GRUPA LOTOS S.A.

DIRECTORS' REPORT ON THE OPERATIONS OF GRUPA LOTOS S.A. IN 2009

INTRODUCTION

This Directors' Report on the Operations of Grupa LOTOS S.A. in 2009 was prepared pursuant to 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. No. 33, item 259).

1. BASIC INFORMATION ON GRUPA LOTOS S.A.

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

In accordance with the Company's Articles of Association, the Company's core business comprises production and trading activities, as well as provision of services (for more details on the Company's core business see Note 1 to Grupa LOTOS S.A.'s financial statements for the year ended December 31st 2009).

1.1 PRINCIPLES OF RESPONSIBLE BUSINESS

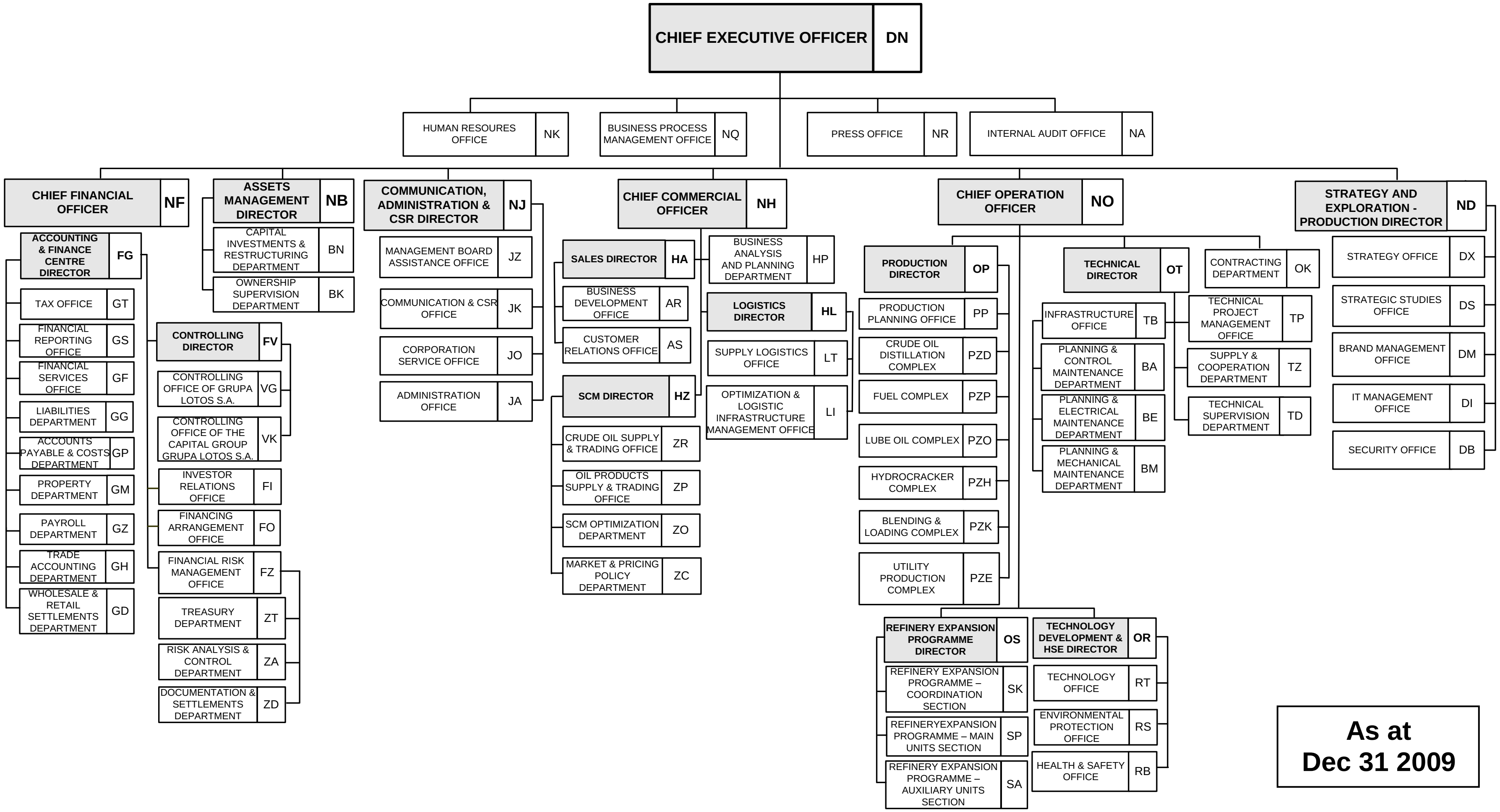
Grupa LOTOS S.A.'s mission is to pursue innovative growth in the areas of oil production, oil processing and distribution of products which meet the most stringent quality standards, in a manner that is environmentally friendly, compliant with the energy security policy, guarantees full customer satisfaction, and ensures continuous development of employees and capitalisation on their capabilities.

Grupa LOTOS S.A. seeks to become the highest ranked oil company in the Baltic Sea Region in terms of the quality of petroleum products, customer service and professional management.

The strategic objective of Grupa LOTOS S.A. until 2012 is to create shareholder value by best leveraging on its existing potential and implementing development programmes in three key business areas, including exploration and production, oil refining and marketing.

Grupa LOTOS S.A.'s responsibility towards the society and towards the natural environment is responsibility for delivering products in such a manner that does not lead to degradation of the natural environment or of social capital. The third pillar of the Group's strategy is business responsibility for its products towards the state, the market, the business partners, the customers and the employees. This forms an inherent part of the Group's management strategy focusing on the growth of its value and through such growth generating definite benefits to the society and business in general.

1.2 STRUCTURE OF GRUPA LOTOS S.A. AND GRUPA LOTOS S.A.'S BRANCHES (PLANTS)



The corporate structure of Grupa LOTOS S.A. presents division of duties, relations between various functions and tasks executed at the Company, as well as establishes the hierarchy of organisational units and management. As at December 31st 2009, the corporate structure of Grupa LOTOS S.A. comprised the following units:

- 18 divisions, including 7 divisions reporting directly to the Chief Executive Officer,
- 37 offices,
- 20 departments,
- 6 complexes.

A division is a group of organisational units reporting to specific executive officers who hold decision-making powers within a certain area of the business. Organisational units are separated mainly based on the criterion of the function performed.
The basic responsibility of an office is to support the Chief Executive Officer's or the division heads' decision-making process.
A department is responsible for performing a specific function assigned to it, and ranks one level below an office in the organisational hierarchy.
A complex is an operating component of the enterprise, directly performing operating and executory functions.
Grupa LOTOS S.A. has no branches (plants) within the meaning of the Polish Accountancy Act.

1.3 DIVIDEND FOR 2008

Grupa LOTOS S.A. did not pay any dividend for 2008.

1.4 OWNERSHIP CHANGES AT THE LOTOS GROUP IN 2009

PLASTEKOL Organizacja Odzysku S.A.

In 2009, the buy-out of PLASTEKOL Organizacja Odzysku S.A. shares from minority shareholders continued. Following five buy-out transactions, LOTOS Jasło Sp. z o.o.'s stake in PLASTEKOL Organizacja Odzysku S.A. increased from 83.5% to 95.5% (as at December 31st 2009).

Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. ("Petrobaltic S.A."), LOTOS Czechowice S.A., LOTOS Jasło S.A.

On June 30th 2009, the Annual General Shareholders Meeting of Grupa LOTOS S.A. resolved to increase the Company's share capital from PLN 113,700,000 to PLN 129,873,362, through the issue of 16,173,362 new Series C ordinary bearer shares with a par value of PLN 1 per share, which were offered to shareholder State Treasury in 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. The shares were fully covered with non-cash contributions in the form of the following shares held by the State Treasury:

a) 2,801,400 shares in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A.,
b) 375,000 shares in LOTOS Czechowice S.A.,
c) 300,000 shares in LOTOS Jasło S.A.

On July 9th 2009, an agreement was signed concerning this transaction.

KRAK GAZ Sp. z o.o. in liquidation

On July 23rd 2009, District Court for Kraków-Śródmieście, VIII Commercial Division for Bankruptcy and Recovery Proceedings, issued a decision declaring bankruptcy by liquidation of KRAK GAZ Sp. z o.o.

RC Serwis Sp. z o.o.

On November 6th 2009, G1 Sp. z o.o. acquired ownership rights to 100% of shares in RC Serwis Sp. z o.o. of Czechowice-Dziedzice, in performance of an agreement concluded on November 5th 2009 between G1 Sp. z o.o. and LOTOS Park Technologiczny Sp. z o.o., providing for the sale of those shares. Prior to the transaction, LOTOS Park Technologiczny Sp. z o.o. was the sole shareholder in RC Serwis Sp. z o.o.

Energobaltic Sp. z o.o.

On November 9th 2009, the National Court Register registered the share capital increase at Energobaltic Sp. z o.o., made through the creation of new shares. The new shares were acquired by: Petrobaltic S.A. (1,985 new shares with a par value of PLN 8,100 per share), and Stablewood Power Ventures (Wladyslawowo) Ltd. (1,769 new shares with a par value of PLN 8,100 per share).

Prior to the registration of the share capital increase, the shareholder structure of Energobaltic Sp. z o.o. was as follows:

- Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. – 46.61%,
- Stablewood Power Ventures Ltd. – 41.43%,
- Przedsiębiorstwo Technik Specjalnych Hydromex Sp. z o.o. – 11.96%.

Following the registration of the share capital increase, the shareholder structure of Energobaltic Sp. z o.o. was as follows:

- Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. – 50.92%,
- Stablewood Power Ventures Ltd. – 45.18%,
- Przedsiębiorstwo Technik Specjalnych Hydromex Sp. z o.o. – 3.9%.

On November 27th 2009, Petrobaltic S.A. entered into a share and debt claim purchase agreement with Stablewood Power Ventures Ltd. (under which Petrobaltic S.A. acquired 2,512 shares in Energobaltic Sp. z o.o. (representing 45.18% of the share capital)) and a share purchase agreement with Stablewood Power Ventures Ltd., under which Petrobaltic S.A. acquired 217 shares (3.90% of the share capital) in Energobaltic Sp. z o.o. As a result of these transactions, Petrobaltic S.A. came to hold 100% of the shares in Energobaltic Sp. z o.o.

LOTOS Park Technologiczny Sp. z o.o.

On November 20th 2009, the then existing shareholders in LOTOS Park Technologiczny Sp. z o.o. sold their shares to the company, as follows:

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

Following the transaction, the company's shareholder structure is as follows: LOTOS Park Technologiczny – 99.71%, Grupa LOTOS S.A. – 0.29%.

LOTOS Park Technologiczny Sp. z o.o. acquired it own shares for the purpose of their voluntary retirement by way of reduction of the share capital.

UAB LOTOS Baltija

On September 21st 2009, the competent registering authority in Lithuania registered the reduction of the share capital of UAB LOTOS Baltija, from LTL 720,200 to LTL 381,940, that is from PLN 865,536 to PLN 459,015 (as translated at the LTL mid-exchange rate quoted by the National Bank of Poland for September 21st 2009) (reduction of the number of shares from 11,080 to 5,876), by way of cancellation of 5,204 ordinary registered shares with a par value of LTL 65 per share.

LOTOS Exploration and Production Norge AS

On February 26th 2009, the Norwegian Register of Entrepreneurs, Brønnøysundregistrene, registered an increase of the share capital of LOTOS Exploration and Production Norge AS and the acquisition by Petrobaltic S.A. of 240 million new shares in the increased share capital, with a par value of NOK 1 per share and the total par value of NOK 240m, that is approximately PLN 129m (translated at the NOK mid-exchange rate quoted by the National Bank of Poland for February 26th 2009). The shares were fully paid up with cash. The shares were created as part of the capital increase at LOTOS Exploration and Production Norge AS. The additional capital raised through the issue of new shares is intended to finance further growth of the company's business. Prior to the registration of the share capital increase, the share capital of LOTOS Exploration and Production Norge AS amounted to NOK 190m, that is PLN 102m (translated at the NOK mid-exchange rate quoted by the National Bank of Poland for February 26th 2009), and was divided into 190 million shares with a par value of NOK 1 per share.

1.5 CHANGES IN ORGANISATION AND MANAGEMENT OF GRUPA LOTOS S.A.

Changes in Grupa LOTOS S.A.'s Organisational Rules and Corporate Structure

The key changes in the management rules followed from the Company's reorganisation aimed at ensuring effective implementation of "The LOTOS Group's Strategy until 2012" and reducing the cost of the Company's operations, which will result in improvement of the efficiency ratios and better communication between the organisational units.

As of January 1st 2009, the name of the Investor Relations Department (FI) was changed to Investor Relations Office (FI), which was connected with the planned extension of the unit and the scope of its responsibilities.

As of April 1st 2009, the following subordinated organisational units were separated within the Financial Risk Management Office:

- Treasury Department (ZT),
- Risk Analysis and Control Department (ZA),
- Documentation and Settlements Department (ZD).

On the same date, amendments to the Organisational Rules were adopted. Under the newly introduced amendments, responsibility for supervision over LOTOS Park Technologiczny Spółka z o.o. was allocated to the Assets Management Director.

As of April 14th 2009, changes were approved in the organisational structure of the division headed by the Chief Commercial Officer (NH), according to which the Market Development

Director (HM) unit ceased to exist and the organisational units earlier reporting to the Market Development Director became subordinated to other units:

- the Market Development Office (MR) currently reports to the Sales Director, and the unit's symbol was changed from MR to AR.
- the Business Analysis and Planning Department (MP) currently reports to the Chief Commercial Officer, and the unit's symbol was changed from MP to HP.
- the Supply Chain Management Office (HD) and the division of the Product Trading and Logistics Director (HE) were liquidated, along with their respective subordinated organisational units.
- the liquidated units were replaced by the division of the Supply Chain Management Director (HZ) (which reports directly to the Chief Commercial Officer (NH)) and the following subordinated units:
    - Crude Oil Supply and Trading Office (ZR)
    - Oil Products Supply and Trading Office (ZP)
    - SCM Optimisation Department (ZO),
    - Market and Pricing Policy Department (ZC),
- a new division headed by the Logistics Director (HL) was created, which reports directly to the Chief Commercial Officer (NH); the units subordinated to the Logistics Director are:
    - Supply Logistics Office (LT),
    - Optimisation and Logistic Infrastructure Management Office (LI).

As of May 11th 2009, the Exploration and Production Director (NE) unit was liquidated and its responsibilities were transferred to the division of the Strategy & Development Director (ND). The name of the Strategy & Development Director unit was changed to Strategy and Exploration – Production Director (ND).

As of August 10th 2009, amendments were approved to the Organisational Rules of Grupa LOTOS S.A.'s enterprise. As part of the amendments, a new Section III *Organisation of the Enterprise Structure* was introduced (it was prepared on the basis of deleted Section III *Notions and Definitions Used* and Section V *Organisation of the Enterprise Structure*) and changes were made in Section VIII *Principles of Segmental Management at the LOTOS Group*, which were necessary to account for the fact that UAB LOTOS Baltija changed its business profile from trade to advisory services.

As of December 1st 2009, further amendments to the Organisational Rules of Grupa LOTOS S.A.'s enterprise were approved. These amendments included change of the title of Section VIII, from *Principles of Segmental Management at the LOTOS Group* to *Business Areas and Principles of Segmental Management at the LOTOS Group*; changes in the scope of responsibilities of the Strategy and Exploration - Production Director (ND) and the Strategy Office (DX); transfer of activities connected with corporate risk management to the Business Process Management Office (NQ); transfer of activities connected with efficiency and savings programmes to the Controlling Director (FV); and allocation of activities connected with the payment of incentive bonuses for implementation of efficiency and savings programmes to the Human Resources Office (NK).

The scopes of responsibilities of the following units were defined more precisely:

- Communication, Administration and CSR Director (NJ),
- Brand Management Office (DM),
- Contracting Department (OK),
- Crude Oil Distillation Complex (PZD),

- Fuel Complex (PZP),
- Financial Reporting Office (GS),
- Supply Chain Management Director (HZ),
- Business Analysis and Planning Department (HP).

The scope of responsibilities of the Confidential Information Protection Officer was specified.

On the same date, the Management Board of Grupa LOTOS S.A. adopted the consolidated text of the Organisational Rules of Grupa LOTOS S.A.'s enterprise.

A Credit Committee was appointed, whose function will be to take decisions concerning trade credit limits and payment periods for Grupa LOTOS S.A.'s external customers and to approve the list of business partners who are not required to provide security.

As of January 19th 2009, the Rules of the IT Committee came into force.

A Strategy Committee was appointed, whose task is to work out a position concerning the need to update the existing "Strategy for the LOTOS Group", as well to supervise and evaluate the process of implementation of the Strategy.

On March 23rd 2009, the Management Board of Grupa LOTOS S.A. approved the Rules of Procedure for the Strategy Committee.

Except for the changes described above, there were no other material changes in the organisation and management of Grupa LOTOS S.A. in 2009.

1.6 GRUPA LOTOS S.A.'S EMPLOYMENT STRUCTURE

As at **December 31st 2009**, Grupa LOTOS S.A. employed 1,305 staff (1,279 FTEs).

Grupa LOTOS S.A.'s employment structure by job category:

Item	Men	Women	Total	FTEs
blue-collar jobs	503	5	508	487
white-collar jobs	398	399	797	792
Total:	**901**	**404**	**1,305**	**1,279**

Grupa LOTOS S.A.'s employment structure by education level:

Education	White-collar workers	Blue-collar workers	Total	
			No.	%
University degree	597	76	673	51.57
Secondary education (technical)	158	303	461	35.33
Secondary education (general)	32	33	65	4.98
Vocational education	8	80	88	6.74
Primary-level education	2	16	18	1.38
Total	**797**	**508**	**1,305**	**100**

1.7 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN GRUPA LOTOS S.A. AND OTHER ENTITIES

As at December 31st 2009 and December 31st 2008, the Company's shares in the total vote in its subsidiary undertakings were equal to its shares in the share capitals of these undertakings, except in the case of LOTOS Park Technologiczny Sp. z o.o.

Undertakings in which the Company holds shares in the share capital or in the total vote in the undertaking's constitutive body:

Name	Registered office	Business profile	Percentage of share capital held by the Company		Carrying value of shares (PLN '000)*	
			Dec 31 2009	Dec 31 2008	Dec 31 2009	Dec 31 2008
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	100.00%	100.00%	352,406	352,406
LOTOS Gaz S.A.(1)	Mława	Production, and wholesale and retail sale of LPG; the company does not conduct operations at the moment	100.00%	100.00%	-	-
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	100.00%	100.00%	505	505
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%	78	78
LOTOS Ekoenergia S.A.	Gdańsk	The company has not commenced operations	100.00%	100.00%	507	507
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%	4,514	4,514
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	100.00%	100.00%	4,020	4,020
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	100.00%	100.00%	50	50
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	100.00%	100.00%	3,906	3,906
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	100.00%	100.00%	353	353

LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	100.00%	100.00%	25,943	25,943
LOTOS Tank Sp. z o.o.	Gdańsk[2]	Wholesale of petroleum products	100.00%	100.00%	7,245	7,245
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice - Dziedzice	Storage and distribution of fuels	85.04%[3]	80.04%	16,637	13,918
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Services related to distribution of petroleum products, storage of fuels, building and maintenance of fuel stocks; production and processing of refined petroleum products and their wholesale and retail sale	85.01%[3]	80.01%	1,335	-
Petrobaltic S.A.[4] (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	99.32%[3]	69.00%	598,823	245,931
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia, from January 2009 – business and legal advisory services	100.00%	100.00%	626[5]	1,158
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services/ the company does not conduct operations at the moment	0.29%[6]	27.45%	21	2,135
Total shares in subsidiary undertakings					**1,016,969**	**662,669**

* Including additional contributions to equity .

(1) 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.

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

(3) 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. (currently LOTOS Petrobaltic S.A.), 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A. (see Note 21).

(4) On March 31st 2010, change in the name of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic Spółka Akcyjna to LOTOS Petrobaltic Spółka Akcyjna (abbreviated name: LOTOS Petrobaltic S.A.) was entered in the National Court Register.

(5) 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.

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

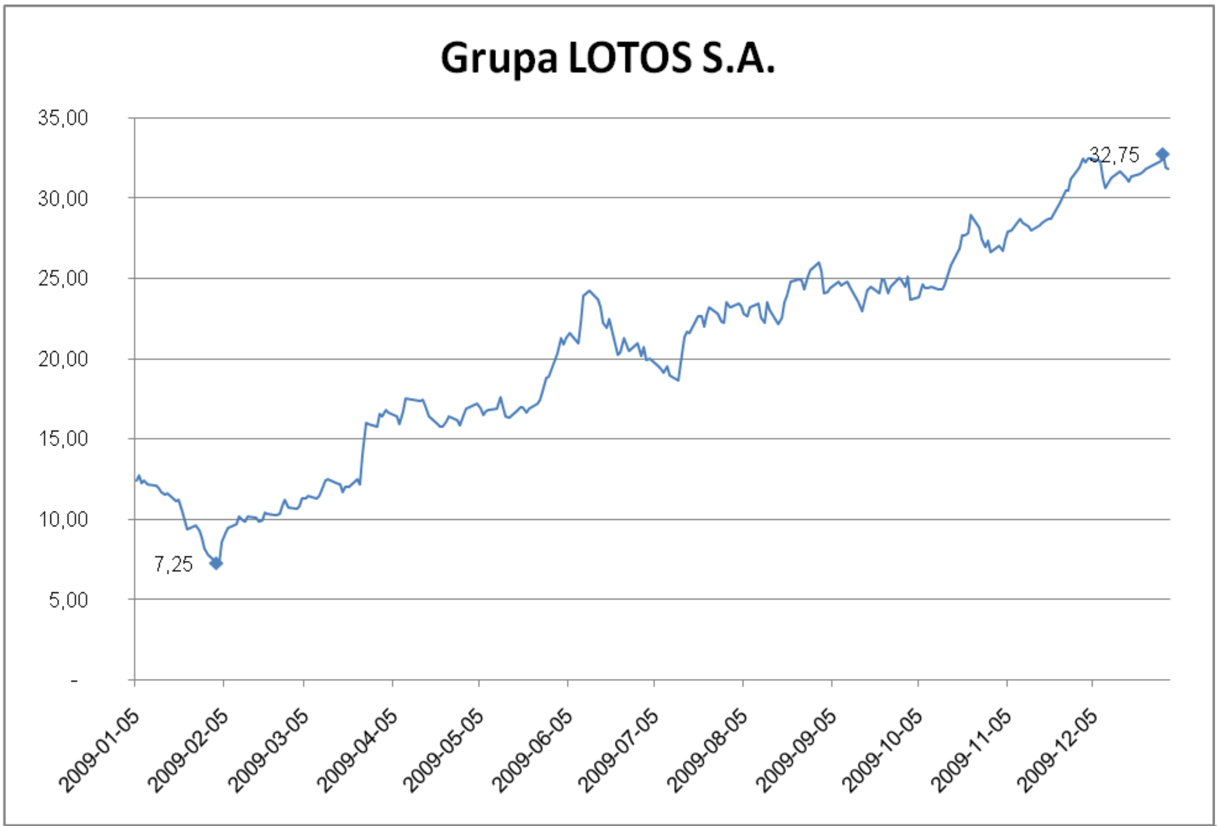
- Grupa LOTOS S.A. – 9,400 shares out of the total of 9,500 shares held,
- LOTOS Czechowice S.A. – the entire stake of 12,314 shares,
- LOTOS Jasło S.A. – the entire stake of 9,866 shares,
- LOTOS Serwis Sp. z o.o. – the entire stake of 2,834 shares,
- Partner Holding Management Sp. z o.o. - the entire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

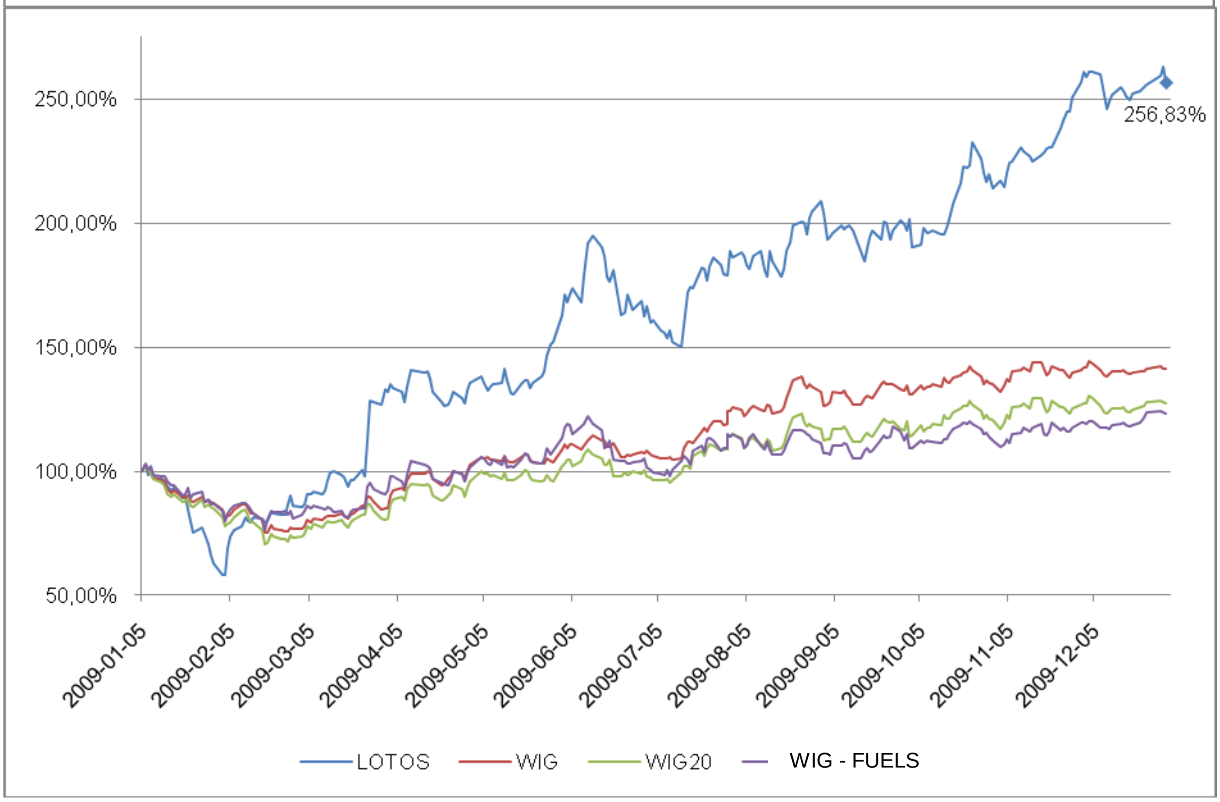
LOTOS Park Technologiczny Sp. z o.o. acquired its own shares with a view to their voluntary retirement by way of reduction of the share capital. Following the transaction, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. is as follows:

- 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.
On March 31st 2010, reduction in the share capital of LOTOS Park Technologiczny Sp. z o.o. to PLN 50 thousand was registered. The share capital of LOTOS Park Technologiczny Sp. z o.o. is divided into 100 shares.
Following registration of the changes in the National Court Register, Grupa LOTOS S.A. holds a 100% stake in LOTOS Park Technologiczny Sp. z o.o.

1.8 GRUPA LOTOS S.A. SHARE PRICE ON THE WARSAW STOCK EXCHANGE





In 2009, two distinctive periods could be distinguished at the Warsaw Stock Exchange. The first period lasted until the middle of February and was characterised by falling prices. The declines came in the wake of the global economic crisis which continued since 2008. In the case of the WIG20 index, the market bottomed on February 17th 2009 and from then on a second period began, during which share prices started to rise again, as a result of which the index of the twenty largest Polish companies moved into an upward trend.

The economic crisis also affected the prices of Grupa LOTOS S.A. stock. Moreover, the market standing of the Company shares was not helped by the negative effect on their value of the recommendation issued by Unicredit in November 2008. Due to the above circumstances, on February 2nd 2009 Grupa LOTOS S.A. share price reached its all-time low of PLN 7.25 per share, down by over 40% on the share price from the beginning of the year (PLN 12.44). The upward trend seen in the price of the Company shares throughout the rest of the year was noticeably stronger than the rises in the WIG, WIG20 and WIG-FUELS indices. This could have been thanks to the strong results posted by Grupa LOTOS S.A., timely implementation of the 10+ Programme and the implementation of the Package of Anti-Crisis Measures. Grupa LOTOS S.A. share price reached its annual high of PLN 32.75 on December 29th 2009. At the end of the period, the Company share price was only slightly lower at PLN 31.80, which meant an annual rate of return on Grupa LOTOS S.A. shares of nearly 156%. The average daily trading volume in Company shares was 382 thousand shares, while market capitalisation at the end of 2009 reached PLN 4.1bn.

1.9 MAJOR RESEARCH AND TECHNICAL DEVELOPMENT ACHIEVEMENTS OF GRUPA LOTOS S.A.

In 2009, as part of the implementation of the 10+ Programme, Grupa LOTOS S.A.'s technological development project which is of key importance for the Company's value growth, the following units were launched: diesel hydrodesulphurisation unit (HDS), hydrogen generation unit (HGU) and amine-sulphur recovery unit (ASR). In December 2009, the crude distillation unit (CDU/VDU) was assigned the RFSU (Ready For Start Up) status.

In 2009, research and development activities focused on further development of production technologies for fuels with bio-components, biofuels, and oil products of LOTOS Oil S.A.

In 2009, sale of the B100 fuel (pure fatty acid methyl esters) was launched. The production technology developed for this fuel relies on the raw material produced by an installation operated by LOTOS Biopaliwa sp. z o.o. and a package of enriching additives, thanks to which quality standards can be met and stability of the product over time can be achieved.

In November 2009, the first commercial batch of a reduced-toxicity oil plasticizer for use in caoutchouc and rubber products was manufactured. The new type of plasticizer is a TDAE (treated distillate aromatic extract) plasticizer which meets the EU requirements for plasticizers used in the tyre industry, effective as of January 1st 2010.

In 2009, test production of low-oil paraffin as the main component for paraffin products (waxes) was also launched. Low-oil paraffin is obtained as a result of solvent deoiling of paraffin.

Eight new-generation motor oils were launched to the market, including:

- TURDUS POWERTEC SYNTHETIC PLUS 10W40 – universal oil intended to be used in various operating environments. It minimises particulate emissions from the engine, and is compatible with engines designed to comply with Euro 4/5 emission standards;

- Marinol RG CD 50 – marine motor oil, formulated on the basis of deeply refined, solvent-dewaxed and hydrorefined oil distillates derived from crude oil, designed for cylinder lubrication in marine crosshead engines of the main drive operating on heavy fuel.
- LOTOS DIESEL FLEET 10W40, 5W40 – truck motor oil, dedicated to the Eastern markets. The production technology has been modified to meet the demands of these markets.

In 2009, Grupa LOTOS S.A. obtained the Central Mining Institute's Certificates for new hydraulic oils, gear oil and emulsifying concentrate.

Approvals were obtained for oils which are intended for use in passenger cars manufactured by Mercedes Benz, BMW, Renault, Volkswagen and Opel, in trucks manufactured by VOLVO, Deutz, MAN, Mercedes Benz and TATRA, as well as in car gearboxes manufactured by ZF and MAN.

2. KEY PRODUCTS, GOODS AND SERVICES OF GRUPA LOTOS S.A.

Grupa LOTOS S.A.'s sales revenue by products, goods for resale and services

PLN '000	Jan 1 – Dec 31 2009	% share	Jan 1 – Dec 31 2008	% share
	for period		for period	
Gasoline	4,999,740	25.5%	5,155,431	24.6%
Diesel oil	11,391,263	58.1%	10,836,826	51.8%
Light fuel oil	657,624	3.4%	815,487	3.9%
Heavy fuel oil	362,354	1.8%	569,640	2.7%
Aviation fuel	642,273	3.3%	1,154,428	5.5%
Bunker fuel	118,251	0.6%	481,781	2.3%
Components for bitumen production	694,958	3.5%	774,753	3.7%
Base oils	272,120	1.4%	411,243	2.0%
Liquid gas	98,406	0.5%	138,202	0.7%
Reformate	211,631	1.1%	302,066	1.4%
Other refinery products	81,949	0.4%	197,096	1.0%
Total petroleum products and goods for resale	**19,530,569**	**99.6%**	**20,836,953**	**99.6%**
Other goods for resale and materials	8,358	0.0%	5,044	0.0%
Services	82,637	0.4%	91,886	0.4%
Total	**19,621,564**	**100.0%**	**20,933,883**	**100.0%**
Elimination of excise duty and fuel charge	(6,924,652)		(6,035,230)	
Total	**12,696,912**		**14,898,653**	

Grupa LOTOS S.A.'s sales revenue by products, goods for resale and services (thousands of tonnes)

	Jan 1 – Dec 31 2009		Jan 1 – Dec 31 2008		Y-o-y change
	thousand tonnes	% share	thousand tonnes	% share	%
Gasoline	1,310	17.78%	1,340	18.18%	-2.31%
Diesel oil	3,688	50.08%	2,999	40.69%	22.98%
Light fuel oil	327	4.44%	337	4.57%	-2.95%
Heavy fuel oil	394	5.35%	598	8.11%	-34.09%
Aviation fuel	366	4.97%	492	6.67%	- 25.63%
Bunker fuel	70	0.95%	242	3.29%	- 71.09%
Components for bitumen production	786	10.67%	830	11.26%	- 5.37%
Base oils	168	2.29%	171	2.32%	- 1.34%
Liquid gas	55	0.75%	60	0.81%	- 7.58%
Reformate	112	1.52%	151	2.05%	- 26.16%
Other refinery products	89	1.21%	95	1.29%	- 5.99%
Crude oil	0	0.00%	56	0.76%	-100.00%
Total petroleum products and goods for resale	**7,365**	**100%**	**7,372**	**100%**	**-0.09%**

In 2009, total sales volume recorded by Grupa LOTOS S.A. remained almost unchanged when compared with the previous year: it decreased by 0.09% or 7 thousand tonnes, to 7,365 thousand tonnes. However, the structure of the sales volume changed materially.

Like in the previous year, diesel oil had the largest share in the total sales volume. Diesel oil sales volume amounted to 3,688 thousand tonnes in 2009, up by 22.98% on the 2008 figure. The share of diesel oil in the total sales volume stood at 50.08%. Diesel oils were thus the only item which recorded a year-on-year increase in terms of sales volume. The second largest item in Grupa LOTOS S.A.'s sales volume structure was gasoline, whose share in total sales volume reached 17.78%. Sales volume of gasoline amounted to 1,310 thousand tonnes in 2009, down by 2.31% on the 2008 figure. The third largest item in the sales volume structure and the last one with a share of more than 10% were components for bitumen production. Their share in the total sales volume was 10.67%. The sales volume of this product group stood at 786 thousand tonnes in 2009 and was by 5.37% lower than in 2008.

3. CHANGES IN SALES MARKETS AND SOURCES OF SUPPLY OF MATERIALS, GOODS FOR RESALE AND SERVICES

Grupa LOTOS S.A.'s net sales revenue by markets in 2009

PLN '000	Jan 1 – Dec 31 2009	% share	Jan 1 – Dec 31 2008	% share
	for period		for period	
Domestic sales:	**18,168,618**	**92.6%**	**18,061,675**	**86.3%**
- products	16,071,424	81.9%	17,208,675	82.2%
- goods for resale and materials	2,097,194	10.7%	853,000	4.1%
Foreign sales:	**1,452,946**	**7.4%**	**2,872,208**	**13.7%**
- products	1,428,382	7.3%	2,865,319	13.6%
- goods for resale and materials	24,564	0.1%	6,889	0.1%
Total	**19,621,564**	**100.0%**	**20,933,883**	**100.0%**
excise duty, fuel charge	(6,924,652)		(6,035,230)	
TOTAL	**12,696,912**		**14,898,653**	

Grupa LOTOS S.A.'s sales revenue by products and markets in 2009 (thousands of tonnes)

Market	Product group	2009	% share	2008	% share	Y-o-y change (%)
Domestic sales	Gasoline	1,144	17.88%	1,124	19.53%	1.76%
	Diesel oil	3,621	56.58%	2,945	51.15%	22.95%
	Light fuel oil	327	5.11%	337	5.85%	-2.95%
	Heavy fuel oil	87	1.36%	84	1.46%	3.62%
	Aviation fuel	145	2.26%	86	1.49%	68.08%
	Bunker fuel	39	0.61%	28	0.49%	39.52%
	Components for bitumen production	786	12.28%	830	14.42%	-5.37%
	Base oils	106	1.66%	112	1.94%	-4.80%
	LPG	55	0.87%	60	1.04%	-7.58%
	Other refinery products	90	1.40%	95	1.65%	-5.99%
	Crude oil	0	0.00%	56	0.97%	-100.00%
Domestic sales, total		**6,400**	**86.89%**	**5,757**	**78.10%**	**11.16%**

Export sales	Gasoline	165	17.11%	216	13.38%	-23.52%
	Diesel oil	67	6.99%	54	3.36%	24.57%
	Heavy fuel oil	307	31.79%	514	31.83%	-40.26%
	Aviation fuel	221	22.92%	406	25.14%	-45.49%
	Bunker fuel	31	3.19%	214	13.26%	-85.61%
	Base oils	62	6.42%	59	3.65%	5.21%
	Reformate	112	11.58%	151	9.38%	-26.16%
Export sales, total		**965**	**13.11%**	**1,614**	**21.90%**	**-40.19%**
TOTAL		**7,365**	**100.00%**	**7,372**	**100.00%**	**-0.09%**

The total volume of sales expressed in thousands of tonnes changed only slightly (down by 0.09%), which, however, was accompanied by a major shift in the market structure: domestic sales grew by 643 thousand tonnes in 2009 (up by 11.16% year on year) at the expense of export sales, whose volume declined by 649 thousand tonnes (down by 40.19% year on year). The key factors driving up domestic sales in 2009 included an increase in the volume of diesel oil sold (up by 676 thousand tonnes, or 22.95% year on year, to 3,621 thousand tonnes), and a rise in the volume of aviation fuel sold (up by 59 thousand tonnes, or 68.08%, to 145 thousand tonnes). The decrease in the volume of export sales reported in 2009 is attributable chiefly to lower sales of heavy fuel oil (down by 40.26% year on year, to 307 thousand tonnes), aviation fuel (down by 45.49%, to 221 thousand tonnes), and bunker fuel (down by 85.61%, to 31 thousand tonnes).

Grupa LOTOS S.A.'s Key Customers in 2009

The only customer whose share in Grupa LOTOS S.A.'s total sales in 2009 exceeded 10% was LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.). Sales to this customer accounted for 47.47% of the Company's total sales.

In 2008, Grupa LOTOS S.A. had two customers whose shares in total sales exceeded 10%, namely LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Statoil Poland Sp. z o.o., whose respective shares in total sales were 42.86% and 11.25%. To the best of the Company's knowledge, there were no formal links between Grupa LOTOS S.A. and Statoil Poland Sp. z o.o.

Grupa LOTOS S.A.'s purchases of raw materials and petroleum products for resale by region in 2009

PLN'000	Jan 1 – Dec 31 2009	% share	Jan 1 – Dec 31 2008	% share
	for period		for period	
Domestic purchases	1,361,890	11.6%	1,191,207	8.5%
Foreign purchases	10,403,960	88.4%	12,894,901	91.5%
Total purchases	**11,765,850**	**100.0%**	**14,086,108**	**100.0%**

Grupa LOTOS S.A.'s supply structure in 2009

PLN'000	Jan 1 – Dec 31 2009	% share	Jan 1 – Dec 31 2008	% share
Raw materials	10,480,155	65.4%	13,496,399	80.0%
Goods for resale	1,285,694	8.0%	589,709	3.5%
Services	760,558	4.7%	760,320	4.5%
Materials	176,951	1.1%	89,627	0.5%
Other purchases (1)	3,333,698	20.8%	1,926,022	11.5%
Total	**16,037,056**	**100.0%**	**16,862,077**	**100.0%**

(1) Including tangible assets, tangible assets under construction, prepayments for tangible assets under construction and intangible assets.

Grupa LOTOS S.A.'s supply structure in 2009 – petroleum products for resale

PLN'000	Jan 1 – Dec 31 2009	% share	Jan 1 – Dec 31 2008	% share
Diesel oils	966,844	75.20%	283,728	48.11%
Gasolines	318,850	24.80%	305,981	51.89%
Total	**1,285,694**	**100.00%**	**589,709**	**100.00%**

Grupa LOTOS S.A.'s supply structure in 2009 – raw materials, semi-products and chemicals

PLN'000	Jan 1 – Dec 31 2009	% share	Jan 1 – Dec 31 2008	% share
Crude oil	7,245,454	69.2%	10,481,183	77.7%
Diesel oil	1,727,935	16.5%	1,767,990	13.1%
MTBE/ETBE gasoline components	188,049	1.8%	189,429	1.4%
FAME	578,296	5.5%	496,311	3.7%
Gasolines	212,750	2.0%	159,734	1.2%
Heavy fuel oil	103,494	1.0%	115,451	0.8%
Ethyl alcohol	116,162	1.1%	121,802	0.9%
Additives	31,252	0.3%	17,485	0.1%
Light gasoil	47,076	0.4%	33,162	0.2%
Fuel oil component	198,864	1.9%	49,429	0.4%
Other	31,699	0.3%	65,328	0.5%
Total	**10,481,031**	**100.0%**	**13,497,304**	**100.0%**

Grupa LOTOS S.A.'s Major Suppliers

In 2009, the three suppliers whose shares in the Company's purchases exceeded 10% of its total sales revenue were J&S Service Investment Ltd. of Cyprus, Petraco Oil Company Ltd. of United Kingdom, and Neste Oil (Suisse) SA of Switzerland. Their shares in the Company's purchases amounted to 26.40%, 12.78% and 9.93%, respectively. To the best of the Company's knowledge, by the date of publication of this Director's Report on the Operations of Grupa LOTOS S.A. there were no formal links between Grupa LOTOS S.A. and any of the abovementioned suppliers.

In 2008, the suppliers whose shares in Grupa LOTOS S.A.'s purchases exceeded 10% of its total sales revenue were J&S Service Investment Ltd. of Cyprus and Petraco Oil Company Ltd. of United Kingdom. Their shares in the Company's purchases amounted to 35.81% and 19.57%, respectively. To the best of the Company's knowledge, there were no formal links between Grupa LOTOS S.A. and any of the abovementioned suppliers.

4. KEY FINANCIAL AND ECONOMIC DATA CONTAINED IN THE ANNUAL NON-CONSOLIDATED FINANCIAL STATEMENTS AND ASSESSMENT OF FACTORS AND NON-RECURRING EVENTS WITH A BEARING ON GRUPA LOTOS S.A.'S PERFORMANCE

4.1 STATEMENT OF COMPREHENSIVE INCOME

Sales Revenue

In 2009, net sales revenue of Grupa LOTOS S.A. was PLN 12,696.9m, down by 14.8% on 2008, mainly due to considerably lower average annual prices of petroleum products on the global markets as compared with 2008. In 2009, the average price of Brent dtd was 61.67 USD/bbl, which represented a year-on-year decrease of 36.6%. Net revenue from sales of products accounted for 90.0% of the total sales revenue. Net revenue from sales of goods for resale and materials amounted to PLN 1,272.5m in 2009, up by 83.3% on the 2008 figure. Net revenue from domestic sales of products represented 87.5% of the total net revenue from sales of products.

In 2009, Grupa LOTOS S.A.'s total sales volume of petroleum products and goods for resale was 7,365.4 thousand tonnes, of which 636.6 thousand tonnes were fuels for resale. The 2009 total sales volume remained fairly unchanged relative to 2008. Diesel oils had the largest share in the total sales structure (50.1%). In 2009, the Company sold 3,688.5 thousand tonnes of diesel oils, that is 689.2 thousand tonnes more than in 2008. Concurrently, a drop in sales volume was recorded in the following product groups: heavy fuel oil (down by 203.8 thousand tonnes), bunker fuel (down by 172.2 thousand tonnes) and aviation fuel (down by 126.1 thousand tonnes). In 2009, domestic sales volume grew by 642.4 thousand tonnes, or 11.2%. The share of domestic sales in the total sales volume increased by 8.8 percentage points. The 2009 average net selling price was PLN 1,723.9 per tonne, i.e. 14.7% less than in 2008.

Operating Profit

In 2009, Grupa LOTOS S.A.'s cost of sales was PLN 12,116.5m, which represented a year-on-year reduction of 18.5%. In the same period, the unit cost of sales was PLN 1,645.1 per tonne, down by 18.4% on the 2008 figure. As the unit cost of sales decreased faster than the average net selling price, this had a positive effect on gross profit of PLN 549.0m relative to 2008, increasing gross profit to PLN 580.4m.

The increase in the gross profit in 2009 relative to 2008 is principally attributable to Grupa LOTOS S.A.'s inventory valuation using the average weighted method. In the twelve months of 2009, crude oil prices were growing. The average price of Brent dtd was 40.04 USD/bbl on January 2nd 2009 and, having continued on the upward trend throughout the year, reached 77.67 USD/bbl on December 31st 2009. In Q3 and Q4 2008, crude oil prices were very low. After a rally seen in H1 2008 and reaching a high of 144.2 USD/bbl on July 3rd 2008, the prices fell sharply to 36.5 USD/bbl on December 31st 2008. Grupa LOTOS S.A.'s inventory valuation using the average weighted method in the context of growing prices of raw material prices in 2009 boosted gross profit by PLN 500.9m, whereas in the context of falling prices in H2 2008 it had a negative effect on gross profit of PLN 609.1m. The necessity to remeasure the inventories at the end of December 2008 and reversal of impairment losses on inventories in 2009 also had a considerable positive effect on the 2009 gross profit relative to 2008.

The volatility of the USD exchange rate seen throughout the year ultimately resulted in foreign exchange losses on operating activities of PLN 178.6m. In 2008, the sharp depreciation of the Polish złoty in the second half of the year resulted in foreign exchange losses on operating activities of PLN 316.4m. This accounts for the difference of PLN 137.8m between gross profit in 2009 and 2008 (2009 gross profit being higher by that amount than the 2008 gross profit).

Apart from the discussed factors and events, 2009 brought a significant decline of crack spreads on the medium fractions of refined products. In 2009, the average refining margin was 2.94 USD/bbl and was lower by 59.1% relative to 2008, when it stood at 7.18 USD/bbl. The average crack spread on Diesel 10 ppm, Gasoil 0.1 and JET fuel decreased year on year, respectively to USD 75.98 per tonne (down by 65.6%), USD 57.45 per tonne (down by 70.5%) and USD 100.37 per tonne (down by 62.9%). The decline in refining margins had a negative effect on the 2009 gross profit of PLN 536m relative to 2008.
Lower crude oil prices in 2009 were accompanied by a 77.9% decline in the average Brent/Ural differential – from 2.40 USD/bbl in 2008 to 0.53 USD/bbl in the reporting year, which decreased gross profit by approx. PLN 175m relative to the previous year.

Another factor which had a negative effect on gross profit was the 33-day overhaul shutdown at Grupa LOTOS S.A.'s refinery in Gdańsk. The cost of the overhaul shutdown, of PLN 64.5m, was charged to the statement of comprehensive income.

Selling costs incurred by the Company in 2009 amounted to PLN 359.5m, and were by PLN 17.3m lower compared with 2008, mainly owing to the implementation of the Package of Anti-Crisis Measures. The average selling cost per tonne of products sold was PLN 48.8 in 2009, down by 4.5% year on year. General and administrative expenses were also lower (by PLN 5.9m, or 2.7%) than in 2008. In 2009, the Company reported a PLN 5.9m loss on other operating activities (net other operating expenses). The loss accounts for the provision for business risk related to Rafineria Nafty GLIMAR S.A.'s loans which was released as at December 31st 2009, a realised gain on the sale of CO_2 emission allowances and increase in impairment losses on tangible assets under construction. In 2008, the Company reported a loss of PLN 7.2m on operating activities (net other operating expenses), primarily due to a realised loss on the sale of CO_2 emission allowances.

The discussed factors contributed to Grupa LOTOS S.A. generating operating profit of PLN 0.1m in 2009, as compared with operating loss of PLN 573.5m in 2008.

Finance Income and Expenses

In 2009, Grupa LOTOS S.A. reported a gain of PLN 701.8m on financing activities (net finance income), compared with a loss of PLN 282.7m (net finance expenses) in 2008. The high gain in 2009 resulted chiefly from foreign exchange gains of PLN 578.7m, generated mainly on revaluation of loans and borrowings (PLN 366.1m) and foreign exchange differences on transactions in bank accounts (PLN 209.9m). In 2008, finance expenses included foreign exchange losses of PLN 139.5m.
Grupa LOTOS S.A.'s finance income includes net gain on settlement of market risk hedging derivatives of PLN 219.1m (PLN 123.2m on refining margin hedging transactions (full barrel swaps), PLN 91.3m on foreign exchange risk hedging transactions (fx forwards), PLN -3.8m on settlement of futures contracts executed to hedge the prices of CO_2 emission allowances and PLN 8.4m in total on settlement of other transactions (FRAs, IRSs, options)). In 2008, net loss on settlement of derivative financial instruments of PLN 235.0m was posted under finance expenses.

In 2009, the effect of valuation of open forward and futures contracts recognised under finance expenses totalled PLN -217.0m and included: PLN -105.4m on refining margin hedging transactions (full barrel swaps), PLN -100.9m on foreign exchange risk hedging transactions (fx forwards) and PLN -10.7m on other transactions (IRSs, FRAs, futures). In 2008, the effect of valuation of open forward and futures contracts in the amount of PLN -6.6m was charged to finance expenses.

Net Profit

In 2009, Grupa LOTOS S.A.'s posted net profit from continuing operations of PLN 591.3m, as compared with net loss of PLN -675.7m in 2008.

4.2 STATEMENT OF FINANCIAL POSITION

As at December 31st 2009, Grupa LOTOS S.A.'s total assets stood at PLN 12,396.2m, which means a PLN 2,905.2m increase in 2009. Relative to December 31st 2008, the value of non-current assets rose by PLN 2,490.4m, or 46.2 %, chiefly due to the PLN 3,204.9m increase in property, plant and equipment in connection with the implementation of the 10+ Programme. The prepayments for tangible assets under construction decreased by PLN 1,043.8m, mainly in connection with the progress of work related to the 10+ Programme, whose completion status changed from 55.95% as at the end of 2008 to 94,47% at the end of 2009. In 2009, non-current financial assets rose by PLN 386.3m, chiefly in connection with the non-cash contribution by the State Treasury 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. (PLN 356.9m) and due to higher non-current portion of positive valuation of derivative financial instruments (PLN 32.0m).

Current assets also rose in 2009, by PLN 414.7m, to reach PLN 4,513.1m as at December 31st 2009. This rise is primarily attributable to PLN 620.8m higher valuation of inventories, reflecting higher prices of crude oil and petroleum products as at the end of 2009 relative to the prices as at the end of 2008, the increase in mandatory fuel stocks and the PLN 221.8m reversal of impairment loss on inventories recognised in 2008. Trade and other receivables increased by PLN 231.2m, chiefly in connection with the rise in petroleum product prices in 2009 (gasolines up by 116.5%, diesel oils up by 43.0%, light fuel oils up by 47.2%, JET fuel up by 47.0% and heavy fuel oil up by 166.8%). Concurrently, current financial assets fell by PLN 194.4m, primarily due to a PLN 232.4m decrease in positive valuation of financial instruments, which at the end of 2009 amounted to PLN 47.0m.

The share of non-current assets in total assets increased from 56.8% in 2008 to 63.6% as at December 31st 2009, chiefly following from the higher share of property, plant and equipment. Lower share of current assets in the total assets structure was mainly attributable to the lower share of current financial assets and cash and cash equivalents.

As at the end of 2009, Grupa LOTOS S.A.'s equity stood at PLN 5,347.7m, having increased by PLN 947.9m in 2009, mainly due to PLN 591.3m higher retained earnings. Additionally, in connection with the take-over by Grupa LOTOS S.A. from the State Treasury of minority stakes in Petrobaltic S.A., LOTOS Czechowice S.A. and LOTOS Jasło S.A., the share capital and statutory reserve funds were increased, respectively by PLN 16.2m and PLN 340.4m. The share of equity in total equity and liabilities decreased from 46.4% in 2008 to 43.1% in 2009.

In 2009, non-current liabilities increased by PLN 1,639.5m, mainly due to the increase in non-current loans and borrowings connected with the implementation of the 10+ Programme or intended for of financing the mandatory stocks. Other non-current financial liabilities rose in 2009 by PLN 44.3m, mainly in connection with a higher non-current portion of negative valuation of financial instruments, which amounted to PLN 220.1m at the end of 2009. As at the end of 2009, non-current liabilities totalled PLN 4,942.6m, of which loans and borrowings were PLN 4,662.7m.

As at December 31st 2009, current liabilities totalled PLN 2,105.9m, having increased from December 31st 2008 by PLN 317.7m. Liabilities and accruals and deferred income grew in 2009 by PLN 218.4m, primarily in connection with a PLN 247.7m increase in trade payables (mainly non-invoiced supplies) due to higher crude oil prices at the end of 2009 relative to 2008, a PLN 148.5m increase in public charges other than income tax and a PLN 194.8m decrease in investment liabilities. Current loans and borrowings rose over 2009 by PLN 157.4m, to PLN 471.9m, which was connected with Grupa LOTOS S.A.'s demand for PLN-denominated loans to ensure the Company's liquidity. Other current financial liabilities fell by 24.2m in 2009, mainly as a result of lower negative valuation of financial instruments, which amounted to PLN 13.1m at the end of 2009.

4.3 STATEMENT OF CASH FLOWS

As at the end of 2009, Grupa LOTOS S.A.'s cash balance (taking into account the debt under overdraft facilities) was PLN -443.8m, having decreased by PLN 309.5m throughout 2009.

In 2009, Grupa LOTOS S.A. recorded negative cash flows from operating activities of PLN -25.8m, which represented a year-on-year increase of PLN 135.0m on the negative cash flows of 2008. The negative cash flows were the effect of reducing net profit from continuing operations (PLN 591.3m) by: the increase in inventories (PLN -620.8m), the adjustment relating to foreign exchange gains (PLN -370.5m), the increase in receivables (PLN -234.4m), the adjustments resulting from settlement of financial instruments (PLN -219.1m) as well as interest and dividends (PLN -135.3m). The items which increased Grupa LOTOS S.A.'s cash from operating activities in 2009 included mainly the PLN 584.6m increase in liabilities and accruals and deferred income, the PLN 252.2m adjustment relating to a loss on investment activities and depreciation and amortisation charges of PLN 139.2m.

In 2009, net cash from investing activities was negative at PLN -2,409.4m, having changed by PLN 697.3m compared with the 2008 figure (PLN -1,712.1m). The change was mainly caused by PLN 1,183.7m higher expenses incurred on the purchase of tangible and intangible assets, loans of PLN 62.5m advanced to a related undertaking and PLN 519.6m lower prepayments for tangible assets under construction.

In 2009, Grupa LOTOS S.A. recorded positive net cash flows from financing activities, of PLN 2,124.4m (up by PLN 114.0m relative to 2008). The increase was mainly attributable to adjustments relating to positive settlement of financial instruments of PLN 219.1m, as compared with adjustments relating to negative settlement of financial instruments of PLN -238.2m in 2008. Cash provided by loans and borrowings – after deducting repayments of loans and borrowings and interest paid – amounted to PLN 1,903.7m in 2009, and was by PLN 345.1m lower relative to the 2008 figure.

4.4 ASSESSMENT OF FACTORS AND NON-RECURRING EVENTS AFFECTING THE OPERATING PERFORMANCE

- 2009 saw a steady decline of refining margin, from average refining margin of 4.19 USD/bbl in Q1 2009 to 0.93 USD/bbl in Q4 2009. In the last (52nd) week of 2009 the refining margin was 0.23 USD/bbl.
- The Company's results were adversely affected due to highly unfavourable Brent/Ural differential – 0.53 USD/bbl on average in 2009, which is over 4.5 times less than in 2008.
- Development and implementation of the Package of Anti-Crisis Measures, guaranteeing execution of the most important investment projects and ensuring the Company's liquidity, also had a bearing on Grupa LOTOS S.A.'s performance in 2009.

- A crude and vacuum distillation unit (CDU/VDU), the key element of the 10+ Programme, was constructed and started operation. The unit will not only increase the production volume but also improve the efficiency of utilisation of feedstock.
- Impairment losses on tangible assets under construction were increased.
- At the end of Q1/beginning of Q2 2009, a 33-day scheduled overhaul shutdown was carried out.

5. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL PERFORMANCE AND PREVIOUSLY PUBLISHED FORECASTS FOR 2009

Grupa LOTOS S.A. did not publish any non-consolidated performance forecasts for 2009.

6. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During the period covered by the financial statements, Grupa LOTOS S.A. was able to meet all of its liabilities towards third parties. In the period from January 1st to December 31st 2009 the Company used investment and working capital overdraft facilities. As at December 31st 2009, the Company had available funds in the amount of PLN 211.8m under working capital facilities. As at December 31st 2009, the balance of overdraft facilities was PLN 462.0m. For a detailed specification of debt under loans, see Note 24 to the financial statements for the financial year ended December 31st 2009.

A synthetic assessment of Grupa LOTOS S.A.'s overall economic and financial standing was based on a ratio analysis of profitability, liquidity and debt levels.

Item	2009	2008
Operating profit/loss (PLN '000)	108	-573,456
Operating margin *(1)*	0.00%	-3.85%
Pre-tax profit/loss (PLN '000)	701,871	-856,160
Pre-tax margin *(2)*	5.53%	-5.75%
Net profit/loss (PLN '000)	591,327	-675,704
Net margin *(3)*	4.66%	-4.54%
Return on equity (ROE) *(4)*	11.06%	-15.36%
Return on assets (ROA) *(5)*	4.77%	-7.12%
Current ratio *(6)*	2.14	2.29
Quick ratio *(7)*	0.77	1.02
Average collection period (days) *(8)*	37.31	33.84
Average payment period (days) *(9)*	21.03	19.92
Capital employed *(10)*	2,407,256	2,310,242
Capital employed to total assets *(11)*	19.42%	24.34%
Debt ratio *(12)*	56.86%	53.64%
Debt to equity ratio *(13)*	131.80%	115.71%

(1) operating profit (loss)/net sales revenue

(2) pre-tax profit (loss)/net sales revenue

(3) net profit (loss)/net sales revenue

(4) net profit (loss)/equity at end of period

(5) net profit (loss)/assets at end of period

(6) current assets/current liabilities

(7) (current assets – inventories)/current liabilities

(8) (average trade receivables/net sales revenue)*365

(9) (average trade payables/cost of sales)*365

(10) current assets – current liabilities

(11) capital employed/assets

(12) total liabilities/assets

(13) total liabilities/equity

An analysis of the above figures and ratios allows to identify the following changes in 2009:

- a substantial improvement in margins, which were negative in 2008 as the Company had recorded an operating, pre-tax and net loss,
- a deterioration of the current ratio (down by 6.5%) in connection with the fact that current liabilities (up by 17.8%) were growing faster than current assets (up by 10.1%); a steeper fall of the quick ratio (down by 24.7%), in connection with the 27.3% increase in inventories at the end of 2009 due to higher prices of crude oil and petroleum products at the end of 2009 relative to the end of 2008, higher mandatory volumes of fuel stocks and a reversal of an impairment loss on inventories recognised in 2008,
- an increase of efficiency ratios: collection period lengthened by 3.5 days, due to the fact that sales value (down by 14.8%) was falling faster than average trade receivables (down by 6.0%), and payment period lengthened by 1.1 days,
- an increase in capital employed (up by PLN 97.0m), in connection with the fact that current assets (up by PLN 414.7m) were growing faster than current liabilities (up by PLN 317.7m), and a decline of the share of capital employed in the total assets,
- higher debt ratios: debt ratio rose by 3.2 percentage points, and debt to equity ratio – by 15.1 percentage points, mainly in connection with the fact that the Group's debt under bank loans increased by 50.4%.

7. KEY DOMESTIC AND FOREIGN INVESTMENTS OF GRUPA LOTOS S.A. AND ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS

7.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS

The table presents capital expenditure incurred by Grupa LOTOS S.A. in 2009 (PLN '000).

Tangible assets under construction and acquisition of property, plant and equipment and intangible assets, including:	Capital expenditure Jan 1 – Dec 31 2009
Construction and assembly work	1,125,765
Procurement from external suppliers – purchases	1,953,962
Acquisition of intangible assets	9,007
Other capital expenditure	287,300
Prepayments for tangible assets under construction	253,389
Settled prepayments	(1,297,179)
Total	**2,332,244**

7.2 EQUITY INVESTMENTS

In 2009 Grupa LOTOS S.A. did not make any equity investments outside the group of its related undertakings.

7.3 ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS, INCLUDING EQUITY INVESTMENTS, IN VIEW OF AVAILABLE FUNDS

In 2009 Grupa LOTOS S.A. financed investments using its own resources, as well as external funds raised in connection with the 10+ Programme. Together with Grupa LOTOS S.A.'s own resources, the contracted external financing fully covers the Company's financing needs connected with the ongoing and planned investment projects.

8 EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF GRUPA LOTOS S.A., AS WELL AS KEY RISKS AND THREATS, AND THE DEGREE OF THE ISSUER'S EXPOSURE TO SUCH RISKS OR THREATS

8.1 EXTERNAL AND INTERNAL RISKS MATERIAL FOR THE DEVELOPMENT OF GRUPA LOTOS S.A.

The key external factors material for the development of Grupa LOTOS S.A. include:

- **Quotation prices of crude oil and petroleum products** – changes of market prices of crude oil and petroleum products have a material impact on the Company's financial performance.
- **PLN/USD exchange rate –** the performance of the Company and its Group is also, to a large/considerable extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of the raw materials and of some products are quoted in the American dollar.
- **Petroleum products demand and supply levels** – the demand for diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and its Group.

The key internal factors material for the development of Grupa LOTOS S.A. include:

- **Implementation of the 10+ Programme –** a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. and the LOTOS Group in the longer run will be the timely implementation of the 10+ Programme. The construction and start-up of the installations provided for in the Programme will allow the Gdańsk refinery to increase its processing capacity (to 10.5 million tonnes *per annum*) and the oil conversion ratio, which will have a positive effect on the product slate.
- **Development of upstream business –** the planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials, further improve its financial performance and enhance the Company's value.
- **Further expansion of the fuel retail sales network –** the implementation of the service station development programme is the key factor in strengthening the Company's position on the fuel retail market. In particular, restructuring activities aimed at improving the efficiency of service stations will play a crucial role.

8.2 RISKS AND THREATS FACED BY THE ISSUER AND THE EXTENT TO WHICH THE ISSUER IS EXPOSED TO SUCH RISKS AND THREATS

Grupa LOTOS S.A. conducts its operations in such environment and conditions which carry numerous risks. These risks are identified and evaluated in various areas of the Company's operations, and then decisions are made as to further steps that need to be taken concerning with such risks.

Compared with the previous reporting period, the operating, financial and market risks have not changed materially; they are still present to a large extent and are monitored on an ongoing basis.

Risks Related to the Government's Strategy for the Oil and Gas Sector (Legal Risks of Strategic Character)

As part of the strategic analyses it conducts, Grupa LOTOS S.A. constantly monitors the trends in EU policies. By analysing proposal directives and then adopted directives, the Company is able to gain knowledge on the probable legal environment a number of years before EU solutions are implemented in the Polish law.

Grupa LOTOS S.A. cooperates with government authorities who are responsible for the governmental strategies for the oil and gas sector.

Furthermore, Grupa LOTOS S.A. participates in the process of issuing opinions on proposed and effective legal acts which concern its area of interest, particularly mandatory stocks of crude oil and fuels, but also biocomponents and biofuels. Such opinions are issued both by Grupa LOTOS S.A. itself and by organisations of which Grupa LOTOS S.A. is a member.

In the area of biofuels and biocomponents, the key risk is that related to very slow proceeding by competent Polish administrative authorities regarding implementation in the Polish legal framework of provisions of Directive 2009/30/EC of the European Parliament and of the Council, dated April 23rd 2009, which provides for the use of higher quantities of biocomponents in standard fuels (B7, E10). Risk areas also include uncertainty as to the detailed scope of the regulations which will be adopted in the Polish solutions chosen to implement the Energy Package directives, in particular Directive 2009/28/EC as regards sustainable development.

Another material risk factor regards the intended fixing of higher National Indicative Targets (NITs) for the following years while there are no Polish legislative solutions which would make achievement of such targets possible. This could result in the necessity to pay penalties for failure to attain a NIT or lead to such activities which – while leading to attainment of NITs – would be detrimental to the economy.

In the area of mandatory stocks, it is unclear in which direction the regulations will go. The time when mandatory stocks will start to be taken over from market operators by relevant governmental agencies is unknown, as is the speed of this process.

A separate risk that can already be discerned is future shortage of storage capacity to store mandatory stocks, especially of crude oil.

Risks Related to Changes in Tax Laws and to Tax Law Interpretations

The legal environment in which Grupa LOTOS S.A. operates is characterised by frequent changes in tax legislation. Newly introduced regulations and changes in the manner of applying the existing laws influence the operations of Grupa LOTOS S.A., the type of activities it undertakes, and have a bearing on the amount of tax liabilities. Given constant changes in laws and regulations, which are often inconsistent, convoluted and in many instances incompatible with EU regulations, and constant changes in the manner of application of existing laws and regulations, internal procedures have been implemented designed to ensure legal compliance as well as to enable identification and mitigation of the tax risk and its effect on the financial statements of Grupa LOTOS S.A. Changes in tax laws and regulations must be monitored on an ongoing basis and active measures must be taken in response to such changes to appropriately adapt the internal tax accounting systems.

Frequent changes in regulations concerning excise duty, VAT, corporate income tax, personal income tax and social security contributions result in a situation where there is no possibility to rely on a well established regulatory framework or legal precedent. Inconsistencies in interpretation between the Minister of Finance and administrative courts result in a lack of possibility to anticipate uniform tax effects for specific transactions.

Differences in interpretation of tax laws are frequent, both between various government authorities and between such authorities and businesses, leading to uncertainty and conflicts, and to loss of creditworthy business partners in international transactions.

All of that may lead to a situation where the Company gives up profitable projects and transactions to ensure its fiscal safety.

The tax risk of operating a business in Poland is therefore significantly higher than in countries where tax systems are better developed.

Additional factors which result in the need to appropriately manage the tax-related risk are potential high penalties which may be applicable in the case of a fiscal offence or misdemeanour, and the generally pro-fiscal approach manifested by the Polish tax authorities. When conducting a business, one has to take into consideration that it is possible to unintentionally cause tax arrears as a result of erroneous interpretation of highly complex laws, employee error or incompetence of civil servants. Fiscal authorities have the powers to conduct inspections and review records of business transactions made in accounting books five years back from the end of the fiscal year in which a tax return concerned was filed.

Financial Risks

The Financial Risk Management Committee operating at Grupa LOTOS S.A. is responsible for the supervision and coordination of the financial risk management process at the Company. The key objectives sought to be achieved through financial risk management are as follows:

- limiting volatility of cash flows,
- increasing the probability that budget and strategic objectives will be met,
- ensuring short-term financial liquidity,
- maximising the result on market risk management, given an assumed level of risk,
- supporting projects aimed at raising financing for investment activities.

The Company regards **management of the risk related to prices of raw materials and petroleum products** as an issue of utmost importance. The concept for management of the risk related to prices of raw materials and petroleum products covers the period until the end of 2010, by which time also the 10+ Programme is to have been completed. In connection with the project to organise trading activities within Grupa LOTOS S.A., management of the risk related to prices of raw materials and petroleum products will be developed further.

The Financial Risk Management Committee is also responsible for managing the **risk related to prices of CO_2 allowances.** This risk is managed in line with the assumptions set forth in *The*

Strategy for Managing the Risk Related to Prices of CO_2 Allowances by Grupa LOTOS S.A. The management horizon is determined by the subsequent phases of the Kyoto protocol; the current management horizon is until the end of 2012.

Currency risk is managed in line with the assumptions stipulated in *The Strategy of Currency Risk Management at Grupa LOTOS S.A.* The management horizon is determined in line with the rollover budgeting period.

The natural currency of Grupa LOTOS S.A.'s operating market is the US dollar (USD). This currency is used in market price quotations for crude oil and petroleum products. Consequently, Grupa LOTOS S.A. has a structurally long position in USD on its operating activity. For this reason it has been decided that USD is the most appropriate currency for contracting and repaying long-term loans to finance the 10+ Programme.

Interest rate risk management reflects the planned schedule of drawdowns and repayments under the loan extended to finance inventories and the implementation of the 10+ Programme. The interest rate risk is connected with the interest calculated on the basis of a floating rate (LIBOR USD).

Liquidity risk management process consists in monitoring the forecast cash flows and available sources of financing, and then matching maturities of assets and liabilities, analysing working capital and maintaining access to various sources of financing.

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

As regards **management of credit risk relating to counterparties in non-financial transactions,** all customers requesting trade credit undergo verification of their financial reliability, whose results determine the level of credit limits to be granted. Issues related to evaluation of business partners and granting credit limits are decided by the Credit Committee.

In connection with the current macroeconomic situation caused by the global economic slowdown, the Management Board of Grupa LOTOS S.A. made a decision to intensify activities which aim at ensuring the Company's liquidity. The Package of Anti-Crisis Measures implemented early in 2009 has already generated considerable savings and improved cash flows.

The financial risk management policies and instruments and the impact of the key risk factors on the individual items of financial results have been presented in the notes to the consolidated financial statements.

Risks Related to the Upstream Business

Given the global economic slowdown, the strategy for development of the business of exploration for and production of crude oil and the plans concerning its implementation may need to be revised to adapt them to the prevailing economic conditions.

Potential risks related to the upstream business include:

- exploration risk with respect to potential reserves,
- limited access to external financing,
- market volatility with respect to oil prices as well as the prices of the US dollar and the euro,
- production risks (risks related to hydrocarbon production),

- poor effectiveness of auxiliary activities supporting production processes,
- risk related to implementation of the processes of development of hydrocarbon fields.

Concurrently, it has to be emphasised that preventive measures are taken on an ongoing basis concerning the upstream business. Such measures consist for instance in constant monitoring of the market and of macroeconomic factors, ongoing evaluation of projects which are under way and taking decisions in reliance on previously made geological analyses and analyses of hydrocarbon reserves.

Risks Related to the Supply of Raw Materials

Grupa LOTOS S.A. continues efforts related to the strategy of oil supply diversification, focusing on two key aspects of this strategic goal:

- security of crude oil supplies: making the alternative oil supply channels work, through constant presence on the international oil market, regular contracting of various types of oil coming from offshore production while concurrently creating conditions to radically increase its share in total supplies of oil to the refinery if there emerges any threat to continuity of supplies from the main direction,
- higher competitiveness: by fully capitalising on the location of the Gdańsk refinery (a coastal location) and the possibility to receive oil supplies through two independent channels: the Russian oil through the Druzhba Pipeline and various types of oil available through Naftoport. An appropriate selection of the types of oil is the effect of optimisation activities carried out on an ongoing basis.

Risks Related to Operating Activities

<u>Risks Related to Implementation of the 10+ Programme</u>

Given the fact that implementation of the 10+ Programme is slowly coming to an end, with the passing of time the risks connected with the programme are diminishing. However, these risks are still being monitored and controlled. They include, among other things:

- delivery/fitting in of defective installations/equipment and materials, leading to the necessity of repairs and replacements, increased costs and delays,
- bankruptcy of subcontractors, as a result of various phenomena caused by the global crisis, leading to delays in execution of the project, forfeiture of payments made and the necessity to buy additional material,
- construction failures caused by difficult working conditions or non-observance of applicable procedures, leading to work stoppages, delays and exceeding the budget,
- failure to achieve full process parameters by the installations as they are started up due to hidden design/engineering defects, leading to additional costs having to be incurred to bring an installation to a condition where it achieves its basic design/engineering parameters or loss of profit,
- adverse weather conditions – resulting in delays and damage to installed equipment,
- protests and reservations raised by external individuals or institutions, related e.g. to the project's environmental impact, leading to work stoppage and delays or administrative decisions being withheld,
- accidents caused by difficult working conditions or high concentration of work carried out in a confined area, or failure to observe the health and safety at work rules,

- temporary suspension of financing, leading to work stoppage due to lack of financing,
- risk related to strengthening of the euro (some of the executed contracts provide for payments in this currency).

Environmental Risks

Grupa LOTOS S.A.'s operating activities entail certain environmental risks, the most important of which include:

- risk of failure to comply with and to meet the requirements of environmental laws (Polish and EU),
- risk related to shortage of CO_2 emission allowances,
- risk of serious industrial failure.

The probability that the risk of non-compliance with Polish and EU laws might materialise is minimised through constant monitoring of the environmental law requirements, efficient implementation of the provisions of this law and active and effective participation in legislative procedures to enact new laws. Identified environmental law requirements are distributed in the form of information or orders to all places within the Group for which such requirements are relevant. The processes of obtaining permits are carried out with sufficient time reserve that takes into account the risk that administrative proceedings might last longer than expected, which guarantees that the relevant document will be obtained in or ahead of time.

Managing the risk of legislative changes includes also activities connected with securing a sufficient number of allowances for a given period of time for those installations which participate in the European Union Emission Trading Scheme and for the new installations which are being erected as part of the 10+ Programme. New installations which are gradually being commissioned require additional emission limits, which may be granted once achievement of full production capacity and completion of the commissioning process have been documented.

Reduction of the probability that the threat of serious industrial failure resulting in an excessive emission of pollutants into the air, water and/or soil might substantiate, or minimisation of the effects or unwanted events entailing such emission, is achieved through comprehensive identification and constant updating of data concerning the environmental risks and preparation of the manner of elimination of effects of potential technology failures. Preventive checks are regularly performed at the refinery premises to diagnose the technical condition of installations and equipment; numerous state-of-the-art technologies are used to alert against and prevent a failure, including hydrocarbon, hydrogen sulphide or flame detectors or vision monitoring systems along the pipeline routes.

Failure reaction trainings and exercises are conducted on a regular basis to ensure quick and effective reaction to any potential failure events.

Risk of Stricter Quality Requirements for Petroleum Products

Grupa LOTOS S.A. is keeping a close eye on the proposed new standards and regulations relevant for its production and sales. The source of information on future changes in quality requirements is Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids. Thanks to its active participation in the work of the subcommittees comprised in Technical Committee 222, Grupa LOTOS S.A. is able to issue opinions on the proposed European standards still at the stage of their development.

Grupa LOTOS S.A. can also have a say on the level of quality requirements, especially for motor fuels, through participation in the Polish Organisation of Oil Industry and Trade. Participation in the work of the above organisations substantially reduces the risks of delayed compliance with future quality standards for petroleum products.

In 2010 a change is expected regarding quality requirements for gasolines and diesel oils regarding the admissible content of biocomponents. Work is under way to admit to trading gasolines with an ethanol content of up to 10% of the volume and diesel oil with a FAME content of up to 7% of the volume. Grupa LOTOS S.A. is already prepared for these changes and they do not pose any threat to the continuation of the Company's business.

Marketing Risks

The macroeconomic environment in which Grupa LOTOS S.A. operates materially affects the sales of its products, particularly in times of recession. In times of economic crisis, credibility and liquidity of immediate customers buying the Company's products gains particular significance, and their liquidity in turn depends on the liquidity of their payers. This is why policies with respect to transaction hedging and control of receivables are so important.

The scope of application of security measures and the current and future condition of market players will depend chiefly on the policies pursued by financial and insurance institutions. Any implementation of more stringent lending policies may result in a limitation or lack of access to sale transaction hedges/security measures such as insurance guarantees, insurances, letters of credit, as well as working capital or investment loans.

Key risks associated with LOTOS Group's marketing activities in 2009, but also in 2010, will therefore include:

- reduced demand for fuels and other petroleum products as a result of a global recession, which may lead to lower than planned sales growth,
- emergence of new importers importing petroleum products from various geographical directions, seeking new sales opportunities in Poland and using aggressive pricing policies,
- competitors' aggressive pricing policies,
- a decline in transit of goods through Poland,
- a global decline in air connections,
- lower number of road construction contracts being performed, and lengthy tendering procedures concerning new road construction projects,
- smaller vessel traffic in Polish ports, in connection with weakening exports/imports,
- smaller industrial production leading to lower demand for lubricants, fuels and petroleum products.

Costs of Implementation of Hedging Strategies

When planning risk hedging strategies, the necessary costs of implementation of a strategy and potential benefits that such a strategy might bring are analysed. The costs should not exceed the financial consequences which the LOTOS Group would have to bear if the risk materialised. Therefore any risk mitigation plans are implemented only after an analysis is made as to whether it pays to carry them out.

Expected Changes in Identified Risks Which Are Material in the Context of Implementation of the Strategy Until 2012

An analysis was carried out at Grupa LOTOS on how identified risks may change in the context of implementation of the strategy until 2012. An assessment was made how the probability of their substantiation and their financial consequences will change during the period. As a result of those analyses it was found that a number of risks will be affecting Grupa LOTOS S.A. in a similar way throughout the strategy implementation period. Operational risks will clearly decrease (given completion of the 10+ Programme) as will the related risk of limitation of access to external financing. On the other hand, it is anticipated that the risk connected with competitors' activities will be slightly higher, due to higher probability that strong competitive pressure will occur. For this reason, Grupa LOTOS S.A. is taking appropriate steps and implementing appropriate hedging strategies to protect itself against the consequences of that risk.

9. GRUPA LOTOS S.A.'S DEVELOPMENT PROSPECTS TAKING INTO ACCOUNT THE ASSUMED MARKET STRATEGY

The execution of the investment programmes and plans set forth in the updated strategy for 2008–2012 will enhance the domestic market position of the Company and the LOTOS Group and should consequently improve its financial performance and share price.

The key objective of Grupa LOTOS S.A.'s development policy is to maintain the competitiveness of the Company among oil companies operating in the Baltic Sea basin and the Central and Eastern Europe. Grupa LOTOS S.A. intends to pursue this goal through various operational and market activities.

The operating activities include the implementation of the 10+ Programme. Completion of the Programme will enable the Company to improve the economies of scale in refining volumes and depth of conversion, which in turn should lead to an improvement of the general economic efficiency of oil processing at Grupa LOTOS S.A.'s refinery in Gdańsk.

Another important direction in the development of the Group's activities is building an upstream segment, which will enable the Group to reduce its exposure to fluctuations in crude oil prices.

As far as marketing activities are concerned, Grupa LOTOS S.A. intends to pursue the goal of maintaining its competitive position in the region by increasing its market shares and then keeping them at a stable level, by expanding its the CODO and DOFO service station network, and by drawing on the competitive edge resulting from the seaside location of the Gdańsk refinery.

The Company's policy assumes that expansion in the abovementioned areas will be pursued with due regard to environmental protection and reduction of the company's environmental impact.

Implementation of the Package of Anti-Crisis Measures in 2009

In view of the unstable macroeconomic environment caused by the global economic crisis, 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 was to take efficiency-enhancing steps whose results would translate into improved liquidity and better financial performance by the Company. A strong emphasis was placed on reduction of all costs which were not indispensable and could be forsaken without any harm to the Company's operating efficiency. After a multi-criteria analysis of particular projects was carried out with a view to limiting investment expenditure, implementation of certain investment projects was suspended or put off in order to ensure execution of those which were of key importance for Grupa LOTOS S.A. and its future shareholder value, including the 10+ Programme, development of the YME field on the Norwegian Continental Shelf, or development of the fields on the Baltic Sea (planned as part of the development programme for Petrobaltic S.A.).

The implementation of the Package was preceded by extensive consultations with the employees and the trade unions. In accordance with policy of transparency, the objectives and assumptions underlying the anti-crisis measures were broadly communicated to all the stakeholders.

The Company's Management Board was monitoring the market situation on an ongoing basis and in the event of any significant changes revised the measures taken.

The objectives of the Package were exceeded, both in the area of savings and pro-efficiency programmes, and in the area of investment projects. Reduction of investment expenditure was the most important factor behind the achievement of the Package objectives; more than one-fifth of the savings were generated thanks to the pro-efficiency programmes.

The value of suspended or abandoned investment expenditure, originally scheduled for 2009, totalled PLN 470.1m, compared with the suspension or abandonment of approx. PLN 220m of the investment expenditure initially expected from the implementation of the Package.

The implementation of the Package of Anti-Crisis Measures was accompanied by the first social accord in Poland. The consensus covered the Management Board, all the trade union organisations and the Employees Council. The organisations representing the employees agreed to pay-freezes in order to save jobs. As part of the monitoring of the Company's standing and of the progress of implementation of the anti-crisis measures, monthly meetings were held between the Management Board of the LOTOS Group and the social partners.

The pro-efficiency measures, which were initiated as part of the Package of Anti-Crisis Measures, are continued and will become a part of the Company's organisational culture.

10. LOAN AGREEMENTS AND BORROWINGS

The following table shows loans as at December 31st 2009:

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
Pekao S.A.	Warsaw	100,000		2,263	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Consortium (1)	-	-	USD 400,000	1,670	USD 549	1,139,513	USD 399,751	Mar 15 2010	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
Bank Consortium (2)	-	-	USD 1,125,000	6,477	USD 2,016	2,750,485	USD 962,395	Mar 15 2010	Jan 15 2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and management of the 10+ Programme, assignment of rights under insurance agreements relating to the Gdańsk refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10,000 thousand per year, submission to enforcement
Bank Consortium (3)	-	-	USD 425,000	1,760	USD 680	772,661	USD 271,852	Mar 15 2010	Jan 15 2021	fixed interest rate	
Bank Consortium (4)	-	USD 200,000 or equivalent		278.567	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				26	EUR 6	-	-			3M EURIBOR + bank's margin	
				181,163	USD 63,559	-	-			3M LIBOR USD + bank's margin	
		Total		**280,830**	**-**	**-**	**-**				
				191,070	**USD 66,804**	**4,662,659**	**USD 1,633,998**				
				26	**6 EUR**	**-**	**-**				
				471,926	**-**	**4,662,659**	**-**				

The banks' margins on the contracted loans are in the range of 0.65pp. – 1.80pp.

The following table shows loans as at December 31st 2008:

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
PKO BP S.A.	Warsaw	133,941	-	215	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	USD 40,000 or equivalent		82	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Consortium (1)	-	-	USD 400,000	11,557	USD 3,768	1,184,720	USD 400,000	Mar 15 2009	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
Bank Consortium (2)	-	-	USD 1,125,000	11,629	USD 3,926	1,434,195	USD 484,231	Mar 15 2009	Jan 15 2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and management of the 10+ Programme, assignment of rights under insurance agreements relating to the Gdańsk refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10,000 thousand per year, submission to enforcement
Bank Consortium (3)	-	-	USD 425,000	3,748	USD 1,266	479,576	USD 161,920	Mar 15 2009	Jan 15 2021	fixed interest rate	
Bank Consortium (4)	-	USD 200,000 or equivalent		246,093	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				8,096	EUR 1,940	-	-			3M EURIBOR + bank's margin	
				33,058	USD 11,161	-	-			3M LIBOR USD + bank's margin	
		Total		**246,390**	**-**	**-**	**-**				
				59,992	**USD 20,121**	**3,098,491**	**USD 1,046,151**				
				8,096	**EUR 1,940**	**-**	**-**				
				314,478	**-**	**3,098,491**	**-**				

The banks' margins on the contracted loans are in the range of 0.13pp. – 1.35pp.

Loans Extended to LOTOS Exploration and Production Norge AS by Grupa LOTOS S.A.

On April 30th 2009, Grupa LOTOS S.A. signed an agreement providing for a loan to LOTOS Exploration and Production Norge AS in the amount of USD 13,000 thousand (the equivalent of PLN 42,717 thousand, translated at the USD exchange rate quoted by the National Bank of Poland for April 30th 2009). The loan bears interest at a floating rate based on 3M LIBOR plus margin. Interest will be paid on the loan repayment date. 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.

On October 14th 2009, Grupa LOTOS S.A. signed an agreement providing for a loan to LOTOS Exploration and Production Norge AS 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 bears interest at a floating rate based on 6M LIBOR plus margin. 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. The agreement provided for repayment of the principal and interest by July 30th 2010. LOTOS Exploration and Production Norge AS created security in the form of 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 loan (principal, interest and possible default interest, as well as any other liabilities which may arise in connection with the execution and performance of the agreement).

11. SURETIES, GUARANTEES AND OTHER CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES

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

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

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

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

The surety expires on November 30th 2010. As at December 31st 2009, the value of the liability under the loan agreement with respect to which the surety was issued was PLN 3,300 thousand.

Material Contingent Liabilities of Grupa LOTOS S.A.

1. The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise duty collection procedure, was extended until July 8th 2010. The original validity term of the blank promissory note expired on March 16th 2007, but was subsequently extended until June 16th 2008 and until June 16th 2009.

2. The validity of the blank promissory note of July 5th 2005 for PLN 200,000 thousand, issued to secure the Grupa LOTOS S.A.'s tax liability connected with the suspended excise duty collection procedure, was extended until July 6th 2010. The original validity term of the blank promissory note, which expired on July 7th 2006, was extended until July 5th 2007 and then until July 7th 2008 and July 7th 2009.

3. On April 27th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs-duty debts, taxes and other customs-related charges for the amount of PLN 160,000 thousand. On May 5th 2008, the value of the guarantee rose to PLN 200,000 thousand. Then, on December 17th 2008, the value of the guarantee decreased to PLN 125,000 thousand. The guarantee expired on May 4th 2009, while the guarantor's liability continued until July 3rd 2009.

4. 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 duty collection procedure. The blank promissory note is valid through January 13th 2011.

5. 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. As the excise security expired, the original guarantee document was returned to the issuer and on February 26th 2010 the liability ceased to exist.

6. 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.

7. 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 was to expire on September 30th 2010. As the excise security expired, the original guarantee document was returned to the issuer and on February 26th 2010 the liability ceased to exist.

8. 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.

9. 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). From December 17th 2008, the letter of credit was financed under the term loan facility granted by the group

of financial institutions (see Note 24 to the financial statements for the year ended December 31st 2009). On March 31st 2009, the letter of credit expired.

10. 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 (see Note 24 to the financial statements for the year ended December 31st 2009). 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.

11. On June 2nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 64,403 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 2nd 2008) for the benefit of CB&I LUMMUS GmbH. The 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.

12. On October 22nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 70,690 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for October 22nd 2008) under the term loan facility granted by the group of financial institutions (see Note 24 to the financial statements for the year ended December 31st 2009). 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.

13. On December 19th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a stand-by letter of credit for EUR 500 thousand (the equivalent of PLN 2,057 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank

of Poland for December 19th 2008) under the term loan facility granted by the group of financial institutions (see Note 24 to the financial statements for the year ended December 31st 2009). 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.

14. 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.

15. 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.

16. 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.

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 was 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. 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 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.

20. 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.

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

12. EVENTS AND AGREEMENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A.

12.1. SIGNIFICANT AGREEMENTS

Agreement between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH

On February 13th 2009, the Management Board of Grupa LOTOS S.A. received back the copy – signed by all the parties – of the agreement entered into on February 1st 2009 between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH of Berlin, Germany, providing for the purchase by Grupa LOTOS S.A. of 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 was PLN 563m (VAT excl.). The agreement did not contain any provisions concerning contractual penalties. Both parties had the right to seek full damages before a court of general jurisdiction in Berlin, such courts having competence over the agreement as it was governed by the German law. The other terms and conditions of the agreement did not differ from the terms and conditions commonly applied in agreements of such type. The agreement was classified as significant as its estimated value exceeded 10% of Grupa LOTOS S.A.'s equity.

Agreement between Grupa LOTOS S.A. and NESTE OIL (SUISSE) SA

On March 13th 2009, the Management Board of Grupa LOTOS S.A. received back the agreement, signed by both parties, concerning purchase of liquid fuels by Grupa LOTOS S.A. from Neste Oil (Suisse). The agreement was signed on December 10th 2008. The agreement was executed for a specified period from January 1st to December 31st 2009 and its estimated value was PLN 624m (VAT excl.).

The agreement did not contain any provisions concerning contractual penalties. Both parties had the right to seek full damages before a court of general jurisdiction in London, such courts having competence over the agreement as it was governed by the English law. The other terms and conditions of the agreement did not differ from the terms and conditions commonly applied in agreements of such type. The agreement was classified as significant as its estimated value exceeded 10% of Grupa LOTOS S.A.'s equity.

Agreements 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 over the last twelve months 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.

The largest transaction (in terms of value) concluded between the two companies over the abovementioned period was the agreement providing for the purchase by Grupa LOTOS S.A. of crude oil from J&S Service and Investment Ltd. Its value on July 3rd 2009 reached 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.

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

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.

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

LPG Sales Agreement between Grupa LOTOS S.A. and LOTOS Paliwa Sp. z o.o., Replacing 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. (a wholly-owned subsidiary of Grupa LOTOS S.A.) 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 agreement was classified as significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity. Concurrently, the significant agreement of August 1st 2004 which provided for sale by Grupa LOTOS S.A. of liquefied gas to LOTOS Gaz S.A. (previously LOTOS Mazowsze S.A., a wholly-owned subsidiary of Grupa LOTOS. 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. The termination of the agreement with LOTOS Gaz S.A. is not expected to give rise to any significant financial consequences on the consolidated level of the 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.

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

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 2.4 million 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 precedent or specify any date of events giving rise to a claim (*dies a quo*), and it does not provide for any contractual penalties.

The agreements were classified as significant as their aggregate value over the last 12 months exceeds 10% of Grupa LOTOS S.A.'s equity.

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 does not include any condition precedent or specify any date of events giving rise to a claim (*dies a quo*), and its other terms and conditions do not differ from the terms and conditions commonly used in agreements of such type.

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

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.

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

Agreement between Grupa LOTOS S.A. and LOTOS Asfalt Sp. z o.o.

On February 26th 2010 Grupa LOTOS S.A. entered into an agreement with LOTOS Asfalt Sp. z o.o., under which Grupa LOTOS S.A. will sell marine fuel to LOTOS Asfalt Sp. z o.o. The agreement was concluded for an unspecified term, starting on March 1st 2010. Its estimated value over five subsequent years totals PLN 570m. The maximum value of contractual penalties is estimated at approximately PLN 5.5m. The agreement does not contain any provisions which would prevent the parties from seeking 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. The agreement was classified as significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

12.2 EVENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A.

Upstream Segment

LOTOS Group's crude oil and natural gas reserves as at December 31st 2009, prepared in line with the World Petroleum Council Classification issued by the Society of Petroleum Engineers (SPE):

Classification	Crude oil [million tonnes]	Natural gas [billion cubic meters]
2P*	**6.424**	**4.526**

2P = P1 (*proved reserves) + P2 (probable reserves)*

Crude oil reserves by region, as at December 31st 2009:

Classification	Norway [million tonnes]	The Baltic Sea [million tonnes]
P1*	1.270	4.179
P2*	0.460	0.515

P1 – *proved reserves*
P2 – *probable reserves*

The Baltic Sea Area

In 2009, production of oil and gas from the B3 field continued, with water injection into the reservoir from the Offshore Oil Rig located on the Baltic Beta platform. Moreover, production from the B8 field using the Petrobaltic platform continued until January 14th 2009; then, from November, temporary production from this field was conducted using the existing wells.

Total Rozewie oil and natural gas outputs were 175.4 thousand tonnes and 19.5 million Nm^3, respectively, down year on year by 82.4 thousand tonnes (or 31.9%) and 9.7 million cubic meters (or 33.3%), respectively. The declines were primarily due to operational failures which occurred in Q1 2009 and the prolonged repair of the PG-1 platform hindered by adverse weather conditions (weather being a factor on which the diving work depends).

The extracted crude oil was shipped to the Gdańsk refinery, and the natural gas (part of which was used by the B3 Offshore Oil Rig installations and burned in the gas flares of the Petrobaltic platform operating on the B8 field), was sent via a pipeline to Energobaltic's heat and power plant in Władysławowo.

The volume of crude oil sold to Grupa LOTOS S.A. in 2009 was 181 thousand tonnes, down by 46.6 thousand tonnes (or 20.5%) relative to the 2008 figure.

The volume of processed Rozewie oil in 2009 was 158.1 thousand tonnes, which accounted for 2.9% of the total processing volume of the Gdańsk refinery.

In 2009, the key tasks carried out by Petrobaltic S.A. included:

- drilling of the B8-Z1 well and the B8-Z1 bis sidetrack from the Petrobaltic platform and work on the base technical design for a production centre and extraction infrastructure at the B8 field,
- replacement of the mooring and transfer buoy at the B3 field,
- maintenance and repair work on the PG-1 platform and launch of production from B3-8, B3-13B and B3-14A,
- re-entry work over at B3-9 and B3-10 well sites,
- geochemical and 2D seismic work at the B22, B101 and K1 prospects and 3D seismic surveys over the B28 and B23 prospects,
- boring of the B22-1 exploration well from the Petrobaltic platform,
- geotechnical surveys of the sea bed performed to assess the possibility of anchoring an oil platform.

In October, Petrobaltic S.A. reported on the decision of the Minister of Environment who extended from 10 to 25 years the validity term of the licence for extraction of crude oil and the associated natural gas from the B8 field, which means that the licence has been extended by 15 years.

As a result of a reassessment of the B8 field reserves, LOTOS Group's total recoverable reserves of crude oil rose by 1.5 million tonnes (or 30%) relative to the amounts disclosed in the LOTOS Group's consolidated financial statements for 2008.

The Norwegian Continental Shelf and the North Sea

Petrobaltic, the leading company of the LOTOS Group in the field of exploration and production, is a shareholder in LOTOS Exploration and Production Norge AS, whose core business consists in exploration for and production of crude oil on the Norwegian Continental Shelf. The second transaction of purchase of interests in the YME field license, as a result of which LOTOS E&P Norge increased its total licence interest to 20%, was financed using a loan granted by Petrobaltic S.A., of USD 55m (PLN 176.61m, translated at the mid-exchange rate quoted by the National Bank of Poland for January 15th 2009) and using additional capital provided to LOTOS E&P Norge by Petrobaltic S.A. in the amount of NOK 190m (PLN 89.6m translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for January 20th 2009) as part of increase of LOTOS E&P Norge's share capital to NOK 430m.

In 2009, LOTOS E&P Norge AS was involved in development work as part of the YME Production Project. Investments in the YME project in 2009 focused on drilling of production and injection wells, construction of a production platform and installation of submarine equipment and infrastructure.

According to information furnished by the operator of the YME field, due to delays in construction of the production platform, launch of production from the YME field is expected to start in Q3 2010.

On January 23rd 2009, as a result of the APA 2008 round, LOTOS Exploration & Production Norge AS (LOTOS E&P Norge) was officially granted interests in exploration licences located in the southern area of the North Sea and in the Norwegian Sea:

- PL 497: LOTOS E&P Norge – 10% interest (other partners: Det Norske Oljeselskap ASA (the operator) – 35% interest, Bridge Energy AS – 30% interest, Dana Petroleum Norway – 25% interest);
- PL 498: LOTOS E&P Norge (the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest);
- PL 503: LOTOS E&P Norge (the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest);
- PL 515: LOTOS E&P Norge – 20% interest (other partners: Rocksource ASA (the operator) – 60% interest, Skagen 44 AS – 20% interest).

In H2 2009, LOTOS E&P Norge was involved in exploration work, both as the operator (licences PL498 and PL503, where the work included an analysis of seismic data in order to reduce the exploration risk), and as an interest holder (licences PL316DS, PL316CS, PL455, PL497 and PL515). Electromagnetic surveys were performed on the PL515 licence area and geochemical surveys were carried out on the PL503 licence area. The company was involved in preparatory work before the drilling of an exploration well in the PL316DS licence area; a decision was also made to move to the stage of 3D seismic surveys with respect to the PL503 and PL515 licences. Rules of cooperation between the partners under each of the licences were established.

On January 19th 2010, following the completion of the APA 2009 licence round, LOTOS E&P 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 the analytical work corresponding to the 50-percent license interest is estimated at NOK 6m (i.e. PLN 2.96m, translated at the NOK mid-exchange rate quoted by the National Bank of Poland for January 20th 2010).

Downstream Segment

10+ Programme

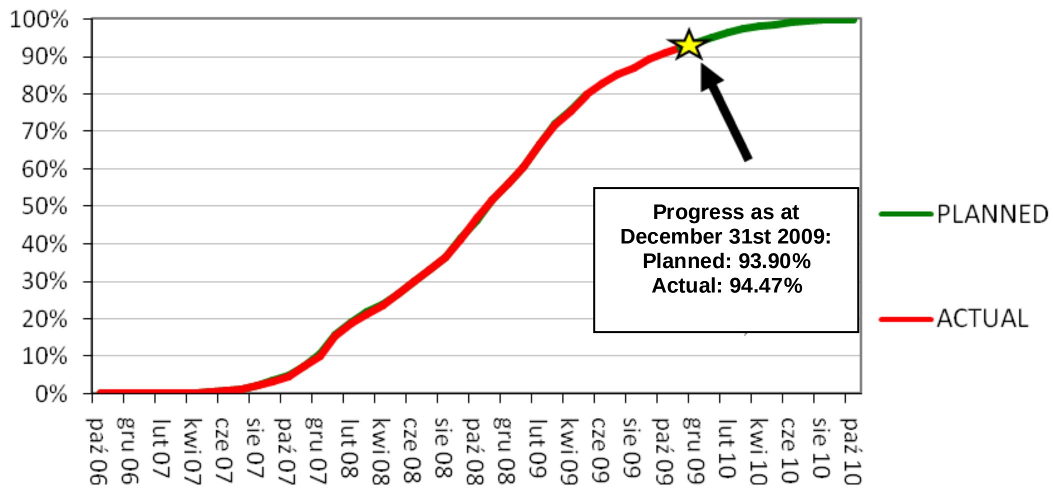
In 2009, the implementation of the 10+ Programme, Grupa LOTOS S.A.'s largest project and one of key importance for future growth of the Company's value, was focused on performing the concluded execution contracts, as well as on commissioning for subsequent start-up of key units of the 10+ Programme, including the HDS, HGU, ASR and CDU/VDU units, and certain parts of auxiliary facilities (utilities).

Staff 2009 Project

The Staff 2009 Project, which envisages hiring of 120 operational personnel to operate the units delivered as part of the 10+ Programme, was fully implemented and training of the operators continued.

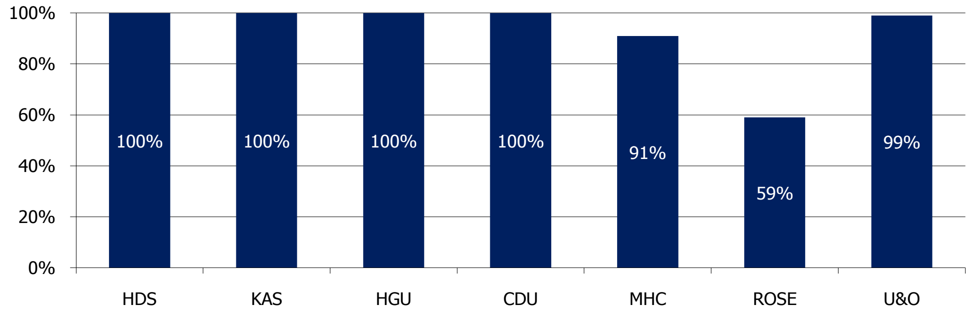
Furthermore, trainings on the CDU/VDU unit simulator were conducted. The training programme included start-up and shut-down procedures as well as operation of the unit in normal and problem conditions. By the end of December, 31 employees had obtained training during 10 training sessions.

The progress of work under the 10+ Programme as at December 31st 2009, which proceeds as planned, is presented in the chart below.



Source: Grupa LOTOS S.A.

Progress of work on the particular units as at December 31st 2009 is presented in the chart below.



HDS Unit

As part of the HDS unit project (diesel hydrodesulphurisation), in 2009, the assembly of pipelines and apparatuses was completed and power receivers, as well as control and instrumentation terminals, were connected. Work was completed on the fitting of thermal insulation on pipelines. Hydraulic tests of pipelines were carried out. The unit start-up was completed in line with the agreed start-up timetable. Reactor system tightness testing was performed and work related to catalyst charging was underway. The HDS unit was assigned the RFSU (Ready For Start Up) status on June 26th 2009 (which means that responsibility for the unit was transferred to the Production Division of Grupa LOTOS S.A.) and began operation. At the end of July, the first products were transferred to storage tanks. The achieved diesel oil component desulphurisation characteristics were 2 – 3 ppm, whereas the contractually guaranteed level is below 10 ppm. Until the end of the year, the unit operated normally and the parameters defined in products' specifications were reached at approx. 60% capacity (as planned).

Amine Sulphur Unit (ASR)

In June 2009, the ARU (Amine Regeneration) and SWS (Sour Water Stripper) units were assigned the RFSU (Ready For Start Up) status, and operated normally until the end of the year. Q3 2009 saw completion of the construction of the sulphur recovery units (SRU/TGTU) and of work related to the preparation for start-up. As planned, on September 8th 2009 the units were assigned the RFSU status. The LPG amine washing unit achieved the MC (Mechanical Completion) status in October 2009. The Provisional Acceptance Certificate was signed and sent to the contractor, Technip KTI, confirming that the guaranteed characteristics for the SWS, SRU and TGTU units had been achieved. Until the end of 2009, the ASR unit's production rate was consistent with the expected rate specified in the Gdańsk refinery's production plan.

HGU Unit

As part of the HGU (hydrogen generating unit) project, the engineering work was finalised and start-up and commissioning documentation was prepared. All necessary tests, controls and staff trainings were carried out, and on September 28th the HGU unit was assigned the RFSU status. Until the end of 2009, the HGU unit operated normally as planned at 50% of its nameplate capacity, with the hydrogen and steam products routed to the refining system of the Gdańsk refinery. As planned, at the beginning of December the Initial Performance Test was conducted with the unit working at 40% of its capacity. The test proved correct work of the unit when operated at low loads.

CDU/VDU Unit

As part of the CDU/VDU project (crude distillation unit), in 2009 the construction work was completed. The apparatus start-up and registration documentation was prepared. Installation of pipelines and insulation was completed. The MC (Mechanical Completion) status, as confirmed by relevant reports, was achieved in October, and as planned, on December 11th, the unit was assigned the RFSU (Ready for Start Up) status. This is the most important production unit constructed as part of the 10+ Programme, thanks to which it will be possible to increase the nominal crude oil throughput capacity by 75%, to 10.5m tonnes per annum.

MHC Unit

As part of the MHC (mild hydrocracking unit) project, the engineering/design work for specific works, equipment deliveries, assembly and electric engineering work were being finalised. In June, 930R1A and 930R1B reactors were placed on the foundation (total weight of ca. 1,560 tonnes). In August, the tallest and heaviest (1,340 tonnes) 930R3 reactor and 930R3 reactor (1,140 tonnes) were placed on the foundations. In November, an agreement providing for the purchase of a catalyst was signed with Criterion, the world's largest supplier of catalysts for hydrocracking processes.

ROSE Unit

In 2009, the work on the technical design of the ROSE unit continued in cooperation with the contractor, Technip Italy. In February 2009, the building permit for the unit was obtained; in May 2009, the construction design for ROSE heating oil storage tank was delivered. In June 2009 piling work was completed and the construction site was officially handed over to the first construction contractor. The first concrete foundations were laid in July and in September an agreement providing for the performance of mechanical engineering works was concluded. Design/engineering work, deliveries, and construction and mechanical engineering work proceeded as planned.

Utilities and Off-Sites

Work on construction of inter-unit connections and utilities, storage tanks and auxiliary facilities continued.

During the spring 2009 overhaul shutdown (March 14th–April 9th 2009) all tasks planned in connection with the implementation of the 10+ Programme were executed. As a result, new process units under construction can be integrated with the existing system of the refinery without further disruption of the production process.

Financing of the 10+ Programme

In 2009, several new drawdowns were made under the credit facilities used to finance the 10+ Programme and their dates and amounts were set taking into account Grupa LOTOS S.A.'s payment position and the level of expenditure connected with the implementation of the 10+ Programme.

The drawdowns were disbursed by the banks in the amounts and on the dates specified in relevant requests filed by Grupa LOTOS S.A.. As at December 31st 2009, approx. 81,8% of the total value of the facilities available to finance the 10+ Programme had been used.

In addition to the debt financing, Grupa LOTOS S.A. also used internally generated funds to finance the 10+ Programme, in proportions provided for in the credit facility agreement.

In March 2009, as part of the performance of offset obligations towards Grupa LOTOS S.A. arising under the agreement for delivery of the multirole F-16 aircraft concluded with the government of the Republic of Poland, Lockheed Martin Corporation made a payment of a licence fee instalment to the licensor of the ROSE technology, and in September 2009, as part of performance of the same obligations, made further payments of licence fees for the MHC technology (MHC is one of the key production units covered by the 10+ Programme).

Service Station Network Development Programme

As regards the Service Station Network Development Programme, the process of expansion of the CODO/DOFO chain continued in 2009. The number of DODO stations is decreasing as agreements for DODO service stations continue to expire. In accordance with the Company's strategy, selected DODO stations are joining the LOTOS Family Commercial Partnership Programme. The remaining stations will operate as DODO stations until the expiry or termination of the agreement, upon which they will join the B2B distribution channel.

In 2009, CODO service stations in Rawicz, Nowa Sól, Kołbaskowo, Słupca, Wieliczka, and Rzepin were placed in service. Concurrently, a service station in Bielsko-Biała was excluded from the network.

Twenty-one new stations joined the LOTOS Family Commercial Partnership Programme. The second edition of the Navigator Loyalty Programme was launched on March 1st 2009. Moreover, the Company is implementing projects involving the construction of service stations located along motorways (Motorway Service Areas). In January and February 2010, the Rachowice/Kozłów Motorway Service Areas on the A4 motorway near the town of Gliwice and the Police/Łęka Motorway Service Areas (on the A2 motorway) were launched. Apart from refilling their vehicles, at all of these service stations the drivers can have a meal at McDonald's and at the Police service station they can use the services offered by the hotel operating under the "Start" brand.

As at December 31st 2009, PREMIUM fuels were offered at 139 CODO stations and at 82 DOFO stations.

As of December 31st 2009, 23 agreements with dealers providing for operation of DODO stations expired. A total of 107 franchise agreements were signed. As at January 1st 2010, the LOTOS service station network comprised 304 locations, including 144 CODO stations (owned by LOTOS Paliwa Sp. z o.o.), 98 DOFO stations and 62 DODO stations.

RESTRUCTURING PROCESSES

Energobaltic Sp. z o.o.

In 2009, the restructuring process at Energobaltic Sp. z o.o. (a wholly-owned subsidiary of Petrobaltic S.A.) was completed. As part of the restructuring efforts, an arrangement was made with the company's creditors in recovery proceedings, and an agreement was reached with the other shareholders of Energobaltic Sp. z o.o., as a result of which Petrobaltic S.A. acquired all the other shareholdings in Energobaltic Sp. z o.o. and took full control of the company.

Owing to the above, it was possible to release provisions for business risk and to reverse impairment losses on shares and a loan, which in Q4 2009 had a combined positive effect on the financial result of the LOTOS Group of approximately PLN 55m.

LOTOS Czechowice S.A. and LOTOS Jasło S.A.

During 2009, LOTOS Czechowice S.A. and LOTOS Jasło S.A. continued the restructuring of their human resources, operations, internal organisation and technologies, and pursued other activities with a view to developing their production capacities and implementing new projects involving the use of idle assets.

From H1 2009, the two companies' terminals and storage tanks were incorporated into the integrated fuel logistics system of Grupa LOTOS S.A. On February 6th 2009, a new storage tank with the capacity of 32 thousand cubic meters was placed in service. In the south of Poland, work continued to expand the LOTOS Group's storage base. Storage will ultimately be the companies' main area of business.

LOTOS Biopaliwa Sp. z o.o.

As the FAME unit was placed in service, LOTOS Biopaliwa Sp. z o.o., controlled by LOTOS Czechowice S.A., embarked on its core business consisting in the production of fatty acid methyl esters, a component to be used by Grupa LOTOS S.A. in biodiesel production.

Production of the biocomponent started on March 1st 2009, with the production unit running at 100% of its nameplate capacity, i.e. 100 thousand tonnes of FAME per annum. Until the end of 2009, the unit operated on a continuous basis at approx. 105% of capacity.

In Q3, the process of signing contracts for the supply of rapeseed (next crop cycle, from August 2009 to July 2010) was completed. The company succeeded in securing high quality parameters.

PACKAGE OF ANTI-CRISIS MEASURES

Due to the unstable macroeconomic environment in connection with the global economic crisis and the Company's ongoing investment programmes, 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 was to ensure the implementation of those investment programmes which were of key importance 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 were 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 was expected to improve the LOTOS Group's cash flows.

Given the uncertain market situation and limited possibilities to raise financing, the Company's Management Board decided to suspend and defer the implementation of individual investment projects provided for in Grupa LOTOS S.A.'s strategy for 2006–2012 with the capex totalling approximately PLN 2.1bn.

The limitations did 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 implementation of the Package was preceded by extensive consultations with the employees and the trade unions.

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

The objectives of the Package were exceeded, both in the area of savings and pro-efficiency programmes, and in the area of investment projects. Reduction of investment expenditure was the most important factor behind the achievement of the Package objectives; more than one-fifth of the savings were generated thanks to the pro-efficiency programmes.

The value of suspended or abandoned investment expenditure, originally scheduled for 2009, totalled PLN 470.1m, compared with the suspension or abandonment of approx. PLN 220m of the investment expenditure initially expected from the implementation of the Package.

Cost savings at the LOTOS Group level in 2009, originally planned at approximately PLN 170m, ultimately amounted to PLN 252.5m.

The implementation of the Package of Anti-Crisis Measures was accompanied by the first social accord in Poland. The consensus covered the Management Board, all the trade union organisations and the Employees Council. The organisations representing the employees agreed to pay-freezes in order to save jobs. As part of the monitoring of the Company's standing and of the progress of implementation of the anti-crisis measures, monthly meetings were held between the Management Board of the LOTOS Group and the social partners.
The pro-efficiency measures, which were initiated as part of the Package of Anti-Crisis Measures, are continued and will become a part of the Company's organisational culture.

13. AGGREGATE NUMBER AND PAR VALUE OF GRUPA LOTOS S.A. SHARES AND SHARES IN GRUPA LOTOS S.A.'S RELATED UNDERTAKINGS, HELD BY MANAGEMENT AND SUPERVISORY STAFF

To the best of the Company's knowledge, only the following members of management and supervisory staff hold shares in Grupa LOTOS S.A.

Management and supervisory staff of Grupa LOTOS S.A. holding shares in Grupa LOTOS S.A. and in its related undertakings as at December 31st 2009:

	Number of Company shares	Par value (PLN)
Management Board, including:	**8,636**	**8,636**
Marek Sokołowski	8,636	8,636
Supervisory Board	0	0
Total	**8,636**	**8,636**

14. USE OF ISSUE PROCEEDS TO IMPLEMENT THE ISSUE OBJECTIVES

On June 30th 2009, the Annual General Shareholders Meeting of Grupa LOTOS S.A. adopted Resolution No. 34 concerning an increase of the Company's share capital through the issue of Series C shares.

On July 9th 2009, the State Treasury and Grupa LOTOS S.A. signed an agreement concerning the acquisition by the State Treasury in private placement of 16,173,362 new Series C ordinary bearer shares in Grupa LOTOS S.A. at an issue price of PLN 22.07 per share, and the State Treasury's paying the issue price with non-cash contributions in the form of Petrobaltic S.A., LOTOS Jasło S.A. and LOTOS Czechowice S.A. shares.

15. MATERIAL RELATED-PARTY TRANSACTIONS EXECUTED ON NON-ARMS' LENGTH TERMS

In 2009, Grupa LOTOS S.A. did not enter into any transactions with its related parties on non-arms' length terms.

Transactions with related undertakings are executed on standard market terms.

(PLN '000)	Year ended December 31st 2009 (audited)		As at December 31 2009(audited)	
	Sales to related undertakings (incl. excise duty and fuel charge)	Purchases from related undertakings (incl. excise duty and fuel charge)	Net receivables from related undertakings	Payables to related undertakings
Consolidated undertakings	11,942,097	932,665	986,825	86,422
Non-consolidated undertakings	18	2.633	-	-
Total	**11,942,115**	**935,298**	**986,825**	**86,422**

In the period from January 1st to December 31st 2009, total revenue from sales of property, plant and equipment to related undertakings amounted to PLN 33 thousand.

In the period from January 1st to December 31st 2009, total value of purchases of property, plant and equipment and intangible assets from related undertakings amounted to PLN 144,078 thousand.

In the period from January 1st to December 31st 2009, total value of finance income from transactions with related undertakings amounted to PLN 148,566 thousand (including dividend income of PLN 145,784 thousand, interest on advanced loans of PLN 1,051 thousand, realised other interest of PLN 1,731 thousand and accrued other interest (fully covered by a recognised impairment loss) of PLN 466 thousand).

In the period from January 1st to December 31st 2009, total value of finance expenses related to transactions with related undertakings amounted to PLN 290 thousand (including other interest of PLN 139 thousand and PLN 151 thousand in connection with disposal of shares in a subsidiary undertaking with view to their voluntary retirement).

In the period from January 1st to December 31st 2009, total value of other operating income from transactions with related undertakings amounted to PLN 14 thousand ("other operating income").

In the period from January 1st to December 31st 2009, total value of other operating expenses connected with transactions with related undertakings amounted to PLN 1,362 thousand (loss on disposal of non-financial non-current assets, which reduced the gain on disposal of non-financial non-current assets).

In the period from January 1st to December 31st 2009, the Company recognised impairment losses on receivables from related undertakings in the amount of PLN 9,029 thousand.

In the period from January 1st to December 31st 2009, the Company made a prepayment of PLN 6,400 thousand for shares, in connection with a share capital increase of a subsidiary undertaking.

In the period from January 1st to December 31st 2009, the Company advanced a loan to a related undertaking in the amount of PLN 62,521 thousand (USD 20,000 thousand).

As at December 31st 2009, the value of loans advanced to a related undertaking amounted to PLN 38,033 thousand (USD 13,000 thousand).

In the period from January 1st to December 31st 2009, the total value of security created by a related undertaking for the benefit of the Company amounted to USD 20,000 thousand (the equivalent of PLN 62,493 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for the transaction date).

As at December 31st 2009, the total value of security created by a related undertaking for the benefit of the Company amounted to USD 13,000 thousand (the equivalent of PLN 37,054 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for December 31st 2009).

In the period from January 1st to December 31st 2009, the Company did not issue any sureties for the benefit of its related undertakings.

As at December 31st 2009, the total value of sureties issued by the Company for the benefit of a related undertaking amounted to PLN 3,300 thousand.

As at December 31st 2009, the value of trade receivables from related undertakings which were subject to assignment amounted to PLN 978,210 thousand.

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

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

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

In the period from January 1st to December 31st 2008, total value of finance income from transactions with related undertakings amounted to PLN 129,465 thousand (including dividend income of PLN 129,270 thousand, interest on advanced loans of PLN 138 thousand, realised other interest of PLN 57 thousand and accrued other interest (fully covered by a recognised impairment loss) of PLN 418 thousand).

In the period from January 1st to December 31st 2008, total value of finance expenses related to transactions with related undertakings amounted to PLN 510 thousand (loss on disposal of shares in a subsidiary undertaking, which reduced the gain on disposal of investments).

In the period from January 1st to December 31st 2008, total value of other operating income from transactions with related undertakings amounted to PLN 622 thousand (including PLN 54 thousand of other operating income and a gain of PLN 568 thousand on disposal of non-financial non-current assets, which reduced the loss on disposal of non-financial non-current assets).

In the period from January 1st to December 31st 2008, the Company recognised an impairment loss of PLN 16,284 thousand on its investment in a subsidiary undertaking.

In the period from January 1st to December 31st 2008, the Company did not recognise any impairment losses on receivables from its related undertakings.

In the period from January 1st to December 31st 2008, a related undertaking repaid the loans advanced to it by the Company in the amount of PLN 3,700 thousand.

As at December 31st 2008, the Company carried no loans advanced to its related undertakings.

In the period from January 1st to December 31st 2008 and as at December 31st 2008, related undertakings did not create any security for the benefit of the Company.

In the period from January 1st to December 31st 2008, the Company did not issue any sureties for the benefit of its related undertakings.

As at December 31st 2008, the total value of sureties issued by the Company for the benefit of a related undertaking amounted to PLN 6,300 thousand.

As at December 31st 2008, trade receivables from related undertakings which were subject to assignment amounted to PLN 785,025 thousand.

Transactions with Members of the Company's Executive or Supervisory Boards, Their Spouses, Siblings, Ascendants, Descendants or Other Close Persons

In the year ended December 31st 2009, the Company executed no significant transactions with members of the Management and Supervisory Boards, their spouses, relatives or relatives by affinity in the direct line up to the second degree, persons related through guardianship or adoption or with other persons with whom they have personal relationships. The Company advanced no loans, made no advances, issued no guarantees and concluded no agreements to or with any such persons which would provide for considerable benefits to Grupa LOTOS S.A. or its subsidiary or associated undertakings.

Transactions between the Company and Entities Related through Members of the Management and Supervisory Boards

Below are presented transactions concluded in 2009 (based on representations made by members of the Management and Supervisory Boards concerning transactions with related parties).

Type of relationship (PLN '000)	Sale	Purchase	Receivables	Payables
Supervisory staff	1,270	1,778	70	181
Management staff	-	-	-	-
TOTAL	**1,270**	**1,778**	**70**	**181**

16. AGREEMENTS BETWEEN THE ISSUER AND THE MANAGEMENT STAFF

Compensation Agreements

Apart from standard employment contracts concluded by Grupa LOTOS S.A. with the management staff in 2009, no agreements were executed that provide for compensation to the management staff in the event they resign or are dismissed without a good reason or in the event they resign or are dismissed as a result of the Company's takeover by another entity.

17. REMUNERATION, AWARDS OR BENEFITS PAID, PAYABLE OR POTENTIALLY PAYABLE TO THE MANAGEMENT AND SUPERVISORY STAFF OF GRUPA LOTOS S.A.

Remuneration paid or payable to members of the Management Board of Grupa LOTOS S.A.:

PLN	Year ended December 31st 2009
Paweł Olechnowicz	199,862
Marek Sokołowski	196,565
Mariusz Machajewski	197,625
Maciej Szozda	118,947
Total	**712,999**

Remuneration paid or payable to members of the Management Board of Grupa LOTOS S.A. in consideration for their membership in the supervisory boards or boards of directors of subsidiary undertakings:

PLN	Year ended December 31st 2009
Paweł Olechnowicz	188,438
Marek Sokołowski	50,332
Mariusz Machajewski	34,831
Maciej Szozda	3,962
Total	**277,563**

Remuneration paid or payable to members of the Supervisory Board of Grupa LOTOS S.A.:

PLN	Year ended December 31st 2009
Wiesław Skwarko[1]	-
Leszek Starosta	39,621
Mariusz Obszyński	39,621
Radosław Barszcz	39,621
Piotr Chajderowski	10,813
Małgorzata Hirszel	39,621
Jan Stefanowicz	39,621
Ireneusz Fąfara	23,681
Total	**232,599**

[1] The Company received from Mr Wiesław Skwarko a representation to the effect that he forgoes the remuneration due to him for serving as a member of the Supervisory Board of Grupa LOTOS S.A. until further notice

As at December 31st 2009, the Company has not advanced any loans or similar benefits to members of the management and supervisory staff.

18. KNOWN AGREEMENTS WHICH MAY GIVE RISE TO CHANGES IN THE SHAREHOLDER STRUCTURE

The Management Board of Grupa LOTOS S.A. has no knowledge of any agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders.

19. CONTROL SYSTEMS FOR EMPLOYEE STOCK OPTION PLANS

In 2009, no control system for employee stock option plans existed at Grupa LOTOS S.A.

20. MATERIAL OFF-BALANCE-SHEET ITEMS

For a description of material off-balance-sheet items of Grupa LOTOS S.A., see Section 12 of this Directors' Report on the Operations of Grupa LOTOS S.A. in 2009.

21. BUY-BACK OF OWN SHARES

Grupa LOTOS S.A. did not buy back any own shares in 2009.

22. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

In 2009 no court, arbitration or administrative proceedings were pending concerning the Issuer's or its subsidiary's liabilities or debts with a value equal to or in excess of 10% of the

Issuer's equity. For information on other material proceedings see Note 38 to the financial statements for the year ended December 31st 2009.

23. INFORMATION ON THE AGREEMENT WITH A QUALIFIED AUDITOR OF FINANCIAL STATEMENTS

On June 29th 2007, Grupa LOTOS S.A. and Deloitte Audyt Sp. z o.o. of Warsaw concluded an agreement providing amongst other things for:

- review of the non-consolidated and consolidated financial statements for the first six months of 2007, 2008 and 2009,
- audit of the non-consolidated and consolidated financial statements in 2007–2009.

The total remuneration for the audit, review of and verification procedures with respect to the financial statements, as well as other services provided by Deloitte Audyt Sp. z o.o.:

PLN '000	2009	2008
Audit of non-consolidated and consolidated financial statements	466	466
Confirmation services, including:	373	373
- review of non-consolidated and consolidated financial statements	243	243
Other services	-	110
Tax advisory services	-	-
TOTAL	**839**	**949**

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., 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.

24. ENVIRONMENTAL ISSUES

Grupa LOTOS S.A. respects the environmental criteria specified in the applicable laws and operates in compliance with the standards of corporate social responsibility. The Company manifests a pro-environmental approach in choosing its development path, as confirmed by numerous pro-environmental investment projects implemented in 2009, whether under the 10+ Programme or otherwise.

To achieve the above objectives, the Company's environmental policy is focused on:

- clean production with a view to steadily reducing the consumption of utilities and raw materials,
- reduction of emission of pollutants,
- waste management,
- ensuring safety of industrial processes to effectively prevent failures,
- as well as on production of high-quality products with the lowest possible negative impact on the natural environment.

The Company takes measures aimed at reducing its environmental impact, acting in cooperation and/or consultation with local authorities and social organisations responsible for environmental protection in a given area. Below are examples of measures taken by the Company with a view to minimising its harmful environmental impact:

- on-going monitoring of ambient air and water pollutant concentration and of hydrocarbon concentration in the Company's close neighbourhood, enabling quick response if the measures of the refinery's effect on the environment show undesirable growing trends;
- discharge of wastewater whose quality is fully compliant with legal requirements thanks to a three-stage wastewater treatment plant;
- reuse of treated wastewater in production of process water;
- strict supervision over waste management;
- use of equipment and measures designed to help protect the environment, such as:
- double sealing of tanks with floating roofs;
- ensuring leaktightness of all technological installations and connecting them to the emergency discharge system where hydrocarbons are burned in flares;
- ensuring that the process of pumping fuel to road tankers and railway tank-cars is performed using the airtight vapour recovery system.

Key investment projects completed (a) or commenced (b) in 2009:

- Pro-environmental investment projects executed under the 10+ Programme,
- HDS unit,
- Enlargement of the wastewater treatment plant,

Capital expenditure (PLN '000)	2009	2008
Pro-environmental investment projects	138,818	224,723

Other pro-environmental investment projects

- (a) Air-tight sealing of the wastewater treatment plant's equipment: the 5100 S-107 A/B separator, the 5100 S-12 floculator, the 5100 S-3B retention tank and the intermediate pumping station for oiled wastewater, with a view to eliminating the emission of disagreeable odours,

- (a) Computer system for the visualisation and optimisation of energy use, supporting the reduction of emissions,

- (a)(b) Xylene separation unit, designed to reduce the share of noxious aromatics in gasolines to the minimum level necessary to meet the other parameters required of this product group,

- (a)(b) Replacement of burners in the Lentjes (2700 K-2 and 2700 K-3) boilers with low-emission burners (the project is scheduled to be completed in 2010).

25. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

25.1 CORPORATE GOVERNANCE PRINCIPLES APPLICABLE TO GRUPA LOTOS S.A.

Grupa LOTOS S.A. follows corporate governance principles contained in the document Best Practices for WSE Listed Companies, which was adopted by the Supervisory Board of the Warsaw Stock Exchange (WSE) on July 4th 2007. The full text of the document is available to the public on the official website of the WSE, at http://www.corp-gov.gpw.pl/assets/library/polish/dobrepraktyki2007.pdf, as well as in the "Investors Relations" on Grupa LOTOS S.A.'s website, in the "Corporate Governance" section, at http://www.LOTOS.pl/inwestorski/lad_korporacyjny/dobre_praktyki, with a link to "Code of Best Practice for WSE Listed Companies" on the WSE website.
On January 8th 2010, Grupa LOTOS S.A. gained access to Electronic Database (EBI) and may now disclose its Corporate Governance reports by electronic means, in accordance with Resolution 718/2009 of the Management Board of the Warsaw Stock Exchange dated December 16th 2009.

In 2009, Grupa LOTOS S.A. did not release any reports regarding non-compliance with the principles outlined in Best Practices for WSE Listed Companies.
On January 1st 2008, in connection with the coming into force of corporate governance principles enunciated in Best Practices for WSE Listed Companies, and acting in accordance with the „comply or explain" rule and with Par. 29.3 of the WSE Rules, the Management Board of the Company reported that Grupa LOTOS S.A. did not apply the following corporate governance principles:

- **principle 1.11 contained in Section II**
  "A company should operate a corporate website and publish: … information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing no less than 5% of all votes at the company's General Meeting."

  Grupa LOTOS S.A. does not comply with the principle as it holds no information on a possible relationship between Supervisory Board members and a shareholder who holds shares representing 5% or more of the total vote at the General Shareholders Meeting.

- **principle 6 contained in Section III**
  "At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of item b) of the said Annex, a person who is an employee of the company, or its subsidiary or associated company, cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder which precludes the independence of a member of the Supervisory Board as understood in this principle is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting."

Grupa LOTOS S.A. does not comply with the principle due to the fact that it holds no information regarding the independence of Supervisory Board members.

The Company will follow the principle after it has been notified that at least two independent members are appointed to the Supervisory Board or that at least two existing members are deemed independent, in accordance with Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

- **principle 7 contained in Section III**
  "The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance."

  Grupa LOTOS S.A. does not comply with the principle due to the fact that it has no information regarding the independence of the members on the Company's Supervisory Board who could serve on the existing audit committee.

  The Company will follow the principle after it has been notified that a member who meets the independence criteria, in accordance with Annex II to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, has been appointed to the existing audit committee.

- **principle 8 contained in Section III**
  "Annex I to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors … should apply to the tasks and operation of the committees of the Supervisory Board."

  Grupa LOTOS S.A. does not comply with the principle due to the fact that it has no information regarding the independence of the members of the Supervisory Board who should serve on the existing Supervisory Board committees, as required by Annex I to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors … –.

  The Company will follow the principle after it has been notified that a proper number of members who meet the independence criteria have been appointed to the existing Supervisory Board committees, and that the tasks and operation of committees are consistent with the requirements set forth in Annex I to the Commission Recommendation of February 15th 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

25.2 NON-OBLIGATORY BEST PRACTICES IN CORPORATE GOVERNANCE

Grupa LOTOS S.A. takes steps to introduce best practices in such areas as environmental protection or health and safety at work and security of management systems, which have not been regulated by the Polish law.

Since November 19th 2009, Grupa LOTOS S.A. has been included in the first index of socially responsible companies in the CEE region, the RESPECT Index (Responsibility, Ecology, Sustainability, Participation, Environment, Community, Transparency), which includes 16 companies listed on the regulated market of the WSE and granted A rating as a result of being leaders in sustainable development, corporate disclosure and communication with the financial markets.

The RESPECT Index also takes into account the criteria of profitability related to dividend payments and pre-emptive rights, which provides insight into the economic standing of the companies included in the Index.

25.3 INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS IN THE PROCESS OF PREPARING FINANCIAL STATEMENTS

As prescribed by 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, the Management Board of Grupa LOTOS S.A. is responsible for the internal audit system and its effective functioning in the process of preparing financial statements.

The guidelines to be followed in the preparation, approval and publication of financial statements are laid down in "Rules for the Preparation, Approval and Publication of Annual, Semi-Annual and Quarterly Reports of the LOTOS Group". In line with the existing procedure, preparation of consolidated and non-consolidated financial statements is overseen by Head of the Finance and Accounting Centre's Office together with the person responsible for keeping the accounting books of the Parent Company (Chief Accountant). Responsibility for preparing the consolidated and non-consolidated financial statements lies with the Financial Reporting Office of the Parent Company.
The basis for the preparation of consolidated financial statements are the financial statements of Grupa LOTOS S.A. and of the undertakings controlled by Grupa LOTOS S.A.

The Parent Company and, since 2009, the following companies: Petrobaltic S.A., LOTOS Norge AS, LOTOS Asfalt Sp. z o.o., LOTOS Oil S.A. and LOTOS Paliwa Sp. z o.o., present their accounts in accordance with the International Financial Reporting Standards ("IFRS").
Other domestic subsidiaries or co-subsidiaries apply the accounting standards defined in the Polish Accountancy Act of September 29th 1994 and regulations issued thereunder ("Polish Accounting Standards" – "PAS"). Other foreign companies apply their respective local accounting standards.
Consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings applying accounting standards other than IFRS, and which have been introduced to ensure consistency of the undertakings' financial information with the IFRS. In order to ensure accounting uniformity, the accounting policies effective at

the Company were implemented across the LOTOS Group companies for application in preparing their consolidation packages.

25.4 SHAREHOLDERS HOLDING SIGNIFICANT BLOCKS OF SHARES

On June 30th 2009, the Annual General Shareholders Meeting adopted Resolution No. 34 concerning a share capital increase through an issue of shares.

On July 9th 2009, Grupa LOTOS S.A. concluded an agreement with the State Treasury, which provided for acquisition of 16,173,362 new issue Series C ordinary bearer shares in Grupa LOTOS S.A. by the State Treasury through a private placement, at the issue price of PLN 22.07 per share. In exchange, the State Treasury transferred to Grupa LOTOS S.A. contributions in the form of shares in Petrobaltic S.A., LOTOS Jasło S.A. and LOTOS Czechowice S.A. The value of the placement was PLN 356,946,099.30.

Total costs classified as costs of the issue, comprising exclusively the costs incurred to prepare and execute the offering, were PLN 463 thousand. The average cost of the placement per offered share was PLN 0.03. The costs directly related to the share capital issue, adjusted for deferred tax, will be charged to the share premium account (recognised under reserve funds).
As a result of the share capital increase and the acquisition of a significant block of shares by the State Treasury, i.e. all Series C shares, the Company shareholder structure changed.

On July 17th 2009, by virtue of a decision of the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, Grupa LOTOS S.A.'s share capital increase from PLN 113,700,000.00 to PLN 129,873,362.00 was registered.

The total number of shares, which equals the number of votes at the General Shareholders Meeting, representing all shares issued by Grupa LOTOS S.A. following the registration of the share capital change, amounts to 129,873,362 shares. The structure of Grupa LOTOS S.A.'s share capital is as follows:

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

On July 22nd 2009, in performance of the agreement on the buy-back of own shares with a view to their retirement, concluded between Nafta Polska S.A. and the State Treasury on July 16th 2009, the State Treasury acquired another significant block of shares in Grupa LOTOS S.A. Pursuant to the agreement, Nafta Polska S.A. transferred in total 59,025,000 shares in Grupa LOTOS S.A. to the State Treasury.

As a result of the acquisition of the two significant blocks of shares, the State Treasury held 83,076,392 shares in Grupa LOTOS S.A. The shareholder structure, including the number of shares held, their par value, the number of votes and percentage of the share capital they represent is as follows:

Shareholder	Number of shares	Number of votes	Par value of shares	% of the share capital/ total vote at GM
State Treasury	83,076,392	83,076,392	83,076,392	63.97%
Other shareholders	46,796,970	46,796,970	46,796,970	36.03%
Total	**129,873,362**	**129,873,362**	**129,873,362**	**100.00%**

As a result of the acquisition of Grupa LOTOS S.A. shares in transactions on the Warsaw Stock Exchange, settled on November 19th 2009, ING Otwarty Fundusz Emerytalny came to hold 6,524,479 shares in the Company, which confer the right to 5.02% of the total vote at the Company's General Shareholders Meeting.

To the Company's knowledge based on the notifications received from the shareholders, the shareholder structure of Grupa LOTOS S.A. as at December 31st 2009 was as follows:

Shareholder	Number of shares	Number of votes	Par value of shares	% of the share capital/ total vote at GM
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%
Total	**129,873,362**	**129,873,362**	**129,873,362**	**100.00%**

At the Company's request, on January 19th 2010 the National Depository for Securities assimilated 57,987,030 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion of 57,987,030 ordinary registered shares (code No.: PLLOTOS00033), with ordinary bearer shares in Grupa LOTOS S.A., code No.: PLLOTOS00025. The assimilated shares were assigned code No.: PLLOTOS00025, and on the same day were introduced to trading by the Management Board of the Warsaw Stock Exchange on the main market by way of the ordinary procedure.

At the Company's request, on April 12th 2010 the National Depository for Securities assimilated 8,250 Series A ordinary bearer shares in Grupa LOTOS S.A., created through a conversion of 8,250 ordinary registered shares (code No. PLLOTOS00033), with Grupa LOTOS S.A. ordinary bearer shares designated with code No. PLLOTOS00025. On the same day, the shares were introduced to trading by the Management Board of the Warsaw Stock Exchange on the main market by way of the ordinary procedure.

Currently, 113,630,889 shares in Grupa LOTOS S.A. are marked with code No. PLLOTOS00025 and 69,111 Grupa LOTOS S.A. shares are marked with code No. PLLOTOS00033.

On January 22nd 2010, an aggregate of 14,000,000 ordinary bearer shares in Grupa LOTOS S.A. owned by the State Treasury were sold in block transactions by the Ministry of State

Treasury, through a securities account held at Bank Handlowy w Warszawie S.A. in accordance with orders placed on January 22nd 2010, concerning:

- sale of 4,222,564 shares – orders accepted by Dom Maklerski Banku Handlowego S.A.,
- sale of 3,162,425 shares – orders accepted by IPOPEMA Securities S.A.,
- sale of 3,311,825 shares – orders accepted by Dom Inwestycyjny BRE Banku S.A.,
- sale of 3,303,186 shares – orders accepted by ING SECURITIES.

Following the disposal of a significant block of shares representing 10.78% of Grupa LOTOS S.A.'s share capital, the State Treasury holds 69,076,392 ordinary bearer shares in Grupa LOTOS S.A., which represent 53.19% of the Company's share capital.

To the Company's knowledge, the shareholder structure of Grupa LOTOS S.A. as at the date of release of Grupa LOTOS S.A.'s Report for 2009, i.e. as at April 30th 2010, was as follows:

Shareholder	Number of shares	Number of votes	Par value of shares	% of the share capital/ total vote at GM
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%
Total	**129,873,362**	**129,873,362**	**129,873,362**	**100.00%**

25.5 HOLDERS OF SECURITIES WHICH CONFER SPECIAL CONTROL POWERS, ALONG WITH THE DESCRIPTION OF THE POWERS

Grupa LOTOS S.A. has not issued any securities which would vest the shareholders with any special control powers.

25.6 LIMITATION OF VOTING RIGHTS

One share of Grupa LOTOS S.A. confers the right to one vote at the General Shareholders Meeting, with the proviso that as long as the State Treasury or Nafta Polska S.A. holds the Company shares conferring the rights to at least one-fifth of the total vote at the General Shareholders Meeting, the rights of the Company shareholders are limited so that none of them can exercise at the General Shareholders Meeting more than one-fifth of the total number of votes at the Company as at the day of the General Shareholders Meeting. The limitation described in the preceding sentence does not apply to the State Treasury, Nafta Polska S.A., or their subsidiaries. The exercise of a voting right by a subsidiary is deemed as the exercise of that right by the parent company within the meaning of the Polish Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, dated July 29th 2005, with the proviso that a parent undertaking and a subsidiary are also understood as an undertaking whose votes conferred by the shares held (directly or indirectly) in the Company may be aggregated with the votes of other undertaking(s) in accordance with the provisions of the Public Offering Act concerning holding, disposal or acquisition of significant blocks of shares in the Company. A shareholder whose voting right was limited shall in each case retain the right to exercise at least one vote.

25.7 RESTRICTIONS ON TRANSFERABILITY OF THE SECURITIES

Grupa LOTOS S.A. did not issue any shares with restricted transferability.

25.8 RULES FOR AMENDING THE ARTICLES OF ASSOCIATION OF GRUPA LOTOS S.A.

Making amendments to the Articles of Association of Grupa LOTOS S.A. falls within the scope of powers of the General Shareholders Meeting and requires that a relevant resolution be adopted by the General Shareholders Meeting of the Company with absolute majority of votes.

After the General Shareholders Meeting adopts a resolution on amending the Company's Articles of Association, the Management Board of Grupa LOTOS S.A. notifies a registry court of the amendments. An amendment to the Articles of Association takes effect upon being registered by the court.

Subsequently, the Supervisory Board compiles a consolidated text of the Articles of Association which incorporates the amendments, provided that the General Shareholders Meeting authorises the Supervisory Board to do so.

25.9 GENERAL SHAREHOLDERS MEETING OF GRUPA LOTOS S.A.

The General Shareholders Meeting of Grupa LOTOS S.A. operates in accordance with:

- the Articles of Association of Grupa LOTOS S.A. – consolidated text, incorporating amendments introduced by Resolutions No. 24–32 and 34 of the Annual General Shareholders Meeting, dated June 30th 2009;
- Rules of Procedure for the General Shareholders Meeting of Grupa LOTOS S.A. – Resolution No. 33 of the Annual General Shareholders Meeting of Grupa LOTOS S.A., dated June 30th 2009; the Rules of Procedure specify the rules governing the participation in the General Shareholders Meeting and exercising voting rights, manner of convening and closing of the General Shareholders Meeting, its opening and proceedings, and the procedure for election of the Supervisory Board members.

A General Shareholders Meeting takes place at the Company's registered office and is convened by the Management Board of Grupa LOTOS S.A., as provided for in the Articles of Association or in the Commercial Companies Code, by publishing an announcement on the Company's website and in the manner determined for publication of current reports, in accordance with the provisions of the Act on Public Offering, Conditions Governing the

Introduction of Financial Instruments to Organised Trading, and Public Companies. The announcement shall be published at least twenty-six days before the date of the General Shareholders Meeting.

An Annual General Shareholders Meeting should be held no later than within six months after the end of the financial year. In 2009, the Annual General Shareholders Meeting was held on June 30th. The right to convene an Annual General Shareholders Meeting rests also with the Supervisory Board in the event that the Management Board fails to convene it within the specified timeframe.

An Extraordinary General Shareholders Meeting is convened by the Management Board on its own initiative, by the Supervisory Board (if the Supervisory Board deems it appropriate), or by shareholders representing at least half of the Company's share capital or at least half of the total vote at the Company. Moreover, a shareholder or shareholders representing at least one-twentieth of the share capital may demand that an Extraordinary General Shareholders Meeting be convened, and that particular items be placed on the agenda of the Extraordinary General Shareholders Meeting. Any such requests shall be made in writing or in the electronic form and submitted to the Management Board. If the Extraordinary General Shareholders Meeting is not convened within two weeks as of the submission of such a request to the Management Board, the Registry Court may authorise the requesting shareholders to convene the Extraordinary General Shareholders Meeting.

Such request for the General Shareholders Meeting to be convened and for particular items to be placed on its agenda, made by parties entitled to do so, should be presented with grounds. The Supervisory Board, or the shareholder or shareholders demanding the Extraordinary General Shareholders Meeting to be convened, are obliged to provide the Management Board with draft resolutions proposed for adoption together with written grounds for the demand to convene the Meeting, early enough to enable inclusion of the draft resolutions on the agenda, in accordance with the Commercial Companies Code. The Management Board is obliged to announce alterations to the agenda introduced at the shareholders' request immediately, but not later than eighteen days prior to the scheduled date of the General Shareholders Meeting. The announcement shall be made in the same manner in which the convening of the General Shareholders Meeting is announced. A general meeting convened upon a shareholders' request should be held on the date given in the request and, if this date cannot be kept, on the nearest date that would allow the General Shareholders Meeting to consider the matters on its agenda.

A shareholder or shareholders representing at least one-twentieth of the Company's share capital may, prior to a General Shareholders Meeting, provide the Company with draft resolutions concerning the matters which have been or are to be included in the Meeting's agenda, with grounds for proposing such items presented in writing or by electronic means. The Company will immediately publish such draft resolutions on its website.

Only persons who are the Company shareholders sixteen days prior to the date of the General Shareholders Meeting (i.e. on the date of registration of participation for the General Shareholders Meeting) are entitled to participate in the General Shareholders Meeting. Holders of rights under registered shares or provisional certificates (*świadectwa tymczasowe*) as well as pledgees and usufructuaries holding voting rights are entitled to participate in the General Shareholders Meeting provided that they are entered in the Share Register on the registration date. The list of shareholders entitled to participate in a General Shareholders Meeting is prepared and signed by the Management Board.

A Shareholder may participate in a General Shareholders Meeting and exercise voting rights in person or by proxy. A power of proxy to participate in a General Shareholders Meeting and exercise voting rights shall be in a written or electronic form (the latter shall not require an electronic signature verified with a valid qualifying certificate). If the person acting as a proxy is a Management Board member, a Supervisory Board member, a liquidator, an employee of the Company or a member of the governing bodies or an employee of a subsidiary or cooperative of the company, the powers of proxy may authorise the holder to represent the shareholder at one General Shareholders Meeting only. The proxy is obliged to disclose to the shareholder the circumstances indicating an actual or potential conflict of interests and must vote in accordance with the voting instructions of the appointing shareholder. The proxy is be obliged to disclose their status while registering their participation in a General Shareholders Meeting, prior to the receipt of the voting card. Information on the Proxy's status is entered in the attendance roll.

Any matter to be discussed at a General Shareholders Meeting is subject to prior consideration by the Supervisory Board. No resolution may be adopted on matters not included on the agenda of the General Shareholders Meeting, unless the Company's entire share capital is represented at the Meeting and no objections to the adoption of such resolution are submitted by any of the persons participating in the Meeting, with the exception of motions to convene an Extraordinary General Shareholders Meeting and procedural motions. The General Shareholders Meeting adopts resolutions by absolute majority of votes, unless the Articles of Association or the Commercial Companies Code provide otherwise. Votes are cast in an open ballot. However, a secret ballot is ordered during elections and in the case of motions to dismiss a member of a governing body of the Company or its liquidator, or to hold them liable, motions concerning personnel-related matters, as well as in situations where at least one shareholder so demands.

Resolutions and proceedings of a General Shareholders Meeting are recorded by a notary public. The minutes should include information on the validity of the Meeting, its capacity to adopt resolutions, resolutions adopted, number of votes cast in favour of each resolution and objections. Evidence of convening the Meeting, along with the names and signatures of persons participating in the Meeting, should be enclosed to the minutes. The minutes are signed by the Chairperson of the General Shareholders Meeting and the notary public, and their copy is stored in the minutes archive at the Company's registered office.

According to the Articles of Association of Grupa LOTOS S.A., the powers of the General Shareholders Meeting include in particular:

1. Reviewing and approving of the annual financial statements of the Company, the annual Directors' Report on the Company's operations, as well as the consolidated financial statements of the Group and the Directors' Report on the Group's operations, for the previous financial year,
2. Granting discharge to members of the Supervisory and Management Boards in respect of their duties,
3. Making decisions with respect to profit distribution or coverage of loss, as well as on the use of funds/special accounts created out of profits, subject to specific regulations which provide for a different use of such funds/special accounts,
4. Appointing and removing Supervisory Board members and defining rules of their remuneration,
5. Increasing or reducing share capital,
6. Making decisions concerning claims for repair of damage inflicted in the establishment of the Company or in exercise of its supervision or management,
7. Disposing of or leasing a business or its organised part and creating limited property rights in a business or its organised part,

8. Approving purchase of real estate, perpetual usufruct rights to or an interest in real estate, whose value, determined on the basis of a valuation by an appraiser, exceeds PLN 5,000,000, as well as approving disposal of real estate, perpetual usufruct rights to or an interest in real estate, whose value, determined on the basis of a valuation by an appraiser, exceeds PLN 200,000,
9. Issuing consent to encumber or dispose of shares in Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. and shares in Przedsiębiorstwo Przeładunku Paliw Płynnych Naftoport Sp. z o.o.,
10. Amending the Company's Articles of Association,
11. Creating and liquidating funds/special accounts, including the reserve account,
12. Approving share retirement or buyback of shares for retirement, and defining the terms of such retirement,
13. Issuing bonds,
14. Dissolving, liquidating or transforming the Company or merging the Company with another company,
15. Approving purchase of shares issued by the Company (treasury shares) and creating pledges on treasury shares in the circumstances defined in Art. 362.1.2 of the Commercial Companies Code,
16. Approving incentive programmes,
17. Dissolving the Company,
18. Transferring the Company's registered office abroad,
19. Changing the Company's business in a way that would limit its operations in the area of production, processing and sale of refined petroleum products,
20. Selling or leasing the Company's business or its organised part whose activities include production, processing and sale of refined petroleum products, as well as encumbering such business or its organised part with limited property rights,
21. Merging the Company with another company,
22. Dividing the Company,
23. Establishing preferential rights on shares,
24. Establishing a European company, joining such company or transforming the Company into a European company,
25. Amending the provisions of Par. 10.1 of the Articles of Association.

Proceedings of the General Shareholders Meeting

The person opening a General Shareholders Meeting (Chairperson of the Supervisory Board or Supervisory Board member designated by the Chairperson of the Supervisory Board, or in their absence, President of the Management Board or a person designated by the Management Board) orders an immediate election of the Chairperson of the Meeting from among the persons entitled to participate in the General Shareholders Meeting, with the exception of instances when:

- An Extraordinary General Shareholders Meeting is convened by the shareholders holding at least a half of the share capital or at least a half of the total vote at the

Company – then the Chairperson of the General Shareholders Meeting is elected by these shareholders;

- The Management Board does not convene an Extraordinary General Shareholders Meeting at the request of the shareholders holding at least one-twentieth of the share capital, and the registry court authorises the requesting shareholders to convene the General Shareholders Meeting – then the Chairperson of the General Shareholders Meeting is designated by the court.

The Chairperson of a General Shareholders Meeting conducts the meeting and is authorised to interpret the Rules of Procedure of the General Shareholders Meeting. The responsibilities of the Chairperson include ensuring the efficient conduct of the meeting, ensuring that the rights and interests of all shareholders are respected, giving floor to the participants, receiving motions and draft resolutions, submitting them for discussion, ordering and conducting voting, and ascertaining that all items on the agenda have been addressed. In particular, the Chairperson should prevent any abuse of rights by the participants of a General Shareholders Meeting and ensure that the rights and interests of minority shareholders are respected. In accordance with the Rules of Procedure of the General Shareholders Meeting, a Meeting should be attended by members of the Management and Supervisory Boards, and the auditor if financial matters are discussed at the Meeting.

After presentation of each item on the agenda, the Chairperson of a General Shareholders Meeting opens the discussion and gives floor in the order in which the participants request to speak. Subject to General Shareholders Meeting's consent, several related items on the agenda may be discussed jointly. While taking the floor, the speakers may speak only on the matters included on the agenda and discussed at a given moment. During the discussion of each item on the agenda, each shareholder is entitled to a five-minute speech and three-minute reply. The shareholders may propose amendments and additions to draft resolutions included on the agenda until discussion on a given item to which the resolution pertains is closed. At the request of a person participating in the General Shareholders Meeting, his or her written statement is included in the minutes.

In formal matters, the Chairperson gives the floor to speakers out of turn. Each shareholder may submit a motion concerning a formal matter. Motions concerning the procedure of the Meeting or voting are considered motions on formal matters. The Chairperson resolves on formal matters; if need arises, the Chairperson may seek opinion of a person he or she appoints.

If a matter contained in a formal motion cannot be resolved by reference to the Commercial Companies Code, Articles of Association or the Rules of Procedure of the General Shareholders Meeting, the Chairperson submits the motion to the General Shareholders Meeting for voting. If no objections are lodged, the Chairperson declares that a given item on the agenda has been addressed. When all the items on the agenda are addressed, the Chairperson closes the Meeting.

With a majority of two-thirds of votes, a General Shareholders Meeting may decide on adjourning the Meeting by up to 30 days. Short recesses ordered by the Chairperson in justified circumstances may not be aimed at impeding the exercise of shareholders' rights.

25.10 GRUPA LOTOS S.A.'S SUPERVISORY BOARD

The Supervisory Board of Grupa LOTOS S.A. operates on the basis of:

- Grupa LOTOS S.A.'s Articles of Association – consolidated text incorporating amendments introduced by Resolutions Nos. 24-32 and No. 34 of the Annual General Shareholders Meeting, dated June 30th 2009,
- Rules of Procedure for the Supervisory Board of Grupa LOTOS S.A. – consolidated text of December 17th 2009 – Resolution No. 72/VII/2009 of the Supervisory Board dated December 17th 2009.

Composition of the Supervisory Board of Grupa LOTOS S.A. in 2009:

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.

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 Ruminski and Rafał Wardziński were appointed as members of the Supervisory Board of the seventh term of office.

On March 29th 2010, Mr Ireneusz Fąfara tendered his resignation as member of the Company's Supervisory Board of the seventh term of office.

As at the date of this Statement of Compliance, the composition of the Supervisory Board of Grupa LOTOS S.A. is as follows:

- Wiesław Skwarko – Chairman of the Supervisory Board,
- Leszek Starosta – Deputy Chairman of the Supervisory Board,
- Małgorzata Hirszel – Member of the Supervisory Board,
- Michał Rumiński – Member of the Supervisory Board,
- Rafał Wardziński – Member of the Supervisory Board,
- Oskar Pawłowski – Secretary of the Supervisory Board *(appointed on March 2nd 2010).*

As required by Grupa LOTOS S.A.'s Articles of Association, the Supervisory Board is composed of six to nine members, including the Chairperson, Deputy Chairperson and Secretary. The number of the Supervisory Board members is determined by the General Shareholders Meeting. On June 30th 2008, pursuant to Resolution No. 34, the General Shareholders Meeting decided that the Supervisory Board of the seventh term of office would be composed of seven members. Supervisory Board members are appointed and removed from office by the General Shareholders Meeting in a secret ballot, by an absolute majority of votes. The General Shareholders Meeting may appoint new members to the Supervisory Board from an unlimited number of candidates. Notwithstanding the above, as long as the State Treasury remains a shareholder in the Company, the State Treasury, represented by the competent minister, is entitled to appoint and remove one member of the Supervisory Board. The Chairperson of the Supervisory Board is appointed by the General Shareholders Meeting. The Deputy Chairperson and the Secretary are elected by the Supervisory Board from among its other members.

The term of office of the Supervisory Board is a joint term of three years. Any or all Supervisory Board members may be removed from office at any time prior to the expiry of their term.

The Supervisory Board takes decisions during its meetings, which are held as need arises, however not less frequently than once every two months. A meeting of the Supervisory Board may be held if all Supervisory Board members have been duly invited. Meetings of the Supervisory Board are held in Gdańsk, Poland, at the Company's registered office, however, the Chairperson may choose a different venue where justified by special circumstances. Supervisory Board meetings are convened by the Chairperson at his or her own initiative or at the request of authorised persons, i.e. a member of the Supervisory Board and a member of the Management Board, in which case a Supervisory Board meeting should be convened within two weeks from the receipt of a relevant request, otherwise the person requesting the convening of a Supervisory Board meeting may convene the meeting on his or her own. Supervisory Board meetings are convened by way of sending written invitations to the members of the Supervisory Board at least seven days prior to the planned meeting date, except where a Supervisory Board meeting is convened at a written request of the Management Board to deal with matters of urgency. In such cases the Chairperson should convene a Supervisory Board meeting within two days from the receipt of a relevant request. Under special circumstances, a meeting of the Supervisory Board may be held without being formally convened if all Supervisory Board members are present and agree to holding the meeting and including specific items on its agenda.

The Supervisory Board may only adopt resolutions regarding matters included on the agenda. The Supervisory Board adopts its resolutions with an absolute majority of valid votes cast, in the presence of at least a half of the Supervisory Board members, except resolutions concerning appointment and removal from office of any or all members of the Management Board of Grupa LOTOS S.A. which require the presence of at least two-thirds of the Supervisory Board members to be adopted.

Moreover, the Supervisory Board may adopt resolutions in writing or by means of remote communication, subject to Art. 388.4 of the Commercial Companies Code. However, such manner of voting is not allowed for voting on the election of the Chairperson or Deputy Chairperson of the Supervisory Board, appointment of a Management Board member, and removal or suspension from office of such persons. Adoption of a resolution in this manner requires prior delivery of the draft resolution to all Supervisory Board members. Resolutions adopted in this manner are presented at the next meeting of the Supervisory Board, along with the voting results.

Each Supervisory Board meeting is recorded in the form of minutes, containing information on the venue and time of the meeting, its agenda, names of the persons present at the meeting, proceedings of the meeting, wording of the adopted resolutions, the manner of voting and voting results, as well as objections and dissenting opinions of the Supervisory Board members. The minutes are approved and signed by all members of the Supervisory Board who are present at the meeting. The minutes are kept in a file of minutes.

Between Supervisory Board meetings, declarations of will and letters addressed to the Supervisory Board are accepted by the Chairperson or, in his or her absence, by the Deputy Chairperson.

The Supervisory Board exercises ongoing supervision over the Company's business, across all areas of its operations. The Supervisory Board may issue its opinions on all matters related to the Company's business, and submit motions and proposals to the Management Board.

Powers of the Supervisory Board include:

1. Appointing and removing the President, Vice-Presidents, and other Management Board members, and proposing rules of remuneration for the Management Board members,
2. Suspending from office (for good reason) any or all Management Board members, and delegating Supervisory Board member(s) to temporarily substitute for Management Board members who are unable to perform their duties,
3. Approving the Rules of Procedure of the Management Board,
4. Selecting an auditor to audit the financial statements of the Company and its Group, in accordance with the provisions of the Polish Accountancy Act,
5. Reviewing financial statements for compliance with accounting records and documents, as well as the actual state of affairs, reviewing the Directors' Report and the Management Board's recommendations concerning distribution of profit or coverage of loss, and submitting written reports on the findings of such reviews to the General Shareholders Meeting,
6. Issuing opinions on all matters submitted for consideration to an Annual or Extraordinary General Shareholders Meeting,
7. Granting consent to Management Board members to serve on managing or supervisory bodies of other companies and to receive remuneration for such service,

8. Granting approval to implement investment projects and to assume obligations related to such projects, if the value of the resulting expenditure or encumbrances exceeds the equivalent of a half of the Company's share capital,
9. Defining the content and scope of detail of annual budgets and long-term strategies and deadlines for their submission by the Management Board,
10. Approving long-term strategies of Grupa LOTOS S.A. and the LOTOS Group,
11. Issuing opinions on annual budgets,
12. Awarding annual bonuses to the President, Vice-Presidents and members of the Management Board, unless specific laws or regulations provide otherwise,
13. Approving the rules for managing special accounts and the Rules of Procedure for the Supervisory Board,
14. Granting approval to:
    - establish a foreign branch within the meaning of the provisions of Double-Tax Treaties signed by Poland;
    - dispose of non-current assets whose value exceeds the equivalent of one-twentieth of the net value of the Company's assets;
    - contract another liability or make another disposal whose value – whether in a single or a series of related legal transactions which fall outside the scope of day-to-day management – exceeds the equivalent of a half of the Company's share capital, unless such transactions require approval of the General Shareholders Meeting;
    - make equity investments abroad, if their value exceeds one-twentieth of the Company's share capital, and any investments in property, plant and equipment;
    - exercise the Company's voting rights at the general shareholders meetings of all subsidiaries and other companies, if the value, at acquisition cost, of the shares the Company holds in a given company exceeds one-fifth of the Company's share capital (in the case of voting on the following matters: distribution of profit or coverage of loss, increase or reduction of share capital, merger with another company, transformation of the company, sale and lease of the company's business and encumbering it with usufruct rights, or amendment of the company's articles of association);
    - establish companies under commercial law and acquire interests in companies, as well as make payments for shares of a company or sell shares in a company, if the value, at acquisition cost, of the Company's equity investment before or after the acquisition of the shares, exceeds one-twentieth of the Company's share capital, except for acquisitions of shares by way of conversion of claims pursuant to the Polish Act on Financial Restructuring of Enterprises and Banks and Acquisition of Shares in Public Trading in Securities, dated February 3rd 1993;
    - purchase real estate, perpetual usufruct rights to or an interest in real estate, whose value, determined on the basis of an appraiser's valuation, does not exceed PLN 5,000,000; and dispose of real estate, perpetual usufruct rights or an interest in real estate, whose value, determined on the basis of an appraiser's valuation, does not exceed PLN 200,000.

In 2009, the Supervisory Board held 13 meetings and adopted 53 resolutions, one of which was adopted in writing.

Committees of the Supervisory Board

The Supervisory Board may set up standing or *ad-hoc* committees composed of its members to examine specific matters. The committees report their activities to the Supervisory Board as need arises; standing Committees must report to the Supervisory Board at least once a year.

The chairperson of a committee, who manages the committee's work, is appointed by the Supervisory Board from among the committee members. The chairperson, acting on his or her own initiative or upon request of a committee member, convenes committee meetings. The right to convene a committee meeting is also vested in the Chairperson of the Supervisory Board or a Supervisory Board member designated by the Chairperson. All Supervisory Board members have the right to participate in the committees' work.

The chairperson of a committee, or a person designated by the chairperson, has the right to request the Supervisory Board to adopt resolutions regarding preparation of opinions or expert opinions for the committee, concerning the scope of the committee's remit or engagement of an adviser.

The committees adopt their decisions at meetings. A notice of a meeting should be delivered to the committee members and to other Supervisory Board members not later than five days prior to the meeting or, in urgent cases, not later than one day prior to the meeting.

Committees adopt resolutions by absolute majority of votes, unless provided otherwise in the resolution establishing the committee.

Minutes are taken at each committee meeting. The minutes should be signed by all attending committee members and contain the resolutions, conclusions and reports of the committee.

The following standing committees operate within the Supervisory Board of Grupa LOTOS S.A.:

Strategy and Development Committee

The Strategy and Development Committee is responsible for providing to the Supervisory Board opinions and recommendations regarding planned projects with material effect on the Company's assets, and in particular:

- Issuing opinions on long-term development strategies of the Company and the Group,
- Evaluating the impact of planned and implemented projects on the Company's assets,
- Monitoring the implementation of projects financed with proceeds from share issues performed as part of share capital increases,
- Evaluating actions, agreements and other documents related to the activities aimed at acquisition, sale, encumbrance or any other action with respect to the Company's material assets,
- Issuing opinions on all strategic documents submitted to the Supervisory Board by the Management Board.

In 2009, the Strategy and Development Committee was composed of:

<u>From January 1st to December 31st 2009</u>

1. Wiesław Skwarko – Chairman,

2. Radosław Barszcz,
3. Leszek Starosta,
4. Jan Stefanowicz,
5. Małgorzata Hirszel.

As a result of the changes in the composition of the Supervisory Board effected by the General Shareholders Meeting on February 11th 2010, the new Supervisory Board at its first meeting resolved to fill the vacant posts on the Strategy and Development Committee which as at the date of this Statement of Compliance was composed of:

1. Wiesław Skwarko – Chairman,
2. Rafał Wardziński,
3. Leszek Starosta,
4. Michał Rumiński,
5. Małgorzata Hirszel.

Organisation and Management Committee

The Organisation and Management Committee is responsible for providing to the Supervisory Board opinions and recommendations regarding the management structure, including organisation-related solutions, remuneration system and recruitment of personnel, with a view to enabling the Company to achieve its strategic objectives, and in particular:

- Assessing candidates for members of the Management Board,
- Issuing recommendations as to the terms of employment for newly appointed members of the Management Board,
- Evaluating activities of the members of the Management Board,
- Performing periodic reviews and evaluation of the Company's remuneration system,
- Assessing the human resources management system adopted at the Company.

In 2009, the Organisation and Management Committee was composed of:

From January 1st to December 31st 2009

1. Leszek Starosta – Chairman,
2. Małgorzata Hirszel,
3. Mariusz Obszyński.

As a result of the changes in the composition of the Supervisory Board effected by the General Shareholders Meeting on February 11th 2010, the new Supervisory Board at its first meeting resolved to fill the vacant posts on the Organisation and Management Committee which as at the date of this Statement of Compliance was composed of:

1. Leszek Starosta – Chairman,
2. Małgorzata Hirszel,
3. Michał Rumiński,
4. Oskar Pawłowski.

Audit Committee

The Audit Committee is responsible for the provision of ongoing advisory support to the Supervisory Board with respect to correct implementation of the policies related to budgetary and financial reporting, the Company's internal audit function, and cooperation with its auditors, and in particular:

- Monitoring the process of financial reporting;
- Monitoring the effectiveness of the Company's internal audit and risk management systems;
- Monitoring the performance of auditing procedures, including the monitoring of the process of reviewing annual and consolidated financial statements;
- Monitoring the work and reports of independent auditors, including the monitoring of independence of auditors and of entities qualified to review financial statements;
- Reviewing particular economic events relevant to the Company's business;
- Providing ongoing information to the Supervisory Board on any material matters with respect to the Audit Committee's activities.

In 2009, the Audit Committee was composed of:

<u>From January 1st to March 10th 2009:</u>

1. Jan Stefanowicz – Chairman,
1. Mariusz Obszyński,
2. Piotr Chajderowski.

In connection with Piotr Chajderowski's resignation from his position on the Supervisory Board submitted on March 10th 2009, on March 19th 2009 the Supervisory Board resolved to fill the vacant posts on the Audit Committee by appointing Wiesław Skwarko and Radosław Barszcz (members of the Supervisory Board).

<u>From March 19th to May 7th 2009:</u>

1. Jan Stefanowicz – Chairman,
2. Mariusz Obszyński,
3. Wiesław Skwarko,
4. Radosław Barszcz.

Moreover, on May 7th 2009 the Supervisory Board resolved to appoint a new member of the Audit Committee, Mr. Ireneusz Fąfara, who was appointed a member of the Supervisory Board of Grupa LOTOS S.A. by the General Shareholders Meeting on April 27th 2009.

<u>From May 7th to December 31st 2009:</u>

1. Jan Stefanowicz – Chairman,
2. Mariusz Obszyński,
3. Wiesław Skwarko,
4. Radosław Barszcz,
5. Ireneusz Fąfara.

As a result of the changes in the composition of the Supervisory Board effected by the General Shareholders Meeting on February 11th 2010, the new Supervisory Board at its first meeting resolved to fill the vacant posts on the Audit Committee as follows:

1. Ireneusz Fąfara – Chairman (until March 29th 2010),
2. Wiesław Skwarko,
3. Oskar Pawłowski,
4. Rafał Wardziński.

Delegation of Specific Duties to Individual Supervisory Board Members

The Supervisory Board performs its duties collectively, but it may also delegate specific duties to individual members. Therefore, on August 12th 2008 the Supervisory Board designated the following members of the Supervisory Board of Grupa LOTOS S.A. to exercise ongoing supervision over implementation of the 10+ Programme and assigned them the following duties:

1. Wiesław Skwarko:
   - monitoring the progress of work under the project and the project's timely performance,
   - supervising implementation of the raw materials procurement strategy for the project,
   - supervising implementation of the sales strategy for the project's products,
   - supervising consistent management of logistics during the project performance;
2. Leszek Starosta:
   - supervising legal aspects of the contracts executed and performed under the project,
   - supervising procedures for the contract execution,
   - supervising the administration proceedings related to the project performance;
3. Piotr Chajderowski (until resignation):
   - analysing the project's business and financing documentation,
   - overseeing the project's financial liquidity.

In 2009, the Supervisory Board assigned to its members individual supervisory tasks related to audits which were to be carried out in the following areas based on the Ministry of State Treasury's recommendations:

a. Risk factors associated with the implementation of the 10+ Programme (the audit ended with approval of a report by the Supervisory Board on July 17th 2009);

b. Matters related to Krak-Gaz Sp. z o.o. (audit was completed, final report is pending).

With respect to the audit of risk factors associated with the implementation of the 10+ Programme, the Supervisory Board assigned the duties as follows:

a) Short-term financial liquidity associated with the implementation of the 10+ Programme and the current market situation are to be assessed by Wiesław Skwarko, Chairman of the Supervisory Board,

b) Risks associated with the financing agreement for the 10+ Programme are to be assessed by Wiesław Skwarko, Chairman of the Supervisory Board, and Leszek Starosta, Deputy Chairman of the Supervisory Board.

Risks associated with contracts for the execution of work under the 10+ Programme are to be assessed by all members of the Supervisory Board.

Mr. Mariusz Obszyński, Secretary of the Supervisory Board, is responsible for coordinating the audit related to the 10+ Programme.

Leszek Starosta, Jan Stefanowicz, Radosław Barszcz and Mariusz Obszyński were appointed to audit the matters related to Krak-Gaz Sp. z o.o.

25.11 MANAGEMENT BOARD OF GRUPA LOTOS S.A. AND RULES GOVERNING APPOINTMENT AND REMOVAL OF THE MANAGEMENT STAFF

The Management Board of Grupa LOTOS S.A. operates on the basis of:

- Grupa LOTOS S.A.'s Articles of Association – consolidated text incorporating amendments introduced by Resolutions No. 24-32 and No. 34 of the Annual General Shareholders Meeting, dated June 30th 2009,
- Rules of Procedure for the Management Board of Grupa LOTOS S.A. adopted by Resolution No. 6/VI/2007 of the Management Board of Grupa LOTOS S.A., dated January 23rd 2007, and approved by Resolution No. 70/VI/2007 of the Supervisory Board, dated January 29th 2007.

Composition and Activities of the Management Board of Grupa LOTOS S.A. in 2009

From January 1st 2009 until the end of the sixth term of office, the Management Board of Grupa LOTOS S.A. was composed of the following members:

- Paweł Olechnowicz – President of the Management Board and CEO,
- Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,
- Marek Sokołowski – Vice-President of the Management Board, Chief Operation Officer.

Four members of the Management Board were elected by the Supervisory Board in the procedure of recruiting the members of the Management Board of Grupa LOTOS S.A. for the seventh term of office. On June 25th 2009, the Supervisory Board adopted a resolution appointing the following members of the Management Board of Grupa LOTOS S.A. for the seventh term of office:

- Paweł Olechnowicz – President of the Management Board and CEO,
- Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer
- Marek Sokołowski – Vice-President of the Management Board, Chief Operation Officer,
- Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

Since Mr. Olechnowicz did not submit a motion for the appointment of a candidate for the position of Vice-President responsible for Oil & Gas Exploration and Production, the presumptive election of the member of the Management Board is to be decided upon by the Supervisory Board. For this reason the procedure has not been completed, which means that, pursuant to the decision of the Supervisory Board, the President of the Management Board of Grupa LOTOS S.A. has performed the duties assigned to this position, and this will continue until a new Management Board member is appointed.

As at December 31st 2009 and as at the date of this Statement of Compliance, the Management Board of Grupa LOTOS S.A. was composed of the following members:

- Paweł Olechnowicz – President of the Management Board and CEO,
- Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,
- Marek Sokołowski – Vice-President of the Management Board, Chief Operation Officer,
- Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

The Management Board manages all affairs of Grupa LOTOS S.A. and represents the Company towards third parties, with the exception of the actions which rest with the General Shareholders Meeting or the Supervisory Board and matters which fall outside the scope of day-to-day management, which require prior resolution by the Management Board, as well as matters assigned to particular Management Board members under the Rules of Procedure of the Management Board.

Meetings of the Management Board are held as need arises. They are convened by the President of the Management Board or, in his or her absence, a Management Board member authorised by the President, who also chairs the meetings in absence of the President.

The notices of the meeting are delivered to the Management Board members at least two days prior to the date of the meeting. The notice should contain the meeting agenda, conclusions and materials (in the form of appendices) relating to the matters included in the meeting agenda.

A resolution will be deemed validly adopted if all Management Board members have been notified of the Management Board meeting and if at least three-fifths of the Management Board members are in attendance at that meeting. Resolutions are adopted by a simple majority of votes in favour of a resolution; abstaining votes are disregarded. Voting is open. A secret ballot may be held at the request of the President or two members of the Management Board. In the case of a voting tie, the President of the Management Board has the casting vote. The Management Board may also adopt resolutions in writing or by means or remote communication. Adoption of a resolution in this manner requires prior submission of the draft resolution to all Management Board members. Resolutions adopted in this manner are presented at the next meeting of the Management Board, along with the voting results.

Each Management Board meeting is recorded in the form of minutes. The minutes should contain information on which Management Board members are present at the meeting, the venue and date of the meeting, its agenda, names of the persons present at the meeting, proceedings of the meeting, wording of the adopted resolutions, the manner of voting and voting results, as well as objections and dissenting opinions of the Management Board members. The minutes are approved and signed by all members of the Management Board who are present at the meeting. The minutes are kept at the Management Board Office.

Rules Governing Appointment and Removal of Management Staff and the Scope of Their Powers

In accordance with the Articles of Association of Grupa LOTOS S.A., the Management Board is composed of three to seven members, including the President and Vice-Presidents of the Management Board. The number of the Management Board members is determined by a resolution of the Supervisory Board. The Supervisory Board appoints the Management Board, by first appointing the President of the Management Board, and then – acting upon the President's proposal – the Vice-Presidents and the other Management Board members. The term of office of the Management Board is a joint term of three years.

Mandates of the Management Board members expire not later than on the date of the General Shareholders Meeting approving the financial statements for the last full financial year during the term of office, but the President, Vice-Presidents, other Management Board members and the entire Management Board may be dismissed or suspended for sound reasons by the Supervisory Board at any time before the end of their term of office. Supervisory Board adopts resolutions on appointment to or removal from office of any or all Management Board members by way of a vote cast in the presence of at least two-thirds of the Supervisory Board members. A Management Board member's mandate may also expire following a member's resignation.

Management of the Company's affairs by the Management Board is subject to limitations resulting from the provisions of law, the Articles of Association, and resolutions of the General Shareholders Meeting and the Supervisory Board. The Management Board represents the Company in dealings with third parties and in all legal activities, with the exception of the Company's actions concerning the Management Board members.

Management Board resolutions are required with regard to the following matters:

1. Setting the organisational rules of the Company, including organisation of the Company's business,
2. Setting annual budget for the Company,
3. Adopting strategy for the LOTOS Group,
4. Setting rules of procedure for the Company's business as required under the law,
5. Making the Company's equity investments and implementing all projects related to capital expenditure in property, plant and equipment (with the exception of replacement projects) with a value of up to PLN 100,000,
6. Exercising the Company's voting rights at the General Shareholders Meetings of the subsidiaries, with regard to:
   - appointing or removing members of the Management and Supervisory Boards,
   - coverage of loss,
   - increasing or reducing the share capital,
   - merging with another company or transforming the company,
   - selling or leasing the Company's business and/or encumbering it with usufruct rights,
7. Appointing and removing members of the Management and Supervisory Boards who are appointed or removed directly by Grupa LOTOS S.A.,
8. Establishing companies under commercial law,
9. Acquiring and selling shares in limited-liability companies,
10. Acquiring and selling shares, except where the shares are acquired or disposed in public trading in securities, unless such acquisition or disposal results in gaining or losing the status of the parent,
11. Acquiring and disposing of real property, perpetual usufruct rights or interest in real property,
12. Establishing or joining partnerships, organisations or ventures which involve unlimited liability enforceable against the Company's assets.

13. Preparing:
    - the Company's financial statements for the previous financial year, in accordance with the Polish Accountancy Act, with the Directors' Report on the Company's operations for the previous financial year – no later than within three months from the balance-sheet date;
    - consolidated financial statements and a report on the LOTOS Group's operations for the previous financial year – no later than within five months from the balance-sheet date,
14. Convening ordinary and extraordinary General Shareholders Meetings in due time, on its own initiative, at a written motion of the Supervisory Board or at a request of a shareholder or shareholders representing at least one-tenth of the share capital, as well as in other cases as provided for in the Commercial Companies Code,
15. Establishing the agenda for a General Shareholders Meeting,
16. Matters falling outside the scope of ordinary management of the enterprise,
17. Matters which have been objected to by at least one of the members of the Management Board,
18. Matters which must be resolved by way of Management Board resolutions if so required by the President of the Management Board or at least half of the members of the Management Board, and which fall within the scope of responsibilities of particular members of the Management Board,
19. Granting powers of proxy.

In 2009, the Management Board held in total 57 meetings, in which it adopted 155 resolutions, (Management Board of the sixth term of office – 31 meetings and 83 resolutions, Management Board of the seventh term of office – 26 meetings and 72 resolutions).

Any matters not specified above are assigned to individual members of the Management Board in line with the division of powers and responsibilities, as provided below:

In view of the decision of the Supervisory Board entrusting the President of the Management Board with the duties of Vice-President of the Management Board responsible for Oil & Gas Exploration and Production (until new Management Board Member is appointed to this position) the President of the Management Board is now responsible for two organisational segments within the LOTOS Group, i.e. the Management Segment and the Exploration & Production Segment.

Paweł Olechnowicz, President of the Management Board and CEO, is in charge of the overall management and coordination of the operations of Grupa LOTOS S.A., and holds responsibility for managing and directing these operations. He is also acting Vice-President of the Management Board responsible for Oil & Gas Exploration and Production, and will continue to serve in this capacity until a new member is appointed to the Management Board. His duties include in particular:

In his capacity as President of the Management Board:

1. With respect to the operations of the LOTOS Group:

- Seeking to enhance the value of the LOTOS Group.

2. With respect to the operations of Grupa LOTOS S.A.:
   - Running the operations of Grupa LOTOS S.A. within the following scope:
   - Restructuring and consolidation,
   - Strategy and development,
   - Organisational and administrative support of the Company's corporate bodies,
   - HR management,
   - Business process management,
   - Monitoring and identification of risks associated with the Company's operations,
   - PR,
   - Communication process,
   - Strategic marketing,
   - Sponsorship, charity and CSR projects,
   - Civil defence,
   - Security and protection of confidential data,
   - Maintaining dialogue with the trade unions active at the Company,

3. Within the scope of the above duties, the President of the Management Board has the authority to issue and delegate the authority to issue: instructions, regulations, directions, as well as directives relating to the LOTOS Group's operations.

In his capacity as Vice-President of the Management Board responsible for Oil & Gas Exploration and Production:

1. With respect to the operations of the LOTOS Group:
   - Formulation - based on the Company's strategy - of the E&P policy objectives,
   - Initiation of E&P work,
   - Preliminary review and evaluation of projects in terms of reserves, development technologies to be used and economic feasibility,
   - Supervision over the processing of geological, technology and economic data for promotional and marketing purposes,
   - Supervision over compliance with the requirements imposed under relevant regulations applicable to upstream operations.

Marek Sokołowski, Vice-President of the Management Board, Chief Operation Officer, is in charge of the overall management and coordination of the activities of the production division, technology division, technology development division and refinery extension division (which is implementing the 10+ Programme), and holds overall responsibility for managing, coordinating and directing them. His duties include in particular**:**

1. With respect to the operations of the LOTOS Group.
   - Formulation of the objectives underlying the LOTOS Group's policy in the area of refining,
   - Overall supervision over R&D work in the area of production,
   - Designing of the strategy for maintenance and extension of the production facilities,
   - Overall coordination of development projects in the area of the LOTOS Group's processes and technologies, including supervision over implementation of the Management Board's decisions in that area,
   - Supervision over maintenance of the requisite level of technical performance of the Group's assets,
   - Supervision over the process of obtaining and maintaining the required production-related licences and permits.

2. With respect to the operations of Grupa LOTOS S.A.:
   - Ensuring supervision over the production process to make sure that the relevant quantitative and qualitative targets are met,
   - Ensuring that the production facilities are maintained in a condition enabling implementation of the assumed objectives,
   - Ensuring the implementation of development and upgrade projects, in line with the assumed objectives,
   - Overall coordination of the planning, preparation and implementation of the 10+ Programme,
   - Ensuring supervision over the production process to make sure that the environmental requirements are met and that the relevant administrative decisions are complied with,
   - Securing the supply of power utilities needed for the production process,
   - Ensuring supervision over technical safety,
   - Ensuring supervision over procurement of materials and spare parts for the production facilities
   - Ensuring adequate fire protection,
   - Ensuring supervision and control over compliance with health-and-safety-at-work and environmental procedures; securing resources required to ensure such compliance,
   - Ensuring that necessary quality controls are in place in the area of production,
   - Supervision over product volumes to make sure that Grupa LOTOS S.A.'s schedule for maintaining mandatory stocks is observed.

Mariusz Machajewski, Vice-President of the Management Board, Chief Financial Officer, is in charge of the overall coordination of the Company's economic and financial affairs and its accounting functions, and holds responsibility for their management. His duties include in particular**:**

1. With respect to the operations of the LOTOS Group:
   - Supervision over arrangement of financing for the Group's development projects,
   - Management of assets,
   - Supervision over coordination of the implementation of and compliance with the best practices in corporate governance,
   - Coordination of and supervision over the preparation of the Group's consolidated financial statements.
2. With respect to the operations of Grupa LOTOS S.A.
   - Designing, supervising and executing the Company's financial, tax and insurance strategies,
   - Supervising financial and tax reporting systems, and relevant settlements,
   - Supervising cost budgeting and operation of the cost budgeting system,
   - Supervising preparation and implementation of uniform accounting policies, and ensuring their compliance with the applicable legislation,
   - Supervising the process of securing financing for mandatory stocks, pursuant to applicable regulations,
   - Designing the investor relations strategy,
   - Fulfilment of Grupa LOTOS S.A.'s disclosure obligations as a listed company, in accordance with the applicable laws.

Maciej Szozda, Vice-President of the Management Board, Chief Commercial Officer, is charged with the overall management of the Company's operations and holds responsibility for managing them. His duties include in particular:

In his capacity as Vice-President of the Management Board, Chief Commercial Officer:

1. With respect to the operations of the LOTOS Group:
   - Strategic sales-related decision-making,
   - Approval of long- and short-term sales plans and policies,
   - Supervision over the process of optimising the Group-wide logistic resources, including management of the supply chain,
   - Supervision over activities of the Group's marketing segment.

2. With respect to the operations of Grupa LOTOS S.A.:
   - Management of all product selling processes,
   - Coordination of the planning process related to sales to business customers,

- Effective management of all distribution channels,
- Supervision over the drafting and performance of contracts by the sales division,
- Approval of the sales and market research rules and standards,
- Development of the supply chain optimisation strategy, in line with the business strategy,
- Approval of the inventory and transfer pricing management policies,
- Supervision over the strategy of diversifying and securing new sources of crude supplies, as well as the strategy of procurement of components, chemicals and semi-finished products,
- Supervision over the drafting and performance of logistics agreements,
- Monitoring implementation of the supply chain and trading strategy;
- Supervision over compliance with applicable regulations and fulfilment of obligations in the area of sales, procurement and distribution, including supervision over the process of obtaining the required licences and permits,
- Supervision over optimisation of the mandatory stocks.

26. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, Chief Executive Officer	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	Mariusz Machajewski
Vice-President of the Management Board, Chief Operation Officer	Marek Sokołowski
Vice-President of the Management Board, Chief Commercial Officer	Maciej Szozda