

35. Contingent liabilities and assets

35.1 Material court, arbitration or administrative proceedings and other risks of the Parent or its subsidiaries

Material court proceedings to which the Parent is a party

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 seeking the court's decision awarding it PLN 6,975 thousand, plus 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 by fulfilling their orders to a disproportionately larger 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 was also ordered to abandon the monopolistic practices pursuant to a decision of October 22nd 1997 issued by the Provincial Court of Warsaw – the Anti-Monopoly Court.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation filed by PETROECCO JV Sp. z o.o., 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 and remanded for re-examination by the Regional Court. The Company questioned whether any damage had been 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. After two further hearings at which expert witnesses provided their evidence, by virtue of a ruling of April 20th 2007 the action was dismissed. Following the appeal and cassation proceedings in 2007, initiated by PETROECCO JV Sp. z o.o., the case was remanded for re-examination by the Regional Court of Gdańsk. As a result of further hearings (held on November 3rd 2009, October 1st 2010, December 6th 2012, February 8th 2013), after evidence was taken based on an opinion of the expert witness of Instytut Nafty i Gazu (Oil and Gas Institute) of Kraków, which was favourable to Grupa LOTOS S.A., and after the parties exchanged process letters, the action filed by PETROECCO JV Sp. z o.o. was dismissed by the Court in its entirety. On June 26th 2013, PETROECCO JV Sp. z o.o. filed an appeal against the ruling. Grupa LOTOS S.A. responded to the appeal on March 11th 2014. On August 28th 2014, the Court of Appeals in Gdańsk issued a decision dismissing the appeal and awarding reimbursement of the costs of the proceedings to Grupa LOTOS S.A. On January 19th 2015, PETROECCO JV Sp. z o.o. filed a cassation appeal against the ruling of the court of second instance. As at the date of approval of these financial statements, the case is pending.

Assuming that there was little risk of an unfavourable outcome of the case, Grupa LOTOS S.A. did not recognise any provisions for potential liabilities related to the case.

Administrative and administrative court proceedings initiated upon a motion to declare invalid a decision expropriating certain property for the benefit of the State Treasury

Grupa LOTOS S.A. is a party to the proceedings against the State Treasury for declaring invalid the expropriation decision, based on which the Company acquired the perpetual usufruct right to land and ownership rights to buildings erected thereon.

The proceedings concern a property with a total area of 87,000 m², where a part of the Refinery's tank farm and its wastewater treatment plant are situated. The proceedings were initiated upon a motion of the former owners of the property. The motion of December 18th 2006 calls for declaring invalid the expropriation decision issued by the President of the City of Gdańsk on June 14th 1983 in its entirety or, failing that, declaring it invalid with respect to the amount of compensation paid. On September 9th 2014, the Gdańsk Province Governor issued a decision refusing to declare the expropriation decision invalid. On October 24th 2014, the former owners appealed against the decision. The Company responded to the appeal on November 3rd 2014. Currently, the case is being reviewed by the Minister of Infrastructure. As at the date of approval of these financial statements, the decision is not final.

The Company believes the risk of an adverse conclusion of the proceedings to be low and without any effect on these consolidated 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. Tax settlements may be subject to tax inspection for a period of five years from the end of the 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.

Court proceedings instigated by or against Group companies

Proceedings involving a LOTOS Petrobaltic Group company

Agreement signed by LOTOS Exploration and Production Norge AS

LOTOS Exploration and Production Norge AS ("LOTOS E&P Norge AS") was a party to proceedings held before an arbitration court in Norway in connection with claims filed by Single Buoy Moorings Inc. ("SBM"), the supplier of a MOPU (Mobile Offshore Production Unit) for the operation of the YME field, against Talisman Energy Norge AS, the operator of the YME field ("Talisman", the "Operator") and the other YME licence

holders. The share of SBM's claims attributable to LOTOS E&P Norge AS was 20%.

On March 12th 2013, Talisman (the YME field operator) and SBM (the owner of the MOPU) announced that an agreement was reached to terminate all existing contracts and agreements executed by the parties in connection with the YME project and remove the MOPU from the YME field. Under the agreement, SBM paid USD 470m to the joint venture partners. On behalf of the licence holders, Talisman agreed to make the necessary preparations, remove the MOPU from the field and transport it to the handover point. SBM agreed to be responsible for towing and scrapping the unit onshore. Following completion of certain works, the ownership of elements of the YME field in situ subsea infrastructure delivered by SBM will be transferred to the consortium members, who will be required to perform reclamation (and disassembly) activities related to the infrastructure after the end of the production phase. The parties will cover the costs of decommissioning work as set out in the agreement. The agreement was approved by all partners in the YME licence, including LOTOS E&P Norge AS. The agreement provided for the terms of termination of all pending arbitration proceedings (between SBM and Talisman and the other YME licence holders).

In accordance with the provisions of the agreement with SBM, USD 12.22m has been paid to LOTOS E&P Norge AS's bank account by March 31st 2013. The payment represented a part of LOTOS E&P Norge AS's 20% interest in the amount of USD 470m, paid by SBM to the consortium members. The balance of the Group's share in the amount due to the consortium members under the agreement, that is USD 81.78m, was transferred to the escrow account of the YME project, to be gradually released to finance the removal of the MOPU and related infrastructure from the field, in accordance the agreement. On December 4th 2013, Talisman and Excalibur Maritime Contractors („EMC”) signed an agreement to remove the Mobile Offshore Production Unit (MOPU) from the YME field. On February 5th 2014, Talisman notified LOTOS E&P Norge AS of the execution of an agreement between EMC and Single Buoy Moorings Inc. ("SBM") for the transport of the MOPU. In June 2014, Talisman notified LOTOS E&P Norge AS of the execution of an agreement between Veolia Environmental Services and Single Buoy Moorings Inc. ("SBM") concerning the scrapping of the rig.

In 2014, work on removal of the MOPU proceeded according to schedule.

As at December 31st 2014, available cash deposited in the escrow account, denominated in the presentation currency, was recognised in the amount of PLN 179,377 thousand under Other assets. The available provision for future costs of removal of the MOPU and disassembly of the related fixed assets was recognised in the amount of PLN 94,312 thousand under the current portion of *Other liabilities and provisions*. As the amount of the provision is the Management Board's best estimate as at the reporting date, the assumptions may be subject to reasonable changes that may in the future cause the need to remeasure the provisions for future costs of decommissioning of the platform.

Proceedings involving LOTOS Petrobaltic S.A.

On March 11th 2013, LOTOS Petrobaltic S.A. received a payment notice for approximately GBP 6.5m from AGR Subsea Ltd. ("AGR"). The claim concerns AGR's remuneration for the performance of a contract to unearth the legs of the 'Baltic Beta' platform. LOTOS Petrobaltic S.A. questioned the amount demanded by AGR as remuneration for the services and has proposed to pay PLN 16m (the equivalent of GBP 3.2m, translated at the mid rate quoted by the National Bank of Poland for December 31st 2012) to AGR under the claim. The dispute concerns the nature of the contract, the reasons of its delayed and incomplete performance, as well as the grounds for LOTOS Petrobaltic S.A. to terminate the contract and demand reimbursement of costs incurred by LOTOS Petrobaltic S.A. to hire replacement contractors to complete the work. AGR Subsea Ltd. did not accept the settlement and brought the case to court. On November 4th 2013, LOTOS Petrobaltic S.A. received a claim brought by AGR for payment of GBP 6.5m. The dispute was referred to mediation by virtue of the court's decision, which was accepted by LOTOS Petrobaltic S.A. Mediation meetings between AGR and LOTOS Petrobaltic S.A. were scheduled for April 22nd 2014. At a joint request of both parties, on June 20th 2014 the court agreed to extend the mediation proceedings until July 31st 2014. LOTOS Petrobaltic S.A. moved for extension of the mediation proceedings until September 30th 2014. The court ordered AGR to respond whether it supports the request for extension. As at December 31st 2014, AGR had not responded to the request.

On October 31st 2013, LOTOS Petrobaltic S.A. filed a claim against AGR to the Regional Court of Gdańsk for payment of GBP 5.6m to cover the costs of hiring the replacement contractors. On March 25th 2014, the Regional Court, 9th Commercial Division in Gdańsk, in writ-of-payment proceedings, issued an order for payment which was served to LOTOS Petrobaltic S.A. on April 17th 2014. The order along with the claim were served on the respondent on November 14th 2014. AGR raised an objection to the payment order and filed a follow-up preparatory plea on December 31st 2014.

As at December 31st 2014 and 2013, no liability towards AGR Subsea Ltd. was recognised by the Group in these consolidated financial statements.

Given the complex nature of the dispute, it is difficult to assess the risk arising in relation to the court proceedings, because if the judgement is unfavourable to one of the parties, that party may have to incur additional expenses related to the proceedings, including costs of legal representation and costs of enforcement.

Completion of recovery proceedings at Energobaltic Sp. z o.o.

On April 7th 2014, the District Court for Gdańsk issued a decision to register completion of recovery proceedings at Energobaltic Sp. z o.o. with the National Court Register in light of the decision of the District Court for Gdańsk-Północ confirming performance of the arrangement executed at the meeting of creditors of June 29th 2009 as part of the recovery proceedings between Energobaltic Sp. z o.o. and its creditors (see Note 17 to the consolidated financial statement for 2009).

Proceedings involving other Group companies

WANDEKO vs. LOTOS Paliwa Sp. z o.o.

Court proceedings are pending against LOTOS Paliwa Sp. z o.o., instigated by Mr Andrzej Wójcik conducting business as WANDEKO. On October 28th 2009, the Regional Court of Gdańsk, 9th Commercial Division, issued a default judgment awarding PLN 1,921 thousand plus contractual interest from the company to the plaintiff. In 2009, LOTOS Paliwa Sp. z o.o. recognised a PLN 15,318 thousand provision for the court-awarded amount plus interest. The company appealed against the judgment by lodging an objection to the default judgment with the Regional Court of Gdańsk on November 10th 2009. 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 refusing to reverse the decision to lift the court order making the default judgment immediately enforceable, and awarded reimbursement of the cost of the proceedings to LOTOS Paliwa Sp. z o.o. In the reporting period ended December 31st 2013, following earlier decisions rendered in the case by the Regional Court in Gdańsk and the Court of Appeals in Gdańsk, the Court Enforcement Officer issued a decision reversing the earlier seizure of receivables from LOTOS Paliwa Sp. z o.o.'s bank account in the amount of PLN 18,320 thousand, which had been established to secure the plaintiff's claims in 2009. Accordingly, the Group ceased to disclose

that amount as *Cash blocked in bank accounts under Current financial assets*.

The most recent hearing in the case was held on January 28th 2015. The court postponed entry of the ruling until May 25th 2015. As at the date of approval of these consolidated financial statements, the case was pending. As at December 31st 2014, LOTOS Paliwa Sp. z o.o. recognised a provision (see Note 30.1) for the court-awarded amount plus interest accrued in previous years, as specified above.

Proceedings involving LOTOS Gaz S.A. w likwidacji (in liquidation)

On July 23rd 2009, the District Court for Kraków-Śródmieście in Kraków opened bankruptcy by liquidation of assets of KRAK-GAZ Sp. z o.o. (a subsidiary of LOTOS Gaz S.A., currently LOTOS Gaz S.A. w likwidacji (in liquidation)). As the company's estate is managed by a bankruptcy administrator, LOTOS Gaz S.A. w likwidacji (in liquidation) lost control of KRAK-GAZ Sp. z o.o. KRAK-GAZ Sp. z o.o. has not been consolidated since 2009 (see Note 17 to the consolidated financial statements for 2009). On September 24th 2009, LOTOS Gaz S.A. w likwidacji (in liquidation) lodged its claims in the proceedings. On March 13th 2012, the judge commissioner conducting the bankruptcy proceedings of KRAK-GAZ Sp. z o.o. issued a decision recognising the claims of LOTOS Gaz S.A. w likwidacji (in liquidation) for a total amount of PLN 23,695 thousand, including a principal of PLN 21,435 thousand, and acknowledged that claims of PLN 21,132 thousand were secured with mortgages. The decision is final. On March 27th 2014, in accordance with a separate plan for the distribution of funds obtained as part of the bankruptcy proceedings, LOTOS Gaz S.A. w likwidacji (in liquidation) (was awarded PLN 3,067 thousand). As at the date of approval of these consolidated financial statements, the bankruptcy proceedings are pending.

35.2 Other contingent liabilities

- Since August 20th 2014, the Parent has had a PLN 240,000 thousand own blank promissory note deposited at the Customs Office in Gdańsk as lump-sum security for excise duty of PLN 800,000 thousand. The security expiry date is August 19th 2015. As at December 31st 2014, the Company had another PLN 240,000 thousand own promissory note deposited with the Head of the Customs Office in Gdańsk. The promissory note will be returned to the Company upon formal settlement of the previous lump-sum security for excise duty of PLN 800,000 thousand, which was valid from August 20th 2013 to September 19th 2014.
- An unconditional and irrevocable guarantee issued by LOTOS Petrobaltic S.A. for the benefit of the government of Norway on June 17th 2008, concerning the activities of LOTOS Exploration and Production Norge AS related to its exploration and production operations on the Norwegian Continental Shelf, was effective as at December 31st 2014 and December 31st 2013. In the guarantee, LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with the operations of LOTOS Exploration and Production Norge AS on the Norwegian Continental Shelf, consisting in exploration for and extraction of the natural resources from the sea bottom, including their storage and transport using means of transport other than ships.
- On May 13th 2014, LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. ("CalEnergy") entered into an arrangement concerning conditional reimbursement of the costs of the Baltic Gas project (for more information, see Note 2 to the 2013 consolidated financial statements), whereby LOTOS Petrobaltic S.A. agreed to reimburse contributions made and documented by CalEnergy related to the performance of the second part of design work, as well as the remuneration payable to LOTOS Petrobaltic S.A. by CalEnergy, in the event of revocation of the B-4 and B-6 licences (valid until May 11th 2032 and November 7th 2032, respectively) within 12 months of the date of the arrangement. The total amount of contingent liabilities will not exceed USD 13,900 thousand (VAT exclusive).

The Notes to the consolidated financial statements are an integral part of the statements.
(This is a translation of a document originally issued in Polish)