

## 38. Contingent liabilities and other guarantees and types of security

### 38.1 Promissory notes, bank guarantees or other forms of security issued by financial institutions

**Bank guarantees and other forms of security issued at the request of the Parent and the LOTOS Group companies, and issued by the LOTOS Group companies**

Dec 31 2011 (PLN '000) Beneficiary	Value of security in foreign currency	Currency of security	Value of security in PLN <sup>(1)</sup>	Security expiry date	Bank or other institution issuing the security	Type of security / information on debtor
<b>Security issued at the request of Grupa LOTOS S.A.</b>						
Port Lotniczy Rzeszów - Jasionka Sp. z o.o.	4,116	PLN	4,116	Dec 31 2012 <sup>(2)</sup>	PKO BP S.A.	Bank guarantee
UOP CH SARL	700	USD	2,392	Jan 15 2012 <sup>(3)</sup>	Deutsche Bank	Bank guarantee
Port Lotniczy Wrocław	5,547	PLN	5,547	Jan 30 2013	ING Bank Śląski S.A.	Bank guarantee
Other (each with a unit value of less than PLN 1,000 thousand)	2,210	PLN	2,210	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	134	EUR	591	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	36	USD	123	-	-	Bank guarantees
<b>Total security issued at the request of Grupa LOTOS S.A.</b>			<b>14,979</b>			
<b>Security instruments issued by or upon instruction of the LOTOS Group companies</b>						
Government of Norway	-	-	-	unspecified	LOTOS Petrobaltic S.A.	Guarantee 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
National Fund for Environmental Protection and Water Management	18,556 <sup>(4)</sup>	PLN	18,556	Feb 20 2015	Bank Pekao S.A.	Bank guarantee
Other, including:	25,652	PLN	25,652	-	-	-
bank guarantees	5,168	PLN	5,168	-	-	-
bank performance bonds	18,634	PLN	18,634	-	-	-
<b>Total other security instruments issued by or upon instruction of the LOTOS Group companies</b>			<b>44,208</b>			
<b>TOTAL FOR THE GROUP</b>			<b>59,187</b>			

<sup>(1)</sup> Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2011.

<sup>(2)</sup> The original validity term (December 31st 2011) was extended until December 31st 2012.

<sup>(3)</sup> Liability expired upon the lapse of its validity term.

<sup>(4)</sup> The bank guarantee secures the PLN 35,000 thousand facility of June 29th 2007 contracted by LOTOS Biopaliw a Sp. z o.o. with the National Fund

Dec 31 2010 (PLN '000) Beneficiary	Value of security in foreign currency	Currency of security	Value of security in PLN <sup>(1)</sup>	Security expiry date	Bank or other institution issuing the security	Type of security / information on debtor
<b>Security issued at the request of Grupa LOTOS S.A.</b>						
VITOL S.A.	9,130	USD	27,062	Jan 15 2011 <sup>(2)</sup>	Deutsche Bank	Stand-by letter of credit
Other (each with a unit value of less than PLN 1,000 thousand)	734	PLN	734	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	169	EUR	669	-	-	Bank guarantees
Other (each with a unit value of less than PLN 1,000 thousand)	36	USD	107	-	-	Bank guarantees
<b>Total security issued at the request of Grupa LOTOS S.A.</b>			<b>28,572</b>			
<b>Contingent liability instruments issued by or upon the instructions of the LOTOS Group companies</b>						
Government of Norway	-	-	-	unspecified	LOTOS Petrobaltic S.A.	Guarantee 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
National Fund for Environmental Protection and Water Management	25,056 <sup>(3)</sup>	PLN	25,056	Feb 20 2015	Bank Pekao S.A.	Bank guarantee
Other, including:	15,975	PLN	15,975	-	-	-
bank guarantees	5,614	PLN	5,614	-	-	-
bank performance bonds	10,361	PLN	10,361	-	-	-
Other (EUR)	143	EUR	566	-	-	-
<b>Total other security instruments issued by or upon instruction of the LOTOS Group companies</b>			<b>41,597</b>			
<b>TOTAL FOR THE GROUP</b>			<b>70,169</b>			

<sup>(1)</sup> Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2010.

<sup>(2)</sup> Security expired upon the lapse of its validity term.

<sup>(3)</sup> The bank guarantee secures the PLN 35,000 thousand borrowing of June 29th 2007 contracted by LOTOS Biopaliw a Sp. z o.o. from the National Fund for Environmental Protection and Water Management.

### Promissory notes

Dec 31 2011 (PLN '000) Beneficiary of promissory note	Promissory note(s) amount in foreign currency	Currency of promissory note(s)	Promissory note(s) amount in PLN <sup>(1)</sup>	Expiry date of promissory note(s)	Type
<b>Promissory notes issued by Grupa LOTOS S.A.</b>					
Head of the Customs Office in Gdańsk	240,000	PLN	240,000	Aug 19 2012 <sup>(2)</sup>	Contingent liability in the form of lump sum security for a tax liability of PLN 800,000 thousand
PKO BP S.A.	300,000	PLN	300,000	Nov 25 2016 <sup>(3)</sup>	Security for a bank borrowing
<b>Total promissory notes issued by Grupa LOTOS S.A.</b>			<b>540,000</b>		
<b>Promissory notes issued by the LOTOS Group companies</b>					
Head of the Customs Office in Gdańsk	10,000	PLN	10,000	Apr 30 2012 <sup>(4)</sup>	Security for a tax liability

National Fund for Environmental Protection and Water Management	1,500	PLN	1,500	Sep 30 2012	Security for a subsidy
Head of the Customs Office in Gdańsk	7,000	PLN	7,000	Feb 29 2012 <sup>(5)</sup>	Security for excise duty
BRE Bank S.A.	50,000	PLN	50,000	Mar 15 2013 <sup>(6)</sup>	Security for a bank borrowing
PKO BP S.A.	60,000	PLN	60,000	Apr 16 2012 <sup>(7)</sup>	Security for a bank borrowing
National Fund for Environmental Protection and Water Management	3,450	PLN	3,450	Dec 31 2012	Security for a subsidy
Head of the Customs Office in Bielsko-Biala	13,224	PLN	13,224	Jun 30 2012	Global excise duty security
Bank Polska Kasa Opieki S.A.	200,000	PLN	200,000	- <sup>(8)</sup>	Security for a bank borrowing
Stablewood Power Ventures (Władysławowo) Ltd.	8,000	USD	27,339	Jun 30 2013 <sup>(9)</sup>	Security for cash liabilities under acquisition of shares and debt claims
Bank Ochrony Środowiska S.A.	27,413	PLN	27,413	Jun 30 2016	Security for liabilities under bank borrowing
Bank Ochrony Środowiska S.A.	9,490	PLN	9,490	Dec 20 2016	Security for liabilities under bank loan agreement
NORDEA BANK POLSKA S.A.	20,000	PLN	20,000	Jul 31 2012	Security for liabilities under bank borrowing
BRE Bank S.A.	35,000	PLN	35,000	Apr 25 2012	Security for liabilities under bank borrowing
Millennium Leasing Sp. z o.o.	9,824 <sup>(10), (12)</sup>	EUR	43,390	-	Security for liabilities under lease agreements
NORDEA FINANCE POLSKA S.A.	16,143 <sup>(11), (12)</sup>	EUR	71,301	-	Security for liabilities under lease agreements
Other (each with a unit value of less than PLN 1,000 thousand)	2,142	PLN	2,142	-	-
<b>Total promissory notes issued by the LOTOS Group companies</b>			<b>581,249</b>		
<b>TOTAL FOR THE GROUP</b>			<b>1,121,249</b>		

<sup>(1)</sup> Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2011.

<sup>(2)</sup> The previous validity term of the security for excise duty was August 19th 2011.

<sup>(3)</sup> On November 25th 2011, an annex to the credit facility agreement was executed under which the credit facility term end date was changed to November 25th 2016 and the credit facility amount was changed from PLN 200,000 thousand to PLN 300,000 thousand.

<sup>(4)</sup> The validity term (April 30th 2011) was extended until April 30th 2012.

<sup>(5)</sup> The original validity term (February 28th 2011) was extended until February 29th 2012.

<sup>(6)</sup> The validity term was extended until March 15th 2012 and again until March 15th 2013, and the facility amount was increased from PLN 30,000 thousand to PLN 50,000 thousand.

<sup>(7)</sup> The validity term was extended until March 16th 2012 and again until April 16th 2012, and the facility amount was changed from PLN 100,000 thousand to PLN 60,000 thousand.

<sup>(8)</sup> Credit agreement of November 15th 2010.

<sup>(9)</sup> The date of payment of the last instalment of the price of the shares and debt claims from Stablewood Power Ventures (Władysławowo) Ltd.

<sup>(10)</sup> The value of leased assets is EUR 11,192.

<sup>(11)</sup> The value of leased assets is EUR 18,582.

<sup>(12)</sup> The value of payment liabilities as at December 31st 2011.

Dec 31 2010 (PLN '000)	Promissory note(s) amount in foreign currency	Currency of promissory note(s)	Promissory note(s) amount in PLN <sup>(1)</sup>	Expiry date of promissory note(s)	Type
<b>Promissory notes issued by Grupa LOTOS S.A.</b>					
Head of the Customs Office in Gdańsk	240,000	PLN	240,000	Aug 19 2011	Contingent liability in the form of lump sum security for a tax liability of PLN 800,000 thousand
PKO BP S.A.	200,000	PLN	200,000	Aug 25 2011 <sup>(2)</sup>	Security for a bank borrowing
<b>Total promissory notes issued by Grupa LOTOS S.A.</b>			<b>440,000</b>		

**Promissory notes issued by the LOTOS Group companies**

Head of the Customs Office in Gdańsk	10,000	PLN	10,000	Apr 30 2011	Security for a tax liability
Head of the Customs Office in Gdańsk	5,000	PLN	5,000	Feb 28 2011 <sup>(3)</sup>	Security for a tax liability
National Fund for Environmental Protection and Water Management	1,500	PLN	1,500	Sep 30 2012	Security for a subsidy
Head of the Customs Office in Gdańsk	7,000	PLN	7,000	Feb 29 2012 <sup>(4)</sup>	Security for excise duty
BRE Bank S.A.	30,000	PLN	30,000	Mar 15 2012 <sup>(5)</sup>	Security for a bank borrowing
PKO BP S.A.	100,000	PLN	100,000	Apr 16 2011 <sup>(6)</sup>	Security for a bank borrowing
Head of the Customs Office in Bielsko-Biala	13,174	PLN	13,174	Jun 30 2011	Global excise duty security (guarantee) related to the movement of excise goods between warehouses under a duty suspension arrangement
Bank Polska Kasa Opieki S.A.	200,000	PLN	200,000	- <sup>(7)</sup>	Security for a bank borrowing
Stablewood Power Ventures (Władysławowo) Ltd.	13,000	USD	38,533	Jun 30 2013 <sup>(8)</sup>	Security for cash liabilities under acquisition of shares and debt claims
Bank Ochrony Środowiska S.A.	27,413	PLN	27,413	Jun 30 2016	Security for liabilities under bank borrowings
Bank Ochrony Środowiska S.A.	9,490	PLN	9,490	Dec 20 2016	Security for liabilities under bank borrowings
BRE Bank S.A.	20,000	PLN	20,000	Jun 15 2011 <sup>(9)</sup>	Security for liabilities under bank borrowings
Millennium Leasing Sp. z o.o.	11,192 <sup>(10)</sup>	EUR	44,324 <sup>(11)</sup>	-	Security for liabilities under lease agreements
NORDEA FINANCE POLSKA S.A.	18,582 <sup>(10)</sup>	EUR	73,590 <sup>(12)</sup>	-	Security for liabilities under lease agreements
Other (each with a unit value of less than PLN 1,000 thousand)	1,490	PLN	1,490	-	-
<b>Total promissory notes issued by the LOTOS Group companies</b>			<b>581,514</b>		
<b>TOTAL FOR THE GROUP</b>			<b>1,021,514</b>		

(1) Security in foreign currencies were translated at the mid-exchange rates quoted by the National Bank of Poland for December 31st 2010.

(2) On August 25th 2010, an annex to the credit facility agreement was executed under which the credit facility term end date was changed to August 25th 2011 and the credit facility amount was changed from PLN 250,000 thousand to PLN 200,000 thousand.

(3) Security expired upon the lapse of its validity term.

(4) The original validity term (February 28th 2011) was extended until February 29th 2012.

(5) The validity term was extended until March 15th 2012 and the facility amount was increased from PLN 30,000 thousand to PLN 50,000 thousand.

(6) The validity term was extended until April 16th 2011.

(7) Credit agreement of November 15th 2010.

(8) The date of payment of the last instalment of the price for the acquisition of shares and debt claims from Stablewood Power Ventures (Władysławowo) Ltd.

(9) The agreement expired on April 26th 2011.

(10) The value of leased assets.

(11) As at December 31st 2010, the value of liabilities under lease payments was PLN 14,959 thousand.

(12) As at December 31st 2010, the value of liabilities under lease payments was PLN 43,381 thousand.

## 38.2 Contingent investment commitments

As at December 31st 2011, the Company did not have any commitments under material agreements related to expenditure on property, plant and equipment (the 10+ Programme) (as at December 31st 2010 its commitments amounted to PLN 29.8m).

## 38.3 Carbon dioxide (CO<sub>2</sub>) emission allowances

As at December 31st 2011 and December 31st 2010, considering the limit of allowances allocated for 2008–2012, the Group reported an excess of the carbon dioxide (CO<sub>2</sub>) emission allowances it had been allocated over its carbon dioxide (CO<sub>2</sub>) emissions, therefore no provisions were recognised and disclosed in the consolidated financial statements.

On July 1st 2008, the Council of Ministers adopted, by way of a regulation, the National Allocation Plan of Carbon Dioxide (CO<sub>2</sub>) Emission Allowances for 2008-2012, issued under the EU carbon dioxide (CO<sub>2</sub>) emission trading scheme to existing installations and installations undergoing modification (Dz. U. of November 14th 2008, No. 202, item 1248). In accordance with the current legislation, allowances under Phase II (2008–2012) were allocated free of charge to all the installations covered by the emission trading scheme.

In line with the Council of Ministers' regulation, for 2011–2012 the Group was granted average annual allowance of 1,228 thousand tonnes of carbon dioxide (CO<sub>2</sub>). Additionally, by virtue of the decision of the Marshal of the Gdańsk Province of January 18th 2011, per each of the years 2011–2012 Grupa LOTOS S.A. was granted allowances for 143 thousand tonnes for the CHP plant and for 433 thousand tonnes for the refinery. On July 29th 2011, by virtue of the decision of the Marshal of the Gdańsk Province, Grupa LOTOS S.A. obtained additional carbon dioxide (CO<sub>2</sub>) emission allowances for the installations newly placed in service (175 thousand tonnes for 2011 and 185 thousand tonnes for 2012).

In total, taking into account the decision referred to above, Grupa LOTOS S.A. has been granted average annual carbon dioxide (CO<sub>2</sub>) emission allowances of 1,979 thousand tonnes for 2011 and 1,989 thousand tonnes for 2012.

Carbon dioxide (CO<sub>2</sub>) emissions, calculated based on the production data for the installations covered by the emission trading scheme and verified in accordance with Art. 59 of the Act on Trading in Greenhouse Gas Emission Allowances of April 28th 2011, were 2,061 thousand tonnes for the year ended December 31st 2011 and 1,163 thousand tonnes for the year ended December 31st 2010.

## **38.4 Material court, arbitration or administrative proceedings and other risks relating to the Parent or its subsidiaries**

### **Material proceedings pending before public administration authorities in connection with the Parent'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 Plock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the U95 universal 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 practices restricting competition.

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 Court - Competition and Consumer Protection Court, dismissed the appeals. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Court's decisions, but those appeals were dismissed as well.

Pursuant to a 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 Plock. 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 Plock. 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 to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to the Office on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to the Office to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of the Office imposed a fine of PLN 1,000 thousand on Grupa LOTOS S.A. Consequently, on January 17th 2008, an appeal against the decision was filed with the Regional Court of Warsaw.

On September 23rd 2008, the Regional Court of Warsaw - Competition and Consumer Protection Court sent a response by the President of the Competition and Consumer Protection Office to the appeal submitted by Grupa LOTOS S.A. against the President's decision. In response to Grupa LOTOS S.A.'s appeal, the President of the Competition and Consumer Protection Office stated that Grupa LOTOS S.A.'s objections both with reference to substantive and procedural laws were unfounded and requested that the appeal be dismissed in its entirety and that the President be awarded the costs of legal representation.

On April 27th 2010, the Court adjourned the rendering of judgment until May 6th 2010. On May 6th 2010, the Regional Court of Warsaw passed a decision dismissing the appeal against the decision of the Competition and Consumer Protection Office concerning anti-trust proceedings initiated ex officio as a result of the decision issued by the President of the Competition and Consumer Protection Office on March 21st 2005 concerning distribution of the U95 universal gasoline, and upheld the fines of PLN 1,000 thousand and PLN 4,000 thousand imposed by the Competition and Consumer Protection Office respectively on Grupa LOTOS S.A. and PKN ORLEN S.A. The court ruling dismissing the appeal against the President's decision was received on June 15th 2010. On June 28th 2010, Grupa LOTOS S.A. lodged an appeal against the court ruling. Subsequently, Grupa LOTOS S.A. and the Competition and Consumer Protection Office responded to the appeal by PKN

ORLEN S.A., while PKN ORLEN S.A. and the Competition and Consumer Protection Office responded to the appeal by Grupa LOTOS S.A. On February 11th 2011, the Court issued a ruling dismissing the appeal lodged by Grupa LOTOS S.A. and PKN ORLEN S.A. On May 30th 2011, Grupa LOTOS S.A. filed a cassation complaint against the ruling, in which it appealed the ruling in its entirety, requesting its reversal. On the same day, a cassation complaint was submitted by PKN OrLEN S.A. On June 17th 2011, a response to the cassation complaint filed by Grupa LOTOS S.A. was submitted, in which the President of the Competition and Consumer Protection Office requested that the complaint be dismissed and costs of proceedings be awarded to the Office. On December 2nd 2011, the Supreme Court refused to accept the cassation appeals for consideration. As at the date of approval of these consolidated financial statements, the case was finally closed.

On March 10th 2011, using a previously recognised provision, the Company paid the liability of PLN 1,000 thousand, imposed by the court ruling of February 11th 2011.

## **Material proceedings pending before public administration authorities in connection with LOTOS Paliwa Sp. z o.o.'s business**

### ***Proceedings concerning value added tax liabilities for January and March 2005***

On March 30th 2006, LOTOS Paliwa Sp. z o.o received a decision of the Gdańsk Tax Office of March 28th 2006 relating to the determination of the value added tax liability for January 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability against the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.). On July 25th 2006, LOTOS Paliwa Sp. z o.o. received decision of the Head of the Gdańsk Tax Chamber, dated July 21st 2006, in which the Head of the Gdańsk Tax Chamber revoked in full the decision of the Gdańsk Tax Office determining the value added tax liability for January 2005 and assessing an additional tax liability, and remanded the case for re-examination by the Gdańsk Tax Office. On July 6th 2007, LOTOS Paliwa Sp. z o.o. was notified of decision No. PV/4400-96/124/VT/06/AR issued by the Head of the Gdańsk Tax Office, stating that the amount of tax difference to be refunded to the company was exceeded by PLN 23 thousand and requiring the company to additionally pay PLN 7 thousand on account of tax. LOTOS Paliwa Sp. z o.o. decided not to appeal against the decision as it considered it favourable for the company. According to a previous decision relating to the same matter and issued on March 28th 2006 (decision No. PV/4400-95/124/VT/AG), the Head of the Gdańsk Tax Office decided that the company had understated its tax liability by PLN 24,055 thousand and obliged the company to additionally pay PLN 7,850 on account of tax (the decision was later repealed by virtue of a decision issued by the Head of the Tax Chamber in Gdańsk on July 21st 2006).

On July 6th 2007, the Head of the Gdańsk Tax Office issued decision No. VT/440-185/07/WP/DP on instigation of tax proceedings against LOTOS Paliwa Sp. z o.o to investigate the correctness of VAT settlements for March 2005. On September 11th 2007, LOTOS Paliwa Sp. z o.o. received a decision of the Gdańsk Tax Office of September 10th 2007 relating to the determination of the value added tax liability for March 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability against the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. Decision No. PV/4400-170/185/VT/07/DP stated that the amount of tax difference to be refunded was exceeded by PLN 26,141 thousand and required the company to pay an additional PLN 7,842 thousand on account of tax for March 2005. The amounts specified in the decision were paid by LOTOS Paliwa Sp. z o.o. On September 24th 2007, the company appealed against the decision of the Gdańsk Tax Office.

On January 18th 2008, the Head of the Tax Chamber of Gdańsk issued decision No. PC/4407-660/07/13 upholding decision No. PV/4400-96/124/VT/06/AR of the Head of the Gdańsk Tax Office, dated September 10th 2007, stating that the excess of input VAT over output VAT for March 2005 was PLN 5,292 thousand and that the amount of tax difference to be returned was PLN 5,292 thousand, and requiring the company to additionally pay PLN 7,842 thousand on account of value added tax for March 2005. On February 1st 2008, LOTOS Paliwa Sp. z o.o. appealed to the Provincial Administrative Court of Gdańsk against decision No. PC/4407-660/07/13 issued by the Head of the Tax Chamber of Gdańsk.

The decision concerns the right to reduce the tax amount due as settlement for the month in which the seller was provided by the buyer with a confirmation of receipt of an adjusting invoice, arising from settlement of the acquisition of an organised part of business of LOTOS Gaz S.A., and compliance of additional tax sanctions in this respect with the constitution.

On June 24th 2008, a hearing was held before the Provincial Administrative Court of Gdańsk, whose judgement reversed the appealed decision of the Head of the Tax Chamber of Gdańsk and declared it unenforceable, awarding the costs of the proceedings against the Head of the Tax Chamber of Gdańsk.

On July 31st 2008, the Head of the Gdańsk Tax Chamber filed with the Supreme Administrative Court of Warsaw a cassation complaint against the decision of the Provincial Administrative Court of Gdańsk dated June 24th 2008.

On January 19th 2010, the Supreme Administrative Court of Warsaw reversed the decision issued in respect of LOTOS Paliwa Sp. z o.o. by the Provincial Administrative Court of Gdańsk concerning the correctness of VAT settlements for March 2005 and remanded the case for re-examination. On June 17th 2010, the Provincial Administrative Court of Gdańsk dismissed LOTOS Paliwa Sp. z o.o.'s complaint. In connection with the foregoing, the previously reported amount receivable in connection with the sanction paid by LOTOS Paliwa Sp. z o.o. concerning an additional tax liability of PLN 7,850 thousand, was included in other operating expenses of LOTOS Paliwa Sp. z o.o. for 2010. On August 25th 2010, LOTOS Paliwa Sp. z o.o. lodged a cassation complaint with the Supreme Administrative Court of Warsaw. On July 28th 2011, the Supreme Administrative Court dismissed the cassation complaint lodged by LOTOS Paliwa Sp. z o.o. LOTOS Paliwa Sp. z o.o. does not expect any additional costs related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A.

## **Material court proceedings instigated against Grupa LOTOS S.A.**

***Proceedings brought by PETROECCO JV Sp. z o.o. seeking compensation for losses incurred as a result of monopolistic practices***

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest from May 1st 1999, as compensation for damage incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o. The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Monopoly 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 remanded for re-examination by the Regional Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

The case was pending before the Regional Court of Gdańsk (First Instance Court); court docket No. IX GC134/04. The Company has also defended itself by raising objections as to the merits of the case (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following a hearing held in June 2005, the Regional Court of Gdańsk ordered an court expert in accountancy and economics to draw up an opinion concerning the extent of the damage which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the court expert stated that based on the materials presented by PETROECCO JV Sp. z o.o. it was not possible to establish the amount of the losses or even state whether any losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an court expert in a field other than accountancy. The lack of evidence required to issue an opinion prevented the plaintiff from procuring the appointment of another expert witness. Another hearing was held on March 27th 2007. Announcement of the ruling was scheduled for April 10th 2007, and subsequently postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the action was dismissed. On May 17th 2007, the Company filed an appeal against the court's decision regarding the cost of the proceedings. On June 4th 2007, PETROECCO JV Sp. z o.o. lodged 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 Regional Court's decision. 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 of December 20th 2007. The complaint was delivered to Grupa LOTOS S.A. on June 17th 2008. On June 30th 2008, Grupa LOTOS S.A. sent a response to the complaint. The case was referred to pre-trial proceedings scheduled for November 14th 2008. On January 14th 2009, the Supreme Court reversed the ruling appealed against and remanded the case for re-examination by the Court of Appeals in Gdańsk. On March 10th 2009, the case files were delivered to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer sent the decision on discontinuation of the enforcement proceedings. On May 14th 2009, the Court of Appeals referred the case to the Regional Court for re-examination. During a hearing held on November 3rd 2009, the Court obliged PETROECCO JV Sp. z o.o. to appoint an expert. On October 1st 2010, a hearing was held during which the expert was heard. On May 16th 2011, Grupa LOTOS S.A. sent its response to the summons to submit a representation concerning sustaining the motion for evidence from an expert's opinion and to pay a PLN 23 thousand advance towards the cost of the opinion. On May 18th 2011, a court paper was received from PETROECCO JV Sp. z o.o. which upheld the previous position on the above matter. On March 14th 2012, an opinion of the Oil and Gas Institute of Kraków was received, to which Grupa LOTOS S.A. replied on March 28th 2012. On March 22nd 2012, a court paper was received from PETROECCO JV Sp. z o.o. As at the date of approval of these consolidated financial statements, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were recognised and disclosed in the consolidated financial statements.

***Proceedings brought by the Minister of State Treasury seeking invalidation of the share purchase agreement concerning shares in Naftoport Sp. z o.o.***

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court of Gdańsk, IX Commercial Division, issued a ruling dismissing the suit 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 nullity suit regarding 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 of 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. On May 7th 2008, the court's decision became final.

On August 20th 2008, the State Treasury lodged a cassation complaint. On December 11th 2008, the case files arrived at the Supreme Court, Civil Chamber Division II. In a closed session held on March 6th 2009, the court accepted the complaint for consideration. The date of the hearing was set for May 6th 2009; during the hearing, the Supreme Court remanded the case for re-examination by the Szczecin Court of Appeals. At the hearing held on September 30th 2009, the Court of Appeals dismissed the action and awarded reimbursement of the cost of court proceedings to Grupa LOTOS S.A. by the State Treasury. On January 11th 2010, the State Treasury lodged a cassation complaint against the ruling to the Court of Appeals. The complaint, along with the court's decision to accept the complaint for consideration, was served on the Company on June 6th 2010. On July 8th 2010, the Supreme Court overruled the Court of Appeals' judgment and remanded the case for re-examination. On February 17th 2011, a hearing was held before the Szczecin Court of Appeals, which, however, did not issue any ruling due to the complexity of the case. On July 13th 2011, the Supreme Court issued its decision concerning a legal issue presented by the Court of Appeals. On November 23rd 2011, the Court refused the Minister of State Treasury's appeal. On March 6th 2012, the State Treasury's cassation complaint was received, to which Polska Żegluga Morska replied on March 20th 2012. As at the date of approval of these consolidated financial statements the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were recognised in the financial statements.

#### **Tax settlements**

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the interpretation of tax legislation are frequent, both within governmental authorities and between those authorities and businesses, leading to uncertainty and conflicts. Consequently, the tax-related risk in Poland is significantly higher than in countries where tax systems are better developed.

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company. In the Company's opinion, as at December 31st 2011 it had adequate provisions for identified and measurable tax risks.

#### **Court proceedings instigated by or against the Company or the companies of its Group**

##### ***Court proceedings instigated by Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) against a private individual***

On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of LOTOS Jasło S.A., whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, LOTOS Jasło S.A. submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security (deposit) mortgage (hipoteka kaucyjna). By December 31st 2011, all instalments under the arrangement had been paid. As at December 31st 2010, subject to the execution of the terms of the arrangement, there were no receivables outstanding.

##### ***Court proceedings instigated by WANDEKO and involving LOTOS Paliwa Sp. z o.o. as a party***

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik, conducting business activity under the business name of WANDEKO. On October 28th 2009, District Court of Gdańsk, Commercial Division IX, issued a default judgement awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. LOTOS Paliwa Sp. z o.o. recognised a provision for the amount awarded against it along with interest in the amount of PLN 15,318 thousand. The company appealed against the judgement by lodging an objection to the default judgement with the Regional Court of Gdańsk on November 10th 2009. Due to the objection, the case is under examination as to its merits by the first instance court. The default judgement does not constitute an enforceable document as the judgement was reversed following the intervention by the company. Concurrently, as by virtue of statutory provisions a default judgement constitutes an interlocutory injunction, LOTOS Paliwa Sp. z o.o. filed an application requesting that also this restriction be lifted. By virtue of its non-final decision of April 14th 2010, the Regional Court of Gdańsk lifted the interlocutory injunction in its entirety in compliance with LOTOS Paliwa Sp. z o.o.'s request. Following a complaint by Mr Andrzej Wójcik of May 18th 2010, in its decision of October 13th 2010 the Gdańsk Court of Appeals changed the aforesaid decision of the Regional Court of Gdańsk, as a result of which the default judgement still constitutes an interlocutory injunction. By virtue of its decision of December 28th 2010, the Court of Appeals dismissed Mr Andrzej Wójcik's complaint against the decision issued by the Regional Court of Gdańsk rejecting reversal of a decision to lift court order making default judgement immediately enforceable, and awarded reimbursement of the cost of proceedings to LOTOS Paliwa Sp. z o.o. As at the date of approval of these consolidated financial statements, the case was pending.

##### ***Other proceedings involving LOTOS Gaz S.A. w likwidacji (in liquidation) as a party***

As at December 31st 2011, proceedings were pending involving LOTOS Gaz S.A. w likwidacji (in liquidation) as a party. These proceedings are discussed below.

On July 23rd 2009, District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. The



company's estate is managed by a bankruptcy administrator. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending.

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

In May 2009, LOTOS Gaz S.A. filed a notification of suspected offence of fraud to the detriment of LOTOS Gaz S.A. by the sellers of KRAK-GAZ Sp. z o.o. An investigation was launched by the prosecutor's office. In February 2010, the proceedings were extended to investigate the issue of whether the persons who participated in the process of acquisition KRAK-GAZ Sp. z o.o. on Grupa LOTOS S.A.'s side exercised due care. The proceedings were resumed on April 4th 2011 following preparation of an expert's opinion. By virtue of a decision issued by the District Prosecutor's Office of Warszawa Śródmieście-Północ, on May 27th 2011 the investigation was discontinued. On June 12th 2011, LOTOS Gaz S.A. w likwidacji (in liquidation) filed a complaint against the District Prosecutor's Office's decision. Following consideration of the complaint, the decision was reversed. By virtue of a decision of December 29th 2011, the District Prosecutor's Office of Warszawa Śródmieście-Północ once again discontinued the investigation. As at the date of approval of these consolidated financial statements, the proceedings at the prosecutor's office were closed.

In September 2011, a suit of the bankruptcy administrator of the estate of KRAK-GAZ Sp. z o.o. to recognise the debtor's legal act as ineffective against the estate, i.e. to challenge the created security interests in the form of mortgages (actio pauliana or fraudulent conveyance), was served upon LOTOS Gaz S.A. w likwidacji (in liquidation). As at the date of approval of these consolidated financial statements, the proceedings were pending.

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków declared KRAK-GAZ Sp. z o.o. bankrupt. The company's estate is managed by a bankruptcy administrator. As at the date of approval of these consolidated financial statements, the bankruptcy proceedings were pending. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision admitting objections to the list of debt claims and recognised the claim of LOTOS Gaz S.A. w likwidacji (in liquidation) in the total amount of PLN 23,695 thousand, including principal amount of PLN 21,435 thousand, and recognised claims in the amount of PLN 21,132 thousand as secured with mortgages. As at the date of this report, the decision was not final.

#### ***Proceedings involving a LOTOS Petrobaltic Group company as a party***

On January 16th 2012, an arbitration court's session was held to hear a case concerning claims brought by Single Buoy Moorings Inc. ("SBM") – supplier of the MOPU (Mobile Operating and Production Unit) to be used in production operations on the YME field. On January 25th 2011, SMB filed a claim with an arbitration court in Norway against Talisman Energy Norge AS and other holders of interests in the YME project, for the payment of:

- USD 90,000 thousand as an additional bonus for delivery of the MOPU within the deadline set forth in the contract,
- USD 3,700 thousand as reimbursement of additional costs incurred in connection with applying a different method of transporting the MOPU.

The liability of LOTOS Exploration and Production Norge AS under SBM's claims amounts to 20% of the alleged amounts, i.e. USD 18,740 thousand in total. According to information obtained by LOTOS Norge from Talisman Energy Norge AS, the licence operator and leader of the YME project, under the MOPU delivery contract, SBM's claims are unfounded.

On February 20th 2012, a decision in the arbitration proceedings was announced. All claims of Single Buoy Moorings Inc. were dismissed and the arbitration proceedings were closed.

Further, as at the date of approval of these consolidated financial statements preparations related to the second arbitration proceedings concerning claims brought by Single Buoy Moorings Inc. ("SBM") were under way. The claim involves disputed costs of USD 330,000 thousand relating to dealings between the parties following the delivery of the MOPU to Norway.

The liability of LOTOS Exploration and Production Norge AS under SBM's claims amounts to 20% of the alleged amounts, i.e. USD 66,000 thousand in total.

This is a translation of a document originally issued in Polish.