

## 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)
<b>Total tax charged to consolidated profit</b>	<b>(97,943)</b>	<b>40,586</b>
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
<b>Income tax at the rate of 19%</b>	<b>104,762</b>	<b>137,168</b>
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)
<b>Total</b>	<b>(97,943)</b>	<b>40,586</b>
<b>Corporate income tax calculated at effective tax rate</b>	<b>-</b>	<b>5.6%</b>

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:

<b>PLN '000</b>	<b>Year ended Dec 31 2011</b>	<b>Year ended Dec 31 2010</b>
Pre-tax profit/(loss) of companies subject to 19% tax rate	938,309	759,768
<b>Income tax at the rate of 19%</b>	<b>178,279</b>	<b>144,356</b>
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)
<b>Total</b>	<b>135,080</b>	<b>123,131</b>
Adjustments under bio-component tax credit	(11,117)	(3,296)
Adjustments disclosed in current year related to tax for previous years	21	(3,334)
<b>Income tax of companies subject to 19% tax rate</b>	<b>123,984</b>	<b>116,501</b>
Tax effect of foreign operations <sup>(a)</sup>	(13,189)	(21,691)
<b>Total income tax disclosed in the statement of comprehensive income</b>	<b>110,795</b>	<b>94,810</b>
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)
<b>Tax base – taxation at the tax rate of 28%</b>	<b>(285,831)</b>	<b>(226,023)</b>
Tax credit in connection with higher depreciation of assets	(63,378)	(61,359)
Other	53,769	33,320
<b>Tax base – taxation at the tax rate of 50%</b>	<b>(295,440)</b>	<b>(254,062)</b>
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	-
<b>Tax effect of foreign operations (Norway)</b>	<b>(26,564)</b>	<b>(21,794)</b>
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)	-
<b>Tax base – taxation at the tax rate of 15%</b>	<b>89,107</b>	<b>-</b>
Income tax at the rate of 15%	13,366	-
<b>Tax effect of foreign operations (Lithuania)</b>	<b>13,366</b>	<b>-</b>
Pre-tax profit/(loss) of other foreign operations	12,649	3,250
<b>Tax effect of other foreign operations</b>	<b>9</b>	<b>103</b>

Total pre-tax profit/(loss) of foreign operations	(386,929)	(37,830)
<b>Total tax effect of foreign operations <sup>(a)</sup></b>	<b>(13,189)</b>	<b>(21,691)</b>

### 13.3 Corporate income tax receivable and payable

PLN '000	Dec 31 2011	Dec 31 2010
<b>Corporate income tax receivable</b>	<b>132,876</b>	<b>47,492 <sup>(1)</sup></b>
Expected tax refund	132,876	47,492
<b>Corporate income tax payable</b>	<b>7,420</b>	<b>15,188</b>
Income tax expected to be paid	7,420	15,188

<sup>(1)</sup> 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)
<i>Deferred tax liabilities</i>					
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
<b>Deferred tax liabilities</b>	<b>969,696</b>	<b>592,899</b>	<b>432,996</b>	<b>376,797</b>	<b>159,903</b>
<i>Deferred tax assets</i>					
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
<b>Deferred tax assets</b>	<b>1,264,598</b>	<b>629,657</b>	<b>416,652</b>	<b>634,941</b>	<b>213,005</b>
<b>Deferred tax expense</b>				<b>(258,144)</b>	<b>(53,102)</b>
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 Geonafra)				(56,765)	-
Deferred tax disclosed under other comprehensive income				87,363	(2,877)
<b>Deferred tax expense recognised in the consolidated statement of comprehensive income</b>				<b>(208,738)</b>	<b>(54,224)</b>
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)
<b>Net deferred tax assets/(liabilities)</b>	<b>294,902</b>	<b>36,758</b>

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).

This is a translation of a document originally issued in Polish.