

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 cassation complaint.

With respect to the case concerning overpayment of VAT for August 1998, in the amount of PLN 292.7 thousand, the Provincial Administrative Court of Gliwice dismissed the complaint against the decision of the Tax Chamber Director by virtue of the ruling of June 26th 2007. The ruling was appealed against by LOTOS Czechowice S.A. to the Supreme Administrative Court; the case is pending.

On December 29th 2007, the Supreme Administrative Court dismissed the cassation complaint concerning the tax for May 1998. The company appealed to the last instance authority and lodged a complaint to the Constitutional Court, which may repeal the decisions of the tax authorities as issued on the basis of unconstitutional provisions of the regulations of the Minister of Finance. The objection in the complaint concerns exceeding the statutory competence of the Minister of Finance as regards issuing regulations.

The proceedings do not pose any financial threat to the company as additional liabilities resulting from the decisions issued by the tax authorities were paid along with interest in the previous years and may only be a source of additional income for LOTOS Czechowice S.A.

Proceedings Related to Excise 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-Biala 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-Biala. 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-Biala 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-Biala 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-Biala 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 entries 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.