Grupa LOTOS S.A. 2008
Annual Report

2008

Grupa LOTOS in 2008

Timeline

On 2 June 2008, Grupa LOTOS celebrates its fifth anniversary under the new name.

The transformation of Rafineria Gdańska S.A. into Grupa LOTOS S.A. started the intense process of organizational reconstruction and the dynamic growth of the Company.

Timeline 2008

January	
	A trilateral cooperation agreement signed between Grupa LOTOS, Gdańsk University of Technology and the AGH University of Science and Technology in Krakow. Waldemar Pawlak, Vice-Prime Minister and Minister of the Economy, visits the refinery in Gdańsk.
	1.8-billion-zloty contracts are executed for the sale and delivery of fuels to BP Polska and Lukoil Polska.
February	
navigator	The Navigator loyalty programme is launched at all LOTOS petrol stations, both company-owned and dealer-owned franchise-operated .
PROGRAM 10+	The Extraordinary General Shareholders' Meeting of Grupa LOTOS consents to the collateral of credits for funding the 10+ Programme.
	Grupa LOTOS comes 6th in the ranking 'Stock Exchange Company of 2007' organised by the 'Puls Biznesu' daily and the Pentor Research International agency. The management of Grupa LOTOS is also ranked high in the general classification, coming 10th out of the 346 examined management boards of listed companies.

Grupa LOTOS S.A. (Grupa LOTOS) is the Parent Undertaking of the LOTOS Group

March

The Parliament Treasury Commission endorses the performance of the 10+ Programme and the directions of the Concern’s development at a special meeting at the registered office of Grupa LOTOS.

Almost 300 thousand cards are distributed during the first month since the start of the Navigator programme among customers of LOTOS petrol stations.

The construction of the 10-kilometre-long transfer pipeline is commenced to connect the refinery of Grupa LOTOS to Naftoport, another investment executed as part of the 10+ Programme.

A contract is executed between Grupa LOTOS and the Belgian concern SARENS Group for the transport and heavy lift of reactors of the hydrodesulphurization (HDS), hydrocracking (MHC) and distillation (CDU/VDU) systems constructed at the Gdańsk refinery within the 10+ Programme.

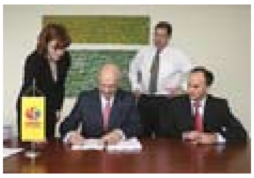
April

Dynamic

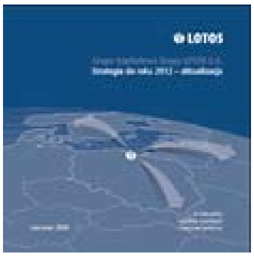
During the six months since the launch of the premium class fuels at LOTOS petrol stations, more than a dozen million litres of LOTOS Dynamic gasoline and diesel oil have been sold.

May	
	The FAME biocomponent production starts in Czechowice-Dziedzice. The FAME (fatty acid methyl esters) production system that utilizes the CD Process technology may produce 100 thousand tonnes of esters and 12 thousand tonnes of technical glycerine per year. The total cost of the system amounts to approximately PLN 80m.
	The refinery of Grupa LOTOS and the Petrobaltic company are visited by representatives of the Norwegian Petroleum Directorate (NPD) and the Petroleum Safety Authority Norway (PSAN). The visit has a positive impact on the decision issued by the authorities granting the LOTOS Norge an exploration-production license on the Norwegian Continental Shelf.
	31.4% of Polish drivers buy engine oils of the LOTOS brand according to market research conducted by 'Moto Scan 2008'. The LOTOS Oil is the leader of the domestic market of engine oils.
	The assembly of the 1100-tonne furnace-reformer of the hydrogen production (HGU) system. The new system will provide a throughput 3.5 times larger than the present production capacities.
	LOTOS Norge, Petrobaltic's subsidiary, signs an agreement with Revus Energy for the purchase of 10% of production licence shares in the Yme oil field in the North Sea.

June



The Management Board of Grupa LOTOS signs an agreement with a consortium of 17 financial institutions from all over the world with regard to funding the 10+ Programme and other investments for the total amount of USD 1.75 billion.



The strategy of the LOTOS Group is updated until 2012. The main premises include the intensification of crude oil exploration and production on the Baltic Sea, the North Sea and the Norwegian Sea, the growth of the volume and depth of crude oil processing at the refinery in Gdańsk and the further dynamic development of oil product sales.

The Dynamic fuels receive the title and award for the 'Product of the Year' granted by the Polish Chamber of Liquid Fuels during the International Trade Fair of Petrol Stations 2008.

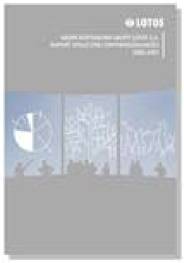
On 2 June 2008, Grupa LOTOS celebrates its fifth anniversary under the new name. The transformation of Rafineria Gdańska S.A. into Grupa LOTOS S.A. started the intense process of organizational reconstruction and the dynamic growth of the Company.

Wiesław Skwarko is elected the new chairman of the Supervisory Board of Grupa LOTOS at the Ordinary General Shareholders' Meeting.

The LOTOS Norge office is opened in Sandnes (Norway).

The LOTOS Asfalt wins the 'Teraz Polska' competition. The prestigious award is granted for the MODBIT modified bitumen.

July



The first CSR report is published, detailing the commitment of the LOTOS Group to corporate social responsibility issues.

The Norwegian Ministry of Energy and Oil endorses the competences and experience of Grupa LOTOS in oil exploration and production, safety and environmental protection, as required in the prequalification process for operation on the Norwegian Continental Shelf.

The LOTOS Oil company signs a contract with Lubrizol, a leader of the international market of lubricants. The cooperation provides LOTOS Oil with access to state-of-the-art technologies applied in the sector.

August

The assembly of the hydrodesulphurization (HDS) system, the most advanced investment of the 10+ Programme. The reactor is 44m high and weighs more than 700 tonnes.

Grupa LOTOS participates in the Offshore Northern Seas Trade Fair in Stavanger. The Fair belongs to the largest and most prestigious events of the exploration and production sector in the world.

During the six months since the launch of the Navigator programme, customers of LOTOS petrol stations have received more than 630 thousand cards.

Grupa LOTOS is among the 250 best power companies in the world from nine sectors. The Top 250 Global Energy Company for 2008 ranking was prepared by the Platt, Standard & Poor’s agency.

September

PROGRAM 10+

The assembly of the 80-metre-high production chimney – part of the amine-sulphur (KAS) complex constructed as part of the 10+ Programme.

Grupa LOTOS ranks 18th on the list of the 500 largest companies in Central and Eastern Europe. The ranking was prepared by the ‘Rzeczpospolita’ daily and the Deloitte Polska auditing and consulting company.

The Extraordinary General Shareholders’ Meeting of Petrobaltic S.A. approves the new strategy of company development, providing for the growth of goodwill by intensifying and increasing the efficiency of oil production.

October

The refinery of Grupa LOTOS in Gdańsk is recognised as the best crude oil processing plant in Central and Eastern Europe. The award was granted by a panel of experts under the auspices of the World Refining Association.

LOTOS Norge is among 47 companies from all over the world that have applied for exploration-production licenses on the Norwegian Continental Shelf within the Awards In Predefined Areas (APA 2008) round.

LOTOS Paliwa obtains the right to lease and construct six Traveller Service Stations located on the A2 (Konin - Stryków) and A4 (Wrocław – Katowice) motorways following a tender organised by the General Directorate for National Roads and Motorways.

Grupa LOTOS, Grupa Energa and PGNiG sign a letter of intent concerning the construction of a modern gas power plant in Gdańsk to operate mostly for the refinery. Electricity and heat are to be sold also to other regional consumers.

LOTOS Asfalt has supplied more than 55 thousand tonnes of top quality products for the construction of the consecutive section of the A1 motorway constructed in 2006-2008.

The LOTOS brand comes second in the ranking of Polish producers according to market research conducted by TNS OBOP.

November	
	Guarantees of oil supplies, joint operation on the aviation fuel market and the sale of fuel to Statoil petrol stations in Poland are among the main provisions of the contracts signed between Grupa LOTOS and the Norwegian StatoilHydro and Statoil Poland. The concerns aim to focus on the dynamic development of mutual relations.
	Grupa LOTOS completes the initial registration and purchases rights to continue the production and import of registered chemicals according to the schedule of the 2nd stage of implementing the REACH system, applicable in the European Union.
	The CSR report prepared by Grupa LOTOS wins the 'Social Reports 2008 Competition' for the best reports in corporate social responsibility in Poland. The ranking was prepared by PricewaterhouseCoopers, Responsible Business Forum and CSR Consulting.
December	
	Grupa LOTOS executes a contract with Shell Polska, BP Polska and Lukoil Polska for the sale of liquid fuels in 2009. The estimated value of the contracts exceeds PLN 2.7 billion
	Grupa LOTOS and Pomorska Spółka Gazownictwa launch a system of natural gas supplies at the refinery in Gdańsk . The use of natural gas will reduce the CO_2 emission and cut the operating costs of the refinery.
	LOTOS Norge has become a member of the prestigious Norwegian association of the oil sector (OLF) of 46 oil companies operating on the Norwegian Continental Shelf.
	The LOTOS brand is worth PLN 541.8m according to the ranking prepared by the 'Rzeczpospolita' daily, which implies a 30% increase compared to the data published in 2007.
	Grupa LOTOS sells stocks of Rafineria Nafty Glimar in Gorlice to Podkarpacki Holding Budowy Dróg 'Drogbud'.

Timeline 2009

January	
	CGG Veritas completes seismic tests on the area of four licenses of Petrobaltic located on the Baltic Sea. CGG Veritas (one of the global leaders of the seismic tests sector) performed 2D and 3D tests.
PROGRAM 10+	Grupa LOTOS is the only Polish company awarded with the ‘European Oil Deal of the Year’ title. The award was granted by the ‘Project Finance International’ magazine (Thomson Reuters group) in relation to crediting the 10+ Programme.
February	
	The Anti-Crisis Package launched in Grupa LOTOS due to the global economic crisis provides for the suspension of investment outlays for the total amount of PLN 2.1 billion (in 2009-2012), including approximately PLN 170m savings in 2009.
	Four columns of the crude/vacuum distillation unit (CDU/ VDU) systems are placed on foundations within the 10+ Programme.
PROGRAM 10+	Grupa LOTOS receives the ‘European Petrochemicals Deal of the Year 2008’ title for organising the funds for the 10+ Programme. The title is granted by the prestigious ‘Project Finance Magazine’ owned by the Euromoney agency.
	The multifunctional oil produced by LOTOS Oil receives the approval of the Command of the Tank-Vehicle Service and Support of the Polish Army. As a result, the oil may be applied in the standard tank of the Polish army, PT–91 ‘Twardy’.

March

The technological overhaul of the refinery in Gdańsk commences. It took 33 days and involved the control, modernization and replacement of approximately 3,400 parts and devices. 1,500 people from more than 20 companies worked at the refinery during the overhaul.

LOTOS Oil becomes a member of Association Technique de L'Industrie Européene des Lubrifiants, a group of the leading producers and sellers of engine oils from all over Europe.

THE GLOBAL COMPACT

Grupa LOTOS becomes a member of the international organization Global Compact, whose tasks include the propagation of compliance with employee rights, the prevention of corruption and support of environmental protection.

PROGRAM 10+

The construction of the Solvent De-Asphalting system starts – the last production system of the 10+ Programme.

Grupa LOTOS becomes a strategic partner of the Responsible Business Forum, the first and only NGO in Poland involved in spreading the idea of corporate social responsibility.

Petrobaltic buys a new remote-controlled submarine vehicle, SeaEye Falcon. It will be used to carry out exploration of the Baltic Sea bottom, which is significant in the process of developing future submarine oil and gas fields and submarine systems.

April

CSR24/7 RATING

Grupa LOTOS ranks 1st in the Polish ranking 'CSR 24/7' assessing the corporate social responsibility programmes of companies. The 39 largest Polish firms from 13 sectors of the economy participated in the ranking.

In the list of the 500 largest firms in Poland, prepared by the 'Rzeczpospolita' daily, Grupa LOTOS ranks 7th. In a similar ranking by the 'Polityka' weekly, Grupa LOTOS comes 6th.

Awards and Distinctions

Awards and distinctions 2008

Grupa LOTOS	January		The **6th position** in the ranking of the most admired listed companies and the **10th position** in the ranking of the best management boards of listed companies (out of 346 assessed firms) in the survey by the 'Puls Biznesu' daily and the Pentor Research International agency conducted among 180 analysts, brokers and investment consultants
Grupa LOTOS	January		**Sopot Culture Patron –** a distinction awarded annually by the chapter of the representatives of Sopot's cultural institutions and the Tri-City media
LOTOS Parafiny	February		**Business Gazelle –** the award for the most dynamic SMEs, granted for the second consecutive time by the 'Puls Biznesu' daily and Coface Poland
LOTOS Kolej	February		**Business Gazelle –** the award for the most dynamic SMEs, granted for the second consecutive time by the 'Puls Biznesu' daily and Coface Poland
LOTOS Paliwa	March		Certificate of the **European Greenlight Programme** for launching the energy-saving system in lighting at petrol stations
Grupa LOTOS	April		The **Business Centre Club Award** for the development of Pomeranian entrepreneurship and for creating the image of a reliable employer

LOTOS Gaz	April		The **European Medal**, granted by the European Integration Committee Office, the Business Centre Club and the European Economic and Social Committ
Grupa LOTOS	April		The **Business Superbrands 2007** title – for one of the best Polish business brands granted by The Superbrands Ltd. based on independent market research and financial data
Grupa LOTOS	April		The **4th place** among listed companies, the **6th place** among the biggest Polish companies and the **7th place** among the most profitable firms in 2007 on the **500 List** of the 'Polityka' weekly
Grupa LOTOS	April		The **8th place on the 500 List** of the 'Rzeczpospolita' daily
Grupa LOTOS	April		The corporate film is recognised as one of the two best films at the MEDIAL 2008 festival at the 7th Congress of Public Relations
LOTOS Paliwa	May		The **Product of the Year** title is granted to the **Dynamic** fuels by the Polish Chamber of Liquid Fuels during the International Trade Fair of Petrol Stations
LOTOS Oil	May		LOTOS engine oils are the number one on the domestic market according to the Moto Scan 2008 research carried out by Qualifact Badania Rynkowe i Doradztwo
LOTOS Asfalt	June		The Winner of the 18th edition of the **Teraz Polska** Competition for the MODBIT modified bitumen

Grupa LOTOS	June	The **10th diamond in the Golden Statute of the Polish Business Leader** for economic results, quality and modern products, commitment to charity and environmental protection in the competition organised by the Business Centre Club
Grupa LOTOS	June	**High Reputation Business Brand** The 2nd position among the best known and appreciated Polish brands (producers) in the PremiumBrand ranking published by the 'Puls Biznesu' daily
Grupa LOTOS	June	**The laureate** of the 9th Edition of the **Human Resource Management Competition** organized by the Institute of Labour and Social Affairs with the support of the National Bank of Poland
Grupa LOTOS	August	The **18th position** on the **List of the 500 Largest Companies in Central and Eastern Europe** published by the 'Rzeczpospolita' daily and the Deloitte Polska consulting company
Grupa LOTOS	August	The **8th position** on the **List of the Top 20 Largest Polish Firms** published by the 'Rzeczpospolita' daily and the Deloitte Polska consulting company
Grupa LOTOS	August	Grupa LOTOS **is among the 250 best power industry global companies** on the list of **Top 250 Global Energy Company for 2008** prepared by the Platts, Standard & Poor's agency
Grupa LOTOS	September	The title of the **IT Leader 2008,** granted by the 'ComputerWorld' magazine for the method of IT management, the adjustment of solutions to the business strategy and the modern implementations and their quality

Grupa LOTOS	October		The **Refinery of the Year 2008** title, granted by the experts of the World Refining Association (WRA) for implementing the 10+ Programme, the high level of using production systems and one of the top ratios of power efficiency (according to the Solomon Study)
LOTOS Paliwa	October		The title of the **Partner of 2008** granted by Marshal of the Warmińsko-Mazurskie Voivodeship, for the support of cultural activities in the province
LOTOS Paliwa	November		The **Top Product of Pomerania 2008** title for the **LOTOS Dynamic 98** gasoline, granted by the readers of the 'Polska Dziennik Bałtycki' newspaper
LOTOS Paliwa	November		The **European Medal** for the **LOTOS Dynamic** fuel in the 17th edition of the competition organised by the Business Centre Club
Grupa LOTOS	November		The title of the **New Technology Leader** for implementing and applying the most effective and advanced technologies
LOTOS Oil	November		The title of the **Best Product of the Plumbing, Pneumatic, Control and Drive Trade Fair** to the **Hydromil Super L-HV 68** oil for its innovative characteristics and high quality
Grupa LOTOS	November	RAPORTY SPOŁECZNE 2008	The **1st place** for the **Corporate Social Responsibility Report of the LOTOS Group 2006-2007 in the competition of Social Reports 2008 organised by PricewaterhouseCoopers**, Responsible Business Forum **and CSR Consulting**
Grupa LOTOS	December		The **19th position of the LOTOS brand** in the 5th edition of the **Most Valuable Polish Brands (MARQA 2008)** published by the 'Rzeczpospolita' daily. The value of the LOTOS brand increased by 30% during the year.

Awards and distinctions 2009

Grupa LOTOS	January		The title of the 'European **Oil Deal of the Year,** granted by the 'Project Finance International' magazine (Thomson Reuters group) for crediting the 10+ Programme
Grupa LOTOS	March		The title of the **European Petrochemicals Deal of the Year 2008**, granted by the 'Project Finance Magazine' (Euromoney) for organising the funding for the 10+ Programme
LOTOS Kolej	March		The title of the **Forbes Diamond 2009**
Grupa LOTOS	April		The **1st place** in the CSR 24/7 domestic ranking organised by the Braun & Partners consulting company with the Polish Federation of Private Employers Lewiatan. The ranking assesses the social responsibility of companies.

Financial Highlights

Financial results

Financial Highlights – Consolidated

	PLN'000		EUR'000	
The LOTOS Group	**Year ended Dec 31 2008**	**Year ended Dec 31 2007 (comparable data)**	**Year ended Dec 31 2008**	**Year ended Dec 31 2007 (comparable data)**
	(audited)	(audited)	(audited)	(audited)
Sales revenue	16,294,738	13,125,123	4,613,329	3,475,197
Operating profit/(loss)	(145,828)	713,664	(41,286)	188,960
Pre-tax profit/(loss)	(504,218)	1,004,494	(142,753)	265,964
Net profit/(loss) on continued operations	(389,933)	814,147	(110,397)	215,565
Net profit/(loss) attributable to equity holders of the parent	(453,906)	777,160	(128,509)	205,772
Net profit attributable to minority interests	63,973	36,987	18,112	9,793
Net cash provided by/(used in) operating activities	311,670	157,830	88,239	41,789
Net cash provided by/(used in) investing activities	(2,417,112)	(816,440)	(684,327)	(216,172)
Net cash provided by/(used in) financing activities	1,963,145	513,145	555,801	135,868
Total net cash flow	(138,751)	(147,061)	(39,283)	(38,938)
Basic earnings/(loss) per ordinary share (PLN/EUR)	(3.99)	6.84	(1.13)	1.81
Diluted earnings/(loss) per ordinary share (PLN/EUR)	-	-	-	-

	PLN'000		EUR'000	
	As at Dec 31 2008	**As at Dec 31 2007**	**As at Dec 31 2008**	**As at Dec 31 2007**
	(audited)	(audited)	(audited)	(audited)
Total assets	12,201,998	9,720,384	2,924,455	2,713,675
Equity attributable to equity holders of the parent	5,404,135	5,816,227	1,295,210	1,623,737
Equity attributable to minority interests	395,917	334,691	94,890	93,437
Total equity	5,800,052	6,150,918	1,390,100	1,717,174

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

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

Upstream, oil throughput and sales

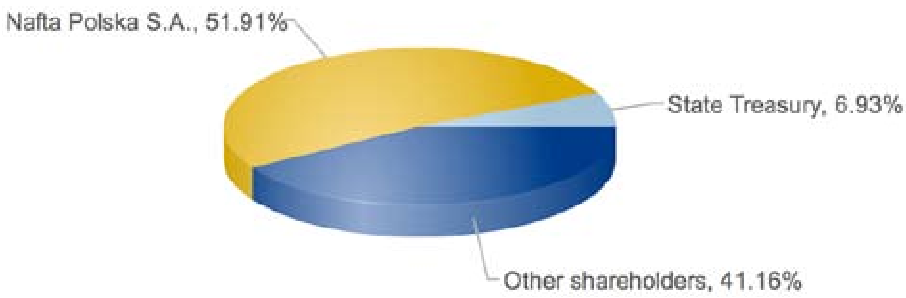
	2006	2007	2008
Petroleum ('000 ton)	265.5	190.6	257.8
Gas (mln Nm^3)	29.9	21	29.3
Throughput of oil ('000 ton)	6,098.6	6,156.4	6,203.4
Capacity utilisation (%)	101.6	102.6	104.4
Refining good and products sales ('000 ton)	7,049	7,111	7,548

Employment

	2006	2007	2008
LOTOS Group	5 624	4 764	4 878
LOTOS Group	945	1 098	1 246

Shareholder Structure

The shareholder structure of Grupa LOTOS as of 31 December 2008



The shareholder structure of Grupa LOTOS S.A.

Shareholder	Number of shares	Face value of shares	Number of votes at the AGM	Share in the total number of votes at the AGM
State Treasury	7,878,030	7,878,030	7,878,030	6.93%
Nafta Polska S.A.*	59,025,000	59,025,000	59,025,000	51.91%
Other shareholders	46,796,970	46,796,970	46,796,970	41.16%
Total	**113,700,000**	**113,700,000**	**113,700,000**	**100.00%**

(*) The Treasury owns 100% of the shares of Nafta Polska S.A.

Grupa LOTOS has not issued any securities granting any special control rights to shareholders or any securities with limited rights of disposal.

One share of Grupa LOTOS gives one vote at the Annual General Meeting, however, as long as Nafta Polska S.A. owns stocks giving it at least one-fifth of the total number of votes in the Company, the right of the Company's stockholders is limited so that none of them can vote with more than one-fifth of the total number of votes existing in the Company as of the day of the Annual General Meeting.

This limitation of the right to vote does not concern Nafta Polska S.A. Performance of the right to vote by a subsidiary is considered in the same way as that of a parent company in the meaning of the regulations on the public turnover of securities.

Supervisory Board of Grupa LOTOS

The Supervisory Board controls the operation of Grupa LOTOS in all its spheres of activity. The Supervisory Board discharges its obligations jointly, while individual Members may be assigned to perform specific supervisory functions. The Supervisory Board may establish permanent or temporary committees in order to check specific issues. The following committees operate on a permanent basis: Audit, Strategy and Development and Organization and Management.

Wiesław Skwarko
Chairman of the
Supervisory Board

Leszek Starosta
Vice-Chairman of the
Supervisory Board

Jan Stefanowicz
Member 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

Wiesław Skwarko

Chairman of the Supervisory Board

Mr Skwarko graduated from the Warsaw School of Economics in Warsaw (the Faculty of Foreign Trade), where he worked as an assistant in 1987-1994.

W latach 1987-1994 asystent w Szkole Głównej Handlowej.

In 1990-1999, he was a partner in Access Sp. z o.o. After that, Mr Skwarko served in the Management Board of Rothschild Polska Sp. z o.o. In 2005-2006, he worked as the Director of the Privatization Office at Nafta Polska S.A. In 2006, he was appointed the Director for Financial Strategy and Capital Development at CTL Maczki Bór in Sosnowiec and afterwards in CTL Logistics S.A. in Warsaw. He has served as a Member of the Management Board of Nafta Polska S.A. since 10 January 2008. He is also the Chairman of the Supervisory Board of Zakłady Azotowe in Kędzierzyn-Koźle.

He was appointed a Member of the Supervisory Board of Grupa LOTOS on 30 June 2008 and serves as its Chairman. Moreover, he chairs the Committee of Strategy and Development of the Supervisory Board, whose tasks include endorsing and recommending planned investments that have a major impact on the Company's assets. Since 19 March 2009, Mr Skwarko has also been a member of the Committee of Audit.

Following the decision of the Supervisory Board of 12 August 2008, he has been responsible for the detailed and on-going supervision of the 10+ Programme. His competences include:

- monitoring the progress of the project and compliance with the schedule,
- the supervision of the strategy implementation with regard to obtaining raw materials for project execution,
- the supervision of the strategy of selling products obtained in the project, and
- the supervision of logistics cohesion in the project performance.

Leszek Starosta

Vice-Chairman of the Supervisory Board

Mr Starosta graduated from the Faculty of Law and Administration at the Adam Mickiewicz University in Poznań. He holds a Ph.D. and a professor degree in law and is the Deputy Dean for Development at the Academy of International Economic and Political Relations in Gdynia, the Dean of the Law Department of the Academy and the Director of the European Studies Institute in Gdynia.

In 1991-2000, Mr Starosta was an advisor of the Management Board of Rafineria Gdańska S.A. In 1995-1998, he worked as an advisor and consultant of the President of the Management Board of Petrochemia Płock S.A. He is an author of more than twenty studies and analyses concerning the oil and fuel sector, including the ones ordered by the central public administration authorities. In 1998-2007, he was a Member and the Vice-Chairman of the Supervisory Board of Prokom Software S.A. He is a solicitor and a member of the Lawyers' Chamber in Gdańsk and the Presidium of the Polish Conference of Employers, as well as an arbitrator in the Arbitration Court for Sport in the Polish Olympics Committee.

Mr Starosta was appointed to the Supervisory Board of Grupa LOTOS on 30 June 2008. He has served as the Chairman of the Board since 12 August 2008. He is also a Chairman of the Committee of Organization and Management of the Supervisory Board and a Member of the Committee of Strategy and Development. Pursuant to the resolution of the Supervisory Board, he supervises the investment project of Grupa LOTOS, the 10+ Programme, in particular with regard to contracting procedures and compliance with law.

Jan Stefanowicz

Member of the Supervisory Board

Mr Stefanowicz graduated from Nicolaus Copernicus University in Toruń. He is a solicitor, a member of the Association of Polish Economists and the Chairman of the Press Freedom Monitoring Centre Council at the Polish Journalists' Association. Mr Stefanowicz runs his own legal practice and is a partner of 'Juris' Legal Office.

He was designated a Member of the Supervisory Board of Grupa LOTOS on 30 January 2006, taking the position of the Vice-Chairman of the Board. He served as the Chairman of the Supervisory Board from 28 May 2007 to 30 June 2008. At present, he chairs the Committee of Audit, whose task is to advise the Supervisory Board in issues concerning the implementation of the budget and financial reporting principles, internal control and cooperation with licensed auditors. He also participates in the Committee of Strategy and Development.

Mariusz Obszyński

Secretary of the Supervisory Board

Mr Obszyński graduated from the Maria Curie-Skłodowska university in Lublin, the Faculty of Economics.

In 1999, he was employed as a specialist in the Privatization Agency, the Department of Privatization Prospects. In 1999-2007, he worked as a chief specialist in the Ownership Supervision Office of Nafta Polska S.A. From January 2007 to January 2008, he worked as a specialist/analyst for capital investments in Bankowe Towarzystwo Kapitałowe S.A. Since January 2008, he has been employed as the Director of the Ownership Supervision Office of Nafta Polska S.A. During his employment with Nafta Polska, he served in the supervisory boards of the following companies: Rafineria Czechowice S.A., Zakłady Chemiczne Police S.A. and Zakłady Azotowe in Tarnów-Mościce S.A.

He was designated a Member of the Supervisory Board of Grupa LOTOS on 30 June 2008. Since 12 August 2008, he has been a Secretary of the Board. He is involved in the Committee of Organization and Management as well as the Committee of Audit.

Radosław Barszcz

Member of the Supervisory Board

Mr Barszcz graduated from Warsaw University of Technology, the Department of Management Organization (major in Organization and Management in Industry).

In 1992-1994, he coordinated the project of the Research and Development Centre in the Strategic Management Team in Telekomunikacja Polska S.A. In 1994-1997, he was a capital investment expert at the Department of Restructuring and Privatization of Polski Bank Rozwoju S.A. He has been employed in the Ministry of the Treasury since 1998. He was the Head of the Ownership Supervision Department and the Intermediate Privatization Department. From 2006 to March 2009, he was the Deputy Director of the 1st Ownership Supervision and Privatization Department. At present, he is the Director of the 5th Ownership Supervision and Privatization Department.

Since 1998, he has been a member of the supervisory boards in the following companies:

- 1998-2008 – Elektrownia Skawina S.A.
- 1998-2004 – Zakład Energetyczny Słupsk S.A.
- 2005 – Polskie Sieci Elektroenergetyczne S.A.
- 2005-2007 – BOT Elektrownia Turów S.A.
- 2007 – present – Zakłady Azotowe Puławy S.A.

He was appointed a Member of the Supervisory Board of Grupa LOTOS on 30 June 2008. He participates in the Committee of Strategy and Development and since 19 March 2009 he has been a member of the Committee of Audit of the Supervisory Board.

Piotr Chajderowski

Member of the Supervisory Board

Mr Chajderowski graduated from the University of Łódź, the Faculty of Economics and Sociology (majoring in Finance and Banking).

In 1994-1995, he worked in the Foundation for Restructuring the Region of Łódź as the financial advisor of the Management Board. Until 1999, he worked as the investment accountant and manger at PTP Kleinwort Benson Sp. z o.o. In 1999-2001, he was the Vice-President of the Management Board of Alpha Finance Sp. z o.o. After that, in 2001-2002 he was the President of the Management Board of Zakłady Metalurgiczne SKAWINA S.A. In 2003-2005, he served as the President of the Management Board at PGI Polska Grupa Inwestycyjna Sp. z o.o. and in 2005-2009 as the President of the Management Board of R.A.S. Corporate Finance Sp. z o.o. In 2009, he was appointed the President of the Management Board of the Centralwings airline, a company of Grupa LOT.

He was a member of the Supervisory Board of Grupa LOTOS from 30 June 2008 until 10 March 2009. On 10 March 2009, Mr Chajderowski resigned from the Supervisory Board due to his new professional obligations, which could have significantly limited his involvement in the Supervisory Board of Grupa LOTOS.

Being a Member of the Supervisory Board, he worked in the Committee of Audit of the Supervisory Board. Following the decision of the Supervisory Board of 12 August 2008, he became responsible for detailed and current supervision of the 10+ Programme execution. In particular, he was responsible for analysing the business and credit documentation of the project and supervising its financial liquidity.

Małgorzata Hirszel

Member of the Supervisory Board

Ms Hirszel graduated from the Faculty of Law and Administration and the post-graduate course at the Faculty of Journalism and Political Studies (specialization: European studies) at the University of Warsaw. She is a Ph.D. student of the Polish Academy of Sciences, the Department of Law.

Since 2000, she has worked in the Cabinet of the Prime Minister, where until 2002 she worked as the chief specialist/counsellor of the Cabinet of the Prime Minister. After that, she was the counsellor of the Vice-President of the Cabinet and the Prime Minister in the Department of Economic and Social Issues (transferred into the Department of the Cabinet Committee). From 2002 to 2006, she was an acting Director of the Economy Department and the Director of the Programming Department of the Cabinet of the Prime Minister. Since 2007, she has been the Director of the Cabinet Committee Department and the Permanent Secretary of the Cabinet. She passed the examination for candidate members of supervisory boards in state companies in 2002.

She was designated a Member of the Supervisory Board on 1 July 2008 in compliance with Article 11(2) of the Company's Statute. She participates in the Committee of Strategy and Development and the Committee of Organization and Management.

In 2008, the Supervisory Board held 11 meetings and adopted 73 resolutions, including the Supervisory Board of the 6th term – 6 meetings and 5 resolutions, and the Supervisory Board of the 7th term – 5 meetings and 22 resolutions.

In 2008, the composition of Grupa LOTOS Supervisory Board was as follows:

From 1 January 2008 to 30 June 2008 – the Supervisory Board of the 6th term:

1. **Jan Stefanowicz** – Chairman of the Supervisory Board
2. **Henryk Siodmok** – Vice-Chairman of the Supervisory Board
3. **Beata Zawadzka** – Member of the Supervisory Board
4. **Marta Busz** – Member of the Supervisory Board
5. **Izabela Emerling** – Member of the Supervisory Board
6. **Jacek Mościcki** – Member of the Supervisory Board
7. **Grzegorz Szczodrowski** – Secretary of the Supervisory Board

On 30 June 2008, the term of the Supervisory Board ended. The Ordinary General Shareholders' Meeting appointed the Supervisory Board of the 7th term comprising of:

1. **Wiesław Skwarko** – Chairman of the Supervisory Board
2. **Leszek Starosta**
3. **Jan Stefanowicz**
4. **Radosław Barszcz**
5. **Piotr Chajderowski**
6. **Mariusz Obszyński**

Pursuant to Article 11(2) of the Statutes of Grupa LOTOS, the Treasury, being the Company's Shareholder and represented by the Minister of Treasury, dismissed Beata Zawadzka from the Supervisory Board (as at 30 June 2008) and appointed Małgorzata Hirszel (as at 1 July 2008).

From 1 July 2008 to 31 December 2008, the composition of the Supervisory Board of the 7th term was as follows:

1. **Wiesław Skwarko** –Chairman of the Supervisory Board
2. **Leszek Starosta** – Vice-Chairman of the Supervisory Board
   (appointed the Vice-Chairman of the Supervisory Board on 12 August 2008)
3. **Jan Stefanowicz** – Member of the Supervisory Board
4. **Radosław Barszcz** – Member of the Supervisory Board
5. **Piotr Chajderowski** – Member of the Supervisory Board
6. **Małgorzata Hirszel** – Member of the Supervisory Board
7. **Mariusz Obszyński** – Secretary of the Supervisory Board
   (appointed the Secretary of the Supervisory Board on 12 August 2008)

Committees of the Supervisory Board

Committee of Strategy and Development

The tasks of the Committee of Strategy and Development include giving opinions and recommendations to the Supervisory Board with regard to the planned investments that have a major impact on the Company's assets.

From 1 January 2008 to 30 June 2008

1. **Jan Stefanowicz** – Chairman
2. **Marta Busz**
3. **Henryk Siodmok**
4. **Grzegorz Szczodrowski**

From 12 August 2008 to 31 December 2008

1. **Wiesław Skwarko** – Chairman
2. **Radosław Barszcz**
3. **Leszek Starosta**
4. **Jan Stefanowicz**
5. **Małgorzata Hirszel**

Committee of Organization and Management

The task of the Committee of Organization and Management is to present to the Supervisory Board the opinions and recommendations concerning the structure of management, including to endorse organizational solutions, the system of remuneration and recruitment, which enables the achievement of the strategic aims of the Company.

n 2008, the composition of the Committee of Organization and Management was as follows:

From 1 January 2008 to 30 June 2008

1. **Marta Busz** – Chairman
2. **Grzegorz Szczodrowski**
3. **Beata Zawadzka**

From 12 August 2008 to 31 December 2008

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

Committee of Audit

The task of the Committee of Audit is to advise the Supervisory Board in issues concerning the implementation of the budget and financial reporting, internal control and cooperation with licensed auditors of the Company.

In 2008, the composition of the Committee of Audit was as follows:

From 1 January 2008 to 30 June 2008

1. **Henryk Siodmok** – Chairman
2. **Beata Zawadzka**
3. **Jacek Mościcki**
4. **Izabela Emerling**

From 12 August 2008 to 31 December 2008

1. **Jan Stefanowicz** – Chairman
2. **Mariusz Obszyński**
3. **Piotr Chajderowski** (until 10 March 2009) (*)

(*) *On 10 March 2009, Mr Chajderowski resigned from membership in the Supervisory Board. On 19 March 2009, the Supervisory Board supplemented the composition of the Committee by appointing Mr Wiesław Skwarko and Mr Radosław Barszcz.*

Rules of Remunerating Members of the Supervisory Board

Setting the rules for remunerating the Members of the Supervisory Board falls within the authority of the Shareholders' Meeting.

The remuneration of the members of the Supervisory Board should be determined based on transparent procedures and rules. The remuneration is to be fair but should not constitute a major cost for the Company or affect significantly its financial result. It should be reasonably correlated to the remuneration of the Management Board Members.

The remuneration of the Supervisory Board Members is subject to limitations and rules specified in the Act of 3 March 2000 on the remuneration of managers in certain legal entities (Journal of Laws No. 26 from 2000, Item 306 with subsequent amendments) and in the administrative regulations based thereupon. In compliance with the provisions of the Act, on 18 August 2000 the Extraordinary General Shareholders' Meeting determined the following rules of remunerating the Members of the Supervisory Board:

1. Members of the Supervisory Board are entitled to the monthly remuneration equal to an average monthly remuneration in the sector of enterprises exclusive of a profit share in the fourth quarter of the preceding year as announced by the President of the Chief Statistical Office.

2. The above-mentioned remuneration is due irrespective of the frequency of convened meetings. However, it is not due for the month when a Member of the Supervisory Board was not present at any of the formally convened meetings without justification. The Supervisory Board decides with a resolution if the absence of a Supervisory Board Member is justified.

3. The remuneration is calculated on a pro-rata basis to the number of days in the position, if a Member is appointed or dismissed during a calendar month. The remuneration is paid in arrears on the 10th day of every month.

4. The Company also covers any costs due to the performance of duties by the Members of the Supervisory Board, in particular the costs of return travel to and from the domicile and the place of the Supervisory Board meeting, the costs of individual control and the costs of board and accommodation.

5. In compliance with the Act on personal income tax of 26 July 1991, the Company calculates and charges advance payments for income tax on the remuneration of the Supervisory Board Members.

Remuneration of the Supervisory Board Members in 2008

	Amount in PLN
Henryk Siodmok	22,966.31
Grzegorz Szczodrowski	22,966.31
Beata Zawadzka	22,966.31
Marta Busz	22,966.31
Izabela Emerling	22,966.31
Jacek Mościcki	22,966.31
Wiesław Skwarko	(*)
Radosław Barszcz	16,558.60
Piotr Chajderowski	16,558.60
Małgorzata Hirszel	16,558.60
Leszek Starosta	16,558.60
Mariusz Obszyński	16,558.60
Jan Stefanowicz	40,037.31

(*) *Mr Skwarko resigned from receiving the remuneration (until further notice) due to membership in the Supervisory Board of Grupa LOTOS and does not receive any financial benefits.*

None of the Supervisory Board Members holds any stocks of Grupa LOTOS.

Letter from the Chairman of the Supervisory Board of Grupa LOTOS

Ladies and Gentlemen,

The year of 2008 was an important and successful year for Grupa LOTOS in the implementation of the development strategy that was updated in the middle of the year. It was also a time of events that originated and developed outside of Poland but strongly affected our economy, including Grupa LOTOS. I want to emphasize that Grupa LOTOS has operated very effectively in crisis conditions. The Company limited its losses, which are mostly pure accounting losses, and created a basis for overcoming difficulties without any risk to its basic investment processes. It is noteworthy that the Company takes an active role in the process of building Polish energy safety, which is particularly important for present economic development.

Several facts that reflect the professional management of the Company's operations in the crisis time are worth mentioning. At the end of June last year, an agreement was signed with banks and financial institutions with regard to crediting the 10+ Programme. The agreement was ranked as a top example of a long-term realistic financial support structure for an ambitious development strategy on the international financial and oil market. Furthermore, after the appearance of the first symptoms of economic recession, dynamic anti-crisis steps were taken. The Supervisory Board and the Management Board of Grupa LOTOS in close cooperation with shareholders started to adapt the Company to the new, more challenging external conditions. Owing to the mobilization of all employees, a good system of information and the commitment of all stakeholders to defend the Company's position, an anti-crisis package was prepared and implemented. Moreover, a social agreement was executed that guarantees the success of the package. Grupa LOTOS was a pioneer of such measures on the Polish market. The forward-thinking during the changing economic conditions and the business environment provided the LOTOS Group with a fast and effective introduction to the new reality, by minimising the potential impact of the crisis.

The year of 2008 was difficult not only for the Polish fuel sector. The losses recorded in the financial statements of Grupa LOTOS for the last year were mostly accounting only and resulted from crisis phenomena that were out of the Company's control. A positive sign is the result of the operating activity exclusive of the depreciation of stocks, which confirms good management practices. Grupa LOTOS finished the difficult year of 2008 by minimising its losses and creating the foundations for success in the future.

The development programme of Grupa LOTOS implemented at present is extremely ambitious. It provides for the sustainability of all segments typical for an oil concern, i.e. production, refining and trading. Its main aim is to strengthen the market position of Grupa LOTOS on the Polish market and in the region. The performance of the strategy will lead to growing value for shareholders and will improve the energy safety of Poland.

This does not mean that there are no risk factors that may have a negative impact on the situation of our Company in the future. However, I am positive that the process of building the value of Grupa LOTOS will not be disturbed and its pace will keep growing as the crisis recedes. Grupa LOTOS is in a good position to meet and face the challenges of the future.

Kind regards,

Wiesław Skwarko

Chairman of the Supervisory Board

Grupa LOTOS S.A.

Management Board of Grupa LOTOS

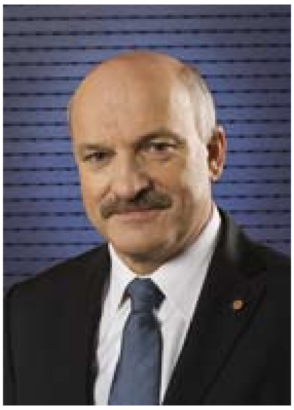
The Management Board represents the Company and runs all the corporate businesses of Grupa LOTOS. This does not concern any issues that are reserved for the competences of the Shareholders' Meeting or the Supervisory Board or that exceed the scope of the regular management, require the earlier resolution of the Management Board or any issues that are reserved in the Regulations of the Management Board for its individual Members.

In 2008, the Management Board held 46 meetings and passed 154 resolutions.

Composition of the Management Board of Grupa LOTOS in 2008:
Paweł Olechnowicz – President of the Management Board
Marek Sokołowski – Vice-President of the Management Board
Mariusz Machajewski – Vice-President of the Management Board

Mariusz Machajewski
Vice-President of the
Management Board
Economic-Finance Director
of Grupa LOTOS S.A.

Marek Paweł Sokołowski
Vice-President of the
Management Board, Production
and Development Director
of Grupa LOTOS S.A



Paweł Olechnowicz
President
of the Management Board
Chief Executive Officer
of Grupa LOTOS S.A.

Mr Machajewski is a graduate of the Faculty of Economics at the University of Gdańsk. Moreover, he attended a number of specialist training courses in management and economics in Poland and abroad. In 1994-1997, he worked at Stocznia Gdynia S.A. (Gdynia Shipyard). In 1997, he joined Rafineria Gdańska S.A. (currently Grupa LOTOS S.A.), and in 1999, he was placed in charge of managing the Company's controlling functions. Since mid-2002, he has held the position of Economic-Finance Director. In the period from April 2005 to June 2006, he also served as the Company's attorney.

Mr Machajewski has been the Vice-President of the Management Board at Grupa LOTOS since 19 June 2006. He manages and bears the responsibility for all economic, financial and accounting issues of the Company.

Mr Sokołowski graduated from Gdańsk University of Technology (the Faculty of Electrical Engineering), completed a post-graduate course in Industrial Investments and attended a number of specialist management courses in Poland and abroad.

Mr Sokołowski has worked at Rafineria Gdańska S.A. (currently Grupa LOTOS S.A.) since 1973. In 1990, Mr Sokołowski became the Technical Director and a Management Board member. For three consecutive terms in office, he was in charge of plant engineering at the refinery and execution of investment projects. Throughout 1996-2000, he managed the development and modernization plan of the Gdańsk refinery.

Mr Sokołowski has served as the Vice-President of the Management Board of Grupa LOTOS since 19 April 2002. He manages, coordinates and supervises all issues of the Production Division, the Technical Division, the Technology Development Division and the Refinery Development Division, which is implementing the 10+ Programme and he bears all the related responsibilities.

Mr Olechnowicz graduated from Cracow University of Technology (the Faculty of Technology and Mechanisation of Foundry Engineering), completed a post-graduate course in Organization, Economics and Industrial Management at Gdańsk University of Technology and the MBA INSEAD and attended many specialist courses in management, both in Poland and abroad. He started his professional career in 1977 in Zakłady Mechaniczne 'Zamech' in Elbląg (since 1990 ABB Zamech Sp. z o.o.). In 1990-1996, he was President of the Management Board and Director General of ABB Zamech Ltd. Subsequently, for three years, Mr Olechnowicz worked at the headquarters of ABB Ltd Zurich in Switzerland as Vice-President for Central and Eastern Europe. In 1999-2000, Mr Olechnowicz was Vice-President and Deputy Director General of ZML Kęty S.A., and from 2001, managed his own consulting company: Paweł Olechnowicz-Consulting.

Mr Olechnowicz has served as the President of the Management Board of the Grupa LOTOS since 12 March 2002. He manages and is responsible for all operations of the Grupa LOTOS. He is also serving as the Vice-President for Commerce and Vice-President for Exploration and Production until the designation of new members of the Management Board.

Positions and functions of the Members of the Management Board in the companies of the LOTOS Group as at 31 December 2008

Paweł Olechnowicz	Chairman of the Supervisory Board	Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A.
	Chairman of the Directors' Council	LOTOS Exploration and Production Norge A.S.
Marek Sokołowski	Chairman of the Supervisory Board	LOTOS Czechowice S.A.
	Chairman of the Supervisory Board	LOTOS Kolej Sp. z o.o.
Mariusz Machajewski	Member of the Supervisory Board	Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A.
	Member of the Supervisory Board	LOTOS Paliwa Sp. z o.o.

Rules of remunerating the Members of the Management Board

The rules of remunerating the Members of the Management Board at Grupa LOTOS are determined by the General Shareholders' Meeting upon the motion by the Supervisory Board of the Company.

Pursuant to the declaration by the Management Board of Grupa LOTOS concerning compliance with corporate governance, the remuneration of the Members of the Management Board should be based on transparent procedures and rules in order to provide incentives and the effective and sound management of the Company. Remuneration should correspond to the size of the Company and be reasonably related to its economic results. Moreover, it should be related to the scope of responsibilities resulting from the function held and take account of the remuneration of management boards in similar companies on a comparable market.

Remuneration for the Members of the Management Board in Grupa LOTOS is subject to the limitations and rules specified in the Act of 3 March 2000 on remuneration of managers in certain legal entities (Journal of Laws No. 26 from 2000, Item 306 with subsequent amendments) and in administrative proceedings issued thereupon. The Act applies to the commercial law companies in which the Treasury has more than 50% of the authorised capital or 50% stocks.

Pursuant to the Act of 18 August 2000, the Extraordinary General Shareholders' Meeting determined the following rules of remuneration and employment for the Members of the Management Board:

1. Members of the Management Board are entitled exclusively to a monthly remuneration amounting to:

- the President of the Management Board – not exceeding 4-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office. The value of the monthly remuneration of the President of the Management Board is determined in a separate resolution of the General Shareholders' Meeting,
- the Vice-President of the Management Board – not exceeding 3.9-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office. The value of the monthly remuneration of the Vice-President of the Management Board is determined in a separate resolution of the General Shareholders' Meeting,
- a Member of the Management Board – not exceeding 3.9-times the average monthly remuneration in the sector of enterprises without a profit share in the fourth quarter of the preceding year as announced by the President of the Main Statistical Office. The value of the monthly remuneration of a Member of the Management Board is determined in a separate resolution of the General Shareholders' Meeting,

2 If the Company is classified as an entity of special importance for the state, the value of the remuneration specified in Item 1 is increased by 50% according to the procedure specified in Article 9 of the Act on remunerating persons managing certain legal entities.

3. The costs of remuneration, irrespective of the basis of the employment relation or the type of job contracts, encompasses all elements of remuneration resulting from the rules of labour law.

4. In the event of a dismissal from a position or the dissolving of a job agreement for reasons other than the violation of basic employee obligations, the President, the Vice-President and the Members of the Management Board may be granted severance pay amounting to at least three-times the monthly remuneration.

Moreover, in compliance with the Act of 3 March 2000 on remunerating persons managing certain legal entities (Journal of Laws from 2000, No. 26, Item 306 with subsequent amendments) and the Regulation by the Minister of the Treasury of 12 March 2001 on special rules and modes of granting annual bonuses to persons managing certain legal entities (Journal of Laws from 2001, No. 22. Item 259), Members of the Management Board may receive an annual bonus. The annual bonus may be granted if the Company:

- has improved its financial results,
- has strengthened its market or sectoral position,
- has effectively implemented a restructuring or development plan,
- has not exceeded the maximum annual index of increasing an average monthly remuneration,

  and
- pays all its public and legal liabilities in a timely manner.

A bonus may be granted if the financial statements are approved. A Member of the Management Board is entitled to a bonus if he/she worked in this position for the whole financial year and did not violate his/her obligations in this period, the job contract was not terminated by his/her fault and the management agreement was not terminated and he/she was not dismissed for reasons that are the basis for the termination of the job contract without notice.

According to the regulations, the maximum bonus equals 3-times the average monthly remuneration in the preceding year.

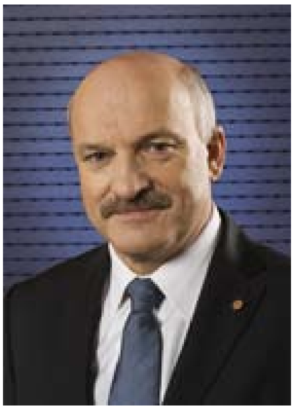
The decision to grant the annual bonus to the President of the Board is taken by the General Shareholders' Meeting upon the motion of the Supervisory Board, while for other members of the Management Board by the Supervisory Board.

Remuneration of the Members of the Management Board of Grupa LOTOS in 2008

	Amount in PLN	Including the annual bonus for 2007
Paweł Olechnowicz	199,866	44,352
Marek Sokołowski	219,520	33,012
Mariusz Machajewski	186,256	43,272

Only Mr Sokołowski, the Vice-President of the Management Board, holds stocks of Grupa LOTOS (8 636 stocks). Other members of the Management Board do not hold any stocks of the Company.

Letter from the President of the Management Board of Grupa LOTOS



Ladies and Gentlemen,

Last year was a time of consistent implementation of the strategy adopted by the LOTOS Group aimed at the further growth of the Concern's value and the gradual increase of its share in the increasingly competitive oil market. One of the key elements of the updated strategy approved by the Supervisory Board of Grupa LOTOS on 14 June 2008 is the execution of the 10+ Programme. This is one of the largest industrial investments being implemented in Central and Eastern Europe. The credit contract executed on 27 June 2008 with as many as seventeen international banks and institutions guarantees the stable funding and efficient execution of the whole investment in compliance with the adopted schedule. The agreement was recognised as the transaction of the year on the European oil market and several prestigious specialist magazines have called it the best financial project of last year.

The concrete effects of the intense work on the implementation of the 10+ Programme will be visible already this year. The first systems constructed as part of the Programme will be launched in the summer and autumn of 2009. Thus, the return on the investment outlays will commence. The operation of Grupa LOTOS in 2008, apart from the execution of the 10+ Programme, focused on the dynamic development of the exploration and production sector. The subsidiary, LOTOS Norge, acquired a 20% share of the Yme field in the North Sea. The start of production from this field will commence already in Q4 2009. The Company obtained the next oil exploration and production licenses on the Norwegian Continental Shelf within the APA 2008 round. In two out of four licenses granted in this procedure, LOTOS Norge is acting as the operator, i.e. the company managing the whole complex process of developing fields. This fact reflects the high competences of the Polish company and the confidence it enjoys among Norwegian authorities. The Baltic Sea also saw some concrete projects last year, whose measurable result has been the increase of oil production by approximately 40% compared to 2007.

In the trading area, Grupa LOTOS achieved another growth of market share. This fact results firstly from the consistently implemented trading strategy and the development of a strong brand, as well as the effective development of sales channels and the launch of new competitive products, such as Navigator cards and LOTOS Dynamic fuel.

On 21 November 2008, an unreliable and irresponsible recommendation was published by analysts of UniCredit. As the publication infringed the reputation of the Concern and had a negative impact on the interests of Grupa LOTOS and its shareholders, the Management Board took immediate steps aimed at protecting the Company's rights. The case was filed immediately to the Polish Financial Supervision Authority and the UK and German regulators. The Polish Financial Supervision Authority initiated proceedings against the authors of the recommendation on 26 November 2008.

The Management Board of Grupa LOTOS, supported by the Supervisory Board and the main shareholder and with the full commitment of the Company's personnel, took firm action to counteract the assault, which had a negative impact on the Company's stock prices. The strong and fast reaction reduced the threat of serious consequences to the operation and the future of Grupa LOTOS.

The events of the last months of 2008 affected the results and assessment of the whole year. The effects of the financial crisis that occurred outside Poland did not spare our country. Grupa LOTOS, being part of the sector whose transactions are settled in American currency, was affected by two phenomena in particular – the sudden drop in crude oil prices from 147 USD/barrel to approximately 30-40 USD/barrel at the end of the year and the sudden slump of the PLN exchange rate against the USD. The fall in the Polish currency rate vs. the dollar had a negative impact on the financial results. There was a severe accounting depreciation of the strategic oil and fuel stocks, which Grupa LOTOS has to maintain pursuant to legal regulations. The combined effect of these factors resulted in a negative net result of the Company in 2008. Nevertheless, this concerned only the accounting result. In 2008, the LOTOS Group generated operational parameters better than in 2007 and but for the above-mentioned burdens resulting from the discount of stocks, last year would have ended with an estimated operational profit of PLN 470.5m. It is worth mentioning that the LOTOS Group generated record incomes on sales exceeding PLN 16 billion last year. This implies more than a 24% growth compared to 2007, which has a positive impact on the financial liquidity of the Company.

The Management Board of Grupa LOTOS received and interpreted the first signals of the coming financial crisis very early. Owing to this, the Company did not fall victim to the 'toxic' FX options. Hedging transactions were executed for values and timelines necessary for securing actual transactions of credit contracts concluded in order to fund the 10+ Programme. At the same time, anti-crisis actions were taken, whose pace and scope provided the fast development of a coherent programme of counteracting the economic slowdown. Because of open, effective and concrete communication in this difficult process with employees and their union representation, the Company created a common platform for counteracting the crisis effectively. Owing to intense informative and communicative measures, all employees of the LOTOS Group received reliable information on potential hazards and measures that have to be taken to neutralize such threats. The decisions taken by Grupa LOTOS in view of the crisis were among the first actions taken on such a scale and with high efficiency in Poland.

In spite of the economic slump and the unfavourable internal market conditions, Grupa LOTOS has managed to overcome the hurdles. In 2008, conditions were created for the further growth of goodwill, which will be particularly important in the changing economic situation. I believe that a Company that has successfully faced such a considerable threat may look ahead optimistically. The future of Grupa LOTOS is to be a leader setting new standards in business.

Best regards,

Paweł Olechnowicz

President of the Management Board

Chief Executive Officer

Grupa LOTOS S.A.

The LOTOS Group

Mission and Vision

Mission

The LOTOS Group's mission is to pursue innovative growth in the areas of oil production, oil processing and trading of products meeting the most stringent quality standards, in a manner that is environmentally friendly, compliant with the energy security policy, guarantees full satisfaction of customers, and ensures the ongoing development of employees and capitalisation on their capabilities.

Vision

The LOTOS Group seeks to become the most reputable oil company in the Baltic Sea Region in terms of:

- quality of petroleum products
- quality of customer service
- professional management

Key strategic goal

The strategic objective of the LOTOS Group is to create shareholder value, through optimal leveraging of the existing intellectual and material resources and implementing development programmes in the following areas:

- exploration and production
- increased depth of conversion (10+ Programme)
- trading

Strategy

The strategic objective of the LOTOS Group is to create shareholder value, through optimal leveraging of the existing intellectual and material resources and implementing development programmes in the following areas:

exploration and production

increased depth of conversion (10+ Programme)

trading

Strategy in the business areas of the LOTOS Group

The LOTOS Group aims at achieving its primary strategic aim, namely to increase value for stockholders by implementing a sustainability policy in its core business.

Corporate

The strategic aim of the Company is to follow the top standards in corporate governance. This brings the effects of improved transparency of actions, better communication with investors and stronger protection of shareholders' rights.

The basis for the general management system of the LOTOS Group is the Integrated Management System, which applies the developed corporate standards. The System enables the improvement of the efficiency and effectiveness of business processes, facilitates the performance of strategic objectives, provides the correct business relations between subsidiaries and enables the competent and skilful management of the companies in the LOTOS Group.

The performance of long-term development projects, the implementation of innovative solutions, efficient information flow, the optimum organizational structure and the correctly defined processes and their relations, as well as the optimum use of the available resources contribute to the growing value of the LOTOS Group.

Finance

It is assumed that the implementation of the Company's strategy will require external financing, although in no period should the ratio of the net debt to equity exceed 0.8.

The assessment of the operational effectiveness of the LOTOS Group will be based on the analysis of the EBITDA margin index (net of excise tax) and the return rate on the invested capital. The value of these indices in 2012 should be at least at 9% and 12% respectively.

Exploration and production

An international business structure will be developed with a portfolio of assets with diversified risks, operating mostly on the Baltic Sea and the North Sea. Furthermore, work related to the exploration of the production potential and to the execution of new projects in other areas where oil resources can be found will be performed.

Obtaining direct access to oil fields increases the safety of supplies for the LOTOS Group. Therefore, one of the strategic aims of the LOTOS Group is to achieve oil production in 2012 corresponding to a min. of 10% of own processing capacities. In the consecutive years, the production of oil from own resources should grow and in 2015 it should exceed 20% of the throughput. This rising trend should be maintained in the following years.

The LOTOS Group is implementing a raw material supplies diversification programme by increasing its petroleum production.

Operating activity

The main aim is to implement the 10+ Programme. The investment has been divided into two stages.

1st Stage This encompasses the growth of the oil throughput up to 10.5 million tonnes/year and the construction of new systems that will supplement the production configuration of the refining complex. The investment will deepen oil processing towards light products and will increase the production of diesel oils, which are in short supply. By the end of March 2009, more than 70% of the investment tasks of the stage are to be completed.

2nd Stage This stage provides for the construction of the gassing system of asphalten residues and the production of power fuels. Due to the favourable economic situation, until the completion of the 2nd Stage, the heavy asphalten part will be used for the production ofbitumen.

Trading

The LOTOS Group will focus on maximising its economic effect by controlling the product stream flexibly and strengthening its market position.

Until 2012, these measures will be directed at increasing the sales of fuels and other products, as well as implementing development projects and improving the station network efficiency. This work will be supported by the adaptation and optimisation of logistic assets and the streamlining of the chain of supplies.

Strategy updates and amendments
The external and internal factors important for the Company's development

On 13 June 2008, the Management Board of Grupa LOTOS adopted a resolution to update the development strategy of the LOTOS Group until 2012.

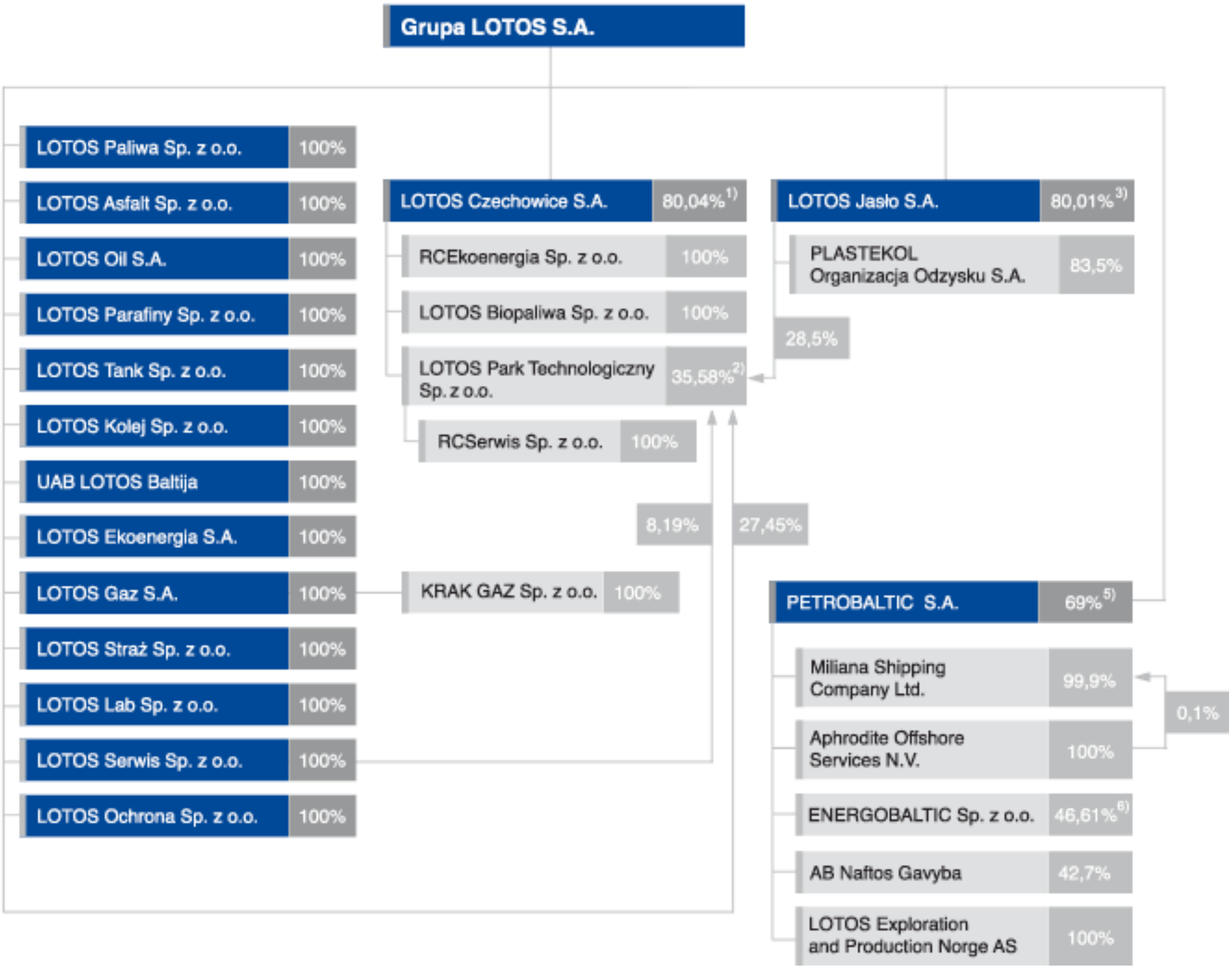
The update of the strategy is related to:

- the new definition of key strategic programmes,
- measures taken by the LOTOS Group in order to increase the power safety of Poland, and
- adopted and forecast amendments to EU directives concerning the fuel and power sector.

In order to provide sustainability, the LOTOS Group applies modern technologies and is open to innovative solutions resulting from new trends in the power policy of Europe and reacts flexibly to changing economic conditions.

The implementation of the strategy will strengthen the position of the LOTOS Group as a powerful, innovative and effectively developing entity that plays a major role in providing the power safety of Poland and operates in compliance with the idea of corporate social responsibility.

The LOTOS Group Structure



1) *State Treasury–5%, employee shares – 14.96%*

2) *Partner Holding Management Sp. z o.o. – 0.29%*

3) *State Treasury– 5%, employee shares –14.99%*

4) *Other shareholders –16.5 %*

5) *State Treasury – 30.32%, employee shares – 0.68%*

6) *Stablewood Power Ventures Ltd. – 41.43%, Przedsiębiorstwo Technik Specjalnych „Hydromex" Sp. z o.o .– 11.96%*

7) *UAB Meditus – 58%*

The basic data on direct and indirect subsidiaries of Grupa LOTOS and other entities where Grupa LOTOS holds more than 1% of the share capital.

Name	Registered office	Business profile	Percentage of share capital held by Grupa LOTOS 31.12.2007	Percentage of share capital held by Grupa LOTOS 31.12.2008
Parent undertaking				
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly gasoline and diesel oil) and their wholesale	Not applicable	
Direct subsidiaries				
LOTOS Paliwa Sp. z o.o.	Gdańsk	Domestic sale of lead-free gasoline (Pb 95, Pb 98), DYNAMIC fuels (Pb 98, ON), diesel oils, light fuel oil, propane-butane gas; managing the LOTOS station chain	100.00%	100.00%
LOTOS Gaz S.A. Company has its own capital group	Mława	Wholesale and retail of LPG; sale of sulphur	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of engine oils, industrial oils and lubricants; sale of base oils and plasticizers	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of road modified bitumen; sale of heavy fuel oil (1% and 3%)	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	The Company has not started its operation	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport of oil products, goods and empty cars, rendering siding services	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Services in the maintenance and service of equipment and systems, overhauls, diagnostics and measurements in the following sectors: machinery, electrical and automation and control systems	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory services in process analyses, sampling and quality control, finished products control in the chain of sale, analyses of water, ground water and sewage, measurements and documenting working environment conditions	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Rescue and fire-fighting services, organising and carrying out preventive actions, endorsing fire documentation	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Protection of persons and property, personnel, material and vehicle traffic control	100.00%	100.00%

LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of candle paraffin, industrial paraffin masses and standard paraffin, low-oil paraffin; candle production and sale	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	Sale of 95 gasoline, diesel oil, light fuel oil and JET A1 aviation fuel (1)	100.00%	100.00%
LOTOS Czechowice S.A. Company has its own capital group	Czechowice-Dziedzice	Stock warehouse services; fuel distribution	80.04%	80.04%
LOTOS Jasło S.A. Company has its own capital group	Jasło	Production and sale of diesel oil, light fuel oil, heavy fuel oil, A60 gasoline, LDPE granulate; obligatory stock maintenance services and distribution of fuels for Grupa LOTOS (2)	80.01%	80.01%
Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu „Petrobaltic" S.A. Company has its own capital group	Gdańsk	Oil and gas exploration and production	69.00%	69.00%
UAB LOTOS Baltija	Vilnius, Lithuania	Sale of motor and industrial oils on the Eastern markets; consulting for the LOTOS Group with regard to trading on the Lithuanian market	100.00%	100.00%
Rafineria Nafty „GLIMAR" S.A. Company has its own capital group	Gorlice	Services (water-sewage management, rental and lease of land and storage spaces)	91.54%	-(3)
LOTOS Hydrokompleks Sp. z o.o. (in liquidation)	Gorlice	The company is not active.	100.00%	-(4)

Indirect subsidiaries

LOTOS Park Technologiczny Sp. z o.o.	Jasło[5]	The company is not active. [6]	86.91%	86.91%[7]
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	The company does not carry out any operations; the SPV established to execute the investment project –the construction of the FAME system [8]	80.04%	80.04%
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	Hotel and catering services	86.91%	86.91%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Wholesale of waste and scrap metal; road cargo transport; sewage management and waste disposal	53.61%	66.81%[9]
Chemipetrol Sp. z o.o.	Jasło	Sale of organic chemicals (anti-lumping agents) ordered by the company	80.01%	-[10]
KRAK GAZ Sp. z o.o.	Bochnia	Wholesale and retail of LPG	100.00%	100.00%
Miliana Shipping Company Ltd.	Nicosia, Cyprus	Oil storage and transport services, rescue and leak-control assistance and geotechnical work	68.93%	68.93%
LOTOS Exploration and Production Norge AS	Sandnes, Norway	Oil exploration and production on the Norwegian Continental Shelf	100.00%	69.00%[11]
Aphrodite Offshore Services N.V.	Curacao, Dutch Antilles	Shipping, including the procurement, holding and transfer of rights, rental and lease, and contracting and construction of ships, ship operation and executing charter contracts	69.00%	69.00%
Energobaltic Sp. z o.o.	Gdańsk	Production of electricity, heat energy, LPG and gas condensate	32.16%	32.16%
AB Naftos Gavyba	Gargždaj, Lithuania	Capital operations in the oil sector	29.46%	29.46%

Other entities

Przedsiębiorstwo Przeładunku Paliw Płynnych „NAFTOPORT" Sp. z o.o.	Gdańsk	Oil and oil products transhipping services	6.41%	8.97%[12]

(1) In 2008, LOTOS Tank Sp. z o.o. discontinued its present activity (sale of engine fuels) and prepared for the start of the new business (sale of JET-A1 aviation fuel).

(2) In Q4 2008, LOTOS Jasło S.A. stopped oil processing.

(3) On 1 December 2008, Grupa LOTOS executed a contract with Podkarpacki Holding Budowy Dróg „DROGBUD" Sp. z o.o. for the sale of the package of stocks of Rafineria Nafty 'GLIMAR' S.A.

(4) After the liquidation process, on 20 October 2008 the District Court in Krakow decided to delete the LOTOS Hydrokompleks Sp. z o.o. under liquidation from the National Court Register.

(5) On 28 May 2008, the District Court in Krakow registered the change of office of LOTOS Park Technologiczny Sp. z o.o. into Jasło (the previous registered office of the Company was in Gorlice).

(6) Until the end of December 2007, the closing of the operation of LOTOS Park Technologiczny Sp. z o.o. continued, including the participation of this entity in the further restructuring process of the Refineries in Jasło and Czechowice-Dziedzice that belong to the LOTOS Capital Group. As at 31 December 2008, LOTOS Park Technologiczny does not run any operations.

(7) The direct participation of Grupa LOTOS in the tier capital of LOTOS Park Technologiczny Sp. z o.o. as at 31 December 2007 and 31 December 2008 amounted to 27.45%.

(8) In the first half of 2008, LOTOS Biopaliwa Sp. z o.o. financed the investment process of developing the FAME system. By the end of 2008, the system was started (the operating activity of LOTOS Biopaliwa Sp. z o.o. commenced in March 2009).

(9) In the period from May to June 2008, LOTOS Jasło S.A. acquired 165 stocks of 'PLASTEKOL Organizacja Odzysku' S.A. As a result of the transaction, LOTOS Jasło S.A. became the owner of 834 stocks constituting 83.5% tier capital in 'PLASTEKOL Organizacja Odzysku' S.A.

(10) On 30 December 2008, LOTOS Jasło S.A. executed the disposal contract with the President of the Board of Chemipetrol Sp. z o.o., for 100% shares in Chemipetrol Sp. z o.o.

(11) On 19 May 2008, the procedure of registering the increased tier capital and acquiring 32 million shares constituting 80% in the tier capital of LOTOS Exploration and Production Norge AS by 'Petrobaltic' S.A. started. On 12 June 2008, Grupa LOTOS executed a contract with 'Petrobaltic' S.A. for the sale of 8 million shares, constituting 20% of the tier capital in LOTOS Exploration and Production Norge AS. As a result of the above capital operations, 'Petrobaltic' S.A. became a sole owner of 100% of the shares in the tier capital of LOTOS Exploration and Production Norge AS.

(12) On 7 May 2008, the Appeal Court in Szczecin pronounced the sentence following the action of the Treasury against Grupa LOTOS and Przedsiębiorstwo Państwowe Polska Żegluga Morska with its registered office in Szczecin, dismissing the petition of the Treasury for annulling the share disposal contract in 'Naftoport' Sp. z o.o.

(13) On 18 September 2008, Grupa LOTOS S.A. sold the package of stocks in Daltrade PLC (20 thousand stocks) to Messers Huntnews Ltd. with its registered office in the United Kingdom.

Corporate Governance

Grupa LOTOS follows the principles of corporate governance published in the Code of Best Practice for WSE Listed Companies. The Code was adopted by the Supervisory Board of the Warsaw Stock Exchange on 4 July 2007. A complete text of the code is available on the website of the Warsaw Stock Exchange.

In 2008, Grupa LOTOS published two memoranda concerning non-compliance with the principles of the Code.

Principles not applied by Grupa LOTOS with comments

Principle No. 1.11, Section II

'A company should operate a corporate website and publish (…) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting.'

The above principle is not followed due to the fact that Grupa LOTOS does not have access to information on any relations of the Supervisory Board members with stockholders who hold stocks representing not less than 5% of all votes at the General Meeting. The Company is planning to introduce a procedure of obtaining such information, which will provide compliance with the principle.

Principle No. 6, Section III

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

The above principle is not followed because Grupa LOTOS does not have access to information concerning the independence of the Supervisory Board members. Moreover, due to the present stockholding structure of the Company and its role on the Polish fuel market, there has been no institution of independent Supervisory Board members.

The Company will start to follow the above principle after obtaining information concerning the appointment and recognising at least two Supervisory Board members as independent members in the meaning of Schedule II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

Principle No. 7, Section III

'The Supervisory Board should establish at least an audit committee. The committee should include at least one member independent of the company and entities with significant connections with the company, who has qualifications in accounting and finance. In companies where the Supervisory Board consists of the minimum number of members required by law, the tasks of the committee may be performed by the Supervisory Board.'

The above principle is not applied due to the lack of independent Supervisory Board members who could serve in the present audit committee.

The Company will start to follow the above principle after obtaining information on the appointment to the present Supervisory Board audit committee of a member fulfilling the independence criteria according to Schedule II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

Principle No. 8, Section III

'Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors… should apply to the tasks and the operation of the committees of the Supervisory Board.'

The above principle is not applied due to the lack of independent Supervisory Board members who, according to Schedule II to the Commission Recommendation of 15 February 2005 on the role of non-executive directors (…), should serve in committees of the Supervisory Board.

The Company will start to follow the above principle after obtaining information on the appointment to the present Supervisory Board audit committees of the adequate number of members fulfilling the criteria of independence and the compliance of tasks and operation of the above committees listed in the above-mentioned Schedule II to the Commission Recommendation of 15 February 2005.

Finnacial Standing and Assets

Ladies and Gentlemen,

2008 was a period of instability on a scale unprecedented for many years. The economic slump of key world economies and the crisis of the global financial sector have changed the rules of economic life. This situation had to leave its mark on the Company, which belongs to the global oil market. The drastic fall in oil prices that occurred in the second half of the year and the very strong fluctuations in the USD/PLN exchange rate affected the operation of Grupa LOTOS and its financial results to a large extent.

In these difficult external conditions, Grupa LOTOS consistently followed the premises of its strategy. We maintained a growing trend in sales, particularly important for the planned increase of throughput up to 10.5 million tonnes per year. The increase in sales was recorded mostly in medium distillates, which is very important in the context of the product structure planned after the execution of the 10+ Programme.

The performance of the 10+ Programme, the largest investment project of Grupa LOTOS, complied with its premises. In 2009, the first production systems were commissioned: the Hydrocracking Diesel Desulphurization (HDS) and the Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU). This will enable the growth of oil processing at the refinery in Gdansk by the end of 2009 and will bring the first economic benefits of the investment.

In order to provide funds for the execution of the 10+ Programme, Grupa LOTOS signed a credit contract with a consortium of 17 financial institutions in June 2008, which, together with the credit contract from the end of 2007 for financing the Company's stocks, has guaranteed the funding for this key investment. The transaction was recognised as the transaction of the year in the European oil sector, i.e. the European Oil Deal of the Year, by the prestigious specialist magazine 'Project Finance International' owned by Thomson Reuters. The investment was also granted the title of the European Petrochemical Deal of the Year by Euromoney, the publisher of the 'Project Finance Magazine' monthly.

Our cautious approach to negotiations, and the structure of the transactions have both proven correct in these times of global financial crisis. The diversification of risk between a large number of financial institutions has protected the Company against difficulties in the performance of the contract when many institutions have faced financial hardships. As the American dollar is the basic currency for Grupa LOTOS, used to express most of the Company's incomes and costs, the investment credit was also taken in this currency. This step significantly reduced the risk related to the economic efficiency of the investment. However, the financial outcome of the Company at the level of financial activity has become very sensitive to FX fluctuations.

Last year, apart from the timely execution of the 10+ Programme, Grupa LOTOS commenced the fulfilment of production plans on the Norwegian Continental Shelf. In 2008, LOTOS Norge, a subsidiary of Grupa LOTOS, purchased 20% of shares in the Yme oil field. The start of the production and thus the first financial benefits are planned for the second half of 2009.

2008 was another year of steps taken to develop and intensify sales. The LOTOS Dynamic premium class fuels were launched successfully at petrol stations, together with the Navigator loyalty programme. The effects of these measures included the increase in sales at LOTOS stations and the improved economy of the retail segment.

The dynamic change in the USD/PLN exchange rate in 2008, as well as the dramatic fall in oil prices on the global markets required a revaluation of the Company's stocks, which affected the financial result for last year. It is noteworthy that these factors were of an accounting nature only and did not have any negative impact on the Company's liquidity, which was maintained at the level required during the investment. But for the burdens due to the revaluation of stocks, which Grupa LOTOS is obliged to maintain under law, and due to the revaluation of currency credits, last year would have ended with an estimated gross profit of approximately PLN 350m.

In spite of the difficult situation and massive financial burdens, Grupa LOTOS continued the performance of its investment plans, which is evidence of its financial strength and management quality in times of crisis.

We hope that the completion of the largest investment executed at present by Grupa LOTOS will coincide with the start of an economic upturn in the world, which in our opinion should strengthen the economic effects of our strategy.

Kind regards,

Mariusz Machajewski

Vice-President of the Management Board

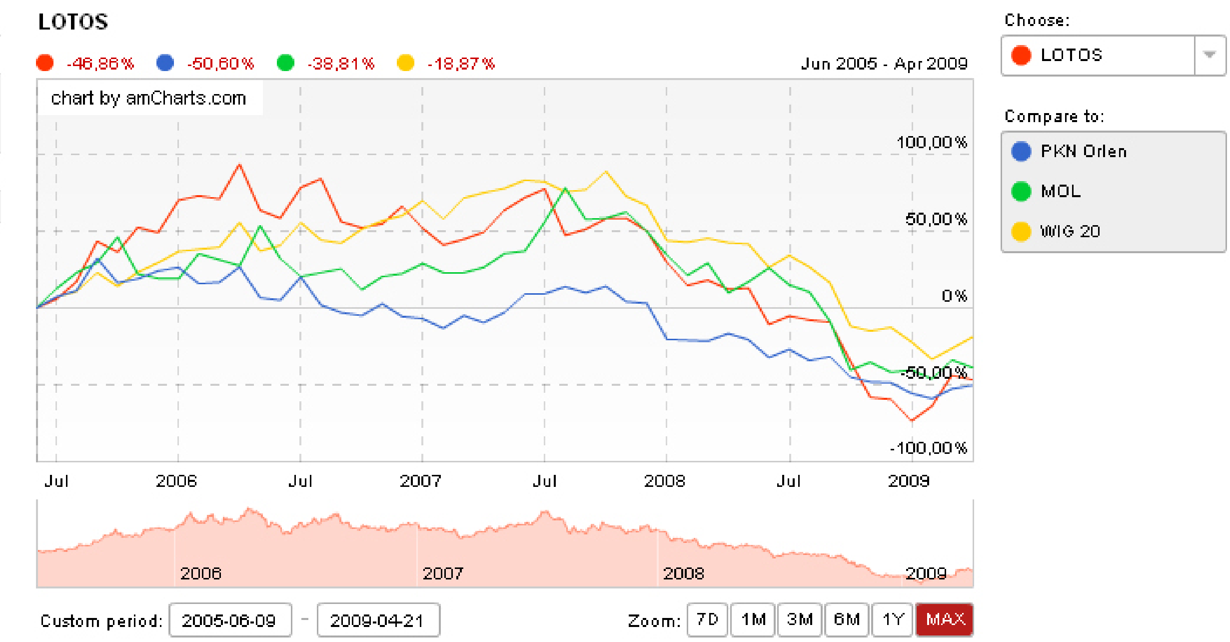
Economic-Finance Director

Grupa LOTOS S.A.

Grupa LOTOS on the Stock Exchange

Quotation of Grupa LOTOS stocks From 1 January 2008 to 25 March 2009

Quotation of Grupa LOTOS, PKN Orlen and MOL stock prices and the WIG20 index From 1 January 2008 to 25 March 2009



At the opening of the first session in 2008, the stock price of Grupa LOTOS started at PLN 44.60, while the WIG20 index was at 3,421.25 points. For the first three weeks of January, the Company's stocks showed a strong correlation with the WIG20 index and (continuing the falling trend from the end of the previous year) achieved the monthly minimum at PLN 36.70 on 23 January. The cause of the this slump in the prices of Grupa LOTOS stocks in January by 22.6% and the fall of the WIG20 index by 13.7% was the deepening crisis on the American mortgage market and its impact on financial institutions.

Until the publication of results for Q4 2007 in February, the stock price was in a horizontal trend. After the publication of results, which were worse than expected, on 28 February, the Company fell into a strong declining trend. On 10 March, it came back to a lateral trend, achieving PLN 35.00 by the end of Q1. During the period, the WIG20 index maintained a lateral trend with minor deviations, finishing the quarter at 2,981.07 points.

Until 9 April, both the Grupa LOTOS stock prices and the WIG20 index maintained a horizontal trend with low fluctuations. However, the reduction of the recommendations for the Company's stocks by three brokerage houses and the falling WIG20 contributed to the fall of the Grupa LOTOS stock price in April to the minimum at PLN 31.88. May was another downturn month on the market, which featured the fall of the Grupa LOTOS stock prices by 1.7%. The WIG20 dropped by 1.8% in the same period.

June witnessed the further fall of stock prices and the WIG20. On 25 June, Grupa LOTOS reached a monthly minimum at PLN 25.00 per one stock. The deteriorating situation on the WSE resulted from major falls on the global capital markets. In the case of the Company, the falls were deepened due to the negative response of the market to the information on Grupa LOTOS extending investment plans. However, owing to a good communication campaign (concerning e.g. successes in obtaining credit for the planned investments), the price of Grupa LOTOS stocks recovered by 6.0% at the end of June, ending the quarter at PLN 26.50. However, the WIG20 index ended the quarter at 2,591.09 points, the lowest level since December 2005.

In June 2008, the Company stocks achieved a growth interrupted by short revisions. The positive sentiment of the market to Grupa LOTOS was generated by information given on the advancement of the 10+ Programme performance and the intensification of operations in petroleum exploration and production. The appreciation of the WIG20 index in the second half of the month also had a positive impact on the Company's stock price, resulting from the improved sentiment on the global capital markets. From the beginning of the month, Grupa LOTOS stock prices increased by 6.3% while the WIG20 by 7.6%.

The publication of the financial results for Q2 2008, which were better than expected, did not prevent the fall of the Grupa LOTOS stock price in August 2008, which decreased from PLN 28.39 to 27.27. The prevailing uncertainty and the low activity of investors during the holiday season contributed to the fall of the WIG20 index by 4.4% at very low turnover.

A lateral trend prevailed in the Company's stock price throughout September. The WIG20 index weakened by 7.7%. This was due to the bankruptcy of the Lehman Brothers bank and the revelation of problems by several major financial institutions operating on the global market. By the end of Q3 2008, the WIG20 index fell to 2,384.22 points.

In October and November, information on the crisis mounting not only in the financial world kept pouring in from the global market. It deepened the slump of the WIG20 index. The Grupa LOTOS stock price was strongly correlated with the WIG index in October, while in November it fell by a record 36.7% during a single month. At the end of November, it reached the level of PLN 12.35.

Apart from negative information from the global markets, the stock prices of fuel companies during the period were under pressure from the massive fall in oil prices started in August. On 20 November, the price of a Brent oil barrel reached USD 47.91. Many analysts considered this to be another sign of the approaching recession, leading to a deeper fall of the global demand for oil. Moreover, on 17 November Grupa LOTOS published financial results that were weaker than expected and on 24 November UniCredit announced a report that evaluated the company at PLN 0.00.

December ended with a rise of Grupa LOTOS stock prices by 2.1%. However, the prices were characterised by considerable fluctuations: in the first half of the month they recorded a major rise due to the reaction to the fall resulting from the November appraisal by UniCredit, and after that, a substantial fall related to the expected poor results in Q4 2008.

Finally, the Grupa LOTOS stock price as of the end of the year amounted to PLN 11.95, while the WIG20 reached 1,789.73 points. The price of a Brent petroleum barrel fell in December 2008 to the record level of USD 38.73.

January 2008 was a month of strong depreciation of the Grupa LOTOS stock price. During the month, it fell by 37.7%, reaching a historic minimum of PLN 7.25 (2 February 2009). The decrease in the stock prices resulted from the weakness of the Polish currency and the perceived exposition of the Company's FX positions due to credits in foreign currencies. Moreover, the stock prices were heavily affected by the reduction of recommendations by Deutsche Bank to PLN 7.0 and the deepening global recession, which was reflected in the fall of the WIG20 index by 15.0%.

From 3 February, the Company entered a strong rising trend that was weakly correlated with the WIG20 index. The positive sentiments of investors about the Grupa LOTOS stocks resulted from the anti-crisis package presented by the Company and the publication of information that put an end to speculations about problems with liquidity. During the month, the Grupa LOTOS stock price increased by 47.7% to PLN 10.71. February was a consecutive month of reductions for the WIG20 index, resulting from deepening distrust of the CEE region. Since the beginning of 2009, the WIG20 index has shown a strong correlation with the Polish zloty exchange rate, which on 27 February reached a record lowest level at PLN 4.92 for one EURO.

March witnessed a record growth of the Grupa LOTOS index prices. From 2 to 25 March 2009, the price increased by 30.8%, reaching PLN 13.95. The main factors contributing to the strong growth of the price were: the zloty's appreciation and the resulting strengthening of the WIG index, the information announced by the Treasury of the planned taking over of the obligation by state agencies in order to maintain fuel stocks and the market expectations of the strong growth of petroleum prices.

In 2008 and at the beginning of 2009, the Grupa LOTOS stock prices showed a strong correlation with the WIG20 and WIG-Fuels indexes. However, its loss of value was deeper. This was particularly evident between the beginning of November and the beginning of February, i.e. the series of events (the negative recommendation of UniCredit and the market speculation about the lack of liquidity) that resulted in a fall by 72.87%.

From the beginning of January 2008 to 25 March 2009, the Company lost 68.72% of its value, reaching the price of PLN 13.95 per stock. In the same period, the WIG20 index fell by 52.99% to 1,622.11 points. On 3 February, the stocks of the Company left the long-term falling trend, regaining as much as 92.4% during 37 days.

Risk Factors and Threats

The operation of Grupa LOTOS, like other businesses of the fuel sector, is exposed to external risks related to the general macroeconomic situation in Poland and abroad. They include primarily the risks resulting from the fluctuation of interest and FX rates, changing prices of raw materials and refining margins, the risks involved in CO2 emission credit prices, as well as the risks from the availability of raw materials and sources of funding.

Moreover, the Company's operation is strongly affected by risks related to amendments to legal regulations, especially the changes and interpretations of tax law, the modifications of state policy and the resulting strategic aims.

From the business point of view, the risk of losing liquidity and credit risk due to financial and trading transactions are also important.

The following risks stem from the operating activity of the LOTOS Group:

- *environmental risks* – the risk from a shortage of the sufficient number of CO2 emission credits, the risk of major industrial failures (resulting in abnormal emissions of pollution into air, water and/or ground) and the risk of non-compliance with environmental law provisions (domestic and community),
- *process-technological risks* – concerning primarily the risks from processed substances, applied technologies, used devices and equipment and operating conditions due to high pressure and temperature parameters,
- *health risk* – resulting from the exposure of employees to the impact of hazardous and inconvenient factors, related to performed work and the proximity of production processes, which may lead to accidents at work and occupational diseases.

From the perspective of the LOTOS Group's development strategy, in times of global crisis accompanied by high fluctuations in raw materials and oil product prices as well as FX rates, it is of key importance to complete the 10+ Programme investment in a timely manner and to obtain access to own sources of oil as well as to strengthen the market position and increase sales efficiency.

Key Risks in Specific Operating Areas

Risks related to the 10+ Programme execution

There are a number of risks stemming from the execution of the 10+ Programme that are characteristic for major investment projects. However, irrespective of typical risks due to costs and schedules as well as the provision of the required quality and safety requirements, other phenomena may occur resulting from the global financial-economic crisis in 2009.

Such other risks include:

- the delivery/assembly of faulty devices and materials, resulting in the requirement to repair or replace them and in the increase of costs and delays,
- delays in deliveries of machines and equipment due to economic difficulties faced by sub-suppliers,
- the systematic and progressive growth in material and service prices,
- the bankruptcy of sub-contractors due to various phenomena caused by the global crisis, resulting in delays in the investment execution, forfeiture of payments and the necessity to purchase additional materials,
- the shortage of labour on the Polish market causing the slow pace of work performance and delays in commissioning production systems,
- failures caused by difficult conditions of work performance or non-compliance with procedures resulting in the suspension of work or delays and in exceeding the budget,
- the failure to achieve the complete process criteria of started systems due to latent design defects, resulting in the additional costs of obtaining basic design parameters of the systems or in losing profits,
- the occurrence of unfavourable weather conditions, causing delays and damage to installed equipment,
- protests and objections from individuals and external institutions, resulting e.g. from the impact of the investments on the environment and causing the suspension of work, delays or the issue of administrative decisions,
- accidents caused by difficult working conditions or the high intensity of work in the same area or the failure to meet H&S rules, and
- the temporary suspension of crediting, resulting in the postponement of work due to a shortage of funds.

Risks in the exploration-production activity

Due to the global slump, the strategy of developing the oil exploration and production sector and the plans of its execution may be revised due to required adaptation to the changed economic conditions.

The potential risks in exploration and production are as follows:

- limited access to external financing,
- changing market conditions with regard to oil prices as well as USD and EUR exchange rates,
- limited availability of drilling tools and rigs,
- higher prices of services, drilling work and production plants,
- poor effects of exploration work (documented resources of hydrocarbons lower than forecast),
- operating risks due to the production of hydrocarbons, and
- low efficiency of auxiliary operations that support production processes.

It is noteworthy that in the exploration and production area preventive measures are taken on an on-going basis to monitor the market, increase the value of Petrobaltic's assets, assess the implemented projects and take decisions based on earlier geologic and resource analyses.

Risks related to raw materials provisions

In 2008, Grupa LOTOS continued its steps, planned in the adopted strategy, of diversifying oil supplies, focusing on two crucial aspects of this strategic aim:

- the safety of petroleum supplies: providing an alternative channel of crude oil supplies with a constant presence on the international oil market, regular contracting of supplies of various oil blends from the sea, with the simultaneous option to radically increase their share in the total supplies of oil to the refinery in the event of hazards to the continuity of supplies from the basic direction, and
- improved competitiveness, owing to the location of the refinery in Gdańsk, by the sea, and the possibility of receiving raw material supplies from two independent channels – Russian oil from the 'Friendship' pipeline and various blends of oil available from Naftoport. The suitable selection of blends results from continuous optimization.

Risks in sales

The macroeconomic environment of Grupa LOTOS has a major impact on the sales of its products, especially during the present recession. During an economic crisis, the reliability and liquidity of direct suppliers, which depends on the liquidity of their payers, become particularly important. Therefore, a policy of transaction hedging and receivables monitoring becomes so important.

The application of commercial security rules, as well as the current and future condition of business entities will depend mostly on the policies of financial and insurance institutions. Sharpening the credit policy may cause limitations or no access to securities of commercial transactions, such as sureties, insurance, letters of credit, as well as revolving and investment credits.

The principal risks in the business operation of the LOTOS Group in 2008 and indirectly in 2009 include:

- the falling demand for fuels and other oil products due to the global economic recession, resulting in a growth of income from sales that will be below expectations,
- the appearance of new importers of oil products from various geographical directions, implementing aggressive price policies,
- the aggressive price policy of competitors,
- the decrease in the transit of goods across Poland,
- the lower number of air connections in the world,
- the decline in executed road contracts, and extended tender procedures concerning the implementation of road investments,
- the reduced traffic of ships in Polish ports due to the fall in exports/imports, and
- the development of a market of alternative fuels.

Risks related to financing the operation

At the end of 2008, Grupa LOTOS signed a contract for financing the 10+ Programme. The loan for the 10+ Programme is a long-term credit and is granted by 17 financial institutions of good standing. The repayment of the investment credit will commence in 2011 and will continue until 2021. The securities of the investment credit for financing the 10+ Programme include only the assets and cash flows of the refinery in Gdansk. The collaterals do not cover any assets or cash flows related to oil production, the chain of petrol stations or any other assets located outside the refinery in Gdańsk or any shares of Grupa LOTOS or its subsidiaries. Moreover, the Company uses short-term financing.

The oil production projects were financed in 2008 with own resources of Petrobaltic.

As regards financing, the following risks may be listed:

- The risk of limited access to financing – both that of investments and current financing. In this area, there is a potential risk of the lack of liquidity on the banking market and the problems of banks in providing funds in compliance with executed credit contracts. Another potential risk is due to the possible default of Grupa LOTOS with regard to the credit contract, which would suspend access to crediting.
- The above risk is dispersed because there are more than a dozen banks involved in funding the 10+ Programme investments. Moreover, the situation of individual banks that participate in the financing is being currently monitored by the Investment Financing Office based on available information. So far, no significant hazard has been determined for any further uninterrupted use of the credits. At the same time, Grupa LOTOS is trying to fulfil all its informative obligations and all other requirements set by the banks due to financing. This risk occurs in the event of a significant deterioration of liquidity.
- The risk of maintaining an adequate ratio of the used credit to the value of the pledged stocks.

- The credit for financing the stocks provides for the maintenance of an adequate ratio of the used credit to the value of pledged stocks (the collateral) by Grupa LOTOS. Due to the falling prices of petroleum and refining products, there is a potential risk of raising this ratio above the set maximum limit, which will require the repayment of part of the credit. In such an event, the repaid part of the credit will be available for use only after the value of the stocks maintained by Grupa LOTOS is raised.
- The risk of increasing costs of credit or worse conditions of financing.
- This risk is related to the slump and the tendency of banks to limit available funding.

The risk related to the changes and interpretations of tax law

Grupa LOTOS runs its business in a legal environment where frequent changes of tax law occur. New regulations and changes to the application of existing regulations affect the business of Grupa LOTOS and the type of measures taken, as well as the value of tax liabilities. Due to the numerous amendments to regulations, internal procedures have been introduced in order to comply with legal regulations and to identify and minimise tax risks as well as their impact on the financial statements of Grupa LOTOS. Moreover, any amendments to the law are monitored, which allows the suitable adaptation of internal tax accounting systems.

The Integrated Information System mySAP.com has enabled the risk of errors in accounting to be minimised and time and costs to be saved with automatic data processing. An important factor that has reduced the tax risk is the qualifications of the employees who have specialist knowledge in tax law.

In the fuel sector, the greatest tax risks result from excise tax, due to the value of tax liabilities and complicated legal accounting.

The analysis of the Act on excise tax that came into force on 1 March 2009 and the executive regulations of the Act show that domestic excise tax regulations are highly complicated and detailed. Moreover, various tax authorities apply different interpretations of the same regulations and it is not possible to determine their uniform interpretation. This causes constant risks related to the possible questioning by tax authorities of the correct settlements of excise tax and transactions.

Therefore, the main tax risk areas with regard to excise tax include:

- the application of excise tax exemption for bunker fuel sold by Grupa LOTOS,
- the requirement to obtain permits for the sale (purchase, agency) of products exempt from excise tax due to their use by all suppliers of Grupa LOTOS,
- the introduction of new principles in the turnover (the formalization of procedures) with so-called external depots that are tax service stores run by companies, and
- the application of biocomponent tax relief due to the use of biocomponents by Grupa LOTOS in production.

Strategic legal risks

Strategic analyses are carried out by Grupa LOTOS in cooperation with state administration authorities that are responsible for creating and implementing government strategy for the oil sector. The competent ministries are currently informed of progress in executing the premises of government strategy and the postulated directions of developing the Polish oil sector. Moreover, Polish and European legislation is monitored with regard to the oil sector and opinions are prepared on the drafted and applicable legal acts, particularly with regard to the regulations that concern the obligatory stocks of oil and fuel as well as biocomponents and biofuels.

Risk of sharpening quality requirements for oil products

Grupa LOTOS continues to monitor drafts of new standards and regulations that may affect production and trading activity. Information on any future changes of quality requirements comes from the 222 Technical Committee of the Polish Standardization Committee for oil products and operational fluids. Owing to active participation in the work of sub-committees of the 222 Technical Committee, Grupa LOTOS may give its opinion on the drafts of European standards during their formulation.

Grupa LOTOS gains an additional impact on the level of quality requirements, especially for engine fuels, by participating in the sectoral association, the Polish Organization of Oil Industry and Trade. The involvement in such work significantly reduces the risks due to delays in applying future quality standards in the area of oil products. In 2009, no changes of standards or legal regulations are planned that would sharpen the present requirements for oil products, especially engine fuels.

Environmental risks, process-technological risks and health risks

In order to reduce the probability of undesirable events, including occupational diseases and unfavourable health effects due to work performed by employees of Grupa LOTOS, prophylactic initiatives and actions are focused on.

In accordance with applicable rules of law and internal regulations, the Company systematically identifies the risks present in working stations and occupational risks related to the following factors: noise, vibration, chemical and biological substances, inconvenience due to monitors, explosion hazards and risks due to the incorrect operation of machines and equipment.

The generally applied health and safety precautions and means are aimed at minimising the process-production and health risks.

Grupa LOTOS has utilised in its production processes the technologies and equipment that fulfil the criteria of the Best Available Techniques. The production systems are equipped with suitable safety and protection systems, including BAT techniques and multi-layer protection systems (i.e. prevention, protection and counteraction layers).

Another area of special attention includes the procedural requirements concerning the training of employees in procedures, e.g. complicated equipment and devices or the use of hazardous substances. The system principles and requirements in this regard, in particular compliance with H&S rules and regulations at work, are strictly monitored and executed.

The risk related to the shortage of CO_2 emission credits

This risk concerns existing systems and the possible failure to obtain necessary credits for new or significantly modified installations (where the emission of carbon dioxide increases).

In mid 2008 (1 July 2008), a distribution of credits was carried out and a Cabinet Regulation was published entitled the National Plan of Carbon Dioxide Credits Distribution for 2008-2012 in the community system of emission credits trading for existing and modified systems (Journal of Laws, No. 202, Item 1248). In accordance with the applicable law, the above-mentioned credits were distributed in the second accounting period (2008-2012) free-of-charge for all installations covered by the emission trading system.

According to the distribution and based on:

- the first year of the 2nd Plan (2008) that was formally accounted for and
- emission forecasts until 2012

no shortages of emission credits for existing systems are anticipated.

The need for additional credits will occur in the second half of 2009. Grupa LOTOS has a good chance to obtain additional credits due to the implementation of the 10+ Programme. A certain risk comes from the lack of fixed rules for obtaining such credits.

In order to ensure its safe operation, Grupa LOTOS manages the main types of risks, focusing on financial and market threats.

- **Financial and market risks** are managed by the Financial Risk Management Committee. It is responsible for monitoring and coordinating the financial risk management process in Grupa LOTOS. The main aim is to maximise the result from the market risk management for the set level of risk, to stabilize cash flows, to provide short-term financial liquidity and to support projects aimed at organising funding for the investment activity.
- **The raw materials and oil products price risk management** is of special importance for the operation of Grupa LOTOS. The concept of managing the raw materials and oil products risk management covers the period until the end of 2010, which coincides with the schedule of the 10+ Programme implementation.
- Moreover, the Committee is responsible for managing the **carbon dioxide emission credits price risk,** which should comply with the premises included in the ‘Strategy of managing the risk of CO2 emission credits in Grupa LOTOS S.A.’ According to the specific phases of the Kyoto Protocol, it covers the management horizon until the end of 2012.
- **FX risk management** is carried out according to the premises included in the ‘Strategy of FX risk management at Grupa LOTOS S.A.’ and the management horizon is set by individual budget years.
- The natural currency of the market where Grupa LOTOS operates is the American dollar (USD). This currency is used in quoting market prices of oil and its products. Therefore, Grupa LOTOS carries out most of its operating activity in USD. As a consequence, it has been concluded that the best currency for incurring and repaying long-term credits for financing the 10+ Programme is USD.
- **Managing the interest rate risk** results from the anticipated schedule of receiving and repaying the credit for funding the stocks and the 10+ Programme. The interest rate risk concerns the value of interest set based on the changeable LIBOR USD rate.

- **Liquidity risk management** in Grupa LOTOS involves monitoring the forecast cash flows and after that adjusting the maturity dates of assets and liabilities, the analysis of revolving capital and the maintenance of access to different sources of financing.
- **Managing the credit risk of financial transaction partners** is effected by current monitoring of the credit exposition in relation to the granted limits. Transaction partners need to have suitable ratings granted by leading rating agencies as well as guarantees of institutions that fulfil the requirement of the minimum rating. Grupa LOTOS executes financial transactions with firms of good standing that have good creditworthiness.
- **With regard to managing the credit risk of non-financial transaction partners,** the Group verifies all customers who apply for trading credits in terms of their financial reliability. The results of the assessment determine the granted limits. Issues of customer assessment and granted limits are resolved by the Credit Committee established at the beginning of 2009.
- The detailed rules of managing financial risk have been presented in the section concerning financial data.

In 2008, Grupa LOTOS started to prepare for implementing the Integrated Management of Corporate Risks designed to control and integrate risk management in all operation areas of the LOTOS Group. The implementation involved the verification of the risk management condition in specific areas and a workshop for managers dedicated to risk management. The Integrated Management of Corporate Risks should create a single information centre about key risks and standardise the methods of risk management at the LOTOS Group. The implementation has been planned for 2009 and 2010 and will be carried out by the Strategy Office. Key decisions concerning the identified risks and the risk procedures will be resolved by the Strategy Committee.

Furthermore, Grupa LOTOS runs an internal audit responsible for the independent and objective assessments of risk management and internal control as well as for the analyses of business processes. The Audit Office prepares bi-annual and annual reports for the Management Board and the Audit Committee of the Supervisory Board. The reports provide summaries and conclusions from the executed audit tasks and information on the level of implementing the recommendations.

Due to the present macroeconomic situation caused by the global crisis, the Management Board of Grupa LOTOS has taken the decision to intensify measures aimed at providing the liquidity of the Company. The anti-crisis package launched at the beginning of 2009 should provide savings that will significantly improve cash flows in the Company.

The rules and instruments of the financial risk management and the impact of the most important risk factors on specific items of the financial results have been presented in the consolidated financial statements in the explanatory notes.

Management Systems

Carrying out the mission of the LOTOS Group, achieving its strategic aims and providing stable growth of goodwill for shareholders all require state-of-the-art management with clearly defined directives, resulting responsibilities and efficient communication.

Grupa LOTOS determines the management standards applicable in all companies of the LOTOS Group and supervises the process of their implementation based on the following management principles:

1. **Customer orientation** – operations of the LOTOS Group focus on professional customer service and learning both present and future customer needs, so as to fulfil their needs and offer products and services of a quality exceeding their expectations.
2. **Leadership** – managers of the LOTOS Group set the objectives and directions and create and maintain an internal environment where employees may be involved in the achievement of aims in compliance with the implemented Managers Code of the LOTOS Group.
3. **Commitment** – employees at all levels of the LOTOS Group are the core of the organization and its main asset. Their commitment allows their abilities to be used for the benefit of the organization.
4. **Process approach** – processes have been identified at Grupa LOTOS and its subsidiaries together with their owners who are in charge of monitoring their operation by applying set measurements on an on-going basis. The results of the analyses are presented to the Management Board of the Company during regular meetings.
5. **System approach** – processes are identified at the LOTOS Group and the interrelated processes are managed as a system, which contributes to higher efficiency and effectiveness in achieving aims.
6. **Continuous improvement** of operations is a permanent aim of the LOTOS Group.
7. **Taking decisions based on facts** – effective decisions are taken based on analyses of data and reliable information received through the implemented reporting system.
8. **Beneficial relations with suppliers** – the LOTOS Group uses the fact that the organization and its suppliers are interrelated and the beneficial solutions increase the capacity to create value for both parties.

These standards are applied not only in companies that hold management system certificates, such as LOTOS Asfalt, LOTOS Gaz, LOTOS Lab, LOTOS Kolej, LOTOS Parafiny, LOTOS Ochrona, LOTOS Straż, LOTOS Serwis, LOTOS Oil, LOTOS Paliwa and Petrobaltic, but also in other subsidiaries of Grupa LOTOS.

Good communication is an important part of the effective maintenance and improvement of the management system. Meetings are held at Grupa LOTOS to discuss the operation of management systems in the companies of the LOTOS Group and to determine the directions of operation and development in the next years. They provide an opportunity to exchange experiences and information on best practices, and to present significant changes to the implemented processes and development plans. One of the key objectives of such meetings is to discuss ongoing problems and to search for common solutions.

In order to ensure the effective operation of the LOTOS Group, an effective reporting system has been implemented. One of its parts is the provision of periodic information on the progress of task performance and decisions taken. Another element of the system is the preparation and transfer of analyses/information to allow the early identification of unfavourable trends/events that might disrupt the schedule of strategy implementation, including the development of the LOTOS Group. Such early identification enables fast reaction to such threats. The system encompasses providing immediate information on any noticed events that might disrupt the safe operation of the LOTOS Group and allows the immediate reaction of the Management Board.

The LOTOS Group operates and constantly upgrades its Integrated Management System Portal. It provides the effective distribution and easy access to applicable documentation, including legal requirements. It features all documents accessible to the employees of the LOTOS Group, according to their authorization. It is also used to support measures in environmental protection – apart from the register of legal requirements, it includes the documentation of waste management and environmental reporting. In addition, the Portal includes the operational areas such as failure reporting, the register of powers of attorney and reports applicable in the Company. The functionality of the Portal is continually upgraded and extended with new applications.

Codes and standards, internal behaviour models

To provide cohesive management and ethical standards, the following documents applicable in the LOTOS Group were updated at the end of 2008: *the Corporate Decalogue, the Workers Code and the Managers Code of the LOTOS Group.*

The Corporate Decalogue

This reflects the values and principles recognized by the Management Board of Grupa LOTOS as fundamental for the whole LOTOS Group. These principles apply both to the business operations and interpersonal relations. They encompass, e.g. pursuing continuous development and economic expansion in the area of strategic interests.

The Decalogue indicates the necessity to follow the rules of corporate social responsibility and sustainability together with respecting the natural environment. Moreover, it stresses the need for continuous development among employees and promotes effective communication, employee commitment and partnership relations.

Kodeks postępowania pracownika

Provisions of the Code confirm the principles adopted in the organization and are a guide for the employees of the LOTOS Group and its business partners. It also applies to third parties acting on behalf of the companies of the LOTOS Group, if the Company is liable for their behaviour. The Workers Code is to provide adherence to top standards of professional and personal ethics.

The Code refers in particular to integrity and professional ethics, promoting the interests of the LOTOS Group, the attitude of employees towards tasks to be performed, relations among workers, and reliability and transparency of dealing with customers and business partners. Information provided in the Code is designed to make all employees aware of the mission, vision and aims of the Company.

The Managers Code at the LOTOS Group

The Code encompasses the description of skills, desirable qualities and rules of behaviour of the managers of the LOTOS Group. The management skills, both with regard to business processes and human resources, are among the most significant and most difficult tasks of a manager. The Code emphasizes that managers of the LOTOS Group should be actively involved in developing their authority by following the rules of ethics, both with regard to professional issues and interpersonal relations.

In order to improve auditing, communication and process management skills at the LOTOS Group, the first cycle of training, called Auditor School, was performed. 35 employees of the LOTOS Group received LOTOS Group auditor certificates, which confirm their qualifications in audits. Training auditors based on uniform standards will provide the application of the same criteria and comparable audit results among different companies of the LOTOS Group.

Audits are carried out at the LOTOS Group by interdisciplinary teams, which enables the collection of valuable information on various areas of operation. The unified results of auditors' work provide data on the strengths and weaknesses of performed business processes, the efficiency level of management systems, problems and threats and instances of non-compliance at the LOTOS Group, as well as highlighting any gaps in information flow among various companies. Conclusions made by auditors ensure that the correct managerial decisions are taken that guarantee further organizational improvement.

Integrated Management System Certificates

Grupa LOTOS has implemented the Integrated Management System based on the requirements of the following standards:

- PN-EN ISO 9001: 2001 Quality management system,
- PN-EN ISO 14001: 2005 Environmental management system,
- PN-N-18001:2004 Health and safety management system.

The system operates effectively and is used as a tool for the continuous improvement of the Company, as confirmed by the positive results of the audit carried out by the Polish Centre for Testing and Certification (PCBC) in October 2008.

The Integrated Management System guarantees to the customers the Company's care for the high quality of products and services. It is also evidence of the Company's concern with the environment and it ensures safety at work for employees.

In order to fulfil the special requirements of military customers, Grupa LOTOS continues the implementation of the 2110 Allied Quality Assurance Publication, which determines the quality management system according to NATO standards. The system has been developed according to the ISO 9001 standard and contains additional special requirements concerning quality planning, risk management and the Government Quality Assurance process support. The aim of the system is to ensure that NATO suppliers produce and deliver safe, reliable and material-saving goods for the army.

The position and future of the LOTOS Group both depend on the smooth operation of its processes. The safety of information and data-processing systems is one of the key elements in providing the continuity of operation and development. Therefore, the LOTOS Group continues the process of implementing the Information Safety System. The developed and implemented Information Safety Policy is a guarantee of effective and efficient protection of information. The implemented rules comply with applicable rules of law that require the protection of specific types of information such as personal data, other protected information, including business secrets, secrets entrusted by suppliers and providers, stock exchange information, accounting information, proprietary information and ecological data. The organizational mechanisms of the system provide the continuous improvement of its operation and exercise the rule of continuous improvement that applies to management systems.

In order to prevent hazards that are related to the operation of the LOTOS Group and its environment, the implementation of the Enterprise Risk Management system commenced in 2008. The consolidated results of a workshop that identified and assessed risks at the LOTOS Group were used to create a map of risks for 2009 and a map of strategic risk.

The performance of these tasks has made employees of the LOTOS Group aware of risk management principles. Their main aim is to develop a consciousness of potential risks to the fulfilment of strategic aims, to supplement the list of priorities with measures that limit the most significant hazards and to implement and monitor such measures. Effective management of corporate risk prepares the LOTOS Group for any unwelcome situations and for working in crisis conditions, it enables decisions to be taken based on more complete information and provides the framework for the internal control system, the streamlined allocation of resources and higher operating efficiency.

Human Resources

Employment in companies of the LOTOS Group

Company	Employment as at Dec 31 2007	Employment as at Dec 31 2008
The parent company		
Grupa LOTOS	1,098	1,246
Direct subsidiaries		
Petrobaltic	486	446
LOTOS Norge	2	12
LOTOS Czechowice with subsidiaries	252	268
LOTOS Jasło with subsidiaries	179	152
LOTOS Serwis	722	734
LOTOS Lab	185	168
LOTOS Straż	75	72
LOTOS Ochrona	156	176
LOTOS Park Technologiczny	118	31
LOTOS Paliwa	272	244
LOTOS Oil	322	327
LOTOS Asfalt	176	214
LOTOS Gaz	97	82
LOTOS Parafiny	265	279
LOTOS Kolej	345	407
LOTOS Tank	5	12
UAB LOTOS Baltija	9	8
Total	**4,764**	**4,878**

Employment in Grupa LOTOS as at 31 December 2008

	Men	**Women**	**Total as at Dec 31 2008**	**As at June 30 2008**
blue-collar jobs	450	5	455	400
white-collar jobs	399	392	791	759
Total	**849**	**397**	**1,246**	**1,159**

The average employment in 2008 amounted to 1,162 full-time jobs (1,021 full-time jobs in 2007) including 408 blue-collar jobs and 754 white-collar jobs.

HR strategy and policy

The HR Management Office is responsible for creating and implementing the HRM policy established by the Management Board of Grupa LOTOS in the LOTOS Group with regard to recruitment, professional excellence and development, administration, incentive systems and social issues.

The main premise of the HRM strategy is to consider the employees as the most valuable assets of the Company.

The basic areas of the Office's activity are recruitment and selection processes, induction of new employees, improving competences and performance assessment as well as handling personnel issues and the social fund.

Incentive system – remuneration rules and additional benefits

The remuneration system is modern, transparent and based on a basic salary, the level of which is set based on data from Polish payroll reports prepared by professional HR consulting companies. In 2008, the basic remuneration of companies in most firms of the LOTOS Group increased by 10% compared to the previous year. Employees are entitled to an annual bonus and special rewards, receive anniversary pay, retirement and pension payments and may use the Company Welfare Benefits Fund.

The rules of remunerating employees of Grupa LOTOS are determined in the Company Collective Agreement and have applied since 20 April 2005.

According to the Collective Agreement, the remuneration system of employees in Grupa LOTOS comprises the following elements:

- monthly basic remuneration,
- extra pay pursuant to the rules of labour law (a night bonus, holiday pay and overtime pay), and
- an annual bonus amounting to 10% of the annual remuneration paid in the first half of the following year, provided the Company achieves the set economic results (incomes and financial result).

The system of remuneration also includes the special bonus fund used to pay individual bonuses to outstanding employees, for working in project teams and additional tasks performed.

Apart from remuneration, employees are entitled to the following benefits:

- anniversary pay due every 5 years after 15 years of seniority,
- a one-off retirement or pension payment due on the day of terminating the job agreement because of the retirement or pension of the employee.

Grupa LOTOS tries to make remuneration in the Company competitive on the labour market and attractive to employees. For every job there is a market median determined, which is a target value for all employees whose incomes are below its level. The medians have been determined based on data received from external HR consulting companies.

Due to the special nature of work at Grupa LOTOS, the medians for production positions, such as a foreman, an operator, a system operator and a production operator, have been determined above the level set by the market. In order to provide higher transparency of the new payroll system, new positions have been introduced, such as a controller, a senior specialist, a junior specialist, a senior accountant, a secretary, an assistant, etc.

In 2008, similar amendments to the payroll system were introduced in the following companies: LOTOS Asfalt, LOTOS Kolej, LOTOS Lab, LOTOS Oil, LOTOS Serwis and LOTOS Straż.

The new positions in the Collective Agreement were agreed with trade unions.

Welfare benefits

Employees may also use the Company Welfare Benefits Fund along the rules determined in its Regulations.

Grupa LOTOS and its subsidiaries covered by the agreement on joint welfare activity have increased the basic write-off for the Company Welfare Benefits Fund pursuant to the Act of 4 March 1994 up to 100% of the average monthly remuneration in the national economy per every employee and 6.25% per every retired person or pensioner. As a result, almost 100% of the draft budget for 2008 approved by the Management Board and trade unions was fulfilled.

Grupa LOTOS provides welfare benefits to all its employees and their children, retired persons and pensioners and spouses of the deceased retired. The Regulations of the Company Welfare Benefits Fund in Grupa LOTOS allows the granting of various forms of social aid to entitled employees, such as co-financing summer holidays, rehabilitation of disabled children, granting loans for housing purposes and providing non-returnable subsistence allowances to persons in difficult situations.

Expenditure of the Company Welfare Benefits Fund in 2008

Type of benefit	Number	Value of co-financing in PLN
Summer holidays of employees	4,000	5,591,000.00
Summer holidays of children	1,800	2,260,000.00
Non-refundable subsistence allowances	200	200,000.00
Loans for housing purposes	16	405,000.00
Recreation of employees and their families, Christmas gifts for children	1,000	350,000.00

The outlays for social purposes are growing due to the dynamic development of the Company and the increasing number of employees, who are additionally attracted to work in the Company by good salaries and the rich social offer.

Rules of recruitment, internship and placements

In the recruitment process for a specific job, the HR Management Office always takes account of the high qualifications and skills of the employees of the LOTOS Group and the necessity to provide them with the development opportunities. Applications from the employees of the LOTOS Group are given priority. This procedure provides the effective transfer of knowledge among companies. Furthermore, Grupa LOTOS is involved in external recruitment by publishing press and Internet announcements, information in the media, participating in job fair trades, etc. Thus, it can attract new employees whose qualifications are necessary for performing the tasks of the Company and the LOTOS Group.

The recruitment process consists of several stages. Their number and advancement level depend on the competences required by Grupa LOTOS from candidates for specific jobs. When searching for suitable persons, their knowledge, skills and development potential are analysed.

Stages of the recruitment process at Grupa LOTOS

1. Document analysis (CV or an application)
2. Job interviews
3. *Case study*, psychological tests and specialist language tests

The third stage of recruitment is designed and carried out in the event of recruiting an employee for a specialist or managerial position. At this stage, the tools used for examining the skills of a candidate are specially designed and adapted to the main tasks fulfilled in the particular job.

Competences and predispositions

Each job is related to specialist competences resulting from the knowledge and skills required to perform set tasks. There are, however, certain skills that should be demonstrated by every employee of the LOTOS Group and are required from every candidate:

- business awareness,
- creativity and resourcefulness,
- flexibility,
- communication skills, and
- a team-work spirit.

An employee of the LOTOS Group should not only be involved in a performed job, but should be dedicated to the Company. He or she is loyal and proud of achieving the successes of Grupa LOTOS, is creative and innovative and can adapt to changes and novelties. An employee of the LOTOS Group is also aware of how important teamwork is.

Placements/scholarships/internships

The LOTOS Group actively supports the academic and professional development of university and secondary school students. More than one hundred of them undergo training every year at Grupa LOTOS and its subsidiaries: LOTOS Serwis, LOTOS Lab, LOTOS Oil, LOTOS Kolej, LOTOS Asfalt and Petrobaltic.

The largest group of trainees are students of Gdańsk University of Technology from the Faculties of Management and Economics, Electronics, Telecommunication and IT, Mechanics, Chemistry, Civil and Environmental Engineering, Automation and Robotics, Technical Physics and Applied Mathematics. Other trainees come from the following universities: the University of Gdańsk, Gdańsk School of Banking, the Academy of International Economic and Political Relations, Gdynia Maritime University, the State Higher School of Vocational Education in Elbląg, Gdańsk Higher School of Humanities, as well as Krakow University of Technology, the AGH University of Science and Technology and Warsaw University of Technology. Moreover, students of TriCity secondary schools take part in training at the LOTOS Group companies.

In January 2008, Grupa LOTOS signed a trilateral agreement with Gdańsk University of Technology and the AGH University of Science and Technology aimed at supporting talented, committed and creative students. The cooperation has resulted in granting student scholarships. Grupa LOTOS facilitates the transfer of students and graduates of TriCity universities and colleges from the academic into the professional environment and helps them find their first job. The Company has taken part in the 'Holiday Internship' programme organised by the City Office in Gdańsk for seven years. In order to strengthen contacts between students and business, Grupa LOTOS sponsors 15-20 student and graduate internships every year. They are used primarily by students of the Faculty of Management, the Faculty of Economics and the IT Science Faculty of the University of Gdańsk, as well the Faculties of Electronics and Automation, Mechanics and Management and Economics of Gdańsk University of Technology.

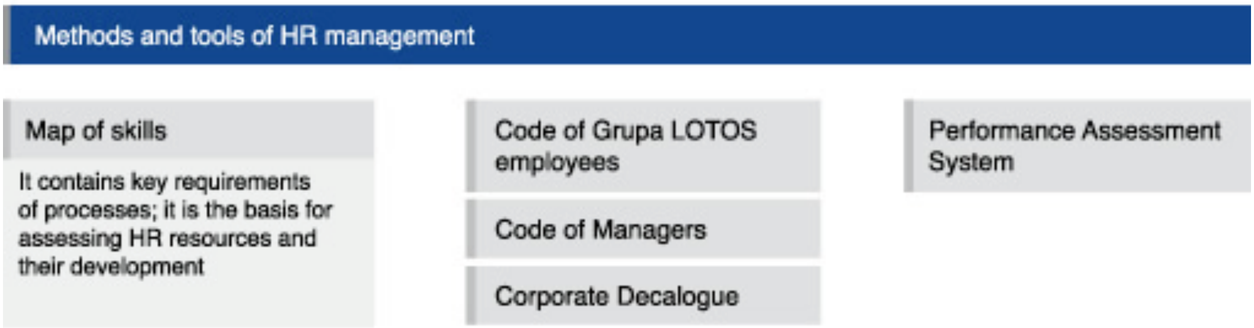
AKADEMIA LOTOS

LOTOS Academy – *'On the way to excellence'*

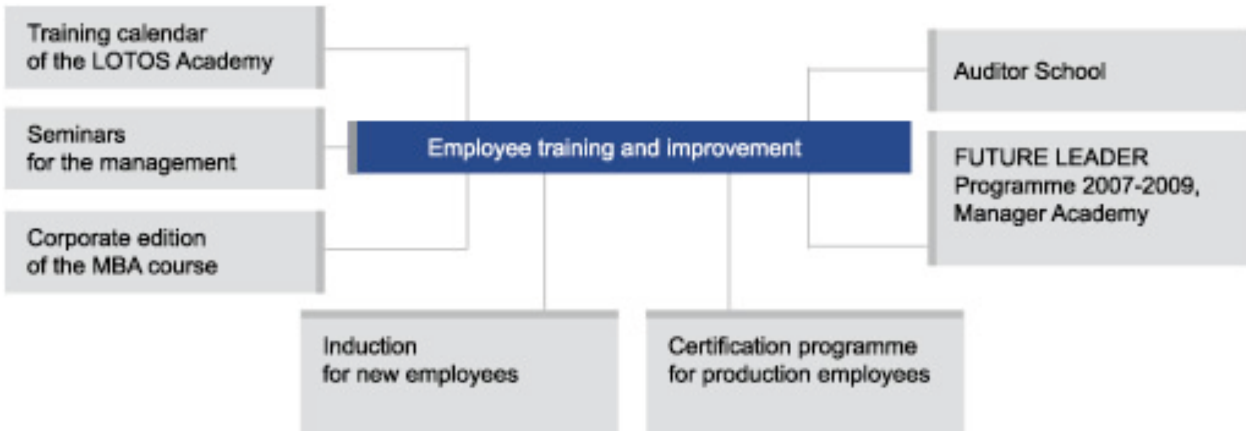
Training programmes, induction and employee development tools

The LOTOS Academy opened in 2004. Its tasks include the introduction of the work culture and management principles in the LOTOS Group based on an employee model who participates consciously in creating the added value required by customers and shareholders.

The directions of the LOTOS Academy result from the application of various tools of HR management:



The analysis of applying specific methods and tools brings effects in the form of specialist and targeted development programmes and training.



Any planned and implemented training initiatives have to fulfil the key premises of the LOTOS Academy:

- **cohesion** – the training system takes account of the mission and strategy of Grupa LOTOS, its long-term development plans and its relations with other areas of HR management,
- **responsibility** – all participants are responsible for the effects of training and development of the process, i.e. the management, line managers, the HR Management Office and employees,
- **availability** – training is designated for all groups of employees,
- **continuity** – the development planning is a continuous process related to the results of performance assessment, career paths, succession plans and development plans for individual employee groups, and
- **flexibility** – the plans and performance of training is related to the monitoring of the changing environment of the Company and the changes in the required qualifications of employees.

Induction for new employees

Aims of the programme:

- to make employees aware of the values and the organizational culture of Grupa LOTOS,
- to present the tasks and obligations of a position,
- to create the required forms of behaviour,
- to increase the commitment of employees and satisfaction with a new employer,
- to shorten the time necessary for achieving the effective level of task fulfilment,
- to reduce the stress related to changes, and
- to integrate with a team.

The induction programme takes from 6 to 12 weeks, depending on the position. During the adaptation process, employees learn their new duties and tasks, applicable procedures and integrate with a team or the company. The induction process includes a one-day internal training session – employees participate in classes that include general issues concerning the work at Grupa LOTOS, organizational culture and preferred attitudes and values. They hear lectures on raw materials, basic systems and end products of oil processing.

The knowledge gained during the theoretic classes is strengthened with site visits at the refinery. Every employee also receives a so-called Employee Handbook including the strategy of the Company, data on the LOTOS Group, the Code of Grupa LOTOS employees, the Code of Managers and the Corporate Decalogue, the Organizational Regulations, the Collective Agreement, the organizational scheme and a leaflet providing the rules of the Company Welfare Benefits Fund, the group insurance programme encompassing the investment fund and information on the Physical Culture Association.

LOTOS Academy training for the employees of the LOTOS Group

The subjects of training include issues resulting from analysing the map of skills, performance assessment, as well as the development plans of employees in individual organizational units and takes account of the development needs of the Company. In 2008, the following training was organized:

- communication (interpersonal, written and in an organization),
- time management,
- chairing meetings and public speaking,
- presentations as business communication skills,
- effective project management,
- situational leadership,
- creative thinking,
- personal efficiency enhancement – stress management techniques,
- decision taking,
- skills and attitudes improvement training – conflict resolution, and
- MS Office package training.

Seminars for the management

The aim of the seminars is to develop the competences of the management at Grupa LOTOS. The curriculum of the seminars includes the main aspects of the Company's operation in the changing environment, for example modern management methods and tools. In 2008, the following seminars were held:

- 'Organization of the Future' designed to present the main social, economic and organizational phenomena in the modern business environment.
- 'SL II Situational Leadership®' the aim of which was to strengthen the leadership rules developed by K. Blanchard and co.

SL II® Situational Leadership Model®

The most important factor that affects the efficiency of employees in the LOTOS Group is their relation with the line manager (leader). The leader should act according to the changing circumstances, flexibly adapting his/her leadership style to a specific situation. One of the objectives of the SL II® model is to create a business environment where employees develop their competences and commitment until they achieve the highest stage of development – becoming an independent expert.

'Future Leaders 2007- 2009' Programme

This Programme provides for the versatile development of the Grupa LOTOS employees with the greatest potential. It involves the intense professional development of a selected group of employees, providing them with opportunities so that they can be ready to play key roles in the LOTOS Group. Broad interdisciplinary knowledge was provided by e.g. the 2008 Management Programme organised by the Canadian International Management Institute in cooperation with Harvard Business School Publishing.

Manager Academy

The aim of the 'Manager Academy' project is to extend knowledge and skills related to effective HR management by educating versatile managers who can manage teams efficiently. The participants of the programme are managers with a high development potential, who had participated in the 'SL II® Situational Leadership' training, and they are tutored in project management, negotiations, time and stress management, strategic thinking, problem resolution and decision taking.

Corporate edition of the Master of Business Administration Course (MBA)

The MBA course was prepared in cooperation with Gdańsk Foundation for Management Development, according to the programme validated by the RSM Erasmus University. On 16 October 2008, 25 students, employees of the LOTOS Group, started the course. The curriculum, apart from gaining managerial qualifications on the global level, facilitates the exchange of experiences and the integration of managers of the whole LOTOS Group. The course takes 4 terms.

Auditors School

The main aim of the programme is to prepare well-trained and experienced auditors to carry out audits in all the LOTOS Group companies in compliance with uniform corporate standards. The Management Board of Grupa LOTOS will then obtain continuous access to information on the strengths and weaknesses of business processes, the efficiency of management systems and the benchmarking of companies based on uniform criteria. The subsidiaries will gain benefits from the controls carried out by professional auditors in the whole LOTOS Group. The project is carried out in cooperation with Det Norske Veritas – one of the global leaders in management system certification.

Performance Assessment System (PAS)

The aim of the Performance Assessment System project was to create and implement a systematic methodology of assessing employees of the LOTOS Group. The employees have received the following benefits from the system's implementation:

- obtaining feed-back on their performance (the level and method of fulfilling tasks), the expectations of their superiors and their strengths and weaknesses,
- receiving information on the possibilities and methods of improving work results,
- the possibility of exchanging opinions and views concerning their jobs,
- agreeing their work-related needs (e.g. training, working conditions), and
- the improvement of relations with a superior.

According to the PAS Regulations included in the Integrated Management System Procedure, a line manager carries out the assessment. Three assessment sheets are used for different groups of jobs:

- an employee assessment on managerial and supervising positions,
- an employee assessment on specialist positions, and
- an employee assessment on technical and auxiliary positions.

The introduction of the performance assessment system was preceded with a training cycle on the rules and methods of assessment. All employees of Grupa LOTOS participated. Separate training programmes were prepared for the assessors and the assessed.

Training programmes for employees involved in the 10+ Programme

2009 Personnel – 10+ Programme Operating Division

The execution of the 10+ Programme requires the provision of personnel necessary for accomplishing the tasks specified in the Programme and to operate new systems. The aim of the 2009 Personnel Programme was to recruit employees (120 operators) in a professional manner and to prepare them with intense two-week training.

The objective of the training is to provide basic general knowledge necessary for the correct performance of the tasks of an operator. Because of this, the training process is no longer limited to mastering a system operation, but includes basic technical and production knowledge. The two-week cycle of training starts one month after the commencement of employment, so that employees may use the skills they gain in their working environment. Classes are given by a specially trained group of internal trainers including specialists from specific areas.

10+ PERSONNEL Programme Trading Division

The aim of the project is to prepare high-quality specialists of the Trading Division to be involved in the sale of products offered after the execution of the 10+ Programme. Due to the special nature of the sector, persons with limited experience were employed and after short and intense training they were provided with the knowledge and skills of qualified specialists. The prepared training programme may be used to supplement the knowledge of present employees and prepare workers to new challenges related to increasing production and extending the offer.

Trade unions

There are six trade unions operating in Grupa LOTOS:

Branżowy Związek Zawodowy (Industrial Trade Union), Komisja Międzyzakładowa NSZZ „Solidarność” (‘Solidarity’ Independent Trade Union, Interplant Commission), Wolny Związek Zawodowy Pracowników Grupy LOTOS (Free Trade Union of Grupa LOTOS Workers), Międzyzakładowy Związek Zawodowy Pracowników Ruchu Ciągłego (Interplant Trade Union of Operation Workers) and Międzyzakładowy Związek Zawodowy Inżynierów i Techników Grupy LOTOS (Interplant Trade Union of Engineers and Technicians).

Trade unions are actively involved in the process of building relations between the employer and the personnel. Apart from annual negotiations of salary increases in 2008, the trade unions participated in talks concerning salary regulations, quarterly incentive bonuses and amendments to the regulations on anniversary awards. On 31 December 2008, 38% of employees belonged to trade unions.

Health and safety, working conditions and accidents

The safety of employees is among the priorities of Grupa LOTOS. The motto followed by the managers and employees of Grupa LOTOS is *‘no work is so important and urgent that it cannot be done safely’.*

Special importance is attached to actions aimed at maintaining a high level of safety, minimising hazards, reducing accident frequency and raising the awareness of employees and the culture of safe work.

As a result, Grupa LOTOS enjoys the reputation of an employer that offers safe, suitably equipped and well-organised working stations. The Company's employees, as well as the workers of subcontracted service providers, appreciate the safety and importance of their work and its impact on their own safety and that of other employees.

Safe working conditions

In order to provide suitable working conditions for the employees of Grupa LOTOS, efforts are made to maintain high indices of safety and to improve the present H&S conditions systematically. These aims are achieved by:

- providing the suitable organization of the working environment,
- the regular performance of environmental tests,
- the application of best available protections in processes and production as well as individual protective equipment,
- improving the method of identifying hazards and risk assessment in the system of *man-machine-environment,*
- carrying out systematic consulting-supervising-auditing activities,
- organising practical training and dedicated workshops to raise the professional qualifications of employees, and
- raising the awareness and commitment of employees to strengthen the culture of safe work.

Importance of a safe working culture

Raising the awareness and commitment, both among the management and employees, developing their culture and the sense of safety, forming proper attitudes and behaviour in normal working conditions and in emergencies, are key factors that maximise the effects of the safety system in Grupa LOTOS.

The awareness of employees is fostered with:

- training and raising qualifications,
- popularising H&S issues, and
- encouraging active cooperation in creating and implementing the corporate safety policy.

Promoting safety and pro-active attitudes among employees

Only an employee who is fully aware of the hazards may follow the recommended safety requirements, considering them to be a complex and valid system of protections. Being conscious of the procedural requirements and regulations in this regard, an employee will adapt them creatively to his/her own working stations.

Grupa LOTOS takes a number of above-standard initiatives to promote H&S issues in an accessible manner and to attract the attention of employees. Such projects include:

- **articles** that concern H&S issues published in every issue of the corporate monthly, Lotosfera,
- **'BEZPIECZNIK' H&S quarterly** providing information on accidents, life of the Company and news from the world,
- dedicated '**Safety at Work**' display cabinets that promote accident-free work and present near misses reported by employees and answers to the questions asked in H&S boxes or e-mail,

- **specialised medical rescue teams** comprising selected production employees trained in rescue procedures,
- **H&S contests** organised in an encouraging and friendly manner – rebuses, cross-word puzzles and questions,
- ‘**ACCIDENT FREQUENCY**’ **Tables** at the refinery providing information on the longest accident-free periods and the number of days since the last accident,
- **distinctions for the most active employees**, mostly for propagating safe behaviour and reporting near misses,
- **H&S audits** that involve managers of organizational units in the process of safety improvement in their areas,
- an **‘H&S PANEL’** in the intranet Lotostrada service that provides employees with access to H&S materials, training presentations, training films, world novelties and knowledge competitions.

10+ Programme investment safety

The execution of the 10+ Programme is related to the high pace of construction-assembly work and a large number of subcontracted employees working at the refinery. It requires special care of H&S services and the continuous development of the knowledge of safety issues at work and the compliance with internal H&S and fire requirements.

In order to achieve these targets, the management and subcontracted employees:

- receive the *Procedure Handbook at Grupa LOTOS* with current internal H&S requirements of Grupa LOTOS enclosed,
- receive a leaflet entitled *General Safety Rules at Grupa LOTOS,* before entering the refinery,
- undergo training in internal H&S rules and the correct performance of work before starting to work,
- are subject to systematic assessments in terms of compliance with the internal H&S requirements,
- in the event of non-compliance with H&S rules and regulations and internal procedures, they are punished with e.g. financial penalties or the temporary/permanent withdrawal of passes that enable entry to the premises of the Company, and
- participate in meetings organised with employees of Grupa LOTOS designed to implement internal safety standards and discuss the most frequent irregularities.

The H&S services of Grupa LOTOS and the representatives of external companies supervise all investment work. Representatives of Grupa LOTOS are present at investment sites in order to provide consulting to managers on behalf of the Company and contractors.

Safety statistics in 2008

Number of days lost	171
Lost time injury frequency	2.9
Number of accidents at work	7

In 2008, there were no severe, collective or fatal accidents at Grupa LOTOS

Social Responsibility

In its mission and vision, the LOTOS Group includes not only strict business aims, but also, by applying the principles of sustainability, care for the natural environment and the value of human resources. The social responsibility strategy of the LOTOS Group until 2012, adopted by the Management Board of Grupa LOTOS in 2008, is the response to the identified needs and expectations of key stakeholders.

Including all social and environmental problems in the strategy, which correlates with long-term business aims, has benefits in the growing level of integrating measures taken by the organization and the better use of human and financial resources.

Value System

The foundation of the LOTOS Group's long-term Corporate Social Responsibility illustrates the conviction that business operations have to be performed in compliance with the principles of ethics, by fulfilling social needs and respecting the natural environment. Therefore, the key values followed by the Concern in its operation include: purity, openness, innovation and responsibility.

Purity

means compliance with the top environmental and ecological standards as well as ethical and honest competition, and counteracting corruption and violations of human rights.

Openness

implies the positive attitude of the LOTOS Group to changes, the needs of the world and the expectations of people. It provides a perspective into the future and the dynamic development of the business on an international scale.

Innovation

is related to the appreciation and protection of intellectual capital owned by the LOTOS Group. Moreover, it stresses the competences of the personnel, who determine the strength and market prospects of the LOTOS brand.

Responsibility

is the culmination of the value system at Grupa LOTOS, as a fuel concern and the owner of the refinery, in relation to the future, people, the natural environment and the country, as it involves responsibility for the safety of its energy.

The above declaration of the corporate value system is a long-term undertaking towards all the stakeholders interested in the successful development of the LOTOS Group.

Social Reporting

In 2008, the LOTOS Group initiated the process of regular and comprehensive reporting on social and environmental aspects of its business. This focuses not just on describing the Company's achievements, but rather on dialogue aimed at approximating mutual expectations and possibilities of all participants. It will provide beneficial changes to the social environment.

These efforts have been appreciated by the Concern's environment. The CSR Report of the LOTOS Group won the '2008 Social Reports Competition for the best corporate social responsibility report in Poland' organised by PricewaterhouseCoopers, Responsible Business Forum and CSR Consulting. The Report presents the economic, social and environmental aspects of the LOTOS Group's operation in 2006-2007 and refers to the methodology of the Global Reporting Initiative (GRI), an independent institution acting for development and fostering Sustainability Reporting Guidelines. During the preparation of the first corporate social responsibility report in 2008, Grupa LOTOS started the process of implementing the GRI standard requirements. The scope of reporting is being systematically developed.

Internal Communication

Internal communication is an important element of the social dialogue at the LOTOS Group. One of its key aims is to provide effective information flow in the Company. Fast, concrete and reliable information enables employees to understand the development programmes and the rules that govern the Company's operation. Dialogue between the management and employees provides closer integration for common tasks, including developing technology and the market of the Company, resulting in increased value for the shareholders.

The programme of direct meetings between employees and the management is one of the most effective and proven methods of communication in the LOTOS Group. The meetings are aimed at providing all employees with equal access to important information on the Company. They are usually held due to important events that affect the operation of the Company and require additional information. A cycle of such meetings took place after the announcement of the updated development strategy of the LOTOS Group until 2012, and in the period preceding the introduction of the anti-crisis programme related to the economic situation in Poland and abroad. The Q&A programme and employee surveys as well as the thematic intranet service are integral parts of this project.

Communication tools and channels have been adapted to the tasks set by Grupa LOTOS in this area: the innovative programme of direct meetings between the management and the personnel, a modern intranet service called Lotostrada and an internal monthly, Lotosfera.

The modern and advanced Lotostrada intranet service is a fast and reliable communication tool that plays a major role in the system of multi-directional corporate communication at Grupa LOTOS. Apart from its important informative function, it also fulfils the role of an operating tool, facilitating access to necessary databases.

Lotosfera is a magazine with a long tradition among employees of the LOTOS Group. Aside from providing information, it fulfils integrating and educating functions. After a modification in 2008, it stands high in the rankings of institutions specialising in the assessment of corporate publications.

Social Aspects of the Operation

Sponsoring and Charity

Grupa LOTOS focuses its sponsoring and charity campaigns on pro-social measures that are coherent with the mission and development strategy of the Company and the values represented by the LOTOS brand within areas that are important for the lives of customers and the local communities around the Company's production plants. The necessity to sustain sale-supporting measures in specific product segments and the growth strategy of the value of the corporate brand also play an important role in the sponsoring policy.

The operation of the Concern in this area focuses on two priorities:

- environmental protection and ecology: by supporting related initiatives, particularly the protection of the natural value of the Baltic Sea,
- people and their environment: by developing science and education, propagating physical culture and sports education of the young generation and cooperation with public health institutions and campaigns for the disabled.

Cooperation with Universities

Grupa LOTOS supports universities and scientific institutes, thus providing a mutually beneficial bridge between industry and scientific circles. The aim of this cooperation is to promote the best students majoring in courses that provide specialists important for the LOTOS Group and the whole chemical sector. For several years, the Concern has been working closely with Gdańsk University of Technology and since 2007-2008 with the AGH University of Science and Technology in Krakow. Outstanding students receive scholarships and internships at companies of the LOTOS Group. The Concern's specialists also contribute to developing the knowledge of future engineers.

Road safety

'LOTOS – Safe Way to School' is the original educational prevention programme of Grupa LOTOS. Its aim is to prevent road accidents in which the victims are young schoolchildren. The campaign is carried out at primary schools and focuses on highlighting the issues of road safety. Road hazards are a major social problem in Poland.

The programme includes meetings with police officers and experts who present the rules of safe road use and involves recognising places that are not dangerous to play. Police officers also teach children how to cross a road safely. Apart from reflective items, children receive a special educational package on road safety for self-study at school and home. In total, in 2008-2009, 13 thousand children benefited from the programme, including 9 thousand from the Pomorskie Voivodeship and 4 thousand children from Jasło and Czechowice, where the LOTOS Group companies operate.

Ecological Education

As part of implementing its mission and social policy premises, Grupa LOTOS supports ecological campaigns. Grupa LOTOS feels particularly responsible for taking pro-social measures for the protection of the natural environment. The Concern provides support to projects aimed at propagating knowledge of environmental protection and ecological campaigns and supports the education of children and youths in this regard.

Such projects include the organization and co-financing of ecological competitions and events. In 2008, Grupa LOTOS organised an ecological competition ‘Support the Environment – Care for Cleanliness’, where the winning school received a financial grant for organising an ecological campaign during the International Clean Up the World Day. The competition was designated for schools from the nearest vicinity of the Company. Grupa LOTOS cooperated with the Energy Saving Foundation in organising the ‘Natural Energy Power’ competition. Students of secondary schools participated and the objective of the competition was to activate local communities to support renewable energy sources.

Apart from ecological education projects, the Concern cooperates with institutions involved in environmental protection, including the Foundation of Regional Atmosphere Monitoring at the Gdańsk Agglomeration Agency.

Sport

The commitment of the LOTOS Group to sports sponsorship is both strategic and long-term. This consistent approach gives measurable effects. It supports the achievement of sales targets in specific trading segments and provides communication of the desirable qualities of the LOTOS brand. Grupa LOTOS and the companies of the LOTOS Group focus on motor sports, basketball and winter sports: ski jumping and cross-country skiing.

For more than ten years, the Concern has been a titular sponsor of the women’s basketball team ‘LOTOS PKO BP Gdynia’, who are the ten-time Champions of Poland. In 2008, the team won the Polish Cup and the title of the Vice-Champion of Poland.

Grupa LOTOS has been the General Sponsor of Polish Skiing for five years, by supporting the Olympic team and the youth training ski jumping: the Olympic team in cross-country skiing and the youth team in Nordic combined. As the General Sponsor of Polish Skiing, Grupa LOTOS supports titled sportspersons, such as Justyna Kowalczyk, the double world champion and the winner of the World Cup 2009, and Adam Małysz, the Olympic medallist, the four-time World Champion and the winner of four World Cups.

The Concern has been a titular sponsor of the speedway team, ‘LOTOS Wybrzeże Gdańsk’, for five years. LOTOS Wybrzeże Gdańsk advanced to the first league in 2008. The team’s races are always watched by thousands of spectators and owing to television transmissions by several hundred thousand viewers during a season.

Involvement in motor sports stems from the business of the LOTOS Group. The cycle of the KIA LOTOS Cup motor races, whose titular sponsor has been LOTOS Oil since 2007, is enjoying growing popularity. After the success of the Picanto LOTOS Cup, a second cycle race cup has been organised since the 2008 season, i.e. Cee’d LOTOS Cup. The Cup is a Polish Championship organised in cooperation with the Polish Motor Association, and is the largest racing class in Poland.

KIA LOTOS Cup is an international event and the eliminations are also held in Hungary, Slovakia and the Czech Republic. The races attract crowds and create a great atmosphere for family picnics.

All the above-mentioned sports disciplines and clubs represent the highest sports and organizational level. They provide the titular sponsor with the possibility of effective communication, both with the local community and with supporters of each discipline.

Sports Education of Children and Youths

The primary aim of the sports and social projects executed by Grupa LOTOS is to educate youths through sport. All the so-called small sports projects focus on encouraging youths to practise sports actively. These projects should provide a selection of sportspersons who will develop their talents in professionally managed clubs and sports associations. The major social sports education programme is the LOTOS Cup – the National Programme of Ski Jumping Development.

Competitions of the LOTOS Cup, the sports part of the National Programme of Ski Jumping Development 'Looking for the Champion's Successors', have been attended on average by 160 contestants since 2004. In all seasons, Grupa LOTOS has sponsored 60 annual scholarships and has granted 54 awards to the best young skiers. The scale of the project is impressive. Representatives from all over Europe participated in the three editions of the LOTOS Grand Prix contest in 2007-2009, which is an unofficial championship for children and youths in ski-jumping.

The social programme of Grupa LOTOS has been appreciated both among sports circles and in the media. According to trainers and observers, the LOTOS Grand Prix contest is the best-organised event for young jumpers in the world.

Environmental Aspects of Operation

In the ENVIRONMENT area, the year 2008 was a period of intense work related to the implementation of the 10+ Programme, which provided versatile opportunities for interacting with the natural environment and local communities living in the neighbourhood of the plant.

By maintaining our priority to protect the natural environment, we aim at keeping harmony between our operation and the environment. To this purpose, we follow a detailed Plan of Environmental Actions, which enables the fulfilment of the principles of sustainability. The Plan guarantees respect for the natural environment, not only by compliance with legal requirements, but also by minimising and, if possible, eliminating any impacts, even if regulations do not require such measures, and provided there are reasonable opportunities to implement such measures.

In order to develop, implement and follow the provisions of the Plan, the environmental aspects of the operation have been reviewed, together with an assessment of the impact on specific receptors with which an aspect may interact. In the assessment of the impact scale (both in the construction phase and during later operation), the Report on the environmental impact assessment after the execution of the 10+ Programme has been used as well as extensive knowledge resulting from the implemented and applied procedures and principles provided in the Environmental Management System being a part of the Integrated Management System.

During the analysis of the construction phase of the 10+ Programme, in order to minimise the negative impact on the environment of implementing major elements of this stage, it has been concluded that the following elements will have such an impact:

- The selection of technical partners contracted by Grupa LOTOS, their reputation, long experience in the design and construction of refining and chemical complexes all over the world. The contractors include Technip (Italy), ABB Lummus Global (Germany), Lurgi (Germany/Poland) and Fluor (the Netherlands/Poland).
- The application of techniques, in particular during work that will have a major impact according to the analysis (uncontrolled emission of dust and noise), that include simple but proven methods,

such as: washing roads, sprinkling the areas in the vicinity of ground work, the application of tents and coverings that contain dust in the course of sand-blasting procedures (or the performance of sand-blasting at the manufacturers' of prefabricated parts).

- During the analysis of the **operating phase** of the 10+ Programme systems:
- The technologies developed by global leaders of the sector have been selected, such as: Shell, Kellog and Chevron. According to the analysis, the new production equipment and modules comply with the system characteristics described in the referential documentation of the best available technology for the refining industry (BREF) as well as the technologies of the future (BAT). They also meet the emission standards required by law and do not risk exceeding the environmental quality standards in the refinery's environment. The assessment of compliance with the BAT requirements is aimed at searching for the optimum methods of counteracting the emission of pollution into the environment, focusing on prevention at the source or limiting such emissions to the minimum. The following aspects have been taken into consideration:
  - the technological advancement level of applied technical solutions and the newly installed/modernised systems;
  - material and raw material management;
  - power performance;
  - the problems of global impact, particularly the emission of greenhouse gases; and
  - organizational issues.

The performance of the 10+ Programme will enable the achievement of the planned economic targets with a relatively low increase of emissions into the environment, which complies with the principles of sustainability and in particular the rule of decoupling. All the analysed parameters will be lower than the acceptable values and the quality of the environment in the affected area will not deteriorate significantly, while unit indices of emissions into air, sewage and waste will decrease.

Main investment tasks implemented in 2008

Ecological investments executed within the 10+ Programme:

- The hydrodesulphurization system,
- Development of the sewage treatment plant.

The ecological investments executed outside the 10+ Programme:

- Commissioning the anti-theft monitoring system near the product pipelines from the refinery to the Port, which has significantly improved the protection of pipelines. The task was completed in 2008.
- The air-tight sealing of selected systems of the sewage treatment plant. The task involves the sealing of facilities in stages and the utilization of gases released from selected systems of the sewage treatment plant of Grupa LOTOS to eliminate their negative impact on the environment due to their odour.
- According to the adopted principles of the corporate social responsibility and in reaction to the signals received from the close vicinity of the refinery concerning the emitted odours, Grupa LOTOS undertook that the problem would be solved in 2010. In 2007/2008, the environmental services of

Grupa LOTOS identified the equipment that might cause short-term unpleasant odours in specific weather conditions, mostly in the sewage treatment plant. The following facilities have been selected for air-tight sealing: the 5100 S-107 A/B separator, the 5100 S-12 flocculator, the 5100 S-3B retention reservoir and the oil sewage pumping station. The contractor was selected following a number of stages in tender procedures. The design work has been completed and the prefabrication of the required elements of the sealing and gas utilization system has commenced. The system is to be commissioned at the end of 2009.

- The visualization computer system to optimise energy consumption. Its implementation will reduce the emissions of pollution. The task was completed in 2008
- Supplying the refining system of fuel gas with natural gas. The provision of natural gas to the power system of Grupa LOTOS has a major impact on reducing the CO2 emission. The task was fulfilled in 2008.
- The commenced investment of the xylene emission system is to reduce the share of polluting aromatic compounds in gasoline to the level required in order to comply with other requirements set for this group of products.
- The exchange of burners on the Lentjes boilers (2700 K-2 and 2700 K-3) with low-emission boilers. This task is to be finished in 2010.

Investment outlays of Grupa LOTOS

	2006	2007	2008
Total investments (in thousands PLN)	284,104	858,482	1,910,687
Ecological investments (in thousands PLN)	34,387	99,880	224,723

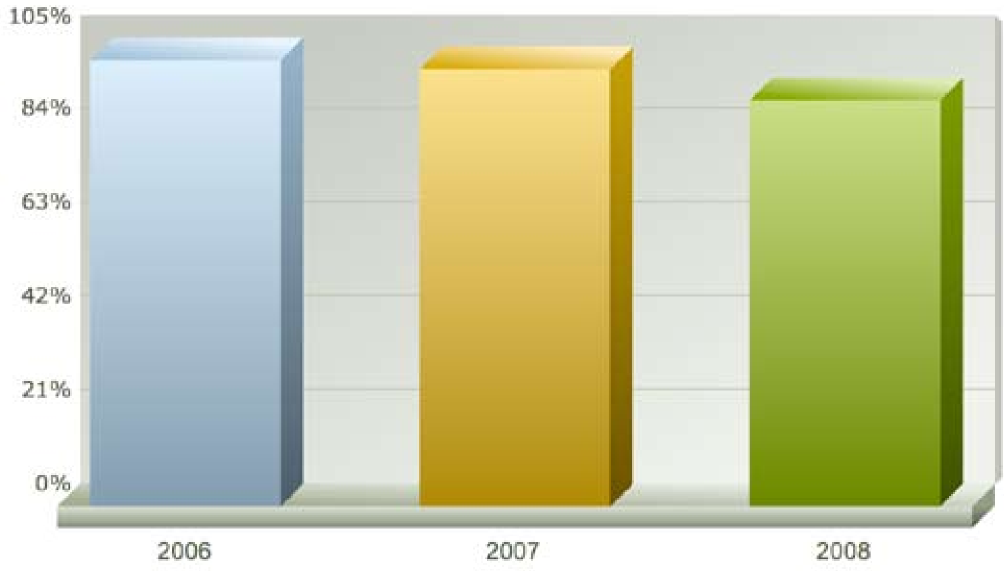
Impact on the Environment

Emissions into the air originate from organised sources (the most important are the heat and power plant chimney and two production chimneys) and from unorganised sources (the most important being storage tanks and two flares).

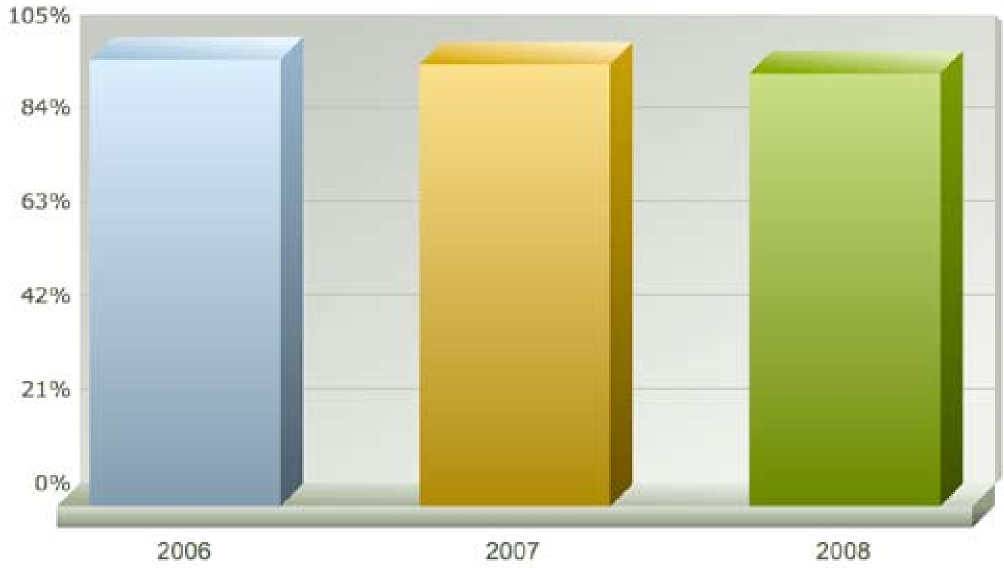
List of pollution emissions by Grupa LOTOS

	2006	2007	2008
Petroleum/raw material processing [tonnes]	6,098,600	6,156,431	6,203,414
SO_2 [tonnes/year]	4,859	4,808	5,022
NO_2 [tonnes/year]	1,601	1,583	1,317
Pył [tonnes/year]	364	365	306
CO_2 [tonnes/year]	1,153,625	1,152,505	1,135,348

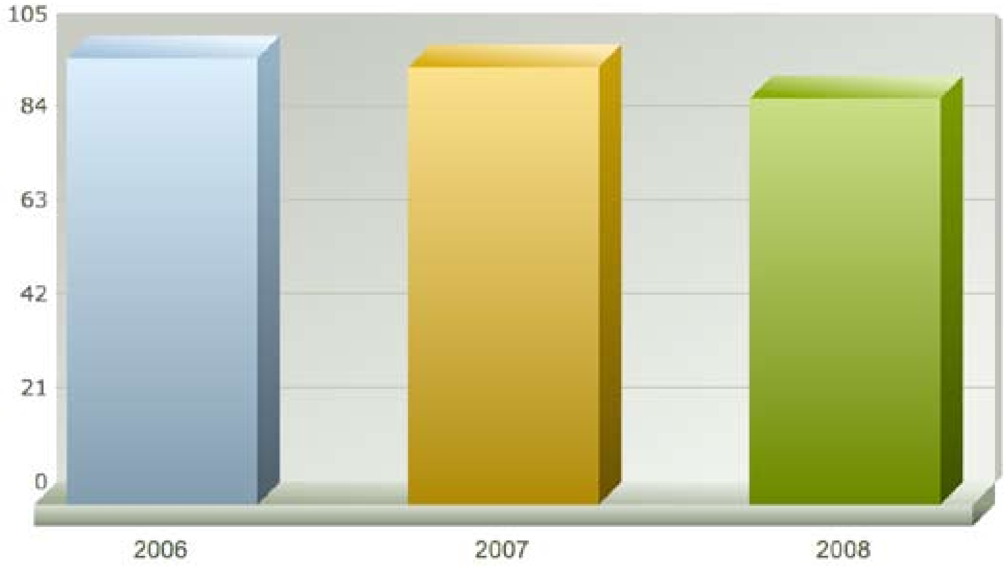
Emission of nitrogen dioxide with reference to the volume of petroleum processed at Grupa LOTOS (2006=100%)



Emission of carbon dioxide with reference to the volume of petroleum processed at Grupa LOTOS (2006=100%)



Emission of dust with reference to the volume of petroleum processed at Grupa LOTOS (2006=100%)



Upstream Activities

Operating Results in 2008

In 2008, the LOTOS Group announced an updated strategy for 2008-2012, which was the basis for determining the strategic aims of the upstream segment:

- The total production of the upstream segment will reach at least 10% of the oil processing in the LOTOS Group in 2012 and will exceed 20% of the production by 2015 with the upward trend in the following years.
- The outlays for this purpose may reach 5.1 billion PLN in 2006-2012.

The steps taken by the upstream segment of the LOTOS Group in 2008 were aimed at fulfilling the above strategic aims. The steps included the acquisition of and search for licenses on the Norwegian Continental Shelf and exploration and development work in the Baltic Sea. The crisis suffered by the global economy in the second part of 2008 did not change the aims or the main strategy directions; only the pace of fulfilling certain tasks was changed.

The key company of the upstream segment in the LOTOS Group is ‘Petrobaltic’ Petroleum and Gas Exploration and Production Joint Stock Company. Petrobaltic is the focus of all the work in oil and gas exploration and production performed by the LOTOS Group. The Petrobaltic Group encompasses LOTOS Norge, which concentrates on exploration and production on the Norwegian Continental Shelf and the UAB Naftos Gavyba, involved in production in Lithuania. Petrobaltic is in charge of exploration and production in the Polish economic sea zone in the Baltic Sea.

Operating Results in 2008

In 2008, Petrobaltic produced almost 285 thousand tonnes of petroleum and gas, i.e. 15% more than planned. This result was the effect of production at the Sea Oil Mine on the B3 field and the development work on B8, which was being prepared for production on an industrial scale. The oil produced during the work performed on this field had a major impact on the global production of Petrobaltic.

Petroleum and gas production

	2006	2007	2008
Petroleum (tonnes in thousands)	265.5	190.6	257.8
Gas (Nm^3 in millions)	29.9	21	29.3

Owing to high production and record petroleum prices on global markets, in 2008 Petrobaltic generated the highest incomes and profits in its history (approximately PLN 226 million).

Performance of Petrobaltic

	2006	2007	2008
Volume of petroleum sold (tonnes in thousands)	247.9	208.8	227.5
Total incomes (PLN in millions)	424.4	377.7	480.8
Gross profitability	60%	50.40%	59.60%

Development

Petrobaltic

In 2008, Petrobaltic laid a strong foundation for the future development of the Company, namely a new development strategy. It was prepared when the global economy was operating in conditions that were diametrically opposed to the present situation. However, this does not change the aims or the strategic directions of the Company's operation. Nevertheless, it does require an adaptation of the strategy implementation pace to the economic environment, as well as an exceptionally careful economic analysis of profitability for all planned and executed investments.

The operation of the Company and its position in the structure of the LOTOS Group were strongly affected by the fact that Petrobaltic became the competence centre with regard to oil exploration and production for the whole LOTOS Group in 2008. This was related to Petrobaltic's taking over of the LOTOS Exploration & Production Norge company. Consequently, Petrobaltic became a sole shareholder and entered the Norwegian Shelf of the North Sea in compliance with the aims specified in the strategy of the Company and the LOTOS Group.

The main field of the Petrobaltic's production operation at present is the Baltic Sea. The Company is expanding outside the Polish economic zone; nevertheless, it focuses on this area of the Baltic Sea. Petrobaltic holds eight licenses for the exploration and study of the petroleum and gas fields and four licenses for producing hydrocarbons from the fields. The exploration and study licenses cover a total area of 8,054 km2 located mostly in the Eastern part of the Polish economic zone (one license for 924 km2 is situated in the Western part). In the areas covered by these licenses there are four oil fields and four gas fields.

In June 2008, the Minister of the Environment extended for three years the validity of the license for the exploration and study of the petroleum and gas fields in the 'Wolin' area, granted to Petrobaltic. The license is valid until June 2011. Moreover, the mining operation contract for the petroleum and gas exploration and production in the 'Wolin' area was extended by three years.

At present, Petrobaltic is producing oil from B3 and is preparing production from B8 object. The drilling in this field has provided promising forecasts as regards the available resources.

As part of the field development programme, which is a key element of Petrobaltic's strategy, the Company has been exploring resources in other fields and structures.

In 2008, Petrobaltic performed geochemical studies and at the end of the year started seismic studies in the following licenses: Gotland (object B23), South Gas (object B22), Łeba (object B101) and Rozewie (object B28).

The studies were completed in January 2009. The interpretation of the seismic tests will be the basis for developing geologic work projects that will determine the location of future drilling holes in order to confirm the presence of hydrocarbons in potential fields.

It is worth mentioning that the total outlays on exploration in 2008 exceeded PLN 50m and were the highest in the history of the Company.

In 2008, the process of the integration and consolidation of Petrobaltic with the services of Grupa LOTOS and other companies of the LOTOS Group radically accelerated. Petrobaltic became the centre of the division of all exploration and production and as a result, all the structures of the segment that had operated in Grupa LOTOS were moved to the Company. On the other hand, Petrobaltic transferred the financial operations of the Company to the Financial and Accounting Centre of Grupa LOTOS.

However, the Repair Section of Petrobaltic was sold to LOTOS Serwis company as an organised part of the enterprise. In all these cases, the transfer of the structures was also related to moving employees to the new companies. None of the employees lost their jobs due to these transfers.

LOTOS Norge

LOTOS Exploration and Production Norge AS, with its registered office in Stavanger, Norway, started its operation in September 2007. The Company was established:

- to obtain access to oil fields/production by acquiring projects that are closing the development phase or are almost in the production phase, and
- to participate in obtaining new exploration licenses, mostly within the licensing rounds on the Norwegian Continental Shelf.

Operation on the Norwegian Shelf

In 2008, employment in LOTOS Norge increased to 12 persons (as at the end of the year). The new employees are specialists (including former employees of the Statoil Concern) with experience in geology, exploration, drilling and development. The Company fulfilled all the formal requirements and in July 2008 obtained the ‘operator’ status from the Norwegian Ministry of Energy and Oil on the Norwegian Shelf. To provide the further development of operation and to finance the Company’s investments, it was recapitalized and received loans from Petrobaltic. By acquiring shares from Grupa LOTOS and recapitalizing the Company up to NOK 190m, Petrobaltic acquired 100% shares in LOTOS Norge and became the sole shareholder of the Company.

Production licenses

In 2008, LOTOS Norge made two acquisitions within the production licenses. As a result, it became the owner of 20% of the shares in the license encompassing the Yme field in the North Sea (PL 316 and PL 316B) together with an additional exploration area (PL 316CS and PL 316DS). The available resources of the Yme field estimated by the operator (Talisman) and corresponding to the 20% share of LOTOS Norge amount to 13.6m barrels (approximately 1,800 thousand tonnes). Production from the field is to commence in October 2009.

Exploration licenses

LOTOS Norge executed an agreement for the acquisition of 20% of the shares in the exploration license PL 455 encompassing an area of 1,365 square kilometres and located in the southern part of the Norwegian sector of the North Sea. As of 31 October 2008, after the fulfilment of preconditions, the transactions came into effect.

In December 2008, following the APA 2008 prequalification round, LOTOS Norge was granted shares in the following exploration licenses located in the southern part of the North Sea and in the Norwegian Sea:

- PL 497: LOTOS Norge – 10% shares,
- PL 498: LOTOS Norge (as the operator) – 25% shares,
- PL 503: LOTOS Norge (as the operator) – 25% shares, and
- PL 515: LOTOS Norge - 20% shares.

Plans for the future

Petrobaltic

In 2008, Petrobaltic generated record-breaking incomes and profits. However, the global economic crisis and the related dramatic fall in oil prices make a repetition of these results impossible in 2009.

Petrobaltic, as it has been mentioned above, is determined to continue its development strategy. Nevertheless, it has to be adapted to the present economic conditions. Therefore, an anti-crisis package was developed that includes four main elements:

- a pro-efficiency programme,
- a financial liquidity enhancement programme,
- a restructuring programme, and
- a human resources management programme.

By implementing the strategic aims and the tasks specified in the anti-crisis package, Petrobaltic intends to continue the exploration of hydrocarbon resources on its licenses. The Management Board of Petrobaltic is analysing several options of obtaining access to a new tool (a drilling rig) that would provide the performance of exploration work within the present structures, as well as the development and service of the already discovered hydrocarbon fields. Negotiations are being carried out with potential partners interested in developing the B4 and B6 gas fields located on the Petrobaltic's licenses.

When analysing the key events taking place in 2009 in Petrobaltic, it is noteworthy that in Q2 the value of the Companywas assessed by the consortium of BZ WBK, Budoserwis and the Institute of Mineral and Energy Raw Materials Management of the Polish Academy of Sciences, contracted by the Treasury. The Treasury, being a shareholder of Petrobaltic, holding a package of 30.32% of the shares, announced that it intended to contributethe package to Grupa LOTOS.

LOTOS Norge

In 2009 and in the consecutive years, the investment outlays on the Yme field are to be continued in order to start oil production (in October 2009) and to maintain it in the consecutive years according to the schedule. Moreover, work will be continued on obtaining 316DS/CS and PL 455 exploration licenses and licenses obtained during the APA2008 license round. Finally, new licenses will be pursued; therefore, the market will be monitored in order to acquire attractive projects and participate in future license rounds in Norway.

Operating Activities

Refining activity

2008 was a time of major challenges in the refining activity for Grupa LOTOS. On 1 January, the Act on biocomponents and liquid biofuels came into effect together with a Regulation by the Cabinet on the National Index Targets for 2008-2013. They imposed the obligation to apply biocomponents on entities launching fuels on the market. On the other hand, the approaching finalization of the 10+ Programme required employees to be prepared to take over and effectively operate the new production systems.

Production

In 2008, more than 6.2 million tonnes of petroleum were processed. Thus, it was another record-breaking year, with a growth of processing by 50 thousand tonnes compared to the previous year. This result, which was excellent from the technical point of view, was achieved in a year that was very difficult due to the global economic crisis and the slump in prices on the oil products market. The second half of 2008 was particularly hard; therefore, the processing of oil decreased in Q4.

The predominant raw material processed in 2008 was the Russian REBCO oil blend. However, the policy of diversifying the sources of raw material was continued by introducing new blends of oil from the North Sea – Volve and Aasgard. The Volve oil proved to be so interesting that in 2008 almost 300 thousand tonnes were received. Refineryof Grupa LOTOS became one of the key receivers of this new blend.

The production structure was being streamlined and adapted to the demand of the domestic market on an on-going basis, taking account of the observed price fluctuations. In 2008, the trend of shifting the demand from road fuels to diesel oils continued. Therefore, the production of gasoline decreased by 2% compared to 2007, while the production of diesel oil and aviation fuel increased by as much as 3.5% compared to the previous year.

2008 was a very important year for the policy of Grupa LOTOS in relation to the application of biocomponents. Due to the obligation of fulfilling the National Index Target, the refinery in Gdańsk almost exclusively produced fuels with the addition of biocomponents. Grupa LOTOS is the domestic pioneer and leader in the use of bioethanol, as it has produced the alcohol gasoline since 1999. Therefore, it has the relevant knowledge and experience, which has enabled it to commence the effective mass production of gasoline containing bioethanol. Also ethyl-t-butyl ester (ETBE) is applied in the production of gasoline, which is a partial equivalent to bioethanol.

As regards the production of diesel oil, the application of fatty acid methyl esters (FAME) posed a significant challenge. Grupa LOTOS started tests in this area already in 2006. They were continued in 2007, so as to provide the high quality of diesel oil produced with biocomponents in 2008. The preparations were successful and the transfer to the production of diesel oil with FAME commenced without any interruptions or problems in the fuel quality. In 2008, approximately 41 thousand tonnes of bioethanol, 54 thousand tonnes of ETBE and 136 thousand tonnes of FAME were produced and used at the refinery of Grupa LOTOS. Approximately 16% of methyl esters came from the plant in Czechowice-Dziedzice.

Finally, Grupa LOTOS achieved the index of biocomponent use of 4.02% in 2008, while the National Index Target amounted to 3.45%.

Production systems

2008 was the fourth consecutive year of the continuous operation of the refinery, which was the best result in the history of the plant, as historically, maintenance shutdowns had to be carried our more frequently. The longer intervals between overhauls had no negative impact on the availability of key systems – the use of the throughput of the crude distillation system amounted to 103.7% and the hydrocracking system to 104.7%.

2008 was also a year of intense preparation for the 'Spring 2009' Overhaul Down-Time. The overhaul will provide the opportunity to make a number of production connections between operating and new systems constructed as part of the 10+ Programme.

People are the refinery's strength

In 2009, the first systems constructed within the 10+ Programme will be commissioned. Such production facilities will have to be operated and controlled by qualified and efficient personnel. Therefore, Grupa LOTOS has been executing the 'Personnel 2009' programme to prepare its staff for the new systems. After the start-up of the systems, owing to the synergy effect and the construction of systems of the same type, it will be sufficient to increase the number of personnel only slightly to operate the refinery effectively with the throughput almost doubled compared to the present capacities.

Operational Excellence Programme

In the new configuration, i.e. after commissioning the systems constructed in the 10+ Programme, the refinery will become more flexible in the selection of raw materials and its operating regimes. However, this poses additional challenges to the management due to the required optimisation of production process management.

Therefore, Grupa LOTOS has performed the Operational Excellence Programme since 2008. The objective of the Programme is to develop optimum relations between individual key areas in the production structures: planning, process back-up, advanced process control, operational training and the operational level.

The Operational Excellence Programme is implemented systematically with the knowledge shared by key consultants from the refining sector. The Programme envisages the implementation of top world production standards in the refinery. A specialist team has been appointed to optimise individual production areas. The Programme activities also include the application of new IT tools developed by global software leaders for the refining industry.

Key achievements in research and development at Grupa LOTOS

In 2008, engine oils with 5% biocomponent additions were launched, the FAME additive was applied in diesel oils, while bioethanol and/or ETBE was applied in the production of gasoline.

The content of sulphur in the light diesel oil was reduced from 0.20% m/m down to max. 0.10% m/m. In 2008, the processes of certifying the oil plasticizers of reduced toxicity were continued with rubber and rubber product manufacturers.

With regard to lubricating products:

- recipes were developed for synthetic oils for industrial transmissions Transmil Synthetic, approved by Flender,
- a new group of LOTOS Quazar engine oils was launched after the approval by OEMs,
- new recipes were created for Hydromil Super L-HV hydraulic zinc-free oils, and
- the oil for car transmissions, Titanis Super GL-5 75W90, was launched.

In compliance with the REACH Regulation, Grupa LOTOS and its subsidiaries initially registered all the produced substances.

10+ Programme

The 10+ Programme is the principal project implemented within the strategy of developing the Refinery in Gdańsk, adopted by the LOTOS Group. In terms of scale and value, this is one of the largest investments executed in Polish industry until 2010.

The construction of the new oil distillation system as part of the 10+ Programme with the rated throughput of 4.5 million tonnes of oil per year corresponds to the strategy of the Polish Government towards the Polish oil sector. Its key aim is to provide energy safety to the state by guaranteeing the continuity of energy carrier supplies. The capacities of processing various blends of oil created at the refinery in Gdańsk, the availability of own resources and the close location of sea transhipping terminals contribute to greater power safety and diversification in the supplies of the raw material.

After the development of the systems included in the 10+ Programme, Grupa LOTOS will become one of the leading European refineries in terms of its processing potential and the technological capacities in processing crude oil, i.e. the production of market-attractive high-margin goods. This will allow for the long-term improvement of the competitive position of the refinery in Gdańsk and will create the basis for the Company's development for at least the next dozen years.

Funding the investment programmes

On 21 December 2007, Grupa LOTOS sent invitations to selected financial institutions to submit binding offers for funding the 10+ Programme. After that, a period of intense discussion with banks and financial institutions started (e.g. with SACE – the Italian agency of export credits).

In January 2008, Grupa LOTOS, in cooperation with its financial and legal consultants and bank advisors (in the following areas: market, technical, insurance and legal), responded to questions from banks concerning the analysis of data contained in the information package of the 10+ Programme (sent to the banks together with the above-mentioned invitation).

At the end of January, the Company started receiving binding offers from the banks with regard to funding the 10+ Programme. An initial offer was also presented by SACE.

In February 2008, the Extraordinary Shareholders' Meeting of Grupa LOTOS passed a resolution consenting to the collaterals allocated for funding the 10+ Programme.

Following the negotiations with individual institutions in March, the final composition of the financial institutions group was determined, to provide complete funding of the project and uniform commercial conditions (commissions, margins). Moreover, legal terms were determined. As a result, in April 2008 Grupa LOTOS signed a commitment letter with a group of banks, binding the institutions to grant the credit on agreed commercial conditions, including the term sheet providing basic formal and legal conditions of the future transaction. After that, negotiations continued over the detailed provisions of the credit contracts and the related financial documentation (including collateral agreements). The negotiations led to the execution of a credit agreement on 27 June 2008 for financing the 10+ Programme implementation and for the revolving capital of Grupa LOTOS (for USD 1.55 billion and USD 200 million respectively). The Calyon bank became the credit agent with Société Générale S.A. acting as the insurance agent.

Within the credit contract, Grupa LOTOS signed a sub-agreement concerning a credit tranche guaranteed by the Italian agency of export credits SACE (USD 425 million within the above-mentioned amount of USD 1.55 billion).

Executing the credit contract for financing the 10+ Programme together with a credit contract for stock financing (signed in December 2007) completed the provision of the full financing of Grupa LOTOS during the performance of the 10+ Programme.

After that, the conditions precedent for providing the credits for the 10+ Programme had to be fulfilled. In August, the conditions were fulfilled as required for the long-term crediting of the 10+ Programme and for the revolving credit of Grupa LOTOS. In September, the final precedent conditions related to the tranche of the credit guaranteed by SACE were fulfilled.

The first funds from the revolving credit and the commercial investment credit were received already in August 2008, while the first tranche from the credit guaranteed by SACE was received in October 2008. The next tranches, their deadlines and amounts depended on the current cash flow of Grupa LOTOS and the volume of outlays on the 10+ Programme. Banks paid the tranches of the credits in 2008 without any interruptions and in compliance with the applications submitted by Grupa LOTOS and based on information on the actual financial situation of the Concern.

At the same time, the collaterals for the credits’ repayment were provided (e.g. the notifications concerning the assignment of rights to the sale contracts, the hedging contracts and EPC contracts). In September 2008, Grupa LOTOS received the decision of the Gdańsk-Północ District Court on the entry in the register of the pledge on the set of assets and rights of the refinery in Gdańsk, which is one of the collaterals for the creditors of the 10+ Programme. In November 2008, Grupa LOTOS received from the District Court in Gdańsk the notification of the entry in the land and mortgage books of the total contractual deposit mortgage to the collateral agent, being one of the basic securities of the credits granted for funding the 10+ Programme.

As at 31 December 2008, the use of the credits granted for financing the 10+ Programme amounted to approximately 46%.

In 2009, further use of the credits for the 10+ Programme is forecast related and adjusted to the increasingly advanced execution of the Programme. The use of the credits will be accompanied by current and continuous performance of the obligations towards the creditors, pursuant to the credit documentation by Grupa LOTOS.

Contracting, design and building work

On 10 September 2008, Grupa LOTOS signed a contract for the construction of the ROSE system of the vacuum processing of heavy remnants with Technip Italy S.p.A., including the design, supplies of materials and equipment as well as technical consulting. Thus, the list of all main contracts for the performance of production systems included in the 10+ Programme has been completed.

Until 31 December 2008, the contractors had worked for 2,847 thousand hours. 3 minor accidents took place during the analysed period.

As at the end of 2008, the advancement of the whole 10+ Programme was according to plan and amounted to 56%, and it was as follows with regard to individual systems:

Hydrocracking Diesel Desulphurization (HDS)	87%
Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU)	59%
Hydrocracking (MHC)	54%
Hydrogen Generation Unit (HGU)	71%
Amine-Sulphur Complex (KAS)	78%
Heavy Vacuum Remnants Processing (ROSE)	9%
Auxiliary systems	38%

In compliance with the schedule, the building work of the vacuum processing system of heavy remnants (ROSE) is to commence in Q2 2009.

10+ Programme – 2008 Calendar

January

- Heavy Vacuum Remnants Processing (ROSE) – sending enquiries to potential contractors to confirm their participation in tender proceedings.
- Hydrocracking Diesel Desulphurization (HDS) – completing work and submitting the power supply of the system for final acceptance; underground utilities being constructed.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – signing a contract with Polimex Mostostal S.A. for building and assembling steel structures. Starting piling, foundation construction and the earthing system.
- Hydrocracking (MHC) – obtaining a building permit for the system.
- Hydrogen Generation Unit (HGU) – piling of the ground, ordering all key devices and machines.
- Amine-Sulphur Complex (KAS) – completing piling and laying foundations for the main trestle bridge.
- Auxiliary systems and infrastructure – announcing the tender for the electrical substation buildings.

February

- Hydrocracking Diesel Desulphurization (HDS) – the assembly of steel structures starts.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – signing a contract for the assembly of heavy devices with the Belgian concern SARENS.
- Hydrocracking (MHC) – the start of piling in the system area.
- Hydrogen Generation Unit (HGU) – completing the ground piling.
- Auxiliary systems and infrastructure
  - signing a contract with a contractor for the sewage treatment plant modernization (Biogradex – Holding Sp z o.o.)
  - commencing work related to the preparation of the site for the development of the nitrogen systems and the water and condensate system
  - obtaining a building permit for the construction of VR, DAO and diesel storage tanks.

March

- Hydrocracking Diesel Desulphurization (HDS) – signing a contract for the assembly of a 720-tonne reactor of the Hydrocracking Diesel Desulphurization system with SARENS.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – piling is completed and the construction of the underground utilities systems starts.
- Hydrogen Generation Unit (HGU) – piling is completed and the construction of the underground utilities systems starts.
- Amine-Sulphur Complex (KAS) – piling is completed and the construction of the underground utilities systems starts.
- Auxiliary systems and infrastructure
  - the start of constructing the foundations for the new inter-facility trestle bridges,
  - signing a contract for the construction of a 10-kilometre-long pipeline to the port, the start of work on the construction design of the pipeline, and
  - the start of constructing the VR, VGO and pisolite gasoline storage tanks.

April

- Heavy Vacuum Remnants Processing (ROSE) – the revision of the base project received from KBR.
- Hydrocracking Diesel Desulphurization (HDS) – the assembly of heavy devices starts –mounting the furnaces.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – signing a contract for the performance of electrical work, control, automatic systems and telecommunication.
- Hydrogen Generation Unit (HGU) – the assembly of the furnace-reformer starts.
- Amine-Sulphur Complex (KAS) – the foundation work starts on the LPG AWU system, the commencement of the supplies of pipeline materials.
- Auxiliary systems and infrastructure
  - the selection of contractors for the development of the electrical substation and the medium and low voltage cable networks.

May

- Hydrocracking Diesel Desulphurization (HDS) – the prefabrication of pipelines starts.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – the assembly of steel structures of internal trestle bridges begins.
- Hydrocracking (MHC) – the visit of the representatives of Grupa LOTOS and Technip at the producer of the reactors and compressors; foundation work starts.
- Hydrogen Generation Unit (HGU) – the construction of foundations, the slope and electrical conduits and the oil sewage systems.
- Amine-Sulphur Complex (KAS) – the construction of foundations is completed; the first supplies of pipeline materials.
- Auxiliary systems and infrastructure
- signing a contract for the supplies and assembly of steel structures of the new and modernised trestle bridges and the LPG system, and
  - signing a contract for the development of the electrical substation and the medium and low voltage cable networks.

June

- Heavy Vacuum Remnants Processing (ROSE) – executing a preliminary agreement with Technip Italy for the technical project and supplies.
- Hydrocracking Diesel Desulphurization (HDS) – the final phase of building work on cable ducts and trays.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – continuing work on the assembly of steel structures of internal trestle bridges and racks; the work on underground utilities is continued.
- Hydrocracking (MHC) – piling at the system site is completed; the first work on the underground utilities; the start of preparations for piling the storage site and erecting the reactors.
- Amine-Sulphur Complex (KAS) – the construction of foundations is completed, the start of deliveries and assembly of devices.
- Auxiliary systems and infrastructure
  - signing a contract for the construction of a new nitrogen system, and
  - piling is completed and the start of foundation work on the diesel oil storage tanks.

July

- Heavy Vacuum Remnants Processing (ROSE) – work is started on the system design (Technip Italy).
- Hydrocracking Diesel Desulphurization (HDS) – building work is completed on the cable ducts and trays; exceeding 50% advancement of the HDS system project.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – prefabrication of pipelines begins.
- Hydrocracking (MHC) – piling is completed at the reactor storage site; a pressure test at the producer of the 0930R1A reactor (Grupa LOTOS representatives participate).
- Hydrogen Generation Unit (HGU) – completing the assembly of the internal trestle bridge.
- Amine-Sulphur Complex (KAS) – building of foundations and underground systems is completed; the assembly of the main system trestle bridge structure; exceeding 50% advancement of the total KAS project.
- Auxiliary systems and infrastructure
  - the first deliveries of materials for the construction of the pipeline system between facilities,
  - building the foundation of the VR, VGO and pisolite gasoline storage tanks, commencing the assembly of steel coating on VR and VGO tanks, and
  - completing the final acceptance and pressure tests of the underground network systems: cooling water, fire, sewage system – the first production system of the 10+ Programme is completed
- Providing the Technology Division with the scope of work to be performed during the SPRING 2009 overhaul due to the requirements of the 10+ Programme.

August

- Heavy Vacuum Remnants Processing (ROSE) – obtaining the first design documentation from Technip Italy.
- Hydrocracking Diesel Desulphurization (HDS) – the complex assembly of the 720-tonne reactor is completed.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – building work and the underground utilities are continued; the pipeline prefabrication commences; laying a fire protection layer on steel structures.
- Hydrocracking (MHC) – the start of deliveries and prefabrication of underground pipelines.
- Hydrogen Generation Unit (HGU) – the delivery of a chimney (in four parts), preparing the chimney for assembly.
- Auxiliary systems and infrastructure
  - starting work on the building designs: the water conditioning station, the nitrogen production plant, the hot cooling water system and the demineralised water tank,
  - presenting design solutions for the whole route of the Port-Refinery pipeline to PERN [R7].

September

- Heavy Vacuum Remnants Processing (ROSE) – signing a contract for the production design and deliveries with Technip.
- Hydrocracking Diesel Desulphurization (HDS) – continuing the prefabrication and assembly of pipelines and the performance of the fire protections of the trestle bridge structures.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – deliveries start of devices and equipment.
- Hydrocracking (MHC) – the acceptance control of the 930 R1A/B reactors at the Italian producer (Belleli) together with the licensor (SGSI), is completed with a positive result.
- Hydrogen Generation Unit (HGU) and the Amine-Sulphur Complex (KAS) – the erection of two chimneys (h=80 m); exceeding 50% total advancement of the hydrogen production system project.
- Auxiliary systems and infrastructure
  - the start of building work on the modernization of equipment in the power substation supplying new systems, and
  - the start of building work (piling) at the Water Department.

October

- Heavy Vacuum Remnants Processing (ROSE) – the start of work on the building design.
- Hydrocracking Diesel Desulphurization (HDS) – laying cables and electrical fittings commences.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – exceeding 50% advancement of the distillation unit project.
- Hydrocracking (MHC) – electrical work of the underground system starts: the earthing and cathodic protection systems; the visit of Grupa LOTOS representatives at the manufacturer of the R2 and R3 reactors (GE/Nuovo Pignone) in Florence in order to verify the compliance of work advancement with the schedule.
- Hydrogen Generation Unit (HGU) – continuing the furnace-reformer construction assembly.
- Amine-Sulphur Complex (KAS) – the assembly of the main trestle bridge structure is completed.
- Auxiliary systems and infrastructure
  - completing the building work on the two main power facilities, and
  - the start of ground work and the assembly of the pipelines to the Port [R7] at the site of Grupa LOTOS.

November

- Hydrocracking Diesel Desulphurization (HDS) – laying cables and electrical fittings commences.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – the construction of foundations is completed; the start of deliveries of parts and the assembly of the furnace housing and the chimney sections.
- Hydrocracking (MHC) – the initial assembly of air coolers begins; exceeding 50% advancement of the hydrocracking system project.
- Hydrogen Generation Unit (HGU) – the start of laying electrical cables.
- Amine-Sulphur Complex (KAS) – the start of laying electrical cables.
- Auxiliary systems and infrastructure
  - laying power cables is completed.
- The assembly of the pipeline to the port [R7] at the site of Grupa LOTOS is completed, exceeding 50% advancement of the work on the 10+ Programme.

December

- Heavy Vacuum Remnants Processing (ROSE) – signing a contract for the delivery of the ROSE-MAX packages with Kellogg Brown & Root Inc.
- Hydrocracking Diesel Desulphurization (HDS) – completing work on the fire protection of the trestle bridge and apparatus structures.
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – completing design work in specific disciplines; erecting the 80-metre-high chimney operating for both furnaces on the foundation.
- Hydrocracking (MHC) – the start of the internal trestle bridges assembly.
- Hydrogen Generation Unit (HGU) – completing design work in specific branches and the commencement of laying electrical cables and the control and automatic cables.
- Auxiliary systems and infrastructure
  - completing the foundation work for the boiler water system, the demineralised water tank and the fuel gas system, and
  - completing the assembly of steel coats of the four tanks of the VR and VGO heavy fractions.

In 2009, the first new systems executed in the **10+ Programme** will be accepted. First (at the end of May), the Hydrocracking Diesel Desulphurization (HDS) system is to be commissioned. At the same time, the following auxiliary systems and infrastructure required for the HDS system will be completed:

- the amine system,
- the acid water striper,
- the cooling water,
- the discharge system,
- the inter-facility connections, and
- the nitrogen system.

In the following months, the following systems are to be commissioned:

- the hydrogen production system in September 2009,
- the sulphur recovery system in September 2009,
- the Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) in October 2009.

According to the schedule, the following systems are to be completed by the end of 2010: the Hydrocracking (MHC), the Heavy Vacuum Remnants Processing and other auxiliary and infrastructure systems.

The 10+ Programme is the key project executed by Grupa LOTOS. Therefore, the Company carries out the systematic analysis of risks and implements the resulting measures aimed at the safe and timely construction and start-up of the new and modernised systems.

The global economic crisis, in spite of the related hazards, has not impacted the present course of the **10+ Programme.** The investment is being executed without any interruptions.

Other investments

The investment activity of Grupa LOTOS in 2008 focused on the performance of the 10+ Programme. A number of smaller projects were executed outside the 10+ Programme related to the enhancement of efficiency, safety and the performance of assets and ecological investments (e.g. the air-tight sealing of tanks of the sewage treatment plant at the refinery in Gdańsk).

The companies of the LOTOS Group continued investments related to the strategic directions, i.e. the development of oil production on the Baltic Sea, the development of the retail fuel sale network, the extension of the fuel logistic base and the management of assets in the southern companies. Moreover, investments were started aimed at entering the JET fuel supplies market at Polish airports and creating real competition for the dominant position of Petrolot.

Natural gas

In cooperation with PGNiG and Pomorska Spółka Gazownictwa, a medium-pressure natural gas pipeline was conducted to the refinery in Gdańsk and a gas compressing station was constructed to feed the refinery's fuel gas network. Natural gas has replaced the propane-butane produced at the refinery, which was utilised in the furnaces. As a result, an additional 9 thousand tonnes of LPG were sold on the market, the processing costs were reduced by PLN 4m and the CO2 emission into the atmosphere was reduced.

Modified bitumen tank

In order to increase the availability of modified bitumen at the peak of the road-work season (usually in the autumn), a storage tank was constructed on the system of LOTOS Asfalt in Gdańsk of a capacity of 1,000 m3. This will enable the enhanced utilization of the throughput at the bitumen modification system. It will also fulfil the growing demand for modified bitumen, which are used more and more commonly to produce pavements on the most loaded sections of roads, e.g. on motorways, fast roads, crossroads and bridges. The tank will be used upon the start of the bitumen oxidation system after the overhaul down-time in spring 2009.

Key investments in the companies of the LOTOS Group

Petrobaltic

The B8-Z1 bore hole was performed on the B8 field, which will enable the performance of a production test and the recalculation of the field resources. Based on the available information on the field, the Company has concluded that it has good prospects for production.

The cycle of seismic work started on the B23 and B28 structures (in 3D) and on B22 and B101 structures (2D). The seismic tests will enable further recognition of the potential hydrocarbon resources and the optimization of the exploration risk.

LOTOS Paliwa

The development of the station chain was continued in the CODO formula (company-owned stations) and the DOFO system (franchise-operated stations). 7 new stations joined the Company's CODO network (Warszawa, Szczecin, Bydgoszcz, Kraków, Strzeszowice, Radzymin and Zegrze) and 13 new stations the franchise network (Trzebiel, Kotlin, Bartoszyce, Dębica, Włodawa, Cieszyn, Zwoleń, Kórnik, Gronowo Górne, Lublin, Żabno, Rusiec and Ostrowiec Świętokrzyski).

In 2008, LOTOS Paliwa won the tender for 6 Service Areas along the A2 and A4 motorways. In 2009, LOTOS fuel stations, McDonald's restaurants and hotels will be constructed at the Service Areas.

LOTOS Tank

The construction of the aviation fuel base commenced at the Lech Walesa Airport in Rębiechowo near Gdańsk. In 2009, LOTOS Tank will become the second (in addition to Petrolot) fuel operator at this airport. The construction of the base marks the expansion of Grupa LOTOS on the market of aviation fuels. The facility is being constructed as part of the first stage of the strategy providing for the construction of a permanent fuel distribution channel. It contributes to the strategy of the LOTOS Group, which includes the increase of aviation fuel sales in Poland and a major increase of the market share.

LOTOS Biopaliwa

The construction and start of the FAME system for the production of engine fuel biocomponents was completed. The design capacity of the system amounts to 100 thousand tonnes of esters and 12 thousand tonnes of technical glycerine per year.

The general contractors of the investment were MAN Ferrostaal AG Essen Germany (the production part) and Prochem S.A. Warsaw (the infrastructure). The system comprises six production units: cleaning (raw material standardization), alcohol neutralization, transestrification, methanol recovery, acid estrification and glycerine evaporation. The basic production process is conducted at a normal pressure, a temperature of approximately 60°C and is based on the CD Process licence. The main raw materials are rape-seed oil and methanol.

The quality of the produced FAME complies with the requirements of the PN-EN 14214 standard, while for some parameters (the acid value, water content, contamination and glycerols) it exceeds the standard. FAME is used as an additive in producing diesel oil (biodiesel) and is sold as a self-contained engine fuel (B100). This production will enable Grupa LOTOS to fulfil the National Index Target with regard to the application of biocomponents in fuel production.

Logistics

LOTOS Jasło and LOTOS Czechowice continued investments in the development of the tank depot and in increasing the storage and fuel distribution capacities. Both these companies of the LOTOS Group are to focus on logistics and the storage of obligatory stocks.

LOTOS Czechowice constructed a tank for the storage of diesel oil of a capacity of 32 000 m3, while 6 tanks of a total capacity of 6000 m3 were modernised. LOTOS Jasło modernised 6 tanks of a total capacity of 23,000 m3 used for the storage of diesel and heating oils.

LOTOS Jasło constructed a line for the granulation of polyolefine wastes to recycle waste containing polyethylene. The polyethylene granulate produced on the line is sold as the raw material for producing PE foil and other products. The throughput of the line amounts to approximately 4 thousand tonnes of waste per year, used to produce approximately 300 tonnes of granulate per month.

Operation maintenance and overhauls in 2008

As regards maintenance and overhauls, the most outstanding achievement was the provision of the operation of basic production and auxiliary systems on the availability level exceeding 99%, which ranks Grupa LOTOS among top European refineries.

The safe and stable operation of the production and auxiliary lines was achieved by providing a high level of production operation, a systematic raising of staff qualifications, implementing modern work organization methods and information flow, introducing the principles of project management in executing modernization projects and overhauls and the development of prophylactic measures and the prevention of technical failures.

The performance of the above tasks was combined with streamlining overhaul and maintenance costs with the assumption of the maximum use of potential of the companies in LOTOS Group.

Parallel to the current maintenance and overhauls, work was continued on preparations for the ‘Spring 2009’ Overhaul Down-Time, i.e. the complete shutdown of the production lines for regular repairs due to the connection of the systems constructed in the 10+ Programme. The ‘Spring 2009’ project includes the scope of work to be performed, contracts signed with general contractors and the schedule of work. Together with the service contracting processes, materials and equipment were procured as required for replacements.

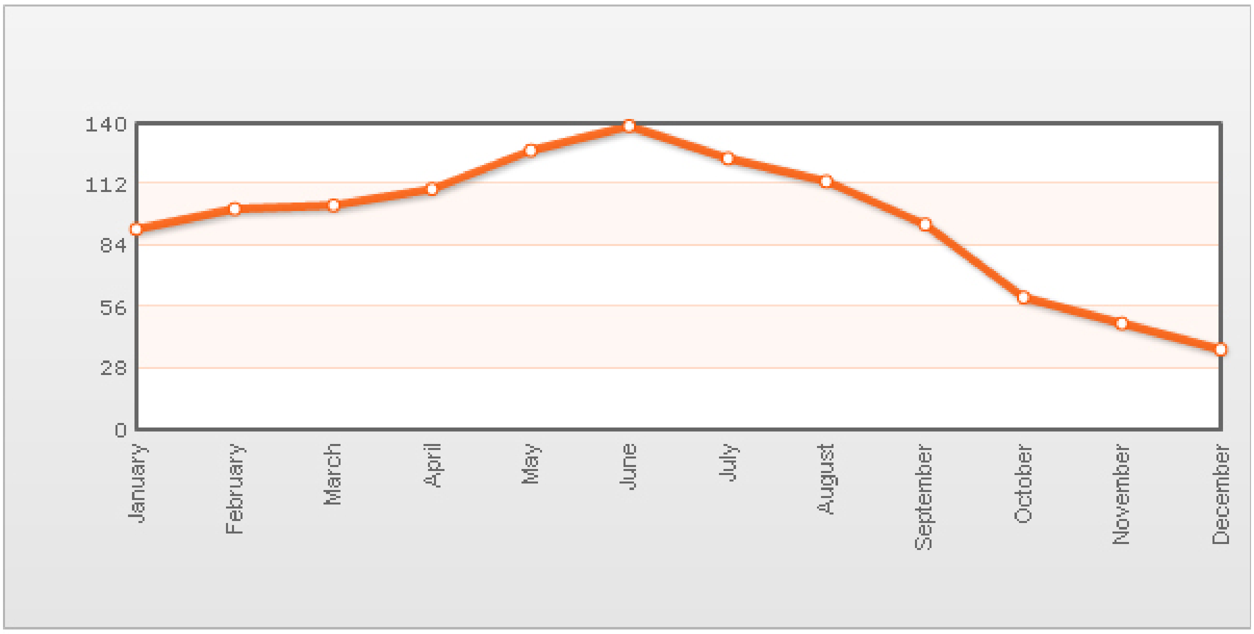
Market Activities

Market environment

International market

The global economic indices show that 2008 was another year of global economic growth. However, the development was not steady, as already at the beginning of the year the first symptoms of the economic slump occurred. In the second half of the year, the financial crisis started to impact other sectors of the economy. On the oil market, this phenomenon was reflected by a falling demand for oil, which caused an insignificant surplus on the market accompanied by a small growth in supply. As a result, oil prices fell from the record level of USD 140 to approximately USD 35 per barrel.

Average monthly quotations of petroleum in 2008 (USD/bbl)



In spite of the excess supply of gasoline on the European market for several years, the prices of the product achieved record amounts after the first three quarters. The cracks were on average below the levels from 2007, which resulted from falling demand on the American market (the United States consume 45% of global gasoline) in relation to imports from Europe, the strong growth in demand in Russia and China and a low USD exchange rate.

The increasing demand for diesel oil in Europe, as well as in Russia and China, caused the growth in prices of this fuel and its cracks. The demand for diesel oil was generated mostly by the transport sector, which relies to a large extent on the development of trading. The consumption of diesel oil was also increased by the popularization of diesel engines in Europe.

In the first half of 2008, record prices for cracks of aviation fuel were achieved. Nevertheless, the fourth quarter saw a significant fall in prices and margins caused by falling demand for aviation fuel.

Experts forecast that the global oil market in 2009 will be characterised by a further fall in demand due to the economic recession. The scale of changes and the prices of raw materials and products will be determined by the growth rate in China, India and Russia, the USD exchange rate and the supply side, which is characterised by geopolitical instability and financial problems, which make production projects difficult.

Poland – macroeconomic market

The first half of 2008 was characterised by a more dynamic increase in employment than in 2007, more than a 7% salary growth and falling unemployment. The favourable economic situation contributed to more than a 6% GNP growth in the first two quarters, resulting primarily from increasing consumption and investments.

However, the Polish economy started to feel the effects of the global financial crisis. The economic growth rate in 2008 was slower than in the two previous years and the fall in its dynamic occurred mostly in Q4. In spite of the apparent symptoms of the economic slump in the second half of the year, Poland belonged to the countries with the highest GNP dynamic in the European Union.

In spite of the visible signs of the slow-down, it is anticipated that the Polish economy, driven by individual consumption and relatively low dependence on exports, will develop quicker than the economies of other countries in the region.

Polish fuel market

The consumption of fuels in 2008 stabilized at the level from 2007. However, some changes in individual product groups took place.

The share of Grupa LOTOS in the fuel market amounted to 25.4%, which implies a 1.4% increase compared to 2007.

Diesel oil

The consumption of diesel oil in Poland keeps growing systematically. After a two-year increase at 20% per year, 2008 witnessed a rise by another 4.3%. It is forecast that the growing trend will be maintained in the following years. The main premises for the increase include the development of road transport and modern technologies that provide improved operating parameters of diesel engines.

Gasoline

The gasoline market in Poland is in its mature phase. In 2008, gasoline consumption fell by 4.7% compared to 2007. According to the forecasts for the consecutive years, a minor falling trend will continue; however, gasoline consumption will remain at a very high level. This situation is related to the popularity of gasoline cars, the prices of which are lower than diesel cars. An important factor is also a levelling of the retail prices of gasoline and diesel oil.

Light fuel oil

The consumption of light fuel oil has been falling systematically in Poland for several years due to the growing importance of other energy sources that are relatively cheaper. It is anticipated that light fuel oil consumption will continue decreasing in the following years.

LPG

LPG consumption in Poland fell by 3.2% in 2008 (data of POPiHN – the Polish Organization for Oil Industry and Trade). It was the second consecutive year that the consumption of this product fell. The Polish LPG market has entered its phase of maturity. This means that in stable market conditions (e.g. the relation of prices compared to other fuels) its consumption will be maintained at the same level, with possible low fluctuations.

Aviation fuel

The market of aviation fuel has developed most dynamically among all segments of the Polish economy. However, due to the global crisis, the demand growth dynamic has clearly fallen. In 2008, only 0.4% more aviation fuel was used in Poland than in 2007. The number of passengers served in Polish airports (exclusive of transit traffic) increased by 8% in 2008 (according to the Civil Aviation Office). It is estimated that the aviation fuel market will continue growing and its dynamic in the years to come will depend on the economic situation.

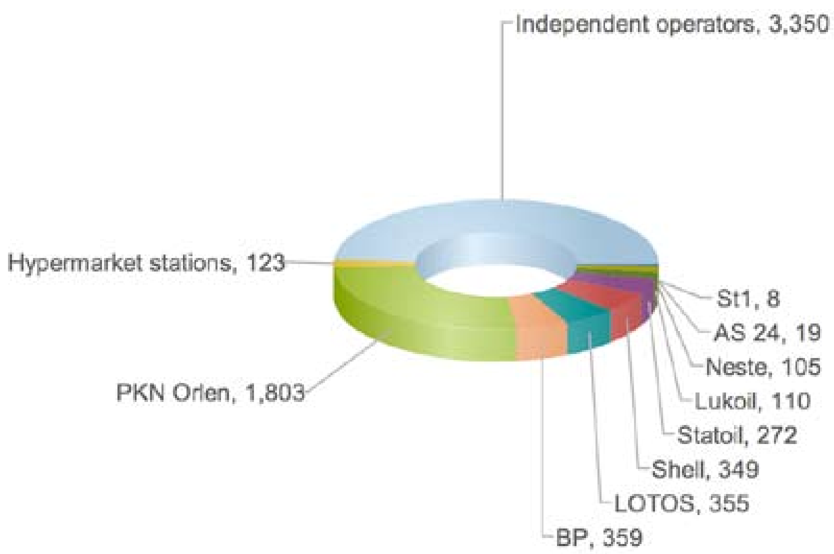
The share of Grupa LOTOS in aviation fuel consumption in 2008 amounted to 19.5%.

Retail market

The Polish fuel market is in a segmentation phase that involves a clear distinction between premium and economy stations. In 2008, the further development of foreign concern station networks and hypermarket stations was observed. The networks of Polish concerns underwent streamlining processes that involved the expiration of franchise contracts. In 2008, the players of the motorway station market were more active, as this market witnessed the development of the premium segment. In the following years, the number of stations will change, primarily due to the development of the road network in Poland and the optimization of the networks owned by key players.

The share of Grupa LOTOS in the retail fuel market in 2008 amounted to 6%.

Fuel stations in Poland as at 31 December 2008



Domestic consumption of liquid fuels

Non-fuel products

Bitumen

The market of bitumen in 2008 weakened slightly compared to 2007 due to delays in tender procedures for road construction. However, taking account of government plans, it is forecast that the Polish market of bitumen will continue growing. The 'National Road Programme 2008-2012' strategy of the Polish Government confirms the planned investment outlays on the construction of approximately one thousand kilometres of roads. In total, the Government intends to spend 120 billion PLN on the construction and modernization of roads.

Grupa LOTOS has a 45% share in the bitumen market.

Lubricating oils

The use of lubricating oils in Poland fell in 2008 by approximately 1% compared to 2007. It is estimated that a similar falling trend will continue in the following years. The demand for oils and lubricants for the industry is decreasing, which was evident already in the second part of 2008. An important change on the market of lubricating oils is the growing demand for oils of high production parameters.

The share of Grupa LOTOS on the lubricating products market amounts to 30%.

Paraffin

In the first half of 2008, the paraffin market was strongly affected by shortages of raw materials (slack wax) and the related increase in prices. It is forecast that the prices of raw materials, paraffin and industrial paraffin masses will feature a growing trend; however, with a much lower dynamic than in the previous periods.

Activity of the LOTOS Group

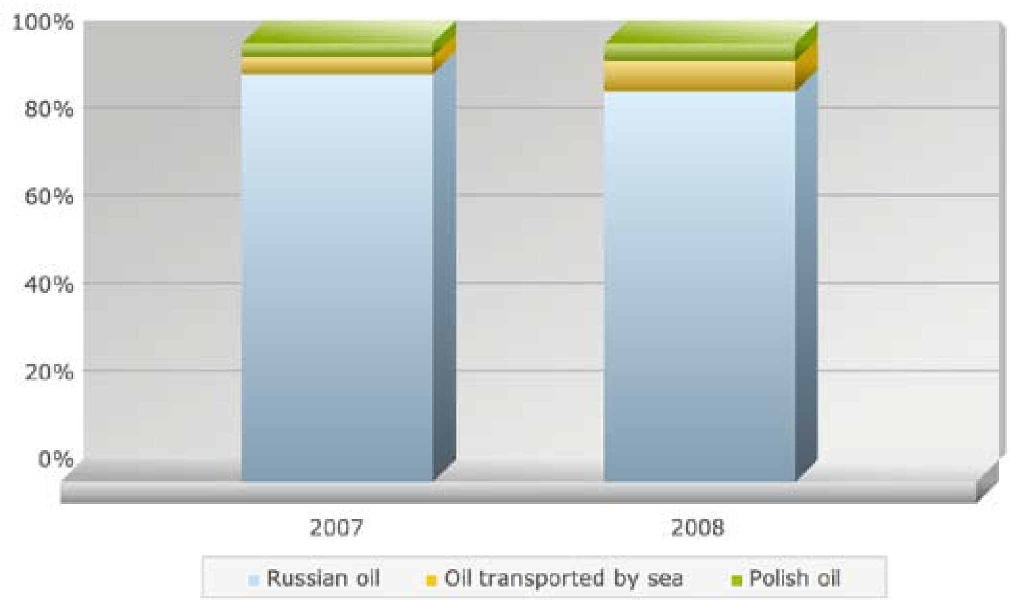
Commerce organization in the LOTOS Group

The trading activity of the LOTOS Group is conducted both in the parent company and in the subsidiaries. The functional division is as follows:

- Trading services of Grupa LOTOS organise the sales of fuels to key accounts and export and intra-community supplies of oil products, and they buy raw materials, components and goods for resale.
- LOTOS Paliwa runs the retail and wholesale of fuel all over Poland.
- The core business of LOTOS Gaz is LPG trading.
- LOTOS Oil is involved in the production and distribution of lubricating products: finished oils, automotive and industrial lubricants and base oils.
- The operation of LOTOS Asfalt includes both production and trading; the Company's business covers road and industrial bitumen, as well as bitumen emulsions and glues and heavy fuel oil.
- LOTOS Parafiny produces and sells premium quality paraffin and a wide range of paraffin masses; the Company's products also include paraffin accessories for the retail market.

Oil procurement

The structure of oil purchases



In 2007-2008, Grupa LOTOS aimed at increasing the share of oil transported by sea in the total structure of procurement of this raw material.

In the total volume of oil processed in Gdańsk, the largest share is held by the REBCO blend oil from Russia (89%). As regards the oil delivered by sea, 75% of the total volume is Volve, while the Polish oil is only the Rozewie blend produced by Petrobaltic.

Intra-community imports and procurement

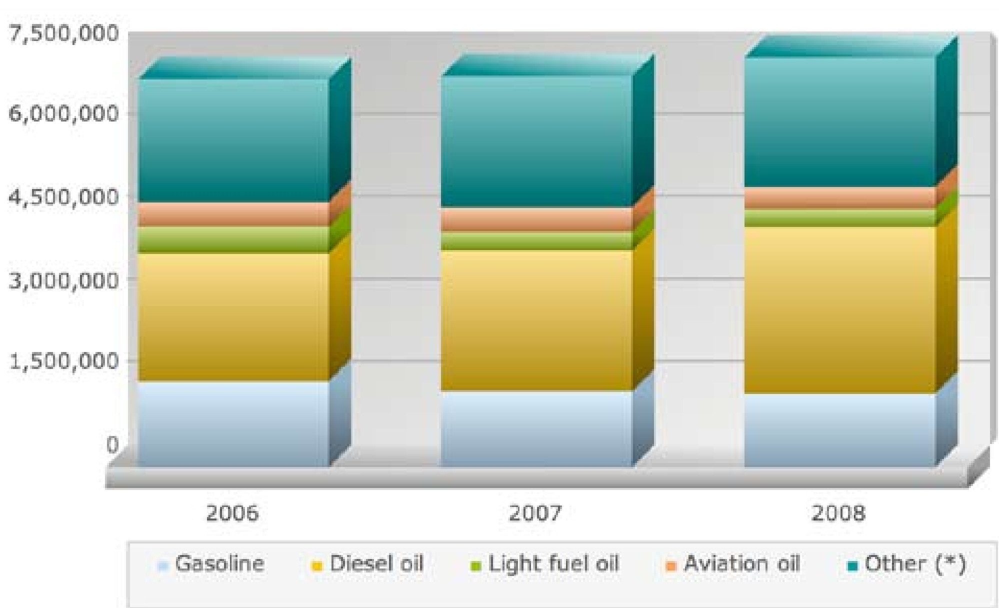
In 2008, a major challenge for the trading services of Grupa LOTOS was the import of oil products. The dynamically growing demand for diesel oil on the domestic market resulted in a record import of medium distillates, mostly diesel oil and components for the production of light fuel oil. Apart from the imports from Scandinavia that started in previous years, in 2008 for the first time, products were imported from Germany on such a large scale by land transport. It provided the further optimization of logistic costs, the growth of Grupa LOTOS on the domestic market and the preparation for increased sales of diesel oil from own production after completing the 10+ Programme.

Sales of oil products

In 2008, the LOTOS Group sold more than 7.5m tonnes of oil products, i.e. recorded a 6% growth compared to 2007.

More than 70% of the sales volume (5.4m tonnes) was liquid fuels: gasoline, diesel oil, light fuel oil, LPG and aviation fuel. A particular sales growth was recorded in diesel oils (by 18%) and aviation fuel (by 11%). It was also the consecutive year of falling sales in light fuel oil and gasoline, which reflected the trends observed on the domestic market.

Total sales of the LOTOS Group (tonnes)



* *Heavy fuel oil, bunkering oil, lubricating oils, liquid gases and asphalts*

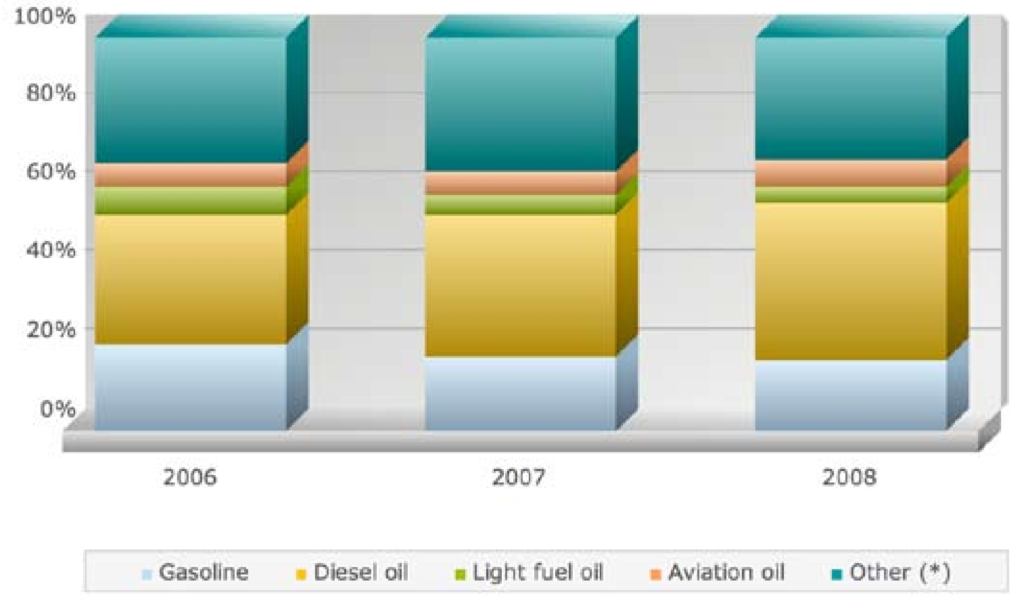
Diesel oil is the basic product offered by the LOTOS Group, comprising more than 1/3 of total sales. The share of diesel oil in total sales increases annually.

The developing area of the LOTOS Group's operation is sales of **aviation fuel**, with the share in total sales significantly growing due to the development of air transport and the short supply of this fuel on the European market.

On the other hand, there is a visible fall in sales of **gasoline**, as its share fell from 22% in 2006 to 18% in 2008. This is a symptom of the continued popularity of cars with diesel engines.

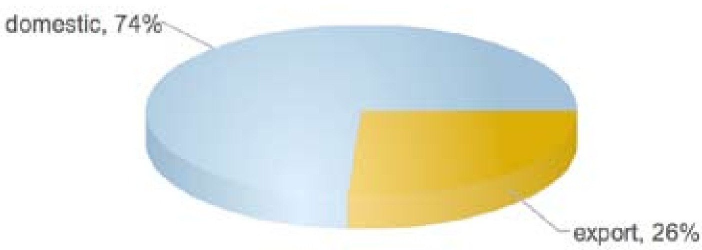
The share of **light fuel oil** has also decreased in the sales of Grupa LOTOS, reflecting the global trends that result from interest in other energy sources.

Structure of sales



* *Heavy fuel oil, bunkering oil, lubricating oils, liquid gases and bitumen*

Directions of sales in the LOTOS Group in 2008



In 2008, the LOTOS Group sold 74% of its total sales on the domestic market. Diesel oil accounted for more than 50% of this figure, with the share increased by 5% compared to 2007. The share of gasoline, as well as light and heavy fuel oils, fell. The share of lubricating oils and aviation fuel was maintained at the same level for two years.

More than 26% of the global production volume in 2008 was exported. As in 2007, a significant share of exported sales involved heavy fuel oil and aviation fuel (in 2008, the total share of these two products exceeded 45%). A high share of sales was maintained also in asphalts, bunkering fuel and gasoline (the total share of these products in 2008 amounted to almost 35%). As regards gasoline, like on the domestic market, there was a drop in sales by 2%.

Fuel sales

On the domestic market, the primary customer groups include:

- retail customers (via the fuel station chain),
- international oil concerns,
- institutional clients,
- agents on the fuel market, and
- station operators.

2008 was another consecutive year of strengthening the market position of the **LOTOS station chain** and its optimization, aimed at providing improved customer service and the higher values of sales.

In the premium station segment, there were 139 stations as at the end of December. The LOTOS Family Trading Partnership network encompassed 79 stations at the end of 2008. The number of LOTOS patronage stations (DODO) decreased as planned, as a result of the Concern's policy concerning LOTOS fuel stations. The DODO stations that fulfil the required conditions and quality criteria can join the partnership (DOFO) system.

The number and structure of the LOTOS station chain

	2006	2007	2008
CODO stations	132	133	139
DOFO stations	57	71	79
DODO stations	209	175	137
TOTAL	**398**	**379**	**355**

The whole chain of LOTOS stations has recorded a significant and continued growth in fuel sales. In 2008, the generated sales were higher by 13% than in 2007. The increase in the daily average sales at LOTOS-owned (CODO) stations amounted to 15% (December to December). According to the market trends, diesel oil accounted for most of the growth, of which sales in 2008 were more than 25% higher than in 2007.

Apart from the standard fuel products, LOTOS stations offer LOTOS Dynamic fuels that are characterised by top quality parameters. LOTOS Dynamic fuels feature a unique production formula. They contain special additions that reduce friction in the engine, have a positive impact on the engine dynamic, reaction time and the use of its power. They protect engines against the formation of sedimentation on valves and in the injection system. Moreover, they protect tanks and fuel systems against corrosion. The LOTOS Dynamic diesel oil guarantees the maintenance of high technical quality parameters even at -33°C. The LOTOS Dynamic fuels are appreciated by experts and users, which has been confirmed by many awards and distinctions.

Promotional campaigns definitely increased the sales of fuels. In 2008, apart from the image promotion, advertising campaigns for LOTOS Dynamic and the Navigator programme were conducted.

The promotion of the Dynamic fuels in 2008 included the participation of the brand in the KIA LOTOS Cup races.

The loyalty Navigator programme at LOTOS stations encourages customers to purchase premium products at attractive prices. In the first edition of the programme, almost one million magnetic Navigator cards were distributed. Regular promotions of goods are conducted at LOTOS stations, supported with additional points in the Navigator programme. It is expected that these programmes will increase the dynamic of non-fuel goods sales to about 10% (year to year).

A supplement to the offer of the petrol stations is the service of fleet cards for corporate customers, including the special fleet card of the LOTOS Business programme and cards of other card operators (DKV, UTA, WOG, ESSO and MAGISTRAL). In 2008, the sales to corporate customers featured:

- exceeding sales projections by 30%,
- launching commercial operations in Lithuania, Latvia and Estonia, and
- developing cooperation with domestic transport associations.

Together with the segmentation of the retail market, the importance of the non-fuel offer is increasing. It constitutes an important element of the offer and has a major impact on the perception of the station chain. The year 2008 witnessed significant changes in this regard at the stations:

- modern coffee corners were installed,
- the mini-catering facilities were upgraded,
- the Dynamic power drink was launched, and
- car cosmetic products were introduced as bonuses in the Navigator loyalty programme.

An important event in 2008 for the development of the LOTOS station network was winning the tender for the construction and operation of Service Areas for six out of fourteen complexes located on motorways (two stations on the A2 and four on the A4). Apart from the fuel stations with the necessary infrastructure (utilities, car parks and landscaping), there will be six McDonald’s restaurants and two hotels erected at the Service Areas.

The comprehensive offer for **institutional customers** includes: a large selection of products (diesel oil, gasoline, light fuel oil and AdBlue), as well as the investment-trading cooperation concept (LOTOS Diesel Service). The sales take place in three market segments:

1. **Key accounts**

- companies in the road construction business,
- entities involved in industrial building, and
- other firms operating on the whole domestic market.

2. **Tender customers purchasing fuel in public procurement procedures**

- municipal communication plants,
- inter-city communication enterprises, and
- other industrial businesses supplied under tender procedures.

3. **Other end customers**

- buyers of diesel oil and other engine oils used in the operation of own fleets (transport, industry and agriculture), and
- buyers of light fuel oil used for heating or production (industry, services and farms).

The LOTOS Group also sells fuels to **B2B** customers who are not end consumers. The receivers are independent fuel stations and agents. The customer portfolio in this segment is diversified in terms of certainty and volumes so as to achieve the most beneficial margins. In this distribution channel, Grupa LOTOS has several dozen strategic customers and a great many independent stations and wholesale intermediaries operating all over Poland.

National Index Target implementation

2008 was the first year of fulfilling the obligation related to the National Index Target, resulting from the Act of 25 August 2006 on biocomponents and liquid fuels. It obliges fuel producers to add biocomponents to fuels sold or used for own needs. The Cabinet of the Republic of Poland determined the value of the index at 3.45% of the minimum biocomponent content in liquid fuels, expressed in energy values as specified in separate regulations.

Grupa LOTOS achieves the National Index Target by maximising the sales of fuels with biocomponents, maintaining a 5% threshold of acceptable ethanol or ethyl ether content in gasoline or fatty acids methyl esters in diesel oil.

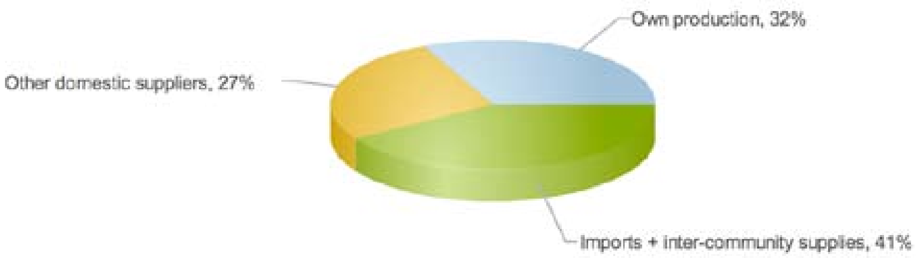
Biocomponents are purchased from domestic producers or on the inter-community market. An important event was the launch of the FAME production system in May 2008. The system was constructed in Czechowice-Dziedzice with the infrastructure and potential of the LOTOS Group companies operating there. The system, which features solutions that guarantee the quality of production, the use of basic raw materials, power supplies, profitability and the application of state-of-the-art production technologies, may produce 100 thousand tonnes of esters per year.

LPG

LPG trading in the LOTOS Group focuses on supplies to LOTOS-owned stations, because LPG fuel is a substitute for gasoline and the interest in LPG is falling with the increasing demand for diesel oil and the falling average age of used personal cars.

In 2008, LPG came from the refinery in Gdańsk, imports, inter-community supplies and from domestic suppliers. An additional factor that had a major impact on liquid petroleum gas trading was the unstable price situation as well as temporal limitations in the product's availability from Eastern markets.

LPG supplies structure



Aviation fuel

The sales of aviation fuels on the domestic market have growing importance for the operation of the LOTOS Group. Owing to the modern MEROX system, the refinery in Gdańsk may produce major amounts of aviation fuel. The systems and equipment created in the 10+ Programme will increase the aviation fuel throughput to approximately one million tonnes per year, which will provide better profits (owing to the higher refining margin) and the strengthened market position in Europe and on the domestic market.

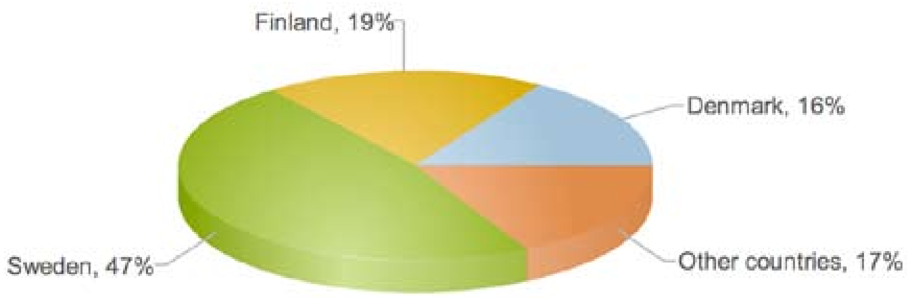
The share of aviation fuel in the sales volume of the LOTOS Group in 2008 amounted to 6.5%, including 17% sold in Poland. The supplies were provided to entities with own loading terminals, to intermediaries and directly to end customers.

According to a decision of the European Commission, at least two fuel suppliers have to operate at all airports that serve more than 2 million passengers per year. For Polish airports, where there is usually one fuel operator, this regulation necessitates the introduction of a competitive fuel operator. The entrance of Grupa LOTOS on the airport market will increase the volume of aviation fuel sold and provide better control of the margin in the whole chain of supplies. In mid 2008, a decision was taken to construct a fuel depot at the airport in Gdańsk-Rębiechowo as part of the 'Gdańsk Airport' project.

The LOTOS Group intends to participate actively in the European aviation fuel market by searching for new suppliers. The aim of trading services is to increase the market share systematically with a simultaneous maximization of margins. The LOTOS Group intends to establish its position on the confidence and support of customers gained in Poland.

In 2008, almost 90% of the JET A1 aviation fuel volume exported by Grupa LOTOS was sold in Sweden, Finland and Denmark.

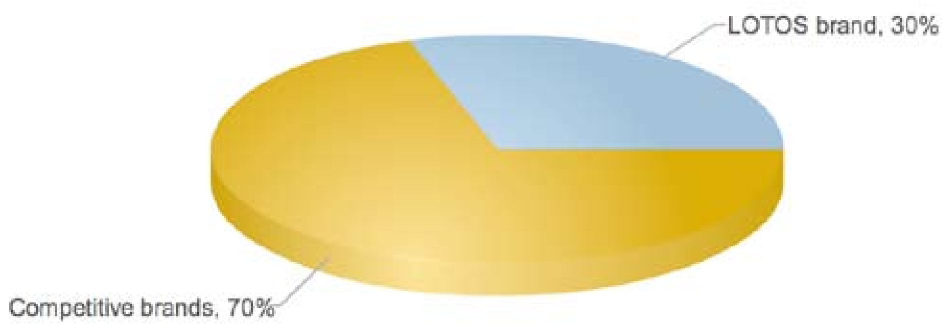
Aviation fuel export structure



Lubricating oils

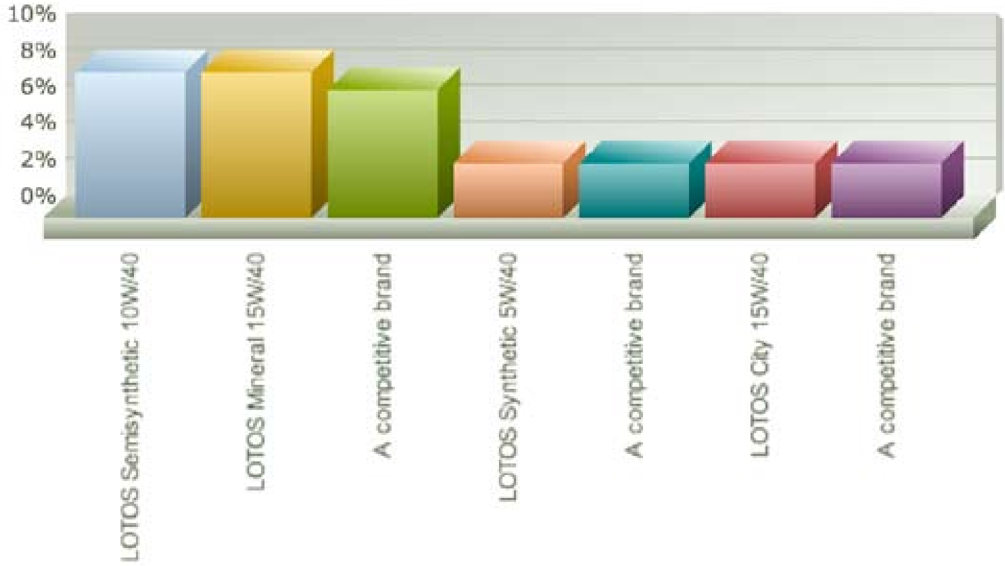
The flagship product of the LOTOS Group in lubricating oils is the LOTOS engine oil family.

Market share of oil brands in 2008



According to the survey of Moto Scan conducted by Qualifact in 2008, the strongest market position was held by the LOTOS Semi-synthetic and LOTOS Mineral oils, while the LOTOS oil brand enjoyed the greatest loyalty among customers out of all brands.

Most frequently purchased oil products in Poland in 2008



Source: Moto Scan

The LOTOS Group produces oils for industry, in particular for the power industry, the steel works, mining and machinery industries. It offers hydraulic and transmission oils and produces small volumes of specialist lubricants.

Apart from industrial oils based on classic basic mineral oils, the LOTOS Group's offer includes new products based on modified ingredients, i.e. synthetic oils.

Quality and technology

In 2008, LOTOS Oil signed a trading contract with Lubrizol, thus obtaining access to state-of-the-art lubricating additions. The contract does not only provide for preferential trading conditions, but also for marketing cooperation and rendering production services and training for employees.

Lubrizol is a leader on the market of additions for lubricating products. It produces additions for oils and lubricants for the motor sector, industry and processing liquids. It is one of the most important long-term suppliers of the LOTOS Group that is actively involved in the development of oil products.

The year of services

The oil service of LOTOS Oil is an important element of building a competitive advantage and a strong market position in the segment of lubricating products.

Specialists of LOTOS Oil provide continuous monitoring of oils and machines. It is possible to streamline machinery operation with the collected data. The main aim of such controls is the early detection and removal of any potential causes of costly failures. Experts of the Oil Service provide services to international companies operating in Poland.

Cooperation with KIA

The presence of the LOTOS brand on the Authorised Service Stations of KIA Motors Polska confirms its prestige and strengthens the image of high margin oil products of LOTOS.

A supplement to the cooperation with KIA was the participation of the LOTOS brand as the titular sponsor in the KIA LOTOS CUP motor racing cycle in 2007. The Cup is an international event with eliminations held in Poland, the Czech Republic, Hungary and Slovakia.

Growing role of exports

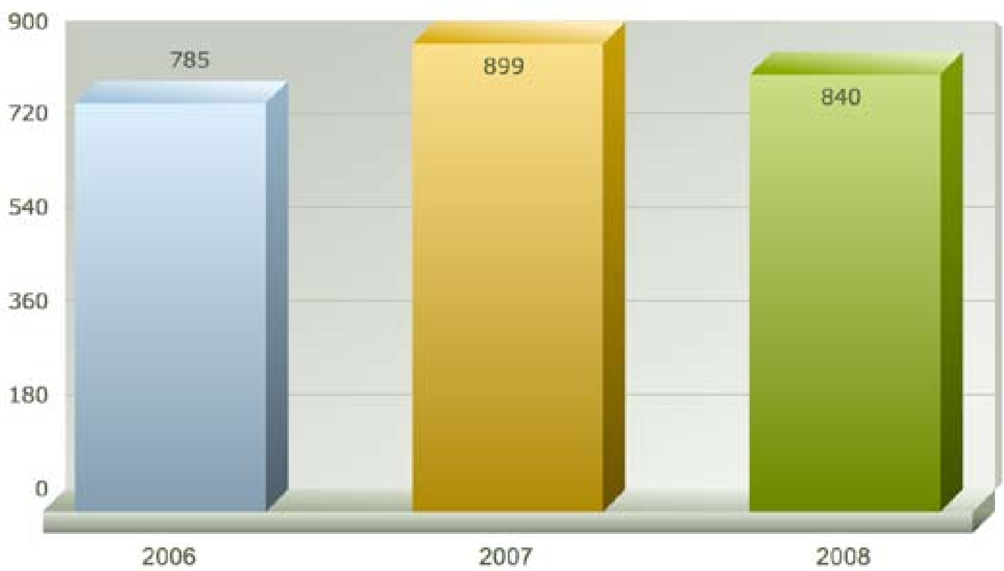
LOTOS Oil is one of the most important producers of engine oils sold in Central Europe. The high and stable quality of oils obtained with advanced production technology and the best upgrading additions makes their sales increase every year.

Outside Poland, the key markets include: Russia, Ukraine, Byelorussia, the Czech Republic, Slovakia, the Baltic States and the Black Sea region. LOTOS Oil is also establishing successful commercial contacts in Asia and Western Europe.

Bitumen and heavy fuel oil

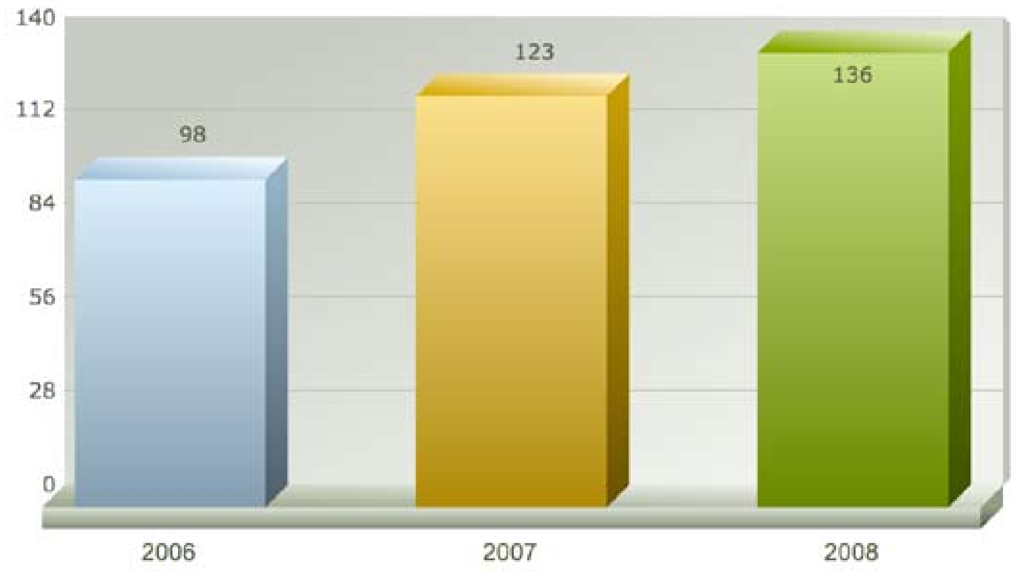
The LOTOS Group successfully sells road and industrial bitumen, bitumen emulsions and glues as well as heavy fuel oils. These products are made in three production centres: Gdańsk, Jasło and Czechowice. Heavy products of the LOTOS Group are sold mostly on the road market (bitumen) and to the power sector (heavy fuel oil). Work is also being carried out on launching the production and sales of hydro-insulation materials.

Bitumen sales (tonnes in thousands)



In 2008, bitumen were delivered mostly to road construction sites in Poland, including the constructions of the A1, A2 and A4 motorways. Large volumes of top quality modified bitumen (MODBIT) were delivered for the construction of the A1 motorway section. In 2008, a major 10% growth in modified bitumen sales was recorded compared to 2007.

Sales of MODBIT modified bitumen (tonnes in thousands)



In 2008, the list of countries that buy bitumen from the LOTOS Group was extended with Croatia and Switzerland. The operation on the Lithuanian market was intensified, where an approximately 70% increase in sales was recorded compared to the previous year. The LOTOS Group sells bitumen also to customers in Sweden, Lithuania, Latvia, Estonia, the Czech Republic, Slovakia, Ukraine, Austria, Hungary, Germany, Russia and Romania.

After the construction of the 10+ Programme systems, the sales of bitumen will exceed one million tonnes per year. The performance of these premises complies with the plan of developing the road infrastructure in Poland, government strategy and the ‘National Road Construction Programme 2008-2012’.

Paraffin

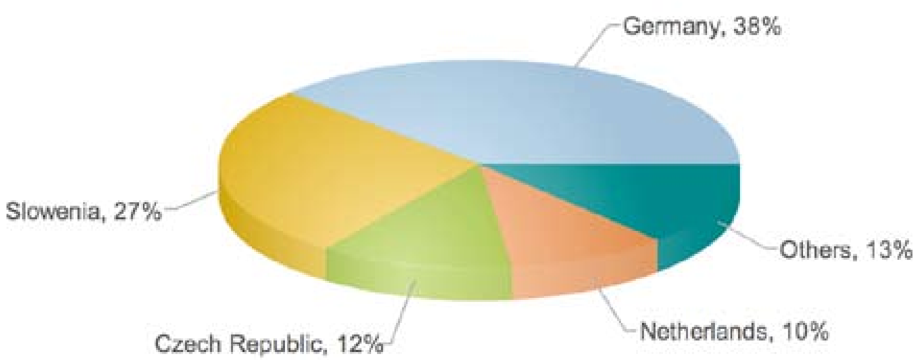
In spite of a lower volume of sales, the restructuring of paraffin product sales in the LOTOS Capital Group provided a major improvement in sales efficiency (by 4.1% in 2008 compared to 2007). This higher sales efficiency had a positive impact on the return on capital. In the assortment sales, as in previous years, candle paraffin dominated (its total share in sales amounted to 63%).

Volume and structure of paraffin sales (Tonnes in thousands)

In order to increase sales, in 2008 commercial contacts and cooperation were established with companies operating on the paraffin emulsion market.

In 2008, the share of domestic sales increased slightly in the paraffin structure sales (by 2% compared to 2007). Paraffin exports constituted 26% of total sales. Foreign paraffin customers include mostly companies from Germany, Slovenia, the Czech Republic and the Netherlands.

Paraffin export structure



Logistics

2008 was another year of systematic logistics development at Grupa LOTOS in order to prepare this area for growing trading activity and the launch of new products following the 10+ Programme's execution.

The methods and directions of fulfilling the growing demands in transhipping, transport and storage, both in terms of primary and secondary logistics, were based on economic premises and taking account of the complete safety of product distribution and supply and compliance with formal and legal requirements.

In 2008, the LOTOS Group carried out an optimization of the logistic assets (including own storage bases) and their adaptation to needs resulting from trade-related tasks. The aim of the optimization process was also to fulfil the requirements concerning the creation and maintenance of obligatory reserves of oil and oil products and the execution of the National Index Target.

The new legal conditions related to the higher required volumes of biocomponents than in the previous years were one of the major challenges in the area of logistics and necessitated close supervision of the logistic chain in order to provide the suitable quality of ready products and the fulfilment of all formal requirements.

Storage depots

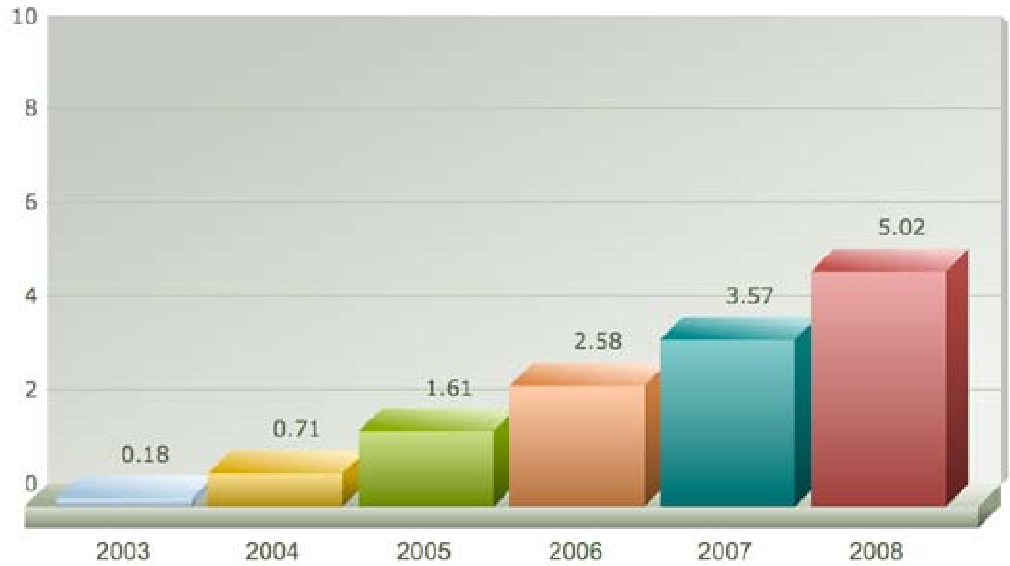
In 2008, the storage depot network continued optimization in order to provide top services of trading tasks. Grupa LOTOS systematically increased the role of own fuel depots and transhipping terminals, especially in Gdańsk, Czechowice, Jasło, Piotrków Trybunalski and Rypin. The number of used external storage depots, as well as the volume and type of fuels distributed by independent operators were adapted to the market demand and the new supply sources.

Rail transport

In order to optimise the use of own assets and provide the most economic, efficient and safe distribution of own products, the LOTOS Group contracts transport services from its subsidiary, LOTOS Kolej.

In 2008, the transport services rendered by LOTOS Kolej increased by more than 41%. This resulted from the growing sales of the LOTOS Group products and from railway transport to customers outside the LOTOS Group, higher by 15%. The dynamic growth of LOTOS Kolej increased its market share in the transport of goods. In 2008, it grew to 4.4% (from 3.1% in 2007).

Railway transport (Tonnes in millions)



Sea logistics

Sea logistics are an important element in the logistic chain of Grupa LOTOS. The pipeline connection of the refinery in Gdańsk with the liquid fuel transhipping base in the Northern Port provides a significant logistic advantage. In 2008, more than 250 tankers with oil and oil products called at the transhipping terminals of Naftoport and the Northern Port. Some of the tankers shipped exported oil products.

The Northern Port enables the transhipment of tankers with a draught up to 15m and loading capacities of 150 thousand tonnes of oil or oil products. Therefore, Grupa LOTOS exports the surplus of its production by locating it on the markets of Scandinavia and North-West Europe. The direct connection with the port facilitates the organization of the supplementary import of oil products, primarily of diesel oil.

The location of the Grupa LOTOS refinery near the sea terminal of oil transhipment enables the performance of the strategy of diversifying raw material supplies, and deliveries of petroleum from own fields on the Baltic Sea and, in the near future, also from the North Sea.

In 2008, investments were continued aimed at increasing the capacity of the tanks at the refinery in Gdańsk and at improving the transit capacities of the pipeline system connecting the refinery with the Port. The execution of these investments will increase the export potential resulting from higher production capacities after the performance of the 10+ Programme. It will also facilitate and accelerate the transhipment of growing volumes of oil delivered by sea.

Grupa LOTOS has been consistently working on taking over the transport functions in sea deliveries. It provides better control and improves the process of transhipment planning in sea ports, and minimizes the periods of demurrage and related costs. Approximately 60% of tankers carrying cargo to and from the refinery in Gdańsk in 2008 were chartered by the logistic services of Grupa LOTOS.

Obligatory stocks

Higher sales of fuel by the LOTOS Group require a systematic increase in maintained obligatory stocks.

In 2008, the maintenance of obligatory stocks (crude oil, components and finished products) was mostly provided by the own capacities of depots owned by the LOTOS Group. In order to limit dependence on external providers of storage services, a modern tank for 32 thousand m3 was constructed in Czechowice. At the same time Grupa LOTOS gained incomes from so-called ticket services, by offering customers a maintenance of surplus gasoline or heavy fuel oil as obligatory stocks of fuels.

Consolidated Financial Statements For The Year Ended December 31st 2008

Auditor's Opinion

To the Supervisory Board of Grupa LOTOS S.A. Capital Group

1. We have audited the attached consolidated financial statements of GRUPA LOTOS S.A. Capital Group (the Group, Capital Group), with GRUPA LOTOS S.A. (the Company, Parent) as its Parent with the registered office in Gdańsk, ul. Elbląska 135, including:

- consolidated balance sheet prepared as of 31 December 2008, with total assets and liabilities plus equity of PLN 12 201 998 thousand,
- consolidated income statement for the period from 1 January 2008 to 31 December 2008, disclosing a net loss of PLN 389 933 thousand,
- statement of changes in consolidated equity for the period from 1 January 2008 to 31 December 2008, disclosing a decrease in equity of PLN 350 866 thousand,
- consolidated cash flow statement for the period from 1 January 2008 to 31 December 2008, showing a net cash outflow of PLN 138 751 thousand,
- additional information and explanations.

2. Preparation of these consolidated financial statements has been the responsibility of the Management Board of the Parent. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these consolidated financial statements.

3. The consolidated financial statements of GRUPA LOTOS S.A. Capital Group for the period ended 31 December 2008 cover financial data of 17 subsidiaries, including 4 capital groups consolidated with the full method. The consolidated financial statements of 10 subsidiaries were audited by other entities authorized to audit financial statements. We received the financial statements of the aforementioned subsidiaries and the opinions resulting from the audits of these financial statements. Our opinion on the audit of the consolidated financial statements in respect of the data of these entities has been based on the opinions of certified auditors authorized to perform audits. The data from the financial statements of subsidiaries in the case of which our audit was fully based on opinions of other certified auditors account for 4.39% and 4.60% of consolidated assets and consolidated sales revenues before consolidation adjustments respectively.

4. Except for the issues described in paragraph 5-7, our audit of the consolidated financial statements was planned and performed in accordance with:

- section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002 No. 76, item 694 with subsequent amendments),
- auditing standards issued by the National Council of Statutory Auditors in Poland

in such a way as to obtain reasonable and sufficient basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included, in particular, examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policy) applied in the preparation of the consolidated financial statements, related material estimates as well as evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficient basis for our opinion.

5. In the enclosed consolidated financial statements the Group discloses a provision for the cost of post-production waste removal and utilization in so called "acid pits" as well as provision for the cost of liquidation of installation and land reclamation in the total amount of PLN 38.7 million. The Group estimated the quantities of post-production waste as well as the area of land to be recultivated to the best knowledge of the Group's technical personnel. However, bore-hole technology measurements were not taken that would confirm the estimated value of provisions calculated by the Group. Land reclamation costs due to planned installation liquidation were also significantly different from the reports of the environmental experts. Additionally, the Group prepared a report on ecological review of water and soil pollution in one of its subsidiaries, as obliged by a decision issued by Podkarpacki Voivode in 2006. The report disclosing that the permitted soil pollution levels were exceeded along with a proposal regarding the scope and schedule of works aimed at cleaning of water and soil by the end of 2013 was presented to the Voivode. The final scope and schedule of works related to elimination of the pollution depends on the decision of the Podkarpackie Voivodeship Marshall Office. Due to lack of data regarding the way of eliminating the pollution, the Group did not estimate any provision for the related costs. Therefore, we were not able to assess the reliability of calculations regarding the total amount of the aforementioned provisions for environmental issues.

6. The Group discloses 42.7% interest in AB Naftos Gavyba Capital Group AB Naftos Gavyba Capital Group with its seat in Lithuania, measured based on equity method at the amount of PLN 73.5 million. The financial statements of AB Naftos Gavyba Capital Group were prepared for the financial period ended 31 December 2008 in accordance with the accounting regulations applied in Lithuania. On 20 March 2009, the certified auditor issued an opinion on AB Naftos Gavyba Capital Group's financial statements with the qualification concerning:

- The fact that in the financial statements, the Company did not recognize financial consequences of the arbitration procedure, to which AB Geonafta, its subsidiary, was a party;
- The limited scope of audit regarding measurement of shares in associates held by AB Geonafta. These limitations result from qualifications in the opinions issued by certified auditors for the AB Naftos Gavyba Capital Group associates as well as differences in the accounting policies applied by individual associates.

Due to the aforementioned qualifications included in the certified auditor's opinion issued to the consolidated financial statements of AB Naftos Gavyba Capital Group for the financial year ended 31 December 2008 and since the AB Naftos Gavyba Capital Group applies different accounting policy, we were not able to determine whether the value of shares held in AB Naftos Gavyba Capital Group's parent disclosed in these consolidated financial statements was correct.

7. The consolidated financial statements include financial data of KRAK-GAZ Sp. z o.o. with revenues amounting to 169.1 million and assets amounting to 10.6 million, constituting 0.08% and 0.55% of the Group's consolidated assets and revenues respectively. On 10 April 2009 the certified auditor issued a certified auditor's standpoint on the Company's financial statements related to his unability to carry out an audit.

Therefore, we were unable to confirm the correctness of assets, liabilities and provisions as well as revenues and expenses related to business activity of KRAK-GAZ Sp. z o.o.

8. Except for consequences of any adjustments that might prove necessary, if we could verify the cost of environmental provisions and potential consequences of the issues related with the valuation of shares in AB Naftos Gavyba Capital Group, and if financial data of KRAK-GAZ Sp. z o.o. had been verified, in our opinion, based on the audit results and opinions of other certified auditors, the audited consolidated financial statements of GRUPA LOTOS S.A. Capital group for the financial year 2008 were prepared in all material respects in accordance with the International Financial Reporting Standards as approved by the European Union and present fairly and clearly all the information required to evaluate the economic and financial position of the Capital Group for the 12-month period ended 31 December 2008.

Without qualifying the accuracy and fairness of the audited consolidated financial statements, we would like to point out the following issues:

- Note 11 of the additional information and explanations to the financial statements, in which the Company undertakes to continue the implementation of the concept for Integrated Gasification Combined Cycle (IGCC), that allows launching of the second stage of Program 10+. We would like to point out that the second stage implementation shall depend on future events, including market factors, which might affect the effectiveness of the capital investment incurred so far, which as at 31 December 2008 amounted to PLN 45.8 million and pertained to implementation of works related to IGCC;
- Note 11 of the additional information and explanations to the consolidated financial statements, in which the Group discloses assets due to expenditure incurred on exploration of B-4 and B-6 gas deposits as well as bore-hole costs in the amount of PLN 48 million as at 31 December 2008. The Group ordered a profitability analysis regarding deposit development. The analysis indicated a need for significant capital expenditure to be incurred in order to exploit the aforementioned deposits. The amount of future benefits can change depending on future market conditions and actions taken by the Company as well as possible financing or presence of a partner to the project.

The Report on the activities of the Capital Group in the 2008 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities, as well as conditions on the basis of which information required by regulations of a non-member state are considered equivalent, and is consistent with the underlying information disclosed in the audited consolidated financial statements.

(-) Piotr Sokołowski

Certified auditor

No. 9752/7281

(-) Piotr Sokołowski

Member of the Management Board

Certified auditor No. 9752

(-) Maria Rzepnikowska

President of the Management Board

Certified auditor No. 3499

DELOITTE AUDYT Sp. z o.o.

ul. Piękna 18, 00-549 Warszawa

tel. 511 08 11, fax 511 08 13

NIP 527-020-07-86, REGON 010076870

Entity authorized to audit

financial statements entered under

number 73 on the list kept by

the National Council of Statutory Auditors

Warsaw, 27 April 2009

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Financial Highlights – Consolidated

	PLN'000		EUR'000	
The LOTOS Group	**Year ended Dec 31 2008**	**Year ended Dec 31 2007 (comparable data)**	**Year ended Dec 31 2008**	**Year ended Dec 31 2007 (comparable data)**
	(audited)	(audited)	(audited)	(audited)
Sales revenue	16,294,738	13,125,123	4,613,329	3,475,197
Operating profit/(loss)	(145,828)	713,664	(41,286)	188,960
Pre-tax profit/(loss)	(504,218)	1,004,494	(142,753)	265,964
Net profit/(loss) on continued operations	(389,933)	814,147	(110,397)	215,565
Net profit/(loss) attributable to equity holders of the parent	(453,906)	777,160	(128,509)	205,772
Net profit attributable to minority interests	63,973	36,987	18,112	9,793
Net cash provided by/(used in) operating activities	311,670	157,830	88,239	41,789
Net cash provided by/(used in) investing activities	(2,417,112)	(816,440)	(684,327)	(216,172)
Net cash provided by/(used in) financing activities	1,963,145	513,145	555,801	135,868
Total net cash flow	(138,751)	(147,061)	(39,283)	(38,938)
Basic earnings/(loss) per ordinary share (PLN/EUR)	(3.99)	6.84	(1.13)	1.81
Diluted earnings/(loss) per ordinary share (PLN/EUR)	-	-	-	-

	PLN'000		EUR'000	
	As at Dec 31 2008	**As at Dec 31 2007**	**As at Dec 31 2008**	**As at Dec 31 2007**
	(audited)	(audited)	(audited)	(audited)
Total assets	12,201,998	9,720,384	2,924,455	2,713,675
Equity attributable to equity holders of the parent	5,404,135	5,816,227	1,295,210	1,623,737
Equity attributable to minority interests	395,917	334,691	94,890	93,437
Total equity	5,800,052	6,150,918	1,390,100	1,717,174

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

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

Consolidated Balance Sheets

(PLN '000)	Note	Dec 31 2008	Dec 31 2007
		(audited)	(audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	5,532,612	3,471,247
Prepayments for tangible assets under construction	11	1,200,713	781,780
Goodwill	17	45,562	58,207
Intangible assets	15	55,921	64,999
Investment property	14	4,898	3,445
Investments in associated undertakings	18	73,488	48,519
Non-current financial assets	19	26,516	21,553
Deferred tax asset	41	132,223	31,732
Other non-current assets, including:		21,911	26,644
- non-current receivables	12	9,152	12,668
- prepayments and accrued income	13	12,759	13,976
Total non-current assets		**7,093,844**	**4,508,126**
Current assets			
Inventories	22	2,447,247	2,589,322
Trade and other receivables, including:	23	1,564,852	1,542,465
- income tax receivables		199,971	1,867
Prepayments and accrued income	13	45,863	31,868
Current financial assets	20	328,760	119,342
Cash and cash equivalents	24	712,801	924,995
Total current assets		**5,099,523**	**5,207,992**
Assets held for sale	16	**8,631**	**4,266**
Total assets		**12,201,998**	**9,720,384**

(PLN '000)	Note	Dec 31 2008	Dec 31 2007
		(audited)	(audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	26	113,700	113,700
Statutory reserve funds		970,951	970,951
Retained earnings		4,311,130	4,746,221
Translation reserve		8,354	(14,645)
Equity attributable to equity holders of the parent		**5,404,135**	**5,816,227**
Equity attributable to minority interests	29	**395,917**	**334,691**
Total equity		**5,800,052**	**6,150,918**

Non-current liabilities			
Interest-bearing loans and borrowings	30	3,412,245	842,943
Non-current provisions	31	267,903	208,594
Deferred tax liability	41	10,411	154,789
Other (financial) liabilities	32	9,961	9,323
Total non-current liabilities		**3,700,520**	**1,215,649**

Current liabilities			
Trade and other payables, accruals and deferred income, including:	33	1,894,509	1,757,451
- income tax expense		8,069	20,446
Interest-bearing loans and borrowings	30	507,360	517,193
Current provisions	31	80,470	74,268
Other financial liabilities	32	219,087	4,905
Total current liabilities		**2,701,426**	**2,353,817**
Total liabilities		**6,401,946**	**3,569,466**
Total equity and liabilities		**12,201,998**	**9,720,384**

Consolidated Income Statements

(PLN '000)	Note	Year ended Dec 31 2008	Year ended Dec 31 2007
		(audited)	(audited)
Sales revenue	35	16,294,738	13,125,123
Cost of sales	36	(15,287,258)	(11,346,692)
Gross profit on sales		**1,007,480**	**1,778,431**
Other operating income	37	29,817	81,845
Impairment losses on goodwill	17	(12,645)	(21,496)
Selling costs	36	(737,368)	(697,495)
General and administrative expenses	36	(344,523)	(335,440)
Other operating expenses	38	(88,589)	(92,181)
Operating profit/(loss)		**(145,828)**	**713,664**
Financial income	39	82,508	313,549
Financial expenses	40	(466,931)	(44,995)
Interest in investments in associated undertakings	18	26,033	22,276
Pre-tax profit/(loss)		**(504,218)**	**1,004,494**
Corporate income tax	41	114,285	(190,347)
Net profit/(loss) on continued operations		**(389,933)**	**814,147**
Attributable to:			
Equity holders of the parent	28	(453,906)	777,160
Minority interests		63,973	36,987
		(389,933)	**814,147**
Net earnings/(loss) per share (PLN)			
- basic	28	(3.99)	6.84
- diluted		-	-

Consolidated Cash Flow Statements

(PLN '000)	Note	Year ended Dec 31 2008	Year ended Dec 31 2007 (comparable data)
		(audited)	(audited)
Cash flows from operating activities			
Net profit/(loss)		(389,933)	814,147
Adjustments:			
Share in net profit of subordinated undertakings valued with equity method		(26,033)	(22,276)
Depreciation and amortisation		315,012	306,224
Foreign exchange (gains)/losses		366,730	4,091
Net interest and dividend paid		13,028	855
(Profit)/loss on investing activities		29,564	(41,766)
Income tax paid		(308,695)	(157,003)
Current income tax	41	(114,285)	190,347
Decrease/(increase) in receivables	25	164,938	(252,733)
Decrease/(increase) in inventories	25	141,685	(883,218)
(Decrease)/increase in liabilities and accruals and deferred income	25	(109,199)	253,101
Increase/(decrease) in provisions	25	35,511	(4,276)
(Increase) in prepayments and accrued income	25	(44,883)	(17,987)
Settlement of financial instruments		238,166	(31,632)
Other items, net		64	(44)
Net cash provided by/(used in) operating activities		**311,670**	**157,830**
Cash flows from investing activities			
Dividend received		27,661	47,318
Interest received		30,655	19,036
(Purchase)/sale of property, plant and equipment and intangible assets		(1,699,582)	(368,681)
(Purchase)/sale of current financial assets		1,509	184,007
Repayment of non-current loans advanced		17	-
Acquisition of Rafineria Nafty Glimar S,A,, net of cash acquired		3,987	-
Acquisition of Krak-Gaz Sp, z o,o,, net of cash acquired		-	(15,829)
Prepayments for tangible assets under construction		(778,953)	(681,601)
Other items, net		(2,406)	(690)

Net cash provided by/(used in) investing activities		**(2,417,112)**	**(816,440)**
Cash flows from financing activities			
Increase in loans and borrowings		2,352,749	579,791
Repayment of loans and borrowings		(86,449)	(23,217)
Interest paid		(61,517)	(21,603)
Dividend paid to equity holders of the parent		-	(40,932)
Dividend paid to minority interests	29	(2,578)	(8,593)
Decrease in finance lease liabilities		(737)	(942)
Settlement of financial instruments		(238,166)	31,632
Other items, net		(157)	(2,991)
Net cash provided by/(used in) financing activities		**1,963,145**	**513,145**
Effect of exchange rate fluctuations on cash held		3,546	(1,596)
Change in net cash	**25**	**(138,751)**	**(147,061)**
Cash at beginning of period	**25**	**477,104**	**624,165**
Cash at end of period	**25**	**338,353**	**477,104**
- restricted cash	24	84,160	17,296

Statements Of Changes In Consolidated Equity

(PLN '000)	Share capital	Statutory reserve funds	Statutory reserve funds	Translation reserve	Equity attributable to equity holders of the parent	Equity attributable to minority interests	Total equity
Jan 1 2007 (audited)	**113,700**	**970,951**	**4,014,432**	**(3,556)**	**5,095,527**	**306,416**	**5,401,943**
Net profit for the year ended Dec 31 2007	-	-	777,160	-	777,160	36,987	814,147
Dividend to shareholders – distribution of profit for 2006	-	-	(40,932)	-	(40,932)	(8,593)	(49,525)
Changes in the Group's organisational structure	-	-	2,377	-	2,377	(119)	2,258
Other	-	-	(6,816)	(11,089)	(17,905)	-	(17,905)
Dec 31 2007 (audited)	**113,700**	**970,951**	**4,746,221**	**(14,645)**	**5,816,227**	**334,691**	**6,150,918**
Dec 1 2008 (audited)	**113,700**	**970,951**	**4,746,221**	**(14,645)**	**5,816,227**	**334,691**	**6,150,918**
Net profit/(loss) for the year ended Dec 31 2008	-	-	(453,906)	-	(453,906)	63,973	(389,933)
Dividend to shareholders – distribution of profit for 2007	-	-	-	-	-	(2,578)	(2,578)
Changes in the Group's organisational structure	-	-	-	-	-	(169)	(169)
Other	-	-	18,815	22,999	41,814	-	41,814
Dec 31 2008 (audited)	**113,700**	**970,951**	**4,311,130**	**8,354**	**5,404,135**	**395,917**	**5,800,052**

1. General Information

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

The Company’s registered office is situated at ul. Elbląska 135, 80-718 Gdańsk, Poland.

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

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

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

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

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

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

2. Composition of the Group

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

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2008	Dec 31 2007
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	Sale of fuels and provision of services for retail networks of international concerns; logistic services	full	-	- (1)
LOTOS Gaz S.A. (parent undertaking of another group)	Mława	Production, wholesale and retail sale of LPG	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	Construction of the key installations as part of the 10+ Programme; the company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%

LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of petroleum products	full	100.00%	100.00% (2)
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale (3)	full	80.01%	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	full	69.00%	69.00%
UAB LOTOS Baltija	Vilnius, Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	full (4)	100.00%	100.00%
Rafineria Nafty GLIMAR S.A.	Gorlice	Refining; currently: provision of services	full	-(5)	91.54%
LOTOS Hydrokompleks Sp. z o.o. (in liquidation)	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated	-(6)	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services	full	86.91%	86.91% (7)

Indirect Subsidiary Undertakings

RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Provision of services	full	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	80.04%	80.04%
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	Provision of services	-(7)	86.91%	86.91%
„PLASTEKOL Organizacja Odzysku" S.A.	Jasło	Provision of services	full	66.81% (8)	53.61%
Chemipetrol Sp. z o.o.	Jasło	Trading in paraffin emulsions and anti-caking agents	full (4)	-(9)	80.01%
KRAK GAZ Sp. z o.o.	Bochnia	Wholesale and retail sale of LPG	full (10)	100.00%	100.00%
Miliana Shipping Company Ltd.	Nicosia, Cyprus	Provision of services	full	68.93%	68.93%

LOTOS Exploration and Production Norge AS	Sandnes, Norway	Oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007	full [4]	69.00% [12]	100.00% [11]
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Provision of services	full [4]	69.00%	69.00%

[1] On June 29th 2007, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, issued a decision on registration of the merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o..

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

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

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

[5] On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty GLIMAR S.A. of Gorlice bankrupt. Upon consideration on March 11th 2008 of the petition to discontinue the bankruptcy proceedings, submitted by bankruptcy administrator Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, Commercial Court Division V, decided to discontinue the bankruptcy proceedings on the basis of Art. 361.2 of the Bankruptcy and Recovery Law. On July 25th 2008, the court's decision became final. As from July 25th 2008, the Rafineria Nafty GLIMAR Group started to be consolidated with the full method. Rafineria Nafty GLIMAR S.A. is the parent undertaking of a group which comprises the following companies: Zakład Transportu TRANSGLIMAR Sp. z o.o. w upadłości (in bankruptcy), Zakład Produkcji Pasz i Bioetanolu AGRO GLIMAR Sp. z o.o. w likwidacji (in liquidation), and LOT Magazynowanie Paliw i Smarów Sp. z o.o. On December 1st 2008, Grupa LOTOS S.A. entered into an agreement with Podkarpacki Holding Budowy Dróg Drogbud Sp. z o.o. of Strzyżów concerning the sale of its shares in Rafineria Nafty GLIMAR S.A. Under the agreement, Grupa LOTOS S.A. sold 9,520,000 shares in Rafineria Nafty GLIMAR S.A. with a par value of PLN 10 per share, representing 91.54% of the company's share capital. The agreed transaction value was PLN 1,000 thousand. As at the agreement execution date, the carrying value of the shares in Grupa LOTOS S.A.'s accounting books was PLN 0 (see Note 21 to these consolidated financial statements).

[6] On November 26th 2007, by virtue of a resolution of the Extraordinary General Shareholders Meeting, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation. On October 20th 2008, the District Court in Kraków issued a decision to delete the company from the National Court Register.

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

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

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

(10) On July 9th 2007, LOTOS Gaz S.A. entered into the final agreement to purchase 34,500 shares in KRAK-GAZ Sp. z o.o. and thus acquired 100% of the shares in KRAK-GAZ Sp. z o.o.

(11) On September 22nd 2007, the Central Register of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, registered office in Stavanger, Norway. Grupa LOTOS S.A. acquired 100% of the shares in the new entity by paying up its entire share capital of NOK 8,000 thousand (i.e. PLN 3,871 thousand, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for September 17th 2007).

(12) On May 19th 2008, the Management Board of Petrobaltic S.A. made a decision to initiate the registration procedure concerning the increase of the share capital and the acquisition by Petrobaltic S.A. of 80% of the shares in LOTOS Exploration and Production Norge AS. On June 12th 2008, Grupa LOTOS S.A. entered into an agreement with Petrobaltic S.A. to sell to Petrobaltic S.A. 8 million shares in LOTOS Exploration and Production Norge AS, representing 20% of the company's share capital. As a result of this transaction, Petrobaltic S.A. holds 40 million shares, representing 100% of the share capital of LOTOS Exploration and Production Norge AS.

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

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

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

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer,

Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,

Marek Sokołowski – Vice-President of the Management Board, Production and Development Director.

On October 16th 2008, the Supervisory Board of Grupa LOTOS S.A. resolved to open the recruitment procedure for the positions of Vice-President of the Management Board, Chief Commercial Officer, and Vice-President of the Management Board responsible for Oil & Gas Exploration and Production. By virtue of the Supervisory Board's decision of January 27th 2009, the procedure was closed without selecting any candidate.

Until June 30th 2008, the composition of the Supervisory Board was as follows:

Jan Stefanowicz – Chairman of the Supervisory Board,

Henryk Siodmok – Deputy Chairman of the Supervisory Board,

Grzegorz Szczodrowski – Secretary of the Supervisory Board,

Beata Zawadzka – Member of the Supervisory Board,

Marta Busz – Member of the Supervisory Board,

Izabela Emerling – Member of the Supervisory Board,

Jacek Mościcki – Member of the Supervisory Board.

On June 30th 2008, the General Shareholders Meeting appointed the Supervisory Board of Grupa LOTOS S.A. of the seventh term of office, including:

Wiesław Skwarko – Chairman of the Supervisory Board,

Radosław Barszcz – Member of the Supervisory Board,

Piotr Chajderowski – Member of the Supervisory Board,

Leszek Starosta – Member of the Supervisory Board,

Jan Stefanowicz – Member of the Supervisory Board,

Mariusz Obszyński – Member of the Supervisory Board.

Pursuant to Par. 11.2 of the Company's Articles of Association, shareholder State Treasury, represented by the Minister of the State Treasury, removed Ms Beata Zawadzka from the Supervisory Board (with effect from June 30th 2008) and appointed Ms Małgorzata Hirszel (with effect from July 1st 2008) in her place.

During its meeting held on August 12th 2008, the Supervisory Board established its internal organisation: Mr Leszek Starosta was elected Deputy Chairman of the Supervisory Board and Mr Mariusz Obszyński was appointed Secretary of the Supervisory Board.

As at December 31st 2008, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,

Mariusz Obszyński – Deputy Chairman 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 – Członek Rady Nadzorczej.

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

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

Wiesław Skwarko – Chairman of the Supervisory Board,

Leszek Starosta – Deputy Chairman of the Supervisory Board,

Mariusz Obszyński – Secretary of the Supervisory Board,

Radosław Barszcz – Member of the Supervisory Board.

Małgorzata Hirszel – Member of the Supervisory Board.

Jan Stefanowicz – Member of the Supervisory Board.

4. Approval of the Consolidated Financial Statements

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

5. Going Concern

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

6. Duration of the Group

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

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

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

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

8. Measurement Currency and Reporting Currency

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

9. Basis for the Preparation of the Consolidated Financial Statements

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

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

With the exception of the Parent Undertaking and foreign undertakings, the Group companies maintain their accounting books in accordance with the accounting standards specified in the Polish Accountancy Act of September 29th 1994 (the "Act") and the provisions issued thereunder ("Polish Accounting Standards" – "PAS"). These consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings, and which have been introduced to adjust the financial information concerning these undertakings to the IFRS.

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

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

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

- IFRIC 13 Customer Loyalty Programmes (applies to annual periods beginning after July 1st 2008, adopted by the European Union),
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (applies to annual periods beginning after January 1st 2008, adopted by the European Union).

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee:

- Amendment to IAS 23 Borrowing Costs (effective as of January 1st 2009, adopted by the European Union),
- Amendment to IAS 1 Presentation of Financial Statements (effective as of January 1st 2009, adopted by the European Union),
- IFRS 8 Operating Segments (applies to annual periods beginning after January 1st 2009, adopted by the European Union),
- Revised IFRS 3 Business Combinations (applies to annual periods beginning after July 1st 2009, not yet adopted by the European Union),

- Revised IAS 27 Consolidated and Separate Financial Statements (applies to annual periods beginning after July 1st 2009, not yet adopted by the European Union),
- IFRIC 12 Service Concession Arrangements (applies to annual periods beginning after January 1st 2008, not yet adopted by the European Union),
- Amendment to IFRS 2 Share-Based Payments – Vesting Conditions and Cancellations (applies to annual periods beginning on or after January 1st 2009, adopted by the European Union),
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation (apply to annual periods beginning on or after January 1st 2009, adopted by the European Union),
- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (in most cases, the amendments apply to annual periods beginning on or after January 1st 2009; endorsed by the European Union),
- Amendments to IFRS 1 First-Time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (apply to annual periods beginning on or after January 1st 2009, endorsed by the European Union),
- IFRIC 15 Agreements for the Construction of Real Estate (applies to annual periods beginning on or after January 1st 2009, not yet endorsed by the European Union),
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (applies to annual periods beginning on or after October 1st 2008, not yet endorsed by the European Union),
- Amendment to IAS 39 Financial Instruments: Exposures Qualifying for Hedge Accounting (applies to annual periods beginning on or after July 1st 2009, not yet endorsed by the European Union).

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

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

10. Accounting Policies

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

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

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

10.1.Basis for Consolidation

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

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

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

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

10.2. Investments in Associated Undertakings

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

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

10.3. Intangible Assets

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

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

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

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

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

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

With the exception of capitalised expenditure on research and development, expenditure on intangible assets produced by the Group is not capitalised and is disclosed under expenses for the period in which they were incurred.

10.4. Goodwill Related to Subordinated Undertakings

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

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

10.5. Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

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

10.6. Tangible Assets under Construction

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

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

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

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

10.7. Expenditure on Exploration and Appraisal of Resources

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

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

- the term for which the company was granted the licence to conduct exploration work expired in the course of the current financial period or will expire in the near future, and no extension of the term is envisaged,
- the Group does not expect to incur significant expenditure for further exploration and appraisal of mineral resources,
- exploration and appraisal of mineral resources did not result in discovery of any commercial mineral resources and the company decided to discontinue its exploration activities,
- available data suggests that despite continuation of the development work, the carrying value of the assets related to exploration and appraisal of mineral resources could not be fully recovered, even if the development work is successfully completed or the assets are sold.

10.8. Leasing

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

The Group as a Lessor

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

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

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

The Group as a Lessee

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

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

10.9. Non-Current Assets Held For Sale

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

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

10.10. Impairment Losses on Non-Financial Assets

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

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

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

10.11. Investment Property

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

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

10.12. Inventories

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

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

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

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

10.13. Trade and Other Receivables

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

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

10.14. Foreign Currency Transactions

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

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

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

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

Mid exchange rate quoted by NBP as at	Dec 31 2008	Dec 31 2007
USD	2.9618	2.435
EUR	4.1724	3.582

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

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

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

10.15. Cash and Cash Equivalents

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

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

10.16. Accruals and Deferrals

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

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

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

10.17. Equity

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

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

10.18. Provisions

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

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

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

10.20. Profit Distribution for Employee Benefits and Special Accounts

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

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

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

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

10.22. Borrowing Costs

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

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

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

10.23. Government Subsidies

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

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

10.24. Carbon Dioxide (CO_2) Emission Allowances

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

10.25. Income Tax

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

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

Deferred tax liability is recognised for all taxable temporary differences:

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

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

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

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

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

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

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

10.26. Financial Instruments

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

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

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

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

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

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

10.27. Derivative Financial Instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. In addition, the Group relies on full barrel swaps to hedge its exposure to raw material and petroleum product prices, uses futures contracts to manage its exposure to prices of carbon dioxide (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.

10.28. Impairment of Financial Assets

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

Assets Carried at Amortised Cost

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

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

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

Financial Assets Carried at Cost

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

Financial Assets Available for Sale

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

10.29. Recognition of Revenue

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

10.30. Sales of Products, Goods for Resale and Services

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

10.31. Interest

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

10.32. Dividend

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

10.33. Management's Estimates

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

Valuation of Provisions

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

Depreciation/Amortisation Charges

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

Fair Value of Financial Instruments

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

Deferred Tax Asset

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

10.34. Net Earnings/(Loss) per Share

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

10.35. Contingent Liabilities and Receivables

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

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

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

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

		Buildings and structures				Tangible assets under construction			
PLN '000	Land		- mineral resources exploration and appraisal assets (1)	Plant and equipment	Vehicles and other		- mineral resources exploration and appraisal assets (1)	Prepayments for tangible assets under construction	Total
Gross book value as at Jan 1 2007 (audited)	**218,769**	**1,933,758**	**128,016**	**1,175,822**	**543,414**	**353,335**	**58,240**	**148,018**	**4,373,116**
Increase, including:	3,790	172,575	136	62,369	(47,795)	288,703	10,799	681,601	1,161,243
- purchase	38	-	-	389	16,059	470,193	10,799	681,601	1,168,280
- transfer from investments	4,453	82,933	136	59,125	11,810	(181,834)	-	-	(23,513)
- transfer	-	78,983	-	(13)	(78,991)	-	-	-	(21)
- reclassified to assets available for sale	(1,144)	(3,429)	-	(183)	(68)	-	-	-	(4,824)
- reclassified from assets available for sale	-	451	-	59	13	-	-	-	523
- changes in the structure of the Group	443	13,626	-	2,920	3,376	335	-	-	20,700
- other	-	11	-	72	6	9	-	-	98

Decrease	(1,133)	(10,186)	(3,878)	(6,091)	(23,438)	(7,274)	-	(47,839)	(95,961)
- sale	(1,133)	(435)	-	(1,229)	(5,672)	(141)	-	-	(8,610)
- liquidation	-	(8,591)	(3,878)	(4,348)	(4,989)	-	-	-	(17,928)
- assets related to decommissioning of the Offshore Oil Rigs	-	(923)	-	-	-	-	-	-	(923)
- currency translation differences on foreign operations	-	-	-	(378)	(12,762)	-	-	-	(13,140)
- other	-	(237)	-	(136)	(15)	(7,133)	-	(47,839)	(55,360)
Gross book value as at Dec 31 2007 (audited)	**221,426**	**2,096,147**	**124,274**	**1,232,100**	**472,181**	**634,764**	**69,039**	**781,780**	**5,438,398**
Gross book value as at Jan 1 2008	**221,426**	**2,096,147**	**124,274**	**1,232,100**	**472,181**	**634,764**	**69,039**	**781,780**	**5,438,398**
Increase	17,597	90,561	2,430	78,067	51,510	2,229,361	25,671	778,958	3,246,054
- purchase	-	-	-	1,412	17,017	2,241,124	28,049	748,294	3,007,847
- transfer from investments	18,255	69,137	2,430	76,057	15,930	(187,922)	(2,430)	-	(8,543)
- transfer	(443)	(1,726)	-	104	8,689	(3,010)	-	-	3,614
- reclassified to assets available for sale	(1,165)	(122)	-	-	(4,546)	-	-	-	(5,833)
- reclassified from assets available for sale	933	-	-	-	1	-	-	-	934
- currency translation differences on foreign operations	-	-	-	494	14,247	-	-	-	14,741
- assets related to decommissioning of the Offshore Oil Rigs	-	23,094	-	-	-	6,950	52	-	30,044
- borrowing costs	-	-	-	-	-	157,173	-	30,659	187,832
- other	17	178	-	-	172	15,046	-	5	15,418
Decrease	(1,984)	(4,802)	-	(4,994)	(17,854)	(76,076)	-	(360,025)	(465,735)
- sale	(1,984)	(4,335)	-	(1,252)	(15,348)	(74,964)	-	-	(97,883)
- liquidation	-	(292)	-	(3,736)	(2,503)	(45)	-	-	(6,576)
- currency translation differences on foreign operations	-	-	-	-	(3)	-	-	-	(3)
- other	-	(175)	-	(6)	-	(1,067)	-	(360,025)	(361,273)
Gross book value as at Dec 31 2008 (audited)	**237,039**	**2,181,906**	**126,704**	**1,305,173**	**505,837**	**2,788,049**	**94,710**	**1,200,713**	**8,218,717**
Accumulated depreciation as at Jan 1 2007 (audited)	**6,069**	**249,892**	**16,159**	**424,921**	**183,525**	**-**	**-**	**-**	**864,407**
Increase	1,384	115,228	6,584	130,466	44,638	-	-	-	291,716
- depreciation	1,450	105,070	6,584	130,335	55,051	-	-	-	291,906
- transfer	-	10,887	-	(16)	(10,984)	-	-	-	(113)
- reclassified to									

assets available for sale	(66)	(810)	-	(139)	(67)	-	-	-	(1,082)
- reclassified from assets available for sale	-	55	-	44	9	-	-	-	108
changes in the structure of the Group	-	-	-	229	584	-	-	-	813
- other increases	-	26	-	13	45	-	-	-	84
Decrease	(211)	(1,795)	(1,047)	(4,323)	(12,665)	-	-	-	(18,994)
- sale	(211)	(27)	-	(791)	(3,859)	-	-	-	(4,888)
- liquidation	-	(1,631)	(1,047)	(3,186)	(3,857)	-	-	-	(8,674)
- currency translation differences on foreign operations	-	-	-	(282)	(4,925)	-	-	-	(5,207)
- other	-	(137)	-	(64)	(24)	-	-	-	(225)
Accumulated depreciation as at Dec 31 2007 (audited)	**7,242**	**363,325**	**21,696**	**551,064**	**215,498**	**-**	**-**	**-**	**1,137,129**
Accumulated depreciation as at Jan 1 2008 (audited)	**7,242**	**363,325**	**21,696**	**551,064**	**215,498**	**-**	**-**	**-**	**1,137,129**
Increase	1,568	108,832	8,006	135,315	57,677	-	-	-	303,392
- depreciation	1,529	109,345	8,006	135,058	50,591	-	-	-	296,523
- transfer	-	(513)	-	(132)	(23)	-	-	-	(668)
- reclassified from assets available for sale	39	-	-	-	1	-	-	-	40
- reclassified from assets available for sale	-	-	-	389	7,008	-	-	-	7,397
- other increases	-	-	-	-	100	-	-	-	100
Decrease	(67)	(483)	-	(3,181)	(10,965)	-	-	-	(14,696)
- sale	(67)	(417)	-	(739)	(8,492)	-	-	-	(9,715)
- liquidation	-	(37)	-	(2,439)	(2,472)	-	-	-	(4,948)
- currency translation differences on foreign operations	-	-	-	-	(1)	-	-	-	(1)
- other	-	(29)	-	(3)	-	-	-	-	(32)
Accumulated depreciation as at December 31 2008 (audited)	**8,743**	**471,674**	**29,702**	**683,198**	**262,210**	**-**	**-**	**-**	**1,425,825**
Impairment losses as at Jan 1 2007 (audited)	**329**	**6,632**	**-**	**3,934**	**2,265**	**10,692**	**8,147**	**-**	**23,852**
Increase	11	922	-	516	699	31,916	7,231	-	34,064
Decrease	(329)	(4,634)	-	(2,552)	(2,149)	(10)	-	-	(9,674)
Impairment losses as at Dec 31 2007 (audited)	**11**	**2,920**	**-**	**1,898**	**815**	**42,598**	**15,378**	**-**	**48,242**

Impairment losses as at Jan 1 2008 (audited)	**11**	**2,920**	**-**	**1,898**	**815**	**42,598**	**15,378**	**-**	**48,242**
Increase	414	3,135	-	4,199	8,138	401	66	-	16,287
Decrease	-	(1,069)	-	(693)	(790)	(2,410)	-	-	(4,962)
Impairment losses as at Dec 31 2008 (audited)	**425**	**4,986**	**-**	**5,404**	**8,163**	**40,589**	**15,444**	**-**	**59,567**
Net book value as at Jan 1 2007 (audited)	**212,371**	**1,677,234**	**111,857**	**746,967**	**357,624**	**342,643**	**50,093**	**148,018**	**3,484,857**
Net book value as at Dec 31 2007 (audited)	**214,173**	**1,729,902**	**102,578**	**679,138**	**255,868**	**592,166**	**53,661**	**781,780**	**4,253,027**
Net book value as at Dec 31 2008 (audited)	**227,871**	**1,705,246**	**97,002**	**616,571**	**235,464**	**2,747,460**	**79,266**	**1,200,713**	**6,733,325**

(1) Mineral resources exploration and appraisal assets disclosed under property, plant and equipment and prepayments for tangible assets under construction include the value of production wells and exploration wells.

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

The cost of servicing the liabilities incurred to finance tangible assets under construction and prepayments for tangible assets under construction in the year ended December 31st 2008 amounted to PLN 187,832 thousand (PLN 10,813 thousand in year ended December 31st 2007).

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

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

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

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

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

The item "Tangible assets under construction" includes expenditure of PLN 47,937 thousand incurred by Petrobaltic S.A. in connection with exploration for gas at the B-4 and B-6 fields. Petrobaltic S.A. commissioned an analysis of the economic viability of development of these fields. According to the findings of the analysis, significant capital expenditure is required to obtain profitable commercial production of hydrocarbons. Despite the envisaged excess of revenue from sale of products to be obtained by exploitation of the reserves over the cost of their development and production, no expenditure on this project is expected in the medium term. The Management Board of Petrobaltic S.A. maintains that, regardless of the necessity to make significant investments, in view of the strategic nature of the reserves and the changing prices and terms of delivery of imported energy materials, their development is possible if the investment plans of Petrobaltic S.A. and Grupa LOTOS S.A. are synchronised.

The activities currently under way amongst other things take into account the possibility of finding a partner with whom the company would be able to jointly develop the B–4 and B–6 gas fields. The geological analyses and analyses of reserves carried out to date by Petrobaltic S.A.'s potential partners have confirmed the positive assessment of the fields, opening up a possibility for future collaboration that would lead to the implementation of a joint project. The Company addressed to its potential partners terms of reference for bids related to development of the B-4 and B-6 fields on a partnership basis.

Information on Interests in Norwegian Production and Exploration Licences

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

Purchase of Interests in Norwegian Production Licences

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Crude oil (category 2P*) – 5.0m tonnes,

Natural gas (category 2P*) – 4.4m cubic metres.

**2P – proved and probable reserves.*

The 10+ Programme (Comprehensive Technical Upgrade Programme)

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

Following the completion of the preparatory phase, the Programme's implementation commenced. The following units at the Gdańsk Refinery of Grupa LOTOS S.A. are to be completed by the end of 2010:

- crude distillation unit (CDU/VDU),
- Diesel hydrodesulphurisation unit (HDS),
- mild hydrocracker (MHC),
- residue oil supercritical extraction (ROSE),
- hydrogen generation unit (HGU),
- amine sulphur recovery unit (ASR),
- infrastructure expansion (tanks, utilities, inter-facility connections).

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

The Programme schedule is intended to enhance the Programme's efficiency and security. Thanks to the modified structure of the project it is possible to:

- mitigate the risk resulting from shortages of staff and materials, as well as from limited availability of contractors,
- bring down the costs of the Programme and better adapt the financing strategy for the Programme to the Company's capabilities,
- benefit from the favourable trends on the bitumen market.

According to the government's strategy and the National Roads Construction Programme for 2008–2012, the bitumen market is expected to grow from 2010 at least until 2012, both in terms of product volumes and prices (or margins). Following completion of the 10+ Programme, Grupa LOTOS S.A. plans to increase its annual sales of bitumens to approx. 1,100 thousand tonnes. At present, the Parent Undertaking is making preparations to implement the heavy residue gasification and energy generation project (IGCC), which will enable it to launch, in 2012–2015, the second phase of the 10+ Programme, which will focus on the construction and commissioning of the heavy residue gasification unit. As at December 31st 2008, capitalised expenditure on the IGCC project was PLN 45,853 thousand. The Company's Management Board expects that the financial benefits to be derived from the project will be no less than the expenditure incurred.

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

Implementation of the 10+ Programme – Oil Distillation Unit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The unit is scheduled to be commissioned in December 2010.

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

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

12. Non-Current Receivables

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

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

13. Prepayments and Accrued Income

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

14. Investment Property

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Gross value at beginning of period	4.387	6.887
Increase, including:	6.953	-
- transfer from property, plant and equipment	6.953 [1]	-
Decrease, including:	(4.555)	(2.500)
- sale	(4.555) [1]	(2.500)
Gross value at end of period	**6.785**	**4.387**
Impairment losses at beginning of period	942	1.314
Increase	945	-
Decrease	-	(372)
Impairment losses at end of period	**1.887**	**942**
Net value at beginning of period	3.445	5.573
Net value at end of period	**4.898**	**3.445**

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

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

15. Intangible Assets

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

Changes to Intangible Assets

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

Decrease, including:	-	(251)	(1,854)	-	-	-	(2,105)
- sale	-	-	-	-	-	-	-
- liquidation	-	(248)	(331)	-	-	-	(579)
- currency translation differences on foreign operations	-	-	(31)	-	-	-	(31)
- other	-	(3)	(1,492)	-	-	-	(1,495)
Gross book value as at Dec 31 2008 (audited)	**528**	**17,966**	**88,416**	**2,779**	**7,420**	**3,400**	**114,330**
Accumulated amortisation as at Jan 1 2007 (audited)	**163**	**6,215**	**19,081**	**631**	**1,292**	**539**	**26,751**
Increase, including:	106	2,875	10,191	372	1,300	381	14,472
- amortisation	106	2,820	10,191	372	1,300	381	14,417
- changes in the structure of the Group	-	56	-	-	-	-	56
- transfer	-	(1)	-	-	-	-	(1)
- other increases	-	-	-	-	-	-	-
Decrease, including:	-	(49)	(11)	-	-	-	(60)
- sale	-	(2)	-	-	-	-	(2)
- liquidation	-	(43)	(11)	-	-	-	(54)
- currency translation differences on foreign operations	-	(4)	-	-	-	-	(4)
Accumulated amortisation as at Dec 31 2007 (audited)	**269**	**9,041**	**29,261**	**1,003**	**2,592**	**920**	**41,163**
Accumulated amortisation as at Jan 1 2008 (audited)	**269**	**9,041**	**29,261**	**1,003**	**2,592**	**920**	**41,163**
Increase, including:	102	3,125	12,022	662	2,542	707	17,791
- amortisation	102	3,092	13,004	662	1,608	707	17,806
- transfer	-	33	(982)	-	934	-	(15)
- other increases	-	-	-	-	-	-	-
Decrease, including:	-	(238)	(331)	-	-	-	(569)
- liquidation	-	(235)	(331)	-	-	-	(566)
- other	-	(3)	-	-	-	-	(3)
Accumulated amortisation as at Dec 31 2008 (audited)	**371**	**11,928**	**40,952**	**1,665**	**5,134**	**1,627**	**58,385**
Impairment losses as at Jan 1 2007 (audited)	**(27)**	**52**	**-**	**-**	**-**	**-**	**25**
Increase	-	-	-	-	-	-	-
Decrease	-	(1)	-	-	-	-	(1)
Impairment losses as at Dec 31 2007 (audited)	**(27)**	**51**	**-**	**-**	**-**	**-**	**24**
Impairment losses as at Jan 1 2008 (audited)	**(27)**	**51**	**-**	**-**	**-**	**-**	**24**
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Impairment losses as at Dec 31 2008 (audited)	**(27)**	**51**	**-**	**-**	**-**	**-**	**24**

Net book value as at Jan 1 2007 (audited)	392	7,626	44,984	501	2,856	1,081	55,858
Net book value as at Dec 31 2007 (audited)	286	6,243	55,228	1,585	3,242	2,308	64,999
Net book value as at Dec 31 2008 (audited)	184	5,987	47,464	1,114	2,286	1,773	55,921

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

16. Assets Held for Sale

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

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

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

17. Business combinations

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

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

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

Upon obtaining the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.) of control over KRAK-GAZ Sp. z o.o. by purchasing its shares, on July 9th 2007 LOTOS Gaz S.A. entered into the final agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. Prior to obtaining approval from the Competition and Consumer Protection Office, on March 26th 2007 LOTOS Gaz S.A. concluded a conditional preliminary agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. from natural persons.

The shares, with a total par value of PLN 3,450 thousand, are equal and indivisible, and represent 100% of the share capital of KRAK-GAZ Sp. z o.o. The acquisition is deemed a long-term investment by LOTOS Gaz S.A.

The shares were acquired for PLN 16,368 thousand, and the transaction was financed with LOTOS Gaz S.A.'s own financial resources. The acquisition cost (the cost of merger) was affected by additional expenses incurred by LOTOS Gaz S.A. in connection with tax and financial consulting services.

The core business of KRAK-GAZ Sp. z o.o. consists in wholesale and retail distribution of LPG.

Pursuant to IFRS 3, as at the date an entity is taken over, i.e. as at the acquisition date, the acquirer is obliged to allocate the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date. Any difference between the acquisition cost and the acquirer's interest in the value of the assets, liabilities and contingent liabilities so measured constitutes the goodwill.

The allocation is made exclusively with respect to those assets and liabilities that exist on the acquisition date. In addition, IFRS 3 prohibits, in relation to the acquired net assets, the creation of provisions for operating losses of future periods as they are an item arising after the acquisition.

As at the date of these consolidated financial statements, LOTOS Gaz S.A., in accordance with the above policies, recognised the difference between the acquisition cost of businesses and the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities as goodwill.

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

PLN '000	
Merger cost (acquisition cost)	**17,329**
Interest in the equity of acquired undertakings	100,00%
Current assets, including:	42,987
Cash and cash equivalents	91
Non-current assets	20,210
Total assets	**63,197**
Provisions and other	792
Current liabilities and accruals and deferred income	57,721
Total liabilities	**58,513**
Net assets	**4,684**
The Company's share in net assets	**4,684**
Excess of the share in net assets over acquisition cost	**12,645**

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

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

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

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

On November 26th 2008, the Director of the Customs Chamber initiated enforcement proceedings against KRAK–GAZ Sp. z o.o. by issuing enforcement orders covering the amount specified in the decision issued by the Director of Tax Supervision Authority.

On December 8th 2008, KRAK–GAZ Sp. z o.o. appealed against the decision to initiate enforcement proceedings. In accordance with the letter of December 17th 2008, the Director of the Customs Chamber decided to allow the appeal concerning errors in calculating the amount of excise tax arrears and to discontinue the proceedings.

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

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

Furthermore, KRAK-GAZ Sp. z o.o. submitted with the Director of Tax Supervision Authority in Kraków a request to stay execution of the decisions and, if this request were not to be granted, a request to allow payment of the tax arrears in instalments.

By virtue of a decision of February 24th 2009, the Director of the Customs Chamber in Kraków dismissed the request to stay the execution of the decisions. KRAK-GAZ Sp. z o.o. lodged a complaint against the dismissal on March 9th 2009, seeking reversal of the decision of February 24th 2009 and stay of execution of the decision issued by the Director of Tax Supervision Authority on October 31st 2008. On March 30th 2009, KRAK–GAZ Sp. z o.o. received a notification from the Customs Office in Kraków, responsible for considering the company’s request to allow payment of tax arrears in instalments, setting April 30th 2009 as a new deadline for considering the request.

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

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

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

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

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

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

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

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

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

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

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

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

As part of the goodwill test performed by the Group, the value in use as at December 31st 2007 was determined at:

- PLN 272,733 thousand for the ESSO service stations,
- PLN 49,783 thousand for the Slovnaft service stations.

The balance-sheet value of assets purchased from ExxonMobile and Slovnaft Polska as at December 31st 2007 amounts to:

- PLN 278,463 thousand for the ESSO service stations,
- PLN57,717 thousand for the Slovnaft service stations.

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

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

18. Investments in Associated Undertakings

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

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

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Grupa AB „Naftos Gavyba”	73,488	48,519
Energobaltic Sp. z o.o.(1)	-	-
Total investments in associated undertakings	73,488	48,519

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

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

Net assets of material undertakings valued with equity method:

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

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

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

Sales revenue of material undertakings valued with equity method:

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

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

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

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Grupa AB „Naftos Gavyba"	26,033	22,288
Pozostałe spółki wyceniane metodą praw własności	-	(12)
Razem	26,033	22,276

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

19. Long-Term Financial Assets

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

20. Current Financial Assets

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

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

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

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

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

21. Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

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

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

Fair value of futures contracts for carbon dioxide (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.

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

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

Financial Assets Available for Sale

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

Loans Advanced and Receivables

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

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

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty GLIMAR S.A. of Gorlice bankrupt. Upon consideration on March 11th 2008 of the petition for discontinuation of the bankruptcy proceedings, submitted by bankruptcy administrator Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, Commercial Court Division V, decided to discontinue the bankruptcy proceedings pursuant to Art. 361.2 of the Bankruptcy and Recovery Law.

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

On December 1st 2008, Grupa LOTOS S.A. concluded an agreement with Podkarpacki Holding Budowy Dróg Drogbud Sp. z o.o. of Strzyżów concerning disposal of its shares in Rafineria Nafty GLIMAR S.A.

Under the agreement, Grupa LOTOS S.A. sold 9,520,000 shares in Rafineria Nafty GLIMAR S.A. with a par value of PLN 10 per share, representing 91.54% of the company's share capital. The agreed transaction value was PLN 1,000 thousand. As at the agreement execution date, the carrying value of the shares in Grupa LOTOS S.A.'s accounting books was PLN 0.

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

Financial Liabilities Valued at Amortised Cost

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

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

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

- The Group met all contractual provisions (IFRS 7, Par. 18.),
- Interest income in connection with impaired financial assets was recognised by the Group as immaterial (IFRS 7, Par. 20.d.),
- the Group does not apply hedge accounting; accordingly, changes in fair value of derivative instruments are charged to the income statement (IFRS 7, Par. 22.),
- The Group did not acquire any financial assets at a price different from their fair value (IFRS 7, Par.28.),
- The Group did not obtain any assets by taking possession of collateral held as security (IFRS 7, Par. 38.).

21.1. Carrying Value of Financial Instruments

Dec 31 2008 (audited)	Note	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Shares:		-	-	11,041	-	-	11,041
- non-current	19	-	-	9,917	-	-	9,917
- current		-	-	1,124	-	-	1,124
Prepayments for shares	20	-	25,332	-	-	-	25,332
Decommissioning fund	19	-	16,599	-	-	-	16,599
Loans:	30	-	-	-	-	-	-
- non-current		-	-	-	-	-	-
- current		-	-	-	-	-	-
Derivative financial instruments	20	302,304	-	-	-	-	302,304
Trade and other receivables:		-	1,260,660	-	-	-	1,260,660
- non-current		-	9,152	-	-	-	9,152
- current		-	1,251,508	-	-	-	1,251,508
Cash and cash equivalents	24	-	712,801	-	-	-	712,801
Trade and other payables:	33	-	-	-	-	(1,260,855)	(1,260,855)
- non-current		-	-	-	-	(4,916)	(4,916)
- current		-	-	-	-	(1,255,939)	(1,255,939)
Loans and borrowings:	30	-	-	-	-	(3,919,605)	(3,919,605)
- non-current		-	-	-	-	(3,412,245)	(3,412,245)
- current		-	-	-	-	(507,360)	(507,360)
Financial liabilities:	32	-	-	-	(218,526)	(1,415)	(219,941)
Lease liabilities:	32	-	-	-	-	(1,415)	(1,415)
- non-current		-	-	-		(854)	(854)
- current		-	-	-	-	(561)	(561)
Derivative financial instruments	32	-	-	-	(218,526)	-	(218,526)
Total		**302,304**	**2,015,392**	**11,041**	**(218,526)**	**(5,181,875)**	**(3,071,664)**

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

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

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

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

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

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

Dec 31 2007 (audited) PLN '000	**Note**	**Financial assets at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at fair value through profit or loss – held for trading**	**Financial liabilities at amortised cost**	**Total**
Shares:		-	-	8,178	-	-	8,178
- non-current	19	-	-	8,093	-	-	8,093
- current		-	-	85	-	-	85
Prepayments for shares	20	-	23,117	-	-	-	23,117
Decommissioning fund	19	-	13,443	-	-	-	13,443
Loans:	30	-	58	-	-	-	58
- non-current		-	17	-	-	-	17
- current		-	41	-	-	-	41
Derivative financial instruments	20	96,099	-	-	-	-	96,099
Trade and other receivables:		-	1,461,080	-	-	-	1,461,080
- non-current		-	12,668	-	-	-	12,668
- current		-	1,448,412	-	-	-	1,448,412
Cash and cash equivalents	24	-	924,995	-	-	-	924,995
Trade and other payables:	33	-	-	-	-	(1,222,473)	(1,222,473)
- non-current		-	-	-	-	(3,774)	(3,774)
- current		-	-	-	-	(1,218,699)	(1,218,699)
Loans and borrowings:	30	-	-	-	-	(1,360,136)	(1,360,136)
- non-current		-	-	-	-	(842,943)	(842,943)
- current		-	-	-	-	(517,193)	(517,193)
Financial liabilities:	32	-	-	-	(3,906)	(1,628)	(5,534)
Lease liabilities:	32	-	-	-	-	(1,628)	(1,628)
- non-current		-	-	-	-	(629)	(629)
- current		-	-	-	-	(999)	(999)
Derivative financial instruments	32	-	-	-	(3,906)	-	(3,906)
Total		**96,099**	**2,422,693**	**8,178**	**(3,906)**	**(2,584,237)**	**(61,173)**

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

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

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

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

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

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

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

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

Year ended Dec 31 2008 (audited) PLN '000	**Financial assets/ liabilities at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at amortised cost**	**Total**
Interest income/(expense)	-	50,486	-	(48,565)	1,921
Foreign exchange gains/(losses)	-	(76,897)	-	(591,642)	(668,539)
(Recognition)/reversal of impairment charges	-	(27,931)	-	-	(27,931)
Gains/(losses) on fair value measurement and realisation	(247,237)	-	-	-	(247,237)
Gains/(losses) on disposal	-	-	1,027	-	1,027
Total	**(247,237)**	**(54,342)**	**1,027**	**(640,207)**	**(940,759)**

Year ended Dec 31 2008 (audited) PLN '000	**Financial assets/ liabilities at fair value through profit or loss – held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Financial liabilities at amortised cost**	**Total**
Interest income/(expense)	-	41,205	-	(28,182)	13,023
Foreign exchange gains/(losses)	-	(71,414)	-	11,239	(60,175)
(Recognition)/reversal of impairment charges	-	5,976	-	-	5,976
Gains/(losses) on fair value measurement and realisation	122,473	-	-	-	122,473
Gains/(losses) on disposal	2,188	-	2,710	-	4,898
Total	**124,661**	**(24,233)**	**2,710**	**(16,943)**	**86,195**

21.3. Financial Risk Management

The Company is exposed to financial risk, including chiefly:

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

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

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

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

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

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

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

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

Risk Related to Prices of Raw Materials and Petroleum Products

The concept for the management of risk related to prices of raw materials and petroleum products covers the period until the end of 2010, by which time also the 10+ Programme is to have been completed.

The main objective of the management concept is to increase the probability of generating cash flows guaranteeing safe financing of investment projects under the 10+ Programme.

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

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

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

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

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

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

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

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

Open refining margin transactions as at December 31st 2008:

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

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

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

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

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

Open refining margin transactions as at December 31st 2007:

Type of transaction	Type of transaction	Transaction execution date	Beginning of the valuation period	End of the valuation period	Number of barrels	Price (USD/barrel)	Fair value as at Dec 31 2007 (PLN '000) (1)
Grupa LOTOS S.A.	Commodity swap	Nov 9 2007	Jan 1 2008	Mar 31 2008	(1,040,000)	9	1,638
Grupa LOTOS S.A.	Commodity swap	Nov 9 2007	Apr 1 2008	Jun 30 2008	(750,000)	9	347
Grupa LOTOS S.A.	Commodity swap	Nov 12 2007	Jan 1 2008	Mar 31 2008	(990,000)	9	1,776
Grupa LOTOS S.A.	Commodity swap	Nov 12 2007	Jan 1 2008	Mar 31 2008	(999,999)	9	1,526
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Apr 1 2008	Jun 30 2008	(490,000)	9	429
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Apr 1 2008	Jun 30 2008	(799,998)	9	273
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Apr 1 2008	Jun 30 2008	(129,999)	9	92
Grupa LOTOS S.A.	Commodity swap	Nov 14 2007	Apr 1 2008	Jun 30 2008	(620,000)	9	362
Grupa LOTOS S.A.	Commodity swap	Nov 14 2007	Apr 1 2008	Jun 30 2008	(90,000)	9	53
Grupa LOTOS S.A.	Commodity swap	Nov 20 2007	Apr 1 2008	Jun 30 2008	(510,000)	9	295
Grupa LOTOS S.A.	Commodity swap	Nov 21 2007	Apr 1 2008	Jun 30 2008	(609,999)	9	356
Grupa LOTOS S.A.	Commodity swap	Nov 21 2007	Jul 1 2008	Sep 30 2008	(500,001)	9	(63)

Grupa LOTOS S.A.	Commodity swap	Nov 22 2007	Jul 1 2008	Sep 30 2008	(246,000)	9	29
Grupa LOTOS S.A.	Commodity swap	Nov 27 2007	Apr 1 2008	Jun 30 2008	(700,002)	10	835
Grupa LOTOS S.A.	Commodity swap	Dec 13 2007	Jul 1 2008	Sep 30 2008	(500,001)	9	(307)
Grupa LOTOS S.A.	Commodity swap	Dec 20 2007	Jul 1 2008	Sep 30 2008	(999,999)	9	(370)
					(9,975,998)	**TOTAL, including:**	**7,271**
						positive	8,011
						negative	(740)

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

Total refining margin position as at December 31st 2008:

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

Total refining margin position as at December 31st 2007:

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

Risk Related to Prices of Carbon Dioxide (CO_2) Emmission Allowances

The risk related to prices of CO_2 allowances is managed in line with the assumptions set forth in The Strategy for Managing the Risk Related to Prices of CO_2 Allowances by Grupa LOTOS S.A. The period covered by the management is determined by the individual phases of the Kyoto protocol; currently, it is the period until the end of 2012.

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

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

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

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

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

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

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

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

Open CO_2 allowances transactions as at December 31st 2008:

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

Open CO_2 allowances transactions as at December 31st 2007:

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

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

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

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

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

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

Currency Risk

Currency risk is managed in line with the assumptions stipulated in The Strategy of Currency Risk Management at Grupa LOTOS S.A. The period covered by currency risk management is determined according to individual budget years.

Limits are established for aggregate positions, such as the total and global gross positions, which are determined by reference to net positions in the particular currencies. Position and maximum loss limits are expressed as percentages of Grupa LOTOS S.A.'s equity.

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

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

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

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

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

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

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

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

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

Open currency transactions as at December 31st 2008:

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

Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Apr 30 2009	USD/PLN	10,000,000	2.7	(26,800,000)	3,118
Grupa LOTOS S.A.	Currency forward	Oct 30 2008	Apr 30 2009	USD/PLN	5,000,000	2.7	(13,402,500)	1,556
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Feb 4 2009	USD/PLN	(1,300,000)	2.8	3,612,635	(252)
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Jan 16 2009	EUR/USD	25,000,000	1.3	(31,455,250)	11,081
Grupa LOTOS S.A.	Currency forward	Nov 3 2008	Feb 4 2009	EUR/PLN	1,100,000	3.6	(3,928,705)	668
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Jan 14 2009	EUR/USD	25,000,000	1.3	(31,456,250)	11,089
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Feb 12 2009	EUR/USD	20,000,000	1.3	(25,526,000)	7,679
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Feb 12 2009	EUR/USD	6,000,000	1.3	(7,657,800)	2,304
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Mar 16 2009	EUR/USD	25,000,000	1.3	(31,409,250)	11,009
Grupa LOTOS S.A.	Currency forward	Nov 4 2008	Mar 17 2009	EUR/USD	25,000,000	1.3	(31,408,000)	11,009
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Apr 15 2009	EUR/USD	30,000,000	1.2	(37,425,000)	13,857
Grupa LOTOS S.A.	Currency forward	Nov 12 2008	Apr 20 2009	USD/PLN	(20,000,000)	3	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	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	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)
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	(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	(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	(65,250,900)	(6)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Jan 15 2009	USD/PLN	7,000,000	3	(20,778,100)	(19)
Grupa LOTOS S.A.	Currency forward	Dec 31 2008	Mar 16 2009	USD/PLN	21,400,000	3	(63,868,300)	(20)
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 2 2009	USD/PLN	(2,000,000)	3	5,940,000	19
Grupa LOTOS S.A.	Currency spot	Dec 31 2008	Jan 2 2009	EUR/USD	1,000,000	1.4	(1,404,000)	15
							TOTAL, including:	**134,672**
							positive	159,985
							negative	(25,313)

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Premium settlement date	Premium (PLN '000)	Fair value as at Dec 31 2008 (PLN '000) (4)
Grupa LOTOS S.A.	Call option	Aug 8 2008	Feb 12 2009	EUR/USD	50,000,000	1.6	(79,500,000)	12,08,2008	(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)	13,08,2008	(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)	09,09,2008	(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	22,10,2008	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	29,10,2008	85	(122)
Grupa LOTOS S.A.	Call option	Nov 4 2008	Feb 12 2009	EUR/USD	(50,000,000)	1.6	79,500,000	07,11,2008	329	(385)
Grupa LOTOS S.A.	Call option	Nov 4 2008	Feb 13 2009	EUR/USD	(85,000,000)	1.6	135,150,000	07,11,2008	600	(692)
								TOTAL, including:	**(3,677)(5)**	-
								positive	1,452	2,391
								negative	(5,129)	(2,391)

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

Total currency position of the Parent Undertaking as at December 31st 2008 stood at:

	USD/PLN position			EUR/PLN position		
Period	**Underlying**	**Transaction**	**Total**	**Underlying**	**Transaction**	**Total**
2009	596.635.901	(598.067.105)	(1.431.204)	(368.983.750)	372.550.000	3.566.250

Open currency transactions as at December 31st 2007:

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

Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 28 2008	EUR/USD	40,000,000	1.4	(57,606,000)	3,032
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 23 2008	EUR/USD	40,000,000	1.4	(57,570,000)	3,125
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	EUR/PLN	25,000,000	3.6	(90,562,500)	(863)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	USD/PLN	24,000,000	2.5	(60,434,400)	(1,903)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 29 2008	EUR/USD	20,000,000	1.4	(28,794,600)	1,545
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 22 2008	USD/PLN	(50,000,000)	2.5	126,620,000	4,700
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Jan 8 2008	USD/PLN	(30,000,000)	2.5	75,762,000	2,701
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 28 2008	EUR/PLN	(45,000,000)	3.6	162,851,850	1,398
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	USD/PLN	(32,000,000)	2.5	80,849,600	2,857
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	USD/PLN	(25,000,000)	2.5	63,057,500	2,126
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	EUR/PLN	(7,000,000)	3.6	25,328,800	221
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	USD/PLN	(20,000,000)	2.5	50,452,000	1,698
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 29 2008	EUR/USD	20,000,000	1.4	(28,745,400)	1,654
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 28 2008	EUR/PLN	(50,000,000)	3.6	180,997,500	1,742
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Feb 21 2008	EUR/PLN	(20,000,000)	3.6	72,480,000	733
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 31 2008	EUR/USD	50,000,000	1.4	(71,930,000)	4,003
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Feb 25 2008	USD/PLN	(50,000,000)	2.5	124,073,300	2,163
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 26 2008	USD/PLN	(50,000,000)	2.5	124,075,500	2,162
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Jan 7 2008	EUR/PLN	(10,000,000)	3.6	36,096,000	271
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 13 2008	EUR/USD	50,000,000	1.4	(72,452,250)	2,735
Grupa LOTOS S.A.	Currency forward	Dec 28 2007	Jan 9 2008	EUR/PLN	(10,000 000)	3.6	36,055,890	229
Grupa LOTOS S.A.	Currency spot	Dec 28 2007	Jan 2 2008	EUR/PLN	(3,500,000)	3.6	12,607,000	70
							TOTAL, including:	**84,934**
							positive	87,700
							negative	(2,766)

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

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

Total currency position of the Parent Undertaking as at December 31st 2007 stood at:

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

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

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

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2008 (PLN '000)
LOTOS Asfalt Sp. z o.o.	Currency forward	Jul 8 2008	Jul 10 2009	EUR/PLN	(3,000,000)	3.3	9,984,000	(2,623)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 1 2008	Jan 2 2009	EUR/PLN	(155,000)	3.8	595,510	(51)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 3 2008	Jan 5 2009	EUR/PLN	(388,000)	3.8	1,491,860	(128)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 8 2008	Jan 9 2009	EUR/PLN	(305,000)	3.9	1,182,333	(91)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 10 2008	Jan 12 2009	EUR/PLN	(168,000)	4	665,112	(36)
LOTOS Asfalt Sp. z o.o.	Currency forward	Dec 11 2008	Jan 13 2009	EUR/PLN	(250,000)	4	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)
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	2009,05,27	EUR/PLN	(600,000)	3.6	2,145,000	(448)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	May 27 2009	EUR/PLN	(300,000)	3.6	1,068,000	(13)
LOTOS Parafiny Sp. z o.o.	Call option	Oct 16 2008	Jun 18 2009	EUR/PLN	(600,000)	3.6	2,142,000	(457)
LOTOS Parafiny Sp. z o.o.	Put option	Oct 16 2008	Jun 18 2009	EUR/PLN	(300,000)	3.6	1,068,000	(15)
							TOTAL, including:	**(2,575)**
							positive	54
							negative	(2,629)

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

Company	Type of transaction	Transaction execution date	Transaction settlement date	Currency pair	Amount in base currency	Rate	Amount in quote currency	Fair value as at Dec 31 2007 (PLN '000)
LOTOS Gaz S.A.	Currency forward	Dec 3 2007	Jan 4 2008	USD/PLN	(100,000)	2.8	282,720	(39)
LOTOS Gaz S.A.	Currency forward	Dec 7 2007	Jan 7 2008	USD/PLN	(100,000)	2.8	278,500	(35)
LOTOS Gaz S.A.	Currency forward	Dec 21 2007	Feb 21 2008	USD/PLN	(100,000)	2.8	283,080	(40)
LOTOS Gaz S.A.	Currency forward	Dec 21 2007	Jan 21 2008	USD/PLN	(100,000)	2.8	278,410	(35)
							TOTAL, including:	**(149)**
							positive	-
							negative	(149)

Interest Rate Risk

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

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

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

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

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

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

Open interest rate transactions as at December 31st 2008:

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Nominal value (USD)	Company pays	Company receives	Fair value as at Dec 31 2008 (PLN '000)(6)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 9 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.40%	LIBOR 6M	(5,912)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 13 2008	Oct 15 2008	Jun 30 2011	50,000,000	3.60%	LIBOR 6M	(6,515)
Grupa LOTOS S.A.	Interest rate swap (IRS)	May 16 2008	Oct 15 2008	Jun 30 2011	100,000,000	3.70%	LIBOR 6M	(13,494)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Jul 15 2009	Jun 30 2011	122,000,000	4.10%	LIBOR 6M	(16,271)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 4 2008	Oct 15 2008	Jun 30 2011	208,000,000	3.80%	LIBOR 6M	(30,172)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 26 2008	Jan 15 2009	Jun 30 2011	100,000,000	4.30%	LIBOR 6M	(18,803)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Jun 27 2008	Jul 15 2009	Jun 30 2011	150,000,000	4.30%	LIBOR 6M	(22,190)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 5 2008	Oct 15 2008	Jan 15 2013	100,000,000	3.80%	LIBOR 6M	(20,121)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 16 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.50%	LIBOR 6M	(17,678)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Sep 19 2008	Jan 15 2009	Jan 15 2013	(100,000,000)	4.00%	LIBOR 6M	22 848
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 7 2008	Jan 15 2009	Jan 15 2013	100,000,000	3.50%	LIBOR 6M	(17,333)
Grupa LOTOS S.A.	Interest rate swap (IRS)	Oct 8 2008	Jul 15 2011	1Jan 15 2013	100,000,000	4.20%	LIBOR 6M	(7,044)
							TOTAL, including:	**(152,685)**
							positive	22,848
							negative	(175,533)

Company	Type of transaction	Transaction execution date	Beginning of period	End of period	Nominal value (USD)	Company pays	Company receives	Fair value as at Dec 31 2008 (PLN '000)(6)
Grupa LOTOS S.A.	Forward rate agreement (FRA)	07.10.2008	15.01.2009	15.07.2009	100,000,000	2.50%	LIBOR 6M	(1,733)
							TOTAL	**(1,733)**

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

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

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

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

Liquidity Risk

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

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

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

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

Note 24 presents additional free cash remaining at the Group's disposal. Note 30 contains information on the contractual maturities of financial liabilities as at December 31st 2008 and December 31st 2007.

Credit Risk

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

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

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

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Shares:	11,041	8,178
- non-current	9,917	8,093
- current	1,124	85
Prepayments for shares	25,332	23,117
Derivative financial instruments	302,304	96,099
Decommissioning fund	16,599	13,443
Loans:	-	58
- non-current	-	17
- current	-	41
Trade and other receivables:	1,260,660	1,461,080
- non-current	9,152	12,668
- current	1,251,508	1,448,412
Cash and cash equivalents	712,801	924,995
Total	**2,328,737**	**2,526,970**

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

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

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

Dec 31 2008 (audited) PLN '000	Note	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	4% increase in exchange rate, effect on year's result		4% decrease in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	23	102,989	2,565	1,555	(2,565)	(1,555)
Financial assets – derivative financial instruments	20	302,304	(53,808)	54,808	53,808	(54,808)
Cash and cash equivalents	24	107,347	3,269	1,025	(3,269)	(1,025)
Trade and other payables	33	(230,745)	(2,613)	(6,616)	2,613	6,616
Loans	30	(3,198,294)	(126,508)	(1,012)	126,508	1,012
Financial liabilities – derivative financial instruments	32	(218,526)	(18,506)	6,507	18,506	(6,507)
Total		**(3,134,925)**	**(195,601)**	**56,267**	**195,601**	**(56,267)**

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

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

As at December 31st 2008, the financial liabilities related to negative valuation of those futures were PLN 1 thousand.

A change in the price of the CO2 emission allowances up by 10% or down (by 10%) could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the futures for the purchase of 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 by 10% or down (by 10%) could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the full barrel swap recognised in the income statement of PLN (16,655) 16,655 thousand.

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

Dec 31 2007 (audited) PLN '000	Note	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	1% increase in exchange rate, effect on year's result		1% decrease in exchange rate, effect on year's result	
			USD	EUR	USD	EUR
Trade and other receivables	23	186,284	1,629	234	(1,629)	(234)
Financial assets – derivative financial instruments	20	96,099	(36,225)	16,058	36,225	(16,058)
Cash and cash equivalents	24	161,871	1,290	329	(1,290)	(329)
Trade and other payables	33	(715,476)	(6,794)	(361)	6,794	361
Loans	30	(596,491)	(5,665)	(300)	5,665	300
Financial liabilities – derivative financial instruments	32	(3,906)	583	892	(583)	(892)
Total		**(871,619)**	**(45,182)**	**16,852**	**45,182**	**(16,852)**

As at December 31st 2007, the Parent Undertaking held futures for the purchase of CO2 EU emission allowances (EUA), measured at fair value as at the balance-sheet date.

As at December 31st 2007, the financial assets related to positive valuation of the futures for the purchase of CO2 emission allowances amounted to PLN 388 thousand.

As at December 31st 2007, the financial liabilities related to negative valuation of those futures were PLN 251 thousand.

A change in the price of the CO2 emission allowances up by 1% or down (by 1%) could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the futures for the purchase of CO2 emission allowances of PLN 165 (165) thousand.

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

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

As at December 31st 2007, the financial liabilities related to negative valuation of the full barrel swap were PLN 740 thousand.

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

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

			Change	
Dec 31 2008 (audited) PLN '000	**Note**	**Carrying value**	**1% increase**	**1% decrease**
Borrowings	19,20	58	1	(1)
Decommissioning fund	19	13,443	134	(134)
Cash and cash equivalents	24	924,995	9,250	(9,250)
Loans and borrowings	30	(1,360,136)	(13,601)	13,601
Lease liabilities	32	(1,628)	(16)	16
Financial liabilities – derivative financial instruments	32	-	-	-
Total		(423,268)	(4,232)	4,232

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

A change in interest rates up by 1% or down (by 1%) could potentially lead to a net change in the value of financial assets and liabilities as at December 31st 2007 of PLN (4,232), 4,232 thousand net.

22. Inventories

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

Impairment Charges for Inventories

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

During the year ended December 31st 2008, the Group recognised impairment charges for inventories in the amount of PLN 215,285 thousand (PLN 13,326 thousand as at December 31st 2007) and reversed impairment charges for inventories in the amount of PLN 18,285 thousand (PLN 37,626 thousand as at December 31st 2007).

As at December 31st 2008, the carrying value of inventories valued at production or acquisition cost stood at PLN 1,679,091 thousand, while the value of inventories measured at net realisable value was PLN 768,156 thousand (PLN 2,530.203 thousand and PLN 59,119 thousand, respectively, as at December 31st 2007).

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

Mandatory Stocks of Liquid Fuels

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

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

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

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

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

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Mandatory stocks	1,679,925	1,926,275

23. Trade and Other Receivables

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

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

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

Impairment Charges for Receivables

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

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

PLN '000	Year ended Dec 31 2008	Year ended Dec 31 2007
	(audited)	(audited)
Up to one month	79,932	68,442
From one to three months	13,549	6,800
From three to six months	5,021	1,288
From six months to one year	1,263	1,005
More than one year	155	6,392
Total	**99,920**	**83,927**

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

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

24. Cash and Cash Equivalents

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Cash at bank	711.132	868.291
Cash in hand	194	253
Other cash	1.475	56.451
Total	**712.801**	**924.995**

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

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

As at December 31st 2008, restricted cash amounted to PLN 84,160 thousand (PLN 17,296 thousand as at December 31st 2007). Restricted cash was held mainly by the Parent Undertaking and included:

a deposit of PLN 31,440 thousand, serving as security for the repayment of interest on the loan contracted to finance inventories,

a margin of PLN 7,263 thousand,

a deposit of PLN 1,502 thousand, serving as security for the benefit of the Customs Office in Pruszków,

funds of PLN 29,904 thousand, held in the account dedicated to payments made in connection with the investment projects under the 10+ Programme,

funds of PLN 11,961 thousand, held in the account dedicated to repayments of principal amounts of and interest on the loans/credit facilities contracted to finance the implementation of the 10+ Programme.

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

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

25. Cash Structure in the Cash-Flow-Statement

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Cash at banks	711.132	868.291
Cash in hand	194	253
Other cash	1.475	56.451
Overdraft facilities	(374.448)	(447.891)
Total cash	**338.353**	**477.104**

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

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

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

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

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

Liabilities, accruals and deferred income PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Balance-sheet change in current and non-current liabilities, and accruals and deferred income	2.911.347	1.228.886
Change in current and non-current loans and borrowings	(2.559.469)	(840.707)
Change in investment liabilities	(241.223)	(42.236)
Change in the structure of the Group	(17.719)	(73.709)
Finance lease liabilities	213	1.233
Change in income tax expense	12.377	(17.033)
Negative valuation of financial instruments	(214.620)	(3.392)
Other	-105	59
Change in liabilities and accruals and deferred income as disclosed in the cash-flow-statement	**(109.199)**	**253.101**

Inventories PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Balance-sheet change in inventories	142.075	(881.880)
Change in the structure of the Group	-	7.222
Other	-390	(8.560)
Change in inventories as disclosed in the cash-flow-statement	**141.685**	**(883.218)**

Provisions PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Balance-sheet change in provisions	(78.867)	(21.019)
Change in the structure of the Group	11	-778
Change in deferred tax liability	144.378	15.220
Other	(30.011)	2.301
Change in provisions as disclosed in the cash-flow-statement	**35.511**	**(4.276)**

Prepayments and accrued income PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Balance-sheet change in prepayments and accrued income	(113.269)	(18.370)
Change in the structure of the Group	157	258
Change in deferred tax asset	100.491	-325
Other	(32.262)	450
Change in prepayments and accrued income as disclosed in the cash-flow statement	**(44.883)**	**(17.987)**

Cash PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Balance-sheet change in cash	(212.194)	152.608
Change in interest-bearing overdraft facilities	73.443	(285.619)
Change in the structure of the Group	-	(14.050)
Change in cash as disclosed in the cash-flow-statement	**(138.751)**	**(147.061)**

26. Share Capital

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

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

The share capital comprises 113,700,000 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share confers the right to one vote at the General Shareholders Meeting and carries the right to dividend.

27. Dividend

On June 30th 2008, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution concerning the distribution of the net profit for 2007. Pursuant to the resolution, the Company's net profit for the year ended December 31st 2007, amounting to PLN 745,084 thousand, was distributed as follows:

- PLN 742,584 thousand to increase the Company's statutory reserve funds,
- PLN 2,500 thousand to increase the Company's special fund for financing Grupa LOTOS S.A.'s corporate social responsibility projects.

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

28. Earnings/(Loss) per Share

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

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

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

29. Minority Interests

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

30. Interest-Bearing Loans and Borrowings

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

Loans and Borrowings by Lender

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Non-current portion		
Kredyt Bank S.A.	32,987	38,987
Pekao S.A.	22,676	26,925
National Fund for Environmental Protection and Water Management	34,856	21,969
Raiffeisen Bank Polska	6,000	8,000
Bank consortium (1)*	1,184,720	486,379
Bank consortium (2)**	1,434,195	-
Bank consortium (3)***	479,576	-
Bank consortium (5)*****	217,235	260,683
Total non-current portion	**3,412,245**	**842,943**
Current portion		
Kredyt Bank S.A.	6,000	6,000
Pekao S.A.	73,955	235,560
ING Bank Śląski S.A.	24,304	42,199
PKO BP S.A.	18,978	24,600
National Fund for Environmental Protection and Water Management	5,000	4,250
Bank Millennium S.A.	-	72,341
Raiffeisen Bank Polska S.A.	2,081	4,000

Bank Zachodni WBK S.A.	-	2,101
Bank Handlowy w Warszawie S.A.	-	62,040
Bank Gospodarki Żywnościowej S.A.	-	553
Bank BPH S.A.	-	20,044
BRE Bank S.A.	19,363	-
Bank consortium (1)*	11,557	-
Bank consortium (2)**	11,629	-
Bank consortium (3)***	3,748	-
Bank consortium (4)****	287,247	-
Bank consortium (5)*****	43,498	43,505
Total current portion	**507,360**	**517,193**
Total current portion	**3,919,605**	**1,360,136**

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

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

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

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

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

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

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising BANK POLSKA KASA OPIEKI S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw and RABOBANK POLSKA S.A. of Warsaw, executed a loan agreement. The agreement provides for a four-year revolving loan for a total amount of USD 400,000 thousand (PLN 1,004,600 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 19th 2007), for refinancing and financing the inventories of Grupa LOTOS S.A. The agreement was the first element of the financing strategy for the operations of Grupa LOTOS S.A. in the coming years, related to the execution of the 10+ Programme. The lending term under the agreement may be extended by the parties by one year. The basic security for the loan is an agreement on registered pledge over Grupa LOTOS S.A.'s inventories (along with the assignment of rights under agreements on storage of inventories and under insurance contracts) and agreement on pledge over cash receivables under an agreement for keeping bank accounts of Grupa LOTOS S.A. concluded in relation to the loan agreement (together with power of attorney to these accounts). The other provisions of the agreement, including those pertaining to contractual penalties, do not differ from provisions commonly applied in agreements of such type.

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

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

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

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

Concurrently, Grupa LOTOS S.A. executed a sub-agreement under the credit facility agreement, concerning a credit facility tranche guaranteed by SACE S.p.A.

- Servizi Assicurativi del Commercio Estero, to which the following are parties: BNP Paribas S.A., Fortis Bank S.A./N.V.,
- Succursale in Italia, Banco Bilbao Vizcaya Argentaria S.A., Milan and SACE S.p.A. - Servizi Assicurativi del Commercio Estero.

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

The agreement concerns a long-term credit facility for the total amount of USD 1,750,000 thousand (PLN 3,739,050 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising an term loan facility of USD 975,000 thousand (PLN 2,083,185 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (2)), a redrawable working capital loan facility of USD 200,000 thousand (PLN 427,320 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (4)), an investment loan of USD 425,000 thousand guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero (PLN 908,055 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (3)) and a contingent term loan facility of USD 150,000 thousand (PLN 320,490 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) (Bank Consortium (2)). The long-term credit facility must be repaid not later than 12.5 years after the first interest payment date. The other terms and conditions of the credit facility agreement, including those pertaining to the security, do not differ from the standard terms and conditions of such agreements.

The credit facility is secured principally with:

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

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

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

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

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

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

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

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

As at December 31st 2008, the Company had drawn under the term loan facility USD 709,533 thousand (the equivalent of PLN 2,101,495 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2008), including letters of credit issued for the amount of approx. USD 63,381 thousand (the equivalent of PLN 187,722 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2008) described in Note 42, items 10, 11, 16 and 17, issued for the total amount of EUR 47,428 thousand. The working capital loan was made available to Grupa LOTOS S.A. in the form of overdraft facilities which are used by the Company on an as-needed basis. By the date of these consolidated financial statements, funds drawn under the facility were used by Grupa LOTOS S.A. according to its needs.

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

PLN '000	EUR loans and borrowings	USD loans and borrowings	PLN loans and borrowings	Total
2009	10,557	66,762	430,041	507,360
2010	2,459	6,770	61,279	70,508
2011	2,459	1,234,290	57,979	1,294,728
2012	2,459	107,363	57,979	167,801
2013	2,459	109,085	55,479	167,023
after 2013	4,918	1,648,713	58,554	1,712,185
Total	**25,311**	**3,172,983**	**721,311**	**3,919,605**

The above table presents loans and borrowings by maturity date.

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

Loans and borrowings as at December 31st 2008:

Bank's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
PKO BP S.A.	Warsaw	133,941	-	215	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	40,000 USD or its equivalent	82	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Consortium (1)	-	-	400,000 USD	11,557	3,768 USD	1,184,720	400,000 USD	Mar 15 2009	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period as selected from time to time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under inventory storage agreements, submission to enforcement
Bank Consortium (2)	-	-	1,125,000 USD	11,629	3,926 USD	1,434,195	484,231 USD	Mar 15 2009	Jan 15 2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period as selected from time to time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and management of the 10+ Programme, assignment of rights under insurance agreements relating to the Gdańsk refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10m per year, submission to enforcement
Bank Consortium (3)	-	-	425.000 USD	3,748	1.266 USD	479,576	161.920 USD	Mar 15 2009	Jan 15 2021	fixed interest rate	
Bank Consortium (4)	-	-	200,000 USD or its equivalent	246,093	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	
				8,096	1.940 EUR	-	-			3M EURIBOR + bank's margin	
				33,058	11.161 USD	-	-			3M LIBOR USD + bank's margin	

Bank Consortium [5]	Warsaw	340,000	-	43,498	-	217,235	-	Dec 31 2009	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	32,987	-	Dec 31 2009	Jun 30 2015	1M WIBOR + bank's margin	mortgage
PKO BP S.A.	Warsaw	25,000	-	13,680	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	none
Pekao S.A.	Warsaw	30,000	-	5,678	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account
Raiffeisen Bank Polska S.A.	Rzeszów	10,000	-	2,081	-	6,000	-	Dec 31 2009	Dec 28 2012	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, security (deposit) mortgage
Pekao S.A.	Warsaw	15,000	-	9,605	-	-	-	Jun 30 2009	-	1M WIBOR + bank's margin	power of attorney over bank account, submission to enforcement, registered pledge over inventories
Pekao S.A.	Warsaw	20,000	-	19,404	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney over bank account
ING Bank Śląski S.A.	Katowice	23,500	-	21,506	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
BRE Bank S.A.	Warsaw	30,000	-	19,363	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	blank promissory note
ING Bank Śląski S.A.	Katowice	6,000	-	856	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	9,000	-	5,083	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables, promissory notes, pledge over inventories
National Fund for Environmental Protection and Water Management	Warsaw	15,000	-	3,000	-	3,300	-	Sep 30 2009	Sep 30 2010	0,5 of the rediscount rate for promissory notes	surety, promissory note
Pekao S.A.	Kraków	26,837	7,060 EUR	2,461	590 EUR	14,754	3,536 EUR	Oct 31 2009	Oct 31 2015	1M EURIBOR + bank's margin	mortgage

Pekao S.A.	Kraków	30,000	-	30,005	-	-	-	Jun 30 2009	-	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Kraków	44,754	-	32	-	192	-	Oct 31 2009	Oct 31 2015	1M WIBOR + bank's margin	mortgage
National Fund for Environmental Protection and Water Management	Warsaw	35,000	-	2,000	-	31,556	-	Dec 31 2009	Dec 20 2014	0,8 of the rediscount rate for promissory notes	bank guarantee, promissory note
ING Bank Śląski S.A.	Katowice	2,000	-	1,860	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage
Pekao S.A.	Warsaw	56,409	14.800 USD	6,770	2,286 USD	7,730	2,610 USD	Dec 31 2009	Feb 28 2011	1M LIBOR USD + bank's margin	mortgage
			TOTAL	**507,360**	**22,407 USD**	**3,412,245**	**1,048,761 USD**				
				-	**2,530 EUR**	**-**	**3,536 EUR**				

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

Loans and borrowings as at December 31st 2007:

		Loan amount as per agreement		**Outstanding loan amount (current portion)**		**Outstanding loan amount (non-current portion)**		**Maturity date**			
Bank's name; form of incorporation	**Registered office**	**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**	**Financial terms and conditions (interest rate, interest payment schedule etc,)**	**Type of security**
Bank Millennium S.A.	Warsaw	120,000	-	72,341	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
PKO BP S.A.	Warsaw	234,000	-	16,705	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		-	-	-	-		-	1M LIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	40,000 USD or its equivalent	1,741	715 USD	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		14,647	4,089 EUR	-	-		-	1M LIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		586	-	-	-		-	T/N WIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-	40,000 USD or its equivalent	60,844	24,987 USD	-	-	or its equivalent	-	SW LIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		610	170 EUR	-	-		-	SW EURIBOR + bank's margin	submission to enforcement

Bank BPH S.A.	Warsaw	20,000	-	20,044	-	-	-	or its equivalent	-	O/N WIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw	or equivalent	-	-	-	-	-		-	1M LIBOR + bank's margin	submission to enforcement
BZ WBK S.A.	Warsaw	30,000	-	2,101	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	300,000	-	188,961	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
Bank Consortium (1)	-	-	400,000 USD	-	-	486,379	199,745 USD	Mar 15 2008	Dec 20 2011	based on 3M or 6M LIBOR USD, depending on the interest period as selected from time to time + bank's margin	registered pledge over inventories, registered pledge over bank accounts, assignment of rights under inventory insurance agreements, assignment of rights under agreements for storage of inventories, submission to enforcement
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	38,987	-	Dec 31 2008	Jun 30 2015	1M LIBOR + bank's margin	mortgage
Bank Consortium (5)	Warsaw	340,000	-	43,505	-	260,683	-	Dec 31 2008	Dec 31 2014	1M LIBOR + bank's margin	mortgage
Bank Pekao S.A.	Warsaw	14,349	-	3,423	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	power of attorney over bank account
Bank Pekao S.A.	Warsaw	8,687	-	8,687	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement, power of attorney over bank account
Raiffeisen Bank Polska S.A.	Rzeszów branch	10,000	-	2,000	-	8,000	-	Jan 31 2008	Dec 28 2012	1M LIBOR + bank's margin	power of attorney over bank account, security (deposit) mortgage
Raiffeisen Bank Polska S.A.	Rzeszów branch	10,000	-	2,000	-	-	-	Jan 31 2008	-	1M LIBOR + bank's margin	transfer of receivables, registered pledge on inventories, assignment
Bank Gospodarki Żywnościowej S.A.	Kraków	2,641	-	553	-	-	-	Sep 30 2008	-	11M LIBOR + bank's margin	registered pledge over non-current assets

Bank Pekao S.A.	Warsaw	20,000	-	18,381	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	power of attorney over bank account
ING Bank Śląski S.A.	Kraków	10,000	-	9,797	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	5,000	-	4,684	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	assignment of receivables
Bank Pekao S.A.	Warsaw	430	-	430	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	30,000	-	16,014	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	mortgage, assignment of receivables
PKO BP S.A.	Warsaw	9,000	-	7,895	-	-	-	or its equivalent	-	1M LIBOR + bank's margin	mortgage, pledge, promissory notes, assignment
National Fund for Environmental Protection and Water Management	Warsaw	15,000	-	3,000	-	6,300	-	Sep 30 2008	Sep 30 2010	0.5 of the rediscount rate	surety
Bank Pekao S.A.	Kraków	25,289	7,060 EUR	2	1 EUR	14,777	4,125 EUR	Mar 31 2008	Dec 31 2015	1M LIBOR + bank's margin	ordinary mortgage on real estate
Bank Pekao S.A.	Kraków	20,000	-	5,426	-	-	-	Sep 30 2008	-	1M LIBOR + bank's margin	security (deposit) mortgage on real estate
Bank Pekao S.A.	Kraków	44,754	-	-	-	225		-	Dec 31 2015	1M LIBOR + bank's margin	ordinary mortgage on real estate
National Fund for Environmental Protection and Water Management	Warsaw	35,000	-	1,250	-	15,669	-	Oct 1 2008	Dec 20 2014	0.8 of the rediscount rate	bank guarantee, promissory notes
Bank Pekao S.A.	Warsaw	56,409	14,800 USD	5,566	2,256 USD	11,923	4,895 USD	Dec 31 2008	Feb 28 2011	1M LIBOR + bank's margin	pledge over property, plant and equipment
			TOTAL	**517,193**	**27,958 USD**	**842,943**	**204,640 USD**				
				-	**4,260 EUR**	**-**	**4,125 EUR**				

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

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

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Financial liabilities other than under financial derivatives	32	5,181,875	5,181,875	1,717,645	46,215	73,500	1,632,330	1,712,185
Secured bank loans (other than overdraft facilities)	30	3,544,631	3,544,631	89,820	42,566	70,508	1,629,552	1,712,185
Overdraft facilities	30	374,974	374,974	373,114	1,860	-	-	-
Finance lease liabilities	32	1,415	1,415	165	396	799	55	-
Trade and other payables	33	1,260,855	1,260,855	1,254,546	1,393	2,193	2,723	-
Financial liabilities – financial derivatives	32	218,526	218,526	218,526	-	-	-	
Total		**5,400,401**	**5,400,401**	**1,936,171**	**46,215**	**73,500**	**1,632,330**	**1,712,185**

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

PLN '000	Note	Carrying value	Contractual cash flows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Financial liabilities other than under financial derivatives	32	2,580,463	2,580,463	1,689,259	47,632	66,479	674,884	102,209
Secured bank loans (other than overdraft facilities)	30	912,245	912,245	24,752	44,550	65,850	674,884	102,209
Overdraft facilities	30	447,891	447,891	447,891	-	-	-	-
Finance lease liabilities	32	1,628	1,628	-	999	629	-	-
Trade and other payables	33	1,222,473	1,222,473	1,216,616	2,083	1,546	1,337	891
Financial liabilities – financial derivatives	32	3,906	3,906	3,906	-	-	-	-
Total		**2,588,143**	**2,588,143**	**1,693,165**	**47,632**	**68,025**	**676,221**	**103,100**

31. Provisions

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

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

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

The changes in provisions were as follows:

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

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

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

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

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

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

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

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

Finance lease liabilities

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

33. Trade and Other Payables, Accruals and Deferred Income

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

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

Transactions with related undertakings are described in Note 48.

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

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

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

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

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

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	2,380	1,838
Receivables from employees connected with the Company's Social Benefits Fund	4,227	5,294
Other	16	233
Total	**6,623**	**7,365**
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	6,622	7,324
Other	1	41
Total	**6,623**	**7,365**

35. Sales Revenue

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

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

The transactions with related undertakings are presented in Note 48.

36. Costs by Type

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

37. Other Operating Income

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

38. Other Operating Expenses

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

39. Financial Income

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

40. Financial Expenses

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

41. Corporate Income Tax

PLN '000	Year ended Dec 31 2008	Year ended Dec 31 2007
	(audited)	(audited)
Corporate income tax	107.577	205.237
Deferred tax	(221.862)	(14.890)
Total tax	**(114.285)**	**190.347**
Income tax expense recognised in the income statement	(114.285)	190.347
Income tax expense recognised in equity	-	-

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

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

PLN '000	Year ended Dec 31 2008	Year ended Dec 31 2007
	(audited)	(audited)
Pre-tax profit/(loss)	(504.148)	1.004.494
Corporate income tax at the applicable rate (19%), including:	83.305	190.854
- tax on dividend at the statutory rate applicable in Poland (19%)	202	311
Permanent differences	(118.029)	(160.300)
Other differences	513.237	258.278
Share in investments in associated undertakings	(26.033)	(22.276)
Tax effect of differences	70.143	14.383
Corporate income tax, including	107.577	205.237
- tax on dividend	202	311
Effective tax rate	-	0,2

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Deferred tax asset		
Provision for employee benefits	15.318	12.920
Difference between current tax value and book value of fixed assets	21.086	6.941
Impairment losses on inventories	40.108	3.145
Negative valuation of derivatives	29.339	-
Tax loss amortised over time	127.189	5.421
Impairment losses on receivables	16.002	12.155
Unrealised margin assets	(6.087)	11.995
Other	103.741	35.023
Total deferred tax asset	**346.696**	**87.600**
Deferred tax liability:		
Difference between current tax value and book value of fixed assets	189.374	206.281
Positive valuation of derivatives	20.635	1.407
Other	14.875	2.969
Total deferred tax liability	**224.884**	**210.657**
Net deferred tax asset/(liability)	**121.812**	**(123.057)**

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

PLN '000	Dec 31 2008	Dec 31 2007
	(audited)	(audited)
Deferred tax asset:	132.223	31.732
Deferred tax liability:	(10.411)	(154.789)
Net deferred tax asset/(liability)	**121.812**	**(123.057)**

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

42. Contingent and Off-Balance-Sheet Liabilities

Material Contingent and Off-Balance-Sheet Liabilities

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

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

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

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

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

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

Material Contingent Liabilities of the Parent Undertaking

1. The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2009. The original validity term of the blank promissory note expired on March 16th 2007, and was subsequently extended until June 16th 2008.
2. The validity of the blank promissory note of July 5th 2005 for PLN 200,000 thousand, issued to secure the Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2009. The original validity term of the blank promissory note, which expired on July 7th 2006, was extended until July 5th 2007 and then until July 7th 2008.
3. On April 27th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs-duty debts, taxes and other customs-related charges for the amount of PLN 160,000 thousand. On May 5th 2008, the value of the guarantee increased to PLN 200,000 thousand. The guarantee expires on May 4th 2009, while the guarantor's liability continues until July 3rd 2009. On December 17th 2008, the value of the guarantee decreased to PLN 125,000 thousand.

4. On August 10th 2007, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs duty, taxes and other customs charges for the amount of PLN 7,000 thousand. The contingent liability expired on January 31st 2008.
5. On June 27th 2008, at the request of Grupa LOTOS S.A., Bank Millenium S.A. issued a guarantee for PLN 14,500 thousand for the benefit of the Customs Office of Pruszków as excise security. The guarantee expired on August 10th 2008.
6. On January 3rd 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of CB&I LUMMUS GmbH in the form of a documentary letter of credit for the amount of EUR 19,034 thousand (the equivalent of PLN 72,843 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 3rd 2007). The original validity term of the guarantee expired on June 30th 2008. The validity term of the letter of credit was extended several times. The most recent extension of its validity term was until March 31st 2009 (see Note 44, item 13). As a result of successive draws under the letter of credit, as at December 31st 2008, its value was EUR 346 thousand (the equivalent of PLN 1,444 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).
7. On July 10th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee in the form of a stand-by letter of credit for EUR 45,000 thousand (the equivalent of PLN 169,448 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for July 10th 2007) for the benefit of Technip Italy S.p.A. The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. The original validity term of the guarantee expired on December 31st 2007. On October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the total amount of the letter of credit was raised to EUR 52,313 thousand in the period January 1st – March 31st 2008, and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 was EUR 47,355 thousand, and in the period October 1st – November 14th 2008 – EUR 45,515 thousand. On November 14th 2008, the letter of credit was cancelled by mutual agreement between the parties.
8. On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. issued a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Technip KTI S.p.A, valid through March 31st 2008. The letter of credit was issued to secure the performance of a construction contract related to the amine complex. On April 1st 2008, the validity period of the letter of credit was extended until June 30th 2008 and its amount decreased to EUR 37,634 thousand. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 was EUR 38,668 thousand, and in the period October 1st – November 4th 2008 – EUR 38,595 thousand. On November 4th 2008, the letter of credit was cancelled by mutual agreement between the parties.
9. On January 16th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee of USD 10,800 thousand (PLN 26,214 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 16th 2008) for the benefit of Total Deutschland GmbH in connection with the supply of gasoline. The guarantee expired on May 31st 2008.

10. On April 1st 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 5,195 thousand (the equivalent of PLN 18,240 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2008) for the benefit of LURGI S.A., valid through June 30th 2008. On July 1st 2008, the amount of the letter of credit was raised to EUR 10,979 thousand and its validity term was extended until September 30th 2008. The letter of credit was issued to secure the performance of a contract related to the construction of a hydrogen generation unit (HGU). On October 1st 2008, the validity term of the letter of credit was extended until December 31st 2008 and its value was again increased – to EUR 14,923 thousand. Then, on January 1st 2009, the validity term of the letter of credit was extended until March 31st 2009, and its amount decreased to EUR 14,234 thousand. Since December 17th 2008, the letter of credit has been financed under the term loan facility granted by the group of financial institutions (see Note 30). On March 31st 2009 the letter of credit expired.
11. On April 30th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 7,230 thousand (the equivalent of PLN 25,019 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2008) for the benefit of LURGI S.A., valid through July 31st 2008. The letter of credit was issued to secure the performance of the EPC contract for the crude and vacuum distillation units (CDU/VDU). On July 31st 2008, the validity period of the letter of credit was extended until October 31st 2008. The value of the stand-by letter of credit was increased to EUR 15,356 thousand. On November 1st 2008, the validity term of the letter of credit was extended until January 31st 2009. The value of the stand-by letter of credit was raised to EUR 20,175 thousand (the equivalent of PLN 71,752 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for November 3rd 2008). On February 1st 2009, the validity term of the letter of credit was extended until April 30th 2009 and its value decreased to EUR 15,647 thousand. Since December 17th 2008, the letter of credit has been financed under the term loan facility granted by the group of financial institutions (see Note 30).
12. On May 2nd 2008, at the request of Grupa LOTOS S.A., Bank Millenium S.A. issued a guarantee for PLN 13,200 thousand for the benefit of the Customs Office of Bielsko-Biała as excise security. The guarantee expired on June 30th 2008.
13. . On June 2nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 64,403 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 2nd 2008) for the benefit of CB&I LUMMUS GmbH. The original validity term of the letter of credit expired on December 31st 2008. The letter of credit was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). On January 1st 2009, the validity term of the letter of credit was extended until January 31st 2009 and then until March 31st 2009 (see Note 44, item 14). As a result of successive draws under the letter of credit, its value as at December 31st 2008 was EUR 2,913 thousand (the equivalent of PLN 12,154 thousand, translated using the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).

14. On June 26th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee for USD 12,000 thousand (the equivalent of PLN 25,704 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 26th 2008) for the benefit of TOTAL DEUTSCHLAND GmbH in connection with the supply of gasoline. The original validity term of the guarantee expired on December 31st 2008. On December 12th 2008, the validity term of the guarantee was extended until January 31st 2009. The guarantee expired with the end of its validity period.
15. On September 18th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a stand-by letter of credit for USD 10,000 thousand (the equivalent of PLN 23,428 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for September 18th 2008) for the benefit of PETROPLUS MARKETING AG. The validity period of the letter of credit expired on October 31st 2008. The letter of credit was issued to secure the payment for diesel oil supplies. The guarantee expired with the end of its validity period.
16. On October 22nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 70,690 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for October 22nd 2008) under the term loan facility granted by the group of financial institutions (see Note 30). The letter of credit, issued for the benefit of CB&I LUMMUS GmbH, is valid through June 30th 2009. It was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). As a result of successive draws under the letter of credit, its value as at December 31st 2008 was EUR 11,830 thousand (the equivalent of PLN 49,359 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).
17. On December 19th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a stand-by letter of credit for EUR 500 thousand (the equivalent of PLN 2,057 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 19th 2008) under the term loan facility granted by the group of financial institutions (see Note 30). The letter of credit, issued for the benefit of LURGI S.A., is valid through May 31st 2009. The letter of credit was issued to secure the performance of a contract related to modernisation of a condensate station and construction of a fuel gas terminal.

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

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

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

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

Liabilities towards Bank Ochrony Środowiska S.A.

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

- to apply a part of net profit (whose amount in a given year may not exceed the amounts shown in the Bank-approved final financial projection for the project financed with the loan) towards share capital increase at Energobaltic Sp. z o.o.,
- not to dispose of or encumber its shares in Energobaltic Sp. z o.o. without prior consent of the Bank, with the proviso that the Bank's consent may not be unreasonably withheld.
- Failure to discharge the Shareholders' Obligation may result in termination of the loan agreements by the Bank. Concurrently, Petrobaltic S.A. will be relieved from the Shareholders' Obligation if both of the following conditions are met:
- Petrobaltic S.A. provides the Bank and Energobaltic Sp. z o.o. with a written notification to the effect that oil production from the B-8 reservoir has commenced, and – after the first three months of production from the B-8 reservoir – Petrobaltic S.A. confirms in the same manner that the gas volume estimates for the reserve – contained in the gas supply forecast of December 7th 2005 submitted to the Bank by Energobaltic Sp. z o.o. – were correct,
- the economic and financial standing of Energobaltic Sp. z o.o. poses no threat to timely repayment of the loans.

Liabilities to Stablewood Power Ventures (Władysławowo) Limited

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

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

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

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

USD 6,414 thousand (USD 4,952 thousand in principal, plus interest) (i.e. PLN 15,619 thousand when translated using the mid-exchange rate for USD quoted by the National Bank of Poland for December 31st 2007). Following the purchase of Stablewood Power Ventures (Władysławowo) Limited's shares in Energobaltic Sp. z o.o., Petrobaltic S.A. would hold 1,598 shares representing 88.04% of the aggregate number of the shares.

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

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

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

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

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

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

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

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

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

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

Liabilities under Promissory Notes towards Nafta Polska S.A

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

Under an agreement of January 19th 2000 between Nafta Polska S.A. and Rafineria Jasło S.A., if no obligation arises on the part of Nafta Polska S.A. to provide any performance, in whole or in part, under the performance bond agreement relating to the agreement on environmental issues with Carbon Black Polska Sp. z o.o. by the time Nafta Polska S.A. is removed from the enterprise register, Nafta Polska S.A. will place the unrealised promissory notes in court deposit so that they can be returned after the court's decision on removing

Nafta Polska S.A. from the enterprise register becomes final. Similarly, the unrealised promissory notes will be returned to Rafineria Jasło S.A. after 10 years following the agreement date if Nafta Polska S.A. is not removed from the enterprise register and is not obliged to any performance under the surety agreement.

Liabilities under Promissory Notes towards the Minister of Economy

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

Other Liabilities under Promissory Notes

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

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

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

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

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

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

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

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

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

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

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

Other Contingent Liabilities of the Group

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

43. Carbon Dioxide (CO_2) Emission Allowances

As at December 31st 2008 and December 31st 2007, the Group reported an excess of the CO2 emission allowances allocated to it over its actual carbon dioxide (CO2) emissions (see Note 21.3).

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

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

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

44. Material Events Subsequent to the Balance-Sheet Date

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

1. On January 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a guarantee for PLN 1,500 thousand for the benefit of the Customs Office in Pruszków as excise security. The guarantee expires on June 30th 2009.
2. On January 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 3,000 thousand (the equivalent of PLN 12,517 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Umicore Precious Metals Refining, valid through October 15th 2009. The stand-by letter of credit was issued to secure lease payments under platinum lease agreement.
3. In order to secure the repayment of a loan, on January 15th 2009 LOTOS Exploration and Production Norge AS issued a blank promissory note with a “protest waived” clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 55m (the equivalent of PLN 177m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 15th 2009) will be used to finance further implementation of the YME Production Project, and in particular the capital expenditure on the project implementation, along with the cost of capital, including interest on the loan. The loan will be paid in three instalments and the date of the last instalment is March 31st 2010.
4. On January 20th 2009, the Management Board of Petrobaltic S.A. resolved to commence the procedure for registration of another share capital increase at LOTOS Exploration and Production Norge AS and acquisition of the new shares by Petrobaltic S.A.

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

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

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

5. On February 2nd 2009, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a guarantee for USD 18,000 thousand (the equivalent of PLN 62,690 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for February 2nd 2009) for the benefit of TOTAL DEUTSCHLAND GmbH. The guarantee was issued to secure the payment of amounts due for the delivery of diesel oil and gasoline, and remains valid through July 31st 2009.
6. On January 30th 2009, LOTOS Jasło S.A. acquired 15 shares in PLASTEKOL Organizacja Odzysku S.A., representing 1.5% of the company's share capital, from Krzysztof Boniecki, who conducts business activities under the business name of Przedsiębiorstwo Wielobranżowe ROBAC. Following the transaction, LOTOS Jasło S.A.'s holding in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 83.5% to 85% (or, from 835 to 850 shares).

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

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

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

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

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

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

8. On February 10th 2009, LOTOS Oil S.A. issued a promissory note for the amount of PLN 5,000 thousand, along with a promissory note declaration, for the benefit of the Customs Office in order to secure an excise tax liability related to the transit of excise goods. The promissory note is valid from March 1st 2009 to February 28th 2011.
9. On February 26th 2009, at the request of LOTOS Asfalt Sp. z o.o., BRE Bank S.A. issued a documentary letter of credit for EUR 500 thousand (the equivalent of PLN 2,353 thousand, translated using the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for February 26th 2009) for the benefit of NARDINI S.p.A. The validity term of the letter of credit expires on June 30th 2009. The letter of credit was issued to secure the performance of a contract related to the construction of a tarpaper production plant.
10. On February 27th 2009, Grupa LOTOS S.A. issued a blank promissory note for the amount of up to PLN 400,000 thousand for the benefit of the Customs Office in Gdańsk to secure the Company's tax liability in connection with the suspended excise tax collection procedure. The blank promissory note is valid through January 13th 2011.
11. On February 27th 2009, Lotos Jasło S.A. signed an annex to the loan agreement, under which the amount of funds available under an existing credit line was decreased. As a result, the amount of security for the company's current account loan contracted at Bank PKO BP S.A. o/Krosno, made in the form of a blank promissory note, decreased from PLN 18,000 thousand to PLN 10,000. The promissory note is valid through July 29th 2011 (see Note 42).
12. In order to secure the repayment of a loan, on March 9th 2009 LOTOS Exploration and Production Norge AS issed a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 7.5m (the equivalent of PLN 28m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for March 9th 2009) will be used to finance further implementation of the YME Production Project. The principal amount is to be repayed by January 29th 2010.
13. On April 1st 2009, the validity term of the documentary letter of credit for the benefit of CB&I LUMMUS GmbH issued by Bank PKO BP S.A. at the request of Grupa LOTOS S.A. on January 3rd 2007 was extended until May 31st 2009 (see Note 42, item 6).
14. On April 1st 2009, the validity term of the documentary letter of credit for the benefit of CB&I LUMMUS GmbH issued by Bank PKO BP S.A. at the request of Grupa LOTOS S.A. on June 2nd 2008 was extended until May 31st 2009 (Note 42, item 13).
15. In order to secure the repayment of a loan, on April 1st 2009 LOTOS Exploration and Production Norge AS issed a blank promissory note with a "protest waived" clause and a promissory note declaration for the benefit of Petrobaltic S.A. The loan of USD 2.5m (the equivalent of PLN 8.8m, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2009) will be used to finance further implementation of the YME Production Project. The principal amount is to be repayed by June 30th 2010.

16. On April 6th 2009, LOTOS Jasło S.A. acquired 30 shares in PLASTEKOL Organizacja Odzysku S.A., representing 3% of the company's share capital, from Jan B. Tylisz, who conducts business activity under the business name of Przedsiębiorstwo Handlowo - Usługowe TYL-OIL. Following the transaction, LOTOS Jasło S.A.'s stake in PLASTEKOL Organizacja Odzysku S.A. increased from 88% to 91% (or from 880 to 910 shares).
17. In order to secure the payment of excise tax liability, on April 15th 2009 LOTOS Biopaliwa Sp. z o.o. issued (and filed with the Customs Office in Bielsko-Biała) a blank promissory note for up to PLN 18,820 thousand, guaranteed by LOTOS Czechowice S.A., along with a promissory note declaration. The promissory note is valid through June 30th 2010.

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

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

On March 21st 2005, the President of the Competition and Consumer Protection Office issued a decision whereby anti-trust proceedings were instigated ex officio to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Płock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the universal U95 gasoline. In the opinion of the Company's Management Board, given that in fact the production and sale of the U95 universal gasoline were not discontinued, the allegations of the Competition and Consumer Protection Office are unfounded. In April 2005, the Management Board motioned for issuing a decision to the effect that Grupa LOTOS S.A. has not been found to use competition inhibiting practices.

In July 2005, the Company appealed to the Anti-Monopoly Court against the Competition and Consumer Protection Office's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005, the Company filed another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use monopolistic practices. In October 2005 the Company received another decision of the Competition and Consumer Protection Office concerning limitation of access to a part of the evidence, against which the Company appealed to the Anti-Monopoly Court. The Regional Anti-Monopoly Court dismissed the appeals. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Anti-Monopoly Court's decisions, but these appeals were dismissed as well.

Pursuant to the Court's Decision of April 18th 2007, Grupa LOTOS S.A.'s right of access to evidence in the anti-trust proceedings, namely to the materials obtained during inspections at PKN ORLEN S.A.'s offices, was restricted on the basis of a petition submitted by PKN ORLEN S.A. The restriction concerned the report on inspection of the offices in Warsaw together with appendices to the report, and a part of appendices to the report on inspection of the offices in Płock. Under the same Decision, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Płock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office (UOKiK) to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to UOKiK on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to UOKiK to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of UOKiK imposed a fine of PLN 1,000 thousand on Grupa LOTOS S.A. Consequently, on January 17th 2008 an appeal against the decision was filed with the Regional Court of Warsaw.

On September 23rd 2008, the Regional Court of Warsaw - Competition and Consumer Protection Court sent a response by the President of the Competition and Consumer Protection Office to the appeal submitted by Grupa LOTOS S.A. against the of the President's decision. In response to Grupa LOTOS S.A.'s appeal, the President of the Competition and Consumer Protection Office stated that Grupa LOTOS S.A.'s objections both with reference to substantive and procedural laws were unfounded and requested that the complaint be dismissed in its entirety and that the President be awarded the costs of legal representation. As at the date of approval of the consolidated financial statements, the case was pending.

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

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

Proceedings Related to Value Added Tax for Certain Months of 1998

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

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

In December 2005, LOTOS Czechowice S.A. received the following decisions of the Supreme Administrative Court:

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

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against rulings by the Provincial Administrative Court of Gliwice of April 27th 2006 in the following cases:

- the case relating to the tax for May 1998 (PLN 318 thousand),
- the case relating to the tax for October 1998 (PLN 618 thousand).

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

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

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

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

Proceedings Related to Excise Tax for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against LOTOS Czechowice S.A., related to the decisions concerning excise tax for certain months of 1998, against which the LOTOS Czechowice S.A. submitted appeals to the administrative court. The total value of the claims disputed under appeal proceedings is PLN 2,881 thousand.

The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise tax for September 1998, August 1998 and June 1998. By virtue of the Supreme Administrative Court's ruling, the Provincial Administrative Court's decision regarding excise tax for September 1998, August 1998 and June 1998 was repealed in full and remanded for re-examination.

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

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against the decisions of the Provincial Administrative Court of Gliwice dated April 27th 2006 in the cases concerning taxes for:

- September 1998 – PLN 52.5 thousand,
- August 1998 – PLN 842 thousand,
- June 1998 – PLN 468.8 thousand.

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

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

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

On December 29th 2007, the Supreme Administrative Court issued a ruling dismissing the cassation complaints in the following cases:

- the case relating to the tax for September 1998 (PLN 52.5 thousand),
- the case relating to the tax for August 1998 (PLN 842 thousand),
- the case relating to the tax for June 1998 (PLN 468.8 thousand).

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

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

Inspection Related to Excise Tax Liabilities for Certain Months of 2004

At LOTOS Czechowice S.A., the Head of the Customs Office of Bielsko-Biała carried out an inspection to determine the correct amount of excise tax payable for the period from January 1st 2004 to September 30th 2004, in connection with the sale of oil for B ceramic moulds. As a result of the inspection, fiscal proceedings were instigated on May 18th 2005 on an ex officio basis. On May 5th 2006, LOTOS Czechowice S.A. received four decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January, February, and March 2004. The proceedings aimed at determining the excise tax liability for April 2004 were discontinued. On May 19th 2006, the company filed with the Director of the Customs Chamber an appeal against the aforementioned decisions as well as requests to stay execution of the decisions. In August 2006, the company received decisions issued by the Head of the Customs Office, which discontinued the proceedings concerning excise tax for May–September 2004. On October 17th 2006, LOTOS Czechowice S.A. received the decision of the Director of the Customs Chamber of Katowice, setting the deadline by which the appeals against the decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January–March 2004, would be considered, i.e. December 13th 2006. In the decision of February 9th 2007, Director of the Customs Chamber of Katowice set the deadline for resolving the case at April 13th 2007. By virtue of the decision of June 17th 2007, Director of the Katowice Customs Chamber set yet another deadline for resolving the case – August 13th 2007, and pursuant to its most recent decision of August 13th 2007, the Director of the Customs Office of Katowice set October 13th 2007 as the deadline for considering the appeal. On October 19th 2007, LOTOS Czechowice S.A. received three decisions issued by the Director of the Customs Chamber of Katowice, repealing in full the decisions determining the amount of excise tax liability for January, February, and March 2004, passed by the Head of the

Customs Office of Bielsko-Biała. The case is to be reconsidered by the first instance body. On November 19th 2007, LOTOS Czechowice S.A. filed with the Provincial Administrative Court three complaints against the decisions issued by the Director of the Customs Chamber of Katowice which repealed the decisions of the Head of the Customs Office of Bielsko-Biała and remanded the cases back to the Head of the Customs Office of Bielsko-Biała. On April 2nd 2008, court hearings were held concerning the aforementioned complaints, and rulings were issued whereby the complaints were dismissed. After LOTOS Czechowice S.A. had requested and received the written statements of reasons, the Management Board resolved not to file a complaint to the Supreme Administrative Court. As a result, the cases were remanded back to the first instance body, i.e. to the Head of the Customs Office of Bielsko-Biała, and will be re-examined.

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

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

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

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

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

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

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

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

On December 12th 2008, the Head of the Customs Office in Bielsko-Biała granted the request filed by the company on November 21st 2008 and issued Decision to stay enforcement of the decision concerning the excise tax liability for December 2003.

On the same day, the Director of the Customs Chamber in Katowice issued decisions to stay enforcement of the decisions concerning the excise tax liabilities for the period September – November 2003, and, invoking the decisions to stay enforcement of the Customs Office Head's decisions concerning the period September – December 2003, issued decisions to suspend the enforcement proceedings.

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

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

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

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

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

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

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

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

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

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

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

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

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

Material Proceedings Instigated against Grupa LOTOS S.A.

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

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

The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Competition and Consumer Protection Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation, fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals, in case No. I ACa 824/03, and submitted for re-examination by the Regional Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

The case is pending before the Regional Court of Gdańsk (First Instance Court) and its file No. is IX GC 134/04. The Company defends itself by raising objections as to the merits of the case (it questions the fact that any losses were incurred by PETROECCO JV Sp. z o.o., the amount of the alleged losses, and the existence of the cause and effect relationship between the monopolistic practices and the losses). Following the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report concerning the extent of the losses which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, Petroecco filed an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the decision of the Regional Court. On March 19th 2008, an enforcement motion was filed with a Court Enforcement Officer against PETROECCO JV Sp. z o.o. On April 17th 2008, PETROECCO JV Sp. z o.o. lodged a cassation complaint against the ruling issued on December 20th 2007. The complaint was delivered to Grupa LOTOS S.A. on June 17th 2008. On June 30th 2008, Grupa LOTOS S.A. sent a response to the complaint. The case was referred to pre-trial proceedings scheduled for November 14th 2008.

On January 14th 2009, the Supreme Court reversed the ruling appealed against and remanded the case for re-examination by the Court of Appeals in Gdańsk. On March 10th 2009, the case files were sent to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer sent in a decision to discontinue the enforcement proceedings. As at the date of approval of the consolidated financial statements, the case was pending.

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

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court in Gdańsk, IX Commercial Division, issued a ruling dismissing the claim in its entirety. On June 8th 2006, the Minister of State Treasury appealed against the ruling of April 21st 2006 which dismissed the Minister's petition to declare invalidity of the agreement of August 18th 1998. On June 30th 2006, the Company filed its response to the appeal. On December 28th 2006, the Court of Appeals passed a ruling reversing the challenged decision of April 21st 2006 and declaring the agreement on the sale of two shares in Naftoport Sp. z o.o. as invalid. On April 6th 2007, the Company filed a cassation complaint and a request to stay enforcement of the decision of the second instance. By virtue of the ruling of the Court of Appeals of Szczecin dated April 20th 2007, the request to stay enforcement of the decision of the second instance was dismissed. On August 10th 2007, the Supreme Court issued a decision to accept the cassation complaint for consideration. On November 21st 2007, the Supreme Court issued a decision to remand the case back to the Court of Appeals in Szczecin. The hearing was held on May 7th 2008. The Court dismissed the claim in its entirety and decided that the costs of the proceedings in the amount of PLN 100 thousand would be returned to Grupa LOTOS S.A. The Court's decision became final with effect from May 7th 2008. On August 20th 2008, the State Treasury lodged a cassation complaint. On December 11th 2008, the case files arrived at the Supreme Court, Civil Chamber Division II. In a closed session held on March 6th 2009, the Court accepted the complaint for examination. The date of the hearing was fixed for May 6th 2009. As at the date of approval of the consolidated financial statements, the case was pending.

Tax Settlements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[(1)] The remuneration payable for the period preceding appointment to Grupa LOTOS S.A.'s Management Board.

[(2)] The remuneration value reflects the changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. which took place during the reporting period.

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

47. Employment Structure

Average employment by category was as follows:

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

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

Transactions with related undertakings are executed at arms' length.

	Year ended Dec 31 2008 (audited)		As at December 31 2008 (audited)	
PLN '000	**Sales to related undertakings incl, excise tax and fuel charge**	**Purchases from related undertakings incl, excise tax and fuel charge**	**Receivables from related undertakings**	**Liabilities to related undertakings**
Associated undertakings valued with equity method	2,597	2,871	1,818	2,687
Non-consolidated undertakings	37	248	3	52
Total	**2,634**	**3,119**	**1,821**	**2,739**

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

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

PLN '000	Year ended Dec 31 2007 (audited)		As at December 31 2007 (audited)	
	Sales to related undertakings incl, excise tax and fuel charge	Purchases from related undertakings incl, excise tax and fuel charge	Receivables from related undertakings	Liabilities to related undertakings
Associated undertakings valued with equity method	2,373	3,536	118	2,157
Non-consolidated undertakings	142	3,360	3	158
Total	**2,515**	**6,896**	**121**	**2,315**

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

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

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

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

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

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

49. Transactions with State-Owned Related Undertakings

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

Transactions between Grupa LOTOS S.A. and material[1]

state-owned related undertakings:

	Year ended Dec 31 2008 (audited)		As at Dec 31 2008 (audited)	
(PLN '000)	**Sales to related undertakings incl. excise tax and fuel charge**	**Purchases from related undertakings incl. excise tax and fuel charge**	**Receivables from related undertakings**	**Liabilities to related undertakings**
Bumar Sp. z o.o.	33	-	16	-
ENEA S.A.	-	923	-	80
ENERGA S.A.	1	65,256	-	6,958
Huta Stalowa Wola S.A.	981	-	278	-
Kopalnia Węgla Brunatnego Konin w Kleczewie S.A.	16,267	-	1,732	-
Krajowa Spółka Cukrowa S.A.	6,896	-	-	-
Lubelski Węgiel "Bogdanka" S.A.	-	1	-	-
Polska Żegluga Bałtycka S.A.	47	1	-	-
Polskie Górnictwo Naftowe i Gazownictwo S.A.	-	1,903	-	70
Powszechna Kasa Oszczędności Bank Polski S.A.	322	-	-	-
Przedsiębiorstwo Eksploatacji Rurociągów Naftowych PRZYJAŹŃ S.A.	5	83,233	-	3,755
Stocznia Gdynia S.A.	6	-	-	-
Zakłady Azotowe PUŁAWY S.A.	-	1.976	-	209
Zarząd Morskiego Portu Gdynia S.A.	112	895	-	8
Total	**24,671**	**154,189**	**2,027**	**11,079**

	Year ended Dec 31 2007 (audited)		As at Dec 31 2007 (audited)	

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

(1) share capital exceeding PLN 100,000

50. Entity with Significant Influence over the Group

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

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

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

51. Other information

On June 16th 2008, the Supervisory Board of Grupa LOTOS S.A. approved the updated Strategy of the LOTOS Group until 2012. In line with the updated Strategy, the Group will continue its policy focused on stimulating sustainable development of its core business, with an overriding strategic goal of creating value for shareholders.

The Strategy of the LOTOS Group until 2012 was updated with respect to key objectives for each of the three main areas of the Company's operations:

- exploration & production segment,
- operating segment,
- marketing segment.

1. Key Objectives of the Updated Strategy in the Area of Exploration & Production are to:

- improve security of crude oil supplies processed by the refineries by securing direct access to hydrocarbon reserves,
- achieve stable growth of hydrocarbon production by 2012 through the implementation of programmes aimed at increasing production rates from the Baltic Sea deposits, which are covered by licences held by Petrobaltic S.A., as well as through the execution of new projects outside of Poland,
- increase the share capital of Grupa LOTOS S.A. by way of a contribution in-kind of shares in Petrobaltic S.A. held by the State Treasury.

According to the updated Strategy, the total output of the exploration & production segment will reach at least 10% of the LOTOS Group's crude throughput volume in 2012 and will rise above 20% by 2015. The average ROACE (return on average capital employed) for the whole segment will be over 15%. The related investment expenditure in 2006–2012 is estimated at PLN 5.1bn.

2. Key Objectives of the Updated Strategy in the Operating area

In the operating area, the key objective is to improve the economic effectiveness of crude oil processing, through increasing throughput volumes, with a concomitant increase in the conversion ratio and reduction in sulphur content. To this end, we are implementing the two-stage 10+ Programme. Additionally, the Group will build the necessary facilities which are not covered by the scope of the 10+ Programme, while upgrading some of the existing units.

These projects will yield the following outcomes:

- the annual crude processing capacity will have risen to 10.5 million tonnes, with a concomitant increase of the conversion ratio,
- universal configuration of the facilities will allow the Company to produce various types of fuels in response to market demand,
- the production of heavy fuel and bunker oil with high sulphur content will be minimised to comply with new environmental regulations which are being implemented,
- the Company will have gained more flexibility with respect to its overhaul policy, and thus the operational availability of its production units will increase,
- the existing fuel storage depots will be expanded and new logistics infrastructure will be created for shipment of large consignments by sea,
- it will become possible to simultaneously process various types of crude oil,
- the LOTOS Group's competitive position in relation to other European refineries will improve.

The expenditure on the implementation of the strategic objectives in the operating area in 2006–2012 is estimated at approx. PLN 6.7bn, including approx. PLN 5.2bn for the implementation of Stage I (scheduled for 2006–2010) of the 10+ Programme.

3. Key Objectives of the Updated Strategy in the Marketing Segment are to:

- secure a 30% share in the Polish market of fuels by 2012,
- secure a 40% share in the Polish market of aviation fuels by 2012,
- enhance LPG sales efficiency,
- secure a 10% share in the retail market of fuels by 2012,
- enter the self-service filling stations segment,
- secure a 20% share of sales of fuels on motorways, once the main stage of the motorway construction programme is completed,
- expand the Group's network of filling stations by flexibly taking advantage of market opportunities, including opportunities for organic and non-organic growth.

The estimated expenditure on the strategic objectives in the marketing area in 2006–2012 may reach PLN 1.1bn.

4. Financial Activities

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

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

The payment of dividend will be subordinated to the optimisation of the financing structure of the LOTOS Group. During the implementation of the key strategic programmes, the dividend will not exceed 10% of net profit. Following the implementation of the programmes, the dividend is intended to grow up to 30% of net profit.

The dividend policy for subsidiary undertakings is determined by the Management Board of Grupa LOTOS S.A., upon taking into consideration their financial standing and development programmes.

5. Development Directions for 2013–2020

The most important step aiming at increasing the Company’s value – following the implementation of the strategic objectives until 2012 – is the development of the exploration and production segment, and the strengthening of the market position. The contemplated projects include:

- continuation of efforts aiming at increasing crude oil production, to exceed 20% of the processing capacities by 2015, with an upward trend in the subsequent years,
- construction of a heavy residue gasification unit, focused on hydrogen and energy carrier generation – Stage 2 of the 10+ Programme,
- launch of new-generation biofuel production,
- CO2 sequestration – depositing CO2 in geological structures,
- continuation of activities supporting construction of underground storage facilities for oil and petroleum products (caverns),
- development of technologies contributing to margin growth.

Decisions related to the development activities will be based on feasibility studies, and will be implemented in line the LOTOS Group’s financing capabilities. The Group does not exclude the possibility of entering into financing/equity arrangements or establishing a joint venture with a strategic partner.

Key macroeconomic and price-related assumptions adopted by Grupa LOTOS S.A. for the purpose of formulating the key assumptions of its financial policy until 2012:

	2009	2012
Oil price (2008 fixed prices):		
- dtd Brent (USD/bbl)	112,52	128,02
- Ural CIF Rotterdam (USD/bbl)	108,8	124,52
Crack spreads for products (2008 fixed prices):		
- Premium gasoline 10 ppm – Cargoes CIF NEW (USD/t)	145	145
- Diesel 10 ppm – Cargoes CIF NWE (USD/t)	178	178
- Gasoil 0.1% – Cargoes CIF NWE (USD/t)	140	140
- Fuel Oil 3.5% – Barges FOB Rotterdam (USD/t)	(271)	(271)
EUR/PLN	3,5	3,2
USD/PLN	2,56	2,48

51.2. Special Rights Vested in the State Treasury and How These Rights Should Be Exercised in Companies

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

- management of company assets of material importance to its operations,
- changes of the actual business profile, changes of the intended use or discontinuation of the use of a company’s asset of material importance,
- adoption by the General Shareholders Meeting of resolutions concerning dissolution of the company, relocation of its registered office abroad, change of its business profile, sale or lease of its business or an organised part of its business, or encumbrance of the business or its organised part with limited property rights.

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

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

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

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

Until the approval of the consolidated financial statements, Grupa LOTOS S.A. has received no statement on the appointment of an observer for the Company.

52. Signatures of the Management Board Members and the Person Responsible for Keeping the Accounting Books of Grupa LOTOS S.A.

President of the Management Board, CEO	(-) Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	(-) Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	(-) Marek Sokołowski
Chief Accountant	(-) Tomasz Południewski

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