

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

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

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction	- exploration and evaluation assets ⁽¹⁾	Prepayments for tangible assets under construction	Total
Gross book value as at Jan 1 2008	221,426	2,096,147	1,232,100	472,181	634,764	69,039	781,780	5,438,398
Increase	17,597	90,561	78,067	51,510	2,229,361		25,671	
- purchase	-	-	1,412	17,017	2,241,124		28,049	

- transfer from investments	18,255	69,137	76,057	15,930	(187,922)	(2,430)
- transfer	(443)	(1,726)	104	8,689	(3,010)	-
- reclassified to assets available for sale	(1,165)	(122)	-	(4,546)	-	-
- reclassified from assets available for sale	933	-	-	1	-	-
- currency translation differences on foreign operations	-	-	494	14,247	-	-
- assets related to decommissioning of the Offshore Oil Rigs	-	23,094	-	-	6,950	52
- borrowing costs	-	-	-	-	157,173	-
- other	17	178	-	172	15,046	-
Decrease	(1,984)	(4,802)	(4,994)	(17,854)	(76,076)	-
- sale	(1,984)	(4,335)	(1,252)	(15,348)	(74,964)	-
- liquidation	-	(292)	(3,736)	(2,503)	(45)	-
- currency translation	-	-	-	(3)	-	-

differences on
foreign
operations

- other	-	(175)	(6)	-	(1,067)	-		
Gross book value as at Dec 31 2008	237,039	2,181,906	1,305,173	505,837	2,788,049	94,710	1,200,713	8,218,717
Gross book value as at Jan 1 2009	237,039	2,181,906	1,305,173	505,837	2,788,049	94,710	1,200,713	8,218,717
Increase	7,326	357,255	257,171	172,987	3,443,813	(3,511)	225,602	4,464,154
- purchase	-	34	1,887	51,332	3,915,182	22,543	258,581	4,227,016
- transfer from investments	5,653	258,896	202,916	106,828	(589,781)	(26,054)	-	(15,488)
- change in Group structure	1,605	79,887	48,797	184	105	-	-	130,578
- transfer	42	2,340	3,689	7,947	(6,463)	-	-	7,555
- reclassified to - assets available for sale	-	-	(167)	(20,729)	-	-	-	(20,896)
- reclassified from assets available for sale	26	-	-	-	-	-	-	26
- currency translation differences on foreign	-	-	-	92	70,363	-	7	70,462

operations								
- borrowing	-	-	-	-	38,943	-	(32,986)	5,957
costs								
- assets related to decommissioning of the Offshore Oil Rigs		15,853	-	-	15,178	-	-	31,031
- other	-	245	49	27,333	286	-	-	27,913
Decrease	(1,118)	(19,396)	(14,208)	(16,958)	(71,501)	(20,360)	(1,272,779)	(1,395,960)
- sale	(675)	(5,140)	(6,859)	(8,556)	(48,575)	-	-	(69,805)
- liquidation	-	(1,717)	(4,680)	(4,198)	(303)	-	-	(10,898)
- change in Group structure	(443)	(12,539)	(2,512)	(595)	(710)	-	-	(16,799)
- settled prepayments	-	-	-	-	-	-	(1,272,779)	(1,272,779)
- currency translation differences on foreign operations	-	-	(157)	(3,446)	(536)	-	-	(4,139)
- other	-	-	-	(163)	(21,377)	(20,360)	-	(21,540)
Gross book value as at Dec 31 2009	243,247	2,519,765	1,548,136	661,866	6,160,361	70,839	153,536	11,286,911
Accumulated depreciation as at Jan 1 2008	7,242	363,325	551,064	215,498	-	-	-	1,137,129

Increase	1,568	108,832	135,315	57,677	-	-	-	303,392
- depreciation	1,529	109,345	135,058	50,591	-	-	-	296,523
- transfer	-	(513)	(132)	(23)	-	-	-	(668)
- reclassified from assets available for sale	39	-	-	1	-	-	-	40
- currency translation differences on foreign operations	-	-	389	7,008	-	-	-	7,397
- other	-	-	-	100	-	-	-	100
Decrease	(67)	(483)	(3,181)	(10,965)	-	-	-	(14,696)
- sale	(67)	(417)	(739)	(8,492)	-	-	-	(9,715)
- liquidation	-	(37)	(2,439)	(2,472)	-	-	-	(4,948)
- currency translation differences on foreign operations	-	-	-	(1)	-	-	-	(1)
- other	-	(29)	(3)	-	-	-	-	(32)
Accumulated depreciation as at Dec 31 2008	8,743	471,674	683,198	262,210	-	-	-	1,425,825
Accumulated depreciation as at Jan 1 2009	8,743	471,674	683,198	262,210	-	-	-	1,425,825
Increase	1,572	114,456	97,990	71,700				

- depreciation	1,546	112,879	94,489	63,865	-	-	
- transfer	-	1,577	3,657	4,326	-	-	
- reclassified to assets available for sale	-	-	(158)	(9,445)	-	-	
- reclassified from assets available for sale	26	-	-	-	-	-	
- currency translation differences on foreign operations	-	-	-	15	-	-	
- other	-	-	2	12,939	-	-	
Decrease	(6)	(4,440)	(9,760)	(12,298)	-	-	
- sale	(4)	(2,516)	(5,090)	(6,492)	-	-	
- liquidation	-	(705)	(4,131)	(3,448)	-	-	
- change in Group structure	(2)	(1,219)	(429)	(97)	-	-	
- currency translation differences on foreign operations	-	-	(108)	(2,215)	-	-	
- other	-	-	(2)	(46)	-	-	
Accumulated depreciation as	10,309	581,690	771,428	321,612	-	-	1,685,039

at Dec 31 2009

Impairment losses as at Jan 1 2008	11	2,920	1,898	815	42,598	15,378	-	4
Increase	414	3,135	4,199	8,138	401	66	-	16,287
Decrease	-	(1,069)	(693)	(790)	(2,410)	-	-	(4,962)
Impairment losses as at Dec 31 2008	425	4,986	5,404	8,163	40,589	15,444	-	59,567
Impairment losses as at Jan 1 2009	425	4,986	5,404	8,163	40,589	15,444	-	59,567
Increase	101	14,454	2,282	7,798	33,655	10		
Decrease	-	(1,557)	(710)	(15,492)	(663)			
Change in Group structure	(11)	(10,998)	(1,996)	(57)	-	-		
Impairment losses as at Dec 31 2009	515	6,885	4,980	412	73,581	15,454	-	8
Net book value as at Jan 1 2008	214,173	1,729,902	679,138	255,868	592,166	53,661	781,780	4
Net book value as at Dec 31 2008	227,871	1,705,246	616,571	235,464	2,747,460	79,266	1,200,713	6
Net book value as at Dec 31 2009	232,423	1,931,190	771,728	339,842	6,086,780	55,385	153,536	9

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

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

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

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

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

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

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

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

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

2009. Based on the results of the analyses which have been performed, both Petrobaltic S.A. and PGNiG SA upheld their earlier positions and decided to confirm their mutual intentions in a Letter of Intent signed on December 1st 2009. Following another set of analyses, it was found that the B-4 and B-6 gas fields development concept should be extended to include the B-21 prospect located in the Gaz Południe licence area.

Information on Interests in Norwegian Production and Exploration Licences

The item "Tangible assets under construction" includes expenditure of NOK 1,755,293 thousand (the equivalent of PLN 868,168 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009) incurred by LOTOS Exploration and Production Norge AS on the purchase of interests in Norwegian production licences (the YME field). The balance-sheet item "Tangible assets under construction" is additionally adjusted by the tax effect connected with the YME field purchase transaction, of NOK 75,965 thousand (i.e. PLN 37,572 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009). Furthermore, under "Intangible assets" LOTOS Exploration and Production Norge AS recognised expenditure of NOK 72,157 thousand as at December 31st 2009 (the equivalent of PLN 35,689 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009) incurred on the exploration licences (in particular the PL455 licence). The balance sheet item "Intangible assets" is additionally adjusted by the tax effect of NOK 836 thousand (i.e. PLN 413 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009). As at December 31st 2009, the net value of intangible assets related to exploration licences, net of impairment loss, amounts to NOK 61,238 thousand (the equivalent of PLN 30,288 thousand, translated at the mid-exchange rate for NOK quoted by the National Bank of Poland for December 31st 2009).

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

Purchase of Interests in Norwegian Production Licences

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

is expected to start in the second half of 2010.

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

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

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

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

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

The value of the transaction was NOK 390m (the equivalent of PLN 161m, translated at the NOK/PLN mid-exchange rate published by the

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

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

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

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

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

LOTOS Exploration and Production Norge AS – holds a 50% interest in the licence. The seismic survey was carried out in 2008–2009, and the licence area is planned to be drilled in 2011 to confirm its potential. In accordance with the Norwegian tax law, if the exploration proves unsuccessful, 78% of the incurred expenditure may be reimbursed.

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

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

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

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

*2P – proved and probable reserves.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

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

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

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

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

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

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

This is a translation of a document originally issued in Polish