

24. Inventories

PLN '000	Dec 31 2011	Dec 31 2010
Finished products	1,544,783	1,171,917
Semi-finished products and work 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 work 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

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