



*(This is a translation of a document originally issued in Polish)*

**THE LOTOS GROUP**

**INTERIM CONDENSED CONSOLIDATED**

**FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS**

**ENDED SEPTEMBER 30TH 2008**

**PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL**

**REPORTING STANDARDS**

**LOTOS GROUP**  
**FINANCIAL HIGHLIGHTS**

**FINANCIAL HIGHLIGHTS – CONSOLIDATED**

THE LOTOS GROUP	PLN'000		EUR'000	
	Q1–Q3 cumulatively Jan 1 – Sep 30 2008	Q1–Q3 cumulatively Jan 1 – Sep 30 2007 (comparable data)	Q1–Q3 cumulatively Jan 1 – Sep 30 2008	Q1–Q3 cumulatively Jan 1 – Sep 30 2007 (comparable data)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales revenue	12,543,612	9,144,672	3,663,117	2,386,770
Operating profit	519,583	560,322	151,734	146,245
Pre-tax profit	592,952	687,143	173,160	179,345
Net profit	477,899	552,402	139,561	144,178
Net profit attributable to equity holders of the parent	428,052	532,346	125,004	138,943
Net profit attributable to minority interests	49,847	20,056	14,557	5,235
Net cash provided by/(used in) operating activities	22,417	115,827	6,546	30,231
Net cash provided by/(used in) investing activities	(1,465,646)	(420,570)	(428,013)	(109,769)
Net cash provided by/(used in) financing activities	1,099,762	(31,596)	321,164	(8,247)
Total net cash flow	(346,373)	(337,048)	(101,151)	(87,970)
Basic earnings per ordinary share (PLN/EUR)	3.76	4.68	1.10	1.22
Diluted earnings per ordinary share (PLN/EUR)	-	-	-	-
THE LOTOS GROUP	PLN'000		EUR'000	
	As at Sep 30 2008	As at Dec 31 2007	As at Sep 30 2008	As at Dec 31 2007
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	12,894,504	9,720,384	3,783,266	2,713,675
Equity attributable to equity holders of the parent	6,241,755	5,816,227	1,831,340	1,623,737
Equity attributable to minority interests	381,792	334,691	112,018	93,437
Total equity	6,623,547	6,150,918	1,943,358	1,717,174

**FINANCIAL HIGHLIGHTS – NON-CONSOLIDATED**

THE LOTOS GROUP	PLN'000		EUR'000	
	Q1–Q3 cumulatively Jan 1 – Sep 30 2008	Q1–Q3 cumulatively Jan 1 – Sep 30 2007 (comparable data)	Q1–Q3 cumulatively Jan 1 – Sep 30 2008	Q1–Q3 cumulatively Jan 1 – Sep 30 2007 (comparable data)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales revenue	11,624,859	8,233,532	3,394,813	2,148,962
Operating profit	268,903	287,247	78,528	74,972
Pre-tax profit	448,850	604,828	131,078	157,861
Net profit	384,934	531,246	112,412	138,656
Net cash provided by/(used in) operating activities	(293,592)	(41,499)	(85,738)	(10,831)
Net cash provided by/(used in) investing activities	(1,066,250)	(314,295)	(311,378)	(82,031)
Net cash provided by/(used in) financing activities	1,126,795	(19,323)	329,058	(5,043)
Total net cash flow	(237,216)	(375,233)	(69,274)	(97,936)
Basic earnings per ordinary share (PLN/EUR)	3.39	4.67	0.99	1.22
Diluted earnings per ordinary share (PLN/EUR)	-	-	-	-
GRUPA LOTOS S.A.	PLN'000		EUR'000	
	As at Sep 30 2008	As at Dec 31 2007	As at Sep 30 2008	As at Dec 31 2007
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	10,328,130	7,680,471	3,030,288	2,144,185
Equity	5,460,449	5,075,515	1,602,103	1,416,950

In the "Financial Highlights" table, the balance-sheet items as at September 30th 2008 were translated using the euro mid-exchange rate published by the National Bank of Poland for that day, i.e. EUR = PLN 3.4083. Items of the income statement and the cash flow statement contained in the "Financial Highlights" table for the three quarters of 2008 (cumulatively) were translated at the exchange rate of EUR 1 = PLN 3.4243 (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 – September 30th 2008).

In the "Financial Highlights" table, the balance-sheet items as at December 31st 2007 were translated using the euro mid-exchange rate published by the National Bank of Poland for that day, i.e. EUR = PLN 3.5820. Items of the income statement and the cash flow statement contained in the "Financial Highlights" table for the three quarters of 2007 (cumulatively) were translated at the exchange rate of EUR 1 = PLN 3.8314 (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 – September 30th 2007).

**LOTOS GROUP**  
**CONSOLIDATED BALANCE SHEETS**  
as at September 30th 2008 and December 31st 2007

(PLN '000)	<u>Sep 30 2008</u>	<u>Dec 31 2007</u>
	(unaudited)	(audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	4,837,577	3,471,247
Prepayments for tangible assets under construction	1,256,025	781,780
Goodwill	58,207	58,207
Intangible assets	58,691	64,999
Investment property	5,310	3,445
Investments in associated undertakings	19,774	48,519
Financial assets	24,858	21,553
Deferred tax asset	59,083	31,732
Non-current receivables	9,102	12,668
Prepayments	10,044	13,976
	-----	-----
<b>Total non-current assets</b>	<b>6,338,671</b>	<b>4,508,126</b>
	-----	-----
<b>Current assets</b>		
Inventories	3,376,744	2,589,322
Trade and other receivables, including:	1,952,526	1,542,465
- income tax receivables	89,413	1,867
Prepayments	33,839	31,868
Current financial assets	117,955	119,342
Cash and cash equivalents	1,069,123	924,995
	-----	-----
<b>Total current assets</b>	<b>6,550,187</b>	<b>5,207,992</b>
	-----	-----
<b>Assets held for sale</b>	<b>5,646</b>	<b>4,266</b>
	-----	-----
	=====	=====
<b>Total assets</b>	<b>12,894,504</b>	<b>9,720,384</b>
	=====	=====

**LOTOS GROUP**  
**CONSOLIDATED BALANCE SHEETS**  
as at September 30th 2008 and December 31st 2007

(PLN '000)	<u>Sep 30 2008</u>	<u>Dec 31 2007</u>
	(unaudited)	(audited)
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	113,700	113,700
Statutory reserve funds	970,951	970,951
Retained earnings/(deficit)	5,174,273	4,746,221
Translation reserve	(17,169)	(14,645)
	-----	-----
<b>Equity attributable to equity holders of the parent</b>	<b>6,241,755</b>	<b>5,816,227</b>
	-----	-----
<b>Equity attributable to minority interests</b>	<b>381,792</b>	<b>334,691</b>
	-----	-----
<b>Total equity</b>	<b>6,623,547</b>	<b>6,150,918</b>
	-----	-----
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	1,821,960	842,943
Non-current provisions	214,100	208,594
Deferred tax liability	122,798	154,789
Other financial and other liabilities	18,385	9,323
	-----	-----
<b>Total non-current liabilities</b>	<b>2,177,243</b>	<b>1,215,649</b>
	-----	-----
<b>Current liabilities</b>		
Trade payables, accruals and deferred income, and other liabilities, including:		
- income tax expense	2,418,832	1,757,451
Interest-bearing loans and borrowings	13,507	20,446
Current provisions	1,410,362	517,193
Other financial liabilities	80,737	74,268
	183,783	4,905
	-----	-----
<b>Total current liabilities</b>	<b>4,093,714</b>	<b>2,353,817</b>
	-----	-----
<b>Total liabilities</b>	<b>6,270,957</b>	<b>3,569,466</b>
	=====	=====
<b>Total equity and liabilities</b>	<b>12,894,504</b>	<b>9,720,384</b>
	=====	=====

**LOTOS GROUP**  
**CONSOLIDATED INCOME STATEMENTS**  
for the three and nine months ended September 30th 2008 and September 30th 2007

(PLN '000)	3 months ended Sep 30 2008	9 months ended Sep 30 2008	3 months ended Sep 30 2007 (comparable data)	9 months ended Sep 30 2007 (comparable data)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales revenue	4,764,221	12,543,612	3,530,088	9,144,672
Cost of sales	(4,451,468)	(11,216,234)	(3,011,368)	(7,860,251)
<b>Gross profit on sales</b>	<b>312,753</b>	<b>1,327,378</b>	<b>518,720</b>	<b>1,284,421</b>
Other operating income	5,372	19,205	5,557	53,703
Selling costs	(187,056)	(534,059)	(176,238)	(510,959)
General and administrative expenses	(78,005)	(240,771)	(78,087)	(226,358)
Other operating expenses	(13,883)	(52,170)	(13,482)	(40,485)
<b>Operating profit</b>	<b>39,181</b>	<b>519,583</b>	<b>256,470</b>	<b>560,322</b>
Financial income	(178,928)	314,215	57,653	153,481
Financial expenses	(140,194)	(240,846)	(11,494)	(26,648)
Interest in investments in associated undertakings	-	-	-	(12)
<b>Pre-tax profit (loss)</b>	<b>(279,941)</b>	<b>592,952</b>	<b>302,629</b>	<b>687,143</b>
Corporate income tax	56,023	(115,053)	(55,201)	(134,741)
<b>Net profit (loss) on continued operations</b>	<b>(223,918)</b>	<b>477,899</b>	<b>247,428</b>	<b>552,402</b>
Attributable to:				
Equity holders of the parent	(237,889)	428,052	229,979	532,346
Minority interests	13,971	49,847	17,449	20,056
	<b>(223,918)</b>	<b>477,899</b>	<b>247,428</b>	<b>552,402</b>
<b>Net earnings (loss) per share (PLN)</b>				
- basic	(2.09)	3.76	2.02	4.68
- diluted	-	-	-	-

**LOTOS GROUP**  
**CONSOLIDATED CASH FLOW STATEMENTS**  
**for the nine months ended September 30th 2008 and September 30th 2007**

(PLN '000)	<b>9 months ended Sep 30 2008</b>	<b>9 months ended Sep 30 2007</b> (comparable data)
	<u>(unaudited)</u>	<u>(unaudited)</u>
<b>Cash flows from operating activities</b>		
Net profit	477,899	552,402
Adjustments:		
Share in net profit/(loss) of subordinated undertakings valued with equity method	-	12
Depreciation and amortisation	236,805	227,305
Foreign exchange (gains)/losses	6,087	(3,249)
Net interest and dividend paid	(524)	537
(Profit)/Loss on investing activities	222,203	(9,560)
Income tax paid	(257,639)	(76,094)
Current income tax	115,053	134,741
(Increase) in receivables	(323,943)	(265,159)
(Increase) in inventories	(787,474)	(654,168)
Increase in liabilities and accruals and deferred income	449,103	269,064
Increase/ (Decrease) in provisions	11,983	(22,508)
(Increase) in prepayments and accrued income	(5,531)	(15,722)
Settlement of financial instruments	(121,309)	(21,609)
Other items, net	(296)	(165)
	-----	-----
<b>Net cash provided by/(used in) operating activities</b>	<b>22,417</b>	<b>115,827</b>
	-----	-----
<b>Cash flows from investing activities</b>		
Dividend received	24,360	50,054
Interest received	22,502	12,366
(Purchase)/Sale of property, plant and equipment and intangible assets	(876,243)	(208,193)
(Purchase)/Sale of non-current financial assets	-	(3,887)
(Purchase)/Sale of current financial assets	445	183,236
Repayment of non-current loans advanced	11	-
Acquisition of Rafineria Nafty Glimar S.A., net of cash acquired	3,987	-
Acquisition of Krak-Gaz Sp. z o.o., net of cash acquired	-	(15,620)
Prepayments for tangible assets under construction	(639,960)	(438,573)
Other items, net	(748)	47
	-----	-----
<b>Net cash provided by/(used in) investing activities</b>	<b>(1,465,646)</b>	<b>(420,570)</b>
	-----	-----
<b>Cash flows from financing activities</b>		
Increase in loans and borrowings	1,086,768	40,691
Repayment of loans and borrowings	(64,558)	(24,558)
Interest paid	(40,376)	(14,045)
Dividend paid to equity holders of the parent	-	(40,932)
Dividend paid to minority interests	(2,578)	(8,593)
Decrease in finance lease liabilities	(670)	-
Settlement of financial instruments	121,309	21,609
Other items, net	(133)	(5,768)
	-----	-----
<b>Net cash provided by/(used in) financing activities</b>	<b>1,099,762</b>	<b>(31,596)</b>
	-----	-----
Change in cash on account of foreign exchange (gains)/losses	(2,906)	(709)
	=====	=====
<b>Change in net cash</b>	<b>(346,373)</b>	<b>(337,048)</b>
	=====	=====
<b>Cash at beginning of period</b>	<b>477,104</b>	<b>624,165</b>
	=====	=====
<b>Cash at end of period</b>	<b>130,731</b>	<b>287,117</b>
	=====	=====
- restricted cash	23,967	30,632

**LOTOS GROUP**  
**STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY**  
**for the nine months ended September 30th 2008 and September 30th 2007**

(PLN '000)	Share capital	Statutory reserve funds	Retained earnings/ (deficit)	Translation reserve	Equity attributable to equity holders of the parent	Equity attributable to minority interests	Total equity
<b>Jan 1 2007 (comparable data)</b>	<b>113,700</b>	<b>970,951</b>	<b>4,014,432</b>	<b>(3,556)</b>	<b>5,095,527</b>	<b>306,416</b>	<b>5,401,943</b>
Net profit for nine months ended Sep 30 2007	-	-	532,346	-	532,346	20,056	552,402
Dividend	-	-	(40,932)	-	(40,932)	(8,593)	(49,525)
Changes in the Group structure	-	-	-	-	-	(118)	(118)
Other	-	-	-	(3,867)	(3,867)	-	(3,867)
<b>Sep 30 2007 (unaudited)</b>	<b>113,700</b>	<b>970,951</b>	<b>4,505,846</b>	<b>(7,423)</b>	<b>5,583,074</b>	<b>317,761</b>	<b>5,900,835</b>
<b>Jan 1 2008 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>4,746,221</b>	<b>(14,645)</b>	<b>5,816,227</b>	<b>334,691</b>	<b>6,150,918</b>
Net profit for nine months ended Sep 30 2008	-	-	428,052	-	428,052	49,847	477,899
Dividend	-	-	-	-	-	(2,578)	(2,578)
Changes in the Group structure	-	-	-	-	-	(168)	(168)
Other	-	-	-	(2,524)	(2,524)	-	(2,524)
<b>Sep 30 2008 (unaudited)</b>	<b>113,700</b>	<b>970,951</b>	<b>5,174,273</b>	<b>(17,169)</b>	<b>6,241,755</b>	<b>381,792</b>	<b>6,623,547</b>

**GRUPA LOTOS S.A.**  
**NON-CONSOLIDATED BALANCE SHEETS**  
as at September 30th 2008 and December 31st 2007

(PLN '000)	Sep 30 2008 (unaudited)	Dec 31 2007 (audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,645,154	1,890,243
Prepayments for tangible assets under construction	1,242,693	766,004
Intangible assets	49,658	52,742
Financial assets	681,253	677,977
	-----	-----
<b>Total non-current assets</b>	<b>4,618,758</b>	<b>3,386,966</b>
	-----	-----
<b>Current assets</b>		
Inventories	3,219,907	2,469,830
Trade and other receivables, including:	2,033,302	1,605,203
- income tax receivables	86,814	-
Prepayments	6,070	14,059
Current financial assets	95,026	99,969
Cash and cash equivalents	355,067	104,444
	-----	-----
<b>Total current assets</b>	<b>5,709,372</b>	<b>4,293,505</b>
	-----	-----
	=====	=====
<b>Total assets</b>	<b>10,328,130</b>	<b>7,680,471</b>
	=====	=====



**GRUPA LOTOS S.A.**  
**NON-CONSOLIDATED BALANCE SHEETS**  
as at September 30th 2008 and December 31st 2007

(PLN '000)	<b>Sep 30 2008</b>	<b>Dec 31 2007</b>
	(unaudited)	(audited)
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	113,700	113,700
Statutory reserve funds	970,951	970,951
Retained earnings/(deficit)	4,375,798	3,990,864
<b>Total equity</b>	<b>5,460,449</b>	<b>5,075,515</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	1,499,045	486,379
Non-current provisions	21,741	20,125
Deferred tax liability	95,705	122,431
Other financial liabilities	359	288
<b>Total non-current liabilities</b>	<b>1,616,850</b>	<b>629,223</b>
<b>Current liabilities</b>		
Trade payables, accruals and deferred income, and other liabilities, including:	2,158,990	1,554,619
- income tax expense	-	5,430
Interest-bearing loans and borrowings	868,625	378,580
Current provisions	41,270	38,570
Other financial liabilities	181,946	3,964
<b>Total current liabilities</b>	<b>3,250,831</b>	<b>1,975,733</b>
<b>Total liabilities</b>	<b>4,867,681</b>	<b>2,604,956</b>
<b>Total equity and liabilities</b>	<b>10,328,130</b>	<b>7,680,471</b>

**GRUPA LOTOS S.A.**  
**NON-CONSOLIDATED INCOME STATEMENTS**  
**for the three and nine months ended September 30th 2008 and September 30th 2007**

(PLN '000)	3 months ended Sep 30 2008	9 months ended Sep 30 2008	3 months ended Sep 30 2007 (comparable data)	9 months ended Sep 30 2007 (comparable data)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales revenue	4,382,570	11,624,859	3,115,149	8,233,532
Cost of sales	(4,337,148)	(10,926,749)	(2,831,046)	(7,530,966)
<b>Gross profit on sales</b>	<b>45,422</b>	<b>698,110</b>	<b>284,103</b>	<b>702,566</b>
Other operating income	3,337	5,423	744	31,940
Selling costs	(89,967)	(268,261)	(88,200)	(299,541)
General and administrative expenses	(52,914)	(159,078)	(47,592)	(137,220)
Other operating expenses	(1,610)	(7,291)	(8,624)	(10,498)
<b>Operating profit (loss)</b>	<b>(95,732)</b>	<b>268,903</b>	<b>140,431</b>	<b>287,247</b>
Financial income	(220,387)	373,406	48,862	328,083
Financial expenses	(108,842)	(193,459)	(6,873)	(10,502)
<b>Pre-tax profit (loss)</b>	<b>(424,961)</b>	<b>448,850</b>	<b>182,420</b>	<b>604,828</b>
Corporate income tax	80,220	(63,916)	(36,768)	(73,582)
<b>Net profit (loss) on continued operations</b>	<b>(344,741)</b>	<b>384,934</b>	<b>145,652</b>	<b>531,246</b>
<b>Net earnings (loss) per share (PLN)</b>				
- basic	(3.03)	3.39	1.28	4.67
- diluted	-	-	-	-

**GRUPA LOTOS S.A.**  
**NON-CONSOLIDATED CASH FLOW STATEMENTS**  
**for the nine months ended September 30th 2008 and September 30th 2007**

(PLN '000)	9 months ended Sep 30 2008 (unaudited)	9 months ended Sep 30 2007 (comparable data) (unaudited)
<b>Cash flows from operating activities</b>		
Net profit	384,934	531,246
Adjustments:		
Depreciation and amortisation	137,808	133,708
Foreign exchange (gains)/losses	(12,395)	116
Net interest and dividend paid	(131,551)	(205,279)
(Profit)/Loss on investing activities	226,835	(18,273)
Current income tax	63,916	73,582
Income tax paid	(182,886)	(46,574)
(Increase)/Decrease in receivables	(344,654)	130,097
(Increase) in inventories	(750,021)	(651,991)
Increase in liabilities and accruals and deferred income	423,393	68,550
Increase / (Decrease) in provisions	4,349	(28,756)
Decrease/(Increase) in prepayments and accrued income	7,989	(6,316)
Settlement of financial instruments	(121,309)	(21,609)
	-----	-----
<b>Net cash provided by/(used in) operating activities</b>	<b>(293,592)</b>	<b>(41,499)</b>
	-----	-----
<b>Cash flows from investing activities</b>		
(Purchase)/Sale of financial assets	-	3,060
(Purchase)/Sale of non-current financial assets	(4,569)	(4,537)
Repayment of loans advanced	3,700	-
Dividend received	130,333	205,218
Interest received	1,436	-
(Purchase)/Sale of property, plant and equipment and intangible assets	(559,190)	(127,037)
Prepayments for tangible assets under construction	(637,960)	(411,238)
Cash acquired as part of the merger with LOTOS Partner Sp. z o.o.	-	22,038
Other items, net	-	(1,799)
	-----	-----
<b>Net cash provided by/(used in) investing activities</b>	<b>(1,066,250)</b>	<b>(314,295)</b>
	-----	-----
<b>Cash flows from financing activities</b>		
Increase in loans and borrowings	1,022,877	-
Interest paid	(17,219)	-
Dividend paid	-	(40,932)
Settlement of financial instruments	121,309	21,609
Other items, net	(172)	-
	-----	-----
<b>Net cash provided by/(used in) financing activities</b>	<b>1,126,795</b>	<b>(19,323)</b>
	-----	-----
<b>Change in cash on account of foreign exchange (gains)/losses</b>	<b>(4,169)</b>	<b>(116)</b>
	=====	=====
<b>Change in net cash</b>	<b>(237,216)</b>	<b>(375,233)</b>
	=====	=====
<b>Cash at beginning of period</b>	<b>(274,136)</b>	<b>(118,984)</b>
	=====	=====
<b>Cash at end of period</b>	<b>(511,352)</b>	<b>(494,217)</b>
	=====	=====
- restricted cash	22,025	6,969

**GRUPA LOTOS S.A.**  
**STATEMENTS OF CHANGES IN NON-CONSOLIDATED EQUITY**  
**for the nine months ended September 30th 2008 and September 30th 2007**

(PLN '000)	Share capital	Statutory reserve funds	Retained earnings	Total equity
<b>Jan 1 2007</b> <b>(comparable data)</b> <b>(audited)</b>	113,700	970,951	3,268,105	4,352,756
Net profit for nine months ended Sep 30 2007	-	-	531,246	531,246
Dividend	-	-	(40,932)	(40,932)
Merger with LOTOS Partner Sp. z o. o.	-	-	18,607	18,607
	=====	=====	=====	=====
<b>Sep 30 2007</b> <b>(unaudited)</b>	113,700	970,951	3,777,026	4,861,677
	=====	=====	=====	=====
<b>Jan 1 2008</b> <b>(audited)</b>	113,700	970,951	3,990,864	5,075,515
Net profit for nine months ended Sep 30 2008	-	-	384,934	384,934
	=====	=====	=====	=====
<b>Sep 30 2008</b> <b>(unaudited)</b>	113,700	970,951	4,375,798	5,460,449
	=====	=====	=====	=====

**GRUPA LOTOS S.A.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the three and nine months ended September 30th 2008**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30TH 2008**

**1. General Information**

Grupa LOTOS S.A. (“the Company”, “the Parent Undertaking”), the parent undertaking of the LOTOS Group (“the Group”) was established by virtue of the Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (currently the District Court for Gdańsk – Północ, VII Commercial Division of the National Court Register), under entry No. KRS 0000106150. The Company was assigned the Industry Identification Number (REGON) 190541636.

The Parent Undertaking’s registered office is situated at ul. Elbląska 135, 80-718 Gdańsk, Poland.

In 2003, by virtue of its decision of May 28th 2003, the District Court of Gdańsk, XII Commercial Division of the National Court Register, changed the Company’s name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

The Group’s core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group’s business also includes exploration and extraction of crude oil and natural gas reserves.

**2. Composition of the Group**

The following table presents the subsidiary undertakings of the LOTOS Group, their principal business, consolidation method, and the Group’s share of the total vote in their share capital.

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group		
				Sep 30 2008	Dec 31 2007	Sep 30 2007
<b>Parent Undertaking</b>						
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable	Not applicable
<b>Direct Subsidiary Undertakings</b>						
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	Sale of fuels and provision of services for retail networks of international concerns; logistic services	full	-	-	- <sup>(1)</sup>
LOTOS Gaz S.A. (parent undertaking of another group)	Mława	Production, wholesale and retail sale of LPG	full	100.00%	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sales of base oils	full	100.00%	100.00%	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	Construction of basic units under the 10+ Programme; the company has not commenced operations	full	100.00%	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%	100.00%

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Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group		
				Sep 30 2008	Dec 31 2007	Sep 30 2007
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	full	100.00%	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of petroleum products	full	100.00%	100.00%	100.00% <sup>(2)</sup>
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels	full	80.04%	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale	full	80.01%	80.01%	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of reserves, crude oil and natural gas production	full	69.00%	69.00%	69.00%
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	full <sup>(3)</sup>	100.00%	100.00%	100.00%
Rafineria Nafty GLIMAR S.A. (parent undertaking of another group)	Gorlice	Refining, currently – services	full <sup>(4)</sup>	91.54%	91.54%	91.54%
LOTOS Hydrokompleks Sp. z o.o. w in liquidation <sup>(5)</sup>	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated	100.00%	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services	full	86.91%	86.91%	86.91%
BiproRaf Sp. z o.o.	Gdańsk	Design services for the oil sector	not consolidated	-	-	- <sup>(6)</sup>
<b>Indirect Subsidiary Undertakings</b>						
RC Ekoenergia Sp. z o.o.	Czechowice-Dziedzice	Services	full	80.04%	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Not operating	full	80.04%	80.04%	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	Services	<sup>(7)</sup>	86.91%	86.91%	86.91%
RC Paliwa Sp. z o.o. in liquidation	Czechowice-Dziedzice	Trading (not commenced)	equity method	-	- <sup>(8)</sup>	80.04%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Services	full	66.81% <sup>(9)</sup>	53.61%	53.61%
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	Services	not consolidated	-	- <sup>(10)</sup>	80.01%
Chemipetrol Sp. z o.o.	Jasło	Trading – sale of paraffin emulsions and anticaking agents	full <sup>(3)</sup>	80.01%	80.01%	80.01%
KRAK - GAZ Sp. z o.o. <sup>(11)</sup>	Bochnia	Wholesale and retail sale of LPG	full	100.00%	100.00%	-
Miliana Shipping Company Ltd.	Cyprus	Services	full	68.93%	68.93%	68.93%
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; the company commenced operations in November 2007	full <sup>(3)</sup>	69.00% <sup>(13)</sup>	100.00% <sup>(12)</sup>	-

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Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group		
				Sep 30 2008	Dec 31 2007	Sep 30 2007
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Services	full <sup>(3)</sup>	69.00%	69.00%	69.00%
Zakład Transportu TRANSGLIMAR Sp. z o.o. (in bankruptcy)	Gorlice	The company does not conduct operating activities	not consolidated due to lack of control <sup>(4)</sup>	91.54%	-	-
Zakład Produkcji Pasz i Bioetanolu AGRO GLIMAR Sp. z o.o. in liquidation	Gorlice	The company does not conduct operating activities	full <sup>(4)</sup>	91.54%	-	-
LOT Magazynowanie Paliw i Smarów Sp. z o.o.	Gorlice	The company does not conduct operating activities	full <sup>(4)</sup>	91.54%	-	-

<sup>(1)</sup> On June 29th 2007 the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register issued a decision on registering the merger of Grupa LOTOS S.A. and LOTOS Partner sp. z o.o.

<sup>(2)</sup> On April 11th 2007, Grupa LOTOS S.A. and LOTOS Jasło S.A. executed an agreement on the sale of 700 shares in LOTOS Tank Sp. z o.o. The shares, with the total par value of PLN 350 thousand, are equal and indivisible, and represent 70% of the share capital of LOTOS Tank Sp. z o.o. Grupa LOTOS S.A. acquired the shares for PLN 642.5 thousand, using its own financial resources. As a result of the transaction, Grupa LOTOS S.A. holds 1,000 shares, representing 100% of LOTOS Tank Sp. z o.o.'s share capital.

<sup>(3)</sup> As of December 31st 2007, LOTOS Exploration and Production Norge AS, UAB LOTOS Baltija, Aphrodite Offshore Services Ltd., and Chemipetrol Sp. z o.o. are consolidated with the full method.

<sup>(4)</sup> On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty GLIMAR S.A. of Gorlice bankrupt. Upon consideration on March 11th 2008 of the case of bankruptcy of Rafineria Nafty GLIMAR S.A. of Gorlice in connection with the motion for cancellation of bankruptcy proceedings submitted by bankruptcy administrator Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, Division V of the Commercial Court, decided to discontinue the bankruptcy proceedings pursuant to Art. 361.2 of the Bankruptcy and Recovery Law. On July 25th 2008, the court's decision became final. As of July 25th 2008, the Rafineria Nafty GLIMAR Group has been consolidated with the full method. Rafineria Nafty GLIMAR S.A. is a parent undertaking of another group, which consists of the following entities: Zakład Transportu TRANSGLIMAR Sp. z o.o. w upadłości (in bankruptcy), Zakład Produkcji Pasz i Bioetanolu AGRO GLIMAR Sp. z o.o. w likwidacji (in liquidation) and LOT Magazynowanie Paliw i Smarów Sp. z o.o. (see Note 10 to these condensed consolidated financial statements).

<sup>(5)</sup> On November 26th 2007, by virtue of a resolution of the Extraordinary General Shareholders Meeting, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation. On October 20th 2008, the District Court of Kraków decided to delete the company from the National Court Register (see Note 12 to these condensed consolidated financial statements).

<sup>(6)</sup> On January 15th 2007, Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw for the price of PLN 2,750 thousand.

<sup>(7)</sup> Shares contributed to LOTOS Park Technologiczny Sp. z o.o. by the LOTOS Czechowice Group on January 2nd 2006.

<sup>(8)</sup> On October 4th 2007 RC Paliwa Sp. z o.o. in liquidation was deleted from the National Court Register by the District Court of Katowice Wschód in Katowice, VIII Commercial Division of the National Court Register.

<sup>(9)</sup> In May – June 2008, LOTOS Jasło S.A. acquired 165 shares in PLASTEKOL Organizacja Odzysku S.A. The acquired shares are equal and indivisible and represent 16.5% of the share capital of PLASTEKOL Organizacja Odzysku S.A. As a result of this transaction, LOTOS Jasło S.A. holds 835 shares, representing 83.5% of the share capital of Plastikol Organizacja Odzysku S.A. (See Note 10 to these condensed consolidated financial statements).

<sup>(10)</sup> On December 27th 2007 LOTOS Jasło S.A. sold 100% of shares in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu Sp. z o.o.

<sup>(11)</sup> On July 9th 2007 LOTOS Gaz S.A. entered into the final agreement on the purchase of 34,500 shares in KRAK - GAZ Sp. z o.o. and thus acquired 100% of the shares in KRAK – GAZ Sp. z o.o.

<sup>(12)</sup> On September 22nd 2007, the Central Register of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, registered office in Stavanger, Norway. Grupa LOTOS S.A. acquired 100% of the shares in the new entity by paying up its entire share capital of NOK 8,000 thousand, i.e. PLN 3,871 thousand.

<sup>(13)</sup> On May 19th 2008, the Management Board of Petrobaltic S.A. made a decision to initiate the registration procedure concerning the increase of the share capital and the acquisition by Petrobaltic S.A. of 80% of the shares in LOTOS Exploration and Production Norge AS. On June 12th 2008, Grupa LOTOS S.A. entered into an agreement with Petrobaltic S.A. to sell to Petrobaltic S.A. 8 million shares in LOTOS Exploration and Production Norge AS, representing 20% of the company's share capital. As a result of this transaction, Petrobaltic S.A. holds 40 million shares, representing 100% of the share capital of LOTOS Exploration and Production Norge AS (see Note 10 to these condensed consolidated financial statements).

As at September 30th 2008, December 31st 2007, and September 30th 2007, the Company's share in the total vote at the General Shareholders Meetings of its subsidiary undertakings was equal to its share in the share capital of these undertakings.

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**3. Changes in the composition of the Management and Supervisory Boards**

In the period January 1st – September 30th 2008 and as at the date of release of these condensed 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,  
Marek Sokołowski – Vice-President of the Management Board, Production and Development Director,  
Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer.

On October 16th 2008, the Supervisory Board of Grupa LOTOS S.A. resolved to open the recruitment process for the positions of Vice-President of the Management Board, Chief Commercial Officer and Vice-President of the Management Board responsible for Oil & Gas Exploration and Production.

Until June 30th 2008, the composition of the Supervisory Board was as follows:

Jan Stefanowicz – Chairman of the Supervisory Board,  
Henryk Siodmok – Deputy Chairman of the Supervisory Board,  
Grzegorz Szczodrowski - Secretary of the Supervisory Board,  
Beata Zawadzka – Member of the Supervisory Board,  
Marta Busz – Member of the Supervisory Board,  
Izabela Emerling – Member of the Supervisory Board,  
Jacek Mościcki – Member of the Supervisory Board.

On June 30th 2008, the General Shareholders Meeting appointed the Supervisory Board of Grupa LOTOS S.A. of the seventh term of office, composed of:

Wiesław Skwarko – Chairman of the Supervisory Board,  
Radosław Barszcz – Member of the Supervisory Board,  
Piotr Chajderowski – Member of the Supervisory Board,  
Leszek Starosta – Member of the Supervisory Board,  
Jan Stefanowicz – Member of the Supervisory Board,  
Mariusz Obszyński – Member of the Supervisory Board.

Pursuant to Par. 11.2 of the Company's Articles of Association a Company's shareholder, the State Treasury, represented by the Minister of the State Treasury, removed Ms Beata Zawadzka from the Supervisory Board (with effect from June 30th 2008) and appointed to the Supervisory Board Ms Małgorzata Hirszel (with effect from July 1st 2008).

On August 12th 2008, during its meeting, the Supervisory Board established its internal organisation: Mr Leszek Starosta was elected Deputy Chairman of the Supervisory Board and Mr Mariusz Obszyński was appointed Secretary of the Supervisory Board.

As at September 30th 2008 and as at the date of publication of these consolidated financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,  
Leszek Starosta – Deputy Chairman of the Supervisory Board,  
Mariusz Obszyński – Secretary of the Supervisory Board,  
Radosław Barszcz – Member of the Supervisory Board,  
Piotr Chajderowski – Member of the Supervisory Board,  
Małgorzata Hirszel – Member of the Supervisory Board,  
Jan Stefanowicz – Member of the Supervisory Board.



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**4. Rules of Presentation**

These condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the EU-endorsed IFRS.

The IFRS include the standards and interpretations adopted by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretation Committee (“IFRIC”).

These condensed consolidated financial statements of the LOTOS Group were prepared in accordance with International Accounting Standard No. 34 Interim Financial Reporting (“IAS 34”) and in compliance with the EU accounting standards applicable to interim financial reporting, published and effective as at September 30th 2008.

These condensed consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements of the Lotos Group for 2007, prepared in accordance with the IFRS.

The financial data as at September 30th 2008 and for the three and nine months ended on that date, as well as the comparable financial data for the three and nine months ended September 30th 2007, contained in these condensed financial statements, were not audited. The financial information as at December 31st 2007 were audited by a qualified auditor, who issued an opinion on the financial statements on May 6th 2008.

In these condensed consolidated financial statements, the Parent Undertaking disclosed the financial information of the Group of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. (“GK Petrobaltic”) for the nine months ended September 30th 2008, based on the assumption that GK Petrobaltic accounts for the shares in Naftos Gavyba (“NG”), its associated undertaking, using the equity method, as at December 31st 2007, adjusted for the dividend of PLN 28,746 thousand. The consolidated financial statements of the NG Group (“NG Group”), prepared in line with the accounting policies applicable in Lithuania, served as the basis for disclosure in the consolidated financial statements of NG’s value corresponding to the number of NG shares held by Petrobaltic S.A..

The measurement and reporting currency of these condensed 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.

These condensed consolidated financial statements were approved for publication by the Management Board on November 12th 2008.

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**5. Accounting Policies**

The accounting policies and calculation methods adopted by the Company and the Group in the preparation of these condensed consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for the year ended December 31st 2007 (see Note 10 of the Consolidated Financial Statements for the year ended December 31st 2007, prepared in accordance with the IFRS)..

In connection with IAS 18 *Revenue*, the Group disclosed sales revenue for the three and nine months ended September 30th 2008 taking into account trade and volume rebates given by the Group companies. In the condensed consolidated financial statements for the three and nine months ended September 30th 2007, the value of volume rebates increased the selling costs. The Group reclassified the value of rebates by decreasing selling costs and sales revenue for the three and nine months ended September 30th 2007 respectively by PLN 4,100 thousand and PLN 13,836 thousand.

Concurrently, during the three and nine months ended September 30th 2008, the Company and the Group reclassified the costs of loading equipment. For the three and nine months ended September 30th 2007, cost of sales and general and administrative expenses fell by PLN 2,509 thousand and PLN 551 thousand; PLN 8,649 thousand and PLN 1,121 thousand, respectively, while selling costs rose by PLN 3,060 thousand and PLN 9,770 thousand, respectively.

During the nine months ended September 30th 2008, the Company and the Group reclassified the amounts resulting from settlement of financial instruments in the cash flow statement. Previously, such amounts were disclosed under cash flows from operating activities, while in these financial statements – under cash flows from financing activities. In these condensed consolidated financial statements, the amounts resulting from settlement of financial instruments for the nine months ended September 30th 2008 and the nine months ended September 30th 2007, of PLN 121,309 thousand and PLN 21,609 thousand, respectively, are recognized under cash flows from financing activities.

The Group has reviewed the new interpretations, standards and amendments to the existing standards. The new interpretations, standards and amendments have no material impact on the accounting policies applied by the Group.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee:

- Amendment to IAS 23 *Borrowing Costs* (effective as of January 1st 2009, not yet adopted by the European Union),
- Amendment to IAS 1 *Presentation of Financial Statements* (effective as of January 1st 2009, not yet adopted by the European Union),
- IFRS 8 *Operating Segments* (applies to annual periods beginning after January 1st 2009),
- Revised IFRS 3 *Business Combinations* (applies to annual periods beginning after July 1st 2009, not yet adopted by the European Union),
- Revised IAS 27 *Consolidated and Separate Financial Statements* (applies to annual periods beginning after July 1st 2009, not yet adopted by the European Union),
- IFRIC 12 *Service Concession Arrangements* (applies to annual periods beginning after January 1st 2008, not yet adopted by the European Union),
- IFRIC 13 *Customer Loyalty Programmes* (applies to annual periods beginning after July 1st 2008),
- IFRIC 14, IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (applies to annual periods beginning after January 1st 2008, not yet adopted by the European Union),
- Amendment to IFRS 2 *Share-Based Payments – Vesting Conditions and Cancellations* (applies to annual periods beginning on or after January 1st 2009, not adopted by the European Union),
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation* (apply to annual periods beginning on or after January 1st 2009, not adopted by the European Union),

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- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (in most cases, the amendments apply to annual periods beginning on or after January 1st 2009; not adopted by the European Union),
- Amendments to IFRS 1 *First-Time Adoption of IFRS* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (apply to annual periods beginning on or after January 1st 2009, not adopted by the European Union),
- IFRIC 15 *Agreements for the Construction of Real Estate* (applies to annual periods beginning on or after January 1st 2009, not adopted by the European Union),
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (applies to annual periods beginning on or after October 1st 2008, not yet adopted by the European Union).
- Amendments to IAS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting* (applies to annual periods beginning on or after July 1st 2009, not yet adopted by the European Union).

The Management Board does not expect any material impact of the new standards and interpretations specified above on the accounting policies applied by the Group.

The Group does not prepare information on individual business segments, as it does not meet the requirements concerning business segmentation, as stipulated in IAS 14 *Segment Reporting*.

#### **6. Rules of Translation of the Financial Highlights into the Euro**

In the “Financial Highlights” table, the balance-sheet items as at September 30th 2008 were translated using the euro mid-exchange rate quoted by the National Bank of Poland for that day, i.e. EUR 1 = PLN 3.4083. Items of the income statement and the cash flow statement for Q1–Q3 2008 (cumulatively) were translated at the exchange rate of EUR 1 = PLN 3.4243 (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 – September 30th 2008).

In the “Financial Highlights” table, the balance-sheet items as at December 31st 2007 were translated using the euro mid-exchange rate published by the National Bank of Poland for that day, i.e. EUR 1 = PLN 3.5820.

Items of the income statement and the cash-flow statement contained in the “Financial Highlights” table for Q1–Q3 2007 (cumulatively) were translated at the exchange rate of EUR 1 = PLN 3.8314 (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 – September 30th 2007).

#### **7. Operations in the Interim Period**

The Group’s operations are not subject to seasonality or cyclicity in interim periods.

#### **8. Dividends**

On June 30th 2008, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution concerning the distribution of the net profit for 2007. Pursuant to the resolution, the Company’s net profit for the year ended December 31st 2007, amounting to PLN 745,084 thousand, was distributed as follows:

- PLN 742,584 thousand to increase the Company’s statutory reserve funds,
- PLN 2,500 thousand to increase the Company’s special fund for financing Grupa LOTOS S.A.’s social projects.

In these financial statements, the Company presented distributed profit under retained profit. In addition, the portion of profit allocated to the special fund was recognised as cost in 2008 and presented under current provisions.

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**9. Earnings per Share**

	<b>9 months ended Sep 30 2008</b>	<b>9 months ended Sep 30 2007</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Net profit attributable to equity holders of the parent (PLN '000) (A)	428,052	532,346
Weighted average number of shares (in thousands) (B)	113,700	113,700
	=====	=====
Earnings per share (PLN '000) (A/B)	3.76	4.68

Earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in the reporting period. The Group does not disclose diluted earnings/loss per share, since it has no instruments with a potential dilutive effect.

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**10. Changes in the LOTOS Group Structure**

**Changes in the Petrobaltic Group Structure**

On May 19th 2008 the Management Board of Petrobaltic S.A. resolved to commence the procedure of registration of the share capital increase and acquisition of shares in LOTOS Exploration and Production Norge AS by Petrobaltic S.A. (in which Grupa LOTOS S.A. holds 69% of shares).

The share capital of LOTOS Exploration and Production Norge AS (E&P Norge AS) was increased from NOK 8 million (the equivalent of PLN 3,354 thousand, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for May 19th 2008) to NOK 40 million (the equivalent of PLN 16,772 thousand, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for May 19th 2008). The 32 million new shares created as part of the share capital increase, whose aggregate par value amounts to NOK 32 million, are equal and indivisible and represent 80% of the increased share capital of E&P Norge AS. Petrobaltic S.A. treats the acquired shares as a long-term investment.

Petrobaltic S.A. became a shareholder of LOTOS E&P Norge AS by purchasing for cash 32 million of the new shares. The purchase price of the shares, equal to their total par value, was NOK 32 million (PLN 13,782 thousand, translated at the mid exchange rate for NOK quoted by the National Bank of Poland for May 19th 2008) and was covered with Petrobaltic's internally-generated funds.

On May 27th 2008 Bronnoysundregistrene, the Norwegian companies registrar, registered the share capital increase at LOTOS E&P Norge AS, as well as the acquisition of the new shares in LOTOS E&P Norge AS, issued as part of the increase, by Petrobaltic S.A.

The change in the amount and structure of the share capital of LOTOS E&P Norge AS took effect upon completion of the share capital increase registration proceedings.

Following the registration, LOTOS E&P Norge AS's share capital amounted to NOK 40m (the equivalent of PLN 17,276 thousand, translated at the PLN/NOK mid-exchange rate quoted by the National Bank of Poland for May 28th 2008), and was divided into 40 million equal and indivisible shares with the par value of NOK 1 per share, carrying the right to 40 million votes.

Following the registration, Petrobaltic S.A. acquired 32 million shares, with the aggregate par value of NOK 32m. The shares are equal, indivisible and represent 80% of LOTOS E&P Norge AS's increased share capital. The remaining 20% of the shares are held by Grupa LOTOS S.A.

On June 12th 2008, Grupa LOTOS S.A. and Petrobaltic S.A. concluded a share purchase agreement, under which Petrobaltic S.A. acquired 8 million shares in LOTOS Exploration and Production Norge AS, representing 20% of the company's share capital.

Petrobaltic S.A., as the leading company of the LOTOS Group in the field of exploration and production, became an investor in LOTOS E&P Norge AS and after the finalization of the transaction holds in aggregate 40 million shares, representing 100% of the share capital of LOTOS E&P Norge AS.

The acquisition of the shares by Petrobaltic S.A., and consequently the take-over of full control over LOTOS E&P Norge AS, is another step in pursuit of the assumed strategy and an element of the consistently implemented programme aimed at streamlining the structure of the LOTOS Group.

The shares transferred under the agreement, with the total par value of NOK 8m (the equivalent of PLN 3,376 thousand, translated at the PLN/NOK mid-exchange rate quoted by the National Bank of Poland for June 12th 2008), carrying the right to 8 million votes, are equal and indivisible shares and represent 20% of the share capital of LOTOS E&P Norge AS. Their acquisition by Petrobaltic S.A. is treated as a long-term investment.

Petrobaltic S.A. acquired the shares in LOTOS E&P Norge AS at a market price equal to their par value, and financed the acquisition with its internally-generated funds.

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On June 17th 2008, the Extraordinary General Shareholders Meeting of Petrobaltic S.A. approved the acquisition of 20% of shares in LOTOS Exploration & Production Norge AS. The approval was a condition necessary to finalise the sale of 8 million shares in LOTOS Exploration and Production Norge AS (representing 20% of the company's share capital) by Grupa LOTOS S.A. to Petrobaltic S.A.

The value of LOTOS E&P Norge AS's assets sold under the agreement, as disclosed in the accounting books of Grupa LOTOS S.A., is PLN 3,886 thousand.

On August 26th 2008, the Management Board of Petrobaltic S.A. resolved to commence the procedure for registration of a share capital increase at LOTOS Exploration and Production Norge AS and of acquisition of the new issue shares in the company by Petrobaltic S.A.

The share capital of LOTOS Exploration & Production Norge AS was increased from NOK 40m to NOK 190m. The new shares comprising the increased share capital, whose aggregate par value amounts to NOK 150m, are equal and indivisible, and represent 78.9% of the increased share capital of LOTOS Exploration & Production Norge AS. Petrobaltic S.A. treats the shares as a long-term equity investment.

Petrobaltic S.A. covered the 150 million new shares in LOTOS Exploration & Production Norge AS with cash. The purchase price for the shares was equal to their par value, i.e. NOK 150m (PLN 62.8m, as translated at the mid exchange rate for NOK quoted by the National Bank of Poland for August 26th 2008) and was covered with Petrobaltic's internally-generated funds.

**Acquisition of Shares in PLASTEKOL Organizacja Odzysku S.A. by LOTOS Jasło S.A.**

On May 19th 2008, LOTOS Jasło S.A. (in which Grupa LOTOS S.A. holds 80.01% of shares) acquired:

- 15 shares in PLASTEKOL Organizacja Odzysku S.A., representing 1.5% of the company's share capital – from Dariusz Kiełtyka – P.P.H.U. AGA of Biecz;
- 15 shares in PLASTEKOL Organizacja Odzysku S.A., representing 1.5% of the company's share capital – from Jacek Kiełtyka – P.P.H.U. BIKOR of Biecz.

Following the transaction, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 67% to 70% (the number of shares held by LOTOS Jasło S.A. increased from 670 to 700).

On May 30th 2008, LOTOS Jasło S.A. purchased from WOLAR Sp. z o.o. of Szoldry, 60 shares in PLASTEKOL Organizacja Odzysku S.A., representing 6% of the company's share capital. Following the transaction, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 70% to 76% (the number of shares held by LOTOS Jasło S.A. increased from 700 to 760).

On June 3rd 2008, LOTOS Jasło S.A. purchased from Przedsiębiorstwo EKOSYSTEM Sp. z o.o. of Wola Krzysztoporska, 45 shares in PLASTEKOL Organizacja Odzysku S.A., representing 4.5% of the company's share capital. Following the transaction, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 76% to 80.5% (the number of shares held by LOTOS Jasło S.A. increased from 760 to 805).

On June 9th 2008, LOTOS Jasło S.A. purchased from AGROB-EKO Sp. z o.o. of Zabrze, 30 shares in PLASTEKOL Organizacja Odzysku S.A., representing 3% of the company's share capital. Following the transaction, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 80.5% to 83.5% (the number of shares held by LOTOS Jasło S.A. increased from 805 to 835).

The purchased shares are equal and indivisible. They represent 16.5% of the share capital of PLASTEKOL Organizacja Odzysku S.A. Following the above transactions, LOTOS Jasło S.A. (in which Grupa LOTOS S.A. holds 80.01% of shares) holds 835 shares in PLASTEKOL Organizacja Odzysku S.A., representing 83.5% of the company's share capital.

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**Share capital increase at LOTOS Tank Sp. z o.o.**

On July 24th 2008, Grupa LOTOS S.A. (which exercises full control over LOTOS Tank Sp. z o.o.) signed a declaration on acquisition of shares in the increased share capital of LOTOS Tank Sp. z o.o. The shares were fully paid up with cash. The share capital of LOTOS Tank Sp. z o.o. was increased from PLN 500 thousand to PLN 6,945 thousand, i.e. by PLN 6,445 thousand; the share capital increase was effected by increasing the par value of the 1,000 existing shares from PLN 500 to PLN 6,945 per share. Following the acquisition of the shares in the increased share capital of LOTOS Tank Sp. z o.o., Grupa LOTOS S.A. continues to hold 100% of the equal and indivisible shares in the company and is entitled to exercise 100% of the voting rights attached to the shares at the General Shareholders Meeting of LOTOS Tank Sp. z o.o. Grupa LOTOS S.A. treats the acquisition of the shares in the increased share capital of LOTOS Tank Sp. z o.o. as a long-term equity investment. The increase in the share capital of LOTOS Tank Sp. z o.o. was effected in connection with the company's efforts to develop its activities in the area of JET fuel sales. On July 31st 2008, Grupa LOTOS S.A. paid the amount due for the shares of PLN 6,445 thousand.

On September 18th 2008, the District Court of Rzeszów, XII Commercial Division of the National Court Register, registered the increase in the share capital of LOTOS Tank Sp. z o.o., which is fully controlled by Grupa LOTOS S.A. As a result, the share capital of LOTOS Tank Sp. z o.o. was increased to PLN 6,945 thousand, and is divided into 1,000 equal and indivisible shares with a par value of PLN 6,945 thousand per share, conferring 1,000 votes at the General Shareholders Meeting.

**Acquisition of shares in the increased share capital of LOTOS Serwis Sp. z o.o. by Grupa LOTOS S.A.**

On August 5th 2008, Grupa LOTOS S.A., which exercises full control over LOTOS Serwis Sp. z o.o., acquired shares in the increased share capital of LOTOS Serwis Sp. z o.o. Grupa LOTOS S.A. acquired the shares at a price equal to their par value; the shares were fully paid up with cash. The share capital of LOTOS Serwis Sp. z o.o. was increased from PLN 2,500 thousand to PLN 4,000 thousand, i.e. by PLN 1,500 thousand, through the creation of 3,000 new shares with the par value of PLN 500 per share. After acquiring the shares in the increased share capital of LOTOS Serwis Sp. z o.o., Grupa LOTOS S.A. continues to hold 100% of the equal and indivisible shares in the company and 100% of the total vote at its General Shareholders Meeting. The core business of LOTOS Serwis Sp. z o.o. comprises maintenance of continuous operation and repair of equipment and installations for Grupa LOTOS S.A. and its subsidiaries. Grupa LOTOS S.A. treats the acquisition of the shares in the increased share capital of LOTOS Serwis Sp. z o.o. as a long-term investment. On August 8th 2008, Grupa LOTOS S.A. paid the amount due for the shares of PLN 1,500 thousand.

On September 17th 2008, the District Court for Gdańsk-Północ in Gdańsk, registered the increase in the share capital of LOTOS Serwis Sp. z o.o. As a result, the share capital of LOTOS Serwis Sp. z o.o. was increased to PLN 4,000 thousand, divided into 8,000 equal and indivisible shares with a par value of PLN 500 per share, conferring 8,000 votes.

**Consolidation of Rafineria Nafty GLIMAR Group**

On February 3rd 2005, an agreement of January 13th 2005 providing for the sale of shares in Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty GLIMAR S.A. w upadłości (in bankruptcy) (91.54%) and Petrobaltic S.A. (69.00%) by Nafta Polska S.A. to Grupa LOTOS S.A., was performed. The total value of the agreement amounted to PLN 257,276 thousand.

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. Since control of the assets of Rafineria Nafty Glimar S.A. was exercised by a bankruptcy administrator, the Rafineria Nafty GLIMAR Group was not consolidated by Grupa LOTOS S.A.

Upon consideration on March 11th 2008 of the case of bankruptcy of Rafineria Nafty GLIMAR S.A. of Gorlice in connection with the motion for discontinuation of bankruptcy proceedings, submitted by bankruptcy administrator Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, Commercial Court Division V, decided to discontinue the bankruptcy proceedings pursuant to Art. 361.2 of the Bankruptcy and Recovery Law. The decision issued by the District Court of Nowy Sącz, Commercial Court Division V, was appealed

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against to the Regional Court of Kraków, Appellate Commercial Division XII. On July 25th 2008, the Regional Court of Kraków, Appellate Commercial Division XII, issued a decision (court docket No. XII Gz 242/08) dismissing the appeals. The decision of the District Court of Nowy Sącz, Commercial Court Division V, on discontinuation of the bankruptcy proceedings became final. Therefore, within the meaning of IFSR, on July 25th 2008, Grupa LOTOS S.A. assumed control of the Rafineria Nafty GLIMAR Group.

In these condensed consolidated financial statements, the acquisition of the Rafineria Nafty GLIMAR Group by Grupa LOTOS S.A. was recognised according to IFRS 3, with the application of the provisional fair value of identifiable assets, liabilities and contingent liabilities. It was assumed in these condensed consolidated financial statements that the total values of identifiable assets of the Rafineria Nafty GLIMAR Group corresponded to the total values of its identifiable liabilities (the provisional fair value of identifiable liabilities and contingent liabilities was equal to the amount for which the identifiable liabilities and contingent liabilities could be discharged, i.e. an amount not higher than the provisional fair value of the assets). As a result of the acquisition of the Rafineria Nafty GLIMAR Group, no goodwill (i.e. excess of the acquisition cost over the value of acquired net assets) was recognised, since the fair value of net assets as at acquisition date is 0.

The following table presents the provisional fair values of the identifiable assets, liabilities and contingent liabilities as at the acquisition date:

(PLN '000)	<u>July 25th 2008</u>
<b>Cost of business combination (acquisition cost)</b>	<b>0.001</b>
Share in the equity of the acquired undertakings	<b>91.54%</b>
Current assets, including:	8,284
Cash and cash equivalents	3,987
Non-current assets	403,800
<b>Total assets</b>	<b>412,084</b>
Current liabilities, including accruals and deferred income	412,084
<b>Total liabilities</b>	<b>412,084</b>
<b>Net assets</b>	<b>0</b>
<b>Company's share in net assets</b>	<b>0</b>
<b>Excess of Company's share in net assets over the acquisition cost</b>	<b>0</b>

The provisional fair value of assets corresponded to their book value as at July 25th 2008. The book value of identifiable liabilities and contingent liabilities as at July 25th 2008 amounted to PLN 761,832 thousand. The provisional fair value of identifiable liabilities and contingent liabilities as at July 25th 2008 was equal to the amount for which the identifiable liabilities and contingent liabilities could be discharged, i.e. an amount not higher than the provisional fair value of the assets, which in these condensed consolidated financial statements was presented as equal to the assets' book value on July 25th 2008 .

In accordance with IFRS 3, Grupa LOTOS S.A. will measure the goodwill related to the acquisition of Rafineria Nafty GLIMAR S.A. as at the acquisition date. Goodwill is measured as the excess of the cost of the business combination over the acquiring company's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. The net fair value of identifiable assets, liabilities and contingent liabilities will be determined on the basis of an independent valuation and may materially differ from their provisional value assumed in these condensed consolidated financial statements.

Any adjustments resulting, among others, from establishing the net fair value of the identifiable assets, liabilities and contingent liabilities, will be recognised with retrospective effect as at the acquisition date, i.e. July 25th 2008, within 12 months as from the acquisition date.



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**11. Other Information**

**Purchase of Interests in Norwegian Production Licences**

On May 20th 2008, LOTOS Exploration and Production Norge AS signed an agreement with Norwegian company REVUS Energy ASA concerning purchase of 10% of interests in the North Sea production licences Nos. PL 316, PL 316B, PL 316CS and PL 316DS. The purchased licences cover the YME field and an additional exploration area. The YME field is located 110 km off the coast in the southern part of the Norwegian sector of the North Sea. The recoverable crude oil reserves of the YME field which correspond to the 10% interest held by LOTOS E&P Norge AS, are estimated by the operator (Talisman) at *ca.* 6.8 million bbl (about 900 thousand tonnes). Production from the field is expected to start in the second half of 2009.

The value of the transaction is USD 52.5 million (the equivalent of PLN 114,770 thousand, translated at the USD/PLN mid exchange rate published by the National Bank of Poland for May 20th 2008). The acquisition of rights to tax exemptions held by the seller in connection with the investments made, accounts for about 20% of the price.

The agreement's entry into effect was conditional upon its approval by the General Shareholders Meeting of Petrobaltic S.A. (controlled by Grupa LOTOS S.A. in 69%) and the Norwegian Ministry of Energy and Crude Oil. The Ministry can only issue its approval after the process of formal prequalification of E&P Norge AS to conduct business on the Norwegian Continental Shelf is completed.

On June 17th 2008, the General Shareholders Meeting of Petrobaltic S.A. adopted a resolution approving the financing of the production projects carried out by LOTOS Exploration and Production Norge AS in Norway.

Upon the fulfilment of all the conditions precedent (including the relevant approvals from the General Shareholders Meeting of Petrobaltic S.A. and from the Norwegian Ministry of Energy and Crude Oil), on August 29th 2008 LOTOS Exploration and Production Norge AS acquired all rights and obligations connected with the ownership of the 10% interest in the production licences. The value of the agreement is USD 52.5m (the equivalent of PLN 119.1m, translated at USD/PLN mid exchange rate quoted by the National Bank of Poland for August 29th 2008). That value will be increased by the amount of investment expenditure made by REVUS Energy ASA during the jointly agreed period preceding the assumption of rights and obligations connected with the licences, which will reach approximately USD 12m (the equivalent of PLN 27.2m, translated at USD/PLN mid exchange rate quoted by the National Bank of Poland for August 29th 2008). The investment expenditure which remains to be made after August 29th 2008 (corresponding to the 10% interest in the YME field) before production can be started is estimated at about USD 65m (the equivalent of PLN 147.5m, translated at USD/PLN mid exchange rate quoted by the National Bank of Poland for August 29th 2008).

The transaction was financed using a loan (see Note VIII to these condensed consolidated financial statements) and the proceeds from an increase of the company's share capital by Petrobaltic S.A., as described in Note 10 to these condensed consolidated financial statements.

The transaction was secured with an unconditional and irrevocable guarantee issued by Petrobaltic S.A. for the benefit of REVUS Energy ASA. Following the performance of the agreement by LOTOS Exploration and Production Norge AS, the guarantee expired and the guarantee document was returned to the issuer by REVUS Energy ASA, as described in Note 13 to these condensed consolidated financial statements.

The total acquisition price of the 10% interest in production licences Nos. PL 316, PL 316B, PL 316CS and PL 316DS in the North Sea, comprising the purchase price (USD 52.5m), the advance payments made and the amount corresponding to the 10% share of LOTOS Exploration and Production Norge AS in the capital expenditure incurred by REVUS Energy ASA in the period from the agreement effective date until the day on which the conditions precedent were fulfilled, amounted to NOK 367,775 thousand.

In these condensed consolidated financial statements the Group recognised the 10% interest in the Norwegian production licences as a share in jointly controlled assets as defined in IAS 31 *Interests in Joint Ventures*), classified according to the nature of the assets, i.e. as tangible assets under construction. The amount disclosed as at September 30th 2008 was NOK 379,471 thousand (the equivalent of PLN 155,887 thousand, translated using the mid exchange rate for NOK quoted by the National Bank of Poland for September 30th 2008). As at September 30th 2008, the Group also disclosed its share in liabilities arising in connection with financing of the

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assets attributable to LOTOS Exploration and Production Norge AS in the amount of NOK 22,052 thousand (the equivalent of PLN 9,059 thousand, translated using the mid exchange rate for NOK quoted by the National Bank of Poland for September 30th 2008).

**Purchase of Interests in Exploration Licences by LOTOS Exploration and Production Norge AS**

On August 26th 2008, LOTOS Exploration and Production Norge AS (wholly-owned by Petrobaltic S.A., which in turn is controlled by Grupa LOTOS S.A. in 69%) entered into an agreement on the purchase of a 20% interest in exploration licence PL455, covering an area of 1,365 km<sup>2</sup> located in the southern part of the Norwegian sector of the North Sea. LOTOS Exploration and Production Norge AS signed the agreement with Noreco, a Norwegian exploration and production company. LOTOS Exploration and Production Norge AS will acquire a 20% interest in the licence in exchange for covering 40% of the estimated expenditure to be incurred by Noreco on the performance of seismic surveys under the PL455 licence, i.e. approx NOK 38m (the equivalent of PLN 15.9m, translated using the mid exchange rate for NOK quoted by the National Bank of Poland for August 26th 2008). The transaction was to take effect once relevant approvals are obtained from the Norwegian Ministry of Finance and the Ministry of Energy and Crude Oil.

Licence PL455 was granted to Noreco as part of the qualification round APA2007. Noreco is also the licence operator and – after the transaction with LOTOS Exploration and Production Norge AS – holds a 50% interest in the licence. The seismic survey is scheduled for the years 2008-2009, and in 2010 the licence area will be drilled to confirm its potential. In accordance with the Norwegian tax law, if the exploration proves unsuccessful, 78% of the incurred expenditure may be reimbursed.

On October 31st 2008, after all conditions precedent had been fulfilled, LOTOS Exploration and Production Norge AS acquired all rights and obligations related to the ownership of a 20% interest in exploration licence PL455.

**Extension of Petrobaltic's Licence for the Exploration for and Appraisal of Crude Oil and Natural Gas Fields in the Wolin Area**

On June 16th 2008, Petrobaltic S.A. received the decision of the Minister of the Environment extending its licence for the exploration for and appraisal of crude oil and natural gas fields in the Wolin area, located in the western part of the Polish sea zone.

In accordance with the decision, Petrobaltic S.A. was granted a licence for the period of nine and a half years counting from the initial licence grant date, i.e. from December 14th 2001. The licence term was extended by three years relative to the original term.

**Extension of Two Licences Granted to Petrobaltic S.A. for Production of Natural Gas from the B6 and B4 Fields**

Petrobaltic S.A. received the decision of the Minister of the Environment concerning amendments to licence No. 2/2006 of November 7th 2006 for the production of natural gas from the B6 field, granted to Petrobaltic S.A.

In accordance with the decision, Petrobaltic S.A. was granted a licence for the period of 26 years (previously – 20 years) counting from the original licence grant date, which means that the licence term was extended until November 2032. In accordance with the decision, the period in which production should begin under the licence was extended to 96 months (previously – 36 months) from the licence grant date.

Petrobaltic S.A. received the decision of the Minister of the Environment concerning amendments to licence No. 6/2006 of May 11th 2007 for the production of natural gas from the B4 field, granted to Petrobaltic S.A. In accordance with the decision, the period in which production should begin under the licence was extended to 84 months (previously – 24 months) from the licence grant date.

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**Updated “Strategy of the LOTOS Group until 2012”**

On June 16th 2008, the Supervisory Board of Grupa LOTOS S.A. approved the updated “Strategy of the LOTOS Group until 2012”. In line with the updated Strategy, the Group will continue its policy focused on stimulating sustainable development of its core business, with an overriding strategic goal of creating value for shareholders.

The “Strategy of the LOTOS Group until 2012” was updated with respect to key objectives for each of the three main areas of the Company’s operations:

- exploration & production segment,
- operating segment,
- marketing segment.

1. Key Objectives of the Updated Strategy in the Area of Exploration & Production Are to:

- improve security of crude oil supplies processed by the refineries by securing direct access to hydrocarbon reserves,
- achieve stable growth of hydrocarbon production by 2012 through the implementation of programmes aimed at increasing production rates from the Baltic Sea deposits, which are covered by licences held by Petrobaltic S.A., as well as through the execution of new projects outside of Poland,
- increase the share capital of Grupa LOTOS S.A. by way of a contribution in-kind of shares in Petrobaltic S.A. held by the State Treasury.

According to the updated Strategy, the total output of the exploration & production segment will reach at least 10% of the LOTOS Group’s crude throughput volume in 2012 and will rise above 20% by 2015. The average ROACE (return on average capital employed) for the whole segment will be over 15%. The related investment expenditure in 2006-2012 is estimated at PLN 5.1bn.

2. Key Objectives of the Updated Strategy in the Operating Area

In the operating area, the key objective is to improve the economic effectiveness of crude oil processing, through increasing throughput volumes, with a concomitant increase in the conversion ratio and reduction in sulphur content. To this end, we are implementing the two-stage 10+ Programme. Additionally, the Group will build the necessary facilities which are not covered by the scope of the 10+ Programme, while upgrading some of the existing units.

These projects will yield the following outcomes:

- the annual crude processing capacity will have risen to 10.5 million tonnes, with a concomitant increase of the conversion ratio,
- universal configuration of the facilities will allow the Company to produce various types of fuels in response to market demand,
- the production of heavy fuel and bunker oil with high sulphur content will be minimised to comply with new environmental regulations which are being implemented,
- the Company will have gained more flexibility with respect to its overhaul policy, and thus the operational availability of its production units will increase,
- the existing fuel storage depots will be expanded and new logistics infrastructure will be created for shipment of large consignments by sea,
- it will become possible to simultaneously process various types of crude oil,
- the LOTOS Group’s competitive position in relation to other European refineries will improve.

The expenditure on the implementation of the strategic objectives in the operating area in 2006-2012 is estimated at approx. PLN 6.7bn, including approx. PLN 5.2bn for the implementation of Stage I (scheduled for 2006-2010) of the 10+ Programme.

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3. Key Objectives of the Updated Strategy in the Marketing Segment Are to:

- secure a 30% share in the Polish market of fuels by 2012,
- secure a 40% share in the Polish market of aviation fuels by 2012,
- enhance LPG sales efficiency,
- secure a 10% share in the retail market of fuels by 2012,
- enter the self-service filling stations segment,
- secure a 20% share of sales of fuels on motorways, once the main stage of the motorway construction programme is completed,
- expand the Group's network of filling stations by flexibly taking advantage of market opportunities, including opportunities for organic and non-organic growth.

The estimated expenditure on the strategic objectives in the marketing area in 2006-2012 may reach PLN 1.1bn.

4. Key Objectives of the Updated Strategy in relation to Financial Activities

It is assumed that the Company will use external financing to fund the implementation of its strategy, however, the debt to equity ratio should not at any time be higher than 0.8.

The assessment of effectiveness of the LOTOS Group's operations will be based on an analysis of the EBITDA margin (excl. excise duty) and return on capital employed, whose value until 2012 should not be lower than 9% and 12%, respectively. According to the LOTOS Group's strategy, the aggregate capital expenditure in 2006–2012 will total approx. PLN 12.9bn.

The payment of dividend will be dependent on the optimisation of the financing structure of the LOTOS Group. During the implementation of the key strategic programmes, the dividend will not exceed 10% of net profit. Following the implementation of the programmes, the dividend is intended to grow up to 30% of net profit. The dividend policy for subsidiary undertakings is determined by the Management Board of Grupa LOTOS S.A., upon taking into consideration their financial standing and development programmes.

5. Development Directions for 2013–2020

The most important step aiming at increasing the Company's value – following the implementation of the strategic objectives until 2012 – is the development of the exploration and production segment, and the strengthening of the market position. The projects under consideration include:

- continuation of efforts aiming at increasing crude oil production, to exceed 20% of the processing capacities by 2015, with an upward trend in the subsequent years,
- construction of a heavy residue gasification unit, focused on hydrogen and energy carrier generation – Stage 2 of the 10+ Programme,
- launch of new-generation biofuel production,
- CO<sub>2</sub> sequestration – depositing CO<sub>2</sub> in geological structures,
- continuation of activities supporting construction of underground storage facilities for oil and petroleum products (caverns),
- development of technologies contributing to margin growth.

Decisions related to the development activities will be based on feasibility studies, and will be implemented in line the LOTOS Group's financing capabilities. The Group does not exclude the possibility of entering into financing/equity arrangements or establishing a joint venture with a strategic partner.

Key macroeconomic and price-related assumptions adopted by Grupa LOTOS S.A. for the purpose of formulating the key assumptions of its financial policy until 2012.

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Oil price (2008 fixed prices)	unit	2009	2012
dtd Brent (USD/bbl)	USD/bbl	112.52	128.02
Ural CIF Rotterdam	USD/bbl	108.8	124.52

Crack spreads for products (2008 fixed prices)	unit	2009	2012
Premium gasoline 10 ppm – Cargoes CIF NEW	USD/t	145	145
Diesel 10 ppm – Cargoes CIF NWE	USD/t	178	178
Gasoil 0.1% – Cargoes CIF NWE	USD/t	140	140
Fuel Oil 3.5% – Barges FOB Rotterdam	USD/t	-271	-271

Year	2009	2012
EUR/PLN	3.50	3.20
USD/PLN	2.56	2.48

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**Execution of the Common Terms Agreement and the Related Security Agreements between Grupa LOTOS S.A. and Group of Financial Institutions**

On June 27th 2008, Grupa LOTOS S.A. and the following institutions: Banco Bilbao Vizcaya Argentaria, S.A., Banco Bilbao Vizcaya Argentaria S.A., London Branch, Banco Bilbao Vizcaya Argentaria S.A., Milan Branch, Bank Polska Kasa Opieki S.A., Bank Zachodni WBK S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Caja de Ahorros y Monte de Piedad de Madrid, Zweigniederlassung Wien, Calyon, DnB Nor Bank ASA, Fortis Bank S.A./N.V., Fortis Bank S.A./N.V., - Succursale in Italia, ING Bank N.V. / ING Bank Śląski S.A., KBC Bank N.V., Dublin Branch / Kredyt Bank S.A., Nordea Bank Finland Plc, Nordea Bank Polska S.A. / Nordea Bank AB (Publ), Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, Rabobank Polska S.A. / Bank Gospodarki Żywnościowej S.A., SACE S.p.A. - Servizi Assicurativi del Commercio Estero, Société Générale S.A. (the Polish branch), Société Générale S.A., Sumitomo Mitsui Banking Corporation Europe Limited, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Royal Bank of Scotland Plc, executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital of Grupa LOTOS S.A. Bank Calyon was appointed the Senior Facility Agent, while Société Générale S.A. (the Polish branch) was assigned the role of the Senior Security Agent.

Concurrently, Grupa LOTOS S.A. executed a sub-agreement under the credit facility agreement, concerning a credit facility tranche guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero, to which the following are parties: BNP Paribas S.A., Fortis Bank S.A./N.V., - Succursale in Italia, Banco Bilbao Vizcaya Argentaria S.A., Milan and SACE S.p.A. - Servizi Assicurativi del Commercio Estero.

The credit facility agreement along with the loan agreement for refinancing and financing of the inventories of Grupa LOTOS S.A. of December 20th 2007 (Current Report No. 55/2007) secure funds sufficient to meet the Company's total requirement for external financing.

The agreement concerns a long-term credit facility for the total amount of USD 1,750,000 thousand (PLN 3,739,050 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising a term loan facility of USD 975,000 thousand (PLN 2,083,185 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), a redrawable working capital loan facility of USD 200,000 thousand (PLN 427,320 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), an investment loan of USD 425,000 thousand guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero (PLN 908,055 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) and a contingent term loan facility of USD 150,000 thousand (PLN 320,490 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008). The long-term credit facility must be repaid not later than 12.5 years after the first interest payment date. The other terms and conditions of the credit facility agreement, including those pertaining to the security, do not differ from the standard terms and conditions of such agreements.

The credit facility is secured principally with:

1) a mortgage with the highest ranking over Grupa LOTOS S.A.'s ownership title or perpetual usufruct right to the real property required for the conduct of operations by the existing and expanded Gdańsk refinery,

2) agreement creating a registered pledge over sets of existing and future (acquired over the period of implementation of the 10+ Programme) movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the aforementioned credit facility, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems;

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3) agreement creating financial registered pledges over Grupa LOTOS S.A.'s claims under bank account agreements executed in connection with the financing of the 10+ Programme (the agreement creating the pledges does not cover claims under other bank account agreements concluded by Grupa LOTOS S.A.),

4) agreements for the assignment of the rights and debt claims of Grupa LOTOS S.A. arising under the agreements related to the implementation of the 10+ Programme, the agreements for the management of the 10+ Programme, hedging agreements, license agreements, insurance documents (related to the Gdańsk refinery and the 10+ Programme) as well as under sales contracts concluded by Grupa LOTOS S.A. with its subsidiaries, if the contracts' annual value exceeds PLN 10,000 thousand.

The documents constituting the security for the benefit of Société Générale S.A., the Polish branch (the Senior Security Agent), were executed concurrently with the credit facility agreement.

There are no links between Grupa LOTOS S.A. or its management staff and the banks for the benefit of which the pledges are to be created or their management staff.

The value of the assets of Grupa LOTOS S.A. which will be encumbered with the pledges and the mortgage specified above will not exceed PLN 2,195,551 thousand, based on the book value as at May 31st 2008 and the maximum amount to be secured with the pledges and the mortgage specified above is USD 2,625,000 thousand (PLN 5,608,575 thousand at the mid exchange rate quoted by the National Bank of Poland for June 27th 2008).

On July 3rd 2008, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (operating under the name of Rabobank Nederlands) acceded to the agreement between Grupa LOTOS S.A. and a group of financial institutions and to the credit facility agreement to finance the implementation of the 10+ Programme and the working capital of Grupa LOTOS S.A. and the related security agreements.

On September 5th 2008, the competent District Court entered into the register of pledges a registered pledge on Grupa LOTOS S.A.'s assets (i.e. over sets of existing and future – acquired over the period of implementation of the 10+ Programme – movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the credit facility agreement providing for the financing of the 10+ Programme, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems).

By the date of these condensed consolidated financial statements, Grupa LOTOS S.A. had fulfilled the conditions precedent to disbursement of a tranche of the term loan facility.

As at September 30th 2008, the Company had drawn USD 245 million (the equivalent of PLN 581 million, translated at the mid exchange rate for USD quoted by the National Bank of Poland for September 30th 2008) under the term loan facility. The working capital loan was made available to Grupa LOTOS S.A. in the form of overdraft facilities which are used by the Company on an as-needed basis.

**Conclusion of a Significant Agreement between Grupa LOTOS S.A. and LOTOS Biopaliwa Sp. z o.o.**

On April 18th 2008 Grupa LOTOS S.A. and LOTOS Biopaliwa Sp. z o.o. (a wholly-owned subsidiary of LOTOS Czechowice S.A. in which Grupa LOTOS S.A. holds 80.04% of shares) concluded an agreement on supply of methyl esters to Grupa LOTOS S.A. The agreement, whose five-year value is estimated at PLN 1,700,000 thousand, has been concluded for an indefinite term. The agreement provides for contractual penalties in the event of default. The maximum amount of such penalties is 10% of the VAT-inclusive value of goods. Payment of contractual penalties does not exclude the parties' right to seek compensation in excess of the penalties. The other terms of the agreement do not differ from provisions commonly applied in agreements of such type.

The agreement is considered significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

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**Conclusion of a Significant Agreement between Grupa LOTOS S.A. and PKN ORLEN S.A.**

On June 30th 2008, Grupa LOTOS S.A. and PKN ORLEN S.A. concluded an agreement on the sale of liquid fuels to PKN ORLEN S.A.

The agreement, whose estimated value amounts to PLN 234.5m, was concluded for a specified period and will remain in force from July 1st to December 31st 2008.

The agreement provides for contractual penalties whose estimated maximum value is approx. PLN 1.1m. The agreement does not contain any provisions under which either party would be entitled to seek compensation in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.



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**12. Material Events Subsequent to Q3 2008**

No material events occurred in the period from the balance-sheet date until the date of preparation of these condensed consolidated financial statements except for those listed below:

1. On October 20th 2008, Grupa LOTOS S.A. and LOTOS Tank Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) entered into an agreement for sale of aviation fuels to LOTOS Tank Sp. z o.o. The agreement, whose value over a period of five years is estimated at PLN 2,000,000 thousand, was concluded for an unspecified time. It provides for standard contractual penalties whose amount may exceed 10% of the agreement value, depending on the quantity of non-supplied product or uncollected orders. Pursuant to the provisions of the agreement, the payment of contractual penalties does not deprive the injured party of the right to seek compensation in excess of the penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

2. On October 20th 2008, the District Court of Kraków decided to delete LOTOS Hydrokompleks Sp. z o.o. (wholly-owned by Grupa LOTOS S.A.) from the National Court Register on the basis of a resolution of the Extraordinary General Shareholders Meeting of August 29th 2008 concerning the closing of liquidation proceedings.

3. On October 22nd 2008, LOTOS Exploration and Production Norge AS (a member of the LOTOS Group) signed an agreement with Norwegian company Det norske oljeselskap ASA concerning purchase of 10% of interests in the North Sea production licences No. PL 316, PL 316B, PL 316CS and PL 316DS.

The purchased licences cover the YME field, located 110 km off the coast in the southern part of the Norwegian sector of the North Sea. Production from the field is expected to start in the second half of 2009.

The value of the transaction is NOK 390m (the equivalent of PLN 161m, translated at the NOK/PLN mid exchange rate published by the National Bank of Poland for October 22nd 2008). The acquisition of rights to tax exemptions held by the seller in connection with the investments made accounts for about 30% of the price. In addition, the price will be increased by the amount of capital expenditure (corresponding to the 10% interest in the YME field) incurred from January 2008 to the closing date of the transaction, estimated at NOK 180m (the equivalent of PLN 74m, translated at the NOK/PLN mid exchange rate published by the National Bank of Poland for October 22nd 2008). Other capital expenditure (in the amount corresponding to the 10% interest in the YME field) to be incurred before production from the field can be started are estimated at USD 50m (the equivalent of PLN 144m, translated at the USD/PLN mid exchange rate published by the National Bank of Poland for October 22nd 2008).

The transaction is the second transaction of purchase of interests in the YME field by LOTOS Exploration and Production Norge AS executed in 2008 (see Note 11 to these condensed consolidated financial statements for details of the first purchase). As a result of finalisation of the two transactions carried out this year, LOTOS Exploration and Production Norge AS will come to hold in total 20% of the interests in the YME field, which corresponds to recoverable crude oil reserves (as estimated by the operator – Talisman) of 13.6 million barrels (approx. 1,800 thousand tonnes).

The agreement will take effect after its approval by the Norwegian Ministry of Energy and Crude Oil and the Norwegian Ministry of Finance.

4. On October 22nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 70,690 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for October 22nd 2008) for the benefit of CB&I LUMMUS, valid through June 30th 2009. The letter of credit was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS).

5. On October 27th 2008, an Extraordinary General Shareholders Meeting of Rafineria Nafty GLIMAR S.A. was held, which adopted several resolutions, including a resolution concerning the company's further existence. Having considered the issue of the company's further existence in accordance with Art. 397 of the Commercial Companies Code, the Extraordinary General Shareholders Meeting of Rafineria Nafty Glimar S.A. found that further existence of the company would be purposeless and in connection with the foregoing, taking into consideration the specific circumstances of the matter, decided it was necessary to take steps aimed at winding up the company.

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6. On November 1st 2008, the validity of a stand-by letter of credit issued by Bank PKO BP S.A. at the request of Grupa LOTOS S.A. on April 30th 2008 was further extended until January 31st 2009. The stand-by letter of credit was issued for the amount of EUR 7,230 thousand (the equivalent of PLN 25,019 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2008) for the benefit of LURGI S.A. (see Note 13 to these condensed financial statements). The value of the stand-by letter of credit was raised to EUR 20,175 thousand (the equivalent of PLN 71,752 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for November 3rd 2008).

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**13. Contingent Liabilities**

No material changes occurred with respect to contingent liabilities in the period from the end of the previous financial year, i.e. December 31st 2007 (see Note 42 to the consolidated financial statements for 2007, prepared in accordance with the IFRS), except for those listed below:

1. The validity of the blank promissory note of July 5th 2005 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2009. The validity term of the blank promissory note, which originally expired on July 7th 2006, was first extended until July 5th 2007 and then was further extended – until July 7th 2008.

2. The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2009. The validity term of the blank promissory note, which originally expired on March 16th 2007, was first extended until June 16th 2008.

3. On January 3rd 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of CB&I LUMMUS GmbH in the form of a documentary letter of credit for the amount of EUR 19,034 thousand (the equivalent of PLN 72,843 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 3rd 2007). The original validity term of the guarantee was to expire on June 30th 2008. On June 24th 2008, the validity term of the letter of credit was extended until September 30th 2008. On September 16th 2008, the validity term of the letter of credit was further extended until October 30th 2008. As a result of successive draws under the letter of credit, as at September 30th 2008 its value was EUR 535.8 thousand (the equivalent of PLN 1,835 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for September 30th 2008). The validity term of the letter of credit was extended until December 31st 2008.

4. On April 27th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs-duty debts, taxes and other customs-related charges for the amount of PLN 160,000 thousand. The guarantee expired on May 4th 2008, while the guarantor's liability continued until July 3rd 2008. On May 5th 2008, the value of the guarantee rose to PLN 200,000 thousand. The guarantee expires on May 4th 2009, while the guarantor's liability continues until July 3rd 2009.

5. On July 10th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee in the form of a stand-by letter of credit for EUR 45,000 thousand (the equivalent of PLN 169,448 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for July 10th 2007) for the benefit of Technip Italy S.p.a. The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. On October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the total amount of the letter of credit was raised to EUR 52,313 thousand in the period January 1st – March 31st 2008, and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 was EUR 47,355 thousand, and in the period October 1st–December 31st 2008 it will be EUR 45,515 thousand. The original validity term of the guarantee expired on December 31st 2007.

6. On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. issued a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Technip KTI S.p.a, valid through March 31st 2008. The letter of credit was issued to secure the performance of a construction contract related to the amine complex. On April 1st 2008, the validity period of the letter of credit was extended until June 30th 2008 and its amount decreased to EUR 37,634 thousand. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 was EUR 38,668 thousand, and in the period October 1st–December 31st 2008 – it will be EUR 38,595 thousand.

7. On January 16th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank PBC S.A. issued a payment guarantee for USD 10,800 thousand (PLN 26,214 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 16th 2008) for the benefit of Total Deutschland GmbH in

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connection with the supply of gasoline. The guarantee expired on May 31st 2008, with the end of its validity period.

8. On April 1st 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 5,195 thousand (the equivalent of PLN 18,240 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2008) for the benefit of LURGI S.A., valid through September 30th 2008. The value of the letter of credit was then increased to EUR 10,979 thousand. The letter of credit was issued to secure the performance of a contract related to a hydrogen generation unit (HGU). On October 1st 2008, the validity period of the letter of credit was extended until December 31st 2008 and its value was again increased – to EUR 14,923 thousand.

9. On April 30th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 7,230 thousand (the equivalent of PLN 25,019 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2008) for the benefit of LURGI S.A., valid through July 31st 2008. The letter of credit was issued to secure the performance of the EPC contract for the crude and vacuum distillation units (CDU/VDU). On July 31st 2008, the validity period of the letter of credit was extended until October 31st 2008. The value of the stand-by letter of credit was increased to EUR 15,356 thousand.

10. On May 2nd 2008, at the request of Grupa LOTOS S.A., Bank Millenium S.A. issued a guarantee for PLN 13,200 thousand for the benefit of the Customs Office of Bielsko-Biała as excise security.

11. On June 2nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 64,403 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 2nd 2008) for the benefit of CB&I LUMMUS GmbH. The validity period of the letter of credit expires on December 31st 2008. As a result of successive draws under the letter of credit, its value as at September 30th 2008 was EUR 5,489 thousand. The letter of credit was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS).

12. On June 26th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee for USD 12,000 thousand (the equivalent of PLN 25,704 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 26th 2008) for the benefit of TOTAL DEUTSCHLAND GmbH in connection with the supply of gasoline. The guarantee will expire on December 31st 2008.

13. On June 27th 2008, at the request of Grupa LOTOS S.A., Bank Millenium S.A. issued a guarantee for PLN 14,500 thousand for the benefit of the Customs Office of Pruszków as excise security.

14. On September 18th 2008, at the request of Grupa LOTOS S.A. Deutsche Bank Polska S.A. issued a stand-by letter of credit for USD 10,000 thousand (the equivalent of PLN 23,428 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for September 18th 2008) for the benefit of PETROPLUS MARKETING AG. The validity period of the letter of credit expired on October 31st 2008. The letter of credit was issued to secure the payment for diesel oil supplies.

15. On April 30th 2008, LOTOS Asphalt Sp. z o.o issued a blank promissory note for the benefit of BRE Bank S.A., valid through the date of repayment of debt and/or termination or expiry of the overdraft facility agreement. The overdraft facility agreement will expire on November 27th 2008. The promissory note was issued as security for repayment of the PLN 80,000 overdraft facility.

16. On June 17th 2008, Petrobaltic S.A. issued an unconditional and irrevocable guarantee for the benefit of the government of Norway 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. In the guarantee, Petrobaltic S.A. undertook to assume full financial liability which may arise in connection with LOTOS Exploration and Production Norge AS' activities consisting in exploration for and extraction of natural resources from the sea bottom, including storage and transport on the Norwegian Continental Shelf using means of transport other than ships.

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17. On June 17th 2008, Petrobaltic S.A. issued an unconditional and irrevocable guarantee, payable on first demand, for the benefit of REVUS Energy ASA, securing the performance by LOTOS Exploration and Production Norge AS of its obligations under the agreement concluded with REVUS Energy ASA concerning transfer of interests in PL 316, PL 316B, PL 316CS and PL 316DS licences on the Norwegian Continental Shelf. Petrobaltic S.A. undertook to pay any amounts which may become due to REVUS Energy ASA as if it they were owed by Petrobaltic S.A.

As a result of the settlement of the agreement between LOTOS Exploration and Production Norge AS and REVUS Energy ASA concerning transfer of interests in PL 316, PL 316B, PL 316CS and PL 316DS licences on the Norwegian Continental Shelf, as described in Note 11 to these condensed consolidated financial statements, the unconditional and irrevocable guarantee issued by Petrobaltic S.A. for the benefit of REVUS Energy ASA expired and the guarantee document was returned by REVUS Energy ASA to Petrobaltic S.A.

18. On August 26th 2008, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a “protest waived” clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan (see Note VIII to these condensed consolidated financial statements) and any other liabilities that may arise as a result of the execution and performance of the loan agreement. The loan agreement expires on December 31st 2012. The promissory note was issued to secure the repayment of the USD 50m loan (PLN 113,370 thousand translated at the rate quoted by the National Bank of Poland for August 26th 2008).

19. On June 30th 2008, LOTOS Gaz S.A. and ING Bank Śląski concluded a surety agreement whereby LOTOS Gaz S.A. issued a surety for the repayment of a PLN 10,000 thousand loan contracted by Krak – Gaz Sp. z o.o. (under a loan agreement dated June 24th 2004). On July 8th 2008, the Supervisory Board of LOTOS Gaz S.A. agreed to LOTOS Gaz S.A. issuing a surety for the amount of PLN 15m, to secure the repayment of the liabilities under the loan by Krak – Gaz Sp. z o.o.

20. The validity of a blank promissory note with a promissory note declaration, for the amount of PLN 10,000 thousand, which was issued by LOTOS Oil S.A. on March 18th 2007 and submitted to the Customs Office to secure an excise tax liability, was extended until April 30th 2010. The original validity term of the promissory note was October 31st 2008.

21. As at September 30th 2008, LOTOS Jasło S.A. had a blank promissory note securing an excise guarantee for PZU, the Rzeszów branch, for the amount of PLN 5,000 thousand. The validity term of the guarantee expires on January 31st 2009, while the guarantor’s liability continues until May 1st 2009.

Furthermore, in connection with the fact that Rafineria Nafty GLIMAR S.A. was included in consolidation, the Group recognised the following contingent liabilities of Rafineria Nafty GLIMAR S.A.:

- on February 12th 2002, Rafineria Nafty GLIMAR S.A. issued ten blank promissory notes for the benefit of Nafta Polska S.A., with the value of PLN 1m each, to secure the repayment of Rafineria Nafty GLIMAR S.A.’s liabilities under the Syndicate Loan Agreement for financing the Hydrokompleks GLIMAR project,

- on October 22nd 2002 Rafineria Nafty GLIMAR S.A. issued a blank promissory note for the benefit of Nafta Polska S.A. to secure the repayment of amounts (including interest) outstanding under loan agreement of October 22nd 2002. The promissory note was issued for the amount of up to PLN 15,000 thousand,

- on November 13th 2002, Rafineria Nafty GLIMAR S.A. issued a blank promissory note with a “no endorsement” (“*bez indosu*”) clause for the benefit of the Minister of Economy. The promissory note was issued up to the amount of PLN 8,000 thousand as security in connection with an agreement on provision of financial support for a new investment project,

- on August 6th 2003, Rafineria Nafty GLIMAR S.A. issued a blank promissory note for the amount of up to PLN 30,000 thousand for the benefit of the Minister of the State Treasury. The promissory note was issued as security in connection with government assistance received,

- on February 20th 2004, Rafineria Nafty GLIMAR S.A. issued a blank promissory note for the benefit of Nafta Polska S.A. for the maximum amount corresponding to the amounts (including interest) outstanding under a

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loan agreement of February 20th 2004, to secure the repayment of Rafineria Nafty GLIMAR S.A.'s liabilities under the agreement,

- on May 19th 2004, Rafineria Nafty GLIMAR S.A. issued a blank promissory note for the benefit of Nafta Polska S.A. The promissory note was issued for the maximum amount corresponding to the amounts (including interest) outstanding under a loan agreement of May 17th 2004, to secure the repayment of Rafineria Nafty GLIMAR S.A.'s liabilities under the agreement,

- on June 18th 2003, Rafineria Nafty GLIMAR S.A. issued a blank promissory note for the amount of up to PLN 16,000 thousand (no limit in the declaration) for the benefit of Bank Polska Kasa Opieki S.A., I Tarnów Branch. The promissory note was issued to secure the repayment of Rafineria Nafty GLIMAR S.A.'s liabilities under a working capital loan (credit line).

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**14. Material Court, Arbitration or Administrative Proceedings, Other Risks of the Parent Undertaking or Its Subsidiaries**

No changes have occurred with respect to pending court, arbitration, or administrative proceedings or with respect to other risks of the Parent Undertaking or its subsidiaries since the end of the previous financial year, i.e. December 31st 2007 (see Note 45 to the consolidated financial statements for 2007 prepared in accordance with the IFRS), except for those listed below:

1. On March 21st 2005, the President of the Competition and Consumer Protection Office issued a decision whereby anti-trust proceedings were instigated *ex officio* to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Plock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the universal U95 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 competition inhibiting practices. 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 Anti-Monopoly Court dismissed the appeals. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Anti-Monopoly Court's decisions, but these appeals were dismissed as well. Pursuant to the Court's Decision of April 18th 2007, Grupa LOTOS S.A.'s right of access to evidence in the anti-trust proceedings, namely to the materials obtained during inspections at PKN ORLEN S.A.'s offices, was restricted on the basis of a petition submitted by PKN ORLEN S.A. The restriction concerned the report on inspection of the offices in Warsaw together with appendices to the report, and a part of appendices to the report on inspection of the offices in Plock. Under the same Decision, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Plock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office (UOKiK) to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to UOKiK on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to UOKiK to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of UOKiK 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 of 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 complaint be dismissed in its entirety and that the President be awarded the costs of legal representation. As at the date of these condensed consolidated financial statements, the case was pending.

2. 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 Competition and Consumer Protection 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-

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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 submitted 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 is pending before the Regional Court of Gdańsk (First Instance Court) and its file No. is IX GC 134/04. The Company defends 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 the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report 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 expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, Petroecco filed 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 decision of the Regional Court. On March 19th 2008, an enforcement motion was filed with a Court Enforcement Officer against PETROECCO JV Sp. z o.o. The enforcement proceedings are pending. On April 17th 2008, PETROECCO JV Sp. z o.o. lodged a cassation complaint against the ruling issued on 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. As at the date of publication of these condensed consolidated financial statements, the case was pending.

3. 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 in Gdańsk, IX Commercial Division, issued a ruling dismissing the claim 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 petition to declare invalidity of 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 in 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. The Court's decision became final with effect from May 7th 2008.

4. On July 30th 2007, Petrobaltic S.A. received a decision issued by the Permanent Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk of June 11th 2007 in a case brought by Energobaltic Sp. z o.o. against Petrobaltic S.A. The dispute concerned performance of contract No. EB/PKT – 02/01/2001 of December 17th 2001, whereunder Petrobaltic S.A. was to design and construct a gas transmission line that would deliver



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gas from its drilling platform to the heat and power plant operated by the plaintiff in Władysławowo. The plaintiff alleged a delay in performance of the contract by the defendant and demanded payment of contractual penalties, whereas the defendant claimed to have performed the contract by the prescribed deadline. The aforementioned decision granted Energobaltic Sp. z o.o.'s claim in its entirety and awarded against the defendant an amount of PLN 1,424 thousand plus statutory interest for the period from July 3rd 2003 until the payment date, as well as an amount of PLN 30 thousand on account of court fees and PLN 7 thousand as reimbursement of the legal representation costs. Given this decision and in view of substantial uncertainty as to the success of a possible appeal, a provision of PLN 2,157 thousand was created. On October 29th 2007, Petrobaltic S.A. lodged a complaint with the Regional Court of Gdańsk to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. A hearing concerning Petrobaltic S.A.'s claim to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk was held on April 9th 2008. By virtue of the decision of March 12th 2008, the Regional Court of Gdańsk, IX Commercial Division, dismissed the motion to stay enforcement of the decision of the Permanent Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk, and by virtue of the decision of April 9th 2008, the Court dismissed Petrobaltic S.A.'s claim to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. On April 10th 2008, Petrobaltic S.A. paid a part (PLN 666 thousand) of the amount awarded against it to the bank account of Energobaltic Sp. z o.o. Petrobaltic S.A. decided that the remaining portion of the amount awarded against it would be paid through a set-off of mutual claims under the electricity sales agreement, assuming that a result of the payment and the set-off, the claim expires. However, Energobaltic Sp. z o.o. refused to acknowledge the set-off; it decided to apply the amount paid by Petrobaltic S.A. towards the settlement of default interest, and to collect the remaining part of the principal amount due in court enforcement proceedings. On June 13th 2008, Petrobaltic S.A.'s bank account was attached and the amount of PLN 1,671 thousand was seized based on a notification on commencement of enforcement proceedings (file. ref. No. KM 1233/08). The enforcement was carried out by Court Enforcement Officer for Area III in Gdańsk at the request of Energobaltic Sp. z o.o. Petrobaltic S.A. filed action for payment of PLN 1,620 thousand against Energobaltic Sp. z o.o., which is pending before the Regional Court of Gdańsk, IX Commercial Division, file ref. No. IX GNc 257/08. The action was brought in connection with Energobaltic Sp. z o.o. having enforced an amount earlier paid by Petrobaltic S.A. in connection with the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk of June 11th 2007.

On August 18th 2008, in the course of admonition proceedings, the Regional Court issued an order for payment against Energobaltic Sp. z o.o. for the amount of PLN 1,620 thousand plus statutory interest for the period from June 30th 2008 until the payment date, as well as PLN 27 thousand on account of court fees, including PLN 7 thousand as reimbursement of the legal representation costs, to be paid to Petrobaltic S.A.

As at the date of publication of these condensed consolidated financial statements, the Court's decision has not become final.

5. 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).

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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 LOTOS Gaz S.A., and compliance of additional tax sanctions in this respect with the constitution. As regards potential tax liabilities under the sanctions connected with the settlement of acquisition of an organised part of LOTOS Gaz S.A.'s business and corrections related to the VAT-7 tax returns, taking into account the results of legal and tax analyses, including the analysis carried out by external tax advisers, the Management Board of LOTOS Paliwa is of opinion that there is hardly any risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to these potential additional liabilities.

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 to the Supreme Administrative Court of Warsaw a cassation complaint against the decision of the Provincial Administrative Court of Gdańsk dated June 24th 2008. As at the date of these condensed consolidated financial statements, the case was pending.

6. At LOTOS Czechowice S.A., the Head of the Customs Office of Bielsko-Biała carried out an inspection to determine the correct amount of excise tax payable for the period from January 1st 2004 to September 30th 2004. As a result of the inspection, fiscal proceedings were instigated on May 18th 2005 on an *ex officio* basis. On May 5th 2006, LOTOS Czechowice S.A. received four decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January, February, and March 2004. The proceedings aimed at determining the excise tax liability for April 2004 were discontinued. On May 19th 2006, the company filed with the Director of the Customs Chamber an appeal against the aforementioned decisions as well as requests to stay execution of the decisions. In August 2006, the company received decisions issued by the Head of the Customs Office, which discontinued the proceedings concerning excise tax for May–September 2004. On October 17th 2006, LOTOS Czechowice S.A. received the decision of the Director of the Customs Chamber of Katowice, setting the deadline by which the appeals against the decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January–March 2004, would be considered, i.e. December 13th 2006. In the decision of February 9th 2007, Director of the Customs Chamber of Katowice set the deadline for resolving the case at April 13th 2007. By virtue of the decision of June 17th 2007, Director of the Katowice Customs Chamber set yet another deadline for resolving the case – August 13th 2007, and pursuant to its most recent decision of August 13th 2007, the Director of the Customs Office of Katowice set October 13th 2007 as the deadline for considering the appeal. On October 19th 2007, LOTOS Czechowice S.A. received three decisions issued by the Director of the Customs Chamber of Katowice, repealing in full the decisions determining the

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amount of excise tax liability for January, February, and March 2004, passed by the Head of the Customs Office of Bielsko-Biała. The case is to be reconsidered by the first instance body. On November 19th 2007, the Company filed with the Provincial Administrative Court three complaints against the decisions issued by the Director of the Customs Chamber of Katowice which repealed the decisions of the Head of the Customs Office of Bielsko-Biała and remanded the cases back to the Head of the Customs Office of Bielsko-Biała. On April 2nd 2008, court hearings were held concerning the aforementioned complaints, and rulings were issued whereby the complaints were dismissed. Having requested and received the written statements of reasons, the Management Board resolved not to file a complaint to the Supreme Administrative Court. As a result, the cases were remanded back to the first instance body, i.e. to the Head of the Customs Office of Bielsko-Biała, and will be re-examined.

In relation to the potential excise tax liabilities for the period January–March 2004, taking into account the conducted legal and tax analyses, including the analyses carried out by external tax advisers as well as an expert witness designated by the Director of the Customs Chamber, LOTOS Czechowice S.A. is of opinion that there is very little any risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to these potential liabilities.

7. On April 12th 2006, the Head of the Customs Office in Bielsko-Biała instigated proceedings concerning LOTOS Czechowice S.A. to determine the correct amount of the excise tax payable for the period September 1st–December 31st 2003. Before conclusion of the proceedings, it is difficult to determine whether the excise tax liabilities will be reassessed, and if so, what their amounts will be. By virtue of the decision of March 19th 2006, the Head of the Customs Office in Bielsko-Biała set the deadline for resolving the case at May 30th 2007. By virtue of the decision of August 13th 2007, the Head of the Customs Office in Bielsko-Biała set another deadline for resolving the case – October 17th 2007. By virtue of the decision issued on January 1st 2008, the Head of the Customs Office of Bielsko-Biała set June 30th 2008 as the new date for resolving the case. By virtue of the decisions of June 27th 2008, the Head of the Customs Office of Bielsko-Biała set August 31st 2008 as the new deadline for resolving the case concerning excise tax payable for the period September–December 2003, but under later decisions of September 3rd 2008 the deadline was extended again – until October 31st 2008. Despite the lapse of that deadline, LOTOS Czechowice S.A. did not receive from the Head of the Customs Office any documents ending the proceedings in the case or extending the deadline for its resolution.

In relation to the potential excise tax liabilities for the period September–December 2003, taking into account the conducted legal and tax analyses, including the analyses carried out by external tax advisers as well as an expert witness designated by the Director of the Customs Chamber, LOTOS Czechowice S.A. is of opinion that there is very little risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to these potential liabilities.

8. On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of LOTOS Jasło S.A., whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, LOTOS Jasło S.A. submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security (deposit) mortgage (*hipoteka kaucyjna*).

As at September 30th 2008, subject to the execution of the terms of the arrangement, the amount receivable was PLN 1,203 thousand.

#### **15. Issue, Redemption and Repayment of Debt and Equity Securities**

No issue, redemption or repayment of debt or equity securities occurred between January 1st and September 30th 2008.

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**SUPPLEMENTARY INFORMATION PROVIDED UNDER THE REGULATION OF THE MINISTER OF FINANCE ON CURRENT AND PERIODIC INFORMATION TO BE PUBLISHED BY ISSUERS OF SECURITIES, DATED OCTOBER 19TH 2005**

Pursuant to Par. 91 of the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated October 19th 2005, (Dz.U. of 2005, No. 209, item 1744), the Management Board of Grupa LOTOS S.A. hereby releases the following information:

**I Organisation of the LOTOS Group and Consolidated Undertakings**

The structure of the LOTOS Group as well as the consolidated undertakings are presented in Note 2 to these condensed consolidated financial statements for the three and nine months ended September 30th 2008.

**II Effects of Changes in the Structure of the LOTOS Group**

Q3 2008 saw no changes in the structure of the LOTOS Group, except for those disclosed in Note 10 to these condensed consolidated financial statements.

**III Seasonal or Cyclical Nature of the Company's Business in Q3 2008**

In Q3 2008, the operations of Grupa LOTOS S.A. were not affected by seasonality or cyclicity..

**IV Issue, Redemption and Repurchase of Debt and Equity Securities in Q3 2008**

In Q3 2008, Grupa LOTOS S.A. did not issue, redeem or repurchase any debt or equity securities.

**V Shareholders Holding 5% or More of the Total Vote at the General Shareholders Meeting of the Parent Undertaking as at the Date of this Report**

As the date of this report, the shareholder structure of Grupa LOTOS S.A. was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held <sup>(1)</sup>
State Treasury	7,878,030	7,878,030	7,878,030	6.93 %
Nafta Polska S.A.	59,025,000	59,025,000	59,025,000	51.91 %
Other	46,796,970	46,796,970	46,796,970	41.16 %
Total	113,700,000	113,700,000	113,700,000	100.00 %

<sup>(1)</sup> The percentage of share capital held equals the percentage share in the total vote.

From the date of the previous quarterly report until the publication date of this report, there were no changes in the structure of Grupa LOTOS S.A.'s share capital.

The share capital comprises 113,700,000 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.

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**VI Changes in the Number of the Company Shares or Rights to the Company Shares Held by the Management and Supervisory Staff, in Accordance with the Information Available to the Company**

	As at the date of previous quarterly report	Acquisition	Sale	Other	As at Nov 3 2008
Management Board:					
Marek Sokołowski	8,636	-	-	-	8,636
Total	8,636	-	-	-	8,636

To the Company's knowledge, members of the Supervisory Board do not hold any Company shares or rights to the Company shares.

**VII Material Court, Arbitration or Administrative Proceedings and other Risks Concerning the Parent Undertaking or its Subsidiary Undertakings**

There are no pending court, arbitration or administrative proceedings concerning the liabilities or claims with a value equal to or exceeding 10% of the Company's equity.

Material court, arbitration or administrative proceedings and other risks concerning the Parent Undertaking or its subsidiary undertakings are described in Note 14 to these condensed consolidated financial statements.

**VIII Information on Non-Recurring Transactions between Related Undertakings of the Group**

In the period January 1st – September 30th 2008, no non-recurring transactions with a value exceeding the PLN equivalent of EUR 500 thousand occurred between the related undertakings of the Group, apart from the transactions described below and in Note 10 to these condensed consolidated financial statements.

1. As part of a cooperation agreement between Petrobaltic S.A. and LOTOS Exploration and Production Norge AS concerning cooperation in the area of financing of production projects, on August 26th 2008 Petrobaltic S.A. signed an agreement to grant a loan in the amount of USD 50m (the equivalent of PLN 113m translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for August 26th 2008) to Exploration and Production Norge AS. The loan will be used to finance the launch of the YME Production Project, i.e. the cost of crude oil price hedging transactions and the price of the acquired interests in Project (including the refinancing of the deposit and the cost of capital) and to finance the capital expenditure on the Project, including the cost of capital (together with the interest on the loan).

Until August 28th 2008 Petrobaltic S.A. disbursed the entire loan to LOTOS Exploration and Production Norge AS. The repayment of the loan principal was divided into three instalments: the amount of USD 25m is to be repaid by December 31st 2010, USD 12.5m – by December 31st 2011 and USD 12.5m – by December 31st 2012.

LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of the loan (including principal, interest and default interest, if any) and any other liabilities that may arise as a result of the execution and performance of the agreement (see Note 13 to these condensed consolidated financial statements).

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**IX Information on Loan or Borrowing Sureties or Guarantees Issued by the Parent Undertaking or Its Subsidiaries, where the Aggregate Value of Such Sureties or Guarantees Issued to a Single Entity or Its Subsidiaries Represents 10% or More of the Company's Equity**

In the period from January 1st to September 30th 2008, the Parent Undertaking and its subsidiaries issued no loan sureties or guarantees to any entity or its subsidiary whose value would represent 10% or more of the Company's equity, apart from those described below in Note 13 to these condensed consolidated financial statements.

**X Information Material for the Assessment of the Personnel, Assets, Financial Standing and the Financial Result of the Group and their Changes, and for the Assessment of the Parent Undertaking's Ability to Fulfil Its Obligations**

There is no other information material for the assessment of the personnel, assets, financial standing and the financial result of the Group and their changes, or for the assessment of the Group's ability to fulfil its obligations, apart from the information contained in other sections of these condensed consolidated financial statements and in the notes to these financial statements.

**XI Management Board's Position Regarding the Feasibility of Meeting Forecasts Published Earlier for a Given Year in the Light of the Results Presented in the Quarterly Report in Relation to the Forecast Results**

LOTOS S.A.'s Management Board has not published forecasts concerning the Company's performance in 2008.

**XII Factors with a Bearing on the LOTOS Group's Results in the Next Quarter or in a Longer Term, according to Grupa LOTOS S.A.'s Assessment**

The Management Board believes that the factors presented below will have a bearing on the Company's and the Group's results in the next quarter of 2008 or in a longer time horizon:

- quotations of oil and petroleum products prices
- PLN/USD exchange rate
- supply and demand for petroleum products
- PLN/EUR exchange rate
- since January 1st 2008, the manufacturers and importers have been required to achieve the National Indicative Target specifying the minimum content of bio-components in fuels marketed in Poland.

**GRUPA LOTOS S.A.**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the three and nine months ended September 30th 2008**

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**XIII 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, CEO	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	
	Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	
	Marek Sokołowski
Chief Accountant	
	Tomasz Południewski