

31. Provisions

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Non-current provisions		
Provision for land reclamation	33,795	33,795
Length-of-service awards and retirement severance pays	82,587	60,295
Provision for the Offshore Oil Rigs	122,019	89,801
Other provisions	29,502	24,703
Total non-current provisions	267,903	208,594
Current provisions		
Provision for land reclamation	4,988	5,210
Length-of-service awards and retirement severance pays	9,505	8,888
Provision for the Offshore Oil Rigs	2,400	2,400
Other provisions	63,577	57,770
Total current provisions	80,470	74,268
Total	348,373	282,862

Calculation of the provisions for employee benefits was based on the following assumptions:

- the long-term annual growth rate of remuneration is 5% (December 31st 2007: the long-term annual growth rate of remuneration of 6% and 3.3 % for subsequent years),
- the discount rate for future payments of employee benefits is 5.5% (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 2007: 6%),
- the probability of employee attrition is based on the historical employee turnover rate at the Group and statistical data on employee attrition in the industry,
- the adopted mortality and life expectancy are based on the Life Expectancy Tables of Poland for 2007 published by the Polish Central Statistics Office (GUS), assuming that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2007: Life Expectancy Tables of Poland for 2006),
- it is assumed that the Group's 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 companies - meet the conditions for early retirement.

The changes in provisions were as follows:

PLN '000	Provision for land reclamation	Length-of- service awards and retirement severance pays	Provision for the Offshore Oil Rigs ⁽¹⁾	Other provisions ⁽²⁾	Total
As at Jan 1 2007 (audited)	40,322	61,704	94,917	91,718	288,661
Increase	242	14,183	-	27,355	41,780
Decrease	(1,559)	(6,704)	(2,716)	(36,600)	(47,579)
As at Dec 31 2007 (audited)	39,005	69,183	92,201	82,473	282,862
As at Jan 1 2008(audited)	39,005	69,183	92,201	82,473	282,862
Increase	-	28,815	32,218	17,087	78,120
Decrease	(222)	(5,906)	-	(6,481)	(12,609)
As at Dec 31 (audited)	38,783	92,092	124,419	93,079	348,373

⁽¹⁾ As at December 31st 2008, the Management Board of Petrobaltic S.A. analysed the costs needed to be incurred to decommission the Offshore Oil Rigs in the B-3 and B-8 mining areas, which were also worked in the previous years. The analysis found that the costs necessary to be incurred in future on the decommissioning of the Offshore Oil Rigs in the B-3 mining area increased relative to the value of the provision created for this purpose and presented in the balance sheet as at December 31st 2007. The increase amounted to PLN 22,596 thousand and reflected, on the one hand, the changes in the expected expenses due to price changes, and on the other – the passage of time and the related change in the time value of money. The change in the time value of money was determined by applying a 5% discount rate to the value of the provision for decommissioning of the B-3 Offshore Oil Rigs as at December 31st 2007 (PLN 84,384 thousand). The amount so computed, i.e. PLN 4,219 thousand, was charged to financial expenses for 2008, while the balance of PLN 18,377 thousand decreased the value of the relevant asset related to the provision for decommissioning of the rigs, in accordance with IFRIC 1. The value of the provision created for the first time as at December 31st 2006 in connection with the launch of production activities in the B-8 mining area was, following the cost analysis, increased by PLN 5,107 thousand as at the end of 2008. The change in the time value of money was determined by applying a 5% discount rate to the value of the provision for decommissioning of the B-8 Offshore Oil Rigs as at December 31st 2007 (PLN 7,817 thousand). The discount amount so computed, i.e. PLN 391 thousand, was charged to financial expenses for 2008 in correspondence with a relevant asset related to the provision for decommissioning of the B-8 Offshore Oil Rigs. 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 Oil Rig Decommissioning Fund (pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) was released from the provision. For 2008, the contribution was calculated at PLN 2,171 thousand in the case of the B3 field and PLN 265 thousand in the case of the B8 field. As at December 31st 2008, the provision for decommissioning of the B-3 and B-8 Offshore Oil Rigs totalled PLN 117,469 thousand, and the value of the related asset was PLN 75,076 thousand.

⁽²⁾ the item "Other provisions" includes the following items:

PLN '000	Provision for RN GLIMAR ⁽³⁾	Provision for Energobaltic	Special Account ⁽⁴⁾	Other	Total
As at Jan 1 2007(audited)	41,107	24,188	-	26,423	91,718
Increase	-	2,239	-	25,116	27,355
Reclassification	853	-	-	(853)	-
Decrease	(26,107)	(2,478)	-	(8,015)	(36,600)
As at Dec 31 (audited)	15,853	23,949	-	42,671	82,473
As at Jan 1 2008(audited)	15,853	23,949	-	42,671	82,473
Increase	-	4,363	2,500	10,224	17,087
Decrease	-	(2,239)	(366)	(3,876)	(6,481)
As at Dec 31 (audited)	15,853	26,073	2,134	49,019	93,079

⁽³⁾ Grupa LOTOS S.A. and Rafineria Nafty GLIMAR S.A. signed loan agreements for the aggregate amount of PLN 90m, providing for the financing of Rafineria Nafty GLIMAR S.A.'s operating and investing activities, including in particular, the Glimar Hydrocomplex investment project. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty Glimar S.A. under the agreements. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. As at December 31st 2008 and December 31st 2007, the assets under the advanced loans were fully covered by an allowance. As at December 31st 2008 and December 31st 2007, Grupa LOTOS S.A. carried a provision for other liabilities under these agreements in the amount of PLN 15,853 thousand. During the year ended December 31st 2007, the Company released a provision for the amount of PLN 26,107 thousand (see Note 20).

⁽⁴⁾ On June 30th 2008, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the 2007 net profit. Under the resolution, a portion of the Company's net profit, in the amount of PLN 2,500 thousand, was transferred to the special account designated for financing corporate social responsibility (CSR) projects. The Company created a provision for the special account and charged it against other operating expenses. By December 31st 2008, the Company had used funds in the amount of PLN 366 thousand.