

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.