



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

THE LOTOS GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31ST 2009

**PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

ALONG WITH THE INDEPENDENT AUDITOR'S OPINION

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THE LOTOS GROUP
Consolidated financial statements for the year ended December 31st 2009

FINANCIAL HIGHLIGHTS – CONSOLIDATED

THE LOTOS GROUP	PLN '000		EUR '000	
	Year ended Dec 31 2009	Year ended Dec 31 2008	Year ended Dec 31 2009	Year ended Dec 31 2008
		(comparable data)		(comparable data)
Sales revenue	14,321,041	16,294,738	3,299,323	4,613,329
Operating profit/(loss)	419,793	(145,828)	96,713	(41,286)
Pre-tax profit/(loss)	1,109,608	(503,700)	255,635	(142,606)
Net profit/(loss) from continuing operations	911,812	(389,415)	210,066	(110,250)
Profit/(loss) from continuing operations attributable to owners of the Parent	900,761	(453,549)	207,520	(128,408)
Profit from continuing operations attributable to non-controlling interests	11,051	64,134	2,546	18,157
Total comprehensive income	928,661	(362,559)	213,948	(102,647)
Comprehensive income attributable to owners of the Parent	908,083	(426,693)	209,207	(120,804)
Comprehensive income attributable to non-controlling interests	20,578	64,134	4,741	18,157
Net cash provided by/(used in) operating activities	694,498	311,670	160,000	88,239
Net cash provided by/(used in) investing activities	(3,339,669)	(2,417,112)	(769,403)	(684,327)
Net cash provided by/(used in) financing activities	2,155,844	1,963,145	496,670	555,801
Total net cash flow	(486,988)	(138,751)	(112,194)	(39,283)
Basic earnings/(loss) per ordinary share (PLN/EUR)	7.44	(3.74)	1.71	(1.06)
Diluted earnings/(loss) per ordinary share (PLN/EUR)	-	-	-	-
		(comparable data)		(comparable data)
		(comparable data)		(comparable data)
Total assets	15,062,506	12,187,558	3,666,449	2,920,995
Equity attributable to owners of the Parent	6,677,002	5,389,534	1,625,287	1,291,711
Non-controlling interests	36,752	396,078	8,946	94,928
Total equity	6,713,754	5,785,612	1,634,233	1,386,639

Items of the statement of financial position as at December 31st 2009 presented in the “Financial Highlights” table were translated using the euro mid-exchange rate published by the National Bank of Poland for that date, i.e. EUR 1 = PLN 4.1082. Items of the statement of comprehensive income and the statement of cash flows for the year ended December 31st 2009 presented in the “Financial Highlights” table were translated at the exchange rate of EUR 1 = PLN 4.3406 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st – December 31st 2009).

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

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

(PLN '000)	Note	Dec 31 2009	Dec 31 2008 (comparable data)
ASSETS			
Non-current assets			
Property, plant and equipment	11	9,361,963	5,532,612
Prepayments for tangible assets under construction	11	153,536	1,200,713
Goodwill	17	46,688	45,562
Intangible assets	15	89,240	55,921
Investment property	14	3,762	4,898
Investments in associates	18	88,255	59,048
Non-current financial assets	19	86,052	49,364
Deferred tax assets	41	74,267	132,223
Non-current receivables	12	22,061	9,152
Prepayments and accrued income	13	5,087	12,759
		-----	-----
Total non-current assets		9,930,911	7,102,252
		-----	-----
Current assets			
Inventories	22	3,023,144	2,447,247
Trade and other receivables	23	1,536,854	1,364,881
Current tax receivable		131,299	199,971
Prepayments and accrued income	13	25,982	45,863
Current financial assets	20	47,029	305,912
Cash and cash equivalents	24	362,078	712,801
		-----	-----
Total current assets		5,126,386	5,076,675
		-----	-----
Assets held for sale	16	5,209	8,631
		-----	-----
		=====	=====
Total assets		15,062,506	12,187,558
		=====	=====

The notes to the financial statements, presented on pages 10-150, are their integral part.

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

(PLN '000)	Note	Dec 31 2009	Dec 31 2008 (comparable data)
EQUITY AND LIABILITIES			
Equity			
Share capital	26	129,873	113,700
Statutory reserve funds		1,311,348	970,951
Retained earnings		5,221,504	4,297,823
Translation of foreign operations		14,277	7,060
		-----	-----
Equity attributable to owners of the Parent		6,677,002	5,389,534
		-----	-----
Non-controlling interests	29	36,752	396,078
		-----	-----
Total equity		6,713,754	5,785,612
		-----	-----
Non-current liabilities			
Interest-bearing loans and borrowings	30	4,942,590	3,412,245
Long-term provisions	31	275,057	267,903
Deferred tax liabilities	41	59,556	10,411
Other financial liabilities	32	300,389	176,387
Accruals and deferred income and other liabilities	33	52,130	9,107
		-----	-----
Total non-current liabilities		5,629,722	3,876,053
		-----	-----
Current liabilities			
Trade payables, accruals and deferred income and other liabilities	33	1,890,654	1,886,440
Current tax payable		11,867	8,069
Interest-bearing loans and borrowings	30	758,481	507,360
Short-term provisions	31	38,897	80,470
Other financial liabilities	32	19,131	43,554
		-----	-----
Total current liabilities		2,719,030	2,525,893
		-----	-----
Total liabilities		8,348,752	6,401,946
		=====	=====
Total equity and liabilities		15,062,506	12,187,558
		=====	=====

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THE LOTOS GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31st 2009 and December 31st 2008

(PLN '000)	Note	Year ended Dec 31 2009	Year ended Dec 31 2008 <small>(comparable data)</small>
Sales revenue	35	14,321,041	16,294,738
Cost of sales	36	(12,750,542)	(15,287,258)
Gross profit		1,570,499	1,007,480
Other operating income	37	74,264	29,817
Impairment losses on goodwill	17	-	(12,645)
Selling costs	36	(726,367)	(737,368)
General and administrative expenses	36	(357,914)	(344,523)
Other operating expenses	38	(140,689)	(88,589)
Operating profit/(loss)		419,793	(145,828)
Finance income	39	994,924	82,508
Finance expenses	40	(343,891)	(466,931)
Interest in investments in associated undertakings	18	8,227	26,551
Loss of control over subsidiary	17	30,555	-
Pre-tax profit/(loss)		1,109,608	(503,700)
Corporate income tax	41	(197,796)	114,285
Net profit/(loss) from continuing operations		911,812	(389,415)
Other comprehensive income			
Exchange differences on translating foreign operations		14,378	14,518
Other		2,471	12,338
Other comprehensive income, net		16,849	26,856
Total comprehensive income		928,661	(362,559)
Net profit/(loss) from continuing operations attributable to:			
Owners of the Parent		900,761	(453,549)
Non-controlling interests	29	11,051	64,134
		911,812	(389,415)
Total comprehensive income attributable to:			
Owners of the Parent		908,083	(426,693)
Non-controlling interests		20,578	64,134
		928,661	(362,559)
Net earnings/(loss) from continuing operations per share (PLN)			
Weighted average number of shares (in thousands)	28	121,144	121,144
- basic		7.44	(3.74)
- diluted		-	-

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

(PLN '000)	Note	Year ended Dec 31 2009	Year ended Dec 31 2008 <i>(comparable data)</i>
Cash flows from operating activities			
Net profit/(loss) from continuing operations		911,812	(389,415)
Adjustments:			
Share in net profit of subordinated undertakings accounted for using the equity method		(8,227)	(26,551)
Depreciation and amortisation		284,793	315,012
Foreign exchange (gains)/losses		(455,858)	366,730
Interest and dividends		36,864	13,028
(Profit)/loss on investing activities		231,013	29,564
Income tax paid		(187,291)	(308,695)
Current income tax	41	197,796	(114,285)
(Increase)/decrease in receivables	25	(187,480)	164,938
(Increase)/decrease in inventories	25	(575,767)	141,685
Increase/(decrease) in liabilities and accruals and deferred income	25	692,711	(109,199)
(Decrease)/increase in provisions	25	(48,866)	35,511
Decrease/(increase) in prepayments and accrued income	25	19,045	(44,883)
Settlement of financial instruments		(216,047)	238,166
Other adjustments		-	64
		-----	-----
Net cash provided by/(used in) operating activities		694,498	311,670
		-----	-----
Cash flows from investing activities			
Dividends received		1,737	27,661
Interest received		4,252	30,655
Sale/ (purchase) of property, plant and equipment and intangible assets		(3,072,664)	(1,699,582)
Sale/ (purchase) of current financial assets		2,758	1,509
Repayment of non-current loans advanced		-	17
Non-current loans advanced		-	-
Acquisition of Energobaltic Sp. z o.o., net of cash acquired	17	(1,526)	-
Acquisition of Rafineria Nafty GLIMAR S.A., net of cash acquired		-	3,987
Prepayments for tangible assets under construction		(258,581)	(778,953)
Cash related to loss of control over subsidiary		(367)	-
Other items, net		(15,278)	(2,406)
		-----	-----
Net cash provided by/(used in) investing activities		(3,339,669)	(2,417,112)
		-----	-----
Cash flows from financing activities			
Increase in loans and borrowings		2,263,790	2,352,749
Repayment of loans and borrowings		(195,696)	(86,449)
Interest paid		(126,067)	(61,517)
Dividend paid	29	(15)	(2,578)
Decrease in finance lease liabilities		(1,737)	(737)
Settlement of financial instruments		216,047	(238,166)
Other items, net		(478)	(157)
		-----	-----
Net cash provided by/(used in) financing activities		2,155,844	1,963,145
		-----	-----
Effect of exchange rate fluctuations on cash held		2,339	3,546
		=====	=====
Change in net cash		(486,988)	(138,751)
		=====	=====
Cash and cash equivalents at beginning of period	25	338,353	477,104
		=====	=====
Cash and cash equivalents at end of period	25	(148,635)	338,353
		=====	=====
- restricted cash	24	20,420	84,160

The notes to the financial statements, presented on pages 10-150, are their integral part.

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

(PLN '000)	Note	Share capital	Statutory reserve funds	Retained earnings	Translation of foreign operations	Equity attributable to owners of the Parent	Non-controlling interests	Total equity
Jan 1 2008 (comparable data)		113,700	970,951	4,739,034	(7,458)	5,816,227	334,691	6,150,918
Total comprehensive income for the year ended Dec 31 2008		-	-	(441,211)	14,518	(426,693)	64,134	(362,559)
Dividend to shareholders – distribution of profit for 2007	29	-	-	-	-	-	(2,578)	(2,578)
Changes in the Group's organisational structure		-	-	-	-	-	(169)	(169)
Dec 31 2008 (comparable data)		113,700	970,951	4,297,823	7,060	5,389,534	396,078	5,785,612
Jan 1 2009 (comparable data)		113,700	970,951	4,297,823	7,060	5,389,534	396,078	5,785,612
Total comprehensive income for the year ended Dec 31 2009		-	-	900,866	7,217	908,083	20,578	928,661
Dividend to shareholders – distribution of profit for 2008	29	-	-	-	-	-	(19)	(19)
Changes in the Group's organisational structure		-	-	(20)	-	(20)	(238)	(258)
Share issue	26	16,173	-	-	-	16,173	-	16,173
Share premium	26	-	340,773	-	-	340,773	-	340,773
Issue expenses including income tax		-	(376)	-	-	(376)	-	(376)
Changes in ownership interest		-	-	22,835	-	22,835	(379,647)	(356,812)
Dec 31 2009		129,873	1,311,348	5,221,504	14,277	6,677,002	36,752	6,713,754

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NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

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

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

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

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

- Licence for production of liquid fuels, issued by the President of the Polish Energy Regulatory Office on November 28th 1998 and extended until December 31st 2025 by virtue of the decision of the President of the Energy Regulatory Office of October 5th 2007,
- Licence for trade in liquid fuels, issued by the President of the Polish Energy Regulatory Office on December 23rd 1998 and extended until December 31st 2025 by virtue of the decision of the President of the Energy Regulatory Office of October 5th 2007,
- Licence for storage of liquid fuels valid until October 15th 2016, issued by the President of the Polish Energy Regulatory Office on October 10th 2006,
- Licence for generation of electricity in co-generation units, issued by the President of the Polish Energy Regulatory Office on September 29th 2000 and extended until September 1st 2018 by virtue of the decision of the President of the Polish Energy Regulatory Office of July 16th 2009,
- Licence for trade in electricity valid until September 10th 2011, issued by the President of the Polish Energy Regulatory Office on September 5th 2001,
- Licence for transmission and distribution of electricity valid until September 10th 2011, issued by the President of the Polish Energy Regulatory Office on September 5th 2001.

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

- Licences for oil and natural gas exploration in certain areas of Poland (in the Gaz Południe area – valid until December 14th 2012, in the Gaz Północ, Gotlandia, Łeba, Rozewie, Sambia E and Sambia W areas – valid until December 14th 2010, and in Wolin – valid until June 14th 2011) issued by the Minister of the Environment,
- Licences to conduct production on particular fields, issued by the Minister of the Environment (B6 field – licence valid until November 7th 2032, B-3 field – licence valid until July 29th 2016, B-8 field – licence valid until September 5th 2031, and B-4 field – licence valid until May 11th 2032),
- Licence to conduct exploration for and production of hydrocarbons in the PL 316, PL 316B, PL 316CS, PL 316DS (from August 29th 2008) and PL 455 licence areas located on the Norwegian Continental Shelf, issued by the Norwegian Ministry of Energy and Petroleum,
- Interests in the following exploration licences in the southern area of the North Sea and in the Norwegian Sea, granted by the Norwegian Ministry of Energy and Petroleum as an outcome of the pre-qualification round APA 2008:
 1. Exploration licence PL 497: LOTOS Exploration and Production Norge AS – 10% interest
 2. Exploration licence PL 498: LOTOS Exploration and Production Norge AS (Operator) – 25% interest
 3. Exploration licence PL 503: LOTOS Exploration and Production Norge AS (Operator) – 25% interest
 4. Exploration licence PL 515: LOTOS Exploration and Production Norge AS – 20% interest
- A 50% interest in and operator status with respect to licence PL 556 located in the North Sea and 10% interest in licence PL 497B (an extension of licence PL497), granted by the Norwegian Ministry of Energy and Petroleum as an outcome of the APA 2009 licence round.
- Licences issued by the President of the Energy Regulatory Office for the following activities: production, storage of and trade in liquid fuels, transmission and distribution of heat, generation, transmission and distribution of electricity, and trade in electricity,
- Licences for production, storage and marketing of biocomponents (methyl ester), issued by the President of the Agricultural Market Agency (Agencja Rynku Rolnego),
- Licence for freight transport by rail and traction vehicles renting issued by the President of the Railway Transport Authority (Urząd Transportu Kolejowego).

2. Composition of the Group

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

Name	Registered office	Business profile	Method of consolidation / valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2009	Dec 31 2008
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Gaz S.A. ⁽¹⁾	Mława	Production, wholesale and retail sale of LPG, the company does not conduct operations at the moment	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	full	100.00%	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	The company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk ⁽²⁾	Wholesale of petroleum products	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	85.04% ⁽³⁾	80.04%
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	full	85.01% ⁽³⁾	80.01%
Petrobaltic S.A. ⁽⁴⁾ (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	full	99.32% ⁽³⁾	69.00%
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	full	100.00%	100.00%

Name	Registered office	Business profile	Method of consolidation / valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2009	Dec 31 2008
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services/the company does not conduct operations at the moment	full	0.29% ⁽⁵⁾	86.91%
Indirect Subsidiary Undertakings					
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Provision of services	full	85.04% ⁽⁶⁾	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME) ⁽⁷⁾	full	85.04% ⁽⁶⁾	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	Provision of services	-(8)	-(9)	86.91%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Provision of services	full	81.18% ^(6,10)	66.81% ⁽¹⁰⁾
KRAK - GAZ Sp. z o.o. in bankruptcy by liquidation	Kraków	Wholesale and retail sale of LPG		-(1)	100.00%
Miliana Shipping Company Ltd.	Cyprus	Provision of services	full	99.32 % ⁽⁶⁾	68.93%
LOTOS Exploration and Production Norge AS	Stavanger Norway	Oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007	full	99.32% ⁽⁶⁾	69.00% ⁽¹¹⁾
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Provision of services	full	99.32% ⁽⁶⁾	69.00%
Energobaltic Sp. z o.o.	Gdańsk ⁽¹³⁾	Production activities	full ⁽¹²⁾	99.32%	32.16%

⁽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 (see Note 17).

⁽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., 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A. (see Note 26).

⁽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 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.

⁽⁶⁾ The shareholding changes described in item ⁽³⁾ above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.), LOTOS Czechowice S.A. and LOTOS Jasło S.A.

⁽⁷⁾ On March 1st 2009, LOTOS Biopaliwa Sp. z o.o. commenced operations.

⁽⁸⁾ Shares contributed to LOTOS Park Technologiczny Sp. z o.o. by the LOTOS Czechowice Group on January 2nd 2006.

⁽⁹⁾ On November 6th 2009, LOTOS Park Technologiczny Sp. z o.o. sold 100% of shares in RC Serwis Sp. z o.o. to a third party for PLN 1,800 thousand. As a result of this transaction, the Group realised a gain of PLN 688 thousand.

⁽¹⁰⁾ In May – June 2008 and January – December 2009, LOTOS Jasło S.A. acquired shares in PLASTEKOL Organizacja Odzysku S.A. As a result of the executed transactions, LOTOS Jasło S.A.'s share in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased to 95.5%.

⁽¹¹⁾ On May 19th 2008, the Management Board of Petrobaltic S.A. made a decision to initiate the registration procedure concerning the increase of the share capital and the acquisition by Petrobaltic S.A. of 80% of the shares in LOTOS Exploration and Production Norge AS. Petrobaltic S.A. purchased 32 million new shares for the price equal to their par value, i.e. NOK 32m (or PLN 13,782 thousand,

translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for May 19th 2008). On June 12th 2008, Grupa LOTOS S.A. entered into an agreement with Petrobaltic S.A. to sell to Petrobaltic S.A. 8 million shares in LOTOS Exploration and Production Norge AS, representing 20% of the company's share capital. The shares transferred under the agreement, with the total par value of NOK 8m (or PLN 3,376 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for June 12th 2008), conferring the right to 8 million votes, are equal and indivisible shares and represent 20% of the share capital of LOTOS E&P Norge AS. As a result of the transaction, Petrobaltic S.A. holds 40 million shares, representing 100% of the share capital of LOTOS Exploration and Production Norge AS.

⁽¹²⁾ On November 27th 2009, Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 17).

⁽¹³⁾ The relocation of Energobaltic Sp. z o.o.'s registered office from Gdańsk to Władysławowo was registered on January 25th 2010.

As at December 31st 2009, the Group held an indirect equity interest of 40.31% shares in associated undertaking AB Geonaftha Group (see Note 18).

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

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

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

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

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

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

On December 30th 2009, LOTOS Jasło S.A. acquired 15 shares in PLASTEKOL Organizacja Odzysku S.A., representing 1.5% of the company's share capital, from Krzysztof Boniecki, who conducts business activity under the business name of Przedsiębiorstwo Wielobranżowe ROBAC. Following the transaction, LOTOS Jasło S.A.'s holding in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 94% to 95.5% (or from 940 to 955 shares).

Share Capital Increase at LOTOS Exploration and Production Norge AS and Acquisition of New Shares by Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.)

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

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

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

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

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

Reduction of the Share Capital of UAB LOTOS Baltija

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

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

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

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

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

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

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

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

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

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

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

In the period from January 1st 2009 until the expiry of the sixth term of office, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

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

On June 25th 2009, the Supervisory Board of Grupa LOTOS S.A. appointed the Management Board of Grupa LOTOS S.A. of the seventh term of office, including:

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

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

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

As at January 1st 2009, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

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

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

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

As at December 31st 2009, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

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

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

On March 29th 2010, the Company received a resignation by Mr Ireneusz Fąfara, Member of the Supervisory Board of Grupa LOTOS S.A., from his position as Member of the Company's Supervisory Board.

As at the date of approval of these consolidated financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,
Leszek Starosta – Deputy Chairman of the Supervisory Board,
Oskar Pawłowski – Secretary 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.

4. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board on April 26th 2010.

5. Going Concern

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

6. Duration of the Group

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

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

These consolidated financial statements of the LOTOS Group comprise the balance-sheet data as at December 31st 2009 and comparable data as at December 31st 2008. The statement of comprehensive income, statement of cash flows and statement of changes in the Group's equity present the data for the period January 1st – December 31st 2009 along with the comparable data for January 1st – December 31st 2008.

The financial information as at December 31st 2009 and December 31st 2008, and for the years then ended, contained in these consolidated financial statements, was audited. The financial information as at December 31st 2008 and for the year then ended was audited and an opinion on it was issued by the auditor on April 27th 2009 (this does not refer to selected comparable financial information, as mentioned in Note 9).

8. Measurement Currency and Reporting Currency

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

9. Basis of Preparation of the Consolidated Financial Statements

These consolidated financial statements were prepared in accordance with the EU-endorsed International Financial Reporting Standards ("IFRS") which have been published and are in effect as at December 31st 2009.

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

With the exception of the Parent Undertaking, the foreign undertakings, Petrobaltic S.A., LOTOS Asphalt Sp. z o.o., LOTOS Oil S.A. and LOTOS Paliwa Sp. z o.o., the Group companies maintain their accounting books in accordance with the accounting standards defined in the Polish Accountancy Act of September 29th 1994. These consolidated financial statements include adjustments which are absent from the accounting books of the Group's

undertakings, and which have been introduced to ensure consistency of the undertakings' financial information with the IFRS.

The accounting policies and calculation methods adopted in the preparation of these consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for the year ended December 31st 2008, except for the retrospective disclosure of valuation of shares in associated undertaking AB Geonafta (previously AB Naftos Gavyba) in connection with the change in accounting policies for jointly-controlled undertakings made by AB Geonafta and its group and in connection with an error identified in the non-consolidated and consolidated financial statements of those undertakings as at and for the year ended December 31st 2008. Accordingly, the Group restated the value of shares in associated undertaking AB Geonafta (previously AB Naftos Gavyba) as at December 31st 2008 by PLN (14,440) thousand and the corresponding equity items attributable to the Parent Undertaking as at December 31st 2008 (retained earnings: PLN 13,307 thousand, currency-translation differences: PLN 1,294 thousand) and non-controlling interests by PLN (161) thousand. The Group also retrospectively adjusted the individual items of equity as at December 31st 2007: retained earnings by PLN (7,187) thousand and currency-translation differences by PLN 7,187 thousand. This retrospective adjustment had no effect on the value of shares in associated undertaking AB Geonafta (previously AB Naftos Gavyba) as at December 31st 2007.

The Group decided to early apply – as of January 1st 2009 – the revised IFRS 3 *Business Combinations* and the revised IAS 27 *Consolidated and Separate Financial Statements*. Application of the revised IFRS 3 and the revised IAS 27 did not have any material bearing on the previous periods.

The Group has reviewed the new interpretations, standards and amendments to the existing standards. Except for the Revised IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments*, the new interpretations, standards and amendments to existing standards which are in effect and have been adopted by the European Union, have no material impact on the accounting policies applied by the Group.

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

- Amendment to IAS 23 *Borrowing Costs* (adopted by the European Union)
- Amendment to IAS 1 *Presentation of Financial Statements* (adopted by the European Union)
- IFRS 8 *Operating Segments* (adopted by the European Union)
- Amendment to IFRS 2 *Share-Based Payments – Vesting Conditions and Cancellations* (adopted by the European Union)
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation* (adopted by the European Union)
- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (endorsed by the European Union)
- Amendments to IFRS 1 *First-Time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (endorsed by the European Union)
- IFRIC 13 *Customer Loyalty Programmes* (applies to annual periods beginning on or after July 1st 2008, endorsed by the European Union)
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (applies to annual periods beginning on or after January 1st 2009, endorsed by the European Union)
- IFRIC 15 *Agreements for the Construction of Real Estate* (applies to annual periods beginning on or after January 1st 2009, endorsed by the European Union)
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (applies to annual periods beginning on or after October 1st 2008, endorsed by the European Union)
- Amendments to IAS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting* (apply to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- Revised IFRS 1 *First-Time Adoption of IFRSs* (applies to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (applies to annual periods beginning on or after July 1st 2009, endorsed by the European Union)
- Amendment to IFRS 7 – *Improving Disclosures about Financial Instruments* (applies to annual periods beginning on or after January 1st 2009, endorsed by the European Union)
- IFRIC 18 *Transfers of Assets from Customers* (applies to annual periods beginning on or after July 1st 2009, endorsed by the European Union)

- Amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* (applies to annual periods ending after June 30th 2009, endorsed by the European Union)
- Amendment to IFRS 32 – *Classification of Rights Issues* (applies to annual periods beginning on or after February 1st 2010, endorsed by the European Union),
- Amendment to IFRS 2 – *Group Cash-Settled Share-Based Payment Arrangements* (applies to annual periods beginning on or after January 1st 2010, endorsed by the European Union),
- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (in most cases, the amendments apply to annual periods beginning on or after January 1st 2010, endorsed by the European Union).

Application of the Revised IAS 1

In connection with the application of IAS 1 *Presentation of the Financial Statements* (revised in 2007), in these consolidated financial statements the Group used new terminology as prescribed by the standard to name the particular sections of the financial statements. Moreover, the Group had analysed the expected holding period of assets and liabilities classified as held for trading (financial instruments) and as at December 31st 2009 classified such assets and liabilities as either current or non-current, depending on the expiry date of the last financial instrument. The Group adjusted the comparable data. As at December 31st 2008, current and non-current assets and liabilities classified as held for trading (financial instruments) amounted respectively to PLN 279,456 thousand and PLN 22,848 thousand; PLN 42,993 thousand and PLN 175,533 thousand. As at December 31st 2007, the Group did not carry any non-current assets and liabilities classified as held for trading (financial instruments), therefore the comparable data was not adjusted.

Application of IFRS 8

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

The following interpretations, standards, and amendments to existing standards, have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee but have not been adopted by the European Union:

- IFRS for Small and Medium-Sized Entities (applies as of the issue date, i.e. July 9th 2009, not yet endorsed by the European Union)
- Amendments to IFRS 1 *First-Time Adoption of IFRSs* (apply to annual periods beginning on or after January 1st 2010, not yet endorsed by the European Union)
- Revised IAS 24 *Related Party Disclosures* (applies to annual periods beginning on or after January 1st 2011, not yet endorsed by the European Union),
- IFRS 9 *Financial Instruments* (applies from January 1st 2013, not yet endorsed by the European Union),
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (applies to annual periods beginning on or after July 1st 2010, not yet endorsed by the European Union),
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* (apply from January 2011, not yet endorsed by the European Union),
- Amendments to IFRS 1 *First-Time Adoption of IFRSs - Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters* (apply to annual periods beginning on or after July 1st 2010, not yet endorsed by the European Union).

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

10. Accounting Policies

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

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

10.1. Basis of Consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent Undertaking and financial statements of the undertakings it controls, prepared as at December 31st 2009.

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

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

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

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

10.2. Investments in Associated Undertakings

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

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

10.3. Intangible Assets

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

The Group capitalises and recognises as an intangible asset both the fees under the licences for crude oil and natural gas exploration and the royalties under the concluded mining use agreements granting the right to conduct crude oil and natural gas exploration. Exploration work cannot be conducted without obtaining a relevant licence and executing the mining use agreement.

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

The expected useful lives of the Group's intangible assets range from 2 to 25 years.

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

Useful lives are also reviewed each year and, if required, they are adjusted with effect from the beginning of the following financial year.

With the exception of capitalised expenditure on development, expenditure on intangible assets produced by the Group is not capitalised and is charged to expenses in the period in which it was incurred.

10.4. Goodwill Related to Subordinated Undertakings

The acquirer recognises goodwill on acquisition, equal to the excess of the sum of (i) consideration transferred, measured at its acquisition-date fair value, (ii) the amount of any non-controlling interests in the acquiree, and (iii) in the case of a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, measured at fair values. In the case of a business combination achieved in stages, the acquirer re-measures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the statement of comprehensive income.

Following the initial recognition, goodwill is carried at cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

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

10.5. Property, Plant and Equipment

Items of property, plant and equipment other than land are valued at cost less accumulated depreciation and impairment losses.

Land is valued at cost less impairment losses. In the case of perpetual usufruct rights to land, cost is understood to mean the amount paid for the right to a third party. Perpetual usufruct rights to land obtained on the basis of administrative decisions are disclosed by the Group at fair value as off-balance sheet items.

Initial value of a tangible asset comprises its cost, which includes all costs directly related to its acquisition and bringing it to working condition for its intended use. The cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred on an asset which is already in service, such as costs of repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

Tangible assets (including their components), other than land and tangible assets used for crude oil production, are depreciated using the straight-line method over their estimated useful lives, which are as follows:

Buildings and structures	1–80 years
Plant and equipment	1–25 years
Vehicles	1–15 years
Other tangible assets	1–10 years

Tangible assets used in petroleum production are depreciated using the activity depreciation method, i.e. depreciation per unit of produced crude oil is charged to expenses. The depreciation rate is estimated in reference to forecasts of crude oil production from a given geological area. If the estimated reserves change significantly as at the balance-sheet date, depreciation per unit of produced crude oil is re-valued. Then, starting from the new financial year, the re-valued depreciation rate is applied.

An item of property, plant and equipment may be removed from the statement of financial position if it is sold or if the company does not expect to realise any economic benefits from its further use. Any gains or losses on removal of an asset from the statement of financial position (calculated as the difference between net proceeds from its sale, if any, and the carrying value of the asset) are disclosed in the statement of comprehensive income in the period of removal.

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

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

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

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

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

10.6. Tangible Assets under Construction

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

Investments in progress comprise tangible assets which are under construction or assembly and are recognised at cost.

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

The cost of exploration for crude oil and natural gas is capitalised as tangible assets under construction until the size of an oil/gas field and the economic viability of production are determined. Upon confirmation of the existence of reserves whose extraction is technically and economically viable, the expenditure incurred on exploration is transferred to tangible assets and is subsequently depreciated. If exploration drillings do not result in discovery of any reserves whose extraction is technically and economically viable, impairment losses on tangible assets under construction are recognised in the profit or loss of the period in which it is found that commercial production from the discovered fields is not viable.

10.7. Exploration and Evaluation Assets

Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the Group's accounting policy. Exploration and evaluation expenditures are expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and evaluation of mineral resources is the search for mineral resources, including oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. The Group classifies the exploration and evaluation assets as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner. When the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, exploration and evaluation assets are no longer classified as such. The Group presents and discloses impairment losses on exploration and evaluation assets in accordance with IFRS, 6 and evaluates such assets in accordance with IAS 36. Impairment losses are recognised in profit or loss, in accordance with IAS 36.

The Group examines the need to recognise impairment losses on exploration and evaluation assets by considering, *inter alia*, the following circumstances in relation to a specific area:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- no substantive expenditure on further exploration for and evaluation of mineral resources is anticipated;

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

- exploration for and evaluation of mineral resources have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

10.8. Leases

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

The Group as a Lessor

Finance leases are disclosed in the statement of financial position as receivables, at amounts equal to the net investment in the lease less the principal component of lease payments for the given reporting period calculated based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Finance income from interest on a finance lease is disclosed in the relevant reporting periods based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Income from operating leases is recognised in the statement of financial position on a straight-line basis over the lease term.

The Group as a Lessee

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

10.9. Non-Current Assets Held For Sale

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

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

10.10. Impairment Losses on Non-Financial Assets

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

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

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

10.11. Investment Property

Investment property is valued at cost less accumulated depreciation and impairment losses.

Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Group does not use for its own purposes but which will generate benefits in the form of value appreciation or income from rent.

10.12. Inventories

Inventories are valued at the lower of cost or net realisable value.

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

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

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

10.13. Trade and Other Receivables

Trade receivables, which typically become due and payable in 7 to 60 days, are recognised and carried at amounts initially invoiced, less impairment charges for doubtful receivables. Impairment charges for receivables are estimated when the collection of the full amount of receivables is no longer probable. Uncollectible receivables are written off through the statement of comprehensive income when recognised as unrecoverable accounts.

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

10.14. Foreign Currency Transactions

Transactions denominated in foreign currencies are reported in the functional currency of the Group companies (Polish zloty) as at the transaction date, using the following exchange rates:

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

Monetary assets and liabilities denominated in foreign currencies as at the balance-sheet date are translated into the zloty at relevant zloty mid-exchange rates quoted by the National Bank of Poland as at that date. The resulting foreign exchange gains and losses are carried as finance income/(expense) or cost of sales, except for foreign exchange gains and losses which are considered a part of borrowing costs and are capitalised under non-current

assets. Non-monetary assets and liabilities recognised at historic cost expressed in a foreign currency are recognised at the historic exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities disclosed at fair value expressed in a foreign currency are translated as at the balance-sheet date at the exchange rate effective as at the date of determining the fair value.

Exchange rates applied for the purposes of balance-sheet valuation:

Mid-exchange rate quoted by the NBP for:	Dec 31 2009	Dec 31 2008
USD	2.8503	2.9618
EUR	4.1082	4.1724
NOK	0.4946	0.4238

The financial statements of foreign undertakings are translated into the Polish currency at the following exchange rates:

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

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

10.15. Cash and Cash Equivalents

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

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

10.16. Accruals and Deferrals

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

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

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

10.17. Equity

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

The share capital of the LOTOS Group is the share capital of the Parent Undertaking and is recognised at its par value, in the amount specified in the Company's Articles of Association and in the relevant entry in the National Court Register.

10.18. Provisions

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

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

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

10.20. Profit Distribution for Employee Benefits and Special Accounts

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

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

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

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

10.22. Borrowing Costs

Borrowing costs are disclosed as the costs of the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed, which are capitalised as a part of the cost of such an asset.

To the extent that the funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the borrowing costs which may be capitalised as part of such asset is determined as the difference between the actual borrowing costs incurred in connection with a given loan in a given period and the proceeds from temporary investments of the borrowed funds.

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

10.23. Government Subsidies

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

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

10.24. Carbon Dioxide (CO₂) Emission Allowances

The Group recognises carbon dioxide (CO₂) emission allowances in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the emission limit granted to it, and the liability is recognised only after the Company actually exceeds the limit. Income from the sale of unused emission allowances is credited against the statement of comprehensive income at the time of sale.

10.25. Income Tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except to the extent that the deferred tax liabilities arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiary or associated undertakings, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- except to the extent that the deferred tax assets related to deductible temporary differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated undertakings and interests in joint ventures, the related deferred tax assets are recognised in the statement of financial position to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

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

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

Income tax related to items posted directly to equity is disclosed under equity rather than in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position in the amount obtained after they are offset for particular undertakings consolidated within the Group.

10.26. Financial Instruments

At the time of their initial recognition, financial instruments are valued at cost (price), equal to the fair value of the payment made for them. The transaction costs are included in the initial value of the financial instruments.

Following the initial recognition, financial instruments are classified under one of the following four categories and are valued as follows:

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

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

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

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

10.27. Derivative Financial Instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. In addition, the Group relies on full barrel swaps and commodity swaps to hedge its exposure to raw material and petroleum

product prices, uses futures contracts to manage its exposure to prices of carbon dioxide (CO₂) emission allowances, and enters into IRSs and FRAs to hedge its interest rate exposure.

Derivative financial instruments of this type are measured at fair value. The fair value of FX forwards is established by reference to the forward rates of contracts with similar maturities prevailing at a given time. The fair value of interest rate swaps is established by reference to the market value of similar instruments. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year.

In the statement of financial position, financial instruments are presented as either current or non-current, depending on the expected time of realisation of assets and liabilities classified as held for trading.

10.28. Impairment of Financial Assets

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

Assets Carried at Amortised Cost

If there is objective evidence that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying value of a financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying value of an asset is reduced directly or by creating relevant provisions. The amount of loss is recognised in the statement of comprehensive income.

First the Group determines whether there exists objective evidence of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective evidence of impairment of an individually tested asset, regardless of whether it is material or not, the Group includes the asset into the group of financial assets with similar credit risk profile and tests it for impairment together with the other assets from this group. Assets which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.

If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortised cost as at the reversal date.

Financial Assets Carried at Cost

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

Financial Assets Available for Sale

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

10.29. Recognition of Revenue

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

10.30. Sales of Products, Goods for Resale and Services

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

10.31. Interest

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

10.32. Dividend

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

10.33. Management's Estimates

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

Valuation of Provisions

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

Depreciation/Amortisation Charges

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

Fair Value of Financial Instruments

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

Deferred Tax Assets

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

Impairment of cash-generating units, individual items of property, plant and equipment, and intangible assets

The main assumptions used to determine recoverable value relate to evidence of potential impairment, models, discount rates, and growth rates.

10.34. Net Earnings/(Loss) per Share

Earnings/(loss) per share for each period are calculated by dividing the net profit/(loss) for a given period by the weighted average number of shares in this reporting period. The Group does not disclose the diluted earnings/(loss) per share, since there are no dilutive instruments outstanding. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue, or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented is adjusted retrospectively. If such changes occur after the balance sheet date but before the financial statements are authorised for issue, the earnings per share calculations for those and any prior period financial statements presented are based on the new number of shares.

10.35. Contingent Liabilities and Receivables

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

10.36. Joint Venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (strategic financial, operating and political decisions relating to the activity require the unanimous consent of the venturers). When a Group member becomes directly involved in activities as part of a joint venture, the Group's share of jointly controlled assets and liabilities incurred jointly with the other venturers is disclosed in the financial statements of such Group member and classified in accordance with its nature. Liabilities and costs incurred directly in connection with a share in jointly controlled assets are accounted for using the accrual method. Income from the sale or use of the Group's share of the output produced by jointly controlled assets and the share of expenses incurred by the joint venture are recognised when the inflow/transfer by the Group of the economic benefits connected with relevant transactions becomes probable, provided that they can be measured reliably.

10.37. Segment Reporting

International Financial Reporting Standard 8 *Operating Segments* ("IFRS 8") requires the disclosure of information on the Group's operating segments based on internal reports that are regularly reviewed by the chief operating decision makers to make decisions about resources to be allocated to each segment and to assess the segments' performance.

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

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

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

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

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

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

Financial information of the operating segments used by the chief operating decision makers to assess their performance is presented in Note 42.

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

PLN '000	Dec 31 2009	Dec 31 2008
Land	232,423	227,871
Buildings and structures	1,931,190	1,705,246
Plant and equipment	771,728	616,571
Vehicles and other	339,842	235,464
Tangible assets under construction, including:	6,086,780	2,747,460
- capitalised financing costs	187,077	161,033
	=====	=====
Total property, land and equipment	9,361,963	5,532,612
	=====	=====
Prepayments for tangible assets under construction, including:	153,536	1,200,713
- capitalised financing costs	4,626	37,612
	=====	=====
Total	9,515,499	6,733,325

THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

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

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

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

THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

PLN '000	Tangible assets under construction					- exploration and evaluation assets ⁽¹⁾	Prepayments for tangible assets under construction	Total
	Land	Buildings and structures	Plant and equipment	Vehicles and other				
Gross book value as at Jan 1 2009	237,039	2,181,906	1,305,173	505,837	2,788,049	94,710	1,200,713	8,218,717
Increase	7,326	357,255	257,171	172,987	3,443,813	(3,511)	225,602	4,464,154
- purchase	-	34	1,887	51,332	3,915,182	22,543	258,581	4,227,016
- transfer from investments	5,653	258,896	202,916	106,828	(589,781)	(26,054)	-	(15,488)
- change in Group structure	1,605	79,887	48,797	184	105	-	-	130,578
- transfer	42	2,340	3,689	7,947	(6,463)	-	-	7,555
- reclassified to assets available for sale	-	-	(167)	(20,729)	-	-	-	(20,896)
- reclassified from assets available for sale	26	-	-	-	-	-	-	26
- currency translation differences on foreign operations	-	-	-	92	70,363	-	7	70,462
- borrowing costs	-	-	-	-	38,943	-	(32,986)	5,957
- assets related to decommissioning of the Offshore Oil Rigs	-	15,853	-	-	15,178	-	-	31,031
- other	-	245	49	27,333	286	-	-	27,913
Decrease	(1,118)	(19,396)	(14,208)	(16,958)	(71,501)	(20,360)	(1,272,779)	(1,395,960)
- sale	(675)	(5,140)	(6,859)	(8,556)	(48,575)	-	-	(69,805)
- liquidation	-	(1,717)	(4,680)	(4,198)	(303)	-	-	(10,898)
- change in Group structure	(443)	(12,539)	(2,512)	(595)	(710)	-	-	(16,799)
- settled prepayments	-	-	-	-	-	-	(1,272,779)	(1,272,779)
- currency translation differences on foreign operations	-	-	(157)	(3,446)	(536)	-	-	(4,139)
- other	-	-	-	(163)	(21,377)	(20,360)	-	(21,540)
Gross book value as at Dec 31 2009	243,247	2,519,765	1,548,136	661,866	6,160,361	70,839	153,536	11,286,911

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THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

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

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

THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction		Prepayments for tangible assets under construction	Total
					- exploration and evaluation assets ⁽¹⁾			
Accumulated depreciation as at Jan 1 2009	8,743	471,674	683,198	262,210	-	-	-	1,425,825
Increase	1,572	114,456	97,990	71,700				285,718
- depreciation	1,546	112,879	94,489	63,865	-	-	-	272,779
- transfer	-	1,577	3,657	4,326				9,560
- reclassified to assets available for sale	-	-	(158)	(9,445)	-	-	-	(9,603)
- reclassified from assets available for sale	26	-	-	-	-	-	-	26
- currency translation differences on foreign operations	-	-	-	15	-	-	-	15
- other	-	-	2	12,939	-	-	-	12,941
Decrease	(6)	(4,440)	(9,760)	(12,298)	-	-	-	(26,504)
- sale	(4)	(2,516)	(5,090)	(6,492)	-	-	-	(14,102)
- liquidation	-	(705)	(4,131)	(3,448)				(8,284)
- change in Group structure	(2)	(1,219)	(429)	(97)	-	-	-	(1,747)
- currency translation differences on foreign operations	-	-	(108)	(2,215)	-	-	-	(2,323)
- other	-	-	(2)	(46)				(48)
Accumulated depreciation as at Dec 31 2009	10,309	581,690	771,428	321,612	-	-	-	1,685,039

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

THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction		Prepayments for tangible assets under construction	Total
					- exploration and evaluation assets ⁽¹⁾			
Impairment losses as at Jan 1 2008	11	2,920	1,898	815	42,598	15,378	-	48,242
Increase	414	3,135	4,199	8,138	401	66	-	16,287
Decrease	-	(1,069)	(693)	(790)	(2,410)	-	-	(4,962)
	-----	-----	-----	-----	-----	-----	-----	-----
Impairment losses as at Dec 31 2008	425	4,986	5,404	8,163	40,589	15,444	-	59,567
Impairment losses as at Jan 1 2009	425	4,986	5,404	8,163	40,589	15,444	-	59,567
Increase	101	14,454	2,282	7,798	33,655	10	-	58,290
Decrease	-	(1,557)	(710)	(15,492)	(663)	-	-	(18,422)
Change in Group structure	(11)	(10,998)	(1,996)	(57)	-	-	-	(13,062)
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Impairment losses as at Dec 31 2009	515	6,885	4,980	412	73,581	15,454	-	86,373
Net book value as at Jan 1 2008	214,173	1,729,902	679,138	255,868	592,166	53,661	781,780	4,253,027
	=====	=====	=====	=====	=====	=====	=====	=====
Net book value as at Dec 31 2008	227,871	1,705,246	616,571	235,464	2,747,460	79,266	1,200,713	6,733,325
	=====	=====	=====	=====	=====	=====	=====	=====
Net book value as at Dec 31 2009	232,423	1,931,190	771,728	339,842	6,086,780	55,385	153,536	9,515,499
	=====	=====	=====	=====	=====	=====	=====	=====

⁽¹⁾ The value of exploration and evaluation assets comprises the value of expenses capitalised until technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

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As at December 31st 2009, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 2,133,547 thousand (as at December 31st 2008: PLN 1,942,778 thousand).

The cost of servicing the liabilities incurred to finance tangible assets under construction and prepayments for tangible assets under construction in the year ended December 31st 2009 amounted to PLN 116,320 thousand (December 31st 2008: PLN 187,832 thousand).

As at December 31st 2009, the net value of the asset related to the oil rig decommissioning, referred to in Note 10.5, amounted to PLN 106,600 thousand (December 31st 2008: PLN 75,076 thousand).

In the year ended December 31st 2009, the cost of depreciation of property, plant and equipment in respect of which technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 5,827 thousand (December 31st 2008: PLN 8,006 thousand).

In the year ended December 31st 2009, impairment losses on exploration and evaluation assets amounted to PLN 10 thousand (December 31st 2008: PLN 66 thousand). Furthermore, in 2009 the Group charged depreciation on exploration and evaluation assets in the amount of PLN 20,360 thousand.

As at December 31st 2009 and December 31st 2008, the fair value of perpetual usufruct rights to land obtained by virtue of administrative decisions and disclosed as off-balance-sheet items was PLN 163,446 thousand.

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

The item "Tangible assets under construction" includes expenditure of PLN 47,790 thousand incurred by Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.) in connection with exploration for gas at the B-4 and B-6 fields. Petrobaltic S.A. commissioned an analysis of the economic viability of development of these fields. According to the findings of the analysis, significant capital expenditure is required to obtain profitable commercial production of hydrocarbons. Despite the envisaged excess of revenue from sale of products to be obtained by exploitation of the reserves over the cost of their development and production, no expenditure on this project is expected in the medium term. The Management Board of Petrobaltic S.A. maintains that, regardless of the necessity to make significant investments, in view of the strategic nature of the reserves and the changing prices and terms of delivery of imported energy materials, their development is possible if the investment plans of Petrobaltic S.A. and Grupa LOTOS S.A. are synchronised. The activities currently under way amongst other things take into account the possibility of finding a partner with whom the company would be able to jointly develop the B-4 and B-6 gas fields. The geological analyses and analyses of reserves carried out to date by Petrobaltic S.A.'s potential partners have confirmed the positive assessment of the fields, opening up a possibility for future collaboration that would lead to the implementation of a joint project. Having obtained relevant bids from interested parties, Petrobaltic S.A. commenced consultations with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG SA) which aimed first at determining the optimal conditions of development of the gas fields and subsequently at selecting the best legal form for cooperation between the partners. Petrobaltic S.A. continues to cooperate with PGNiG SA regarding joint development of the gas fields. At the request of PGNiG SA, the "Initial Concept of Development of the Offshore B-4 and B-6 Gas Fields" was prepared in August 2009. Based on the results of the analyses which have been performed, both Petrobaltic S.A. and PGNiG SA upheld their earlier positions and decided to confirm their mutual intentions in a Letter of Intent signed on December 1st 2009. Following another set of analyses, it was found that the B-4 and B-6 gas fields development concept should be extended to include the B-21 prospect located in the Gaz Południe licence area.

Information on Interests in Norwegian Production and Exploration Licences

The item "Tangible assets under construction" includes expenditure of NOK 1,755,293 thousand (the equivalent of PLN 868,168 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009) incurred by LOTOS Exploration and Production Norge AS on the purchase of interests in Norwegian production licences (the YME field). The balance-sheet item "Tangible assets under construction" is additionally adjusted by the tax effect connected with the YME field purchase transaction, of NOK 75,965 thousand (i.e. PLN 37,572 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009). Furthermore, under "Intangible assets" LOTOS Exploration and Production Norge AS recognised expenditure of NOK 72,157 thousand as at December 31st 2009 (the equivalent of PLN 35,689 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009) incurred on the exploration licences (in particular the PL455 licence). The balance sheet item "Intangible assets" is additionally adjusted by the tax effect of NOK 836 thousand (i.e. PLN 413 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009). As at December 31st 2009, the net value of intangible assets related to exploration licences, net of impairment loss,

amounts to NOK 61,238 thousand (the equivalent of PLN 30,288 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009).

As at December 31st 2009, LOTOS Exploration and Production Norge AS holds exploration licence PL 316 (20% interest in the YME field) and the following exploration licence interests: 20% interest in licence PL 316CS, 20% interest in licence PL 316DS, 20% interest in licence PL 455, 10% interest in licence PL 497, 25% interest in licence PL 498, 25% interest in licence PL 503, and 20% interest in licence PL 515.

Purchase of Interests in Norwegian Production Licences

On May 20th 2008, LOTOS Exploration and Production Norge AS signed an agreement with Norwegian company REVUS Energy ASA concerning purchase of 10% of interests in the North Sea production licences Nos. PL 316, PL 316B, PL 316CS and PL 316DS. The purchased licences cover the YME field and an additional exploration area. The YME field is located 110km off the coast in the southern part of the Norwegian sector of the North Sea. The recoverable crude oil reserves of the YME field which correspond to the 10% interest held by LOTOS E&P Norge AS were estimated by the operator (Talisman) at ca. 6.8 million bbl (about 900 thousand tonnes). Production from the field is expected to start in the second half of 2010.

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

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

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

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

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

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

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

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

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

On August 26th 2008, LOTOS Exploration and Production Norge AS entered into an agreement on the purchase of a 20% interest in exploration licence PL455, covering an area of 1,365km² located in the southern part of the Norwegian sector of the North Sea. LOTOS Exploration and Production Norge AS signed the agreement with Noreco, a Norwegian exploration and production company. LOTOS Exploration and Production Norge AS will acquire a 20% interest in the licence in exchange for covering 40% of the estimated expenditure to be incurred by Noreco on the performance of seismic surveys under the PL455 licence, i.e. approx. NOK 38m (the equivalent of PLN 15.9m, translated using the mid-exchange rate for NOK quoted by the National Bank of Poland for August 26th 2008). The transaction was to take effect once relevant approvals have been obtained from the Norwegian Ministry of Finance and the Ministry of Energy and Petroleum. Licence PL455 was granted to Noreco as part of the qualification round APA 2007. Noreco is also the licence operator and – after the transaction with LOTOS Exploration and Production Norge AS – holds a 50% interest in the licence. The seismic survey was carried out in 2008–2009, and the licence area is planned to be drilled in 2011 to confirm its potential. In accordance with the Norwegian tax law, if the exploration proves unsuccessful, 78% of the incurred expenditure may be reimbursed.

On October 31st 2008, after all conditions precedent had been fulfilled, LOTOS Exploration and Production Norge AS acquired all rights and obligations related to the ownership of a 20% interest in exploration licence PL 455.

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

As at December 31st 2009, the LOTOS Group had the following reserves of crude oil and natural gas:

Crude oil (2P*) – 6.4 million tonnes,
Natural gas (2P*) – 4.5 billion cubic metres.

*2P – proved and probable reserves.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

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

Following the completion of the preparatory phase, the Programme's implementation commenced. The implementation of the 10+ Programme proceeded as scheduled, and reached 94% at the end of 2009. By the end of 2009, the following units reached the Ready For Start Up phase:

- hydrodesulphurisation unit (HDS)
- crude distillation unit (CDU/VDU),
- hydrogen generation unit (HGU),
- amine sulphur recovery unit (ASR).

In 2010-2011, the following units at the Gdańsk Refinery of Grupa LOTOS S.A. are to be completed:

- mild hydrocracker (MHC),
- residue oil supercritical extraction (ROSE),
- infrastructure expansion (tanks, utilities, inter-facility connections).

At present, Grupa LOTOS S.A. is making preparations to launch in 2012-2015 the second phase of the 10+ Programme, which will focus on the management of heavy residue. As at December 31st 2009, capitalised expenditure on the IGCC project, including reduction of capacity of production lines and a different method of processing of gases, was PLN 20,468 thousand (as at December 31st 2008: PLN 45,853 thousand). The Company's Management Board expects that the financial benefits to be derived from the project will be no less than the expenditure incurred.

12. Non-Current Receivables

PLN '000	Dec 31 2009	Dec 31 2008
Non-current receivables under franchise agreements ⁽¹⁾	10,672	9,031
Long term security deposits	10,738	-
Other	651	121
	=====	=====
Total	22,061	9,152
	=====	=====

⁽¹⁾Non-current receivables under franchise agreements represent mainly the expenditure on branding DOFO service stations, operated by dealers under 5-10 year contracts.

13. Prepayments and Accrued Income

PLN '000	Dec 31 2009	Dec 31 2008
Property and other insurance	18,124	20,441
Overhauls	48	13,171
Rent and lease payments	3,865	19,924
Commissions on revolving credit facilities, amortised over time	4,041	-
Other	4,991	5,086
	=====	=====
Total	31,069	58,622
	=====	=====
Non-current portion	5,087	12,759
Current portion	25,982	45,863

14. Investment Property

PLN '000	Dec 31 2009	Dec 31 2008
Gross value at beginning of period	6,785	4,387
Increase:	7	6,953
- transfer from property, plant and equipment	-	6,953 ⁽¹⁾
- transfer from intangible assets	7	-
Decrease:	(1,024)	(4,555)
- sale	-	(4,555) ⁽¹⁾
- transfer to property, plant and equipment	(260)	-
- loss of control over subsidiary	(764)	-
Gross value at end of period	5,768	6,785
Impairment losses at beginning of period	1,887	942
Increase:	222	945
- transfer from property, plant and equipment	-	674
- transfer from intangible assets	6	-
- other	216	271
Decrease:	(103)	-
- transfer to property, plant and equipment	(62)	-
- loss of control over subsidiary	(41)	-
Impairment losses at end of period	2,006	1,887
Net value at beginning of period	4,898	3,445
Net value at end of period	3,762	4,898

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

As at December 31st 2009, investment property, including investments in land, perpetual usufruct of land, buildings and structures, included also property which the Company does not use for its own purposes but which generate benefits in the form of value appreciation or rent income.

15. Intangible Assets

PLN '000	Dec 31 2009	Dec 31 2008
Development expense	184	184
Software	4,686	5,987
Patents, trademarks and licences	79,031	47,464
Other	5,339	2,286
Total	89,240	55,921

Changes to Intangible Assets

PLN '000	Development expense	Software	Patents, trademarks and licences	Other	Total	- exploration and evaluation assets ⁽¹⁾
Gross book value as at Jan 1 2008	528	15,335	84,489	5,834	106,186	5,816
Increase	-	2,882	5,781	1,586	10,249	363
- purchase	-	-	1,681	-	1,681	-
- transfer from investments	-	2,836	5,311	396	8,543	363
- transfer	-	44	(1,211)	1,127	(40)	-
- currency translation differences on foreign operations	-	2	-	-	2	-
- other	-	-	-	63	63	-
Decrease	-	(251)	(1,854)	-	(2,105)	-
- sale	-	-	-	-	-	-
- liquidation	-	(248)	(331)	-	(579)	-
- currency translation differences on foreign operations	-	-	(31)	-	(31)	-
- other	-	(3)	(1,492)	-	(1,495)	-
	-----	-----	-----	-----	-----	-----
Gross book value as at Dec 31 2008	528	17,966	88,416	7,420	114,330	6,179
Gross book value as at Jan 1 2009	528	17,966	88,416	7,420	114,330	6,179
Increase	-	308	46,835	4,061	51,204	36,371
- purchase	-	970	35,811	-	36,781	36,215
- transfer from investments	-	341	11,113	4,034	15,488	-
- transfer	-	(975)	(89)	(6)	(1,070)	156
- reclassified to assets available for sale	-	(38)	-	-	(38)	-
- currency translation differences on foreign operations	-	-	-	-	-	-
- changes in the Group's structure	-	10	-	33	43	-
- other	-	-	-	-	-	-
Decrease	-	(3,373)	(1,197)	(66)	(4,636)	(292)
- sale	-	(10)	-	(3)	(13)	-
- liquidation	-	(3,353)	(915)	(63)	(4,331)	-
- currency translation differences on foreign operations	-	(10)	(282)	-	(292)	(292)
- other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Gross book value as at Dec 31 2009	528	14,901	134,054	11,415	160,898	42,258

THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

PLN '000	Development expense	Software	Patents, trademarks and licences	Other	Total	- exploration and evaluation assets ⁽¹⁾
Accumulated amortisation as at January 1 2008						
	269	9,041	29,261	2,592	41,163	1,923
Increase	102	3,125	12,022	2,542	17,791	1,369
- amortisation	102	3,092	13,004	1,608	17,806	1,369
- transfer	-	33	(982)	934	(15)	-
- other	-	-	-	-	-	-
Decrease	-	(238)	(331)	-	(569)	-
- liquidation	-	(235)	(331)	-	(566)	-
- other	-	(3)	-	-	(3)	-
	-----	-----	-----	-----	-----	-----
Accumulated amortisation as at Dec 31 2008	371	11,928	40,952	5,134	58,385	3,292
Accumulated amortisation as at Jan 1 2009						
	371	11,928	40,952	5,134	58,385	3,292
Increase	-	1,395	8,838	997	11,230	1,402
- amortisation	-	2,415	8,878	1,003	12,296	1,358
- transfer	-	(982)	(40)	(6)	(1,028)	44
- reclassified to assets available for sale	-	(38)	-	-	(38)	-
- other	-	-	-	-	-	-
Decrease	-	(3,244)	(583)	(55)	(3,882)	(4)
- sale	-	(10)	-	-	(10)	-
- liquidation	-	(3,230)	(583)	(55)	(3,868)	-
- currency translation differences on foreign operations	-	(4)	-	-	(4)	(4)
- other	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Accumulated amortisation as at Dec 31 2009	371	10,079	49,207	6,076	65,733	4,690
Impairment losses as at Jan 1 2008						
	(27)	51	-	-	24	-
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Impairment losses as at Dec 31 2008	(27)	51	-	-	24	-
Impairment losses as at Jan 1 2009						
	(27)	51	-	-	24	-
Increase	-	85	5,867	-	5,952	5,864
Decrease	-	-	(51)	-	(51)	(51)
	-----	-----	-----	-----	-----	-----
Impairment losses as at Dec 31 2009	(27)	136	5,816	-	5,925	5,813

THE LOTOS GROUP
Notes to the consolidated financial statements for the year ended December 31st 2009

PLN '000	Development expense	Software	Patents, trademarks and licences	Other	Total	- exploration and evaluation assets ⁽¹⁾
Net book value as at Jan 1 2008	286	6,243	55,228	3,242	64,999	3,893
	=====	=====	=====	=====	=====	=====
Net book value as at Dec 31 2008	184	5,987	47,464	2,286	55,921	2,887
	=====	=====	=====	=====	=====	=====
Net book value as at Dec 31 2009	184	4,686	79,031	5,339	89,240	31,755
	=====	=====	=====	=====	=====	=====

⁽¹⁾ The value of exploration and evaluation assets comprises the value of expenses capitalised until technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

The cost of amortisation of intangible assets in respect of which technical feasibility and commercial viability of extracting a mineral resource have been demonstrated amounted to PLN 56 thousand in the year ended December 31st 2009 (December 31st 2008: PLN 68 thousand).

The cost of amortisation of exploration and evaluation assets recognised under intangible items amounted to PLN 1,358 thousand in the year ended December 31st 2009 (December 31st 2008: PLN 1,369 thousand).

In the year ended December 31st 2009, impairment losses on exploration and evaluation assets recognised under intangible assets amounted to PLN 5,864 thousand.

16. Assets Held for Sale

PLN '000	Dec 31 2009	Dec 31 2008
Land	1,376	1,376
Buildings and structures	2,676	2,676
Plant and equipment	33	33
Vehicles	1,124	4,546
	=====	=====
Total	5,209	8,631
	=====	=====

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

Assets held for sale include, *inter alia*, land owned, perpetual usufruct right to land, buildings, structures, plant and equipment related to service stations and the storage and reloading base (logistics assets), as well as vehicles (railway engines). As at December 31st 2009, held-for-sale assets presented in the downstream segment amount to PLN 2,409 thousand (December 31st 2008: PLN 5,831 thousand).

17. Business Combinations

PLN '000	Dec 31 2009	Dec 31 2008
Carrying value of consolidation goodwill:		
- LOTOS Partner Sp. z o.o.	1,862	1,862
- LOTOS Gaz S.A. ⁽¹⁾	10,009	10,009
- Energobaltic Sp. z o.o. ⁽²⁾	1,126	-
- KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) ⁽³⁾	-	-
	=====	=====
Total	12,997	11,871
	=====	=====
Carrying value of acquisition goodwill ⁽⁴⁾ :		
- purchase of ESSO service stations network	31,759	31,759
- purchase of Slovnaft Polska service stations network	1,932	1,932
	=====	=====
Total	33,691	33,691
	=====	=====
Total goodwill	46,688	45,562
	=====	=====

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

⁽²⁾ Acquisition of Shares in Energobaltic Sp. z o.o. by Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.)

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

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

Energobaltic Sp. z o.o. Recovery Proceedings

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

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

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

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

The above transaction was accounted for and presented in these consolidated financial statements as a business combination achieved in stages within the meaning of the revised IFRS 3 *Business Combinations*, based on the fair values of identifiable assets acquired and liabilities assumed.

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

(PLN '000)	<u>November 27th 2009</u>
Consideration transferred (acquisition-date fair value) (A)	34,179
Acquisition-date fair value of the acquirer's previously held equity interest in the acquiree (B)	35,456
Total (A+B)	69,635
Equity interest in the acquiree	100.00%
Current assets, including:	8,164
Cash and cash equivalents	4,561
Non-current assets	130,620
Total assets	138,784
Provisions	10,303
Non-current liabilities	45,660
Current liabilities, and accruals and deferred income	14,312
Total liabilities and provisions	70,275
Net assets	68,509
Company's share in net assets	68,509
Excess of the share in net assets over acquisition cost (goodwill)	1,126

In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognises the resulting gain or loss, if any, in the statement of comprehensive income. The remeasurement of Petrobaltic S.A.'s previously held equity interest in Energobaltic Sp. z o.o. at its acquisition-date fair value was posted to finance income in the amount of PLN 12,525 thousand.

Determination of the fair value of the consideration transferred had to take into account the valuation of the liabilities and receivables taken over by Petrobaltic S.A. as part of the business combination, of PLN 321 thousand.

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

As at the balance-sheet date, that is December 31st 2009, Petrobaltic S.A.'s liability under the acquisition of shares in Energobaltic Sp. z o.o. from Stablewood Power Ventures (Wladyslawowo) Ltd. amounted to PLN 30,011 thousand.

(3) Impairment Loss on Goodwill from the Acquisition of KRAK-GAZ Sp. z o.o. (from July 23rd 2009 KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation))

As at December 31st 2008, following the events which are discussed below, the Group recognised an impairment loss in the total amount of PLN 12,645 thousand on the goodwill which arose on the acquisition of KRAK-GAZ Sp. z o.o. by LOTOS Gaz S.A. on July 9th 2007.

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

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

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

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

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

Furthermore, KRAK-GAZ Sp. z o.o. submitted with the Director of Tax Supervision Authority in Kraków a request to stay execution of the decisions and, if this request were not to be granted, a request to allow payment of the tax arrears in instalments. By virtue of a decision of February 24th 2009, the Director of the Customs Chamber in Kraków dismissed the request to stay the execution of the decisions. KRAK-GAZ Sp. z o.o. lodged a complaint against the dismissal on March 9th 2009, seeking reversal of the decision of February 24th 2009 and stay of execution of the decision issued by the Director of Tax Supervision Authority on October 31st 2008.

Concurrently, KRAK-GAZ Sp. z o.o. filed an appeal against the decision by the Director of the Customs Office in Kraków of October 31st 2008, establishing the amount of excise duty liability for the years 2003–2004. By virtue of his decisions of May 6th 2009, the Director of the Customs Chamber in Kraków upheld the decisions issued by the Director of the Customs Office. On June 8th 2009, KRAK-GAZ Sp. z o.o. filed complaints with the Provincial Administrative Court against the decisions of the second instance authority. These complaints have not yet been considered.

On July 20th 2009, the Director of the Customs Chamber in Kraków submitted to the Provincial Administrative Court responses to the 16 complaints by KRAK-GAZ Sp. z o.o. against the decisions of May 6th 2009.

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a petition requesting a declaration of its bankruptcy by liquidation of assets. On July 23rd 2009, District Court for Kraków-Sródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings are pending.

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

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

On December 15th 2008, the Management Board of LOTOS Gaz S.A. instigated arbitration proceedings against the sellers of shares in KRAK-Gaz Sp. z o.o. On April 14th 2010 the Arbitration Court issued its award in the case instituted by LOTOS Gaz S.A. against the sellers of the company shares and in the cross action for payment instituted by the sellers. The court awarded (i) to LOTOS Gaz S.A.: PLN 4,155 thousand along with interest from December 19th 2008 until the payment date, to be paid jointly and severally by the defendants, and (ii) to the sellers, based on the cross action: PLN 1,682 thousand along with interest from July 5th 2009 until the payment date, to be paid by LOTOS Gaz S.A. Furthermore, as reimbursement of the costs of proceedings, the court awarded PLN 209 thousand to LOTOS Gaz S.A. to be paid by the sellers, and PLN 98 thousand to the sellers to be paid by LOTOS Gaz S.A. Any other mutual claims for reimbursement of costs/expenses between the parties were cancelled by the court. LOTOS Gaz S.A. intends to file a complaint seeking reversal of the Arbitration Court's award.

LOTOS Gaz S.A. additionally obtained a decision from the Regional Court in Kraków, dated November 17th 2008, establishing a claim bond to secure LOTOS Gaz S.A.'s claims against the sellers of the shares up to the amount of PLN 5,975 thousand (the enforcement clause was appended on January 20th 2009). On February 2nd 2009, the sellers petitioned for cancellation of the claim bond. In its decision of April 23rd 2009, the Regional Court in Kraków declared cancellation of the claim bond. Next, following a complaint filed by LOTOS Gaz S.A., by virtue of its decision of June 15th 2009, the Kraków Court of Appeals changed the decision appealed against in such a manner that the sellers' petition for cancellation of the claim bond was dismissed. On the basis of the final decision granting the claim bond, LOTOS Gaz S.A. instigated enforcement proceedings concerning the claim bond before the court enforcement officer of the District Court for Gdańsk-Północ in Gdańsk. As at the date of approval of these consolidated financial statements the proceedings are pending, but have so far been ineffective i.e. no sellers' property has been seized.

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

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

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

In May 2009, LOTOS Gaz S.A. filed a notification of suspected offence of fraud to the detriment of LOTOS Gaz S.A. by the sellers of KRAK-GAZ Sp. z o.o. An investigation was launched by the prosecutor's office and is still under way. In February 2010, the proceedings were extended to investigate the issue of exercise of due diligence by the persons who participated in the KRAK-GAZ Sp. z o.o. acquisition process on the part of LOTOS.

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

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

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

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

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

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

(PLN '000)

December 31st 2009

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

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

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

⁽⁴⁾ Goodwill Arising on Acquisition of an Organised Part of Business from ExxonMobil Poland and Slovnaft Polska

As at December 31st 2009 and December 31st 2008, the Group disclosed goodwill from the acquisition of an organised part of business from ExxonMobil Poland and Slovnaft Polska, with a net value of PLN 31,759 thousand and PLN 1,932 thousand, respectively.

As at December 31st 2009 and December 31st 2008, the Group tested its assets for impairment. As at December 31st 2009 and December 31st 2008, no additional impairment loss on goodwill was recognised.

18. Investments in Associated Undertakings

As at December 31 2009, the Group carried investments in the following associated undertakings:

Company name	Registered office	Business area	Dec 31 2009
AB Geonafta (prior to the merger - AB „Naftos Gavyba”) ⁽¹⁾ (parent undertaking of another group)	Klaipeda, Lithuania	Exploration for and production of crude oil, drilling services, and purchase and sale of crude oil	40.31%

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

The merger of AB Naftos Gavyba and AB Geonafta was registered on August 7th 2009 and on the same date AB Naftos Gavyba was removed from the relevant register. Petrobaltic S.A. and UAB Meditus hold (subsequent to the merger) shares accounting for 40.59% and 59.41% of AB Geonafta's share capital, respectively.

As at December 31st 2009, AB Geonafta was owned by Petrobaltic S.A., holding 40.59% of its share capital, and UAB Meditus, holding 59.41% of its share capital. The Group holds indirectly 40.31% of AB Geonafta's share capital (as at December 31st 2008: 29.46% of AB Naftos Gavyba's share capital). AB Geonafta is the parent undertaking of its own group ("AB Geonafta Group") which comprises subsidiary undertaking UAB Geñciu Nafta and two jointly-controlled undertakings: UAB Minijos nafta and UAB Manifoldas.

On November 27th 2009, Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.) acquired control over Energobaltic Sp. z o.o. (see Note 17).

As at December 31st 2008, the Group carried investments in the following associated undertakings:

Company name	Registered office	Business area	Dec 31 2008
Energobaltic Sp. z o.o.	Gdańsk	Production activities	32.16%
AB Naftos Gavyba	Klaipeda, Lithuania	Services	29.46%

Investments in associated undertakings are accounted for using the equity method. The carrying value of investments in associated undertakings is as follows:

PLN '000	Dec 31 2009	Dec 31 2008
	(comparable data)	
AB Geonafta Group	88,255 ⁽¹⁾	59,048
Energobaltic Sp. z o.o.	_ ⁽³⁾	_ ⁽²⁾
	=====	=====
Total investments in associated undertakings	88,255	59,048
	=====	=====

⁽¹⁾ As at December 31st 2009, the Group presents its share in the net assets of the AB Geonafta Group after accounting for the changes in the company's shareholder structure as a result of the merger of AB Naftos Gavyba and AB Geonafta.

⁽²⁾ As at December 31st 2008, the value of shares in Energobaltic Sp. z o.o. was fully covered by an impairment charge (see Note 21).

⁽³⁾ On November 27th 2009, Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 17).

On April 25th 2008, the General Shareholders Meeting of AB Naftos Gavyba (AB Geonafta after the merger), an associated undertaking, approved the financial statements for 2007 and resolved to allocate the profit generated in 2007 in the amount of LTL 68m to dividend payment. Petrobaltic S.A. received for 2007 dividend in the amount of LTL 29,036 thousand (PLN 28,746 thousand). In 2008, Petrobaltic S.A. received a part of the dividend due, in the amount of LTL 27,679 thousand (PLN 26,543 thousand). In 2009, Petrobaltic S.A. received the remaining part of the dividend due for 2007, amounting to LTL 1,357 thousand (PLN 1,737 thousand).

Net assets of material undertakings accounted for using the equity method:

PLN '000	Dec 31 2009	Dec 31 2008
	(comparable data)	
AB Geonafta Group	217,418	138,284
Energobaltic Sp. z o.o.	_ ⁽¹⁾	17,893

⁽¹⁾ On November 27th 2009, Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 17).

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Liabilities and provisions for liabilities of material undertakings accounted for using the equity method:

PLN '000	Dec 31 2009	Dec 31 2008
	(comparable data)	
AB Geonafta Group	38,061	144,868
Energobaltic Sp. z o.o.	-(⁽¹⁾)	97,976

⁽¹⁾ On November 27th 2009, Petrobaltic S.A. acquired control over Energobaltic Sp. z o.o. (see Note 17).

Sales revenue of undertakings accounted for using the equity method:

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
	(comparable data)	
AB Geonafta Group	144,463	205,983
Energobaltic Sp. z o.o.	17,773 ⁽¹⁾	26,686

⁽¹⁾ Until the day of acquisition of control by Petrobaltic S.A. (see Note 17).

Net profit/(loss) of material undertakings accounted for using the equity method:

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
	(comparable data)	
AB Geonafta Group	20,269	62,179
Energobaltic Sp. z o.o.	(2,562) ⁽¹⁾	(9,321)

⁽¹⁾ Until the day of acquisition of control by Petrobaltic S.A. (see Note 17).

Share in net profit (loss) of undertakings accounted for using the equity method, recognised in the Group's statement of comprehensive income:

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
	(comparable data)	
AB Geonafta Group	8,227	26,551
	=====	=====
Total	8,227	26,551
	=====	=====

In the statement of changes in equity for the year ended December 31st 2008, the Group recognised share of change in the equity of the AB Geonafta Group in the amount of PLN (12,338) thousand (after retrospective adjustment of comparable data, see Note 9).

19. Non-Current Financial Assets

PLN '000	Dec 31 2009	Dec 31 2008 (comparable data)
Shares in other undertakings	9,917	9,917
Positive valuation of derivative financial instruments:	54,862	22,848
- futures (CO ₂ emissions)	95	-
- IRS	54,767	22,848
Other non-current financial assets:	21,273	16,599
- decommissioning fund	20,962	16,599
- non-current deposits	311	-
	=====	=====
Total	86,052	49,364
	=====	=====

20. Current Financial Assets

PLN '000	Dec 31 2009	Dec 31 2008 (comparable data)
Positive valuation of derivative financial instruments:	47,017	279,456
- commodity swaps (raw materials and petroleum products)	-	113,334
- futures (CO ₂ emissions)	442	15
- currency forward and spot contracts	46,575	159,985
- currency options	-	6,122
Other:	12	26,456
- prepayments for shares	-	25,332 ⁽¹⁾
- shares	12	1,124
	=====	=====
Total	47,029	305,912
	=====	=====

⁽¹⁾ As at December 31st 2008, the Group carried assets invested in associated undertaking AB Naftos Gavyba (AB Geonafta after the merger) in the total amount of PLN 25,332 thousand, the source of which were the funds provided to AB Naftos Gavyba by Petrobaltic S.A. in 2000 to finance the purchase of AB Geonafta shares, subject to a condition precedent (Conditional Agreement on Purchase of Ownership Rights to Shares, dated July 18th 2000; hereinafter referred to as the Agreement of July 18th 2000). As at December 31st 2009, these assets were reclassified to "Investments in associated undertakings" (see Note 18) and valued appropriately in connection with implementation of the provisions of the Agreement of July 18th 2000 (see Note 18). Valuation of these assets invested in associated undertaking AB Geonafta at the amount of the net assets of the AB Geonafta Group acquired as a result of the merger (see Note 18) was recognised as revaluation of financial assets in finance expenses in the amount of PLN 1,500 thousand.

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

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

As at December 31st 2009, positive valuation of financial instruments related to mandatory hedging agreements, over which an assignment was created as security for the credit facility referred to in Note 30, amounted to PLN 41,698 thousand (December 31st 2008: PLN 150,816 thousand).

21. Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

The Group discloses derivative transactions with positive fair values under financial assets held for trading. Derivative transactions with negative fair values are disclosed under financial liabilities held for trading. Under financial assets and liabilities held for trading the Group discloses valuation of the following types of derivatives: swaps, futures, forwards, options, interest-rate swaps, forward rate agreement.

Fair value of commodity swaps is established by reference to future cash flows connected with the transactions, calculated on the basis of the difference between the average market price and the transaction price. The fair value has been established on the basis of prices quoted on active markets, as provided by an external consultancy (Level 2 in the fair value hierarchy).

Fair value of futures contracts for carbon dioxide (CO₂) allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the European Climate Exchange (ECX) for the valuation date, and the transaction price (Level 1 in the fair value hierarchy).

Fair value of spots and currency forwards is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the interest rate curve implied in fx swaps (Level 2 in the fair value hierarchy).

Apart from the parameters used in the valuation of currency forwards, implied volatility is additionally taken into account in calculating the value of currency options (Level 2 in the fair value hierarchy).

Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction. In 2008, the forward rate was calculated on the basis of the zero-coupon interest rate curve based on 3M LIBOR, so the basis swaps between the 3M and the 6M LIBOR reference rate were not accounted for. This is considered Level 2 in the fair value hierarchy.

Financial Assets Available for Sale

Non-current financial assets available for sale measured at fair value as at December 31st 2009 and December 31st 2008 include mainly shares and equity interests for which there is no active market.

Loans Advanced and Receivables

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

As at December 31st 2009 and December 31st 2008, assets under the advanced loans were fully covered by a recognised impairment charge. As at December 31st 2008, the Company had provisions of PLN 15,853 thousand for potential liabilities under these agreements. During the year ended December 31st 2009, the provisions were released (see Note 31).

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty GLIMAR S.A. of Gorlice bankrupt. Upon consideration on March 11th 2008 of the petition for discontinuation of the bankruptcy proceedings, submitted by bankruptcy administrator Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy

Łącz, Commercial Court Division V, decided to discontinue the bankruptcy proceedings pursuant to Art. 361.2 of the Bankruptcy and Recovery Law.

The decision issued by the District Court of Nowy Sącz, Commercial Court Division V, was appealed against to the Regional Court of Kraków, Appellate Commercial Division XII. On July 25th 2008, the Regional Court of Kraków, Appellate Commercial Division XII, issued a decision (court docket No. XII Gz 242/08) dismissing the appeals. Accordingly, the decision of the District Court of Nowy Sącz, Commercial Court Division V on discontinuation of the bankruptcy proceedings became final.

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

2. On November 12th 2001 an agreement was concluded under which Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to PLN 10,438 thousand as at December 31st 2009 (PLN 22,994 thousand as at December 31st 2008). As at December 31st 2008, an impairment loss was recognized on the full value of the loan, on the basis of an analysis of the economic and financial standing of Energobaltic Sp. z o.o., performed based on the 2007 financial statements, and considering the projections for the following years and the related risk of a loss of liquidity in the event of failure of the measures taken by the Management Board of Energobaltic Sp. z o.o. to restructure the company's indebtedness, i.e. to postpone the repayment of bank loans and shareholder loans. As at December 31st 2008, an impairment loss was also recognised on the shares held in Energobaltic Sp. z o.o.

As at December 31st 2009, in connection with performance of terms of the Arrangement implemented at Energobaltic Sp. z o.o. (see Note 17), including acquisition of new and purchase of existing shares in Energobaltic Sp. z o.o., Petrobaltic S.A. reversed the impairment loss on the financial assets in the amount of PLN 29,344 thousand. The amount was recognised in finance income.

Financial Liabilities Valued at Amortised Cost

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

None of the following economic events or situations requiring disclosure occurred at the Group during the reporting periods ended December 31st 2009 and December 31st 2008:

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

21.1. Carrying Value of Financial Instruments

Dec 31 2009 (PLN '000)	Note	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Shares:		-	-	9,929	-	-	9,929
- non-current	19	-	-	9,917	-	-	9,917
- current	20	-	-	12	-	-	12
Prepayments for shares	20	-	-	-	-	-	-
Decommissioning fund	19	-	20,962	-	-	-	20,962
Non-current deposits	19	-	311	-	-	-	311
Loans:	21	-	-	-	-	-	-
- non-current		-	-	-	-	-	-
- current		-	-	-	-	-	-
Derivative financial instruments:		101,879	-	-	-	-	101,879
- non-current	19	54,862	-	-	-	-	54,862
- current	20	47,017	-	-	-	-	47,017
Trade and other receivables:		-	1,515,812	-	-	-	1,515,812
- non-current	12	-	22,061	-	-	-	22,061
- current	23	-	1,493,751	-	-	-	1,493,751
Cash and cash equivalents	24	-	362,078	-	-	-	362,078
Trade and other payables:	33	-	-	-	-	(1,094,702)	(1,094,702)
- non-current		-	-	-	-	(38,894)	(38,894)
- current		-	-	-	-	(1,055,808)	(1,055,808)
Loans and borrowings:	30	-	-	-	-	(5,701,071)	(5,701,071)
- non-current		-	-	-	-	(4,942,590)	(4,942,590)
- current		-	-	-	-	(758,481)	(758,481)
Financial liabilities	32	-	-	-	(236,371)	(83,149)	(319,520)
Lease liabilities:	32	-	-	-	-	(83,149)	(83,149)
- non-current		-	-	-	-	(80,304)	(80,304)
- current		-	-	-	-	(2,845)	(2,845)
Derivative financial instruments:	32	-	-	-	(236,371)	-	(236,371)
- non-current		-	-	-	(220,085)	-	(220,085)
- current		-	-	-	(16,286)	-	(16,286)
		=====	=====	=====	=====	=====	=====
Total		101,879	1,899,163	9,929	(236,371)	(6,878,922)	(5,104,322)
		=====	=====	=====	=====	=====	=====

As at December 31st 2009, the Group held no financial assets whose terms would be renegotiated due to the possibility of default or impairment.

As at December 31st 2009, the Group did not carry any financial assets or liabilities measured at fair value through profit or loss whose components would be designated as measured at fair value through profit or loss on initial recognition (fair value option).

As at December 31st 2009, the Group did not carry any financial assets held to maturity.

As at December 31st 2009, the carrying value of the above classes of financial instruments corresponded to their fair value.

As at December 31st 2009, the carrying value of cash and cash equivalents, deposits, receivables, payables/liabilities and financial liabilities measured at amortised cost approximated their fair value. Long-term bank loans bear interest at floating rates, with interest payable in a short term.

As at December 31st 2009, financial assets available for sale measured at fair value comprised mainly shares for which there was no active market.

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

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Dec 31 2008 (comparable data) (PLN '000)	Note	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Shares:		-	-	11,041	-	-	11,041
- non-current	19	-	-	9,917	-	-	9,917
- current	20	-	-	1,124	-	-	1,124
Prepayments for shares	20	-	25,332	-	-	-	25,332
Decommissioning fund	19	-	16,599	-	-	-	16,599
Non-current deposits	19	-	-	-	-	-	-
Loans:	21	-	-	-	-	-	-
- non-current		-	-	-	-	-	-
- current		-	-	-	-	-	-
Derivative financial instruments		302,304	-	-	-	-	302,304
- non-current	19	22,848	-	-	-	-	22,848
- current	20	279,456	-	-	-	-	279,456
Trade and other receivables:		-	1,260,660	-	-	-	1,260,660
- non-current	12	-	9,152	-	-	-	9,152
- current	23	-	1,251,508	-	-	-	1,251,508
Cash and cash equivalents	24	-	712,801	-	-	-	712,801
Trade and other payables:	33	-	-	-	-	(1,260,855)	(1,260,855)
- non-current		-	-	-	-	(4,824)	(4,824)
- current		-	-	-	-	(1,256,031)	(1,256,031)
Loans and borrowings:	30	-	-	-	-	(3,919,605)	(3,919,605)
- non-current		-	-	-	-	(3,412,245)	(3,412,245)
- current		-	-	-	-	(507,360)	(507,360)
Financial liabilities	32	-	-	-	(218,526)	(1,415)	(219,941)
Lease liabilities:	32	-	-	-	-	(1,415)	(1,415)
- non-current		-	-	-	-	(854)	(854)
- current		-	-	-	-	(561)	(561)
Derivative financial instruments	32	-	-	-	(218,526)	-	(218,526)
- non-current		-	-	-	(175,533)	-	(175,533)
- current		-	-	-	(42,993)	-	(42,993)
		=====	=====	=====	=====	=====	=====
Total		302,304	2,015,392	11,041	(218,526)	(5,181,875)	(3,071,664)
		=====	=====	=====	=====	=====	=====

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

As at December 31st 2008, the Group did not carry any financial assets or liabilities measured at fair value through profit or loss whose components would be designated as measured at fair value through profit or loss on initial recognition (fair value option).

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

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

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

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

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

Year ended Dec 31 2009 (PLN '000)	Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income/ (expense)	-	22,196	-	(69,190)	(46,994)
Foreign exchange gains/ (losses)	-	(64,005)	-	513,441	449,436
Reversal/(recognition) of impairment losses	-	(28,778)	-	-	(28,778)
Gains/ (losses) on fair value measurement	(214,594)	-	-	-	(214,594)
Gains/ (losses) on realisation	216,047	-	-	-	216,047
Gains/ (losses) on disposal	-	-	688	-	688
	=====	=====	=====	=====	=====
Total	1,453	(70,587)	688	444,251	375,805
	=====	=====	=====	=====	=====

Year ended Dec 31 2008 (PLN '000)	Financial assets/ liabilities at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income/ (expense)	-	51,849	-	(52,285)	(436)
Foreign exchange gains/ (losses)	-	(69,309)	-	(377,414)	(446,723)
Reversal/(recognition) of impairment losses	-	(28,619)	-	-	(28,619)
Gains/ (losses) on fair value measurement	(12,238)	-	-	-	(12,238)
Gains/ (losses) on realisation	(234,999)	-	-	-	(234,999)
Gains/ (losses) on disposal	-	-	1,027	-	1,027
	=====	=====	=====	=====	=====
Total	(247,237)	(46,079)	1,027	(429,699)	(721,988)
	=====	=====	=====	=====	=====

21.3. Financial Risk Management

The Group is exposed to financial risk, including chiefly:

- market risk (risk related to the prices of raw materials and petroleum products, risk related to prices of CO₂ emission allowances, currency risk, interest rate risk)
- liquidity risk
- credit risk related to financial and trade transactions.

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

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

- 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, at the assumed risk level.

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

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

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

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

Risk Related to Prices of Raw Materials and Petroleum Products

The Company regards management of the risk related to prices of raw materials and petroleum products, as well as the currency risk, as an issue of utmost importance.

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

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

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

As at December 31st 2009, the underlying refining margin position stood at (in barrels):

Period	Underlying position
Q1 2010	10,117,129
Q2 2010	10,752,077
Q3 2010	11,203,544
Q4 2010	11,817,957

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

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

The last transactions hedging refining margin expired on September 30th 2009. Due to adverse market conditions, the LOTOS Group resolved not to enter into hedging transactions until margins improve to levels which are satisfactory to the Company.

There were no open refining margin transactions as at December 31st 2009.

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Notes to the consolidated financial statements for the year ended December 31st 2009

Open refining margin transactions as at December 31st 2008:

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

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

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

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

As at December 31st 2008, negative fair value of commodity swaps was PLN (7.910) thousand.

¹⁾ Fair value of commodity swaps is established by reference to future cash flows connected with the executed transactions, calculated on the basis of the difference between the average market price and the transaction price. The fair value has been established on the basis of prices quoted on active markets, as provided by an external consultancy (Level 2 in the fair value hierarchy).

Total refining margin position as at December 31st 2009 (in barrels):

Period	Underlying position	Transaction position	Total position	Hedge ratio
Q1 2010	10,117,129	-	10,117,129	0%
Q2 2010	10,752,077	-	10,752,077	0%
Q3 2010	11,203,544	-	11,203,544	0%
Q4 2010	11,817,957	-	11,817,957	0%
2010	43,890,707	-	43,890,707	0%

Total refining margin position as at December 31st 2008 (in barrels):

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

Risk Related to Prices of Carbon Dioxide (CO₂) Allowances

The risk related to prices of carbon dioxide (CO₂) allowances is managed in line with the assumptions set forth in *The Strategy for Managing the Risk Related to Prices of Carbon Dioxide (CO₂) Allowances by Grupa LOTOS S.A.* The period covered by the management is determined by the individual phases of the Kyoto protocol; currently, it is the period until the end of 2012.

A position limit is defined based on the number of allowances granted for a given phase. The position in a given phase comprises the aggregate of positions for individual years within the phase. The maximum loss limit is defined based on the Company's equity.

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

The basic risk map takes into account the allowances granted and the carbon dioxide (CO₂) emissions planned for a given phase, which can be reliably determined both with respect to the existing installations and the installations which are planned to be constructed.

Underlying carbon dioxide (CO₂) allowances position as at December 31st 2009:

Period	EUA	CER	TOTAL
Phase II (2008-2012)	(122,789)	82,010	(40,779)

Underlying carbon dioxide (CO₂) allowances position as at December 31st 2008:

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

In connection with concerns that the prices of carbon dioxide (CO₂) emission allowances might decline in the short-term perspective, the Company maintained a short position in the allowances. Additionally, due to uncertainty as to the number of allowances to be granted for the units constructed under the 10+ Programme, the Company sought to minimise the size of its open position in the carbon dioxide (CO₂) emission allowances. In 2009, the Company entered into EUA/CER swap transactions, as that was justified by the spread between these two types of emission allowances.

Open CO₂ allowances transactions as at December 31st 2009:

Company	Type of transaction	Transaction execution date	Transaction settlement date	No. of CO ₂ allowances	Price (EUR/tonne)	Fair value as at Dec 31 2009 (PLN '000) ²
Grupa LOTOS S.A.	EUA Futures	Nov 2 2009	Dec 20 2012	(1,000)	16	9
Grupa LOTOS S.A.	CER Futures	Nov 2 2009	Dec 20 2012	1,000	14	(9)
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(27,000)	15	237
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(1,000)	15	9
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(3,000)	15	27
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(9,000)	15	80
Grupa LOTOS S.A.	EUA Futures	Nov 5 2009	Dec 23 2010	(10,000)	15	89
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 23 2010	10,000	13	(73)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 23 2010	22,000	13	(162)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 23 2010	10,000	13	(75)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	5,000	13	(35)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	25,000	13	(178)
Grupa LOTOS S.A.	CER Futures	Dec 10 2009	Dec 20 2012	20,000	13	(143)
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	8
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	8
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(1,000)	15	8
Grupa LOTOS S.A.	EUA Futures	Dec 16 2009	Dec 22 2011	(8,000)	15	62
				31,000	TOTAL, including:	(138)
					positive	537
					negative	(675)

Open CO₂ allowances transactions as at December 31st 2008:

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

²⁾ Fair value of futures contracts for carbon dioxide (CO₂) allowances (EUA, CER) is established by reference to the difference between the market price, quoted by the European Climate Exchange (ECX) for the valuation date, and the transaction price (Level 1 in the fair value hierarchy).

Total CO₂ allowances position as at December 31st 2009:

Period	EUA position			CER position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
Phase II (2008-2012)	(122,789)	(62,000)	(184,789)	82,010	93,000	175,010

Total CO₂ allowances position as at December 31st 2008:

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

Currency Risk

Currency risk is managed in line with the assumptions stipulated in *The Strategy of Currency Risk Management at Grupa LOTOS S.A.* The exposure management horizon is connected with the introduction of a budget roll over into four quarters in advance as a permanent component of planning activities at the Company. The four quarter period is treated as the basis for determining the exposure management time horizon. The base map of currency positions takes into account principally the volumes and price formulas for purchases of raw materials and sales of products, investments, loans denominated in foreign currencies, as well as valuation of derivatives, and may be adjusted for a ratio reflecting the volatility in the prices of raw materials and petroleum products. The strategy provides for the calculation of the following limits:

- transaction position limit (open currency transactions must not increase the Company's underlying position);
- maximum loss and liquidity limits are expressed as a percentage of the Company's equity (the liquidity limit is calculated in order to reduce the risk of excessive accumulation of financial transactions over a limited period of time, the settlement of which could result in liquidity and operating problems);
- gross total and global currency position limits applicable for the entire management period as well as for sub-periods.

For the purpose of the limits calculation, equity is remeasured on a quarterly basis. Moreover, when a loss on risk management exceeds a defined threshold, limits are immediately revised in order to prevent any significant exceeding of the maximum loss limit set by the Management Board of Grupa LOTOS S.A. The strategy allows for the possibility of consolidated risk management at the Group level.

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

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

Underlying currency position as at December 31st 2009:

Period	USD	EUR
2010	406,436,729	(287,449,821)

Underlying currency position as at December 31st 2008:

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

Grupa LOTOS S.A. actively manages its currency position and changes it depending on the expected market developments. The Company's currency position at the end of 2009 was in line with the market expectations as to appreciation of the US dollar against the euro. Grupa LOTOS S.A. resolved to hedge a part of its currency position at lower prices in 2010, bearing in mind that the maximum loss caused by the absence of full hedging may not exceed the loss limit set by the Management Board, representing a small fraction of the equity.

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Open currency transactions as at December 31st 2009:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2009 (PLN '000) ³
Grupa LOTOS S.A.	Currency forward	May 27 2009	Jan 8 2010	USD/PLN	(15,000,000)	3.2	48,297,000	5,532
Grupa LOTOS S.A.	Currency forward	May 27 2009	Jan 14 2010	USD/PLN	(15,000,000)	3.2	48,394,500	5,610
Grupa LOTOS S.A.	Currency forward	May 27 2009	Jan 28 2010	USD/PLN	(18,000,000)	3.2	58,024,800	6,627
Grupa LOTOS S.A.	Currency forward	May 27 2009	Feb 19 2010	USD/PLN	(15,000,000)	3.2	48,637,500	5,732
Grupa LOTOS S.A.	Currency forward	May 27 2009	Mar 11 2010	USD/PLN	(15,000,000)	3.2	48,547,500	5,576
Grupa LOTOS S.A.	Currency forward	May 27 2009	Mar 18 2010	USD/PLN	(14,000,000)	3.3	45,592,400	5,465
Grupa LOTOS S.A.	Currency forward	May 27 2009	Apr 8 2010	USD/PLN	(4,000,000)	3.2	12,960,000	1,479
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Jan 28 2010	USD/PLN	7,700,000	3.0	(22,730,400)	(748)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Feb 19 2010	USD/PLN	15,000,000	3.0	(44,332,500)	(1,444)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Mar 11 2010	USD/PLN	10,000,000	3.0	(29,579,000)	(947)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Mar 18 2010	USD/PLN	19,000,000	3.0	(56,215,300)	(1,790)
Grupa LOTOS S.A.	Currency forward	Aug 20 2009	Apr 8 2010	USD/PLN	4,000,000	3.0	(11,858,000)	(385)
Grupa LOTOS S.A.	Currency forward	Sep 21 2009	Jan 8 2010	USD/PLN	15,000,000	2.9	(42,817,500)	(55)
Grupa LOTOS S.A.	Currency forward	Sep 21 2009	Jan 14 2010	USD/PLN	15,000,000	2.9	(42,835,500)	(56)
Grupa LOTOS S.A.	Currency forward	Sep 21 2009	Jan 28 2010	USD/PLN	10,300,000	2.9	(29,435,855)	(33)
Grupa LOTOS S.A.	Currency forward	Oct 14 2009	Apr 16 2010	USD/PLN	(7,000,000)	2.9	20,064,800	(19)
Grupa LOTOS S.A.	Currency forward	Oct 16 2009	Jan 21 2010	USD/PLN	(2,000,000)	2.8	5,687,200	(19)
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Jan 25 2010	USD/PLN	(19,500,000)	2.9	56,181,450	527
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Jan 29 2010	USD/PLN	(6,000,000)	2.9	17,206,800	78
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Jan 14 2010	USD/PLN	12,000,000	2.9	(34,563,600)	(340)
Grupa LOTOS S.A.	Currency forward	Oct 30 2009	Apr 8 2010	USD/PLN	7,000,000	2.9	(20,279,000)	(204)
Grupa LOTOS S.A.	Currency forward	Nov 17 2009	Jan 15 2010	USD/PLN	(1,800,000)	2.8	4,969,800	(164)
Grupa LOTOS S.A.	Currency forward	Dec 16 2009	Jan 4 2010	USD/PLN	(1,500,000)	2.9	4,301,400	26
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jan 15 2010	EUR/USD	6,000,000	1.4	(8,618,850)	83
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jan 20 2010	USD/PLN	(40,000,000)	2.9	116,888,000	2,761
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jan 21 2010	EUR/USD	10,000,000	1.4	(14,328,500)	241
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 11 2010	EUR/USD	10,000,000	1.4	(14,327,850)	241

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Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2009 (PLN '000) ³
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Mar 15 2010	EUR/USD	10,000,000	1.4	(14,309,000)	292
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Mar 17 2010	EUR/USD	10,000,000	1.4	(14,341,400)	200
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Apr 15 2010	EUR/USD	10,000,000	1.4	(14,307,500)	294
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	May 20 2010	EUR/USD	10,000,000	1.4	(14,338,300)	200
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jul 15 2010	EUR/USD	10,000,000	1.4	(14,332,850)	203
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Jul 22 2010	EUR/USD	10,000,000	1.4	(14,295,500)	308
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Sep 15 2010	EUR/USD	10,000,000	1.4	(14,325,650)	205
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Sep 22 2010	EUR/USD	10,000,000	1.4	(14,288,250)	309
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Oct 21 2010	EUR/USD	10,000,000	1.4	(14,340,500)	153
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Nov 22 2010	EUR/USD	10,000,000	1.4	(14,316,000)	214
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Dec 9 2010	EUR/USD	10,000,000	1.4	(14,332,000)	164
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 18 2010	EUR/PLN	10,000,000	4.2	(42,025,000)	(821)
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 23. 2010	EUR/PLN	10,000,000	4.2	(42,052,000)	(834)
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 24 2010	EUR/PLN	10,000,000	4.2	(42,045,000)	(825)
Grupa LOTOS S.A.	Currency forward	Dec 21 2009	Feb 25 2010	EUR/PLN	5,000,000	4.2	(21,024,000)	(413)
Grupa LOTOS S.A.	Currency forward	Dec 22 2009	Jun 17 2010	USD/PLN	10,000,000	3.0	(29,583,500)	(761)
Grupa LOTOS S.A.	Currency forward	Dec 23 2009	Jan 8 2010	EUR/USD	25,000,000	1.4	(35,625,750)	1,160
Grupa LOTOS S.A.	Currency forward	Dec 23 2009	Jan 13 2010	EUR/USD	20,000,000	1.4	(28,500,400)	929
Grupa LOTOS S.A.	Currency forward	Dec 23 2009	Jan 8 2010	EUR/USD	(40,000,000)	1.4	57,020,000	(1,803)
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Jan 14 2010	USD/PLN	(15,000,000)	2.9	43,390,500	610
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Jan 15 2010	USD/PLN	(10,000,000)	2.9	28,927,000	405
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Feb 4 2010	EUR/USD	(16,700,000)	1.4	24,081,400	35
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Mar 16 2010	USD/PLN	(20,000,000)	2.9	58,069,000	793
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Apr 15 2010	EUR/USD	10,000,000	1.4	(14,400,000)	31
Grupa LOTOS S.A.	Currency forward	Dec 28 2009	Aug 30 2010	EUR/USD	10,000,000	1.4	(14,380,000)	57
Grupa LOTOS S.A.	Currency forward	Dec 29 2009	Jan 6 2010	USD/PLN	5,000,000	2.9	(14,393,500)	(141)
Grupa LOTOS S.A.	Currency forward	Dec 29 2009	Feb 19 2010	EUR/PLN	10,900,000	4.2	(45,283,505)	(370)
Grupa LOTOS S.A.	Currency spot	Dec 30 2009	Jan 4 2010	USD/PLN	6,000,000	2.9	(17,275,800)	(175)
Grupa LOTOS S.A.	Currency spot	Dec 30 2009	Jan 4 2010	USD/PLN	6,800,000	2.9	(19,530,280)	(149)
Grupa LOTOS S.A.	Currency spot	Dec 30 2009	Jan 4 2010	USD/PLN	3,000,000	2.9	(8,628,000)	(78)

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Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2009 (PLN '000) ³
Grupa LOTOS S.A.	Currency forward	Dec 30 2009	Jan 6 2010	USD/PLN	5,000,000	2.9	(14,402,400)	(150)
Grupa LOTOS S.A.	Currency forward	Dec 31 2009	Jan 21 2010	EUR/USD	12,000,000	1.4	(17,283,480)	35
Grupa LOTOS S.A.	Currency forward	Dec 31 2009	Jan 6 2010	USD/PLN	9,000,000	2.9	(25,728,480)	(74)
							TOTAL, including:	33,777
							positive	46,575
							negative	(12,798)

Open currency transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000) ³
Grupa LOTOS S.A.	Currency forward	Oct 1 2008	Feb 10 2009	EUR/USD	(18,800,000)	1.4	26,647,120	623
Grupa LOTOS S.A.	Currency forward	Oct 1 2008	Mar 5 2009	EUR/USD	(8,000,000)	1.4	11,335,200	254
Grupa LOTOS S.A.	Currency forward	Oct 3 2008	Mar 5 2009	EUR/USD	7,000,000	1.4	(9,708,300)	397
Grupa LOTOS S.A.	Currency forward	Oct 6 2008	Mar 5 2009	EUR/USD	3,500,000	1.4	(4,755,170)	491
Grupa LOTOS S.A.	Currency forward	Oct 7 2008	Mar 5 2009	EUR/USD	10,000,000	1.4	(13,580,000)	1,421
Grupa LOTOS S.A.	Currency forward	Oct 8 2008	Feb 13 2009	EUR/USD	(7,000,000)	1.4	9,608,200	(694)
Grupa LOTOS S.A.	Currency forward	Oct 9 2008	Feb 13 2009	EUR/USD	(3,000,000)	1.4	4,134,000	(249)
Grupa LOTOS S.A.	Currency forward	Oct 14 2008	Feb 2 2009	EUR/USD	7,000,000	1.4	(9,637,600)	617
Grupa LOTOS S.A.	Currency forward	Oct 15 2008	Feb 2 2009	USD/PLN	(10,000,000)	2.6	25,735,500	(3,973)
Grupa LOTOS S.A.	Currency forward	Oct 20 2008	Feb 11 2009	USD/PLN	(4,000,000)	2.7	10,620,000	(1,275)
Grupa LOTOS S.A.	Currency forward	Oct 27 2008	Feb 13 2009	EUR/USD	450,000	1.2	(560,835)	213
Grupa LOTOS S.A.	Currency forward	Oct 29 2008	Apr 30 2009	USD/PLN	(22,000,000)	2.9	62,733,000	(3,155)
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Feb 11 2009	EUR/PLN	3,000,000	3.5	(10,513,800)	2,026
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Apr 30 2009	USD/PLN	10,000,000	2.7	(26,800,000)	3,118
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Apr 30 2009	USD/PLN	5,000,000	2.7	(13,402,500)	1,556

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Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000) ³
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Feb 4 2009	USD/PLN	(1,300,000)	2.8	3,612,635	(252)
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Jan 16 2009	EUR/USD	25,000,000	1.3	(31,455,250)	11,081
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Feb 4 2009	EUR/PLN	1,100,000	3.6	(3,928,705)	668
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Jan 14 2009	EUR/USD	25,000,000	1.3	(31,456,250)	11,089
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Feb 12 2009	EUR/USD	20,000,000	1.3	(25,526,000)	7,679
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Feb 12 2009	EUR/USD	6,000,000	1.3	(7,657,800)	2,304
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Mar 16 2009	EUR/USD	25,000,000	1.3	(31,409,250)	11,009
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Mar 17 2009	EUR/USD	25,000,000	1.3	(31,408,000)	11,009
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Apr 15 2009	EUR/USD	30,000,000	1.2	(37,425,000)	13,857
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Apr 20 2009	USD/PLN	(20,000,000)	3.0	60,524,000	623
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	May 15 2009	EUR/USD	30,000,000	1.2	(37,416,300)	13,759
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	May 20 2009	USD/PLN	(15,000,000)	3.0	45,474,000	411
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Jun 15 2009	EUR/USD	30,000,000	1.3	(37,789,500)	12,544
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Jun 19 2009	USD/PLN	(15,000,000)	3.0	45,480,000	284
Grupa LOTOS S.A.	Currency forward	Nov 19 2008	Feb 11 2009	USD/PLN	(17,000,000)	3.1	52,450,100	1,853
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Jul 16 2009	EUR/USD	5,000,000	1.2	(6,246,250)	2,226
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Jul 16 2009	EUR/USD	10,000,000	1.2	(12,492,500)	4,453
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Jul 17 2009	USD/PLN	(15,000,000)	3.1	46,605,000	1,260
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Aug 12 2009	USD/PLN	(15,000,000)	3.1	46,627,500	1,181
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Aug 13 2009	EUR/USD	25,000,000	1.2	(31,238,750)	11,058
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Sep 11 2009	USD/PLN	(5,000,000)	3.1	15,550,000	364
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Sep 16 2009	EUR/USD	20,000,000	1.2	(24,997,000)	8,791
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Oct 9 2009	USD/PLN	(5,000,000)	3.1	15,557,500	339
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Oct 16 2009	EUR/USD	15,000,000	1.3	(18,772,500)	6,490
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Nov 16 2009	EUR/USD	10,000,000	1.3	(12,516,500)	4,285
Grupa LOTOS S.A.	Currency forward	Nov 20 2008	Dec 16 2009	EUR/USD	25,000,000	1.3	(31,292,500)	10,618
Grupa LOTOS S.A.	Currency forward	Dec 9 2008	Dec 11 2009	USD/PLN	23,500,000	3.1	(72,885,250)	(966)
Grupa LOTOS S.A.	Currency forward	Dec 9 2008	Dec 11 2009	EUR/USD	(2,500,000)	1.3	3,195,000	(873)
Grupa LOTOS S.A.	Currency forward	Dec 18 2008	Jan 7 2009	USD/PLN	(35,000,000)	2.8	99,455,300	(4,230)
Grupa LOTOS S.A.	Currency forward	Dec 18 2008	Jan 8 2009	USD/PLN	(30,000,000)	2.8	85,244,400	(3,640)

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Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000) ³
Grupa LOTOS S.A.	Currency forward	Dec 18 2008	Jan 9 2009	USD/PLN	(25,000,000)	2.8	71,092,000	(2,988)
Grupa LOTOS S.A.	Currency forward	Dec 29 2008	Jan 15 2009	EUR/USD	50,000,000	1.4	(71,345,150)	(2,789)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 5 2009	USD/PLN	2,000,000	3.0	(5,942,720)	(19)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 5 2009	EUR/USD	(1,000,000)	1.4	1,403,780	(15)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 14 2009	USD/PLN	11,100,000	3.0	(33,029,160)	(114)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 14 2009	EUR/PLN	3,800,000	4.2	(15,903,000)	(36)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 15 2009	USD/PLN	22,000,000	3.0	(65,250,900)	(6)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 15 2009	USD/PLN	7,000,000	3.0	(20,778,100)	(19)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Mar 16 2009	USD/PLN	21,400,000	3.0	(63,868,300)	(20)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 2 2009	USD/PLN	(2,000,000)	3.0	5,940,000	19
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 2 2009	EUR/USD	1,000,000	1.4	(1,404,000)	15
							TOTAL, including:	134,672
							positive	159,985
							negative	(25,313)

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

³⁾ Fair value of currency spots and forwards is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the interest rate curve implied in fx swaps. (Level 2 in the fair value hierarchy).

⁴⁾ Apart from the parameters used in the valuation of currency forwards, implied volatility is additionally taken into account in calculating the value of currency options (Level 2 in the fair value hierarchy).

⁵⁾ As at December 31st 2008, the option premium was presented at net value under "derivative financial instruments" (see Note 20).

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The Parent Undertaking's total currency position as at December 31st 2009:

Period	USD/PLN position			EUR/PLN position		
	Underlying	Transaction	Total	Underlying	Transaction	Total
2010	406,436,729	(282,890,380)	123,546,349	(287,449,821)	202,200,000	(85,249,821)

The Parent Undertaking's total currency position as at December 31st 2008:

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

The LOTOS Group companies executed transactions to hedge their euro-denominated export sales revenue (2008) and the USD exchange rate in connection with the purchase of bonds from a LOTOS Group company (2009).

Open currency transactions as at December 31st 2009:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2009 (PLN '000) ³
LOTOS Asphalt Sp. z o.o.	Currency swap	Nov 12 2009	Nov 12 2010	USD/PLN	(20,500,000)	2.8355	58,127,750	(1,758)
LOTOS Asphalt Sp. z o.o.	Currency swap	Nov 12 2009	Nov 12 2010	USD/PLN	(19,500,000)	2.8354	55,290,300	(1,420)
							TOTAL, including:	(3,178)
							positive	-
							negative	(3,178)

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Open currency transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000)
LOTOS Asfalt Sp. z o.o.	Currency forward	Jul 8 2008	Jul 10 2009	EUR/PLN	(3,000,000)	3.3	9,984,000	(2,623)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 1 2008	Jan 2 2009	EUR/PLN	(155,000)	3.8	595,510	(51)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 3 2008	Jan 5 2009	EUR/PLN	(388,000)	3.8	1,491,860	(128)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 8 2008	Jan 9 2009	EUR/PLN	(305,000)	3.9	1,182,333	(91)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 10 2008	Jan 12 2009	EUR/PLN	(168,000)	4.0	665,112	(36)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 11 2008	Jan 13 2009	EUR/PLN	(250,000)	4.0	992,750	(52)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 22 2008	Jan 23 2009	EUR/PLN	(469,000)	4.1	1,925,949	(35)
							TOTAL, including:	(3,016)
							positive	-
							negative	(3,016)

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jan 28 2009	EUR/PLN	300,000	3.6	1,080,000	1
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Feb 25 2009	EUR/PLN	300,000	3.6	1,078,500	4
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Mar 27 2009	EUR/PLN	300,000	3.6	1,077,000	8
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Apr 28 2009	EUR/PLN	300,000	3.6	1,074,000	11
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	May 27 2009	EUR/PLN	300,000	3.6	1,072,500	14
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jun 18 2009	EUR/PLN	300,000	3.6	1,071,000	16
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Jan 28 2009	EUR/PLN	(600,000)	3.6	2,160,000	(402)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jan 28 2009	EUR/PLN	(300,000)	3.6	1,068,000	(1)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Feb 25 2009	EUR/PLN	(600,000)	3.6	2,157,000	(412)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Feb 25 2009	EUR/PLN	(300,000)	3.6	1,068,000	(4)

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Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Mar 27 2009	EUR/PLN	(600,000)	3.6	2,154,000	(423)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Mar 27 2009	EUR/PLN	(300,000)	3.6	1,068,000	(7)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Apr 28 2009	EUR/PLN	(600,000)	3.6	2,148,000	(437)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Apr 28 2009	EUR/PLN	(300,000)	3.6	1,068,000	(10)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	May 27 2009	EUR/PLN	(600,000)	3.6	2,145,000	(448)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	May 27 2009	EUR/PLN	(300,000)	3.6	1,068,000	(13)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Jun 18 2009	EUR/PLN	(600,000)	3.6	2,142,000	(457)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jun 18 2009	EUR/PLN	(300,000)	3.6	1,068,000	(15)
							TOTAL, including:	(2,575)
							positive	54
							negative	(2,629)

Interest Rate Risk

The base map of interest rate positions 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). The structure of limits is based on the underlying's nominal value hedge ratio. In a long-term perspective, a partial risk mitigation effect was achieved through the choice of a fixed interest rate for the SACE sub-tranche under the investment loan granted to finance the 10+ Programme described in Note 30.

The agreement on the financing of the 10+ Programme provides for the obligation to maintain a specified hedge ratio for the interest rate risk, i.e. the risk connected with the LIBOR USD floating interest rate on the loan to finance the 10+ Programme in the period until mid-2011.

As at December 31st 2009, the underlying interest rate position stood at (USD '000):

Period	Underlying position
2010	(1,782,231)
2011	(1,820,792)
2012	(1,388,528)
2013	(1,302,032)
2014	(1,201,506)
2015	(1,083,753)
2016	(959,280)
2017	(830,913)
2018	(690,720)
2019	(533,154)
2020	(374,596)

As at December 31st 2008, the underlying interest rate position stood at (USD '000):

Period	Underlying position
2009	(1,465,047)
2010	(1,733,870)
2011	(1,752,352)
2012	(1,323,175)
2013	(1,240,750)
2014	(1,144,955)
2015	(1,032,745)
2016	(914,130)
2017	(791,805)
2018	(658,210)
2019	(508,060)
2020	(356,965)

In connection with its obligation to maintain the hedge ratio prescribed in the loan agreement and given its intention to partly mitigate the interest rate risk which is not covered by mandatory hedges, the Company executed hedging transactions. Taking advantage of the favourable market conditions prevailing at the long end of the USD interest rate curve, the Company hedged a part of its exposure in a time horizon of up to ten years.

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Notes to the consolidated financial statements for the year ended December 31st 2009

Open interest rate transactions as at December 31st 2009:

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Nominal value (USD)	Company pays	Company receives	Fair value as at Dec 31 2009 (PLN '000) ⁵
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 9 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.4%	6M LIBOR	(9,058)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 13 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.6%	6M LIBOR	(9,473)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 16 2008	Oct 15 2008	Jun 30 2011	100,000,000	3.7%	6M LIBOR	(19,598)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Jul 15 2009	Jun 30 2011	122,000,000	4.1%	6M LIBOR	(20,420)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Oct 15 2008	Jun 30 2011	208,000,000	3.8%	6M LIBOR	(42,633)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 26 2008	Jan 15 2009	Jun 30 2011	100,000,000	4.3%	6M LIBOR	(23,991)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 27 2008	Jul 15 2009	Jun 30 2011	150,000,000	4.3%	6M LIBOR	(27,254)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.8%	6M LIBOR	(23,222)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	(20,125)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	6M LIBOR	4.0%	25,194
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.5%	6M LIBOR	(19,787)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	Jan 15 2013	100,000,000	4.2%	6M LIBOR	(4,159)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Mar 19 2009	Jul 15 2011	Jan 15 2018	100,000,000	3.3%	6M LIBOR	18,070
Grupa LOTOS S.A.	Interest rate swap (IRS)	Apr 15 2009	Jul 15 2011	Jan 15 2018	50,000,000	3.5%	6M LIBOR	7,914
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 8 2009	Jul 15 2011	Jan 15 2018	50,000,000	4.0%	6M LIBOR	3,589
							TOTAL, including:	(164,953)
							positive	54,767
							negative	(219,720)

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Open interest rate transactions as at December 31st 2008:

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

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Nominal value (USD)	Company pays	Company receives	Fair value as at Dec 31 2008 (PLN'000) ⁵
Grupa LOTOS S.A.	Forward rate agreement (FRA)	Oct 7 2008	Jan 15 2009	Jul 15 2009	100,000,000	2.5%	6M LIBOR	(1,733)
							TOTAL	(1,733)

⁵⁾ Fair value of FRAs is established by reference to future discounted cash flows connected with the transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated using the zero-coupon interest rate curve based on 6M or 3M LIBOR, depending on the type of transaction. In 2008, the forward rate was calculated using the zero-coupon interest rate curve based on 3M LIBOR, so the basis swaps between the 3M and the 6M LIBOR reference rate were not accounted for (Level 2 in the fair value hierarchy).

Total interest rate position as at December 31st 2009:

Period	Underlying position	Fixed interest rate loans	Transaction position	Total position	Hedge ratio
2010	(1,782,230,827)	357,329,116	980,000,000	(444,901,710)	75%
2011	(1,820,792,177)	420,654,375	740,000,000	(660,137,802)	64%
2012	(1,388,528,072)	401,678,125	500,000,000	(486,849,947)	65%
2013	(1,302,032,010)	376,656,250	200,000,000	(725,375,760)	44%
2014	(1,201,505,590)	347,575,625	200,000,000	(653,929,965)	46%
2015	(1,083,753,414)	313,511,875	200,000,000	(570,241,539)	47%
2016	(959,279,889)	277,503,750	200,000,000	(481,776,139)	50%
2017	(830,913,122)	240,369,375	200,000,000	(390,543,747)	53%
2018	(690,719,718)	199,813,750	0	(490,905,968)	29%
2019	(533,153,644)	154,232,500	0	(378,921,144)	29%
2020	(374,595,895)	108,364,375	0	(266,231,520)	29%

Total interest rate position as at December 31st 2008:

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

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

Liquidity Risk

The liquidity risk management process at the LOTOS Group consists in monitoring the forecast cash flows, matching maturities of assets and liabilities, analysing working capital and maintaining access to various financing sources.

In the period covered by the budget, liquidity is monitored on an ongoing basis across the Group as part of the financial risk management. In the mid and long term, it is monitored as part of the planning process, which helps create a long-term financial strategy.

In the area of financial risk, in addition to an active management of market risk, the Parent Undertaking follows the following rules with respect to liquidity management:

- employs no margins with respect to trade in derivatives on the over-the-counter market,
- limits the possibility of an early termination of financial transactions,
- establishes limits for spot financial instruments of low liquidity,
- establishes credit limits for counterparties in financial transactions,
- ensures adequate quality of the available credit lines,
- implements internal control processes and ensures organisational efficiency, which facilitates prompt reaction in case of emergencies.

Maturity structure of derivative financial instruments as at December 31st 2009:

Beginning of period	End of period	Period	Net cash flows (EUR'000)	Net cash flows (USD'000)	Net cash flows (PLN'000)
Jan 1 2010	Jan 31 2010	Up to 1 month	33,000	(123,874)	159,927
Feb 1 2010	Mar 31 2010	1–3 months	59,200	(38,897)	(121,710)
Apr 1 2010	Dec 31 2010	3–12 months	110,032	(145,458)	(28,696)
Jan 1 2011	Dec 31 2015	1–5 years	(66)	(35,826)	0
Jan 1 2016	Dec 31 2030	Over 5 years	0	4,801	0

Note 24 presents additional free cash remaining at the Group's disposal. Note 21.5 contains information on the contractual maturities of financial liabilities as at December 31st 2009 and December 31st 2008.

Credit Risk

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

As at December 31st 2009, the concentration of credit risk with respect to a single counterparty in financial transactions did not exceed 0.2% of the Company's balance-sheet total.

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

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

PLN '000	Note	Dec 31 2009	Dec 31 2008 (comparable data)
Shares:		9,929	11,041
- non-current	19	9,917	9,917
- current	20	12	1,124
Prepayments for shares	20	-	25,332 ⁽¹⁾
Derivative financial instruments		101,879	302,304
- non-current	19	54,862	22,848
- current	20	47,017	279,456
Decommissioning fund	19	20,962	16,599
Non-current deposits	19	311	-
Loans:	21	-	-
- non-current		-	-
- current		-	-
Trade and other receivables:		1,515,812	1,260,660
- non-current	12	22,061	9,152
- current	23	1,493,751	1,251,508
Cash and cash equivalents	24	362,078	712,801
		=====	=====
Total		2,010,971	2,328,737
		=====	=====

⁽¹⁾ As at December 31st 2008, the Group carried assets invested in associated undertaking AB Naftos Gavyba (AB Geonafta after the merger) in the total amount of PLN 25,332 thousand. As at December 31st 2009, these assets were disclosed under "Investments in associated undertakings" in the statement of financial position (see Note 18).

The age analysis of past due financial assets as at December 31st 2009 and December 31st 2008 is shown in Note 23.

21.4. Sensitivity Analysis with Respect to Market Risk Related to Fluctuations in FX Rates, Interest Rates, Prices of Carbon Dioxide (CO₂) Emission Allowances and Prices of Raw Materials and Petroleum Products

Below is presented an analysis of the Group's sensitivity to currency risk as at December 31st 2009, along with the effect of such a risk on the financial performance, assuming a 4% increase or decrease in the USD/PLN and EUR/PLN currency exchange rates and constant levels of all other variables:

Dec 31 2009 (PLN '000)	Note	Carrying value in a foreign currency, translated into PLN as at the balance-sheet date	4% increase in exchange rate, effect on year's result		4% decrease in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	23	78,389	1,469	1,668	(1,469)	(1,668)
Financial assets – derivative financial instruments	20	101,879	(53,432)	32,158	53,432	(32,158)
Non-current deposits	19	311	-	12	-	(12)
Cash and cash equivalents	24	33,919	784	574	(784)	(574)
Trade and other payables	33	(803,944)	(28,753)	(3,405)	28,753	3,405
Loans	30	(5,016,021)	(199,674)	(584)	199,674	584
Financial liabilities – derivative financial instruments	32	(236,371)	14,685	938	(14,685)	(938)
Finance lease liabilities	32	(81,344)	-	(3,232)	-	3,232
Total		=====	=====	=====	=====	=====
		(5,923,182)	(264,921)	28,129	264,921	(28,129)
		=====	=====	=====	=====	=====

As at December 31st 2009, the Parent Undertaking held futures for the purchase of carbon dioxide (CO₂) emission allowances (EUA – Emissions Unit Allowance), measured at fair value as at the balance-sheet date.

As at December 31st 2009, the financial assets related to positive valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances amounted to PLN 537 thousand.

As at December 31st 2009, the financial liabilities related to negative valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances were PLN 675 thousand.

A change in the price of the carbon dioxide (CO₂) emission allowances up or down by 10% could potentially lead to a change in the fair value of financial assets and liabilities related to the futures for the purchase of carbon dioxide (CO₂) emission allowances of PLN 107 (107) thousand.

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

Dec 31 2008 (PLN '000)	Note	Carrying value in a foreign currency, translated into PLN as at the balance-sheet date	4% increase in exchange rate, effect on year's result		4% decrease in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	23	109,891	2,675	1,721	(2,675)	(1,721)
Financial assets – derivative financial instruments	20	302,304	(53,808)	54,808	53,808	(54,808)
Non-current deposits	19	-	-	-	-	-
Cash and cash equivalents	24	94,387	2,689	1,087	(2,689)	(1,087)
Trade and other payables	33	(630,602)	(18,252)	(6,971)	18,252	6,971
Loans	30	(3,198,294)	(126,993)	(1,012)	126,993	1,012
Financial liabilities – derivative financial instruments	32	(218,526)	(18,506)	6,507	18,506	(6,507)
Finance lease liabilities	32	-	-	-	-	-
Total		=====	=====	=====	=====	=====
		(3,540,840)	(212,195)	56,140	212,195	(56,140)
		=====	=====	=====	=====	=====

As at December 31st 2008, the Parent Undertaking held futures for the purchase of carbon dioxide (CO₂) emission allowances (EUA – Emissions Unit Allowance), measured at fair value as at the balance-sheet date.

As at December 31st 2008, the financial assets related to positive valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances amounted to PLN 15 thousand.

As at December 31st 2008, the financial liabilities related to negative valuation of the futures for the purchase of carbon dioxide (CO₂) emission allowances were PLN 1 thousand.

A change in the price of the carbon dioxide (CO₂) emission allowances up or down by 10% could potentially lead to a change in the fair value of financial assets and liabilities related to the futures for the purchase of carbon dioxide (CO₂) emission allowances of PLN 584 (584) thousand.

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

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

As at December 31st 2008, the financial liabilities related to negative valuation of the full barrel swap were PLN 7,910 thousand.

A change in the values of the indices included in the full barrel swap up or down by 10% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the OTC full barrel swap of PLN 16,655 (16,655) thousand.

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Below is presented an analysis of the Group's sensitivity to interest rate risk as at December 31st 2009, assuming a 0.2% increase or decrease in the interest rate:

Dec 31 2009 PLN '000	Note	Carrying value	Change	
			0.2% increase	0.2% decrease
Cash and cash equivalents	24	362,078	724	(724)
Decommissioning fund	19	20,962	42	(42)
Non-current deposits	19	311	1	(1)
Financial assets – derivative financial instruments ⁽¹⁾	19	54,767	4,120	(4,225)
Loans and borrowings	30	(5,701,071)	(11,605)	11,605
Finance lease liabilities	32	(83,149)	(166)	166
Financial liabilities – derivative financial instruments ⁽¹⁾	32	(219,720)	12,426	(12,508)
		=====	=====	=====
Total		(5,565,822)	5,542	(5,729)
		=====	=====	=====

⁽¹⁾ including interest rate swap (IRS)

As at December 31st 2009, the carrying value of financial assets and liabilities (loans, cash and cash equivalents, decommissioning fund, non-current deposits, derivative financial instruments, liabilities under: loans and borrowings, finance lease and derivative financial instruments) which are sensitive to interest rate risk amounted to PLN (5,565,822) thousand net.

A change in interest rates up or down by 0.2% could potentially lead to a change in the value of financial assets and liabilities as at December 31st 2009 of PLN 5,542 (5,729) thousand net.

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

Dec 31 2008 PLN '000	Note	Carrying value	Change	
			0.2% increase	0.2% decrease
Cash and cash equivalents	24	712,801	1,426	(1,426)
Decommissioning fund	19	16,599	33	(33)
Non-current deposits	19	-	-	-
Financial assets – derivative financial instruments ⁽¹⁾	19	22,848	(2,355)	2,378
Loans and borrowings	30	(3,919,605)	(7,839)	7,839
Finance lease liabilities	32	(1,415)	(3)	3
Financial liabilities – derivative financial instruments ⁽¹⁾	32	(177,266)	18,742	(18,901)
		=====	=====	=====
Total		(3,346,038)	10,004	(10,140)
		=====	=====	=====

⁽¹⁾ Including interest rate swap (IRS) and/or forward rate agreements (FRAs).

As at December 31st 2008, the carrying value of financial assets and liabilities (loans, cash and cash equivalents, decommissioning fund, derivative financial instruments, liabilities under loans and borrowings, finance lease and

derivative financial instruments) which are sensitive to interest rate risk amounted to PLN (3,346,038) thousand net.

A change in interest rates up or down by 0.2% could potentially lead to a change in the value of financial assets and liabilities as at December 31st 2008 of PLN 10,004 (10,140) thousand net.

21.5. Maturity Structure of Financial Liabilities and Derivative Financial Instruments

Maturity structure of financial liabilities as at December 31st 2009:

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Secured bank loans (other than overdraft facilities)	30	5,190,356	5,291,777	140,616	116,197	1,295,279	864,392	2,875,293
Overdraft facilities	30	510,715	510,715	510,600	115	-	-	-
Finance lease liabilities	32	83,149	83,149	1,159	1,686	3,873	19,949	56,482
Trade and other payables	33	1,094,702	1,094,702	1,046,171	9,637	15,728	23,166	-
Total		6,878,922	6,980,343	1,698,546	127,635	1,314,880	907,507	2,931,775

Maturity structure of financial liabilities as at December 31st 2008:

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Secured bank loans (other than overdraft facilities)	30	3,544,631	3,546,455	91,644	42,566	70,508	1,629,552	1,712,185
Overdraft facilities	30	374,974	374,974	373,114	1,860	-	-	-
Finance lease liabilities	32	1,415	1,415	165	396	799	55	-
Trade and other payables	33	1,260,855	1,260,855	1,254,638	1,393	2,193	2,631	-
Total		5,181,875	5,183,699	1,719,561	46,215	73,500	1,632,238	1,712,185

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Maturity structure of derivative financial instruments as at December 31st 2009:

PLN '000	Note	Carrying value*	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Futures (CO ₂ emissions)	19, 20, 32	(138)	(138)	-	132	86	(356)	-
Currency forward and spot contracts	20, 32	33,777	33,777	32,165	1,612	-	-	-
Interest rate swap (IRS)	19, 20, 32	(164,953)	(164,953)	-	-	(152,428)	(42,098)	29,573
Currency swap	32	(3,178)	(3,178)	(3,178)	-	-	-	-
Total		(134,492)	(134,492)	(28,987)	1,744	(152,342)	(42,454)	29,573

*carrying value (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative financial instruments

Maturity structure of derivative financial instruments as at December 31st 2008:

PLN '000	Note	Carrying value*	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Commodity swap	20, 32	105,424	105,424	54,550	50,874	-	-	-
Futures (CO ₂ emissions)	20, 32	14	14	(1)	15	-	-	-
Currency forward and spot contracts	20, 32	131,656	131,656	82,432	49,224	-	-	-
Currency options	20, 32	1,102	1,102	1,102	-	-	-	-
Forward rate agreements (FRAs)	32	(1,733)	(1,733)	(1,733)	-	-	-	-
Interest rate swap (IRS)	19, 20, 32	(152,685)	(152,685)	-	-	-	(152,658)	-
Total		83,778	83,778	136,350	100,113	-	(152,685)	-

*Carrying value (positive valuation of derivative financial instruments less negative valuation of derivative financial instruments) represents the fair value of derivative financial instruments.

22. Inventories

PLN '000	<u>Dec 31 2009</u>	<u>Dec 31 2008</u>
Finished products	776,413	702,673
Semi-finished products and work in progress	310,380	235,541
Goods for resale	177,779	121,487
Materials	1,758,572	1,387,546
	=====	=====
Net inventories	3,023,144	2,447,247
	=====	=====

Impairment Losses on Inventories

PLN '000	<u>Dec 31 2009</u>	<u>Dec 31 2008</u>
Finished products	2,259	122,129
Semi-finished products and work in progress	173	4,178
Goods for resale	29	35,060
Materials	6,790	55,698
	=====	=====
Total impairment losses on inventories	9,251	217,065
	=====	=====

During the year ended December 31st 2009, the Company recognised impairment losses on inventories in the amount of PLN 2,624 thousand (December 31st 2008: PLN 215,285 thousand) and reversed impairment losses on inventories in the amount of PLN 210,438 thousand (December 31st 2008: PLN 18,285 thousand).

As at December 31st 2009, the carrying value of inventories measured at cost stood at PLN 3,011,463 thousand. The value of inventories measured at net realisable value was PLN 11,681 thousand (as at December 31st 2008: PLN 1,679,091 thousand and PLN 768,156 thousand respectively).

As at December 31st 2009, the value of inventories serving as collateral for the financial liabilities of Grupa LOTOS S.A. amounted to PLN 2,758,999 thousand (as at December 31st 2008: PLN 2,097,148 thousand).

Mandatory Stocks of Liquid Fuels

In 2008 – 2009, Grupa LOTOS S.A. complied with the new regulations applicable to mandatory stocks which were introduced by virtue of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007), as amended. The new regulations became effective on April 7th 2007.

The mandatory stocks include crude oil, petroleum products (liquid fuels) and LPG. The Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007), as amended, has defined the basis for calculation of the required amount of mandatory stocks as well as for identification of the entities subject to the requirement to increase mandatory stocks to 73 days in 2007 and to 76 days from 2008 onwards (does not apply to LPG).

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

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

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

PLN '000	Dec 31 2009	Dec 31 2008
Mandatory stocks	2,196,965	1,679,925
	=====	=====

23. Trade and Other Receivables

PLN '000	Dec 31 2009	Dec 31 2008
Trade receivables, including:	1,460,751	1,216,014
- from related undertakings	-	183
Receivables from the state budget other than corporate income tax	43,103	113,373
Other receivables, including:	31,833	31,496
- from related undertakings	-	1,638
Investment receivables	1,167	3,998
Net receivables	1,536,854	1,364,881
Impairment losses on receivables	180,497	155,611
	=====	=====
Gross receivables	1,717,351	1,520,492
	=====	=====

The payment period for trade receivables in the regular course of business is 7 - 60 days. The concentration of risk related to sales is limited due to the large number of business partners.

As at December 31st 2009, the Group's receivables in the amount of PLN 1,497 thousand were subject to assignment by way of security for liabilities under loans and credit facilities (the Group's receivables were not subject to assignment as at December 31st 2008).

Impairment Losses on Receivables

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Balance at beginning of period	155,611	123,692
Increase, including:	44,791	35,933
-changes in Group structure	21,243	-
Reversal	(12,980)	(3,668)
Use, including:	(6,925)	(346)
-changes in Group structure	(3,596)	-
	=====	=====
Balance at end of period	180,497	155,611
	=====	=====

The table below presents the aged analysis of past due receivables not covered by recognised impairment losses, as at December 31st 2009 and December 31st 2008:

PLN '000	Dec 31 2009	Dec 31 2008
Up to 1 month	52,186	79,932
From 1 to 3 months	5,688	13,549
From 3 to 6 months	175	5,021
From 6 months to 1 year	2,850	1,263
More than 1 year	538	155
	=====	=====
Total	61,437	99,920
	=====	=====

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

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

24. Cash and Cash Equivalents

PLN '000	Dec 31 2009	Dec 31 2008
Cash at bank	361,188	711,132
Cash in hand	243	194
Other cash	647	1,475
	=====	=====
Total	362,078	712,801
	=====	=====

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

As at December 31st 2009, the amount of undrawn funds available to the Group under working capital loans in respect of which all conditions precedent had been fulfilled (including the working capital loan contracted with Bank Consortium (4); see Note 30) was PLN 323,857 thousand (PLN 832,128 thousand as at December 31st 2008).

As at December 31st 2009, restricted cash amounted to PLN 20,420 thousand (PLN 84,160 thousand as at December 31st 2008) and included chiefly the following cash components of the Parent Undertaking:

- a deposit of PLN 5,819 thousand, serving as security for the repayment of interest on the loan contracted to finance inventories,
- a margin of PLN 1,205 thousand, which was transferred to Grupa LOTOS S.A.'s account held with brokerage firm Marex Financial in connection with transactions made on the ICE Futures Internet platform,
- funds of PLN 9,929 thousand, held in the account dedicated to repayments of principal amounts of and interest on the loans/credit facilities contracted to finance the implementation of the 10+ Programme.

In the balance sheet, restricted cash is disclosed under "Cash in hand and cash at banks" and "Other cash".

As at December 31st 2009, cash in bank accounts serving as security for the repayment of Grupa LOTOS S.A.'s liabilities amounted to PLN 540 thousand (PLN 71,363 thousand as at December 31st 2008).

25. Cash Structure in the Statement of Cash Flows

PLN '000	Dec 31 2009	Dec 31 2008
Cash at banks	361,188	711,132
Cash in hand	243	194
Other cash	647	1,475
Overdraft facilities	(510,713)	(374,448)
	=====	=====
Total cash and cash equivalents	(148,635)	338,353
	=====	=====

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

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

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

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

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

Receivables	Year ended Dec 31 2009	Year ended Dec 31 2008
PLN '000		
Balance-sheet change in net non-current and current receivables	(116,210)	(18,871)
Change in income tax receivables	(68,672)	198,104
Change in investment receivables	2,022	(5,668)
Change in Group structure	291	(221)
Change in dividends receivable	(1,343)	1,639
Change in receivables under settlement of derivative financial instruments	(3,167)	3,167
Other	(401)	(13,212)
	-----	-----
Change in receivables as disclosed in the statement of cash flows	(187,480)	164,938

Liabilities, accruals and deferred income	Year ended Dec 31 2009	Year ended Dec 31 2008
PLN '000		
Balance-sheet change in non-current and current liabilities, and accruals and deferred income	1,932,080	2,911,347
Change in non-current and current loans and borrowings	(1,781,466)	(2,559,469)
Change in investment liabilities	505,213	(241,223)
Change in liabilities related to acquisition of shares	(35,083)	-
Change in Group structure	5,604	(17,719)
Finance lease liabilities	(81,824)	213
Change in income tax expense	(3,798)	12,377
Change in liabilities related to negative valuation of derivative financial instruments	(17,845)	(214,620)
Other	169,830	(105)
	-----	-----
Change in liabilities and accruals and deferred income as disclosed in the statement of cash flows	692,711	(109,199)
Inventories	Year ended Dec 31 2009	Year ended Dec 31 2008
PLN '000		
Balance-sheet change in inventories	(575,897)	142,075
Change in Group structure	130	-
Other	-	(390)
	-----	-----
Change in inventories as disclosed in the statement of cash flows	(575,767)	141,685
Provisions	Year ended Dec 31 2009	Year ended Dec 31 2008
PLN '000		
Balance-sheet change in provisions	14,726	(78,867)
Change in Group structure	2,471	11
Change in deferred tax liabilities	(49,147)	144,378
Other	(16,916)	(30,011)
	-----	-----
Change in provisions as disclosed in the statement of cash flows	(48,866)	35,511
Prepayments and accrued income	Year ended Dec 31 2009	Year ended Dec 31 2008
PLN '000		
Balance-sheet change in prepayments and accrued income	85,509	(113,269)
Change in Group structure	(680)	157
Change in deferred tax assets	(57,956)	100,491
Other	(7,828)	(32,262)
	-----	-----
Change in prepayments and accrued income as disclosed in the statement of cash flows	19,045	(44,883)

Cash PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Balance-sheet change in cash	(350,723)	(212,194)
Change in interest-bearing overdraft facilities	(136,265)	73,443
	(486,988)	(138,751)
Change in cash as disclosed in the statement of cash flows	(486,988)	(138,751)

26. Share Capital

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

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

As at December 31st 2008, the share capital comprised 113,700,000 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share conferred the right to one vote at the General Shareholders Meeting and carried the right to dividend.

The table below presents changes in Grupa LOTOS S.A.'s share capital structure and with respect to its shareholders holding 5% or more of the total vote at the General Shareholders Meeting, which took place in the period from January 1st 2009 until the approval date of these consolidated financial statements.

The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2009 was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held ⁽¹⁾
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%

⁽¹⁾ The percentage of share capital held equals the percentage share in the total vote.

As at December 31st 2009, the share capital comprised 129,873,362 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share conferred the right to one vote at the General Shareholders Meeting and carried the right to dividend.

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

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

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

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

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

On July 9th 2009, an agreement was signed providing for the acquisition by the State Treasury of Grupa LOTOS S.A. shares. Pursuant to Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A. of June 30th 2009, all Series C shares were acquired by the State Treasury. In exchange, the State Treasury transferred to Grupa LOTOS S.A. non-cash contributions in the form of 2,801,400 shares in Petrobaltic S.A., 375,000 shares in LOTOS Czechowice S.A. and 300,000 shares in LOTOS Jasło S.A. The value of the non-cash contributions in the form of 30.32% of Petrobaltic S.A. shares, 5% of LOTOS Czechowice S.A. shares and 5% LOTOS Jasło S.A. shares totalled PLN 356,946 thousand. The par value of the Series C shares amounted to PLN 16,173 thousand. The share premium was PLN 340,773 thousand. The costs of issue of Series C shares, including income tax, amounted to PLN (376) thousand.

In accordance with the revised IAS 27 *Consolidated and Separate Financial Statements*, the above transaction was accounted for as an equity transaction (i.e. as a transaction with owners acting as the entity owners) and resulted in the recognition of an amount of PLN 22,701 thousand under retained earnings.

Accounting for the acquisition of Petrobaltic S.A., LOTOS Czechowice S.A. and LOTOS Jasło S.A. shares from non-controlling interests

(PLN '000)

Value of non-controlling interests as at the transaction settlement date (A)	379,647
Value of non-cash contributions in the form of 30.32% of shares in Petrobaltic S.A., 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A. (B)	356,946
Excess of the value of non-controlling interests over the value of non-cash contributions (A-B)	22,701

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

By virtue of Resolution No. 316/2010 of April 1st 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to trading on the main market, on April 12th 2010, by way of the ordinary procedure, 8,250 Series A shares in Grupa LOTOS S.A., with a par value of PLN 1 per share, designated by the National Depository for Securities with code No. PLLOTOS00033. Under the provisions of the resolution, the shares are to be introduced to trading on April 12th 2010 on a condition that the National Depository for Securities converts, on April 12th 2010, the aforementioned registered shares in Grupa LOTOS S.A. into ordinary bearer shares and assimilates them, on April 12th 2010, with the shares in Grupa LOTOS S.A. already traded on the stock-exchange under code No. PLLOTOS00025.

By virtue of Resolution No. 185/10 of its Management Board, the National Depository for Securities decided to assimilate, on April 12th 2010, 8,250 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion, on April 12th 2010, of 8,250 ordinary registered shares (code No. PLLOTOS00033), with 113,622,639 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The assimilated shares were assigned code No. PLLOTOS00025.

As of April 12th 2010, 113,630,889 shares in Grupa LOTOS S.A. have been marked with code No. PLLOTOS00025, and 69,111 shares in Grupa LOTOS S.A. have been marked with code No. PLLOTOS00033.

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

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital held ^(1,2)
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%

⁽¹⁾ The percentage of share capital held equals the percentage share in the total vote,

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

The share capital comprises 129,873,362 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share confers the right to one vote at the General Shareholders Meeting and carries the right to dividend.

27. Dividends

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

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

28. Earnings/(Loss) Per Share

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

	Year ended Dec 31 2009	Year ended Dec 31 2008 (comparable data)
Net profit/(loss) from continuing operations (PLN '000) (A)	900,761	(453,549)
Weighted average number of shares (in thousands) (B) ⁽¹⁾	121,144	121,144
	=====	=====
Earnings/(loss) per share (PLN) (A/B)	7.44	(3.74)
	=====	=====

⁽¹⁾ Earnings per share were computed on the basis of the weighted average number of shares in the period January 1st – December 31st 2009. In connection with the registration of a share capital increase at Grupa LOTOS S.A. on July 17th 2009, the weighted average number of shares includes new Series C shares issued as part of the new issue (see Note 26). The loss per share for the year ended December 31st 2008 was calculated taking into account the new issue of Series C shares of 2009.

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

29. Non-Controlling Interests

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008 (comparable data)
Balance at beginning of period	396,078	334,691
Share in profit/(loss) of subsidiary undertakings	11,051	64,134
Other comprehensive income	9,527	-
Changes in the structure of non-controlling interests at subsidiary undertakings	(238)	(169)
Dividends paid out by subsidiary undertakings	(19)	(2,578)
Changes in ownership interest	(379,647) ⁽¹⁾	-
	=====	=====
Balance at end of period	36,752	396,078
	=====	=====

⁽¹⁾ See Note 26.

30. Interest-Bearing Loans and Borrowings

PLN '000	Dec 31 2009	Dec 31 2008
Bank loans	5,666,207	3,879,749
Borrowings	34,864	39,856
	=====	=====
Total	5,701,071	3,919,605
	=====	=====
Non-current portion	4,942,590	3,412,245
Current portion	758,481	507,360

Loans and Borrowings by Lender

PLN '000	Dec 31 2009	Dec 31 2008
Non-current portion		
Kredyt Bank S.A.	26,987	32,987
Pekao S.A.	13,190	22,676
NFOŚiGW (The National Fund for Environmental Protection and Water Management)	25,056	34,856
Raiffeisen Bank Polska S.A.	4,000	6,000
Bank Ochrony Środowiska S.A.	36,902	-
Stablewood Power Ventures (Wladyslawowo) Ltd.	8	-
Bank consortium (1)*	1,139,513	1,184,720
Bank consortium (2)**	2,750,485	1,434,195
Bank consortium (3)***	772,661	479,576
Bank consortium (5)*****	173,788	217,235
	-----	-----
Total non-current portion	4,942,590	3,412,245
Current portion		
Kredyt Bank S.A.	7,619	6,000
Pekao S.A.	37,101	73,955
ING Bank Śląski S.A.	25,533	24,304
PKO BP S.A.	23,049	18,978
NFOŚiGW (The National Fund for Environmental Protection and Water Management)	9,800	5,000
Raiffeisen Bank Polska S.A.	1,952	2,081
Nordea Bank Polska S.A.	74,867	-
Nordea Bank Norge ASA	65,434	-
BRE Bank S.A.	-	19,363
Bank consortium (1)*	1,670	11,557
Bank consortium (2)**	6,477	11,629
Bank consortium (3)***	1,760	3,748
Bank consortium (4)****	459,756	287,247
Bank consortium (5)*****	43,463	43,498
	-----	-----
Total current portion	758,481	507,360
	=====	=====
Total	5,701,071	3,919,605
	=====	=====

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

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

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

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

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

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

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising Bank Polska Kasa Opieki S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw and RABOBANK Polska S.A. of Warsaw, executed a loan agreement.

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

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

As at December 31st 2009, the Company's liability under the aforementioned loan agreement totalled USD 400m.

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

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

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

The credit facility agreement along with the loan agreement for refinancing and financing of the inventories of Grupa LOTOS S.A. of December 20th 2007, described above, secure funds sufficient to meet the Company's total requirement for external financing.

The agreement concerns a long-term credit facility for the total amount of USD 1,750,000 thousand (PLN 3,739,050 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising an term loan facility of USD 975,000 thousand (PLN 2,083,185 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (2)), a redrawable working capital loan facility of USD 200,000 thousand (PLN 427,320 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (4)), an investment loan of USD 425,000 thousand guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero

(PLN 908,055 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (3)) and a contingent term loan facility of USD 150,000 thousand (PLN 320,490 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (2)). The long-term credit facility must be repaid not later than 12.5 years after the first interest payment date. The other terms and conditions of the credit facility agreement, including those pertaining to the security, do not differ from the standard terms and conditions used in agreements of such type..

The credit facility is secured principally with:

- 1) a mortgage with the highest ranking over Grupa LOTOS S.A.'s ownership title or perpetual usufruct right to the real property required for the conduct of operations by the existing and expanded Gdańsk refinery;
- 2) agreement creating a registered pledge over sets of existing and future (acquired over the period of implementation of the 10+ Programme) movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the aforementioned credit facility, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems;
- 3) agreement creating financial and registered pledges over Grupa LOTOS S.A.'s claims under bank account agreements executed in connection with the financing of the 10+ Programme (the agreement creating the pledges does not cover claims under other bank account agreements concluded by Grupa LOTOS S.A.);
- 4) agreements for the assignment of the rights and debt claims of Grupa LOTOS S.A. arising under the agreements related to the implementation of the 10+ Programme, the agreements for the management of the 10+ Programme, hedging agreements, license agreements, insurance documents (related to the Gdańsk refinery and the 10+ Programme) as well as under sales contracts concluded by Grupa LOTOS S.A. with its subsidiaries, if the contracts' annual value exceeds PLN 10,000 thousand;

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

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

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

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

On September 1st 2008, Bank DnB NORD Polska S.A. acceded to the credit facility agreement.

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

On November 25th 2008, a contractual blanket security (deposit) mortgage (*umowna łączna hipoteka kaucyjna*) over Grupa LOTOS S.A.'s ownership title or perpetual usufruct right to the real property required for the conduct of operations by the existing and expanded Gdańsk refinery, was registered in the Grupa LOTOS S.A.'s Land and Mortgage Register entry.

As at December 31st 2009, the Company had drawn under the term loan facility USD 1,268,257 thousand (in nominal terms) (the equivalent of PLN 3,614,913 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2009). The amount does not include letters of credit, as all of them expired (see Note 43 to these financial statements, items 9, 10, 12 and 13). The working capital loan was made available to Grupa LOTOS S.A. in the form of overdraft facilities which are used by the Company on an as-needed basis. By the date of these financial statements, funds drawn under the facility were used by Grupa LOTOS S.A. according to its needs.

Bank Loans Contracted by Subsidiary Undertakings

Loan Agreement Concluded Between Petrobaltic S.A. (Currently LOTOS Petrobaltic S.A.) and Nordea Bank Polska S.A.

On May 19th 2009, following the completion of public procurement proceedings in the form of a limited tender, Nordea Bank Polska S.A. of Gdynia and Petrobaltic S.A. executed the following agreements:

1) Framework agreement on a revolving working-capital facility, bank guarantees and letters of credit with a limit of up to PLN 100,000 thousand. The limit was granted for the period from the Agreement's execution date until November 18th 2010, to finance the day-to-day needs of Petrobaltic S.A. related to its operational and investment activities.

Performance of the agreement is secured with:

- assignment of claims under the crude oil sales agreement of June 4th 2004 between Petrobaltic S.A. and Grupa LOTOS S.A. of Gdańsk ("Crude Oil Sales Agreement"),
- blank promissory note with a promissory note agreement (see Note 43),
- declaration on submission to enforcement by Petrobaltic S.A.

As at December 31st 2009, Petrobaltic S.A. had drawn under the facility an amount of PLN 98,521 thousand, including under a guarantee issued for the benefit of Nordea Bank Norge ASA to secure the liabilities of LOTOS Exploration and Production Norge AS under the USD 8,000 thousand loan (the equivalent of PLN 22,802 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2009) (see Note 43).

2) Agreement on an overdraft working-capital facility with a limit of up to PLN 50,000 thousand.

The facility was granted for the period from the Agreement's execution date until November 18th 2010 to finance the day-to-day needs of Petrobaltic S.A. related to its operational and investment activities.

Performance of the agreement is secured with:

- assignment of claims under the crude oil sales agreement of June 4th 2004 between Petrobaltic S.A. and Grupa LOTOS S.A. of Gdańsk ("Crude Oil Sales Agreement"),
- blank promissory note along with a promissory note agreement (see Note 43),
- declaration on submission to enforcement by Petrobaltic S.A.

As at December 31st 2009, the monies made available to Petrobaltic S.A. under the above overdraft working-capital facility were blocked as security for the sureties issued by Petrobaltic S.A. for the benefit of Nordea Bank Norge ASA with respect to the liabilities of LOTOS Exploration and Production Norge AS under the loans contracted with that bank (see Note 43).

Bank Loans and Borrowings as at December 31st 2009, by Currency and by Maturity

PLN '000	EUR loans	USD loans	PLN loans	Total
2010	2,447	337,886	418,148	758,481
2011	2,421	1,223,154	57,995	1,283,570
2012	2,421	193,696	57,995	254,112
2013	2,421	196,949	55,495	254,865
2014	2,421	272,140	55,551	330,112
beyond 2014	2,422	2,777,643	39,866	2,819, 931
	=====	=====	=====	=====
Total	14,553	5,001,468	685,050	5,701,071
	=====	=====	=====	=====

The above table presents loans and borrowings by maturity date.

As at December 31st 2009, the average effective interest rate for the loans was approx. 3.15 % (3.40% as at December 31st 2008).

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Notes to the consolidated financial statements for the year ended December 31st 2009

Loans and borrowings 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		
Bank consortium (1)	-	-	USD 400,000	1,670	USD 549	1,139,513	USD 399,751	15.03.2010	20.12.2011	based on 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventories insurance agreements, assignment of rights under inventories storage agreements, submission to enforcement
Bank consortium (2)	-	-	USD 1,125,000	6,477	USD 2,016	2,750,485	USD 962,395	15.03.2010	15.01.2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period selected at a given time + bank 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	15.03.2010	15.01.2021	fixed interest rate	
Bank consortium (4)	-	USD 200,000 or equivalent		278,567	-	-	-	Overdraft facility	-	3M WIBOR + bank margin	
				26	EUR 6	-	-			3M EURIBOR + bank margin	
				181,163	USD 63,559	-	-			3M LIBOR USD + bank margin	
Pekao S.A.	Warsaw	100,000	-	2,263	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	submission to enforcement
Bank consortium (5)	Warsaw	340,000	-	43,463	-	173,788	-	Dec 31 2010	Dec 31 2014	1M WIBOR + bank margin	mortgage

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Notes to the consolidated financial statements for the year ended 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		
Kredyt Bank S.A.	Warsaw	60,000	-	7,619	-	26,987	-	Dec 31 2009	Jun 30 2015	1M WIBOR + bank margin	mortgage
PKO BP S.A.	Warsaw	25,000	-	18,248	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	no security
Pekao S.A.	Warsaw	15,000	-	114	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	power of attorney over bank account, submission to enforcement, registered pledge over inventories, assignment of rights under insurance policy
Raiffeisen Bank Polska S.A.	Rzeszów	10,000	-	1,952	-	4,000	-	Dec 31 2009	Dec 28 2012	1M WIBOR + bank margin	power of attorney over bank account, submission to enforcement, security (deposit) mortgage (<i>hipoteka kaucyjna</i>), assignment of rights under insurance policy, registered pledge over inventories, registered pledge over tangible assets
Pekao S.A.	Warsaw	15,000	-	4,452	-	-	-	Jun 30 2010	-	1M WIBOR + bank margin	power of attorney over bank account, submission to enforcement, registered pledge over inventories
ING Bank Śląski S.A.	Katowice	23,500	-	22,592	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	submission to enforcement
ING Bank Śląski S.A.	Katowice	4,500	-	2,941	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	5,000	-	4,801	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	mortgage, assignment of receivables, promissory notes, pledge over inventories

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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		
NFOŚiGW (The National Fund for Environmental Protection and Water Management)	Warsaw	15,000	-	3,300	-	-	-	Sep 30 2010	-	0.5 of the rediscount rate for promissory notes	surety, promissory note
Pekao S.A.	Kraków	26,837	EUR 7,060	2,421	EUR 590	12,106	EUR 2,945	Oct 31 2010	Oct 31 2015	1M EURIBOR + bank margin	mortgage
Pekao S.A.	Kraków	30,000	-	21,304	-	-	-	Jun 25 2010	-	1M WIBOR + bank margin	mortgage
Pekao S.A.	Kraków	44,754	-	32	-	161	-	Oct 31 2010	Oct 31 2015	1M WIBOR + bank margin	mortgage
NFOŚiGW (The National Fund for Environmental Protection and Water Management)	Warsaw	35,000	-	6,500	-	25,056	-	Dec 20 2010	Dec 20 2014	0.8 of the rediscount rate for promissory notes	bank guarantee, promissory note
Pekao S.A.	Warsaw	56,409	USD 14,800	6,515	USD 2,286	923	USD 324	Dec 31 2010	Feb 28 2011	1M LIBOR USD + bank margin	mortgage
Nordea Bank Polska S.A.	Gdynia	100,000	-	74,867	USD 26,315	-	-	Nov 18 2010	-	Depending on the loan currency 3M WIBOR, EURIBOR or LIBOR USD + bank margin	blank promissory note, assignment of receivables under crude oil sales agreements, submission to enforcement
Nordea Bank Norge ASA	Stavanger	-	USD 8,000	22,837	USD 7,994	-	-	Jul 31 2010	-	1W LIBOR + bank margin	bank guarantee
Nordea Bank Norge ASA	Stavanger	-	USD 11,000	31,179	USD 10,911	-	-	Jul 31 2010	-	1W LIBOR + bank margin	surety

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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			
Nordea Bank Norge ASA	Stavanger	-	USD 4,000	11,418	USD 3,996	-	-	Jul 31 2010	-	1W LIBOR + bank margin	bank guarantee	
Bank Ochrony Środowiska S.A.	Warsaw	68,000	-	-	-	22,312	-	-	Jun 30 2016	1M WIBOR + bank margin	mortgage, transfer of ownership of tangible assets, assignment of rights under insurance policy, promissory note, assignments of rights under sales agreements	
Bank Ochrony Środowiska S.A.	Warsaw	14,688	-	-	-	9,490	-	-	Dec 20 2016			
Bank Ochrony Środowiska S.A.	Warsaw	5,100	-	-	-	5,100	-	-	Jun 30 2016			
Stablewood Power Ventures (Wladyslawowo) Ltd.	Worcester	8	-	-	-	8	-	-	Dec 31 2017	1M WIBOR + bank margin	blank promissory note	
TOTAL				418,148	-	266,902	-					
TOTAL				337,886	USD 118,306	4,663,582	USD 1,634,322					
TOTAL				2,447	EUR 596	12,106	EUR 2,945					
TOTAL				758,481	-	4,942,590	-					

The bank margins on the contracted loans and borrowings are in the range of 0.20pp. – 4.00pp.

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Notes to the consolidated financial statements for the year ended December 31st 2009

Loans and borrowings 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 margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	USD 40,000 or equivalent		82	-	-	-	Overdraft facility	-	1M WIBOR + bank 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 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 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	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 (4)	-	USD 200,000 or equivalent		246,093	-	-	-	Overdraft facility	-	3M WIBOR + bank margin	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
				8,096	EUR 1,940	-	-			3M EURIBOR + bank margin	
				33,058	USD 11,161	-	-			3M LIBOR USD + bank margin	
Bank consortium (5)	Warsaw	340,000	-	43,498	-	217,235	-	Dec 31 2009	Dec 31 2014	1M WIBOR + bank margin	mortgage

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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		
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	32,987	-	Dec 31 2009	Jun 30 2015	1M WIBOR + bank margin	mortgage
PKO BP S.A.	Warsaw	25,000	-	13,680	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	no security
Pekao S.A.	Warsaw	30,000	-	5,678	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	power of attorney over bank account
Raiffeisen Bank Polska S.A.	Rzeszów	10,000	-	2,081	-	6,000	-	Dec 31 2009	Dec 28 2012	1M WIBOR + bank margin	power of attorney over bank account, submission to enforcement, security (deposit) mortgage (<i>hipoteka kaucyjna</i>)
Pekao S.A.	Warsaw	15,000	-	9,605	-	-	-	Jun 30 2009	-	1M WIBOR + bank margin	power of attorney over bank account, submission to enforcement, registered pledge over inventories
Pekao S.A.	Warsaw	20,000	-	19,404	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	power of attorney over bank account
ING Bank Śląski S.A.	Katowice	23,500	-	21,506	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	submission to enforcement
BRE Bank S.A.	Warsaw	30,000	-	19,363	-	-	-	Overdraft facility	-	O/N WIBOR + bank margin	blank promissory note
ING Bank Śląski S.A.	Katowice	6,000	-	856	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	9,000	-	5,083	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	mortgage, assignment of receivables, promissory notes, pledge over inventories
NFOŚiGW (The National Fund for Environmental Protection and Water Management)	Warsaw	15,000	-	3,000	-	3,300	-	Sep 30 2009	Sep 30 2010	0.5 of the rediscount rate for promissory notes	surety, promissory note

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Notes to the consolidated financial statements for the year ended 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.	Kraków	26,837	EUR 7,060	2,461	EUR 590	14,754	EUR 3,536	Oct 31 2009	Oct 31 2015	1M EURIBOR + bank margin	mortgage
Pekao S.A.	Kraków	30,000	-	30,005	-	-	-	Jun 30 2009	-	1M WIBOR + bank margin	mortgage
Pekao S.A.	Kraków	44,754	-	32	-	192	-	Oct 31 2009	Oct 31 2015	1M WIBOR + bank margin	mortgage
NFOŚiGW (The National Fund for Environmental Protection and Water Management)	Warsaw	35,000	-	2,000	-	31,556	-	Dec 31 2009	Dec 20 2014	0.8 of the rediscount rate for promissory notes	bank guarantee, promissory note
ING Bank Śląski S.A.	Katowice	2,000	-	1,860	-	-	-	Overdraft facility	-	1M WIBOR + bank margin	mortgage
Pekao S.A.	Warsaw	56,409	USD 14,800	6,770	USD 2,286	7,730	USD 2,610	Dec 31 2009	Feb 28 2011	1M LIBOR USD + bank margin	mortgage
TOTAL				430,041	-	291,270	-				
				66,762	USD 22,407	3,106,221	USD 1,048,761				
				10,557	EUR 2,530	14,754	EUR 3,536				
				507,360	-	3,412,245	-				

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

31. Provisions

PLN '000	Dec 31 2009	Dec 31 2008
Non-current provisions		
Provision for land reclamation	26,656	33,795
Length-of-service awards and retirement severance pays	87,961	82,587
Provision for the Offshore Oil Rigs	160,026	122,019
Other provisions	414	29,502
	-----	-----
Total non-current provisions	275,057	267,903
	=====	=====
Current provisions		
Provision for land reclamation	2,744	4,988
Length-of-service awards and retirement severance pays	10,733	9,505
Provision for Offshore Oil Rigs	2,400	2,400
Other provisions	23,020	63,577
	-----	-----
Total current provisions	38,897	80,470
	=====	=====
Total	313,954	348,373
	=====	=====

The Group's computation of the provisions for employee benefits was based on the following assumptions:

- the long-term annual growth rate of remuneration: within the range 0% – 6.1%; in the following years: 1.5% – 7% (December 31st 2008: the long-term annual growth rate of remuneration: within the range 4% – 13%; in the following years: 1.5% – 7%),
- the discount rate for future payments of employee benefits is 6.2%(i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2008: 5.5%),
- the probability of employee attrition is based on the historical data on employee turnover at the Group and statistical data on employee attrition in the industry,
- the adopted mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2008, published by the Polish Central Statistics Office (GUS) and assume that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2008: Life Expectancy Tables of Poland for 2007),
- it is assumed that the Group employees will retire according to the standard system, i.e. men – after reaching the age of 65, women – after reaching the age of 60, except for those employees who, based on the information provided by the Group, meet the conditions for early retirement.

The changes in provisions were as follows:

PLN '000	Provision for land reclamation (1)	Length-of- service awards and retirement severance pays	Provision for the Offshore Oil Rigs (2)	Other provisions (3)	Total
As at Jan 1 2008	39,005	69,183	92,201	82,473	282,862
Increase	-	28,815	32,218	17,087	78,120
Release	(222)	(1,333)	-	(3,629)	(5,184)
Use	-	(4,573)	-	(2,852)	(7,425)
	=====	=====	=====	=====	=====
As at Dec 31 2008	38,783	92,092	124,419	93,079	348,373
	=====	=====	=====	=====	=====
As at Jan 1 2009	38,783	92,092	124,419	93,079	348,373
Increase, including:	7,800	26,171	39,792	5,823	79,586
-changes in Group structure	5,255	35	-	829	6,119
Release	(3,068)	(12,993)	(1,785)	(51,437)	(69,283)
Use, including:	(14,115)	(6,576)	-	(24,031)	(44,722)
-changes in Group structure	-	-	-	(8,587)	(8,587)
	=====	=====	=====	=====	=====
As at Dec 31 2009	29,400	98,694	162,426	23,434	313,954

(1) In connection with the sale of the perpetual usufruct right to land by the LOTOS Czechowice Group to an unrelated third party, and considering that LOTOS Czechowice S.A. was freed from all obligations under any administrative decisions relating directly to the said land, a portion of the provision for land reclamation was released (PLN 3,068 thousand) and a portion of the provision was used to pay the purchaser of the land a fee of PLN 14,115 thousand to cover the cost of performance of the obligations assumed by the purchaser.

(2) As at December 31st 2009, the Management Board of Petrobaltic S.A. analysed the costs needed to be incurred to decommission the Offshore Oil Rigs in the B-3 and B-8 mining areas, which were also worked in the previous years. The analysis found that the costs necessary to be incurred in future on the decommissioning of the Offshore Oil Rigs in the B-3 mining area increased relative to the value of the provision created for this purpose and presented in the statement of financial position as at December 31st 2008. The increase amounted to PLN 20,269 thousand and reflected, on the one hand, the changes in the expected expenses due to price changes, and on the other – the passage of time and the related change in the time value of money. The change in the time value of money was determined by applying a 6% discount rate to the value of the provision for decommissioning of the B-3 Offshore Oil Rigs as at December 31st 2008 (PLN 104,809 thousand). The amount so computed, i.e. PLN 6,288 thousand, was charged to finance expenses for 2009. The value of the provision created for the first time as at December 31st 2006 in connection with the launch of production activities in the B-8 mining area was, following the cost analysis, increased by PLN 2,632 thousand as at the end of 2009. The change in the time value of money was determined by applying a 6% discount rate to the value of the provision for decommissioning of the B-8 Offshore Oil Rigs as at December 31st 2008 (PLN 12,660 thousand). The discount amount so computed, i.e. PLN 760 thousand, which increased the provision for decommissioning of Offshore Oil Rigs operating on the B-8 field, was charged to finance expenses for 2009. Another change in the provision resulted from the fact that the amount corresponding to the contributions calculated and transferred to the bank account of the Oil Rig Decommissioning Fund (pursuant to the Geological and Mining Law of February 4th 1994 and the Minister of Economy's Regulation of June 24th 2002) was released from the provision. For 2009, the contribution was calculated at PLN 1,471 thousand in the case of the B3 field and PLN 314 thousand in the case of the B8 field. As at December 31st 2009 the provision for decommissioning of the B-3 and B-8 Offshore Oil Rigs totalled PLN 138,585 thousand, and the value of the related asset was PLN 83,311 thousand.

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⁽³⁾ The item "Other provisions" includes the following:

PLN '000	Provision for RN GLIMAR ⁽⁴⁾	Provision for Energobaltic ⁽⁵⁾	Special Account ⁽⁶⁾	Other	Total
As at Jan 1 2008	15,853	23,949	-	42,671	82,473
Increase	-	4,363	2,500	10,224	17,087
Release	-	-	-	(3,629)	(3,629)
Use	-	(2,239)	(366)	(247)	(2,852)
	=====	=====	=====	=====	=====
As at Dec 31 2008	15,853	26,073	2,134	49,019	93,079
	=====	=====	=====	=====	=====
As at Jan 1 2009	15,853	26,073	2,134	49,019	93,079
Increase, including:	-	-	-	5,823	5,823
-changes in Group structure	-	-	-	829	829
Release	(15,853)	(26,073)	-	(9,511)	(51,437)
Use, including:	-	-	(671)	(23,360)	(24,031)
-changes in Group structure	-	-	-	(8,587)	(8,587)
	=====	=====	=====	=====	=====
As at Dec 31 2009	-	-	1,463	21,971	23,434
	=====	=====	=====	=====	=====

⁽⁴⁾ Grupa LOTOS S.A. and Rafineria Nafty GLIMAR S.A. signed loan agreements for the aggregate amount of PLN 90m, providing for the financing of Rafineria Nafty GLIMAR S.A.'s operating and investing activities, including in particular, the Glimar Hydrocomplex investment project. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty Glimar S.A. under the agreements. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. As at December 31st 2009 and December 31st 2008, the assets under the advanced loans were fully covered by a recognised impairment charge. As at December 31st 2008, Grupa LOTOS S.A. carried a provision for other liabilities under these agreements in the amount of PLN 15,853 thousand, which was released in the year ended on December 31st 2009.

⁽⁵⁾ In connection with the business combination described in Note 17, Petrobaltic S.A. released a provision for business risk. The release of the provision, which covered debt claims under an agreement for a loan extended by Stablewood Power Ventures (Wladyslawowo) Ltd. to Energobaltic Sp. z o.o. and the par value of shares in Energobaltic Sp. z o.o. held by Stablewood Power Ventures (Wladyslawowo) Ltd., was recognised as finance income.

⁽⁶⁾ On June 30th 2008, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the 2007 net profit. Under the resolution, a portion of the Company's net profit, in the amount of PLN 2,500 thousand, was transferred to the special account designated for financing corporate social responsibility (CSR) projects. The Company created a provision for the special account and charged it against other operating expenses. In the year ended December 31st 2009, the Company had used funds in the amount of PLN 671 thousand (in 2008: PLN 366 thousand).

32. Other Financial Liabilities

PLN '000	Dec 31 2009	Dec 31 2008 (comparable data)
Negative valuation of financial derivatives:	236,371	218,526
- commodity swaps (raw materials and petroleum products)	-	7,910
- futures (CO ₂ emissions)	675	1
- currency forward and spot contracts	12,798	28,329
- currency options	-	5,020
- forward rate agreements (FRAs)	-	1,733
- interest rate swap (IRS)	219,720	175,533
- currency swaps	3,178	-
Lease liabilities	83,149	1,415
	=====	=====
Total financial liabilities	319,520	219,941
	=====	=====
Non-current liabilities	300,389	176,387
Current liabilities	19,131	43,554

As at December 31st 2009, negative valuation of financial instruments related to mandatory hedging agreements over which an assignment was created as security for the credit facility referred to in Note 30 amounted to PLN 159,689 thousand (December 31st 2008: PLN 131,143 thousand).

Finance lease liabilities

PLN '000	Minimum lease payments		Present value of minimum lease payments	
	Dec 31 2009	Dec 31 2008	Dec 31 2009	Dec 31 2008
Up to 1 year	24,700	756	2,845	561
1 year to 5 years	114,101	926	23,822	854
Over 5 years	74,222	-	56,482	-
	=====	=====	=====	=====
Total	213,023	1,682	83,149	1,415
	=====	=====	=====	=====
Less future financial charges	(129,874)	(267)	-	-
	=====	=====	=====	=====
Present value of minimum lease payments	83,149	1,415	83,149	1,415
	=====	=====	=====	=====
Non-current portion			80,304	854
Current portion			2,845	561

33. Trade and Other Payables, Accruals and Deferred Income

PLN '000	Dec 31 2009	Dec 31 2008
Trade payables, including:	893,737	891,892
- to related undertakings	-	1,090
Liabilities to the state budget other than corporate income tax ⁽¹⁾	670,275	505,815
Special accounts	19,054	16,802
Salaries and wages payable	17,346	11,566
Accrued expenses	118,410	88,179
Deferred income from subsidies	40,343	23,896
Investment liabilities	109,708	320,457
Other liabilities, including:	73,911	36,940
- to related undertakings	-	1,649
	=====	=====
Total	1,942,784	1,895,547
Non-current	52,130	9,107
Current	1,890,654	1,886,440

⁽¹⁾ As at December 31st 2009, the value of liabilities to the state budget other than corporate income tax was reduced by the fuel charge of PLN 22,644 thousand (PLN 20,087 thousand as at December 31st 2008) incurred in relation to imported diesel oil and fuel sales. The Company applied to the relevant customs office for reimbursement of fuel charge which was wrongly paid on fuel sales in 2009 in the amount of PLN 2,556 thousand, and that amount was reimbursed to the Company in 2010. Furthermore, the Company applied for reimbursement of fuel charge incurred on imports of diesel oil in the amount of PLN 22,012 thousand, which in the Company's opinion is recoverable.

Transactions with related undertakings are described in Note 49.

Trade payables do not bear interest and are, as a rule, settled in 3 to 60 days. Other liabilities do not bear interest, and their average payment period is three months. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis throughout a financial year.

Pursuant to Art. 8 of the Excise Duty Act of December 6th 2008 (Dz. U. No. 3, item 11/2008), a tax liability arises e.g. at the moment of taking harmonised excise goods out of a bonded warehouse. The Parent Undertaking and some other Group companies operate registered bonded warehouses, in which harmonised excise goods are subject to suspended-excise-tax procedure and may be the object of the actions provided for in the Excise Duty Act.

34. Company Social Benefits Fund's Assets and Liabilities

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

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

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

PLN '000	Dec 31 2009	Dec 31 2008
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	2,465	2,380
Receivables from employees connected with the Company's Social Benefits Fund	3,885	4,227
Other	38	16
	=====	=====
Total	6,388	6,623
	=====	=====
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund		
Other	6,257	6,622
	131	1
	=====	=====
Total	6,388	6,623
	=====	=====

35. Sales Revenue

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Domestic sales of products	17,045,097	17,799,530
Export sales of products	1,745,986	3,278,749
	-----	-----
Total sales of products	18,791,083	21,078,279
	-----	-----
Domestic sales of goods for resale and materials	2,357,384	1,200,053
Export sales of goods for resale and materials	157,156	139,422
	-----	-----
Total sales of goods for resale and materials	2,514,540	1,339,475
	-----	-----
Total	21,305,623	22,417,754
	-----	-----
- including to related undertakings	3,170	2,634
	-----	-----
Elimination of excise duty and fuel charge	(6,984,582)	(6,123,016)
	=====	=====
Total	14,321,041	16,294,738
	=====	=====

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Sales of products	18,677,580	20,975,570
Sales of services	113,503	102,709
	-----	-----
Total sales of products	18,791,083	21,078,279
	-----	-----
Sales of goods for resale	2,483,145	1,318,204
Sales of materials	31,395	21,271
	-----	-----
Total sales of goods for resale and materials	2,514,540	1,339,475
	-----	-----
Total	21,305,623	22,417,754
	-----	-----
- including to related undertakings	3,170	2,634
	-----	-----
Elimination of excise duty and fuel charge	(6,984,582)	(6,123,016)
	=====	=====
Total	14,321,041	16,294,738
	=====	=====

Transactions with related undertakings are presented in Note 49.

36. Costs by Type

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Depreciation and amortisation	284,793	314,146
Raw materials and energy used	10,812,315	13,335,105
Contracted services	881,320	810,049
Taxes and charges	89,899	84,157
Salaries and wages	401,069	375,171
Social security and other benefits	107,936	100,095
Other costs by type	128,612	115,065
Goods for resale and materials sold	1,607,751	1,019,025
	-----	-----
Total	14,313,695	16,152,813
	-----	-----
Adjustments:		
Change in products and cost of sales adjustments	(478,872)	216,336
	=====	=====
Total operating expenses:	13,834,823	16,369,149
	-----	-----
Cost of sales	12,750,542	15,287,258
Selling costs	726,367	737,368
General and administrative expenses	357,914	344,523

37. Other Operating Income

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Gain on disposal of non-financial non-current assets	16,256	3,105
Subsidies	773	666
Provisions released	26,403	4,202
Reversal of impairment losses on non-financial assets	14,728	4,624
- receivables	12,980	3,668
- property, plant and equipment and intangible assets	1,748	956
Compensations/damages received	11,359	5,598
Other	4,745	11,622
	=====	=====
Total	74,264	29,817
	=====	=====

38. Other Operating Expenses

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Loss on disposal of non-financial non-current assets	444	11,826
Revaluation of non-financial assets	123,641	47,528
- receivables	41,758	32,287
- property, plant and equipment and intangible assets	81,883	15,241
Provisions created	5,139	4,422
Other	11,465	24,813
	=====	=====
Total	140,689	88,589
	=====	=====

39. Finance Income

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Dividend received	-	1,118
Interest	22,221	51,849
Foreign exchange gains	674,677	7,994
- on foreign-currency denominated loans and borrowings	451,865	-
- realised gains on foreign exchange transactions in bank accounts	216,779	5,687
- other foreign exchange gains	6,033	2,307
Gains on disposal of investments	688	16
Revaluation of financial assets, including:	44,354	2,333
- valuation of derivative financial instruments	2,574	-
- valuation of Energobaltic Sp. z o.o. shares previously held by Petrobaltic S.A. at their acquisition-date fair value	12,525	-
Settlement of derivative financial instruments	219,666	-
Gain on sale of all or part of shares in subordinated undertakings	-	1,011
Provisions released ⁽¹⁾	26,021	-
Other	7,297	18,187
	=====	=====
Total	994,924	82,508
	=====	=====

⁽¹⁾ Released provision for Energobaltic Sp. z o.o., referred to in Note 31.

40. Finance Expenses

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Interest	176,338	97,151
Foreign exchange losses	40,012	152,017
- on foreign-currency denominated loans and borrowings	33,307	334,308
- realised losses on foreign exchange transactions in bank accounts	152	(216,129)
- other foreign exchange losses	6,553	33,838
Settlement of derivative financial instruments	3,619	234,999
Revaluation of financial assets, including:	218,668	12,537
- valuation of derivative financial instruments	217,168	12,238
Other, including:	23,094	14,858
- increase in provision for Offshore Oil Rigs ⁽¹⁾	7,048	4,610
Amounts recognised in costs of assets which qualify for capitalisation	(117,840)	(44,631)
	=====	=====
Total	343,891	466,931
	=====	=====

⁽¹⁾ Referred to in Note 31.

41. Corporate Income Tax

The main components of the Company's tax expense for the year ended December 31st 2009 and for the year ended December 31st 2008 are as follows:

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Corporate income tax	84,239	98,150
Deferred tax	113,557	(245,274)
Tax included in the acquisition price of non-current assets	-	32,839
	=====	=====
Total tax	197,796	(114,285)
	=====	=====
Income tax expense recognised in the statement of comprehensive income	197,796	(114,285)
Income tax expense recognised in the statement of changes in equity	-	-
	=====	=====

Current portion of the income tax was calculated at the rate of 19% of the tax base.

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

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Pre-tax profit/(loss) of companies subject to 19% tax rate	1,047,841	(458,331)
	=====	=====
Income tax expense at the rate of 19%	199,090	(87,083)
	=====	=====
Tax effect of revenue/income not classified as revenue/income under tax regulations	(117,541)	(44,846)
Tax effect of expenses which are non-deductible under tax regulations	114,941	132,368
Tax effect of tax losses deducted in period	(65,751)	(29)
Tax effect of tax losses incurred in period	2,761	125,301
Tax effect of interest in investments in associated undertakings	(1,563)	(5,045)
Other	(11,145)	(12,190)
	=====	=====
Total	120,792	108,476
	=====	=====
Income tax disclosed in the statement of changes in equity	88	-
Tax on dividends	-	202
Adjustments disclosed in current year related to tax for previous years	(29)	(1,113)
	=====	=====
Income tax expense of companies subject to 19% tax rate	120,851	107,565
	=====	=====
Tax effect of foreign operations ⁽¹⁾	(36,612)	(9,415)
	=====	=====
Total income tax disclosed in the statement of comprehensive income	84,239	98,150
	=====	=====
Pre-tax profit/(loss) of foreign operations subject to 28% and 50% tax rate	61,767	(45,369)
Revenue/income not classified as revenue/income under tax regulations	(16,707)	(14,223)
Expenses which are non-deductible under tax regulations	(179,386)	(46,446)
Other differences	(3,669)	(3,487)
	=====	=====
Tax base – taxation at the tax rate of 28%	(137,995)	(109,525)
	=====	=====
Tax credit in connection with higher depreciation of assets	(44,674)	(20,106)
Other	(9,451)	13,466
	=====	=====
Tax base – taxation at the tax rate of 50%	(192,120)	(116,165)
	=====	=====
Income tax at the rate of 28%	(38,639)	(30,667)
Income tax at the rate of 50%	(96,060)	(58,083)
Accrued tax loss carry-forward	96,460	79,321
Other differences	1,627	14
	=====	=====
Tax effect of foreign operations ⁽¹⁾	(36,612)	(9,415)
	=====	=====

Corporate income tax receivable and payable

PLN '000	Dec 31 2009	Dec 31 2008
Corporate income tax receivable	131,299	199,971
Expected tax refund ⁽¹⁾	131,299	199,971
Corporate income tax payable	11,867	8,069
Income tax expected to be paid	11,867	8,069

⁽¹⁾ The Parent Undertaking offset corporate income tax in the amount of PLN 177,252 thousand against output VAT payable in 2009 and 2010.

As at December 31st 2009 and December 31st 2008, the net deferred tax assets (liabilities) comprised the following items:

PLN '000	Dec 31 2009	Dec 31 2008
Deferred tax assets:		
Provision for employee benefits	18,903	19,412
Difference between present tax and accounting value of property, plant and equipment and intangible assets	28,454	23,643
Impairment losses on inventories	1,531	40,108
Impairment losses on property, plant and equipment and intangible assets	11,036	113
Negative valuation of derivatives	41,875	29,339
Accrued tax loss carry-forward	269,653	127,189
Impairment losses on receivables	20,772	16,002
Finance lease	15,729	183
Difference between oil rig decommissioning provision and asset	10,932	8,055
Other	26,221	82,652
	-----	-----
Total deferred tax assets	445,106	346,696
Deferred tax liabilities:		
Difference between present tax and accounting value of property, plant and equipment and intangible assets	351,652	189,374
Positive valuation of derivatives	10,508	20,635
Capitalised borrowing costs	19,009	10,794
Finance lease	16,452	180
Other	32,774	3,901
	-----	-----
Total deferred tax liabilities	430,395	224,884
	=====	=====
Net deferred tax assets/(liabilities)	14,711	121,812
	=====	=====

As at December 31st 2009, asset related to accrued tax loss carry-forward in the amount of PLN 88 thousand was recognised in the statement of changes in equity.

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

PLN '000	Dec 31 2009	Dec 31 2008
Deferred tax assets:	74,267	132,223
Deferred tax liabilities:	(59,556)	(10,411)
	=====	=====
Net deferred tax assets/(liabilities)	14,711	121,812
	=====	=====

Taxable temporary differences are expected to expire in 2010–2085.

As at December 31st 2009, the value of losses with respect to which no deferred tax assets were recognised in the balance sheet amounted to PLN 43,012 thousand (December 31st 2008: PLN 31,527 thousand).

42. Business Segments

PLN'000	Upstream segment	Downstream segment ⁽¹⁾	Other ⁽²⁾	Consolidation adjustments	Consolidated
Year ended Dec 31 2009					
Sales revenue:	235,280	14,230,894	255,819	(400,952)	14,321,041
Intersegment sales	229,229	121,202	50,521	(400,952)	-
External sales	6,051	14,109,692	205,298	-	14,321,041
	-----	-----	-----	-----	-----
Operating profit/(loss) (EBIT)	(6,652)	479,581	(31,533)	(21,603)	419,793
	-----	-----	-----	-----	-----
Amortisation and depreciation	53,373	230,377	1,624	(581)	284,793
	=====	=====	=====	=====	=====
Operating profit/(loss) before amortisation and depreciation (EBITDA)	46,721	709,958	(29,909)	(22,184)	704,586
	=====	=====	=====	=====	=====

PLN '000	Upstream segment	Downstream segment ⁽¹⁾	Other ⁽²⁾	Consolidation adjustments	Consolidated
Dec 31 2009					
Total assets	1,858,851	13,627,572	152,173	(576,090)	15,062,506
	=====	=====	=====	=====	=====

External sales – geographical structure

PLN '000	Upstream segment	Downstream segment ⁽¹⁾	Other ⁽²⁾	Consolidated
Year ended Dec 31 2009				
Domestic sales:	3,281	12,209,320	205,298	12,417,899
- products	2,787	10,850,327	61,921	10,915,035
- goods for resale and materials	494	1,358,993	143,377	1,502,864
Export sales⁽³⁾:	2,770	1,900,372	-	1,903,142
- products	2,770	1,743,216	-	1,745,986
- goods for resale and materials	-	157,156	-	157,156
	=====	=====	=====	=====
Total	6,051	14,109,692	205,298	14,321,041

⁽¹⁾ Including an organised part of business in the form of the LPG Trading Division of LOTOS Gaz, acquired by LOTOS Paliwa Sp. z o.o. from LOTOS Gaz S.A. (see Note 2).

⁽²⁾ Includes subsidiaries: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., the LOTOS Gaz Group (until the date of loss of control over KRAK-GAZ Sp. z o.o., see Note 17) and Energobaltic Sp. z o.o. (from the date of acquiring control by Petrobaltic S.A., see Note 17).

⁽³⁾ Allocated jointly to all the foreign countries where the Group generates revenue.

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Notes to the consolidated financial statements for the year ended December 31st 2009

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Year ended Dec 31 2008					
Sales revenue:	381,706	16,085,228	470,452	(642,648)	16,294,738
Intersegment sales	375,403	161,787	105,458	(642,648)	-
External sales	6,303	15,923,441	364,994	-	16,294,738
Operating profit/(loss) (EBIT)	165,115	(312,210)	(21,470)	22,737	(145,828)
Amortisation and depreciation	48,609	264,403	2,160	(160)	315,012
Operating profit/(loss) before amortisation and depreciation (EBITDA)	213,724	(47,807)	(19,310)	22,577	169,184

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidation adjustments	Consolidated
Dec 31 2008					
(comparable data)					
Total assets	1,693,630	10,492,470	67,090	(65,632)	12,187,558

External sales – geographical structure

PLN '000	Upstream segment	Downstream segment	Other ⁽¹⁾	Consolidated
Year ended Dec 31 2008				
Domestic sales:	2,667	12,509,205	364,695	12,876,567
- products	2,159	11,818,502	54,735	11,875,396
- goods for resale and materials	508	690,703	309,960	1,001,171
Export sales⁽²⁾:	3,636	3,414,236	299	3,418,171
- products	3,636	3,274,814	299	3,278,749
- goods for resale and materials	-	139,422	-	139,422
Total	6,303	15,923,441	364,994	16,294,738

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

⁽²⁾ Allocated jointly to all the foreign countries where the Group generates revenue.

43. Contingent and Off-Balance-Sheet Liabilities

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

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

Under the agreement, the Company issued an irrevocable surety to repay the loan contracted by LOTOS Jasło S.A. (formerly Rafineria Jasło S.A.) with 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 interests in connection with the issued surety.

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

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

The surety expires on November 30th 2010. As at December 31st 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 the Parent Undertaking

1. The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise 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 30). 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 30). 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 30). The letter of credit, issued for the benefit of CB&I LUMMUS GmbH, is valid through June 30th 2009. It was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). 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 30). The letter of credit, issued for the benefit of LURGI S.A., is valid through May 31st 2009. The letter of credit was issued to secure the performance of a contract related to modernisation of a condensate station and construction of a fuel gas terminal. 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.

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

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

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

Material Contingent and Off-Balance-Sheet Liabilities of Petrobaltic S.A. (currently LOTOS Petrobaltic S.A.)**Liabilities towards Bank Ochrony Środowiska S.A.**

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

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

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

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

Liabilities to Stablewood Power Ventures (Wladyslawowo) Ltd. under the Shareholder Agreement

In connection with the reorganisation of the Rolls Royce Group, in Q4 2008 Stablewood Power Ventures (Wladyslawowo) Ltd. assumed the rights and obligations of Rolls-Royce Power Ventures (Wladyslawowo) Ltd. Under the Shareholder Agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. was obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Stablewood Power Ventures (Wladyslawowo) Ltd., to purchase the claims under the loan advanced by Stablewood Power Ventures (Wladyslawowo) Ltd. to Energobaltic. In connection with the expected reduction of the volume of waste gas supplied to Energobaltic Sp. z o.o. by Petrobaltic S.A. in 2005, on September 22nd 2005, Rolls-Royce Power Ventures (Wladyslawowo) Ltd. (RRPV) sent a letter stating that if Petrobaltic S.A. did not comply with the provisions of Art. 16.1.6 of the Gas Supply Agreement, it would issue a default notice under Art. VIII Section 1 of the Shareholder Agreement.

Following receipt of the notice, under the Shareholder Agreement Petrobaltic S.A. was obliged to offer to Stablewood Power Ventures (Wladyslawowo) Ltd. to purchase the claims under the loan advanced by Stablewood Power Ventures (Wladyslawowo) Ltd. to Energobaltic Sp. z o.o. If Stablewood Power Ventures (Wladyslawowo) Ltd. accepts the offer, Petrobaltic will be obliged to gradually (2012–2016) purchase Stablewood Power Ventures (Wladyslawowo) Ltd.'s claims under the loan, at maturity of each principal instalment, at a 2% discount.

Petrobaltic S.A.'s obligation towards Stablewood Power Ventures (Wladyslawowo) Ltd. under the Shareholder Agreement is no longer valid due to the acquisition by Petrobaltic S.A. of shares in Energobaltic Sp. z o.o. (see Note 17).

Liability to Stablewood Power Ventures (Wladyslawowo) Ltd. under the Agreement on Acquisition of Shares and Debt Claims by Petrobaltic S.A.

With a view to securing monetary liabilities related to the acquisition of shares and debt claims under the agreement of November 27th 2009 on acquisition by Petrobaltic S.A. of shares and Stablewood Power Ventures (Wladyslawowo) Ltd.'s claims for payment of principal and interest under a loan advanced to Energobaltic Sp. z o.o. under the Agreement of November 21st 2001, as amended (see Note 17), Petrobaltic S.A. issued for the benefit of Stablewood Power Ventures (Wladyslawowo) Ltd. three blank promissory notes together with promissory note declarations, for up to a total amount of USD 13,000 thousand (i.e. PLN 36,466 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for November 27th 2009). The last instalment of the price for acquisition of the shares and debt claims from Stablewood Power Ventures (Wladyslawowo) Ltd. is June 30th 2013.

Energobaltic Sp. z o.o.'s Liabilities towards Petrobaltic S.A.

In connection with the transaction of November 27th 2009, concerning acquisition of debt claims from Stablewood Power Ventures (Wladyslawowo) Ltd. under a loan advanced to Energobaltic Sp. z o.o. (see Note 17), and in connection with the agreement of March 1st 2010 on assignment of debt claims, relating to the Agreement of November 21st 2001, as amended, Petrobaltic S.A. seized the security in the form of a blank promissory note issued by Energobaltic Sp. z o.o. with a "protest waived" clause and a promissory note declaration.

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

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

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

On August 26th 2008, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan and any other liabilities that may arise as a result of the execution and performance of the loan agreement. The loan agreement expires on December 31st 2012. The promissory note was issued to secure the repayment of the USD 50m loan (PLN 113m, translated at the rate quoted by the National Bank of Poland for August 26th 2008). On December 22nd 2009, an annex to the loan agreement was signed which set a new loan repayment date for June 30th 2011.

On December 19th 2008, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan, and any other liabilities that may arise as a result of the execution and performance of the loan agreement. The principal amount of the loan was to be repaid by January 31st 2010. The promissory note was issued to secure the repayment of the USD 10m loan (the equivalent of PLN 29m, translated at the rate quoted by the National Bank of Poland for December 19th 2008). On December 22nd 2009, an annex to the loan agreement was signed which set a new loan repayment date for June 30th 2011.

In order to secure the repayment of a loan, on January 15th 2009, LOTOS Exploration and Production Norge AS issued a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan, amounting to USD 55,000 thousand (the equivalent of PLN 176,605 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 15th 2009), is intended for financing of further implementation of the YME Production Project, in particular the capital expenditure on the Project along with the cost of capital, including interest on the loan. The principal amount of the loan will be paid in three instalments and the original date of the last instalment was set for March 31st 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment schedule was put in place whereby the repayment date of the final instalment was set for December 30th 2011.

In order to secure the repayment of a loan, on March 9th 2009 LOTOS Exploration and Production Norge AS issued a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 7,500 thousand (the equivalent of PLN 28,093 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for March 9th 2009) is intended for financing of further implementation of the YME Production Project. The principal amount was to be repaid by January 29th 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment schedule was put in place whereby the repayment date of the final instalment was set for September 30th 2012.

On April 1st 2009, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan in the amount of USD 2,500 thousand (the equivalent of PLN 8,805 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2009). The loan is intended for financing of further implementation of the YME Production Project. The loan principal was to be repaid by June 30th 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment schedule was put in place whereby the repayment date of the final instalment was set for December 31st 2012.

On May 19th 2009, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan in the amount of USD 11,000 thousand (the equivalent of PLN 35,355 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for May 19th 2009). The loan is intended for financing of further implementation of the YME Production Project. Originally, the loan principal was to be repaid in two instalments, with the second instalment payable by December 31st 2010. On December 22nd 2009, as a result of an annex to the loan agreement, a new loan repayment date was set for December 31st 2012.

On June 9th 2009, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration, for the benefit of Petrobaltic S.A., in order to secure the repayment of a loan in the amount of USD 10,500 thousand (the equivalent of PLN 34,004 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 9th 2009). The loan is intended for financing of further implementation of the YME Production Project. Originally, the loan principal was to be repaid in three instalments, with the last instalment payable by December 31st 2012.

On December 22nd 2009, as a result of an annex to the loan agreement, a new repayment date for the entire loan was set for December 31st 2012.

On July 13th 2009, in order to secure the repayment of a loan (including principal, interest and default interest, if any, as well as any other liabilities that may arise in connection with the execution and performance of the loan agreement), LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan in the amount of USD 6,000 thousand (i.e. PLN 18,960 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for July 13th 2009) is intended for financing of the expenditure related to the YME Production Project. Originally, the principal amount of the loan was to be repaid in two instalments, with the second instalment payable by June 30th 2012. On December 22nd 2009, as a result of an annex to the loan agreement, a new loan repayment date was set for December 31st 2012.

Petrobaltic S.A.'s Liability towards Nordea Bank Polska S.A.

On May 19th 2009, Petrobaltic S.A. concluded an agreement on assignment of claims with Nordea Bank Polska S.A. to secure the Bank's claims which arise or might arise under the agreements of May 19th 2009, i.e. agreement on an overdraft working-capital facility with a limit of up to PLN 50,000 thousand and framework agreement on a revolving working-capital facility, bank guarantees and letters of credit with a limit of up to PLN 50,000 thousand and a limit of up to PLN 100,000 thousand. These agreements are also secured by two blank promissory notes with promissory note agreements (see Note 30).

Petrobaltic S.A.'s Liabilities towards Banks under Issued Sureties and Guarantees for Repayment of Liabilities by LOTOS Exploration and Production Norge AS

In order to secure the repayment of liabilities of LOTOS Exploration and Production Norge AS under a loan contracted by the company with Nordea Bank Norge ASA to finance its day-to-day operations and investment activities, under an agreement of August 18th 2009 Petrobaltic S.A. undertook to instruct Nordea Bank Polska S.A. to issue a bank guarantee for the repayment of the loan for the benefit of Nordea Bank Norge ASA. On August 19th 2009, Nordea Bank Polska S.A., acting on the instructions of Petrobaltic S.A., issued a guarantee for the repayment of the liabilities of LOTOS Exploration and Production Norge AS towards Nordea Bank Norge ASA. The bank guarantee was issued for the amount of USD 8,000 thousand (i.e. PLN 23,716 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for August 19th 2009). In order to secure Petrobaltic S.A.'s claims against LOTOS Exploration and Production Norge AS under the agreement of August 18th 2009, as well as any other liabilities that may arise in connection with the execution and performance of the agreement, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause for the benefit of Petrobaltic S.A. and a promissory note agreement. On December 14th 2009, an annex was executed to the Agreement of August 18th 2009, pursuant to which Petrobaltic S.A. agreed to order Nordea Bank Polska S.A. to extend the validity term of the guarantee issued by Nordea Bank Polska S.A. for the benefit of Nordea Bank Norge ASA until August 31st 2010. On December 29th 2009, the validity term of the above guarantees was extended until August 31st 2010.

On September 15th 2009, Petrobaltic S.A. issued a surety for the benefit of Nordea Bank Norge ASA for the repayment of the liabilities of LOTOS Exploration and Production Norge AS under the loan agreement in the amount of USD 11,000 thousand (i.e. PLN 31,365 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for September 15th 2009). In order to secure Petrobaltic S.A.'s claims against LOTOS Exploration and Production Norge AS under the surety, as well as any other liabilities that may arise in connection with the surety, LOTOS Exploration and Production Norge AS created security in the form of a blank promissory note with a "protest waived" clause and a promissory note agreement for the benefit of Petrobaltic S.A. On December 17th 2009, an annex was executed to the Agreement of September 15th 2009, pursuant to which Petrobaltic S.A. extended the validity term of the surety issued for the benefit of Nordea Bank Norge ASA until August 31st 2010 and increased the surety amount to USD 12,000 thousand (i.e. PLN 34,926 thousand, translated using the USD mid-exchange rate quoted by the National Bank of Poland for December 17th 2009).

On October 14th 2009, Petrobaltic S.A. issued a surety for the benefit of Nordea Bank Norge ASA for the repayment of the liabilities of LOTOS Exploration and Production Norge AS under the loan agreement in the amount of USD 4,000 thousand (i.e. PLN 11,300 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for October 14th 2009). The surety amount is USD 4,500 thousand (i.e. PLN 12,713 thousand, translated at the USD mid-exchange rate quoted by the National Bank of Poland for October 14th 2009), and the surety expires on August 31st 2010. In order to secure Petrobaltic S.A.'s claims against LOTOS Exploration and Production Norge AS under the surety, as well as any other liabilities that may arise in connection with the surety, LOTOS Exploration and Production Norge AS created security for the benefit of Petrobaltic S.A. in the form of a blank promissory note with a "protest waived" clause.

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

Liabilities under Promissory Notes towards Nafta Polska S.A.

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

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

On February 16th 2010, nine blank promissory notes issued for the benefit of Nafta Polska S.A. and valid until January 19th 2010, were returned to LOTOS Jasło S.A.

Liabilities under Promissory Notes towards the Minister of Economy

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

Other Liabilities under Promissory Notes

Furthermore, as at December 31st 2009, LOTOS Jasło S.A. had the following material liabilities:

- a liability under a blank promissory note issued to secure a working capital overdraft facility granted by PKO BP S.A. Krosno branch, originally for the amount of PLN 18,000 thousand, with the validity term expiring on July 29th 2011. Subsequently in connection with the execution of an annex to the overdraft facility agreement providing for a reduction in the available overdraft facility limit, on February 27th 2009 the promissory note amount was reduced to PLN 10,000 thousand. Another annex, executed on December 30th 2009, increased the value of the security in the form of the blank promissory note to PLN 11,000 thousand, and the validity term of the promissory note was extended until June 30th 2012,
- a liability under a blank promissory note issued to secure the repayment of interest and contractual penalties, if any, under a loan agreement with NFOŚIGW (The National Fund for Environmental Protection and Water Management) of Warsaw, with the validity term expiring on March 30th 2011.

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

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

On February 10th 2009, LOTOS Oil S.A. submitted excise duty security in the form of a blank promissory note with a promissory note declaration for the amount of PLN 5,000 for the benefit of the Customs Office, as security in respect of excise duty connected with movement of excise goods. The security is valid from March 1st 2009 through February 28th 2011.

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

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

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

On July 24th 2009, the District Court of Katowice decided to enter in the register of pledges a pledge on inventories of LOTOS Biopaliwa Sp. z o.o. which – along with an assignment of the insurance policy pursuant an annex to the loan agreement – serves as security for the repayment of the entire amount of the PLN 30,000 thousand loan advanced by Bank Pekao S.A. At the company’s request and with the Bank’s consent, on April 1st 2010 the District Court of Katowice deleted the pledge from the register of pledges.

Other Contingent Liabilities of the Group

As at December 31st 2009, the Group’s liabilities under material agreements related to expenditure on property, plant and equipment (the 10+ Programme) amounted to PLN 590 million (PLN 3,199 million as at December 31st 2008).

44. Carbon Dioxide (CO₂) Emission Allowances

As at December 31st 2009 and December 31st 2008, the Group reported an excess of the carbon dioxide (CO₂) emission allowances it had been allocated over its actual carbon dioxide (CO₂) emissions (see Note 21, item 3).

On July 1st 2008, the Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Dioxide (CO₂) Emission Allowances for 2008-2012, issued under the EU carbon dioxide (CO₂) emission trading scheme to existing installations and installations undergoing modification (Dz.U. No. 202, item 1248, dated November 14th 2008). In accordance with the current legislation, allowances for Phase II (years 2008–2012) were given free of charge to all the installations covered by the emission trading scheme.

The aggregate annual average carbon dioxide (CO₂) allowance granted to the Group companies (for the years 2008-2012) is 1,217 thousand tonnes.

The actual volume of carbon dioxide (CO₂) emissions in the year ended December 31st 2009 was 1,102 thousand tonnes.

Following changes in the Group’s structure, the LOTOS Group increased its annual average carbon dioxide (CO₂) emission allowance (for the years 2008–2012) allocated to the Group companies by 18.6 thousand tonnes (allowances used in 2009: 15.9 thousand tonnes).

45. Material Events Subsequent to the Balance-Sheet Date

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

1. In compliance with the provisions of the investment loan agreement of December 14th 2006, on January 8th 2010 by virtue of a decision of the District Court of Katowice a pledge over a set of movables of LOTOS Biopaliwa Sp. z o.o. (in the form of the fatty acid methyl esters (FAME) production installation) for up to PLN 113,546 thousand was entered into the register of pledges.

2. On January 13th 2010, LOTOS Asphalt Sp. z o.o. issued a blank promissory note with a "protest waived" clause for the amount of PLN 7,000 thousand, along with a promissory note declaration, for the benefit of the Customs Office of Gdańsk as excise security. The security remains valid from March 1st 2010 until February 28th 2011.
3. On January 19th 2010, the Supreme Administrative Court of Warsaw reversed the decision issued in respect of LOTOS Paliwa Sp. z o.o. by the Provincial Administrative Court of Gdańsk, concerning the correctness of VAT settlements for March 2005, and remanded the case for re-examination (see Note 46). As at the date of approval of these consolidated financial statements, the case is pending. The Management Board of LOTOS Paliwa Sp. z o.o. is of the opinion that the risk of additional tax liabilities being imposed on the company is low, therefore no provisions for such potential additional tax liabilities were created or disclosed in the company's financial statements or in these consolidated financial statements of the Group.
4. On January 19th 2010, following completion of the APA 2009 license round, LOTOS Exploration and Production Norge AS was granted a 50% interest in, and the operator status with respect to, license PL 556 located in the Norwegian Sea (the remaining 50% interest in the license was granted to Skeie Energy AS) and a 10% interest in license PL 497B (an extension of license PL497). On March 10th 2010, relevant license interest agreements were signed.

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

5. By virtue of Resolution No. 26/2010 of January 18th 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to trading on the main market, on January 19th 2010, by way of the ordinary procedure, 57,987,030 Series A shares in Grupa LOTOS S.A., with a par value of PLN 1 per share, designated by the National Depository for Securities with code No. PLLOTOS00033. By virtue of Resolution No. 33/10 of its Management Board, the National Depository for Securities decided to assimilate, on January 19th 2010, 57,987,030 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion, on January 19th 2010, of 57,987,030 ordinary registered shares (code No. PLLOTOS00033) with 55,635,609 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The assimilated shares were assigned code No. PLLOTOS00025. As of January 19th 2010, 113,622,639 shares in Grupa LOTOS S.A. have been marked with code No. PLLOTOS00025, and 77,361 shares in Grupa LOTOS S.A. have been marked with code No. PLLOTOS00033.
6. Based on orders placed and accepted on January 22nd 2010, on January 22nd 2010 the State Treasury sold in block transactions an aggregate of 14,000,000 ordinary bearer shares in Grupa LOTOS S.A., representing 10.78% of Grupa LOTOS S.A.'s share capital and conferring the rights to 14,000,000 votes, or 10.78% of the total vote in the Company. Prior to the change, the State Treasury, represented by the Minister of State Treasury, held in aggregate 83,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing 63.97% of the Company's share capital and conferring the rights to 83,076,392 votes, or 63.97% of the total vote in Grupa LOTOS S.A. After the change, the State Treasury, represented by the Minister of State Treasury, holds in aggregate 69,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing in aggregate 53.19% of the Company's share capital and conferring the rights to 53.19% of the total vote in Grupa LOTOS S.A. According to the information received by the Company, the State Treasury is not currently aware of any Grupa Lotos S.A. shares being held by its subsidiaries.
7. On February 4th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Jasło S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Jasło S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares as a donation directly from such persons. The offer was valid until March 22nd 2010. The purchase price offered for the shares was PLN 4.90 per share in the period from February 8th 2010 to March 8th 2010, and PLN 4.23 per share in the period from March 9th 2010 to March 22nd 2010. As at the date of approval of these consolidated financial statements, the process of buying of the shares, which commenced on March 9th 2010, is in progress.

8. On February 4th 2010, Grupa LOTOS S.A. made an offer to purchase LOTOS Czechowice S.A. shares. The offer was addressed only to the following persons: employees and former employees of LOTOS Czechowice S.A. who acquired the shares free of charge under the Act on Commercialisation and Privatisation of State-Owned Enterprises, dated August 30th 1996, as well as their heirs and members of their immediate family who acquired the shares as a donation directly from such persons. The offer was valid until March 22nd 2010. The purchase price offered for the shares was PLN 7.98 per share in the period from February 8th 2010 to March 8th 2010, and PLN 6.89 per share in the period from March 9th 2010 to March 22nd 2010. As at the date of approval of these consolidated financial statements, the process of buying of the shares, which commenced on March 9th 2010, is in progress.
9. On February 16th 2010 LOTOS Jasło S.A. was returned the nine blank promissory notes valid until January 19th 2010 which had been issued for the benefit of Nafta Polska S.A. Under the promissory note declarations of January 19th 2000, the promissory notes secured the liabilities of Rafineria Jasło S.A. under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) and Carbon Black Polska Sp. z o.o. The promissory notes could be filled in by Nafta Polska S.A. if LOTOS Jasło S.A. failed to perform any of its obligations under the above agreement. As provided for in the declarations, each promissory note could be filled in with an amount of PLN 1,000 thousand (see Note 43).
10. On February 11th 2010, by virtue of a decision of the District Court of Katowice, a pledge over a set of inventories of LOTOS Biopaliwa Sp. z o.o. for up to PLN 45,000 thousand was registered. The pledge constitutes security for repayment of an overdraft facility contracted with Bank Pekao S.A. of Warsaw on February 4th 2010 (contractual overdraft facility limit: PLN 30,000 thousand).
11. By virtue of Resolution No. 316/2010 of April 1st 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to trading on the main market, on April 12th 2010, by way of the ordinary procedure, 8,250 Series A shares in Grupa LOTOS S.A., with a par value of PLN 1 per share, designated by the National Depository for Securities with code No. PLLOTOS00033. Under the provisions of the resolution, the shares are to be introduced to trading on April 12th 2010 on condition that the National Depository for Securities converts, on April 12th 2010, the aforementioned registered shares in Grupa LOTOS S.A. into ordinary bearer shares and assimilates them, on April 12th 2010, with the shares in Grupa LOTOS S.A. already traded on the stock-exchange under code No. PLLOTOS00025.
- By virtue of Resolution No. 185/10 of its Management Board, the National Depository for Securities decided to assimilate, on April 12th 2010, 8,250 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion, on April 12th 2010, of 8,250 ordinary registered shares (code No. PLLOTOS00033), with 113,622,639 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The assimilated shares were assigned code No. PLLOTOS00025. As of April 12th 2010, 113,630,889 shares in Grupa LOTOS S.A. have been marked with code No. PLLOTOS00025, and 69,111 shares in Grupa LOTOS S.A. have been marked with code No. PLLOTOS00033.
12. 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. (see Note 2).

46. Material Court, Arbitration or Administrative Proceedings and Other Risks Pertaining to the Parent Undertaking or its Subsidiaries**Material Proceedings Pending before Public Administration Authorities in Connection with the Parent Undertaking's Business**

On March 21st 2005, the President of the Competition and Consumer Protection Office issued a decision whereby anti-trust proceedings were instigated *ex officio* to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Płock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the universal U95 gasoline. In the opinion of the Company's Management Board, given that in fact the production and sale of the U95 universal gasoline were not discontinued, the allegations of the Competition and Consumer Protection Office are unfounded. In April 2005, the Management Board motioned for issuing a decision to the effect that Grupa LOTOS S.A. has not been found to use competition inhibiting practices.

In July 2005, the Company appealed to the Anti-Monopoly Court against the Competition and Consumer Protection Office's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005, the Company filed another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use monopolistic practices. In October 2005 the Company received another decision of the Competition and Consumer Protection Office concerning limitation of access to a part of the evidence, against which the Company appealed to the Anti-Monopoly Court. The Regional Anti-Monopoly Court dismissed the appeals. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Anti-Monopoly Court's decisions, but these appeals were dismissed as well.

Pursuant to the Court's Decision of April 18th 2007, Grupa LOTOS S.A.'s right of access to evidence in the anti-trust proceedings, namely to the materials obtained during inspections at PKN ORLEN S.A.'s offices, was restricted on the basis of a petition submitted by PKN ORLEN S.A. The restriction concerned the report on inspection of the offices in Warsaw together with appendices to the report, and a part of appendices to the report on inspection of the offices in Płock. Under the same Decision, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Płock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office (UOKiK) to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to UOKiK on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to UOKiK to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of UOKiK imposed a fine of PLN 1,000 thousand on Grupa LOTOS S.A. Consequently, on January 17th 2008 an appeal against the decision was filed with the Regional Court of Warsaw.

On September 23rd 2008, the Regional Court of Warsaw – Competition and Consumer Protection Court sent a response by the President of the Competition and Consumer Protection Office to the appeal submitted by Grupa LOTOS S.A. against the President's decision. In response to Grupa LOTOS S.A.'s appeal, the President of the Competition and Consumer Protection Office stated that Grupa LOTOS S.A.'s objections both with reference to substantive and procedural laws were unfounded and requested that the complaint be dismissed in its entirety and that the President be awarded the costs of legal representation. A hearing was scheduled for April 27th 2010. As at the date of approval of these consolidated financial statements, the case was pending.

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

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Czechowice S.A.'s Business***Tax Proceedings and Court and Administrative Proceedings Related to Taxes******Proceedings Related to Value Added Tax for Certain Months of 1998***

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

against all of the above decisions by Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.), in the case of the tax for July 1998, and by the Tax Chamber Director, in the case of the tax for October 1998, for July 1998 and for May 1998.

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

In December 2005, LOTOS Czechowice S.A. received the following decisions of the Supreme Administrative Court:

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

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against rulings by the Provincial Administrative Court of Gliwice of April 27th 2006 in the following cases:

- the case relating to the tax for May 1998 (PLN 318 thousand),
- the case relating to the tax for October 1998 (PLN 618 thousand).

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

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

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

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

Proceedings Related to Excise Duty for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against LOTOS Czechowice S.A., related to the decisions concerning excise duty for certain months of 1998, against which the LOTOS Czechowice S.A. submitted appeals to the administrative court. The total value of the claims disputed under appeal proceedings is PLN 2,881 thousand.

The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise duty for September 1998, August 1998 and June 1998. By virtue of the Supreme Administrative Court's ruling, the Provincial Administrative Court's decision regarding excise duty for September 1998, August 1998 and June 1998 was repealed in full and remanded for re-examination.

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

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against the decisions of the Provincial Administrative Court of Gliwice dated April 27th 2006 in the cases concerning taxes for:

- September 1998 – PLN 52.5 thousand,
- August 1998 – PLN 842 thousand,

- June 1998 – PLN 468.8 thousand,

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

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

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

On December 29th 2007, the Supreme Administrative Court issued a ruling dismissing the cassation complaints in the following cases:

- the case relating to the tax for September 1998 (PLN 52.5 thousand),
- the case relating to the tax for August 1998 (PLN 842 thousand),
- the case relating to the tax for June 1998 (PLN 468.8 thousand).

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

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

Inspection Related to Excise Duty Liabilities for Certain Months of 2004

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

By virtue of its decisions of January 7th 2009, the Head of the Customs Office of Bielsko-Biała set March 18th 2009 as a new deadline for resolving the cases concerning the excise duty liability for the period January – March 2004. Subsequently, by virtue of the decisions issued on June 29th 2009 by the Head of the Customs Office of Bielsko-Biała, a new deadline for resolving the cases concerning the excise duty liability for the period January – March 2004 was set for July 31st 2009.

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

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

On August 13th 2009, LOTOS Czechowice S.A. lodged an appeal against the decisions with the Director of the Customs Chamber of Katowice. Upon examination of the appeals, by virtue of decisions issued on November 17th 2009, the Director of the Customs Chamber of Katowice reversed the decisions appealed against and remanded the case for re-examination by the first instance body.

By virtue of its decisions of March 3rd 2010, the Head of the Customs Office of Bielsko-Biała set the deadline for resolving the case at May 5th 2010.

On April 19th 2010, LOTOS Czechowice S.A. received the decisions issued on April 14th 2010 by the Head of the Customs Office of Bielsko-Biała relating to January, February and March 2004 which again determined the amounts of excise duty liabilities which exceeded the excise duty liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

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

By the statutory deadline, the Management Board of Czechowice S.A. will appeal against the decisions to the Director of the Customs Chamber of Katowice through the Head of the Customs Office of Bielsko-Biała.

As at the date of approval of these consolidated financial statements, the case was pending.

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

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

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

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

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

On November 21st 2008, LOTOS Czechowice S.A. filed a request with the Head of the Customs Office of Bielsko-Biała to stay enforcement of the decision related to the excise duty liability for September – December 2003. On December 1st 2008, LOTOS Czechowice S.A. filed an appeal against the decision issued by the Head of the Customs Office determining the excise duty liabilities in amounts exceeding those declared by the company, with the Director of the Customs Chamber in Katowice, through the agency of the Head of the Customs Office of

Bielsko-Biała. On December 4th 2008, the Director of the Customs Chamber in Katowice initiated enforcement proceedings against LOTOS Czechowice S.A. by issuing enforcement orders with respect to the decisions of the Head of the Customs Office of Bielsko-Biała regarding excise duty liabilities for September – December 2003, and by seizing the amounts owed from LOTOS Czechowice S.A.'s bank accounts. The additional excise duty liability amounts payable under the decisions were increased by the costs of enforcement proceedings in the total amount of PLN 2,460 thousand and late interest determined as at the date of issuing the enforcement orders in the total amount of PLN 10,121 thousand.

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

On December 12th 2008, the Head of the Customs Office of Bielsko-Biała granted the request filed by the company on November 21st 2008 and issued Decision to stay enforcement of the decision concerning the excise duty liability for December 2003.

On the same day, the Director of the Customs Chamber in Katowice issued decisions to stay enforcement of the decisions concerning the excise duty liabilities for the period September – November 2003, and, invoking the decisions to stay enforcement of the Customs Office Head's decisions concerning the period September – December 2003, issued decisions to suspend the enforcement proceedings.

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

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

On February 23rd 2009, LOTOS Czechowice S.A. received four decisions of the Director of the Customs Chamber in Katowice repealing the earlier decisions of the Head of the Customs Office of Bielsko-Biała and remanding the cases for re-examination.

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

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

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

By virtue of his decision dated December 18th 2009, the Head of the Customs Office of Bielsko-Biała extended the deadline for resolving the cases concerning the excise duty liabilities for the period September–December 2003 until February 28th 2010. Subsequently, by virtue of decisions dated February 25th 2010, the Head of the Customs Office of Bielsko-Biała set May 28th 2010 as a new deadline for resolving the cases. As at the date of approval of these consolidated financial statements, the case was pending.

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

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Paliwa Sp. z o.o.'s Business***Proceedings Concerning Value Added Tax Liabilities for January and March 2005***

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

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

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

The decision concerns the right to reduce the tax amount due as settlement for the month in which the seller was provided by the buyer with a confirmation of receipt of an adjusting invoice, arising from settlement of the acquisition of an organised part of business of LOTOS Gaz S.A., and compliance of additional tax sanctions in this respect with the constitution.

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

On July 31st 2008, the Head of the Gdańsk Tax Chamber filed with the Supreme Administrative Court of Warsaw a cassation complaint against the decision of the Provincial Administrative Court of Gdańsk dated June 24th 2008.

On January 19th 2010, the Supreme Administrative Court of Warsaw reversed the decision issued in respect of LOTOS Paliwa Sp. z o.o. by the Provincial Administrative Court of Gdańsk, concerning the correctness of VAT settlements for March 2005, and remanded the case for re-examination. As at the date of approval of these consolidated financial statements, the case was pending.

As regards potential tax liabilities under the sanctions connected with the settlement of acquisition of an organised part of LOTOS Gaz S.A.'s business and corrections related to the VAT-7 tax returns, taking into account the results of legal and tax analyses, including the analysis carried out by external tax advisers, the Management Board of LOTOS Paliwa Sp. z o.o. is of the opinion that the risk of additional tax liabilities being imposed on the

company is low, therefore no provisions for such potential additional tax liabilities were created or disclosed in the company's financial statements or in these consolidated financial statements of the Group.

Court Proceedings Instigated by WANDEKO

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

Material Court Proceedings Instigated against Grupa LOTOS S.A.

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

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

The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Competition and Consumer Protection Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation, fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals, in case No. I ACa 824/03, and submitted for re-examination by the Regional Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

The case was pending before the Regional Court of Gdańsk (First Instance Court); file No. IX GC 134/04. The Company defended itself by raising objections as to the merits of the case (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report concerning the extent of the damage which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, Petroecco filed an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the decision of the Regional Court. On March 19th 2008, an enforcement motion was filed with a Court Enforcement Officer against PETROECCO JV Sp. z o.o. On April 17th 2008, PETROECCO JV Sp. z o.o. lodged a cassation complaint against the ruling issued on December 20th 2007. The complaint was delivered to Grupa LOTOS S.A. on June 17th 2008. On June 30th 2008, Grupa LOTOS S.A. sent a response to the complaint. The case was referred to pre-trial proceedings scheduled for November 14th 2008. On January 14th 2009, the Supreme Court reversed the ruling appealed against and remanded the case for re-examination by the Court of Appeals in Gdańsk. On March 10th 2009, the case files

were delivered to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer sent the decision on discontinuation of the enforcement proceedings. On May 14th 2009, the Court of Appeals referred the case to the Regional Court for re-examination. During a hearing held on November 3rd 2009, the Court obliged PETROECCO JV Sp. z o.o. to appoint an expert. The date for a next hearing will be set. As at the date of approval of these consolidated financial statements, the case was pending.

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

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

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court in Gdańsk, IX Commercial Division, issued a ruling dismissing the claim in its entirety. On June 8th 2006, the Minister of State Treasury appealed against the ruling of April 21st 2006 which dismissed the Minister's petition to declare invalidity of the agreement of August 18th 1998. On June 30th 2006, the Company filed its response to the appeal. On December 28th 2006, the Court of Appeals passed a ruling reversing the challenged decision of April 21st 2006 and declaring the agreement on the sale of two shares in Naftoport Sp. z o.o. as invalid. On April 6th 2007, the Company filed a cassation complaint and a request to stay enforcement of the decision of the second instance. By virtue of the ruling of the Court of Appeals of Szczecin dated April 20th 2007, the request to stay enforcement of the decision of the second instance was dismissed. On August 10th 2007, the Supreme Court issued a decision to accept the cassation complaint for consideration. On November 21st 2007, the Supreme Court issued a decision to remand the case back to the Court of Appeals in Szczecin. The hearing was held on May 7th 2008. The Court dismissed the claim in its entirety and decided that the costs of the proceedings in the amount of PLN 100 thousand would be returned to Grupa LOTOS S.A. The Court's decision became final with effect from May 7th 2008. On August 20th 2008, the State Treasury lodged a cassation complaint. On December 11th 2008, the case files arrived at the Supreme Court, Civil Chamber Division II. In a closed session held on March 6th 2009, the Court accepted the complaint for consideration. The date of the hearing was set for May 6th 2009; during the hearing, the Supreme Court remanded the case for re-examination by the Szczecin Court of Appeals. At the hearing held on September 30th 2009, the Court of Appeals dismissed the action and awarded reimbursement of the cost of court proceedings to Grupa LOTOS S.A. The State Treasury was called upon to reimburse Grupa LOTOS S.A. for the cost of court proceedings. On January 11th 2010, the State Treasury lodged a cassation complaint against the ruling to the Court of Appeals. As at the date of approval of these consolidated financial statements, the case was pending.

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

Tax Settlements

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

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company.

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

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

On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of LOTOS Jasło S.A., whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, LOTOS Jasło S.A. submitted to the judge-commissioner its claims in the total

amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security (deposit) mortgage (*hipoteka kaucyjna*). As at December 31st 2009, subject to the execution of the terms of the arrangement, the amount receivable was PLN 740 thousand.

LOTOS Jaslo S.A. recognized an impairment charge for the receivable described above.

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

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

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

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

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

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

In June 2009, Svenska Petroleum Exploration AB announced that it had received all due amounts – in accordance with the terms of the settlement – from the Government of the Republic of Lithuania and AB Geonafta. Thus the proceedings pertaining to the arbitration proceedings were completed.

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

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

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

On April 1st 2009, the first hearing was held. The Court decided that the next hearing would be held on May 19th 2009. Subsequently, the date for the next hearing was set for July 14th 2009, and then adjourned until October 16th 2009.

The date of the adjourned hearing was rescheduled at the request of Energobaltic Sp. z o.o.'s attorney and, at the hearing held on September 21st 2009 the parties entered into a settlement, as a result of which the Court discontinued the proceedings. The settlement was made to satisfy one of the conditions stipulated under the arrangement made as part of the recovery proceedings concerning Energobaltic Sp. z o.o. and approved by the District Court of Gdańsk on September 1st 2009, as referred to in Note 17.

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

Other Proceedings Involving LOTOS Gaz S.A. as a Party

As at December 31st 2009, proceedings were pending involving LOTOS Gaz S.A. as a party. These proceedings are discussed at greater length in Note 17.

47. Remuneration of the Management the Supervisory Board Members and Information on Loans and Other Similar Benefits Granted to Members of Management and Supervisory Staff of the Parent Undertaking

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

PLN '000	Year ended Dec 31 2009	Year ended Dec 31 2008
Management Board	713	606
Supervisory Board	233	261
Management Board – subsidiary undertakings ⁽¹⁾	278	441
	=====	=====
Total ⁽²⁾	1,224	1,308
	=====	=====

⁽¹⁾ Remuneration paid and payable to the members of the Management Board of Grupa LOTOS S.A. for serving on the Supervisory Boards and the Boards of Directors of subsidiary undertakings.

⁽²⁾ The value of remuneration reflects changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. during the reporting period.

As at December 31st 2009 and December 31st 2008, the Company did not grant any loans or similar benefits to members of its management and supervisory staff.

As at December 31st 2009, the value of post-employment benefits and of other non-current employee benefits calculated in line with IAS 19 *Employee Benefits*, due to members of the Management Board, amounted to PLN 221 thousand (as at December 31st 2008: PLN 117 thousand).

48. Employment Structure

Average employment by category (FTE):

	Year ended Dec 31 2009	Year ended Dec 31 2008
Blue-collar jobs	2,614	2,583
White-collar jobs	2,307	2,226
	=====	=====
Total	4,921	4,809
	=====	=====

49. Transactions with Related Undertakings

Transactions with related undertakings are executed on standard market terms.

(PLN '000)	Year ended Dec 31 2009		Dec 31 2009	
	Sales to related undertakings (incl. excise duty and fuel charge)	Purchases from related undertakings (incl. excise duty and fuel charge)	Receivables from related undertakings	Payables to related undertakings
Associated undertakings accounted for using the equity method	3,141	4,381	-	-
Non-consolidated undertakings	29	140	-	-
Total	3,170	4,521	-	-

In the period from January 1st to December 31st 2009, total value of finance income from transactions with related undertakings amounted to PLN 237 thousand and comprised other interest.

In the period from January 1st to December 31st 2009, total value of finance expenses from transactions with related undertakings amounted to PLN 1,287 thousand and comprised interest on advanced loans.

In the period from January 1st to December 31st 2009, the Group reversed impairment losses on receivables from related undertakings in the amount of PLN 1,671 thousand.

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 7 thousand (other operating expenses).

(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)	Receivables from related undertakings	Payables to related undertakings
Associated undertakings accounted for using the equity method	2,597	2,871	1,818	2,687
Non-consolidated undertakings	37	248	3	52
Total	2,634	3,119	1,821	2,739

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

In the period from January 1st to December 31st 2008, the total value of finance income from transactions with related undertakings amounted to PLN 104 thousand (including other interest of PLN 50 thousand and dividend of PLN 54 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 and the Group members 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 and members of the Group 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 or the Group Members 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	Sale	Purchase	Receivables	Payables
(PLN '000)				
Supervisory staff	1,270	1,778	70	181
Management staff	-	-	-	-
TOTAL	1,270	1,778	70	181

50. Transactions with Related Undertakings in which the State Treasury Holds a Stake

Transactions with related undertakings in which the State Treasury holds a stake are executed on standard market terms.

Transactions between the Group and material⁽¹⁾ related undertakings in which the State Treasury holds a stake:

(PLN '000)	Sales to related undertakings incl. excise duty and fuel charge	Purchases from related undertakings incl. excise duty and fuel charge
Year ended Dec 31 2009	21,799	176,718
Year ended Dec 31 2008	30,872	207,709

(PLN '000)	Net receivables from related undertakings	Payables to related undertakings
Dec 31 2009	2,311	8,935
Dec 31 2008	2,116	20,398

⁽¹⁾ i.e. undertakings whose share capital exceeds PLN 100,000 thousand, based on the list of companies in which the State Treasury holds a majority or a 100% stake, prepared as at December 31st 2009 (as at June 30th 2008 and including changes in the structure of associated undertakings in which the State Treasury holds a stake – in the case of the data for 2008).

In 2008 and 2009, the largest transactions with a related undertaking in which the State Treasury holds a stake were the transactions with Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŻŃ S.A.

51. Additional Information on Results of the LOTOS Group Member Undertakings

PLN '000	Net profit (loss)	
	Year ended Dec 31 2009	Year ended Dec 31 2008
	(comparable data)	
LOTOS Paliwa Sp. z o.o.	109,971	33,692
LOTOS Gaz S.A. ⁽¹⁾	(2,716)	(25,655)
LOTOS Oil S.A.	36,138	33,722
LOTOS Asfalt Sp. z o.o.	179,496	92,863
LOTOS Ekoenergia S.A.	(3)	15
LOTOS Kolej Sp. z o.o.	32,570	20,653
LOTOS Serwis Sp. z o.o.	4,852	1,077
LOTOS Lab Sp. z o.o.	2,100	1,876
LOTOS Straż Sp. z o.o.	797	574
LOTOS Ochrona Sp. z o.o.	1,447	138
LOTOS Parafiny Sp. z o.o.	10,920	9,125
LOTOS Tank Sp. z o.o.	4,478	400
LOTOS Czechowice Group (LOTOS Czechowice S.A. is parent undertaking of another group)	16,764	383
LOTOS Jasło Group (LOTOS Jasło S.A. is parent undertaking of another group)	(445)	(9,415)
Petrobaltic Group (Petrobaltic S.A. is parent undertaking of another group)	111,445	211,999
UAB LOTOS Baltija	(13)	(143)
LOTOS Park Technologiczny Sp. z o.o.	321	303
LOTOS Exploration and Production Norge AS ⁽²⁾	-	(2,618)

⁽¹⁾ Until July 23rd 2009 LOTOS Gaz S.A. controlled subsidiary undertaking KRAK-GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) (see Note 2).

⁽²⁾ On June 12th 2008 Grupa LOTOS S.A. and Petrobaltic S.A. entered into an agreement concerning sale of 8 million shares in LOTOS Exploration and Production Norge AS (see Note 2).

52. Entity with Significant Influence over the Group

Nafta Polska S.A. (controlled by the State Treasury) held a 51.91% stake in Grupa LOTOS S.A. until July 22nd 2009.

In the period from January 1st to July 22nd 2009, no transactions were concluded between Grupa LOTOS S.A. and Nafta Polska S.A.

In the period from January 1st to December 31st 2009, no transactions were concluded between Grupa LOTOS S.A. and the State Treasury, except for the transaction described in Note 26 to these financial statements, as a result of which the State Treasury came to hold a 63.97% stake in Grupa LOTOS S.A.

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

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

53. Other Information

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

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

- management of company assets of material importance to its operations,
- changes of the actual business profile, changes of the intended use or discontinuation of the use of a company's asset of material importance,
- adoption by the General Shareholders Meeting of resolutions concerning dissolution of the company, relocation of its registered office abroad, change of its business profile, sale or lease of its business or an organised part of its business, or encumbrance of the business or its organised part with limited property rights,

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

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

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

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

By the date of approval of these consolidated financial statements, Grupa LOTOS S.A. received no statement on the appointment of an observer for the Company.

53.2 Information on the Agreement with and Remuneration Payable to the Qualified Auditor of Financial Statements, and Information on the Appointment of the Qualified Auditor to Audit the Financial Statements of Grupa LOTOS S.A.

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.

Furthermore, selected members of the LOTOS Group and Deloitte Audyt Sp. z o.o. of Warsaw concluded agreements providing amongst other things for the 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 the financial statements referred to above, as well as for other services provided by Deloitte Audyt Sp. z o.o. is set forth below.

PLN '000	2009	2008
Audit of the annual non-consolidated and consolidated financial statements of Grupa LOTOS S.A.	466	466
Audit of the annual non-consolidated and consolidated financial statements of selected members of the LOTOS Group ⁽¹⁾	468	408
Confirmation services, including:	388	378
- review of the semi-annual non-consolidated and consolidated financial statements of Grupa LOTOS S.A.	243	243
- other confirmation services for the LOTOS Group companies	15	5
Other services	-	110
Tax advisory services	-	-
TOTAL	1,322	1,362

⁽¹⁾ The remuneration for the audit of selected members of the LOTOS Group is payable on the basis of separate agreements between the auditor and the particular companies.

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.

54. Signatures of the Management Board Members and the Person Responsible for Keeping the Accounting Books of Grupa LOTOS S.A.

President of the Management Board, 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
Chief Accountant	
	Tomasz Południewski