



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

## **THE LOTOS GROUP**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31ST 2009**

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**THE LOTOS GROUP  
FINANCIAL HIGHLIGHTS**

**FINANCIAL HIGHLIGHTS – CONSOLIDATED**

THE LOTOS GROUP	PLN'000		EUR'000	
	12 months ended Dec 31 2009	12 months ended Dec 31 2008	12 months ended Dec 31 2009	12 months ended Dec 31 2008
	(unaudited)	(audited)	(unaudited)	(audited)
Sales revenue	14,320,531	16,294,738	3,299,205	4,613,329
Operating profit/(loss)	424,226	(145,828)	97,734	(41,286)
Pre-tax profit/(loss)	1,091,950	(504,218)	251,567	(142,753)
Net profit/(loss) from continuing operations	894,304	(389,933)	206,032	(110,397)
Profit/(loss) from continuing operations attributable to owners of the Parent	883,305	(453,906)	203,498	(128,509)
Profit from continuing operations attributable to non-controlling interests	10,999	63,973	2,534	18,112
Total comprehensive income	914,000	(366,934)	210,570	(103,886)
Comprehensive income attributable to owners of the Parent	895,420	(430,907)	206,289	(121,997)
Comprehensive income attributable to non-controlling interests	18,580	63,973	4,281	18,112
Net cash provided by/(used in) operating activities	698,879	311,670	161,010	88,239
Net cash provided by/(used in) investing activities	(3,350,569)	(2,417,112)	(771,914)	(684,327)
Net cash provided by/(used in) financing activities	2,163,120	1,963,145	498,346	555,801
Total net cash flow	(486,840)	(138,751)	(112,160)	(39,283)
Basic earnings/(loss) per ordinary share (PLN/EUR)	7.29	(3.99)	1.68	(1.13)
Diluted earnings/(loss) per ordinary share (PLN/EUR)	-	-	-	-
	PLN'000		EUR'000	
	As at Dec 31 2009	As at Dec 31 2008	As at Dec 31 2009	As at Dec 31 2008
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	15,034,713	12,201,998	3,659,684	2,924,455
Equity attributable to owners of the parent	6,676,610	5,404,135	1,625,191	1,295,210
Non-controlling interests	36,849	395,917	8,970	94,890
Total equity	6,713,459	5,800,052	1,634,161	1,390,100

**FINANCIAL HIGHLIGHTS – NON-CONSOLIDATED**

GRUPA LOTOS S.A.	PLN'000		EUR'000	
	12 months ended Dec 31 2009	12 months ended Dec 31 2008	12 months ended Dec 31 2009	12 months ended Dec 31 2008
	(unaudited)	(audited)	(unaudited)	(audited)
Sales revenue	12,696,783	14,898,653	2,925,122	4,218,072
Operating profit/(loss)	3,645	(573,456)	840	(162,356)
Pre-tax profit/(loss)	705,964	(856,160)	162,642	(242,394)
Profit/(loss) from continuing operations	593,459	(675,704)	136,723	(191,304)
Total comprehensive income	593,459	(675,704)	136,723	(191,304)
Net cash provided by/(used in) operating activities	(24,573)	(160,780)	(5,661)	(45,520)
Net cash provided by/(used in) investing activities	(2,407,768)	(1,712,082)	(554,709)	(484,721)
Net cash provided by/(used in) financing activities	2,121,575	2,010,399	488,775	569,180
Total net cash flow	(309,584)	139,833	(71,323)	39,589
Basic earnings/(loss) per ordinary share (PLN/EUR)	4.90	(5.94)	1.13	(1.68)
Diluted earnings/(loss) per ordinary share (PLN/EUR)	-	-	-	-
	PLN'000		EUR'000	
	As at Dec 31 2009	As at Dec 31 2008	As at Dec 31 2009	As at Dec 31 2008
	(unaudited)	(audited)	(unaudited)	(audited)
Total assets	12,410,365	9,491,020	3,020,877	2,274,715
Equity	5,349,840	4,399,811	1,302,235	1,054,503

Items of the statement of financial position as at December 31st 2009 presented 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 4.1082. Items of the statement of comprehensive income and the statement of cash-flows for the twelve months ended December 31st 2009 presented in the "Financial Highlights" table were translated at the exchange rate of EUR 1 = PLN 4.3406 (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 2009).

Items of the statement of financial position as at December 31st 2008 presented 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 statement of comprehensive income and the statement of cash-flows for the twelve months ended December 31st 2008 presented 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).

**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at December 31st 2009 and December 31st 2008

(PLN '000)	Dec 31 2009 (unaudited)	Dec 31 2008 (audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	9,318,585	5,532,612
Prepayments for tangible assets under construction	153,501	1,200,713
Goodwill	54,880	45,562
Intangible assets	90,738	55,921
Investment property	3,762	4,898
Investments in associates	73,488	73,488
Non-current financial assets	101,619	26,516
Deferred tax assets	73,454	132,223
Other non-current assets, including:	25,013	21,911
- non-current receivables	20,713	9,152
- prepayments and accrued income	4,300	12,759
	-----	-----
<b>Total non-current assets</b>	<b>9,895,040</b>	<b>7,093,844</b>
	-----	-----
<b>Current assets</b>		
Inventories	3,024,105	2,447,247
Trade and other receivables	1,540,181	1,364,881
Current tax receivable	126,524	199,971
Prepayments and accrued income	25,110	45,863
Current financial assets	56,482	328,760
Cash and cash equivalents	362,226	712,801
	-----	-----
<b>Total current assets</b>	<b>5,134,628</b>	<b>5,099,523</b>
	-----	-----
<b>Assets held for sale</b>	<b>5,045</b>	<b>8,631</b>
	-----	-----
	=====	=====
<b>Total assets</b>	<b>15,034,713</b>	<b>12,201,998</b>
	=====	=====

**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at December 31st 2009 and December 31st 2008

(PLN '000)	Dec 31 2009 (unaudited)	Dec 31 2008 (audited)
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	129,873	113,700
Statutory reserve funds	1,311,348	970,951
Retained earnings	5,217,393	4,311,130
Translation of foreign operations	17,996	8,354
	-----	-----
<b>Equity attributable to owners of the Parent</b>	<b>6,676,610</b>	<b>5,404,135</b>
	-----	-----
<b>Non-controlling interests</b>	<b>36,849</b>	<b>395,917</b>
	-----	-----
<b>Total equity</b>	<b>6,713,459</b>	<b>5,800,052</b>
	-----	-----
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	4,930,367	3,412,245
Long-term provisions	243,864	267,903
Deferred tax liabilities	50,167	10,411
Other financial and other liabilities	271,953	9,961
	-----	-----
<b>Total non-current liabilities</b>	<b>5,496,351</b>	<b>3,700,520</b>
	-----	-----
<b>Current liabilities</b>		
Trade and other payables and accruals and deferred income	1,892,244	1,886,440
Current tax payable	10,372	8,069
Interest-bearing loans and borrowings	766,645	507,360
Short-term provisions	53,082	80,470
Other financial liabilities	102,560	219,087
	-----	-----
<b>Total current liabilities</b>	<b>2,824,903</b>	<b>2,701,426</b>
	-----	-----
<b>Total liabilities</b>	<b>8,321,254</b>	<b>6,401,946</b>
	=====	=====
<b>Total equity and liabilities</b>	<b>15,034,713</b>	<b>12,201,998</b>
	=====	=====



**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the three and twelve months ended December 31st 2009 and December 31st 2008

(PLN '000)	3 months ended Dec 31 2009 (unaudited)	12 months ended Dec 31 2009 (unaudited)	3 months ended Dec 31 2008 (unaudited)	12 months ended Dec 31 2008 (audited)
Sales revenue	4,024,008	14,320,531	3,751,126	16,294,738
Cost of sales	(3,604,776)	(12,765,053)	(4,071,024)	(15,287,258)
<b>Gross profit/(loss)</b>	<b>419,232</b>	<b>1,555,478</b>	<b>(319,898)</b>	<b>1,007,480</b>
Other operating income	23,941	51,508	10,612	29,817
Impairment losses on goodwill	-	-	(12,645)	(12,645)
Selling costs	(204,242)	(725,331)	(203,309)	(737,368)
General and administrative expenses	(108,271)	(354,434)	(103,752)	(344,523)
Other operating expenses	(44,466)	(102,995)	(36,419)	(88,589)
<b>Operating profit/(loss)</b>	<b>86,194</b>	<b>424,226</b>	<b>(665,411)</b>	<b>(145,828)</b>
Finance income	297,539	977,160	(231,707)	82,508
Finance expenses	(146,123)	(339,991)	(226,085)	(466,931)
Interest in investments in associated undertakings	-	-	26,033	26,033
Loss of control over subsidiary	(247)	30,555	-	-
<b>Pre-tax profit/(loss)</b>	<b>237,363</b>	<b>1,091,950</b>	<b>(1,097,170)</b>	<b>(504,218)</b>
Corporate income tax	(12,054)	(197,646)	229,338	114,285
<b>Net profit/(loss) from continuing operations</b>	<b>225,309</b>	<b>894,304</b>	<b>(867,832)</b>	<b>(389,933)</b>
<b>Net profit/(loss) from continuing operations attributable to:</b>				
Owners of the Parent	223,577	883,305	(881,958)	(453,906)
Non-controlling interests	1,732	10,999	14,126	63,973
	<b>225,309</b>	<b>894,304</b>	<b>(867,832)</b>	<b>(389,933)</b>
<b>Other comprehensive income</b>				
Exchange differences on translating foreign operations	(1,567)	19,696	25,523	22,999
<b>Other comprehensive income, net</b>	<b>(1,567)</b>	<b>19,696</b>	<b>25,523</b>	<b>22,999</b>
<b>Total comprehensive income</b>	<b>223,742</b>	<b>914,000</b>	<b>(842,309)</b>	<b>(366,934)</b>
<b>Total comprehensive income attributable to:</b>				
Owners of the Parent	214,429	895,420	(856,435)	(430,907)
Non-controlling interests	9,313	18,580	14,126	63,973
	<b>223,742</b>	<b>914,000</b>	<b>(842,309)</b>	<b>(366,934)</b>
<b>Net earnings/(loss) from continuing operations per share (PLN)</b>				
Weighted average number of shares (in thousands)	129,873	121,144	113,700	113,700
- basic	1.72	7.29	(7.76)	(3.99)
- diluted	-	-	-	-

**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the twelve months ended December 31st 2009 and December 31st 2008

(PLN '000)	12 months ended Dec 31 2009	12 months ended Dec 31 2008
	(unaudited)	(audited)
<b>Cash flows from operating activities</b>		
<b>Net profit/(loss) from continuing operations</b>	<b>894,304</b>	<b>(389,933)</b>
Adjustments:		
Share in net profit of subordinated undertakings valued with the equity method	-	(26,033)
Depreciation and amortisation	299,849	315,012
Foreign exchange (gains)/losses	(442,289)	366,730
Interest and dividend	40,763	13,028
(Profit)/loss on investing activities	192,096	29,564
Income tax paid	(187,291)	(308,695)
Current income tax	197,646	(114,285)
(Increase)/Decrease in receivables	(196,866)	164,938
(Increase)/Decrease in inventories	(576,729)	141,685
Increase/(Decrease) in liabilities and accruals and deferred income	716,322	(109,199)
(Decrease)/Increase in provisions	(28,759)	35,511
Decrease/(Increase) in prepayments and accrued income	9,499	(44,883)
Settlement of financial instruments	(219,666)	238,166
Other adjustments	-	64
<b>Net cash provided by/(used in) operating activities</b>	<b>698,879</b>	<b>311,670</b>
<b>Cash flows from investing activities</b>		
Dividend received	1,737	27,661
Interest received	3,136	30,655
Sale/ (Purchase) of property, plant and equipment and intangible assets	(3,084,823)	(1,699,582)
Sale/ (Purchase) of current financial assets	4,845	1,509
Repayment of non-current loans advanced	-	17
Acquisition of Energobaltic Sp. z o.o., net of cash acquired	(1,526)	-
Acquisition of Rafineria Nafty GLIMAR S.A., net of cash acquired	-	3,987
Prepayments for tangible assets under construction	(258,542)	(778,953)
Cash related to loss of control over subsidiary	(367)	-
Other items, net	(15,029)	(2,406)
<b>Net cash provided by/(used in) investing activities</b>	<b>(3,350,569)</b>	<b>(2,417,112)</b>
<b>Cash flows from financing activities</b>		
Increase in loans and borrowings	2,263,989	2,352,749
Repayment of loans and borrowings	(195,896)	(86,449)
Interest paid	(120,303)	(61,517)
Dividend paid	(15)	(2,578)
Decrease in finance lease liabilities	(1,726)	(737)
Settlement of financial instruments	219,666	(238,166)
Other items, net	(2,595)	(157)
<b>Net cash provided by/(used in) financing activities</b>	<b>2,163,120</b>	<b>1,963,145</b>
Effect of exchange rate fluctuations on cash held	1,730	3,546
<b>Change in net cash</b>	<b>(486,840)</b>	<b>(138,751)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>338,353</b>	<b>477,104</b>
<b>Cash and cash equivalents at end of period</b>	<b>(148,487)</b>	<b>338,353</b>
- restricted cash	20,741	84,160



**THE LOTOS GROUP**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the twelve months ended December 31st 2009 and December 31st 2008

(PLN '000)	Share capital	Statutory reserve funds	Retained earnings	Translation of foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
<b>Jan 1 2008 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>4,746,221</b>	<b>(14,645)</b>	<b>5,816,227</b>	<b>334,691</b>	<b>6,150,918</b>
Total comprehensive income for the twelve months ended Dec 31 2008	-	-	(453,906)	22,999	(430,907)	63,973	(366,934)
Dividend to shareholders – distribution of profit for 2007	-	-	-	-	-	(2,578)	(2,578)
Changes in the Group's organisational structure	-	-	-	-	-	(169)	(169)
Other	-	-	18,815	-	18,815	-	18,815
<b>Dec 31 2008 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>4,311,130</b>	<b>8,354</b>	<b>5,404,135</b>	<b>395,917</b>	<b>5,800,052</b>
<b>Jan 1 2009 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>4,311,130</b>	<b>8,354</b>	<b>5,404,135</b>	<b>395,917</b>	<b>5,800,052</b>
Total comprehensive income for the twelve months ended Dec 31 2009	-	-	883,305	12,115	895,420	18,580	914,000
Dividend to shareholders – distribution of profit for 2008	-	-	-	-	-	(19)	(19)
Changes in the Group's organisational structure	-	-	-	-	-	(177)	(177)
Share issue	16,173	-	-	-	16,173	-	16,173
Share premium	-	340,773	-	-	340,773	-	340,773
Issue expenses including income tax	-	(376)	-	-	(376)	-	(376)
Changes in ownership interest	-	-	27,079	-	27,079	(384,025)	(356,946)
Other	-	-	(4,121)	(2,473)	(6,594)	6,573	(21)
<b>Dec 31 2009 (unaudited)</b>	<b>129,873</b>	<b>1,311,348</b>	<b>5,217,393</b>	<b>17,996</b>	<b>6,676,610</b>	<b>36,849</b>	<b>6,713,459</b>

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



**GRUPA LOTOS S.A.**  
**STATEMENT OF FINANCIAL POSITION**  
as at December 31st 2009 and December 31st 2008

(PLN'000)	<u>Dec 31 2009</u> (unaudited)	<u>Dec 31 2008</u> (audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	6,623,587	3,401,685
Prepayments for tangible assets under construction	150,704	1,194,489
Intangible assets	43,928	46,382
Financial assets	1,068,694	668,986
Deferred tax assets	-	58,227
	-----	-----
<b>Total non-current assets</b>	<b>7,886,913</b>	<b>5,369,769</b>
	-----	-----
<b>Current assets</b>		
Inventories	2,894,236	2,273,445
Trade and other receivables	1,430,494	1,197,452
Current tax receivable	71,124	177,252
Prepayments	14,962	18,138
Current financial assets	94,505	302,250
Cash and cash equivalents	18,131	152,714
	-----	-----
<b>Total current assets</b>	<b>4,523,452</b>	<b>4,121,251</b>
	-----	-----
	=====	=====
<b>Total assets</b>	<b>12,410,365</b>	<b>9,491,020</b>
	=====	=====

**GRUPA LOTOS S.A.**  
**STATEMENT OF FINANCIAL POSITION**  
as at December 31st 2009 and December 31st 2008

(PLN '000)	<b>Dec 31 2009</b> <b>(unaudited)</b>	<b>Dec 31 2008</b> <b>(audited)</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	129,873	113,700
Statutory reserve funds	1,311,348	970,951
Retained earnings	3,908,619	3,315,160
	-----	-----
<b>Total equity</b>	<b>5,349,840</b>	<b>4,399,811</b>
	-----	-----
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	4,650,436	3,098,491
Long-term provisions	29,874	28,665
Deferred tax liabilities	32,333	-
Other financial liabilities	138,582	359
	-----	-----
<b>Total non-current liabilities</b>	<b>4,851,225</b>	<b>3,127,515</b>
	-----	-----
<b>Current liabilities</b>		
Trade payables, accruals and deferred income, and other liabilities	1,612,421	1,394,575
Interest-bearing loans and borrowings	480,084	314,478
Short-term provisions	21,869	41,617
Other financial liabilities	94,926	213,024
	-----	-----
<b>Total current liabilities</b>	<b>2,209,300</b>	<b>1,963,694</b>
	-----	-----
<b>Total liabilities</b>	<b>7,060,525</b>	<b>5,091,209</b>
	=====	=====
<b>Total equity and liabilities</b>	<b>12,410,365</b>	<b>9,491,020</b>
	=====	=====

**GRUPA LOTOS S.A.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
for the three and twelve months ended December 31st 2009 and December 31st 2008

(PLN '000)	3 months ended Dec 31 2009 (unaudited)	12 months ended Dec 31 2009 (unaudited)	3 months ended Dec 31 2008 (unaudited)	12 months ended Dec 31 2008 (audited)
Sales revenue	3,607,723	12,696,783	3,273,794	14,898,653
Cost of sales	(3,429,121)	(12,131,934)	(3,940,533)	(14,867,282)
<b>Gross profit/(loss)</b>	<b>178,602</b>	<b>564,849</b>	<b>(666,739)</b>	<b>31,371</b>
Other operating income	17,927	22,826	1,157	6,580
Selling costs	(103,882)	(359,363)	(108,550)	(376,811)
General and administrative expenses	(62,803)	(213,374)	(61,734)	(220,812)
Other operating expenses	(7,745)	(11,293)	(6,493)	(13,784)
<b>Operating profit/(loss)</b>	<b>22,099</b>	<b>3,645</b>	<b>(842,359)</b>	<b>(573,456)</b>
Finance income	226,675	950,550	(239,194)	134,212
Finance expenses	(116,080)	(248,231)	(223,457)	(416,916)
<b>Pre-tax profit/(loss)</b>	<b>132,694</b>	<b>705,964</b>	<b>(1,305,010)</b>	<b>(856,160)</b>
Corporate income tax	(29,856)	(112,505)	244,372	180,456
<b>Net profit/(loss) from continuing operations</b>	<b>102,838</b>	<b>593,459</b>	<b>(1,060,638)</b>	<b>(675,704)</b>
<b>Total comprehensive income</b>	<b>102,838</b>	<b>593,459</b>	<b>(1,060,638)</b>	<b>(675,704)</b>
<b>Net earnings/(loss) from continuing operations per share (PLN)</b>				
Weighted average number of shares (in thousands)	129,873	121,144	113,700	113,700
- basic	0.79	4.90	(9.33)	(5.94)
- diluted	-	-	-	-

**GRUPA LOTOS S.A.**  
**STATEMENT OF CASH FLOWS**  
for the twelve months ended December 31st 2009 and December 31st 2008

(PLN '000)	12 months ended Dec 31 2009	12 months ended Dec 31 2008
	(unaudited)	(audited)
<b>Cash flows from operating activities</b>		
<b>Net profit/(loss) from continuing operations</b>	<b>593,459</b>	<b>(675,704)</b>
Adjustments:		
Depreciation and amortisation	155,069	183,685
Foreign exchange (gains)/losses	(370,504)	343,407
Interest and dividend	(134,783)	(119,264)
(Gain)/Loss on investing activities	218,921	14,987
Current income tax	112,505	(180,456)
Income tax paid	(92,981)	(182,886)
(Increase)/Decrease in receivables	(236,211)	407,551
(Increase)/Decrease in inventories	(620,791)	196,329
Increase/(Decrease) in liabilities and accruals and deferred income	591,098	(394,161)
(Decrease)/Increase in provisions	(18,539)	11,587
(Increase) in prepayments and accrued income	(2,731)	(4,079)
Settlement of financial instruments	(219,085)	238,166
Other items, net	-	58
<b>Net cash provided by/(used in) operating activities</b>	<b>(24,573)</b>	<b>(160,780)</b>
<b>Cash flows from investing activities</b>		
Dividend received	145,856	130,333
Repayment of non-current loans advanced	19,805	3,700
Loans advanced	(62,521)	-
Interest received	2,864	2,270
(Purchase)/Sale of non-current financial assets	(4,047)	(3,483)
(Purchase)/Sale of property, plant and equipment and intangible assets	(2,256,331)	(1,071,875)
Prepayments for tangible assets under construction	(253,394)	(773,027)
<b>Net cash provided by/(used in) investing activities</b>	<b>(2,407,768)</b>	<b>(1,712,082)</b>
<b>Cash flows from financing activities</b>		
Increase in loans and borrowings	2,032,411	2,279,083
Repayment of loans and borrowings	(34,396)	-
Interest paid	(94,873)	(30,310)
Settlement of financial instruments	219,085	(238,166)
Other items, net	(652)	(208)
<b>Net cash provided by/(used in) financing activities</b>	<b>2,121,575</b>	<b>2,010,399</b>
Effect of exchange rate fluctuations on cash held	1,182	2,296
<b>Change in net cash</b>	<b>(309,584)</b>	<b>139,833</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>(134,303)</b>	<b>(274,136)</b>
<b>Cash and cash equivalents at end of period</b>	<b>(443,887)</b>	<b>(134,303)</b>
- restricted cash	17,070	82,070

**GRUPA LOTOS S.A.**  
**STATEMENT OF CHANGES IN EQUITY**  
for the twelve months ended December 31st 2009 and December 31st 2008

(PLN '000)	Share capital	Statutory reserve funds	Retained earnings	Total equity
<b>Jan 1 2008 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>3,990,864</b>	<b>5,075,515</b>
Total comprehensive income for the twelve months ended Dec 31 2008	-	-	(675,704)	(675,704)
<b>Dec 31 2008 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>3,315,160</b>	<b>4,399,811</b>
<b>Jan 1 2009 (audited)</b>	<b>113,700</b>	<b>970,951</b>	<b>3,315,160</b>	<b>4,399,811</b>
Total comprehensive income for the twelve months ended Dec 31 2009	-	-	593,459	593,459
Share issue	16,173	-	-	16,173
Share premium	-	340,773	-	340,773
Issue expenses including income tax	-	(376)	-	(376)
<b>Dec 31 2009 (unaudited)</b>	<b>129,873</b>	<b>1,311,348</b>	<b>3,908,619</b>	<b>5,349,840</b>

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31ST 2009**

**1. General Information**

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

The Parent Undertaking's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland.

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

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

**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 2009	Dec 31 2008
<b>Parent Undertaking</b>					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
<b>Direct Subsidiary Undertakings</b>					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Gaz S.A. <sup>(1)</sup>	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 Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	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.	Gdańsk <sup>(2)</sup>	Wholesale of petroleum products	full	100.00%	100.00%

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Name	Registered office	Business profile	Method of consolidation/valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2009	Dec 31 2008
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels	full	85.04% <sup>(3)</sup>	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale	full	85.01% <sup>(3)</sup>	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	full	99.32% <sup>(3)</sup>	69.00%
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	full	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services/the company does not conduct operations at the moment	full <sup>(4)</sup>	0.29% <sup>(4)</sup>	86.91%
<b>Indirect Subsidiary Undertakings</b>					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Provision of services	full	85.04% <sup>(5)</sup>	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME) <sup>(6)</sup>	full	85.04% <sup>(5)</sup>	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	Provision of services	_(7)	_(8)	86.91%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Provision of services	full	81.18% <sup>(5,9)</sup>	66.81% <sup>(9)</sup>
KRAK - GAZ Sp. z o.o. in bankruptcy by liquidation	Bochnia	Wholesale and retail sale of LPG		_(1)	100.00%
Miliana Shipping Company Ltd.	Cyprus	Provision of services	full	99.32 % <sup>(5)</sup>	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	99.32% <sup>(5)</sup>	69.00% <sup>(10)</sup>
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Provision of services	full	99.32% <sup>(5)</sup>	69.00%
Energobaltic Sp. z o.o.	Gdańsk	Production activities	full <sup>(11)</sup>	99.32%	32.16%

<sup>(1)</sup> Until July 23rd 2009 LOTOS Gaz S.A. controlled KRAK-GAZ Sp. z o.o., a subsidiary. On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a bankruptcy petition with the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery. On July 23rd 2009, the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery resolved to declare KRAK-GAZ Sp. z o.o.'s bankruptcy by liquidation of the company's assets (see Note 15 to these interim condensed consolidated financial statements).

<sup>(2)</sup> On August 12th 2009, the registered office of LOTOS Tank Sp. z o.o. was relocated from Jasło to Gdańsk.

<sup>(3)</sup> On July 9th 2009, an agreement was signed providing for the acquisition by the State Treasury of Grupa LOTOS S.A. shares. In exchange, the State Treasury made non-cash contributions to Grupa LOTOS S.A. in the form of 30.32% of shares in Petrobaltic S.A., 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A. (see Note 15 to these interim condensed consolidated financial statements).

<sup>(4)</sup> On November 20th 2009, LOTOS Park Technologiczny Sp. z o.o. acquired its own shares with a view to their voluntary retirement. Grupa LOTOS S.A. exercises control over LOTOS Park Technologiczny Sp. z o.o. given the GM powers vested in Grupa LOTOS S.A. as the only shareholder entitled to exercise rights attached to the shares held (see Note 15 to these interim condensed consolidated financial statements).

<sup>(5)</sup> The shareholding changes described in item <sup>(3)</sup> above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of Petrobaltic S.A., LOTOS Czechowice S.A. and LOTOS Jasło S.A.

<sup>(6)</sup> On March 1st 2009, LOTOS Biopaliwa Sp. z o.o. commenced operations.

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

<sup>(8)</sup> On November 6th 2009, LOTOS Park Technologiczny Sp. z o.o. sold 100% shares in RC Serwis Sp. z o.o. to a third party (see Note 15 to these interim condensed consolidated financial statements).

<sup>(9)</sup> In May – June 2008, LOTOS Jasło S.A. acquired 165 shares in PLASTEKOL Organizacja Odzysku S.A. The acquired shares are equal and indivisible and represent 16.5% of the share capital of PLASTEKOL Organizacja Odzysku S.A. As a result of this transaction, LOTOS Jasło S.A. holds 835 shares, representing 83.5% of the share capital of Plastekol Organizacja Odzysku S.A. In January–December 2009, LOTOS Jasło S.A. acquired 120 shares in PLASTEKOL Organizacja Odzysku S.A., representing 12% of the company's share capital. As a result of the executed transactions, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 83.5% to 95.5% (or from 835 to 955 shares) (see Note 15 to these interim condensed consolidated financial statements).



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<sup>(10)</sup> On May 19th 2008, the Management Board of Petrobaltic S.A. made a decision to initiate the registration procedure concerning the increase of the share capital and the acquisition by Petrobaltic S.A. of 80% of the shares in LOTOS Exploration and Production Norge AS. Petrobaltic S.A. purchased 32 million new shares for the price equal to their par value, i.e. NOK 32m (or PLN 13,782 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for May 19th 2008). 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. The shares transferred under the agreement, with the total par value of NOK 8m (or PLN 3,376 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for June 12th 2008), conferring the right to 8 million votes, are equal and indivisible shares and represent 20% of the share capital of LOTOS E&P Norge AS. As a result of the transaction, Petrobaltic S.A. holds 40 million shares, representing 100% of the share capital of LOTOS Exploration and Production Norge AS.

<sup>(11)</sup> On November 27th 2009, Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 15 to these interim condensed consolidated financial statements).

As at December 31st 2009, the Group held an indirect equity interest of 40.31% shares in associated undertaking AB Geonafra.

As at December 31st 2009 and December 31st 2008, 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, except in the case of LOTOS Park Technologiczny Sp. z o.o. (see Note 15 to these interim condensed consolidated financial statements).

### **3. Changes in the Composition of the Management and Supervisory Boards**

In the period from January 1st 2009 until the end of the sixth term of office, 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 June 25th 2009, the Supervisory Board of Grupa LOTOS S.A. appointed the Management Board of Grupa LOTOS S.A. of the seventh term of office, including:

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,  
Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

As at December 31st 2009 and the date of approval of these interim condensed consolidated financial statements, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

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

As at January 1st 2009, 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.

On April 27th 2009, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution to appoint Mr Ireneusz Fąfara to the Company's Supervisory Board of the seventh term of office.

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As at December 31st 2009, 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,  
Ireneusz Fąfara – Member of the Supervisory Board.

On February 11th 2010, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution to remove Mr Mariusz Obszyński, Mr Radosław Barszcz and Mr Jan Stefanowicz. Next, Messrs Oskar Pawłowski, Michał Rumiński and Rafał Wardziński were appointed as members of the Supervisory Board of the seventh term of office.

As at the date of approval of these interim condensed 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,  
Małgorzata Hirszel – Member of the Supervisory Board,  
Ireneusz Fąfara – Member of the Supervisory Board,  
Oskar Pawłowski – Member of the Supervisory Board,  
Michał Rumiński – Member of the Supervisory Board,  
Rafał Wardziński – Member of the Supervisory Board.

#### **4. Rules of Presentation**

These interim condensed consolidated financial statements of the LOTOS Group were prepared in accordance with International Accounting Standard No. 34 *Interim Financial Reporting* ("IAS 34") and in compliance with the EU accounting standards applicable to interim financial reporting, published and binding at the time of preparing these interim condensed consolidated financial statements of the LOTOS Group.

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

These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Lotos Group for 2008, prepared in accordance with the IFRS.

The financial information as at December 31st 2009 and for the three and twelve months ended on that date, as well as the comparable financial data for the three months ended December 31st 2008, contained in these interim condensed consolidated financial statements, were not audited. The financial information as at December 31st 2008 and for the twelve months ended on December 31st 2008 was audited by a qualified auditor, who issued an opinion on the financial statements on April 27th 2009 (this does not apply to the comparable data on business segments contained in Note 13 to these interim condensed consolidated financial statements).

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

These interim condensed consolidated financial statements were approved for publication by the Management Board on February 22nd 2009.

#### **5. Accounting Policies**

The accounting policies and calculation methods adopted by the Group in the preparation of these interim condensed consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for the year ended December 31st 2008 (see Note 10 to the consolidated financial statements for 2008, prepared in accordance with the IFRS), except for the application, as of January 1st 2009, of the revised IFRS 3 *Business Combinations* and the revised IAS 27 *Consolidated and Separate Financial*

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*Statements.* Application of the revised IFRS 3 and the revised IAS 27 did not have any material bearing on the previous periods.

With the exception of the Parent Undertaking, the foreign undertakings, Petrobaltic S.A., LOTOS Asphalt Sp. z o.o., LOTOS Oil S.A. and LOTOS Paliwa Sp. z o.o., the Group companies maintain their accounting books in accordance with the accounting standards defined in the Polish Accountancy Act of September 29th 1994 (the "Act") and the regulations 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 ensure consistency of the undertakings' financial information with the IFRS.

The Group has reviewed the new interpretations, standards and amendments to the existing standards. Except for the Revised IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments*, 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.

The following interpretations, standards and amendments to the existing standards have been adopted or are pending adoption by the European Union, and are effective in periods beginning on or after January 1st 2009:

- Amendment to IAS 23 *Borrowing Costs* (adopted by the European Union)
- Amendment to IAS 1 *Presentation of Financial Statements* (adopted by the European Union)
- IFRS 8 *Operating Segments* (adopted by the European Union)
- Amendment to IFRS 2 *Share-Based Payments – Vesting Conditions and Cancellations* (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* (adopted by the European Union)
- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (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* (endorsed by the European Union)
- IFRIC 13 *Customer Loyalty Programmes* (applies to annual periods beginning on or after July 1st 2008, endorsed 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 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, 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, endorsed by the European Union)
- Revised IFRS 3 *Business Combinations* (applies to annual periods beginning after July 1st 2009 (with earlier adoption permitted), adopted by the European Union)
- Revised IAS 27 *Consolidated and Separate Financial Statements* (applies to annual periods beginning after July 1st 2009 (with earlier adoption permitted), adopted by the European Union)
- Amendments to IAS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting* (apply to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- Revised IFRS 1 *First-Time Adoption of IFRSs* (applies to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (applies to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- Amendment to IFRS 7 – *Improving Disclosures about Financial Instruments* (applies to annual periods beginning on or after January 1st 2009, endorsed by the European Union)
- IFRIC 18 *Transfers of Assets from Customers* (applies to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- Amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* (applies to annual periods ending after June 30th 2009, endorsed by the European Union)
- Amendment to IFRS 32 – *Classification of Rights Issues* (applies to annual periods beginning on or after February 1st 2010, endorsed by the European Union).

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*Application of the Revised IAS 1*

In connection with the application of IAS 1 *Presentation of the Financial Statements* (revised in 2007), in these interim condensed financial statements, the Group used new terminology as prescribed by the standard to name the particular sections of the financial statements. Furthermore, in compliance with the new standard, in the consolidated statement of changes in equity the Group presented only transactions with the owners. Other items were presented in the consolidated statement of comprehensive income. Moreover, the Group had analysed the expected holding period of assets and liabilities classified as held for trading (financial instruments) and as at December 31st 2009 classified such assets and liabilities as either current or non-current.

*Application of IFRS 8*

International Financial Reporting Standard 8 *Operating Segments* (IFRS 8) superseded International Accounting Standard 14 *Segment Reporting*. Under International Accounting Standard 14 *Segment Reporting*, the Group did not prepare information on the business segments as it did not meet the criteria of identification of business segments as set forth in the standard.

IFRS 8 requires the disclosure of information on the Group's operating segments based on internal reports that are regularly reviewed by the chief operating decision makers to make decisions about resources to be allocated to each segment and to assess the segments' performance.

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

The Group's operating activity comprises two main reportable operating segments:

- upstream segment – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production
- downstream segment – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities

The segments are identified at the Group level. Grupa LOTOS S.A. is included in the downstream segment. The upstream segment is comprised of the Petrobaltic Group (excluding Energobaltic Sp. z o. o.).

Segment performance is assessed on the basis of sales revenue, EBIT (= operating profit/(loss)) and EBITDA (= operating profit/(loss) before depreciation and amortisation).

The segments' sales revenue, EBIT and EBITDA do not account for intersegment adjustments.

Financial information of the operating segments used by the chief operating decision makers to assess their performance is presented in Note 13 to these interim condensed consolidated financial statements.

The following interpretations, standards, and amendments to existing standards, have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee but have not been 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 2010, not yet endorsed by the European Union)
- IFRS for Small and Medium-Sized Entities (applies as of the issue date, i.e. July 9th 2009, not yet endorsed by the European Union)
- Amendments to IFRS 1 *First-Time Adoption of IFRSs* (apply to annual periods beginning on or after January 1st 2010, not yet endorsed by the European Union)
- Amendment to IFRS 2 – *Group Cash-settled Share-based Payment Arrangements* (applies to annual periods beginning on or after January 1st 2010, not yet endorsed by the European Union).

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

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

Items of the statement of financial position as at December 31st 2009 presented 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 4.1082. Items of the statement of comprehensive income and the statement of cash-flows for the twelve months ended December 31st 2009 presented in the "Financial Highlights" table were translated at the exchange rate of EUR 1 = PLN 4.3406 (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 2009).

Items of the statement of financial position as at December 31st 2008 presented 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 statement of comprehensive income and the statement of cash-flows for the twelve months ended December 31st 2008 presented 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).

## **7. Seasonality and Cyclicity of Operations in Interim Period**

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

## **8. Amounts with Significant Bearing on Assets, Liabilities, Equity, Net Profit/Loss or Cash Flows Which Are Non-Typical Due to Their Type, Value, Effect or Frequency**

In the period from January 1st to December 31st 2009, no events occurred which would significantly affect the Group's assets, liabilities, equity, net profit/loss or cash flows, other than those presented in Note 9 to these interim condensed consolidated financial statements.

## **9. Changes of Estimates of Amounts Reported in Prior Interim Periods of the Current Financial Year or Changes in Estimates of Amounts Reported in Prior Financial Years, if Those Changes Have a Material Effect in the Current Interim Period**

There were no changes in estimates reported in prior interim periods of the current financial year and in prior financial years, except for the following:

- in connection with the business combination described in Note 15 to these interim condensed financial statements, the Petrobaltic Group released a provision for business risk. The release of the provision, which covered debt claims under an agreement for a loan extended by Stablewood Power Ventures (Wladyslawowo) Ltd. to Energobaltic Sp. z o.o. and the par value of shares in Energobaltic Sp. z o.o. held by Stablewood Power Ventures (Wladyslawowo) Ltd. (see Note 42 to the consolidated financial statements for 2008 prepared in accordance with IFRS), in the amount of PLN 26,021 thousand, was recognised as financial income.
- the Petrobaltic Group reversed the impairment charge for financial assets in Energobaltic Sp. z o.o. which was referred to in Note 21 to the consolidated financial statements for 2008 prepared in accordance with IFRS. Release of the impairment charge, in the amount of 29,344 thousand, was recognised under financial income.

As at the date of these interim condensed consolidated financial statements, the Group is analysing whether there is any basis to perform the tests for impairment of its assets (in particular the tangible assets under construction) in accordance with IAS 36 *Impairment of Assets*. As required under IAS 34, any possible changes to the estimates will be disclosed in the notes to the annual consolidated financial statements for the year ended December 31st 2009. Additionally, in accordance with IAS 10 *Events after the Balance Sheet Date*, there may be differences between the data presented in these interim condensed consolidated financial statements and the data contained in the annual financial statements for the year ended December 31st 2009 due to events which occur after the balance-sheet date and before the annual consolidated financial statements for the year ended December 31st 2009 are authorised for publication.

## 10. Issue, Redemption and Repayment of Debt and Equity Securities

### Issue of Medium Term Notes of LOTOS Exploration and Production Norge AS

In the three months ended December 31st 2009, LOTOS Exploration and Production Norge AS issued medium term notes, intended to be acquired within the LOTOS Group. The notes, denominated in USD, were offered in a private placement. The notes were issued as bearer notes in the book-entry form, and their repayment is secured with a pledge over the interest held by LOTOS Exploration and Production Norge AS in the YME field production licence, as described in more detail in Note 11 to the consolidated financial statements for 2008 prepared in accordance with IFRS. The notes will be redeemed at their nominal value.

In the three months ended December 31st 2009, net cash flow under the notes amounted to USD 40,000 thousand (PLN 110,524 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for the transaction date).

Except for the transaction described in Note 15 to these interim condensed consolidated financial statements, relating to increase of the share capital of Grupa LOTOS S.A. through the issue of Series C shares, in the period between January 1st and December 31st 2009 there were no other transactions relating to issue, redemption or repayment of debt or equity securities.

## 11. Dividends

On June 30th 2009, the General Shareholders Meeting of Grupa LOTOS S.A. adopted Resolution No. 6 concerning coverage of the 2008 net loss incurred by the Company. Under the Resolution, the Company's net loss for the year ended December 31st 2008, amounting to PLN 675,704 thousand, is to be covered using the Company's statutory reserve funds.

As at the date of publication of these interim condensed consolidated financial statements, the Management Board of the Parent Undertaking has not yet adopted a resolution on distribution of the profit for 2009.

## 12. Earnings per Share

	<b>Twelve months ended December 31 2009</b>	<b>Twelve months ended December 31 2008</b>
	<b>(unaudited)</b>	<b>(audited)</b>
Profit/(loss) from continuing operations attributable to owners of the Parent (PLN '000) (A)	883,305	(453,906)
Weighted average number of shares (in thousands) (B) <sup>(1)</sup>	121,144	113,700
	=====	=====
Earnings/(loss) per share (PLN) (A/B)	7.29	(3.99)

<sup>(1)</sup> Earnings per share were computed on the basis of the weighted average number of shares in the period January 1st – December 31st 2009. In connection with the registration of a share capital increase at Grupa LOTOS S.A. on July 17th 2009, the weighted average number of shares includes new Series C shares issued as part of the new issue (see Note 15 to these interim condensed consolidated financial statements).

Earnings/(loss) per share for each period are calculated by dividing the profit/(loss) from continuing operations attributable to owners of the Parent for a given period by the weighted average number of shares in the period.

The Group does not disclose diluted earnings per share, since it has no instruments with a potential dilutive effect.

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### 13. Business Segments

PLN '000	Upstream segment		Downstream segment <sup>(1)</sup>		Other <sup>(2)</sup>		Consolidation adjustments		Consolidated	
	Three months ended Dec 31 2009	Twelve months ended Dec 31 2009	Three months ended Dec 31 2009	Twelve months ended Dec 31 2009	Three months ended Dec 31 2009	Twelve months ended Dec 31 2009	Three months ended Dec 31 2009	Twelve months ended Dec 31 2009	Three months ended Dec 31 2009	Twelve months ended Dec 31 2009
	(unaudited)									
<b>Sales revenue:</b>	<b>82,758</b>	<b>235,280</b>	<b>4,018,641</b>	<b>14,230,369</b>	<b>35,683</b>	<b>255,799</b>	<b>(113,074)</b>	<b>(400,917)</b>	<b>4,024,008</b>	<b>14,320,531</b>
Intersegment sales	81,775	229,229	23,865	119,598	7,434	52,090	(113,074)	(400,917)	-	-
External sales	983	6,051	3,994,776	14,110,771	28,249	203,709	-	-	4,024,008	14,320,531
Operating profit/(loss) (EBIT)	<b>(2,918)</b>	<b>(4,070)</b>	<b>100,282</b>	<b>481,980</b>	<b>10,817</b>	<b>(32,137)</b>	<b>(21,987)</b>	<b>(21,547)</b>	<b>86,194</b>	<b>424,226</b>
Amortisation and depreciation	17,835	53,347	61,736	245,351	1,126	1,734	(169)	(583)	80,528	299,849
Operating profit/(loss) before amortisation and depreciation (EBITDA)	<b>14,917</b>	<b>49,277</b>	<b>162,018</b>	<b>727,331</b>	<b>11,943</b>	<b>(30,403)</b>	<b>(22,156)</b>	<b>(22,130)</b>	<b>166,722</b>	<b>724,075</b>

PLN '000	Upstream segment		Downstream segment <sup>(1)</sup>		Other <sup>(2)</sup>		Consolidation adjustments		Consolidated	
	As at Dec 31 2009									
	(unaudited)									
<b>Total assets</b>		<b>1,839,322</b>		<b>13,645,161</b>		<b>127,831</b>		<b>(577,601)</b>		<b>15,034,713</b>

<sup>(1)</sup> Including an organised part of business in the form of the LPG Trading Division of LOTOS Gaz, acquired by LOTOS Paliwa Sp. z o.o. from LOTOS Gaz S.A. (see Note 15 to these interim condensed consolidated financial statements).

<sup>(2)</sup> Includes subsidiaries: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., the LOTOS Gaz Group (until the date of loss of control over KRAK-GAZ Sp. z o.o., see Note 15 to these interim condensed consolidated financial statements), and Energobaltic Sp. z o.o. (from the date of acquiring control by Petrobaltic S.A., see Note 15 to these interim condensed consolidated financial statements).

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

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PLN '000	Upstream segment		Downstream segment		Other <sup>(1)</sup>		Consolidation adjustments		Consolidated	
	Three months ended Dec 31 2008	Twelve months ended Dec 31 2008	Three months ended Dec 31 2008	Twelve months ended Dec 31 2008	Three months ended Dec 31 2008	Twelve months ended Dec 31 2008	Three months ended Dec 31 2008	Twelve months ended Dec 31 2008	Three months ended Dec 31 2008	Twelve months ended Dec 31 2008
	(comparable data)									
<b>Sales revenue:</b>	<b>57,214</b>	<b>381,706</b>	<b>3,697,299</b>	<b>16,085,228</b>	<b>103,188</b>	<b>470,452</b>	<b>(106,575)</b>	<b>(642,648)</b>	<b>3,751,126</b>	<b>16,294,738</b>
Intersegment sales	55,940	375,403	21,563	161,787	29,072	105,458	(106,575)	(642,648)	-	-
External sales	1,274	6,303	3,675,736	15,923,441	74,116	364,994	-	-	3,751,126	16,294,738
Operating profit/(loss) (EBIT)	<b>(273)</b>	<b>165,115</b>	<b>(726,445)</b>	<b>(312,210)</b>	<b>(14,470)</b>	<b>(21,470)</b>	<b>75,777</b>	<b>22,737</b>	<b>(665,411)</b>	<b>(145,828)</b>
Amortisation and depreciation	11,448	48,609	66,218	264,403	603	2,160	(62)	(160)	78,207	315,012
Operating profit/(loss) before amortisation and depreciation (EBITDA)	<b>11,175</b>	<b>213,724</b>	<b>(660,227)</b>	<b>(47,807)</b>	<b>(13,867)</b>	<b>(19,310)</b>	<b>75,715</b>	<b>22,577</b>	<b>(587,204)</b>	<b>169,184</b>
PLN '000	Upstream segment		Downstream segment		Other <sup>(1)</sup>		Consolidation adjustments		Consolidated	
	As at Dec 31 2008									
	(comparable data)									
<b>Total assets</b>		<b>1,708,070</b>		<b>10,492,470</b>		<b>67,090</b>		<b>(65,632)</b>		<b>12,201,998</b>

<sup>(1)</sup> Includes LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., and the LOTOS Gaz Group.

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



#### **14. Material Events Occurring after the End of the Interim Period and not Disclosed in the Interim Consolidated Financial Statements**

1. On January 13th 2010, LOTOS Asphalt Sp. z o.o. issued a blank promissory note with a "protest waived" clause for the amount of PLN 7,000 thousand, along with a promissory note declaration, for the benefit of the Customs Office of Gdańsk as excise security. The security remains valid from March 1st 2010 until February 28th 2011.
2. On January 19th 2010, the Supreme Administrative Court of Warsaw reversed the decision issued in respect of LOTOS Paliwa Sp. z o.o. by the Provincial Administrative Court of Gdańsk, concerning the correctness of VAT settlements for March 2005, and remanded the case for re-examination (see Note 45 to the consolidated financial statements for 2008 prepared in accordance with the IFRS). As at the date of approval of these interim condensed consolidated financial statements, the case is pending. The Management Board of LOTOS Paliwa Sp. z o.o. is of the opinion that the risk of additional tax liabilities being imposed on the company is low, therefore no provisions for such potential additional tax liabilities were created or disclosed in the company's financial statements or in these interim condensed consolidated financial statements of the Group.
3. On January 19th 2010, in the pre-qualification round APA 2009, LOTOS Exploration and Production Norge AS was granted a 50-percent interest in, and the operator status with respect to, license PL 556 located in the Norwegian Sea. The remaining 50-percent interest in the license was granted to Skeie Energy AS.

The license work programme envisages carrying out analytical work in the first year following the grant of the license, to obtain a basis for any potential decision as to drilling an exploratory borehole. The cost of analytical work corresponding to the 50-percent license interest is estimated at NOK 6 million (i.e. PLN 2.96 million, if translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2010).

4. On February 16th 2010 LOTOS Jasło S.A. was returned the nine blank promissory notes valid until January 19th 2010 which had been issued for the benefit of Nafta Polska S.A. Under the promissory note declarations of January 19th 2000, the promissory notes secured the liabilities of 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. (currently LOTOS Jasło S.A.) and Carbon Black Polska Sp. z o.o. The promissory notes could be filled in by Nafta Polska S.A. if LOTOS Jasło S.A. failed to perform any of its obligations under the above agreement. As provided for in the declarations, each promissory note could be filled in with an amount of PLN 1,000 (see Note 42 to the consolidated financial statements for 2008 prepared in accordance with the IFRS).

### **15. Changes in the Entity's Structure in the Interim Period, Including Changes which Follow from Mergers, Acquisitions or Sale of Subsidiaries, Long-Term Investments, Restructurings or Discontinuations of any Businesses**

There were no significant changes in the Group structure since the end of the previous financial year, i.e. December 31st 2008 (see Note 2 to the consolidated financial statements for 2008 prepared in accordance with the IFRS), except for the changes listed below and described in Note 2 of the Notes to these interim condensed consolidated financial statements:

#### **Changes in the Shareholder Structure of PLASTEKOL Organizacja Odzysku S.A.**

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 activity 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).

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. Tyliś, 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).

On May 13th 2009, LOTOS Jasło S.A. acquired 30 shares of PLASTEKOL Organizacja Odzysku S.A., representing 3% of the company's share capital, from JASCHEM Zakład Petrochemiczno-Rafineryjny Sp. z o.o. Following the transaction, LOTOS Jasło S.A.'s stake in PLASTEKOL Organizacja Odzysku S.A. increased from 91% to 94% (or from 910 to 940 shares).

On December 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 activity 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 94% to 95.5% (or from 940 to 955 shares).

#### **Share Capital Increase at LOTOS Exploration and Production Norge AS and Acquisition of New Shares by Petrobaltic S.A.**

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, the Norwegian companies registrar Brønnøysundregistrene registered the share capital increase at LOTOS Exploration and Production Norge AS.

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**Loss of Control over KRAK-GAZ Sp. z o.o. (Subsidiary of LOTOS Gaz S.A.)**

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a bankruptcy petition with the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery.

On July 1st 2009, a provisional court supervisor was appointed. On July 13th 2009, the supervisor submitted a report containing an analysis of the debtor's documentation and condition of its business.

On July 23rd 2009, the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery, resolved to declare bankruptcy by way of liquidation of assets of KRAK-GAZ Sp. z o.o. (KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation)).

On July 1st 2009, as a result of the provisional appointment of a court supervisor, LOTOS Gaz S.A. lost control over its subsidiary KRAK-GAZ Sp. z o.o. within the meaning of the revised IAS 27 *Consolidated and Separate Financial Statements*. Consequently, KRAK-GAZ Sp. z o.o. was not consolidated in the interim condensed consolidated financial statements of the LOTOS Group for the period of the three and twelve months ended on December 31st 2009 and as at December 31st 2009.

**Accounting for the Loss of Control over KRAK-GAZ Sp. z o.o.**

(PLN '000)	December 31st 2009
Net assets of KRAK-GAZ Sp. z o.o. as at the date of control takeover <sup>(1)</sup>	4,684
Change in net assets of KRAK-GAZ Sp. z o.o. from the date of control takeover to the date of loss of control	(35,239)
Net assets of KRAK-GAZ Sp. z o.o. as at the date of loss of control	(30,555)
Fair value of KRAK-GAZ Sp. z o.o. shares	0
Impact of the loss of control over KRAK-GAZ Sp. z o.o. on the consolidated financial result of the LOTOS Group	30,555

<sup>(1)</sup> The company was consolidated with the full method from July 7th 2007.

By December 31st 2009, LOTOS Gaz S.A. created an impairment charge for the full value of KRAK-GAZ Sp. z o.o. shares (PLN 17,329 thousand). Moreover, in 2008 an impairment charge was created for the goodwill of PLN 12,645 thousand which had arisen after taking over control of KRAK-GAZ Sp. z o.o. on July 7th 2007. Until the date of loss of control, other operating expenses of the LOTOS Gaz Group included an impairment charge created for receivables from KRAK-GAZ Sp. z o.o., in the amount of PLN 21,243 thousand. Previously, the impairment charge had been subject to intra-Group eliminations. The net profit of KRAK-GAZ Sp. z o.o. by the date of the loss of control, accounted for in this consolidated statement of comprehensive income, amounts to PLN (16,423) thousand.

**Energobaltic Sp. z o.o. Recovery Proceedings**

On March 13th 2009, the Management Board of Energobaltic Sp. z o.o. filed a declaration of instituting recovery proceedings with the District Court for Gdańsk. On March 30th 2009, following examination of the case of Energobaltic Sp. z o.o.'s declaration, the District Court for Gdańsk, VI Commercial Division, appointed (under Art. 497.1 of the Act on Bankruptcy and Recovery of February 28th 2003) a court supervisor for Energobaltic Sp. z o.o. recovery proceedings. As part of the proceedings, an Arrangement was entered into by Energobaltic Sp. z o.o. and Bank Ochrony Środowiska S.A., Petrobaltic S.A. and Stablewood Power Ventures (Wladyslawowo) Ltd. on June 29th 2009.

The Arrangement entered into by Energobaltic Sp. z o.o. and the creditors as part of the recovery proceedings instituted at the request of Energobaltic Sp. z o.o. was approved by the District Court in Gdańsk, VI Commercial Division, after a hearing held on September 1st 2009. The court's decision regarding approval of the Arrangement became final on September 9th 2009.

#### **Acquisition of Shares in Energobaltic Sp. z o.o. by Petrobaltic S.A.**

On October 29th 2009, the Extraordinary General Shareholders Meeting of Energobaltic Sp. z o.o. adopted a resolution to increase Energobaltic Sp. z o.o.'s share capital in accordance with the Arrangement with the Creditors of Energobaltic Sp. z o.o., which was approved by the Court. The key provisions of the Arrangement with the Creditors are as follows:

- 1) Bank Ochrony Środowiska S.A. will grant a grace period whereby the beginning of repayment of the principal amounts of all the loans will be postponed until June 30th 2014,
- 2) The loans granted by the shareholders (Petrobaltic S.A. and Stablewood Power Ventures (Wladyslawowo) Ltd.) will be converted into shares in Energobaltic Sp. z o.o.,
- 3) Petrobaltic S.A. will submit declarations to the effect that:
  - a) gas deliveries from the B8 field will commence on January 1st 2014,
  - b) the agreement with Energobaltic Sp. z o.o. will be extended by 7 years, that is until 2025,
  - c) the gas delivery price and the current pricing formula will remain unchanged for the period by which the agreement is to be extended,
- 4) Petrobaltic S.A. will also agree to provide a security deposit of EUR 500 thousand (in the złoty) to secure the repayment of interest by Energobaltic Sp. z o.o. to Bank Ochrony Środowiska S.A., until June 30th 2014.

Following the creation of the new shares, Petrobaltic S.A. acquired 1,985 new shares, while Stablewood Power Ventures (Wladyslawowo) Ltd. acquired 1,769 shares; the par value of the shares acquired by both companies was PLN 8,100 per share. Petrobaltic S.A.'s stake increased from 46.61% to 50.92%. Amendments to the Articles of Association of Energobaltic Sp. z o.o. were registered by the District Court of Gdańsk, VII Commercial Division of the National Court Register, on November 9th 2009.

On October 28th 2009, Petrobaltic S.A., Stablewood Power Ventures (Wladyslawowo) Ltd. and Stablewood Power Ventures Ltd. executed a preliminary agreement concerning for the acquisition of the remaining 49.08-percent stake in Energobaltic Sp. z o.o. by Petrobaltic S.A. In performance of the preliminary agreement, on November 27th 2009 Petrobaltic S.A. acquired from Stablewood Power Ventures (Wladyslawowo) Ltd. and from Stablewood Power Ventures Ltd. respectively 2,512 shares (representing 45.18% of the share capital) and 217 shares (3.90% of the share capital) in Energobaltic Sp. z o.o., as a result of which Petrobaltic S.A. came to hold 100% of the shares in Energobaltic Sp. z o.o. Amendments to the Articles of Association of Energobaltic Sp. z o.o. were registered by the District Court of Gdańsk, VII Commercial Division of the National Court Register, on January 25th 2010.

The above transaction was provisionally accounted for and presented in these interim condensed consolidated financial statements as a business combination achieved in stages within the meaning of the revised IFRS 3 *Business Combinations*, using provisional fair values of identifiable assets and liabilities acquired. Any adjustments arising within 12 months from the acquisition date in connection with, among other things, determination of the fair value of identifiable assets and liabilities acquired, should be recognised with retroactive effect as at the business combination date, i.e. as at November 27th 2009.

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Below are presented the provisional fair values of identifiable assets and liabilities acquired, as well as the initial accounting for the goodwill as at the acquisition date, that is November 27th 2009:

(PLN '000)	<b>November 27th 2009</b>
Consideration transferred (acquisition-date fair value) (A)	28,565
Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (B)	29,633
Total (A+B)	58,198
 Equity interest in the acquiree	 100,00%
 Current assets, including:	 7,335
Cash and cash equivalents	4,561
 Non-current assets	 98,220
<b>Total assets</b>	<b>105,555</b>
 Provisions	 35
Non-current liabilities	44,264
Current liabilities, and accruals and deferred income	12,376
<b>Total liabilities and provisions</b>	<b>56,675</b>
 <b>Net assets</b>	 <b>48,880</b>
 <b>Company's share in net assets</b>	 <b>48,880</b>
 <b>Excess of the share in net assets over acquisition cost (goodwill)*</b>	 <b>9,318</b>

\* the provisional goodwill will be appropriately allocated over the period of twelve months from the acquisition date to identifiable fair values of assets and liabilities acquired as at the acquisition date, that is November 27th 2009.

In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the statement of comprehensive income. The remeasurement of Petrobaltic S.A.'s previously held equity interest in Energobaltic Sp. z o.o. at its acquisition-date fair value was posted to financial income in the amount of PLN 6,702 thousand.

Determination of the fair value of the payment made had to take into account the valuation of the liabilities taken over by Petrobaltic S.A. from Stablewood Power Ventures (Wladyslawowo) Ltd., at PLN 5,292 thousand.

By December 31st 2009, Petrobaltic S.A. had discharged its liabilities connected with the acquisition of shares, amounting to PLN 3,035 thousand. After deducting the cash acquired in the business combination, of PLN 4,561 thousand, the acquisition value of Energobaltic Sp. z o.o. as shown in the consolidated statement of cash flows amounted to PLN (1,526) thousand.

As at the balance-sheet date, that is December 31st 2009, Petrobaltic S.A.'s liability under the acquisition of shares in Energobaltic Sp. z o.o. from Stablewood Power Ventures (Wladyslawowo) Ltd. amounted to PLN 26,702 thousand.

#### **Changes in the Shareholder Structure of AB Geonafta (AB Naftos Gavyba ("NG") before the Merger)**

In these interim condensed consolidated financial statements, the LOTOS Group included financial data concerning the Group of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic ("Petrobaltic Group") for the twelve months ended December 31st 2009, with the assumption that the Petrobaltic Group carries the shares of its associated undertaking AB Geonafta (AB Naftos Gavyba (NG) before the merger) using the equity method as at December 31st 2008, in the amount of PLN 73,488 thousand. The basis for the recognition in these consolidated financial statements of NG value corresponding to the number of NG shares held by Petrobaltic S.A. was the consolidated financial statements of the NG Group drawn up in accordance with Lithuanian accounting standards.

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As at December 31st 2009, the Group recognised assets invested in AB Geonafta (AB Naftos Gavyba (NG) before the merger), its associated undertaking, in the total amount of PLN 25.3m (PLN 25.3m as at December 31st 2008). The recognised amount was presented under "Non-current financial assets" in the statement of financial position, whereas previously those assets were presented under "Other current financial assets", the source of which were the funds provided to 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; hereinafter referred to as the Agreement of July 18th 2000).

On March 24th 2006, an agreement supplementary to the Agreement of July 18th 2000 was signed by Petrobaltic S.A., UAB Meditus and UAB Naftos Gavyba (later AB 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, another agreement supplementary to the Agreement of July 18th 2000 between Petrobaltic S.A. and AB Naftos Gavyba was signed, whereby the deadline for the transfer of the ownership rights to AB Geonafta shares was postponed until April 15th 2009.

On April 15th 2009, the agreement postponing the deadline for the acquisition of AB Geonafta shares by UAB Meditus and Petrobaltic S.A. expired.

On June 1st 2009, a new Shareholders Agreement was executed between UAB Meditus and Petrobaltic S.A. in connection with the planned merger of AB Naftos Gavyba and AB Geonafta. The Shareholders Agreement provides that the agreement of July 18th 2000 concerning the transfer of AB Geonafta shares to UAB Meditus and Petrobaltic S.A. by AB Naftos Gavyba is to be performed at least three days before the date on which AB Naftos Gavyba and AB Geonafta adopt resolutions on the companies' merger. The agreement of July 18th 2000 was actually performed on July 1st 2009 with the effect that Petrobaltic S.A. acquired directly AB Geonafta shares accounting for 12.20% of AB Geonafta's share capital (shares acquired by UAB Meditus account for 16.37% of the share capital). Changes to AB Geonafta's share capital were registered on July 9th 2009. The resolutions of AB Naftos Gavyba's and AB Geonafta's General Shareholders Meetings approving the merger of the two companies were adopted on July 20th 2009.

The merger of AB Naftos Gavyba and AB Geonafta was registered on August 7th 2009 and on the same date AB Naftos Gavyba was removed from the relevant register. Petrobaltic S.A. and UAB Meditus hold (subsequent to the merger) shares accounting for 40.59% and 59.41% of AB Geonafta's share capital, respectively. The merger is not accounted for in these interim condensed consolidated financial statements.

As at December 31st 2009, AB Geonafta was owned by Petrobaltic S.A., holding 40.59% of its share capital, and UAB Meditus, holding 59.41% of its share capital. The Group holds indirectly 40.31% of AB Geonafta's share capital (as at December 31st 2008: 29.46% of AB Naftos Gavyba's share capital).

#### **Increase in the Share Capital of Grupa LOTOS S.A.**

On July 17th 2009, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, issued a decision on registration of Grupa LOTOS S.A.'s share capital increase by way of issue of Series C shares. Following the registration, the share capital amounted to PLN 129,873,362 and was divided into 129,873,362 shares. After the registration of the share capital increase, the total number of votes attached to all the shares in Grupa LOTOS S.A. was 129,873,362 votes.

Following the registration, the structure of Grupa LOTOS S.A.'s share capital was as follows:

- 78,700,000 Series A shares,
- 35,000,000 Series B shares,
- 16,173,362 Series C shares.

Pursuant to Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A. of June 30th 2009, all Series C shares were offered to the State Treasury in a private placement, under Art. 431.2.1 of the Commercial Companies Code, with disapplication of the remaining shareholders' pre-emptive rights to Series C shares.

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On July 9th 2009, an agreement was signed providing for the acquisition by the State Treasury of Grupa LOTOS S.A. shares. Pursuant to Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A. of June 30th 2009, all Series C shares were acquired by the State Treasury. In exchange, the State Treasury transferred to Grupa LOTOS S.A. non-cash contributions in the form of 2,801,400 shares in Petrobaltic S.A., 375,000 shares in LOTOS Czechowice S.A. and 300,000 shares in LOTOS Jasło S.A.

In accordance with the revised IAS 27 *Consolidated and Separate Financial Statements*, the above transaction was accounted for as an equity transaction (i.e. as a transaction with owners acting as the entity owners) and resulted in the recognition of an amount of PLN 27,079 thousand under retained earnings.

**Accounting for the Acquisition of Shares in Petrobaltic S.A., LOTOS Czechowice S.A. and LOTOS Jasło S.A. from Non-Controlling Interests**

PLN '000	
Value of non-controlling interests as at the date of accounting for the transaction (A)*	384,025
Value of non-cash contributions in the form of 30.32% of Petrobaltic S.A. shares, 5% of LOTOS Czechowice S.A. shares and 5% of LOTOS Jasło S.A. shares (B)	356,946
Excess of value of the non-controlling interests over value of the non-cash contributions (A-B)*	27,079

\*The amounts changed relative to those disclosed in the interim condensed consolidated financial statements for the three and nine months ended September 30th 2009 as the share of exchange rate differences and other items of net assets, previously recognised in equity of the Parent Undertaking, have been included in the value of the non-controlling interests.

**Transfer of the LOTOS Group Shares from Nafta Polska S.A. to the State Treasury**

On July 22nd 2009, in performance of the agreement of July 16th 2009 between the State Treasury and Nafta Polska S.A., by way of payment for the Nafta Polska S.A. shares bought back from the State Treasury with a view to their voluntary retirement, Nafta Polska S.A. transferred to the State Treasury all the 59,025,000 Grupa LOTOS S.A. shares held by Nafta Polska S.A., representing 51.91% of Grupa LOTOS S.A.'s share capital and conferring the right to 59,025,000 votes, which represented 51.91% of the total vote in Grupa LOTOS S.A.

Following these transactions, as at December 31st 2009 the State Treasury held shares representing 63.97% of Grupa LOTOS S.A.'s share capital

**Reduction of the Share Capital of UAB LOTOS Baltija**

On September 21st 2009, the reduction of the share capital of UAB LOTOS Baltija from LTL 720.2 thousand to LTL 381.9 thousand was registered. Following the reduction, the Company's share capital is divided into 5,876 ordinary registered shares with a par value of LTL 65 per share.

**Sale of Shares in RC Serwis Sp. z o.o.**

On November 6th 2009, LOTOS Park Technologiczny Sp. z o.o. sold 100% of the shares in RC Serwis Sp. z o.o. to a third party for PLN 1,800 thousand. As a result of this transaction, the Group realised a gain of PLN 688 thousand.

**Acquisition of Own Shares by LOTOS Park Technologiczny Sp. z o.o.**

On November 20th 2009, the then-shareholders of LOTOS Park Technologiczny Sp. z o.o. sold their shares to LOTOS Park Technologiczny:

- Grupa LOTOS S.A. – 9,400 shares out of the total of 9,500 shares held,
- LOTOS Czechowice S.A. – the entire stake of 12,314 shares,
- LOTOS Jasło S.A. – the entire stake of 9,866 shares,
- LOTOS Serwis Sp. z o.o. – the entire stake of 2,834 shares,
- Partner Holding Management Sp. z o.o. - the entire stake of 100 shares.

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LOTOS Park Technologiczny Sp. z o.o. acquired its own shares with a view to their voluntary retirement by way of reduction of the share capital.

Following the transaction, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. is as follows:

LOTOS Park Technologiczny Sp. z o.o. – 99.71%,

Grupa LOTOS S.A. – 0.29%.

Grupa LOTOS S.A. exercises control over LOTOS Park Technologiczny Sp. z o.o. given the GM powers vested in Grupa LOTOS S.A. as the only shareholder entitled to exercise rights attached to the shares held.

**Increase of the Share Capital of LOTOS Gaz S.A.**

On December 14th 2009, an Extraordinary General Shareholders Meeting of LOTOS Gaz S.A. was held, during which the share capital of LOTOS Gaz S.A. was increased from PLN 3,680 thousand to PLN 10,080 thousand, i.e. by PLN 6,400 thousand, by way of raising the par value of the existing 160,000 shares from PLN 23 to PLN 63 per share. Grupa LOTOS S.A. will acquire the increased par value of the shares in exchange for cash. Payment for the shares was made in full before the registration of the share capital increase at LOTOS Gaz S.A.

As at the date of approval of these interim consolidated financial statements, the share capital increase described above has not been registered.

**Acquisition of an Organised Part of Business by LOTOS Paliwa Sp. z o.o.**

On December 14th 2009, LOTOS Paliwa Sp. z o.o. acquired from LOTOS Gaz S.A. an organised part of business in the form of the LPG Trading Division of LOTOS Gaz, comprising mainly:

- ownership title to movable property, including plant and materials and rights *in rem* in movable property,
- rights under movable property lease agreements and rights to use movables,
- business contracts with customers,
- business contracts with fuel suppliers and service providers.

The acquisition cost of the organised part of business in the form of the LPG Trading Division of LOTOS Gaz amounted to PLN 15,000 thousand.

**Acquisition of Assets by LOTOS Serwis Sp. z o.o.**

Pursuant to the agreement of October 29th 2009 between Petrobaltic S.A. and LOTOS Serwis Sp. z o.o., movable property (comprising tangible assets and low-value assets) making up the Land Transport Department and the Warehouse Section of Petrobaltic S.A., worth PLN 3,454 thousand, was sold. Concurrently, the companies entered into an agreement on the provision of warehouse management services and internal transport, storage and similar services. In connection with the above transaction, on November 1st 2009, 23 employees of the Land Transport Department and the Warehouse Section were moved to LOTOS Serwis Sp. z o.o. under Art. 23<sup>(1)</sup> of the Polish Labour Code.



## **16. Changes in Contingent Liabilities and Assets after the Previous Balance-Sheet Date**

### **16.1 Contingent Liabilities and Contingent Assets**

No material changes occurred with respect to contingent liabilities in the period from the end of the previous financial year, i.e. December 31st 2008 (see Note 42 to the consolidated financial statements for 2008, prepared in accordance with the IFRS), except for those listed below and those described in item 1, 4 of Note 14 to these interim condensed consolidated financial statements:

1. On January 3rd 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of CB&I LUMMUS GmbH in the form of a documentary letter of credit for the amount of EUR 19,034 thousand (the equivalent of PLN 72,843 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 3rd 2007). The original validity term of the guarantee expired on June 30th 2008. The validity term of the letter of credit was extended several times. The most recent extension of its validity term was made on May 29th 2009 – the validity term was extended until June 30th 2009. The guarantee expired with the end of its validity period.
2. 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 (the equivalent of PLN 36,827 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for July 1st 2008) 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 (the equivalent of PLN 50,402 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for October 1st 2008). 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 (the equivalent of PLN 59,386 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2009). Since December 17th 2008, the letter of credit was financed under the term loan facility granted by the group of financial institutions. On March 31st 2009, the letter of credit expired.
3. 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 (the equivalent of PLN 49,179 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for July 31st 2008). 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 (the equivalent of PLN 69,419 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for February 2nd 2009). Since December 17th 2008, the letter of credit was financed under the term loan facility granted by the group of financial institutions. On April 30th 2009, the validity term of the documentary letter of credit was extended until June 30th 2009 and its amount decreased to EUR 11,906 thousand (the equivalent of PLN 52,194 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2009). The letter of credit expired with the end of its validity period.
4. On June 2nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 64,403 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 2nd 2008) for the benefit of CB&I LUMMUS GmbH. The original validity term of the letter of credit expired on December 31st 2008. The letter of credit was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). On January 1st 2009, the validity term of the letter of credit was extended, first until January 31st 2009, and then until March 31st 2009. The most recent extension of its validity term was made on May 29th 2009 – the validity term was then extended until June 30th 2009. The letter of credit expired with the end of its validity period.

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5. 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.
6. 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. 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). The letter of credit expired with the end of its validity period.
7. 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. 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. The letter of credit expired with the end of its validity period.
8. 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 initial validity term of the guarantee, which was issued to secure payment of amounts due for the delivery of diesel oil and gasoline, was until July 31st 2009. On July 6th 2009, the guarantee validity term was extended until January 29th 2010. Next, with effect from August 1st 2009, the guarantee amount was changed to USD 10,500 thousand (i.e. PLN 30,285 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for August 3rd 2009). The guarantee expired with the end of its validity period.
9. On February 27th 2009, Grupa LOTOS S.A. submitted security for excise duty in the form of a blank promissory note for up to PLN 400,000 thousand, issued 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.
10. On March 2nd 2009, Grupa LOTOS S.A. created security in the form of four blank promissory notes with a promissory note declaration for up to PLN 191,723 thousand, for the benefit of the Material Reserves Agency, in order to secure its liabilities under a fuel lending agreement. After settlement of successive instalments, the Material Reserves Agency is obliged to release the security in the form of the promissory notes. The original deadline for repayment of the liabilities under the fuel lending agreement (October 31st 2009) was extended until November 30th 2009. The Material Reserves Agency had returned four promissory notes for the amount of PLN 65,956 thousand, PLN 40,269 thousand, PLN 32,858 thousand and PLN 52,640 thousand, respectively. As at December 31st 2009, Grupa LOTOS S.A. had no liabilities under the above agreement.
11. The validity term of the bank guarantee of April 27th 2007 issued for the benefit of a Customs Chamber by Bank PKO BP S.A. at the request of Grupa LOTOS S.A. to secure liabilities under customs-duty debts, taxes and other customs-related charges, expired on May 4th 2009. The original guarantee amount was PLN 160,000 thousand. On May 5th 2008, the guarantee amount changed to PLN 200,000 thousand and on December 17th 2008 it changed again to PLN 125,000 thousand. The guarantor's liability continued until July 3rd 2009.
12. On April 30th 2009, 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 Grupa LOTOS S.A., in order to secure the repayment of a loan in the amount of USD 13,000 thousand (the equivalent of PLN 42,717 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2009) (including principal, interest and default interest, if any, as well as any other liabilities that may arise in connection with the execution and performance of the loan agreement). The loan is intended for financing of the expenditure related to the YME Production Project. The original loan repayment date (July 31st 2009) was extended, initially until September 30th 2009 and subsequently until January 29th 2010. Thereafter, the loan repayment date was extended once again until December 30th 2010. The created security in the form of the blank promissory note with a "protest waived" clause and the promissory note declaration remains valid.

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13. On July 1st 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Office of Pruszków for the amount of PLN 1,500 thousand as excise security. The original validity term of the guarantee was to expire on December 31st 2009, but was subsequently extended until September 30th 2010. On November 20th 2009, the validity term of the bank guarantee was extended once again, until October 31st 2010.
14. The general excise security submitted by Grupa LOTOS S.A. in the form of a blank promissory note, with a "protest waived" clause and a promissory note declaration, for the amount of PLN 200,000 thousand for the benefit of the Customs Office of Gdańsk, has been in effect since July 6th 2009. The security remains valid through July 6th 2010, following subsequent extensions of the validity term originally expiring on July 5th 2005.
15. On July 6th 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued three bank guarantees for the benefit of the Customs Office of Pruszków for the amounts of PLN 1,700 thousand, PLN 3,300 thousand and PLN 5,000 thousand, respectively, as excise security. The guarantees are valid through July 15th 2010.
16. The general excise security submitted by Grupa LOTOS S.A. in the form a blank promissory note, with a "protest waived" clause and a promissory note declaration, for the amount of PLN 200,000 thousand for the benefit of the Customs Office of Gdańsk has been in effect since July 7th 2009. The security remains valid through July 8th 2010, following subsequent extensions of the validity term originally expiring on March 16th 2006.
17. On July 21st 2009, at the request of Grupa LOTOS S.A., Bank Pekao S.A. issued a payment guarantee for USD 10,500 thousand (i.e. PLN 31,524 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for July 21st 2009) for the benefit of TOTAL DEUTSCHLAND GmbH in connection with gasoline and Diesel oil supplies. The guarantee is valid through January 31st 2010. The guarantee expired with the end of its validity period.
18. On October 14th 2009, 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 Grupa LOTOS S.A., in order to secure the repayment of a loan in the amount of USD 7,000 thousand (i.e. PLN 19,776 thousand, translated at the USD exchange rate quoted by the National Bank of Poland for October 14th 2009). The loan is intended for financing of the expenditure related to the YME Production Project. The loan principal and interest was repaid on November 16th 2009 in view of the terms and conditions of the notes issued by LOTOS Exploration and Production Norge AS (see Note 10 to these interim condensed consolidated financial statements). The agreement provided for repayment of the principal and interest by July 30th 2010. The security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration expired.
19. On November 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for PLN 16,000 thousand for the benefit of the Customs Office in Pruszków as excise security. The guarantee will expire on September 30th 2010.
20. On December 10th 2009, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a documentary letter of credit in the amount of PLN 7,150 thousand for the benefit of Gunvor International B.V. The documentary letter of credit constituted security under a contract for the supply of a light fuel oil component, and was valid until January 15th 2010. The letter of credit expired with the end of its validity period.
21. On December 31st 2009, at the request of Grupa LOTOS S.A., Bank Pekao S.A. issued a stand-by letter of credit in the amount of PLN 8,800 thousand for the benefit of Gunvor International B.V. The documentary letter of credit constituted security under a contract for the supply of a light fuel oil component, and was valid until February 15th 2010. The letter of credit expired with the end of its validity period.
22. 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, amounting to USD 55,000 thousand (the equivalent of PLN 176,605 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 15th 2009), is intended for financing of further implementation of the YME Production Project, in particular the capital expenditure on the Project along with the cost of capital, including interest on the loan. The principal amount of the loan will be paid in three instalments and the original date of the last instalment was set for March 31st 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment schedule was put in place whereby the repayment date of the final instalment was set for December 30th 2011.

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23. On February 10th 2009, LOTOS Oil S.A. submitted security for excise duty in the form of a promissory note for the amount of PLN 5,000 thousand, along with a promissory note declaration, issued for the benefit of a Customs Office in order to secure the company's excise tax liability related to transit of excise goods. The promissory note is valid from March 1st 2009 to February 28th 2011.
24. In connection with an annex to a credit facility agreement (under which the facility limit was reduced), on February 27th 2009 LOTOS Jasło S.A. reduced the amount of security (in the form of a blank promissory note) for the company's liabilities under the overdraft working-capital facility contracted with Bank PKO BP S.A., Krosno Branch, from PLN 18,000 thousand to PLN 10,000 thousand. The validity term of the promissory note expires on July 29th 2011. Pursuant to another annex of December 30th 2009, the amount of security in the form of a blank promissory note was increased to PLN 11,000 thousand, and the validity term of the promissory note extended until June 30th 2012.
25. In order to secure the repayment of a loan, on March 9th 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 7,500 thousand (the equivalent of PLN 28,093 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for March 9th 2009) is intended for financing of further implementation of the YME Production Project. The principal amount was to be repaid by January 29th 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment schedule was put in place whereby the repayment date of the final instalment was set for September 30th 2012.
26. On April 1st 2009, 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 in the amount of USD 2,500 thousand (the equivalent of PLN 8,805 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2009). The loan is intended for financing of further implementation of the YME Production Project. The loan principal was to be repaid by June 30th 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment schedule was put in place whereby the repayment date of the final instalment was set for December 31st 2012.
27. In order to secure the payment of excise tax liability, on April 15th 2009 LOTOS Biopaliwa Sp. z o.o. issued (and submitted to 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.
28. Security in the form of two blank promissory notes with promissory note declarations (one for up to PLN 5,921 thousand and the other for up to PLN 4,263 thousand) was valid until April 16th 2009. The promissory notes were issued on April 17th 2008 by LOTOS Biopaliwa Sp. z o.o. to secure its excise tax liabilities and submitted to the Customs Office of Bielsko-Biała. They were guaranteed by LOTOS Czechowice S.A.
29. Security in the form of a blank promissory note with a promissory note declaration (for up to PLN 4,263 thousand) was valid until April 16th 2009. LOTOS Biopaliwa Sp. z o.o. issued the promissory note as security for its excise tax liabilities on December 30th 2008 and submitted it to the Customs Office of Bielsko-Biała. The promissory note was guaranteed by LOTOS Czechowice S.A.
30. The liability of LOTOS Jasło S.A. under a blank promissory note securing an excise guarantee for PZU, Rzeszów Branch, for the amount of PLN 5,000 thousand continued until May 1st 2009. The validity term of the guarantee expired on January 31st 2009.
31. On May 19th 2009, 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 in the amount of USD 11,000 thousand (the equivalent of PLN 35,355 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for May 19th 2009). The loan is intended for financing of further implementation of the YME Production Project. Originally, the loan principal was to be repaid in two instalments, with the second instalment payable by December 31st 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new loan repayment date was set for December 31st 2012.

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32. On May 19th 2009, Petrobaltic S.A. concluded an agreement on assignment of claims with Nordea Bank Polska S.A. to secure the Bank's claims which arise or might arise under the agreements of May 19th 2009, i.e. agreement on an overdraft working-capital facility with a limit of up to PLN 50,000 thousand and framework agreement on a revolving working-capital facility, bank guarantees and letters of credit with a limit of up to PLN 50,000 thousand and a limit of up to PLN 100,000 thousand. These agreements are also secured by two blank promissory notes with promissory note agreements.
33. On June 9th 2009, 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 in the amount of USD 10,500 thousand (the equivalent of PLN 34,004 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 9th 2009). The loan is intended for financing of further implementation of the YME Production Project. Originally, the loan principal was to be repaid in three instalments, with the last instalment payable by December 31st 2012. On December 22nd 2009, as a result of an annex to the loan agreement, a new loan repayment date was set for December 31st 2012.
34. On July 13th 2009, in order to secure the repayment of a loan (including principal, interest and default interest, if any, as well as any other liabilities that may arise in connection with the execution and performance of the loan agreement), 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. The loan in the amount of USD 6,000 thousand (i.e. PLN 18,960 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for July 13th 2009) is intended for financing of the expenditure related to the YME Production Project. Originally, the principal amount of the loan was to be repaid in two instalments, with the second instalment payable by June 30th 2012. On December 22nd 2009, as a result of an annex to the loan agreement, a new loan repayment date was set for December 31st 2012.
35. On July 24th 2009, the District Court of Katowice decided to enter in the register of pledges a pledge on inventories of LOTOS Biopaliwa Sp. z o.o. which – along with an assignment of the insurance policy pursuant an annex to the loan agreement – serves as security for the repayment of the entire amount of the PLN 30,000 thousand loan advanced by Bank Pekao S.A.
36. In order to secure the repayment of liabilities of LOTOS Exploration and Production Norge AS under a loan contracted by the company from Nordea Bank Norge ASA to finance its day-to-day operations and investment activities, under an agreement of August 18th 2009 Petrobaltic S.A. undertook to instruct Nordea Bank Polska S.A. to issue a bank guarantee for the repayment of the loan for the benefit of Nordea Bank Norge ASA. On August 19th 2009, Nordea Bank Polska S.A., acting on the instructions of Petrobaltic S.A., issued a guarantee for the repayment of the liabilities of LOTOS Exploration and Production Norge AS towards Nordea Bank Norge ASA. The bank guarantee was issued for the amount of USD 8,000 thousand (i.e. PLN 23,716 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for August 19th 2009). In order to secure Petrobaltic S.A.'s claims against LOTOS Exploration and Production Norge AS under the agreement of August 18th 2009, as well as any other liabilities that may arise in connection with the execution and performance of the agreement, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause for the benefit of Petrobaltic S.A. and a promissory note agreement. On December 14th 2009, an annex was executed to the Agreement of August 18th 2009, pursuant to which Petrobaltic S.A. agreed to order Nordea Bank Polska S.A. to extend the validity term of the guarantee issued by Nordea Bank Polska S.A. for the benefit of Nordea Bank Norge ASA until August 31st 2010. On December 29th 2009, the validity term of the above guarantees was extended until August 31st 2010.
37. On September 15th 2009, Petrobaltic S.A. issued a surety for the benefit of Nordea Bank Norge ASA for the repayment of the liabilities of LOTOS Exploration and Production Norge AS under the loan agreement in the amount of USD 11,000 thousand (i.e. PLN 31,365 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for September 15th 2009). In order to secure Petrobaltic S.A.'s claims against LOTOS Exploration and Production Norge AS under the surety, as well as any other liabilities that may arise in connection with the surety, 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 agreement for the benefit of Petrobaltic S.A. On December 17th 2009, an annex was executed to the Agreement of September 15th 2009, pursuant to which Petrobaltic S.A. extended the validity term of the surety issued for the benefit of Nordea Bank Norge ASA until August 31st 2010 and increased the surety amount to USD 12,000 thousand (i.e. PLN 34,926 thousand translated using the USD mid-exchange rate quoted by the National Bank of Poland for December 17th 2009).

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38. On November 14th 2009, Petrobaltic S.A. issued a surety for the benefit of Nordea Bank Norge ASA for the repayment of the liabilities of LOTOS Exploration and Production Norge AS under the loan agreement in the amount of USD 4,000 thousand (i.e. PLN 11,300 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for October 14th 2009). The surety amount is USD 4,500 thousand (i.e. PLN 12,713 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for October 14th 2009), and the surety expires on August 31st 2010. In order to secure Petrobaltic S.A.'s claims against LOTOS Exploration and Production Norge AS under the surety, as well as any other liabilities that may arise in connection with the surety, LOTOS Exploration and Production Norge AS created security for the benefit of Petrobaltic S.A. in the form of a blank promissory note with a "protest waived" clause.
39. Until November 27th 2009, security in the form of a blank promissory note issued by LOTOS Asphalt Sp. z o.o. 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, was in force. The promissory note was issued on April 30th 2008 as security for the repayment of a PLN 80,000 thousand overdraft facility. The original validity term of the overdraft facility agreement expired on November 27th 2008. On November 28th 2008, the overdraft facility agreement was extended until November 27th 2009, and the overdraft limit was reduced to PLN 30,000 thousand.
40. The liability of Petrobaltic S.A. towards Stablewood Power Ventures (Wladyslawowo) Ltd. under the Shareholder Agreement, described in greater detail in Note 42 to the 2008 consolidated financial statements prepared in accordance with the IFRS, expired in connection with the acquisition of Energobaltic Sp. z o.o. shares by Petrobaltic S.A. (see Note 15 to these interim condensed consolidated financial statements).
41. With a view to securing monetary liabilities related to the acquisition of shares and debt claims under the agreement of October 27th 2009 on acquisition by Petrobaltic S.A. of shares and Stablewood Power Ventures (Wladyslawowo) Ltd.'s claims for payment of principal and interest under a loan advanced to Energobaltic Sp. z o.o. under the Agreement of November 21st 2001, as amended (see Note 15 to these interim condensed consolidated financial statements), Petrobaltic S.A. issued for the benefit of Stablewood Power Ventures (Wladyslawowo) Ltd. three blank promissory notes together with promissory note declarations, for up to a total amount of USD 13,000 thousand (i.e. PLN 36,466 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for November 27th 2009). The last instalment of the price for acquisition of the shares and debt claims from Stablewood Power Ventures (Wladyslawowo) Ltd. is June 30th 2013.
42. On December 22nd 2009, as a result of an annex to the loan agreement of USD 50 million (i.e. PLN 113 million, translated at the USD exchange rate quoted by the National Bank of Poland for August 26th 2008) of August 26th 2008 between Petrobaltic S.A. and LOTOS Exploration and Production Norge AS, a new loan repayment schedule was agreed, to be effective until June 30th 2011. With a view to securing repayment of the loan, as well as other liabilities which may arise in connection with the execution and performance of the loan agreement, 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. The original loan repayment date was December 31st 2012.
43. On December 22nd 2009, as a result of an annex to the loan agreement of USD 10 million (i.e. PLN 29 million, translated at the USD exchange rate quoted by the National Bank of Poland for December 19th 2008) of December 19th 2008 between Petrobaltic S.A. and LOTOS Exploration and Production Norge AS, a new loan repayment schedule was agreed, to be effective until June 30th 2011. With a view to securing repayment of the loan as well as other liabilities which may arise in connection with the execution and performance of the loan agreement, LOTOS Exploration and Production Norge AS created security for the benefit of Petrobaltic S.A. in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration. The original loan repayment date was January 31st 2010.

## **16.2 Material Court, Arbitration or Administrative Proceedings and Other Risks Concerning the Parent Undertaking or Its Subsidiary Undertakings**

No changes have occurred with respect to pending court, arbitration, or administrative proceedings or with respect to other risks of the Company or its subsidiaries since the end of the previous financial year, i.e. December 31st 2008 (see Note 45 to the consolidated financial statements for 2008 prepared in accordance with the IFRS), except for those listed below and described in the second part of Note 14 to these interim condensed consolidated financial statements.

1. On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest from May 1st 1999, as compensation for damage incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o.

The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Competition and Consumer Protection Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-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 was pending before the Regional Court of Gdańsk (First Instance Court); file No. is IX GC 134/04. The Company defended itself by raising objections as to the merits of the case (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report concerning the extent of the damage which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, Petroecco filed an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the decision of the Regional Court. On March 19th 2008, an enforcement motion was filed with a Court Enforcement Officer against PETROECCO JV Sp. z o.o. 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 delivered to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer sent the decision on discontinuation of the enforcement proceedings. On May 14th 2009, the Court of Appeals referred the case to the Regional Court for re-examination. During a hearing held on November 3rd 2009, the Court obliged PETROECCO JV Sp. z o.o. to appoint an expert. The date for a next hearing will be set. As at the date of approval of these interim condensed financial statements, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were created and disclosed in the financial statements.

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2. 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 consideration. The date of the hearing was set for May 6th 2009; during the hearing, the Supreme Court remanded the case for re-examination by the Szczecin Court of Appeals. At the hearing held on September 30th 2009, the Court of Appeals dismissed the action and awarded reimbursement of the cost of court proceedings to Grupa LOTOS S.A. The State Treasury was called upon to reimburse Grupa LOTOS S.A. for the cost of court proceedings. On January 11th 2010, the State Treasury lodged a cassation complaint against the ruling to the Court of Appeals. As at the date of approval of these interim condensed financial statements, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were created and disclosed in the financial statements.

3. 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.



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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 Court decided that the next hearing would be held on May 19th 2009. Subsequently, the date for the next hearing was set for July 14th 2009, and then adjourned until October 16th 2009.

The date of the adjourned hearing was rescheduled at the request of Energobaltic Sp. z o.o.'s attorney and, at the hearing held on September 21st 2009 the parties entered into a settlement, as a result of which the Court discontinued the proceedings. The settlement was made to satisfy one of the conditions stipulated under the arrangement made as part of the recovery proceedings concerning Energobaltic Sp. z o.o. and approved by the District Court of Gdańsk on September 1st 2009 (see Note 15 to these interim condensed consolidated financial statements).

In connection with the executed arrangement, Petrobaltic S.A. reversed the impairment charge for the amount seized by Energobaltic Sp. z o.o. as part of the enforcement proceedings initiated by Energobaltic Sp. z o.o. which are conducted against Petrobaltic S.A. by the Court Enforcement Officer.

4. In June 2009, Svenska Petroleum Exploration AB announced that it had received all due amounts – in accordance with the terms of the settlement – from the Government of the Republic of Lithuania and AB Geonafta. Thus the proceedings described in Note 45 of the Notes to the consolidated financial statements for 2008 prepared in accordance with the IFRS, pertaining to the arbitration proceedings, were completed.

5. 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, for re-examination.

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. Subsequently, by virtue of the decisions issued on June 29th 2009 by the Head of the Customs Office of Bielsko-Biała, the new deadline for resolving the cases concerning the excise tax liability for the period January – March 2004 was set for July 31st 2009.

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LOTOS Czechowice S.A. received three decisions, dated July 27th 2009, issued by the Head of the Customs Office of Bielsko-Biała determining the amounts of excise tax liability which exceeded the excise tax liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 1,239 thousand – with respect to the tax liability for January 2004,
- by PLN 538 thousand – with respect to the tax liability for February 2004,
- by PLN 8 thousand – with respect to the tax liability for March 2004.

On August 13th 2009, LOTOS Czechowice S.A. lodged an appeal against the decisions with the Director of the Customs Chamber of Katowice. Upon examination of the appeals, by virtue of decisions issued on November 17th 2009, the Director of the Customs Chamber of Katowice reversed the decisions appealed against and remanded the case for re-examination by the first instance body. As at the date of approval of these interim condensed consolidated financial statements, the case was pending.

As concerns the potential excise tax liabilities for the period January–March 2004, taking into account the legal and tax analyses conducted to date, 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 of LOTOS Czechowice S.A. and in these interim condensed consolidated financial statements of the LOTOS Group with regard to these potential liabilities.

6. 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

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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 2009, 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-Biala and remanding the cases for re-examination.

Given the decisions of the Director of the Katowice Customs Chamber of March 4th 2009 to discontinue the enforcement proceedings concerning the excise tax liabilities for September–December 2003, the Director of the Katowice Customs Chamber filed relevant requests with the District Court of Pszczyna to de-register the mortgages.

On May 4th, May 6th, and May 14th 2009, LOTOS Czechowice S.A. received notices from the District Court of Pszczyna to the effect that the compulsory mortgages, previously registered at the request of the Director of the Customs Chamber in Katowice, were de-registered.

By virtue the decisions of the Head of the Customs Office of Bielsko-Biala dated August 28th 2009, the deadline for resolving the cases concerning the excise tax liabilities for the period September–December 2003 was extended to October 28th 2009. On October 23rd 2009 the company sent a letter to the Head of the Customs Office of Bielsko-Biala presenting its position that an order issued by the Director of the Customs Chamber in Katowice concerning a matter of key importance for resolving the case had not been carried out. By virtue of his subsequent decisions, the Head of the Customs Office of Bielsko-Biala extended the deadline for resolving the cases concerning the excise tax liabilities for the period September–December 2003 until December 28th 2009.

By virtue of his decision dated December 18th 2009, the Head of the Customs Office of Bielsko-Biala extended the deadline for resolving the cases concerning the excise tax liabilities for the period September–December 2003 until February 28th 2010. As at the date of approval of these interim condensed 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 of LOTOS Czechowice S.A. and in these interim condensed consolidated financial statements of the LOTOS Group with regard to these potential liabilities.

7. On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of LOTOS Jaslo S.A., whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, LOTOS Jaslo 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 2009, subject to the execution of the terms of the arrangement, the amount receivable was PLN 740 thousand. LOTOS Jaslo S.A. recognized an impairment charge for the receivable described above.

8. Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik, conducting business activity under the business name of WANDEKO. On October 28th 2009, District Court of Gdańsk, IX Commercial Division, issued a default judgement awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. LOTOS Paliwa Sp. z o.o. created a provision for the amount awarded against it along with interest accrued until December 31st 2009 in the amount of PLN 15,318 thousand. The Company lodged an objection to the default judgement with the District Court of Gdańsk on November 10th 2009. As at the date of approval of these interim condensed financial statements, the case was pending.

## 17. Supplementary Information

### **Package of Anti-Crisis Measures for the LOTOS Group**

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

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

Given the uncertain market situation and limited possibilities to raise financing, Grupa LOTOS S.A.'s Management Board decided to suspend the implementation of the investment projects provided for in the Group's strategy for 2006–2012, with the capex totalling approximately PLN 2.1bn. The limitations will not affect the key ongoing investment projects under the 10+ Programme, the development of the YME field on the Norwegian Continental Shelf, or the expenditure on the development of the B8 and B23 fields on the Baltic Sea, planned as part of the development programme for Petrobaltic S.A.

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

The Company's Management Board is monitoring the market situation on an ongoing basis and in the event of any significant changes will revise the plans described above.

### **Conclusion of a Significant Agreement between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH**

On February 1st 2009, Grupa LOTOS S.A. entered into an agreement with TOTAL DEUTSCHLAND GmbH of Berlin, Germany, under which Grupa LOTOS S.A. will purchase liquid fuels from TOTAL DEUTSCHLAND GmbH. The agreement was executed for a specified period from February 1st to December 31st 2009 and its estimated value is PLN 563m (VAT excl.).

The agreement does not contain any provisions concerning contractual penalties. Both parties have the right to seek full damages before a court of general jurisdiction in Berlin, such courts having competence over the agreement as it is governed by the German law. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

### **Conclusion of a Significant Agreement between Grupa LOTOS S.A. and NESTE OIL (SUISSE) SA**

On December 10th 2008, Grupa LOTOS S.A. entered into an agreement with Neste Oil (Suisse) SA of Vernier, Switzerland, under which Grupa LOTOS S.A. will purchase liquid fuels from Neste Oil (Suisse) SA. The agreement was executed for a specified period from January 1st to December 31st 2009 and its estimated value is PLN 624m (Vat excl.).

The agreement does not contain any provisions concerning contractual penalties. Both parties have the right to seek full damages before a court of general jurisdiction in London, such courts having competence over the agreement as it is governed by the English law. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

### **Conclusion of a Significant Agreement between Grupa LOTOS S.A. and J&S Service and Investment Ltd.**

On July 3rd 2009 the total value of agreements executed between Grupa LOTOS S.A. and J&S Service and Investment Ltd. in the twelve months ended July 3rd 2009 amounted to USD 180.4m (or PLN 563.6m translated at the USD mid-exchange rate quoted by the National Bank of Poland for July 3rd 2009), and reached the value of a significant agreement, as it exceeded 10% of Grupa LOTOS S.A.'s equity.

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The largest transaction (in terms of value) concluded between the two companies in the twelve months ended July 3rd 2009 was the agreement whereunder Grupa LOTOS S.A. purchased crude oil from J&S Service and Investment Ltd. The value of the transaction as at July 3rd 2009 was USD 48.8m (or PLN 152.5m translated at the USD mid-exchange rate quoted by the National Bank of Poland for July 3rd 2009) The agreement did not contain any conditions precedent or specify any date of events giving rise to a claim (*dies a quo*), it did not provide for any contractual penalties, and was executed on typical market terms for this type of transactions.

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

On August 10th 2009, Grupa LOTOS S.A. entered into an agreement with LOTOS Kolej Sp. z o.o. concerning the provision of transport and other rail-freight related services. The agreement was executed for a specified period from August 10th 2009 to December 31st 2019, and its estimated value is PLN 2,129m (VAT excl.). The estimated maximum value of the contractual penalties payable by LOTOS Kolej Sp. z o.o. if it fails to meet its obligations under the agreement is equal to the estimated value of the agreement. In addition, the agreement gives Grupa LOTOS S.A. the right to seek damages in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

**Extension of the Licence for Co-generation of Electricity and Heat Granted to Grupa LOTOS S.A.**

On July 16th 2009, the President of the Energy Regulatory Office extended the licence for co-generation of electricity and heat granted to Grupa LOTOS S.A. until September 1st 2018.

**Extension of the Scope of the Licence Granted to Petrobaltic S.A. for Exploration for and Prospecting of Oil and Gas Deposits in the GAZ PÓLNOC Area**

On October 1st 2009, Petrobaltic S.A. received a decision of the Minister of Environment of September 18th 2009, amending licence 35/2001/p issued by the Minister of Environment to Petrobaltic S.A. for exploration and prospecting of oil and gas deposits in the GAZ PÓLNOC area situated in the eastern regions of Poland. Under the amended licence, the scope of work was extended to include the acquisition of 200 km<sup>2</sup> of 3D seismic.

**Amendments to the Licence Granted to Petrobaltic S.A. for Extraction of Crude Oil and the Associated Natural Gas from the B8 Field**

On October 29th 2009, the Management Board of Grupa LOTOS S.A. became aware that Petrobaltic S.A. had received a decision of the Minister of the Environment concerning amendments to the licence for extraction of crude oil and the associated natural gas from the B8 field situated within the Polish exclusive economic zone of the Baltic Sea.

The decision has extended the licence validity term from 10 to 25 years counting from the licence issue date, which means that the licence has been extended by 15 years.

Pursuant to the amended licence, as at December 31st 2008 the recoverable reserves of the B8 field amounted to:

- 3.5 million tonnes of crude oil,
- 0.4 billion cubic meters of natural gas (associated mineral).

As a result of reassessment of the B8 field reserves, LOTOS Group's recoverable reserves rose by 1.5 million tonnes (or 30%) in the case of crude oil and by 0.1 billion cubic meters (or 2%) in the case of natural gas relative to the amounts disclosed in the LOTOS Group's Consolidated Financial Statements for 2008.

Taking into account the reassessment of the B8 field reserves, as at December 31st 2008 LOTOS Group's crude oil and natural gas reserves were:

- crude oil (2P\*): 6.5 million tonnes,
- natural gas (2P\*): 4.5 billion cubic meters.

\* 2P – proved and probable.

**Conclusion of an Annex to a Significant Agreement between LOTOS Paliwa Sp. z o.o. and Pol-Miedź Trans Sp. z o.o.**

On November 27th 2009, LOTOS Paliwa Sp. z o.o. and Pol-Miedź Trans Sp. z o.o. concluded an annex to the agreement on sale and delivery of liquid fuels (Significant Agreement Concluded for an Indefinite Term between LOTOS Paliwa Sp. z o.o. and Pol-Miedź Trans Sp. z o.o. – Current Report No. 82/2005 dated November 7th 2005). Under the annex, the agreement term was changed into three years, from December 1st 2009 to December 1st 2012. No material changes were made to the other agreement terms.

The estimated net value of the agreement in the period to which the annex applies totals PLN 654.5m, which is more than 10% of the equity of Grupa LOTOS S.A. This classifies the agreement as a significant agreement.

**Conclusion of an Agreement for the Supply of Crude Oil between Grupa LOTOS S.A. and Mercuria Energy Trading S.A.**

On December 4th 2009, Grupa LOTOS S.A. and Mercuria Energy Trading S.A. of Geneva signed an agreement on the supply of 18m tonnes of REBCO crude oil to Grupa LOTOS S.A. in the period from January 1st 2010 to December 31st 2014.

The agreement provides for the supplies of crude oil to be effected through the Druzhba Pipeline or – in certain situations – by sea. As at the agreement date, the agreement's estimated value was approximately PLN 27bn (calculated using the USD mid-exchange rate quoted by the National Bank of Poland for December 4th 2009). The agreement provides for contractual penalties of up to PLN 2.5m (calculated using the USD mid-exchange rate quoted by the National Bank of Poland for December 4th 2009) on an average monthly basis relative to the agreed annual quantities. Any payment of contractual penalties does not exclude an injured party's right to seek compensation in excess of the contractual penalties. Provisions concerning contractual penalties and the other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

**Conclusion of an LPG Sales Agreement between Grupa LOTOS S.A. and LOTOS Paliwa Sp. z o.o., To Replace the Terminated Agreement between Grupa LOTOS S.A. and LOTOS Gaz S.A.**

On December 14th 2009, Grupa LOTOS S.A. and LOTOS Paliwa Sp. z o.o. signed an agreement concerning sale of liquefied propane-butane gas (LPG) to LOTOS Paliwa Sp. z o.o.

The agreement was concluded for a specified period from December 16th 2009 to December 31st 2019. Its estimated net value totals PLN 1.5bn. The maximum value of contractual penalties payable in the case of either party failing to perform under the agreement is estimated at approximately PLN 112.5m over the agreement term.

The significant agreement of August 1st 2004 which provided for sale by Grupa LOTOS S.A. of liquefied gas to LOTOS Gaz S.A. was terminated On December 15th 2009.

The termination of that agreement, as well as the conclusion of the new agreement with LOTOS Paliwa Sp. z o.o., came as part of the reorganisation of the trading process within the LOTOS Group.

**Significant Fuel Sales Agreement between Shell Polska Sp. z o.o. and Grupa LOTOS S.A.**

On December 16th 2009, Grupa LOTOS S.A. and Shell Polska Sp. z o.o. of Warsaw concluded an agreement on sale of liquid fuels by Grupa LOTOS S.A. to Shell Polska Sp. z o.o.

The agreement was concluded for a specified period from January 1st 2010 to December 31st 2010. Its estimated net value totals PLN 930m. The maximum value of contractual penalties is estimated at approximately PLN 17m. The agreement does not contain any provisions under which the parties would be entitled to seek any additional compensation above the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

### **Conclusion of a Crude Oil Supply Agreement between Grupa LOTOS S.A. and Statoil ASA**

On December 16th 2009, Grupa LOTOS S.A. and Statoil ASA of Stavanger signed an agreement providing for the supply to Grupa LOTOS S.A. of at least four shipments of crude oil whose aggregated volume is estimated as at the agreement date at 2.4m barrels (around 320 thousand tonnes). The crude oil is to be shipped by sea in the period from January 1st to December 31st 2010.

The aggregate value of agreements concluded between the LOTOS Group companies and Statoil ASA and subsidiaries during the last 12 months totals PLN 746m (calculated using the USD and EUR mid-exchange rates quoted by the National Bank of Poland for December 16th 2009). In terms of value, the largest of those agreements is the one discussed in the previous paragraph: as at its date, its value was estimated at PLN 494m (calculated using the USD mid-exchange rate quoted by the National Bank of Poland for December 16th 2009). The agreement does not include any condition or deadline precedent and it does not provide for any contractual penalties.

### **Selection of the Qualified Auditor to Audit the Financial Statements of Grupa LOTOS S.A.**

Based on the resolution adopted by the Supervisory Board of Grupa LOTOS S.A. on December 17th 2009, Ernst&Young Audit Sp. z o.o., registered office at Rondo ONZ 1, 00-124 Warsaw, entered in the register of entities qualified to audit financial statements maintained by the National Board of Chartered Auditors under entry No. 130, was selected as the qualified auditor to audit the Company's financial statements for 2010, 2011 and 2012.

### **Significant Agreement between Grupa LOTOS S.A. and Lukoil Polska Sp. z o.o.**

On December 22nd 2009, Grupa LOTOS S.A. and Lukoil Polska Sp. z o.o. of Warsaw concluded an agreement on sale of liquid fuels by Grupa LOTOS S.A. to Lukoil Polska Sp. z o.o.

The agreement was concluded for a specified period from January 1st 2010 to December 31st 2010 and its estimated value totals PLN 1.35bn. The maximum value of the contractual penalties is estimated at PLN 25m. The agreement does not contain any provisions under which the parties would be entitled to seek any additional compensation above the contractual penalties. The agreement provides for no condition or deadline precedent and its other terms and conditions do not differ from the terms and conditions commonly used in agreements of such type.

### **Significant Agreement between Grupa LOTOS S.A. and BP Polska S.A.**

On December 31st 2009, Grupa LOTOS S.A. and BP Polska S.A. of Kraków concluded an agreement on the sale of liquid fuels by Grupa LOTOS S.A. to BP Polska S.A.

The agreement was concluded for a specified period from January 1st 2010 to December 31st 2010 and its estimated value totals PLN 2.4bn. The maximum value of the contractual penalties is estimated at PLN 44m. The agreement does not contain any provisions under which the parties would be entitled to seek any additional compensation above the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

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**SUPPLEMENTARY INFORMATION PROVIDED UNDER THE MINISTER OF FINANCE'S REGULATION ON CURRENT AND PERIODIC INFORMATION TO BE PUBLISHED BY ISSUERS OF SECURITIES AND CONDITIONS FOR RECOGNITION AS EQUIVALENT OF INFORMATION WHOSE DISCLOSURE IS REQUIRED UNDER THE LAWS OF A NON-MEMBER STATE, DATED FEBRUARY 19TH 2009**

Pursuant to Par. 87 and Par. 83.1 of the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009 (Dz. U. of 2009, No. 33, item 259), the Management Board of Grupa LOTOS S.A. hereby releases the following information:

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

The structure of the LOTOS Group as well as the consolidated undertakings are presented in Note 2 to these interim condensed consolidated financial statements for the three and twelve months ended December 31st 2009.

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

Q4 2009 saw no changes in the structure of the LOTOS Group other than those disclosed in Note 15 to these interim condensed consolidated financial statements.

**III. Seasonal or Cyclical Nature of the Company's Business in Q4 2009**

In Q4 2009, the operations of Grupa LOTOS S.A. were not affected by seasonality or cyclicity.

**IV. Issue, Redemption or Repurchase of Non-Equity and Equity Securities in Q4 2009**

In Q4 2009, no non-equity or equity securities were issued, redeemed or repurchased, except as described in Notes 10 and 15 (Increase in the Share Capital of Grupa LOTOS S.A.) to these interim condensed consolidated financial statements.

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

As at December 31st 2009, the shareholder structure of Grupa LOTOS S.A. was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held <sup>(1)</sup>
State Treasury	83,076,392	83,076,392	83,076,392	63.97%
ING OFE	6,524,479	6,524,479	6,524,479	5.02%
Other shareholders	40,272,491	40,272,491	40,272,491	31.01%
<b>Total</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>100.00%</b>

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



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As at the date of release of these interim condensed consolidated financial statements, the shareholder structure of Grupa LOTOS S.A. was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held <sup>(1,2)</sup>
State Treasury	69,076,392	69,076,392	69,076,392	53.19%
ING OFE	6,524,479	6,524,479	6,524,479	5.02%
Other shareholders	54,272,491	54,272,491	54,272,491	41.79%
<b>Total</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>100.00%</b>

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

<sup>(2)</sup> Percentage of share capital as at January 22nd 2010. By the date of release of these interim condensed consolidated financial statements, the Company had not received any information on any changes with respect to its shareholders holding 5% or more of the total vote at the General Shareholders Meeting.

The share capital comprises 129,873,362 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.

#### **Changes in Shareholder Structure**

To the best of the Company's knowledge, from the date of release of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2009, i.e. from November 5th 2009, until the date of release of these interim condensed consolidated financial statements, the changes with respect to Grupa LOTOS S.A.'s shareholders holding 5% or more of the total vote at the General Shareholders Meeting were as follows:

#### **Change in the Number of Grupa LOTOS S.A. Shares Held by ING Otworthy Fundusz Emerytalny**

As a result of acquisition of Grupa LOTOS S.A. shares in transactions on the Warsaw Stock Exchange, settled on November 19th 2009, ING Otworthy Fundusz Emerytalny ("the Fund") came to hold Company shares in a number conferring the right to more than 5% of the total vote at the Company's General Shareholders Meeting.

Prior to the acquisition, the Fund held 6,464,479 shares in Grupa LOTOS S.A., representing 4.98% of the Company's share capital, and was entitled to 6,464,479 votes, or 4.98% of the total vote, at the Company's General Shareholders Meeting.

Following the acquisition, the Fund holds 6,524,479 shares in Grupa LOTOS S.A., representing 5.02% of the Company's share capital and conferring the rights to 6,524,479 votes, or 5.02% of the total vote, at the Company's General Shareholders Meeting.

#### **Change in the Number of Grupa LOTOS S.A. Shares Held by the State Treasury**

Based on orders placed and accepted on January 22nd 2010, on January 22nd 2010 the State Treasury sold in block transactions an aggregate of 14,000,000 ordinary bearer shares in Grupa LOTOS S.A., representing 10.78% of Grupa LOTOS S.A.'s share capital and conferring the rights to 14,000,000 votes, or 10.78% of the total vote, in the Company.

Prior to the change, the State Treasury, represented by the Minister of State Treasury, held in aggregate 83,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing 63.97% of the Company's share capital and conferring the rights to 83,076,392 votes, or 63.97% of the total vote in Grupa LOTOS S.A.

After the change, the State Treasury, represented by the Minister of State Treasury, holds in aggregate 69,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing in aggregate 53.19% of the Company's share capital and conferring the rights to 53.19% of the total vote in Grupa LOTOS S.A.

According to the information received by the Company, the State Treasury is not currently aware of any Grupa Lotos S.A. shares being held by its subsidiaries.

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**Changes in Share Capital Structure**

To the best of the Company's knowledge, in the period from the date of release of the interim condensed consolidated financial statements for the three and nine months ended September 30th 2009, i.e. from November 5th 2009, until the date of release of these interim condensed consolidated financial statements, the changes in Grupa LOTOS S.A.'s share capital structure were as follows:

**Introduction to Stock-Exchange Trading of Grupa LOTOS S.A. Series A Shares; Assimilation of Grupa LOTOS S.A. Shares by the Polish NDS**

By virtue of Resolution No. 26/2010 of January 18th 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to trading on the main market, on January 19th 2010, by way of the ordinary procedure, 57,987,030 Series A shares in Grupa LOTOS S.A., with a par value of PLN 1 per share, designated by the National Depository for Securities with code No.: PLLOTOS00033.

By virtue of Resolution No. 33/10 of its Management Board, the National Depository for Securities decided to assimilate, on January 19th 2010, 57,987,030 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion, on January 19th 2010, of 57,987,030 ordinary registered shares (code No.: PLLOTOS00033), with 55,635,609 ordinary bearer shares in Grupa LOTOS S.A. (code No.: PLLOTOS00025). The assimilated shares have been assigned code No.: PLLOTOS00025.

As of January 19th 2010, 113,622,639 shares in Grupa LOTOS S.A. will be marked with code No. PLLOTOS00025, and 77,361 shares in Grupa LOTOS S.A. will be marked with code No. PLLOTOS00033.

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

	As at Oct 28 2009	Acquisition	Sale	Other	As at Feb 18 2010 <sup>(1)</sup>
Marek Sokołowski	8,636	-	-	-	8,636
Vice-President of the Management Board, Production and Development Director					
<b>Total</b>	<b>8,636</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,636</b>

<sup>(1)</sup> Due to changes in the composition of the Supervisory Board of Grupa LOTOS S.A., the number of Grupa LOTOS S.A. shares held, respectively, by Messrs Mariusz Obszyński, Radosław Barszcz and Jan Stefanowicz is presented as at February 11th 2010.

As at the approval date of these interim condensed consolidated financial statements, Mr Leszek Starosta had not provided the Company with information on his shareholding or rights to the Company shares as at February 18th 2010. To the best of the Company's knowledge, the other Management Board members and the Supervisory Board members do not hold any Company shares or rights to the Company shares.

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

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

Material court, arbitration or administrative proceedings and other risks concerning the Parent Undertaking or its subsidiary undertakings are described in Note 16.2 and item 2 of Note 14 to these interim condensed consolidated financial statements.

### **VIII. Information on Material Related Party Transactions**

In the period from January 1st to December 31st 2009, there were no material related party transactions within the Group, other than the transactions described below and in Note 17 to these interim condensed consolidated financial statements.

#### **Transactions Between Petrobaltic S.A. and LOTOS Exploration and Production Norge AS**

On January 15th 2009, Petrobaltic S.A. signed an agreement to grant a loan in the amount of USD 55m (the equivalent of PLN 177m, translated at the mid-exchange rate quoted by the National Bank of Poland for January 15th 2009) to LOTOS Exploration and Production Norge AS. The loan is intended for financing of further implementation of the YME Production Project, in particular the capital expenditure on the Project implementation, along with the cost of capital, including interest on the loan. The principal amount of the loan will be paid in three instalments and the original date of the last instalment was March 31st 2010. On December 22nd 2009, an annex to the loan agreement was executed, specifying a new schedule of loan repayment, under which the last instalment is to be paid by December 30th 2011.

On March 9th 2009, Petrobaltic S.A. signed an agreement to grant a loan in the amount 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) to LOTOS Exploration and Production Norge AS. 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 is intended for financing of further implementation of the YME Production Project. The principal amount was to be repaid by January 29th 2010. On December 22nd 2009, an annex to the loan agreement was executed, under which the new loan repayment date is September 30th 2012.

On April 1st 2009, Petrobaltic S.A. signed an agreement to grant a loan in the amount of USD 2.5m (the equivalent of PLN 8.8m, as translated using the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2009) to LOTOS Exploration and Production Norge AS. The loan is intended for financing of further implementation of the YME Production Project. The loan principal was to be repaid by June 30th 2010. On December 22nd 2009, an annex to the loan agreement was executed, under which the new loan repayment date is December 31st 2012.

On May 19th 2009, Petrobaltic S.A. signed an agreement to grant a loan in the amount of USD 11,000 thousand (the equivalent of PLN 35,355 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for May 19th 2009) to LOTOS Exploration and Production Norge AS. The loan is intended for financing of further implementation of the YME Production Project. Originally, the loan principal was to be repaid in two instalments, with the second instalment to be paid by December 31st 2010. On December 22nd 2009, an annex to the loan agreement was executed, under which the new loan repayment date is December 31st 2012.

On June 9th 2009, Petrobaltic S.A. signed an agreement to grant a loan in the amount of USD 10,500 thousand (the equivalent of PLN 34,004 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 9th 2009) to LOTOS Exploration and Production Norge AS. The loan is intended for financing of further implementation of the YME Production Project. Originally, the loan principal was to be repaid in three instalments and the date of the last instalment was December 31st 2012. On December 22nd 2009, an annex to the loan agreement was executed, under which the new loan repayment date is December 31st 2012.

On July 13th 2009, Petrobaltic S.A. signed an agreement to grant a loan in the amount of USD 6,000 thousand (i.e. PLN 18,960 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for July 13th 2009) to LOTOS Exploration and Production Norge AS. The loan is intended for financing of expenditure related to the YME Production Project. Originally, the principal amount of the loan was to be repaid in two instalments, with the second instalment payable by June 30th 2012. On December 22nd 2009, an annex to the loan agreement was executed, under which the new loan repayment date is December 31st 2012.

LOTOS Exploration and Production Norge AS created security in the form of blank promissory notes with "protest waived" clauses and promissory note declarations, for the benefit of Petrobaltic S.A., in order to secure the repayment of the loans (see items 22, 25, 26, 31, 33 and 34 of Note 16.1 to these interim condensed consolidated financial statements).

**THE LOTOS GROUP**  
**Notes to the interim condensed consolidated financial statements**  
**for the three and twelve months ended December 31st 2009**

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**Transactions Between Grupa LOTOS S.A. and LOTOS Exploration and Production Norge AS**

On April 30th 2009, Grupa LOTOS S.A. signed an agreement to grant a loan in the amount of USD 13,000 (the equivalent of PLN 42,717 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2009) to LOTOS Exploration and Production Norge AS. The is intended for financing of expenditure related to the YME Production Project. The original loan repayment date was July 31st 2009, but was extended – first until September 30th 2009, and later – until January 29th 2010. The loan repayment date was further extended until December 30th 2010.

On October 14th 2009, Grupa LOTOS S.A. signed an agreement to grant a loan in the amount of USD 7,000 thousand (i.e. PLN 19,776 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for October 14th 2009) to LOTOS Exploration and Production Norge AS. The loan is intended for financing of the expenditure related to the YME Production Project. The loan principal and interest were repaid on November 16th 2009 in view of the terms of the notes issued by LOTOS Exploration and Production Norge AS (see Note 10 to these interim condensed consolidated financial statements). Under the agreement, the loan principal and interest were to be repaid by July 30th 2010.

LOTOS Exploration and Production Norge AS created security in the form of a blank promissory notes with a “protest waived” clause and a promissory note declaration, for the benefit of Grupa LOTOS S.A., in order to secure the repayment of the loans (including principal, interest and default interest, if any, as well as any other liabilities that may arise in connection with the execution and performance of the loan agreements) (see items 12 and 18 of Note 16.1 to these interim condensed consolidated financial statements).

**Transactions Between LOTOS Asphalt Sp. z o.o. and LOTOS Exploration and Production Norge AS**

LOTOS Asphalt Sp. z o.o. acquired notes issued by LOTOS Exploration and Production Norge AS (see Note 10 to these interim condensed consolidated financial statements) for USD 40,000 thousand (the equivalent of PLN 110,524 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for the transaction date).

**Transactions Between LOTOS Paliwa Sp. z o.o. and LOTOS Gaz S.A.**

On December 14th 2009, LOTOS Gaz S.A. sold an organised part of business in the form of the LPG Trading Division of LOTOS Gaz to LOTOS Paliwa, as described in Note 15 to these interim condensed consolidated financial statements.

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

In the period from January 1st to December 31st 2009, the Parent Undertaking and its subsidiaries issued no loan sureties or guarantees to any entity or its subsidiary whose value would represent 10% or more of the Company's equity, apart from those described in Note 16.1 to these interim condensed consolidated financial statements.

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

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

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

Grupa LOTOS S.A.'s Management Board has not published any forecasts concerning the Company's performance in 2009.

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

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

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

**XIII. Segment Information**

Information concerning business segments is presented in Note 5 and Note 13 to these interim condensed consolidated financial statements for the three and twelve months ended December 31st 2009.

**XIV. 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
Vice-President of the Management Board, Chief Commercial Officer	
	Maciej Szozda
Chief Accountant	
	Tomasz Południewski