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

GRUPA LOTOS S.A.

NON-CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2008

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

ALONG WITH THE AUDITOR'S OPINION

FINANCIAL HIGHLIGHTS

	PLN '000		EUR '000	
GRUPA LOTOS S.A.	**Year ended Dec 31 2008**	**Year ended Dec 31 2007** (comparable data)	**Year ended Dec 31 2008**	**Year ended Dec 31 2007** (comparable data)
	(audited)	(audited)	(audited)	(audited)
Sales revenue	14,898,653	11,866,594	4,218,072	3,141,970
Operating profit/(loss)	(573,456)	416,054	(162,356)	110,160
Pre-tax profit/(loss)	(856,160)	872,137	(242,394)	230,920
Net profit/(loss) on continued operations	(675,704)	745,084	(191,304)	197,279
Net cash provided by/(used in) operating activities	(160,780)	8,956	(45,520)	2,371
Net cash provided by/(used in) investing activities	(1,712,082)	(643,973)	(484,721)	(170,508)
Net cash provided by/(used in) financing activities	2,010,399	477,561	569,180	126,446
Total net cash flow	139,833	(155,152)	39,589	(41,080)
Basic earnings/(loss) per ordinary share (PLN/EUR)	(5.94)	6.55	(1.68)	1.73
Diluted earnings/(loss) per ordinary share (PLN/EUR)	-	-	-	-
	PLN '000		EUR '000	
	As at Dec 31 2008	**As at Dec 31 2007**	**As at Dec 31 2008**	**As at Dec 31 2007**
	(audited)	(audited)	(audited)	(audited)
Total assets	9,491,020	7,680,471	2,274,715	2,144,185
Equity	4,399,811	5,075,515	1,054,503	1,416,950

Items of the balance sheet as at December 31st 2008 contained in the "Financial Highlights" table were translated using the euro mid-exchange rate quoted by the National Bank of Poland for that date, i.e. EUR 1 = PLN 4.1724. Items of the income statement and the cash flow statement for the year ended December 31st 2008 contained in the "Financial Highlights" table were translated at the exchange rate of EUR 1 = PLN 3.5321 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st – December 31st 2008).

Items of the balance sheet as at December 31st 2007 contained in the "Financial Highlights" table were translated using the euro mid-exchange rate published by the National Bank of Poland for that date, i.e. EUR 1 = PLN 3.5820. Items of the income statement and the cash-flow statement for the year ended December 31st 2007 contained in the "Financial Highlights" table were translated at the exchange rate of EUR 1 = PLN 3.7768 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st – December 31st 2007).

BALANCE SHEETS
as at December 31st 2008 and December 31st 2007

(PLN ‘000)	Note	Dec 31 2008 (audited)	Dec 31 2007 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,401,685	1,890,243
Prepayments for tangible assets under construction	11	1,194,489	766,004
Intangible assets	12	46,382	52,742
Financial assets	13	668,986	677,977
Deferred tax asset	35	58,227	-
Total non-current assets		**5,369,769**	**3,386,966**
Current assets			
Inventories	14	2,273,445	2,469,830
Trade and other receivables, including:	15	1,374,704	1,605,203
- income tax receivables	15	177,252	-
Prepayments and accrued income	16	18,138	14,059
Current financial assets	17	302,250	99,969
Cash and cash equivalents	18	152,714	104,444
Total current assets		**4,121,251**	**4,293,505**
Total assets		**9,491,020**	**7,680,471**

BALANCE SHEETS

as at December 31st 2008 and December 31st 2007

(PLN '000)	Note	Dec 31 2008 (audited)	Dec 31 2007 (audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	21	113,700	113,700
Statutory reserve funds		970,951	970,951
Retained earnings		3,315,160	3,990,864
Total equity		**4,399,811**	**5,075,515**
Non-current liabilities			
Interest-bearing loans and borrowings	24	3,098,491	486,379
Non-current provisions	25	28,665	20,125
Deferred tax liability	35	-	122,431
Financial liabilities	27	359	288
Total non-current liabilities		**3,127,515**	**629,223**
Current liabilities			
Trade payables, accruals and deferred income, and other liabilities, including:	26	1,394,575	1,554,619
- income tax expense	26	-	5,430
Interest-bearing loans and borrowings	24	314,478	378,580
Current provisions	25	41,617	38,570
Financial liabilities	27	213,024	3,964
Total current liabilities		**1,963,694**	**1,975,733**
Total liabilities		**5,091,209**	**2,604,956**
Total equity and liabilities		**9,491,020**	**7,680,471**

INCOME STATEMENTS

for the year ended December 31st 2008 and for the year ended December 31st 2007

(PLN '000)	Note	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Sales revenue	29	14,898,653	11,866,594
Cost of sales	30	(14,867,282)	(10,851,429)
Gross profit on sales		**31,371**	**1,015,165**
Other operating income	31	6,580	41,376
Selling costs	30	(376,811)	(394,703)
General and administrative expenses	30	(220,812)	(195,567)
Other operating expenses	32	(13,784)	(50,217)
Operating profit/(loss)		**(573,456)**	**416,054**
Financial income	33	134,212	472,125
Financial expenses	34	(416,916)	(16,042)
Pre-tax profit/(loss)		**(856,160)**	**872,137**
Corporate income tax	35	180,456	(127,053)
Net profit/(loss) on continued operations		**(675,704)**	**745,084**
Net earnings/(loss) per share (PLN)			
- basic	23	(5.94)	6.55
- diluted		-	-

CASH FLOW STATEMENTS
for the year ended December 31st 2008 and for the year ended December 31st 2007

(PLN '000)	Note	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (comparable data) (audited)
Cash flows from operating activities			
Net profit/(loss)		**(675,704)**	**745,084**
Adjustments:			
Depreciation and amortisation		183,685	180,413
Foreign exchange (gains)/losses	30	343,407	(2,975)
Net interest and dividend paid		(119,264)	(206,730)
(Profit)/loss on investing activities		14,987	(69,130)
Current income tax	35	(180,456)	127,053
Income tax paid		(182,886)	(117,899)
Decrease in receivables	19	407,551	203,262
Decrease/(increase) in inventories	19	196,329	(893,198)
(Decrease)/increase in liabilities and accruals and deferred income	19	(394,161)	92,436
Increase/(decrease) in provisions	19	11,587	(6,749)
(Increase) in prepayments and accrued income	19	(4,079)	(11,127)
Settlement of financial instruments		238,166	(31,632)
Other items, net		58	148
Net cash provided by/(used in) operating activities		**(160,780)**	**8,956**
Cash flows from investing activities			
(Purchase)/sale of financial assets		-	3,060
(Purchase)/sale of non-current financial assets		(3,483)	(4,537)
Repayment of loans advanced	20	3,700	3,700
Dividend received	33	130,333	205,218
Interest received		2,270	1,594
(Purchase)/sale of property, plant and equipment and intangible assets		(1,071,875)	(219,853)
Prepayments for tangible assets under construction		(773,027)	(655,193)
Cash acquired as part of the merger with LOTOS Partner Sp. z o.o.		-	22,038
Net cash provided by/(used in) investing activities		**(1,712,082)**	**(643,973)**
Cash flows from financing activities			
Increase in loans and borrowings		2,279,083	486,941
Interest paid		(30,310)	(8)
Dividend paid		-	(40,932)
Settlement of financial instruments		(238,166)	31,632
Other items, net		(208)	(72)
Net cash provided by/(used in) financing activities		**2,010,399**	**477,561**
Effect of exchange rate fluctuations on cash held		**2,296**	**2,304**
Change in net cash		**139,833**	**(155,152)**
Cash at beginning of period	19	**(274,136)**	**(118,984)**
Cash at end of period	19	**(134,303)**	**(274,136)**
- restricted cash	18	82,070	4,458

STATEMENTS OF CHANGES IN EQUITY
for the year ended December 31st 2008 and for the year ended December 31st 2007

(PLN '000)	Share capital	Statutory reserve funds	Retained earnings /(deficit)	Total equity
Jan 1 2007 (audited)	**113,700**	**970,951**	**3,268,105**	**4,352,756**
Net profit for the year ended Dec 31 2007	-	-	745,084	745,084
Dividend	-	-	(40,932)	(40,932)
Merger with LOTOS Partner Sp. z o. o.	-	-	18,607	18,607
Dec 31 2007 (audited)	**113,700**	**970,951**	**3,990,864**	**5,075,515**
Jan 1 2008 (audited)	**113,700**	**970,951**	**3,990,864**	**5,075,515**
Net (loss) for the year ended Dec 31 2008	**-**	**-**	(675,704)	(675,704)
Dec 31 2008 (audited)	**113,700**	**970,951**	**3,315,160**	**4,399,811**

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Grupa LOTOS S.A. ("the Company") 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 Company'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.

As per the Company's Articles of Association, the Company's core business comprises manufacture, trading, and provision of services, in particular:

1) Manufacture of refined petroleum products (PKD 23.20.A)
2) Processing of refined petroleum products (PKD 23.20.B)
3) Manufacture of industrial gasses (PKD 24.11.Z)
4) Manufacture of other inorganic basic chemicals (PKD 24.13.Z)
5) Manufacture of other organic basic chemicals (PKD 24.14.Z)
6) Manufacture of plastics (PKD 24.16.Z)
7) Production of electricity (PKD 40.11.Z)
8) Transmission of electricity (PKD 40.12.Z)
9) Distribution and sale of electricity (PKD 40.13.Z)
10) Manufacture of gaseous fuels (PKD 40.21.Z)
11) Distribution and sale of gaseous fuels through mains (PKD 40.22.Z)
12) Heat (steam and hot water) production (PKD 40.30.A)
13) Heat (steam and hot water) supply (PKD 40.30.B)
14) Collection and purification of water, with services provision excluded (PKD 41.00.A)
15) Services related to distribution of water (PKD 41.00.B)
16) Extraction of crude petroleum (PKD 11.10.A)
17) Extraction of natural gas (PKD 11.10.B)
18) General construction work related to linear engineering structures: pipelines, power supply lines and telecommunication transmission lines (PKD 45.21.D)
19) Wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51.Z)
20) Wholesale of chemical products (PKD 51.55.Z)
21) Transport via railway (PKD 60.10.Z)
22) Transport via pipelines (PKD 60.30.Z)
23) Cargo handling at sea ports (PKD 63.11.A)
24) Cargo handling at inland ports (PKD 63.11.B)
25) Cargo handling at other handling facilities (PKD 63.11.C)
26) Cargo storage and warehousing at sea ports (PKD 63.12.A)
27) Cargo storage and warehousing at inland ports (PKD 63.12.B)
28) Cargo storage and warehousing at other storage facilities (PKD 63.12.C)
29) Research and experimental development on chemical sciences and engineering (PKD 73.10.B)
30) Research and experimental development on technical sciences (PKD 73.10.G)
31) Research and experimental development on other natural sciences and engineering (PKD 73.10.H)

The Company's core business according to the Polish Classification of Business Activities (PKD) bears code "PKD 2320" – manufacture of refined petroleum products. The Company's segment of activities is manufacturing and distribution of crude oil, petroleum and chemical products.

The Company holds the following licences related to its core business:

- Licence for production of liquid fuels, issued by the President of the Polish Energy Regulatory Office on November 28th 1998 and extended until December 31st 2025 by virtue of the decision of the President of the Energy Regulatory Office of October 5th 2007,
- Licence for trade in liquid fuels, issued by the President of the Polish Energy Regulatory Office on December 23rd 1998 and extended until December 31st 2025 by virtue of the decision of the President of the Energy Regulatory Office of October 5th 2007,
- Licence for storage of liquid fuels valid until October 15th 2016, issued by the President of the Polish Energy Regulatory Office on October 10th 2006,
- Licence for generation of electricity valid until October 5th 2010, issued by the President of the Polish Energy Regulatory Office on September 29th 2000,
- Licence for trade in electricity valid until September 10th 2011, issued by the President of the Polish Energy Regulatory Office on September 5th 2001,
- Licence for transmission and distribution of electricity valid until September 10th 2011, issued by the President of the Polish Energy Regulatory Office on September 5th 2001.

2. Composition of the Supervisory and Management Boards

In the period from January 1st 2008 to December 31st 2008 and as at the date of release of the financial statements, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer,
Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,
Marek Sokołowski – Vice-President of the Management Board, Production and Development Director.

On October 16th 2008, the Supervisory Board of Grupa LOTOS S.A. resolved to open the recruitment procedure 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. By virtue of the Supervisory Board's decision of January 27th 2009, the procedure was closed without selecting any candidate.

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, including:

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, shareholder 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 Ms Małgorzata Hirszel (with effect from July 1st 2008) in her place.

During its meeting held on August 12th 2008, 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 December 31st 2008, 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.

On March 10th 2009, the Company received a resignation, with effect from March 10th 2009, by Mr Piotr Chajderowski, Member of the Supervisory Board of Grupa LOTOS S.A. of the seventh term of office, from his position as Member of the Company's Supervisory Board of the seventh term of office.

As at the date of approval of the 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,
Małgorzata Hirszel – Member of the Supervisory Board,
Jan Stefanowicz – Member of the Supervisory Board.

3. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on April 27th 2009.

4. Information Whether the Company is a Parent Undertaking or a Major Investor and Whether It Prepares Consolidated Financial Statements

Grupa LOTOS S.A. is the parent undertaking of the LOTOS Group and a major investor in subordinated undertakings and their related undertakings, controlled by the Company. Accordingly, Grupa LOTOS S.A. has prepared consolidated financial statements of its Group, which include these undertakings' financial data for the year ended December 31st 2008, and which were approved for publication by the Management Board on April 27th 2009.

5. Going Concern

The Company's financial statements were prepared on the assumption that the Company will continue its business activities in the foreseeable future. As at the date of approving these financial statements, the Company's Management Board has identified no facts or circumstances that might pose a threat to the Company continuing as a going concern in the 12 months following the balance-sheet date as a result of a planned or compulsory discontinuation or substantial limitation of its business activities.

6. Duration of the Company

The duration of the Company is unlimited.

7. Balance-Sheet Date and the Period Covered by the Financial Statements

These financial statements of Grupa LOTOS S.A. cover the balance-sheet data as at December 31st 2008 and comparable data as at December 31st 2007. The income statement, the cash-flow statement, and the statement of changes in the Company's equity present the data for January 1st – December 31st 2008 along with the comparable data for January 1st – December 31st 2007.

The financial information as at December 31st 2008 and for the year then ended contained in these financial statements was audited. The financial information as at December 31st 2007 and for the year then ended was audited and an opinion on it was issued by the auditor on May 6th 2008.

8. Measurement Currency and Reporting Currency

The measurement and reporting currency of these financial statements is the Polish złoty (PLN). These financial statements are presented in the złoty (PLN), and all the figures are presented in thousands of złoty, unless indicated otherwise.

9. Basis for the Preparation of the Financial Statements

These 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").

As at the date of approval of these financial statements for publication, given the ongoing process of implementation of the IRFS by the EU member states and the type of business conducted by the Company, as far as the accounting policies applied by the Company are concerned, there are no differences between the IRFS and the EU-endorsed IRFS.

The accounting policies and calculation methods adopted in the preparation of these financial statements are the same as those used in the preparation of the financial statements for the year ended December 31st 2007.

The Company has reviewed the new interpretations, standards and amendments to the existing standards. The new interpretations, standards and amendments to existing standards which are in effect and have been adopted by the European Union, have no material impact on the accounting policies applied by the Company.

Binding interpretations, adopted by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee:

- IFRIC 13 *Customer Loyalty Programmes* (applies to annual periods beginning after July 1st 2008, adopted by the European Union),
- 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, adopted by the European Union).

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, adopted by the European Union),
- Amendment to IAS 1 *Presentation of Financial Statements* (effective as of January 1st 2009, adopted by the European Union),
- IFRS 8 *Operating Segments* (applies to annual periods beginning after January 1st 2009, adopted by the European Union),
- 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),
- Amendment to IFRS 2 *Share-Based Payments – Vesting Conditions and Cancellations* (applies to annual periods beginning on or after January 1st 2009, adopted by the European Union),
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 Pre*sentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation* (apply to annual periods beginning on or after January 1st 2009, adopted by the European Union),
- 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; adopted by the European Union),
- Amendments to IFRS 1 *First-Time Adoption of IFRSs* 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, 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 Company.

The Company 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*.

10. Key Accounting Policies

These financial statements have been prepared in accordance with the historical cost principle, except with respect to the financial derivatives, which are measured at fair value.

In the cash-flow statement for the year ended December 31st 2008, the Company reclassified the amounts resulting from settlement of financial instruments. In the financial statements for the 2007 financial year, such amounts were disclosed under cash flows from operating activities, while in these financial statements they are disclosed under cash flows from financing activities. They stood at PLN (238,166) thousand for the year ended December 31st 2008 and PLN 31,632 thousand for the year ended December 31st 2007.

The key accounting policies adopted by the Company are presented below.

10.1. Intangible Assets

Intangible assets are recognised if the Company is likely to obtain future economic benefits attributable directly to the assets. Initially, intangible assets are recorded at acquisition or production cost, if they are acquired in separate transactions. Intangible assets acquired as part of the acquisition of a business are capitalised at fair value as at the acquisition date. Following initial recognition, intangible assets are valued at acquisition or production cost less accumulated amortisation and impairment losses.

Intangible assets are amortised using the straight-line method over their estimated useful lives.

The expected useful lives of the Company's intangible assets are from 2 to 21 years.

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in the asset are reflected by changing the amortisation period or amortisation method, respectively, and are accounted for as changes in accounting estimates.

Useful lives are also reviewed each year and, if required, they are adjusted with effect from the beginning of the following financial year.
With the exception of capitalised expenditure on research and development, expenditure on intangible assets produced by the Company is not capitalised and is disclosed under expenses for the period in which they were incurred.

10.2. Property, Plant and Equipment

Property, plant and equipment, other than land, are valued at acquisition or production cost, less accumulated depreciation and impairment losses.

Land is valued at acquisition cost less any impairment losses. In the case of perpetual usufruct of land, acquisition cost is understood to mean the amount paid to a third party.

Initial cost of property, plant and equipment comprises the acquisition cost plus all costs directly related to their acquisition and adaptation for use. This cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred on an asset which is already in service, such as repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

At the time of acquisition, the items of property, plant and equipment are divided into elements of material value to which separate useful economic lives can be assigned. The costs of major overhauls are also such elements.

Property, plant and equipment (including their components), other than land, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and structures	1–80 years
Plant and equipment	1–25 years
Vehicles	1–15 years
Other property, plant and equipment	1–10 years

An item of property, plant and equipment may be derecognised from the balance sheet if it is sold or if the company does not expect to realise any economic benefits from its further use. Gains or losses on derecognition of an asset (calculated as the difference between net proceeds from its sale, if any, and the carrying value of the asset) are disclosed in the income statement in the period when the asset was derecognised.

The residual value, useful economic life and depreciation method are reviewed once a year and adjusted – if required – with effect from the beginning of the next financial year.

The costs of each overhaul are included in the carrying value of property, plant and equipment, if relevant recognition criteria are fulfilled.

10.3. Tangible Assets under Construction

Investments in progress are valued at the amount of aggregate costs directly attributable to the acquisition or production of such assets, including financial expenses, less impairment losses, if any. Investments in progress are not depreciated until completed and placed in service.

Investments in progress comprise property, plant and equipment which is under construction or assembly and are recognised at acquisition or production cost.

Financial expenses capitalised under tangible assets under construction include servicing costs of the debt incurred to finance the assets.

10.4. Shares in Subsidiary and Associated Undertakings

Shares in subsidiary and associated undertakings are disclosed at historical cost less impairment losses.

10.5. Impairment Losses on Non-Financial Assets

As at each balance-sheet date, the Company assesses whether there is any evidence of impairment of any of its assets. If the Company finds that there is such evidence, or if the Company is required to perform annual impairment tests, the Company estimates the recoverable value of the given asset.

The recoverable value of an asset is equal to the higher of the fair value of the asset or cash generating unit, less the transaction costs, or its value in use. The recoverable value is determined for the individual assets, unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying value of an asset is higher than its recoverable value, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable value. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses related to the assets used in the continued operations are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at each balance-sheet date, the Company assesses whether there is evidence that any impairment loss recognised in the previous periods with respect to a given asset is no longer necessary or should be reduced. If there is such evidence, the Company estimates the recoverable value of the given asset. The recognised impairment loss is reversed only when following the recognition of the last impairment loss there has been a change in the estimates used to determine the recoverable value of the asset. In such a case, the carrying value of the asset is increased up to its recoverable value. The increased value may not exceed the carrying value of the asset that would have been determined (net of accumulated amortisation/depreciation) if the impairment loss related to that asset had not been recognised in the previous years. Reversal of an asset impairment loss is immediately recognised as revenue in the income statement, unless the asset has been revalued, in which case the reversal of an impairment loss is treated as an increase in the revaluation capital reserve. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to the given asset is adjusted so that over the remaining useful life of that asset its verified carrying value, less its residual value, can be regularly written off.

10.6. Inventories

Inventories are stated at the lower of: their acquisition or production cost or their net realisable value.

Costs incurred in order to bring each inventory item to its present location and conditions are accounted for in the following manner:

- materials and goods for resale – acquisition cost calculated on weighted average basis,
- finished goods and work-in-progress – the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity.

Net realisable value is the selling price estimated as at the balance sheet date net of VAT, excise taxes and fuel charge, less any rebates, discounts and other similar items, and less the estimated costs to complete and costs to sell.

10.7. Trade and Other Receivables

Trade receivables, which typically mature in 7 to 57 days, are valued and recognised at amounts initially invoiced, taking into account any impairment charges for doubtful receivables. An impairment charge for a receivable is calculated when the collection of the full amount of the receivable is no longer probable. Uncollectible receivables are written off through the income statement when recognised as unrecoverable accounts.

If the effect of time value of money is significant, the value of receivables is determined by discounting the projected future cash flows to their present value using a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as financial income.

10.8. Foreign Currency Transactions

Transactions denominated in foreign currencies are disclosed in the functional currency of the Company (Polish złoty) as at the transaction date, using the following exchange rates:

1) buy or sell rate of the bank at which the transaction is effected – in the case of sale and purchase of currencies and payment of receivables and payables; or
2) mid exchange rate quoted for the given currency by the National Bank of Poland as at that date unless a different exchange rate in specified in another document binding on a given undertaking.

Monetary assets and liabilities denominated in foreign currencies as at the balance-sheet date are translated into the złoty at relevant złoty mid exchange rates quoted by the National Bank of Poland as at that date. The resulting foreign exchange gains and losses are carried as financial income/(expense) or cost of sales, except for foreign exchange gains and losses which are considered a part of external financing cost and are capitalised under non-current assets. Non-monetary assets and liabilities recognised at historic cost expressed in a foreign currency are recognised at the historic exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities disclosed at fair value expressed in a foreign currency are translated as at the balance-sheet date at the exchange rate effective as at the date of determining the fair value.

Exchange rates applied for the balance-sheet valuation purposes:

Mid exchange rate quoted by the National Bank of Poland	Dec 31 2008	Dec 31 2007
USD	2.9618	2.4350
EUR	4.1724	3.5820

10.9. Cash and Cash Equivalents

Cash in hand and at banks, as well as and non-current deposits held to maturity are valued at face value.

Cash and cash equivalents as disclosed in the cash-flow statement comprise cash in hand and cash at banks, overdraft facilities as well as those bank deposits maturing within three months which are not classified as placements.

10.10. Accruals and Deferrals

The Company discloses prepayments if they relate to future reporting periods.

Accrued expenses are disclosed at probable values of current-period liabilities.

The Company's employees are entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Company recognises the cost of employee holidays on an accrual basis using the liability method, The amount of the provision for unused holidays is calculated on the basis of the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time.

10.11. Equity

Equity is disclosed in the accounting records by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of Grupa LOTOS S.A. is the share capital of the Company and is disclosed at its par value, in the amount specified in the Company's Articles of Association and in the relevant entry in the National Court Register.

10.12. Provisions

Provisions are created when the Company has a liability (legal or following from commercial practice) resulting from past events and when it is probable that the discharge of this liability would cause an outflow of funds representing economic benefits, and the amount of the liability may be reliably estimated. If the Company anticipates that cost covered by provisions will be reimbursed, e.g. under an insurance agreement, reimbursement of such funds is disclosed as a separate item of assets, but only when such reimbursement is practically certain to occur; cost related to a given provision is disclosed in the income statement, less any received reimbursements. If the effect of time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to present value at gross discount rates reflecting the current market estimates of the time value of money and risks, if any, related to a given liability. If the discount method is applied, an increase in provisions as a result of lapse of time is disclosed as financial expenses.

10.13. Retirement Severance Pays and Length-of-Service Awards

In accordance with the company remuneration systems, the Company's employees are entitled to length-of-service awards and severance pays upon retirement due to old age or disability. Length-of-service awards are paid out after a specific period of employment. Old-age and disability retirement severance pays are one-off and paid upon retirement. Amounts of severance pays and length-of-service awards depend on the length of employment and the average remuneration. The Company creates a provision for future liabilities under retirement severance pays and length-of-service awards in order to assign costs to the periods in which they are incurred. According to IAS 19 *Employee Benefits*, length-of-service awards are classified as other long-term employee benefits, while retirement severance pays – as defined post-employment benefit plans. The present value of the obligations as at each balance-sheet date is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account the employment turnover, and relate to the period ending at the given balance-sheet date. Information concerning demographics and employment turnover is sourced from historical data. Actuarial gains and losses are recognised in the income statement.

10.14. Interest-Bearing Bank Loans, Borrowings, and Debt Securities

All bank loans, borrowings, and debt securities are initially recognised at acquisition cost equal to the fair value of funds received, less cost of obtaining the loan or borrowing.

Following initial recognition, interest-bearing loans, borrowings, and debt securities are valued at amortised acquisition cost, using the effective interest rate method. Amortised acquisition cost includes cost of obtaining the loan or borrowing as well as discounts or premiums obtained at settlement of the liability. Gains or losses are charged to the income statement upon removal of the liability from the balance sheet or recognition of value impairment.

10.15. Costs of External Financing

Costs of external financing are disclosed as the costs of the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed, which costs are capitalised as a part of the acquisition or production cost of such an asset.
To the extent that the funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the costs of external financing which may be capitalised as part of such asset is determined as the difference between the actual costs of external financing incurred in connection with a given loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that the funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the costs of external financing which may be capitalised is determined by applying the capitalisation rate to the capital expenditure on that asset.

10.16. Government Subsidies

If there is reasonable certainty that the subsidy will be received and that all related conditions will be fulfilled, government subsidies are recognised at fair value.

If a subsidy concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. If it concerns an asset, its fair value is recognised as deferred income, and then it is written off annually in equal parts through profit or loss over the estimated useful life of the asset.

10.17. Carbon Dioxide (CO_2) Emission Allowances

The Company recognises carbon dioxide (CO_2) emission allowances in its financial statements based on the net liability method – the Company recognises only those liabilities that result from exceeding the emissions limit granted to it, and the liability is recognised only after the Company actually exceeds the limit. Income from the sale of unused emission allowances is recognised in the income statement at the time of sale.

10.18. Income Tax

Mandatory decrease of profit/(increase of loss) comprises: current income tax (CIT) and deferred income tax. The current portion of the income tax is calculated based on the net profit/(loss) (taxable income) for a given financial year. The net profit (loss) established for tax purposes differs from the net profit (loss) established for financial reporting purposes due to the exclusion of the income which is taxable and the costs which are deductible in future years and the expenses and income which will never be subject to deduction/taxation. The tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, the Company creates a deferred tax liability using the balance-sheet liability method in relation to all temporary differences existing as at the balance-sheet date between the tax base of assets and liabilities and their carrying value as disclosed in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax credits, and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences, assets and losses to be used:

- except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The carrying value of a deferred tax asset is verified as at each balance-sheet date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of this deferred tax asset would be generated.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of particular asset or release of particular provision, based on tax rates (and tax legislation) effective as at the balance-sheet date or tax rates (and tax legislation) certain to be effective as at the balance-sheet date in the future.

Income tax related to items posted directly to equity is disclosed under equity and not in the income statement.

The Company offsets deferred tax asset against deferred tax liability only if it holds an enforceable legal right to offset current tax receivables against current tax payables, and the deferred income tax is related to the same taxpayer and the same tax authority.

10.19. Financial Instruments

At the time of their initial recognition, financial instruments are valued at acquisition cost (price), equal to the fair value of the payment made for them. The transaction costs are included in the initial value of the financial instruments.
Following the initial recognition, financial instruments are classified under one of the following four categories and are valued as follows:

- Financial instruments which are recognised at fair value through profit or loss;
- Financial instruments held to maturity which are recognised at amortised cost using the effective interest rate;
- Loans and accounts receivable which are recognised at amortised cost using the effective interest rate; the related gains and losses are disclosed in the income statement. Accounts receivable which mature in the short term and do not have a specified interest rate are recognised at amounts due;
- Financial instruments available for sale which are recognised at fair value; the revaluation gains/losses are charged to the revaluation capital reserve until the investment is sold or its value is reduced. Then, the cumulative revaluation gain/loss is charged to the income statement;
- Financial liabilities which are recognised at amortised cost.

The fair value of financial instruments for which a ready market exists is determined in relation to the prices quoted on that market as at the relevant balance-sheet date. If there is no quoted market price, the fair value is estimated using appropriate valuation techniques.

Financial liabilities other than under financial instruments at fair value through profit or loss are recognised at amortised cost using the effective interest rate.

Financial instruments are derecognised from the balance sheet when the Company loses control over contractual rights comprising particular financial instruments; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

10.20. Derivative Financial Instruments

Derivatives used by the Company to hedge its currency risk include in particular FX forwards. In addition, the Company relies on full barrel swaps to hedge its exposure to raw material and petroleum product prices, uses futures contracts to manage its exposure to carbon credit prices, and enters into IRSs and FRAs to hedge its interest rate exposure. Derivative financial instruments of this type are measured at fair value.. Fair value of FX forwards is established by reference to the forward rates of contracts with similar maturity prevailing at a given time. Fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

10.21. Impairment of Financial Assets

As at each balance-sheet date the Company determines whether there is objective evidence of impairment of a financial asset or a group of financial assets.

Assets Carried at Amortised Cost

If there is objective evidence that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying value of a financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying value of an asset is reduced directly or by creating relevant provisions. The amount of loss is recognised in the income statement.
First the Company determines whether there exists objective evidence of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective evidence of impairment of an individually tested asset, regardless of whether it is material or not, the Company includes the asset into the group of financial assets with similar credit risk profile and tests it for impairment together with the other assets from this group. Assets

which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.
If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost as at the reversal date.

Financial Assets Carried at Cost

If there exists objective evidence of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, the amount of impairment loss is established as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial Assets Available for Sale

If there exists objective evidence of impairment of a financial asset available for sale, the amount of the difference between the acquisition cost of that asset (less any principal payments and depreciation/amortisation charges) and its current fair value, reduced by any impairment losses previously recognised in the income statement, is derecognised from equity and charged to the income statement. Reversal of an impairment loss concerning equity instruments qualified as available for sale may not be recognised in the income statement. If the fair value of a debt instrument available for sale increases in the next period, and the increase may be objectively associated with an event that occurred subsequent to the impairment loss recognition in the income statement, the amount of the reversed impairment loss is recognised in the income statement.

10.22. Recognition of Revenue

Revenue is recognised in the amount of probable economic benefits to be derived by the Company in connection with a given transaction and when the amount of revenue may be reliably estimated.

10.23. Sales of Products, Goods for Resale and Services

Sales revenue is disclosed at the fair value of payments received or due, and it represents the accounts receivable for the products, goods for resale and services provided in the ordinary course of business, less discounts, VAT and other sales-related taxes (excise tax, fuel charge). The sales of products and goods for resale are recognised at the moment of delivery, when material risk and benefits resulting from the ownership of the products and goods have been transferred to the purchaser.

10.24. Interest

Interest income is recognised as the interest accrues (using the effective interest rate), unless the receipt of the interest is doubtful.

10.25. Dividends

Dividend is recognised as financial income as of the date on which the appropriate governing body of the Company adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

10.26. Management's Estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of judgments and estimates which affect the value of items disclosed in the financial statements and in the notes thereto. Although the judgments and estimates are based on the Management Board's best knowledge of the current and future events and actions, the actual results might differ from the estimates. The areas in which the Management Board prepared estimates include provisions, property, plant and equipment, as well as intangible assets and financial assets. The material assumptions used in the estimates are described in the relevant notes.

Valuation of Provisions

Provisions for employee benefits were estimated with actuarial methods.

Depreciation/Amortisation Rates

Depreciation/amortisation rates are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Company reviews the useful lives of its assets annually, on the basis of current estimates.

Fair Value of Financial Instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate methods and assumptions, the Company relies on professional judgment.

Deferred Tax Asset

The Company recognises a deferred tax asset if it is assumed that taxable profit will be generated in the future against which the asset can be used. If the taxable profit deteriorates in the future, this assumption may prove invalid.

10.27. Net Earnings/ (Loss) per Share

Earnings/ (loss) per share for each period are calculated by dividing the net profit/(loss) for a given period by the weighted average number of shares in this reporting period. The Company does not disclose the diluted earnings/(loss) per share, since there are no dilutive instruments outstanding.

10.28. Contingent Liabilities and Receivables

A contingent liability is understood as a duty to discharge an obligation which is conditional upon the occurrence of certain circumstances. Contingent liabilities are not recognised in the balance sheet, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of funds embodying economic benefits is negligible. Contingent receivables are not recognised in the balance sheet, however information on them is disclosed if the inflow of funds embodying economic benefits is likely to occur.

11. Property, Plant and Equipment and Prepayments for Tangible Assets under Construction

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Land	14,636	14,509
Buildings and structures	924,456	959,682
Plant and equipment	434,054	503,051
Vehicles and other tangible assets	36,515	31,640
Tangible assets under construction	1,992,024	381,361
- including capitalised financing costs	153,719	2,837
	==========	==========
Total property, land and equipment	**3,401,685**	**1,890,243**
	==========	==========
Prepayments for tangible assets under construction	1,194,489	766,004
- including capitalised financing costs	37,612	6,953
	==========	==========
Total	**4,596,174**	**2,656,247**
	==========	==========

Changes to Property, Plant and Equipment and Prepayments for Tangible Assets under Construction

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction	Prepayments for tangible assets under construction	Total
Gross book value as at Jan 1 2007 (audited)	**11,490**	**1,125,471**	**894,778**	**72,924**	**233,409**	**122,558**	**2,460,630**
Increase, including:	3,048	44,544	18,636	18,092	172,258	655,603	912,181
- purchase	-	-	-	15,969	242,318	648,240	906,527
- transfer from investments	2,284	37,792	16,848	941	(73,161)	-	(15,296)
- merger with LOTOS Partner Sp. z o.o.	764	6,752	1,788	1,182	264	410	11,160
- costs of external financing	-	-	-	-	2,837	6,953	9,790
Decrease, including:	-	(744)	(524)	(315)	(148)	(12,157)	(13,888)
- sale	-	-	(15)	(187)	-	-	(202)
- liquidation	-	(744)	(492)	(128)	-	-	(1,364)
- other	-	-	(17)	-	(148)	(12,157)	(12,322)
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Gross book value as at Dec 31 2007 (audited)	**14,538**	**1,169,271**	**912,890**	**90,701**	**405,519**	**766,004**	**3,358,923**

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction	Prepayments for tangible assets under construction	Total
Gross book value as at Jan 1 2008 (audited)	**14,538**	**1,169,271**	**912,890**	**90,701**	**405,519**	**766,004**	**3,358,923**
Increase, including:	228	26,107	32,106	14,974	1,610,663	773,027	2,457,105
- purchase	-	-	-	12,072	1,528,196	742,368	2,282,636
- transfer from investments	228	26,107	32,110	2,898	(68,415)	-	(7,072)
- transfers	-	-	(4)	4	-	-	-
- costs of external financing	-	-	-	-	150,882	30,659	181,541
Decrease, including:	-	(14)	(2,341)	(2,931)	-	(344,542)	(349,828)
- sale	-	-	(199)	(1,218)	-	-	(1,417)
- liquidation	-	(14)	(2,142)	(1,713)	-	-	(3,869)
- other	-	-	-	-	-	(344,542)	(344,542)
Gross book value as at Dec 31 2008 (audited)	**14,766**	**1,195,364**	**942,655**	**102,744**	**2,016,182**	**1,194,489**	**5,466,200**
Accumulated depreciation as at Jan 1 2007 (audited)	**21**	**148,899**	**309,943**	**45,886**	**-**	**-**	**504,749**
Increase, including:	8	60,874	100,278	13,465	-	-	174,625
- depreciation	1	57,887	99,466	12,846	-	-	170,200
- merger with LOTOS Partner Sp. z o.o.	7	2,987	812	619	-	-	4,425
Decrease	-	(184)	(382)	(290)	-	-	(856)
Accumulated depreciation as at Dec 31 2007 (audited)	**29**	**209,589**	**409,839**	**59,061**	**-**	**-**	**678,518**
Accumulated depreciation as at Jan 1 2008 (audited)	**29**	**209,589**	**409,839**	**59,061**	**-**	**-**	**678,518**
Increase, including:	101	61,327	100,037	10,073	-	-	171,538
- depreciation	101	61,327	100,039	10,071	-	-	171,538
- transfers	-	-	(2)	2	-	-	-
- other	-	-	-	-	-	-	-
Decrease	-	(8)	(1,275)	(2,905)	-	-	(4,188)
Accumulated depreciation as at Dec 31 2008 (audited)	**130**	**270,908**	**508,601**	**66,229**	**-**	**-**	**845,868**

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction	Prepayments for tangible assets under construction	Total
Impairment charges as at Jan 1 2007 (audited)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase	-	-	-	-	24,158	-	24,158
Decrease	-	-	-	-	-	-	-
Impairment charges as at Dec 31 2007 (audited)	**-**	**-**	**-**	**-**	**24,158**	**-**	**24,158**
Impairment charges as at Jan 1 2008 (audited)	**-**	**-**	**-**	**-**	**24,158**	**-**	**24,158**
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Impairment charges as at Dec 31 2008 (audited)	**-**	**-**	**-**	**-**	**24,158**	**-**	**24,158**
Net book value as at Jan 1 2007 (audited)	**11,469**	**976,572**	**584,835**	**27,038**	**233,409**	**122,558**	**1,955,881**
Net book value as at Dec 31 2007 (audited)	**14,509**	**959,682**	**503,051**	**31,640**	**381,361**	**766,004**	**2,656,247**
Net book value as at Dec 31 2008 (audited)	**14,636**	**924,456**	**434,054**	**36,515**	**1,992,024**	**1,194,489**	**4,596,174**

The cost of servicing the liabilities incurred to finance tangible assets under construction and prepayments for tangible assets under construction in the year ended December 31st 2008 amounted to PLN 181,541 thousand (December 31st 2007: PLN 9,790 thousand).

As at December 31st 2008, the value of property, plant and equipment securing the Company's liabilities amounted to PLN 1,087,252 thousand. As at December 31st 2007, there was no property, plant and equipment securing the Company's liabilities.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

An element of the growth strategy of the LOTOS Group is the implementation of the 10+ Programme, designed to increase the throughput capacity of the Gdańsk Refinery by approximately 75%, that is to 10.5m tonnes of crude oil p.a., at a higher conversion ratio.

Following the completion of the preparatory phase, the Programme's implementation commenced. The following units at the Gdańsk Refinery of Grupa LOTOS S.A. are to be completed by the end of 2010:
- crude distillation unit (CDU/VDU),
- Diesel hydrodesulphurisation unit (HDS),
- mild hydrocracker (MHC),
- residue oil supercritical extraction (ROSE),
- hydrogen generation unit (HGU),

- amine sulphur recovery unit (ASR),
- infrastructure expansion (tanks, utilities, inter-facility connections).

The construction of the heavy residue gasification unit for treating the residue from crude oil processing, designed to be used mainly for generation of hydrogen and energy carriers, is expected to commence between 2012 and 2015, depending on the conditions on the bitumen market.

The Programme schedule is intended to enhance the Programme's efficiency and security. Thanks to the modified structure of the project it is possible to:
- mitigate the risk resulting from shortages of staff and materials, as well as from limited availability of contractors,
- bring down the costs of the Programme and better adapt the financing strategy for the Programme to the Company's capabilities,
- benefit from the favourable trends on the bitumen market.

According to the government's strategy and the *National Roads Construction Programme for 2008-2012*, the bitumen market is expected to grow from 2010 at least until 2012, both in terms of product volumes and prices (or margins). Following completion of the 10+ Programme, Grupa LOTOS S.A. plans to increase its annual sales of bitumens to approx. 1,100 thousand tonnes.

At present, Grupa LOTOS S.A. is making preparations to implement the heavy residue gasification and energy generation project (IGCC), which will enable it to launch, in 2012-2015, the second phase of the 10+ Programme, which will focus on the construction and commissioning of the heavy residue gasification unit. As at December 31st 2008, capitalised expenditure on the IGCC project was PLN 45,853 thousand. The Company's Management Board expects that the financial benefits to be derived from the project will be no less than the expenditure incurred.

The expenditure on the 10+ Programme until 2012 is planned to amount to ca. EUR 1.47bn.

Implementation of the 10+ Programme – Oil Distillation Unit

On July 19th 2007, Grupa LOTOS S.A. and LURGI S.A. of Kraków signed a contract for the engineering design, procurement and management of the construction work for an oil distillation unit.

It will be the second unit of this type to be constructed at Grupa LOTOS S.A.'s Gdańsk Refinery. Its annual capacity will be 4.5 m tonnes of crude oil, which will make it possible to increase the oil throughput capacity at Grupa LOTOS S.A. to. 10.5 million tonnes of crude oil p.a., that is by ca. 75%. Once completed, the new unit will also help increase the supply of fuels on the domestic market.

The performance of the contract is scheduled to be completed in October 2009.

On August 1st 2007, Grupa LOTOS S.A. and LURGI S.A. of Kraków executed an annex to the contract of July 19th 2007 for the engineering design, procurement and management of the construction work for an oil distillation unit. Under the annex, LURGI S.A. of Kraków will also deliver the installations for the planned oil distillation unit.

The annexes executed on January 7th 2008 and January 17th 2008 extended the scope of the services to be provided by LURGI S.A. under the contract, to include the delivery of bulk materials for the relevant mechanical, electrical and automation works under the contract. Overall, the annexes executed by the end of 2008 increased the value of the contract with LURGI S.A. in relation to the CDU/VDU units to approx. EUR 130.61m.

The execution of the annexes made the contract for the construction of an oil distillation facility covering the engineering design, delivery of installations and materials, and management of construction work on the oil distillation unit, the largest transaction concluded between the two parties.

The agreement provides for contractual penalties. The limit of financial liability for failure by LURGI S.A. to properly perform the contract is equal to 8% of the contract value.

Implementation of the 10+ Programme – Diesel Hydrodesulphurisation Unit (HDS)

On November 11th 2006, Grupa LOTOS S.A. signed a turnkey contract with ABB Lummus Global (CB&I Lummus GmbH) for a diesel hydrodesulphurisation unit (HDS). The contract covers the engineering design, delivery of materials and equipment, construction works and works supervision by CB&I Lummus GmbH.

The performance of the contract is scheduled to be completed in May 2009.

The contract value, including the Change Orders executed in 2008, is EUR 112.87m.

Implementation of the 10+ Programme – Hydrocracking Unit (MHC) and Amine Sulphur Recovery Unit (ASR)

On June 21st 2007, Grupa LOTOS S.A. and Technip Italy S.p.A. as the general contractor, together with Technip KTI S.p.A., Technip Polska Sp. z o.o. and KTI Poland S.A., signed an EPC LSTK (lump-sum turnkey) contract for the engineering design, procurement and construction of a mild hydrocracker (MHC) and an amine sulphur recovery unit, that is a complex comprising hydrogen sulphide recovery unit (ARU), sour water stripper (SWS), sulphur recovery unit/tail gas treatment unit (SRU/TGTU) for Grupa LOTOS S.A. under the 10+ Programme.

The scope of implementation of the MHC, ARU, SWS and SRU/TGTU units is adapted to the planned crude oil throughput capacity of 10.5m tonnes p.a. The performance of the contract is scheduled to last until November 2010. The contract value is EUR 583.6m.

On May 7th 2008, an annex to the above contract was executed. Under the annex, the scope of work was modified according to the Change Orders, and the contractors remuneration increased to EUR 589.8m.

The contract provides for contractual penalties payable to Grupa LOTOS S.A. for a delay or failure to achieve the agreed parameters of the units built under the contract. The contractor’s total liability towards Grupa LOTOS S.A. is limited to 8% of the contract value.

Implementation of the 10+ Programme – Hydrogen Generation Unit (HGU)

On June 28th 2007, Grupa LOTOS S.A. and LURGI S.A. of Kraków signed an EPC LSTK (lump-sum turnkey) contract for the engineering design, procurement and construction of a hydrogen production unit based on the technology delivered by Lurgi AG of Frankfurt, as part of the implementation of the 10+ Programme of Grupa LOTOS S.A. The hydrogen production unit will be supplying hydrogen necessary for the production of clean fuels. The new unit is adapted to the planned crude oil throughput capacity of 10.5 million tonnes. The performance of the contract is scheduled to last until September 2009.

In 2008, annexes to the above contract were executed. Under the annexes, the value of the contract was increased to EUR 82.57m, in connection with additional deliveries and work done for the needs of the HGU construction.

Implementation of the 10+ Programme – Residue Oil Supercritical Extraction (ROSE)

In line with the Early Work Agreement (EWA) concerning the construction of the ROSE/SDA unit, signed on June 27th 2008, the terms and conditions of the contract were negotiated by the end of July 2008 and then submitted for review to the bank consortium co-financing of the 10+ Programme. Once the approval of the financing institutions was obtained, the contract for the execution of the ROSE project, providing for engineering design, delivery of materials and equipment, and technical advisory services during the construction work, was signed with Technip Italy S.p.A. on September 10th 2008.

With the signing of the ROSE contract in September 2008, the list of major contracts for construction of the production units under the 10+ Programme, adopted by the Management Board of Grupa LOTOS S.A., was closed.

The contract value is EUR 62.75m and PLN 21.12m.

The unit is scheduled to be commissioned in December 2010.

Implementation of the 10+ Programme – Utilities and Off-Sites

On June 19th 2007, Grupa LOTOS S.A. and FLUOR S.A. signed an engineering, procurement and construction management services contract to build the utilities and off-sites under the 10+ Programme. The construction of the utilities and off-sites will enable the Company to comply with the EU requirements concerning the quality of diesel oils, which will be in force as of 2009. The scope of the construction is adjusted to the planned annual oil processing volume of 10.5 million tonnes. The performance of the contract is scheduled to last until August 2010. The contract is an element of the growth strategy of the LOTOS Group, providing for the construction of the Programme's production installations. The contract is the second of a series of contracts, after the EPC contract for the construction of a hydrodesulphurisation unit (HDS) for diesel oil.

12. Intangible Assets

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Development expense	-	102
Goodwill	1,862	1,862
Software	2,115	2,647
Patents, trademarks and licences	42,224	48,086
Other	181	45
	===========	===========
Total	**46,382**	**52,742**
	===========	===========

Changes in Intangible Assets

PLN '000	Development expense	Goodwill	Software	Patents, trademarks and licences	Other	Total
Gross book value as at Jan 1 2007 (audited)	**306**	**-**	**3,098**	**61,364**	**225**	**64,993**
Increase, including:	-	1,862	1,451	14,007	-	17,320
- transfer from investments	-	-	1,389	13,907	-	15,296
- merger with LOTOS Partner Sp. z o.o.	-	1,862	62	100	-	2,024
Decrease	-	-	(12)	(11)	-	(23)
- liquidation	-	-	(12)	(11)	-	(23)
	---------	---------	---------	-------	------	-------
Gross book value as at Dec 31 2007 (audited)	**306**	**1,862**	**4,537**	**75,360**	**225**	**82,290**
Gross book value as at Jan 1 2008 (audited)	**306**	**1,862**	**4,537**	**75,360**	**225**	**82,290**
Increase, including:	-	-	563	5,235	1,274	7,072
- transfer from investments	-	-	563	6,408	101	7,072
- transfer	-	-	-	(1,173)	1,173	-
- other	-	-	-	-	-	-
Decrease	-	-	(68)	(2,262)	-	(2,330)
- sale	-	-	-	(1,933)	-	(1,933)
- liquidation	-	-	(68)	(329)	-	(397)
	---------	---------	---------	-------	------	-------
Gross book value as at Dec 31 2008 (audited)	**306**	**1,862**	**5,032**	**78,333**	**1,499**	**87,032**

PLN '000	Development expense	Goodwill	Software	Patents, trademarks and licences	Other	Total
Accumulated amortisation as at Jan 1 2007 (audited)	**102**	**-**	**1,125**	**17,831**	**135**	**19,193**
Increase, including:	102	-	777	9,453	45	10,377
- amortisation	102	-	715	9,449	45	10,311
- merger with LOTOS Partner Sp. z o.o.	-	-	62	4	-	66
Decrease	-	-	(12)	(10)	-	(22)
Accumulated amortisation as at Dec 31 2007 (audited)	**204**	**-**	**1,890**	**27,274**	**180**	**29,548**
Accumulated amortisation as at Jan 1 2008 (audited)	**204**	**-**	**1,890**	**27,274**	**180**	**29,548**
Increase, including:	102	-	1,095	9,996	1,138	12,331
- amortisation	102	-	1,095	10,971	163	12,331
- transfer	-	-	-	(975)	975	-
- other	-	-	-	-	-	-
Decrease	-	-	(68)	(1,161)	-	(1,229)
Accumulated amortisation as at Dec 31 2008 (audited)	**306**	**-**	**2,917**	**36,109**	**1,318**	**40,650**
Impairment charges as at Jan 1 2007 (audited)	**-**	**-**	**-**	**-**	**-**	**-**
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Impairment charges as at Dec 31 2007 (audited)	**-**	**-**	**-**	**-**	**-**	**-**
Impairment charges as at Jan 1 2008 (audited)	**-**	**-**	**-**	**-**	**-**	**-**
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Impairment charges as at Dec 31 2008 (audited)	**-**	**-**	**-**	**-**	**-**	**-**
Net book value as at Jan 1 2007 (audited)	**204**	**-**	**1,973**	**43,533**	**90**	**45,800**
Net book value as at Dec 31 2007 (audited)	**102**	**1,862**	**2,647**	**48,086**	**45**	**52,742**
Net book value as at Dec 31 2008 (audited)	**-**	**1,862**	**2,115**	**42,224**	**181**	**46,382**

13. Non-Current Financial Assets

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Shares in subsidiary undertakings	415,588	427,863
Shares in other undertakings	6,317	3,033
Other non-current financial assets, including:	247,081	247,081
- additional contributions to equity	247,081	247,081
	=======	=======
Total	**668,986**	**677,977**
	=======	=======

Undertakings in which the Company Holds Shares in the Share Capital or in the Total Vote in the Undertaking's Constitutive Body

As at December 31st 2008 and December 31st 2007, the Company's shares in the total vote in its subsidiary and associated undertakings were equal to its shares in the share capitals of these undertakings.

Name	Registered office	Business profile	Percentage of share capital held by the Company		Carrying value of shares (PLN '000)	
			Dec 31 2008	**Dec 31 2007**	**Dec 31 2008**	**Dec 31 2007**
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	100.00%	100.00%	114,706	114,706
LOTOS Partner Sp. z o.o.	Gdańsk	Sale of fuels and provision of services for retail networks of international concerns; logistic services	-	- (1)	-	-
LOTOS Gaz S.A. (parent undertaking of another group, formerly LOTOS Mazowsze S.A.)	Mława	Wholesale and retail sale of LPG	100.00%	100.00%	-	16,284
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	100.00%	100.00%	505	505
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%	78	78
LOTOS Ekoenergia S.A.	Gdańsk	Construction of the key installations as part of the 10+ Programme; the company has not commenced operations	100.00%	100.00%	507	505
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%	233	233
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	100.00%	100.00%	4,020	2,520
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	100.00%	100.00%	50	50
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	100.00%	100.00%	3,906	3,906
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	100.00%	100.00%	353	353
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	100.00%	100.00%	20,843	20,843
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of liquid and gaseous fuels and related products	100.00%	100.00%	7,245	800
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels	80.04%	80.04%	13,918	13,918
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale (2)	80.01%	80.01%	-	-

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

Name	Registered office	Business profile	Percentage of share capital held by the Company		Carrying value of shares (PLN '000)	
			Dec 31 2008	**Dec 31 2007**	**Dec 31 2008**	**Dec 31 2007**
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	69.00%	69.00%	245,931	245,931
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	100.00%	100.00%	1,158	1,158
Rafineria Nafty GLIMAR S.A.	Gorlice	Refining; currently: provision of services		91.54%	-	-
LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation) (3)	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	-	100.00%	-	51
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	Business and management consultancy services	27.45%	27.45%	2,135	2,135
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		100.00%	-	3,887
Total shares in subsidiary and associated undertakings					**415,588**	**427,863**

(1) On June 29th 2007, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, issued a decision on registration of the merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o.
(2) On November 1st 2008, LOTOS Jasło S.A. discontinued crude oil processing.
(3) 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 in Kraków issued a decision to delete the company from the National Court Register.

Changes in the Number of Shares Held by the Company

PLN '000	Shares in subsidiary undertakings	Shares in associated undertakings	Shares in other undertakings
Carrying value as at Jan 1 2007 (audited)	**437,978**	**150**	**6,395**
Shares acquired	4,537[1]	-	5
Merger with LOTOS Partner Sp. z o.o.	(13,642)	-	-
Revaluation	(1,160)	-	-
Transfers	150	(150)	(3,367)
	=========	=========	=========
Carrying value as at Dec 31 2007 (audited)	**427,863**	**-**	**3,033**
	=========	=========	=========
Carrying value as at Jan 1 2008 (audited)	**427,863**	**-**	**3,033**
Shares acquired	7,945[2]	-	-
Shares sold	(3,887)[3]	-	(83)
Revaluation	(16,284)[4]	-	-
Transfers	2	-	3,367
Other	(51)	-	-
	=========	=========	=========
Carrying value as at Dec 31 2008 (audited)	**415,588**	**-**	**6,317**
	=========	=========	=========

[1] 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. The value of the acquired shares was PLN 650 thousand. 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. 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. The value of the acquired shares was PLN 3,887 thousand.

[2] On July 24th 2008, Grupa LOTOS S.A. 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. The increase in the share capital of LOTOS Tank Sp. z o.o. was effected in connection with the development of the company's activities in the area of JET fuel sales. On July 31st 2008, Grupa LOTOS S.A. paid the price for the shares in the amount of PLN 6,445 thousand. On August 5th 2008, Grupa LOTOS S.A. 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. On August 8th 2008, Grupa LOTOS S.A. paid the price for the shares, in the amount of PLN 1,500 thousand.

[3] 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 petition to discontinue the 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 on the basis of Art. 361.2 of the Bankruptcy and Recovery Law. On July 25th 2008, the court's decision became final. On December 1st 2008, Grupa LOTOS S.A. entered into an agreement with Podkarpacki Holding Budowy Dróg Drogbud Sp. z o.o. of Strzyżów concerning the sale of its shares in Rafineria Nafty GLIMAR S.A. Under the agreement, Grupa LOTOS S.A. sold 9,520,000 shares in Rafineria Nafty GLIMAR S.A. with a par value of PLN 10 per share, representing 91.54% of the company's share capital. The agreed transaction value was PLN 1,000 thousand. As at the agreement execution date, the carrying value of the shares in Grupa LOTOS S.A.'s accounting books was PLN 0 (see Note 20 to these financial statements). 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, with a total value of NOK 8m (the equivalent of PLN 3,376 thousand, as translated at the NOK mid-exchange rate quoted by the National Bank of Poland for June 12th 2008). The carrying value in Grupa LOTOS S.A.'s accounting books of LOTOS Exploration and Production Norge AS's assets sold under the agreement was PLN 3,887 thousand.
(4) As at December 31st 2008, the Company made an impairment charge for the shares in LOTOS Gaz S.A.

14. Inventories

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Finished products	613,036	681,931
Semi-finished products and work in progress	221,097	263,606
Goods for sale	114,312	154,307
Materials	1,325,000	1,369,986
Net Inventories	**2,273,445**	**2,469,830**

As at December 31st 2008, the value of inventories serving as collateral for the financial liabilities of Grupa LOTOS S.A. under the facility referred to in Note 24 to these financial statements amounted to PLN 2,096,703 thousand (PLN 2,469,830 thousand, as at December 31st 2007).

As at December 31st 2008, the carrying value of inventories valued at production or acquisition cost stood at PLN 1,546,097 thousand, while the value of inventories measured at net realisable value was PLN 727,348 thousand (PLN 2,420,127 thousand and PLN 49,703 thousand, respectively, as at December 31st 2007).

Impairment Charges for Inventories

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Finished products	116,950	8,904
Semi-finished products and work in progress	12,034	-
Goods for sale	41,362	70
Materials	56,026	4,824
Total impairment charges for inventories	**226,372**	**13,798**

During the year ended December 31st 2008, the Company recognised impairment charges for inventories in the amount of PLN 221,807 thousand (as at December 31st 2007 – PLN 9,373 thousand) and reversed impairment charges for inventories in the amount of PLN 9,233 thousand (December 31st 2007 – PLN 16,739 thousand).

Mandatory Stocks of Liquid Fuels

Until April 7th 2007, Grupa LOTOS S.A. applied regulations concerning mandatory stocks of liquid fuels pursuant to Art. 19a.5 of the Polish State Reserves and Mandatory Fuel Stocks Act of May 30th 1996 (Dz.U. of 2003 No. 24, item 197, Dz.U. of 2004 No. 42, item 386, Dz.U. of 2005 No. 132, item 1110 and No. 143, item 1201). Pursuant to the above Act, producers and importers of liquid fuels are obliged to create mandatory stocks of liquid fuels, hereinafter referred to as "stocks," based on the volume of liquid fuels produced or imported – from an EU member state or another state – in the previous year, taking into account the schedule for reaching the volume of liquid fuel stocks required at the end of a given year, in accordance with the appendix to the Regulation of the Minister of Economy on the schedule for the creation of liquid fuel stocks, dated December 19th 2005 (Dz.U. of 2005 No. 266, item 2240).
This schedule specifies the path to reach in 2008, and subsequent years, the level of stocks corresponding to 76-day average internal fuel consumption at the end of the year. Thus, together with the existing economic reserves accounting for a 14-day consumption, the 90-day stocks required by the EU regulations will be reached.
In each subsequent year, the required level of stocks should be increased by the stocks volume required for such number of days as is specified for each subsequent year in the Regulation of the Minister of Economy on the schedule for the creation of liquid fuel stocks, dated December 19th 2005.

Mandatory fuel stocks may be stored in the form of finished products, semi-finished products and crude oil. However, the total volume of stocks in the form of semi-finished products and crude oil (taking into account the capacity for processing crude oil into fuels) may not exceed the share of each type of fuels in the stocks, as stipulated in the Regulation of the Minister of Economy on the detailed procedure for the creation and determination of the volume of liquid fuel stocks, dated May 12th 2006 (Dz.U. of 2006 No. 92, item 642).

April 7th 2007 saw the introduction, by virtue of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007) of new regulations applicable to mandatory stocks, The mandatory stocks include crude oil, petroleum products (liquid fuels) and LPG. The Act defined the basis for calculation of the required amount of mandatory stocks as well as the entities subject to the requirement to increase mandatory stocks (73 days in 2007 and 76 days following 2008, excluding LPG).

Detailed rules are set forth in the following regulations of the Minister of Economy, effective as of May 25th 2007:

– Regulation concerning the detailed list of commodities and petroleum products included in the intervention stocks, dated April 24th 2007 (Dz. U. No. 81 item 546),
– Regulation concerning the detailed procedure for creation and maintenance of mandatory stocks of crude oil or fuels and determining their amount, dated April 24th 2007 (Dz. U. No. 81 item 547),
– Regulation concerning the register of producers and traders obliged to create and maintain mandatory stocks of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 548),
– Regulation concerning the detailed procedure for the reduction of the amount of mandatory stocks of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 549).

The gross value of mandatory stocks created on the basis of the above regulations is as follows:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Mandatory stocks	1,678,291	1,919,427
	===========	===========

15. Trade and Other Receivables

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Trade receivables, including:	1,181,046	1,581,403
- from related undertakings	802,338	1,032,964
Corporate income tax receivables	177,252	-
Other receivables, including:	16,406	23,800
- from related undertakings	37	173
	===========	===========
Net receivables	**1,374,704**	**1,605,203**
Impairment charge for receivables	75,665	77,475
	=============	===========
Gross receivables	**1,450,369**	**1,682,678**
	=============	===========

As at December 31st 2008, the Company's receivables had been assigned by way of security for its liabilities under the credit facility described in Note 24. As at December 31st 2007, none of the Company's receivables had been assigned by way of security.

Information on transactions with related parties is presented in Note 42.

The payment period for trade receivables in the normal course of trade is 7–57 days.

Impairment Charges for Receivables

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Beginning of period	**77,475**	**72,655**
Increase	504	6,114
Decrease	(2,314)	(1,294)
End of period	**75,665**	**77,475**

The table below presents the aged analysis of past due receivables not covered by impairment charges, as at December 31st 2008 and December 31st 2007:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Up to one month	15,728	3,437
From one to three months	42	142
From three to six months	101	146
From six months to one year	562	-
More than one year	57	239
Total	**16,490**	**3,964**

In the Company's opinion, there is no significant concentration of credit risk regarding trade receivables. As at the balance-sheet date, the Company's maximum exposure to credit risk is best represented by the carrying amounts of these instruments.

16. Prepayments and Accrued Income

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Property and other insurance	17,897	13,994
Other	241	65
Total	**18,138**	**14,059**
Current	18,138	14,059
Non-current	-	-

17. Current Financial Assets

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Positive valuation of derivative financial instruments, including:	302,250	96,099
- commodity swaps (raw materials and petroleum products)	113,334	8,011
-futures (CO_2 emissions)	15	388
- currency forward and spot contracts	159,985	87,700
-currency options	6,068	-
- IRS	22,848	-
Other, including:	-	3,870
- loans to related undertakings	-	3,870
Total	**302,250**	**99,969**

18. Cash and Cash Equivalents

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Cash at bank	152,689	104,436
Cash in hand	25	8
Total	**152,714**	**104,444**

Cash at banks bears interest at variable rates, set on the basis of the interest rate for overnight bank deposits. Short-term deposits are placed for various periods, ranging from one day to three months, depending on the Company's current demand for cash, and bear interest at the interest rates set for them.

As at December 31st 2008, the amount of undrawn loan funds available to the Company in respect of which all conditions precedent had been fulfilled was PLN 743,274 thousand (PLN 1,009,676 thousand as at December 31st 2007) (undrawn funds available under working capital loans (the loan for refinancing and financing the Group's inventory granted by Bank Consortium (1) and working capital loan contracted with Bank Consortium (4); see Note 24).

As at December 31st 2008, restricted cash amounted to PLN 82,070 thousand (PLN 4,458 thousand as at December 31st 2007) and included mainly:
- a deposit of PLN 31,440 thousand, serving as security for the repayment of interest on the loan for financing of the inventories,
- a security deposit (margin) of PLN 7,263 thousand,
- a deposit of PLN 1,502 thousand, serving as security for the benefit of the Customs Office in Pruszków,
- funds of PLN 29,904 thousand, held in the Company's account dedicated to payments made in connection with the investment projects under the 10+ Programme,
- funds of PLN 11,961 thousand, held in the Company's account dedicated to repayments of principal amounts of and interest on the loans/credit facilities contracted to finance the implementation of the 10+ Programme.

As at December 31st 2008, cash in bank accounts on which a registered pledge was established to secure the repayment of Grupa LOTOS S.A.'s liabilities under loan/credit facilities, amounted to PLN 36,080 thousand (December 31st 2007 – PLN 13,730 thousand).

19. Cash Structure in the Cash-Flow-Statement

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Cash at banks, including	152,689	104,436
Cash in hand	25	8
Overdraft facilities	(287,017)	(378,580)
Total cash	**(134,303)**	**(274,136)**

Breakdown of the Company's Activities as Disclosed in the Cash-Flow-Statement

Operating activities include transactions and events related to the core business of an undertaking and other activities which are not included in investing or financing activities.

Investing activities include transactions and events which consist in the purchase or sale of property, plant and equipment (tangible assets, investments in progress), intangible assets, non-current investments and current financial assets (excluding cash and cash equivalents), as well as related monetary costs and benefits, excluding those related to income tax.

Financing activities include transactions and events which consist in the raising and repayment of funds from sources other than operating activities, as well as related monetary costs and benefits, excluding those related to income tax. The occurrence of cash flows in the financing activities gives rise to changes in the amount of equity and financial indebtedness and the proportion between them.

Causes of Differences between the Balance-Sheet Changes in Certain Items and Changes Disclosed in the Cash-Flow Statement

Receivables PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Balance-sheet change in net non-current and current receivables	230,499	(71,755)
Change in income tax receivables	177,252	(15,182)
Merger with LOTOS Partner Sp. z o.o.	-	286,836
Positive valuation of financial instruments	3,167	-
Other	(3,369)	3,363
Change in receivables as disclosed in the cash-flow-statement	407,551	203,262

Liabilities	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
PLN '000		
Balance-sheet change in current and non-current liabilities, and accruals and deferred income	2,597,097	1,156,640
Change in current and non-current loans	(2,548,010)	(744,650)
Change in income tax liabilities	5,430	(5,430)
Change in investment liabilities	(239,547)	(28,449)
Negative valuation of financial instruments	(209,124)	(3,245)
Merger with LOTOS Partner Sp. z o.o.	-	(281,935)
Change in finance lease liabilities	(7)	(495)
Change in liabilities and accruals and deferred income as disclosed in the cash-flow-statement	(394,161)	92,436

Provisions	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
PLN '000		
Balance-sheet change in provisions	(110,844)	(13,276)
Change in deferred tax liability	122,431	11,458
Merger with LOTOS Partner Sp. z o.o.	-	(4,931)
Change in provisions as disclosed in the cash-flow-statement	11,587	(6,749)

Inventories	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
PLN '000		
Balance-sheet change in inventories	196,385	(894,162)
Merger with LOTOS Partner Sp. z o.o.	-	964
Other	(56)	-
Change in inventories as disclosed in the cash-flow-statement	196,329	(893,198)

Prepayments and accrued income	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
PLN '000		
Balance-sheet change in prepayments and accrued income	(62,306)	(11,711)
Merger with LOTOS Partner Sp. z o.o.	-	584
Change in deferred tax assets	58,227	-
Change in prepayments and accrued income as disclosed in the cash-flow statement	(4,079)	(11,127)

Cash	**Year ended Dec 31 2008 (audited)**	**Year ended Dec 31 2007 (audited)**
PLN '000		
Balance-sheet change in cash	48,270	103,119
Change in interest-bearing overdraft facilities	91,563	(258,271)
Change in cash as disclosed in the cash-flow-statement	139,833	(155,152)

20. Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

The Company discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading. Financial assets and liabilities held for trading include the following types of derivatives: forwards, futures, swaps, and options.

Fair value of full barrel swaps is established by reference to future cash flows connected with the transactions, calculated on the basis of the difference between the average market price and the transaction price. Commodity swaps are valued on the basis of a hypothetical offsetting position (closing transaction) with the use of the arithmetic mean of market quotations.

Fair value of futures contracts for carbon (CO_2) allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the European Climate Exchange (ECX) for the valuation date, and the transaction price.

Fair value of currency forwards is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the implied interest rate curve based on fx swaps. Apart from the above parameters used in the valuation of currency forwards, implied volatility is additionally taken into account in calculating the value of currency options.

Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the zero-coupon interest rate curve.

Financial Assets Available for Sale

Non-current financial assets available for sale measured at fair value as at December 31st 2008 and December 31st 2007 include mainly shares and equity interests for which there is no active market.

Loans Advanced and Receivables

Loans Advanced to Rafineria Nafty GLIMAR S.A.

On September 23rd 2003 and April 8th 2004, Grupa LOTOS S.A. signed with Rafineria Nafty GLIMAR S.A. loan agreements for the financing of operating and investing activities, including, in particular, the Glimar Hydrocomplex investment project, for an aggregate amount of PLN 90m. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty GLIMAR S.A. under these agreements. Additionally, in connection with the Letter of Comfort signed by Grupa LOTOS S.A. on February 12th 2004 for Bank Przemysłowo-Handlowy S.A., the Company undertook commitments relating to the co-financing of the Glimar Hydrocomplex investment project and maintaining of an appropriate financial standing of Rafineria Nafty GLIMAR S.A. In the opinion of the Company's Management Board, these commitments do not represent financial liabilities as at the balance-sheet date.

As at December 31st 2008 and December 31st 2007, assets under the advanced loans were fully covered by an allowance. As at December 31st 2008 and December 31st 2007, the Company had provisions of PLN 15,853 thousand for potential liabilities under these agreements (see Note 25).

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 petition for discontinuation of the 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 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. Accordingly, the decision of the District Court of Nowy Sącz, Commercial Court Division V on discontinuation of the bankruptcy proceedings became final.

On December 1st 2008, Grupa LOTOS S.A. concluded an agreement with Podkarpacki Holding Budowy Dróg Drogbud Sp. z o.o. of Strzyżów concerning disposal of its shares in Rafineria Nafty GLIMAR S.A. Under the agreement, Grupa LOTOS S.A. sold 9,520,000 shares in Rafineria Nafty GLIMAR S.A. with a par value of PLN 10 per share, representing 91.54% of the company's share capital. The agreed transaction value was PLN 1,000 thousand. As at the agreement execution date, the carrying value of the shares in Grupa LOTOS S.A.'s accounting books was PLN 0.

Loans Advanced to LOTOS Parafiny Sp. z o.o.

On September 8th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 2,500 thousand to LOTOS Parafiny Sp. z o.o. Subsequently, on March 10th 2006, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 4,500 thousand to LOTOS Parafiny Sp. z o.o. The loans are intended to finance the investment in a candle production plant in Czechowice. The loans were repaid by LOTOS Parafiny Sp. z o.o. in December 2007, i.e. before their due dates defined in the respective loan agreements.

Loans Advanced to LOTOS Park Technologiczny Sp. z o.o.

On August 24th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 1,900 thousand to LOTOS Park Technologiczny Sp. z o.o. In accordance with the terms of the agreement, the loan is to be repaid in full by the end of August 2008. LOTOS Park Technologiczny Sp. z o.o. settled its liabilities under the loan on August 20th 2008 (the principal amount) and on August 22nd 2008 (the accrued interest).

On February 27th 2007, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 1,200 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, the following annexes were executed: annex No. 1 of February 27th 2007, whereby the deadline for creating security for the loan was postponed, and annex No. 2 of January 30th 2008, effective as of December 31st 2007, which extended the loan repayment date until June 30th 2008. LOTOS Park Technologiczny Sp. z o.o. repaid the loan in full on June 4th 2008.

On June 26th 2007, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 600 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, the following annexes to the agreement were signed: Annex No. 1, executed on January 30th 2008 and effective as of December 31st 2007, which extended the loan repayment date until June 30th 2008, and Annex No. 2 of July 1st 2008, whereby the final repayment date for the loan postponed to August 31st 2008. LOTOS Park Technologiczny Sp. z o.o. settled its liabilities under the loan on August 20th 2008 (the principal amount) and on August 22nd 2008 (the accrued interest).

Financial Liabilities Valued at Amortised Cost

Financial liabilities valued at amortised cost include loans, overdraft facilities, and liabilities under finance lease.

None of the following economic events or situations requiring disclosure occurred at the Company during the reporting periods ended December 31st 2008 and December 31st 2007:

- The Company did not reclassify any financial assets (IFRS 7, Par. 12.),
- No collateral was established for the benefit of the Company on any class of assets, which would result in credit enhancements (IFRS 7, Par. 15.),
- The Company did not issue any instrument that contains both a liability and an equity component (IFRS 7, Par. 17.),
- The Company met all contractual provisions (IFRS 7, Par. 18.),

- Interest income in connection with impaired financial assets was recognised by the Company as immaterial (IFRS 7, Par. 20.d.),
- Due to non-compliance with formal requirements, the Company does not apply hedge accounting; accordingly, changes in fair value of derivative instruments are charged to the income statement (IFRS 7, Par. 22.)
- The Company did not acquire any financial assets at a price different from their fair value (IFRS 7, Par.28.)
- The Company did not obtain any assets by taking possession of collateral held as security (IFRS 7, Par. 38.).

20.1. Carrying Value of Financial Instruments

Dec 31 2008 (audited) (PLN '000)	Note	**Financial assets at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at fair value through profit or loss – held for trading**	**Financial liabilities at amortised cost**	**Total**
Shares		-	-	6,317	-	-	6,317
- non-current	13	-	-	6,317	-	-	6,317
- current		-	-	-	-	-	-
Additional contributions to equity	13	-	247,081	-	-	-	247,081
Loans:	24	-	-	-	-	-	-
- non-current		-	-	-			-
- current		-	-	-	-	-	-
Derivative financial instruments	17	302,250	-		-	-	302,250
Trade and other receivables	15	-	1,197,451	-	-	-	1,197,451
Cash and cash equivalents	18	-	152,714	-	-	-	152,714
Trade and other payables	26	-	-	-	-	(891,921)	(891,921)
Loans and borrowings:	24	-	-	-	-	(3,412,969)	(3,412,969)
- non-current		-	-	-	-	(3,098,491)	(3,098,491)
- current		-	-	-	-	(314,478)	(314,478)
Financial liabilities, including:	27	-	-	-	(212,881)	(502)	(213,383)
Lease liabilities:	27	-	-	-	-	(502)	(502)
- non-current		-	-		-	(359)	(359)
- current		-	-	-	-	(143)	(143)
Derivative financial instruments	27	-	-	-	(212,881)	-	(212,881)
		=======	=======	======	=========	=========	========
Total		**302,250**	**1,597,246**	**6,317**	**(212,881)**	**(4,305,392)**	**(2,612,460)**
		=======	=======	======	=========	=========	========

As at December 31st 2008, the Company did not hold any financial assets or liabilities measured at fair value through profit or loss whose components were initially recognised at fair value through profit or loss (fair value option).

As at December 31st 2008, the Company did not have any financial assets held to maturity.

As at December 31st 2008, the carrying value of the above classes of financial instruments corresponded to their fair value.

As at December 31st 2008, the carrying value of cash and cash equivalents, current trade receivables and payables and financial liabilities at amortised cost approximated their fair value. Long-term bank loans bear interest at floating rates, with interest payable in a short term.

As at December 31st 2008, financial assets available for sale measured at fair value comprised mainly shares for which there was no active market.

As at December 31st 2008, the Company held no financial assets whose terms would be renegotiated due to the possibility of default or impairment.

Dec 31 2007 (audited) (PLN '000)	Note	**Financial assets at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at fair value through profit or loss – held for trading**	**Financial liabilities at amortised cost**	**Total**
Shares:		-	-	3,033	-	-	3,033
- non-current	13	-	-	3,033	-	-	3,033
- current		-	-	-	-	-	-
Additional contributions to equity	13	-	247,081	-	-	-	247,081
Loans:	24	-	3,870	-	-	-	3,870
- non-current		-	-	-			-
- current		-	3,870	-	-	-	3,870
Derivative financial instruments	17	96,099	-		-	-	96,099
Trade and other receivables	15	-	1,605,203	-	-	-	1,605,203
Cash and cash equivalents	18	-	104,444	-	-	-	104,444
Trade and other payables	26	-	-	-	-	(1,119,154)	(1,119,154)
Loans and borrowings:	24	-	-	-	-	(864,959)	(864,959)
- non-current		-	-	-	-	(486,379)	(486,379)
- current		-	-	-	-	(378,580)	(378,580)
Financial liabilities, including:	27	-	-	-	(3,757)	(495)	(4,252)
Lease liabilities:	27	-	-	-	-	(495)	(495)
- non-current		-	-		-	(288)	(288)
- current		-	-	-	-	(207)	(207)
Derivative financial instruments	27	-	-	-	(3,757)	-	(3,757)
		=======	=======	====== =	=========	=========	========
Total		**96,099**	**1,960,598**	**3,033**	**(3,757)**	**(1,984,608)**	**71,365**
		=======	=======	====== =	=========	=========	========

As at December 31st 2007, the Company did not hold any financial assets or liabilities measured at fair value through profit or loss whose components were initially recognised at fair value through profit or loss (fair value option).

As at December 31st 2007, the Company did not have any financial assets held to maturity.

As at December 31st 2007, the carrying value of the above classes of financial instruments corresponded to their fair value.

As at December 31st 2007, the carrying value of cash and cash equivalents, current trade receivables and payables and financial liabilities at amortised cost approximated their fair value. Bank loans bear interest at floating rates, with interest payable in a short term.

As at December 31st 2007, financial assets available for sale measured at fair value comprised mainly shares for which there was no active market.

As at December 31st 2007, the Company held no financial assets whose terms would be renegotiated due to the possibility of default or impairment.

The methods and assumptions used to measure the fair value of financial instruments held by the Company are described in Note 10 and Note 20.

20.2. Items of Income, Expenses, Gains and Losses Disclosed in the Income Statement by Categories of Financial Instruments

Year ended Dec 31 2008 (audited) (PLN '000)	**Financial assets/ liabilities at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at amortised cost**	**Total**
Interest income / (expense)	-	3,372	-	(16,674)	(13,302)
Foreign exchange gains/ (losses)	-	(80,326)	-	(591,719)	(672,045)
(Recognition)/ reversal of impairment charges	-	(11)	-	-	(11)
Gains/ (losses) on fair value measurement and realisation	(241,647)	-	-	-	(241,647)
Gains/ (losses) on disposal	-	-	492	-	492
	=========	========	========	=========	========
Total	**(241.647)**	**(76.965)**	**492**	**(608.393)**	**(926.513)**
	=========	=========	========	=========	========

Year ended Dec 31 2007 (audited) (PLN '000)	**Financial assets/ liabilities at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at amortised cost**	**Total**
Interest income / (expense)	-	2,458	-	6,309	8,767
Foreign exchange gains/ (losses)	-	(55,508)	-	12,600	(42,908)
(Recognition)/ reversal of impairment charges	-	(154)	-	-	(154)
Gains/ (losses) on fair value measurement and realisation	122,622	-	-	-	122,622
Gains/ (losses) on disposal	310	-	2,710	-	3,020
	========	======	======	========	======
Total	**122,932**	**(53,204)**	**2,710**	**18,909**	**91,347**
	=========	======	======	========	======

20.3. Financial Risk Management

The Company is exposed to financial risk, including chiefly:

- market risk (risk related to the prices of raw materials and petroleum products, risk related to prices of carbon dioxide (CO_2) emission allowances, currency risk, interest rate risk)
- liquidity risk
- credit risk related to financial and trade transactions

The Financial Risk Management Committee ("FRMC") operating within the Company is responsible for the supervision and coordination of the financial risk management process at Grupa LOTOS S.A. In order to ensure the efficiency and operational security of this process, the following areas have been distinguished: financial transaction area (front-office), risk analysis and control area (middle-office), and transaction documentation and settlement area (back-office).

The key objectives sought to be achieved through financial risk management are as follows:

- maximising the result on market risk management at the assumed risk level,
- stabilising cash flows,
- ensuring short-term financial liquidity,
- supporting the activities related to the arrangement of financing for investment activities.

In order to achieve these objectives, documents have been prepared at Grupa LOTOS S.A. and approved at appropriate decision-making levels of the Company. These documents specify the necessary framework for effective and secure functioning of the financial risk management process, including principally:

- methodology for quantifying exposures to particular risks (risk mapping),
- acceptable financial instruments,
- method of assessing financial risk management,
- limits within risk management,
- reporting method,
- credit limits for counterparties in financial transactions.

Grupa LOTOS S.A. monitors all managed market risks on an ongoing basis. Opening a position with respect to risks which do not arise as part of the Company's core activity is prohibited. Grupa LOTOS S.A. uses liquid derivatives which it is able to value by applying commonly applied valuation models. The valuation of the underlying position and derivatives is performed based on market data received from reliable providers.

The Company does not apply hedging accounting; accordingly, any change in the fair value of derivatives is charged to the income statement.

Risk Related to Prices of Raw Materials and Petroleum Products

The concept for the management of risk related to prices of raw materials and petroleum products covers the period until the end of 2010, by which time also the 10+ Programme is to have been completed. The main objective of the management concept is to increase the probability of generating cash flows guaranteeing safe financing of investment projects under the 10+ Programme.

The risk management concept provides for maximum hedge ratios for the underlying position, decreasing each year relative to a current budget year. Within the framework of accepted limits and guidelines, the Financial Risk Management Committee adopts decisions defining the limits and volumes of hedging transactions.

The basic risk map is created by converting the map of price indices used in trade contracts into the map of indices for which there exist liquid markets of derivatives. Such conversion takes into account relevant statistical relations between base indices and market indices. The converted map serves a basis for defining the model of the refining margin. The margin is defined as the difference between the value of indices representing products sold, weighted by the share of particular indices in a barrel, and the index representing raw materials purchased.

As at December 31st 2008, the estimated underlying refining margin position stood at (in barrels):

Period	Underlying position
Q1 2009	9,930,140
Q2 2009	6,720,316
Q3 2009	9,894,993
Q4 2009	9,452,383
Q1 2010	11,805,410
Q2 2010	15,699,834
Q3 2010	15,569,563
Q4 2010	14,712,155

As at December 31st 2007, the estimated underlying refining margin position stood at (in barrels):

Period	Underlying position
Q1 2008	9,935,622
Q2 2008	9,475,025
Q3 2008	9,543,912
Q4 2008	9,658,366
Q1 2009	9,939,825
Q2 2009	6,629,920
Q3 2009	9,611,546
Q4 2009	10,395,482
Q1 2010	15,164,964
Q2 2010	15,869,788
Q3 2010	16,000,117
Q4 2010	16,698,049

In connection with concerns about the impact of the deepening economic slowdown on the refining margins market, in 2008 the Company continued to execute transactions to hedge its refining margins.

In addition, in order to minimise the basis risk related to the difference between the barrel structure in the executed hedging transactions and the barrel structure resulting from the updated production plans, the Company executed transactions aimed at adjusting the structure in the executed transactions to the currently planned structure.

Open refining margin transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Beginning of the valuation period	End of the valuation period	Number of barrels	Price (USD/barrel)	Fair value as at Dec 31 2008 (PLN '000)(1)
Grupa LOTOS S.A.	Commodity swap	Mar 4 2008	Jan 1 2009	Mar 31 2009	(500,001)	8	1,773
Grupa LOTOS S.A.	Commodity swap	Mar 7 2008	Jan 1 2009	Mar 31 2009	(999,999)	8	4,110
Grupa LOTOS S.A.	Commodity swap	May 30 2008	Apr 1 2009	Jun 30 2009	(501,000)	12	7,881
Grupa LOTOS S.A.	Commodity swap	May 30 2008	Jan 1 2009	Mar 31 2009	(999,999)	10	11,366
Grupa LOTOS S.A.	Commodity swap	Jun 2 2008	Jan 1 2009	Mar 31 2009	(501,000)	10	5,472
Grupa LOTOS S.A.	Commodity swap	Jun 2 2008	Jul 1 2009	Sep 30 2009	(501,000)	14	9,601
Grupa LOTOS S.A.	Commodity swap	Jun 6 2008	Jul 1 2009	Sep 30 2009	(999,999)	14	17,504
Grupa LOTOS S.A.	Commodity swap	Jun 17 2008	Apr 1 2009	Jun 30 2009	(500,001)	10	5,570
Grupa LOTOS S.A.	Commodity swap	Jun 19 2008	Jul 1 2009	Sep 30 2009	(500,001)	13	7,716
Grupa LOTOS S.A.	Commodity swap	Jun 20 2008	Jul 1 2009	Sep 30 2009	(499,998)	13	7,715
Grupa LOTOS S.A.	Commodity swap	Sep 25 2008	Jul 1 2009	Sep 30 2009	(500,001)	12	8,338
Grupa LOTOS S.A.	Commodity swap	Oct 2 2008	Apr 1 2009	Jun 30 2009	(500,001)	11	7,687
Grupa LOTOS S.A.	Commodity swap	Oct 6 2008	Apr 1 2009	Jun 30 2009	(500,001)	10	6,206
Grupa LOTOS S.A.	Commodity swap	Oct 7 2008	Apr 1 2009	Jun 30 2009	(500,001)	10	6,354
					(8,503,002)	**TOTAL, including:**	**107,293**
						positive	**107,293**
						negative	**-**

Open transactions adjusting the structure, as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Beginning of the valuation period	End of the valuation period	Number of barrels	Price (USD/barrel)	Fair value as at Dec 31 2008 (PLN '000)(1)
Grupa LOTOS S.A.	Commodity swap	Oct 8 2008	Jan 1 2009	Mar 31 2009	230,001	(2)	(275)
Grupa LOTOS S.A.	Commodity swap	Oct 9 2008	Jan 1 2009	Mar 31 2009	90,000	(2)	(107)
Grupa LOTOS S.A.	Commodity swap	Oct 13 2008	Jan 1 2009	Mar 31 2009	(120,000)	(18)	(1,040)
Grupa LOTOS S.A.	Commodity swap	Oct 29 2008	Jan 1 2009	Mar 31 2009	70,023	93	(6,488)
Grupa LOTOS S.A.	Commodity swap	Oct 29 2008	Jan 1 2009	Mar 31 2009	(70,023)	91	6,041
					200,001	**TOTAL, including:**	**(1,869)**
						positive	**6,041**
						negative	**(7,910)**

As at December 31st 2008, positive fair value of commodity swaps was PLN 113,334 thousand.

As at December 31st 2008, negative fair value of commodity swaps was PLN (7,910) thousand.

Open refining margin transactions as at December 31st 2007:

Company	Type of transaction	Transaction execution date	Beginning of the valuation period	End of the valuation period	Number of barrels	Price (USD/barrel)	Fair value as at Dec 31 2007 (PLN '000)[1]
Grupa LOTOS S.A.	Commodity swap	Nov 9 2007	Jan 1 2008	Mar 31 2008	(1,040,000)	9	1,638
Grupa LOTOS S.A.	Commodity swap	Nov 9 2007	Apr 1 2008	Jun 30 2008	(750,000)	9	347
Grupa LOTOS S.A.	Commodity swap	Nov 12 2007	Jan 1 2008	Mar 31 2008	(990,000)	9	1,776
Grupa LOTOS S.A.	Commodity swap	Nov 12 2007	Jan 1 2008	Mar 31 2008	(999,999)	9	1,526
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Apr 1 2008	Jun 30 2008	(490,000)	9	429
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Apr 1 2008	Jun 30 2008	(799,998)	9	273
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Apr 1 2008	Jun 30 2008	(129,999)	9	92
Grupa LOTOS S.A.	Commodity swap	Nov 14 2007	Apr 1 2008	Jun 30 2008	(620,000)	9	362
Grupa LOTOS S.A.	Commodity swap	Nov 14 2007	Apr 1 2008	Jun 30 2008	(90,000)	9	53
Grupa LOTOS S.A.	Commodity swap	Nov 20 2007	Apr 1 2008	Jun 30 2008	(510,000)	9	295
Grupa LOTOS S.A.	Commodity swap	Nov 21 2007	Apr 1 2008	Jun 30 2008	(609,999)	9	356
Grupa LOTOS S.A.	Commodity swap	Nov 21 2007	Jul 1 2008	Sep 30 2008	(500,001)	9	(63)
Grupa LOTOS S.A.	Commodity swap	Nov 22 2007	Jul 1 2008	Sep 30 2008	(246,000)	9	29
Grupa LOTOS S.A.	Commodity swap	Nov 27 2007	Apr 1 2008	Jun 30 2008	(700,002)	10	835
Grupa LOTOS S.A.	Commodity swap	Dec 13 2007	Jul 1 2008	Sep 30 2008	(500,001)	9	(307)
Grupa LOTOS S.A.	Commodity swap	Dec 20 2007	Jul 1 2008	Sep 30 2008	(999,999)	9	(370)
					(9,975,998)	**TOTAL, including:**	**7,271**
						positive	**8,011**
						negative	**(740)**

[1] *Fair value of commodity swaps is established by reference to future cash flows connected with the executed transactions, calculated on the basis of the difference between the average market price and the transaction price.*

Total refining margin position as at December 31st 2008:

Period	Underlying position	Transaction position	Total position	Hedge ratio
Q1 2009	9,930,140	(3,000,999)	6,929,141	30%
Q2 2009	6,720,316	(2,501,004)	4,219,312	37%
Q3 2009	9,894,993	(3,000,999)	6,893,994	30%
Q4 2009	9,452,383	-	9,452,383	0%
Q1 2010	11,805,410	-	11,805,410	0%
Q2 2010	15,699,834	-	15,699,834	0%
Q3 2010	15,569,563	-	15,569,563	0%
Q4 2010	14,712,155	-	14,712,155	0%
2009	35,997,832	(8,503,002)	27,494,830	24%
2010	57,786,962	-	57,786,962	0%

Total refining margin position as at December 31st 2007:

Period	Underlying position	Transaction position	Total position	Hedge ratio
Q1 2008	9,935,622	(3,029,999)	6,905,623	30%
Q2 2008	9,475,025	(4,699,998)	4,775,027	50%
Q3 2008	9,543,912	(2,246,001)	7,297,911	24%
Q4 2008	9,658,366	-	9,658,366	-
Q1 2009	9,939,825	-	9,939,825	-
Q2 2009	6,629,920	-	6,629,920	-
Q3 2009	9,611,546	-	9,611,546	-
Q4 2009	10,395,482	-	10,395,482	-
Q1 2010	15,164,964	-	15,164,964	-
Q2 2010	15,869,788	-	15,869,788	-
Q3 2010	16,000,117	-	16,000,117	-
Q4 2010	16,698,049	-	16,698,049	-
2008	38,612,925	(9,975,998)	28,636,927	26%
2009	36,576,773	-	36,576,773	-
2010	63,732,918	-	63,732,918	-

Risk Related to Prices of Carbon (CO_2) Allowances

The risk related to prices of CO_2 allowances is managed in line with the assumptions set forth in *The Strategy for Managing the Risk Related to Prices of CO_2 Allowances by Grupa LOTOS S.A.* The period covered by the management is determined by the individual phases of the Kyoto protocol; currently, it is the period until the end of 2012.
A position limit is defined based on the number of allowances granted for a given phase. The position in a given phase comprises the aggregate of positions for individual years within the phase. The maximum loss limit is defined based on the Company's equity.

Depending on the market situation and allowances granted, the Company maintains an appropriate position in carbon allowances by entering into financial transactions or changing the underlying position.

The basic risk map takes into account the allowances granted and the CO_2 emissions planned for a given phase, which can be reliably determined both with respect to the existing installations and the installations which are planned to be constructed.

Underlying CO_2 allowances position as at December 31st 2008 stood at:

Period	EUA	CER	TOTAL
Phase II (2008–2012)	40,238	114,000	154,238

Underlying CO_2 allowances position as at December 31st 2007 stood at:

Period	EUA	CER	TOTAL
Phase I (2005–2007)	11,645	-	11,645
Phase II (2008–2012)	-	-	

In connection with concerns that the prices of CO_2 emission allowances might increase and due to uncertainty as to the number of allowances to be granted for the installations constructed under the 10+ Programme, the Company maintained a long position in CO_2 allowances.

Open CO_2 allowances transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Transaction settlement date	No. of CO_2 allowances	Price (EUR/tonne)	Fair value as at Dec 31 2008 (PLN '000) (2)
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	(0)
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	3,000	16	(1)
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	1
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	1
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	4,000	16	2
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	20,000	16	5
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	2,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	5,000	16	1
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	30,000	16	4
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	10,000	16	1
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	1,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	2,000	16	-
Grupa LOTOS S.A.	EUA Futures	Dec 3 2008	Dec 17 2009	4,000	16	-
				88,000	**TOTAL, including:**	**14**
					positive	**15**

negative	**(1)**

Open CO_2 allowances transactions as at December 31st 2007:

Company	Type of transaction	Transaction execution date	Transaction settlement date	No. of CO_2 allowances	Price (EUR/tonne)	Fair value as at Dec 31 2007 (PLN '000) [(2)]
Grupa LOTOS S.A.	EUA Futures	May 31 2007	Dec 17 2009	10,000	23	(16)
Grupa LOTOS S.A.	EUA Futures	May 31 2007	Dec 17 2009	10,000	23	(16)
Grupa LOTOS S.A.	EUA Futures	May 31 2007	Dec 17 2009	10,000	23	(16)
Grupa LOTOS S.A.	EUA Futures	Jun 13 2007	Dec 18 2008	5,000	23	(16)
Grupa LOTOS S.A.	EUA Futures	Jun 13 2007	Dec 18 2008	5,000	23	(16)
Grupa LOTOS S.A.	EUA Futures	Jun 13 2007	Dec 18 2008	5,000	23	(16)
Grupa LOTOS S.A.	EUA Futures	Jun 14 2007	Dec 18 2008	25,000	24	(130)
Grupa LOTOS S.A.	EUA Futures	Jun 14 2007	Dec 18 2008	5,000	24	(25)
Grupa LOTOS S.A.	EUA Futures	Jun 19 2007	Dec 18 2008	10,000	22	33
Grupa LOTOS S.A.	EUA Futures	Jun 19 2007	Dec 18 2008	10,000	21	35
Grupa LOTOS S.A.	EUA Futures	Jun 19 2007	Dec 18 2008	10,000	21	36
Grupa LOTOS S.A.	EUA Futures	Jun 19 2007	Dec 18 2008	10,000	21	36
Grupa LOTOS S.A.	EUA Futures	Jun 19 2007	Dec 18 2008	10,000	21	40
Grupa LOTOS S.A.	EUA Futures	Oct 23 2007	Dec 18 2008	10,000	22	10
Grupa LOTOS S.A.	EUA Futures	Oct 23 2007	Dec 18 2008	10,000	22	11
Grupa LOTOS S.A.	EUA Futures	Oct 31 2007	Dec 18 2008	5,000	22	16
Grupa LOTOS S.A.	EUA Futures	Oct 31 2007	Dec 18 2008	10,000	22	27
Grupa LOTOS S.A.	EUA Futures	Oct 31 2007	Dec 18 2008	10,000	22	29
Grupa LOTOS S.A.	EUA Futures	Oct 31 2007	Dec 18 2008	10,000	22	33
Grupa LOTOS S.A.	EUA Futures	Oct 31 2007	Dec 18 2008	10,000	21	36
Grupa LOTOS S.A.	EUA Futures	Oct 31 2007	Dec 18 2008	15,000	22	46
				205,000	**TOTAL, including:**	**137**
					positive	**388**
					negative	**(251)**

[(2)] *Fair value of futures contracts for CO_2 allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the European Climate Exchange (ECX) for the valuation date, and the transaction price.*

Total CO_2 allowances position as at December 31st 2008 stood at:

	EUA position			CER position		
Period	**Underlying**	**Transaction**	**Total**	**Underlying**	**Transaction**	**Total**
Phase II (2008–2012)	40,238	88,000	128,238	114,000	-	114,000

Total CO_2 allowances position as at December 31st 2007 stood at:

	EUA position			CER position		
Period	**Underlying**	**Transaction**	**Total**	**Underlying**	**Transaction**	**Total**
Phase I (2005–2007)	11,645	-	11,645	-	-	-
Phase II (2008–2012)	-	205,000	205,000	-	-	-

Currency Risk

Currency risk is managed in line with the assumptions stipulated in *The Strategy of Currency Risk Management at Grupa LOTOS S.A.* The period covered by currency risk management is determined according to individual budget years.
Limits are established for aggregate positions, such as the total and global gross positions, which are determined by reference to net positions in the particular currencies. Position and maximum loss limits are expressed as percentages of the Company's equity.

The base map of net currency positions takes into account principally the volumes and price formulae for purchases of raw materials and sales of products, investments, loans denominated in foreign currencies, as well as valuation of derivatives. The map is then presented in a single currency to enable management of aggregate positions.

The basic currency of Grupa LOTOS S.A.'s operating market is USD. This currency is used in market price quotations for crude oil and petroleum products. Consequently, Grupa LOTOS S.A. has a structurally long position in USD on its operating activity. For this reason it has been decided that USD is the most appropriate currency for contracting and repaying long-term loans to finance the 10+ Programme, as such an approach contributes to reducing the structurally long position, and consequently to reducing the strategic currency risk.

Under the agreement on the financing of the 10+ Programme, Grupa LOTOS S.A. has the obligation to maintain a specified level of the hedge ratio for the currency risk (EUR/USD and USD/PLN) which arises in connection with the fact that the currency in which the investment projects are financed is different from the currencies in which project execution contracts are denominated. The obligation to maintain a specified level of the hedge ratio is connected with the necessity to guarantee that the loan amounts disbursed, denominated in USD, will be sufficient to finance the investment expenditure irrespective of the situation on the currency markets. This obligation remains binding only with respect to payments under the 10+ Programme projects execution contracts to be made by mid-2011.

At the end of 2008, the revised underlying position which could be subject to risk management was determined on the basis of the planned drawdowns under the loan to finance the 10+ Programme and the project execution contracts, and thus related exclusively to the hedging required under the loan agreements.

The estimated underlying currency position as at December 31st 2008 stood at:

Period	USD	EUR
2009	596,635,901	(368,983,750)

The estimated underlying currency position as at December 31st 2007 stood at:

Period	USD	EUR
2008	1,412,625,827	(416,912,999)

In connection with its obligation to meet by a specific deadline the hedge ratio prescribed in the loan agreement and due to the significant risk of depreciation of the euro against the dollar, the Company decided to purchase EUR/USD call options. Once the scenario of depreciation of the euro against the dollar became reality in Q4 2008, the Company decided to hedge its EUR/USD exchange rate risk by means of buying forward contracts and closing the options. As a result, the Company achieved a much better economic effect than it would have achieved if it had hedged the risk by entering into forward contracts by the contractual deadlines.

Open currency transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000)(3)
Grupa LOTOS S.A.	Currency forward	Oct 1 2008	Feb 10 2009	EUR/USD	(18, 800,000)	1.4	26,647,120	623
Grupa LOTOS S.A.	Currency forward	Oct 1 2008	Mar 5 2009	EUR/USD	(8,000,000	1.4	11,335,200	254
Grupa LOTOS S.A.	Currency forward	Oct 3 2008	Mar 5 2009	EUR/USD	7,000,000	1.4	(9,708,300)	397
Grupa LOTOS S.A.	Currency forward	Oct 6 2008	Mar 5 2009	EUR/USD	3,500,000	1.4	(4,755,170)	491
Grupa LOTOS S.A.	Currency forward	Oct 7 2008	Mar 5 2009	EUR/USD	10,000,000	1.4	(13,580,000	1,421
Grupa LOTOS S.A.	Currency forward	Oct 8 2008	Feb 13 2009	EUR/USD	(7,000,000)	1.4	9,608,200	(694)
Grupa LOTOS S.A.	Currency forward	Oct 9 2008	Feb 13 2009	EUR/USD	(3,000,000)	1.4	4,134,000	(249)
Grupa LOTOS S.A.	Currency forward	Oct 14 2008	Feb 2 2009	EUR/USD	7,000,000	1.4	(9,637,600)	617
Grupa LOTOS S.A.	Currency forward	Oct 15 2008	Feb 2 2009	USD/PLN	(10,000,000)	2.6	25,735,500	(3,973)
Grupa LOTOS S.A.	Currency forward	Oct 20 2008	Feb 11 2009	USD/PLN	(4,000,000)	2.7	10,620,000	(1,275)
Grupa LOTOS S.A.	Currency forward	Oct 27 2008	Feb 13 2009	EUR/USD	450,000	1.2	(560,835)	213
Grupa LOTOS S.A.	Currency forward	Oct 29 2008	Apr 30 2009	USD/PLN	(22,000,000)	2.9	62,733,000	(3,155)
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Feb 11 2009	EUR/PLN	3,000,000	3.5	(10,513,800)	2,026
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Apr 30 2009	USD/PLN	10,000,000	2.7	(26,800,000)	3,118
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Apr 30 2009	USD/PLN	5,000,000	2.7	(13,402,500)	1,556
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Feb 4 2009	USD/PLN	(1,300,000)	2.8	3,612,635	(252)
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Jan 16 2009	EUR/USD	25,000,000	1.3	(31,455,250)	11,081
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Feb 4 2009	EUR/PLN	1,100,000	3.6	(3,928,705)	668
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Jan 14 2009	EUR/USD	25,000,000	1.3	(31,456,250)	11,089
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Feb 12 2009	EUR/USD	20,000,000	1.3	(25,526,000)	7,679
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Feb 12 2009	EUR/USD	6,000,000	1.3	(7,657,800)	2,304
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Mar 16 2009	EUR/USD	25,000,000	1.3	(31,409,250)	11,009
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Mar 17 2009	EUR/USD	25,000,000	1.3	(31,408,000)	11,009
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Apr 15 2009	EUR/USD	30,000,000	1.2	(37,425,000)	13,857
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Apr 20 2009	USD/PLN	(20,000,000)	3.0	60,524,000	623
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	May 15 2009	EUR/USD	30,000,000	1.2	(37,416,300)	13,759
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	May 20 2009	USD/PLN	(15,000,000)	3.0	45,474,000	411
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Jun 15 2009	EUR/USD	30,000,000	1.3	(37,789,500)	12,544
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Jun 19 2009	USD/PLN	(15,000,000)	3.0	45,480,000	284
Grupa LOTOS S.A.	Currency forward	Nov 19 2008	Feb 11 2009	USD/PLN	(17,000,000)	3.1	52,450,100	1,853

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000)(3)
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Jul 16 2009	EUR/USD	5,000,000	1.2	(6,246,250)	2,226
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Jul 16 2009	EUR/USD	10,000,000	1.2	(12,492,500)	4,453
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Jul 17 2009	USD/PLN	(15,000,000)	3.1	46,605,000	1,260
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Aug 12 2009	USD/PLN	(15,000,000)	3.1	46,627,500	1,181
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Aug 13 2009	EUR/USD	25,000,000)	1.2	(31,238,750)	11,058
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Sep 11 2009	USD/PLN	(5,000,000)	3.1	15,550,000	364
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Sep 16 2009	EUR/USD	20,000,000	1.2	(24,997,000)	8,791
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Oct 9 2009	USD/PLN	(5,000,000)	3.1	15,557,500	339
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Oct 16 2009	EUR/USD	15,000,000	1.3	(18,772,500)	6,490
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Nov 16 2009	EUR/USD	10,000,000	1.3	(12,516,500)	4,285
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Dec 16 2009	EUR/USD	25,000,000	1.3	(31,292,500)	10,618
Grupa LOTOS S.A.	Currency forward	Dec 9 2008	Dec 11 2009	USD/PLN	23,500,000	3.1	(72,885,250)	(966)
Grupa LOTOS S.A.	Currency forward	Dec 9 2008	Dec 11 2009	EUR/USD	(2,500,000)	1.3	3,195,000	(873)
Grupa LOTOS S.A.	Currency forward	Dec 18 2008	Jan 7 2009	USD/PLN	(35,000,000)	2.8	99,455,300	(4,230)
Grupa LOTOS S.A.	Currency forward	Dec 18 2008	Jan 8 2009	USD/PLN	(30,000,000)	2.8	85,244,400	(3,640)
Grupa LOTOS S.A.	Currency forward	Dec 18 2008	Jan 9 2009	USD/PLN	(25,000,000)	2.8	71,092,000	(2,988)
Grupa LOTOS S.A.	Currency forward	Dec 29 2008	Jan 15 2009	EUR/USD	50,000,000	1.4	(71,345,150)	(2,789)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 5 2009	USD/PLN	2,000,000	3.0	(5,942,720)	(19)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 5 2009	EUR/USD	(1,000,000)	1.4	1,403,780	(15)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 14 2009	USD/PLN	11,100,000	3.0	(33,029,160)	(114)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 14 2009	EUR/PLN	3,800,000	4.2	(15,903,000)	(36)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 15 2009	USD/PLN	22,000,000	3.0	(65,250,900)	(6)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 15 2009	USD/PLN	7,000,000	3.0	(20,778,100)	(19)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Mar 16 2009	USD/PLN	21,400,000	3.0	(63,868,300)	(20)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 2 2009	USD/PLN	(2,000,000)	3.0	5,940,000	19
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 2 2009	EUR/USD	1,000,000	1.4	(1,404,000)	15
							TOTAL, including:	**134,672**
							positive	**159,985**
							negative	**(25,313)**

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Premium settlement date	Premium (PLN'000)	Fair value as at Dec 31 2008 (PLN '000)[4]
Grupa LOTOS S.A.	Call option	Aug 8 2008	Feb 12 2009	EUR/USD	50,000,000	1.6	(79,500,000)	Aug 12 2008	(1,563)	384
Grupa LOTOS S.A.	Call option	Aug 11 2008	Feb 13 2009	EUR/USD	100,000,000	1.6	(159,000,000)	Aug 13 2008	(2,900)	815
Grupa LOTOS S.A.	Call option	Aug 11 2008	Mar 5 2009	EUR/USD	60,000,000	1.6	(95,400,000)	Sep 9 2008	(666)	1,192
Grupa LOTOS S.A.	Call option	Oct 20 2008	Mar 9 2009	EUR/USD	(60,000,000)	1.6	95,400,000	Oct 22 2008	438	(1,192)
Grupa LOTOS S.A.	Call option	Oct 27 2008	Feb 13 2009	EUR/USD	(15,000,000)	1.6	23,850,000	Oct 29 2008	85	(122)
Grupa LOTOS S.A.	Call option	Nov 4 2008	Feb 12 2009	EUR/USD	(50,000,000)	1.6	79,500,000	Nov 7 2008	329	(385)
Grupa LOTOS S.A.	Call option	Nov 4 2008	Feb 13 2009	EUR/USD	(85,000,000)	1.6	135,150,000	Nov 7 2008	600	(692)
								TOTAL, including:	**(3,677)[5]**	**-**
								positive	**1,452**	**2,391**
								negative	**(5,129)**	**(2,391)**

[5] *As at December 31st 2008, the option premium was presented in net value under derivative financial instruments (see Note 17).*

Open currency transactions as at December 31st 2007:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2007 (PLN '000)(3)
Grupa LOTOS S.A.	Currency forward	Dec 6 2007	Jan 7 2008	EUR/USD	20,000,000	1.5	(29,218,000)	496
Grupa LOTOS S.A.	Currency forward	Dec 6 2007	Jan 10 2008	EUR/USD	10,000,000	1.5	(14,559,220)	370
Grupa LOTOS S.A.	Currency forward	Dec 7 2007	Jan 11 2008	EUR/PLN	8,500,000	3.6	(30,449,040)	5
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 14 2008	EUR/USD	20,000,000	1.5	(29,390,200)	83
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 14 2008	EUR/USD	20,000,000	1.5	(29,388,200)	88
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 17 2008	EUR/USD	40,000,000	1.5	(58,766,120)	208
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 11 2008	EUR/PLN	(8,500,000)	3.6	30,654,400	200
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 18 2008	USD/PLN	(30,000,000)	2.5	74,577,000	1,501
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 22 2008	USD/PLN	(30,000,000)	2.5	74,580,000	1,498
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 4 2008	USD/PLN	(30,000,000)	2.5	75,483,000	2,375
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 4 2008	USD/PLN	(18,000,000)	2.5	45,199,800	1,336
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 6 2008	USD/PLN	(50,000,000)	2.5	125,740,000	3,887
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 27 2008	USD/PLN	(40,000,000)	2.5	100,600,000	3,055
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 27 2008	USD/PLN	(20,000,000)	2.5	50,320,000	1,547
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 15 2008	EUR/PLN	(25,000,000)	3.6	90,527,500	856
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	EUR/PLN	(50,000,000)	3.6	181,092,500	1,694
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	USD/PLN	(48,000,000)	2.5	120,816,000	3,754
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 16 2008	EUR/USD	50,000,000	1.4	(72,035,000)	3,714
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 16 2008	EUR/USD	50,000,000	1.4	(72,006,000)	3,784
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 9 2008	EUR/USD	50,000,000	1.4	(72,034,,250)	3,701
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 25 2008	EUR/USD	50,000,000	1.4	(71,989,000)	3,846
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 11 2008	EUR/USD	50,000,000	1.4	(72,044,750)	3,724
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 19 2008	EUR/USD	40,000,000	1.4	(57,596,000)	3,066
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 20 2008	EUR/USD	50,000,000	1.4	(72,030,000)	3,747
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 28 2008	EUR/USD	40,000,000	1.4	(57,606,000)	3,032
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 23 2008	EUR/USD	40,000,000	1.4	(57,570,000)	3,125
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	EUR/PLN	25,000,000	3.6	(90,562,500)	(863)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	USD/PLN	24,000,000	2.5	(60,434,400)	(1,903)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 29 2008	EUR/USD	20,000,000	1.4	(28,794,600)	1,545
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 22 2008	USD/PLN	(50,000,000)	2.5	126,620,000	4,700

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2007 (PLN '000)(3)
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Jan 8 2008	USD/PLN	(30,000,000)	2.5	75,762,000	2,701
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 28 2008	EUR/PLN	(45,000,000)	3.6	162,851,850	1,398
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	USD/PLN	(32,000,000)	2.5	80,849,600	2,857
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	USD/PLN	(25,000,000)	2.5	63,057,500	2,126
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	EUR/PLN	(7,000,000)	3.6	25,328,800	221
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	USD/PLN	(20,000,000)	2.5	50,452,000	1,698
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 29 2008	EUR/USD	20,000,000	1.4	(28,745,400)	1,654
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 28 2008	EUR/PLN	(50,000,000)	3.6	180,997,500	1,742
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Feb 21 2008	EUR/PLN	(20,000,000)	3.6	72,480,000	733
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 31 2008	EUR/USD	50,000,000	1.4	(71,930,000)	4,003
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 25 2008	USD/PLN	(50,000,000)	2.5	124,073,300	2,163
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 26 2008	USD/PLN	(50,000,000)	2.5	124,075,500	2,162
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Jan 7 2008	EUR/PLN	(10,000,000)	3.6	36,096,000	271
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 13 2008	EUR/USD	50,000,000	1.4	(72,452,250)	2,735
Grupa LOTOS S.A.	Currency forward	Dec 28 2007	Jan 9 2008	EUR/PLN	(10,000 000)	3.6	36,055,890	229
Grupa LOTOS S.A.	Currency spot	Dec 28 2007	Jan 2 2008	EUR/PLN	(3,500,000)	3.6	12,607,000	70
							TOTAL, including:	**84,934**
							positive	**87,700**
							negative	**(2,766)**

(3) *Fair value of currency forwards is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the implied interest rate curve based on fx swaps (for 2007, the zero-coupon interest rate curve was used).*

(4) *Apart from the parameters used in the valuation of currency forwards, implied volatility is additionally taken into account in calculating the value of currency options.*

Total currency position as at December 31st 2008 stood at:

Period	USD/PLN position			EUR/PLN position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
2009	596,635,901	(598,067,105)	(1,431,204)	(368,983,750)	372,550,000	3,566,250

Total currency position as at December 31st 2007 stood at:

Period	USD/PLN position			EUR/PLN position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
2008	1,412,625,827	(1,467,154,990)	(54,529,163)	(416,912,999)	474,500,000	57,587,001

Interest Rate Risk

The base map of interest rate positions reflects the planned schedule of drawdowns and repayments under the loan extended to finance inventory and the implementation of the 10+ Programme. The interest rate risk is connected with the interest calculated on the basis of a floating rate (LIBOR USD). The structure of limits is based on the underlying's nominal value hedge ratio. In a long-term perspective, a partial risk mitigation effect was achieved through the choice of a fixed interest rate for the SACE sub-tranche under the investment loan granted to finance the 10+ Programme.

The agreement on the financing of the 10+ Programme provides for the obligation to maintain a specified hedge ratio for the interest rate risk, i.e. the risk connected with the LIBOR USD floating interest rate on the loan to finance the 10+ Programme in the period until mid-2011. The obligation to maintain a specified level of the hedge ratio is connected with the necessity to guarantee that the loan amounts disbursed will be sufficient to finance the investment expenditure, including the costs of financing throughout the time of execution of the investment projects, irrespective of any changes in the interest rates prevailing on the market.

As at December 31st 2008, the estimated underlying interest rate position stood at (in USD):

Period	Underlying position
2009	(1,465,046,833)
2010	(1,733,870,372)
2011	(1,752,351,666)
2012	(1,323,175,000)
2013	(1,240,750,000)
2014	(1,144,955,000)
2015	(1,032,745,000)
2016	(914,130,000)
2017	(791,805,000)
2018	(658,210,000)
2019	(508,060,000)
2020	(356,965,000)

The underlying interest rate position as at December 31st 2007 was not identified, due to the fact that there was no management of the interest rate risk.

In connection with its obligation to maintain the hedge ratio prescribed in the loan agreement and given its intention to partly mitigate the interest rate risk which is not covered by mandatory hedges, the Company executed hedging transactions. However, due to the collapse of the financial markets in Q4 2008 and the anticipated further decline of the yield curve in the USD, the Company decided not to enter into further hedging transactions in order to benefit from a drop of interest rates on the unhedged portion of the risk.

Open interest rate transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Nominal value (USD)	Company pays	Company receives	Fair value as at Dec 31 2008 (PLN '000)(6)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 9 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.4%	6M LIBOR	(5,912)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 13 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.6%	6M LIBOR	(6,515)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 16 2008	Oct 15 2008	Jun 30 2011	100,000,000	3.7%	6M LIBOR	(13,494)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Jul 15 2009	Jun 30 2011	122,000,000	4.1%	6M LIBOR	(16,271)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Oct 15 2008	Jun 30 2011	208,000,000	3.8%	6M LIBOR	(30,172)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 26 2008	Jan 15 2009	Jun 30 2011	100,000,000	4.3%	6M LIBOR	(18,803)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 27 2008	Jul 15 2009	Jun 30 2011	150,000,000	4.3%	6M LIBOR	(22,190)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.8%	6M LIBOR	(20,121)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	(17,678)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	4.0%	6M LIBOR	22 848
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	(17,333)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	Jan 15 2013	100,000,000	4.2%	6M LIBOR	(7,044)
							TOTAL, including:	**(152,685)**
							positive	**22,848**
							negative	**(175,533)**

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Nominal value (USD)	Company pays	Company receives	Fair value as at Dec 31 2008 (PLN '000)(6)
Grupa LOTOS S.A.	Forward rate agreement (FRA)	Oct 7 2008	Jan 15 2009	Jul 15 2009	100,000,000	2.5%	6M LIBOR	(1,733)
							TOTAL	**(1,733)**

(6) *Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the zero-coupon interest rate curve.*

Total interest rate position as at December 31st 2008 stood at:

Period	Underlying position	Fixed interest rate loans	Transaction position	Total position	Hedge ratio
2009	(1,465,046,833)	307,798,312	894,000,000	(263,248,521)	82%
2010	(1,733,870,372)	401,860,932	980,000,000	(352,009,440)	80%
2011	(1,752,351,666)	420,654 375	640,000,000	(691,697,291)	61%
2012	(1,323,175,000)	401,678,125	300,000,000	(621,496,875)	53%
2013	(1,240,750,000)	376,656,250	-	(864,093,750)	30%
2014	(1,144,955,000)	347,575,625	-	(797,379,375)	30%
2015	(1,032,745,000)	313,511,875	-	(719,233,125)	30%
2016	(914,130,000)	277,503,750	-	(636,626,250)	30%
2017	(791,805,000)	240,369,375	-	(551,435,625)	30%
2018	(658,210,000)	199,813,750	-	(458,396,250)	30%
2019	(508,060,000)	154,232,500	-	(353,827,500)	30%
2020	(356,965,000)	108,364,375	-	(248,600,625)	30%

To optimise the interest balance, the cashpooling service for the LOTOS Group members is used. The service consists in the application of favourable interest rates for debit and credit balances, which are subject to offsetting as at the end of each business day.

Liquidity Risk

The liquidity risk management process at Grupa LOTOS S.A. consists in monitoring the forecast cash flows, matching maturities of assets and liabilities, analysing working capital and maintaining access to various financing sources.
In the period covered by the budget, liquidity at the Company is monitored on an ongoing basis as part of the financial risk management. In the mid and long term, it is monitored as part of the planning process, which helps create a long-term financial strategy.
In the area of financial risk, in addition to an active management of market risk, the Company follows the following rules with respect to liquidity management:

- employs no margins with respect to trade in derivatives on the over-the-counter market,
- limits the possibility of an early termination of financial transactions,
- establishes limits for spot financial instruments of low liquidity,
- establishes credit limits for counterparties in financial transactions.

Note 18 presents additional free cash remaining at the Company's disposal. Note 24 presents information on the contractual maturities of financial liabilities as at December 31st 2008 and December 31st 2007.

Credit Risk

Management of credit risk relating to counterparties in financial transactions consists in ongoing monitoring of credit exposure in relation to the limits granted. The counterparties must have an appropriate credit rating assigned by leading rating agencies or hold guarantees granted by institutions meeting the minimum rating requirement. The Company enters into financial transactions with well-established firms with good credit standing.

As at December 31st 2008, the concentration of credit risk with respect to a single counterparty in financial transactions did not exceed 3% of the Company's balance-sheet total.

As regards management of credit risk relating to counterparties in trade transactions, all customers requesting trade credit undergo verification of their financial reliability, whose results determine the level of credit limits to be granted. Furthermore, due to the fact that the Company's receivables are monitored on an ongoing basis, the risk of it holding uncollectible receivables is low.

Carrying values of financial assets represent the maximum credit exposure. The maximum credit risk exposure as at the balance-sheet date stood at:

PLN '000	Note	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Shares	13	6,317	3,033
Derivative financial instruments		302,250	96,099
Additional contributions to equity	13	247,081	247,081
Loans	17	-	3,870
Trade and other receivables	15	1,197,451	1,605,203
Cash and cash equivalents	18	152,714	104,444
		==========	==========
Total		**1,905,813**	**2,059,730**
		==========	==========

The aged analysis of past due financial assets as at December 31st 2008 and December 31st 2007 is shown in Note 15.

20.4. Sensitivity Analysis with Respect to Market Risk Related to Fluctuations in FX Rates, Interest Rates, Prices of Carbon (CO_2) Allowances and Prices of Raw Materials and Petroleum Products

Below is presented an analysis of sensitivity to currency risk as at December 31st 2008, along with the effect of such a risk on the financial performance, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN currency exchange rates and constant levels of all other variables.

Dec 31 2008 (audited) (PLN '000)	Note	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	4% increase in exchange rate, effect on year's result		4% decrease in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	15	65,019	2,518	81	(2,518)	(81)
Financial assets – derivative financial instruments	17	302,250	(53,808)	54,806	53,808	(54,806)
Cash and cash equivalents	18	83,265	2,663	668	(2,663)	(668)
Trade and other payables	26	(219,049)	(2,566)	(6,196)	2,566	6,196
Loans	24	(3,166,579)	(125,928)	(324)	125,928	324
Financial liabilities – derivative financial instruments	27	(212,881)	(18,506)	6,733	18,506	(6,733)
		=========	=======	=======	=========	=========
Total		**(3,147,975)**	**(195,627)**	**55,768**	**195,627**	**(55,768)**
		=========	=======	=======	=========	=========

As at December 31st 2008 the Company held futures for the purchase of CO_2 EU emission allowances (EUA), measured at fair value as at the balance-sheet date.

As at December 31st 2008, the financial assets related to positive valuation of the futures for the purchase of CO_2 emission allowances amounted to PLN 15 thousand, As at December 31st 2008, the financial liabilities related to negative valuation of the futures for the purchase of CO_2 emission allowances were PLN 1 thousand.

A change in the price of the CO_2 emission allowances up or down by 10% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the futures for the purchase of CO_2 emission allowances of PLN 584 (584) thousand.

As at December 31st 2008 the Company held OTC full barrel swaps, measured at fair value as at the balance-sheet date.

As at December 31st 2008, the financial assets related to positive valuation of the full barrel swap amounted to PLN 113,334 thousand,

As at December 31st 2008, the financial liabilities related to negative valuation of the full barrel swap were PLN 7,910 thousand. A change in the values of the indices included in the full barrel swap up or down by 10% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the full barrel swap recognised in the income statement of PLN 16,655 (16,655) thousand.

Below is presented an analysis of the Company's sensitivity to currency risk as at December 31st 2007, along with the effect on financial performance assuming a 1% increase or decrease in the USD/PLN and EUR/PLN currency exchange rates and constant levels of all other variables.

Dec 31 2007 (audited) PLN '000	**Note**	**Carrying value in foreign currency, restated in PLN as at the balance-sheet day**	**1% increase in exchange rate, effect on year's result**		**1% decrease in exchange rate, effect on year's result**	
			USD	**EUR**		**USD**
Trade and other receivables	15	142,231	1,419	3	(1,419)	(3)
Financial assets – derivative financial instruments	17	96,099	(36,225)	16,058	36,225	(16,058)
Cash and cash equivalents	18	104,222	998	44	(998)	(44)
Trade and other payables	26	(702,387)	(6,775)	(249)	6,775	249
Loans	24	(564,221)	(5,490)	(153)	5,490	153
Financial liabilities – derivative financial instruments	27	(3,757)	573	892	(573)	(892)
		=========	=======	=======	=========	=========
Total		**(927,813)**	**(45,500)**	**16,595**	**45,500**	**(16,595)**
		=========	=======	=======	=========	=========

As at December 31st 2007 the Company held futures for the purchase of CO_2 EU emission allowances (EUA), measured at fair value as at the balance-sheet date.

As at December 31st 2007, the financial assets related to positive valuation of the futures for the purchase of CO_2 emission allowances amounted to PLN 388 thousand,

As at December 31st 2007, the financial liabilities related to negative valuation of the futures for the purchase of CO_2 emission allowances were PLN 251 thousand. A change in the price of the CO_2 emission allowances up or down by 1% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the futures for the purchase of CO_2 emission allowances of PLN 165 (165) thousand.

As at December 31st 2007 the Company held OTC full barrel swaps, measured at fair value as at the balance-sheet date.

As at December 31st 2007, the financial assets related to positive valuation of the full barrel swap amounted to PLN 8,011 thousand.

As at December 31st 2007, the financial liabilities related to negative valuation of the full barrel swap were PLN 740 thousand. A change in the value of the indices included in the full barrel swap up or down by 1% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the full barrel swap recognised in the income statement of PLN 2,148 (2,148) thousand.

Below is presented an analysis of the Company's sensitivity to interest rate risk as at December 31st 2008, assuming a 0.2% increase or decrease in the interest rate.

Dec 31 2008 (audited) PLN '000	**Note**	**Carrying value**	**Change**	
			0.2% increase	**0.2% decrease**
Borrowings	17	-	-	-
Cash and cash equivalents	18	152,714	305	(305)
Loans and borrowings	24	(3,412,969)	(6,826)	6,826
Lease liabilities	27	(502)	(1)	1
Financial liabilities – derivative financial instruments [1]	27	(154,418)	16,387	(16,387)
		=========	=======	=======
Total		**(3,415,175)**	**9,865**	**(9,865)**
		=========	=======	=======

[1] including interest rate swaps (IRS) and forward rate agreements (FRA).

As at December 31st 2008, the carrying value of financial assets and liabilities (cash, financial liabilities under bank loans, lease agreements and derivative instruments) which are sensitive to interest rate risk amounted to PLN (3,415,175) thousand net.

A change in interest rates up by 0.2% or down by (0.2%) could potentially lead to a change in the value of financial assets and liabilities as at December 31st 2008 of PLN 9,865, (9,865) thousand net.

Below is presented an analysis of the Company's sensitivity to interest rate risk as at December 31st 2007, assuming a 1% increase or decrease in the interest rate.

Dec 31 2007 (audited) PLN '000	**Note**	**Carrying value**	**Change**	
			1% increase	**1% decrease**
Borrowings	17	3,870	39	(39)
Cash and cash equivalents	18	104,444	1,044	(1,044)
Loans and borrowings	24	(864,959)	(8,650)	8,650
Lease liabilities	27	(495)	(5)	5
Financial liabilities – derivative financial instruments	27	-	-	-
		=========	=======	=======
Total		**(757,140)**	**(7,572)**	**7,572**
		=========	=======	=======

As at December 31st 2007, the net carrying value of financial assets and liabilities (borrowings, cash, financial liabilities under bank loans and lease agreements) which are sensitive to interest rate risk amounted to PLN (757,140) thousand.

A change in interest rates up by 1% or down (by 1%) could potentially lead to a net change in the value of financial assets and liabilities as at December 31st 2007 of PLN (7,572), 7,572 thousand.

21. Share Capital

The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2008 and December 31st 2007 was as follows:

	Number of shares	Number of votes	Par value of shares [PLN]	% of share capital held
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 shareholders	46,796,970	46,796,970	46,796,970	41.16%
Total	113,700,000	113,700,000	113,700,000	100.00%

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.

22. 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 corporate social responsibility projects.

In these financial statements, the Company presented distributed profit under retained earnings. In addition, the portion of the profit allocated to the special fund was recognised as cost in 2008 and presented under current provisions (see Note 25).

23. Earnings/(Loss) per Share

	Year ended Dec 31 2008 (audited)	**Year ended Dec 31 2007 (audited)**
Net profit/(loss) (PLN '000) (A)	(675,704)	745,084
Weighted average number of shares (in thousands) (B)	113,700	113,700
	===========	===========
Earnings/(loss) per share (PLN) (A/B)	(5.94)	6.55
	===========	===========

Net earnings/(loss) per share for each period are calculated by dividing the net profit/(loss) for a given period by the weighted average number of shares in the period.

The Company does not present diluted earnings/(loss) per share, since it has no instruments with a potential dilutive effect.

24. Interest-Bearing Loans and Borrowings

Loans and Borrowings

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Bank loans	3,412,969	864,959
Total	**3,412,969**	**864,959**
including:		
non-current portion	3,098,491	486,379
current portion	314,478	378,580

Loans and Borrowings by Lender

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Non-current portion		
Bank consortium (1)*	1,184,720	486,379
Bank consortium (2)**	1,434,195	-
Bank consortium (3)***	479,576	-
Total non-current portion	**3,098,491**	**486,379**
Current portion		
Pekao S.A.	-	188,961
ING Bank Śląski S.A.	82	16,388
PKO BP S.A.	215	16,705
Bank Handlowy w Warszawie S.A.	-	62,040
Bank Millennium S.A.	-	72,341
Bank Zachodni WBK S.A.	-	2,101
BPH S.A.	-	20,044
Bank consortium (1)*	11,557	-
Bank consortium (2)**	11,629	-
Bank consortium (3)***	3,748	-
Bank consortium (4)****	287,247	-
Total current portion	**314,478**	**378,580**
Total	**3,412,969**	**864,959**

* Bank consortium (1): Pekao S.A., PKO BP S.A., BRE Bank S.A. and Rabobank Polska S.A.

** Bank consortium (2): Banco Bilbao Vizcaya Argentaria S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., Pekao S.A., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Calyon, DnB Nor Bank ASA, DnB Nor Polska S.A., Fortis Bank S.A./N.V., ING Bank Śląski S.A., KBC Finance Ireland, Kredyt Bank S.A., Nordea Bank AB, PKO BP S.A., The Royal Bank of Scotland plc, Société Générale S.A., Bank Zachodni WBK S.A., Rabobank Polska S.A., Bank Gospodarki Żywnościowej S.A. and Sumitomo Mitsui Banking Corporation Europe Limited.

*** Bank consortium (3): Banco Bilbao Vizcaya Argentaria S.A., BNP Paribas S.A. and Fortis Bank S.A./N.V.

**** Bank consortium (4): Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and Bank Gospodarki Żywnościowej S.A.

As at December 31st 2008, the average effective interest rate for the loans was approx. 2.99% (5.30% as at December 31st 2007).

Execution of Loan Agreement between Grupa LOTOS S.A. and a Bank Consortium and Execution of Pledge Agreements to Secure the Loan Agreement (*Bank Consortium (1)*)

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising BANK POLSKA KASA OPIEKI S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw and RABOBANK POLSKA S.A. of Warsaw, executed a loan agreement.

The agreement provides for a four-year revolving loan for a total amount of USD 400,000 thousand(PLN 1,004,600 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 19th 2007), for refinancing and financing the inventories of Grupa LOTOS S.A. The agreement was the first element of the financing strategy for the operations of Grupa LOTOS S.A. in the coming years, related to the execution of the 10+ Programme. The lending term under the agreement may be extended by the parties by one year. The basic security for the loan is an agreement on registered pledge over Grupa LOTOS S.A.'s inventories (along with the assignment of rights under agreements on storage of inventories and under insurance contracts) and agreement on pledge over cash receivables under an agreement for keeping bank accounts of Grupa LOTOS S.A. concluded in relation to the loan agreement (together with power of attorney to these accounts). The other provisions of the agreement, including those pertaining to contractual penalties, do not differ from provisions commonly applied in agreements of such type.

On December 20th 2007, Grupa LOTOS S.A. entered into two registered pledge agreements in order to secure liabilities incurred by Grupa LOTOS S.A. Pursuant to the agreements, the registered pledge created for the benefit of the lenders covers the inventories of Grupa LOTOS S.A. and cash receivables under an agreement for keeping Grupa LOTOS S.A.'s bank accounts related to the loan agreement.

As at December 31st 2008, the Company's liability under the aforementioned loan agreement totalled USD 400m.

Execution of the Common Terms Agreement and the Related Security Agreements between Grupa LOTOS S.A. and a Group of Financial Institutions *(Bank Consortia (2), (3), (4))*

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, described above, 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 an 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) (Bank Consortium (2)), 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) (Bank Consortium (4)), 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) (Bank Consortium (3)) 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) (Bank Consortium

(2)). 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;

3) agreement creating financial and 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 have been created or their management staff.

The value of the assets of Grupa LOTOS S.A. which have been encumbered with the pledges and the mortgage specified above does 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 1st 2008, Bank DnB NORD Polska S.A. acceded to the credit facility agreement.

On September 5th 2008, the competent District Court entered into the register of pledges a registered pledge over 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).

On November 25th 2008, a contractual blanket security (deposit) mortgage (*umowna łączna hipoteka kaucyjna*) 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, was registered in the Grupa LOTOS S.A.'s Land and Mortgage Register entry.

As at December 31st 2008, the Company had drawn under the term loan facility USD 709,533 thousand (the equivalent of PLN 2,101,495 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2008), including letters of credit issued for the amount of approx. USD 63,381 thousand (the equivalent of PLN 187,722 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2008), described in Note 36 (items 5, 6, 11 and 12), issued for the total amount of EUR 47,428 thousand. 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. By the date of these financial statements, funds drawn under the facility were used by Grupa LOTOS S.A. according to its needs.

Bank Loans and Borrowings as at December 31st 2008, by Currency and by Maturity

PLN '000	EUR loans and borrowings	USD loans and borrowings	PLN loans and borrowings	Total
2009	8,096	59,992	246,390	314,478
2010	-	-	-	-
2011	-	1,233,330	-	1,233,330
2012	-	107,363	-	107,363
2013	-	109,085	-	109,085
after 2013	-	1,648,713	-	1,648,713
Total	**8,096**	**3,158,483**	**246,390**	**3,412,969**

The above table presents loans and borrowings by maturity date.

Loans as at December 31st 2008:

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
PKO BP S.A.	Warsaw	133,941	-	215	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	40,000 USD or equivalent	82	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Consortium (1)	-	-	400,000 USD	11,557	3,768 USD	1,184,720	400,000 USD	Mar 15 2009	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
Bank Consortium (2)	-	-	1,125,000 USD	11,629	3,926 USD	1,434,195	484,231 USD	Mar 15 2009	Jan 15 2021	based on 1m, 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and management of the 10+ Programme, assignment of rights under insurance agreements relating to the Gdańsk refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10,000 thousand per year, submission to enforcement
Bank Consortium (3)	-	-	425,000 USD	3,748	1,266 USD	479,576	161,920 USD	Mar 15 2009	Jan 15 2021	fixed interest rate	
Bank Consortium (4)	-	-	200,000 USD or equivalent	246,093	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				8,096	1,940 EUR	-	-			3M EURIBOR + bank's margin	
				33,058	11,161 USD	-	-			3M LIBOR USD + bank's margin	
TOTAL				**314.478** **-**	**20,121 USD** **1,940 EUR**	**3,098,491** **-**	**1,046,151 USD** -				

The banks' margins on the contracted loans are in the range of 0.13% - 1.35%.

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

Loans as at December 31st 2007:

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
Bank Millennium S.A.	Warsaw	120,000	-	72,341	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
PKO BP S.A.	Warsaw	234,000	-	16,705	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	USD 40,000 or equivalent	-	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		1,741	USD 715	-	-		-	1M LIBOR USD + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		14,647	EUR 4,089	-	-		-	1M EURIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-	USD 40,000 or equivalent	586	-	-	-	Overdraft facility	-	T/N WIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		60,844	USD 24,987	-	-		-	SW LIBOR USD + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		610	EUR 170	-	-		-	SW EURIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw	20.000 or equivalent	-	20,044	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw		-	-	-	-	-		-	1M LIBOR + bank's margin	submission to enforcement
BZ WBK S.A.	Warsaw	30,000	-	2,101	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	300,000	-	188,961	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
Bank Consortium (1)	-	-	USD 400,000	-	-	486,379	USD 199,745	Mar 15 2008	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
TOTAL				**378,580**	**USD 25,702**	**486,379**	**USD 199,745**				
					EUR 4,259						

The banks' margins on the contracted loans are in the range of 0.07%–2%.

Contractual maturities of financial liabilities as at December 31st 2008:

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Financial liabilities other than under derivative financial instruments		4,305,392	4,305,392	1,206,399	143	359	1,449,778	1,648,713
Secured bank loans (other than overdraft facilities)	24	3,125,425	3,125,425	26,934	-	-	1,449,778	1,648,713
Overdraft facilities	24	287,544	287,544	287,544	-	-	-	-
Finance lease liabilities	27	502	502	-	143	359	-	-
Trade and other payables	26	891,921	891,921	891,921	-	-	-	-
Financial liabilities – derivative financial instruments	27	212,881	212,881	212,881	-	-	-	-
		=========	===========	===========	==========	=====	===========	==========
Total		**4,518,273**	**4,518,273**	**1,419,280**	**143**	**359**	**1,449,778**	**1,648,713**
		==========	===========	===========	==========	=====	===========	==========

Contractual maturities of financial liabilities as at December 31st 2007:

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Financial liabilities other than under derivative financial instruments		1,984,608	1,984,608	1,497,734	207	288	486,379	-
Secured bank loans (other than overdraft facilities)	24	486,379	486,379	-	-	-	486,379	-
Overdraft facilities	24	378,580	378,580	378,580	-	-	-	-
Finance lease liabilities	27	495	495	-	207	288	-	-
Trade and other payables	26	1,119,154	1,119,154	1,119,154	-	-	-	-
Financial liabilities – derivative financial instruments	27	3,757	3,757	3,757	-	-	-	-
		=========	===========	===========	===========	======	=========	========
Total		**1,988,365**	**1,988,365**	**1,501,491**	**207**	**288**	**486,379**	**-**
		=========	===========	===========	===========	======	=========	========

25. Provisions

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Non-current provisions		
Length-of-service awards and retirement severance pays	27,612	19,072
Other provisions	1,053	1,053
Total non-current provisions	**28,665**	**20,125**
Current provisions		
Length-of-service awards and retirement severance pays	3,666	2,753
Other provisions (1)	37,951	35,817
Total current provisions	**41,617**	**38,570**
Total	**70,282**	**58,695**

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

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

- the long-term annual growth rate of remuneration is 5% (December 31st 2007: the long-term annual growth rate of remuneration of 6% and 3.3 % for subsequent years),
- the discount rate for future payments of employee benefits is 5.5%(i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2007: 6%),
- the probability of employee attrition is based on the historical data on employee turnover at the Company and statistical data on employee attrition in the industry,
- the adopted mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2007, published by the Polish Central Statistics Office (GUS) and assume that the Company's employee population is representative of the average Polish population in terms of mortality (December 31st 2007: Life Expectancy Tables of Poland for 2006),
- it is assumed that the Group employees will retire according to the standard system, i.e. men – after reaching the age of 65, women – after reaching the age of 60, except for those employees who, based on the information provided by the Company, meet the conditions for early retirement.

Change in provisions

PLN '000	Length-of-service awards and retirement severance pays	Other provisions	Total
As at Jan 1 2007 (audited)	**17,339**	**42,166**	**59,505**
Increase	3,495	19,759	23,254
Merger with LOTOS Partner Sp. z o.o	991	4,947	5,938
Decrease	-	(30,002)	(30,002)
As at Dec 31 2007 (audited)	**21,825**	**36,870**	**58,695**
As at Jan 1 2008 (audited)	**21,825**	**36,870**	**58,695**
Increase	9,453	2,500[1]	11,953
Decrease	-	(366)	(366)
As at Dec 31 2008 (audited)	**31,278**	**39,004**	**70,282**

[1] On June 30th 2008, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the 2007 net profit. Under the resolution, a portion of the Company's net profit, in the amount of PLN 2,500 thousand, was transferred to the special account designated for financing corporate social responsibility (CSR) projects. The Company created a provision for the special account and charged it against other operating expenses (see Note 32). By December 31st 2008, the Company had used funds in the amount of PLN 366 thousand.

26. Current Liabilities, Accruals and Deferred Income

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Trade payables, including:	574,182	1,048,661
- to related undertakings	42,614	76,853
Tax and social security payable [(1)], including:	477,149	402,021
- corporate income tax	-	5,430
Special accounts	197	197
Salaries and wages payable	2,261	2,964
Accruals and deferred income	5,940	13,879
Deferred income under subsidies	19,368	19,368
Investment liabilities, including:	296,714	57,167
- to related undertakings	13,639	2,429
Other liabilities, including:	18,764	10,362
- to related undertakings	250	33
Total	**1,394,575**	**1,554,619**

[(1)] The value of tax liabilities as at December 31st 2008 and December 31st 2007 was reduced by the fuel charge of PLN 20,087 thousand incurred in relation to imported diesel oil. The Company will apply to the relevant customs office for reimbursement of the amount, which in the Company's opinion is recoverable.

The transactions with related undertakings are described in Note 42.

Trade payables do not bear interest and are, as a rule, settled on a 14–45 day basis. Other liabilities do not bear interest, and their average payment period is one month. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

As at December 31st 2008 and December 31st 2007, Grupa LOTOS S.A.'s liability under excise tax arises in connection with Art. 4.1 of the Excise Tax Act of January 23rd 2004 (Dz. U. No. 29, item 257, of February 26th 2004), which provides that excise tax is applicable to:
1) production of harmonised excise goods,
2) taking harmonised excise goods out of a bonded warehouse,
3) sale of excise goods in the territory of Poland,
4) import of excise goods,
5) intra-Community acquisition or supply of goods.

Pursuant to the authorisation of the Head of the Customs Office of Gdańsk, in connection with Art. 47 and Art. 48 of the Excise Tax Act of December 6th 2008, the Company operates a bonded warehouse in Gdańsk at the site where the refinery is situated. The business conducted at the bonded warehouse, which involves production and distribution activities, is subject to suspended-excise-tax procedure.

27. Financial Liabilities

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Negative valuation of derivative financial instruments, including:	212,881	3,757
- commodity swaps (raw materials and petroleum products)	7,910	740
- futures (CO_2 emissions)	1	251
- currency forward and spot contracts	25,313	2,766
- currency options	2,391	-
- FRAs	1,733	-
- IRSs	175,533	-
Lease liabilities	502	495
	========	========
Total financial liabilities	**213,383**	**4,252**
	========	========
Non-current liabilities	359	288
Current liabilities	213,024	3,964
	========	========

Finance lease liabilities

PLN '000	Minimum lease payments	Present value of minimum lease payments
Up to 1 year	265	143
1 year to 5 years	383	359
More than 5 years		-
	=======	=======
Total	**648**	**502**
	=======	=======
Less future financial charges	146	-
	=======	=======
Present value of minimum lease payments	**502**	**502**
	=======	=======
Current portion	265	143
Non-current portion	383	359

28. Assets for Social Purposes and Liabilities of the Company's Social Benefits Fund

The Company offsets the Social Benefits Fund's assets against its liabilities towards the Fund, because the Fund's assets are not fully controlled by the Company.

The table below sets forth the Fund's assets and liabilities.

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	755	203
Receivables from employees under the Company's Social Benefits Fund	2,071	2,653
Other	-	95
Total	**2,826**	**2,951**
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	2,826	2,951
Total	**2,826**	**2,951**

29. Sales Revenue

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Sales of products	19,982,108	17,000,129
Sales of services	91,886	101,065
Total sales of products	20,073,994	17,101,194
Sales of goods for resale	753,642	391,358
Sales of materials	106,247	60,988
Total sales of goods for resale and materials	859,889	452,346
Total	**20,933,883**	**17,553,540**
- including sales to related undertakings	11,426,901	11,546,291
Elimination of excise tax and fuel charge	(6,035,230)	(5,686,946)
Total	**14,898,653**	**11,866,594**

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Domestic sales of products	17,208,675	14,710,349
Export sales of products	2,865,319	2,390,845
Total sales of products	20,073,994	17,101,194
Domestic sales of goods for resale and materials	853,000	443,708
Export sales of goods for resale and materials	6,889	8,638
Total sales of goods for resale and materials	859,889	452,346
Total	**20,933,883**	**17,553,540**
- including to related undertakings	11,426,901	11,546,291
Elimination of excise tax and fuel charge	(6,035,230)	(5,686,946)
Total	**14,898,653**	**11,866,594**

The transactions with related undertakings are presented in Note 42.

30. Costs by Type

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Depreciation and amortisation	183,685	180,413
Raw materials and energy used	13,535,437	10,396,341
Contracted services	624,322	615,310[(1)]
Taxes and charges	50,630	42,136
Salaries and wages	105,563	91,516
Social security and other benefits	28,556	24,265
Other costs by type	52,176	55,051
Goods for resale and materials sold	686,554	419,125
Total	**15,266,923**	**11,824,157**
Adjustments:		
Change in products and adjustments in cost of sales	197,982	(382,458)
Total operating expenses, including:	**15,464,905**	**11,441,699**
Cost of sales	14,867,282	10,851,429
Selling costs	376,811	394,703
General and administrative expenses	220,812	195,567

[(1)] Including costs of R&D work of PLN 5,386 thousand for the year ended December 31st 2007.

31. Other Operating Income

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Gain on disposal of non-current non-financial assets	-	212
Provisions released	-	30,002 (1)
Reversal of impairment charges for non-financial assets	515	673
Compensations/damages received	1,849	5,758
Other	4,216	4,731
Total	**6,580**	**41,376**

(1) Including the provisions referred to in Note 25.

32. Other Operating Expenses

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Loss on disposal non-current non-financial assets	7,706	-
Revaluation of non-financial assets	16	24,460
Other provisions	2,500 (1)	14,759
Other	3,562	10,998
Total	**13,784**	**50,217**

(1) Including the provisions referred to in Note 25.

33. Financial Income

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Dividend received	130,333	205,218
Interest	3,373	2,458
Foreign exchange gains	-	138,806
Gains on disposal of investments	492	3,020
Revaluation of financial assets	-	90,991
Settlement of derivative instruments	-	31,632
Other	14	-
Total financial income	**134,212**	**472,125**

34. Financial Expenses

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Interest	61,497	24,748
Amounts included in costs of assets qualifying for capitalisation	(44,631)	(9,504)
Foreign exchange losses	139,490	-
Revaluation of financial assets	22,933[(1)]	-
Settlement of derivative instruments	234,999	-
Other	2,628	798
Total financial expenses	**416,916**	**16,042**

[(1)] Including impairment charges for shares in LOTOS Gaz S.A. (see Note 13 to these financial statements).

35. Corporate Income Tax

The main items of the Company's tax charge for the year ended December 31st 2008 and for the year ended December 31st 2007 are as follows:

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Corporate income tax	202	138,511
Deferred tax	(180,658)	(11,458)
Total tax	**(180,456)**	127,053
Tax charge recognised in the income statement	(180,456)	127,053
Tax charge recognised in equity	-	-

The current portion of the income tax was calculated at the rate of 19% on the tax base.

The difference between the tax amount disclosed in the income statement and the amount calculated by applying the tax rate to pre-tax profit results from the following items:

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Pre-tax profit/(loss)	(856,160)	872,137
Corporate income tax at the statutory rate applicable in Poland (19%), including:	-	165,706
- tax on dividend at the statutory rate applicable in Poland (19%)	202	311
Permanent differences	(96,441)	(178,620)
Other	310,090	35,487
Tax effect of the differences	40,593	(27,195)
Corporate income tax, including	202	138,511
- tax on dividend	202	311
Corporate income tax at the effective rate	-	0.16

As at December 31st 2008 and December 31st 2007, the net deferred tax asset (liability) comprised the following items:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Deferred tax asset		
Provision for employee benefits	6,793	4,147
Impairment charge for inventories	43,011	2,622
Non-tax-deductible amortisation/depreciation	1,493	1,525
Impairment charge for accounts receivable	8,872	8,872
Negative valuation of derivatives	29,339	-
Tax loss amortised over time	124,511	-
Other	16,667	17,220
Total deferred tax asset	**230,686**	**34,386**
Deferred tax liability		
Difference between current tax value and book value of property, plant and equipment	140,857	153,234
Positive valuation of derivatives	20,635	1,407
Other	10,967	2,176
Total deferred tax liability	**172,459**	**156,817**
Net deferred tax asset/(liability)	**58,227**	**(122,431)**

36. Contingent Liabilities

Surety Agreement of February 9th 2004 Concluded with the National Fund for Environmental Protection and Water Management

Under the agreement, the Company issued an irrevocable surety to repay the loan contracted by Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) from the National Fund for Environmental Protection and Water Management under a loan agreement of December 10th 2003. The surety covers the loan amount of up to PLN 15,000 thousand. In connection with the surety agreement, on February 6th 2004 Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) and the Company signed an agreement on securing the Company's interest with respect to the surety.

As at the date of these financial statements, the security for the loan, subject to Annex of October 20th 2005, is a registered pledge created under the registered pledge agreement of February 18th 2004 on plastics processing units owned by LOTOS Jasło S.A..

Irrespectively of the above, the agreement states that LOTOS Jasło S.A. will seek to obtain a bank guarantee or surety to replace the surety issued by the Company. If LOTOS Jasło S.A. is in breach of the agreement, it will pay the Company a contractual penalty of 10% of the surety value, subject to the reservation that if the value of the damage is higher than the contractual penalty, the Company may seek compensation equal to the full value of the damage.

The surety expires on November 30th 2010. As at December 31st 2008, the value of the liability under the loan agreement with respect to which the surety was issued was PLN 6,300 thousand.

Security Granted to Customs Office

1. 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 original validity term of the blank promissory note expired on March 16th 2007, and was subsequently extended until June 16th 2008.

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

3. 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. 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. On December 17th 2008, the value of the guarantee decreased to PLN 125,000 thousand.

4. On August 10th 2007, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs duty, taxes and other customs charges for the amount of PLN 7,000 thousand. The contingent liability expired on January 31st 2008.

5. 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. The guarantee expired on August 10th 2008.

Other contingent liabilities

1. 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 expired on June 30th 2008. Subsequently, the validity term of the letter of credit was extended several times; the most recent extension of its validity term was until March 31st 2009 (see Note 39, item 6). As a result of successive draws under the letter of credit, as at December 31st 2008, its value was EUR 346 thousand (the equivalent of PLN 1,444 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).

2. 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. The original validity term of the guarantee expired on December 31st 2007. 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 – November 14th 2008 – EUR 45,515 thousand. On November 14th 2008, the letter of credit was cancelled by mutual agreement between the parties.

3. 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, translated 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 – November 4th 2008 – EUR 38,595 thousand. On November 4th 2008, the letter of credit was cancelled by mutual agreement between the parties.

4. On January 16th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee of 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 connection with the supply of gasoline. The guarantee expired on May 31st 2008.

5. 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 June 30th 2008. On July 1st 2008, the amount of the letter of credit was raised to EUR 10,979 thousand and its validity term was extended until September 30th 2008. The letter of credit was issued to secure the performance of a contract related to the construction of a hydrogen generation unit (HGU). On October 1st 2008, the validity term of the letter of credit was extended until December 31st 2008 and its value was again increased – to EUR 14,923 thousand. Then, on January 1st 2009, the validity term of the letter of credit was extended until March 31st 2009, and its amount decreased to EUR 14,234 thousand. Since December 17th 2008, the letter of credit has been financed under the term loan facility granted by the group of financial institutions (see Note 24 to these financial statements). The validity term of the letter of credit expired on March 31st 2009.

6. 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. On November 1st 2008, the validity term of the letter of credit was extended until January 31st 2009. 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). On February 1st 2009, the validity term of the letter of credit was extended until April 30th 2009 and its value decreased to EUR 15,647 thousand. Since December 17th 2008, the letter of credit has been financed under the term loan facility granted by the group of financial institutions (see Note 24 to these financial statements).

7. 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. The guarantee expired on June 30th 2008.

8. 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 original validity term of the letter of credit expired on December 31st 2008. The letter of credit was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). On January 1st 2009, the validity term of the letter of credit was extended, first until January 31st 2009, and then until March 31st 2009 (see Note 39, item 7). As a result of successive draws under the letter of credit, its value as at December 31st 2008 was EUR 2,913 thousand (the equivalent of PLN 12,154 thousand, translated using the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).

9. 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 original validity term of the guarantee expired on December 31st 2008. On December 12th 2008, the validity term of the guarantee was extended until January 31st 2009. The guarantee expired with the end of its validity period.

10. 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. The guarantee expired with the end of its validity period.

11. 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) under the term loan facility granted by the group of financial institutions (see Note 24). The letter of credit, issued for the benefit of CB&I LUMMUS GmbH, is valid through June 30th 2009. It was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). As a result of successive draws under the letter of credit, its value as at December 31st 2008 was EUR 11,830 thousand (the equivalent of PLN 49,359 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).

12. On December 19th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a stand-by letter of credit for EUR 500 thousand (the equivalent of PLN 2,057 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 19th 2008) under the term loan facility granted by the group of financial institutions (see Note 24). The letter of credit, issued for the benefit of LURGI S.A., is valid through May 31st 2009. The letter of credit was issued to secure the performance of a contract related to modernisation of a condensate station and construction of a fuel gas terminal.

13. As at December 31st 2008, the Group's liabilities under material agreements related to expenditure on property, plant and equipment (the 10+ Programme) amounted to PLN 3,199 million (PLN 2,735 million as at December 31st 2007).

37. Carbon Dioxide (CO_2) Emission Allowances

As at December 31st 2008 and December 31st 2007, the Company reported an excess of the CO_2 emission allowances it had been allocated over its actual carbon dioxide emissions (see Note 20, item 3).

On July 1st 2008, the Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Emission Allowances for 2008-2012, issued under the EU emission trading scheme to existing installations and installations undergoing modification (Dz.U. No. 202, item 1248). In accordance with the current legislation, allowances for Phase II (the years 2008–2012) were given free of charge to all the installations covered by the emission trading scheme.

In 2008, the Company was allocated allowances for 1,138 thousand tonnes of carbon dioxide.

In the year ended December 31st 2008, the actual carbon emissions were 1,135 thousand tonnes.

38. Material Court, Arbitration or Administrative Proceedings, Other Risks

Material Proceedings Pending before Public Administration Authorities in Connection with the Company's Business

On March 21st 2005, the President of the Competition and Consumer Protection Office issued a decision whereby anti-trust proceedings were instigated *ex officio* to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Płock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the 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 Płock. Under the same Decision, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Płock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office (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 approval of these financial statements, the case was pending.

Proceedings Brought by PETROECCO JV Sp. z o.o. Seeking Compensation for Losses Incurred as a Result of Monopolistic Practices

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest from May 1st 1999, as compensation for losses 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-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 losses were incurred by PETROECCO JV Sp. z o.o., the amount of the alleged losses, and the existence of the cause and effect relationship between the monopolistic practices and the losses). 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 losses 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. 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. On January 14th 2009, the Supreme Court reversed the ruling appealed against and remanded the case for re-examination by the Court of Appeals in Gdańsk. On March 10th 2009, the case files were sent to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer Company sent in a decision to discontinue the enforcement proceedings. As at the date of approval of these financial statements, the case was pending.

Proceedings Brought by the Minister of State Treasury Seeking Invalidation of the Share Purchase Agreement Concerning Shares in Naftoport Sp. z o.o.

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court 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. On August 20th 2008, the State Treasury lodged a cassation complaint. On December 11th 2008, the case files arrived at the Supreme Court, Civil Chamber Division II. In a closed session held on March 6th 2009, the Court accepted the complaint for examination. The date of the hearing was fixed for May 6th 2009. As at the date of approval of these financial statements, the case was pending.

Tax Settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within governmental authorities and between those authorities and businesses, leading to uncertainty and conflicts. Consequently, the tax-related risk in Poland is significantly higher than in countries where tax systems are better developed.

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company. As at December 31st 2008, relevant provisions for identified and measurable tax risk have been created.

39. Material Events Subsequent to the Balance-Sheet Date

No material events occurred in the period from the balance-sheet date until the date of these financial statements except for the following:

1. On January 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a guarantee for PLN 1,500 thousand for the benefit of the Customs Office in Pruszków as excise security. The guarantee expires on June 30th 2009.

2. On January 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 3,000 thousand (the equivalent of PLN 12,517 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Umicore Precious Metals Refining, valid through October 15th 2009. The stand-by letter of credit was issued to secure lease payments under platinum lease agreement.

3. On February 2nd 2009, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a guarantee for USD 18,000 thousand (the equivalent of PLN 62,690 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for February 2nd 2009) for the benefit of TOTAL DEUTSCHLAND GmbH. The guarantee was issued to secure the payment of amounts due for the delivery of diesel oil and gasoline, and remains valid through July 31st 2009.

4. In view of the macroeconomic instability resulting from the current economic crisis and given the Company's ongoing investment programmes, on February 11th 2009 the Management Board of Grupa LOTOS S.A. prepared and adopted a package of anti-crisis measures for the LOTOS Group. The primary objective of the measures is to ensure the implementation of those investment programmes which are key to Grupa LOTOS S.A. and its future shareholder value, and to guarantee the Company's liquidity in 2009.

The key elements of the package are cost savings of approximately PLN 170m in 2009 and suspension or abandonment of approx. PLN 220m of the investment expenditure planned for 2009, which in effect should improve the LOTOS Group's cash flows by about PLN 390m.

Given the uncertain market situation and limited possibilities to raise financing, the Company's Management Board decided to suspend the implementation of the investment projects provided for in the Group's strategy for 2006–2012, with the capex totalling approximately PLN 2.1bn. The limitations will not affect the key ongoing investment projects under the 10+ Programme, the development of the YME field on the

Norwegian Continental Shelf, or the expenditure on the development of the B8 and B23 fields on the Baltic Sea, planned as part of the development programme for Petrobaltic S.A.

The limitations mean an over 25% reduction of the LOTOS Group's total capex planned for 2009-2012, and a nearly 40% capex reduction if the Company's investment commitments connected with the 10+ Programme and the development of the YME field are taken into account. This objective will be achieved by postponing the implementation of certain projects.

The Company's Management Board will be closely monitoring the market situation and in the event of any significant changes will revise the plans described above.

5. On February 27th 2009, Grupa LOTOS S.A. issued a blank promissory note for the amount of up to PLN 400,000 thousand for the benefit of the Customs Office in Gdańsk to secure the Company's tax liability in connection with the suspended excise tax collection procedure. The blank promissory note is valid through January 13th 2011.

6. On April 1st 2009, the validity term of the documentary letter of credit for the benefit of CB&I LUMMUS GmbH issued by Bank PKO BP S.A. at the request of Grupa LOTOS S.A. on January 3rd 2007 was extended until May 31st 2009 (see Note 36).

7. On April 1st 2009, the validity term of the documentary letter of credit for the benefit of CB&I LUMMUS GmbH issued by Bank PKO BP S.A. at the request of Grupa LOTOS S.A. on June 2nd 2008 was extended until May 31st 2009 (see Note 36).

40. Remuneration of the Management the Supervisory Board Members and Information on Loans and Other Similar Benefits Advanced to Members of the Company's Management and Supervisory Staff

The remuneration paid and payable to the members of the Company's Management and Supervisory Boards was as follows:

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Management Board	606	738[(1)]
Supervisory Board	261	239
Management Board – subsidiary and associated undertakings	441	274
	==========	==========
Total[(2)]	**1,308**	**1,251**
	==========	==========

[(1)] The remuneration payable for the period preceding appointment to Grupa LOTOS S.A.'s Management Board.
[(2)] The value of remuneration reflects changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. during the reporting period.

As at December 31st 2008 and December 31st 2007, the Company did not advance any loans or similar benefits to members of the management and supervisory staff.

41. Employment Structure

Average employment by category (FTE):

	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Blue-collar jobs	407	384
White-collar jobs	755	637
Total	**1,162**	**1,021**

42. Transactions with Related Undertakings (including Associated Undertakings Valued with Equity Method and Non-Consolidated Undertakings)

Transactions with related undertakings are executed at arms' length.

(PLN '000)	Year ended Dec 31 2008 (audited)		As at December 31 2008 (audited)	
	Sales to related undertakings incl. excise tax and fuel charge	Purchases from related undertakings incl. excise tax and fuel charge	Receivables from related undertakings	Liabilities to related undertakings
Consolidated undertakings	11,426,879	917,757	802,373	56,466
Non-consolidated undertakings	22	2,916	2	37
Total	**11,426,901**	**920,673**	**802,375**	**56,503**

In the period from January 1st to December 31st 2008, total income from sales of property, plant and equipment and intangible assets to related undertakings amounted to PLN 1,780 thousand.

In the period from January 1st to December 31st 2008, total value of purchases of property, plant and equipment and intangible assets from related undertakings amounted to PLN 20,170 thousand.

In the period from January 1st to December 31st 2008, total value of financial income from transactions concluded with related undertakings amounted to PLN 128,955 thousand (including dividend income of PLN 129,270 thousand, interest income of PLN 195 thousand and a loss of PLN 510 thousand on disposal of shares in LOTOS Exploration and Production Norge AS, see Note 13 to these financial statements).

In the period from January 1st to December 31st 2008, total value of financial expenses related to transactions with related undertakings amounted to PLN 16,284 thousand (for information on the impairment charge for the shares in LOTOS Gaz S.A., see Note 13 to these financial statements).

In the period from January 1st to December 31st 2008, total value of other operating income from transactions with related undertakings amounted to PLN 622 thousand (including PLN 54 thousand of other operating income and a gain of PLN 568 thousand on disposal of non-current non-financial assets, disclosed in these financial statements under “Loss on disposal of non-current non-financial assets”).

(PLN ‘000)	Year ended Dec 31 2007 (audited)		As at December 31st 2007 (audited)	
	Sales to related undertakings incl. excise tax and fuel charge	**Purchases from related undertakings incl. excise tax and fuel charge**	**Receivables from related undertakings**	**Liabilities to related undertakings**
Consolidated undertakings	11,546,261	724,756	1,033,135	79,102
Non-consolidated undertakings	30	3,884	2	213
Total	**11,546,291**	**728,640**	**1,033,137**	**79,315**

In the period from January 1st to December 31st 2007, total income from sales of property, plant and equipment and intangible assets to related undertakings amounted to PLN 2 thousand.

In the period from January 1st to December 31st 2007, total value of purchases of property, plant and equipment and intangible assets from related undertakings amounted to PLN 8,912 thousand.

In the period from January 1st to December 31st 2007, total value of financial income from transactions with related undertakings amounted to 204,885 (including dividend income of PLN 203,577 thousand and interest income of PLN 1,308 thousand).

In the period from January 1st to December 31st 2007, total value of financial expenses related to transactions with related undertakings was PLN 1 thousand (interest expense).

In the period from January 1st to December 31st 2007, total value of other operating income from transactions with related undertakings amounted to PLN 505 thousand (other operating income).

In the period from January 1st to December 31st 2007, total value of other operating expenses connected with transactions with related undertakings amounted to PLN 41 thousand (including other operating expenses of PLN 39 thousand and a loss of PLN 2 thousand on disposal of non-financial non-current assets, disclosed in these financial statements under “Gain on disposal of non-current non-financial assets”).

43. Transactions with State-Owned Related Undertakings

Transactions with state-owned related undertakings are executed at arms' length. The table below presents transactions concluded between Grupa LOTOS S.A. and material[1] state-owned related undertakings.

(PLN '000)	Year ended Dec 31 2008 (audited)		As at December 31 2008 (audited)	
	Sales to related undertakings incl. excise tax and fuel charge	**Purchases from related undertakings incl. excise tax and fuel charge**	**Receivables from related undertakings**	**Liabilities to related undertakings**
Zarząd Morskiego Portu Gdynia S.A.	112	-	-	-
Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŹŃ S.A.	5	83,233	-	3,755
ENERGA S.A.	1	63,278	-	6,722
Total	**118**	**146,511**	**-**	**10,477**

(PLN '000)	Year ended Dec 31 2007 (audited)		As at December 31 2007 (audited)	
	Sales to related undertakings incl. excise tax and fuel charge	**Purchases from related undertakings incl. excise tax and fuel charge**	**Receivables from related undertakings**	**Liabilities to related undertakings**
Zarząd Morskiego Portu Gdynia S.A.	85	-	23	-
H.CEGIELSKI-POZNAŃ S.A.		65		43
Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŹŃ S.A.	7	77,763	1	3,515
ENERGA S.A.	1	48,974	-	5,023
Zakłady Azotowe PUŁAWY S.A.	-	7	-	-
Stocznia Gdynia S.A.	99	-	-	-
Total	**192**	**126,809**	**24**	**8,581**

(1) share capital exceeding PLN 100,000 thousand.

44. Entity with Significant Influence over the Company

As at December 31st 2008 and December 31st 2007, Nafta Polska S.A. held a 51.91% stake in Grupa LOTOS S.A. Nafta Polska S.A. is controlled by the State Treasury, which, as at December 31st 2008 and December 31st 2007, directly held a 6.93% stake in Grupa LOTOS S.A. As at December 31st 2008 and December 31st 2007, the State Treasury held, directly and indirectly, 58.84% of shares in Grupa LOTOS S.A.

The aggregate value of transactions concluded between Grupa LOTOS S.A. and Nafta Polska S.A. during the year ended December 31st 2008 was PLN 7 thousand.

The aggregate value of transactions concluded between Grupa LOTOS S.A. and Nafta Polska S.A. during the year ended December 31st 2007 was PLN 21,250 thousand, including payment of dividend of PLN 21,249 thousand.

45. Other Information

45.1 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.

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. Financing 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 subordinated to 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 contemplated projects 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_2 sequestration – depositing CO_2 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:

	2009	2012
Oil price (2008 fixed prices):		
- dtd Brent (USD/bbl)	112.52	128.02
- Ural CIF Rotterdam (USD/bbl)	108.8	124.52
Crack spreads for products (2008 fixed prices):		
- 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)
EUR/PLN	3.50	3.20
USD/PLN	2.56	2.48

45.2 Special Rights of the State Treasury and How These Rights Are Exercised in Companies

The Act on Special Rights Vested in the State Treasury and How These Rights Should Be Exercised in Companies of Material Importance to Public Order or Safety (“strategic companies”), dated June 3rd 2005 (Dz.U. No. 132, item 1108) (“the Act”) introduced the institution of observers on behalf of the State Treasury. The Company was included in the list of strategic companies referred to in Art. 8 of the Act, published in the Polish Council of Ministers’ Regulation on the list of companies of material importance to public order or safety, dated December 13th 2005 (Dz.U. of December 29th 2005). The responsibility of the observers acting on behalf of the State Treasury at strategic companies is to monitor the operations of these companies regarding, among other things, the following issues:

- management of company assets of material importance to its operations,

- changes of the actual business profile, changes of the intended use or discontinuation of the use of a company’s asset of material importance,

- adoption by the General Shareholders Meeting of resolutions concerning dissolution of the company, relocation of its registered office abroad, change of its business profile, sale or lease of its business or an organised part of its business, or encumbrance of the business or its organised part with limited property rights,

- if there is reasonable suspicion that such a legal action would violate public order or safety.

The assumptions of the state’s policies concerning social or economic life spheres of material importance to public order or safety will be published in Monitor Polski.

The observers are authorised to request from companies any documents or explanations regarding the above issues, and, having analysed them, they are required to submit the obtained materials to the Minister of the State Treasury, together with their position expressed in writing and the statement of reasons.

The State Treasury Minister is required in certain cases, and in other cases he is authorised, to voice his objection to an action of a given strategic company of which he has been notified by the observers. Provided that it is not appealed against, such an objection renders a given legal action invalid as of the date on which it was performed.

Until the approval of these financial statements, the Company received no statement on the appointment of an observer for the Company.

46. 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