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

THE LOTOS GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31ST 2008
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
ALONG WITH THE INDEPENDENT AUDITOR'S OPINION

FINANCIAL HIGHLIGHTS – CONSOLIDATED

	PLN '000		EUR '000	
THE LOTOS GROUP	**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	16,294,738	13,125,123	4,613,329	3,475,197
Operating profit/(loss)	(145,828)	713,664	(41,286)	188,960
Pre-tax profit/(loss)	(504,218)	1,004,494	(142,753)	265,964
Net profit/(loss) on continued operations	(389,933)	814,147	(110,397)	215,565
Net profit/(loss) attributable to equity holders of the parent	(453,906)	777,160	(128,509)	205,772
Net profit attributable to minority interests	63,973	36,987	18,112	9,793
Net cash provided by/(used in) operating activities	311,670	157,830	88,239	41,789
Net cash provided by/(used in) investing activities	(2,417,112)	(816,440)	(684,327)	(216,172)
Net cash provided by/(used in) financing activities	1,963,145	513,145	555,801	135,868
Total net cash flow	(138,751)	(147,061)	(39,283)	(38,938)
Basic earnings/(loss) per ordinary share (PLN/EUR)	(3.99)	6.84	(1.13)	1.81
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	12,201,998	9,720,384	2,924,455	2,713,675
Equity attributable to equity holders of the parent	5,404,135	5,816,227	1,295,210	1,623,737
Equity attributable to minority interests	395,917	334,691	94,890	93,437
Total equity	5,800,052	6,150,918	1,390,100	1,717,174

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 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).

CONSOLIDATED 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	5,532,612	3,471,247
Prepayments for tangible assets under construction	11	1,200,713	781,780
Goodwill	17	45,562	58,207
Intangible assets	15	55,921	64,999
Investment property	14	4,898	3,445
Investments in associated undertakings	18	73,488	48,519
Non-current financial assets	19	26,516	21,553
Deferred tax asset	41	132,223	31,732
Other non-current assets, including:		21,911	26,644
- non-current receivables	12	9,152	12,668
- prepayments and accrued income	13	12,759	13,976
Total non-current assets		**7,093,844**	**4,508,126**
Current assets			
Inventories	22	2,447,247	2,589,322
Trade and other receivables, including:	23	1,564,852	1,542,465
- income tax receivables		199,971	1,867
Prepayments and accrued income	13	45,863	31,868
Current financial assets	20	328,760	119,342
Cash and cash equivalents	24	712,801	924,995
Total current assets		**5,099,523**	**5,207,992**
Assets held for sale	16	**8,631**	**4,266**
Total assets		**12,201,998**	**9,720,384**

CONSOLIDATED 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	26	113,700	113,700
Statutory reserve funds		970,951	970,951
Retained earnings		4,311,130	4,746,221
Translation reserve		8,354	(14,645)
Equity attributable to equity holders of the parent		**5,404,135**	**5,816,227**
Equity attributable to minority interests	29	**395,917**	**334,691**
Total equity		**5,800,052**	**6,150,918**
Non-current liabilities			
Interest-bearing loans and borrowings	30	3,412,245	842,943
Non-current provisions	31	267,903	208,594
Deferred tax liability	41	10,411	154,789
Other (financial) liabilities	32	9,961	9,323
Total non-current liabilities		**3,700,520**	**1,215,649**
Current liabilities			
Trade and other payables, accruals and deferred income, including:	33	1,894,509	1,757,451
- income tax expense		8,069	20,446
Interest-bearing loans and borrowings	30	507,360	517,193
Current provisions	31	80,470	74,268
Other financial liabilities	32	219,087	4,905
Total current liabilities		**2,701,426**	**2,353,817**
Total liabilities		**6,401,946**	**3,569,466**
Total equity and liabilities		**12,201,998**	**9,720,384**

CONSOLIDATED 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	35	16,294,738	13,125,123
Cost of sales	36	(15,287,258)	(11,346,692)
Gross profit on sales		**1,007,480**	**1,778,431**
Other operating income	37	29,817	81,845
Impairment losses on goodwill	17	(12,645)	(21,496)
Selling costs	36	(737,368)	(697,495)
General and administrative expenses	36	(344,523)	(335,440)
Other operating expenses	38	(88,589)	(92,181)
Operating profit/(loss)		**(145,828)**	**713,664**
Financial income	39	82,508	313,549
Financial expenses	40	(466,931)	(44,995)
Interest in investments in associated undertakings	18	26,033	22,276
Pre-tax profit/(loss)		**(504,218)**	**1,004,494**
Corporate income tax	41	114,285	(190,347)
Net profit/(loss) on continued operations		**(389,933)**	**814,147**
Attributable to:			
Equity holders of the parent	28	(453,906)	777,160
Minority interests		63,973	36,987
		(389,933)	**814,147**
Net earnings/(loss) per share (PLN)			
- basic	28	(3.99)	6.84
- diluted		-	-

CONSOLIDATED 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)		(389,933)	814,147
Adjustments:			
Share in net profit of subordinated undertakings valued with equity method		(26,033)	(22,276)
Depreciation and amortisation		315,012	306,224
Foreign exchange (gains)/losses		366,730	4,091
Net interest and dividend paid		13,028	855
(Profit)/loss on investing activities		29,564	(41,766)
Income tax paid		(308,695)	(157,003)
Current income tax	41	(114,285)	190,347
Decrease/(increase) in receivables	25	164,938	(252,733)
Decrease/(increase) in inventories	25	141,685	(883,218)
(Decrease)/increase in liabilities and accruals and deferred income	25	(109,199)	253,101
Increase/(decrease) in provisions	25	35,511	(4,276)
(Increase) in prepayments and accrued income	25	(44,883)	(17,987)
Settlement of financial instruments		238,166	(31,632)
Other items, net		64	(44)
Net cash provided by/(used in) operating activities		311,670	157,830
Cash flows from investing activities			
Dividend received		27,661	47,318
Interest received		30,655	19,036
(Purchase)/sale of property, plant and equipment and intangible assets		(1,699,582)	(368,681)
(Purchase)/sale of current financial assets		1,509	184,007
Repayment of non-current loans advanced		17	-
Acquisition of Rafineria Nafty Glimar S.A., net of cash acquired		3,987	-
Acquisition of Krak-Gaz Sp. z o.o., net of cash acquired		-	(15,829)
Prepayments for tangible assets under construction		(778,953)	(681,601)
Other items, net		(2,406)	(690)
Net cash provided by/(used in) investing activities		(2,417,112)	(816,440)
Cash flows from financing activities			
Increase in loans and borrowings		2,352,749	579,791
Repayment of loans and borrowings		(86,449)	(23,217)
Interest paid		(61,517)	(21,603)
Dividend paid to equity holders of the parent		-	(40,932)
Dividend paid to minority interests	29	(2,578)	(8,593)
Decrease in finance lease liabilities		(737)	(942)
Settlement of financial instruments		(238,166)	31,632
Other items, net		(157)	(2,991)
Net cash provided by/(used in) financing activities		1,963,145	513,145
Effect of exchange rate fluctuations on cash held		3,546	(1,596)
Change in net cash	25	(138,751)	(147,061)
Cash at beginning of period	25	477,104	624,165
Cash at end of period	25	338,353	477,104
- restricted cash	24	84,160	17,296

The Notes to the consolidated financial statements, attached on pages 10 to 138, are its integral part.

STATEMENTS OF CHANGES IN CONSOLIDATED 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)	Translation reserve	Equity attributable to equity holders of the parent	Equity attributable to minority interests	Total equity
Jan 1 2007 (audited)	**113,700**	**970,951**	**4,014,432**	**(3,556)**	**5,095,527**	**306,416**	**5,401,943**
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Net profit for the year ended Dec 31 2007	-	-	777,160	-	777,160	36,987	814,147
Dividend to shareholders – distribution of profit for 2006	-	-	(40,932)	-	(40,932)	(8,593)	(49,525)
Changes in the Group's organisational structure	-	-	2,377	-	2,377	(119)	2,258
Other	-	-	(6,816)	(11,089)	(17,905)	-	(17,905)
	========	========	========	======	==========	==========	==========
Dec 31 2007 (audited)	**113,700**	**970,951**	**4,746,221**	**(14,645)**	**5,816,227**	**334,691**	**6,150,918**
	========	========	========	======	==========	==========	==========
Dec 1 2008 (audited)	**113,700**	**970,951**	**4,746,221**	**(14,645)**	**5,816,227**	**334,691**	**6,150,918**
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Net profit/(loss) for the year ended Dec 31 2008	-	-	(453,906)	-	(453,906)	63,973	(389,933)
Dividend to shareholders – distribution of profit for 2007	-	-	-	-	-	(2,578)	(2,578)
Changes in the Group's organisational structure	-	-	-	-	-	(169)	(169)
Other	-	-	18,815	22,999	41,814	-	41,814
	========	========	========	======	==========	==========	==========
Dec 31 2008 (audited)	**113,700**	**970,951**	**4,311,130**	**8,354**	**5,404,135**	**395,917**	**5,800,052**
	========	========	========	======	==========	==========	==========

The Notes to the consolidated financial statements, attached on pages 10 to 138, are its integral part.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

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

The 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 trade name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

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

The Parent Undertaking holds the following licences related to its core business:

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

In addition, the companies of the LOTOS Group hold the following licences:

- Licences for exploration and prospecting of oil and natural gas deposits situated in certain areas of Poland (in the Gaz Południe area – valid until December 14th 2012, in the areas of Gaz Północ, Gotlandia, Łeba, Rozewie, Sambia E and Sambia W – valid until December 14th 2010, and in Wolin – valid until June 14th 2011) issued by the Minister of Natural Environment,
- Licences for deposit exploitation issued by the Minister of Natural Environment (B6 deposit – licence valid until November 7th 2026, B3 deposit – licence valid until July 29th 2016, B8 deposit – licence valid until September 5th 2016, and B4 deposit – licence valid until May 11th 2032),
- Licences issued by the President of URE for the following activities: production and storage of liquid fuels, trade in liquid and gaseous fuels, transmission and distribution of gaseous fuels, transmission and distribution of heat, generation, transmission and distribution of electricity, and trade in electricity,
- Licences for production, storage and marketing of biocomponents (methyl ester), issued by the President of the Agricultural Market Agency (Agencja Rynku Rolnego),
- Licence for freight transport by rail and traction vehicles renting issued by the President of the Railway Transport Authority (Urząd Transportu Kolejowego),
- Licence for prospecting, exploration and production of hydrocarbon reserves from the PL 316, PL 316B, PL 316CS, PL 316DS (from August 29th 2008) and PL 455 blocks located on the Norwegian Continental Shelf, issued by the Norwegian Ministry of Energy and Petroleum.
- Interests in the following exploration licences in the southern area of the North Sea and in the Norwegian Sea, granted by the Norwegian Ministry of Energy and Petroleum as an outcome of the pre-qualification round APA 2008:
  1. Exploration licence PL 497: LOTOS Exploration and Production Norge AS – 10% interest (other partners: Det Norske Oljeselskap ASA (Operator) – 35% interest, Bridge Energy AS – 30% interest, Dana Petroleum Norway – 25% interest).
  2. Exploration license PL 498: LOTOS Exploration and Production Norge AS (Operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4 Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).
  3. Exploration license PL 503: LOTOS Exploration and Production Norge AS (Operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4 Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).
  4. Exploration license PL 515: LOTOS Exploration and Production Norge AS – 20% interest (other partners: Rocksource ASA (Operator) – 60% interest, Skagen 44 AS – 20% interest).

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2. Composition of the Group

The following table presents the subsidiary undertakings of the LOTOS Group, their business profiles, consolidation method, and the Group's stakes in their share capitals.

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2008	Dec 31 2007
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	Sale of fuels and provision of services for retail networks of international concerns; logistic services	full	-	- (1)
LOTOS Gaz S.A. (parent undertaking of another group)	Mława	Production, wholesale and retail sale of LPG	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	Construction of the key installations as part of the 10+ Programme; the company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of petroleum products	full	100.00%	100.00% (2)
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels	full	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale (3)	full	80.01%	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	full	69.00%	69.00%
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	full (4)	100.00%	100.00%
Rafineria Nafty GLIMAR S.A.	Gorlice	Refining; currently: provision of services	full	- (5)	91.54%

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Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2008	Dec 31 2007
LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation)	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated	-[6]	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services	full	86.91%	86.91%
Indirect Subsidiary Undertakings					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Provision of services	full	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	80.04%	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	Provision of services	[7]	86.91%	86.91%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Provision of services	full	66.81%[8]	53.61%
Chemipetrol Sp. z o.o.	Jasło	Trading in paraffin emulsions and anti-caking agents	full [4]	-[9]	80.01%
KRAK-GAZ Sp. z o.o.	Bochnia	Wholesale and retail sale of LPG	full [10]	100.00%	100.00%
Miliana Shipping Company Ltd.	Cyprus	Provision of services	full	68.93%	68.93%
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007	full [4]	69.00%[12]	100.00% [11]
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Provision of services	full [4]	69.00%	69.00%

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

[3] On November 1st 2008, LOTOS Jasło S.A. discontinued crude oil processing.

[4] As from December 31st 2007, LOTOS Exploration and Production Norge AS, UAB LOTOS Baltija, Aphrodite Offshore Services Ltd., and Chemipetrol Sp. z o.o. started to be consolidated with the full method.

[5] 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. As from July 25th 2008, the Rafineria Nafty GLIMAR Group started to be consolidated with the full method. Rafineria Nafty GLIMAR S.A. is the parent undertaking of a group which comprises the following companies: Zakład Transportu TRANSGLIMAR Sp. z o.o. w upadłości (in bankruptcy), Zakład Produkcji Pasz i Bioetanolu AGRO GLIMAR Sp. z o.o. w likwidacji (in liquidation), and LOT Magazynowanie Paliw i Smarów Sp. z o.o. 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 21 to these consolidated financial statements).

[6] 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.

[7] Shares contributed to LOTOS Park Technologiczny Sp. z o.o. by the LOTOS Czechowice Group on January 2nd 2006.

[8] In May–June 2008, LOTOS Jasło S.A. acquired 165 shares in PLASTEKOL Organizacja Odzysku S.A. The acquired shares are equal and indivisible and represent 16.5% of the share capital of PLASTEKOL Organizacja Odzysku S.A. As a result of this transaction, LOTOS Jasło S.A. holds 835 shares, representing 83.5% of the share capital of Plastekol Organizacja Odzysku S.A.

[9] On December 30th 2008, LOTOS Jasło S.A. executed an agreement concerning the sale of 100% shares in Chemipetrol Sp. z o.o.

(10) On July 9th 2007, LOTOS Gaz S.A. entered into the final agreement to purchase 34,500 shares in KRAK-GAZ Sp. z o.o. and thus acquired 100% of the shares in KRAK-GAZ Sp. z o.o.
(11) On September 22nd 2007, the Central Register of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, registered office in Stavanger, Norway. Grupa LOTOS S.A. acquired 100% of the shares in the new entity by paying up its entire share capital of NOK 8,000 thousand (i.e. PLN 3,871 thousand, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for September 17th 2007).
(12) On May 19th 2008, the Management Board of Petrobaltic S.A. made a decision to initiate the registration procedure concerning the increase of the share capital and the acquisition by Petrobaltic S.A. of 80% of the shares in LOTOS Exploration and Production Norge AS. On June 12th 2008, Grupa LOTOS S.A. entered into an agreement with Petrobaltic S.A. to sell to Petrobaltic S.A. 8 million shares in LOTOS Exploration and Production Norge AS, representing 20% of the company's share capital. As a result of this transaction, Petrobaltic S.A. holds 40 million shares, representing 100% of the share capital of LOTOS Exploration and Production Norge AS.

As at December 31st 2008 and December 31st 2007, the Group's shares in the total vote at the General Shareholders Meetings of its subsidiary undertakings were equal to its shares in their share capitals.

3. Composition of the Parent Undertaking's Management and Supervisory Boards

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

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer,
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 these consolidated financial statements the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

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

4. Approval of the Consolidated Financial Statements

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

5. Going Concern

These consolidated financial statements were prepared on the assumption that the Group companies would continue their business activities in the foreseeable future. As at the date of approval of these consolidated financial statements no facts or circumstances have been identified that might pose a threat to the Group's companies continuing as going concerns in the 12 months following the balance-sheet date.

6. Duration of the Group

The duration of the Parent Undertaking and its subsidiary undertakings is unlimited.

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

These consolidated financial statements of the LOTOS Group comprise the balance-sheet data as at December 31st 2008 and the comparable data as at December 31st 2007. The income statement, the cash-flow statement and the statement of changes in the Group'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 December 31st 2007 and for the twelve months then ended contained in these consolidated financial statements was audited. The financial information as at December 31st 2007 and for the year then ended was audited by an auditor who issued an opinion thereon on May 6th 2008.

8. Measurement Currency and Reporting Currency

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

9. Basis for the Preparation of the Consolidated Financial Statements

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and the EU-endorsed IFRS, published and binding as at December 31st 2008.

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

With the exception of the Parent Undertaking and foreign undertakings, the Group companies maintain their accounting books in accordance with the accounting standards specified in the Polish Accountancy Act of

September 29th 1994 (the "Act") and the provisions issued thereunder ("Polish Accounting Standards" – "PAS"). These consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings, and which have been introduced to adjust the financial information concerning these undertakings to the IFRS.

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

The Group 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 Group.

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 *Presentation 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; endorsed 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, endorsed 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 yet endorsed 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 endorsed by the European Union),
- Amendment to IAS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting* (applies to annual periods beginning on or after July 1st 2009, not yet endorsed by the European Union).

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

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

10. Accounting Policies

These consolidated financial statements have been prepared using the historical cost method, except with respect to financial derivatives, which are measured at fair value.

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

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

10.1. Basis for Consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent Undertaking and financial statements of the undertakings it controls, prepared as at December 31st 2008.

The financial statements of the subsidiaries, subject to the restatements made to ensure compliance with the IFRS, are prepared for the same reporting period as the financial statements of the Parent Undertaking, with the use of consistent accounting policies and in accordance with uniform accounting policies applied for transactions and economic events of a similar nature. Adjustments are made in order to eliminate any discrepancies in the adopted accounting policies.

All significant balances and transactions between the Group's undertakings, including significant unrealised profits on intra-group transactions, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of an impairment of value.

Subsidiary undertakings are consolidated starting from the date when the Group assumes control over them and cease to be consolidated when the control is lost. The Company is deemed to exert control when it holds, directly or through its subsidiary undertakings, more than 50% of votes in a given undertaking unless it is possible to prove that the ownership of over 50% of votes is not tantamount to exerting control. The Company's ability to influence a given undertaking's financial and operational policies is also deemed exerting control.

10.2. Investments in Associated Undertakings

Investments in associated undertakings are recognised using the equity method. Associated undertakings are the undertakings over which the Parent Undertaking has significant influence, either directly or indirectly through its subsidiary undertakings, and which are neither its subsidiary undertakings nor interests in joint ventures. The financial statements of associated undertakings serve as a basis for the equity method valuation of the shares held by the Parent Undertaking. Associated undertakings' financial years coincide with the Parent Undertaking's financial year.

Investments in associated undertakings are initially recognised in the balance-sheet at acquisition cost, adjusted for subsequent changes in the Parent Undertaking's share in the net assets of the associated undertakings, and reduced by impairment losses, if any. The income statement includes the Parent Undertaking's share of the profits and losses of the associated undertakings. In the case of a change recognised directly in an associated undertaking's equity, the Parent Undertaking recognises its share in such change and, if applicable, discloses it in the statement of changes in equity.

10.3. Intangible Assets

Intangible assets are recognised if the Group is likely to obtain future economic benefits attributable directly to the assets. Initially, intangible assets are recognised at acquisition or production cost, if they are acquired in separate transactions. Intangible assets acquired as part of the acquisition of a business are recognised 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.

The Group capitalises and recognises as an intangible asset both the licence fees for the exploration and identification of crude oil and natural gas reserves as well as the fees under the concluded mining use agreements for the exploration and identification of crude oil and natural gas reserves. The commencement and execution of the exploration work is conditional upon obtaining relevant licence and establishing the mining use.

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

The expected useful lives of the Group's intangible assets range from 2 to 25 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 Group is not capitalised and is disclosed under expenses for the period in which they were incurred.

10.4. Goodwill Related to Subordinated Undertakings

The goodwill relating to acquisition of a business undertaking is initially recognised at acquisition cost, equal to the excess of the cost of the business combination over the acquiring undertaking's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired undertaking. Following the initial recognition, goodwill is carried at acquisition cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Group calculates any impairment of value by estimating recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its carrying value, the Group recognises impairment losses. If goodwill comprises a part of a cash-generating unit and the Group sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the carrying value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, *pro-rata* to the interest in the retained part of the cash-generating unit.

10.5. 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.

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

Buildings and structures	1–80 years	1.14% - 30%
Plant and equipment	1–25 years	1.4% - 50%
Vehicles	1–15 years	6% - 50%
Other property, plant and equipment	1–10 years	6.67% - 33.33%

Property, plant and equipment used for production activities are depreciated with the use of unit-of-production method, i.e. depreciation per unit of produced crude oil is charged to expenses. The depreciation rate is estimated in reference to forecasts of crude oil production from a given geological area. If the estimated reserves change significantly as at the balance-sheet date, depreciation per unit of produced crude oil is re-valued. Then, starting from the new financial year, the re-valued depreciation rate is applied.

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 on an annual basis – 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.

In its consolidated financial statements, under property, land and equipment, the Group discloses an asset corresponding to the value of provision for the decommissioning of an oil rig. The asset was created in accordance with IAS 16: *Property, Plant and Equipment*, which reads: “The cost of an item of property, land and equipment comprises … the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period”. The Group’s obligation to incur costs of decommissioning of the Offshore Oil Rigs results directly from the reasons specified in IAS 16. Under Paragraph 63 of the same standard, the entities applying the IAS are obliged to test the value of an asset periodically, at least at each balance-sheet date. It should further be emphasised that the International Financial Reporting Interpretations Committee (IFRIC) has issued Interpretation IFRIC 1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Interpretation directly refers to, *inter alia*, IAS 16, including in particular to the revaluation of an asset recognised as future decommissioning cost. Revaluation of an asset so recognised may be caused by:

- change in estimated cash used to ensure the performance of the decommissioning obligation,
- change in the current market discount rate,
- increase in the value resulting from the passage of time – shortening of the time remaining until decommissioning, leading to the adjustment of the discount rate.

The Group complied with IFRIC’s requirement in this respect, therefore these consolidated financial statements show the asset at its present value.

10.6. 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.
The cost of exploration for crude oil and natural gas reserves is capitalised as tangible assets under construction until the size of the deposit and the economic viability of production are determined. Upon confirmation of the existence of deposits whose exploitation is technically and economically viable, the expenditure incurred on the exploration activities is transferred to tangible assets and is subsequently depreciated. If exploration drillings do not result in discovery of any deposits whose exploitation is technically and economically viable, impairment losses on tangible assets under construction are recognised in the profit or loss of the period in which it is found that there is no possibility of any economic utilisation of the discovered deposits.

10.7. Expenditure on Exploration and Appraisal of Resources

Assets related to exploration and appraisal of mineral resources comprise expenditure on exploration and appraisal of mineral resources disclosed as assets in accordance with the accounting policies adopted by the Group. The expenditure on exploration and appraisal of mineral resources includes expenses incurred by the Group in connection with exploration and appraisal of mineral resources before technical and economic viability of exploitation of the mineral resources can be proven. The exploration and appraisal of mineral resources involves the exploration for mineral resources, including crude oil, natural gas and similar non-renewable resources, after the company has obtained the licence to conduct exploration work in a given area, and the determination of the technical and commercial viability of exploitation of the mineral resources. The Group classifies assets related to exploration and appraisal of mineral resources as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner. After the technical and commercial viability of exploitation of mineral resources has been proven, the Group no longer classifies such assets as related to exploration and evaluation of mineral resources. The Group presents and discloses impairment losses on assets related to exploration and appraisal of mineral resources in accordance with IFRS 6 and evaluates such assets in accordance with IAS 36. The impairment losses are recognised in profit or loss, in accordance with IAS 36.

The Group examines a need to recognise impairment losses on assets related to exploration and appraisal of mineral resources by considering, *inter alia*, the following circumstances related to a given area of exploration:

– the term for which the company was granted the licence to conduct exploration work expired in the course of the current financial period or will expire in the near future, and no extension of the term is envisaged;

– the Group does not expect to incur significant expenditure for further exploration and appraisal of mineral resources;

– exploration and appraisal of mineral resources did not result in discovery of any commercial mineral resources and the company decided to discontinue its exploration activities;

– available data suggests that despite continuation of the development work, the carrying value of the assets related to exploration and appraisal of mineral resources could not be fully recovered, even if the development work is successfully completed or the assets are sold.

10.8. Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership onto the lessee. All other types of leases are treated as operating leases.

The Group as a Lessor

Finance leases are disclosed in the balance sheet as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for the given reporting period calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.
Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.
Income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

The Group as a Lessee

Assets used under a finance lease are recognised as assets of the Group and at initial recognition are measured at fair value or, if lower, the present value of the minimum lease payments. The resultant obligation towards the lessor is presented in the balance sheet under finance lease liabilities. Lease payments are broken down into the interest component and the principal component so as to produce a constant rate of interest on the remaining balance of the liability. Finance expense is charged to profit or loss.
Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

10.9. Non-Current Assets Held For Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to be met only if the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

10.10. Impairment Losses on Non-Financial Assets

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

10.11. Investment Property

Investment property is valued at acquisition cost less accumulated depreciation and impairment losses.
Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Group does not use for its own purposes but which will generate benefits in the form of value appreciation or income from rent.

10.12. Inventories

Inventories are valued 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.

10.13. Trade and Other Receivables

Trade receivables, which typically become due and payable in 7 to 60 days, are valued and recognised at amounts initially invoiced, accounting for any impairment charges for doubtful receivables. Impairment charges for receivables are estimated when the collection of the full amount of receivables 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.

10.14. Foreign Currency Transactions

Transactions denominated in foreign currencies are reported in the functional currency of the Group companies (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 purposes of balance-sheet valuation:

Mid exchange rate quoted by NBP as at	**Dec 31 2008**	**Dec 31 2007**
USD	2.9618	2.4350
EUR	4.1724	3.5820

The financial statements of foreign undertakings are translated into the Polish currency at the following exchange rates:
- items of the balance sheet – at the mid exchange rate quoted by the National Bank of Poland for the balance-sheet date;
- items of the income statement – at the exchange rate computed as the arithmetic mean of mid exchange rates quoted by the National Bank of Poland for the days ending each financial month. The resulting currency-translation differences are recognised directly in equity as a separate component.

At the time of disposal of a foreign undertaking, the accumulated deferred currency-translation differences recognised in equity and relating to this foreign undertaking are transferred to the income statement.

10.15. 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 consolidated 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.

10.16. Accruals and Deferrals

The Group recognises prepayments if they relate to future reporting periods.

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

Employees of the Group undertakings are entitled to holidays in accordance with the rules set forth in the Polish Labour Code, The Group 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.

10.17. Equity

Equity is recognised in the consolidated financial statements by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of the LOTOS Group is the share capital of the Parent Undertaking and is recognised 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.

10.18. Provisions

Provisions are created when the Group has an obligation (legal or following from commercial practice) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation may be reliably estimated. If the Group anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate item of assets, but only when such recovery is practically certain to occur. The cost related to a given provision is disclosed in the income statement, less any recoveries. If the effect of the time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to their 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 obligation. If the discount method is applied, an increase in provisions as a result of lapse of time is recognised as financial expenses.

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

In accordance with the company remuneration systems applied by the LOTOS Group companies, the Group'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.

10.20. Profit Distribution for Employee Benefits and Special Accounts

According to the business practice followed in Poland, company shareholders have the right to allocate a part of profit for employee benefits in the form of contributions to the Company's social benefits fund and for other special accounts. In the financial statements prepared in accordance with the IFRS such distributions are charged to operating expenses of the period which the distribution concerns.

10.21. 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.

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 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.

10.22. Borrowing Costs

Borrowing costs 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 borrowing costs which may be capitalised as part of such asset is determined as the difference between the actual borrowing costs 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 borrowing costs which may be capitalised is determined by applying the capitalisation rate to the capital expenditure on that asset.

10.23. 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.

10.24. Carbon Dioxide (CO_2) Emission Allowances

The Group recognises carbon emission allowances in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the emission 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.

10.25. 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 items 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 consolidated 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), and
- \- in the case of taxable temporary differences associated with investments in subsidiary or associated undertakings, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax assets, 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), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated undertakings and interests in joint ventures, the related deferred tax asset is recognised in the balance sheet to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

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.

Deferred tax assets and deferred tax liability are recognised in the balance sheet in the amount obtained after they are offset for particular undertakings consolidated within the Group.

10.26. 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 (financial assets and liabilities) 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 Group 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.

10.27. Derivative Financial Instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. In addition, the Group relies on full barrel swaps to hedge its exposure to raw material and petroleum product prices, uses futures contracts to manage its exposure to prices of carbon dioxide (CO_2) emission allowances, and enters into IRSs and FRAs to hedge its interest rate exposure.
Derivative financial instruments of this type are measured at fair value. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The 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.

10.28. Impairment of Financial Assets

As at each balance-sheet date the Group 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 Group 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 Group 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, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, 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.

10.29. Recognition of Revenue

Revenue is recognised in the amount of probable economic benefits to be derived by the Group which may be reliably estimated.

10.30. 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.

10.31. Interest

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

10.32. Dividend

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.

10.33. 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, goodwill, merger transactions, financial assets, and the deferred tax asset. The material assumptions used in the estimates are described in the relevant notes.

Valuation of Provisions

Provisions for employee benefits are estimated with actuarial methods once a year, unless major changes to the assumptions underlying the estimates occur during a given year.

Depreciation/Amortisation Charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group 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 Group relies on professional judgment.

Deferred Tax Asset

The Group 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.

10.34. Net Earnings/(Loss) per Share

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

10.35. 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 contingent receivables is disclosed if an inflow of funds embodying economic benefits is probable.

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

(PLN '000)	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Land	227,871	214,173
Buildings and structures	1,705,246	1,729,902
Plant and equipment	616,571	679,138
Vehicles and other tangible assets	235,464	255,868
Tangible assets under construction	2,747,460	592,166
- including capitalised financing costs	161,033	3,860
Total property, plant and equipment	**5,532,612**	**3,471,247**
Prepayments for tangible assets under construction	1,200,713	781,780
- including capitalised financing costs	37,612	6,953
Total	**6,733,325**	**4,253,027**

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

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

(PLN '000)	Land	Buildings and structures	- mineral resources exploration and appraisal assets (1)	Plant and equipment	Vehicles and other	Tangible assets under construction	- mineral resources exploration and appraisal assets (1)	Prepayments for tangible assets under construction	Total
Gross book value as at Jan 1 2007 (audited)	**218,769**	**1,933,758**	**128,016**	**1,175,822**	**543,414**	**353,335**	**58,240**	**148,018**	**4,373,116**
Increase, including:	3,790	172,575	136	62,369	(47,795)	288,703	10,799	681,601	1,161,243
- purchase	38	-	-	389	16,059	470,193	10,799	681,601	1,168,280
- transfer from investments	4,453	82,933	136	59,125	11,810	(181,834)	-	-	(23,513)
- transfer	-	78,983	-	(13)	(78,991)	-	-	-	(21)
- reclassified to assets available for sale	(1,144)	(3,429)	-	(183)	(68)	-	-	-	(4,824)
- reclassified from assets available for sale	-	451	-	59	13	-	-	-	523
- changes in the structure of the Group	443	13,626	-	2,920	3,376	335	-	-	20,700
- other	-	11	-	72	6	9	-	-	98
Decrease	(1,133)	(10,186)	(3,878)	(6,091)	(23,438)	(7,274)	-	(47,839)	(95,961)
- sale	(1,133)	(435)	-	(1,229)	(5,672)	(141)	-	-	(8,610)
- liquidation	-	(8,591)	(3,878)	(4,348)	(4,989)	-	-	-	(17,928)
- assets related to decommissioning of the Offshore Oil Rigs	-	(923)	-	-	-	-	-	-	(923)
- currency translation differences on foreign operations	-	-	-	(378)	(12,762)	-	-	-	(13,140)
- other	-	(237)	-	(136)	(15)	(7,133)	-	(47,839)	(55,360)
Gross book value as at Dec 31 2007 (audited)	**221,426**	**2,096,147**	**124,274**	**1,232,100**	**472,181**	**634,764**	**69,039**	**781,780**	**5,438,398**

(PLN '000)	Land	Buildings and structures	- mineral resources exploration and appraisal assets (1)	Plant and equipment	Vehicles and other	Tangible assets under construction	- mineral resources exploration and appraisal assets (1)	Prepayments for tangible assets under construction	Total
Gross book value as at Jan 1 2008 (audited)	**221,426**	**2,096,147**	**124,274**	**1,232,100**	**472,181**	**634,764**	**69,039**	**781,780**	**5,438,398**
Increase	17,597	90,561	2,430	78,067	51,510	2,229,361	25,671	778,958	3,246,054
- purchase	-	-	-	1,412	17,017	2,241,124	28,049	748,294	3,007,847
- transfer from investments	18,255	69,137	2,430	76,057	15,930	(187,922)	(2,430)	-	(8,543)
- transfer	(443)	(1,726)	-	104	8,689	(3,010)	-	-	3,614
- reclassified to assets available for sale	(1,165)	(122)	-	-	(4,546)	-	-	-	(5,833)
- reclassified from assets available for sale	933	-	-	-	1	-	-	-	934
- currency translation differences on foreign operations	-	-	-	494	14,247	-	-	-	14,741
- assets related to decommissioning of the Offshore Oil Rigs	-	23,094	-	-	-	6,950	52	-	30,044
- borrowing costs	-	-	-	-	-	157,173	-	30,659	187,832
- other	17	178	-	-	172	15,046	-	5	15,418
Decrease	(1,984)	(4,802)	-	(4,994)	(17,854)	(76,076)	-	(360,025)	(465,735)
- sale	(1,984)	(4,335)	-	(1,252)	(15,348)	(74,964)	-	-	(97,883)
- liquidation	-	(292)	-	(3,736)	(2,503)	(45)	-	-	(6,576)
- currency translation differences on foreign operations	-	-	-	-	(3)	-	-	-	(3)
- other	-	(175)	-	(6)	-	(1,067)	-	(360,025)	(361,273)
Gross book value as at Dec 31 2008 (audited)	**237,039**	**2,181,906**	**126,704**	**1,305,173**	**505,837**	**2,788,049**	**94,710**	**1,200,713**	**8,218,717**

(PLN '000)	Land	Buildings and structures	- mineral resources exploration and appraisal assets [1]	Plant and equipment	Vehicles and other	Tangible assets under construction	- mineral resources exploration and appraisal assets [1]	Prepayments for tangible assets under construction	Total
Accumulated depreciation as at Jan 1 2007 (audited)	**6,069**	**249,892**	**16,159**	**424,921**	**183,525**	**-**	**-**	**-**	**864,407**
Increase	1,384	115,228	6,584	130,466	44,638	-	-	-	291,716
- depreciation	1,450	105,070	6,584	130,335	55,051	-	-	-	291,906
- transfer	-	10,887	-	(16)	(10,984)	-	-	-	(113)
- reclassified to assets available for sale	(66)	(810)	-	(139)	(67)	-	-	-	(1,082)
- reclassified from assets available for sale	-	55	-	44	9	-	-	-	108
- changes in the structure of the Group	-	-	-	229	584	-	-	-	813
- other increases	-	26	-	13	45	-	-	-	84
Decrease	(211)	(1,795)	(1,047)	(4,323)	(12,665)	-	-	-	(18,994)
- sale	(211)	(27)	-	(791)	(3,859)	-	-	-	(4,888)
- liquidation	-	(1,631)	(1,047)	(3,186)	(3,857)	-	-	-	(8,674)
- currency translation differences on foreign operations	-	-	-	(282)	(4,925)	-	-	-	(5,207)
- other	-	(137)	-	(64)	(24)	-	-	-	(225)
Accumulated depreciation as at Dec 31 2007 (audited)	**7,242**	**363,325**	**21,696**	**551,064**	**215,498**	**-**	**-**	**-**	**1,137,129**

(PLN '000)	Land	Buildings and structures	- mineral resources exploration and appraisal assets (1)	Plant and equipment	Vehicles and other	Tangible assets under construction	- mineral resources exploration and appraisal assets (1)	Prepayments for tangible assets under construction	Total
Accumulated depreciation as at Jan 1 2008 (audited)	**7,242**	**363,325**	**21,696**	**551,064**	**215,498**	**-**	**-**	**-**	**1,137,129**
Increase	1,568	108,832	8,006	135,315	57,677	-	-	-	303,392
- depreciation	1,529	109,345	8,006	135,058	50,591	-	-	-	296,523
- transfer	-	(513)	-	(132)	(23)	-	-	-	(668)
- reclassified from assets available for sale	39	-	-	-	1	-	-	-	40
- currency translation differences on foreign operations	-	-	-	389	7,008	-	-	-	7,397
- other increases	-	-	-	-	100	-	-	-	100
Decrease	(67)	(483)	-	(3,181)	(10,965)	-	-	-	(14,696)
- sale	(67)	(417)	-	(739)	(8,492)	-	-	-	(9,715)
- liquidation	-	(37)	-	(2,439)	(2,472)	-	-	-	(4,948)
- currency translation differences on foreign operations	-	-	-	-	(1)	-	-	-	(1)
- other	-	(29)	-	(3)	-	-	-	-	(32)
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Accumulated depreciation as at December 31 2008 (audited)	**8,743**	**471,674**	**29,702**	**683,198**	**262,210**	**-**	**-**	**-**	**1,425,825**

(PLN '000)	Land	Buildings and structures	- mineral resources exploration and appraisal assets [1]	Plant and equipment	Vehicles and other	Tangible assets under construction	- mineral resources exploration and appraisal assets [1]	Prepayments for tangible assets under construction	Total
Impairment losses as at Jan 1 2007 (audited)	**329**	**6,632**	**-**	**3,934**	**2,265**	**10,692**	**8,147**	**-**	**23,852**
Increase	11	922	-	516	699	31,916	7,231	-	34,064
Decrease	(329)	(4,634)	-	(2,552)	(2,149)	(10)	-	-	(9,674)
Impairment losses as at Dec 31 2007 (audited)	**11**	**2,920**	**-**	**1,898**	**815**	**42,598**	**15,378**	**-**	**48,242**
Impairment losses as at Jan 1 2008 (audited)	**11**	**2,920**	**-**	**1,898**	**815**	**42,598**	**15,378**	**-**	**48,242**
Increase	414	3,135	-	4,199	8,138	401	66	-	16,287
Decrease	-	(1,069)	-	(693)	(790)	(2,410)	-	-	(4,962)
Impairment losses as at Dec 31 2008 (audited)	**425**	**4,986**	**-**	**5,404**	**8,163**	**40,589**	**15,444**	**-**	**59,567**

(PLN '000)	Land	Buildings and structures	- mineral resources exploration and appraisal assets [1]	Plant and equipment	Vehicles and other	Tangible assets under construction	- mineral resources exploration and appraisal assets [1]	Prepayments for tangible assets under construction	Total
Net book value as at Jan 1 2007 (audited)	**212,371**	**1,677,234**	**111,857**	**746,967**	**357,624**	**342,643**	**50,093**	**148,018**	**3,484,857**
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Net book value as at Dec 31 2007 (audited)	**214,173**	**1,729,902**	**102,578**	**679,138**	**255,868**	**592,166**	**53,661**	**781,780**	**4,253,027**
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Net book value as at Dec 31 2008 (audited)	**227,871**	**1,705,246**	**97,002**	**616,571**	**235,464**	**2,747,460**	**79,266**	**1,200,713**	**6,733,325**
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[1]Mineral resources exploration and appraisal assets disclosed under property, plant and equipment and prepayments for tangible assets under construction include the value of production wells and exploration wells.

As at December 31st 2008, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 1,698,295 thousand (as at December 31st 2007, it amounted to PLN 575,331 thousand).

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 187,832 thousand (PLN 10,813 thousand in year ended December 31st 2007).

As at December 31st 2008, the net value of the asset related to the decommissioning of the oil rig, referred to in Note 10.5, amounted to PLN 75,076 thousand (PLN 58,005 thousand as at December 31st 2007).

The cost of depreciation of mineral resources exploration and appraisal assets in the period of twelve months ended December 31st 2008 amounted to PLN 9,375 thousand (PLN 6,754 thousand in the year ended December 31st 2007).

In the period of twelve months ended December 31st 2008, the impairment losses on mineral resources exploration and appraisal assets amounted to PLN 66 thousand (PLN 7,231 thousand as at December 31st 2007).

As at December 31st 2008 and December 31st 2007, the fair value of perpetual usufruct rights to land obtained by virtue of administrative decisions and disclosed as off-balance-sheet items was PLN 163,446 thousand.

Prospects for Development of B-4 and B-6 Gas Fields

The item "Tangible assets under construction" includes expenditure of PLN 47,937 thousand incurred by Petrobaltic S.A. in connection with exploration for gas at the B-4 and B-6 fields. Petrobaltic S.A. commissioned an analysis of the economic viability of development of these fields. According to the findings of the analysis, significant capital expenditure is required to obtain profitable commercial production of hydrocarbons. Despite the envisaged excess of revenue from sale of products to be obtained by exploitation of the reserves over the cost of their development and production, no expenditure on this project is expected in the medium term. The Management Board of Petrobaltic S.A. maintains that, regardless of the necessity to make significant investments, in view of the strategic nature of the reserves and the changing prices and terms of delivery of imported energy materials, their development is possible if the investment plans of Petrobaltic S.A. and Grupa LOTOS S.A. are synchronised.
The activities currently under way amongst other things take into account the possibility of finding a partner with whom the company would be able to jointly develop the B–4 and B–6 gas fields. The geological analyses and analyses of reserves carried out to date by Petrobaltic S.A.'s potential partners have confirmed the positive assessment of the fields, opening up a possibility for future collaboration that would lead to the implementation of a joint project. The Company addressed to its potential partners terms of reference for bids related to development of the B-4 and B-6 fields on a partnership basis.

Information on Interests in Norwegian Production and Exploration Licences

The item "Tangible assets under construction" includes expenditure of PLN 1,091,974 thousand incurred by LOTOS Exploration and Production Norge AS for the purchase of interests in Norwegian production and exploration licences (interests in the YME field).

Purchase of Interests in Norwegian Production Licences

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

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

The agreement's entry into effect was conditional upon its approval by the General Shareholders Meeting of Petrobaltic S.A. and the Norwegian Ministry of Energy and Petroleum. The Ministry could only issue its approval after the process of formal prequalification of E&P Norge AS to conduct business on the Norwegian Continental Shelf has been completed.

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

The transaction was financed using a loan and the proceeds from an increase in the company share capital by Petrobaltic S.A.

The transaction was secured with an unconditional and irrevocable guarantee issued by Petrobaltic S.A. for the benefit of REVUS Energy ASA. Following the performance of the agreement by LOTOS Exploration and Production Norge AS, the guarantee expired and the guarantee document was returned to the issuer by REVUS Energy ASA (see Note 42).

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

On October 22nd 2008, LOTOS Exploration and Production Norge AS (a member of the LOTOS Group) signed an agreement with Norwegian company Det Norske Oljeselskap ASA concerning purchase of another 10% interest in the North Sea production licences No. PL 316, PL 316B, PL 316CS and PL 316DS. The transaction was the second transaction of purchase of interests in the YME field by LOTOS Exploration and Production Norge AS in 2008. The agreement provided for its entry into force after its approval by the Norwegian Ministry of Energy and Petroleum and the Norwegian Ministry of Finance.

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

Upon the fulfilment of all the conditions precedent, on December 30th 2008 LOTOS Exploration and Production Norge AS acquired all the rights and obligations connected with the ownership of 10% interests in the North Sea production licences PL 316, PL 316B, PL 316CS and PL 316DS covering the YME field. The licences purchased from Det Norske Oljeselskap ASA cover the YME field development plan and exploration areas. In connection with the transaction, on January 20th 2009, the company paid the amount of NOK 547m (the equivalent of PLN 257.8m, translated at the NOK/PLN mid-exchange rate published by the National Bank of Poland for January 20th 2009), covering: the purchase price, capital expenditure connected with the development of the YME field and costs of exploration work in the licence areas incurred between the economic date of the transaction and the date of its settlement, plus the interest accrued for the period. The transaction was financed using a loan and the proceeds from an increase in the company share capital by Petrobaltic S.A.

As a result of the finalisation of the two transactions carried out in 2008, LOTOS Exploration and Production Norge AS has come to hold in total 20% of the interests in the YME field, which corresponds to recoverable crude oil reserves (as estimated by the operator – Talisman) of 13.6 million barrels (approx. 1,800 thousand tonnes).

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

On August 26th 2008, LOTOS Exploration and Production Norge AS entered into an agreement on the purchase of a 20% interest in exploration licence PL455, covering an area of 1,365km2 located in the southern part of the Norwegian sector of the North Sea. LOTOS Exploration and Production Norge AS signed the agreement with Noreco, a Norwegian exploration and production company. LOTOS Exploration and Production Norge AS will acquire a 20% interest in the licence in exchange for covering 40% of the estimated expenditure to be incurred by Noreco on the performance of seismic surveys under the PL455 licence, i.e. approx. NOK 38m (the equivalent of PLN 15.9m, translated using the mid-exchange rate for NOK quoted by the National Bank of Poland for August 26th 2008). The transaction was to take effect once relevant approvals have been obtained from the Norwegian Ministry of Finance and the Ministry of Energy and Petroleum. Licence PL455 was granted to Noreco as part of the qualification round APA 2007. Noreco is also the licence operator and – after the transaction with LOTOS Exploration and Production Norge AS – holds a 50% interest in the licence. The seismic survey is scheduled for the years 2008–2009, and in 2010 the licence area will be drilled to confirm its potential. In accordance with the Norwegian tax law, if the exploration proves unsuccessful, 78% of the incurred expenditure may be reimbursed.

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

Volume of the Crude Oil and Natural Gas Reserves Held by the LOTOS Group

As at December 31st 2008, the LOTOS Group had the following reserves of crude oil and natural gas:

Crude oil (category 2P*) – 5.0m tonnes,
Natural gas (category 2P*) – 4.4m cubic metres.

*2P – proved and probable reserves.

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, the Parent Undertaking 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 4.5m 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, procurement 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. Non-Current Receivables

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Non-current receivables	9,152	12,668
Total	**9,152**	**12,668**

Non-current receivables represent mainly the expenditure on branding DOFO service stations, operated by dealers under 10-year contracts.

13. Prepayments and Accrued Income

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Property and other insurance	20,441	16,360
Overhauls	13,171	22,566
Rent and lease payments	19,924	3,384
Other	5,086	3,534
Total	**58,622**	**45,844**
Current portion	45,863	31,868
Non-current portion	12,759	13,976

14. Investment Property

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Gross value at beginning of period	**4,387**	**6,887**
Increase, including:	6,953	-
- transfer from property, plant and equipment	6,953[1]	-
Decrease, including:	(4,555)	(2,500)
- sale	(4,555)[1]	(2,500)
Gross value at end of period	**6,785**	**4,387**
Impairment losses at beginning of period	**942**	**1,314**
Increase	945	-
Decrease	-	(372)
Impairment losses at end of period	**1,887**	**942**
Net value at beginning of period	**3,445**	**5,573**
Net value at end of period	**4,898**	**3,445**

(1) Including the value of investments in real property, comprising buildings with office and amenity space and production floors with the related infrastructure.

As at December 31st 2008, investment property, including investments in land, perpetual usufruct of land, buildings and structures, included also property which the Company does not use for its own purposes but which generate benefits in the form of value appreciation or rent income.

15. Intangible Assets

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Development expense	184	286
Software	5,987	6,243
Patents, trademarks and licences	47,464	55,228
Other	2,286	3,242
Total	**55,921**	**64,999**

Changes to Intangible Assets

PLN '000	**Development expense**	**Software**	**Patents, trademarks and licences**	- mineral resources exploration and appraisal assets [1]	**Other**	- mineral resources exploration and appraisal assets [1]	**Total**
Gross book value as at Jan 1 2007 (audited)	**528**	**13,893**	**64,065**	**1,132**	**4,148**	**1,620**	**82,634**
Increase, including:	-	1,493	20,435	1,456	1,686	1,608	23,614
- purchase	-	6	-	-	-	-	6
- transfer from investments	-	1,488	20,339	1,456	1,686	1,608	23,513
- contribution in kind	-	-	-	-	-	-	-
- transfer	-	(97)	96	-	-	-	(1)
- changes in the structure of the Group	-	96	-	-	-	-	96
-other	-	-	-	-	-	-	-
Decrease, including:	-	(51)	(11)	-	-	-	(62)
- sale	-	(2)	-	-	-	-	(2)
- liquidation	-	(43)	(11)	-	-	-	(54)
- currency translation differences on foreign operations	-	(6)	-	-	-	-	(6)
Gross book value as at Dec 31 2007 (audited)	**528**	**15,335**	**84,489**	**2,588**	**5,834**	**3,228**	**106,186**
Gross book value as at Jan 1 2008 (audited)	**528**	**15,335**	**84,489**	**2,588**	**5,834**	**3,228**	**106,186**
Increase, including:	-	2,882	5,781	191	1,586	172	10,249
- purchase	-	-	1,681	-	-	-	1,681
- transfer from investments	-	2,836	5,311	191	396	172	8,543
- transfer	-	44	(1,211)	-	1,127	-	(40)
- currency translation differences on foreign operations	-	2	-	-	-	-	2
- other	-	-	-	-	63	-	63
Decrease, including:	-	(251)	(1,854)	-	-	-	(2,105)
- sale	-	-	-	-	-	-	-
- liquidation	-	(248)	(331)	-	-	-	(579)
- currency translation differences on foreign operations	-	-	(31)	-	-	-	(31)
- other	-	(3)	(1,492)	-	-	-	(1,495)
Gross book value as at Dec 31 2008 (audited)	**528**	**17,966**	**88,416**	**2,779**	**7,420**	**3,400**	**114,330**

PLN '000	Development expense	Software	Patents, trademarks and licences	- mineral resources exploration and appraisal assets (1)	Other	- mineral resources exploration and appraisal assets (1)	Total
Accumulated amortisation as at Jan 1 2007 (audited)	**163**	**6,215**	**19,081**	**631**	**1,292**	**539**	**26,751**
Increase, including:	106	2,875	10,191	372	1,300	381	14,472
- amortisation	106	2,820	10,191	372	1,300	381	14,417
- changes in the structure of the Group	-	56	-	-	-	-	56
- transfer	-	(1)	-	-	-	-	(1)
- other increases	-	-	-	-	-	-	-
Decrease, including:	-	(49)	(11)	-	-	-	(60)
- sale	-	(2)	-	-	-	-	(2)
- liquidation	-	(43)	(11)	-	-	-	(54)
- currency translation differences on foreign operations	-	(4)	-	-	-	-	(4)
Accumulated amortisation as at Dec 31 2007 (audited)	**269**	**9,041**	**29,261**	**1,003**	**2,592**	**920**	**41,163**
Accumulated amortisation as at Jan 1 2008 (audited)	**269**	**9,041**	**29,261**	**1,003**	**2,592**	**920**	**41,163**
Increase, including:	102	3,125	12,022	662	2,542	707	17,791
- amortisation	102	3,092	13,004	662	1,608	707	17,806
- transfer	-	33	(982)	-	934	-	(15)
- other increases	-	-	-	-	-	-	-
Decrease, including:	-	(238)	(331)	-	-	-	(569)
- liquidation	-	(235)	(331)	-	-	-	(566)
- other	-	(3)	-	-	-	-	(3)
Accumulated amortisation as at Dec 31 2008 (audited)	**371**	**11,928**	**40,952**	**1,665**	**5,134**	**1,627**	**58,385**
Impairment losses as at Jan 1 2007 (audited)	**(27)**	**52**	**-**	**-**	**-**	**-**	**25**
Increase	-	-	-	-	-	-	-
Decrease	-	(1)	-	-	-	-	(1)
Impairment losses as at Dec 31 2007 (audited)	**(27)**	**51**	**-**	**-**	**-**	**-**	**24**
Impairment losses as at Jan 1 2008 (audited)	**(27)**	**51**	**-**	**-**	**-**	**-**	**24**
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Impairment losses as at Dec 31 2008 (audited)	**(27)**	**51**	**-**	**-**	**-**	**-**	**24**

PLN '000	Development expense	Software	Patents, trademarks and licences	- mineral resources exploration and appraisal assets [1]	Other	- mineral resources exploration and appraisal assets [1]	Total
Net book value as at Jan 1 2007 (audited)	**392**	**7,626**	**44,984**	**501**	**2,856**	**1,081**	**55,858**
	=======	=======	=======	=======	=======	=======	=======
Net book value as at Dec 31 2007 (audited)	**286**	**6,243**	**55,228**	**1,585**	**3,242**	**2,308**	**64,999**
	=======	=======	=======	=======	=======	=======	=======
Net book value as at Dec 31 2008 (audited)	**184**	**5,987**	**47,464**	**1,114**	**2,286**	**1,773**	**55,921**
	=======	=======	=======	=======	=======	=======	=======

[1] Mineral resources exploration and appraisal assets disclosed under intangible assets include the value of royalties under the licences for prospecting and exploration of crude oil and natural gas deposits, as well as remuneration due under the mining use agreements for prospecting and exploration of crude oil and natural gas deposits.

16. Assets Held for Sale

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Land	1,376	1,309
Buildings and structures	2,676	2,914
Plant and equipment	33	42
Vehicles	4,546	-
Other property, plant and equipment	-	1
Total	**8,631**	**4,266**

Assets held for sale represent items that the Group intends to sell within twelve months from the change of their classification.

Assets held for sale include, *inter alia*, land owned, perpetual usufruct right to land, buildings, structures, plant and equipment related to service stations and the storage and reloading base (logistics assets), as well as vehicles (railway engines).

17. Business combinations

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Carrying value of consolidation goodwill:		
LOTOS Partner Sp. z o.o.	1,862	1,862
LOTOS Gaz S.A. [1]	10,009	10,009
KRAK-GAZ Sp. z o.o.[2]	-	12,645
Total	**11,871**	**24,516**
Carrying value of acquisition goodwill [3], including:		
- purchase of ESSO service stations network	31,759	31,759
- purchase of Slovnaft Polska S.A. service stations network	1,932	1,932
Total	**33,691**	**33,691**
Total goodwill	**45,562**	**58,207**

[1] formerly LOTOS Mazowsze S.A. The goodwill relates to an organized part of LOTOS Gaz S.A.'s business (wholesale of fuels) acquired by LOTOS Paliwa Sp. z o.o.

(2) Acquisition of KRAK-GAZ Sp. z o.o. shares by LOTOS Gaz S.A.

Upon obtaining the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.) of control over KRAK-GAZ Sp. z o.o. by purchasing its shares, on July 9th 2007 LOTOS Gaz S.A. entered into the final agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. Prior to obtaining approval from the Competition and Consumer Protection Office, on March 26th 2007 LOTOS Gaz S.A. concluded a conditional preliminary agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. from natural persons.
The shares, with a total par value of PLN 3,450 thousand, are equal and indivisible, and represent 100% of the share capital of KRAK-GAZ Sp. z o.o. The acquisition is deemed a long-term investment by LOTOS Gaz S.A.

The shares were acquired for PLN 16,368 thousand, and the transaction was financed with LOTOS Gaz S.A.'s own financial resources. The acquisition cost (the cost of merger) was affected by additional expenses incurred by LOTOS Gaz S.A. in connection with tax and financial consulting services.
The core business of KRAK-GAZ Sp. z o.o. consists in wholesale and retail distribution of LPG.

Pursuant to IFRS 3, as at the date an entity is taken over, i.e. as at the acquisition date, the acquirer is obliged to allocate the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date. Any difference between the acquisition cost and the acquirer's interest in the value of the assets, liabilities and contingent liabilities so measured constitutes the goodwill.
The allocation is made exclusively with respect to those assets and liabilities that exist on the acquisition date. In addition, IFRS 3 prohibits, in relation to the acquired net assets, the creation of provisions for operating losses of future periods as they are an item arising after the acquisition.
As at the date of these consolidated financial statements, LOTOS Gaz S.A., in accordance with the above policies, recognised the difference between the acquisition cost of businesses and the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities as goodwill.

As a result of acquisition of KRAK-GAZ Sp. z o.o. goodwill was recognised which as at December 31st 2007 represents the difference between the acquisition cost and the value of acquired assets, in the amount of PLN 12,645 thousand.

(PLN '000)	
Merger cost (acquisition cost)	**17,329**
Interest in the equity of acquired undertakings	100.00%
Current assets, including:	42,987
Cash and cash equivalents	91
Non-current assets	20,210
Total assets	**63,197**
Provisions and other	792
Current liabilities and accruals and deferred income	57,721
Total liabilities	**58,513**
Net assets	**4,684**
The Company's share in net assets	**4,684**
Excess of the share in net assets over acquisition cost	**12,645**

By December 31st 2008, LOTOS Gaz S.A. had discharged the liabilities related to the acquisition of the shares in the amount of PLN 15,711 thousand. The value of acquired shares in KRAK-GAZ Sp. z o.o., less the acquired cash in the amount of PLN 91 thousand, is PLN 15,738 thousand.

As at December 31st 2008, following the events which are discussed below, the Group recognised an impairment loss in the total amount of PLN 12,645 thousand on the goodwill arising on the acquisition of KRAK–GAZ Sp. z o.o. by LOTOS Gaz S.A.

On June 20th 2008, the Tax Supervision Authority in Kraków issued a post-inspection report as part of the proceedings instituted on November 21st 2006 (i.e. prior to the purchase of shares in KRAK–GAZ Sp. z o.o. by LOTOS Gaz S.A.) in order to review the correctness of settlement of excise tax for the years 2003–2004 by KRAK–GAZ Sp. z o.o. In the course of the proceedings, it was established that KRAK–GAZ Sp. z o.o. failed to pay the excise tax due in the total amount of PLN 7,545 thousand plus interest (the figure as at June 30th 2008).

On October 31st 2008, the Director of Tax Supervision Authority in Kraków issued a decision whereby the excise tax liability for the years 2003–2004 was established at PLN 16,408 thousand. On November 25th 2008, KRAK–GAZ Sp. z o.o. appealed against that administrative decision. The appeal has not yet been considered by the appellate body. With the letter of February 6th 2009, the Director of the Customs Chamber in Kraków notified KRAK–GAZ Sp. z o.o. that there was a delay in processing the appeal, and set March 31st 2009 as the new deadline for considering it.

On November 26th 2008, the Director of the Customs Chamber initiated enforcement proceedings against KRAK–GAZ Sp. z o.o. by issuing enforcement orders covering the amount specified in the decision issued by the Director of Tax Supervision Authority.
On December 8th 2008, KRAK–GAZ Sp. z o.o. appealed against the decision to initiate enforcement proceedings. In accordance with the letter of December 17th 2008, the Director of the Customs Chamber decided to allow the appeal concerning errors in calculating the amount of excise tax arrears and to discontinue the proceedings.

On December 19th 2008, the company received another final decision and enforcement orders from the Customs Chamber, for the revised amounts of excise tax arrears and interest. The excise tax due for 2003-2004 was established at PLN 8,309 thousand, including interest and costs of enforcement proceedings.

On December 29th 2008, KRAK–GAZ Sp. z o.o. submitted objections against the aforementioned enforcement orders, citing, *inter alia*, incorrect identification of the creditor. By virtue of a decision of January 19th 2009, the Director of the Customs Chamber in Kraków dismissed the objections as groundless. On January 27th 2009, KRAK–GAZ Sp. z o.o. filed a complaint against the decision of January 19th 2009 directly with the Head of the Kraków Tax Chamber, who by virtue of his decision of March 9th 2009 upheld the Customs Chamber Director's decision of January 19th 2009. Through the Director of the Customs Chamber, KRAK–GAZ Sp. z o.o. lodged an appeal against the decision, in a letter dated April 6th 2009, with the Provincial Administrative Court of Kraków.

Furthermore, KRAK-GAZ Sp. z o.o. submitted with the Director of Tax Supervision Authority in Kraków a request to stay execution of the decisions and, if this request were not to be granted, a request to allow payment of the tax arrears in instalments.
By virtue of a decision of February 24th 2009, the Director of the Customs Chamber in Kraków dismissed the request to stay the execution of the decisions. KRAK-GAZ Sp. z o.o. lodged a complaint against the dismissal on March 9th 2009, seeking reversal of the decision of February 24th 2009 and stay of execution of the decision issued by the Director of Tax Supervision Authority on October 31st 2008. On March 30th 2009, KRAK–GAZ Sp. z o.o. received a notification from the Customs Office in Kraków, responsible for considering the company's request to allow payment of tax arrears in instalments, setting April 30th 2009 as a new deadline for considering the request.

As at the date of approval of these consolidated financial statements, the tax proceedings concerning KRAK–GAZ Sp. z o.o.'s tax liabilities for 2003–2004 were pending, and the requests to stay execution of the enforcement decisions and to allow payment of tax arrears in instalments had not yet been considered.

Given KRAK-GAZ Sp. z o.o.'s potential excise tax liabilities for 2003–2004, as at December 31st 2008 the Group had set up a provision for the principal amount of and interest on those liabilities.

Taking into consideration the decision issued by the Director of Tax Supervision Authority in Kraków and the contents of the post-inspection report prepared by the Tax Supervision Authority in Kraków on June 20th 2008, the Management Board of LOTOS Gaz S.A. made two representations (on July 11th 2008 and December 9th 2008) towards the sellers of shares in KRAK-Gaz Sp. z o.o. regarding the reduction of the purchase price of shares in KRAK-GAZ Sp. z o.o. by a total amount of PLN 16,368 thousand. Accordingly, the sellers' claim for the last payment of the Purchase Price in the amount of PLN 1,500 thousand expired.

On July 28th 2008, the Management Board of LOTOS Gaz S.A. called upon the former owners of shares in KRAK-GAZ Sp. z o.o. to enter into mandatory negotiations, in line with the provisions of the share purchase agreement.

On December 15th 2008, the Management Board of LOTOS Gaz S.A. opened arbitration proceedings by serving a notice of arbitration hearing upon the sellers of shares in KRAK-Gaz Sp. z o.o. At present, the arbitration panel is being selected for the arbitration proceedings. Subsequently, at a date determined by the panel of arbitrators, a relevant statement of claim will be served. As at the date of approval of these consolidated financial statements, the case was pending.

LOTOS Gaz S.A. additionally obtained a decision from the Regional Court in Kraków, dated November 17th 2008, establishing a claim bond to secure LOTOS Gaz S.A.'s claims against the sellers of the shares up to the amount of PLN 5,975 thousand, with an enforcement clause setting the enforcement date at January 20th 2009. On February 2nd 2009, the sellers moved for the cancellation of the claim bond, as a result of which the proceedings continue, and any further steps aimed at seizing the sellers' assets are contingent upon whether the sellers' motion is granted.

On December 10th 2008, a notification of suspected offence against KRAK–GAZ Sp. z o.o. was submitted with the Regional Prosecutor's Office of Kraków Podgórze in Kraków, alleging an offence consisting in failure to fulfil professional duties by former members of the company's Management Board.

On January 29th 2009, two former members of KRAK–GAZ Sp. z o.o.'s Management Board received calls for payment of PLN 801 thousand as remedy for the damage done to the company.

As at the date of approval of these consolidated financial statements, the cases concerning the former members of KRAK–GAZ Sp. z o.o.'s Management Board were pending.

(3) **Goodwill arising on acquisition of ExxonMobil Poland and Slovnaft Polska**

As at December 31st 2008 and December 31st 2007, the Group disclosed goodwill arising upon the acquisition of an organised part of business from ExxonMobil Poland and Slovnaft Polska, with a net value of PLN 31,759 thousand and PLN 1,932 thousand, respectively. Based on IAS 36, as at December 31st 2007, the Group performed a test of goodwill acquired upon the purchases from ExxonMobile i Slovnaft for impairment. In accordance with IAS 36, the Group tests goodwill for impairment annually.

In order to determine the value in use, discounted cash flows (DCFs) were analysed for the purchased 39 service stations of the ESSO network and 12 service stations of the SLOVNAFT network, organised as separated cash generating centres, with use of WACC = 10.2%. The analysis was based on forecasts of future cash flows (EBITDA net of financial expenses) prepared based on the 2008 budget approved by the Management Board of LOTOS Paliwa Sp. z o.o. and on the planned cash inflows and outflows, as specified in the approved development strategy until 2012 for LOTOS Paliwa Sp. z o.o. The DCF residual value was computed based on the formula for perpetuity with growth.

As part of the goodwill test performed by the Group, the value in use as at December 31st 2007 was determined at:
- PLN 272,733 thousand for the ESSO service stations,
- PLN 49,783 thousand for the Slovnaft service stations.

The balance-sheet value of assets purchased from ExxonMobile and Slovnaft Polska as at December 31st 2007 amounts to:
- PLN 278,463 thousand for the ESSO service stations,
- PLN57,717 thousand for the Slovnaft service stations.

As the test showed an excess of the carrying amount of the assets purchased from ExxonMobile and Slovnaft Polska over their value in use determined in the course of the goodwill test performed by the Group, in 2007 the Group recognised a goodwill impairment loss in a total amount of PLN 21,496 thousand.

As at December 31st 2008, the Group tested its assets for impairment. As at December 31st 2008, no additional impairment loss on goodwill was recognised.

18. Investments in Associated Undertakings

As at December 31st 2008 and December 31st 2007, the Group discloses investments in the following associated undertakings:

Company name	Registered office	Business area	Dec 31 2008	Dec 31 2007
Energobaltic Sp. z o.o.	Gdańsk	Production activities	32.16%	32.16%
AB Naftos Gavyba (parent undertaking of another group)	Klaipeda, Lithuania	Services	29.46%	29.46%

Investments in associated undertakings are recognised with the equity method. The balance-sheet value of investments in associated undertakings is as follows:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
AB Naftos Gavyba Group	73,488	48,519
Energobaltic Sp. z o.o.[1]	-	-
	=========	=========
Total investments in associated undertakings	**73,488**	**48,519**
	=========	=========

[1] The value of shares in Energobaltic Sp. z o.o. is fully covered by an impairment charge (see Note 21).

On April 25th 2008, the General Shareholders Meeting of AB Naftos Gavyba, an associated undertaking, approved the financial statements for 2007 and resolved to allocate the profit generated in 2007 in the amount of LTL 68m to dividend payment. Petrobaltic S.A. will receive for 2007 dividend in the amount of LTL 29,036 thousand (PLN 28,746 thousand). On May 15th 2008, Petrobaltic S.A. received a part of the dividend due, in the amount of LTL 15,077 thousand (PLN 14,383 thousand). On August 8th 2008, Petrobaltic S.A. received another instalment of the due dividend, in the amount of LTL 9,554 thousand (PLN 8,859 thousand), and on December 18th 2008 – another instalment of the due dividend, in the amount of LTL 3,047 thousand (PLN 3,017 thousand). As at December 31st 2008, Petrobaltic S.A. recognises dividend receivable of LTL 1,356 thousand (PLN 1,830 thousand).

Net assets of material undertakings valued with equity method:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
AB Naftos Gavyba Group	172,103	113,628
Energobaltic Sp. z o.o.	17,893	27,288

Liabilities and provisions for liabilities of material undertakings valued with equity method:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
AB Naftos Gavyba Group	93,452	151,857
Energobaltic Sp. z o.o.	97,976	105,319

Sales revenue of material undertakings valued with equity method:

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
AB Naftos Gavyba Group	170,343	148,812
Energobaltic Sp. z o.o.	26,686	31,133

Net profit/(loss) of material undertakings valued with equity method:

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
AB Naftos Gavyba Group	72,019	52,197
Energobaltic Sp. z o.o.	(9,321)	3,170

Share in net profit (loss) of undertakings valued with equity method, recognised in the Group's income statement:

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
AB Naftos Gavyba Group	26,033	22,288
Other undertakings valued with equity method	-	(12)
Total	**26,033**	**22,276**

In the statement of changes in equity for the year ended December 31st 2008, the Group recognised PLN 18,815 thousand on account of changes in the equity of the AB Naftos Gavyba Group.

19. Long-Term Financial Assets

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Shares in non consolidated subsidiary undertakings	-	1,461
Shares in other undertakings	9,917	6,632
Other non-current financial assets, including:	16,599	13,460
- decommissioning fund	16,599	13,443
- loans	-	17
Total	**26,516**	**21,553**

20. Current Financial Assets

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Positive valuation of derivative financial instruments, including:	302,304	96,099
- commodity swap (raw materials and petroleum products)	113,334	8,011
- futures (CO_2 emissions)	15	388
- currency forwards and spots	159,985	87,700
- currency options	6,122	-
- IRS	22,848	-
Other, including:	26,456	23,243
- prepayments for shares (1)	25,332	23,117
- current loans	-	41
- shares	1,124	85
Total	**328,760**	**119,342**

(1) As at December 31st 2008, the Group recognised assets invested in AB Naftos Gavyba, its associated undertaking, in the total amount of PLN 25.3m (PLN 23.1m as at December 31st 2007). The recognised amount is the funds provided to UAB Naftos Gavyba (currently AB Naftos Gavyba) by Petrobaltic S.A. in 2000 to finance the purchase of AB Geonafta shares, subject to a condition precedent (Conditional Agreement on Purchase of Ownership Rights to Shares, dated July 18th 2000; the Agreement). Transfer of the shares was conditional upon AB Naftos Gavyba performing its investment commitments towards AB Geonafta, as specified in the privatisation agreement of AB Geonafta. In 2001–2005, UAB Naftos Gavyba performed all of its investment commitments, which consumed LTL 56m, and acquired 41 million AB Geonafta shares. The most recent increase in AB Geonafta's share capital took place on April 25th 2005. Performance of these obligations was financed in full with UAB Naftos Gavyba's own funds sourced from dividends paid out in consecutive years by AB Geonafta. With the condition precedent fulfilled on April 25th 2005, Petrobaltic S.A. could take over the shares in AB Geonafta specified in the Agreement.

On March 24th 2006, an agreement supplementary to the Agreement of July 18th 2000 was signed by Petrobaltic S.A. and UAB Naftos Gavyba to postpone the deadline for transferring the ownership rights to the shares in AB Geonafta to August 31st 2007. On December 19th 2007, AB Naftos Gavyba and Petrobaltic S.A. concluded another supplementary agreement to the Agreement of July 18th 2000 between Petrobaltic S.A. and UAB Naftos Gavyba, under which the deadline for the transfer of the ownership rights to AB Geonafta shares was postponed until June 30th 2008. Under one more supplementary agreement which took effect on June 30th 2008, the parties to the Agreement postponed the deadline for the transfer of the ownership rights to AB Geonafta shares until December 31st 2008. On February 11th 2009, yet another agreement supplementary to the Agreement of July 18th 2000 was concluded by Petrobaltic S.A. and AB Naftos Gavyba to postpone the deadline for transferring the ownership rights to the shares in AB Geonafta to April 15th 2009.

On April 15th 2009, the supplementary agreement postponing the deadline for direct acquisition of the shares in AB Geonafta by UAB Meditus and Petrobaltic S.A. expired. Until the date of approval of the consolidated financial statements, the supplementary agreement was not extended again because the parties intend to perform the Agreement of July 18th 2000.

Under the supplementary agreements mentioned above, by the date of these financial statements, AB Naftos Gavyba had not made a constitutive entry in the share register of AB Geonafta, which is necessary in order to transfer the ownership rights to the shares purchased by Petrobaltic S.A. under the Agreement of July 18th 2000.

21. Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

The Group 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 dioxide (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

1. 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 31).

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.

2. On November 12th 2001 an agreement was concluded under which Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to USD 7,764 thousand as at December 31st 2008 (USD 7,381 thousand as at December 31st 2007), which represented the equivalent of PLN 22,994 thousand (PLN 17,974 thousand as at December 31st 2007). On the basis of an analysis of the economic and financial standing of Energobaltic Sp. z o.o., performed based on the 2007 financial statements, and considering the projections for the following years and the related risk of a loss of liquidity in the event of failure of the measures taken by the Management Board of Energobaltic Sp. z o.o. to restructure the company's indebtedness, i.e. to postpone the repayment of bank loans and shareholder loans, an impairment charge was made for the full value of the loan. An impairment charge was also made for the value of shares held in Energobaltic Sp. z o.o.

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 Group during the reporting periods ended December 31st 2008 and December 31st 2007:

- The Group did not reclassify any financial assets (IFRS 7, Par. 12.),
- No collateral was established for the benefit of the Group on any class of assets, which would result in credit enhancements (IFRS 7, Par. 15.),
- The Group did not issue any instrument that contains both a liability and an equity component (IFRS 7, Par. 17.),
- The Group met all contractual provisions (IFRS 7, Par. 18.),
- Interest income in connection with impaired financial assets was recognised by the Group as immaterial (IFRS 7, Par. 20.d.),
- the Group does not apply hedge accounting; accordingly, changes in fair value of derivative instruments are charged to the income statement (IFRS 7, Par. 22.),
- The Group did not acquire any financial assets at a price different from their fair value (IFRS 7, Par.28.),
- The Group did not obtain any assets by taking possession of collateral held as security (IFRS 7, Par. 38.).

21.1. 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:		-	-	11,041	-	-	11,041
- non-current	19	-	-	9,917	-	-	9,917
- current		-	-	1,124	-	-	1,124
Prepayments for shares	20	-	25,332	-	-	-	25,332
Decommissioning fund	19	-	16,599	-	-	-	16,599
Loans:	30	-	-	-	-	-	-
- non-current		-	-	-	-	-	-
- current		-	-	-	-	-	-
Derivative financial instruments	20	302,304	-	-	-	-	302,304
Trade and other receivables:		-	1,260,660	-	-	-	1,260,660
- non-current		-	9,152	-	-	-	9,152
- current		-	1,251,508	-	-	-	1,251,508
Cash and cash equivalents	24	-	712,801	-	-	-	712,801
Trade and other payables:	33	-	-	-	-	(1,260,855)	(1,260,855)
- non-current		-	-	-	-	(4,916)	(4,916)
- current		-	-	-	-	(1,255,939)	(1,255,939)
Loans and borrowings:	30	-	-	-	-	(3,919,605)	(3,919,605)
- non-current		-	-	-	-	(3,412,245)	(3,412,245)
- current		-	-	-	-	(507,360)	(507,360)
Financial liabilities:	32	-	-	-	(218,526)	(1,415)	(219,941)
Lease liabilities:	32	-	-	-	-	(1,415)	(1,415)
- non-current		-	-	-		(854)	(854)
- current		-	-	-	-	(561)	(561)
Derivative financial instruments	32	-	-	-	(218,526)	-	(218,526)
		=========	=========	=========	=========	=========	=========
Total		**302,304**	**2,015,392**	**11,041**	**(218,526)**	**(5,181,875)**	**(3,071,664)**
		=========	=========	=========	=========	=========	=========

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

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

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:		-	-	8,178	-	-	8,178
- non-current	19	-	-	8,093	-	-	8,093
- current		-	-	85	-	-	85
Prepayments for shares	20	-	23,117	-	-	-	23,117
Decommissioning fund	19	-	13,443	-	-	-	13,443
Loans:	30	-	58	-	-	-	58
- non-current		-	17	-	-	-	17
- current		-	41	-	-	-	41
Derivative financial instruments	20	96,099	-	-	-	-	96,099
Trade and other receivables:		-	1,461,080	-	-	-	1,461,080
- non-current		-	12,668	-	-	-	12,668
- current		-	1,448,412	-	-	-	1,448,412
Cash and cash equivalents	24	-	924,995	-	-	-	924,995
Trade and other payables:	33	-	-	-	-	(1,222,473)	(1,222,473)
- non-current						(3,774)	(3,774)
- current						(1,218,699)	(1,218,699)
Loans and borrowings:	30	-	-	-	-	(1,360,136)	(1,360,136)
- non-current		-	-	-	-	(842,943)	(842,943)
- current		-	-	-	-	(517,193)	(517,193)
Financial liabilities:	32	-	-	-	(3,906)	(1,628)	(5,534)
Lease liabilities:	32	-	-	-	-	(1,628)	(1,628)
- non-current		-	-	-	-	(629)	(629)
- current		-	-	-	-	(999)	(999)
Derivative financial instruments	32	-	-	-	(3,906)	-	(3,906)
		=========	=========	=========	=========	=========	=========
Total		**96,099**	**2,422,693**	**8,178**	**(3,906)**	**(2,584,237)**	**61,173**
		=========	=========	=========	=========	=========	=========

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

As at December 31st 2007, the Group 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 Group 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. Long-term bank loans bear interest at floating rates, with interest payable in a short term.

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

The methods and assumptions used to measure the fair value of the financial instruments held by the Group are described in Note 10 and Note 21.

21.2. 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)	-	50,486	-	(48,565)	1,921
Foreign exchange gains/(losses)	-	(76,897)	-	(591,642)	(668,539)
(Recognition)/reversal of impairment charges	-	(27,931)	-	-	(27,931)
Gains/(losses) on fair value measurement and realisation	(247,237)	-	-	-	(247,237)
Gains/(losses) on disposal	-	-	1,027	-	1,027
	==========	=========	=========	===========	=========
Total	**(247,237)**	**(54,342)**	**1,027**	**(640,207)**	**(940,759)**
	==========	=========	=========	===========	=========

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)	-	41,205	-	(28,182)	13,023
Foreign exchange gains/(losses)	-	(71,414)	-	11,239	(60,175)
(Recognition)/reversal of impairment charges	-	5,976	-	-	5,976
Gains/(losses) on fair value measurement and realisation	122,473	-	-	-	122,473
Gains/(losses) on disposal	2,188	-	2,710	-	4,898
	========	=======	========	========	=======
Total	**124,661**	**(24,233)**	**2,710**	**(16,943)**	**86,195**
	========	=======	========	========	=======

21.3. 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 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 Parent Undertaking 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 and approved at appropriate decision-making levels at the Parent Undertaking. 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.

The Parent Undertaking monitors all managed market risks on an ongoing basis. Opening a position with respect to risks which do not arise as part of Grupa LOTOS S.A.'s core activity is prohibited. The Company 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 Group 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 Grupa LOTOS S.A. 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 Dec 31 2008, positive fair value of commodity swaps was PLN 113,334 thousand.
As at Dec 31 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 Dioxide (CO_2) Emmission 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 Group's equity.
Depending on the market situation and allowances granted, the Grupa LOTOS S.A. maintains an appropriate position in carbon allowances by entering into financial transactions or changing the underlying position.

The basic risk map includes 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 Grupa LOTOS S.A.'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 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 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 Parent Undertaking decided to purchase EUR/USD call options. Once the scenario of depreciation of the euro against the dollar became reality in Q4 2008, Grupa LOTOS S.A. 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 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

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 19 2008	Feb 11 2009	USD/PLN	(17,000,000)	3.1	52,450,100	1,853
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 20).*

Total currency position of the Parent Undertaking 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

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
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Jan 8 2008	USD/PLN	(30,000,000)	2.5	75,762,000	2,701

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	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 of the Parent Undertaking 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

Companies from the LOTOS Group entered into transactions with a view to hedging their revenue from export sales, generated in the euro.

Open currency transactions as at December 31st 2008 stood at:

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)
LOTOS Asfalt Sp. z o.o.	Currency forward	Jul 8 2008	Jul 10 2009	EUR/PLN	(3,000,000)	3.3	9,984,000	(2,623)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 1 2008	Jan 2 2009	EUR/PLN	(155,000)	3.8	595,510	(51)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 3 2008	Jan 5 2009	EUR/PLN	(388,000)	3.8	1,491,860	(128)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 8 2008	Jan 9 2009	EUR/PLN	(305,000)	3.9	1,182,333	(91)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 10 2008	Jan 12 2009	EUR/PLN	(168,000)	4.0	665,112	(36)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 11 2008	Jan 13 2009	EUR/PLN	(250,000)	4.0	992,750	(52)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 22 2008	Jan 23 2009	EUR/PLN	(469,000)	4.1	1,925,949	(35)
							TOTAL, including:	**(3,016)**
							positive	**-**
							negative	**(3,016)**

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)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jan 28 2009	EUR/PLN	300,000	3.6	1,080,000	1
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Feb 25 2009	EUR/PLN	300,000	3.6	1,078,500	4

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)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Mar 27 2009	EUR/PLN	300,000	3.6	1,077,000	8
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Apr 28 2009	EUR/PLN	300,000	3.6	1,074,000	11
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	May 27 2009	EUR/PLN	300,000	3.6	1,072,500	14
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jun 18 2009	EUR/PLN	300,000	3.6	1,071,000	16
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Jan 28 2009	EUR/PLN	(600,000)	3.6	2,160,000	(402)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jan 28 2009	EUR/PLN	(300,000)	3.6	1,068,000	(1)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Feb 25 2009	EUR/PLN	(600,000)	3.6	2,157,000	(412)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Feb 25 2009	EUR/PLN	(300,000)	3.6	1,068,000	(4)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Mar 27 2009	EUR/PLN	(600,000)	3.6	2,154,000	(423)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Mar 27 2009	EUR/PLN	(300,000)	3.6	1,068,000	(7)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Apr 28 2009	EUR/PLN	(600,000)	3.6	2,148,000	(437)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Apr 28 2009	EUR/PLN	(300,000)	3.6	1,068,000	(10)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	May 27 2009	EUR/PLN	(600,000)	3.6	2,145,000	(448)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	May 27 2009	EUR/PLN	(300,000)	3.6	1,068,000	(13)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Jun 18 2009	EUR/PLN	(600,000)	3.6	2,142,000	(457)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jun 18 2009	EUR/PLN	(300,000)	3.6	1,068,000	(15)
							TOTAL, including:	**(2,575)**
							positive	**54**
							negative	**(2,629)**

Open currency transactions as at December 31st 2008 stood at:

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)
LOTOS Gaz S.A. Group	Currency forward	Dec 3 2007	Jan 4 2008	USD/PLN	(100,000)	2.8	282,720	(39)
LOTOS Gaz S.A. Group	Currency forward	Dec 7 2007	Jan 7 2008	USD/PLN	(100,000)	2.8	278,500	(35)
LOTOS Gaz S.A. Group	Currency forward	Dec 21 2007	Feb 21 2008	USD/PLN	(100,000)	2.8	283,080	(40)
LOTOS Gaz S.A. Group	Currency forward	Dec 21 2007	Jan 21 2008	USD/PLN	(100,000)	2.8	278,410	(35)
							TOTAL, including:	**(149)**
							positive	**-**
							negative	**(149)**

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, Grupa LOTOS S.A. 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)(5)
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)(5)
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)**

5) *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 the Group 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 Parent Undertaking 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 Parent Undertaking 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 24 presents additional free cash remaining at the Group’s disposal. Note 30 contains 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 Group 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 Parent Undertaking’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 Group’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	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Shares:	11,041	8,178
- non-current	9,917	8,093
- current	1,124	85
Prepayments for shares	25,332	23,117
Derivative financial instruments	302,304	96,099
Decommissioning fund	16,599	13,443
Loans:	-	58
- non-current	-	17
- current	-	41
Trade and other receivables:	1,260,660	1,461,080
- non-current	9,152	12,668
- current	1,251,508	1,448,412
Cash and cash equivalents	712,801	924,995
	=========	=========
Total	**2,328,737**	**2,526,970**
	=========	=========

The aged analysis of past due financial assets as at December 31st 2008 and as at December 31st 2007 is shown in Note 23.

21.4. 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 the Group's 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	23	102,989	2,565	1,555	(2,565)	(1,555)
Financial assets – derivative financial instruments	20	302,304	(53,808)	54,808	53,808	(54,808)
Cash and cash equivalents	24	107,347	3,269	1,025	(3,269)	(1,025)
Trade and other payables	33	(230,745)	(2,613)	(6,616)	2,613	6,616
Loans	30	(3,198,294)	(126,508)	(1,012)	126,508	1,012
Financial liabilities – derivative financial instruments	32	(218,526)	(18,506)	6,507	18,506	(6,507)
		========	======	=======	========	======
Total		**(3,134,925)**	**(195,601)**	**56,267**	**195,601**	**(56,267)**
		========	======	======	========	======

As at December 31st 2008, the Parent Undertaking 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 those futures were PLN 1 thousand.

A change in the price of the CO_2 emission allowances up by 10% 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 Parent Undertaking 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 by 10% 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 Group's sensitivity to currency risk as at December 31st 2007, along with the effect of such a risk on the 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 a foreign currency, translated into 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**	**EUR**
Trade and other receivables	23	186,284	1,629	234	(1,629)	(234)
Financial assets – derivative financial instruments	20	96,099	(36,225)	16,058	36,225	(16,058)
Cash and cash equivalents	24	161,871	1,290	329	(1,290)	(329)
Trade and other payables	33	(715,476)	(6,794)	(361)	6,794	361
Loans	30	(596,491)	(5,665)	(300)	5,665	300
Financial liabilities – derivative financial instruments	32	(3,906)	583	892	(583)	(892)
		========	======	=======	========	======
Total		**(871,619)**	**(45,182)**	**16,852**	**45,182**	**(16,852)**
		========	======	======	========	======

As at December 31st 2007, the Parent Undertaking 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 those futures were PLN 251 thousand.

A change in the price of the CO_2 emission allowances up by 1% 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 Parent Undertaking 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 1% 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 Group'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	19,20	-	-	-
Decommissioning fund	19	16,599	33	(33)
Cash and cash equivalents	24	712,801	1,426	(1,426)
Loans and borrowings	30	(3,919,605)	(7,839)	7,839
Lease liabilities	32	(1,415)	(3)	3
Financial liabilities – derivative financial instruments [1]	32	(154,418)	16,387	(16,387)
		=========	=======	=======
Total		**(3,346,038)**	**10,004**	**(10,004)**
		=========	=======	=======

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

As at December 31st 2008, the carrying value of financial assets and liabilities (borrowings, cash, financial liabilities under bank loans) which are sensitive to interest rate risk amounted to PLN (3,346,038) thousand net.

A change in interest rates up by 0.2% or down (by 0.2%) could potentially lead to a net change in the value of financial assets and liabilities as at December 31st 2008 of PLN 10,004 (10,004) thousand.

Below is presented an analysis of the Group'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	19,20	58	1	(1)
Decommissioning fund	19	13,443	134	(134)
Cash and cash equivalents	24	924,995	9,250	(9,250)
Loans and borrowings	30	(1,360,136)	(13,601)	13,601
Lease liabilities	32	(1,628)	(16)	16
Financial liabilities – derivative financial instruments	32	-	-	-
		=========	=======	=======
Total		**(423,268)**	**(4,232)**	**4,232**
		=========	=======	=======

As at December 31st 2007, the net carrying value of financial assets and liabilities (borrowings, cash, financial liabilities under bank loans) which are sensitive to interest rate risk amounted to PLN (423,268) 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 (4,232), 4,232 thousand net.

22. Inventories

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Finished products	702,673	777,345
Semi-finished products and work in progress	235,541	308,715
Goods for sale	121,487	160,429
Materials	1,387,546	1,342,833
	=========	=========
Net inventories	**2,447,247**	**2,589,322**
	=========	=========

Impairment Charges for Inventories

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Finished products	122,129	9,990
Semi-finished products and work in progress	4,178	319
Goods for sale	35,060	1,372
Materials	55,698	8,384
	=========	=========
Total impairment charges for inventories	**217,065**	**20,065**
	=========	=========

During the year ended December 31st 2008, the Group recognised impairment charges for inventories in the amount of PLN 215,285 thousand (PLN 13,326 thousand as at December 31st 2007) and reversed impairment charges for inventories in the amount of PLN 18,285 thousand (PLN 37,626 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 1,679,091 thousand, while the value of inventories measured at net realisable value was PLN 768,156 thousand (PLN 2,530.203 thousand and PLN 59,119 thousand, respectively, as at December 31st 2007).

As at December 31st 2008, the value of inventories serving as collateral for the Group's liabilities amounted to PLN 2,097,148 thousand (PLN 2,482,864 thousand as at December 31st 2007).

Mandatory Stocks of Liquid Fuels

Until April 7th 2007, the Group 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 fuel 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**	**Dec 31 2007**
	(audited)	**(audited)**
Mandatory stocks	1,679,925	1,926,275
	=========	=========

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

23. Trade and Other Receivables

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Trade receivables, including:	1,216,014	1,404,493
- from related undertakings	183	121
Receivables from the state budget, including:	313,344	94,053
- income tax receivable	199,971	1,867
Other receivables, including:	31,413	43,919
- from related undertakings	1,638	-
- investment receivables	4,081	43,919
Net receivables	**1,564,852**	**1,542,465**
Impairment losses on receivables	155,611	123,692
	============	============
Gross receivables	**1,720,463**	**1,666,157**
	============	============

The payment period for trade receivables in the normal course of trade is 7–60 days. The concentration of risk related to sales is limited due to the large number of the Group's business partners.

As at December 31st 2008, the Group's receivables were assigned by way of security for the loan discussed in Note 30. As at December 31st 2007, none of the Group's receivables were assigned by way of security.

Impairment Charges for Receivables

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Beginning of period	**123,692**	**136,289**
Increase, including:	58,211	14,144
- change in the Group's composition	-	2,695
Decrease	(26,292)	(26,741)
	============	============
End of period	**155,611**	**123,692**
	============	============

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	79,932	68,442
From one to three months	13,549	6,800
From three to six months	5,021	1,288
From six months to one year	1,263	1,005
More than one year	155	6,392
Total	**99,920**	**83,927**

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

The Group manages credit risk related to the payment terms under commercial contracts using such tools as deposit mortgage on real estate (*hipoteka kaucyjna*), bank and insurance guarantees, agreements on assignment of receivables or term deposits, registered pledges, promissory notes and sureties.

24. Cash and Cash Equivalents

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Cash at bank	711,132	868,291
Cash in hand	194	253
Other cash	1,475	56,451
Total	**712,801**	**924,995**

Cash at banks bears interest at variable rates set according to the short-term interbank interest rates. Short-term deposits are placed for various periods, ranging from one day to one month, depending on the Group's current demand for cash, and bear interest at the interest rates set for them.

As at December 31st 2008, the amount of undrawn funds available to the Group under working capital loans in respect of which all conditions precedent had been fulfilled was PLN 832,128 thousand (PLN 1,098,762 thousand as at December 31st 2007) (including the loan for refinancing and financing Grupa LOTOS S.A.'s inventory, granted by Bank Consortium (1) and working capital loan contracted with Bank Consortium (4); see Note 30).

As at December 31st 2008, restricted cash amounted to PLN 84,160 thousand (PLN 17,296 thousand as at December 31st 2007). Restricted cash was held mainly by the Parent Undertaking and included:
- a deposit of PLN 31,440 thousand, serving as security for the repayment of interest on the loan contracted to finance inventories,
- a 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 account dedicated to payments made in connection with the investment projects under the 10+ Programme,
- funds of PLN 11,961 thousand, held in the account dedicated to repayments of principal amounts of and interest on the loans/credit facilities contracted to finance the implementation of the 10+ Programme.

Restricted cash is disclosed in the balance sheet under “Cash in hand and cash at banks” and “Other cash“.

As at December 31st 2008, cash in bank accounts serving as security for the repayment of Grupa LOTOS S.A.’s liabilities amounted to PLN 71,363 thousand (PLN 13,730 thousand as at December 31st 2007).

25. Cash Structure in the Cash-Flow-Statement

PLN ‘000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Cash at banks	711,132	868,291
Cash in hand	194	253
Other cash	1,475	56,451
Overdraft facilities	(374,448)	(447,891)
	=========	=========
Total cash	**338,353**	**477,104**
	=========	=========

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	**Dec 31 2008** **(audited)**	**Dec 31 2007** **(audited)**
Balance-sheet change in net non-current and current receivables	(18,871)	(262,459)
Change in income tax receivables	198,104	(31,201)
Change in investment receivables	(5,987)	7,214
Change in the structure of the Group	(221)	30,455
Dividends receivable	1,639	-
Other	(9,726)	3,258
Change in receivables as disclosed in the cash-flow-statement	164,938	(252,733)

Liabilities, accruals and deferred income PLN '000	**Dec 31 2008** **(audited)**	**Dec 31 2007** **(audited)**
Balance-sheet change in current and non-current liabilities, and accruals and deferred income	2,911,347	1,228,886
Change in current and non-current loans and borrowings	(2,559,469)	(840,707)
Change in investment liabilities	(241,223)	(42,236)
Change in the structure of the Group	(17,719)	(73,709)
Finance lease liabilities	213	1,233
Change in income tax expense	12,377	(17,033)
Negative valuation of financial instruments	(214,620)	(3,392)
Other	(105)	59
Change in liabilities and accruals and deferred income as disclosed in the cash-flow-statement	(109,199)	253,101

Inventories PLN '000	**Dec 31 2008** **(audited)**	**Dec 31 2007** **(audited)**
Balance-sheet change in inventories	142,075	(881,880)
Change in the structure of the Group	-	7,222
Other	(390)	(8,560)
Change in inventories as disclosed in the cash-flow-statement	141,685	(883,218)

Provisions PLN '000	**Dec 31 2008** **(audited)**	**Dec 31 2007** **(audited)**
Balance-sheet change in provisions	(78,867)	(21,019)
Change in the structure of the Group	11	(778)
Change in deferred tax liability	144,378	15,220
Other	(30,011)	2,301
Change in provisions as disclosed in the cash-flow-statement	35,511	(4,276)

Prepayments and accrued income PLN '000	**Dec 31 2008** **(audited)**	**Dec 31 2007** **(audited)**
Balance-sheet change in prepayments and accrued income	(113,269)	(18,370)
Change in the structure of the Group	157	258
Change in deferred tax asset	100,491	(325)
Other	(32,262)	450
	---------	---------
Change in prepayments and accrued income as disclosed in the cash-flow statement	(44,883)	(17,987)

Cash PLN '000	**Dec 31 2008** **(audited)**	**Dec 31 2007** **(audited)**
	(212,194)	
Balance-sheet change in cash	73,443	152,608
Change in interest-bearing overdraft facilities	-	(285,619)
Change in the structure of the Group	---------	(14,050)
	(138,751)	---------
Change in cash as disclosed in the cash-flow-statement		(147,061)

26. 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.

27. Dividend

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.

28. Earnings/(Loss) per Share

	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Net profit/(loss) attributable to equity holders of the parent (PLN '000) (A)	(453,906)	777,160
Weighted average number of shares (in thousands) (B)	113,700	113,700
	==========	==========
Earnings/(loss) per share (PLN) (A/B)	(3.99)	6.84

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 Group does not present diluted earnings/(loss) per share, since there are no outstanding instruments with a dilutive effect.

29. Minority Interests

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Balance at beginning of period	**334,691**	**306,416**
Share in profit/(loss) of subsidiary undertakings	63,973	36,987
Changes in shareholder structure of subsidiary undertakings	(169)	(119)
Dividends paid out by subsidiary undertakings	(2,578)	(8,593)
	=========	=========
Balance at end of period	**395,917**	**334,691**
	=========	=========

30. Interest-Bearing Loans and Borrowings

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Bank loans	3,879,749	1,333,917
Borrowings	39,856	26,219
	===========	===========
Total	**3,919,605**	**1,360,136**
	===========	===========
Including:		
non-current portion	3,412,245	842,943
current portion	507,360	517,193

Loans and Borrowings by Lender

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Non-current portion		
Kredyt Bank S.A.	32,987	38,987
Pekao S.A.	22,676	26,925
National Fund for Environmental Protection and Water Management	34,856	21,969
Raiffeisen Bank Polska	6,000	8,000
Bank consortium (1)*	1,184,720	486,379
Bank consortium (2)**	1,434,195	-
Bank consortium (3)***	479,576	-
Bank consortium (5)*****	217,235	260,683
Total non-current portion	**3,412,245**	**842,943**
Current portion		
Kredyt Bank S.A.	6,000	6,000
Pekao S.A.	73,955	235,560
ING Bank Śląski S.A.	24,304	42,199
PKO BP S.A.	18,978	24,600
National Fund for Environmental Protection and Water Management	5,000	4,250
Bank Millennium S.A.	-	72,341
Raiffeisen Bank Polska S.A.	2,081	4,000
Bank Zachodni WBK S.A.	-	2,101
Bank Handlowy w Warszawie S.A.	-	62,040
Bank Gospodarki Żywnościowej S.A.	-	553
Bank BPH S.A.	-	20,044
BRE Bank S.A.	19,363	-
Bank consortium (1)*	11,557	-
Bank consortium (2)**	11,629	-
Bank consortium (3)***	3,748	-
Bank consortium (4)****	287,247	-
Bank consortium (5)*****	43,498	43,505
Total current portion	**507,360**	**517,193**
Total	**3,919,605**	**1,360,136**

* Bank consortium (1): Pekao S.A., PKO BP S.A., BRE Bank S.A., 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., Sumitomo Mitsui Banking Corporation Europe Limited

*** Bank consortium (3): Banco Bilbao Vizcaya Argentaria S.A., BNP Paribas S.A., 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., Bank Gospodarki Żywnościowej S.A.

***** Bank consortium (5): Pekao S.A., PKO BP S.A.

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, referred to 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, licence 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 were created or their management staff.

The value of the assets of Grupa LOTOS S.A. which were 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 42, items 10, 11, 16 and 17, 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 consolidated 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	10,557	66,762	430,041	507,360
2010	2,459	6,770	61,279	70,508
2011	2,459	1,234,290	57,979	1,294,728
2012	2,459	107,363	57,979	167,801
2013	2,459	109,085	55,479	167,023
after 2013	4,918	1,648,713	58,554	1,712,185
Total	**25,311**	**3,172,983**	**721,311**	**3,919,605**

The above table presents loans and borrowings by maturity date.

As at December 31st 2008, the average effective interest rate on the loans was approx. 3.40% (5.56% as at December 31st 2007).

Loans and borrowings as at December 31st 2008:

Bank's 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 its 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 as selected from time to 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 as selected from time to 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 10m 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 its 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	
Bank Consortium (5)	Warsaw	340.000	-	43.498	-	217.235	-	Dec 31 2009	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Kredyt Bank S.A.	Warsaw	60.000	-	6.000	-	32.987	-	Dec 31 2009	Jun 30 2015	1M WIBOR + bank's margin	mortgage

Bank's 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	25.000	-	13.680	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	none
Pekao S.A.	Warsaw	30.000	-	5.678	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account
Raiffeisen Bank Polska S.A.	Rzeszów	10.000	-	2.081	-	6.000	-	Dec 31 2009	Dec 28 2012	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, security (deposit) mortgage
Pekao S.A.	Warsaw	15.000	-	9.605	-	-	-	Jun 30 2009	-	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, registered pledge over inventories
Pekao S.A.	Warsaw	20.000	-	19.404	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account
ING Bank Śląski S.A.	Katowice	23.500	-	21.506	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
BRE Bank S.A.	Warsaw	30.000	-	19.363	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	blank promissory note
ING Bank Śląski S.A.	Katowice	6.000	-	856	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	9.000	-	5.083	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables, promissory notes, pledge over inventories
National Fund for Environmental Protection and Water Management	Warsaw	15.000	-	3.000	-	3.300	-	Sep 30 2009	Sep 30 2010	0.5 of the rediscount rate for promissory notes	surety, promissory note
Pekao S.A.	Kraków	26.837	7.060 EUR	2.461	590 EUR	14.754	3.536 EUR	Oct 31 2009	Oct 31 2015	1M EURIBOR + bank's margin	mortgage
Pekao S.A.	Kraków	30.000	-	30.005	-	-	-	Jun 30 2009	-	1M WIBOR + bank's margin	mortgage

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

Bank's 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		
Pekao S.A.	Kraków	44.754	-	32	-	192	-	Oct 31 2009	Oct 31 2015	1M WIBOR + bank's margin	mortgage
National Fund for Environmental Protection and Water Management	Warsaw	35.000	-	2.000	-	31.556	-	Dec 31 2009	Dec 20 2014	0.8 of the rediscount rate for promissory notes	bank guarantee, promissory note
ING Bank Śląski S.A.	Katowice	2.000	-	1.860	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Warsaw	56.409	14.800 USD	6.770	2.286 USD	7.730	2.610 USD	Dec 31 2009	Feb 28 2011	1M LIBOR USD + bank's margin	mortgage
			TOTAL	**507.360**	**22.407 USD**	**3.412.245**	**1.048.761 USD**				
				-	**2.530 EUR**	**-**	**3.536 EUR**				

The banks' margins on the contracted loans are in the range of 0.13%–1.90%.

Loans and borrowings as at December 31st 2007:

Bank's 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 its equivalent	-	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		1,741	USD 715	-	-		-	1M LIBOR + 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 its 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 + 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's 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 as selected from time to time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under agreements for storage of inventories, submission to enforcement
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	38,987	-	Dec 31 2008	Jun 30 2015	1M WIBOR + bank's margin	mortgage
Bank Consortium (5)	Warsaw	340,000	-	43,505	-	260,683	-	Dec 31 2008	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Bank Pekao S.A.	Warsaw	14,349	-	3,423	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account
Bank Pekao S.A.	Warsaw	8,687	-	8,687	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement, power of attorney over bank account
Raiffeisen Bank Polska S.A.	Rzeszów branch	10,000	-	2,000	-	8,000	-	Jan 31 2008	Dec 28 2012	1M WIBOR + bank's margin	power of attorney over bank account, security (deposit) mortgage
Raiffeisen Bank Polska S.A.	Rzeszów branch	10,000	-	2,000	-	-	-	Jan 31 2008	-	1M WIBOR + bank's margin	transfer of receivables, registered pledge on inventories, assignment
Bank Gospodarki Żywnościowej S.A.	Kraków	2,641	-	553	-	-	-	Sep 30 2008	-	1M WIBOR + bank's margin	registered pledge over non-current assets
Bank Pekao S.A.	Warsaw	20,000	-	18,381	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account
ING Bank Śląski S.A.	Kraków	10,000	-	9,797	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	5,000	-	4,684	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	assignment of receivables
Bank Pekao S.A.	Warsaw	430	-	430	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement

Bank's 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		
ING Bank Śląski S.A.	Warsaw	30,000	-	16,014	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	9,000	-	7,895	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	mortgage, pledge, promissory notes, assignment
National Fund for Environmental Protection and Water Management	Warsaw	15,000	-	3,000	-	6,300	-	Sep 30 2008	Sep 30 2010	0.5 of the rediscount rate	surety
Bank Pekao S.A.	Kraków	25,289	EUR 7,060	2	EUR 1	14,777	EUR 4,125	Mar 31 2008	Dec 31 2015	1M EUIBOR + bank's margin	ordinary mortgage on real estate
Bank Pekao S.A.	Kraków	20,000	-	5,426	-	-	-	Sep 30 2008	-	1M WIBOR + bank's margin	security (deposit) mortgage on real estate
Bank Pekao S.A.	Kraków	44,754	-	-	-	225		-	Dec 31 2015	1M WIBOR + bank's margin	ordinary mortgage on real estate
National Fund for Environmental Protection and Water Management	Warsaw	35,000	-	1,250	-	15,669	-	Oct 1 2008	Dec 20 2014	0.8 of the rediscount rate	bank guarantee, promissory notes
Bank Pekao S.A.	Warsaw	56,409	USD 14,800	5,566	USD 2,256	11,923	USD 4,895	Dec 31 2008	Feb 28 2011	1M LIBOR + bank's margin	pledge over property, plant and equipment
			TOTAL	517,193	USD 27,958	842.943	USD 204,640				
				-	EUR 4,260	-	EUR 4,125				

The banks' margins on the contracted loans are in the range of 0.07%–2.30%.

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 financial derivatives	**32**	5,181,875	5,181,875	1,717,645	46,215	73,500	1,632,330	1,712,185
Secured bank loans (other than overdraft facilities)	30	3,544,631	3,544,631	89,820	42,566	70,508	1,629,552	1,712,185
Overdraft facilities	30	374,974	374,974	373,114	1,860	-	-	-
Finance lease liabilities	32	1,415	1,415	165	396	799	55	-
Trade and other payables	33	1,260,855	1,260,855	1,254,546	1,393	2,193	2,723	-
Financial liabilities – financial derivatives	32	218,526	218,526	218,526	-	-	-	
		=========	===========	===========	===========	=====	=========	==========
Total		**5,400,401**	**5,400,401**	**1,936,171**	**46,215**	**73,500**	**1,632,330**	**1,712,185**
		=========	===========	===========	===========	=====	========	==========

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 financial derivatives	32	2,580,463	2,580,463	1,689,259	47,632	66,479	674,884	102,209
Secured bank loans (other than overdraft facilities)	30	912,245	912,245	24,752	44,550	65,850	674,884	102,209
Overdraft facilities	30	447,891	447,891	447,891	-	-	-	-
Finance lease liabilities	32	1,628	1,628	-	999	629	-	-
Trade and other payables	33	1,222,473	1,222,473	1,216,616	2,083	1,546	1,337	891
Financial liabilities – financial derivatives	32	3,906	3,906	3,906	-	-	-	-
		========	==========	=========	==========	========	==========	========
Total		**2,588,143**	**2,588,143**	**1,693,165**	**47,632**	**68,025**	**676,221**	**103,100**
		========	==========	=========	==========	========	==========	========

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31. Provisions

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

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

The changes in provisions were as follows:

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

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

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

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

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

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

32. Other (Financial) Liabilities, Accruals and Deferred Income

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Negative valuation of financial derivatives, including:	218,526	3,906
- commodity swaps (raw materials and petroleum products)	7,910	740
- futures (CO_2 emissions)	1	251
- currency forward and spot contracts	28,329	2,915
- currency options	5,020	-
- FRAs	1,733	-
- interest rate swaps (IRS)	175,533	-
Lease liabilities	1,415	1,628
Deferred income, including:	4,245	4,920
- subsidies	3,885	4,527
Accruals and deferred income	38	-
Other liabilities, including:	4,824	3,774
- to related undertakings	1,649	984
	========	========
Total financial liabilities	**229,048**	**14,228**
	========	========
Non-current liabilities	9,961	9,323
Current liabilities	219,087	4,905
	========	========

Finance lease liabilities

PLN '000	Minimum lease payments	Present value of minimum lease payments
Up to 1 year	756	561
1 year to 5 years	926	854
Over 5 years	-	-
	========	========
Total	**1,682**	**1,415**
	========	========
Less future financial charges	267	-
	========	========
Present value of minimum lease payments	**1,415**	**1,415**
	========	========
Current portion	756	561
Non-current portion	926	854

33. Trade and Other Payables, Accruals and Deferred Income

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Trade payables, including:	891,892	1,107,224
- to related undertakings	1,090	331
Liabilities to the state budget, including: [1]	513,884	465,970
- income tax liabilities	8,069	20,446
Special accounts	16,802	13,646
Salaries and wages payable	11,566	10,615
Accrued expenses	88,424	39,768
Deferred income from subsidies	19,368	19,368
Investment liabilities	321,957	80,734
Other liabilities, including:	30,616	20,126
- to related undertakings	-	1,000
Total	**1,894,509**	**1,757,451**

(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 Parent Undertaking will apply to the relevant customs office for reimbursement of the amount, which in the Company's opinion is recoverable.

Transactions with related undertakings are described in Note 48.

Trade payables do not bear interest and are, as a rule, settled in 3 to 60 days. Other liabilities do not bear interest, and their average payment period is three months. 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 throughout a financial year.

Pursuant to Art. 4.1.2. of the Excise Tax Act of January 23rd 2004 (Dz. U. No. 29, item 257, of February 26th 2004), a tax liability arises e.g. at the moment of taking harmonised excise goods out of a bonded warehouse. The Parent Undertaking and some other Group companies operate registered bonded warehouses, in which harmonised excise goods are subject to suspended-excise-tax procedure and may be the object of the actions provided for in the Excise Tax Act.

34. The Company's Social Benefits Fund's Assets and Liabilities

The Act on Employee Benefits Fund of March 4th 1994, as amended, stipulates that each employer of more than 20 staff (in full-time job equivalents) should create the Social Benefits Fund. In accordance with the statute and internal rules of procedure, the Group creates such fund and makes regular contributions to it, which are charged to costs. The purpose of the Social Benefits Fund is to subsidise social activities of the Group companies, finance loans to employees and other social spending.

The Group offset the Fund's assets against its liabilities towards the Fund as the assets are not fully controlled by the LOTOS Group companies

The table below sets forth the Company's Social Benefits 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	2,380	1,838
Receivables from employees connected with the Company's Social Benefits Fund	4,227	5,294
Other	16	233
	=========	=========
Total	**6,623**	**7,365**
	=========	=========
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	6,622	7,324
Other	1	41
	=========	=========
Total	**6,623**	**7,365**
	=========	=========

35. Sales Revenue

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Domestic sales of products	17,799,530	15,335,203
Export sales of products	3,278,749	2,729,222
Total sales of products	21,078,279	18,064,425
Domestic sales of goods for resale and materials	1,200,053	801,454
Export sales of goods for resale and materials	139,422	76,920
Total sales of goods for resale and materials	1,339,475	878,374
Total	**22,417,754**	**18,942,799**
- including to related undertakings	2,634	2,515
Elimination of excise tax and fuel charge	(6,123,016)	(5,817,676)
Total	**16,294,738**	**13,125,123**

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Sales of products	20,975,570	17,967,792
Sales of services	102,709	96,633
Total sales of products	21,078,279	18,064,425
Sales of goods for resale	1,318,204	873,752
Sales of materials	21,271	4,622
Total sales of goods for resale and materials	1,339,475	878,374
Total	**22,417,754**	**18,942,799**
- including to related undertakings	2,634	2,515
Elimination of excise tax and fuel charge	(6,123,016)	(5,817,676)
Total	**16,294,738**	**13,125,123**

The transactions with related undertakings are presented in Note 48.

36. Costs by Type

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Depreciation and amortisation	314,146	306,224
Raw materials and energy used	13,335,105	10,394,876
Contracted services	810,049	721,836
Taxes and charges	84,157	78,091
Salaries and wages	375,171	335,812
Social security and other benefits	100,095	95,015
Other costs by type	115,065	103,852
Goods for resale and materials sold	1,019,025	791,453
Total	**16,152,813**	**12,827,159**
Adjustments:		
Change in products and cost of sales adjustments	216,336	(447,532)
Total operating expenses, including:	**16,369,149**	**12,379,627**
Cost of sales	15,287,258	11,346,692
Selling costs	737,368	697,495
General and administrative expenses	344,523	335,440

37. Other Operating Income

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Gain on disposal of non-financial non-current assets	3,105	6,748
Subsidies	666	601
Provisions released	4,202	31,696
Reversal of impairment losses on non-financial assets	4,978	25,740
Compensations/damages received	5,598	8,589
Other	11,268	8,471
Total	**29,817**	**81,845**

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38. Other Operating Expenses

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Loss on disposal of non-financial non-current assets	11,826	5,076
Revaluation of non-financial assets	47,528	44,387
Provisions created	4,422	17,747
Other	24,813	24,971
Total	**88,589**	**92,181**

39. Financial Income

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Dividend received	1,118	1,994
Interest	51,849	41,205
Foreign exchange gains	7,994	139,288
Gains on disposal of investments	16	5,122
Revaluation of financial assets	2,333	91,037
Settlement of derivative instruments	-	31,632
Gain on sale of all or part of shares in subordinated undertakings	1,011	605
Other	18,187	2,666
Total financial income	**82,508**	**313,549**

40. Financial Expenses

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Interest	97,151	47,243
Amounts included in costs of assets qualifying for capitalisation	(44,631)	(9,504)
Foreign exchange losses	152,017	18
Revaluation of financial assets	12,537	540
Settlement of financial instruments	234,999	-
Other	14,858	6,698
Total financial expenses	**466,931**	**44,995**

41. Corporate Income Tax

PLN '000	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Corporate income tax	107,577	205,237
Deferred tax	(221,862)	(14,890)
Total tax	**(114,285)**	**190,347**
Income tax expense recognised in the income statement	(114,285)	190,347
Income tax expense recognised in equity	-	-

The current portion of the income tax was calculated at the rate of 19% of 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)	(504,148)	1,004,494
Corporate income tax at the applicable rate (19%), including:	83,305	190,854
- tax on dividend at the statutory rate applicable in Poland (19%)	202	311
Permanent differences	(118,029)	(160,300)
Other differences	513,237	258,278
Share in investments in associated undertakings	(26,033)	(22,276)
Tax effect of differences	70,143	14,383
Corporate income tax, including	107,577	205,237
- tax on dividend	202	311
Effective tax rate	-	0.20

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	15,318	12,920
Difference between current tax value and book value of fixed assets	21,086	6,941
Impairment losses on inventories	40,108	3,145
Negative valuation of derivatives	29,339	-
Tax loss amortised over time	127,189	5,421
Impairment losses on receivables	16,002	12,155
Unrealised margin assets	(6,087)	11,995
Other	103,741	35,023
Total deferred tax asset	**346,696**	**87,600**
Deferred tax liability:		
Difference between current tax value and book value of fixed assets	189,374	206,281
Positive valuation of derivatives	20,635	1,407
Other	14,875	2,969
Total deferred tax liability	**224,884**	**210,657**
Net deferred tax asset/(liability)	**121,812**	**(123,057)**

Since the Group companies are separate taxpayers, deferred tax asset and deferred tax liability are calculated at each company individually. Deferred tax asset and deferred tax liability are offset by the Group companies. Consequently, consolidated balance-sheets present deferred tax assets and liabilities as follows:

PLN '000	Dec 31 2008 (audited)	Dec 31 2007 (audited)
Deferred tax asset:	132,223	31,732
Deferred tax liability:	(10,411)	(154,789)
Net deferred tax asset/(liability)	**121,812**	**(123,057)**

Taxable temporary differences are expected to expire in 2009–2085.

42. Contingent and Off-Balance-Sheet Liabilities

Material Contingent and Off-Balance-Sheet Liabilities of Grupa LOTOS S.A.

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 the consolidated 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.

Material Contingent Liabilities of the Parent Undertaking

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 increased 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.

6. 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. 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 44, item 13). 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).

7. 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.

8. 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.

9. 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.

10. 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 30). On March 31st 2009 the letter of credit expired.

11. 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 30).

12. 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.

13. 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 until January 31st 2009 and then until March 31st 2009 (see Note 44, item 14). 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).

14. 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.

15. 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.

16. 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 30). 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).

17. 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 30). 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.

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Asfalt Sp. z o.o.

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

On November 28th 2008, the term of the overdraft facility agreement was extended until November 27th 2009, and the amount of the overdraft facility was reduced to PLN 30,000 thousand. The facility is secured with the blank promissory note, valid through the date of repayment of debt and/or termination or expiry of the overdraft facility agreement.

Material Contingent and Off-Balance-Sheet Liabilities of Petrobaltic S.A.

Liabilities towards Bank Ochrony Środowiska S.A.

In connection with the loans advanced by Bank Ochrony Środowiska S.A. (the "Bank") to Energobaltic Sp. z o.o. (Energobaltic) under (i) the investment loan agreement of September 11th 2001, and (ii) the preferential investment loan agreement of September 11th 2001 for environmental protection purposes, on December 12th 2001 Petrobaltic S.A. made a representation to the Bank, amended by a representation made by the shareholders on November 6th 2006, whereby it agreed (below are presented currently binding terms and conditions):

- to apply a part of net profit (whose amount in a given year may not exceed the amounts shown in the Bank-approved final financial projection for the project financed with the loan) towards share capital increase at Energobaltic Sp. z o.o.;
- not to dispose of or encumber its shares in Energobaltic Sp. z o.o. without prior consent of the Bank, with the proviso that the Bank's consent may not be unreasonably withheld.

Failure to discharge the Shareholders' Obligation may result in termination of the loan agreements by the Bank. Concurrently, Petrobaltic S.A. will be relieved from the Shareholders' Obligation if both of the following conditions are met:

- Petrobaltic S.A. provides the Bank and Energobaltic Sp. z o.o. with a written notification to the effect that oil production from the B-8 reservoir has commenced, and – after the first three months of production from the B-8 reservoir – Petrobaltic S.A. confirms in the same manner that the gas volume estimates for the reserve – contained in the gas supply forecast of December 7th 2005 submitted to the Bank by Energobaltic Sp. z o.o. – were correct,
- the economic and financial standing of Energobaltic Sp. z o.o. poses no threat to timely repayment of the loans.

Liabilities to Stablewood Power Ventures (Władysławowo) Limited

In connection with the reorganisation of the Rolls Royce Group, in Q4 2008 Stablewood Power Ventures (Władysławowo) Limited assumed the rights and obligations of Rolls-Royce Power Ventures (Władysławowo) Limited.

Under the Shareholder Agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Stablewood Power Ventures (Władysławowo) Limited, to purchase the claims under the loan advanced by Stablewood Power Ventures (Władysławowo) Limited to Energobaltic.

In connection with the expected reduction of the volume of waste gas supplied to Energobaltic Sp. z o.o. by Petrobaltic S.A. in 2005, on September 22nd 2005, Rolls-Royce Power Ventures (Władysławowo) Limited (RRPV) sent a letter stating that if Petrobaltic S.A. did not comply with the provisions of Art. 16.1.6 of the Gas Supply Agreement, it would issue a default notice under Art. VIII Section 1 of the Shareholder Agreement.

Following receipt of the notice, under the Shareholder Agreement Petrobaltic S.A. is obliged to offer to Stablewood Power Ventures (Władysławowo) Limited to purchase the claims under the loan advanced by Stablewood Power Ventures (Władysławowo) Limited to Energobaltic Sp. z o.o. If Stablewood Power Ventures (Władysławowo) Limited accepts the offer, Petrobaltic will be obliged to gradually (2012–2016) purchase Stablewood Power Ventures (Władysławowo) Limited's claims under the loan, at maturity of each principal instalment, at a 2% discount. As at December 31st 2008, the total amount of Stablewood Power Ventures (Władysławowo) Limited's loan to Energobaltic Sp. z o.o. was USD 6,884m (USD 5,053 thousand in principal, plus interest) (i.e. PLN 20,389m when translated using the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2008). Taking into account the 2% discount, the amount of the loan is USD 6,746 thousand (USD 4,952 thousand in principal, plus interest) (i.e. PLN 19,982 thousand when translated using the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2008. As at December 31st 2007, the amount of the loan was USD 6,545 thousand (USD 5,053 thousand in principal, plus interest) (i.e. PLN 15,938 thousand when translated using the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2007). Taking into account the 2% discount, the amount of the loan was USD 6,414 thousand (USD 4,952 thousand in principal, plus interest) (i.e. PLN 15,619 thousand when translated using the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2007). Following the purchase of Stablewood Power Ventures (Władysławowo) Limited's shares in Energobaltic Sp. z o.o., Petrobaltic S.A. would hold 1,598 shares representing 88.04% of the aggregate number of the shares.

As at the date of approval of the consolidated financial statements, no notice of default under the Gas Supply Agreement has been received. Therefore, in accordance with the interpretation of the Agreement adopted by Petrobaltic S.A., the conditional offer could be executed only in 2010. In view of the financial standing of Energobaltic Sp. z o.o. and the assumed level of gas supplies in connection with the scheduled launch of production at the B8 field, the Management Board of Petrobaltic S.A., guided by the conservative valuation principle, maintained the provision for future liabilities which might arise under the Shareholder Agreement. The provision covers Stablewood Power Ventures (Władysławowo) Limited's loan to Energobaltic Sp. z o.o. (less a 2% discount) and the par value of Stablewood Power Ventures (Władysławowo) Limited's shares in Energobaltic Sp. z o.o.

Liabilities of Petrobaltic S.A. towards REVUS ENERGY ASA of Norway

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

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

Liabilities of Petrobaltic S.A. towards the Government of Norway

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

Liabilities of LOTOS Exploration and Production Norge AS towards Petrobaltic S.A.

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

On December 19th 2008, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan, and any other liabilities that may arise as a result of the execution and performance of the loan agreement. The principal amount of the loan is to be repaid by January 31st 2010. The promissory note was issued to secure the repayment of the USD 10m loan (the equivalent of PLN 29m, translated at the rate quoted by the National Bank of Poland for December 19th 2008).

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Jasło S.A.

Liabilities under Promissory Notes towards Nafta Polska S.A.

Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) has issued nine blank promissory notes to Nafta Polska S.A. Under the promissory note declarations of January 19th 2000, the promissory notes secure the liabilities of the Rafineria Jasło S.A. under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between Rafineria Jasło S.A. and Carbon Black Polska Sp. z o.o. The promissory notes may be filled in by Nafta Polska if Rafineria Jasło S.A. fails to perform any of its obligations under the agreement. As provided for in the declarations, each promissory note may be filled in with up to PLN 1,000 thousand.

Under an agreement of January 19th 2000 between Nafta Polska S.A. and Rafineria Jasło S.A., if no obligation arises on the part of Nafta Polska S.A. to provide any performance, in whole or in part, under the performance bond agreement relating to the agreement on environmental issues with Carbon Black Polska Sp. z o.o. by the time Nafta Polska S.A. is removed from the enterprise register, Nafta Polska S.A. will place the unrealised promissory notes in court deposit so that they can be returned after the court's decision on removing Nafta Polska S.A. from the enterprise register becomes final. Similarly, the unrealised promissory notes will be returned to Rafineria Jasło S.A. after 10 years following the agreement date if Nafta Polska S.A. is not removed from the enterprise register and is not obliged to any performance under the surety agreement.

Liabilities under Promissory Notes towards the Minister of Economy

Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) has also issued a blank promissory note to the Minister of Economy. Under the promissory note declaration issued on November 13th 2002, the promissory note is to secure performance of LOTOS Jasło S.A.'s obligations under an agreement on financial support for a new investment project (a fuel terminal), concluded between the Minister of Economy and LOTOS Jasło S.A. on November 1st 2002. The promissory note may be filled in with an amount of up to PLN 5,675 thousand.

Other Liabilities under Promissory Notes

Furthermore, as at December 31st 2008, LOTOS Jasło S.A. had:

- a liability under a blank promissory note issued to secure a working capital overdraft facility granted by PKO BP S.A., the Krosno branch, for the amount of PLN 18,000 thousand, with the validity term expiring on July 29th 2011 (see Note 44, item 11).
- a liability under a blank promissory note issued to secure an excise guarantee for PZU, the Rzeszów branch, for the amount of PLN 5,000 thousand; the guarantee's validity term expired on January 31st 2009 while the guarantor's liability continues until May 1st 2009,
- a liability under a blank promissory note issued to secure the repayment of interest and contractual penalties, if any, under a loan agreement with NFOŚIGW (The National Fund for Environmental Protection and Water Management) of Warsaw, with the validity term expiring on March 30th 2011.

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Oil S.A.

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

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Gaz S.A.

On December 19th 2007, LOTOS Gaz S.A. and Pekao S.A. concluded a surety agreement whereby LOTOS Gaz S.A. issued a surety for the repayment of a PLN 5,000 thousand loan contracted by KRAK–GAZ Sp. z o.o. under loan agreement dated May 16th 2006. The surety was issued for the amount of up to PLN 7,500 thousand. The loan contracted by KRAK–GAZ Sp. z o.o. was repaid, and the surety issued by LOTOS Gaz S.A. expired.

On June 30th 2008, LOTOS Gaz S.A. and ING Bank Śląski concluded a surety agreement whereby LOTOS Gaz S.A. issued a surety for the repayment of a PLN 10,000 thousand loan contracted by KRAK-GAZ Sp. z o.o. (under a loan agreement dated June 24th 2004). On December 16th 2008, the loan contracted by KRAK–GAZ Sp. z o.o. was repaid and the surety granted by LOTOS Gaz S.A. expired.

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Biopaliwa Sp. z o.o.

On August 7th 2007, LOTOS Biopaliwa Sp. z o.o. issued a blank promissory note with a “protest waived” clause, guaranteed by LOTOS Czechowice S.A., for the benefit of NFOŚIGW (The National Fund for Environmental Protection and Water Management), valid through June 30th 2015. The promissory note was issued to secure the repayment of interest, contractual penalties (if any) and other liabilities under a loan agreement concluded on June 29th 2007 by LOTOS Biopaliwa Sp. z o.o. with NFOŚIGW. The amount of the loan was PLN 35,000 thousand. The repayment of the loan is secured with a bank guarantee issued for the benefit of NFOŚIGW on August 7th 2007 by Pekao S.A. against the loan limit under an investment loan agreement of December 14th 2006.

On April 17th 2008, LOTOS Biopaliwa Sp. z o.o. issued and submitted to the Customs Office of Bielsko-Biała two blank promissory notes with promissory note declarations, guaranteed by LOTOS Czechowice S.A., one for the amount of up to PLN 5,921 thousand and the other for the amount of up to PLN 4,263 thousand, as security for its excise tax liabilities. The promissory notes were valid until April 16th 2009.

On December 30th 2008, LOTOS Biopaliwa Sp. z o.o. issued and submitted to the Customs Office of Bielsko-Biała a blank promissory note with a promissory note declaration, guaranteed by LOTOS Czechowice S.A., for the amount of up to PLN 4,263 thousand, as security for its excise tax liabilities. The promissory note was valid until April 16th 2009.

Other Contingent Liabilities of the Group

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).

43. Carbon Dioxide (CO_2) Emission Allowances

As at December 31st 2008 and December 31st 2007, the Group reported an excess of the CO_2 emission allowances allocated to it over its actual carbon dioxide (CO_2) emissions (see Note 21.3).

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.

The aggregate annual average carbon allowance granted to the Group companies (for the years 2008-2012) is 1,217 thousand tonnes.

The actual volume of carbon dioxide emissions in the year ended December 31st 2008 was 1,192 thousand tonnes.

44. 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. In order to secure the repayment of a loan, on January 15th 2009 LOTOS Exploration and Production Norge AS issued a blank promissory note with a “protest waived” clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 55m (the equivalent of PLN 177m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 15th 2009) will be used to finance further implementation of the YME Production Project, and in particular the capital expenditure on the project implementation, along with the cost of capital, including interest on the loan. The loan will be paid in three instalments and the date of the last instalment is March 31st 2010.

4. On January 20th 2009, the Management Board of Petrobaltic S.A. resolved to commence the procedure for registration of another share capital increase at LOTOS Exploration and Production Norge AS and acquisition of the new shares by Petrobaltic S.A.

The share capital of LOTOS Exploration and Production Norge AS was increased from NOK 190m (the equivalent of PLN 90m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) to NOK 430m (the equivalent of PLN 203m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009). The new shares comprising the increased share capital, whose aggregate par value amounts to NOK 240m (the equivalent of PLN 113m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) are equal and indivisible, and they are treated by Petrobaltic S.A. as a long-term equity investment.

Petrobaltic S.A. covered the 240 million new shares in LOTOS Exploration and Production Norge AS with cash. The purchase price for the shares was equal to their par value, i.e. NOK 240m (the equivalent of PLN 113m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) and was covered with Petrobaltic’s internally-generated funds.

On February 26th 2009, Norwegian companies registrar Bronnoysundregistrene registered the share capital increase at LOTOS Exploration and Production Norge AS described above.

5. 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.

6. On January 30th 2009, LOTOS Jasło S.A. acquired 15 shares in PLASTEKOL Organizacja Odzysku S.A., representing 1.5% of the company’s share capital, from Krzysztof Boniecki, who conducts business activities under the business name of Przedsiębiorstwo Wielobranżowe ROBAC. Following the transaction, LOTOS Jasło S.A.’s holding in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 83.5% to 85% (or, from 835 to 850 shares).

On February 13th 2009, LOTOS Jasło S.A. acquired 30 shares in PLASTEKOL Organizacja Odzysku S.A., representing 3.0% of the company’s share capital, from EKO-OPEN Sp. z o.o. Following the transaction, LOTOS Jasło S.A.’s holding in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 85% to 88% (or, from 850 to 880 shares).

7. 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 objectives 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 Management Board of Grupa LOTOS S.A. 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.

8. On February 10th 2009, LOTOS Oil S.A. issued a promissory note for the amount of PLN 5,000 thousand, along with a promissory note declaration, for the benefit of the Customs Office in order to secure an excise tax liability related to the transit of excise goods. The promissory note is valid from March 1st 2009 to February 28th 2011.

9. On February 26th 2009, at the request of LOTOS Asfalt Sp. z o.o., BRE Bank S.A. issued a documentary letter of credit for EUR 500 thousand (the equivalent of PLN 2,353 thousand, translated using the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for February 26th 2009) for the benefit of NARDINI S.p.A. The validity term of the letter of credit expires on June 30th 2009. The letter of credit was issued to secure the performance of a contract related to the construction of a tarpaper production plant.

10. 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.

11. On February 27th 2009, Lotos Jasło S.A. signed an annex to the loan agreement, under which the amount of funds available under an existing credit line was decreased. As a result, the amount of security for the company's current account loan contracted at Bank PKO BP S.A. o/Krosno, made in the form of a blank promissory note, decreased from PLN 18,000 thousand to PLN 10,000. The promissory note is valid through July 29th 2011 (see Note 42).

12. In order to secure the repayment of a loan, on March 9th 2009 LOTOS Exploration and Production Norge AS issed a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 7.5m (the equivalent of PLN 28m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for March 9th 2009) will be used to finance further implementation of the YME Production Project. The principal amount is to be repayed by January 29th 2010.

13. 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 42, item 6).

14. 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 (Note 42, item 13).

15. In order to secure the repayment of a loan, on April 1st 2009 LOTOS Exploration and Production Norge AS issed a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 2.5m (the equivalent of PLN 8.8m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2009) will be used to finance further implementation of the YME Production Project. The principal amount is to be repayed by June 30th 2010.

16. On April 6th 2009, LOTOS Jasło S.A. acquired 30 shares in PLASTEKOL Organizacja Odzysku S.A., representing 3% of the company's share capital, from Jan B. Tylisz, who conducts business activity under the business name of Przedsiębiorstwo Handlowo - Usługowe TYL-OIL. Following the transaction, LOTOS Jasło S.A.'s stake in PLASTEKOL Organizacja Odzysku S.A. increased from 88% to 91% (or from 880 to 910 shares).

17. In order to secure the payment of excise tax liability, on April 15th 2009 LOTOS Biopaliwa Sp. z o.o. issued (and filed with the Customs Office in Bielsko-Biała) a blank promissory note for up to PLN 18,820 thousand, guaranteed by LOTOS Czechowice S.A., along with a promissory note declaration. The promissory note is valid through June 30th 2010.

45. Material Court, Arbitration or Administrative Proceedings and Other Risks Pertaining to the Parent Undertaking or its Subsidiaries

Material Proceedings Pending before Public Administration Authorities in Connection with the Parent Undertaking'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 the consolidated financial statements, the case was pending.

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Czechowice S.A.'s Business

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

Proceedings Related to Value Added Tax for Certain Months of 1998

In connection with the tax inspections and the resulting decisions related to the value added tax, on December 29th 2003 Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) filed complaints with the Supreme Administrative Court against three decisions of the Director of the Tax Chamber of Katowice, concerning the value added tax for October 1998, July 1998 and May 1998. The total value of the disputed claims amounted to PLN 1,229 thousand. Decisions were issued in all of the above cases. Cassation complaints have been filed against all of the above decisions by Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.), in the case of the tax for July 1998, and by the Tax Chamber Director, in the case of the tax for October 1998, for July 1998 and for May 1998.

LOTOS Czechowice S.A. paid the amounts of VAT together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

In December 2005, LOTOS Czechowice S.A. received the following decisions of the Supreme Administrative Court:
- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for October 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for May 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
- a decision upholding the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for July 1998); the Supreme Administrative Court resolved not to award costs of cassation proceedings.

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against rulings by the Provincial Administrative Court of Gliwice of April 27th 2006 in the following cases:
- the case relating to the tax for May 1998 (PLN 318 thousand),
- the case relating to the tax for October 1998 (PLN 618 thousand).

By virtue of decision of November 27th 2006, the Provincial Administrative Court of Gliwice dismissed the cassation complaint concerning the tax for October 1998. Currently, the proceedings are pending before the Constitutional Court concerning breach of the Constitution, committed by issuing a decision on dismissal of a cessation complaint.

With respect to the case concerning overpayment of VAT for August 1998, in the amount of PLN 292.7 thousand, the Provincial Administrative Court of Gliwice dismissed the complaint against the decision of the Tax Chamber Director by virtue of the ruling of June 26th 2007. The ruling was appealed against by LOTOS Czechowice S.A. to the Supreme Administrative Court; the case is pending.

On December 29th 2007, the Supreme Administrative Court dismissed the cassation complaint concerning the tax for May 1998. The company appealed to the last instance authority and lodged a complaint to the Constitutional Court, which may repeal the decisions of the tax authorities as issued on the basis of unconstitutional provisions of the regulations of the Minister of Finance. The objection in the complaint concerns exceeding the statutory competence of the Minister of Finance as regards issuing regulations.

The proceedings do not pose any financial threat to the company as additional liabilities resulting from the decisions issued by the tax authorities were paid along with interest in the previous years and may only be a source of additional income for LOTOS Czechowice S.A.

Proceedings Related to Excise Tax for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against LOTOS Czechowice S.A., related to the decisions concerning excise tax for certain months of 1998, against which the LOTOS Czechowice S.A. submitted appeals to the administrative court. The total value of the claims disputed under appeal proceedings is PLN 2,881 thousand.
The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise tax for September 1998, August 1998 and June 1998. By virtue of the Supreme Administrative Court's ruling, the Provincial Administrative Court's decision regarding excise tax for September 1998, August 1998 and June 1998 was repealed in full and remanded for re-examination.

LOTOS Czechowice S.A. paid the amounts of excise tax together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against the decisions of the Provincial Administrative Court of Gliwice dated April 27th 2006 in the cases concerning taxes for:
- September 1998 – PLN 52.5 thousand,
- August 1998 – PLN 842 thousand,
- June 1998 – PLN 468.8 thousand,

Considering the case of the tax for October 1998, in the amount of PLN 1,138.8 thousand, the Provincial Administrative Court of Gliwice suspended the proceedings.

No negative tax consequences for LOTOS Czechowice S.A. may arise in connection with these proceedings; they may only be a source of additional income

By virtue of the decision of the Provincial Administrative Court of Gliwice, dated October 16th 2006, issued in the proceedings regarding tax for August 1998 (with respect to the request for returning the difference between the court fee actually paid and the court fee due), the Provincial Administrative Court decided to return PLN 57.9 thousand to LOTOS Czechowice S.A.

On December 29th 2007, the Supreme Administrative Court issued a ruling dismissing the cassation complaints in the following cases:
- the case relating to the tax for September 1998 (PLN 52.5 thousand),
- the case relating to the tax for August 1998 (PLN 842 thousand),
- the case relating to the tax for June 1998 (PLN 468.8 thousand).

The company appealed to the last instance authority and lodged a complaint to the Constitutional Court, which may repeal the decisions of the tax authorities as issued on the basis of unconstitutional provisions of the regulations of the Minister of Finance. The objection stated in the complaint refers to the fact that in issuing the regulations the Minister of Finance acted beyond the scope of his statutory mandate.

The proceedings do not pose any financial threat to the company, and may only be a source of additional income (as additional liabilities resulting from the decisions issued by the tax authorities were paid along with interest in the previous years).

Inspection Related to Excise Tax Liabilities for Certain Months of 2004

At LOTOS Czechowice S.A., the Head of the Customs Office of Bielsko-Biała carried out an inspection to determine the correct amount of excise tax payable for the period from January 1st 2004 to September 30th 2004, in connection with the sale of oil for B ceramic moulds. As a result of the inspection, fiscal proceedings were instigated on May 18th 2005 on an ex officio basis. On May 5th 2006, LOTOS Czechowice S.A. received four decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January, February, and March 2004. The proceedings aimed at determining the excise tax liability for April 2004 were discontinued. On May 19th 2006, the company filed with the Director of the Customs Chamber an appeal against the aforementioned decisions as well as requests to stay execution of the decisions. In August 2006, the company received decisions issued by the Head of the Customs Office, which discontinued the proceedings concerning excise tax for May–September 2004. On October 17th 2006, LOTOS Czechowice S.A. received the decision of the Director of the Customs Chamber of Katowice, setting the deadline by which the appeals against the decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January–March 2004, would be considered, i.e. December 13th 2006. In the decision of February 9th 2007, Director of the Customs Chamber of Katowice set the deadline for resolving the case at April 13th 2007. By virtue of the decision of June 17th 2007, Director of the Katowice Customs Chamber set yet another deadline for resolving the case – August 13th 2007, and pursuant to its most recent decision of August 13th 2007, the Director of the Customs Office of Katowice set October 13th 2007 as the deadline for considering the appeal. On October 19th 2007, LOTOS Czechowice S.A. received three decisions issued by the Director of the Customs Chamber of Katowice, repealing in full the decisions determining the amount of excise tax liability for January, February, and March 2004, passed by the Head of the Customs Office of Bielsko-Biała. The case is to be reconsidered by the first instance body. On November 19th 2007, LOTOS Czechowice S.A. filed with the Provincial Administrative Court three complaints against the decisions issued by the Director of the Customs Chamber of Katowice which repealed the decisions of the Head of the Customs Office of Bielsko-Biała and remanded the cases back to the Head of the Customs Office of Bielsko-Biała. On April 2nd 2008, court hearings were held concerning the aforementioned complaints, and rulings were issued whereby the complaints were dismissed. After LOTOS Czechowice S.A. had requested and received the written statements of reasons, the Management Board resolved not to file a complaint to the Supreme Administrative Court. As a result, the cases were remanded back to the first instance body, i.e. to the Head of the Customs Office of Bielsko-Biała, and will be re-examined.

By virtue of its decisions of January 7th 2009, the Head of the Customs Office in Bielsko-Biała set March 18th 2009 as a new deadline for resolving the cases concerning the excise tax liability for the period January – March 2004. As at the date of approval of the consolidated financial statements, the case was pending.

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

Proceedings Concerning Excise Tax Liabilities for the Period September 1st – December 31st 2003

On April 12th 2006, the Head of the Customs Office in Bielsko-Biała instigated proceedings concerning LOTOS Czechowice S.A. to determine the correct amount of the excise tax payable for the period September 1st – December 31st 2003, in connection with the sale of oil for B ceramic moulds. Before conclusion of the proceedings, it is difficult to determine whether the excise tax liabilities will be reassessed, and if so, what their amounts will be. By virtue of the decision of March 19th 2006, the Head of the Customs Office in Bielsko-Biała set the deadline for resolving the case at May 30th 2007. By virtue of the decision of August 13th 2007, the Head of the Customs Office in Bielsko-Biała set another deadline for resolving the case – October 17th 2007. By virtue of the decision issued on January 1st 2008, the Head of the Customs Office of Bielsko-Biała set June 30th 2008 as the new date for resolving the case. By virtue of the decisions of June 27th 2008, the Head of the Customs Office of Bielsko-Biała set August 31st 2008 as the new deadline for resolving the case concerning excise tax payable for the period September – December 2003, but under later decisions of September 3rd 2008 the deadline was extended again – until October 31st 2008.

On November 13th 2008, the Head of the Customs Office in Bielsko-Biała issued decisions determining the amounts of excise tax liability for September, October, November and December 2003, which exceeded the excise tax liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 3,588 thousand – with respect to the tax liability for September 2003,
- by PLN 12,189 thousand – with respect to the tax liability for October 2003,
- by PLN 8,887 thousand – with respect to the tax liability for November 2003,
- by PLN 6,223 thousand – with respect to the tax liability for December 2003.

On November 21st 2008, LOTOS Czechowice S.A. filed a request with the Head of the Customs Office in Bielsko-Biała to stay enforcement of the decision related to the excise tax liability for September – December 2003. On December 1st 2008, LOTOS Czechowice S.A. filed an appeal against the decision issued by the Head of the Customs Office determining the excise tax liabilities in amounts exceeding those declared by the company, with the Director of the Customs Chamber in Katowice, through the agency of the Head of the Customs Office in Bielsko-Biała. On December 4th 2008, the Director of the Customs Chamber in Katowice initiated enforcement proceedings against LOTOS Czechowice S.A. by issuing enforcement orders with respect to the decisions of the Head of the Customs Office in Bielsko-Biała regarding excise tax liabilities for September – December 2003, and by seizing the amounts owed from LOTOS Czechowice S.A.'s bank accounts. The additional excise tax liability amounts payable under the decisions were increased by the costs of enforcement proceedings in the total amount of PLN 2,460 thousand and late interest determined as at the date of issuing the enforcement orders in the total amount of PLN 10,121 thousand.

On December 12th 2008, the company filed requests with the Director of the Customs Chamber in Katowice to stay the enforcement proceedings instigated by virtue of the enforcement orders.

On December 12th 2008, the Head of the Customs Office in Bielsko-Biała granted the request filed by the company on November 21st 2008 and issued Decision to stay enforcement of the decision concerning the excise tax liability for December 2003.
On the same day, the Director of the Customs Chamber in Katowice issued decisions to stay enforcement of the decisions concerning the excise tax liabilities for the period September – November 2003, and, invoking the decisions to stay enforcement of the Customs Office Head's decisions concerning the period September – December 2003, issued decisions to suspend the enforcement proceedings.

On December 15th 2008, the Director of the Customs Chamber in Katowice filed eight requests with the District Court of Pszczyna, along with enforcement orders, to register compulsory ordinary mortgages (*hipoteka przymusowa zwykła*) each with the value of PLN 5,446 thousand (PLN 43,569 thousand in total) encumbering LOTOS Czechowice S.A.'s properties in the relevant Land and Mortgage Register entries.

On December 17th and 18th 2008, the District Court of Pszczyna registered the seven ordinary compulsory mortgages as was requested. On December 23rd 2008, the Court resolved to dismiss one of the requests filed by the Director of the Customs Chamber in Katowice on the grounds of having encountered obstacles in registration (inconsistencies between the contents of the Land and Mortgage Register entry and the request).

On February 23rd 2008, LOTOS Czechowice S.A. received four decisions of the Director of the Customs Chamber in Katowice repealing the earlier decisions of the Head of the Customs Office in Bielsko-Biała and remanding the cases for re-examination.

In connection with the decisions of the Director of the Customs Chamber in Katowice dated March 4th 2009 concerning discontinuation of the enforcement proceedings related to the excise tax liability for September – December 2003, the Director of the Customs Chamber in Katowice filed relevant requests to the District Court of Pszczyna to deregister the relevant entires in the land and mortgage register. As at the date of approval of the consolidated financial statements, the case was pending.

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

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Paliwa Sp. z o.o.'s Business

On March 30th 2006, LOTOS Paliwa Sp. z o.o received a decision of the Gdańsk Tax Office of March 28th 2006 relating to the determination of the value added tax liability for January 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability against the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.). On July 25th 2006, LOTOS Paliwa Sp. z o.o. received decision of the Head of the Gdańsk Tax Chamber, dated July 21st 2006, in which the Head of the Gdańsk Tax Chamber revoked in full the decision of the Gdańsk Tax Office determining the value added tax liability for January 2005 and assessing an additional tax liability, and remanded the case for re-examination by the Gdańsk Tax Office. On July 6th 2007, LOTOS Paliwa Sp. z o.o. was notified of decision no. PV/4400-96/124/VT/06/AR issued by the Head of the Gdańsk Tax Office, stating that the amount of tax difference to be refunded to the company was exceeded by PLN 23 thousand and requiring the company to additionally pay PLN 7 thousand on account of tax. LOTOS Paliwa Sp. z o.o. decided not to appeal against the decision as it considered it favourable for the company. According to a previous decision relating to the same matter and issued on March 28th 2006 (decision no. PV/440-95/124/VT/AG), the Head of the Gdańsk Tax Office decided that the company had understated its tax liability by PLN 24,055 thousand and obliged the company to additionally pay PLN 7,850 on account of tax (the decision was later repealed by virtue of a decision issued by the Head of the Tax Chamber in Gdańsk on July 21st 2006).

On July 6th 2007, the Head of the Gdańsk Tax Office issued decision No. VT/440-185/07/WP/DP on instigation of tax proceedings against LOTOS Paliwa Sp. z o.o to investigate the correctness of VAT settlements for March 2005. On September 11th 2007, LOTOS Paliwa Sp. z o.o. received a decision of the Gdańsk Tax Office of September 10th 2007 relating to the determination of the value added tax liability for March 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability against the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. Decision No. PV/4400-170/185/VT/07/DP stated that the amount of tax difference to be refunded was exceeded by PLN 26,141 thousand and required the company to pay an additional PLN 7,842 thousand on account of tax for March 2005. The amounts specified in the decision were paid by LOTOS Paliwa Sp. z o.o. On September 24th 2007, the company appealed against the decision of the Gdańsk Tax Office.

On January 18th 2008, the Head of the Tax Chamber of Gdańsk issued decision No. PC/4407-660/07/13 upholding decision No. PV/4400-96/124/VT/06/AR of the Head of the Gdańsk Tax Office, dated September 10th 2007, stating that the excess of input VAT over output VAT for March 2005 was PLN 5,292 thousand and that the amount of tax difference to be returned was PLN 5,292 thousand, and requiring the company to additionally pay PLN 7,842 thousand on account of value added tax for March 2005. On February 1st 2008, LOTOS Paliwa Sp. z o.o. appealed to the Provincial Administrative Court of Gdańsk against decision No. PC/4407-660/07/13 issued by the Head of the Tax Chamber of Gdańsk.

The decision concerns the right to reduce the tax amount due as settlement for the month in which the seller was provided by the buyer with a confirmation of receipt of an adjusting invoice, arising from settlement of the acquisition of LOTOS Gaz S.A., and compliance of additional tax sanctions in this respect with the constitution. As regards potential tax liabilities under the sanctions connected with the settlement of acquisition of an organised part of LOTOS Gaz S.A.'s business and corrections related to the VAT-7 tax returns, taking into account the results of legal and tax analyses, including the analysis carried out by external tax advisers.

On June 24th 2008, a hearing was held before the Provincial Administrative Court of Gdańsk, whose judgement reversed the appealed decision of the Head of the Tax Chamber of Gdańsk and declared it unenforceable, awarding the costs of the proceedings against the Head of the Tax Chamber of Gdańsk.

On July 31st 2008, the Head of the Gdańsk Tax Chamber filed to the Supreme Administrative Court of Warsaw a cassation complaint against the decision of the Provincial Administrative Court of Gdańsk dated June 24th 2008. As at the date of approval of the consolidated financial statements, the case was pending.

The Management Board of LOTOS Paliwa Sp. z o.o. is of opinion that there is hardly any risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to such potential additional liabilities.

Material Proceedings Instigated against Grupa LOTOS S.A.

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 sent in a decision to discontinue the enforcement proceedings. As at the date of approval of the consolidated 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 the consolidated 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.

Court Proceedings Instigated by or against the Company or the Companies of Its Group

Court Proceedings Instigated by Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) against a Private Individual

On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of Rafineria Jasło S.A. (currently: LOTOS Jasło S.A.), whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, Rafineria Jasło S.A. (currently: LOTOS Jasło S.A.) submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security (deposit) mortgage (*hipoteka kaucyjna*). As at December 31st 2008, subject to the execution of the terms of the arrangement, the amount receivable was PLN 1,110 thousand.

Material Proceedings Pending before Competent Arbitration Bodies in Connection with the Activities of Petrobaltic S.A. and its Associated Undertaking

AB Geonafta, a subsidiary of Naftos Gavyba, is a party to court proceedings against Svenska Petroleum Exploration AB related to the establishment of UAB Genciu Nafta, whose founders and shareholders are the subsidiary and Svenska Petroleum Exploration AB. The dispute, related to performance of the company's Articles of Association, was referred to the International Court of Arbitration at the International Chamber of Commerce in Copenhagen (hereinafter referred to as the Arbitrator), which reached a final decision on October 30th 2003. The award of the International Court of Arbitration in Copenhagen became final in three EU states: the United Kingdom, Denmark and Germany. However, it has not taken effect in the Lithuanian jurisdiction yet.

The Plaintiff (Government of the Republic of Lithuania) and the Defendants (Svenska Petroleum Exploration AB, UAB Genciu Nafta and AB Geonafta) entered into a settlement regarding the action.

The settlement agreement was approved by the competent court of the Republic of Lithuania and in accordance with Art. 584.1.4 of the Lithuanian Code of Civil Procedure it has the effect of an enforcement document. Therefore if one party fails to perform its obligations, the other party has the right to enforce performance of such obligations, in the manner prescribed by the laws of the Republic of Lithuania.

Key provisions of the settlement agreement pertaining to the arbitration proceedings:

1. The plaintiff and the defendants have agreed that the Government of the Republic of Lithuania and AB Geonafta will each pay by May 1st 2009 to Svenska Petroleum Exploration AB half (50%) of the total amount of USD 12,579 thousand, and each party will also pay the interest on the relevant amount payable, at the rate of 6% p.a. accruing from January 1st 2002 until the date of full repayment in line with the award of the International Court of Arbitration at the International Chamber of Commerce. In addition, AB Geonafta will pay USD 1,154 thousand of costs of the proceedings to Svenska Petroleum Exploration AB by May 1st 2009.
2. The plaintiff and the defendants have agreed that all claims, costs and payments related to the arbitration award will be deemed to have been settled as of the date when all the amounts referred to in Section 1 of this Agreement have been paid to Svenska Petroleum Exploration AB.
3. The plaintiff and AB Geonafta, UAB Genciu Nafta and Svenska Petroleum Exploration represent that after the execution of this Agreement, once each of AB Geonafta and the Government of the Republic of Lithuania have paid the amounts referred to in Section 1 of this Agreement and AB Geonafta has covered the costs listed in Section 4 of the Agreement (should any such costs be awarded), the parties will not have – with respect to the performing Party (i.e. the Party which performed the obligations under this Agreement) – any claims or any demands in connection with the amount awarded by the arbitration court, the recognition and enforcement of the arbitration award, the Lithuanian-Swedish foundation agreement of April 28th 1993 concerning UAB Genciu Nafta, the civil law case no. 2-589-325/2008 heard before the District Court of Kretinga or any of the demands brought as part of that case.
4. The parties have agreed that they abandon any claims against each other concerning coverage of the legal expenses related to the aforesaid civil law case and the arbitration proceedings or recognition of the arbitration award and its enforcement in Lithuania, the United Kingdom of Great Britain and Northern Ireland, and the Republic of Germany. However, AB Geonafta undertakes to cover the

litigation costs related to proceedings before the courts of the Republic of Lithuania and the foreign countries listed above, as well as other costs of proceedings, if any.

5. After this Agreement has taken effect, Svenska Petroleum Exploration AB, AB Geonafta, UAB Genciu Nafta and the Government of the Republic of Lithuania will take all the necessary legal steps in order to discontinue (suspend) the proceedings related to the recognition of the arbitration award in the Republic of Lithuania, the recognition and enforcement of the arbitration award in the Republic of Germany and the enforcement of the arbitration award in the United Kingdom of Great Britain and Northern Ireland, and in order to close those proceedings once this settlement agreement has been performed.

Material Court Proceedings Instigated by ENERGOBALTIC Sp. z o.o. against Petrobaltic S.A.

On July 30th 2007, Petrobaltic S.A. received a decision issued by the Permanent Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk of June 11th 2007 in a case brought by Energobaltic Sp. z o.o. against Petrobaltic S.A. The dispute concerned performance of contract No. EB/PKT – 02/01/2001 of December 17th 2001, whereunder Petrobaltic S.A. was to design and construct a gas transmission line that would deliver gas from its drilling platform to the heat and power plant operated by the plaintiff in Władysławowo. The plaintiff alleged a delay in performance of the contract by the defendant and demanded payment of contractual penalties, whereas the defendant claimed to have performed the contract by the prescribed deadline. The aforementioned decision granted Energobaltic Sp. z o.o.'s claim in its entirety and awarded against the defendant an amount of PLN 1,424 thousand plus statutory interest for the period from July 3rd 2003 until the payment date, as well as an amount of PLN 30 thousand on account of court fees and PLN 7 thousand as reimbursement of the legal representation costs. Given this decision and in view of substantial uncertainty as to the success of a possible appeal, a provision of PLN 2,157 thousand was created. On October 29th 2007, Petrobaltic S.A. lodged a complaint with the Regional Court of Gdańsk to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. A hearing concerning Petrobaltic S.A.'s claim to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk was held on April 9th 2008. By virtue of the decision of March 12th 2008, the Regional Court of Gdańsk, IX Commercial Division, dismissed the motion to stay enforcement of the decision of the Permanent Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk, and by virtue of the decision of April 9th 2008, the Court dismissed Petrobaltic S.A.'s claim to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. On April 10th 2008, Petrobaltic S.A. paid a part (PLN 666 thousand) of the amount awarded against it to the bank account of Energobaltic Sp. z o.o. Petrobaltic S.A. decided that the remaining portion of the amount awarded against it would be paid through a set-off of mutual claims under the electricity sales agreement, assuming that a result of the payment and the set-off, the claim expires. However, Energobaltic Sp. z o.o. refused to acknowledge the set-off; it decided to apply the amount paid by Petrobaltic S.A. towards the settlement of default interest, and to collect the remaining part of the principal amount due in court enforcement proceedings. On June 13th 2008, Petrobaltic S.A.'s bank account was attached and the amount of PLN 1,671 thousand was seized based on a notification on commencement of enforcement proceedings (file. ref. No. KM 1233/08). The enforcement was carried out by Court Enforcement Officer for Area III in Gdańsk at the request of Energobaltic Sp. z o.o. Petrobaltic S.A. filed action for payment of PLN 1,620 thousand against Energobaltic Sp. z o.o., which is pending before the Regional Court of Gdańsk, IX Commercial Division, file ref. No. IX GNc 257/08. The action was brought in connection with Energobaltic Sp. z o.o. having enforced an amount earlier paid by Petrobaltic S.A. in connection with the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk of June 11th 2007.

On August 18th 2008, in the course of admonition proceedings, the Regional Court issued an order for payment against Energobaltic Sp. z o.o. for the amount of PLN 1,620 thousand plus statutory interest for the period from June 30th 2008 until the payment date, as well as PLN 27 thousand on account of court fees, including PLN 7 thousand as reimbursement of the legal representation costs, to be paid to Petrobaltic S.A. On September 5th 2008, the defendant lodged an objection against the order. On January 6th 2009, the plaintiff filed a reply to the objection. The case is pending before the Regional Court in Gdańsk, IX Commercial Division, file ref. No. IX GC 409/08.

On April 1st 2009, the first hearing was held. The hearing was adjourned. The Court decided that the next hearing would be held on May 19th 2009. As at the date of approval of the consolidated financial statements, the case was pending.

46. Remuneration of the Management the Supervisory Board Members and Information on Loans Advanced and Other Similar Benefits Awarded to Members of the Parent Undertaking's Management and Supervisory Staff

The remuneration paid and payable to the members of the Parent Undertaking'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 or 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 remuneration value reflects the changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. which took place during the reporting period.

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

47. Employment Structure

Average employment by category was as follows:

	Year ended Dec 31 2008 (audited)	Year ended Dec 31 2007 (audited)
Blue-collar jobs	2,583	3,042
White-collar jobs	2,226	2,262
Total	**4,809**	**5,304**

48. 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
Associated undertakings valued with equity method	2,597	2,871	1,818	2,687
Non-consolidated undertakings	37	248	3	52
Total	**2,634**	**3,119**	**1,821**	**2,739**

In the period January 1st – December 31st 2008, the total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from the related undertakings was PLN 1 thousand.

In the period from January 1st to December 31st 2008, the total value of financial income from transactions concluded with related undertakings amounted to PLN 104 thousand (including interest income of PLN 50 thousand and dividend income of PLN 54 thousand).

(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
Associated undertakings valued with equity method	2,373	3,536	118	2,157
Non-consolidated undertakings	142	3,360	3	158
Total	**2,515**	**6,896**	**121**	**2,315**

In the period January 1st – December 31st 2007, total income on the sale of property, plant and equipment and intangible assets of the LOTOS Group to related undertakings was PLN 230 thousand.

In the period January 1st – December 31st 2007, total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from related undertakings was PLN 210 thousand.

In the period January 1st – December 31st 2007, total value of financial income from transactions with related undertakings amounted to PLN 320 thousand and included dividend income.

In the period January 1st – December 31st 2007, total value of financial expenses incurred in connection with transactions with related undertakings amounted to PLN 777 thousand (provisions for interest on liabilities).

In the period January 1st – December 31st 2007, total value of other operating income from transactions with related undertakings was PLN 168 thousand (gain on disposal of non-financial non-current assets).

In the period January 1st – December 31st 2007, total value of other operating expenses incurred in connection with transactions with related undertakings amounted to PLN 1,488 thousand (including loss on disposal of non-financial non-current assets of PLN 26 thousand and other operating expenses of PLN 1,462 thousand).

49. Transactions with State-Owned Related Undertakings

Transactions with state-owned related undertakings are executed at arms' length.

Transactions between Grupa LOTOS S.A. and material[(1)] state-owned related undertakings:

(PLN '000)	Year ended Dec 31 2008 (audited)		As at Dec 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
Bumar Sp. z o.o.	33	-	16	-
ENEA S.A.	-	923	-	80
ENERGA S.A.	1	65,256	-	6,958
Huta Stalowa Wola S.A.	981	-	278	-
Kopalnia Węgla Brunatnego Konin w Kleczewie S.A.	16,267	-	1,732	-
Krajowa Spółka Cukrowa S.A.	6,896	-	-	-
Lubelski Węgiel BOGDANKA S.A.	-	1	-	-
Polska Żegluga Bałtycka S.A.	47	1	-	-
Polskie Górnictwo Naftowe i Gazownictwo S.A.	-	1,903	-	70
Powszechna Kasa Oszczędności Bank Polski S.A.	322	-	-	-
Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŹŃ S.A.	5	83,233	-	3,755
Stocznia Gdynia S.A.	6	-	-	-
Zakłady Azotowe PUŁAWY S.A.	-	1,976	-	209
Zarząd Morskiego Portu Gdynia S.A.	112	895	-	8
Total	**24,671**	**154,189**	**2,027**	**11,079**

(PLN '000)	Year ended Dec 31 2007 (audited)		As at Dec 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**
Bumar Sp. z o.o.	42	-	31	-
ENEA S.A.	-	718	-	-
ENERGA S.A.	1	49,751	-	5,205
H.CEGIELSKI-POZNAŃ S.A.	-	65	-	43
Huta Stalowa Wola S.A.	710	-	89	-
Kopalnia Węgla Brunatnego Konin w Kleczewie S.A.	14,463	-	1,554	-
Krajowa Spółka Cukrowa S.A.	32,470	-	1,918	-
Lubelski Węgiel BOGDANKA S.A.	-	-	-	-
Polska Żegluga Bałtycka S.A.	422	39	-	-
Polskie Górnictwo Naftowe i Gazownictwo S.A.	-	3	-	2
Polskie Linie Lotnicze LOT SA	-	4	-	-
Powszechna Kasa Oszczędności Bank Polski S.A.	289	-	80	-
Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŹŃ S.A.	7	77,763	1	3,515
Stocznia Gdynia S.A.	101	-	-	-
Totalizator Sportowy Sp. z o.o.	78	-	1	-
Zakłady Azotowe PUŁAWY S.A.	-	679	-	199
Zakłady Chemiczne POLICE S.A.	2,089	-	-	-
Zarząd Morskiego Portu Gdynia S.A.	85	877	23	8
Total	**50,755**	**129,897**	**3,696**	**8,973**

(1) share capital exceeding PLN 100,000

50. Entity with Significant Influence over the Group

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.

51. Other information

51.1. 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. Financial Activities

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

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

The payment of dividend will be 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,
- CO2 sequestration – depositing CO2 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

51.2. Special Rights Vested in the State Treasury and How These Rights Should Be 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. Grupa LOTOS S.A. 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 the consolidated financial statements, Grupa LOTOS S.A. has received no statement on the appointment of an observer for the Company.

52. 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