

- identification of risks and their qualitative and quantitative assessment,
- determination of risk management strategy,
- implementation of planned measures,
- review of implemented measures to check if they have delivered the expected results,
- constant monitoring and control of both the risk level and status of implemented measures,
- introduction of uniform communication and reporting rules.

Grupa LOTOS' response to risk involves the following four types of measures:

- reducing the probability of risk occurrence, for instance through control measures or process adjustments,
- transferring risk, for instance by means of insurance or outsourcing,
- avoiding risk through withdrawal from a given risk area or refraining from risk laden activities (the least frequently applied strategy),
- accepting a given risk level when it is impossible to reduce it or the risk is too immaterial to be mitigated.

The key principles and scope of responsibilities under the system are defined in the Enterprise Risk Management Policy of the LOTOS Group, available to all the Company's employees. Additionally, an Enterprise Risk Management Committee operates at Grupa LOTOS as advisory body. The Committee's primary function is to check whether any mitigation measures planned by risk owners are consistent from the point of view of the entire Group's operations and do not raise risks in other areas to dangerous levels.

Once a year, a review of the Enterprise Risk Management System is undertaken (as part of the so-called maturity assessment). The results serve to further improve the system. Information on the operation of the Enterprise Risk Management System is provided to the Board and the Audit Committee of the Supervisory Board of Grupa LOTOS.

Key instruments

Grupa LOTOS identifies risks which may affect the achievement of its strategic, process and operational objectives. In most cases, the identification is made at group workshops, but each employee is also obliged and entitled to report any observed risks and opportunities relating to ongoing processes which may affect the Company's performance against objectives.

Risk assessment is undertaken from two different time perspectives – the following year and until the end of the period covered by the LOTOS Group's strategy (currently until the end of 2015). For each risk, the probability of its occurrence is estimated, followed by an assessment of its possible impact on Grupa LOTOS' financial standing and reputation. The assessment takes into account the expected impact on safety of people, environmental impact and reception by key stakeholders.

Relevant controls, security measures and monitoring methods are indicated for all registered risks. Each risk has its owner, who is responsible for overseeing the risk, monitoring it in line with adopted criteria and implementing agreed mitigation plans. The monitoring results are regularly reported.

The risk assessment serves as a basis for the LOTOS Group’s aggregated Risk Map. The Map is subject to changes and is regularly updated in response to external volatility, internal business processes, completion of some projects and commencement of other (which may entail new risks), as well as application of measures aimed at mitigating identified risks, which has the effect of reducing risk pricing.

All risks assessed as significant relative to the stated objectives are subject to detailed analysis aimed to identify the relevant risk factors and the management and monitoring methods to be applied at a given time. Based on the analysis, risk mitigation plans and action plans in case the risk materialises are prepared.

Grupa LOTOS also manages project risks, especially with respect to its investment projects. The risk assessment criteria are slightly different in this case, as they are adjusted to the specific nature of project management. However, the risk management procedures remain consistent for the entire Company, enabling the secure and effective execution of planned projects.

Development plans

Grupa LOTOS is working on the implementation and development of an IT tool designed to support the Enterprise Risk Management System, with a view to enhancing its functionality to end users and preparing required analyses.

In 2011, Grupa LOTOS completed the first stage of development of the new comprehensive IT tool. The new IT system will be subject to constant expansion and functional improvement based on user suggestions, as well as process and system needs. It will allow us to monitor the levels of different risks using predefined Key Risk Indicators (KRI)and will be integrated with the other systems used by Grupa LOTOS (e.g. SAP), so as to be able to directly retrieve and process data stored in those systems.

Work is also in progress on an incident database to be used across the entire Company (incidents being events which may cause the related risks to materialise and may provide information on new, emerging threats and opportunities that have not been previously identified).

Related content:

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

Organizational maturity

The results of the assessment for 2011 testify that Grupa LOTOS is oriented towards professionalization of its activities.

In 2011, an assessment of Grupa LOTOS' organizational maturity was carried out for the period covered by this report. It has been assumed that such an assessment will be performed on an annual basis by the internal audit function supported by an external consultant.

The organizational maturity of a corporation is the level of professionalism of its key organizational solutions, processes and activities, as well as their consistency with the best operating and management practices, which determine the organization's potential to achieve success in terms of stakeholder protection and stakeholder value creation.

In connection with the approach to management adopted by Grupa LOTOS, which assumes continuous improvement, the Company has been taking steps to obtain an objective assurance as to the maturity of solutions it has adopted with respect to:

- internal control,
- risk management,
- compliance,
- counteracting abuse,
- corporate governance.

In order to make an assessment of the above systems, a model has been prepared for the needs of Grupa LOTOS relying on the best business practices included in the GRC (Governance, Risk Management, and Compliance) model developed by Open Compliance & Ethics Group and other sources, for instance - with respect to corporate governance - "The Code of Best Practice for WSE Listed Companies". The model envisages a uniform approach to reviewing and assessing the design of the individual systems, as well as assessing the consistency of the systems' operation with their design. With the model in place, it is possible to assess each of the systems individually and to make a comprehensive assessment of the organizational maturity of the Company as a whole. The approach allows us to identify areas where performance has been improving or deteriorating, as well as to formulate recommendations and initiate steps to enhance them.

- The internal control system was audited both with respect to the solutions constituting the internal control framework, as well as solutions embedded in the particular defined processes within the organization. The assessment of the **internal control system** found that Grupa LOTOS had in place key organizational and process solutions, designed to the best practice standard, which constitute the framework of the internal control system, and that these solutions work as designed.
- The corporate risk management system was examined in terms of the design of elements aimed to ensure that the system's framework is correctly defined and that it works in a proper way, and that all risks are identified and assessed. The assessment of the corporate risk management system found that Grupa LOTOS had developed and put in place a **corporate risk management system** framework which is key to ensuring that the system meets its objective of effectively supporting the corporate management process and creating value added.
- The compliance system is assessed first of all in terms of the correctness of solutions aimed at ensuring compliance with both external and internal regulations. The assessment of the **compliance system** found that active steps were taken at Grupa LOTOS to ensure compliance of the Company's activities and internal regulations with the generally applicable provisions of the law. The Company also takes care to ensure compliance of its practical actions with the requirements laid down in the organization's internal regulations.
- The system of counteracting abuse is examined to verify whether the Company has in place any solutions whose purpose is to counteract abuse, including solutions which concentrate on fostering proper ethical attitudes, and whether it takes any actions to identify and assess areas susceptible to abuse. The assessment of the **system of counteracting abuse** found that it was advisable to take measures with a view to improving the Company's resilience to abuse, by taking a systemic approach to the issue.
- Corporate governance was examined in terms of effective management and organizational efficiency both within the Company, and in its relations with stakeholders. The assessment of the solutions making up the **corporate governance system** led to a conclusion that Grupa LOTOS had established most of the key corporate governance solutions, including solutions governing the relations between the Company's corporate bodies and solutions of strictly internal nature (related to its approach to managing the organization and its resources), and that these solutions were consistent with the applicable standards and best practices.

The results of the assessment of the Company's organizational maturity for 2011 testify that Grupa LOTOS is an organization oriented towards professionalization of its activities and adoption of solutions amounting to the best operating and management practices. Overall, the standards of design and consistency with the design were rated as "high" in the case of most systems, although there are differences with respect to the adoption and application of best practices for the individual systems determining the Company's organizational maturity.

The rating obtained by Grupa LOTOS was largely possible thanks to the efforts made in previous years in order to secure the value and sound operation of the enterprise, which have translated into an efficient internal control system, as well as solutions in the area of corporate governance and compliance. It was also possible thanks to consistent efforts aimed at establishing and embedding in the organization a risk management system, which - if consistently implemented and linked with the Company's decision-making processes - becomes an important factor in the process of creating value for shareholders and other stakeholders.

Related content:

Counteracting abuse

Supervisory Board

The Supervisory Board analyses sustainable development issues, i.a. access to raw materials and the social and environmental impact.

Supervisory Board Powers

The Supervisory Board exercises ongoing supervision over the Company's operations.

Composition of the Supervisory Board

The Supervisory Board of Grupa LOTOS of the 8th term comprises 6 members.

Standing committees of the Supervisory Board

The standing committees are Audit Committee, Strategy and Development Committee, and Organization and Management Committee.

Remuneration of the Supervisory Board

The remuneration policy for the Supervisory Board members was defined by the Extraordinary General Shareholders Meeting in 2000.

Independence status

Grupa LOTOS has no information regarding independence of the Supervisory Board members of the 8th term.

Avoidance of conflicts of interest

The Company is not aware of any conflicts of interest originating in 2011 with regard to the members of the Supervisory Board.

Commitment to sustainable development

The Supervisory Board took a stance on the Company's performance, opportunities and risks in the area of sustainable development.

Supervisory Board Powers

The Supervisory Board exercises ongoing supervision over the Company's operations.

The Supervisory Board exercises ongoing supervision over the Company's business, across all areas of its operations. The Supervisory Board performs its duties collectively, but 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 Organization and Management Committee.

Members of the Supervisory Board are appointed by the General Shareholders Meeting. 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. The documents are available on the Company's website.

Articles of Association of Grupa LOTOS Link → (http://w w w .lotos.pl/pobierz_plik/37250/)

Rules of Procedure for the General Shareholders Meeting of Grupa LOTOS Link → (http://w w w .lotos.pl/pobierz_plik/35063/)

Rules of Procedure for the Supervisory Board of Grupa LOTOS Link → (http://w w w .lotos.pl/pobierz_plik/35062/)

Composition of the Supervisory Board

The Supervisory Board of Grupa LOTOS of the 8th term comprises 6 members.

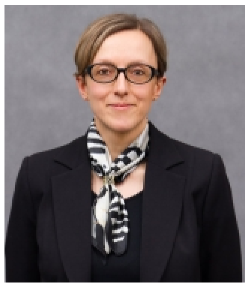
The Company's Articles of Association state that the Supervisory Board should comprise six to nine members, including the chairperson, deputy chairperson and secretary. It is the General Shareholders Meeting's role to determine the number of Supervisory Board members. Members are appointed and removed 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, while the Deputy Chairperson and the Secretary are elected by the Supervisory Board from among its members. The term of office of the Supervisory Board is a joint term of three years.

Pursuant to Par. 9.4 of the Rules of Procedure for the General Shareholders Meeting, a Supervisory Board member should have the relevant education, the appropriate professional and practical experience, be of high moral standing and be able to devote all the time required to properly perform his/her supervisory duties. A shareholder proposing candidates for Supervisory Board members should provide the Company with reasons for proposing the candidates together with their professional CVs, within a timeframe enabling other shareholders to review the documents provided in order to verify the candidates' qualifications and experience.

Wiesław Skwarko
Chairman of the Supervisory Board of Grupa LOTOS

Marcin Majeranowski
Deputy Chairman of the Supervisory Board of Grupa LOTOS

Oskar Pawłowski
Secretary of the Supervisory Board of Grupa LOTOS



Małgorzata Hirszel
Member of the Supervisory Board of Grupa LOTOS

Agnieszka Trzaskalska
Member of the Supervisory Board of Grupa LOTOS

Michał Rumiński
Member of the Supervisory Board of Grupa LOTOS

Wiesław Skwarko

Chairman of the Supervisory Board of Grupa LOTOS

Wiesław Skwarko has been a member of the Supervisory Board of Grupa LOTOS since June 30th 2008.

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

In 1987-1994, he was a junior lecturer 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. From January 10th 2008 to December 31st 2009 Mr Skwarko was member of the Management Board of Nafta Polska S.A., and from January 1st 2010 to the end of April 2011 he acted as the liquidator at Nafta Polska S.A. w likwidacji (in liquidation). Since October 27th 2010, he has served as Vice-President of the Management Board of ZAK S.A. of Kędzierzyn Koźle.

Marcin Majeranowski

Deputy Chairman of the Supervisory Board of Grupa LOTOS

Marcin Majeranowski was appointed to the Supervisory Board of Grupa LOTOS on February 29th 2012.

He is a graduate of the Faculty of Law and Administration of the Warsaw University. In 2003, he was entered in the register of legal counsels maintained by the District Chamber of Legal Counsels in Warsaw. He has attended various courses, including the Faculté Internationale de Droit Comparé comparative law course, run by the Robert Schuman University in Strasbourg.

Since 1997, he has been with the Ministry of State Treasury. In 2006-2010, he was Head of the Legal Representation Department, where, apart from assisting in legal proceedings, he also gained experience in international arbitration in investment and trade disputes. Since 2010, Mr Majeranowski has been Head of the Strategic Companies Department, whose remit covers the exercise of rights and discharge of obligations of the State Treasury associated with its equity holdings in companies established under commercial law, developing comprehensive solutions to improve the owner’s supervision over companies of strategic importance to the State Treasury, as well as coordination and performance of the Ministry’s tasks specified in the Act on Investments Related to the Świnoujście LNG Regasification Terminal Project, dated April 24th 2009.

Mr Majeranowski has many years of experience in serving on supervisory boards of various companies, including Powszechny Zakład Ubezpieczeń S.A. and Agencja Rozwoju Przemysłu S.A.

Oskar Pawłowski

Secretary of the Supervisory Board of Grupa LOTOS

Oskar Pawłowski has been a member of the Supervisory Board of Grupa LOTOS since February 11th 2010.

Mr Pawłowski is a graduate of the Faculty of Law and Administration of the Adam Mickiewicz University of Poznań, and Cambridge University (where he specialised in UK 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 register of legal counsels.

In 2000-2002, Mr Pawłowski was with Głowacki, Grynhoff, Hałaziński s.j., a law firm. He worked as a lawyer for D. Janczak i Wspólnicy Sp. k. /Domański Zakrzewki Palinka Sp. k. – Ernst & Young Law Alliance – Grupa Energetyczna in 2002-2003, and then from 2003 to 2007 – at Kancelaria Radcy Prawnego Włodzimierz Głowacki, a firm of solicitors. Currently, Mr Pawłowski is Managing Partner at Oskar Pawłowski i Wspólnicy Sp. k., a law firm.

He has over 10 years of experience in providing legal assistance. He specialises in the energy sector’s regulatory environment and in legal services related to real estate trade and investment processes. He has extensive experience in corporate law, mergers and acquisitions.

Mr Pawłowski is also Energy Arbitrator at the Arbitration Court of the Chamber of Industrial Power and Energy Customers. He is a fluent speaker of English. He has authored the following papers: “The Rights of Electricity Consumers and Methods of Protecting Them” in Rynek Energii (2/2009) and “Legal Due Diligence of Real Estate” in Inwestor (1/2010).

Małgorzata Hirszel

Member of the Supervisory Board of Grupa LOTOS

Małgorzata Hirszel has been a member of the Supervisory Board of Grupa LOTOS since June 30th 2008.

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

Since 2000, she has worked at the Chancellery of the Polish Prime Minister. Ms Hirszel was the Chief Specialist/Counsel to the Head of the Chancellery until 2002, and then Counsel to Deputy Prime Minister and Prime Minister at 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.

She passed an examination for candidates for supervisory board members in state-owned companies in 2002.

Agnieszka Trzaskalska

Member of the Supervisory Board of Grupa LOTOS

Ms Trzaskalska was appointed to the Supervisory Board of Grupa LOTOS on February 29th 2012.

She has completed doctoral studies at the Faculty of Law and Administration of the Warsaw University; she holds a graduate diploma in law from the Faculty of Law and Administration of the University of Silesia.

Since 1999, she has worked for the Ministry of State Treasury in various positions at the following departments: the Agencies and Foundations Department, the Financial Institutions Department, the 5th and 4th Ownership Supervision and Privatisation Department. At present, she serves as unit head at the Privatisation Department, where she coordinates projects related to sale of shares in state-owned or partially state-owned companies. She has many years of experience in the area of corporate law and owner supervision, as well as extensive experience gained serving on the supervisory bodies of commercial-law companies and other entities, including as: Deputy Chairperson/Member of the Supervisory Board of TAURON Polska Energia S.A. (since 2007 until now), Deputy Chairperson of the Supervisory Board of LOTOS Petrobaltic S.A. (2007-2012), Board Member of the Foundation of the Polish Students’ Parliament in Warsaw (2000-2003), Deputy Chairperson of the Supervisory Board of PKRB FABUD S.A. of Siemianowice Śląskie (2005-2007).

Michał Rumiński

Member of the Supervisory Board of Grupa LOTOS

Michał Rumiński has been a member of the Supervisory Board of Grupa LOTOS since February 11th 2010.

Mr Rumiński is a graduate of the University of Chicago - Booth School of Business, the Warsaw School of Economics and the Faculty of Law and Administration of the Warsaw University.

Mr Rumiński currently serves as President of the Management Board of Data S.A. Since 2007, he has been associated with MCI Euroventures (investment fund), holding the following positions: Investment Partner, Member of the Management Board of ABC Data S.A. and President of the Management Board and Managing Partner of Cleantech Venture Partners. Earlier, i.e. until MCI sold its shares in the companies, he had also served as Member of the Supervisory Board of Grupa Lew Sp. z o.o. and Bankier.pl S.A. In 2000-2007, Mr Rumiński worked for the KBC Group, including from 2004 as Corporate Finance Director at KBC Securities S.A., where he was responsible for strategy development and building the corporate finance department at the KBC Securities investment bank in Poland. Prior to that, Mr Rumiński had served as Head of the Investment Banking Division at Kredyt Bank S.A.

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).

In 2011, the composition of the Supervisory Board of Grupa LOTOS was as follows:

In the period January 1st – June 27th 2011, the Supervisory Board of the seventh term of office comprised the following persons:

1. Wiesław Skwarko – Chairman,
2. Leszek Starosta – Deputy Chairman,
3. Oskar Pawłowski – Secretary,
4. Małgorzata Hirszel – Member,
5. Michał Rumiński – Member,
6. Rafał Wardziński – Member,
7. Ewa Sibrecht-Ośka – Member,
8. Rafał Lorek – Independent Member.

In connection with the expiry of the Supervisory Board's seventh term of office, on June 27th 2011, pursuant to Par. 11.1 of the Company's Articles of Association and under Resolution No. 24, the Ordinary General Shareholders Meeting of Grupa LOTOS decided that the Supervisory Board of the next (eighth) term of office would be composed of seven members and, pursuant to the provisions of Art. 385.1 and 2 of the Polish Commercial Companies Code and Par. 9.4 and Par. 11.2 of the Company's Articles of Association, appointed the following persons to the Supervisory Board of the eighth term of office: Leszek Starosta, Oskar Pawłowski, Małgorzata Hirszel, Michał Rumiński, Rafał Wardziński and Ewa Sibrecht-Ośka.

Pursuant to Par. 11.2 of the Articles of Association of Grupa LOTOS, its shareholder State Treasury, represented by the Minister of State Treasury, appointed Mr Wiesław Skwarko to the Company's Supervisory Board of the eighth joint three-year term of office, effective as of the date of the Ordinary General Shareholders Meeting held on June 27th 2011. The aforementioned General Shareholders Meeting, acting pursuant to Par. 11.4 of the Articles of Association of Grupa LOTOS and under Resolution No. 31, appointed Mr Wiesław Skwarko to the position of Chairman of the Supervisory Board of the eight term of office.

Accordingly, as at June 27th 2011, the Company's Supervisory Board of the eighth term of office comprised the following persons:

1. Wiesław Skwarko – Chairman,
2. Rafał Wardziński – Deputy Chairman *(appointed Deputy Chairman of the Supervisory Board on July 11th 2011)*,
3. Oskar Pawłowski – Secretary *(appointed Secretary of the Supervisory Board on July 11th 2011)*,
4. Leszek Starosta – Member,
5. Małgorzata Hirszel – Member,
6. Michał Rumiński – Member,
7. Ewa Sibrecht Ośka – Member.

On November 8th 2011, Ms Ewa Sibrecht-Ośka tendered her resignation as Member of the Supervisory Board of Grupa LOTOS. Following her resignation, from November 8th 2011 the number of the Company's Supervisory Board members was below seven, which was the number prescribed by Resolution No. 24 of the Ordinary General Shareholders Meeting of June 27th 2011.

As at December 31st 2011, the composition of the Supervisory Board of the eighth term of office was as follows:

1. Wiesław Skwarko – Chairman,
2. Rafał Wardziński – Deputy Chairman,
3. Oskar Pawłowski – Secretary,
4. Leszek Starosta – Member,
5. Małgorzata Hirszel – Member,
6. Michał Rumiński – Member.

On January 27th 2012, Mr Rafał Wardziński, Deputy Chairman of the Supervisory Board of Grupa LOTOS, tendered his resignation from the Supervisory Board. Following Mr Wardziński's resignation, the number of the Company's Supervisory Board members fell below the minimum number of six members required by the Articles of Association. As a result, from January 27th 2012 until the vacancy was filled, the Supervisory Board could not perform its duties and exercise its powers stipulated in the generally applicable laws and in the Company's Articles of Association. However, the loss by the Supervisory Board of its ability to perform its function as a governing body of the Company did not affect the mandates of its remaining Members who, once the vacant post was filled, continued to perform their functions. The above rule also applied to the Supervisory Board Committees, which were also unable to perform their functions during that period.

Considering the circumstances, on February 29th 2012, the Extraordinary General Shareholders Meeting of Grupa LOTOS made changes to the composition of the Supervisory Board of the eighth term of office by appointing Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Supervisory Board and by removing Mr Leszek Starosta from the Board.

Following the changes, as of February 29th 2012 and as at the release date of this report, the composition of the Supervisory Board of Grupa LOTOS of the eight joint term of office was as follows:

1. Wiesław Skwarko – Chairman,
2. Marcin Majeranowski – Deputy Chairman (appointed Deputy Chairman of the Supervisory Board on March 8th 2012),
3. Oskar Pawłowski – Secretary,
4. Małgorzata Hirszel – Member,
5. Agnieszka Trzaskalska – Member,
6. Michał Rumiński – Member.

Standing committees of the Supervisory Board

The standing committees are Audit Committee, Strategy and Development Committee, and Organization and Management Committee.

The Supervisory Board of Grupa LOTOS may set up standing or ad-hoc Committees, which are support, advisory and opinion-giving bodies.

Each Committee is composed of three to five members, appointed by the Supervisory Board from among its members. The Committees are headed by chairpersons, who are appointed by the Supervisory Board from among the committee members. All Supervisory Board members have the right to participate in meetings of each Committee.

Standing committees of the Supervisory Board of Grupa LOTOS include the Audit Committee, Strategy and Development Committee and Organization and Management Committee. Specific powers and duties of the Committees are defined by the Rules of Procedure for the Supervisory Board and the Rules of Procedure for the individual Committees.

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 2011, the composition of the Audit Committee of the Supervisory Board of Grupa LOTOS was as follows:

January 1st – June 27th 2011 (until the expiry of the Supervisory Board's seventh term of office):

1. Michał Rumiński – Chairman,
2. Rafał Lorek,
3. Oskar Pawłowski,
4. Wiesław Skwarko,
5. Rafał Wardziński.

Following the appointment of the Supervisory Board of the eighth joint term of office by the Ordinary General Shareholders Meeting held on June 27th 2011, the newly appointed Supervisory Board at its first meeting held on July 11th 2011 appointed the following persons to the Audit Committee:

1. Michał Rumiński – Chairman, *(appointed Committee Chairman on August 11th 2011)*,
2. Oskar Pawłowski,
3. Ewa Sibrecht-Ośka,
4. Wiesław Skwarko,
5. Rafał Wardziński.

Following Ms Sibrecht-Ośka's resignation from the Supervisory Board of Grupa LOTOS on November 8th 2011, as at December 31st 2011, the composition of the Audit Committee was as follows:

1. Michał Rumiński – Chairman,
2. Oskar Pawłowski,
3. Wiesław Skwarko,
4. Rafał Wardziński.

From January 27th 2012 (the date of resignation by Mr Rafał Wardziński from his position on the Supervisory Board) until February 29th 2012, the Audit Committee did not work.

Following the changes in the composition of the Supervisory Board of the eighth term of office made by the Extraordinary General Shareholders Meeting held on February 29th 2012 (removal of Mr Leszek Starosta and appointment of Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski), the new Supervisory Board at its first meeting held on March 8th 2012 appointed, from among the Supervisory Board members, Mr Marcin Majeranowski to the Audit Committee.

Considering the above, as of March 8th 2012 and as at the release date of this report, the Audit Committee comprised the following persons:

1. Michał Rumiński – Chairman,
2. Oskar Pawłowski,
3. Wiesław Skwarko,
4. Marcin Majeranowski.

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 2011, the composition of the Strategy and Development Committee of the Supervisory Board of Grupa LOTOS was as follows:

January 1st – June 27th 2011 (until the expiry of the Supervisory Board's seventh term of office):

1. Wiesław Skwarko – Chairman,
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Leszek Starosta,
5. Rafał Wardziński.

Following the appointment of the Supervisory Board of the eighth term of office by the Ordinary General Shareholders Meeting held on June 27th 2011, the Supervisory Board at its first meeting on July 11th 2011 appointed the Strategy and Development Committee, which until December 31st 2011 was composed of the following persons:

1. Wiesław Skwarko – Chairman *(appointed Committee Chairman on July 11th 2011)*,
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Leszek Starosta,
5. Rafał Wardziński.

From January 27th 2012 (the date of resignation by Mr Rafał Wardziński from his position on the Supervisory Board) until February 29th 2012, the Strategy and Development Committee did not work.

Considering the circumstances, the Extraordinary General Shareholders Meeting held on February 29th 2012 resolved to change the composition of the Supervisory Board of the eighth term of office *(removing from the Board Mr Leszek Starosta and appointing to the Board Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski)*, and the new Supervisory Board at its first meeting held on March 8th 2012 appointed, from among the Supervisory Board members, Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski to the Strategy and Development Committee.

Considering the above, as of March 8th 2012 and as at the release date of this report, the Strategy and Development Committee comprised the following persons:

1. Wiesław Skwarko – Chairman,
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Agnieszka Trzaskalska,
5. Marcin Majeranowski.

Organization and Management Committee

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

In 2011, the composition of the Organization and Management Committee of the Supervisory Board of Grupa LOTOS was as follows:

January 1st – June 27th 2011 (until the expiry of the Supervisory Board's seventh term of office):

1. Leszek Starosta – Chairman,
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Michał Rumiński,
5. Ewa Sibrecht-Ośka.

Following the appointment of the Supervisory Board of the eighth term of office by the Ordinary General Shareholders Meeting held on June 27th 2011, the Supervisory Board at its first meeting held on July 11th 2011 appointed the following persons to the Organization and Management Committee:

1. Leszek Starosta – Chairman, *(appointed Committee Chairman on July 11th 2011)*,
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Michał Rumiński,
5. Ewa Sibrecht-Ośka.

Following Ms Sibrecht-Ośka's resignation from the Supervisory Board of Grupa LOTOS on November 8th 2011, as at December 31st 2011, the composition of the Organization and Management Committee was as follows:

1. Leszek Starosta – Chairman,
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Michał Rumiński.

From January 27th 2012 *(the date of resignation by Rafał Wardziński from his position on the Supervisory Board)* until February 29th 2012, the Organization and Management Committee did not work.

Considering the circumstances, the Extraordinary General Shareholders Meeting held on February 29th 2012 resolved to change the composition of the Supervisory Board of the eighth term of office(*removing from the Board Mr Leszek Starosta, also serving as Chairman of the Organization and Management Committee*; and appointing to the Board Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski). Accordingly, the new Supervisory Board at its first meeting held on March 8th 2012 filled the vacancies on the Organization and Management Committee by appointing to the Committee, from among the Supervisory Board members, Mr Marcin Majeranowski and Ms Agnieszka Trzaskalska (the latter was also appointed Chairperson of the Committee). Moreover, at the meeting referred to above, Mr Michał Rumiński tendered his resignation from his position on the Committee.

Considering the above, as of March 8th 2012 and as at the release date of this report, the Organization and Management Committee comprised the following persons:

1. Agnieszka Trzaskalska - Chairperson *(appointed Committee Chairperson on March 8th 2012)*,
2. Małgorzata Hirszel,
3. Oskar Pawłowski,
4. Marcin Majeranowski.

Remuneration of the Supervisory Board

The remuneration policy for the Supervisory Board members was defined by the Extraordinary General Shareholders Meeting in 2000.

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 and conditions prescribed under the Act on Remunerating Persons Who Manage Certain Legal Entities of March 3rd 2000 (Journal of Laws 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.

In line with an amendment to the said Act, in 2011 the Supervisory Board members were entitled to receive remuneration in the amounts fixed in 2010.

Remuneration of the Supervisory Board members in 2011

	Amount (PLN)
Wiesław Skwarko	41,454.96
Rafał Wardziński	41,454.96
Oskar Pawłowski	41,454.96
Małgorzata Hirszel	41,454.96
Michał Rumiński	41,454.96
Leszek Starosta	41,454.96
Ewa Sibrecht-Ośka	38,921.58
Rafał Lorek	23,836.53

Independence status

Grupa LOTOS has no information regarding independence of the Supervisory Board members of the 8th term.

The term “independent members of the Supervisory Board” in reference to public companies has been introduced by the Code of Best Practice for WSE Listed Companies, a set of rules which embody the tradition of Polish corporate governance and aim to enhance the transparency of listed companies.

In accordance with Rule 6 contained in Section III of the Code, at least two Supervisory Board members should meet the independence criteria set out in Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. A person who is an employee of the company or its subsidiary or associated company, or a person having an actual and significant relationship with a shareholder who has the right to exercise 5% or more of the total vote at its General Shareholders Meeting, cannot be deemed to meet the independence criteria as defined in the Rule.

Accordingly, the status of an independent member of the Supervisory Board may only refer to persons having no relations whatsoever with the company, its shareholders or employees, which could potentially lead to a conflict of interest.

With regard to the last 6 months of the 7th term Supervisory Board's operation, which fell in the first half of 2011, Grupa LOTOS had information concerning independence about only one of the members of the Supervisory Board - Rafał Lorek. Therefore, Rule 6 was not fully observed by the Company in 2011.

Grupa LOTOS has no information regarding independence of the members of the 8th term Supervisory Board. Full compliance with Rule 6 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 Company is not aware of any conflicts of interest originating in 2011 with regard to the members of the Supervisory Board.

Under Art. 387 of the Commercial Companies Code, which aims to prevent combining management and supervisory roles particularly with respect to supervisory boards, a current member of the management board of a company, its proxy, liquidator, head of a division or production facility, or internal chief accountant, legal counsel or lawyer may not sit on the company's supervisory board. The said provision prohibits combining management and supervisory functions at an incorporated company in accordance with the principle that the supervised may not exercise supervision.

In addition to the requirements imposed by law, Rule 2 and Rule 4 contained in Section III of the Code of Best Practice for WSE Listed Companies place an obligation on supervisory board members to submit to the company's management board information on any relationships with a shareholder who holds shares representing 5% or more of the total vote at its general meeting. The obligation relates to economic links, family ties and other relations which may sway the member's position on issues decided by the supervisory board. Furthermore, a member of the supervisory board should notify the supervisory board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in discussions and from voting on resolutions on the issue which gives rise to such a conflict of interest. The discharge of obligations described above lies within the scope of responsibilities of members of the supervisory board of listed companies.

Twice a year, members of the Supervisory Board of Grupa LOTOS make IFRS-compliant disclosures on related-party transactions in accordance with IAS 24 Related Party Disclosures for the purposes of the Company's annual and semi-annual financial statements. According to the disclosures made by members of the Company's Supervisory Board in respect of 2011, none of the members had any economic links, family ties or other relations with a shareholder holding 5% or more of the total voting rights at the General Shareholders Meeting of Grupa LOTOS which might sway their position on matters decided by the Supervisory Board.

The Company is not aware of any conflicts of interest that arose or could have arisen in 2011, which the member concerned should notify to the Supervisory Board and as a result of which the member should refrain from taking the floor and voting on resolutions pertaining to the matter giving rise to such conflict of interest.

In addition to the requirements described above, 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 Supervisory Board took a stance on the Company's performance, opportunities and risks in the area of sustainable development.

Striving to comply with the international standards of sustainable development, which are a vital element of international legislation and which have received recognition by being incorporated into Art. 5 of the Polish Constitution, the Supervisory Board, in line with the principle of sustainable development, has extended the scope of its review activities to include areas key to Grupa LOTOS' operations: its access to natural resources and its environmental and social impacts.

In 2011, the Supervisory Board met six times and adopted 41 resolutions, including one in writing (the Supervisory Board of the seventh term held three meetings and adopted 27 resolutions, while the Supervisory Board of the eight term met three times and adopted 14 resolutions).

Key matters pertaining to the Company's performance, opportunities and risks in the area of sustainable development put under discussion by the Supervisory Board in 2011 included:

- upstream opportunities,
- financial results reported by Grupa LOTOS and its subsidiaries and performance against the 2011 budget,
- progress of work under the 10+ Programme,
- sale by Grupa LOTOS of its entire equity interest in LOTOS Parafiny Sp. z o.o.,
- financing of CSR projects, and
- corporate sponsorship.

The activities of the Supervisory Board are reviewed by the General Shareholders Meeting. Under Par. 9.2 of the Company's Articles of Association, the General Shareholders Meeting has the authority to grant discharge to members of the Supervisory Board in respect of performance of their duties. The basis for granting such discharge is the report containing an assessment of the Company's standing, covering sustainable development, which is presented annually by the Supervisory Board pursuant to Par. 3.2 of the Rules of Procedure for the Supervisory Board.

Board

In 2011, the Board of Grupa LOTOS received Polish civil state awards for the successful completion of the 10+ Programme.

Board powers

The Board manages all corporate issues of Grupa LOTOS.

Composition of the Board

The Board of Grupa LOTOS of the 7th term comprises 4 persons.

Remuneration of the Board

Remuneration of the Company's Board is regulated by the provisions of the so-called public sector salary cap act.

Avoidance of conflicts of interest

To avoid conflicts of interest, the Company complies with the Code of Best Practice for WSE Listed Companies.

Board powers

The Board manages all corporate issues of Grupa LOTOS.

The Board represents the Company before third parties and manages its affairs. This, however, 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 Board members. The Board of Grupa LOTOS acts in accordance with the Articles of Association and the Rules of Procedure for the Board. The documents are available on the Company's website.

Rules of Procedure for the Board of Grupa LOTOS Link → (http://w w w .lotos.pl/pobierz_plik/35061/)

Composition of the Board

The Board of Grupa LOTOS of the 7th term comprises 4 persons.

Pursuant to the Articles of Association of Grupa LOTOS, the Board is composed of three to seven members, including the president and vice-presidents, appointed by the Supervisory Board. The term of office of the Board is a joint term of three years. The president, vice-presidents and members of the Board, as well as the entire Board, may at any time be removed from office or suspended in duties by the Supervisory Board if there is a valid reason for doing so.

From January 1st to December 31st 2011 and as at the date of release of this report, the Board of Grupa LOTOS of the seventh term of office was composed of four members:

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

Paweł Olechnowicz
President of the Board, Chief Executive Officer

Marek Paweł Sokołowski
Vice-President of the Board, Chief Operation Officer

Mariusz Machajewski
Vice-President of the Board, Chief Financial 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 of the Company's operations. He is also acting Vice-President of the Board responsible for Oil and Gas Exploration & Production. He is also charged with oversight of companies allocated to the LOTOS Group's management and exploration and production segments.

Paweł Olechnowicz graduated from the Faculty of Technology and Mechanisation of Foundry Engineering of the AGH University of Science and Technology in Kraków. He also holds a post-graduate diploma from the Gdańsk University of Technology (Organization, Economics and Management of Industry) and an MBA degree from INSEAD in Fontainebleau, France. He has completed a number of professional courses in management 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.

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. He is in charge of, and takes responsibility for, the overall production and technical management, technology development (including health, safety and environmental management), and capex programmes (projects oriented towards technical and technological advancement).

Marek Sokołowski graduated from the Faculty of Electrical Engineering of the Gdańsk University of Technology. He also completed a postgraduate programme in industrial investment and a number of specialist courses in management, 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 2004-2011, as the Vice-President of the Board, Chief Operating Officer, he was in charge of the refinery expansion project (the 10+ Programme). He is also charged with oversight of companies allocated to the LOTOS Group's operating segment.

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, as well as the asset base and restructuring processes.

He graduated from the Faculty of Economics of the University of Gdańsk and 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.

Maciej Szozda

Vice-President of the Board, Chief Commercial Officer

Maciej Szozda was appointed Vice-President of the Board on July 1st 2009. He is in charge of, and takes responsibility for, the overall management of marketing, supply and distribution processes at the LOTOS Group. 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 KMW 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, performing mandates for Easey Garments UK Ltd. (Easy Jeans) as Head of its 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 Grupa LOTOS' Board at other companies in 2011

	Company	Function	Period
Paweł Olechnowicz	Board of Directors LOTOS E&P Norge AS	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Board of Directors of AB LOTOS Geonafta	Chairman	Apr 26–Dec 31 2011 and as at the release date of this report
Marek Sokołowski	Supervisory Board of LOTOS Czechowice S.A.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Supervisory Board of LOTOS Biopaliwa Sp. z o.o.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
Mariusz Machajewski	Supervisory Board of LOTOS Paliwa Sp. z o.o.	Deputy Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Supervisory Board of RCEkoenergia Sp. z o.o.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
Maciej Szozda	Supervisory Board of LOTOS Paliwa Sp. z o.o.	Chairman	Jan 1–Dec 31 2011 and as at the release date of this report
	Supervisory Board of LOTOS Biopaliwa Sp. z o.o.	Deputy Chairman	Jan 1–Dec 31 2011 and as at the release date of this report

Remuneration of the Board

Remuneration of the Company's Board is regulated by the provisions of the so-called public sector salary cap act.

As the State Treasury's equity interest in the Company exceeds 50% (50% of the total number of shares), remuneration paid to members of Grupa LOTOS' Board is regulated by the Act on Remunerating Persons Who Manage Certain Legal Entities dated March 3rd 2000 (Journal of Laws of 2000 No 26, item 306, as amended). Under the Act, the body authorised to determine the monthly remuneration payable to President of the Board is the General Shareholders Meeting. Remuneration paid to the other Board members is determined by the Supervisory Board, as provided for under the Company's Articles of Association.

In view of the foregoing, in 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 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, in 2009 the Extraordinary General Shareholders Meeting determined the remuneration policy for President of the Board, while repealing the General Shareholders Meeting's resolution adopted in 2000, which until then defined the rules of remuneration for members of the Board.

Furthermore, pursuant to individual employment contracts, members of the 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 Board and their families.

In addition, the President of the Board and Vice-President of the Board, Chief Commercial Officer, are entitled to a fringe benefit in the form of tied accommodation in the Gdańsk-Gdynia-Sopot conglomeration (incl. payment of rent and service charges), although the above persons have not yet claimed that benefit.

Additionally, pursuant to the said Act and the Regulation of the Minister of State Treasury concerning Detailed Rules and Procedure for Granting Annual Bonuses to Management Staff of Certain Legal Entities, dated March 12th 2001 (Journal of Laws of 2001, No. 22, item 259), members of the Board may be awarded annual bonuses. Annual bonuses may be awarded if the Company has:

- improved its financial performance,
- strengthened its position on the market or in the industry,
- successfully implemented restructuring or growth plans,
- not exceeded the maximum annualised average monthly remuneration growth ratio,
- settled its 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 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. Under the Company's Articles of Association, a decision to award annual bonuses to other Board members rests with the Supervisory Board.

In line with the amended Compensation Cap Act, in 2011 the Board members were entitled to receive remuneration in the amounts fixed in 2010.

Remuneration of the Board members in 2011

	Amount (PLN)
Paweł Olechnowicz	315,156.00
Marek Sokołowski	315,156.00
Mariusz Machajewski	315,156.00
Maciej Szozda	316,011.00

Avoidance of conflicts of interest

To avoid conflicts of interest, the Company complies with the Code of Best Practice for WSE Listed Companies.

As a means to avoid conflicts of interest, the Company complies with the provisions of the Commercial Companies Code, the Rules of Procedure for the Board and the Code of Best Practice for WSE Listed Companies.

Pursuant to the Rules of Procedure for the Board in conjunction with Art. 377 of the Commercial Companies Code, if a conflict arises between the interests of the Company and those of a Board member or any persons to whom the Board member is personally related, then the 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 Board member should notify the Board of any conflict of interests which has arisen or may arise, and should refrain from taking part in discussions and from voting on resolutions on the issue which gives rise to such conflict of interests. Pursuant to the Rules of Procedure for the Board, the Supervisory Board's approval is required for members of the 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 Board from serving on the Supervisory Board. This also applies to other persons reporting directly to a Board member.

Consolidated financial statements 2011

At 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

Auditor's opinion

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' 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 2011 containing, the consolidated statement of financial position as at 31 December 2011, 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 2011 to 31 December 2011 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 2010 were subject to our audit and on 11 April 2011 we have issued an unqualified opinion with an emphasis of matter on these financial statements concerning the uncertainty indicated by the Company's Management relating to the recoverability of the assets recognized due to the purchase of interest and exploration expenses incurred in respect of the YME oil field.

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'

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 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;
   - 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 licences relating to the YME field as well as the costs of drilling and other costs of said field exploration. 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 licences for the development of the YME field, and as the result in 2011 recognized an impairment allowance in the amount of 256 million zloty (with an impact on the net financial result amounted to 90 million zloty after deferred tax adjustment), revaluating the amount of capitalized expenditures to the total amount of 1218 million zloty. Without qualifying our opinion, we draw attention to the uncertainty indicated by the Company's Management concerning recoverability of the remaining 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 futures events, in particular, by market volatility of crude oil prices as well as the ability of obtaining further significant funding required to start the production.
7. We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 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 with subsequent amendments).

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor	Partner
Maricin Zieliński certified auditor No. 10402	Jacek Hryniuk

Warsaw, 17 April 2012

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

Financial highlights – consolidated

	PLN '000	PLN'000	EUR'000	EUR'000
The LOTOS Group	**Year ended Dec 31 2011**	**Year ended Dec 31 2010 (restated)**	**Year ended Dec 31 2011**	**Year ended Dec 31 2010 (restated)**
Sales revenue	29,259,586	19,662,804	7,067,362	4,910,300
Operating profit	1,084,794	1,061,354	262,021	265,047
Pre-tax profit	551,379	721,939	133,180	180,286
Net profit from continuing operations	649,322	681,353	156,837	170,151
Profit from continuing operations attributable to owners of the Parent	648,994	679,180	156,758	169,608
Profit from continuing operations attributable to non-controlling interests	328	2,173	79	543
Total comprehensive income	277,628	678,609	67,058	169,466
Total comprehensive income attributable to owners of the Parent	277,271	676,450	66,972	168,927
Total comprehensive income attributable to non-controlling interests	357	2,159	86	539
Net cash provided by/(used in) operating activities	902,359	882,693	217,956	220,431
Net cash provided by/(used in) investing activities	(846,943)	(1,055,590)	(204,571)	(263,608)
Net cash provided by/(used in) financing activities	(35,582)	458,688	(8,594)	114,546
Total net cash flow	43,319	283,821	10,463	70,877
Basic earnings per share (PLN/EUR)	5.00	5.23	1.21	1.31
Diluted earnings per share (PLN/EUR)	-	-	-	-

	PLN'000	PLN'000	EUR'000	EUR'000
	As at Dec 31 2011	**As at Dec 31 2010 (restated)**	**As at Dec 31 2011**	**As at Dec 31 2010 (restated)**
Total assets	20,423,220	17,727,364	4,623,986	4,476,268
Equity attributable to owners of the Parent	7,781,436	7,498,819	1,761,781	1,893,498
Non-controlling interests	947	14,658	214	3,701
Total equity	7,782,383	7,513,477	1,761,996	1,897,199

Items of the statement of financial position as at December 31th 2011, presented in Consolidated Financial Highlights, were translated at the EUR mid-exchange rate quoted by the National Bank of Poland for December 31st 2011, i.e. EUR 1 = PLN 4.4168. Items of the statement of comprehensive income and the statement of cash flows for the period ended December 31st 2011, presented in Financial Highlights, were translated at the exchange rate of EUR 1 = PLN 4.1401 (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 2011).

Items of the statement of financial position as at December 31st 2010, presented in Consolidated Financial Highlights, were translated using the EUR 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 Financial Highlights, 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).

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income year ended Dec 31 2011

(PLN '000)	Note	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Sales revenue	12.1	29,259,586	19,662,804
Cost of sales	12.4	(26,572,381)	(17,269,213)
Gross profit		**2,687,205**	**2,393,591**
Selling costs	12.4	(1,000,366)	(872,382)
General and administrative expenses	12.4	(432,269)	(377,118)
Other operating income	12.2	41,715	56,959
Other operating expenses	12.5	(337,874)	(139,696)
Effect of accounting for the step acquisition of control (AB LOTOS Geonafta)	2	126,383	-
Operating profit		**1,084,794**	**1,061,354**
Finance income	12.3	22,272	23,428
Finance expenses	12.6	(559,262)	(381,492)
Share of investments in associates	21	2,896	18,649
Loss of control over subsidiary	2	679	-
Pre-tax profit/(loss)		**551,379**	**721,939**
Corporate income tax	13.1	97,943	(40,586)
Net profit from continuing operations		**649,322**	**681,353**
Other comprehensive income			
Exchange differences on translating foreign operations		57,835	872
Cash flow hedge accounting		(516,892)	(739)
Income tax on other comprehensive income	13.1	87,363	(2,877)
Other comprehensive income (net)		**(371,694)**	**(2,744)**
Total comprehensive income		**277,628**	**678,609**
Net profit from continuing operations attributable to:			
Owners of the Parent	15	648,994	679,180
Non-controlling interests		328	2,173
		649,322	**681,353**
Total comprehensive income attributable to:			
Owners of the Parent		277,271	676,450
Non-controlling interests		357	2,159
		277,628	**678,609**
Net profit from continuing operations attributable to owners of the Parent per share (PLN)	15		
Weighted average number of shares ('000)		129,873	129,873
- basic		5.00	5.23
- diluted		-	-

Consolidated statement of financial position

Consolidated statement of financial position as at December 31st 2011

(PLN '000)	Note	Dec 31 2011	Dec 31 2010 (restated)	Jan 1 2010 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	17	8,965,480	6,173,798	3,438,629
Tangible assets under construction	17	1,558,070	4,213,684	6,240,316
Goodwill	20	46,688	46,688	46,688
Intangible assets	18	475,580	94,825	89,240
Investment property	19	-	3,376	3,762
Investments in equity-accounted associates	21	-	93,064	88,255
Non-current financial assets	23	96,189	54,099	83,623
Deferred tax assets	13.4	400,128	159,901	74,267
Non-current receivables	25	33,313	28,612	22,061
Prepayments and accrued income	27	6,789	4,003	5,087
Total non-current assets		**11,582,237**	**10,872,050**	**10,091,928**
Current assets				
Inventories, including:	24	5,855,840	4,506,791	3,023,144
- mandatory reserves	24	4,427,752	2,980,241	2,196,965
Trade and other receivables	26	2,190,029	1,821,939	1,536,854
Current income tax receivable	13.3	132,876	47,492	131,299
Prepayments and accrued income	27	40,382	32,674	25,982
Current financial assets	28	129,052	55,906	56,482
Cash and cash equivalents	30	383,680	382,601	345,126
Total current assets		**8,731,859**	**6,847,403**	**5,118,887**
Assets held for sale	22	**109,124**	**7,911**	**5,209**
Total assets		**20,423,220**	**17,727,364**	**15,216,024**
EQUITY AND LIABILITIES				
Equity				
Share capital	32	129,873	129,873	129,873
Statutory reserve funds		1,311,348	1,311,348	1,311,348
Cash flow hedging reserve		(419,281)	(739)	-
Retained earnings		6,700,396	6,046,056	5,353,895
Translation reserve		59,100	12,281	14,277
Equity attributable to owners of the Parent		**7,781,436**	**7,498,819**	**6,809,393**
Non-controlling interests	33	**947**	**14,658**	**36,752**
Total equity		**7,782,383**	**7,513,477**	**6,846,145**
Non-current liabilities				
Interest-bearing borrowings and other debt instruments	34	4,983,889	4,403,453	4,942,590
Long-term provisions	36	399,104	323,122	277,457

Deferred tax liabilities	13.4	105,226	123,143	90,611
Other financial liabilities	37.2	304,949	151,666	218,733
Trade payables, accruals and deferred income, and other liabilities	37.1	54,371	61,809	70,981
Total non-current liabilities		**5,847,539**	**5,063,193**	**5,600,372**
Current liabilities				
Trade payables, accruals and deferred income, and other liabilities	37.1	4,156,553	2,939,108	1,871,803
Current income tax payable	13.3	7,420	15,188	11,867
Interest-bearing borrow ings and other debt instruments	34	2,407,740	1,923,341	748,553
Notes	35	-	52,670	-
Short-term provisions	36	21,358	17,818	36,497
Other financial liabilities	37.2	159,829	202,396	100,787
Total current liabilities		**6,752,900**	**5,150,521**	**2,769,507**
Liabilities directly associated with assets held for sale	22	**40,398**	**173**	**-**
Total liabilities		**12,640,837**	**10,213,887**	**8,369,879**
Total equity and liabilities		**20,423,220**	**17,727,364**	**15,216,024**

This is a translation of a document originally issued in Polish.
The Notes to the consolidated financial statements, presented on follow ing pages, are their integral part of the statements.

Consolidated statement of cash flows

Consolidated statement of cash flows year ended Dec 31 2011

(PLN '000)	Note	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Cash flows from operating activities			
Net profit from continuing operations		**649,322**	**681,353**
Adjustments:			
Share in net profit of equity-accounted subordinated entities	21	(2,896)	(18,649)
Depreciation and amortisation	31	608,608	389,901
Foreign exchange (gains)/losses		284,656	155,181
Interest and dividends		145,912	58,344
(Gain)/loss from investing activities		182,728	87,097
Current income tax	13.1	(97,943)	40,586
Income tax paid		(182,005)	(84,219)
(Increase) in receivables	31	(441,378)	(298,709)
(Increase) in inventories	31	(1,352,908)	(1,483,647)
Increase in liabilities and accruals and deferred income	31	1,006,005	1,159,614
Increase in provisions	31	38,200	9,851
(Increase) in prepayments and accrued income	31	(13,655)	(6,969)
Settlement and valuation of financial instruments		130,430	193,036
Other adjustments	31	(52,717)	(77)
Net cash provided by/(used in) operating activities		**902,359**	**882,693**
Cash flows from investing activities			
Dividends received		514	10,490
Interest received		3,135	1,378
Sale of property, plant and equipment and intangible assets		13,676	15,642
Sale of non-current financial assets		680	-
Sale of current financial assets		-	83
Repayment of loans advanced		308	-
Loss of control over subsidiary, net of cash		1,104	-
Other cash inflow s on financial assets		971	-
Other cash provided by investing activities		-	3,012
Loans advanced		(1,805)	(8)
Acquisition of UAB Meditus, net of cash acquired		(108,879)	-
Purchase of property, plant and equipment and intangible assets	31	(629,333)	(1,027,273)
Prepayments for tangible assets under construction		(48,662)	(57,064)
Purchase of non-current financial assets		(16,256)	(14)
Other cash outflow s on financial assets	31	(48,643)	-
Other cash used in investing activities		(13,753)	(1,836)
Net cash provided by/(used in) investing activities		**(846,943)**	**(1,055,590)**
Cash flows from financing activities			

Increase in borrowings and other debt instruments		876,876	1,273,297
Issue of notes		572,712	102,670
Cash flows attributable to changes in interest in a subsidiary not resulting in loss of control over non-current financial assets		(9,726)	(11,554)
Other cash provided by financing activities		2,216	-
Repayment of borrowings and other debt instruments		(597,082)	(630,530)
Redemption of notes		(628,000)	(50,000)
Interest paid		(137,075)	(97,804)
Decrease in finance lease liabilities		(8,532)	(4,786)
Settlement of financial instruments		(106,912)	(119,585)
Other cash used in financing activities		(59)	(3,020)
Net cash provided by/(used in) financing activities		**(35,582)**	**458,688**
Effect of exchange rate fluctuations on cash held		23,485	(1,970)
Change in net cash	**31**	**43,319**	**283,821**
Cash at beginning of the period	**31**	**118,233**	**(165,588)**
Cash at end of the period	**31**	**161,552**	**118,233**
- restricted cash	30	4,384	33,654

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Consolidated statement of changes in equity

Consolidated statement of changes in equity year ended Dec 31 201

(PLN '000)	Note	Share capital	Statutory reserve funds	Cash flow hedging reserve	Retained earnings	Translation reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
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 Year ended Dec 31 2010		-	-	-	679,180	-	679,180	2,173	681,353
Other comprehensive income, net, for the year ended Dec 31 2010		-	-	(739)	5	(1,996)	(2,730)	(14)	(2,744)
Changes in ownership interest	2	-	-	-	12,976	-	12,976	(24,253)	(11,277)
Dec 31 2010		**129,873**	**1,311,348**	**(739)**	**6,046,056**	**12,281**	**7,498,819**	**14,658**	**7,513,477**
Jan 1 2011		**129,873**	**1,311,348**	**(739)**	**6,046,056**	**12,281**	**7,498,819**	**14,658**	**7,513,477**
Net profit from continuing operations for the year ended Dec 31 2011		-	-	-	648,994	-	648,994	328	649,322
Other comprehensive income, net, for the year ended Dec 31 2011		-	-	(418,542)	-	46,819	(371,723)	29	(371,694)
Changes in the Group's organisational structure		-	-	-	1,080	-	1,080	(214)	866
Changes in ownership interest	2	-	-	-	4,266	-	4,266	(13,854)	(9,588)
Dec 31 2011		**129,873**	**1,311,348**	**(419,281)**	**6,700,396**	**59,100**	**7,781,436**	**947**	**7,782,383**

This is a translation of a document originally issued in Polish.
The Notes to the consolidated financial statements, presented on following pages, are their integral part of the statements.

Notes to the financial statements

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1. General information

Grupa LOTOS S.A. (“the Company”, “the Parent”), the parent entity 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 has been assigned Industry Identification Number (REGON) 190541636.

The Parent’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 acquisition of crude oil and natural gas deposits and oil and gas production.

The Parent 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, issued by the Minister of the Environment to LOTOS Petrobaltic S.A. (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 December 14th 2014, in the Sambia W area – valid until December 14th 2014),
- Licences to conduct production from particular fields, issued by the Minister of the Environment to LOTOS Petrobaltic S.A. (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 LOTOS Exploration and Production Norge AS to produce hydrocarbons in the PL 316 and PL 316B licence areas, covering a 20% interest in the YME field (from August 29th 2008), and to conduct exploration for and appraisal of hydrocarbons in the PL 455 licence area – a 45% interest, all located on 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 in 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 10% interest in licence PL 497B (extension of licence PL497), granted by the Norwegian Ministry of Energy and Petroleum to LOTOS Exploration and Production Norge AS in the APA 2009 licence round,

* A 25% interest in and operator status with respect to licence PL 503B to conduct exploration for and appraisal of hydrocarbons, located in the North Sea, granted by the Norwegian Ministry of Energy and Petroleum to LOTOS Exploration and Production Norge AS in the APA 2010 licence round,
* Licences for hydrocarbon exploration and appraisal in the Plunge area, issued for an indefinite term by the Government of the Republic of Lithuania to AB LOTOS Geonafta on June 7th 1994,
* Licences to produce hydrocarbons in certain areas of Lithuania, issued for an indefinite term by the Government of the Republic of Lithuania to AB LOTOS Geonafta (in the Girkaliai area – issued on June 7th 1994, in the Kretinga area – issued on March 16th 1992 and in the Nousodis area – issued on March 16th 1992),
* Licences to produce hydrocarbons in the Genciu area, issued for an indefinite term by the Government of the Republic of Lithuania to UAB Genciu Nafta on March 27th 1993,
* 50% interests in licences for hydrocarbon exploration and appraisal in the Vežaičiai and Ablinga fields, the Klaipėda area, issued for an indefinite term by the Government of the Republic of Lithuania to UAB Manifoldas and AB LOTOS Geonafta on May 19th 1998,
* 50% interests in licences for hydrocarbon exploration and appraisal in the Gargždai area, issued for an indefinite term by the Government of the Republic of Lithuania to UAB Minijos Nafta and AB LOTOS Geonafta on March 23rd 1995,
* Licences issued by the President of the Energy Regulatory Office to RCEkoenergia Sp. z o.o. for the following activities: distribution of and trade in gas fuels, transmission and distribution of heat, generation, transmission and distribution of electricity, and trade in electricity, valid until January 31st 2026,
* Licences for production, storage and marketing of biocomponents (methyl ester), issued for an indefinite period by the President of the Agricultural Market Agency (Agencja Rynku Rolnego) to LOTOS Biopaliwa Sp. z o.o.,
* Licence for freight transport by rail and traction vehicles renting issued for an indefinite period by the President of the Railway Transport Authority (Urząd Transportu Kolejowego) to LOTOS Kolej Sp. z o.o. on October 8th 2003 and January 12th 2004, respectively.

2. Composition of the Group

As at December 31st 2011, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent) and 34 production and service companies, including:

- 16 subsidiaries of Grupa LOTOS S.A.
- 16 indirect subsidiaries of Grupa LOTOS S.A. and two companies accounted for using the proportional method.

The following table presents the subsidiaries of the LOTOS Group, their core business, consolidation method, and the Group's interests in their share capitals.

Name	Registered office	Core business	Method of consolidation/valuation of shares	Ownership interest (%)	
				Dec 31 2011	Dec 31 2010
Parent					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct subsidiaries					
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. w likwidacji (in liquidation) (1)	Kraków (1)	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 sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00% (2)	100.00%
LOTOS Ekoenergia Sp. z o.o.(3)	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, overhaul and repair services	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% (4)	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Trading in aviation fuel until Oct 16 2011, at present – logistics services	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00% (6)	97.55% (5)
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels	full	100.00% (6)	98.12% (5)

		Renting and operating of own or leased real estate from March 24th 2011			
LOTOS Petrobaltic S.A. [8] (parent of another group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.95% [7]	99.32%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company is not conducting operations	full	100.00%	100.00% [9]
Indirect subsidiaries					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00% [10]	97.55% [10,11]
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00% [10]	97.55% [10,11]
"PLASTEKOL Organizacja Odzysku" S.A.	Jasło	Provision of services	- [12]		93.70% [10]
Miliana Shipholding Company Ltd. (Miliana Shipping Company Ltd.) (parent of another group) [15]	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport related services, and managing own financial assets	full	99.95 % [13,14]	99.32 %
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	full	99.95% [13, 15]	-
Miliana Shipping Group Ltd. (parent of another group) [15]	Nicosia, Cyprus	Management of own assets	full	99.95% [13, 15]	-
Bazalt Navigation Co. Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% [13, 15]	-
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% [13, 15]	-
Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% [13, 15]	-
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% [13, 15]	-
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% [13, 15]	-
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95% [13, 15]	-
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production at the Norwegian Continental Shelf, provision of services related to oil exploration and production	full	99.95% [13, 16]	99.32% [16]
Aphrodite Offshore Services N.V.	Curaçao, Netherlands Antilles	The company has been dormant since October 17th 2011	full	99.95% [13]	99.32%
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.95% [13]	99.32%
AB LOTOS Baltija (parent of another group) [18,19]	Vilnius, Lithuania	Business and legal advisory services	full	- [13,18]	99.32% [17]
AB Meditus (parent of another group) [18,20]	Vilnius, Lithuania	Business and legal advisory services	full	- [13,18]	-
AB LOTOS Geonafta (parent of another group) [18]	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.95% [13,18, 21]	40.31%
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production	full	99.95% [13,18]	40.31%
Companies accounted for using the proportional method					
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98% [13,18]	20,15%
UAB Minijos Nafta	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98% [13,18]	20.15%

[1] On January 10th 2011, the General 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 Płock requesting that LOTOS Gaz S.A. be declared bankrupt. According to the information received by the Company, the petition was effectively

withdrawn, and the bankruptcy proceedings were discontinued on January 7th 2011. These developments had no effect on the data disclosed in the consolidated financial statements.
The company's new business address in Kraków was registered on July 8th 2011. Previously, the company was based in Mława.

(2) On December 29th 2011, the share capital increase at LOTOS Asfalt Sp. z o.o. was registered. The share capital was increased from PLN 2,000 thousand to PLN 20,000 thousand, by way of raising the par value of the existing shares from PLN 500 per share to PLN 5,000 per share. The share capital increase was financed using own funds of LOTOS Asfalt Sp. z o.o.

(3) 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.

(4) On December 7th 2011, the share capital increase at LOTOS Parafiny Sp. z o.o. was registered. The share capital was increased from PLN 19,783 thousand to PLN 28,783 thousand, by way of creating 9,000 new shares, with a par value of PLN 1,000 thousand per share. The share capital increase was financed using own funds of LOTOS Parafiny Sp. z o.o. All new shares were acquired by Grupa LOTOS S.A. As at December 31st 2011, the Company disclosed the carrying amount of the shares in LOTOS Parafiny Sp. z o.o. under assets held for sale (see Note 22 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/22.-assets-held-for-sale/)).

(5) By December 31st 2010, Grupa LOTOS S.A. acquired from non-controlling interests an additional 12.51% interest in LOTOS Czechowice S.A. and a 13.11% interest in LOTOS Jasło S.A.

(6) Following the transactions carried out as part of the squeeze-out described below, and relevant entries having been made in the share registers of LOTOS Czechowice S.A. and LOTOS Jasło S.A. on April 7th and 8th 2011, respectively, Grupa LOTOS S.A. holds a 100% interest in LOTOS Czechowice S.A. and a 100% interest in LOTOS Jasło S.A.

(7) By December 31st 2011, Grupa LOTOS S.A. acquired from non-controlling shareholders an additional 0.63% interest in LOTOS Petrobaltic S.A. On November 29th 2011, an increase in the share capital of LOTOS Petrobaltic S.A. was registered. The share capital was increased from PLN 92,400 thousand to PLN 96,600 thousand i.e. by PLN 4,200 thousand, through the issue of 420,000 Series B registered shares with a par value of PLN 10 per share in return for a cash contribution. Grupa LOTOS S.A. acquired in total 419,979 new Series B shares, in return for a cash contribution of PLN 80,968 thousand. As at December 31st 2011, Grupa LOTOS S.A. held a 99.95% interest in LOTOS Petrobaltic S.A.

(8) 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 registered in the National Court Register.

(9) 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% interest in LOTOS Park Technologiczny Sp. z o.o.

(10) The shareholding changes described in items (5, 6) above resulted in changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Czechowice S.A. and LOTOS Jasło S.A.

(11) 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 RCEkoenergiaSp. z o.o., representing 0.005% of the company's share capital.

(12) On February 11th 2011, LOTOS Jasło 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% of shares in PLASTEKOL Organizacja Odzysku S.A. The effect of the loss of control over the subsidiary has been presented in the statement of comprehensive income for the year ended December 31st 2011 under "Loss of control over subsidiary", of PLN 679 thousand.

(13) The shareholding changes described in item (7) above resulted in changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Petrobaltic S.A.

(14) On June 24th 2011, LOTOS Petrobaltic S.A. acquired one share in Miliana Shipping Company Ltd. under an agreement of April 21st 2011 providing for the sale of one share in Miliana Shipping Company Ltd. by Aphrodite Offshore Services N.V. to LOTOS Petrobaltic S.A. for a price of USD 19.8 thousand (PLN 53.8 thousand translated at the mid-exchange rate for USD quoted by the National Bank of Poland for April 21st 2011). LOTOS Petrobaltic S.A. currently holds 100% of shares in Miliana Shipping Company Ltd.

(15) In connection with the restructuring of the sea shipping business in the LOTOS Petrobaltic Group, on July 22nd 2011 Miliana Shipping Company Ltd. established two subsidiaries registered in the Republic of Cyprus: Miliana Shipmanagement Ltd. and Miliana Shipping Group Ltd. Miliana Shipping Company Ltd. is the sole shareholder in both undertakings. Indirectly through LOTOS Petrobaltic S.A., the Group holds 99.95% in each of the companies.Furthermore, on September 13th 2011, LOTOS Petrobaltic S.A. received a formal confirmation that on July 28th 2011 Miliana Shipping Company Ltd. assumed control over four companies, i.e. Granit Navigation Company Limited, Kambr Navigation Company Limited, Petro Icarus Company Limited and St. Barbara Navigation Company Limited, and another two companies, i.e. Bazalt Navigation Company Limited and Petro Aphrodite Company Limited on July 29th 2011.
On January 23rd 2012 a name change from Miliana Shipping Company Limited to Miliana Shipholding Company Limited was registered.

(16) On November 15th 2010, the share capital of LOTOS Exploration and Production Norge AS was increased by NOK 1. One new share in the company, with a par value of NOK 1 (PLN 0.4822, 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.
On December 21st 2011, the court registered an increase in the share capital of LOTOS Exploration and Production Norge AS from NOK 430,000,001 to NOK 572,733,964, i.e. by NOK 142,733,963, through the issue of new Series B shares with a par value of NOK 1 per share in return for a cash contribution. All the new issue shares were acquired by LOTOS Petrobaltic S.A.

(17) 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.

(18) Following corporate approvals by the General 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.

on November 30th 2011, the merger of AB Geonafta, AB LOTOS Baltija, and AB Meditus, as well as the name change from AB Geonafta to AB LOTOS Geonafta were registered. Following registration of the merger, the shareholder structure of AB LOTOS Geonafta was as follows: LOTOS Petrobaltic S.A. – 43.1980822%, Grupa LOTOS S.A. – 0.0005934%, own shares held by AB LOTOS Geonafta – 56.8013244%. However, the proportions of shares conferring the right to vote at the General Meeting of AB LOTOS Geonafta were as follows: LOTOS Petrobaltic S.A. – 99.99862%, Grupa LOTOS S.A. – 0.00137%. LOTOS Petrobaltic S.A. retained control of AB LOTOS Geonafta. AB LOTOS Geonafta intends to voluntarily cancel its own shares acquired in the merger process.

[19] On May 23rd 2011, a change in the legal form of UAB LOTOS Baltija to AB LOTOS Baltija was registered. Prior to the merger referred to in [18], the company operated under the name of AB LOTOS Baltija.

[20] On May 10th 2011, a change in the legal form of UAB Meditus to AB Meditus was registered. Prior to the merger referred to in [18], the company operated under the name of AB Meditus.

[21] On March 23rd 2011, LOTOS Petrobaltic S.A. and Grupa LOTOS S.A. executed an agreement whereby Grupa LOTOS S.A. purchased one share in AB Geonafta for LTL 3 thousand (PLN 3.5 thousand).

As at December 31st 2011, the Group's shares in the total vote at the general meetings of its subsidiaries were equal to its interests in their share capitals, except in the case of AB LOTOS Geonafta (see below). As at December 31st 2009, the Group's shares in the total vote at the general meetings of its subsidiaries were equal to its shares in their share capitals.

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 non-controlling shareholders, on November 30th 2010 the General Meeting of LOTOS Jasło S.A. adopted a resolution regarding a minority squeeze-out. Following the transactions carried out as part of the squeeze-out and relevant entries having been made in the share register of LOTOS Jasło S.A., as of April 8th 2011 Grupa LOTOS S.A. has held a 100% interest in LOTOS Jasło S.A.

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 non-controlling shareholders, on December 1st 2010 the General Meeting of LOTOS Czechowice S.A. adopted a resolution regarding a minority squeeze-out. Following the transactions carried out as part of the squeeze-out and relevant entries having been made in the share register of LOTOS Czechowice S.A., as of April 7th 2011 Grupa LOTOS S.A. has held a 100% interest in LOTOS Czechowice S.A.

Accounting for the acquisition of shares in LOTOS Jasło S.A. and LOTOS Czechowice S.A. from non-controlling shareholders by December 31st 2010

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 Jasło S.A.

In line with IAS 27 Consolidated and Separate Financial Statements, the transaction described above has been 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 Jasło S.A. and LOTOS Czechowice S.A. shares from non-controlling shareholders, 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 12.51% interest in LOTOS Czechowice S.A. and the 13.11% interest in LOTOS Jasło 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

Accounting for the acquisition of shares in LOTOS Czechowice S.A. and LOTOS Jasło S.A. from non-controlling shareholders as part of the minority squeeze-out

In the period from January 1st to December 31st 2011, as part of the minority squeeze-out described above, Grupa LOTOS S.A. acquired 183,429 shares in LOTOS Czechowice S.A. with a total value of PLN 1,833 thousand, representing 2.45% of the company's share capital, and 112,908 shares in LOTOS Jasło S.A. with a total value of PLN 471 thousand, representing

1.88% of the company's share capital. As a result of the executed transactions, as at December 31st 2011 Grupa LOTOS S.A. held 100% of the share capital of LOTOS Czechowice S.A. and 100% of the share capital of LOTOS Jasło S.A.

In line with IAS 27 Consolidated and Separate Financial Statements, the transactions described above have been accounted for as equity transactions, as a result of which an amount of PLN 2,773 thousand was recognised under retained earnings attributable to the Parent.

Accounting for the acquisition of LOTOS Czechowice S.A. and LOTOS Jasło S.A. shares from non-controlling shareholders as part of the minority squeeze-out as at December 31st 2011:

(PLN '000)	
Value of non-controlling interests as at Dec 31 2011 (A)	5,072
Value of the acquired 2.45% of shares in LOTOS Czechowice S.A. and 1.88% of shares in LOTOS Jasło S.A. (B))	2,304
Costs related to the acquisition (C)	(5)
Excess of the value of non-controlling interests over the value of the acquired shares (A-B-C)	2,773

Offer to purchase Series A shares in LOTOS Petrobaltic S.A.

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.

Accounting for the acquisition of Series A shares in LOTOS Petrobaltic S.A. from non-controlling shareholders

By December 31st 2011, Grupa LOTOS S.A. acquired 57,850 shares in LOTOS Petrobaltic S.A. with an aggregate value of PLN 7,422 thousand, representing 0.63% of the company's share capital.

In line with IAS 27 Consolidated and Separate Financial Statements, the transaction described above has been accounted for as an equity transaction, as a result of which an amount of PLN 1,493 thousand was recognised under retained earnings attributable to the Parent.

Accounting for the acquisition of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders as at December 31st 2011:

(PLN '000)	
Value of non-controlling interests as at Dec 31 2011 (A)	8,782
Value of the acquired 0.63% of shares in LOTOS Petrobaltic S.A. (B)	7,422
Costs related to the acquisition (C)	(133)
Excess of the value of non-controlling interests over the value of the acquired shares (A-B-C))	1,493

Increase of the share capital of LOTOS Petrobaltic S.A.

On November 29th 2011, the court registered the increase in the share capital of LOTOS Petrobaltic S.A. by PLN 4,200 thousand, i.e. from PLN 92,400 thousand to PLN 96,600 thousand, through the issue of 420,000 Series B registered shares with a par value of PLN 10 per share, paid for with cash. Grupa LOTOS S.A. acquired in total 419,979 new Series B shares, in return for a cash contribution of PLN 80,968 thousand.

As a result of the executed transactions, consisting in the purchase of shares in LOTOS Petrobaltic S.A. from non-controlling shareholders and the increase in the share capital of LOTOS Petrobaltic S.A., as at December 31st 2011 Grupa LOTOS S.A. held a 99.95% stake in LOTOS Petrobaltic S.A., including 9,654,829 shares conferring the right to vote at the company's General Shareholders Meeting.

Acquisition of shares in AB Geonafta by an indirect subsidiary

Following approvals by the General 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. As at the acquisition date, LOTOS Petrobaltic S.A. held directly 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 (currently AB LOTOS Geonafta) is the parent 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).

The business of AB Geonafta (currently AB LOTOS Geonafta) and its group companies, 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 – proved and probable reserves, and 2C – contingent resources) attributable to the AB Geonafta Group was approximately 1 million tonnes.

The acquisition price of UAB Meditus, which holds 59.41% of shares in AB Geonafta, comprised EUR 56.8m, adjusted for net debt and a portion of the potential payment to be received from one of AB Geonafta's debtors.

Given the fact that as at the business combination date the Group held a 40.59% interest in AB Geonafta, acquired jointly with its group through the purchase of 100% shares in UAB Meditus by UAB LOTOS Baltija, the business combination was accounted for and presented as a step acquisition within the meaning of IFRS 3 Business Combinations. 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.

The initial accounting for the merger was presented by the Group in its interim financial statements published in 2011. In accordance with the revised IFRS 3 Business Combinations, when initially accounting for the business combination, the Group used the initial fair values of the identified acquired assets and assumed liabilities.

The business combination was finally accounted for and presented in these consolidated financial statements (in accordance with IFRS 3 Business Combinations, a business combination must be finally accounted for within a year from the acquisition date).

The Group finally accounted for the business combination as at February 3rd 2011 in the following manner:

(PLN '000)	Feb 3 2011
Consideration paid (fair value as at acquisition date) (A) [1]	163,735
Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (B)	202,423
Total (A+B)	366,158
Equity interest in the acquiree	100%
Current assets, including:	74,222
Cash and cash equivalents	37,513
Non-current assets, including:	451,288
Intangible Assets	358,148
Property, plant and equipment	85,281
Total assets	**525,510**
Provisions	69,726
Non-current liabilities	38,387
Current liabilities, and accruals and deferred income	31,319
Total liabilities and provisions	**139,432**
Net assets (C)	**386,078**
Interest in acquired net assets	**386,078**
Gain on bargain purchase (C-A-B)	**19,920**

(A) Represents the acquisition-date fair value of the consideration transferred for 100% of shares in UAB Meditus, which holds 59.41% of shares in AB Geonafta.

(B) Represents the fair value of the 40.59% shares in AB Geonafta, held directly by LOTOS Petrobaltic S.A.

(C) Represents the fair value of net assets as at the acquisition date.

[1] For the purpose of accounting for the business combination, the paid consideration of PLN 283,505 thousand (at acquisition-date fair value) was reduced by the value of the previously assumed liabilities of the shareholders selling UAB Meditus shares towards the acquirees, of LTL 105,571 thousand (PLN 119,770 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for February 3rd 2011).

As part of the business combination, the Group recognised identifiable intangible assets of LTL 315,600 thousand (PLN 358,048 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for February 3rd 2011), representing licences awarded to AB Geonafta and its group companies, including UAB Genciu Nafta, UAB Minijos Nafta and UAB Manifoldas. The licences confer the right to exploit crude oil and natural gas reserves in Lithuania.
The recognised value of the licence has been adjusted for a 15% tax effect of LTL 47,340 thousand (PLN 53,707 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for February 3rd 2011).

Following the relevant procedures concerning the allocation of acquisition cost, the Group analysed and investigated forecasts of revenue and expenses related to future exploitation of deposits the licences for which the Group acquired through the business combination, as well as other parameters, including market rates of return and a risk-adjusted discount rate.

The fair value of the licences identified as part of the business combination was estimated in accordance with internationally recognised valuation standards (the excess earnings method was applied). The facts and assumptions underlying the valuation, relating in particular to the field reserves, forecast production volumes and crude oil prices higher than previously assumed for transactional purposes, resulted in the fair value of the licences, estimated on their basis as at the settlement date of the transaction of assuming control over the AB Geonafta Group, being higher than originally expected. This was the reason behind the disclosed excess of fair value of the acquired net assets over the price paid, and consequently the recognition of gain on a bargain purchase. The valuation, as well as the assumptions and methodology applied, were corroborated by independent experts' reports and subject to prudential standards.

The gain on bargain purchase of PLN 19,920 thousand and the increase in the value of LOTOS Petrobaltic S.A.'s 40.59% interest previously held in AB Geonafta, resulting from its measurement to fair value at the acquisition-date, of PLN 106,463 thousand was recognised in the statement of comprehensive income under "Effect of accounting for the step acquisition of control over AB LOTOS Geonafta" at PLN 126,383 thousand.

Until February 3rd 2011 (the business combination date), LOTOS Petrobaltic Group held 40.59% of shares in AB Geonafta. The share in the appreciation of net assets of the AB Geonafta Group in the period from January 1st 2011 to the date of business combination amounted to PLN 2,896 thousand, and is presented in the consolidated statement of comprehensive income for the year ended December 31st 2011 under "Share of investments in associates".

The acquiree's revenue and profit as of the acquisition date were PLN 230,971 thousand and PLN 38,918 thousand, respectively, and were included in the statement of comprehensive income for 2011. As the business combination took place at the beginning of the 2011 reporting period, the Group believes that, in conformity with the materiality principle, it may be assumed that the combined entity's revenue and profit presented in the statement of comprehensive income reflect relevant values calculated as if the beginning of the reporting period was the date of the acquisition.

By December 31st 2011, AB LOTOS Baltija settled its liabilities for the shares acquired in UAB Meditus, of LTL 229,437 thousand (PLN 293,496 thousand, translated at the LTL exchange rate quoted by the National Bank of Poland for December 31st 2011), including LTL 105,571 thousand (PLN 135,046 thousand, translated at the LTL mid-exchange rate quoted by the National Bank of Poland for December 31st 2011) in connection with assuming previous liabilities of the shareholders selling shares in UAB Meditus towards the acquirees.

After deducting the cash acquired in the business combination, of LTL 33,066 thousand (PLN 42,298 thousand, translated at the LTL mid-exchange rate quoted by the National Bank of Poland for December 31st 2011), the acquisition value of UAB Meditus as shown in the consolidated statement of cash flows for the year ended December 31st 2011 amounted to LTL (90,800) thousand (i.e. PLN 108,879 thousand).

As at December 31st 2011, total liabilities of AB LOTOS Geonafta (previously AB LOTOS Baltija) related to acquisition of shares in UAB Meditus amounted to LTL 20,457 thousand (PLN 26,169 thousand, translated at the mid-exchange rate for LTL quoted by the National Bank of Poland for December 31st 2011). The amount of the liabilities has been held in an escrow account for one year from the business combination date to secure AB LOTOS Geonafta's (previously AB LOTOS Baltija's) potential claims against the selling shareholders. The amount was paid on February 3rd 2012.

Acquisition of one share in Miliana Shipping Company Ltd. by LOTOS Petrobaltic S.A.

On June 24th 2011, LOTOS Petrobaltic S.A. acquired one share in Miliana Shipping Company Ltd. under the agreement of April 21st 2011 with Aphrodite Offshore Services N.V. for a price of USD 19.8 thousand (PLN 53.8 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for April 21st 2011).

LOTOS Petrobaltic S.A. currently holds 100% of shares in Miliana Shipping Company Ltd.

Incorporation of new subsidiaries by Miliana Shipping Company Ltd.

In connection with the restructuring of the sea shipping business within the LOTOS Petrobaltic Group, on July 22nd 2011 Miliana Shipping Company Ltd. established two subsidiaries registered in the Republic of Cyprus: Miliana Shipmanagement Ltd. and Miliana Shipping Group Ltd. Miliana Shipping Company Ltd. is the sole shareholder in both undertakings.

On September 13th 2011, LOTOS Petrobaltic S.A. received a formal confirmation that on July 28th 2011 Miliana Shipping Company Ltd. assumed control over four companies, i.e. Granit Navigation Company Limited, Kambr Navigation Company Limited, Petro Icarus Company Limited and St. Barbara Navigation Company Limited, and another two companies, i.e. Bazalt Navigation Company Limited and Petro Aphrodite Company Limited on July 29th 2011.

Increase of the share capital of Miliana Shipping Company Ltd.

On October 12th 2011, the General Meeting of Miliana Shipping Company Ltd. adopted a resolution to increase the share capital of Miliana Shipping Company Ltd. by 9,000 shares with a par value of EUR 1.71 per share and to allocate these shares to LOTOS Petrobaltic S.A. in return for a non-cash contribution in the form of Granit and Bazalt ships. The share capital increase at Miliana Shipping Company Ltd. and the transfer of the ships took place on November 1st 2011.

Increase of the share capital of shipping companies. Transfer of ships to shipping companies

Miliana Shipping Company increased the share capital of:

- Petro Icarus Company Ltd.
- Kambr Navigation Company Ltd.
- St. Barbara Navigation Company Ltd.
- Granit Navigation Company Ltd.
- Bazalt Navigation Company Ltd.

by acquiring new shares in these companies in exchange for the contribution of MV Icarus III, MV Kambr, MV ST. Barbara, MV Granit, and MV Bazalt ships.

In October and November 2011, the ships were transferred to the following entities: Kambr Navigation Company Ltd., Petro Icarus Company Ltd., Petro Aphrodite Company Ltd., St. Barbara Navigation Company Ltd., Bazalt Navigation Company Ltd. and Granit Navigation Company Ltd. The total value of the transferred ships was determined at about EUR 17,027 thousand.

Increase of the share capital of Miliana Shipping Group Ltd.

On December 13th 2011, the share capital of Miliana Shipping Group Ltd. was increased by 1,000 shares with a par value of EUR 1 per share. The new shares were acquired by Miliana Shipping Company Ltd. in exchange for a non-cash contribution in the form of shares in the following companies:

- Petro Icarus Company Ltd.
- Kambr Navigation Company Ltd.
- Petro Aphrodite Company Ltd.
- St. Barbara Navigation Company Ltd.
- Granit Navigation Company Ltd.
- Bazalt Navigation Company Ltd.

On December 12th and 13th 2011, Cypriot certificates were issued confirming transfer of shares in the six companies from Miliana Shipping Company Ltd. to Miliana Shipping Group Ltd., which marked completion the process aimed at forming the target capital structure for the sea shipping business of the LOTOS Petrobaltic Group.

On January 23rd 2012 a name change from Miliana Shipping Company Limited to Miliana Shipholding Company Limited was registered.

These developments had no effect on the data disclosed in the consolidated financial statements.

This is a translation of a document originally issued in Polish.

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

In the period from January 1st 2011 to 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 2011, the composition of Grupa LOTOS S.A. Supervisory Board of the seventh term of office 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.

On June 27th 2011, the General Meeting of Grupa LOTOS S.A. appointed the Company's Supervisory Board for the eighth term of office. The following persons were appointed to the Supervisory Board: Małgorzata Hirszel, Ewa Sibrecht-Ośka, Leszek Starosta, Oskar Pawłowski, Michał Rumiński and Rafał Wardziński. The General Meeting appointed Mr Wiesław Skwarko as the Chairman of the Supervisory Board. In accordance with the Company's Articles of Association, Mr Wiesław Skwarko was appointed to the Supervisory Board by the State Treasury.

On November 8th 2011, Mrs Ewa Sibrecht-Ośka submitted her resignation as Member of the Supervisory Board of Grupa LOTOS S.A.

As at December 31st 2011, the composition of the Supervisory Board of Grupa LOTOS S.A. of the eighth term of office was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,
Rafał Wardziński – 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,
Leszek Starosta – Member of the Supervisory Board.

On January 27th 2012 Mr Rafał Wardziński, Deputy Chairman of the Supervisory Board of Grupa LOTOS S.A., submitted his resignation as member of the Supervisory Board of Grupa LOTOS S.A.

On February 29th 2012, the Extraordinary General Meeting of Grupa LOTOS S.A. resolved to change the composition of the Company's Supervisory Board and appointed Ms Agnieszka Trzaskalska and Mr Marcin Majeranowski as Members of the Supervisory Board, and removed from office Mr Leszek Starosta.

As at the date of approval of these financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A. of the eighth term of office was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,
Marcin Majeranowski – 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,
Agnieszka Trzaskalska – 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 17th 2012.

This is a translation of a document originally issued in Polish.

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.

6. Duration of the Group

The duration of the Parent and its subsidiaries is unlimited.

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 2011 and comparative data as at December 31st 2010. 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 2011 along with the comparative data for January 1st – December 31st 2010.

The financial information as at December 31st 2011 and December 31st 2010, and for the years then ended, contained in these consolidated financial statements, was audited. The financial information as at December 31st 2010 and for the year then ended was audited and an opinion on it was issued by the auditor on April 11th 2011 (this does not refer to selected restated financial information, as mentioned in Note 9.2 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/9.-basis-of-preparation-of-the-consolidated-financial-statements#9-2)).

8. Functional currency and reporting currency

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

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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 were in effect as at December 31st 2011.

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 Group, as far as the accounting policies applied by the Group are concerned, there is no difference between the IFRS that have become effective and the IFRS endorsed by the EU.

The Parent and LOTOS Petrobaltic S.A., LOTOS Exploration and Production Norge AS, LOTOS Asfalt 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., LOTOS Serwis Sp. z o.o., AB LOTOS Geonafta and UAB Minijos Nafta 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 entities applying standards other than IFRS, and which have been introduced to ensure consistency of the entities' financial information with the IFRS.

The following new standards, amendments to the existing standards and interpretations which have been adopted by the European Union are effective in periods beginning after January 1st 2011:

- 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),
- Amendments introduced as part of the improvements to IFRSs published in May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13) – some changes are effective for annual periods beginning on July 1st 2010, some for annual periods beginning on January 1st 2011,
- Amendments to IFRS 7 Financial Instruments: Disclosures: Transfers of Financial Assets (effective for annual periods beginning on or after July 1st 2011).

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: Classification and Measurement (effective for periods beginning on or after January 1st 2015),
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets (effective for annual 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).
- IFRS 10 Consolidated Financial Statements (effective for periods beginning on or after January 1st 2013),
- IFRS 11 Joint Arrangements (effective for periods beginning on or after January 1st 2013),
- IFRS 12 Disclosure of Interests in Other Entities (effective for periods beginning on or after January 1st 2013),
- IFRS 13 Fair Value Measurement (effective for periods beginning on or after January 1st 2013),
- Amendment to IAS 19 Employee Benefits (effective for periods beginning on or after January 1st 2013),
- Amendment to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (effective for periods beginning on or after July 1st 2012),

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for periods beginning on or after January 1st 2013).
- Amendments to IFRS 7 – Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2013),
- Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1st 2014),
- Amendments to IFRS 1 – First-Time Adoption of International Financial Reporting Standards: Government Loans (effective for annual periods beginning on or after January 1st 2013).

The Group has not decided to choose the option of early application of any of the above standards, interpretations, or amendments which have been published but have not yet become effective.

By the date of approval of these consolidated financial statements, the first phase of IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after January 1st 2015), had not been endorsed by the European Union. During the next phases, the International Accounting Standards Board will focus on hedge accounting and impairment. 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 is assessing whether the introduction of the new standards and interpretations specified above will have any material impact on the accounting policies applied by the Group.

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 2010, except to the extent that:

- As of 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 due to 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. Accordingly, in the statement of comprehensive income for the year ended December 31st 2010, cost of sales fell by PLN 298,039 thousand, finance income decreased by PLN 199,400 thousand, and finance expenses grew by 98,639 thousand.

Furthermore, starting as of January 1st 2011, the Company introduced cash flow hedge accounting with respect to foreign-currency denominated borrowings used to finance the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions, as described in more detail in Note 10.30 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/10.-accounting-policies#10-30) to these consolidated financial statements. In the period January 1st – December 31st 2011, foreign exchange loss recognised in the cash flow hedging reserve amounted to PLN 517,631 thousand, before the PLN 98,350 thousand adjustment for a tax effect.

As of January 1st 2011, the Group changed the rules for the presentation of measurement and settlement of financial instruments. The effect of measurement and settlement of financial instruments is presented on a net basis in finance income or expenses. As a result of this change, both finance income and finance expenses for the year ended December 31st 2010 declined by PLN 3,112 thousand.

As at December 31st 2010, in its statement of financial position the Group reclassified certain items which had earlier been presented as restricted cash and cash equivalents into interest-bearing current borrowings. These items included the PLN 8,665 thousand (January 1st 2010: PLN 9,928 thousand) deposits securing the repayment of interest and principal payments under the borrowings used to finance the 10+ Programme. Furthermore, in the cash flow statement, restricted cash as at December 31st 2010 and cash flows from operating activities for the year ended December 31st 2010, changed by PLN (8,665) thousand and PLN 1,263 thousand, respectively. For the current presentation policy, see Note 34 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/34.-interest-bearing-borrowings-and-other-debt-instruments/).

For the year ended December 31st 2010, the Group adjusted its revenue from sales of goods for resale and cost of goods for resale sold. For the year ended December 31st 2010, sales revenue and cost of sales in the statement of comprehensive income decreased by PLN 17,729 thousand.

The Group has analysed the expected time of realisation of interest rate risk hedges (IRS) and has classified them as current or non-current assets and liabilities, based on the related cash flows. Previously, the Group classified interest rate risk hedges according to their expiry dates. The Group has adjusted the comparative data. As at December 31st 2010, the value of current and non-current interest rate risk hedge (IRS) assets and liabilities amounted respectively to PLN 10,259 thousand, PLN 18,828 thousand, PLN 148,253 thousand and PLN 79,644 thousand.

As at January 1st 2011, the amount of cash and cash equivalents in the statement of cash flows changed by PLN 10,463 thousand in connection with an overdraft facility which is not classified as cash equivalents. In the statement of cash flows for the year ended December 31st 2010, cash flows from financing activities changed by PLN 10,982 thousand.

For the year ended December 31st 2010, the Group reclassified some of the general and administrative expenses (perpetual usufruct charges, property insurance, licence charges). As a result of the adjustment, general and administrative expenses fell by PLN 24,025 thousand, selling costs rose by PLN 1,092 thousand, and cost of sales increased by PLN 22,933 thousand.

As at December 31st 2011, the Group recognised the calculated contributions to the decommissioning fund under non-current liabilities (previously under current liabilities). As a result of this change, non-current liabilities as at December 31st 2010 increased by PLN 21,668 thousand. Furthermore, as of January 1st 2012, the Group recognises the relevant provision under long-term provisions. The decommissioning of gas and oil facilities is scheduled to start no sooner than in 2016. As a result of this change, long-term provisions as at December 31st 2010 increased by PLN 2,400 thousand.

In the statement of financial position as at December 31st 2010, under Assets held for sale, the Group recognised Assets held for sale of PLN 7,911 thousand, which were previously recognised under Non-current assets held for sale in the amount of PLN 6,018 thousand and Current assets held for sale in the amount of PLN 1,893 thousand.

The Group reclassified certain items previously recognised under investment commitments to other liabilities. As at December 31st 2010 and January 1st 2010, other liabilities increased by PLN 866 thousand and PLN 2,560 thousand respectively. Therefore, in the statement of cash flows for the year ended December 31st 2010, cash flows from operating and investing activities changed by PLN 1,694 thousand.

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 consolidated statement of cash flows is prepared using the indirect method.

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 and financial statements of the entities it controls, prepared as at December 31st 2011.

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, 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.

Unrealised losses are eliminated unless they are indicative of an impairment of value. All significant balances and transactions between the Group's entities, 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.

Subsidiaries 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 subsidiaries, more than 50% of votes in a given entity 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 entity's financial and operational policies is also deemed exerting control.

10.2. Investments in associates

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

Investments in associates are recognised in the statement of financial position at cost, adjusted for subsequent changes in the Parent's share in the net assets of the associates, and reduced by impairment losses, if any. The statement of financial position includes the Parent's share of the profits and losses of the associates. In the case of a change recognised directly in an associate's equity, the Parent 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. Intangible assets acquired as part of a business combination are capitalised at their fair value on acquisition date.

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.

Licences obtained during the step acquisition of AB LOTOS Geonafta are amortised using the unit-of-production method, i.e. amortisation per unit of produced crude oil is charged to expenses. The amortisation rate is estimated in reference to forecasts of crude oil production from a given field. If the estimated reserves change significantly as at the balance-sheet date, amortisation per unit of produced crude oil is remeasured. Then, starting from the new financial year, the remeasured amortisation rate is applied.

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 entities

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 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.

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 amount, 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 amount 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 measured at cost less accumulated depreciation and impairment losses.
Land is measured 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 remeasured. Then, starting from the new financial year, the remeasured 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 amount 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 amount 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 recognised 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 measured 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, in accordance with the policy described in Note 10.23 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/10.-accounting-policies#10-23).

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 appraisal 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 appraisal assets are no longer classified as such. The Group presents and discloses impairment losses on exploration and appraisal 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 appraisal 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. 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 amount 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 amount of the asset is increased up to its recoverable value. The increased value may not exceed the carrying amount 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 amount, less its residual value, can be regularly written off.

10.11. Investment property

Investment property is measured 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, calculated on weighted average basis.

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

Since January 1st 2011, transactions denominated in foreign currencies have been reported in the functional currency of the Group (Polish złoty) as at the transaction date, using the following exchange rates:

1. the exchange rate actually applied on that date due to the nature of the transaction – in the case of sale or purchase of foreign currencies;
2. the mid-exchange rate quoted for a given currency by the National Bank of Poland for the day immediately preceding the transaction date – in the case of payment of receivables or liabilities where there is no rationale for using the exchange rate referred to in item 1, and in the case of other transactions.

The exchange rate applicable to purchase invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the invoice date, and the exchange rate applicable to sales invoices is the mid-exchange rate quoted by the National Bank of Poland for the last business day immediately preceding the sales date.

Any foreign exchange gains or losses are posted to the statement of comprehensive income, except for foreign exchange gains and losses which are treated as a part of borrowing costs and are capitalised in property, plant and equipment (foreign exchange gains and losses on interest and fees and commissions). Non-monetary items measured at their historical cost in a foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of determining the fair value.

The Company calculates realised and unrealised foreign exchange gains and losses separately and recognises the resulting total balance in the statement of comprehensive income under:

- operating income or expenses: in the case of foreign exchange gains and losses related to settlement of trade receivables and liabilities,
- finance income or expenses: in the case of borrowings, other debt instruments, investment commitments, and cash.

Exchange differences arising on valuation, as at the balance-sheet date, of short-term investments (e.g. shares, other securities, loans advanced, cash and other monetary assets) and receivables and liabilities denominated in foreign currencies, are charged to finance income or expenses and operating income or expenses.

The financial statements of foreign entities 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.

The resulting exchange differences are recognised directly in equity and other comprehensive income as a separate component, taking into account the effect of deferred income tax.

Exchange differences arising on a monetary item that forms a part of a reporting entity's net investment in a foreign operation are recognised in equity and other comprehensive income, and on disposal of the net investment they are reclassified to consolidated profit or loss in the statement of comprehensive income.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets or liabilities of the foreign operation and are translated at the exchange rate effective as at the balance-sheet date.

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

Mid-exchange rate quoted by the NBP for:	Dec 31 2011 [1]	Dec 31 2010
USD	3.4174	2.9641
EUR	4.4168	3.9603
NOK	0.5676	0.5071
LTL	1.2792	1.1469

[1] Table of mid-exchange rates of December 31st 2011.

The financial statements of foreign entities 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 and the statement of cash flows – 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, as presented in the table below:

	Dec 31 2011	Dec 31 2010
USD	2.9679	3.0402
NOK	0.5315	0.5001
LTL	1.1991	1.1597

The resulting currency-translation differences are recognised directly in equity as a separate component.

At the time of disposal of a foreign entity, the accumulated deferred currency-translation differences recognised in equity and relating to this foreign entity 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 measured 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 companies 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 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 recognised 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. Provisions are charged against operating expenses, other operating expenses, or finance expenses, depending on what circumstances the future obligation relates to.

10.19. Retirement severance payments 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 payments 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 payments are one-off and paid upon retirement. Amounts of severance payments and length-of-service awards depend on the length of employment and the average remuneration. The Group recognises a provision for future liabilities under retirement severance payments 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 payments – 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 Group companies recognise provisions for the benefits to which employees and other eligible persons are entitled as part of the Company Social Benefits Fund.

10.20. Assets for social purposes and liabilities of the Company's Social Benefits Fund

The Act on Company's Social Benefits Fund of March 4th 1994 (as amended), stipulates that an employer should set up a Social Benefits Fund if it employs over 20 full-time staff. In accordance with the statute and internal rules of procedure, the Company and the Group companies create such fund and make regular contributions to the fund, which are charged to costs. The purpose of the Social Benefits Fund is to subsidise social activities of the Company and the Group companies, finance loans to employees and other corporate social spending. The Company offsets the Social Benefits Fund's assets against its liabilities towards the Fund, as the Fund's assets are not fully controlled by the Company. The excess of the Fund's liabilities over the Fund's assets is disclosed under other receivables. The excess of the Fund's assets over the Fund's liabilities is disclosed under other payables.

The Company and the Group companies recognise provisions for contributions to the Company's Social Benefits Fund made for the benefit of old-age and disability retirees covered by the Company's and the Group companies' social aid programmes (including current employees, who will become eligible for social aid in the future). The amount of the provision represents a sum of products of the expected undiscounted value of annual contribution in each successive year (taking into account the expected growth of average remuneration in the national economy), the discounting factor for a given year and the likelihood that a given employee will remain with the Company or the Group companies until a given year. The amount of the provision is amortised over time against the length of service of a given employee at the Company and the Group companies.

10.21. 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.

10.22. OInterest-bearing bank borrowings and other debt instruments

All bank borrowings and other debt instruments are initially recognised at cost, equal to the fair value, less cost of obtaining the borrowing.

Following initial recognition, interest-bearing borrowings and other debt instruments are measured at amortised cost, using the effective interest rate method. Amortised cost includes the cost of obtaining the borrowing 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.

10.23. 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 are described in Note 10.14 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/10.-accounting-policies#10-14) Foreign Currency Transactions.

10.24. Government grants

If there is reasonable certainty that the subsidy will be received and that all related conditions will be fulfilled, government grants 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.

10.25. Carbon dioxide (CO_2) 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.

10.26. Taxes

10.26.1 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 recognises 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 subsidiaries or associates, 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 subsidiaries or associates 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 amount 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. The effect of deferred tax on items posted directly to equity is recognised in equity through other 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 entities consolidated within the Group.

10.26.2 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.

10.27. 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 in 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.

10.28. 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 amount 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 amount 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 amount 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.

10.29. 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.

10.30. Hedge accounting

As of January 1st 2011, the Parent introduced cash flow hedge accounting with respect to a USD-denominated borrowing designated as a hedge of future USD-denominated sales transactions.

The objective of cash flow hedge accounting is to guarantee a specified Polish złoty value of its sales revenue generated in USD. The hedged items include a number of highly probable and planned USD-denominated refining product sales transactions, in particular the first portion of sales revenue (up to the amount of the designated instalment of the principal) in USD generated in a given calendar month, or if the amount of sales revenue in a given month is lower than the amount of the designated instalment of the principal – the first portion of sales revenue generated in three successive months. If a subsequent portion of sales revenue is designated in a given calendar month, the hedged item is the first portion of sales revenue generated after the previously designated portion of sales revenue in USD in a given calendar month, or if the amount of sales revenue in a given month is lower than the amount of the designated instalment of the principal – a subsequent portion of sales revenue generated in three successive months. A hedged item is linked to relevant hedging instruments based on an individual document designating the hedging relationship.

The selected hedging instruments cover an obligation to repay a USD-denominated borrowing, whose settlement dates fall on business days of specified calendar months, as provided in the principal repayment schedule.

Changes in the fair value of financial derivatives selected to hedge cash flows, to the extent representing an effective hedge, are posted directly to revaluation reserve. Changes in the fair value of financial derivatives selected to hedge cash flow, to the extent not representing an effective hedge, are charged to other finance income or expenses in the reporting period.

At the time when a hedge is undertaken, the Company formally designates and documents the hedging relationship, as well as its risk management objective and strategy for undertaking the hedge.

The relevant documentation specifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk, as well as how the Company will assess the hedging instrument's effectiveness in offsetting changes in the fair value of the hedged item or cash flows attributable to the hedged risk. The hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk. The hedge is assessed on an ongoing basis to determine whether it remains highly effective during all the reporting periods for which it was undertaken..

10.31. 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 amounts 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.

10.32. Recognition of revenue

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

10.33. 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.

10.34. Interest

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

10.35. Dividends

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.

10.36. Material values based on the Management Board's professional judgement and estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of assumptions, judgments and estimates which affect the value of items disclosed in the financial statements and in the notes thereto.

Although the assumptions and estimates are based on the management's best knowledge of the current and future events and developments, the actual results might differ from the estimates.

The estimates and underlying assumptions are reviewed on a continuous basis. Any change in an accounting estimate is recognised in the period in which it has been made if it refers exclusively to that period, or in the current period and future periods if it refers to both the current period and future periods. Material assumptions used by the Management Board in making the estimates are described in the relevant notes.

While making assumptions, estimates and judgments, the Management Board relies on its experience and knowledge and may take into consideration opinions, analyses and recommendations issued by independent experts.

Apart from the accounting estimates, the professional judgement of the management was of key importance in the application of the accounting policies in the cases described below.

Measurement of provisions

Provisions for employee benefits are estimated using actuarial methods. The assumptions adopted for the measurement of provisions are described in more detail in Note 29.1 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/29.-employee-benefits#29-1).

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 are described in Note 36 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/36.-provisions/).

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 Parent's Management Board reviews its estimates regarding the likelihood of recovering deferred tax assets taking into account the changes in the factors on which such estimates were based, new information and past experience.

The assumptions adopted for the measurement of deferred tax assets are described in Note 13.4. (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/13.-corporate-income-tax#13-4)

Impairment of cash-generating units, individual items of property, plant and equipment, intangible assets

As at each balance-sheet date, in accordance with IAS 36, cash-generating units and individual items of property, plant and equipment are tested for any indications of impairment. Indications of impairment may be based on external sources and relate to market variables (including fluctuations in prices, FX rates, stock prices, interest rates and other variables related to current economic trends), as well as plans, actions and developments at the Group, such as decisions concerning change, discontinuation, limitation or development of its business, technological changes, efficiency and investment initiatives.

If there is any indication of impairment, the Company is required to estimate the recoverable amounts of assets and cash-generating units. While determining the recoverable amount of the individual assets, the Company takes into account such key variables as discount rates, growth rates and price ratios.

For information on impairment of property, plant and equipment and intangible assets, see Notes 17 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/17.-property-plant-and-equipment-and-tangible-assets-under-construction/), 18 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/18.-intangible-assets/) and 20 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/20.-goodwill/).

Following the analysis of cash flows generated by individual cash-generating units and impairment tests of selected assets, which in the Management Board's opinion required such tests (including: refineries, CHP plant operated by Energobaltic Sp. z o.o., waterproofing materials production plant in Jasło, LOTOS Paliwa Sp. z o.o.'s goodwill, production assets at the YME field), the Company made necessary adjustments to the value of the assets for which there was material evidence of impairment.

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 forecast 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 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/17.-property-plant-and-equipment-and-tangible-assets-under-construction/).

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 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/36.-provisions/).

10.37. 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.

10.38. 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.

10.39. 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.

10.40. 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 operating segments are identified at the Group level. The Parent 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 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/11.-business-segments/).

11. Business segments

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidation adjustments	Consolidated
					Year ended Dec 31 2011
Sales revenue:	**582,259**	**29,062,269**	**23,350**	**(408,292)**	**29,259,586**
Intersegment sales	350,476	40,461	17,355	(408,292)	-
External sales	231,783	29,021,808	5,995	-	29,259,586
Operating profit/(loss) **(EBIT)**	**21,663**	**1,060,648**	**3,119**	**(636)**	**1,084,794**
Depreciation and amortisation	119,989	480,305	9,704	(1,390)	608,608
Operating profit/(loss) before amortisation and depreciation **(EBITDA)**	**141,652**	**1,540,953**	**12,823**	**(2,026)**	**1,693,402**

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidation adjustments	Consolidated
					Dec 31 2011
Total assets	**3,078,573**	**17,901,203**	**147,187**	**(703,743)**	**20,423,220**
- including net exploration and appraisal assets	89,581	-	-	-	89,581

External sales – geographical structure

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidated
				Year ended Dec 31 2011
Domestic sales:	**240**	**22,684,726**	**5,995**	**22,690,961**
- products	91	22,286,029	5,995	22,292,115
- goods for resale and materials	149	398,697	-	398,846
Export sales:	**231,543**	**6,337,082**	-	**6,568,625**
- products	193,334	5,772,411	-	5,965,745
- goods for resale and materials	38,209	564,671	-	602,880
Total	**231,783**	**29,021,808**	**5,995**	**29,259,586**

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

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidation adjustments	Consolidated
					Year ended Dec 31 2010 (restated)
Sales revenue:	**327,089**	**19,684,666**	**21,084**	**(370,035)**	**19,662,804**
Intersegment sales	326,766	33,265	10,004	(370,035)	-
External sales	323	19,651,401	11,080	-	19,662,804
Operating profit/(loss) **(EBIT)**	**24,672**	**1,003,293**	**(1,382)**	**34,771**	**1,061,354**

Depreciation and amortisation	60,065	321,184	10,009	(1,357)	389,901
Operating profit/(loss) before amortisation and depreciation **(EBITDA)**	**84,737**	**1,324,477**	**8,627**	**33,414**	**1,451,255**

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidation adjustments	Consolidated
					Dec 31 2010 (restated)
Total assets	**2,103,955**	**16,060,515**	**148,131**	**(585,237)**	**17,727,364**
- including net exploration and appraisal assets	73,193	-	-	-	73,193

External sales – geographical structure

PLN '000	Upstream segment	Downstream segment	Other (1)	Consolidated
				Year ended Dec 31 2010 (restated)
Domestic sales:	**323**	**15,975,559**	**11,080**	**15,986,962**
- products	154	15,704,962	11,066	15,716,182
- goods for resale and materials	169	270,597	14	270,780
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**	**19,651,401**	**11,080**	**19,662,804**

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

This is a translation of a document originally issued in Polish.

12. Income and expenses

12.1 Sales revenue

PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Sales of products		37,191,995	27,039,899
Sales of services		249,615	171,911
Total sales of products		**37,441,610**	**27,211,810**
Sales of goods for resale		983,062	686,115
Sales of materials (1)		203,468	25,361
Total sales of goods for resale and materials		**1,186,530**	**711,476**
Effect of accounting for cash flow hedge accounting		(90)	-
Total		**38,628,050**	**27,923,286**
- including to related entities	39.1	6,579	-
Elimination of excise duty and fuel charge		(9,368,464)	(8,260,482)
Total		**29,259,586**	**19,662,804**

PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Domestic sales of products		31,475,067	23,834,002
Export sales of products		5,966,543	3,377,808
Total sales of products		**37,441,610**	**27,211,810**
Domestic sales of goods for resale and materials		583,650	413,442
Export sales of goods for resale and materials (1)		602,880	298,034
Total sales of goods for resale and materials		**1,186,530**	**711,476**
Effect of accounting for cash flow hedge accounting		(90)	-
Total		**38,628,050**	**27,923,286**
- including to related entities	39.1	6,579	-
Elimination of excise duty and fuel charge		(9,368,464)	(8,260,482)
Total		**29,259,586**	**19,662,804**

(1) including sales of crude oil.

12.2 Other operating income

PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010

Gain on disposal of non-financial non-current assets		1,420	7,662
Gain on disposal of non-current assets held for sale	22	2,490	-
Subsidies		1,654	1,122
Provisions released		380	17,233
Reversal of impairment losses on non-financial assets:		4,832	9,761
- receivables		4,151	4,827
- property, plant and equipment and intangible assets		681	817
- assets held for sale		-	4,117
Compensations/damages received		10,558	8,581
Other		20,381 [1]	12,600 [2]
Total		**41,715**	**56,959**

[1] including PLN 14,391 thousand under statute of limitations for liabilities,

[2] including PLN 5,999 thousand under reimbursement of payments resulting from adjustments to excise duty tax return and fuel charges from previous years, related to the Parent.

12.3 Finance income

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Dividend received	514	715
Interest	20,717	19,428
Gain on disposal of investments	958	-
Other	83	3,285
Total	**22,272**	**23,428**

12.4 Costs by type

PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Depreciation and amortisation	12.7, 31	608,608	389,901
Raw materials and energy used		25,008,836	16,482,251
Contracted services		1,187,705	943,105
Taxes and charges		155,661	104,256
Salaries and w ages		504,553	452,110
Social security and other benefits		129,086	117,163
Other costs by type		193,982	169,608
Goods for resale and materials sold		888,812	497,421
Total		**28,677,243**	**19,155,815**
Change in products and adjustments to cost of sales		(672,227)	(637,102)
Total operating expenses:		**28,005,016**	**18,518,713**
Cost of sales		26,572,381	17,269,213
Selling costs		1,000,366	872,382
General and administrative expenses		432,269	377,118

12.5 Other operating expenses

PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010

Loss on disposal of non-financial non-current assets		2,500	4,115
Loss on disposal of non-current assets held for sale	22	-	224
Revaluation of non-financial assets:		316,824	102,674
- receivables		11,053	12,556
- property, plant and equipment and intangible assets, including:		305,507	87,318
- impairment loss on assets related to the YME field		239,775	-
- impairment loss on exploration and appraisal assets		33,451	69,642
- assets held for sale		-	2,800
- investment property		264	-
Provisions recognised, including:		3,710	14,391
- special account	16, 36.1	1,500	1,000
Fines and damages		587	3,054
Other		14,253	15,238
Total		**337,874**	**139,696**

12.6 Finance expenses

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Interest, including:	207,525	184,642
- discount on provision for Offshore Oil Rigs [1]	10,814	10,087
Bank fees	19,652	14,924
Amounts capitalised as part of the cost of qualifying assets	(36,191)	(111,842)
Foreign exchange losses	234,787	98,639
- on foreign-currency denominated credit facilities	390,914	182,668
- on foreign-currency denominated borrowings	(95,475)	(19,211)
- realised foreign exchange differences on foreign-currency transactions in bank accounts	(34,112)	(62,251)
- on debt securities	(15,539)	(2,279)
- other foreign exchange differences	(11,001)	(288)
Loss on disposal of investments	1	-
Revaluation of financial assets, including:	130,485	193,039
- valuation of derivative financial instruments	9,769	75,945
- settlement of derivative financial instruments	120,661	117,091
Other	3,003	2,090
Total	**559,262**	**381,492**

[1] Referred to in Note 36.1 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/36.-provisions#36-1).

12.7 Depreciation and amortisation costs, impairment losses, and foreign exchange gains/losses on operating activities

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Items recognised in cost of sales:		
Depreciation of tangible assets and amortisation of intangible assets	496,425	288,271
Effect of revaluation of inventories	4,809	(1,665)
Net foreign exchange losses (gains) on trade settlements	319,366	(35,554)
	820,600	**251,052**

Items recognised in selling costs:		
Depreciation of tangible assets and amortisation of intangible assets	52,638	53,203
	52,638	**53,203**
Items recognised in general and administrative expenses:		
Depreciation of tangible assets and amortisation of intangible assets	41,192	34,549
	41,492	**34,549**
Items recognised in change in products and adjustments in cost of sales:		
Depreciation of tangible assets and amortisation of intangible assets	18,353	13,878
	18,353	**13,878**

12.8 Costs of employee benefits

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Salaries and w ages	504,553	452,110
Social security and other benefits	129,086	117,163
Total, including:	**633,639**	**569,273**
Cost of current salaries and w ages	468,719	426,888
Cost of social security and other employee benefits	127,711	116,022
Cost of retirement and other post-employment benefits	37,209	26,363
Change in products and adjustments to cost of sales	**(15,310)**	**(15,281)**
Total cost of employee benefits, including:	**618,329**	**553,992**
Items recognised in cost of sales	358,773	331,298
Items recognised in selling costs	33,366	30,938
Items recognised in general and administrative expenses	226,190	191,756

13. Corporate income tax

13.1 Tax expense

The main components of the tax expense for the year ended December 31st 2011 and for the year ended December 31st 2010 are as follows:

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Corporate income tax	110,795	94,810
Deferred tax	(208,738)	(54,224)
Total tax charged to consolidated profit	**(97,943)**	**40,586**
Income tax expense recognised in other net comprehensive income	87,363	(2,877)

For entities operating in Poland, the current and deferred 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%). In the case of Lithuanian subsidiaries from the AB LOTOS Geonafta Group, the current and deferred portion of income tax was calculated at the rate of 15%.

The change in deferred tax assets and liabilities disclosed in the statement of comprehensive income for the year ended December 31st 2011 is primarily attributable to the fact that as of January 1st 2011 Grupa LOTOS S.A. has applied the accounting method to measure the foreign exchange differences for the purpose of corporate income tax settlements as well as settlements related to accelerated tax depreciation of new items of property, plant and equipment.

The change in deferred tax assets and liabilities recognised in the statement of comprehensive income in the year ended December 31st 2010 is primarily attributable to the fact that as of January 1st 2010 Grupa LOTOS S.A. has applied the tax method to measure the foreign exchange differences for the purpose of corporate income tax settlements. In 2007 - 2009, the Company used the accounting method to measure the foreign exchange differences for the purpose of corporate income tax settlements.

13.2 Corporate income tax calculated at effective tax rate and reconciliation of pre-tax profit to tax base

The change in deferred tax assets and liabilities disclosed in the statement of comprehensive income for the twelve months ended December 31st 2011 is primarily attributable to the fact that as of January 1st 2011 Grupa LOTOS S.A. applies the accounting method to measure the foreign exchange differences for the purpose of corporate income tax settlements as well as settlements related to accelerated tax depreciation of new items of property, plant and equipment.

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Pre-tax profit	551,379	721,939
Income tax at the rate of 19%	**104,762**	**137,168**
Permanent differences	18,528	4,665
Difference related to accounting for the step acquisition of AB LOTOS Geonafta	(24,013)	-
Tax effect of tax losses incurred in period	1,129	1,382
Tax effect of tax losses deducted in period	(1,755)	(689)
Tax effect of interest in investments in associates	(550)	(3,543)
Tax effect of the bio-component tax credit	(6,905)	(23,260)

Tax effect of the economic zone tax credit	4,755	(4,755)
Adjustments disclosed in current year related to tax for previous years	148	(3,334)
Difference resulting from the application of tax rates other than 19%	(193,990)	(61,973)
Other differences	(52)	(5,075)
Total	**(97,943)**	**40,586**
Corporate income tax calculated at effective tax rate	**-**	**5.6%**

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 2011	Year ended Dec 31 2010
Pre-tax profit/(loss) of companies subject to 19% tax rate	938,309	759,768
Income tax at the rate of 19%	**178,279**	**144,356**
Tax effect of revenue/income not classified as revenue/income under tax regulations	(171,945)	(145,063)
Tax effect of expenses which are non-deductible under tax regulations	161,901	210,752
Tax effect of tax losses deducted in period	(1,756)	(62,945)
Tax effect of tax losses incurred in period	154,744	693
Tax effect of interest in investments in associates	(550)	(3,543)
Other	(185,593)	(21,119)
Total	**135,080**	**123,131**
Adjustments under bio-component tax credit	(11,117)	(3,296)
Adjustments disclosed in current year related to tax for previous years	21	(3,334)
Income tax of companies subject to 19% tax rate	**123,984**	**116,501**
Tax effect of foreign operations [(a)]	(13,189)	(21,691)
Total income tax disclosed in the statement of comprehensive income	**110,795**	**94,810**
Pre-tax profit/(loss) of foreign operations (Norway)	(454,587)	(41,038)
Revenue/income not classified as revenue/income under tax regulations	21,574	2,156
Expenses which are non-deductible under tax regulations	147,182	(187,141)
Tax base – taxation at the tax rate of 28%	**(285,831)**	**(226,023)**
Tax credit in connection with higher depreciation of assets	(63,378)	(61,359)
Other	53,769	33,320
Tax base – taxation at the tax rate of 50%	**(295,440)**	**(254,062)**
Income tax at the rate of 28%	(80,033)	(63,286)
Income tax at the rate of 50%	(147,720)	(127,031)
Accrued tax loss carry-forward	201,175	165,404
Adjustments disclosed in current year related to tax for previous years	-	3,119
Other differences	14	-
Tax effect of foreign operations (Norway)	**(26,564)**	**(21,794)**
Pre-tax profit/(loss) of foreign operations (Lithuania)	55,009	(42)
Revenue/income not classified as revenue/income under tax regulations	(11,074)	-
Expenses which are non-deductible under tax regulations	45,310	-
Other	(138)	-
Tax base – taxation at the tax rate of 15%	**89,107**	**-**
Income tax at the rate of 15%	13,366	-
Tax effect of foreign operations (Lithuania)	**13,366**	**-**
Pre-tax profit/(loss) of other foreign operations	12,649	3,250
Tax effect of other foreign operations	**9**	**103**

Total pre-tax profit/(loss) of foreign operations	(386,929)	(37,830)
Total tax effect of foreign operations [a]	**(13,189)**	**(21,691)**

13.3 Corporate income tax receivable and payable

PLN '000	Dec 31 2011	Dec 31 2010
Corporate income tax receivable	**132,876**	**47,492 [1]**
Expected tax refund	132,876	47,492
Corporate income tax payable	**7,420**	**15,188**
Income tax expected to be paid	7,420	15,188

[1] The Parent offset corporate income tax receivable against VAT payable in 2010.

13.4 Deferred income tax

As at December 31st 2011, December 31st 2010 and January 1st 2010, the net deferred tax assets (liabilities) comprised the following items:

	Statement of financial position			Statement of comprehensive income Year ended	
	Dec 31 2011 (restated)	Dec 31 2010 (restated)	Jan 1 2010 (restated)	Dec 31 2011 (restated)	Dec 31 2010 (restated)
Deferred tax liabilities					
Difference between present tax and accounting value of property, plant and equipment and intangible assets	809,221	518,132	373,262	291,089	144,870
Positive valuation of derivatives	6,088	13,180	10,508	(7,092)	2,672
Finance lease	33,527	16,089	16,452	17,438	(363)
Exchange differences on translating foreign operations recognised in equity	13,864	2,877	-	10,987	2,877
Exchange differences on revaluation of foreign-currency denominated items	6,312	21,146	20,216	(14,834)	930
Provision for Lithuanian licences acquired	60,557	-	-	60,557	-
Other	40,127	21,475	12,558	18,652	8,917
Deferred tax liabilities	**969,696**	**592,899**	**432,996**	**376,797**	**159,903**
Deferred tax assets					
Provision for employee benefits	36,701	34,783	18,903	1,918	15,880
Impairment losses on inventories	1,877	1,473	1,531	404	(58)
Impairment losses on property, plant and equipment and intangible assets	206,736	23,264	11,036	183,472	12,228
Negative valuation of derivatives	35,671	52,036	41,875	(16,365)	10,161
Exchange differences on revaluation of foreign-currency denominated items	320	35,985	1	(35,665)	35,984
Impairment losses on receivables	17,767	18,011	20,772	(244)	(2,761)
Finance lease	33,765	14,415	15,729	19,350	(1,314)
Mining Facilities Decommissioning Fund and provision for reclamation	20,746	15,551	10,932	5,195	4,619
Unrealised margin assets	2,382	1,789	8,026	593	(6,237)
Accrued tax loss carry-forward	769,794	380,561	269,653	389,233	110,908
Other provisions	6,011	8,997	3,986	(2,986)	5,011
Tax relief on biocomponents	15,752	19,964	-	(4,212)	19,964

Special economic zone tax relief	-	4,755	-	(4,755)	4,755
Cash flow hedge accounting	98,350	-	-	98,350	-
Other	18,726	18,073	14,208	653	3,865
Deferred tax assets	**1,264,598**	**629,657**	**416,652**	**634,941**	**213,005**
Deferred tax expense				**(258,144)**	**(53,102)**
Exchange differences on translating foreign operations				20,407	1,768
Assets held for sale				(1,600)	(13)
Other differences				1	-
Deferred tax disclosed under effect of accounting for the step acquisition (AB LOTOS Geonafta)				(56,765)	-
Deferred tax disclosed under other comprehensive income				87,363	(2,877)
Deferred tax expense recognised in the consolidated statement of comprehensive income				**(208,738)**	**(54,224)**
Net deferred tax assets/(liabilities), including:	294,902	36,758	(16,344)		
Deferred tax assets – continuing operations	1,264,598	629,657	416,652		
Deferred tax liabilities – continuing operations	(969,696)	(592,899)	(432,996)		

As 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, deferred tax assets and liabilities in the consolidated statements of financial position are presented as follows:

PLN '000	Dec 31 2011	Dec 31 2010
Deferred tax assets	400,128	159,901
Deferred tax liabilities	(105,226)	(123,143)
Net deferred tax assets/(liabilities)	**294,902**	**36,758**

Taxable temporary differences are expected to expire in 2011–2085.
Based on the current performance forecast, the Company's Management Board is of the opinion that the disclosed deferred tax assets are fully recoverable.

As at December 31st 2011, the value of losses with respect to which no deferred tax assets were recognised in the statement of financial position was PLN 69,392 thousand (December 31st 2010: PLN 78,937 thousand).

14. Assets for social purposes and liabilities of the Company's Social Benefits Fund

The Act on Company Social Benefits Fund of March 4th 1994 (as amended), stipulates that an employer should set up a Social Benefits Fund if it employs over 20 full-time staff. 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 Social Benefits Fund's assets and liabilities.

PLN '000	Dec 31 2011	Dec 31 2010
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	2,788	2,483
Receivables from employees under the Company's Social Benefits Fund	3,888	3,810
Other	85	66
Total	**6,761**	**6,359**
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	6,429	6,348
Other	332	11
Total	**6,761**	**6,359**

This is a translation of a document originally issued in Polish.

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 2011	Year ended Dec 31 2010
Profit from continuing operations attributable to owners of the Parent (PLN '000) (A)	648,994	679,180
Weighted average number of shares (in thousands) (B)	129,873	129,873
Earnings per share (PLN) (A/B)	5.00	5.23

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

This is a translation of a document originally issued in Polish.

16. Dividends

On June 27th 2011, the General Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the Company's net profit for the year ended December 31st 2010. Pursuant to the resolution, the Company's net profit for the year ended December 31st 2010, totalling PLN 464,954 thousand, was excluded in whole from distribution to the Company Shareholders and allocated as follows:

- PLN 463,454 thousand was transferred to the Company's statutory reserve funds,
- PLN 1,500 thousand was transferred to the Special Account designated for financing 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 2011 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 2011.

This is a translation of a document originally issued in Polish.

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17. Property, plant and equipment and tangible assets under construction

PLN '000	Dec 31 2011	Dec 31 2010
Land	401,744	398,030
Buildings and structures	3,583,780	2,851,534
Plant and equipment	4,441,854	2,535,512
Vehicles and other	538,102	388,722
Total property, plant and equipment	**8,965,480**	**6,173,798**
Tangible assets under construction	1,513,492	4,197,422
Prepayments for tangible assets under construction	44,578	16,262
Total tangible assets under construction	**1,558,070**	**4,213,684**
Total	**10,523,550**	**10,387,482**

As at December 31st 2011, financing costs capitalised in tangible assets under construction and prepayments for tangible assets under construction amounted to PLN 35,078 thousand (December 31st 2010: PLN 155,474 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, including:		Prepayments for tangible assets under construction	Total
						- exploration and appraisal assets (1)		
Gross carrying amount as at Jan 1 2010 (restated)	**406,693**	**2,519,765**	**1,548,136**	**661,866**	**6,160,361**	**70,839**	**153,536**	**11,450,357**
Increase	4,271	1,070,713	1,908,398	146,625	(1,822,732)	31,860	(137,194)	1,170,081
- 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	-	-	(291)	239	-	-	-	(52)
- reclassification from investments - real property	25	88	-	-	-	-	-	113
- currency translation differences on 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 Facility	-	8,906	-	-	6,066	-	-	14,972
- other	-	9	1,003	619	2	-	-	1,633
Decrease	(1,144)	(16,292)	(28,573)	(14,769)	(3,592)	(188)	(80)	(64,450)
- sale	(628)	(2,814)	(6,006)	(10,078)	(708)	-	-	(20,234)

- liquidation	(28)	(2,875)	(10,882)	(4,162)	(614)	-	-	(18,561)
- reclassification into investments - real property	(41)	(1,578)	(515)	-	-	-	-	(2,134)
- reclassification into non-current assets held for sale	(443)	(8,987)	(11,164)	(529)	-	-	-	(21,123)
- other	(4)	(38)	(6)	-	(2,270)	(188)	(80)	(2,398)
Gross carrying amount 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**
Gross carrying amount as at Jan 1 2011	**409,820**	**3,574,186**	**3,427,961**	**793,722**	**4,334,037**	**102,511**	**16,262**	**12,555,988**
Increase	6,539	949,542	2,172,328	279,796	(2,392,946)	35,743	28,336	1,043,595
- purchase	-	-	11,817	52,829	642,707	33,085	48,583	755,936
- transfer from investments	6,134	941,408	2,065,393	210,385	(3,271,129)	-	-	(47,809)
- acquisition of control over the AB LOTOS Geonafta Group	2	1,818	84,858	591	10,607	2,492	-	97,876
- transfer	(14)	(213)	(249)	290	147	-	-	(39)
- reclassification from investments - real property	417	3,116	615	35	-	-	-	4,183
- reclassification from non-current assets held for sale	-	293	-	-	-	-	-	293
- currency translation differences on foreign operations	-	121	7,361	15,666	146,728	166	2,516	172,392
- settled prepayments	-	-	-	-	24,115	-	(24,115)	-
- borrowing costs	-	-	-	-	34,839	-	1,352	36,191
- assets related to decommissioning of the Offshore Oil and Gas Facility	-	2,967	2,500	-	19,040	-	-	24,507
- other	-	32	33	-	-	-	-	65
Decrease	(1,751)	(20,947)	(39,558)	(41,076)	(79,293)	-	(20)	(182,645)
- sale	(346)	(187)	(5,368)	(3,641)	(528)	-	-	(10,070)
- liquidation	(452)	(615)	(9,010)	(4,465)	(469)	-	-	(15,011)
- reclassification into non-current assets held for sale	(953)	(20,145)	(19,219)	(2,081)	(191)	-	-	(42,589)
- other	-	-	(5,961)	(30,889)	(78,105) [(2)]	-	(20)	(114,975)
Gross carrying amount as at Dec 31 2011	**414,608**	**4,502,781**	**5,560,731**	**1,032,442**	**1,861,798**	**138,254**	**44,578**	**13,416,938**
Accumulated depreciation as at Jan 1 2010 (restated)	**10,309**	**581,690**	**771,428**	**321,612**	**-**	**-**	**-**	**1,685,039**
Increase	1,339	144,351	141,111	94,701	-	-	-	381,502
- amortisation	1,339	144,286	140,409	91,934	-	-	-	377,968
- transfer	-	-	(259)	207	-	-	-	(52)
- reclassification from investments - real property	-	57	-	-	-	-	-	57
- currency translation differences on foreign operations	-	-	78	1,578	-	-	-	1,656
- other	-	8	883	982	-	-	-	1,873
Decrease	(266)	(7,406)	(20,453)	(11,335)	-	-	-	(39,460)

- sale	(6)	(327)	(3,212)	(8,237)	-	-	-	(11,782)
- liquidation	-	(908)	(10,349)	(2,572)	-	-	-	(13,829)
- reclassification into investments - real property	-	(894)	(505)	-	-	-	-	(1,399)
- reclassification into non-current assets held for sale	-	(5,266)	(6,385)	(526)	-	-	-	(12,177)
- other	(260)	(11)	(2)	-	-	-	-	(273)
Accumulated depreciation as at Dec 31 2010	**11,382**	**718,635**	**892,086**	**404,978**	**-**	**-**	**-**	**2,027,081**
Accumulated depreciation as at Jan 1 2011	**11,382**	**718,635**	**892,086**	**404,978**	**-**	**-**	**-**	**2,027,081**
Increase	1,398	189,213	252,023	128,041	-	-	-	570,675
- amortisation	1,398	187,300	250,040	117,003	-	-	-	555,741
- transfer	-	(53)	(192)	198	-	-	-	(47)
- reclassification from investments - real property	-	1,698	606	28	-	-	-	2,332
- reclassification from non-current assets held for sale	-	264	-	-	-	-	-	264
- currency translation differences on foreign operations	-	4	1,538	10,338	-	-	-	11,880
- other	-	-	31	474	-	-	-	505
Decrease	(324)	(5,232)	(31,586)	(39,716)	-	-	-	(76,858)
- sale	(22)	(49)	(5,034)	(3,264)	-	-	-	(8,369)
- liquidation	-	(204)	(7,972)	(4,485)	-	-	-	(12,661)
- reclassification into non-current assets held for sale	(302)	(4,979)	(12,619)	(1,592)	-	-	-	(19,492)
- other	-	-	(5,961)	(30,375)	-	-	-	(36,336)
Accumulated depreciation as at Dec 31 2011	**12,456**	**902,616**	**1,112,523**	**493,303**	**-**	**-**	**-**	**2,520,898**
Impairment losses as at Jan 1 2010 (restated)	**515**	**6,885**	**4,980**	**412**	**73,581**	**15,454**	**-**	**86,373**
Increase	-	3,254	299	142	63,047	47,692	-	66,742
Reclassification into non-current assets held for sale	-	(1,687)	(4,414)	(3)	-	-	-	(6,104)
Decrease	(107)	(4,435)	(502)	(529)	(13)	-	-	(5,586)
Impairment losses Dec 31 2010	**408**	**4,017**	**363**	**22**	**136,615**	**63,146**	**-**	**141,425**
Impairment losses as at Jan 1 2011	**408**	**4,017**	**363**	**22**	**136,615**	**63,146**	**-**	**141,425**
Increase	-	13,691	2,582	1,163	262,608	2,805	-	280,044
- acquisition of control over the AB LOTOS Geonafta Group	-	-	3,731	-	1,913	-	-	5,644
Exchange differences on translating foreign operations	-	-	249	-	16,619	135	-	16,868
Decrease	-	(1,323)	(571)	(148)	(69,449) [2]	-	-	(71,491)

Impairment losses Dec 31 2011	**408**	**16,385**	**6,354**	**1,037**	**348,306**	**66,086**	**-**	**372,490**
Net carrying amount Jan 1 2010 (restated)	**395,869**	**1,931,190**	**771,728**	**339,842**	**6,086,780**	**55,385**	**153,536**	**9,678,945**
Net carrying amount Dec 31 2010	**398,030**	**2,851,534**	**2,535,512**	**388,722**	**4,197,422**	**39,365**	**16,262**	**10,387,482**
Net carrying amount Dec 31 2011	**401,744**	**3,583,780**	**4,441,854**	**538,102**	**1,513,492**	**72,168**	**44,578**	**10,523,550**

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

(2) Including PLN 69,243 thousand relating to discontinued investments (design documentation) in the Company w ith the use of impairment loss of PLN 69,239 thousand.

As at December 31st 2011, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 7,860,999 thousand (December 31st 2010: PLN 5,970,414 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 2011 amounted to PLN 36,191 thousand (December 31st 2010: PLN 111,842 thousand).

As at December 31st 2011, the net value of the oil and gas facilities decommissioning asset referred to in Note 36.1 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/36.-provisions#36-1) amounted to PLN 133,094 thousand (December 31st 2010: PLN 112,929 thousand).

In the year ended December 31st 2011, 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 5,436 thousand (December 31st 2010: PLN 6,146 thousand).
Costs of direct purchases of materials and investment services related to exploration and appraisal assets for the year ended December 31st 2011 amounted to PLN 12,765 thousand (2010: PLN 15,098 thousand), including direct cash flows from investing activities related to exploration and appraisal assets of PLN 10,843 thousand (2010: PLN 14,965 thousand). As at December 31st 2011, investment liabilities amounted to PLN 1,922 thousand (December 31st 2010: PLN 133 thousand).

In the year ended December 31st 2011, impairment losses on exploration and appraisal assets amounted to PLN 2,805 thousand (December 31st 2010: PLN 47,692 thousand). Furthermore, in 2010 the Group charged depreciation on exploration and appraisal assets of PLN 36 thousand.

In the year ended December 31st 2011, the Group recognised an impairment loss related to the IGCC project of PLN 19,352 thousand (December 31st 2010: PLN 14,230 thousand), including licences with a value of PLN 6,468 thousand received free of charge.

Prospects for development of the B-4 and B-6 gas fields

The item "Tangible assets under construction" includes expenditure of PLN 48,901 thousand incurred by LOTOS Petrobaltic S.A. on gas exploration at the B-4 and B-6 fields (of which PLN 48,308 was attributable to exploration and evaluation). In 2010, an impairment loss on these assets was recognised and 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. In the short 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 a joint venture partner is found and the terms of cooperation are determined.

Information on interests in Norwegian production and exploration licences

The item "Tangible assets under construction" includes expenditure incurred by LOTOS Exploration and Production Norge AS on the purchase of interests in the Norwegian production licences (PL 316 and PL 316B) and on development of the YME field in the amount of NOK 2,596,958 (i.e. PLN 1,474,033 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011), additionally adjusted by the tax effect of the YME field purchase transaction, of NOK 75,966 thousand, (i.e. PLN 43,118 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011).

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 2011, the carrying value of these interests amounted to NOK 2,146 million (i.e. PLN 1,218 million, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011), taking into account the tax effect of the YME field purchase transaction.

The YME field impairment test as at December 31st 2011 was carried out assuming a change in crude oil prices by +/-15%/bbl relative to Brent crude spot and forward prices as at December 31st 2011, a +/-15% change on the USD/NOK forward rate as at December 31st 2011, and a +/-15% change in the YME field reserves, analysing a weighted average cost of capital of 9.7 subject to a 78% marginal tax rate (applicable in Norway).

For the purposes of the test it has been assumed that production from the field will start in January 2013.

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).

Based on such assumptions, it was found that as at December 31st 2011 the carrying amount of the assets related to the YME field exceeded the upper limit of the recoverable amount ranges determined, hence an impairment loss was recognised on the tested asset, of NOK 451m (i.e. PLN 256m, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011). The effect of the impairment loss recognised on the tested asset on the net profit from continuing operations, taking into account the deferred income tax, was NOK 159m (i.e. PLN 90m, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011).

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;
- Date of commencement of production from the YME field;
- NOK/USD exchange rate fluctuations;
- Discount rates.

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 it may be necessary to further reduce the carrying amount of the YME field due to the fact that it will 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 future developments, in particular regarding crude price fluctuations.

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 2011	Dec 31 2010
Crude oil (2P*)	6.9 million tonnes [1]	6.2 million tonnes
Crude oil (2C**)	1.4 million tonnes [1]	1.3 million tonnes
Natural gas (2P*)	0.5 billion cubic metres	0.5 billion cubic metres
Natural gas (2C**)	6.5 billion cubic metres	6.5 billion cubic metres

[1] reserves cover AB LOTOS Geonafta Group's area of operations in Lithuania. In 2011, LOTOS Petrobaltic S.A. executed a transaction to acquire control over Lithuanian assets. The interest of LOTOS Petrobaltic S.A. in AB LOTOS Geonafta increased from 40.59% to 100% (see Note 2 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/2.-composition-of-the-group/)).

*2P – proved and probable reserves
**2C – conditional reserves.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

Implementation of the 10+ Programme was an element of the LOTOS Group's development strategy for the period 2006–2011. The Programme was designed to increase the throughput capacity of the Gdańsk Refinery by approximately 75%, that is to 10.5m tonnes of crude oil per annum, with deeper conversion of hydrocarbon feedstock.

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

In June 2011, the Company carried out a week-long test to evaluate the +10 Programme in terms of achieving the Programme's objectives related to the refining productivity and the volume and range of products. The Company was required to run the test pursuant to the agreement with banks providing debt financing for the Programme. The aim of the test was to prove that the upgraded refinery meets the requirements specified in the credit facility agreement.

Bank Credit Agricole, acting as a representative of the bank syndicate, confirmed the positive outcome of the refinery's trial operation, and set July 25th 2011 as the date of successful completion of the +10 Programme. Following the completion of the 10+ Programme and fulfilment of the terms of the credit facility agreement, the bank margin on the facility was reduced pursuant to the provisions of the agreement.

18. Intangible assets

PLN '000	Dec 31 2011	Dec 31 2010
Development expense	184	184
Software	2,312	3,914
Patents, trademarks and licences, including	464,839	81,136
- licences of the AB LOTOS Geonafta Group[1]	361,975	-
Other	8,245	9,591
Total	**475,580**	**94,825**

[1] In 2011, LOTOS Petrobaltic S.A. executed a transaction to acquire control over Lithuanian assets. The interest of LOTOS Petrobaltic S.A. in AB LOTOS Geonafta increased from 40.59% to 100% (see Note 2 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/2.-composition-of-the-group/)).

Changes in intangible assets

PLN '000	Development expense	Software	Patents, trademarks and licences	Other	Prepayments for intangible assets	Total	- including: exploration and appraisal assets [1] (restated)
Gross carrying amount as at Jan 1 2010	**528**	**14,901**	**134,054**	**11,415**	**-**	**160,898**	**41,146**
Increase	-	1,589	33,090	5,544	-	40,223	26,160
- purchase	-	965	21,873	3,040	-	25,878	21,872
- transfer from investments	-	551	10,009	2,504	-	13,064	3,080
- exchange differences on translating foreign operations	-	40	1,208	-	-	1,248	1,208
- other	-	33	-	-	-	33	-
Decrease	-	(126)	(95)	(28)	-	(249)	-
- sale	-	(45)	-	-	-	(45)	-
- liquidation	-	(81)	(47)	(28)	-	(156)	-
- other	-	-	(48)	-	-	(48)	-
Gross carrying amount as at Dec 31 2010	**528**	**16,364**	**167,049**	**16,931**	**-**	**200,872**	**67,306**
Gross carrying amount as at Jan 1 2011	**528**	**16,364**	**167,049**	**16,931**	**-**	**200,872**	**67,306**
Increase	-	2,547	471,646	910	-	475,103	21,176
- purchase	-	131	12,836	92	79	13,138	12,836
- transfer from investments	-	247	47,210	352	-	47,809	456
- acquisition of control over the AB	-	1,669	378,436	438	47	380,590	-

LOTOS Geonafta Group							
- transfer	-	(32)	-	-	-	(32)	-
- exchange differences on translating foreign operations	-	378	33,164	28	-	33,570	7,884
- settled prepayments	-	126	-	-	(126)	-	-
- other	-	28	-	-	-	28	-
Decrease	-	(816)	(700)	(838)	-	(2,354)	(602)
- sale	-	(11)	-	(3)	-	(14)	-
- liquidation	-	(399)	(616)	(558)	-	(1,573)	(602)
- reclassification into non-current assets held for sale	-	(406)	(15)	(277)	-	(698)	-
- other	-	-	(69)	-	-	(69)	-
Gross carrying amount as at Dec 31 2011	**528**	**18,095**	**637,995**	**17,003**	**-**	**673,621**	**87,880**
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
- exchange differences on translating foreign operations	-	19	-	-	-	19	-
- other	-	-	16	-	-	16	-
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**
Accumulated amortisation as at Jan 1 2011	**371**	**12,320**	**57,693**	**7,340**	**-**	**77,724**	**5,261**
Increase	-	4,115	51,780	2,007	-	57,902	1,497
- amortisation	-	2,219	49,166	1,541	-	52,926	1,497
- acquisition of control over the AB LOTOS Geonafta Group	-	1,610	-	438	-	2,048	-
- transfer	-	(32)	-	-	-	(32)	-
- exchange differences on translating foreign operations	-	289	2,614	28	-	2,931	-
- other	-	29	-	-	-	29	-
Decrease	-	(705)	(631)	(589)	-	(1,925)	(602)
- sale	-	(12)	-	-	-	(12)	-
- liquidation	-	(324)	(616)	(558)	-	(1,498)	(602)
- reclassification into non-current assets held for sale	-	(369)	(15)	(31)	-	(415)	-
Accumulated amortisation	**371**	**15,730**	**108,842**	**8,758**	**-**	**133,701**	**6,156**

as at Dec 31 2011							
Impairment losses as at Jan 1 2010	**(27)**	**136**	**5,816**	**-**	**-**	**5,925**	**5,813**
Increase	-	-	21,950	-	-	21,950	21,950
Foreign exchange differences on translating foreign operations	-	-	454	-	-	454	454
Decrease	-	(6)	-	-	-	(6)	-
Impairment losses as at Dec 31 2010	**(27)**	**130**	**28,220**	**-**	**-**	**28,323**	**28,217**
Impairment losses as at Jan 1 2011	**(27)**	**130**	**28,220**	**-**	**-**	**28,323**	**28,217**
Increase	-	-	30,646	-	-	30,646	30,646
Foreign exchange differences on translating foreign operations	-	-	5,448	-	-	5,448	5,448
Decrease	-	(77)	-	-	-	(77)	-
Impairment losses as at Dec 31 2011	**(27)**	**53**	**64,314**	**-**	**-**	**64,340**	**64,311**
Net carrying amount Jan 1 2010	**184**	**4,686**	**79,031**	**5,339**	**-**	**89,240**	**31,053**
Net carrying amount Dec 31 2010	**184**	**3,914**	**81,136**	**9,591**	**-**	**94,825**	**33,828**
Net carrying amount Dec 31 2011	**184**	**2,312**	**464,839**	**8,245**	**-**	**475,580**	**17,413**

(1) The value of exploration and appraisal 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 2011, 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 39,981 thousand (December 31st 2010: PLN 804 thousand).

The cost of amortisation of exploration and appraisal assets recognised under intangible items amounted to PLN 1,497 thousand in the year ended December 31st 2011 (December 31st 2010: PLN 981 thousand).

In the year ended December 31st 2011, cash flows used in investing activities related to exploration and appraisal assets amounted to PLN 12,114 thousand (2010: PLN 26,581 thousand).

In the year ended December 31st 2011, impairment losses on exploration and appraisal assets recognised under intangible assets amounted to PLN 30,646 thousand and are related to the PL 455 licence described below (December 31st 2010: PLN 21,950 thousand).

As at December 31st 2011, LOTOS Exploration and Production Norge AS held the following exploration licence interests: 45% interest in licence PL 455, 10% interest in licence PL 497/497B, 25% interest in licence PL 498, 25% interest in licence PL 503/503B, and 20% interest in licence PL 515.
Under “Intangible assets” LOTOS Exploration and Production Norge AS recognised expenditure incurred on the exploration licences. As at December 31st 2011, the expenditure was NOK 140,042 thousand (PLN 79,488 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011) (2010: NOK 115,892 thousand as at December 31st 2010 (PLN 58,769 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010)), and was incurred primarily on the PL 455 licence. As drillings under the PL 455 licence produced no positive outcome, on December 31st 2011 (the balance-sheet date) the company recognised impairment losses on capitalised costs of exploration work related to this licence of NOK 57,660 thousand (PLN 32,728 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011) (2010: NOK 55,646 thousand as at December 31st 2010 (PLN 28,218 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010)). As at December 31st 2011, the net value of intangible assets related to exploration licences, net of impairment loss, amounted to NOK 26,737 thousand (the equivalent of PLN 15,176 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011), see Note 46 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/46.-

material-events-subsequent-to-the-balance-sheet-date/) (2010: NOK 60,246 thousand as at December 31st 2010 (PLN 30,551 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2010)).

19. Investment property

PLN '000	Dec 31 2011	Dec 31 2010
Gross value at beginning of the period	**7,789**	**5,768**
Increase:	-	2,134
- transfer from property, plant and equipment	-	2,134
Decrease:	(7,789)	(113)
- transfer to property, plant and equipment	(4,183)	(113)
- reclassification into non-current assets held for sale	(3,606)	-
Gross value at end of the period	**-**	**7,789**
Impairment losses at beginning of the period	**4,413**	**2,006**
Increase:	424	2,464
- transfer from property, plant and equipment	-	1,399
- revaluation	424	1,065
Decrease:	(4,837)	(57)
- transfer to property, plant and equipment	(2,332)	(57)
- reclassification into non-current assets held for sale	(2,505)	-
Impairment losses at end of the period	**-**	**4,413**
Net value at beginning of the period	**3,376**	**3,762**
Net value at end of the period	**-**	**3,376**

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

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20. Goodwill

PLN '000	Dec 31 2011	Dec 31 2010
Carrying amount 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.	1,126	1,126
Total	**12,997**	**12,997**
Carrying amount of acquisition goodwill: (from the acquisition of an organised part of business) [2]		
- 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] 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] The Group determines the recoverable amount of goodwill of service stations acquired from ExxonMobile Poland and Slovnaft Polska 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 1.84% (2010: 2.23%) 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 8.73% (2010: 8.61%). Discounted cash flows calculated separately for each cash-generating unit were grossed up.

As at December 31st 2011 and December 31st 2010, the Group tested its assets for impairment. As at December 31st 2011 and December 31st 2010, 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 recognise any impairment losses).

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21. Investments in associates

Investments in associates:

Company name	Registered office	Business profile	Dec 31 2011	Dec 31 2010
AB LOTOS Geonafta (prior to the merger - AB "Naftos Gavyba") (parent of another group) [1]	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	- [2]	40.31% [3]

[1] The AB LOTOS Geonafta Group comprises UAB Geňciu Nafta, a subsidiary, and two jointly-controlled entities: UAB Minijos Nafta and UAB Manifoldas.

[2] Following approvals by the General Meeting of LOTOS Petrobaltic S.A. and the Lithuanian anti-trust authority, on February 3rd 2011 AB 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.

[3] As at December 31st 2010, 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 held indirectly 40.31% of AB Geonafta's share capital.

Investments in associates are equity-accounted.

The table below presents a summary of investment projects at the AB Geonafta Group:

PLN '000	Dec 31 2011	Dec 31 2010
Total assets	-	267,219
Total liabilities and provisions	-	37,941
Net assets	-	229,278
Investments in associates	**-**	**93,064** [1]

[1] The value of investments in associates includes dividend of PLN 9,782 thousand, in line with the resolution adopted by the General Meeting of AB Geonafta of May 17th 2010.

PLN '000	Year ended Dec 31 2011 [1]	Year ended Dec 31 2010
Sales revenue	20,769	189,233
Net profit	7,135	45,944
Share in profit of associates	**2,896**	**18,649**
Share in comprehensive income of associates	**2,896**	**17,910**

[1] Data for the period ended at the above acquisition date.

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22. Assets held for sale

PLN '000	Dec 31 2011	Dec 31 2010
Non-current assets held for sale (1)		
Land	18	443
Buildings and structures	679	3,172
Plant and equipment	-	2,395
Vehicles and other	-	2
Real property	1,100	-
	1,797	**6,012**
Assets of related entities held for sale (2)		
Intangible assets	284	-
Land	631	-
Buildings and structures	14,377	-
Plant and equipment	6,600	6
Vehicles and other	481	-
Tangible assets under construction	191	-
Deferred tax assets	1,600	13
	24,164	**19**
Inventories	24,728	-
Trade and other receivables	58,130	818
Current income tax receivable	141	-
Cash and cash equivalents	87	77
Prepayments and accrued income	77	985
	83,163	**1,880**
Total assets held for sale	**109,124**	**7,911**
Liabilities directly associated with assets of related entities held for sale (2)		
Trade payables, accruals and deferred income, and other liabilities	15,783	173
Interest-bearing borrowings and other debt instruments	20,859	-
Provisions	3,756	-
Total liabilities directly associated with assets held for sale	**40,398**	**173**

(1) Non-current assets held for sale at the Group as at December 31st 2011 included a residential building and underlying land, as well as a bottling plant.

Non-current 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 of LOTOS Jasło S.A.

(2) As at December 31st 2011, assets of related entities held for sale included assets associated with LOTOS Parafiny Sp. z o.o. On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, namely to Krokus Chem Sp. z o.o. (see Note 46 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/46.-material-events-subsequent-to-the-balance-sheet-date/)).

As at December 31st 2010, assets of related entities held for sale included assets associated with PLASTEKOL Organizacja Odzysku S.A. (a subsidiary of LOTOS Jasło S.A.).

On February 11th 2011, LOTOS Jasło S.A. entered into an agreement with a third party, 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. The assets w ere sold at a profit of PLN 3,169 thousand, of w hich PLN 2,490 thousand w as recognised in other operating income (see Note 12.2 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-2)) and PLN 679 thousand - under Loss of control over subsidiary in the statement of comprehensive income.

During the year ended December 31st 2010, the Group sold non-current assets held for sale at a loss of PLN 224 The assets included ow ned land, perpetual usufruct rights to land, buildings, structures, plant and equipment related to service stations and the storage and reloading base (logistics assets), as w ell as vehicles (railw ay engines) (see Note 12.5 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-5)).

Assets held for sale represent items that the Group intends to sell w ithin tw elve months from the change of their classification.

Assets held for sale presented in the dow nstream segment as at December 31st 2011 amounted to 109,124 thousand (December 31st 2010: PLN 7,911 thousand).

During the year ended December 31st 2011, the Group did not recognise under other operating expenses any impairment loss on non-current assets held for sale (December 31st 2010: PLN 2,800 thousand) (see Note 12.5 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-5)).

During the year ended December 31st 2011, the Group did not reverse and carry as other operating income any impairment loss on non-current assets held for sale (December 31st 2010: PLN 4,117 thousand) (see Note 12.2 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-2)).

23. Non-current financial assets

PLN '000	Dec 31 2011	Dec 31 2010 (restated)
Shares in other entities	9,746	9,915
Positive valuation of derivative financial instruments:	12,098	19,408
- futures (CO_2 emissions)	-	580
- interest rate swap (IRS)	12,098	18,828
Other non-current financial assets	74,345	24,776
- decommissioning fund	24,491	21,668
- deposits [1]	38,106	-
- security deposits (margins) [2]	11,748	3,108
Total	**96,189**	**54,099**

[1] Deposits of PLN 38,106 thousand have been earmarked for financing of an overhaul shutdown planned at Grupa LOTOS S.A. in 2013, as provided for in the credit agreements executed to finance the 10+ Programme.

[2] Security deposits (margins) include PLN 9,637 thousand (December 31st 2010: PLN 998 thousand) which has been provided by Grupa LOTOS S.A. as margin to Marex Financial, a brokerage firm, to enable execution of transactions on the ICE Futures Internet platform.

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24. Inventories

PLN '000	Dec 31 2011	Dec 31 2010
Finished products	1,544,783	1,171,917
Semi-finished products and w ork in progress	623,582	449,497
Goods for resale	238,397	251,531
Materials	3,449,078	2,633,846
Net inventories	**5,855,840**	**4,506,791**

As at December 31st 2011, the carrying amount of inventories measured at cost was PLN 5,837,055 thousand. The value of inventories measured at net realisable value was PLN 18,785 thousand (December 31st 2010 respectively PLN 4,492,232 thousand and PLN 14,559 thousand).

As at December 31st 2011, the value of inventories serving as collateral for the Group’s liabilities amounted to PLN 5,048,329 thousand (December 31st 2010: PLN 3,896,635 thousand).

Impairment losses on inventories

PLN '000	Dec 31 2011	Dec 31 2010
Finished products	4,592	1,120
Semi-finished products and w ork in progress	58	19
Goods for resale	42	43
Materials	6,745	6,404
Total impairment losses on inventories	**11,437**	**7,586**

Change in impairment losses on inventories

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
At beginning of the period	**7,586**	**9,251**
Increase, including:	6,605	935
- acquisition of control over the AB LOTOS Geonafta Group	1,002	-
- currency translation differences on foreign operations	76	-
Release	(718)	(2,071)
Use	(769)	(529)
Reclassification into non-current assets held for sale	(1,267)	-
At end of the period	**11,437**	**7,586**

Mandatory reserves of liquid fuels

In 2010 – 2011, Grupa LOTOS S.A. complied with the mandatory reserves regulations effective as of April 7th 2007 and 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 threat to national fuel security or disruption on the petroleum market, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007), as amended.

The mandatory reserves 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 threat to national fuel security or 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 reserves as well as for identification of the entities subject to the requirement to increase mandatory reserves 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 covered by the system of 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 reserves 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 reserves of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 548), as amended,
- Regulation concerning the detailed procedure for reduction of the amount of mandatory reserves of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 549), as amended.

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

PLN '000	Dec 31 2011	Dec 31 2010
Mandatory reserves	4,427,752	2,980,241

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25. Non-current receivables

PLN '000	Dec 31 2011	Dec 31 2010
Receivables under franchise agreements [1], including:	7,659	11,198
- receivables under start-up packages	4,041	5,623
Investment receivables	630	1,044
Security deposits receivable	20,919	12,594
Other receivables	4,105	3,776
Net receivables	**33,313**	**28,612**
Impairment losses on receivables	17,236	141
Gross receivables	**50,549**	**28,753**

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

Impairment losses on receivables

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
At beginning of the period	**141**	**-**
Increase, including:	17,157	141
- acquisition of control over the AB LOTOS Geonafta Group	16,083	-
- exchange differences on translation of foreign operations	1,074	-
Release	(62)	-
At end of the period	**17,236**	**141**

The table below presents the age analysis of receivables under start-up packages as at December 31st 2011 and December 31st 2010:

PLN '000	Dec 31 2011	Dec 31 2011
Over 1 year to 2 years	1,920	1,871
Over 2 years to 5 years	2,121	3,752
Over 5 years to 10 years	-	-
Total	**4,041**	**5,623**

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26. Trade and other receivables

PLN '000	Dec 31 2011	Dec 31 2010
Trade receivables, including:	2,075,562	1,740,890
- from related entities	90	-
Receivables from the state budget other than corporate income tax	52,858	39,914
Receivables under franchise agreements, including:	1,947	1,919
- receivables under start-up packages	1,947	1,919
Security deposits receivable	7,998	4,896
Investment receivables	1,299	2,298
Other receivables (1)	50,365	32,022
Net receivables	**2,190,029**	**1,821,939**
Impairment losses on receivables	178,410	182,213
Gross receivables	**2,368,439**	**2,004,152**

(1) Including excise duty of PLN 33,620 thousand due to inter-warehouse transfers (December 31st 2010: PLN 20,911 thousand).

The payment term 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 2011, the Group's receivables were not subject to any assignment by way of security for liabilities under credit facilities (December 31st 2010: PLN 2,143 thousand).

Impairment losses on receivables

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
At beginning of the period	**182,213**	**180,497**
Increase (1), including:	15,104	13,340
- acquisition of control over the AB LOTOS Geonafta Group	624	-
- exchange differences on translation of foreign operations	42	-
Release (2)	(6,263)	(5,008)
Use	(12,063)	(6,616)
Reclassification into non-current assets held for sale	(581)	-
At end of the period	**178,410**	**182,213**

(1) Including PLN 11,053 thousand charged to other operating expenses (2010: PLN 12,556 thousand) and PLN 412 thousand (2010: PLN 784 thousand) reducing finance income under interest.

(2) Including PLN 4,151 thousand charged to other operating expenses (2010: PLN 4,827 thousand).

For sensitivity analysis of trade and other receivables with respect to market risk related to fluctuations in exchange rates as at December 31st 2011 and December 31st 2010, see Note 42.3.1 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/42.-financial-instruments#42-3-1).

The table below presents the age analysis of past due receivables not covered by recognised impairment losses, as at December 31st 2011 and December 31st 2010.

PLN '000	Dec 31 2011	Dec 31 2010
Up to 1 month	104,255	53,961

From 1 to 3 months	10,051	8,862
From 3 to 6 months	1,057	2,765
From 6 months to 1 year	4,106	261
Over 1 year	4,888	5,754
Total	**124,357**	**71,603**

In 2011, the LOTOS Group had one customer whose share in the Group’s total revenue exceeded 10%, namely Shell POLSKA Sp. z o.o. of Warsaw (the company's share in the Group's total revenue was 10.25%). In 2010, there were no customers whose share in the LOTOS Group’s total revenue would exceed 10%. The share of receivables from Shell POLSKA Sp. z o.o., or any other customer, in the LOTOS Group's total assets did not exceed 10%.

In the Company's opinion, with the exception of receivables from Shell POLSKA Sp. z o.o, there is no significant concentration of credit risk related to trade receivables. As at the balance-sheet date, the Company’s maximum exposure to credit risk is best represented by the carrying amounts of these instruments.

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27. Prepayments and accrued income

PLN '000	Dec 31 2011	Dec 31 2010
Property and other insurance	31,015	24,076
Overhauls	1,078	273
Rent and lease payments	2,549	1,566
Commission fees on credit facilities, amortised over time	3,311	5,066
Other	9,218	5,696
Total	**47,171**	**36,677**
Non-current portion	6,789	4,003
Current portion	40,382	32,674

28. Current financial assets

PLN '000	Dec 31 2011	Dec 31 2010 (restated)
Positive valuation of derivative financial instruments:	37,202	49,962
- commodity swaps (commodities and petroleum products)	-	1,472
- futures (CO_2 emissions)	8,304	35
- currency forward and spot contracts	17,258	37,541
- forward rate agreements (FRAs)	-	655
- interest rate swap (IRS)	11,640	10,259
Deposits (1)	40,565	5,932
Loans advanced	1,614	-
Shares in other entities	-	12
Cash blocked in bank accounts (2)	49,671	-
Total	**129,052**	**55,906**

(1) The item "Deposits" comprises primarily deposits of Grupa LOTOS S.A.:

- deposits in of PLN 7,874 thousand (December 31st 2010: PLN 5,932 thousand) constituting security for payment of interest on the inventory financing facility,
- deposits of PLN 32,623 thousand serving as security for the repayment of interest on the facility contracted to finance the 10+ Programme.

(2) The item "Cash blocked in bank accounts" comprises:

- cash of PLN 18,320 thousand in LOTOS Paliwa Sp. z o.o.'s 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).
- cash of PLN 26,169 thousand held by the LOTOS Petrobaltic Group, reserved for financing purchase of shares (see Note 2).
- cash of PLN 5,182 thousand held by the LOTOS Petrobaltic Group, serving as security for payment of interest.

As at December 31st 2011, the Group had no unsettled hedging contracts over which an assignment would be created as security for the credit facility referred to in Note 34 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/34.-interest-bearing-borrowings-and-other-debt-instruments/) (December 31st 2010: PLN 1,326 thousand).

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29. Employee benefits

29.1 Retirement benefits and other post-employment benefits

In accordance with the Group's remuneration systems, the Group's employees are entitled to severance payments upon old-age or disability retirement. Length-of-service awards are paid out after a specific period of employment. Therefore, based on a valuation prepared by professional actuary firms or based on own estimates, the Group recognises provisions for the present value of its obligation to provide old-age and disability retirement severance payments 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 2011	Year ended Dec 31 2010
At beginning of the period	**107,829**	**98,694**
Provision recognised, including:	42,013 [1]	32,695
- acquisition of control over the AB LOTOS Geonafta Group	555	-
- currency translation differences on foreign operations	70	-
Reclassification into assets held for sale	(3,476)	-
Benefits paid	(9,585)	(10,970)
Provision released	(4,179)	(6,332)
Provision used	(801)	(6,258)
At end of the period	**131,801**	**107,829**

[1] change in the method of determination of the basis for calculation of employee benefits (removal of base pay change factor).

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 2011	Dec 31 2010
Discount rate (%)	5.7%	5.8%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%)	1%-11.4%	1%-12.9%
Expected grow th rate of salaries and w ages (%)	0%-3.5%	0%-5%
Expected grow th rate of salaries and w ages (%) in the follow ing years	1.5%-6%	1.5%-7%

1. The discount rate for future payments of employee benefits is 5.7% (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 2010: 5.8%),
2. The long-term annual growth rate of average remuneration in the national economy: 5%, i.e. the total of the real annual growth rate of remuneration of 2.5% and the long-term annual inflation rate of 2.5% (the National Bank of Poland's inflation target).
3. The long-term annual growth rate of remuneration in the Group in 2012: within the range 0% – 3.5%; in subsequent years: 0% – 6% (December 31st 2010: the long-term annual growth rate of remuneration in 2011: within the range 0% – 5%). The presented ranges of the ratios are a synthetic representation of the relevant absolute values determined separately for each Group company.
4. The employee attrition probability is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry. The employee turnover ratios adopted by the actuary were determined separately for men and women and broken down into nine age categories in five-year intervals.
5. The mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2010, published by the Polish Central Statistics Office (GUS) and assume that the Company's employee population is representative of the average Polish population in terms of mortality (December 31st 2010: Life Expectancy Tables of Poland for 2009).
6. It is assumed that the Group 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.

7. The data used in the assumptions does not cover cases related to organisational changes.

29.2 Termination benefits

In 2011, termination benefits and compensation payable in respect of non-compete obligation totalled PLN 5,703 thousand (2010: PLN 2.236 thousand).

In 2011, provisions for termination benefits totalled PLN 18 thousand (2010: PLN 806 thousand).

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30. Cash and cash equivalents

PLN '000	Dec 31 2011	Dec 31 2010 (restated)
Cash at bank	380,668	381,995
Cash in hand	322	273
Other cash	2,690	333
Total	**383,680**	**382,601**

Cash at banks bears interest at variable rates set on the basis of short-term interest rates prevailing on the interbank market. Short-term deposits are placed for various maturities, 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 2011, the amount of undrawn funds available to the Group under working capital facilities in respect of which all conditions precedent had been fulfilled (including the working capital facility provided by the Bank Syndicate (4); (see Note 34 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/34.-interest-bearing-borrowings-and-other-debt-instruments/)) was PLN 1,621,940 thousand (PLN 781,210 thousand as at December 31st 2010).

As at December 31st 2011, restricted cash was PLN 4,384 thousand (PLN 33,654 thousand as at December 31st 2010), and included mainly:

- PLN 2,892 thousand (December 31st 2010: PLN 14,356 thousand), held in an account dedicated to servicing the payments related to the 10+ Programme projects,
- PLN 1,194 thousand (December 31st 2010: PLN 693 thousand), serving as a conditional bank deposit.

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 2011, cash in bank accounts serving as security for the LOTOS Group's liabilities amounted to PLN 773 thousand (December 31st 2010: PLN 446 thousand).

31. Cash structure in the statement of cash flows

PLN '000	Note	Dec 31 2011	Dec 31 2010 (restated)
Cash at bank	30	380,668	381,995
Cash in hand	30	322	273
Other cash	30	2,690	333
Overdraft facilities	34	(222,128)	(264,368)
Total cash and cash equivalents		**161,552**	**118,233**

Cash at banks bears interest at variable rates set on the basis of short-term interest rates prevailing on the interbank market. Short-term deposits are placed for various maturities, 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.

In the statement of financial position, restricted cash is disclosed under "Cash and cash equivalents".

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	Note	Year ended Dec 31 2011	Year ended Dec 31 2010
Balance-sheet change in net non-current and current receivables		(458,175)	(207,829)
Change in income tax receivables		92,946	(5,874)
Change in investment receivables		(1,531)	2,958
Change in receivables from sale of shares		400	(83)
Change in Group structure		21,282	-
Set-off of corporate income tax receivables against VAT liabilities		(7,562)	(77,933)
Set-off of corporate income tax payable against VAT receivables		(29,413)	-
Reclassification into non-current assets held for sale	22	(58,130)	(818)
Other		(1,195)	(9,130)
Change in receivables as disclosed in the statement of cash flow s		(441,378)	(298,709)

Inventories PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010
Change in inventories as show n by the balance sheet		(1,349,049)	(1,483,647)
Change in Group structure		16,590	-
Reclassification into non-current assets held for sale	22	(24,728)	-
Other		4,279	-
Change in inventories as show n by the statement of cash flow s		(1,352,908)	(1,483,647)

Liabilities, accruals and deferred income	Year ended	Year ended

PLN '000	Dec 31 2011	Dec 31 2010 (restated)
Balance-sheet change in non-current and current liabilities, and accruals and deferred income	2,325,120	1,784,317
Change in non-current and current borrow ings and other debt instruments	(1,064,835)	(635,651)
Adjustment for deposits earmarked for repayment of bank borrow ings	(168,346)	1,263
Change in investment commitments	16,955	24,052
Change in liabilities related to issue of notes	52,670	(52,670)
Change in liabilities related to acquisition of debt claims	38,793	-
Change in liabilities related to acquisition of shares	(15,363)	(1,926)
Change in Group structure	(71,632)	-
Change in finance lease liabilities	(120,746)	8,878
Change in income tax liabilities	7,768	(3,321)
Set-off of corporate income tax receivables against VAT liabilities	7,562	77,937
Change in liabilities related to negative valuation of derivative financial instruments	12,029	(43,436)
Grants received	(2,211)	-
Adjustment for cash earmarked for acquisition of shares	(26,169)	-
Reclassification into non-current assets held for sale	15,696	173
Other	(1,286)	(2)
Change in liabilities and accruals and deferred income as show n by the statement of cash flow s	1,006,005	1,159,614

Provisions PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010
Balance-sheet change in provisions		61,605	59,518
Change in Group structure		(15,704)	-
Change in deferred tax liabilities		17,917	(32,532)
Change in provision for Offshore Oil and Gas Facilities		(29,374)	(17,135)
Reclassification into non-current assets held for sale	22	3,756	-
Change in provisions as show n by the statement of cash flow s		38,200	9,851

Prepayments and accrued income PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010
Balance-sheet change in prepayments and accrued income		(250,721)	(91,242)
Change in Group structure		783	-
Change in deferred tax assets		240,227	85,634
Change in commission fees on revolving credit facilities, amortised over time		(1,754)	(365)
Reclassification into non-current assets held for sale	22	(77)	(985)
Other		(2,113)	(11)
Change in prepayments and accrued income as show n by the statement of cash flow s		(13,655)	(6,969)

Cash PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Balance-sheet change in cash	1,079	37,475
Change in interest-bearing overdraft facilities	42,240	246,346
Change in cash as show n by the statement of cash flow s	43,319	283,821

Causes of differences between the items disclosed in the notes to the financial statements and the items of the statement of cash flows

Depreciation and amortisation PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Depreciation/amortisation as disclosed in changes to property, plant and equipment and intangible assets	608,667	390,118
Depreciation directly related to expenditure on tangible assets under construction	(59)	(217)
Depreciation/amortisation as disclosed in the statement of cash flows	608,608	389,901

Purchase of property, plant and equipment and intangible assets PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Purchase of property, plant and equipment and intangible assets as disclosed in changes to property, plant and equipment and intangible assets	(720,412)	(992,410)
Change in investment commitments	(22,895)	(24,052)
Acquisition of tangible assets under a lease agreement	110,955	4,828
Other	3,019	(15,639)
Purchase of property, plant and equipment and intangible assets as disclosed in the statement of cash flows	(629,333)	(1,027,273)

Other items related to the statement of cash flows

Other adjustments PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010
Cash earmarked for repayment of interest		(37,479)	-
Reclassification to current financial assets	28	(18,320)	-
Reclassification into non-current assets held for sale		3,082	(77)
Other adjustments		(52,717)	(77)

Other cash outflows on financial assets PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Cash earmarked for financing of an overhaul shutdown planned at Grupa LOTOS S.A. in 2013, as provided for in the credit agreements executed to finance the 10+ Programme	(38,106)	-
Security deposit provided by Grupa LOTOS S.A. to Marex Financial, a brokerage firm, to enable execution of transactions on the ICE Futures Internet platform	(8,639)	-
Cash transfer to the bank account of the Mining Facilities Decommissioning Fund	(1,898)	
Other cash outflows on financial assets	(48,643)	-

32. Share capital

The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2011 was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	Ownership interest (%) (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 w ith the shareholder's representation delivered to Grupa LOTOS S.A. on January 29th 2010.

As at December 31st 2011, 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 Meeting and carries the right to dividend.

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

	Number of sharesji	Number of votes	Par value of shares (PLN)	Ownership interest (%) (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) Equals the percentage share in the total vote.

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

As at December 31st 2010, 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 Meeting and carries the right to dividend.

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 assigned 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 under code No. ISIN PLLOTOS00025. Following the registration, the total number of shares registered under code No. ISIN PLLOTOS00025 was 129,804,251.

Reduction of ING Otwarty Fundusz Emerytalny's share in total vote at the General 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 Otwarty Fundusz Emerytalny reduced its share in the total vote at the Company's General Meeting below 5%. Prior to the disposal, ING Otwarty 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 Meeting. As at February 7th 2011, 5,957,442 Grupa LOTOS S.A. shares were registered in the securities account of ING Otwarty 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 Meeting.

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

	Number of shares	Number of votes	Par value of shares (PLN)	Ownership interest (%) [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.

As at the date of release of these consolidated financial statements, 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 Meeting and carries the right to dividend.

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33. Non-controlling interests

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
At beginning of the period	**14,658**	**36,752**
Share in profit/(loss) of subsidiaries	328	2,173
Share in other comprehensive income	29	(14)
Changes in the structure of non-controlling interests at subsidiaries	(214)	-
Changes in ownership interest	(13,854) [1]	(24,253) [2]
At end of the period	**947**	**14,658**

[1] Acquisition of shares in LOTOS Jasło S.A., LOTOS Czechowice S.A. and LOTOS Petrobaltic from non-controlling interests, see Note 2 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/2.-composition-of-the-group/) to the consolidated financial statements.

[2] Acquisition of shares in LOTOS Jasło S.A. and LOTOS Czechowice S.A. from non-controlling interests, see Note 2 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/2.-composition-of-the-group/) to the consolidated financial statements.

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34. Interest-bearing borrowings and other debt instruments

PLN '000	Dec 31 2011	Dec 31 2010 (restated)
Bank borrow ings	7,368,073	6,293,802
Non-bank borrow ings	23,556	32,992
Total	**7,391,629**	**6,326,794**
including:		
non-current	4,983,889	4,403,453
current portion	2,407,740	1,923,341

Borrowings and other debt instruments by lender

PLN '000	Dec 31 2011	Dec 31 2010 (restated)
Non-current portion		
Kredyt Bank S.A.	14,988	20,987
Pekao S.A.	24,530	27,590
PKO BP S.A.	16,625	18,125
National Fund for Environmental Protection and Water Management	12,056	18,556
Provincial Fund for Environmental Protection and Water Management of Gdańsk	5,000	-
Raiffeisen Bank Polska S.A.	-	2,000
Bank Ochrony Środow iska S.A.	36,902	36,902
as at its acquisition-date	-	7,936
Bank syndicate (2)**	3,513,826	3,120,146
Bank syndicate (3)***	1,273,067	1,020,870
Bank syndicate (5)*****	86,895	130,341
Total non-current portion	**4,983,889**	**4,403,453**
Current portion		
Kredyt Bank S.A.	7,607	6,000
Pekao S.A.	179,178	186,263
ING Bank Śląski S.A.	5	32,036
PKO BP S.A.	246,656	110,872
National Fund for Environmental Protection and Water Management	6,500	6,500
Raiffeisen Bank Polska S.A.	-	1,985
DnB NOR Bank ASA	-	23,624
BRE Bank S.A.	33,251	3,207
Nordea Bank Polska S.A.	18,564	-
Bank syndicate (1)*	1,369,959	1,187,413
Bank syndicate (2)**	225,715	91,439
Bank syndicate (3)***	91,054	37,214

Bank syndicate (4)****	169,585	201,979
Bank syndicate (5)*****	43,573	43,474
Bank syndicate (6)******	193,104	-
Funds in bank deposits securing payment of interest and principal instalments*******	(177,011)	(8,665)
Total current portion	**2,407,740**	**1,923,341**
Total	**7,391,629**	**6,326,794**

*Bank syndicate (1): Pekao S.A., PKO BP S.A., BRE Bank S.A., Nordea Bank Polska S.A.; on December 20th 2011, there w as a change in the composition of the syndicate, w hich is further discussed below .
**Bank syndicate (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 Żyw nościow ej S.A. and Sumitomo Mitsui Banking Corporation Europe Ltd.
***Bank syndicate (3): Banco Bilbao Vizcaya Argentaria S.A. and BNP Paribas S.A.
****Bank syndicate (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 Żyw nościow ej S.A.
*****Bank syndicate (5): Pekao S.A. and PKO BP S.A.
******Bank syndicate (6): Nordea Bank Finland Plc. Lithuania Branch and Nordea Bank Polska S.A.
*******As at December 31st 2011 and December 31st 2010, the Company offset a financial asset (cash reserved for repayment of borrow ings) against a financial liability under borrow ings and in accordance w ith IAS 32 it disclosed the relevant net amount in the statement of financial position (the Company holds a valid legal title to set off the recognised amounts and intends to realise the asset and settle the liability simultaneously). The objective of this procedure is to reflect the expected future cash flow s from settlement of tw o or more financial instruments.

Bank borrowings contracted by the Parent

As at December 31st 2011, the Company had drawn under the term facility USD 1,510,630 thousand (in nominal terms) (the equivalent of PLN 5,162,427 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2011). As at December 31st 2010, the Company had drawn under the term 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). The working capital facility 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.

Credit facility agreement for the refinancing and financing of inventories of Grupa LOTOS S.A.

On August 23rd 2011, Grupa LOTOS S.A. and a syndicate of four banks, comprising:

- Pekao S.A. of Warsaw,
- PKO BP S.A. of Warsaw,
- BRE Bank S.A. of Warsaw,
- Rabobank Polska S.A. of Warsaw,

executed an amending agreement to extend by 12 months, i.e. until December 20th 2012, the facility agreement for the refinancing and financing of inventories of Grupa LOTOS S.A. of December 20th 2007, providing for a revolving credit facility of USD 400m (PLN 1,148,520 thousand, translated at the mid-exchange rates quoted by the National Bank of Poland for August 23rd 2011).

The amending agreement executed pursuant to the credit facility agreement of December 20th 2007, which permitted extension of the credit facility term by an additional calendar year. Concurrently, as of December 20th 2011, Rabobank Polska S.A. ceased to be a party to the credit facility agreement. Pursuant to documents signed along with the amending agreement, as of that date its entire credit commitment was taken over by BRE Bank S.A. and Nordea Bank Polska S.A. of Gdynia. The other terms and conditions of the credit facility agreement of December 20th 2007 as well as its provisions concerning penalties do not differ from those commonly used in agreements of such type.

In connection with the borrowings referred to under Bank Syndicate (1), Bank Syndicate (2), Bank Syndicate (3) and Bank Syndicate (4), as further described above, Grupa LOTOS S.A. is required to meet a covenant of maintaining the Tangible Consolidated Net Worth at least at the level specified in both facility agreements.

In addition, in connection with the facility referred to under Bank Syndicate (1), the Company is also required to meet a financial covenant of maintaining the Loan to Pledged Inventory Value Ratio at a level not higher than specified in the facility agreement.

As at December 31st 2011, and December 31st 2010, the covenants were complied with.

Bank borrowings and other debt instruments as at December 31st 2011, by currency and by maturity

PLN '000	EUR facilities	USD facilities	NOK facilities	PLN facilities	Total

2012	219,540	1,976,983	-	211,217	2,407,740
2013	2,603	297,063	-	59,229	358,895
2014	2,603	405,466	-	74,553	482,622
2015	2,603	421,101	-	20,381	444,085
2016	-	459,145	-	17,606	476,751
after 2016	-	3,204,118	-	17,418	3,221,536
Total	**227,349**	**6,763,876**	**-**	**400,404**	**7,391,629**

The above table presents facilities by maturity.

Bank borrowings and other debt instruments as at December 31st 2010, by currency and by maturity

(restated) PLN '000	EUR facilities	USD facilities	NOK facilities	PLN facilities	Total
2011	19,656	1,648,044	23,624	232,017	1,923,341
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**	**5,789,060**	**23,624**	**477,182**	**6,326,794**

The above table presents facilities by maturity.

As at December 31st 2011, the average effective interest rate for the facilities (including USD- and EUR-denominated facilities) was approx. 2.44% (2.44% as at December 31st 2010). The average effective interest rate for PLN-denominated facilities (excluding the syndicated facilities of the Parent) was approx. 5.81% (4.81% as at December 31st 2010).

Borrowings and other debt instruments as at December 31st 2011:

Bank name; form of incorporation	Registered office	Facility amount as per agreement		Outstanding amount (current portion) (1)		Outstanding amount (non-current portion) (1)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule, etc.)	Type of security
		PLN ('000)	Currency ('000)	PLN ('000)	Currency ('000)	PLN ('000)	Currency ('000)	Current portion	Non-current portion		
Bank Syndicate (1)	-	-	USD 400,000	1,369,959	USD 400,878	-	-	Dec 20 2012	-	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, voluntary submission to enforcement
Bank Syndicate (2)	-	-	USD 1,125,000	225,715	USD 65,853	3,513,826	USD 1,025,007	Oct 15 2012	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 and sale agreements with a value of over PLN 10,000 thousand per year, submission to enforcement
Bank Syndicate (3)	-	-	USD 425,000	91,054	USD 26,468	1,273,067	USD 369,638	Oct 15 2012	Jan 15 2021	fixed interest rate	
Bank Syndicate (4)	-		USD 200,000 or equivalent	94,740	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				74,565	USD 21,819	-	-			3M EURIBOR + bank's margin	
				280	EUR 64	-	-			3M LIBOR USD + bank's margin	

Pekao S.A.	Warsaw	300,000	-	2,842	-	-	-	Overdraft facility [2]	-	1M WIBOR + bank's margin	power of attorney over bank account, voluntary submission to enforcement
ING Bank Śląski S.A.	Warsaw	100,000	-	5	-	-	-	Overdraft facility [2]	-	1M WIBOR + bank's margin	voluntary submission to enforcement
Bank Syndicate (5)	Warsaw	340,000	-	43,573	-	86,895	-	Dec 31 2012	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Kredyt Bank S.A.	Warsaw	60,000	-	7,607	-	14,988	-	Dec 31 2012	Jun 30 2015	1M WIBOR + bank's margin	mortgage
PKO BP S.A.	Warsaw	20,000	-	1,875	-	16,625	-	Dec 31 2012	Dec 31 2019	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Warsaw	20,000	-	1,500	-	16,625	-	Dec 31 2012	Dec 31 2019	1M WIBOR + bank's margin	mortgage
Nordea Bank Polska S.A.	Gdynia	50,000	-	18,564	-	-	-	Overdraft facility		1M WIBOR + bank's margin	blank promissory note
Pekao S.A.	Kraków	26,837	EUR 7,060	2,604	EUR 589	7,809	EUR 1,767	Oct 31 2012	Oct 31 2015	1M EURIBOR + bank's margin	mortgage
Pekao S.A.	Kraków	44,754	-	32	-	96	-	Oct 31 2012	Oct 31 2015	1M WIBOR + bank's margin	mortgage
National Fund for Environmental Protection and Water Management	Warsaw	35,000	-	6,500	-	12,056	-	Dec 20 2012	Dec 20 2014	0.8 of the promissory note rediscount rate	bank guarantee, blank promissory note
BRE Bank S.A.	Warsaw	35,000	-	14,174	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	blank promissory note
Provincial Fund for Environmental Protection and Water Management	Gdańsk	5,000	-	-	-	5,000	-	-	Nov 30 2017	0.8 of the promissory note rediscount rate	blank promissory note, assignment of claims
BRE Bank S.A.	Warsaw	50,000	-	19,077	-	-	-	Overdraft facility	-	ON WIBOR + bank's margin	blank promissory note
Pekao S.A.	Warsaw	100,000	-	728	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account, voluntary submission to enforcement
Bank Ochrony Środowiska S.A.	Warsaw	68,000	-	-	-	22,312	-	-	Jun 30 2016	1M WIBOR + bank's margin	mortgage, assignment of tangible assets, assignment of rights under insurance policy, blank promissory note, assignment of rights under sale agreements
Bank Ochrony Środowiska S.A.	Warsaw	14,688	-	-	-	9,490	-	-	Jun 30 2016		
Bank Ochrony Środowiska S.A.	Warszawa	5,100	-	-	-	5,100	-	-	Dec 20 2016		
PKO BP S.A.	Warsaw	-	USD 32,500	83,212	USD 24,463	-	-	Overdraft facility [2]	-	1M LIBOR USD + bank's margin	pledge, guarantee
PKO BP S.A.	Warsaw	-	USD 47,500	161,569	USD 47,500	-	-	Dec 31 2012	-	1M LIBOR USD + bank's margin	pledge, guarantee, blank promissory note
Pekao S.A.	Warsaw	160.000 or USD or EUR equivalent		147,920	USD 43,284	-	-	Dec 31 2012	-	3M LIBOR USD + bank's margin	blank promissory note
				23,552	EUR 5,332	-	-	Dec 31 2012	-	3M EURIBOR + bank's margin	
Bank syndicate (6)	-	-	EUR 43,000	193,104	EUR 43,720	-	-	Apr 14 2012 [3]	-	6M EURIBOR + bank's margin	mortgage, registered pledge, voluntary submission to enforcement, surety
Funds in bank deposits securing payment of interest and principal instalments				(177,011)	USD (51,797)	-	-	-	-	-	-
			TOTAL	**211,217**	**-**	**189,187**	**-**				
				1,976,983	**USD 578,468**	**4,786,893**	**USD 1,394,645**				
				219,540	**EUR 49,705**	**7,809**	**EUR 1,767**				
				2,407,740	**-**	**4,983,889**	**-**				

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

(2) Not treated as cash equivalents.

(3) The loan was repaid in full on April 16th 2012.

The bank margins on the contracted borrowings and other debt instruments are within the range of 0.26pp. – 4.00pp.

Bank borrowings as at December 31st 2010:
(restated)

Bank name; form of incorporation	Registered office	Facility amount as per agreement		Outstanding amount (current portion)(1)		Outstanding amount (non-current portion)(1)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule, etc.)	Type of security
		PLN ('000)	Currency ('000)	PLN ('000)	Currency ('000)	PLN ('000)	Currency ('000)	Current portion	Non-current portion		
Bank Syndicate (1)	-	-	USD 400,000	1,187,413	USD 400,553	-	-	Dec 20 2011	-	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, voluntary submission to enforcement
Bank syndicate (2)	-	-	USD 1,125,000	91,439	USD 30,775	3,120,146	USD 1,049,856	Oct 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 syndicate (3)	-	-	USD 425,000	37,214	USD 12,550	1,020,870	USD 344,228	Oct 15 2011	Jan 15 2021	fixed interest rate	
Bank syndicate (4)	-	USD 200,000 or equivalent		76.328	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				17.322	EUR 4,374	-	-			3M EURIBOR + bank's margin	
				108.329	USD 36,547	-	-			3M LIBOR USD + bank's margin	
Pekao S.A.	Warsaw	150.000	-	30,165	-	-	-	Overdraft facility (2)	-	1M WIBOR + bank's margin	power of attorney over bank account, voluntary submission to enforcement
Bank Syndicate (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 voluntary 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, voluntary 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
National Fund for Environmental Protection and Water Management	Warsaw	35,000	-	6,500	-	18,556	-	Dec 20 2011	Dec 20 2014	0.8 of the promissory note rediscount rate	bank guarantee, blank promissory note
BRE Bank S.A.	Warsaw	30,000	-	3,207	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	blank promissory note
ING Bank Śląski S.A.	Warsaw	35,000	-	32,036	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	representation on voluntary 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 Środowiska S.A.	Warsaw	68,000	-	-	-	22,312	-	-	Jun 30 2016	1M WIBOR + bank's margin	mortgage, assignment of tangible assets, assignment of rights under insurance policy, blank promissory note, assignment of rights under sale agreements
Bank Ochrony Środowiska S.A.	Warsaw	14,688	-	-	-	9,490	-	-	Jun 30 2016		
Bank Ochrony Środowiska 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 [2]	-	1M LIBOR USD + bank's margin	pledge, guarantee
Pekao S.A.	Warsaw	160,000 or USD or EUR equivalent		125.085	USD 42,200	-	-	Nov 15 2011	-	3M LIBOR USD + bank's margin	blank promissory note
AB Geonafta	Gargždai,Lithuania	-	EUR 2,000	-	-	7,936	EUR 2,004	-	Dec 31 2015	fixed interest rate	none
Funds in bank deposits securing payment of interest and principal instalments				(8.665)	USD (2.923)	-	-		-	-	-
			TOTAL	**232,017**	**-**	**245,165**	**-**				
				1,648,044	**USD 555,725**	**4,141,016**	**USD 1,394,084**				
				19,656	**EUR 4,963**	**17,272**	**EUR 4,361**				
				23,624	**NOK 46,586**	**-**	**-**				
				1,923,341	**-**	**4,403,453**	**-**				

(1) Measured at amortised cost, including arrangement fees.
(2) Not treated as cash equivalents.

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

35. Notes

In the year ended December 31st 2011, LOTOS Asfalt Sp. z o.o. issued short-term bearer notes under the Note Issue Programme Agreement of July 27th 2010.

As part of the Note Issue Programme, LOTOS Asfalt Sp. z o.o. may carry out numerous notes issues. The company's total liabilities under notes outstanding at any given time may not exceed PLN 300,000 thousand (based on the nominal value of the notes). The term of the programme is five years. The notes are denominated in the Polish złoty and are offered in private placements. The notes are issued as unsecured zero-coupon bearer notes in book-entry form and are redeemed at nominal value.

The issued notes were acquired by third-party investors as well as by the Group members. The nominal value of notes issued to investors outside the Group in the years ended December 31st 2011 and December 31st 2010 is presented below:

PLN '000	Nominal value of notes issued	Discount	Liabilities under notes issued
As at Jan 1 2010	**-**	**-**	**-**
Increase (issue)	103,000	(330)	
Decrease (redemption)	(50,000)	-	
As at Dec 31 2010	**53,000**	**(330)**	**52,670**
As at Jan 1 2011	**53,000**	**(330)**	**52,670**
Increase (issue)	575,000	(2,248)	
Decrease (redemption)	(628,000)	2,578	
As at Dec 31 2011	**-**	**-**	**-**

In the year ended December 31st 2011, the proceeds from the notes issued by the Group to investors outside the group were PLN 572,752 thousand, net of the issue expenses (December 31st 2010: PLN 102,670 thousand). In the year ended December 31st 2011, the Group's expenditure on redemption of the notes amounted PLN 628,000 thousand. (December 31st 2010: PLN 50,000 thousand).

Moreover, in the year ended December 31st 2011, LOTOS Asfalt Sp. z o.o. issued notes with a nominal value of PLN 242,400 thousand, which were acquired by Group entities. In the year ended December 31st 2011, LOTOS Asfalt Sp. z o.o. redeemed all issued notes held by Group entities. In 2010, LOTOS Asfalt Sp. z o.o. did not issue notes to Group members.

36. Provisions

PLN '000	Dec 31 2011	Dec 31 2010
Long-term provisions		
Provision for land reclamation [1]	60,324	40,986
Length-of-service awards and retirement severance payments	115,914	95,370
Provision for Offshore Oil and Gas Facilities	222,586	186,350
Other provisions	280	416
Total long-term provisions	**399,104**	**323,122**
Short-term provisions		
Provision for land reclamation	233	130
Length-of-service awards and retirement severance payments	15,887	12,459
Other provisions	5,238	5,229
Total short-term provisions	**21,358**	**17,818**
Total	**420,462**	**340,940**

[1] including PLN 34,792 thousand (December 31st 2010: 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. As at December 31st 2011, the value of the provision did not change. At LOTOS Czechowice S.A. the cost of dismantlement and decommissioning of retired installations was also estimated by a qualified property appraiser. As at December 31st 2011, the remeasured provision for the costs of dismantlement and decommissioning of permanently retired installations amounted to PLN 15,699 thousand. In 2011, the value of provision increased by PLN 193 thousand. As at December 31st 2011, the value of provision was PLN 15,892 thousand.

For actuarial assumptions, see Note 29.1 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/29.-employee-benefits#29-1).

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 payments	Provision for Offshore Oil Facilities [1]	Other provisions [2]	Total
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**
Jan 1 2011	**41,116**	**107,829**	**186,350**	**5,645**	**340,940**
Increase, including:	19,668	42,013	38,148	4,001	103,830
- acquisition of control over the AB LOTOS Geonafta Group	14,703	555	-	66	15,324
- currency translation differences on foreign operations	1,184	70	5,328	-	6,582
Release	(227)	(4,179)	(1,898)	(875)	(7,179)

Use	-	(10,386)	(14)	(2,973)	(13,373)
Reclassification into non-current assets held for sale	-	(3,476)	-	(280)	(3,756)
Dec 31 2011	**60,557**	**131,801**	**222,586**	**5,518**	**420,462**

(1) As at December 31st 2011, the Management Board of Petrobaltic S.A. analysed costs of decommissioning the Offshore Oil Facilities in the B-3 and B-8 mining areas, w hich w ere also w orked in the previous years. It w as concluded that the costs necessary to be incurred in future on decommissioning of the Offshore Oil Facilities in the mining areas increased in 2011 due to changes in the expected expenses caused by price changes - by PLN 2,967 thousand (2010: PLN 8,906 thousand), and due to the passage of time and the related change in the time value of money - by PLN 8,760 thousand, charged to finance expenses in 2011 (2010: PLN 8,038 thousand).

As at the balance-sheet date, i.e. December 31st 2011, 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 of NOK 104,060 thousand (or PLN 59,065 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011). 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 w ith the provision 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) assessed as at December 31st 2010, the provision w as increased by an upw ard adjustment in the estimated future costs amounting to NOK 35,823 thousand (PLN 20,333 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011) (2010: 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 3,864 thousand (PLN 2,193 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011) (2010: 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 w as reduced due to the use of NOK 27 thousand (PLN 15 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2011) (2010: NOK 27 thousand, PLN 14 thousand 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) w as released from the provision. For 2011, this amount totalled PLN 1,898 thousand (2010: PLN 1,836 thousand) jointly in respect of the B-3 and B-8 fields. As at December 31st 2011 the provision for decommissioning of the B-3 and B-8 Offshore Oil Facilities totalled PLN 163,522 thousand (December 31st 2010: PLN 153,693 thousand), and the value of the related asset w as PLN 76,241 thousand as at December 31st 2011 (December 31st 2010: PLN 82,901 thousand).

(2) The item "Other provisions" includes the follow ing:

PLN '000	Special Account (3)	Provision for business risk	Restructuring provision	Other	Total
Jan 1 2010	1,463	12,300	2,464	7,207	23,434
Increase, including:	1,000	-	-	3,778	4,778
- currency translation differences on 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**
Jan 1 2011	**497**	**197**	**1,144**	**3,807**	**5,645**
Increase, including:	1,500	21	1,576	904	4,001
- acquisition of control over the AB LOTOS Geonafta Group	-	-	-	66	66
Release	-	-	-	(875)	(875)
Use	(844)	-	(393)	(1,736)	(2,973)
Reclassification into non-current assets held for sale	-	-	-	(280)	(280)
Dec 31 2011	**1,153**	**218**	**2,327**	**1,820**	**5,518**

(3) On June 27th 2011, the General Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of profit for 2010. Pursuant to the resolution, PLN 1,500 thousand w as transferred to the Company's special account used by Grupa LOTOS S.A. to finance CSR projects. Amounts contributed to the special account provision are charged against other operating expenses. In the year ended December 31st 2011, the Company used funds from the special account of PLN 844 thousand (2010: PLN 1,966 thousand).

This is a translation of a document originally issued in Polish.

37. Trade and other payables, accruals and deferred income, other liabilities, and other financial liabilities

37.1 Trade payables, accruals and deferred income, and other liabilities

PLN '000	Note	Dec 31 2011	Dec 31 2010 (restated)
Trade payables, including:		2,821,742	1,832,545
- to related parties	39.1	6,823	-
Liabilities to the state budget other than corporate income tax		966,530	759,184
Special accounts, including:		24,694	21,871
- Mining Facilities Decommissioning Fund		24,491	21,668
Salaries and w ages payable		14,577	13,052
Accrued expenses,including:		118,869	110,136
- provision for costs of employee benefits		64,273	78,162
Deferred income, including:		46,790	48,315
- grants [1]		39,321	40,012
- other		7,469	8,303
Investment liabilities		164,217	165,809
Liabilities to insurers		30,259	22,201
Other liabilities		23,246	27,804
Total		**4,210,924**	**3,000,917**
Non-current portion		54,371	61,809
Current portion		4,156,553	2,939,108

[1] Primarily licences received free-of-charge and grants from the Eco Fund for the use of w aste gas from the offshore oil production facility for heating purposes.

Trade payables do not bear interest and are, as a rule, settled on a 7–60 day basis. Other liabilities do not bear interest, and their average payment period is one month. 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 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.

For sensitivity analysis of trade and other liabilities with respect to market risk related to fluctuations in exchange rates as at December 31st 2011, and December 31st 2010, see Note 42.3.1 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/42.-financial-instruments#42-3-1).

For maturity analysis of trade and other liabilities as at December 31st 2011, and December 31st 2010, see Note 41 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/41.-objectives-and-principles-of-financial-risk-management/).

37.2 Other financial liabilities

PLN '000	Dec 31 2011	Dec 31 2010 (restated)

Negative valuation of derivative financial instruments:	267,778	279,807
- commodity swap (commodities and petroleum products)	-	3,517
- futures (CO_2 emissions)	15,607	463
- currency forward and spot contracts	70,449	41,654
- forward rate agreements (FRAs)	-	340
- interest rate swap (IRS)	172,134	227,897
- currency swap	9,588	5,936
Lease liabilities	197,000	74,255
Total financial liabilities	**464,778**	**354,062**
Non-current liabilities	304,949	151,666
Current liabilities	159,829	202,396

As at December 31st 2011, there were no hedging contracts over which an assignment would be created as security for the credit facility referred to in Note 34 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/34.-interest-bearing-borrowings-and-other-debt-instruments/) (December 31st 2010: PLN 120,822 thousand).

For sensitivity analysis of other financial liabilities with respect to currency and interest rate risks as at December 31st 2011 and December 31st 2010, see Note 42.3 (/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/42.-financial-instruments#42-3).

For maturity analysis of other financial liabilities as at December 31st 2011 and December 31st 2010, see Note 41 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/41.-objectives-and-principles-of-financial-risk-management/).

37.3 Finance lease liabilities

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2011	Dec 31 2010	Dec 31 2011	Dec 31 2010
Up to 1 year	41,113	21,115	19,415	2,696
From 1 to 5 years	153,520	86,070	91,357	32,774
Over 5 years	98,221	51,762	86,228	38,785
Total	**292,854**	**158,947**	**197,000**	**74,255**
Less future financial charges	(95,854)	(84,692)	-	-
Present value of minimum lease payments	**197,000**	**74,255**	**197,000**	**74,255**
Non-current portion			177,585	71,559
Current portion			19,415	2,696

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

38. Contingent liabilities and other guarantees and types of security

38.1 Promissory notes, bank guarantees or other forms of security issued by financial institutions

Bank guarantees and other forms of security issued at the request of the Parent and the LOTOS Group companies, and issued by the LOTOS Group companies

Dec 31 2011 (PLN '000) Beneficiary	Value of security in foreign currency	Currency of security	Value of security in PLN [1]	Security expiry date	Bank or other institution issuing the security	Type of security / information on debtor
Security issued at the request of Grupa LOTOS S.A.						
Port Lotniczy Rzeszów - Jasionka Sp. z o.o.	4,116	PLN	4,116	Dec 31 2012[2]	PKO BP S.A.	Bank guarantee
UOP CH SARL	700	USD	2,392	Jan 15 2012[3]	Deutsche Bank	Bank guarantee
Port Lotniczy Wrocław	5,547	PLN	5,547	Jan 30 2013	ING Bank Śląski S.A.	Bank guarantee
Other (each with a unit value of less than PLN 1,000 thousand)	2,210	PLN	2,210	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	134	EUR	591	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	36	USD	123	-	-	Bank guarantees
Total security issued at the request of Grupa LOTOS S.A.			**14,979**			
Security instruments issued by or upon instruction 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	18,556[4]	PLN	18,556	Feb 20 2015	Bank Pekao S.A.	Bank guarantee
Other, including:	25,652	PLN	25,652	-	-	-
bank guarantees	5,168	PLN	5,168	-	-	-
bank performance bonds	18,634	PLN	18,634	-	-	-
Total other security instruments issued by or upon instruction of the LOTOS Group companies			**44,208**			
TOTAL FOR THE GROUP			**59,187**			

[1] Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2011.
[2] The original validity term (December 31st 2011) was extended until December 31st 2012.
[3] Liability expired upon the lapse of its validity term.
[4] The bank guarantee secures the PLN 35,000 thousand facility of June 29th 2007 contracted by LOTOS Biopaliwa Sp. z o.o. with the National Fund

for Environmental Protection and Water Management.

Dec 31 2010 (PLN '000) **Beneficiary**	**Value of security in foreign currency**	**Currency of security**	**Value of security in PLN (1)**	**Security expiry date**	**Bank or other institution issuing the security**	**Type of security / information on debtor**
Security issued at the request of Grupa LOTOS S.A.						
VITOL S.A.	9,130	USD	27,062	Jan 15 2011(2)	Deutsche Bank	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 security issued at the request 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 security instruments issued by or upon instruction of the LOTOS Group companies			**41,597**			
TOTAL FOR THE GROUP			**70,169**			

(1) Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2010.
(2) Security expired upon the lapse of its validity term.
(3) The bank guarantee secures the PLN 35,000 thousand borrowing of June 29th 2007 contracted by LOTOS Biopaliwa Sp. z o.o. from the National Fund for Environmental Protection and Water Management.

Promissory notes

Dec 31 2011 (PLN '000) **Beneficiary of promissory note**	**Promissory note(s) amount in foreign currency**	**Currency of promissory note(s)**	**Promissory note(s) amount 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 2012(2)	Contingent liability in the form of lump sum security for a tax liability of PLN 800,000 thousand
PKO BP S.A.	300,000	PLN	300,000	Nov 25 2016(3)	Security for a bank borrowing
Total promissory notes issued by Grupa LOTOS S.A.			**540,000**		
Promissory notes issued by the LOTOS Group companies					
Head of the Customs Office in Gdańsk	10,000	PLN	10,000	Apr 30 2012(4)	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 Gdańsk	7,000	PLN	7,000	Feb 29 2012(5)	Security for excise duty
BRE Bank S.A.	50,000	PLN	50,000	Mar 15 2013(6)	Security for a bank borrowing
PKO BP S.A.	60,000	PLN	60,000	Apr 16 2012(7)	Security for a bank borrowing
National Fund for Environmental Protection and Water Management	3,450	PLN	3,450	Dec 31 2012	Security for a subsidy
Head of the Customs Office in Bielsko-Biała	13,224	PLN	13,224	Jun 30 2012	Global excise duty security
Bank Polska Kasa Opieki S.A.	200,000	PLN	200,000	-(8)	Security for a bank borrowing
Stablewood Power Ventures (Wladyslawowo) Ltd.	8,000	USD	27,339	Jun 30 2013(9)	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 borrowing
Bank Ochrony Środowiska S.A.	9,490	PLN	9,490	Dec 20 2016	Security for liabilities under bank loan agreement
NORDEA BANK POLSKA S.A.	20,000	PLN	20,000	Jul 31 2012	Security for liabilities under bank borrowing
BRE Bank S.A.	35,000	PLN	35,000	Apr 25 2012	Security for liabilities under bank borrowing
Millennium Leasing Sp. z o.o.	9,824(10), (12)	EUR	43,390	-	Security for liabilities under lease agreements
NORDEA FINANCE POLSKA S.A.	16,143(11), (12)	EUR	71,301	-	Security for liabilities under lease agreements
Other (each with a unit value of less than PLN 1,000 thousand)	2,142	PLN	2,142	-	-
Total promissory notes issued by the LOTOS Group companies			**581,249**		
TOTAL FOR THE GROUP			**1,121,249**		

(1) Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2011.
(2) The previous validity term of the security for excise duty was August 19th 2011.
(3) On November 25th 2011, an annex to the credit facility agreement was executed under which the credit facility term end date was changed to November 25th 2016 and the credit facility amount was changed from PLN 200,000 thousand to PLN 300,000 thousand.
(4) The validity term (April 30th 2011) was extended until April 30th 2012.
(5) The original validity term (February 28th 2011) was extended until February 29th 2012.
(6) The validity term was extended until March 15th 2012 and again until March 15th 2013, and the facility amount was increased from PLN 30,000 thousand to PLN 50,000 thousand.
(7) The validity term was extended until March 16th 2012 and again until April 16th 2012, and the facility amount was changed from PLN 100,000 thousand to PLN 60,000 thousand.
(8) Credit agreement of November 15th 2010.
(9) The date of payment of the last instalment of the price of the shares and debt claims from Stablewood Power Ventures (Wladyslawowo) Ltd.
(10) The value of leased assets is EUR 11,192.
(11) The value of leased assets is EUR 18,582.
(12) The value of payment liabilities as at December 31st 2011.

Dec 31 2010 (PLN '000) **Beneficiary of promissory note**	**Promissory note(s) amount in foreign currency**	**Currency of promissory note(s)**	**Promissory note(s) amount 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	Contingent liability in the form of 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 borrowing
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 Gdańsk	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 borrowing
PKO BP S.A.	100,000	PLN	100.000	Apr 16 2011(6)	Security for a bank borrowing
Head of the Customs Office in Bielsko-Biała	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 borrowing
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 borrowings
Bank Ochrony Środowiska S.A.	9,490	PLN	9,490	Dec 20 2016	Security for liabilities under bank borrowings
BRE Bank S.A.	20,000	PLN	20,000	Jun 15 2011(9)	Security for liabilities under bank borrowings
Millennium Leasing Sp. z o.o.	11,192(10)	EUR	44,324(11)	-	Security for liabilities under lease agreements
NORDEA FINANCE POLSKA S.A.	18,582(10)	EUR	73,590(12)	-	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) Security 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) Security expired upon the lapse of its validity term.
(4) The original validity term (February 28th 2011) was extended until February 29th 2012.
(5) The validity term was extended until March 15th 2012 and the facility amount was increased from PLN 30,000 thousand to PLN 50,000 thousand.
(6) The validity term was extended until April 16th 2011.
(7) Credit 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 agreement expired on April 26th 2011.
(10) The value of leased assets.
(11) As at December 31st 2010, the value of liabilities under lease payments was PLN 14,959 thousand.
(12) As at December 31st 2010, the value of liabilities under lease payments was PLN 43,381 thousand.

38.2 Contingent investment commitments

As at December 31st 2011, the Company did not have any commitments under material agreements related to expenditure on property, plant and equipment (the 10+ Programme) (as at December 31st 2010 its commitments amounted to PLN 29.8m).

38.3 Carbon dioxide (CO_2) emission allowances

As at December 31st 2011 and December 31st 2010, considering the limit of allowances allocated for 2008–2012, the Group reported an excess of the carbon dioxide (CO_2) emission allowances it had been allocated over its carbon dioxide (CO_2) emissions, therefore no provisions were recognised and disclosed in the consolidated financial statements.

On July 1st 2008, the Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Dioxide (CO_2) Emission Allowances for 2008-2012, issued under the EU carbon dioxide (CO_2) 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.

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 (CO_2). Additionally, by virtue of the decision 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. On July 29th 2011, by virtue of the decision of the Marshal of the Gdańsk Province, Grupa LOTOS S.A. obtained additional carbon dioxide (CO_2) emission allowances for the installations newly placed in service (175 thousand tonnes for 2011 and 185 thousand tonnes for 2012).

In total, taking into account the decision referred to above, Grupa LOTOS S.A. has been granted average annual carbon dioxide (CO_2) emission allowances of 1,979 thousand tonnes for 2011 and 1,989 thousand tonnes for 2012.

Carbon dioxide (CO_2) emissions, calculated based on the production data for the installations covered by the emission trading scheme and verified in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011, were 2,061 thousand tonnes for the year ended December 31st 2011 and 1,163 thousand tonnes for the year ended December 31st 2010.

38.4 Material court, arbitration or administrative proceedings and other risks relating to the Parent or its subsidiaries

Material proceedings pending before public administration authorities in connection with the Parent’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 Płock 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 Płock. 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 Płock. 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. On May 30th 2011, Grupa LOTOS S.A. filed a cassation complaint against the ruling, in which it appealed the ruling in its entirety, requesting its reversal. On the same day, a cassation complaint was submitted by PKN Orlen S.A. On June 17th 2011, a response to the cassation complaint filed by Grupa LOTOS S.A. was submitted, in which the President of the Competition and Consumer Protection Office requested that the complaint be dismissed and costs of proceedings be awarded to the Office. On December 2nd 2011, the Supreme Court refused to accept the cassation appeals for consideration. As at the date of approval of these consolidated financial statements, the case was finally closed.

On March 10th 2011, using a previously recognised provision, the Company paid the liability of PLN 1,000 thousand, imposed by the court ruling of February 11th 2011.

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. On August 25th 2010, LOTOS Paliwa Sp. z o.o. lodged a cassation complaint with the Supreme Administrative Court of Warsaw. On July 28th 2011, the Supreme Administrative Court dismissed the cassation complaint lodged by LOTOS Paliwa Sp. z o.o. 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.

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. On May 16th 2011, Grupa LOTOS S.A. sent its response to the summons to submit a representation concerning sustaining the motion for evidence from an expert's opinion and to pay a PLN 23 thousand advance towards the cost of the opinion. On May 18th 2011, a court paper was received from PETROECCO JV Sp. z o.o. which upheld the previous position on the above matter. On March 14th 2012, an opinion of the Oil and Gas Institute of Kraków was received, to which Grupa LOTOS S.A. replied on March 28th 2012. On March 22nd 2012, a court paper was received from PETROECCO JV Sp. z o.o. 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 recognised and disclosed in the 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 Szczecin Court of Appeals, which, however, did not issue any ruling due to the complexity of the case. On July 13th 2011, the Supreme Court issued its decision concerning a legal issue presented by the Court of Appeals. On November 23rd 2011, the Court refused the Minister of State Treasury's appeal. On March 6th 2012, the State Treasury's cassation complaint was received, to which Polska Żegluga Morska replied on March 20th 2012. 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 recognised in the 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 2011 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). By December 31st 2011, all instalments under the arrangement had been paid. As at December 31st 2010, subject to the execution of the terms of the arrangement, there were no receivables outstanding.

Court proceedings instigated by WANDEKO and involving LOTOS Paliwa Sp. z o.o. as a party

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. recognised 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.

Other proceedings involving LOTOS Gaz S.A. w likwidacji (in liquidation) as a party

As at December 31st 2011, proceedings were pending involving LOTOS Gaz S.A. w likwidacji (in liquidation) as a party. These proceedings are discussed below.

On July 23rd 2009, District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. The company's estate is managed by a bankruptcy administrator. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending.

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 the company shares and in the cross action for payment instituted 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, the Regional Court of Kraków, by virtue of its decision of September 15th 2010 overruled the award issued by the Arbitration Court in full (the decision is final).

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. 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 Grupa LOTOS S.A.'s side exercised due care. The proceedings were resumed on April 4th 2011 following preparation of an expert's opinion. By virtue of a decision issued by the District Prosecutor's Office of Warszawa Śródmieście-Północ, on May 27th 2011 the investigation was discontinued. On June 12th 2011, LOTOS Gaz S.A. w likwidacji (in liquidation) filed a complaint against the District Prosecutor's Office's decision. Following consideration of the complaint, the decision was reversed. By virtue of a decision of December 29th 2011, the District Prosecutor's Office of Warszawa Śródmieście-Północ once again discontinued the investigation. As at the date of approval of these consolidated financial statements, the proceedings at the prosecutor's office were closed.

In September 2011, a suit of the bankruptcy administrator of the estate of KRAK-GAZ Sp. z o.o. to recognise the debtor's legal act as ineffective against the estate, i.e. to challenge the created security interests in the form of mortgages (actio pauliana or fraudulent conveyance), was served upon LOTOS Gaz S.A. w likwidacji (in liquidation). As at the date of approval of these consolidated financial statements, the proceedings were pending.

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. The company's estate is managed by a bankruptcy administrator. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision admitting objections to the list of debt claims and recognised the claim of LOTOS Gaz S.A. w likwidacji (in liquidation) in the total amount of PLN 23,695 thousand, including principal amount of PLN 21,435 thousand, and recognised claims in the amount of PLN 21,132 thousand as secured with mortgages. As at the date of this report, the decision was not final.

Proceedings involving a LOTOS Petrobaltic Group company as a party

On January 16th 2012, an arbitration court's session was held to hear a case concerning claims brought by Single Buoy Moorings Inc. ("SBM") – supplier of the MOPU (Mobile Operating and Production Unit) to be used in production operations on the YME field. On January 25th 2011, SMB filed a claim with an arbitration court in Norway against Talisman Energy Norge AS and other holders of interests in the YME project, for the payment of:

- USD 90,000 thousand as an additional bonus for delivery of the MOPU within the deadline set forth in the contract,
- USD 3,700 thousand as reimbursement of additional costs incurred in connection with applying a different method of transporting the MOPU.

The liability of LOTOS Exploration and Production Norge AS under SBM's claims amounts to 20% of the alleged amounts, i.e. USD 18,740 thousand in total. According to information obtained by LOTOS Norge from Talisman Energy Norge AS, the licence operator and leader of the YME project, under the MOPU delivery contract, SBM's claims are unfounded.
On February 20th 2012, a decision in the arbitration proceedings was announced. All claims of Single Buoy Moorings Inc. were dismissed and the arbitration proceedings were closed..
Further, as at the date of approval of these consolidated financial statements preparations related to the second arbitration proceedings concerning claims brought by Single Buoy Moorings Inc. ("SBM") were under way. The claim involves disputed costs of USD 330,000 thousand relating to dealings between the parties following the delivery of the MOPU to Norway.

The liability of LOTOS Exploration and Production Norge AS under SBM's claims amounts to 20% of the alleged amounts, i.e. USD 66,000 thousand in total.

39. Related parties

39.1 Transactions with non-consolidated related parties

Transactions with related parties are executed on market terms.

Areas of transactions with related parties

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Companies accounted for using the proportional method		
Sales to related entities (incl. excise duty and fuel charge)	6,579	-
Purchases from related entities (incl. excise duty and fuel charge)	34,510 (1)	-
Finance expenses under interest on loans	-	-
Equity-accounted companies		
Sales to related entities (incl. excise duty and fuel charge)	-	-
Purchases from related entities (incl. excise duty and fuel charge)	-	-
Finance expenses under interest on loans	15	15

(1) including purchase of crude oil.

PLN '000	Dec 31 2011	Dec 31 2010
Companies accounted for using the proportional method		
Net receivables from related entities	90	-
Payables to related entities	6,823	-
Equity-accounted companies		
Net receivables from related entities	-	-
Payables to related entities	-	7,936

During the year ended December 31st 2010, the total value of loans advanced by related equity-accounted entities was PLN 7,921 thousand (or EUR 2,000 thousand).

39.2 Entity with significant influence over the Group

As at December 31st 2011 and December 31st 2010, the State Treasury held a 53.19% interest in Grupa LOTOS S.A.

In the years ended December 31st 2011 and December 31st 2010, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury.

39.3 Remuneration of the Management and the Supervisory Board members and information on loans and other similar benefits granted to members of the Parent’s management and supervisory staff

The remuneration paid or payable to the members of the Company’s Management and Supervisory Boards was as follows:

Remuneration of the Management Board in 2011

PLN '000	Short-term employee benefits (salaries and wages)	Length-of-service awards	Share-based employee benefits	Management Board – subsidiaries (1)	Total remuneration paid
Paweł Olechnowicz	315	-	-	872	1,187

Marek Sokołowski	315	-	-	641	956
Mariusz Machajewski	315	-	-	641	956
Maciej Szozda	316	-	-	641	957
Total	**1,261**	**-**	**-**	**2,795**	**4,056**

(1) Short-term employee benefits – remuneration paid to the members of the Management Board of Grupa LOTOS S.A. for serving on Supervisory Boards and Boards of Directors of direct and indirect subsidiaries.

Remuneration of the Supervisory Board in 2011

PLN '000	Term of office	Total remuneration paid (1)
Wiesław Skwarko	Jan 1 – Dec 31 2011	41
Leszek Starosta	Jan 1 – Dec 31 2011	41
Małgorzata Hirszel	Jan 1 – Dec 31 2011	41
Oskar Pawłowski	Jan 1 – Dec 31 2011	41
Michał Rumiński	Jan 1 – Dec 31 2011	41
Rafał Wardziński	Jan 1 – Dec 31 2011	41
Ewa Sibrecht-Ośka	Jan 1 – Nov 8 2011	39
Rafał Lorek	Jan 1 – Jun 27 2011	24
Total		**309**

(1) Short-term employee benefits (salaries and wages). The value of remuneration reflects changes in the composition of the Supervisory Board of Grupa LOTOS S.A. during the reporting period.

Remuneration of the Management Board in 2010

PLN '000	Short-term employee benefits (salaries and wages)	Length-of-service awards	Share-based employee benefits	Management Board – subsidiaries (1)	Total remuneration paid
Paweł Olechnowicz	302	-	-	158	460
Marek Sokołowski	301	-	-	92	393
Mariusz Machajewski	301	-	-	91	392
Maciej Szozda	261	-	-	91	352
Total	**1,165**	**-**	**-**	**432**	**1,597**

(1) Short-term employee benefits. Remuneration paid to the members of the Management Board of Grupa LOTOS S.A. for serving on the Supervisory Boards and Boards of Directors of direct and indirect subsidiaries.

Remuneration of the Supervisory Board in 2010

PLN '000	Term of office	Total remuneration paid (1)
Wiesław Skwarko (2)	Jan 1 – Dec 31 2010	3
Leszek Starosta	Jan 1 – Dec 31 2010	42
Mariusz Obszyński	Jan 1 – Feb 11 2010	9
Radosław Barszcz	Jan 1 – Feb 11 2010	9
Małgorzata Hirszel	Jan 1 – Dec 31 2010	42
Jan Stefanowicz	Jan 1 – Feb 11 2010	9
Ireneusz Fąfara	Jan 1 – Mar 29 2010	14
Oskar Pawłowski	Feb 11 – Dec 31 2010	33
Michał Rumiński	Feb 11 – Dec 31 2010	33
Rafał Wardziński	Feb 11 – Dec 31 2010	33
Ewa Sibrecht – Ośka	Jun 28 – Dec 31 2010	17
Rafał Lorek	Jun 28 – Dec 31 2010	17
Total		**261**

(1) Short-term employee benefits (salaries and wages). The value of remuneration reflects changes in the composition of the Supervisory Board of Grupa LOTOS S.A. during the reporting period.

(2) On November 1st 2010, Mr Wiesaw Skw arko w ithdrew his representation that he elects to forgo remuneration for serving on the Supervisory Board of Grupa LOTOS S.A.

As at December 31st 2011, the Company had a provision for length-of-service awards and retirement severance payments for the members of the Grupa LOTOS Management Board of PLN 350 thousand (December 31st 2010: PLN 260 thousand).

Moreover, pursuant to the Act on Remunerating Persons Who Manage Certain Legal Entities, the Company has also recognised a provision for maximum annual bonuses as defined by the act, to be paid to members of the Management Board of Grupa LOTOS S.A. for 2011, in the amount of PLN 249 thousand (2010: PLN 249 thousand of annual bonuses paid in 2011, disclosed in table Remuneration of the Management Board in 2011 under Short-term employee benefits (salaries and wages)).

As at December 31st 2011 and December 31st 2010, and in the years ended December 31st 2011 and December 31st 2010, the Company did not grant any loans or similar benefits to members of its management and supervisory staff.

39.4 Remuneration paid or payable to other members of the key management staff

PLN '000	Year ended Dec 31 2011	Year ended Dec 31 2010
Short-term employee benefits (salaries)	30,769	27,243
Total remuneration paid to key management staff (other than members of Management and Supervisory Boards of Grupa LOTOS S.A.)	**30,769**	**27,243**

As at December 31st 2011, the Company maintains a provision for length-of-service awards and retirement severance payments for key management staff of PLN 7,155 thousand (2010: PLN 6,351 thousand).

The Group also recognised a provision for annual bonuses expected to be paid to key management staff for 2011, of PLN 7,275 thousand (2010: PLN 6,188 thousand of annual bonuses paid in 2011, disclosed in the table above as at December 31st 2011 under Short-term employee benefits (salaries and wages)).

As at December 31st 2011, loans and similar benefits granted by the Group to members of key management staff totalled PLN 21 thousand (December 31st 2010: PLN 39 thousand).

In the periods January 1st – December 31st 2011 and January 1 – December 31st 2010, the Group did not grant any loans or similar benefits to members of key management staff.

39.5 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 Management or Supervisory Boards, their spouses, siblings, ascendants, descendants or other close persons

In the years ended December 31st 2011 and December 31st 2010, the Company and the Group companies entered into no material agreements with members of the Management and Supervisory Boards(1), advanced no loans, made no advance payments, issued no guarantees and concluded no agreements to or with any such persons which would provide considerable benefits to Grupa LOTOS S.A. or its subsidiaries or associates. Based on representations submitted by members of the Company's Management and Supervisory Boards, in the years ended December 31st 2011 and December 31st 2010 Grupa LOTOS S.A. did not become aware of any transactions concluded with Grupa LOTOS S.A. or a company of the LOTOS Group by the spouses, relatives, or relatives by affinity in the direct line up to the second degree, of the members of Management and Supervisory Boards or persons related to them through guardianship or adoption or other persons with whom they have personal relationships.

(1) Taking into account changes in the composition of the Supervisory Board (see Note 3 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/3.-composition-of-the-management-and-supervisory-boards-of-the-parent/)).

Transactions with parties related through members of the Management and Supervisory Boards

Below are presented transactions concluded in 2011 (based on representations made by members of the Management and Supervisory Boards related-party transactions).

Type of relationship (PLN '000)	Sale	Purchase	Receivables	Liabilities
Supervisory staff	127	-	1,543	355
Management staff	-	-	-	-
Total	**127**	**-**	**1,543**	**355**

Below are presented transactions concluded in 2010 (based on representations made by members of the Management and Supervisory Boards related-party transactions).

Type of relationship (PLN '000)	Sale	Purchase	Receivables	Liabilities
Supervisory staff	1,307	-	-	-
Management staff	-	-	-	-
Total	**1,307**	**-**	**-**	**-**

39.6 Additional information on results of the LOTOS Group companies

PLN '000	Net profit (loss)[1]	
	Year ended Dec 31 2011	Year ended Dec 31 2010
LOTOS Paliw a Sp. z o.o.	27,282	63,800
LOTOS Gaz S.A.	173	(1,239)
LOTOS Oil S.A.	30,906	39,755
LOTOS Asfalt Sp. z o.o.	194,219	149,277
LOTOS Ekoenergia S.A.	10	(1)
LOTOS Kolej Sp. z o.o.	5,254	19,398
LOTOS Serw is Sp. z o.o.	11,553	7,947
LOTOS Lab Sp. z o.o.	5,079	4,478
LOTOS Straż Sp. z o.o.	184	258
LOTOS Ochrona Sp. z o.o.	99	462
LOTOS Parafiny Sp. z o.o.	18,024	15,564
LOTOS Tank Sp. z o.o.	(1,026)	794
LOTOS Czechow ice Group	63,470	27,561
LOTOS Jasło S.A.	2,828 [2]	(2,579)
LOTOS Petrobaltic Group	234,156	101,495
UAB LOTOS Baltija	-	4 [3]
LOTOS Park Technologiczny Sp. z o.o.	4	(18)

[1] In accordance w ith the consolidation packages (see Note 9 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/9.-basis-of-preparation-of-the-consolidated-financial-statements/)).

[2] Net profit (loss) of LOTOS Jasło S.A. includes net profit (loss) of PLASTEKOL Organizacja Odzysku S.A., until the date of loss of control (see Note 2 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/2.-composition-of-the-group/)),

[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 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/2.-composition-of-the-group/)).

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	2011	2010
Audit of the annual separate and consolidated financial statements of Grupa LOTOS S.A.	351	351
Audit of the annual separate and consolidated financial statements of selected companies of the LOTOS Group (1)	1,163	514
Confirmation services, including:	284	234
- review of the semi-annual separate and consolidated financial statements of Grupa LOTOS S.A.	284	234
Tax advisory services	258	-
Other services	42	10
TOTAL	**2,098**	**1,109**

(1) Remuneration for the audit of selected companies of the LOTOS Group is payable on the basis of separate agreements betw een the qualified auditor of financial statements and particular companies.

This is a translation of a document originally issued in Polish.

41. Objectives and principles of financial risk management

The Group is exposed to financial risks, including:

- market risk (risk related to prices of raw materials and petroleum products, risk related to prices of CO_2 allowances, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The former Financial Risk Management Committee at the Parent was replaced by the Price Risk and Trading Committee, which is responsible for:

- oversight and coordination of the price risk management process,
- monitoring and coordination of trading activities requiring cross-segment interaction.

The powers of the Financial Risk Management Committee in the area of currency risk, interest rate risk and credit risk management have been vested directly in the Chief Financial Officer. In addition, a team for liquidity optimisation and coordination of financing has been set up to coordinate and supervise key efforts in the area of liquidity risk management, arrangement of financing, and debt management at the LOTOS Group.

To ensure efficiency and operational security of risk management, Grupa LOTOS distinguished the following areas: financial transaction (front-office), risk analysis and control (middle-office) and documentation and settlement (back-office).

Financial risk management seeks to achieve the following key 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.

In order to achieve these objectives, documents have been prepared at Grupa LOTOS S.A. and approved at appropriate decision-making levels of the Parent. 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,
- acceptable financial instruments,
- method of assessing financial risk management,
- limits within risk management,
- reporting method,
- credit limits.

The Parent monitors all managed market risks on an ongoing basis. Opening positions with respect to risks which do not arise as part of the Company’s core activity is prohibited. Grupa LOTOS S.A. uses liquid derivatives which it is able to measure by applying common valuation models. The valuation of the underlying position and derivatives is performed based on market data provided by reliable sources.

As of January 1st 2011, the Parent introduced hedge accounting with respect to cash flow hedges (i.e. foreign-currency facilities used to finance 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 Parent considers risk related to prices of raw materials and petroleum products, as well as currency risk, to be particularly important.

The Parent continues research into and work on a new policy for managing the risk, which ties in closely with our plans to upscale trading operations. Concurrently, to enable implementation of specific price risk management processes, streamline management functions and improve security of operations in the broad price risk and trading area, the Company has launched the process of selecting a new Energy Trading and Risk Management system.

As at December 31st 2011 and December 31st 2011, there were no open refining margin transactions.

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. The swaps were settled in 2011, and as at December 31st 2011, 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)
Grupa LOTOS S.A.	Commodity swap	Mar 17 2010	Aug 1 2011	Aug 31 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)**

[1] Fair value of commodity swaps is established by reference to future cash flows from 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 (CO_2) allowances

The risk related to prices of carbon dioxide (CO_2) allowances is managed in line with the assumptions set forth in *The Strategy for Managing the Risk Related to Prices of carbon dioxide (CO_2) 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 (CO_2) 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 CO_2 allowances position as at December 31st 2011:

Period	EUA (tonnes)	CER (tonnes)	TOTAL (tonnes)
Phase II (2008-2012)	(133,535)	17,873	(115,662)

Underlying CO_2 allowances position as at December 31st 2010:

Period	EUA (tonnes)	CER (tonnes)	TOTAL (tonnes)
Phase II (2008-2012)	(55,924)	49,863	(6,061)

In 2011, the Company entered into EUA/CER swap transactions, as that was justified by the spread between these two types of emission allowances.

Open CO_2 allowances transactions as at December 31st 2011:

Company	Type of transaction	Transaction execution date	Transaction settlement date	No. of CO_2 allowances	Price (EUR/tonne)	Fair value as at Dec 31 2011 (PLN '000) [2]
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	5,000	11	(148)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	10,000	11	(299)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	34,000	11	(1,017)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	1,000	11	(30)

Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	4,000	11	(120)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	25,000	11	(749)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	25,000	11	(749)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	10,000	11	(300)
Grupa LOTOS S.A.	CER Futures	Jan 25 2011	Dec 20 2012	30,000	11	(900)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	10,000	11	(303)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	25,000	11	(756)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	50,000	11	(1,513)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	14,000	11	(424)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	35,000	11	(1,060)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	50,000	11	(1,515)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	21,000	11	(637)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	39,000	11	(1,183)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	5,000	11	(152)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	5,000	11	(152)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	10,000	11	(304)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	25,000	11	(761)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(30)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	3,000	11	(91)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	5,000	11	(152)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	5,000	11	(152)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	6,000	11	(183)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	10,000	11	(305)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	1,000	11	(31)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	2,000	11	(61)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	3,000	11	(92)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	8,000	11	(244)
Grupa LOTOS S.A.	CER Futures	Jan 26 2011	Dec 20 2012	24,000	11	(732)
Grupa LOTOS S.A.	EUA Futures	Aug 2 2011	Dec 20 2012	(14,000)	12	305
Grupa LOTOS S.A.	EUA Futures	Aug 2 2011	Dec 20 2012	(25,000)	12	555
Grupa LOTOS S.A.	EUA Futures	Aug 2 2011	Dec 20 2012	(51,000)	12	1,142
Grupa LOTOS S.A.	EUA Futures	Aug 2 2011	Dec 20 2012	(50,000)	12	1,122
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(50,000)	12	1,016
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(6,000)	12	122
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(44,000)	12	898
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(5,000)	12	102
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(14,000)	12	288
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(50,000)	12	1,027

Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(9,000)	12	192
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(11,000)	12	234
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(11,000)	12	234
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(11,000)	12	235
Grupa LOTOS S.A.	EUA Futures	Aug 4 2011	Dec 20 2012	(39,000)	12	832
Grupa LOTOS S.A.	EUA Futures	Dec 14 2011	Dec 20 2012	(15,000)	7	(34)
				110,000	**TOTAL, including:**	**(7,303)**
					positive	**8,304**
					negative	**(15,607)**

Open CO_2 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	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)**

[2] Fair value of futures contracts for carbon dioxide (CO_2) allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the Intercontinental Exchange (ICE) for the valuation date, and the transaction price (Level 1 in the fair value hierarchy).

Total CO_2 allowances position as at December 31st 2011:

		EUA position (tonnes)			CER position (tonnes)	
Period	**Underlying**	**Transaction**	**Total**	**Underlying**	**Transaction**	**Total**
Phase II (2008-2012)	(133,535)	(405,000)	(538,535)	17,873	515,000	532,837

Total CO_2 allowances position as at December 31st 2010:

		EUA position (tonnes)			CER position (tonnes)	
Period	**Underlying**	**Transaction**	**Total**	**Underlying**	**Transaction**	**Total**
Phase II (2008-2012)	(55,924)	(182,000)	(237,924)	49,863	198,000	247,863

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 the planning activities at the Company. The four quarter period is treated as the basis for determining the exposure management 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, borrowings 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:

- 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 pre-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 facilities to finance the 10+ Programme, as such an approach contributes to reducing the structurally long position, and consequently to reducing the strategic currency risk.

Pursuant to the agreement on financing of the 10+ Programme, Grupa LOTOS S.A. as of June 30th 2011 is no longer obliged to maintain a specified level of hedge ratio for the currency risk (EUR/USD and USD/PLN), which arose in connection with the fact that the currency in which the investment projects were financed was different from the currencies in which project execution contracts were denominated.

Underlying currency position as at December 31st 2011:

Period	USD	EUR
2012	468,678,817	(254,123,754)

Underlying currency position as at December 31st 2010:

Period	USD	EUR
2011	322,577,414	(266,115,943)

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 2011:

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 2011 (PLN '000)[3]
Grupa LOTOS S.A.	Currency forward	May 24 2011	Feb 15 2012	EUR/USD	15,000,000	1.4	(20,953,500)	(5,330)
Grupa LOTOS S.A.	Currency forward	May 24 2011	Mar 15 2012	EUR/USD	10,000,000	1.4	(13,950,500)	(3,473)
Grupa LOTOS S.A.	Currency forward	May 24 2011	Jan 1 2012	EUR/USD	5,000,000	1.4	(7,008,000)	(1,863)
Grupa LOTOS S.A.	Currency forward	May 24 2011	Jan 1 2012	EUR/USD	10,000,000	1.4	(14,000,000)	(3,671)
Grupa LOTOS S.A.	Currency forward	Aug 10 2011	Mar 15 2012	USD/PLN	(10,000,000)	2.9	28,982,000	(5,381)
Grupa LOTOS S.A.	Currency forward	Aug 10 2011	Mar 14 2012	USD/PLN	(10,000,000)	2.9	28,994,000	(5,366)
Grupa LOTOS S.A.	Currency forward	Aug 10 2011	Feb 14 2012	USD/PLN	(6,000,000)	2.9	17,337,000	(3,236)
Grupa LOTOS S.A.	Currency forward	Aug 23 2011	May 5 2012	EUR/USD	20,000,000	1.4	(28,878,600)	(10,190)
Grupa LOTOS S.A.	Currency forward	Aug 23 2011	Mar 19 2012	EUR/USD	11,000,000	1.4	(15,878,500)	(5,636)
Grupa LOTOS S.A.	Currency forward	Aug 23 2011	Apr 23 2012	EUR/USD	10,000,000	1.4	(14,412,000)	(5,019)
Grupa LOTOS S.A.	Currency forward	Aug 23 2011	Apr 23 2012	EUR/PLN	12,000,000	4.2	(50,559,600)	3,010
Grupa LOTOS S.A.	Currency forward	Sep 22 2011	Mar 15 2012	USD/PLN	(10,000,000)	3.3	33,350,000	(1,049)
Grupa LOTOS S.A.	Currency forward	Dec 13 2011	Mar 15 2012	USD/PLN	(20,000,000)	3.5	69,332,000	513
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Oct 10 2012	USD/PLN	(15,000,000)	3.6	53,680,005	1,279
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Aug 17 2012	USD/PLN	(15,000,000)	3.6	53,538,000	1,291
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Oct 12 2012	USD/PLN	(20,000,000)	3.6	71,612,000	1,735
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Apr 16 2012	USD/PLN	(20,000,000)	3.5	70,734,000	1,705
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Oct 15 2012	USD/PLN	(20,000,000)	3.6	71,524,000	1,640
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	May 5 2012	USD/PLN	(20,000,000)	3.5	70,810,000	1,615
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Oct 15 2012	USD/PLN	(15,000,000)	3.6	53,693,505	1,279
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Aug 16 2012	USD/PLN	(15,000,000)	3.6	53,535,000	1,291
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	May 16 2012	USD/PLN	(10,000,000)	3.5	35,418,000	817
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Sep 10 2012	EUR/USD	20,000,000	1.3	(26,142,800)	(673)
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Nov 13 2012	EUR/USD	20,000,000	1.3	(26,185,000)	(687)
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Jun 6 2012	EUR/USD	20,000,000	1.3	(26,115,000)	(743)

Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Aug 6 2012	EUR/USD	20,000,000	1.3	(26,133,000)	(705)
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Oct 4 2012	EUR/USD	20,000,000	1.3	(26,118,800)	(542)
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Jul 2 2012	EUR/PLN	20,000,000	4.6	(92,924,000)	(2,936)
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Jan 3 2012	USD/PLN	103,000,000	3.5	(362,127,400)	(10,132)
Grupa LOTOS S.A.	Currency forward	Dec 14 2011	Dec 12 2012	EUR/USD	10,000,000	1.3	(13,073,500)	(248)
Grupa LOTOS S.A.	Currency forward	Dec 15 2011	Jan 5 2012	EUR/PLN	8,000,000	4.6	(36,478,800)	(1,138)
Grupa LOTOS S.A.	Currency forward	Dec 15 2011	Feb 1 2012	EUR/USD	5,000,000	1.3	(6,515,125)	(177)
Grupa LOTOS S.A.	Currency forward	Dec 15 2011	Feb 1 2012	EUR/USD	5,000,000	1.3	(6,513,500)	(172)
Grupa LOTOS S.A.	Currency forward	Dec 16 2011	Apr 16 2012	USD/PLN	(6,000,000)	3.5	20,809,200	105
Grupa LOTOS S.A.	Currency forward	Dec 28 2011	Jan 27 2012	EUR/USD	10,100,000	1.3	(13,205,649)	(514)
Grupa LOTOS S.A.	Currency forward	Dec 29 2011	Jan 5 2012	EUR/USD	(2,000,000)	1.3	2,582,800	(7)
Grupa LOTOS S.A.	Currency spot	Dec 29 2011	Jan 3 2012	USD/PLN	(10,500,000)	3.4	35,770,350	(112)
Grupa LOTOS S.A.	Currency forward	Dec 29 2011	Jan 5 2012	EUR/PLN	(3,650,000)	4.4	16,211,840	88
Grupa LOTOS S.A.	Currency spot	Dec 30 2011	Jan 3 2012	USD/PLN	(19,600,000)	3.4	66,924,200	(57)
Grupa LOTOS S.A.	Currency spot	Dec 30 2011	Jan 3 2012	USD/PLN	(25,000,000)	3.4	86,150,000	715
Grupa LOTOS S.A.	Currency spot	Dec 30 2011	Jan 3 2012	USD/PLN	(11,000,000)	3.4	37,766,850	175
							TOTAL, including:	**(51,799)**
							positive	**17,258**
							negative	**(69,057)**

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	4.0	(10,118,250)	(211)
Grupa LOTOS S.A.	Currency forward	Aug 10 2010	May 16 2011	EUR/PLN	4,500,000	4.0	(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	4.0	(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	3.0	(93,889,700)	(1,745)
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	May 16 2011	USD/PLN	(42,000,000)	3.0	127,785,000	2,152
Grupa LOTOS S.A.	Currency forward	Dec 3 2010	Jun 15 2011	USD/PLN	42,000,000	3.0	(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)	3.0	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	4.0	(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)	3.0	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)	3.0	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)	3.0	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	3.0	(8,998,500)	(106)
Grupa LOTOS S.A.	Currency spot	Dec 30 2010	Jan 3 2011	USD/PLN	10,000,000	3.0	(29,979,000)	(339)
Grupa LOTOS S.A.	Currency spot	Dec 30 2010	Jan 3 2011	USD/PLN	4,000,000	3.0	(12,000,400)	(144)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	1,000,000	4.0	(3,957,000)	3
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	2,000,000	4.0	(7,909,000)	12
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	1,000,000	4.0	(3,950,000)	10
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	EUR/PLN	600,000	4.0	(2,382,600)	(6)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	10,000,000	3.0	(29,642,000)	(1)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	5,000,000	3.0	(14,820,500)	-
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	4,000,000	3.0	(11,901,200)	(45)
Grupa LOTOS S.A.	Currency spot	Dec 31 2010	Jan 4 2011	USD/PLN	5,000,000	3.0	(14,821,500)	(1)
							TOTAL, including:	**(4,114)**
							positive	**37,540**
							negative	**(41,654)**

[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 as at December 31st 2011:

Period	USD/PLN position			EUR/PLN position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
2012	468,678,817	(457,600,674)	11,078,143	(254,123,754)	245,450,000	(8,673,754)

Total currency position of the Parent 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

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 2011:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currencyj	Rate	Amount in quote currency	Fair value as at Dec 31 2011 (PLN '000) [3]
LOTOS Asfalt Sp. z o.o.	Currency swap	Nov 10 2010	May 14 2012	USD/PLN	(49,284,000)	3.2610	160,715,124	(9,588)
							TOTAL, including:	**(9,588)**
							positive	**-**
							negative	**(9,588)**

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 2011 (PLN '000) [3]
Grupa Kapitałowa LOTOS Petrobaltic S.A.	Currency forward	Nov 30 2011	Jan 23 2012	USD/NOK	(6,700)	5.758187	38,580	(1,032)
Grupa Kapitałowa LOTOS Petrobaltic S.A.	Currency forward	Dec 22 2011	Feb 22 2012	USD/NOK	(8,500)	5.964480	50,698	(360)
							TOTAL, including:	**(1,392)**
							positive	**-**
							negative	**(1,392)**

Open currency transactions as at December 31st 2010:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2010 (PLN '000) [3]
LOTOS Asfalt Sp. z o.o.	Currency swap	Nov 9 2010	Feb 10 2011	USD/PLN	(41,100,000)	2.8272	116,197,920	(5,936)
							TOTAL, including:	**(5,936)**
							positive	**-**

negative	(5,936)

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2010 (PLN '000) [3]
LOTOS Parafiny Sp. z o.o.	Currency forward	Apr 28 2010	Jan 28 2011	EUR/PLN	(74,500)	3.9860	296,957	1
							TOTAL, including:	1
							positive	1
							negative	-

[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).

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 facility 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 term facility granted to finance the 10+ Programme described in Note 34 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/34.-interest-bearing-borrowings-and-other-debt-instruments/).

The obligation to maintain a specified hedge ratio for the interest rate risk connected with the LIBOR USD floating interest rate on the facility contracted to finance the 10+ Programme expired on June 30th 2011 as per the agreement on the financing of the 10+ Programme,

Underlying interest rate position as at December 31st 2011 (USD '000):

Period	Underlying position
2012	(1,864,944)
2013	(1,373,687)
2014	(1,267,629)
2015	(1,143,396)
2016	(1,012,073)
2017	(876,641)
2018	(728,733)
2019	(562,495)
2020	(395,211)

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)

As at December 31st 2011, the Company holds open hedging transactions executed in 2008 and 2009 to partially mitigate the interest rate risk which is not covered by mandatory hedges.

Open interest rate transactions as at December 31st 2011:

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 2011 (PLN '000) [4]
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.8%	6M Libor	(22,535)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M Libor	(20,643)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	6M Libor	4.0%	23,738
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M Libor	(20,437)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	Jan 15 2013	100,000,000	4.2%	6M Libor	(18,262)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Mar 19 2009	Jul 15 2011	Jan 15 2018	100,000,000	3.3%	6M Libor	(40,338)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Apr 15 2009	Jul 15 2011	Jan 15 2018	50,000,000	3.5%	6M Libor	(22,009)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 8 2009	Jul 15 2011	Jan 15 2018	50,000,000	4.0%	6M Libor	(27,910)
							TOTAL, including:	**(148,396)**
							positive	**23,738**
							negative	**(172,134)**

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	3.4%	6M LIBOR	(6,650)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 13 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.6%	6M LIBOR	(6,908)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 16 2008	Oct 15 2008	Jun 30 2011	100,000,000	3.7%	6M LIBOR	(14,220)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Jul 15 2009	Jun 30 2011	122,000,000	4.1%	6M LIBOR	(19,599)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Oct 15 2008	Jun 30 2011	208,000,000	3.8%	6M LIBOR	(30,735)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 26 2008	Jan 15 2009	Jun 30 2011	100,000,000	4.3%	6M LIBOR	(16,943)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 27 2008	Jul 15 2009	Jun 30 2011	150,000,000	4.3%	6M LIBOR	(25,768)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.8%	6M LIBOR	(27,521)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	(25,060)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	6M LIBOR	4.0%	29,087
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	(24,792)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	Jan 15 2013	100,000,000	4.2%	6M LIBOR	(14,102)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Mar 19 2009	Jul 15 2011	Jan 15 2018	100,000,000	3.3%	6M LIBOR	(3,860)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Apr 15 2009	Jul 15 2011	Jan 15 2018	50,000,000	3.5%	6M LIBOR	(3,444)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 8 2009	Jul 15 2011	Jan 15 2018	50,000,000	4.0%	6M LIBOR	(8,295)
							TOTAL, including:	**(198,810)**
							positive	**29,087**
							negative	**(227,897)**

Company	Type of transaction	Transaction	Beginning	End of	Notional	Company	Company	Fair

		execution date	of period	period	amount (USD)	pays	receives	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)	3M LIBOR	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, including:	**315**
							positive	**655**
							negative	**(340)**

[4] Fair value of IRSs/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 (Level 2 in the fair value hierarchy).

Total interest rate position as at December 31st 2011:

Period	Underlying position (USD)	Fixed interest rate borrowings (USD)	Transaction position (USD)	Total position (USD)	Hedge ratio (USD)	Period
2012	(1,864,943,750)	401,678,125	500,000,000	75,863,870	(887,401,755)	52%
2013	(1,373,687,500)	376,656,250	200,000,000	75,707,285	(721,323,965)	47%
2014	(1,267,628,750)	347,575,625	200,000,000	93,595,493	(626,457,632)	51%
2015	(1,143,396,250)	313,511,875	200,000,000	96,284,191	(533,600,184)	53%
2016	(1,012,072,500)	277,503,750	200,000,000	102,199,230	(432,369,520)	57%
2017	(876,641,250)	240,369,375	200,000,000	102,124,180	(334,147,695)	62%
2018	(728,732,500)	199,813,750	-	113,673,611	(415,245,139)	43%
2019	(562,495,000)	154,232,500	-	115,396,189	(292,866,311)	48%
2020	(395,211,250)	108,364,375	-	111,293,408	(175,553,467)	56%

Total interest rate position as at December 31st 2010:

Period	Underlying position (USD)	Fixed interest rate borrowings (USD)	Transaction position (USD)	Total position (USD)	Hedge ratio (USD)	Period
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%

To optimise the interest balance, the cash-pooling service for the LOTOS Group 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 in Grupa LOTOS S.A. consists in monitoring forecast cash flows and the portfolio of

financial assets and liabilities, matching maturities of assets and liabilities, analysing working capital, optimising flows within the Group and close cooperation with business areas in order to safely and effectively allocate the liquidity.
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 to develop a long-term financial strategy.
In the area of financial risk, in addition to an active management of market risk, the Company applies the following liquidity management rules:

- no margins in derivatives trading on the OTC market,
- limited possibility of early termination of financial transactions,
- limits for low-liquidity spot financial instruments,
- credit limits for counterparties in financial and non-financial transactions,
- ensuring adequate quality and diversification of available financing sources,
- internal control processes and organisational efficiency facilitating prompt contingency response.

Contractual maturities of financial liabilities as at December 31 2011 and December 31 2010 are presented below.

Maturity structure of financial liabilities as at December 31st 2011:

PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured bank borrowings and other debt instruments (other than overdraft facilities)	34	7,083,442	7,344,207	348,463	1,933,482	363,759	1,424,509	3,273,994
Overdraft facilities	34	308,187	308,187	224,976	83,211	-	-	-
Notes	35	-	-	-	-	-	-	-
Finance lease liabilities	37.3	197,000	197,000	10,663	8,752	18,965	72,392	86,228
Trade and other payables (net of public creditors)	37.1	3,054,041	3,054,041	2,940,861	97,986	14,515	679	-
Total		**10,642,670**	**10,903,435**	**3,524,963**	**2,123,431**	**397,239**	**1,497,580**	**3,360,222**

Maturity structure of financial liabilities as at December 31st 2010:

(restated) PLN '000	Note	Carrying amount	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Secured bank borrowings and other debt instruments (other than overdraft facilities)	34	6,051,963	6,144,837	75,277	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 (net of public creditors)	37.1	2,061,584	2,061,584	2,012,750	22,623	24,918	1,293	-
Total		**8,515,303**	**8,608,894**	**2,397,145**	**1,620,599**	**389,966**	**1,037,921**	**3,163,263**

Maturity structure of derivative financial instruments as at December 31st 2011:

PLN '000	Note	Carrying amount *	Contractual cash flows	Up to 6 months	6-12 months	1-2 years	2-5 years	Over 5 years
Commodity swap	28, 37.2	-	-	-	-	-	-	-
Futures (CO_2 emissions)	23, 28, 37.2	7,303	7,303	-	7,303	-	-	-
Currency forward and spot contracts	28, 37.2	53,191	53,191	55,915	(2,724)	-	-	-
Forward rate agreements (FRAs)	28, 37.2	-	-	-	-	-	-	-
Interest rate swap (IRS)	28, 23, 37.2	148,396	148,396	40,013	(6,884)	51,538	43,112	20,617
Currency swap	37.2	9,588	9,588	9,588	-	-	-	-
Total		**218,478**	**218,478**	**105,516**	**(2,305)**	**51,538**	**43,112**	**20,617**

* Carrying amount (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 2010:

(restated) PLN '000	Note	Carrying amount *	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)	28, 23, 37.2	(198,810)	(198,810)	(139,329)	1,335	(25,386)	(39,215)	3,785
Currency swap	37.2	(5,936)	(5,936)	(5,936)	-	-	-	-
Total		**(210,437)**	**(210,437)**	**(141,328)**	**(8,410)**	**(25,269)**	**(39,215)**	**3,785**

* Carrying amount (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative financial instruments.

Credit risk

Management of credit risk related to counterparties in financial transactions consists in the verification of creditworthiness of the current and potential counterparties and monitoring of credit exposure against the granted limits. The counterparties must have an appropriate credit rating, assigned by leading rating agencies, or hold guarantees from institutions meeting the minimum rating requirement. The Group enters into financial transactions with reputable firms with sound credit standing, and diversifies the group of institutions with which it cooperates.

As at December 31st 2011, the concentration of credit risk with respect to a single counterparty in financial transactions did not exceed 0.015% of the Group's balance-sheet total.

Given that sales are executed on a deferred-payment basis, the Group may be exposed to risk of non-payment for products and services provided to its counterparties. As regards management of counterparty risk in non-financial transactions, all customers who request trading on credit terms are subject to credit assessment, whose results determine the level of possible credit limits.

Credit risk is measured by the maximum exposure to risk of individual classes of financial assets. Carrying amounts of financial assets represent the maximum credit risk exposure.

The maximum credit risk exposures as at the balance-sheet date:

PLN '000	23Note	Dec 31 2011	Dec 31 2010 (restated)
Shares:		9,746	9,927
- long-term	23	9,746	9,915
- short-term	28	-	12
Decommissioning fund	23	24,491	21,668
Deposits:		78,671	5,932
- non-current	23	38,106	-
- current	28	40,565	5,932
Security deposits (margins)	23	11,748	3,108
Non-bank borrowings		1,614	-
- non-current	23	-	-
- current	28	1,614	-
Derivative financial instruments:		49,300	69,370
- long-term	23	12,098	19,408
- short-term	28	37,202	49,962
Trade and other receivables (net of receivables from the state budget):		2,170,484	1,810,637
- long-term	25	33,313	28,612

- short-term	26	2,137,171	1,782,025
Cash and cash equivalents	30	383,680	382,601
Total		**2,729,734**	**2,303,243**

In the Management Board's opinion, the risk related to non-performing financial assets is reflected by recognised impairment losses. For more information on impairment losses on financial assets, see Note 12.3 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-3), 12.5 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-5) and 12.6 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/12.-income-and-expenses#12-6).

For information on impairment losses on receivables, the age analysis of unimpaired past due receivables, as well as the analysis of concentration of credit risk related to trade receivables as at December 31st 2011 and December 31st 2010, see Note 26 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/26.-trade-and-other-receivables/).

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. Financial assets and liabilities held for trading include 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 (CO_2) allowances (EUA, CER) is established by reference to the difference between the market price quoted by the Intercontinental Exchange (ICE) 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).

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 2011 and December 31st 2010 include mainly shares and equity interests for which there is no active market.

Loans advanced and receivables

On September 23rd 2003 and April 8th 2004, Grupa LOTOS S.A. and Rafineria Nafty GLIMAR S.A. signed loan agreements for the financing of operating and investing activities, including the Glimar Hydrocomplex project, for a total 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 executed by Grupa LOTOS S.A. on February 12th 2004 for the benefit of Bank Przemysłowo-Handlowy S.A., the Company undertook commitments relating to the co-financing of the Glimar Hydrocomplex project and maintaining 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 2011 and December 31st 2010, the assets under loans advanced were fully covered by an impairment charge.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include bank borrowings, overdraft facilities and liabilities under finance lease.

None of the following economic events or situations requiring disclosure occurred at the Group during the financial year ended December 31st 2011:

- The Group did not reclassify any financial assets (IFRS 7, paragraph 12);
- No collateral was established to 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 the liability and 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 did not acquired 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).

None of the following economic events or situations requiring disclosure occurred at the Group during the financial year ended December 31st 2010 and December 31st 2009:

- The Group did not reclassify any financial assets (IFRS 7, paragraph 12);
- No collateral was established to 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 the liability and 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 as the 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 acquired 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

as at Dec 31 2011 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:		-	-	9,746	-	-	9,746
- non-current	23	-	-	9,746	-	-	9,746
- current	28	-	-	-	-	-	-
Decommissioning fund	23	-	24,491	-	-	-	24,491
Deposits:		-	78,671	-	-	-	78,671
- non-current	23	-	38,106	-	-	-	38,106
- current	28	-	40,565	-	-	-	40,565
Security deposits (margins)	23	-	11,748	-	-	-	11,748
Loans and advances:		-	1,614	-	-	-	1,614
- non-current		-	-	-	-	-	-
- current	28	-	1,614	-	-		1,614
Derivative financial instruments:		49,300	-	-	-	-	49,300
- non-current	23	12,098	-	-	-	-	12,098
- current	28	37,202	-	-	-	-	37,202
Trade and other receivables (net of receivables from the state budget):		-	2,170,484	-	-	-	2,170,484
- non-current	25	-	33,313	-	-	-	33,313
- current	26	-	2,137,171	-	-	-	2,137,171
Cash and cash equivalents	30	-	383,680	-	-	-	383,680
Trade and other payables (net of public creditors):	37.1	-	-	-	-	(3,054,041)	(3,054,041)
- non-current		-	-	-	-	(15,194)	(15,194)
- current		-	-	-	-	(3,038,847)	(3,038,847)
Borrowings and other debt instruments:	34	-	-	-	-	(7,391,629)	(7,391,629)
- non-current		-	-	-	-	(4,983,889)	(4,983,889)
- current		-	-	-	-	(2,407,740)	(2,407,740)

Notes:	35	-	-	-	-	-	-
- non-current		-	-	-	-	-	-
- current		-	-	-	-	-	-
Financial liabilities		-	-	-	(267,778)	(197,000)	(464,778)
Lease liabilities:	37.3	-	-	-	-	(197,000)	(197,000)
- non-current		-	-	-	-	(177,585)	(177,585)
- current		-	-	-	-	(19,415)	(19,415)
Derivative financial instruments:	37.2	-	-	-	(267,778)	-	(267,778)
- non-current		-	-	-	(127,364)	-	(127,364)
- current		-	-	-	(140,414)	-	(140,414)
Total		**49,300**	**2,670,688**	**9,746**	**(267,778)**	**(10,642,670)**	**(8,180,714)**

As at December 31st 2011, the Group held no financial assets whose terms would be renegotiated due to possible default or impairment.

As at December 31st 2011, 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 2011, the Group did not carry any financial assets held to maturity.

As at December 31st 2011, the carrying amount of loans, receivables and financial liabilities measured at amortised cost did not significantly differ from their fair value (not applicable to borrowings and other debt instruments bearing interest at a fixed rate). 82% of contracted borrowings and other debt instruments bore interest at floating rates, with interest payable in a short term. The other borrowings and debt instruments (18%) bore interest at fixed rates.

As at December 31st 2011, non-current financial assets available for sale measured at fair value include mainly shares and equity interests for which there is no active market.

The methods and assumptions adopted for the measurement of fair value of financial instruments are described in Notes 10 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/10.-accounting-policies/) and 42 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/42.-financial-instruments/).

Dec 31 2010 (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:		-	-	9,927	-	-	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
Loans and advances:		-	-	-	-	-	-
- non-current		-	-	-	-	-	-
- current	28	-	-	-	-	-	-
Derivative financial instruments:		69,370	-	-	-	-	69,370
- non-current	23	19,408	-	-	-	-	19,408
- current	28	49,962	-	-	-	-	49,962
Trade and other receivables (net of receivables from the state budget):		-	1,810,637	-	-	-	1,810,637
- non-current	25	-	28,612	-	-	-	28,612

- current	26	-	1,782,025	-	-	-	1,782,025
Cash and cash equivalents	30	-	382,601	-	-	-	382,601
Trade and other payables (net of public creditors):	37.1	-	-	-	-	(2,061,584)	(2,061,584)
- non-current		-	-	-	-	(26,211)	(26,211)
- current		-	-	-	-	(2,035,373)	(2,035,373)
Borrowings and other debt instruments:	34	-	-	-	-	(6,326,794)	(6,326,794)
- non-current		-	-	-	-	(4,403,453)	(4,403,453)
- current		-	-	-	-	(1,923,341)	(1,923,341)
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		-	-	-	(80,107)	-	(80,107)
- current		-	-	-	(199,700)	-	(199,700)
Total		**69,370**	**2,223,946**	**9,927**	**(279,807)**	**(8,515,303)**	**(6,491,867)**

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 amount of loans, receivables and financial liabilities measured at amortised cost did not significantly differ from their fair value (not applicable to borrowings bearing interest at a fixed rate). 83% of contracted borrowings and other debt instruments bore interest at floating rates, with interest payable in a short term. The other borrowings and debt instruments (17%) bore interest at fixed rates.

As at December 31st 2010, non-current financial assets available for sale measured at fair value include mainly shares and equity interests for which there is no active market.

The methods and assumptions adopted for the measurement of fair value of financial instruments are described in Notes 10 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/10.-accounting-policies/) and 42 (http://raportroczny.lotos.pl/en/financial-data/consolidated-financial-statements-2011/notes-to-the-financial-statements/42.-financial-instruments/).

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 2011 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/(expenses)		-	20,202	-	(168,358)	(148,156)
Foreign exchange gains/(losses)		-	183,259	-	(737,412)	(554,153)
Impairment losses reversed/(recognised)	12.2, 12.5	-	(6,902)	-	-	(6,902)
Gains/(losses) on fair value measurement of derivative financial instruments	12.6	(9,769)	-	-	-	(9,769)

Gains/(losses) on realisation of derivative financial instruments	12.6	(120,661)	-	-	-	(120,661)
Gains/(losses) on fair value measurement of hedging instruments		-	-	-	(516,892)	(516,892)
Gains/(losses) on sale	12.3, 12.6	-	-	957	-	957
Total		**(130,430)**	**196,559**	**957**	**(1,422,662)**	**(1,355,576)**

Year ended Dec 31 2010 (restated) 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/(expenses)		-	18,829	-	(75,231)	(56,402)
Foreign exchange gains/(losses)		-	4,893	-	(67,821)	(62,928)
Impairment losses reversed/(recognised)		-	(7,729)	(2)	-	(7,731)
Gains/(losses) on fair value measurement of derivative financial instruments	12.6	(75,945)	-	-	-	(75,945)
Gains/(losses) on realisation of derivative financial instruments	12.6	(117,091)	-	-	-	(117,091)
Gains/(losses) on fair value measurement of hedging instruments		-	-	-	-	-
Gains/(losses) on sale	12.3, 12.6	-	-	-	-	-
Total		**(193,036)**	**15,993**	**(2)**	**(143,052)**	**(320,097)**

42.3 Sensitivity analysis with respect to market risk related to fluctuations in FX rates, interest rates and prices of carbon dioxide (CO_2) emission allowances.

42.3.1 Sensitivity analysis with respect to market risk related to fluctuations in FX rates

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2011, along with the effects 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 2011 PLN '000	+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	6,377	2,491	(6,377)	(2,491)
Financial assets - derivative financial instruments	(27,887)	1,805	27,887	(1,805)
Loans advanced	35,137	2,090	(35,137)	(2,090)
Notes	6,154	-	(6,154)	-
Deposits	1,620	1,060	(1,620)	(1,060)
Security deposits (margins)	-	385	-	(385)
Cash and cash equivalents	1,365	1,710	(1,365)	(1,710)
Trade and other payables	(98,412)	(2,100)	98,412	2,100
Borrowings and other debt instruments	(149,424)[(1)]	(8,731)	149,424[(1)]	8,731
Liabilities under issue of notes	(6,125)	-	6,125	-
Financial liabilities - derivative financial instruments	(40,711)	41,162	40,711	(41,162)
Finance lease liabilities	-	(7,715)	-	7,715
Total	**(271,906)**	**32,157**	**271,906**	**(32,157)**

(1) taking into account the effect of cash flow hedge accounting. Assuming a 4% increase or decrease in the USD/PLN exchange rate, the effect on other comprehensive income could potentially lead to a change of PLN (156,095) 156,095 thousand in the fair value of the facilities.

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2010, along with the effects 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 (restated) PLN '000	**+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	6,959	2,163	(6,959)	(2,163)
Financial assets - derivative financial instruments	(56,694)	14,855	56,694	(14,855)
Loans advanced	27,703	59	(27,703)	(59)
Notes	4,812	-	(4,812)	-
Deposits	237	-	(237)	-
Security deposits (margins)	-	40	-	(40)
Cash and cash equivalents	1,223	1,113	(1,223)	(1,113)
Trade and other payables	(61,656)	(4,129)	61,656	4,129
Borrowings and other debt instruments	(263,276)	(1,478)	263,276	1,478
Liabilities under issue of notes	(4,821)	-	4,821	
Financial liabilities - derivative financial instruments	10,783	27,526	(10,783)	(27,526)
Finance lease liabilities	-	(2,897)	-	2,897
Total	**(334,730)**	**37,258**	**334,730**	**(37,258)**

42.3.2 Sensitivity analysis with respect to market risk related to fluctuations in interest rates

Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2011, assuming a 0.2% increase or decrease in the interest rate

Dec 31 2011 PLN '000	**Note**	**Carrying amount**	**Change**	
			+0.2%	**-0.2%**
Cash and cash equivalents	30	383,680	767	(767)
Decommissioning fund	23	24,491	49	(49)
Financial assets - derivative financial instruments [(1)]		23,738	(696)	699
Deposits		78,671	157	(157)
Security deposits (margins)	23	11,748	23	(23)
Borrowings and other debt instruments	34	(7,391,629)	(12,093)	12,093
Finance lease liabilities	37.3	(197,000)	(394)	394
Financial liabilities - derivative financial instruments[(1)]		(172,134)	11,027	(11,151)
Total		**(7,238,435)**	**(1,160)**	**1,039**

(1) Including interest rate swap (IRS).

As at December 31st 2011, the carrying amount of financial assets and liabilities (cash and cash equivalents, decommissioning fund, deposits, security deposits (margins), derivative financial instruments, liabilities under borrowings and other debt instruments, finance lease and derivative financial instruments) which are sensitive to interest rate risk amounted to PLN 7,238,435 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 2011 of PLN 1,160 (PLN 1.039) thousand net.

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	**Note**	**Carrying amount**	**Change**

(restated) PLN '000			+0.2%	-0.2%
Cash and cash equivalents	30	382,601	765	(765)
Decommissioning fund	23	21,668	43	(43)
Financial assets - derivative financial instruments(1)		29,742	(1,358)	1,366
Deposits		5,932	12	(12)
Security deposits (margins)	23	3,108	6	(6)
Borrowings and other debt instruments	34	(6,326,794)	(10,565)	10,565
Finance lease liabilities	37.3	(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).

As at December 31st 2010, the carrying amount of financial assets and liabilities (cash and cash equivalents, decommissioning fund, deposits, security deposits (margins), derivative financial instruments, liabilities under borrowings and other debt instruments, finance lease 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 the value of financial assets and liabilities as at December 31st 2010 of PLN 2,444 (PLN 2,585) thousand net.

42.3.3 Sensitivity analysis with respect to market risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances

As at December 31st 2011 and December 31st 2010, the Parent held futures for the purchase of carbon dioxide (CO_2) emission allowances (EUA – Emissions Unit Allowance), measured at fair value.

Below is presented an analysis of the Group's sensitivity to risk related to fluctuations in prices of carbon dioxide (CO_2) emission allowances as at December 31st 2011 and December 31st 2011, assuming a 10% increase or decrease in the interest rate.

PLN '000	Dec 31 2011			Dec 31 2010		
	Carrying amount	Change		Carrying amount	Change	
		+10%	-10%		+10%	-10%
Financial assets	8,304	(1,261)	1,261	615	(867)	867
Financial liabilities	(15,607)	912	(912)	(463)	691	(691)
Total	**(7,303)**	**(349)**	**349**	**152**	**(176)**	**176**

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43. Employment structure

The average number of employees by employee groups was as follows:

	Year ended Dec 31 2011	Year ended Dec 31 2010
Blue-collar employees	2,838	2,664
White-collar employees	2,232	2,312
Total	**5,070**	**4,976**

This is a translation of a document originally issued in Polish.

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 pow er 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 w ell 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 w ell 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. On July 11th 2011, Grupa LOTOS S.A. received a notification to the effect that its assets have been included in the list of assets, facilities, installations, equipment, and services comprising critical infrastructure. On August 23rd 2011, the Management Board of Grupa LOTOS S.A. appointed a special officer responsible for protection of critical infrastructure.

44.2 Implementation of the National Indicative Target (NCW) in accordance with the Act on Biocomponents and Liquid Biofuels

In Poland, the biocomponent-related matters are regulated under a number of legal acts prepared within the legal framework created by the European Union's directives, by way of the direct transposition thereof in the Polish law:

- Act on Biocomponents and Liquid Biofuels dated August 25th 2006, Dz.U. of 2006, No. 169, item 1199;
- Act on Monitoring and Control of Fuel Quality dated August 25th 2006, Dz.U. of 2006 No. 169, item 1200, as amended;
- Act Amending the Act on Monitoring and Control of Fuel Quality and certain other acts dated May 27th 2011, Dz.U. No. 153, item 902;
- Regulation of the Polish Council of Ministers concerning the National Indicative Targets for 2008–2013 dated June 15th 2007, Dz.U. No. 110.

Pursuant to the provisions of the Act on Biocomponents and Liquid Biofuels, Grupa LOTOS S.A. is obliged to implement the National Indicative Target through achieving "the minimum required share of biocomponents and other renewable fuels in the total volume of sold, disposed of otherwise or used for its own needs liquid fuels and liquid biofuels", expressed in percent of energy content at individual levels in accordance with the binding regulation:

2008	2009	2010	2011	2012	2013
3.45%	4.6%	5.75%	6.2%	6.65%	7.10%

Grupa LOTOS S.A. implements the National Indicative Targets with liquid fuels and liquid biofuels for which quality requirements are stipulated in the Act on Amending the Act on Monitoring and Control of Fuel Quality and certain other acts, that is for:

- BB gasolines , known as E-95/E98 gasolines, containing up to 5% v/v of pure bioethanol or bioethanol in ETBE
- diesel oils known as B-7 oils, containing up to 7% v/v of FAME(Fatty Acid Methyl Esters),
- B100 – 100% higher fatty acid esters, which are intrinsic fuels.

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45. Capital management

The objective of the LOTOS Group 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 for shareholders. This is achieved by striving to develop the desired capital 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 borrowings and other debt instruments less cash and cash equivalents. Equity includes equity attributable to owners of the Parent increased by non-controlling interests.

PLN '000	Note	Year ended Dec 31 2011	Year ended Dec 31 2010 (restated)
Non-current interest-bearing borrowings and other debt instruments	34	4,983,889	4,403,453
Current interest-bearing borrowings and other debt instruments	34	2,407,740	1,923,341
Cash and cash equivalents	30	(383,680)	(382,601)
Net debt		**7,007,949**	**5,944,193**
Equity attributable to owners of the Parent		7,781,436	7,498,819
Non-controlling interests	33	947	14,658
Total equity		**7,782,383**	**7,513,477**
Net debt to equity		0.90	0.79

The Group monitors its financing structure in order to achieve the goal set in Strategy for the LOTOS Group for the years 2011–2015, providing for a reduction of debt in order to achieve a debt to equity ratio of no more than 0.4 at the end of the Strategy term.

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46. Material events subsequent to the balance-sheet date

1. On January 10th 2012, 100% of shares in LOTOS Parafiny Sp. z o.o. were sold to a third party, namely to Krokus Chem Sp. z o.o., in which Fundusz Nova Polonia Natexis LPII and the management staff of LOTOS Parafiny Sp. z o.o. hold interests. On November 30th 2011, Grupa LOTOS S.A. and Krokus Chem Sp. z o.o. signed a preliminary agreement to sell 100% of shares in LOTOS Parafiny Sp. z o.o. (see Note 2 to these consolidated financial statements). As an additional element of the transaction, on November 29th 2011 the parties executed a seven-year agreement on supply of slack waxes by Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o. The agreement was concluded for a period from January 1st 2012 to December 31st 2018, and its estimated net value is PLN 780m. The maximum net value of contractual penalties is PLN 98m. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation above the contractual penalties. The other terms and conditions of the contract do not differ from the terms and conditions commonly applied in agreements of such type.
2. On January 14th 2012, the court registered an increase in the share capital of LOTOS Exploration and Production Norge AS by NOK 91,984 thousand, to NOK 664,718 thousand, through the issue of new Series B shares with a par value of NOK 1 per share. All the new Series B shares were subscribed for by LOTOS Petrobaltic S.A.
3. On January 17th 2012, following completion of the APA 2011 licence round, LOTOS Exploration and Production Norge AS was awarded interests in two exploration licences located in the Norwegian Sea. Interests in licence PL 643 – block 6406/ & 6406/4 (Halten Terrace) were awarded to LOTOS Exploration and Production Norge AS – 30%, VNG Norge AS – 40% (licence operator), and Edison International Spa – 30%. Interests in licence PL 655 – block 6610/2 (Træna Basin) were awarded to LOTOS Exploration and Production Norge AS – 30%, Wintershall – 30% (licence operator), Centrica – 20%, and VNG – 20%.
4. On February 2nd 2012, the increase in the share capital of LOTOS Petrobaltic S.A. was registered. In exercise of its pre-emptive rights, on December 15th 2011 Grupa LOTOS S.A. subscribed for new Series C shares. In connection with the issue of 280,000 registered Series C shares with a value of PLN 10 per share, the share capital of LOTOS Petrobaltic S.A. was increased by PLN 279,996 thousand, i.e. from PLN 96,600 thousand to PLN 99,400 thousand. Grupa LOTOS S.A. was allocated 279,996 shares. Following registration of the share capital increase, Grupa LOTOS S.A. holds a 99.95% interest in LOTOS Petrobaltic S.A.
5. On March 14th 1012, having obtained the relevant corporate approvals, LOTOS Exploration and Production Norge AS decided to abandon licences PL 455 and PL 515. Moreover, given the absence of any positive results of drilling in the area of licence PL 455 and in connection with the obtained results of analysis of the geological potential of reserves, as at December 31st 2011, a valuation allowance was recognised for capitalised cost of tests on licence PL 455, as described in more detail in Note 18 to these consolidated financial statements.

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 Sokołowski
Vice-President of the Management Board, Chief Commercial Officer	(-) Maciej Szozda
Chief Accountant	(-) Tomasz Południewski

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Important events calendar 2011

Information on most important events which took place during the reporting period at the LOTOS Group.

2011 2012

Events Awards

Jan 5th

Grupa LOTOS was awarded the title of the "2010 Patron of Sports in the Province of Gdańsk" by the Gazeta Wyborcza daily.

Jan 15th

LOTOS Czechowice received the Platinum Laurel of Skills and Competence "Socially Responsible Business".

Jan 12th

Grupa LOTOS signed a PLN 1.7bn contract for supplies of fuel to BP in Poland in 2011.

Jan 17th

At Grupa LOTOS' Gdańsk refinery, a *Mild Hydrocracking (MHC)* unit was launched. It is the last but one unit constructed under the 10+ Programme.

Jan 19th

According to the Moto Scan 2010 survey, the LOTOS brand is a leader of the Polish engine oil market, with a market share of 28.3%.

Jan 20th

Following the APA 2010 licensing round awards, LOTOS Exploration & Production Norge AS was granted the operator status with respect to, and a 25% interest in, the PL503B licence located in the southern part of the North Sea.

Jan 25th

Grupa LOTOS was included in the second edition RESPECT Index of the Warsaw Stock Exchange.

Jan 27th

In Warsaw, Grupa LOTOS presented its sales

Jan 31st

LOTOS Kolej received a distinction in the “2011 Forbes’ Diamonds” ranking of companies with annual revenues exceeding PLN 250m. LOTOS Kolej came fifth in the ranking of companies from the Province of Gdańsk.

Jan 31st

LOTOS Asfalt received a distinction in the “2011 Forbes’ Diamonds” ranking of companies with annual revenues exceeding PLN 250m. LOTOS Asfalt came eighth in the ranking of companies from the Province of Gdańsk.

Feb 3rd

Through its subsidiary - LOTOS Petrobaltic, Grupa LOTOS acquired a 100% interest in AB Geonafta, which produces crude oil in the territory of Lithuania.

Feb 4th

Grupa LOTOS won the first place in the “Investor relations” category of the annual ranking “Listed Company of the Year”, and the fifth place in the “Listed Company of the Year” ranking prepared by the Pentor Institute for the Puls Biznesu weekly.

Feb 25th

in Warsaw, Grupa LOTOS presented its sales strategy until 2015 – Supply, Trading and Optimatization (STO). Grupa LOTOS will focus primarily on the effective management of increased oil and product streams, anticipated on the completion of the 10+ Programme, diversification of feedstock sources and projects designed to optimally exploit the flexibility of the modernised refinery. Additionally, the trading unit will attempt to optimise the valuation and use of feedstock reserves held (delivery to the refinery, sale and barter transactions) and to reach more remote markets for petroleum products, characterised by more attractive demand and price structures.

Jan 31st

LOTOS Parafiny received a distinction in the “2011 Forbes’ Diamonds”, coming 23rd on the Rzeszów Province’s list of middle-sized enterprises with revenues of PLN 50-250m.

Feb 3rd

Grupa LOTOS received the title of the Gdynia Sport Partner 2010.

Feb 8th

LOTOS Parafiny won the “2011 Business Cheetah” title in the Province of Rzeszów, in the “Market value increase and dynamic growth” category.

Feb 11th

Grupa LOTOS is among the leaders of the BI-NGO 2010 Index. The index focuses on the quality of internet communications related to social commitment of the 500 largest Polish companies, as listed by the Rzeczpospolita daily.

Feb 25th

LOTOS Kolej purchased three more electric locomotives Bombardier TRAXX MS. The company has the largest fleet of modern locomotives in Poland.

Mar 1st

The LOTOS brand received a Business Superbrand distinction from The Superbrands Ltd.

Mar 7th

According to a report published by Polska Organizacja Przemysłu i Handlu Naftowego (Polish Organisation of Oil Industry and Trade), Grupa LOTOS' share in the domestic fuel market stood at 31.3% in 2010. This means a 3.1 pp increase year on year. The Company's strategy for 2011–2015 assumes a 30% share in the market.

Mar 30th

Aliten – a modern open gearing lubricant manufactured by LOTOS Oil – received an award in the "2010 Product of the Year" competition.

Mar 31st

At Grupa LOTOS' Gdańsk refinery, a *Residiuum Oil Supercritical Extraction (ROSE)* unit was launched. It is the last unit constructed under the 10+ Programme.

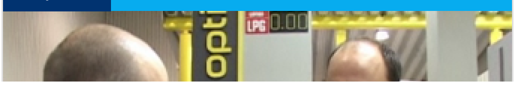
Apr 20th

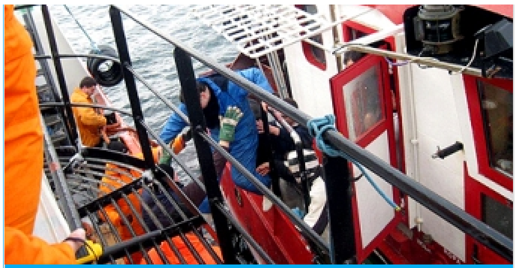
The fourth issue of the bonus Navigator programme started. As part of the programme, customers collect credits redeemable for prizes at over 250 LOTOS service stations all over the Poland.

Apr 20th-22nd

Following replacement of leg shock absorbers and overhaul of the main crane, the Petrobaltic drilling platform left Port Północny in Gdańsk and was towed to the B3 field. The B3 field is located around 70 km north off Cape Rozewie. LOTOS Petrobaltic produces about 4,000 barrels of crude oil daily from the field.

May 11th





LOTOS Petrobaltic's ship "Aphrodite I" played an important part in the rescue of the crew of the fishing boat "Wła-97" in the Baltic Sea.

Mar 3rd

LOTOS Kolej opened a new railway dispatching office in Wrocław.

Mar 28th

Prime Ministers Donald Tusk honoured with his presence the gala event at the Gdańsk refinery of Grupa LOTOS organized to celebrate the completion of the 10+ Programme – the biggest Polish investment project in the last 20 years. Next to the new Crude and Vacuum Distillation Unit (CDU/VDU), a press briefing was held with representatives of Polish television networks TVP, TVN and Polsat, and a several dozen journalists as well as the management of Grupa LOTOS and persons in charge of the 10+ Programme.

Apr 20th

The LOTOS Group came fifth in the 2010 "500 List", having advanced four places relative to 2009. The ranking, prepared by the Rzeczpospolita daily, lists the largest companies in Poland.

May 11th

Grupa LOTOS reported good performance in Q1 2011. Operating profit amounted to PLN 412.6m, up by 35.4% on Q4 2010 and 212.6% on Q1 2010.

May 18th

Paweł Olechnowicz, President of the Board of Grupa LOTOS, received a distinction in the Business Ethics category of the “Faces of Business” competition, organized by the "Dziennik Gazeta Prawna" daily and TVN CNBC.

May 31st

Lechia Gdańsk, a football team sponsored by Grupa LOTOS, won the first place for *fair play* in the Polish top league.

Jun 1st

LOTOS Oil received a diploma from the Ministry of Economy in recognition of its successful business cooperation with Uzbekistan.

Jun 6th

Grupa LOTOS and LOTOS Oil were awarded the Ambassador of Polish Economy title in the “Exporter” category in a competition organized by Business Centre Club, under the auspices of the Minister of Foreign Affairs.

Jun 14th

Grupa LOTOS received a distinction in the “Corporate governance and corporate social responsibility” category of the Business Award of the President of the Republic of Poland.

Jun 15th

In 2011, during the 18th edition of the “Petrol Station” International Trade Fair, LOTOS Paliwa presented the concept of a new economy service station chain branded LOTOS Optima.

May 16th

On the “500 List” of the Polityka weekly, Grupa LOTOS was ranked the fifth largest Polish company in the industrial, service and fuel sector, coming fourth among the 50 largest listed companies. Additionally, the Company came tenth among the 50 most profitable companies included in the “500 List”, and was ninth among the 50 largest exporters.

May 23rd

Grupa LOTOS was awarded the “Master of Business” title in the Energy and Raw Materials category by the Businessman.pl monthly.

Jun 3rd

LOTOS Exploration & Production Norge commenced 3D seismic surveys within the PL503 and PL503B licence areas, in the southern part of the North Sea. The surveys covered an off-shore area of 1,560 square kilometres. The survey results will enable the company to estimate more accurately the production potential of the licence area and to identify the best location for exploratory drilling.

Jun 10th

Paweł Olechnowicz, President of the Board of Grupa LOTOS, received the “Golden Oxer” award from the Employers of Pomerania, in recognition of the successful implementation of the +10 Programme.

Jun 15th

Grupa LOTOS and Przedsiębiorstwo Eksploatacji Rurociągów Naftowych "Przyjaźń" signed a letter of intent concerning joint construction of underground storage facilities for crude oil and liquid fuels.

Jun 24th

Grupa LOTOS won the 12th edition of the Human Resources Management Leader awards of the Institute of Labour and Social Studies, receiving the Amber Statuette.

Jun 28th

The Ordinary Shareholders Meeting of Grupa LOTOS appointed the Company’s Supervisory Board for the 8th term of office.

Jul 14th

Grupa LOTOS was included in the third edition RESPECT Index of the Warsaw Stock Exchange.

Aug 19th

A LOTOS service station in Bydgoszcz received the full score – 100% – in the international survey conducted by International Service Check. The entire LOTOS chain ranked third in Poland.

Aug 20th

The ABC of Safety Motor Picnic was organized on the Sopot pier. The emphasis was put on driving culture

The Polish Ski Federation, Grupa LOTOS (as a general sponsor of Polish skiing) and Kamil Stoch (a member of the Polish ski jumping team) signed a letter of intent concerning mutual cooperation on the implementation of the National Ski Jumping Development Programme “In Search for the Champion’s Successors”.

Jun 22nd

2011 C CHEMISTRY

International Year of CHEMISTRY 2011

Grupa LOTOS became the main partner of the Polish Academy of Sciences for the organization of the International Year of Chemistry in Poland. 2011 also marks the centenary of awarding Maria Skłodowska-Curie a Nobel Prize in chemistry.

Jun 27th

The production platform which is to operate on the YME field in the North Sea was installed on the site. LOTOS Exploration & Production Norge holds a 20% interest in the YME field. The recoverable oil reserves corresponding to the acquired interest are estimated at approximately 1.8 million tonnes.

Jul 13th

The first three service station of the economy LOTOS Optima segment were opened in Warsaw.

Aug 19th

The fire brigade of LOTOS Straż received a new MAN fire engine. It will replace the popular Stayer, which has been in service for a long time.

Aug 23rd

Grupa LOTOS extended for another 12 months the USD 400m credit facility agreement concerning refinancing and financing of inventories, concluded on December 20th 2007 with the bank syndicate and economical driving. Grupa LOTOS was involved in the organization of the event for the fourth time. The event was organized as part of the LOTOS Safety Academy (Akademia Bezpieczeństwa LOTOS) Programme, which – through numerous initiatives, such as LOTOS – Safe Road to School (LOTOS - Bezpieczna droga do szkoły) educates the public in road traffic safety.

Aug 30th

Grupa LOTOS came second in the ranking of the best energy sector employers, prepared by Antal International.

Aug 31st

Grupa LOTOS became the official sponsor of the Lechia Gdańsk Football Academy. The sponsor's support will extend to young football players born in 1996-2004.

Sep 5th

Grupa LOTOS was a partner of the international conference entitled "Common Responsibility – How to Enhance CSR Presence and Effectiveness in the EU", organized in Gdańsk by the Ministry of Economy and the Responsible Business Forum. Poland was the first country to devote so much attention to corporate social responsibility during its EU Presidency.

Sep 16th

Furthermore, the beaches, seashore and seafloor in the vicinity of the pier in Gdańsk-Brzeźno were cleaned by LOTOS Straż divers. Once again Grupa LOTOS joined an environmental initiative whose primary objective is to awaken a sense of responsibility for the Baltic Sea.

Sep 30th

Grupa LOTOS declared that it intended to focus on a project concerning cavern storage facilities in Pomerania, as the next strategic element in building energy security and solidarity. A discussion on the subject held at the Company was attended by Günter Verheugen, EU commissioner for Enterprise and Industry in 2004-2010.

composed of Bank PEKAO S.A., PKO BP, BRE Bank and Nordea Bank Polska.

Aug 25th

Grupa LOTOS reported good performance in H1 2011. PLN 1bn was the EBITDA figure which the Company recorded on sales revenue of nearly PLN 13.3bn. Increased sales, higher crude oil prices and a weaker US dollar contributed to net profit of PLN 889m.

Aug 31th

LOTOS Oil enhanced its product offering with the ultra-modern LOTOS QUAZAR K/FE 5W30 oil, to be used in the newest makes of KIA Sportage and Kia cee'd equipped with modernised gasoline engines. LOTOS Oil has cooperated with KIA MOTORS Polska since March 2007. At first, with users of KIA cars in mind, a special oil line - LOTOS KIA FORMULA - was developed, which was then replaced with ultra-modern synthetic oils of LOTOS Quazar K line in 2010.

Sep 8th

Grupa LOTOS ranked eleventh on the "EUROPA 500" list of the largest companies from Central and Eastern Europe. The ranking was prepared by the Rzeczpospolita daily together with Deloitte, a consultancy firm.

Sep 16th

The Gdańsk refinery operated by Grupa LOTOS hosted a group of member state ambassadors to the EU. The Committee of Permanent Representatives (from French COREPER) is made up of member state ambassadors to the EU at the EU Council in Brussels. The ambassadors' visit to Poland was connected with Poland's assuming the presidency of the Council of the European Union on July 1st 2011.

Sep 23rd

Dominik Tomczyk, President of the Board of LOTOS Parafiny, was granted an Honorary Medal of the Foundry Research Institute of Kraków in recognition for his invaluable services to the institute.

Sep 28 th

Sep 30th

As part of the “Junior GDAŃSK 2012” initiative, Grupa LOTOS funded another LOTOS funded another LOTOS funded another modern football pitch with artificial grass surface and lighting. The pitch which was opened to the public in an official ceremony is located by Junior High School No. 20 in the Przymorze estate in Gdańsk.

Oct 10th

According to data published by the Railway Transport Authority for the first half of 2011, LOTOS Kolej ranked third among rail freight operators. In this period, the company had a 6.97% market share by transport work done, however, among private carriers it became the vice-leader of the market.

Oct 10th

LOTOS Kolej was distinguished as a “2011 Leader of Rail Transport” in the carrier category. The title is granted to licensed rail carriers, transporting both passengers and cargo. The competition is organized by the Rail Transport Forum, the editorial board of Transport i Komunikacja bimonthly and the Polish Association of Engineers and Technicians of Transportation.

Oct 14th

LOTOS Paliwa opened its first Motorway Service Areas on the new section of the A1 motorway between Grudziądz and Toruń. In total, the LOTOS service station chain has nine Motorway Service Areas which, apart from A1, are located along the A2, A4 and A6 motorways.
LOTOS Asfalt was the main supplier of bitumen for the 62 km long section of the A1 motorway between Grudziądz and Toruń. In total, it supplied about 36 thousand tonnes of bitumen.

Oct 19th

LOTOS Kolej opened a new railway dispatching office in Czechowice-Dziedzice. This is its fourth dispatching office, after Gdańsk, Zduńska Wola and Wrocław.

Oct 26th

For the third consecutive time, LOTOS Dynamic fuels won the first place in the “Consumer’s Laurel” programme in the premium category, thus securing the special prize – the “2011 Consumer’s Laurel Grand Prix”.

Oct 26th

Grupa LOTOS’ scholarship programme – “LOTOS Cup – In Search for the Champion’s Successors” –

Another edition of the local community-oriented LOTOS – Safe Journey to School (LOTOS - Bezpieczna droga do szkoły) programme was inaugurated.

Oct 4th

LOTOS Oil added to its offering LOTOS Quazar S 0W20, a synthetic, energy-efficient, new-generation motor fuel. The product launch was connected with the bringing to the market of the newest city van Subaru Trezia. LOTOS Oil has cooperated with Subaru Import Polska since April 2010. Expert work and tests allowed the company to compose technologically advanced LOTOS Quazar oils, intended for protecting the engines of modern cars.

Oct 10th

Wojtek Chuchała and Kamil Heller, representing LOTOS - Subaru Poland Rally Team, won the title of Poland’s Car Rally Champion in Group N.

Oct 11th

Challenges facing the EU oil sector and building the sector’s potential were the key themes of the 14th Refining and Petrochemical Industry Conference organized by the World Refining Association. The three-day event held at venues in Sopot and Gdańsk brought together over 250 managers of major refining companies, as well as industry experts. The conference ended with a tour of the installations built at Grupa LOTOS as part of the 10+ Programme. The Company was the main partner of the event.

Oct 17th

For the second time in a row, Kajetan Kajetanowicz and Jarek Baran of the LOTOS Dynamic Rally Team won the title of Champions of Poland in the general classification of Poland’s Car Rally Championships.

Oct 25th

In recognition of the successful implementation of the +10 Programme, Grupa LOTOS was named the “2011 Refinery Plant of the Year” during a conference organized by the World Refining Association.

Oct 26th

– in Search for the Champion's Successors – received an award in the "Corporate scholarship programme" category of a contest organized by the Good Network Foundation and the Polish-American Freedom Foundation.

Oct 27th

LOTOS Parafiny won the first award in the "Employer - Provider of Safe Work" competition in the category of companies with headcounts of over 250. The competition was organized by the Regional Labour Inspector of Rzeszów.

Nov 8th

LOTOS Parafiny received the "Polish Product 2011" certificate from the Judging Panel of the Central Office for National Certification – in the Company of the Year category.

Nov 8th

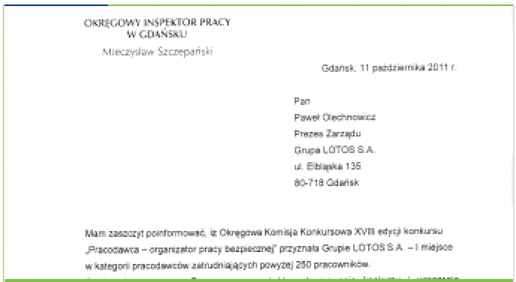
The two-days assembly of fractionating columns in a xylene separation unit was completed at Grupa LOTOS' refinery.

Nov 15th

Michał Kościuszko and Maciek Szczepaniak, representing LOTOS Dynamic Rally Team, became the second vice-champions in the PWRC, a companion rally series to the World Rally Championship.

Nov 21st

Grupa LOTOS and the Polish Ski Federation inaugurated the ski jumping season. Among the guests were Apoloniusz Tajner and Kamil Stoch. Grupa LOTOS – the general sponsor of the Polish Ski Federation – was represented by its President, Paweł


OKRĘGOWY INSPEKTOR PRACY
W GDAŃSKU
Mieczysław Szczepański

Gdańsk, 11 października 2011 r.

Pan
Paweł Olechnowicz
Prezes Zarządu
Grupa LOTOS S.A.
ul. Elbląska 135
80-718 Gdańsk

Mam zaszczyt poinformować, iż Okręgowa Komisja Konkursowa XVIII edycji konkursu „Pracodawca – organizator pracy bezpiecznej" przyznała Grupie LOTOS S.A. – I miejsce w kategorii pracodawców zatrudniających powyżej 250 pracowników.

Grupa LOTOS ranked first in the "Employer - Provider of Safe Work" competition in the Province of Gdańsk, which was organized by the National Labour Inspector. The award was granted in the category of companies with headcounts of over 250.

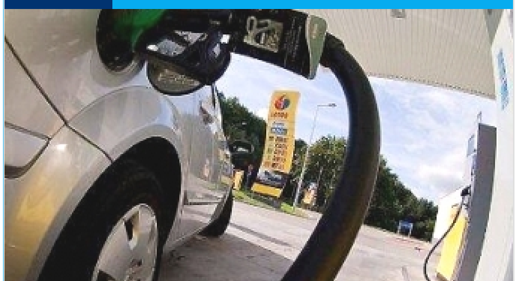
Nov 3rd

Grupa LOTOS reported performance for Q1-Q3 2011. Operating profit was PLN 826.3m, nearly PLN 70m more than in the same period of 2010. In the third quarter alone, the Company's sales revenue rose by 44% year on year, to reach PLN 7.6bn.

Nov 9th

LOTOS Oil products once again won the European Medal for products and services meeting the highest European standards of quality. In 2011, the judging panel selected the LOTOS Quazar K oil line for the award.

Nov 17th



Grupa LOTOS and Statoil Poland extended by another two years the contract entered into in November 2008. The estimated value of fuel sales to Statoil Poland by the end of 2013 is PLN 9.17bn.

Nov 22nd

The National Labour Inspector granted Grupa LOTOS

Olechnowicz.

Nov 23rd

Grupa LOTOS received a prize from the Office of Technical Inspection for the long standing cooperation and active contribution to the creation of the Polish system of technical safety.

Nov 29th

Grupa LOTOS is to supply heavy fuel oil to O.W. Supply & Trading A/S of Denmark, under a contract with a total value of USD 68.76m, i.e. PLN 231.75m. Accordingly, the total value of agreements concluded between the companies over the 12 months increased to approximately USD 216.52m, i.e. PLN 729.78m.

Dec 2nd

Grupa LOTOS was awarded the “Fair Play Company” certificate in a contest organized by the Institute for Private Enterprise and Democracy.

Dec 2th

LOTOS Czechowice received the “2011 Super Company” title granted by entrepreneurs of Czechowice-Dziedzice.

Dec 15th

In the 8th edition of the Most Valuable Polish Brands Ranking published by the Rzeczpospolita daily, the value of the LOTOS brand was put at PLN 865.1m, an increase of 28% on 2010. The brand moved up to the 11th place among the 330 classified brands.

Dec 18th

LOTOS Jasło received the golden “2011 Patron of

The National Labour Inspector granted Grupa LOTOS the main prize in the nation-wide “Employer - Provider of Safe Work” competition.

Nov 24th

Grupa LOTOS executed an open memorandum of understanding aimed to improve work safety, fire safety and environmental protection in the oil and gas industry. The Working Group for the Oil and Gas Industry operates at the National Labour Inspectorate.

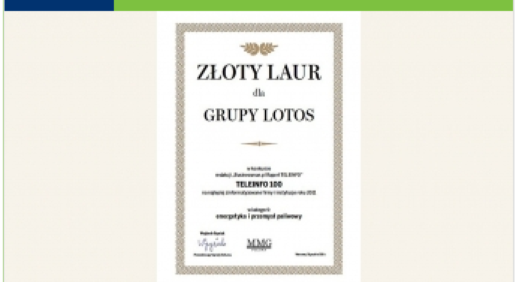
Nov 30th

Grupa LOTOS commenced an investment project designed to switch the Gdańsk refinery to a different fuel. The Company executed an annex to the gas fuel supply agreement of 16th June 2010 with PGNiG S.A.

Dec 12th

LOTOS Serwis completed the construction of the two largest ever 145- and 50-tonne tube inserts for heat exchangers. The receiver of the two tube inserts was PKN Orlen. During the installation of the tubes in the sieve walls, the state-of-the-art method of orbital welding was applied, which provided for the highest quality of the weld.

Dec 19th



In the “Teleinfo 100” competition, the editorial board of

Culture" statuette for supporting cultural events in the town of Jasło.

Dec 31st

LOTOS Paliwa launched the 50th service station of the LOTOS Optima economy chain. Having expanded the chain to include 63 new locations, the company broke the Polish record in terms of the number of service stations opened in one year.

the Businessman.pl monthly awarded Grupa LOTOS with the Golden Laurel in the power and fuel sector category. The prize is given to companies with the best IT systems.

Important events calendar 2011

Beginning of 2012

2011 **2012**

Events Awards

Jan 1st

The Management Board of Grupa LOTOS decided to implement the Optimal Expansion Programme in the period from January 1st to the end of 2012. The efficiency improvement measures envisaged by the Programme should produce a financial effect of PLN 220m. The decision was made in line with the strategic objectives for 2011–2015, following the fast-changing macroeconomic situation.

The prevailing turmoil on the European financial markets may lead to an economic slowdown in Poland, for which the Company needs to prepare.

Jan 13th

Grupa LOTOS sold 100% of the shares in LOTOS Parafiny to Krokus Chem.

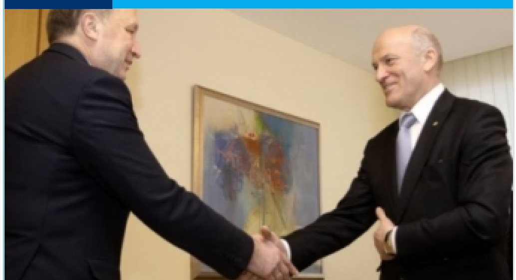
Jan 17th

LOTOS Kolej leased from GATX Rail Poland 15 brand new fuel tankers with a capacity of 86 cubic metres, compared with 60 cubic metres for a majority of rail tankers in Poland. The new tankers will enable LOTOS Kolej to transport more products in the same number of railroad cars.

Jan 17th

The Norwegian Ministry of Petroleum and Energy announced the outcome of the APA 2011 licensing round. The proceedings concerned new exploration licences on the Norwegian Continental Shelf. LOTOS Exploration and Production Norge AS, a subsidiary of the LOTOS Group, was offered working interests in two licences on the Norwegian Sea: Halten Terrace and Træna Basin.

Jan 23rd



Paweł Olechnowicz, President of Grupa LOTOS, met with Andrius Kubilius, Lithuania's Prime Minister and Gedyminas Kazlauskas, Lithuania's Minister of Environment. During the meeting, the participants discussed Grupa LOTOS' plans to commence exploration for shale gas in 2012 and take part in new tenders for hydrocarbon exploration and production licences in Lithuania.

Jan 31st

The Gdańsk refinery of Grupa LOTOS processed a record-high volume of crude oil – 786 thousand tonnes – an over 11% growth relative to January 2011 and the Company's best performance yet at the beginning of a year. The increased monthly volume of crude processed by the refinery resulted from full utilisation of the installed capacities, which following the 10+ Programme equal 10.5 million tonnes per year.

Feb 13th

Diament miesięcznika Forbes 2012

The Forbes monthly published a list of companies whose market value has been growing the fastest. LOTOS Asfalt and LOTOS Serwis received distinctions in the "2012 Forbes' Diamonds" report. LOTOS Asfalt and LOTOS Serwis took top positions among 155 awarded companies from the Province of Gdańsk. The Forbes' 2012 list includes 2,051 companies from all over Poland.

Feb 23rd

Precisely PLN 29,258.5 million - it is the sales revenue of Grupa LOTOS after all four quarters of 2011. As compared to 2010, it translates into an increase by almost 49%. The operating profit of the Company amounted to PLN 1,016.5 m and the net profit stood at PLN 654.2 m. In Q4 2011 alone, the net profit of Grupa LOTOS was PLN 93.8 m, compared with the net loss of PLN 328.6 m in Q3 2011.

Feb 11th

RESPECT Index

Grupa LOTOS was included in the fourth edition RESPECT Index of the Warsaw Stock Exchange.

Feb 20th

For the first time in the history of Grupa LOTOS' refinery, a tank container loading operation was carried out, thanks to joint efforts of LOTOS Oil's and LOTOS Kolej's staff. The filled containers went to the Netherlands.

Feb 29th

The Extraordinary General Shareholders Meeting of Grupa LOTOS changed the composition of the Company's Supervisory Board.

Mar 13th

LOTOS Paliwa launched the 11th Motorway Service Area – a service station in Sitno, along the S3 expressway from Szczecin to Gorzów Wielkopolski.

Mar 19th

LOTOS Paliwa undertook to supply Diesel oil for the U.S. company BNK Petroleum, which is operating in Pomerania under six shale gas exploration licences.

Mar 20th

The construction of a pipeline to supply gas to the Gdańsk refinery, thus allowing it to switch to gas as the fuel powering the CHP plant and the hydrogen production plant, is nearing completion. Under the contract executed between Grupa LOTOS and PGNiG S.A., the annual gas supplies will amount to 585 million cubic metres. The total value of the five-year contract is estimated at PLN 3.2bn. The gas pipeline is being constructed by Pomorska Spółka Gazownicza.

Table of Content of the GRI Performance Indicators and Global Compact Principles

A table aimed at assisting readers in finding data on sustainable development and CSR in the Report.

The following table may help to find 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.

reporting application level indicators:

⊕ full ⊕/⊖ partial ⊖ none

Global Reporting Initiative Performance Indicator	Reporting Application Level	Chapter Of The Annual Report 2011	Comments	Un Global Compact Principles
Strategy and Analysis				
1.1. Statement from the most senior decision-maker of the organization.	⊕	Letter from the President of the Board [1]; Interview with the President of the Board [2]		
1.2. Description of key impacts, risks, and opportunities.	⊕	Key risks, opportunities and challenges in the context of sustainable development [1]		
Organizational Profile				
2.1. Name of the organization.	⊕	About us/ Business profile [1]		
2.2. Primary brands, products, and/or services.	⊕	About us/ Business profile [1]; Exploration and production (Upstream business) [2]; Operating segment [3]; Market activities [4]		
2.3. Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	⊕	About us/ Structure of the organization [1]		
2.4. Location of organization's headquarters.	⊕	About us/ Business profile [1]; Contact/ Media [2]		
2.5. Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	⊕	About us/ Business profile [1]		
2.6. Nature of ownership and legal form.	⊕	About us/ Shareholder structure [1], Structure of the organization [2]		
2.7. Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	⊕	About us/ Business profile [1]; Market activities [2]		
2.8. Scale of the reporting organization.	⊕	About us/ Business profile [1], Shareholder structure [2]; Key data 2011 [3]		
2.9. Significant changes during the reporting period regarding size, structure, or ownership.	⊕	About us/ Structure of the organization [1]		
2.10. Awards received in the reporting period.	⊕	Awards and distinctions [1]; Important events calendar 2011 [2]		

Report Parameters

Report Profile		
3.1. Reporting period.	⊕	Integrated reporting [1]
3.2. Date of most recent previous report.	⊕	Integrated reporting [1]
3.3. Reporting cycle.	⊕	Integrated reporting [1]
3.4. Contact point for questions.	⊕	Contact/ CSR [1]
3.5. Process for defining report content, including: • Determining materiality; • Prioritizing topics within the report; and • Identifying stakeholders the organization expects to use the report.	⊕	Integrated reporting [1]; Integrated reporting/ Scope and reach [2]
3.6. Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	⊕	Integrated reporting/ Scope and reach [1]
3.7. State any specific limitations on the scope or boundary of the report.	⊕	Integrated reporting/ Scope and reach [1]
3.8. Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	⊕	Integrated reporting/ Scope and reach [1]
3.9. Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.	⊕	Integrated reporting/ Scope and reach [1]
3.10. Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	⊕	Integrated reporting/ Scope and reach [1]
3.11. Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	⊕	Integrated reporting/ Scope and reach [1]
GRI Content Index		
3.12. Table identifying the location of the Standard Disclosures in the report.	⊕	Table of Content of the GRI Performance Indicators and Global Compact Principles
Assurance		
3.13. Policy and current practice with regard to seeking external assurance for the report.	⊕	Integrated reporting [1]; Integrated reporting/ Audit and review [2]

Governance, Commitments, and Engagement

Governance		
4.1. Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	⊕	Supervisory Board/ Supervisory Board powers [1], Standing committees of the Supervisory Board [2]
4.2. Indicate whether the Chair of the highest governance body is also an executive officer.	⊕	Supervisory Board/ Avoidance of conflicts of interest [1]
4.3. For organizations that have a	⊕	Supervisory Board/

unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.		Composition of the Supervisory Board [1], Independence status [2]
4.4. Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	⊕	Management approach/ Submission of recommendations [1]
4.5. Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance).	⊕	Supervisory Board/ Remuneration [1]; Board/ Remuneration [2]
4.6. Processes in place for the highest governance body to ensure conflicts of interest are avoided.	⊕	Supervisory Board/ Avoidance of conflicts of interes [1]; Board/ Avoidance of conflicts of interest [2]
4.7. Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.	⊕	Supervisory Board/ Composition of the Supervisory Board [1]
4.8. Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	⊕	Mission, vision, values [1]
4.9. Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	⊕	Supervisory Board/ Commitment to sustainable development [1]
4.10. Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	⊕	Supervisory Board/ Commitment to sustainable development [1]
Commitments To External Initiatives		
4.11. Explanation of whether and how the precautionary approach or principle is addressed by the organization.	⊕	Risk management [1]
4.12. Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	⊕	Management approach/ Declarations [1]
4.13. Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic.	⊕	Stakeholders/ Membership in organizations [1]
Stakeholder Engagement		
4.14. List of stakeholder groups engaged by the organization.	⊕	Stakeholders/ Stakeholders' involvement [1]
4.15. Basis for identification and selection of stakeholders with	⊕	Stakeholders/ Stakeholders' involvement [1]

w hom to engage.

4.16. Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	⊕	Stakeholders/ Stakeholders' involvement [1]; Practices in relations w ith employees/ Employment relations[2]	
4.17. Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	⊕	Stakeholders/ Stakeholders' involvement [1]; Impact on the society/ Relationships w ith the local community [2] [3]	

Management Approach

Economy	⊕	Letter from the Vice-President of the Board [1]	
Environment	⊕	Environmental policy [1]; Mitigation of environmental impact [2]	
Labor Practices & Decent Work	⊕	Practices in relations w ith employees [1]; Practices in relations w ith employees/ Occupational health and safety [2]	
Human Rights	⊕	Human Rights [1]	
Society	⊕	Impact on the society [1]	
Product Responsiblity	⊕	Product responsibility [1]	

Performance Indicators

Economic Performance Indicators

Economic performance			
EC1. 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.	⊕	Impact on the society [1]; Consolidated financial statements 2011/ Consolidated statement of comprehensive income [2]	Direct economic value generated and distributed, including revenues, operating costs, employee compensation and benefits, as w ell as payments to investors, have all been presented in the Consolidated statement of comprehensive income. In 2011, companies of the LOTOS Group paid to the State in taxes (including the corporate income tax, the goods and services tax, the excise duty, the fuel duty, the property tax) the total amount of: • Grupa LOTOS (2011 - PLN 10,852,431 thousand, 2010 - PLN 9,425,916 thousand); • the LOTOS Group (2011 - PLN 11,324,650 thousand, 2010 - PLN 9,804,980 thousand).
EC2. Financial implications and other risks and opportunities for the organization's activities due to climate change.	⊕	Key risks, opportunities and challenges in the context fo sustainable development/ Managing the risk related to prices of carbon dioxide allow ances [1], Risks related to operating activities [2]	
EC3. Coverage of the organization's defined benefit plan obligations.	⊕	Practices in relations w ith employees/ Employment [1]	
EC4. Significant financial assistance received from government.	⊕	Society/ Impact on the society [1]	
Market presence			
EC5. Range of ratios of standard entry level w age compared to local minimum w age at significant locations of operation.	⊕	Impact on the society/ Market presence [1]	

EC6. Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Impact on the society/ Market presence [1]		
EC7. Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Impact on the society/ Market presence [1]		
Indirect economic impacts			
EC8. Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Impact on the society/ Relationships w ith the local community [1]		
EC9. Understanding and describing significant indirect economic impacts, including the extent of impacts.	Impact on the society/ Indirect economic impacts [1]		
Environmental Performance Indicators			
Materials			
EN1. Materials used by w eight or volume.	Mitigation of environmental impact/ Emissions [1]		8
EN2. Percentage of materials used that are recycled input materials.	Table of Content of the GRI Performance Indicators and Global Compact Principles	Due to the nature of its activities, Grupa LOTOS can use recycled products only to a limited degree. All companies of the LOTOS Group w hich run production activities are obliged by law to funnel, through external recovery organizations, used materials to recycling. How ever, also in this case it is hardly possible for the recycled products to be reused. Therefore, this GRI Performance Indicator is not reported.	8
Energy			
EN3. Direct energy consumption by primary energy source.	Mitigation of environmental impact/ Energy [1]		8
EN4. Indirect energy consumption by primary source.	Mitigation of environmental impact/ Energy [1]		8
EN5. Energy saved due to conservation and efficiency improvements.	Table of Content of the GRI Performance Indicators and Global Compact Principles	Grupa LOTOS monitors production processes in the refinery w ith view to the optimization of energy use. How ever, w e cannot provide any data w hich w ould illustrate the amount of saved energy ow ing to the actions taken by the Company.	9
EN6. Initiatives to provide energy-efficient or renew able energy based products and services, and reductions in energy requirements as a result of these initiatives.	Mitigation of environmental impact/ Energy [1]		9
EN7. Initiatives to reduce indirect energy consumption and reductions achieved.	Mitigation of environmental impact/ Energy [1]		8
Water			
EN8. Total w ater w ithdraw al by source.	Mitigation of environmental impact/ Water [1]		8
EN9. Water sources significantly affected by w ithdraw al of w ater.	Mitigation of environmental impact/ Water [1]		
EN10. Percentage and total volume of w ater recycled and reused.	Mitigation of environmental impact/ Water [1]		
Biodiversity			
EN11. Location and size of land ow ned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Mitigation of environmental impact/ Biodiversity [1]		8
EN12. Description of significant impacts of activities, products,	Mitigation of environmental impact/ Biodiversity [1]		8

and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.				
EN13. Habitats protected or restored.	⊕	Mitigation of environmental impact/ Water [1], Biodiversity [2]		8
EN14. Strategies, current actions, and future plans for managing impacts on biodiversity.	⊕	Mitigation of environmental impact/ Water [1], Biodiversity [2]		8
EN15. Number of IUCN Red List species and national conservation list species w ith habitats in areas affected by operations, by level of extinction risk.	⊕	Mitigation of environmental impact/ Water [1]		8
Emissions, effluents and waste				
EN16. Total direct and indirect greenhouse gas emissions by w eight.	⊕	Mitigation of environmental impact/ Emissions [1]		8
EN17. Other relevant indirect greenhouse gas emissions by w eight.	⊖	Table of Content of the GRI Performance Indicators and Global Compact Principles	Grupa LOTOS cannot provide any data relating to the amount of indirect emissions of greenhouse gases. How ever, the Company is planning to gather such data in future.	8
EN18. Initiatives to reduce greenhouse gas emissions and reductions achieved.	⊕	Mitigation of environmental impact/ Emissions [1]		8
EN19. Emissions of ozone-depleting substances by w eight.	⊕	Mitigation of environmental impact/ Emissions[1]		8
EN20. NO_x, SO_x, and other significant air emissions by type and w eight.	⊕	Mitigation of environmental impact/ Emissions [1]		8
EN21. Total w ater discharge by quality and destination.	⊕	Mitigation of environmental impact/ Water [1]		8
EN22. Total w eight of w aste by type and disposal method.	⊕	Mitigation of environmental impact/ Waste [1]		8
EN23. Total number and volume of significant spills.	⊕	Mitigation of environmental impact/ Water [1]		8
EN24. Weight of transported, imported, exported, or treated w aste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported w aste shipped internationally.	⊕	Mitigation of environmental impact/ Waste[1]		8
EN25. Identity, size, protected status, and biodiversity value of w ater bodies and related habitats significantly affected by the reporting organization's discharges of w ater and runoff.	⊕	Mitigation of environmental impact/ Water [1]		8
Products and services				
EN26. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	⊕	Mitigation of environmental impact/ Spending on environmental protection [1], Products and services [2]		7, 8, 9
EN27. Percentage of products sold and their packaging materials that are reclaimed by category.	⊕	Mitigation of environmental impact/ Products and services [1]		8
Compliance				
EN28. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance w ith environmental law s and regulations.	⊕	Mitigation of environmental impact/ Waste [1]		8
Transport				
EN29. Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the w orkforce.	⊕	Mitigation of environmental impact/ Energy [1], Transport [2]		8
Overall				

EN30. Total environmental protection expenditures and investments by type.	⊕	Mitigation of environmental impact/ Spending on environmental protection [1]	8
Labor Practices and Decent Work			
Employment			
LA1. Total w orkforce by employment type, employment contract, and region.	⊕	Practices in relations w ith employees/ Employment [1]	6
LA2. Total number and rate of employee turnover by age group, gender, and region.	⊕	Practices in relations w ith employees/ Employment [1]	6
LA3. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	⊕	Practices in relations w ith employees/ Employment [1]	6
Labor/management relations			
LA4. Percentage of employees covered by collective bargaining agreements.	⊕	Practices in relations w ith employees/ Employment relations [1]	3
LA5. Minimum notice period(s) regarding significant operational changes, including w hether it is specified in collective agreements.	⊕	Practices in relations w ith employees/ Employment relations [1]	3
Occupational health and safety			
LA6. Percentage of total w orkforce represented in formal joint management-w orker health and safety committees that help monitor and advise on occupational health and safety programs.	⊕	Practices in relations w ith employees/ Occupational health and safety[1]; Human rights/ Freedom of association and collective bargaining [2]	6
LA7. Rates of injury, occupational diseases, lost days, and absenteeism, and number of w ork-related fatalities by region.	⊕	Practices in relations w ith employees/ Occupational health and safety [1]	6
LA8. Education, training, counseling, prevention, and risk-control programs in place to assist w orkforce members, their families, or community members regarding serious diseases.	⊕	Practices in relations w ith employees/ Occupational health and safety [1]; Impact on the society [2]	6
LA9. Health and safety topics covered in formal agreements w ith trade unions.	⊕	Practices in relations w ith employees/ Occupational health and safety [1]	3
Training and education			
LA10. Average hours of training per year per employee by employee category.	⊕	Practices in relations w ith employees/ Training and education [1]	6
LA11. Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	⊕	Practices in relations w ith employees/ Training and education [1]	6
LA12. Percentage of employees receiving regular performance and career development review s.	⊕	Practices in relations w ith employees/ Training and education [1]	6
Diversity and equal opportunity			
LA13. Composition of governance bodies and breakdow n of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	⊕	Practices in relations w ith employees/ Diversity and equality of opportunities [1]; Supervisory Board/ Composition of the Supervisory Board [2]; Board/ Composition [3]	6
Diversity and equal opportunity			
LA14. Ratio of basic salary of men to w omen by employee category.	⊕	Practices in relations w ith employees/ Diversity and equality of opportunities [1]	6
Investment and procurement practices			
HR1. Percentage and total number of significant investment agreements that include human rights clauses or that have	⊕	Human rights/ Investment and procurement practices [1]	1, 2

undergone human rights screening.				
HR2. Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.		Human rights/ Investment and procurement practices [1]		1, 2, 3, 4, 5, 6
HR3. Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.		Human rights/ Investment and procurement practices [1]		1, 2, 3, 4, 5, 6
Non-discrimination				
HR4. Total number of incidents of discrimination and actions taken.		Human rights/ Non-discrimination [1]		6
Freedom of association and collective bargaining				
HR5. Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.		Human rights/ Freedom of association and collective bargaining [1]		3
Child labor				
HR6. Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.		Table of Content of the GRI Performance Indicators and Global Compact Principles	Grupa LOTOS advocates the worldwide abolition of child labor. The Company does not report this GRI Performance Indicator because it is not involved in any such activity. In 2011, like in previous years, in the LOTOS Group there were no operations deemed as involving significant risk for incidents of child labor.	5
Forced and compulsory labor				
HR7. Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor.		Table of Content of the GRI Performance Indicators and Global Compact Principles	Grupa LOTOS advocates the elimination of all forms of forced or compulsory labor. The Company does not report this GRI Performance Indicator because it is not involved in any such activity. In 2011, like in previous years, in the LOTOS Group there were no incidents of forced or compulsory labor.	4
Security practices				
HR8. Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.		Human rights/ Investment and procurement practices [1]		1, 2
Indigenous rights				
HR9. Total number of incidents of violations involving rights of indigenous people and actions taken.		Table of Content of the GRI Performance Indicators and Global Compact Principles	Grupa LOTOS advocates and observes human rights. The Company does not report this GRI Performance Indicator because the problem of violations of rights of indigenous people does not apply to it.	1, 2
Community				
SO1. Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.		Impact on the society/ Relationships with the local community [1]		
Corruption				
SO2. Percentage and total number of business units analyzed for risks related to corruption.		Impact on the society/ Counteracting abuse [1]		10
SO3. Percentage of employees trained in organization's anti-corruption policies and procedures.		Impact on the society/ Counteracting abuse [1]		10
SO4. Actions taken in response		Impact on the society/		10

to incidents of corruption.		Counteracting abuse [1]	
Public policy			
SO5. Public policy positions and participation in public policy development and lobbying.		Impact on the society/ Participation in government policies [1]; Interview with the President of the Board [2]	10
SO6. Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.		Impact on the society/ Participation in government policies [1]	10
Anti-competitive behavior			
SO7. Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.		Impact on the society/ Anti-competitve behaviour [1]	10
Compliance			
SO8. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.		Impact on the society/ Anti-competitve behaviour [1]	
Customer health and safety			
PR1. Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.		Product responsibility/ Customer health and safety [1]	
PR2. Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		Product responsibility/ Customer health and safety [1]	1
Product and service labelling			
PR3. Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.		Product responsibility/Product and service labelling [1]	10
PR4. Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.		Product responsibility/Product and service labelling [1]	
PR5. Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.		Product responsibility/Product and service labelling [1]	
Marketing communications			
PR6. Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.		Product responsibility/ Marketing communication [1]	
PR7. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.		Product responsibility/ Marketing communication [1]	
Customer privacy			
PR8. Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.		Product responsibility/ Legal and regulatory compliance [1]	
Compliance			
PR9. Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products		Product responsibility/ Legal and regulatory compliance [1]	

and services.

Glossary of industry terms

For readers who want to learn more about the character of the sector represented by Grupa LOTOS.

A

ACEA

European Automobile Manufacturers' Association; it establishes quality criteria for engine oils, applicable across Europe. ACEA European Oil Sequences 2008 are the published quality criteria for all engine oils on the European market, including the requirements to be met by engine oils for new cars. The document categorises oils and specifies all physical and chemical parameters, as well as engine tests for each quality category. ACEA requires that any claims for oil performance to meet the ACEA standards must be based on credible data and controlled tests in accredited test laboratories.

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

B100

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.

Barrel

(of crude oil) - a primary unit of measure used in crude oil production. One barrel encompasses around 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.

BAT

Best Available Technique is, within the meaning of the definition contained in Directive 96/61/EC, the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent, and where that is not practicable, generally to reduce emissions and their impact on the environment as a whole.

Biocomponent

an additive used in fuel production made in biomass processing of e.g. oil plants or corn.

Biofuel

fuel manufactured by adding more than 7% biocomponents to gasoline or diesel oil.

BREF

(BAT Reference Notes) - BAT guidelines developed by the European IPPC (Integrated Pollution Prevention and Control) Bureau in Seville, Spain. They are not binding legal regulations, but guidelines to be followed in the assessment of applications for integrated permits and issuance of integrated permits.

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).

Ceresin

product of deoiling of heavy slack waxes. Ceresin is a complex mixture of n-paraffin hydrocarbons with a solidification point of approximately 73°C. It may be used as feedstock in the production of lubricants, proofing and protective products in the chemical industry and, after a purifying process, in the cosmetics and pharmaceutical industries.

CLP Regulation

Classification, Labelling and Packaging Regulation - regulation under which a new system for the classification, labelling and packaging of substances and mixtures has been implemented in the European Union, based on the Globally Harmonised System of Classification and Labelling of Chemicals created by the United Nations in 2003. The CLP Regulation supplements the REACH Regulation and replaces the system provided for in Directives 67/548/EEC and 1999/45/EC. The Regulation took effect on January 20th 2009 and is binding directly, without the need to be implemented into Polish law.

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.

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.

European Chemical Agency

the EC agency responsible for the implementation of the REACH (Registration, Evaluation and Authorisation of Chemicals) Regulation as regards the establishment and administration of a registration system, assessment of, issuance of authorisations for, and imposition of restrictions in the use of, chemical substances at the EU level. Its main task is to manage the database of chemicals submitted for registration: initial registration of a substance (the process already completed) and proper registration of a substance. Under the European Council's decision of 2004, the registered office of the European Chemicals Agency (ECHA) is located in Helsinki, Finland.

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

(Hydrodesuplhurisation 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.

Hydrorefining (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 hydrogen sulphide from the liquid gas fractions.

Lubricant oils

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 the ordering party and the contractor, which confirms that all work has been completed in compliance with the design and applicable regulations.

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.

Paraffin fraction

unreacted oil from hydrocracking of a mixture of vacuum distillates and oil from the solvent de-asphalting process of heavy residue. Paraffin fraction is a mixture of n-paraffin, iso-paraffin and cyclic saturated hydrocarbons. It has a low sulphur content (below 100 mg/kg) and may be used as feedstock in the production of oil bases, or in catalytic cracking or hydrocracking yielding additional volumes of fuels.

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.

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).

REBCO

(Russian Export Blend Crude Oil) - a commercial name of Russian crude oil from the Ural.

Red chemicals

are those which have pollution category Y and are on the list of chapter 17 of the IBC Code or on MEPC.2/Circ. currrently in force.These chemicals deemed to present a hazard to marine resources or human health or cause harm to amenities or legitimate uses of the sea.

Reformate

high-octane number component, with octane number of 96–100, used in the manufacture of engine gasolines. Reformate is a product of catalytic reforming of desulphurised naphta.

ROSE

(Residual Oil Supercritical Extraction) - a technology used at the Gdańsk Refinery in the SDA installation.

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.

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.

Stock ticket service

service consisting in the creation and maintenance of mandatory reserves of fuels on behalf of customers. A customer using the service meets the legal requirements without stocking its own fuels.

T

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

For readers who want to learn more about the social aspect of Grupa LOTOS's activities.

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

Global Compact

The world's largest initiative of the Secretary General of the United Nations for corporate responsibility and sustainable development. The Polish Global Compact Local Network is coordinated by the United Nations Development Programme (UNDP) Project Office. Since it was launched in 2000, over 9,000 members from 135 countries have joined the initiative. Global Compact calls on companies to embrace in their activities ten principles in the areas of: human rights, labor rights, environmental protection, counteracting corruption and promoting corporate social responsibility.

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

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 sponsoree. A sponsor provides funds, material assistance or services to the sponsoree 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.

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 w eb sites: w w w .filantropia.org.pl, w w w .fob.org.pl and w w w .pfcg.org.pl

Contact details

CSR

To learn more about the social and environmental aspects of the LOTOS Group, please visit the website of Grupa LOTOS at www.lotos.pl.

Please send your questions to:

Grupa LOTOS S.A.
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Please send your questions concerning the corporate social responsibility of the Company to Grupa LOTOS to:

Sponsoring, Public Matters and CSR Office
e-mail: csr@grupalotos.pl

Investor relations

To learn more about the economic activity of the LOTOS Group, please visit the website of Grupa LOTOS at www.lotos.pl.

Please send your questions to:

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Please send your questions concerning the investor relations of the Company to Grupa LOTOS to:

Financial Reporting Office
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Media

To learn more about the economic activity as well as the social and environmental aspects of the LOTOS Group, please visit the website of Grupa LOTOS at www.lotos.pl.

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