LOTOS

GRUPA LOTOS S.A.
ANNUAL REPORT 2006

Cover: “Baltic Beta” drilling platform operated by Petrobaltic S.A.,
a member of the LOTOS Group

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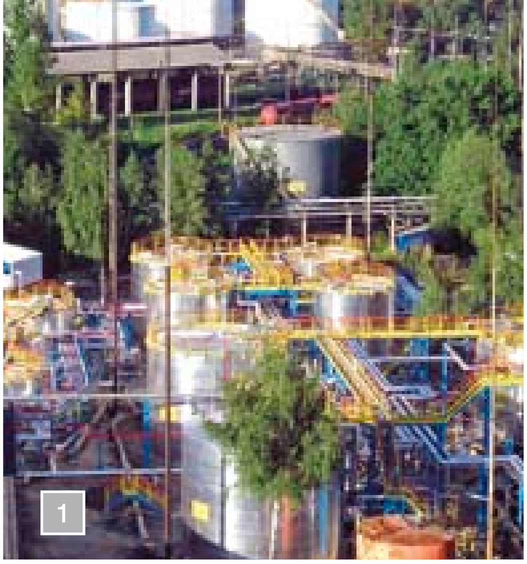
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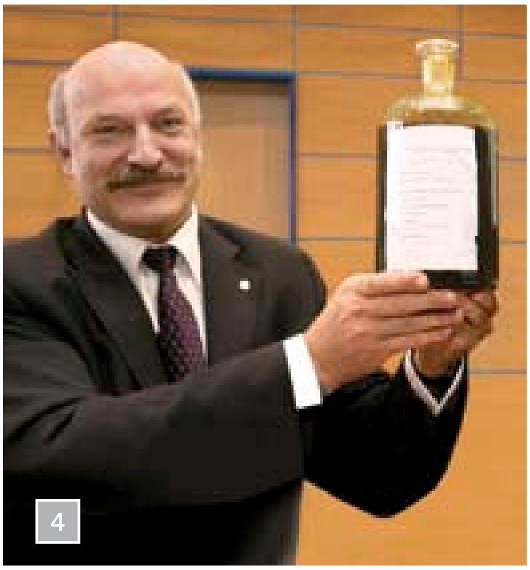
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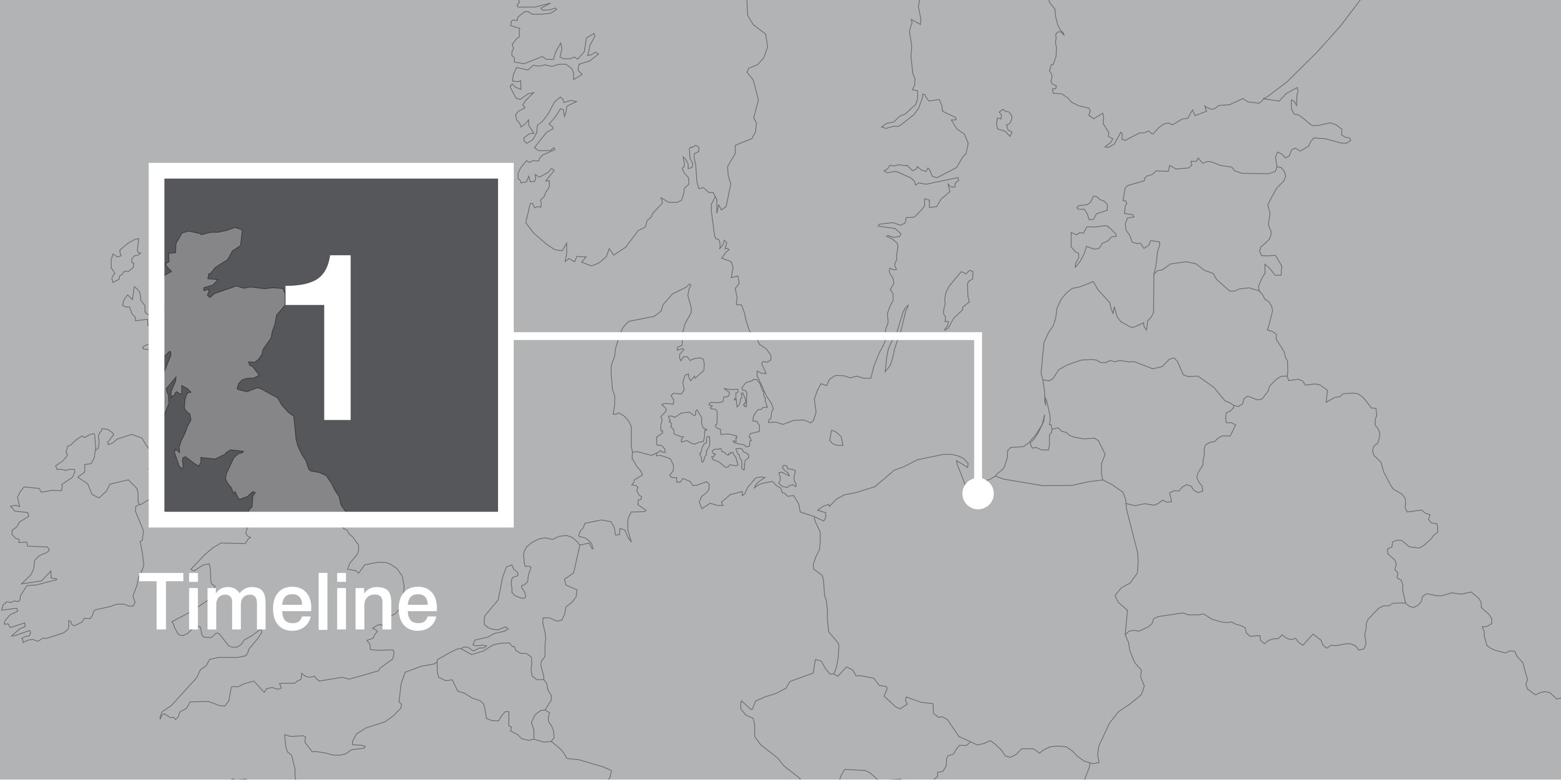
KEY EVENTS

1. The acquired Southern Refineries are renamed LOTOS Czechowice S.A. and LOTOS Jasło S.A.
2. The fuel terminal at Grupa LOTOS S.A.'s refinery in Gdańsk is launched
3. Grupa LOTOS S.A. enters into a PLN 11bn agreement with Shell's STASCO on delivery of feedstock for the PKRT units
4. The recoverable reserves in the two new hydrocarbon reservoirs (B8 and B23) are confirmed to be approx.100m barrels
5. LOTOS Oil S.A. receives the quality management system certificate AQAP 2110
6. The tanker South Sea delivers one million barrels of Kuwaiti oil
7. The Individual Investors' Association awards Grupa LOTOS S.A. in recognition of the best annual report. Within the confines of the Best Annual Report 2005 Competition – the first annual report prepared in accordance with IFRS/IAS
8. Grupa LOTOS S.A. and ABB Lummus Global conclude an agreement for construction of an HDS unit for diesel oil at the refinery in Gdańsk
9. Grupa LOTOS S.A.'s refinery in Gdańsk exceeds its annual nominal crude throughput of 6 million tonnes



1 Timeline

JANUARY 2006

The acquired Southern Refineries are renamed LOTOS Czechowice S.A. and LOTOS Jasło S.A.

The composition of the Supervisory Board of Grupa LOTOS S.A. changes

The Merox unit of Grupa LOTOS S.A.'s refinery in Gdańsk is commissioned for use

The South Region Office is established in Katowice

Implementation of the Periodic Work Assessment System commences

FEBRUARY 2006

The fuel terminal at Grupa LOTOS S.A.'s refinery in Gdańsk is launched

Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. enter into commercial agreements for delivery of liquid fuels to Neste Polska and BP Polska

MARCH 2006

Grupa LOTOS S.A. shares are included in the PTX and CECE indices

Implementation of the Operational and Management Excellence Programme commences at Grupa LOTOS S.A.

Six subsidiary undertakings of the LOTOS Group are awarded Integrated Management System certificates

Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. enter into a commercial agreement with Conoco Philips for delivery of liquid fuels

A logistics centre at LOTOS Asfalt Sp. z o.o. of Jasło is commissioned

APRIL 2006

Grupa LOTOS S.A. enters into a PLN 11bn agreement with Shell's STASCO on delivery of feedstock for the PKRT units

Oil brands Turdus SHPD and Turdus Powertec are awarded Cummins certificates

MAY 2006

The UAB LOTOS Baltija Office is opened in Vilnius

LOTOS Biopaliwa and MAN conclude an agreement for construction of a biodiesel production unit

JUNE 2006

The General Shareholders Meeting of Grupa LOTOS S.A. resolves to allocate all profit earned in 2005 for investments

The Supervisory Board approves the "Strategy for the LOTOS Group until 2012"

The candle factory is opened in Czechowice

JULY 2006

Completion of the integration process between Grupa LOTOS S.A.'s Service Companies - LOTOS Serwis, MONTO-REM of Jasło and RC Remo of Czechowice

AUGUST 2006

The recoverable reserves in the two new hydrocarbon reservoirs (B8 and B23) are confirmed to be approx.100m barrels

Grupa LOTOS S.A. and Kuwait Petroleum enter into an agreement for delivery of one million barrels of Kuwaiti oil to the refinery in Gdańsk

SEPTEMBER 2006

LOTOS Oil S.A. receives the quality management system certificate AQAP 2110

The composition of the Management Board of Grupa LOTOS S.A. changes

OCTOBER 2006

The LOTOS Group takes part in the KIOGE 2006 International Oil and Gas Exhibition hosted in Kazakhstan

Petrobaltic obtains a 10-year licence to produce hydrocarbons from the B8 reservoir

The tanker South Sea delivers one million barrels of Kuwaiti oil

The Individual Investors' Association awards Grupa LOTOS S.A. in recognition of the best annual report. Within the confines of the Best Annual Report 2005 Competition – the first annual report prepared in accordance with IFRS/IAS

NOVEMBER 2006

Petrobaltic obtains a 20-year licence to produce natural gas from the B6 reservoir

Grupa LOTOS S.A. and ABB Lummus Global conclude an agreement for construction of an HDS unit for diesel oil at the refinery in Gdańsk

DECEMBER 2006

Grupa LOTOS S.A. receives the Sports Superpatron Award in Gdańsk

Grupa LOTOS S.A.'s refinery in Gdańsk exceeds its annual nominal crude throughput of 6 million tonnes

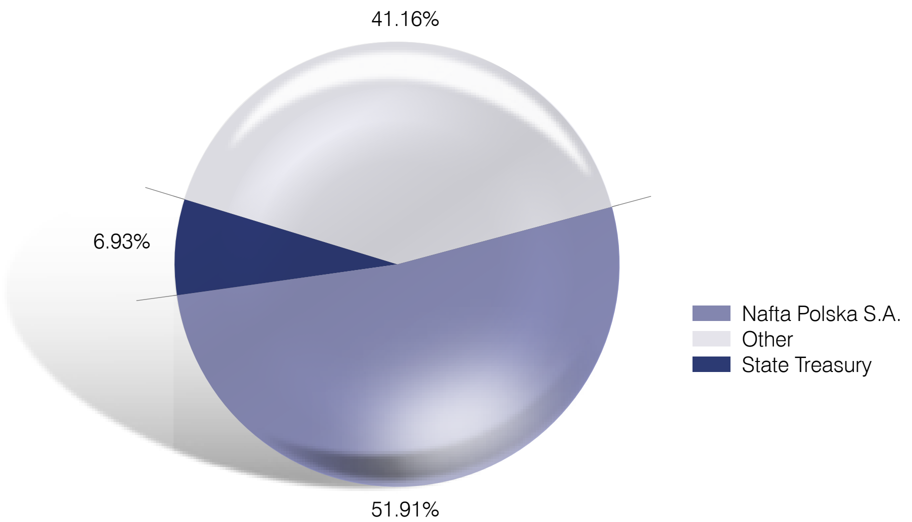
2 Financial Highlights

SELECTED CONSOLIDATED FINANCIAL DATA OF THE LOTOS GROUP

	PLN'000		EUR'000	
	Year ended Dec 31 2006	Year ended Dec 31 2005	Year ended Dec 31 2006	Year ended Dec 31 2005
Sales revenue	12,810,883	9,645,545	3,285,600	2,397,421
Operating profit	798,346	1,069,907	204,751	265,928
Pre-tax profit	915,891	1,137,654	234,898	282,766
Net profit	734,652	968,839	188,416	240,807
Net profit attributable to equity holders of the parent	679,912	915,124	174,377	227,456
Net profit attributable to minority interests	54,740	53,715	14,039	13,351
Net cash provided by/(used in) operating activities	654,441	598,182	167,844	148,679
Net cash provided by/(used in) investing activities	(721,514)	(916,062)	(185,046)	(227,689)
Net cash provided by/(used in) financing activities	(78,151)	930,316	(20,043)	231,232
Total net cash flow	(143,629)	612,782	(36,836)	152,308

	PLN'000		EUR'000	
	As at Dec 31 2006	As at Dec 31 2005	As at Dec 31 2006	As at Dec 31 2005
Total assets	7,926,475	6,989,609	2,068,927	1,810,873
Equity attributable to equity holders of the parent	5,227,918	4,553,828	1,364,564	1,179,809
Equity attributable to minority interests	306,416	254,281	79,979	65,879
Total equity	5,534,334	4,808,109	1,444,543	1,245,689
Basic earnings per ordinary share (PLN/EUR)	5.98	9.47	1.53	2.35
Diluted earnings per ordinary share (PLN/EUR)	-	-	-	-

SHAREHOLDER STRUCTURE OF GRUPA LOTOS S.A. (AS AT DECEMBER 31ST 2006)



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Composition of the Supervisory Board of Grupa LOTOS S.A.

JAN STEFANOWICZ

**Member of the Supervisory Board of Grupa LOTOS S.A.
Deputy Chairman**

Mr Stefanowicz is a graduate of the Faculty of Law at the Nicolaus Copernicus University of Toruń, legal counsel, member of the Association of Polish Economists, Chairman of the Board of the Ius and Lex Foundation, Chairman of the Legal Counsel Commission of the Supreme Bar Council, Chairman of the Council of the Press Freedom Monitoring Centre at the Polish Journalists' Association. Mr Stefanowicz runs his own legal practice, while also being partner at the Kancelaria Juris legal office.

GRZEGORZ SZCZODROWSKI

**Member of the Supervisory Board of Grupa LOTOS S.A.
Secretary**

Mr Szczodrowski holds a PhD in economics from the University of Gdańsk. Instructor and lecturer at the Gdańsk School of Banking and the Bogdan Jański Academy of Warsaw, as well as member of the Association of Polish Economists. Member of the Faculty Council at the Faculty of Economics at the University of Gdańsk.

BEATA ZAWADZKA

Member of the Supervisory Board of Grupa LOTOS S.A.

Director of Ownership Supervision Department of the Polish Ministry of State Treasury. Ms Zawadzka graduated from the Warsaw School of Economics, where she majored in finance and banking. Since 1993, she has held various positions in public administration. At present, she serves as Director of the Ownership Supervision Department at the Ministry of State Treasury.

From left: Beata Zawadzka, Jacek Mościcki, Jan Stefanowicz, Grzegorz Szczodrowski, Henryk Siodmok, Jacek Tarnowski
Supervisory Board as at December 31st 2006.

JACEK MOŚCICKI

Member of the Supervisory Board of Grupa LOTOS S.A.

Mr Mościcki graduated from the Central School of Planning and Statistics (now Warsaw School of Economics) in Warsaw, with a major in finance. He holds a PhD degree in economics. Currently, he is Chairman of the Supervisory Board of Santander Consumer Finance S.A. and member of the Supervisory Board of Computerland.

HENRYK SIODMOK

Member of the Supervisory Board of Grupa LOTOS S.A.

Mr Siodmok holds a degree in economics and foreign trade from the Kraków University of Economics. From 2004 to 2006, he served as President of the Management Board of Power Media Sp. z o.o. Since 2006, he has been on the Management Board of ATLAS Sp. z o.o.

JACEK TARNOWSKI

Member of the Supervisory Board of Grupa LOTOS S.A.

Mr Tarnowski graduated from the Faculty of Transport Economics at the University of Gdańsk, honorary Consul of the Republic of France in Trójmiasto (of Tri-City). President of the Pomeranian Borrowing Fund. He sat on the Supervisory Board of the Industry Development Agency. He advised the President of the Polish Information and Foreign Investment Agency.

On 28 May 2007, the General Shareholders Meeting of Grupa LOTOS S.A. appointed Mr. Jan Stefanowicz as Chairman of the Supervisory Board of Grupa LOTOS S.A., and Ms. Marta B. Busz and Ms. Izabela Emerling as Members of the Supervisory Board. Mr. Jacek Tarnowski was dismissed from the position of Member of the Supervisory Board of Grupa LOTOS S.A.

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Letter from the Deputy Chairman of the Supervisory Board of Grupa LOTOS S.A.

Ladies and Gentlemen,

The year 2006 was a year of highly satisfying results reported by the LOTOS Group, which confirmed our optimistic assumptions made in previous years. It also ushered in the commencement of projects of strategic importance for the LOTOS Group, which will allow us to further strengthen LOTOS's market position in the Baltic Sea region, translating into an increase in the Company's shareholder value.

I am happy to announce that in 2006 the Company's Supervisory Board endorsed the "Strategy for the LOTOS Group until 2012" developed by its Management Board. The Company's needs were aptly assessed and its role in Poland's fuel security system was properly defined. Among the steps aimed at improving the security of the country's energy supplies, let me mention the decision to focus on the Baltic Sea reservoirs as new sources of crude oil, the planned intensification of Petrobaltic's operations and the search for alternative oil suppliers in Kuwait and the Northern Sea region. In this respect the LOTOS Group's strategy won full approval and support of the Polish government.

Ladies and Gentlemen, I have no doubt that Grupa LOTOS S.A. owes its achievements to the carefully designed and consistently implemented strategy, which will be pursued taking into account the current economic environment.

As Deputy Chairman of Grupa LOTOS S.A.'s Supervisory Board, who in 2006 acted also as its Chairman, I wish to stress that the cooperation between all members of the body and the Company's Management Board has been very efficient. In my opinion, thanks to the jointly developed cooperation model, shareholders may rest assured that corporate supervision over the Company's business is exercised impartially and that business projects implemented by its Management Board are assessed with the right degree of expertise. Running a modern enterprise also involves commitment to the observance of best practices and corporate governance principles. The LOTOS Group can also boast impressive achievements in this area, which have earned it wide appreciation from customers, business partners, shareholders and inhabitants of Pomerania.

In line with the adopted strategy, the coming years are to bring Grupa LOTOS S.A. strong growth and continued enhancement of its management processes, which will go hand in hand with improving the efficiency of all organisational units across the LOTOS Group. I am positive that the value of Grupa LOTOS S.A. will be, as it has been to date, steadily growing to the satisfaction of our shareholders.

Jan A. Stefanowicz, Legal Counsel
Deputy Chairman of the Supervisory Board
Grupa LOTOS S.A.

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Composition of the Management Board of Grupa LOTOS S.A.

PAWEŁ OLECHNOWICZ

President of the Management Board
(since March 12th 2002)
Chief Executive Officer

Mr Olechnowicz graduated from the Kraków University of Technology (Faculty of Technology and Mechanisation of Foundry Engineering). In 1990-1996, he was President of the Management Board and Director General of ABB Zamech Ltd. Subsequently, for over two years, Mr Olechnowicz worked at the headquarters of ABB Ltd Zurich in Switzerland as Vice-President for Central and Eastern Europe. In 1999-2000, Mr Olechnowicz was Vice-President and Deputy Director General of ZML Kęty S.A., and from 2001 managed his own consulting company: Paweł Olechnowicz-Consulting.

MAREK PAWEŁ SOKOŁOWSKI

Vice-President of the Management Board
(since April 19th 2002)
Production and Development Director

Mr Sokołowski graduated from the Technical University of Gdańsk (Faculty of Electrical Engineering. He has worked at Rafineria Gdańska S.A. (currently Grupa LOTOS S.A.) since 1973. In 1990, Mr Sokołowski became Technical Director and Management Board member. For three consecutive terms in office, he was in charge of plant engineering at the refinery and execution of investment projects. In mid-2000, he was appointed Chief of Technical Services and the Company's Proxy.

From left: Mariusz Machajewski, Jarosław Kryński, Paweł Olechnowicz, Marek Paweł Sokołowski

MARIUSZ MACHAJEWSKI

Vice-President of the Management Board (since June 19th 2006)
Chief Financial Officer

Mr Machajewski is a graduate of the Faculty of Economics at the University of Gdańsk. In 1994-1997, he worked at Stocznia Gdynia S.A. (Gdynia Shipyard). In 1997, he joined Rafineria Gdańska S.A. (currently Grupa LOTOS S.A.), and in 1999 he was placed in charge of managing the company's controlling functions. Since mid-2002, he has held the position of Chief Financial Officer. In the period from April 2005 to June 2006, he also served as the Company's Proxy.

JAROSŁAW KRYŃSKI

Vice-President of the Management Board (since October 9th 2006)
Chief Commercial Officer

Mr Kryński graduated from the Faculty of Fine Mechanics at the Warsaw University of Technology. In 1994, he joined Shell, where in 2000-2002 he served on the Management Board of Shell Polska Sp. z o.o., and then as Global Director for Competition Strategy at the global headquarters of Shell International in London (2002-2005). In 2005-2006, Mr Kryński was member of the Management Board of Nafta Polska S.A., and in February 2006 he took the position of Vice-President of Naftobazy Sp. z o.o.

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Letter from the President of the Management Board of Grupa LOTOS S.A.

Ladies and Gentlemen,

The year 2006 was another excellent year for the LOTOS Group, both in terms of strong financial performance and the successful execution of our strategy for building shareholder value. Let me present an overview of the 2006 milestones which had a positive effect on our business, enhancing our prospects of further rapid growth for many years to come.

The efforts undertaken by the Management Board of Grupa LOTOS S.A. have been rewarded with satisfying performance. The scale of operations, market share and financial results reported by the Group have been demonstrating a steady year-on-year growth. Following the launch by the Management Board of the development programmes back in 2002, last year shareholder value was created based on the development programme for the upstream area (Petrobaltic S.A.) and the supplies area *(diversification of supplies), the Comprehensive Technical Upgrade Programme (PKRT), the PROSTA programme (expansion of the network of LOTOS service stations) and the Sales Force Development and Optimisation Programme, in particular through intensification of commercial activities in Poland and in the Baltic Sea region. In addition, the Operational and Management Excellence Programme is currently underway (executed in cooperation with Shell).*

One of the 2006 milestones took place on June 27th, when the Company's Supervisory Board approved the Strategy for the LOTOS Group until 2012, which maps out the development directions for the next six years and provides for further growth of the Company value through making an optimum use of its potential in three major business areas – oil production and supplies, refining and marketing.

If the Strategy objectives are met, from 2011 onwards our annual oil throughput should rise to 10.5 million tonnes (up from the current level of 6 million tonnes), with a concomitant increase in the conversion ratio and enhancement of the product mix to include production of diesel oil, whose supply still falls short of the domestic demand. This will bolster the Company's position in the Baltic Sea region, and its share of the domestic retail and wholesale markets is expected to reach 10% and 30%, respectively. The total capital expenditure to be incurred by the LOTOS Group in connection with its Strategy until 2012 amounts to PLN 7.3bn, out of which PLN 5bn has been earmarked to execute PKRT, a programme of crucial importance from the point of view of the Group's further development.

The LOTOS Group pioneers crude oil production from oil reserves discovered below the seabed of the Baltic shelf. Currently, we own three reservoirs – the producing B3 reservoir, as well as the B8 and B23 reservoirs. In 2006, the first trial wells were drilled on the B8 reservoir, confirming the quality of its reserves and the viability of its development, which is scheduled to be launched in the second half of 2007. On the other hand, the seismic images of the B23 reservoir revealed its size to be considerably larger compared to the B3 and B8 reserves, albeit the reservoir is located in much more challenging marine conditions (more than 100 metres below the sea level). The LOTOS Group is now carrying out preparatory work to begin production from of the B23 reserves. Trial wells will probably be drilled in 2008-2009, and the production is expected to begin after 2012.

In addition to implementing the plans for development of the reserves currently held by the LOTOS Group, the Group is actively seeking to expand its portfolio of production projects both in the Baltic Sea region and elsewhere in the world. However, given the estimated value of the necessary investment outlays, such projects will probably require cooperation with industry partners. The development initiatives in the upstream area are aimed at ensuring security of the Company's operations and the energy security of Poland and, at the same time, at achieving incremental profit margins. As part of the strategy for diversification of oil supplies, by 2012 we intend to satisfy more than 40% of our total oil requirements with supplies from new sources, including a substantial portion (up to ca. 1m tonnes annually) from own sources. The year 2006 saw the launch of our diversification strategy, when two tankerloads of Arab oil, *ordered as part of cooperative arrangements with Kuwait Petroleum Corporation, were processed on a trial basis. We are also holding negotiations with other oil suppliers in order to identify alternative sources of supplies and to optimise the quality and cost structure of the white product yield in future.*

In 2006, the Gdańsk refinery processed 6.1m tonnes of oil – a historical record which corresponded to 101.6% of our throughput capacity. This is a positive proof of the superb work contributed by our technological staff with respect to maintenance and optimal utilisation of the processing lines. The LOTOS Group sold over 7.0 million tonnes of products, up by 25% on the previous year's figure. To note, the Group's sales outstripped its total production capacity by 15.6%, which testifies to a mismatch between the domestic market's production capacity and demand, while confirming that our decision to increase the production capacity was well-advised. Some of the credit for the high sales volume must go to our sales force, whose activities are already focused on potential future markets for our products.

The implementation of the PKRT Programme – the largest technical upgrade scheme ever to have been undertaken by the LOTOS Group – is running smoothly and according to plan. The year 2006 was a time of intensive work aimed at developing the Front End Engineering Design for the PKRT Programme. At the end of December 2006, we received two bids for the Programme execution, from Fluor, an engineering company, and from the Uhde/Technip consortium. The LOTOS Group is currently conducting negotiations with the bidders to optimise the scope of work to be performed by the prospective contractors and the final terms of the submitted bids. In June 2006, we placed the first orders for four reactors to be used in the new Mild Hydrocracking Unit, which represent the critical element of the project, while also being the most time-consuming one.

In 2006, as part of the strategy update, we made a decision to the programme of the Company's technical upgrade add to – the atmospheric distillation unit and the hydrodesulphurisation unit (HDS). The first of these facilities will boost our basic processing capacity by 4.5m tonnes, up to the total of 10.5m tonnes, while the additional HDS unit for diesel oils will accommodate larger production volumes and will make the entire production output compliant with the strictest EU-imposed quality requirements. To achieve the same end, the existing hydrocracking unit will be modernised – thanks to the new facilities, the Company will no longer have to depend on imports of additional feedstock for the PKRT units and will realise full margins on processing crude oil into high-margin products. Both production units (HDS and hydrocracker) will be constructed under a licence from Chevron Lummus Global. In November, the first contract for execution of the HDS project was concluded with ABB Lummus Global.

In 2006, the Company was developing its retail service station network through its subsidiary LOTOS Paliwa Sp. z o.o. under the PROSTA project, which focused on the continued expansion of the COCO and CODO station network (in particular by incorporating the ESSO and Slovnaft stations acquired near the end of 2005 into the LOTOS network) and the development of the DOFO station network. As at December 31st 2006, the LOTOS service station network comprised 400 outlets, including 134 COCO *and CODO stations, 57 DOFO stations and 209 DODO stations. Additionally, all ESSO and Slovnaft stations had been incorporated into the LOTOS fuel station network and re-branded as LOTOS.*

Since their acquisition in February 2005, the Southern Refineries have been undergoing an operational turnaround. As part of the programme, the Group's capital structure was streamlined, for instance through transformations and mergers of companies with overlapping business scopes. In parallel to the restructuring efforts, the LOTOS Group is implementing new investment projects in various areas of the oil market and related sectors. The Czechowice Refinery already operates a fuel terminal, and another one is soon to be launched at the Jasło Refinery. Additionally, a production centre of LOTOS Parafiny Sp. z o.o. was opened in Czechowice. Also in Czechowice a biofuel production plant, with the annual capacity of 100 thousand tonnes, is being constructed.

It needs to be noted that thanks to its "friendly" restructuring, as well as the investment programmes implemented by the LOTOS Group and its business expansion, it is possible to raise the total headcount across the LOTOS Group and to preserve a majority of jobs at the Southern Refineries. The jobs made redundant for market-driven reasons are being replaced with new posts created within the LOTOS Group, which helps align the employees' interests with efficient human resources management. As at the end of 2006, the LOTOS Group's total headcount was 5,624 employees, up by 3.5% relative to the end of 2005.

I look forward at the years ahead with optimism, because I believe that we are creating a strong LOTOS Group, whose ambitious development plans – once implemented – will allow it to maintain its competitive edge for many years, laying a solid foundation for the establishment and future operations of the baltic company LOTOS. Our overarching objective, successfully pursued since 2002, is to create shareholder value. In the coming years, we intend to continue our efforts aimed at translating the vision of the LOTOS Group presented in our strategy into tangible reality. Proud of our performance to date, we are intent on adding to the existing successes in future.

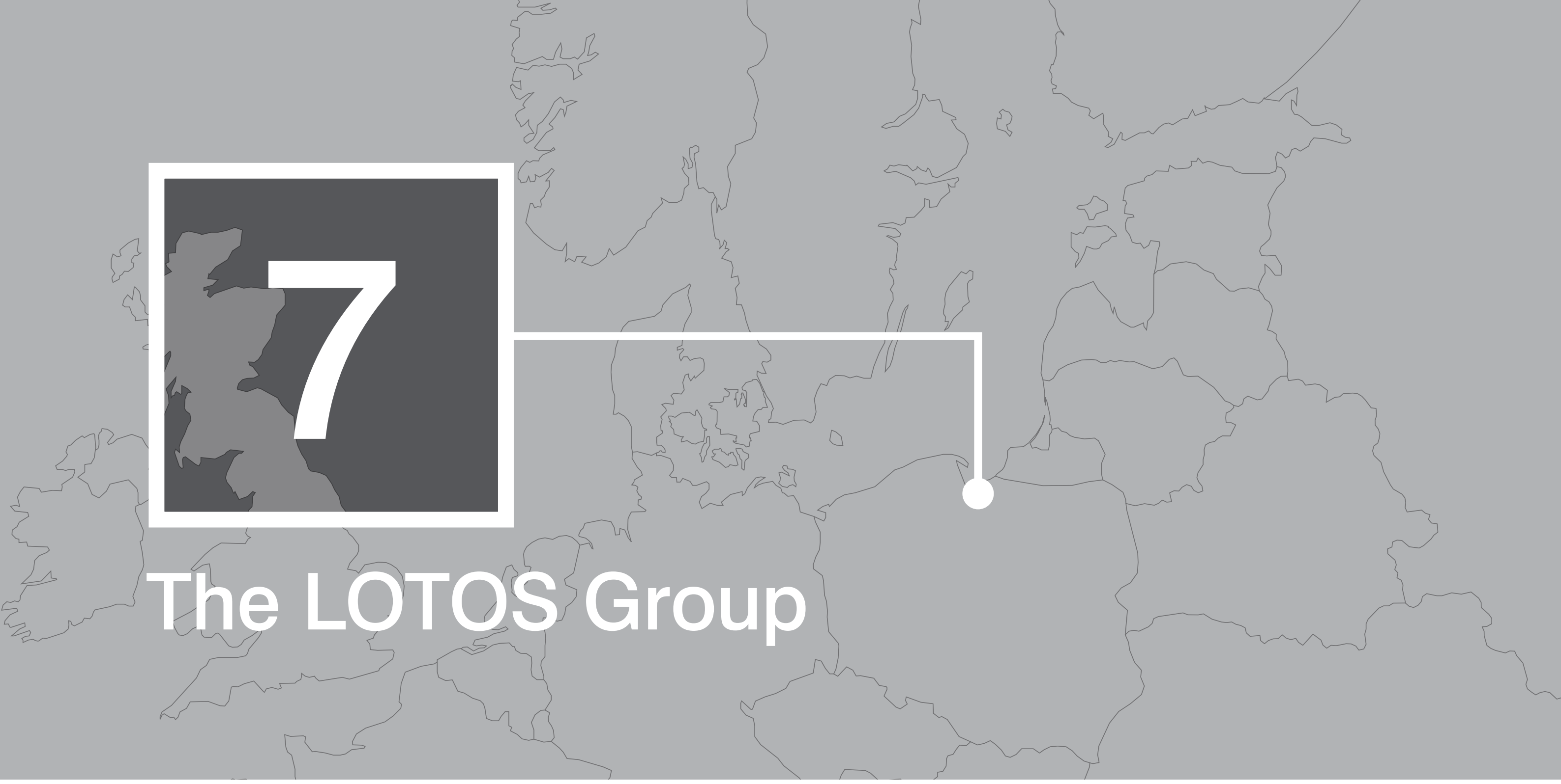
Best regards,

Paweł Olechnowicz
President of the Management Board
Chief Executive Officer
Grupa LOTOS S.A.

The LOTOS Group

One of the key developments in 2006 was the adoption of the Strategy of the LOTOS Group until 2012, approved by the Supervisory Board on June 27th 2006.
The Strategy lays down the main directions for development of the LOTOS Group over next six years and sets the objective for the Company to become one of the leaders in Central Europe and the Baltic Sea region.


LOTOS



7 The LOTOS Group

MISSION AND VISION

MISSION

The LOTOS Group's mission is to pursue innovative growth in the areas of oil production, oil processing, and distribution of products meeting the most stringent quality standards, in a manner that is environmentally friendly, compliant with the energy security policy, guarantees full satisfaction of customers, and ensures ongoing development of employees and capitalisation on their capabilities.

VISION

The LOTOS Group seeks to become the most reputed oil company in the Baltic Region in terms of:

- quality of petroleum products
- quality of customer service
- professional management.

STRATEGY

The strategic objective of Grupa LOTOS S.A. is to secure a robust position in Central Europe and in the Baltic Sea region as well as to establish an oil concern with an international presence on the basis of Grupa LOTOS S.A.

The "Strategy for the LOTOS Group to 2012" adopted by the Company envisages creation of shareholder value through optimal leveraging of Grupa LOTOS S.A.'s existing capabilities and implementing new development projects in three key areas of its business, i.e. exploration and production, oil refining and marketing.

In the area of crude oil exploration and production, the strategy provides for:

- increasing the annual oil production at the Baltic Sea from 300 thousand tonnes to 1 million tonnes in 2012
- obtaining new licences and gaining direct access to hydrocarbon reserves outside the Baltic Sea
- improving security of oil supplies by diversifying the supply sources so as to ensure that no more than 60% of total supplies come from a single source.

Towards Increased Shareholder Value and Safety

In the area of oil refining, the Comprehensive Technical Upgrade Programme (PKRT) is being implemented. Within its framework the following units will be launched:

- an atmospheric and vacuum distillation unit, with a nominal annual processing capacity of approximately 4.5m tonnes
- a vacuum and atmospheric residue deasphalting unit (SDA/ROSE)
- an MHC unit producing engine fuels components, in particular for diesel oils, and
- an IGCC unit for gasifying oil processing residue.

Other objectives pursued concurrently with the PKRT Programme include:

- construction of a new diesel oil hydrotreating unit which will enable production of the entire range of diesel oils with sulphur content of 10 ppm, starting from 2009
- upgrade of the existing hydrocracking unit and units producing motor gasolines; and construction of a new xylene fraction separation unit.

As for the marketing area, strategic objectives set by Grupa LOTOS S.A. include:

- strengthening its market position and achieving a 30% market share in fuel wholesale
- expanding its retail market share in Poland to 10% by 2010
- consolidating its leading position on the domestic market of bitumen and paraffin products
- gaining a 12% share in the LPG market by 2012
- securing a 50% share of finished packaged oils in the total sales volume of oils.

Furthermore, Grupa LOTOS S.A. will actively participate in the process of implementing European Union's objectives with respect to utilisation and production of bio-components.

In the corporate area, the Corporate and Organisational Restructuring Programme will be continued with a view to further enhancing the LOTOS Group's capital and organisational structure. The Operational and Management Excellence Programme is also lined up for implementation. The Programme aims at obtaining such operational parameters which would earn Grupa LOTOS S.A. a place among the most efficient refineries in Europe. As part of the Programme, Grupa LOTOS S.A. will focus on the following issues:

- cost reduction and optimisation
- enhanced effectiveness of the production and technological processes.

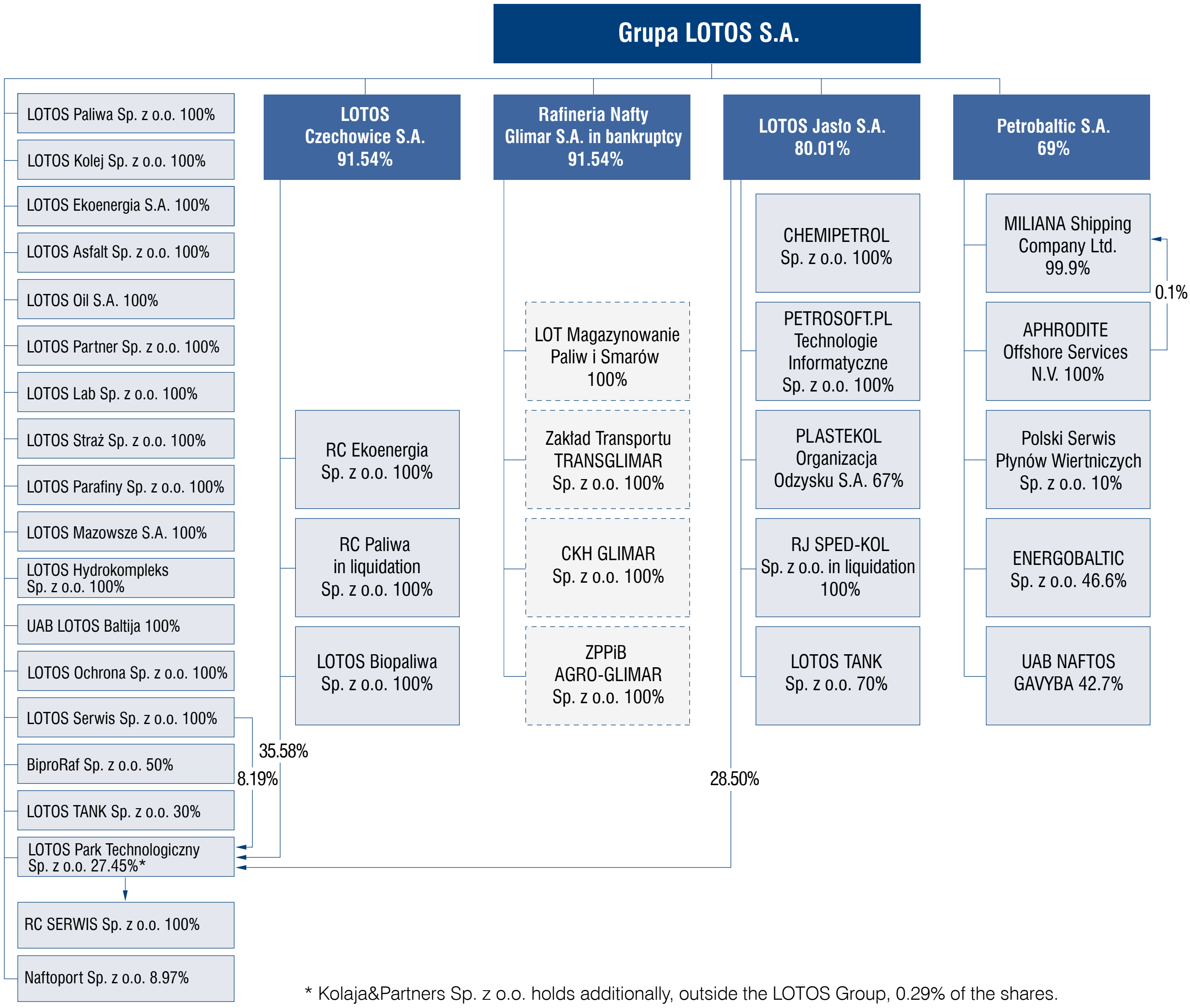
This long-term Programme is to be carried out through 2012. Its successful implementation has the cost-saving potential of USD 0.50 per barrel of processed oil.

Following completion of the key strategic programmes, which include:

- Exploration and Production Development Programme
- Comprehensive Technical Upgrade Programme
- Sales Force Development and Optimisation Programme
- Operational and Management Excellence Programme,

the competitive position of Grupa LOTOS S.A. and its subsidiaries will be significantly strengthened.

THE LOTOS GROUP STRUCTURE



* Kolaja&Partners Sp. z o.o. holds additionally, outside the LOTOS Group, 0.29% of the shares.

THE LOTOS GROUP STRUCTURE

Name	Registered office	Business profile
Parent Undertaking		
Grupa LOTOS S.A.	Gdańsk	production and processing of refined petroleum products (mainly fuels) and their wholesale
Direct Subsidiary Undertakings		
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network
LOTOS Partner Sp. z o.o.	Gdańsk	sales of fuels and provision of services for retail networks of international concerns; logistic services
LOTOS Mazowsze S.A.	Mława	sales of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, domestic sales of base oils
LOTOS Asfalt Sp. z o.o.	Gdańsk	production and sale of bitumen
LOTOS Ekoenergia S.A.	Gdańsk	construction of basic PKRT units; the company has not commenced operations
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanical and electric operations and controlling devices, repairs
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection
LOTOS Ochrona Sp. z o.o.	Gdańsk	personal and property protection
LOTOS Parafiny Sp. z o.o.	Jasło	production and sale of paraffin
LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A.)	Czechowice	storage and distribution of fuels
LOTOS Jasło S.A. (parent undertaking of another group, formerly Rafineria Jasło S.A.)	Jasło	production and processing of refined petroleum products, their wholesale and retail sale
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, crude oil and natural gas production
UAB LOTOS Baltija	Litwa	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia
BiproRaf Sp. z o.o.	Gdańsk	design services for oil industry

Name	Registered office	Business profile
Rafineria Nafty Glimar S.A. (in bankruptcy)	Gorlice	refining (currently discontinued due to the company's bankruptcy)
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	construction and subsequent operation of hydrocomplex unit; the company has not commenced operations
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	business and management consultancy services
Laboratorium "Badacz" Sp. z o.o.	Jasło	services
Indirect Subsidiary Undertakings		
RC Ekoenergia Sp. z o.o	Czechowice-Dziedzice	services
LOTOS Biopaliwa Sp. z o.o. (former RC Parafiny Sp. z o.o.)	Czechowice-Dziedzice	no operations
RC Remo Sp. z o.o.	Czechowice-Dziedzice	services
CBA Racer Sp. z o.o.	Czechowice-Dziedzice	services
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	services
RC Paliwa Sp. z o.o. in liquidation	Czechowice-Dziedzice	trading (not commenced)
RC Transport Sp. z o.o.	Czechowice-Dziedzice	services
LOTOS Tank Sp. z o.o	Jasło	trading
Rafineria Jasło Monto-Rem Sp. z o.o.	Jasło	services
Plastekol Organizacja Odzysku S.A.	Jasło	services
Rafineria Jasło Sped-Kol Sp. z o.o.	Jasło	no operations – lease of assets to LOTOS Kolej Sp. z o.o.
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	services
Chemipetrol Sp. z o.o.	Jasło	trading – assets transferred to LOTOS Parafiny Sp. z o.o. in exchange for shares
Miliana Shipping Company Ltd.	Cyprus	services
Aphrodite Offshore Services Ltd.	Netherlands Antilles	services

As at December 31st 2006 and December 31st 2005, the Company's share in the total vote at the General Shareholders Meetings of its subsidiary undertakings equalled the Company's share in the share capital of these undertakings.

CORPORATE GOVERNANCE

Grupa LOTOS S.A. adopted and has been consistently following the corporate governance principles set forth in "Best Practices in Public Companies 2005" as proposed by the Warsaw Stock Exchange. The essence of corporate governance is to ensure effective growth for the Company, while maintaining its transparency and keeping a balance between the interests of all those involved in the functioning of the Company, including investors, employees, or suppliers. Corporate governance also ensures structural solutions for the organization, and is instrumental in setting corporate objectives, as well as the methods to achieve these objectives and monitor performance. Good corporate governance creates the right conditions for the Management Board to pursue the objectives which best serve the interests of the Company and its shareholders, and makes effective monitoring of the results of their work possible, thus encouraging the management to be even more effective in the use of corporate resources and potential.

Grupa LOTOS S.A. follows the majority of the principles outlined in "Best Practices in Public Companies 2005", divided into the following areas:

- General Rules
- Best Practices of General Meetings
- Best Practices of Supervisory Boards
- Best Practices of Management Boards
- Best Practices in Relations with Third Parties and Third Party Institutions.

In relation to the adoption of corporate governance principles, Grupa LOTOS S.A. has made relevant changes to the internal procedures. Changes in the Statute, Supervisory Board Bylaws and Management Board Bylaws have been made with a view to ensuring that the Company fulfils its commitment concerning compliance with the principles of corporate governance in the best way possible.

Detailed information and current comments on the scope of the Company's compliance with the corporate governance principles set forth in "Best Practices in Public Companies 2005" was disclosed to the public in a statement by the Management Board of Grupa LOTOS S.A. of 15 May 2006.

FINANCIAL STANDING AND ASSETS OF GRUPA LOTOS S.A. IN 2006

Ladies and Gentlemen,

The year 2006 witnessed continued rapid improvement of Grupa LOTOS S.A.'s financial standing and asset position, which was a consequence of the development projects undertaken in the past, such as an increase in the Gdańsk Refinery's oil throughput capacity, acquisition of Petrobaltic S.A. and the Southern Refineries, as well as a series of restructuring programmes geared at intensifying the Company's market activities with a view to boosting sales. The outcome of those efforts was a 25-percent increase in LOTOS Group sales volumes in relation to 2005, which topped 7 million tonnes. Remarkably, strongest sales were seen in the product groups with the most positive contribution to overall performance – engine fuels, aviation fuels and asphalts. Such a spectacular rise in sales volumes translated into record-breaking operating results. In 2006, the Gdańsk Refinery processed a total of 6.1 million tonnes of crude oil, which corresponded to a 26-percent growth on the previous year. These higher volumes had a bearing on the Company's financial performance. There was a 33-percent year-on-year increase in sales revenue posted by the Company, which reached an all-time high of PLN 12.8bn.

Our operating profit was PLN 798m, which represented a drop of PLN 271m compared with 2005. However, the 2006 result was positively affected by a one-off factor, i.e. negative goodwill on acquisition of Petrobaltic and the Southern Refineries, in the amount of PLN 267m. Net of this effect, the 2006 result would not materially differ from the previous year's figure. The same applies to earnings – the net profit attributable to equity holders of the parent of PLN 680m fell on the 2005 figure by PLN 235m; however – after the adjustment described above – it would actually exceed the previous year's figure by PLN 32m.

It needs to be noted that due to the increasingly more stringent requirements relating to the mandatory stocks of fuel, the adopted method of stock valuation is a factor of growing importance for the cost side of an enterprise's operations and hence also its financial results. By using the LIFO method, which reflects more accurately the operating efficiency of companies in the oil refining industry, we would arrive at an operating result higher by PLN 130m, while the growth in operating result over the previous year's result measured in the same way would be in the region of 80%.

Over 2006, the LOTOS Group increased its balance-sheet total by more than 13%. A rise in the value of assets was attributable primarily to the capital expenditure on property, plant and equipment, incurred as part of the implemented development programmes, as well as growth in inventory, following from more stringent requirements for mandatory fuel stocks, and growth in receivables, driven by the rapidly growing sales of products. On the equity and liabilities side, an increase in the balance-sheet total manifested itself mainly in the level of retained earnings. This prompted a further shift in the structure of the Group's equity and liabilities towards financing a more substantial part of its operations with internally-generated funds. The ratio of interest-bearing long-term debt to equity was a mere 4.2%, while the liquidity ratios reached what must be regarded as high levels.

Yet this is about to change soon as the implementation of the strategic programmes which are currently in the pipeline will necessitate a substantial use of externally sourced funds. It is assumed that about 70% of the core projects will be financed with loans and borrowings, which means that in the following years the debt ratios are bound to increase. However, in line with the Company's strategy, the ratio of net debt under loans and borrowings to equity will not exceed the assumed level of 0.8 during the peak phase of the programmes' implementation.

Since its stock market debut, the financial standing and assets of Grupa LOTOS S.A. have been under constant scrutiny by investors. Their evaluation is reflected in the current price of the LOTOS stock, whose performance in 2006 indicates investors' approval. Over the year, the Company's share price gained 10.3%, while at the same time the WIG Paliwa index of fuel companies slid by 12.6%.

The excellent 2006 results demonstrate that LOTOS Group has not deviated from the adopted expansion path and provide a solid springboard for its ambitious development strategy.

Mariusz Machajewski
Vice-President of the Management Board
Chief Financial Officer
Grupa LOTOS S.A.

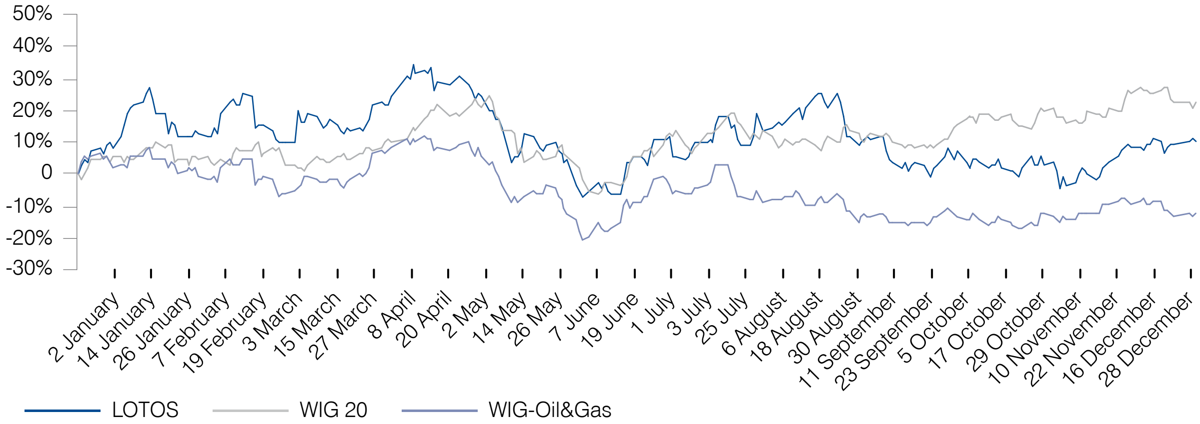
STOCK EXCHANGE PERFORMANCE OF THE LOTOS SHARES

Grupa LOTOS S.A. shares were first listed in January 2006, at PLN 44.70 per share. At the same time, the WIG 20 index stood at 2,693.75. During the first months, the Company stock price rose sharply, and in January reached the highest level since the first listing on the Warsaw Stock Exchange. In March 2006, Grupa LOTOS S.A. shares were included in the following indices of the Vienna Stock Exchange: PTX (Polish blue-chip index) and CECE (regional index comprising shares of largest Polish, Czech and Hungarian companies). In April 2006, our stock price peaked at PLN 59.7, which means a 99% rise on the listing price on the WSE. A similar trend was visible in the performance of the WIG 20 index, which kept climbing from the beginning of 2006 to mid-May 2006, repeatedly hitting its all-time highs.

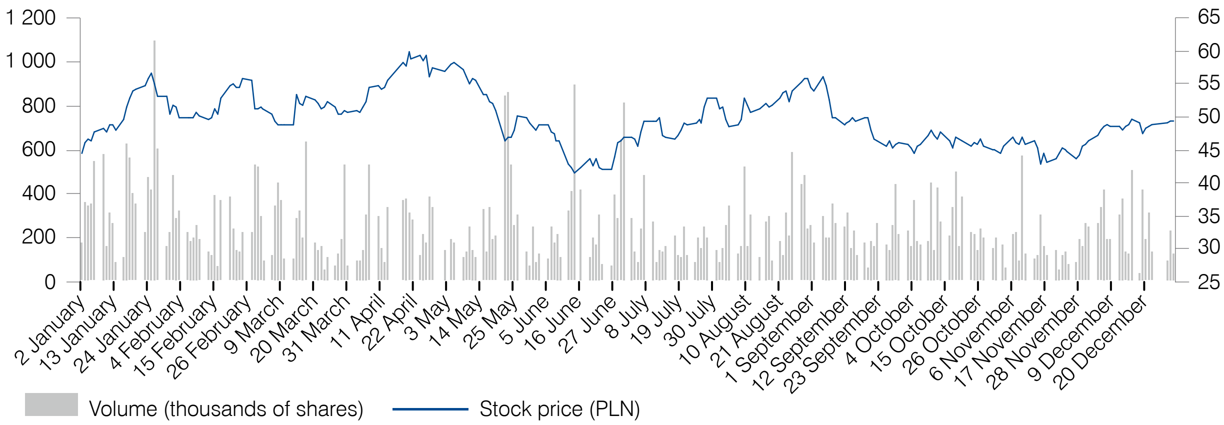
In May 2006, a sharp correction on the international markets and the WSE pushed down the stock price of Grupa LOTOS S.A. and the WIG 20 index by nearly 15% and 12%, respectively. In June 2006, as a result of the correction, our stock declined to PLN 41.6, and WIG 20 fell to 2,536.93, which in both cases were the lowest levels recorded in 2006. The second half of June brought a rebound, and until the beginning of September our stock price continued to grow. It was positively influenced by the development strategy for 2006–2012 presented by the Company, along with the information concerning intended production from S.A. of two new oil reserves in the Baltic Sea. In August 2006, for the first time since the first listing, Grupa LOTOS S.A. shares outperformed PKN Orlen.

From September to the end of November, the stock price of Grupa LOTOS S.A. showed a downward trend subject to slight fluctuations, which was primarily attributable to the sentiment on international markets, including a slide in refining margins and the Ural/Brent differential. The internal factors which had a bearing on the price of the Company shares in this period included publication of the 2006 financial forecast, which proved too conservative compared to the market expectations, and release of the results for Q3 2006, even though the Company's net profit for the period was higher than the market consensus. At the same time, starting from mid June, the WIG 20 index continued on a path of growth, with minor fluctuations until the end of 2006. In the last month of 2006, Grupa LOTOS S.A. shares showed an upward trend again.

Over the course of 2006, the price of Grupa LOTOS S.A. stock outperformed the WIG-Oil&Gas index of fuel companies, comprising shares of Grupa LOTOS S.A., PKN Orlen, PGNiG and MOL. As at the end of the year, the price of the Company shares reached PLN 49.30, having grown by 10.3% over the year. The WIG-Oil&Gas index was 36,014.39, which means a 12.6% decline in comparison with the value at the beginning of January, whereas WIG 20 reached 3,429.79, which represents the highest level during the year. As at the end of the year, the index stood at 3,306.14, and its annual growth rate was 22.7%.



Performance of Grupa LOTOS S.A. stock and WIG 20 (PL), and WIG-Oil&Gas indices



Grupa LOTOS S.A. – stock price and trading volume

RISK RELATED TO THE OVERALL MACROECONOMIC SITUATION

The financial situation of the LOTOS Group is a reflection of both domestic and global economic climate. The financial performance of the LOTOS Group depends on: the GDP growth rate, the inflation rate, interest rates, population's private incomes, the unemployment rate, development of the road infrastructure, and the development of the services and retail sector. Any material changes in these factors may adversely affect the pace at which the LOTOS Group develops and its financial performance improves. This risk affects all companies in the sector to a comparable degree.

RISK RELATED TO FUTURE LEGAL REGULATIONS

The business and financial performance of the LOTOS Group is affected by legal regulations (both internal – Polish regulations, and external – EU regulations), on such issues as taxes, mandatory stocks, product quality standards, protection of the natural environment, fuel storage, service stations and pipelines, and competition. Consequently, the introduction of new more onerous regulations in any of the above areas may lead to higher costs of operations and necessitate greater capital expenditure to be incurred by the LOTOS Group. We analyse information on any potential future legislation, in terms of how it may impact the LOTOS Group's business. This risk affects all companies in the sector to a comparable degree.

RISK RELATED TO CHANGES IN FISCAL REGULATIONS AND THEIR INTERPRETATION

In Poland, fiscal regulations are subject to frequent changes, which leads to interpretive ambiguities and differences of opinion between entrepreneurs and tax authorities. In its operations, the LOTOS Group seeks to minimise tax-related risk, nevertheless, it is not possible to ascertain to what degree it is exposed to such risks.

RISK RELATED TO CO_2 EMISSION ALLOWANCES

A new risk factor is related to the fact that the LOTOS Group's refinery in Gdańsk may be granted CO_2 emission allowances for 2008-2012 that are not sufficient to cover the CO_2 emissions level anticipated after completion of the Comprehensive Technical Upgrade Programme. Such a situation might force the LOTOS Group to purchase emission allowances in the open market, thus increasing its operating expenses.

FINANCIAL RISK

The LOTOS Group is primarily exposed to market risks (related to the refining margin, foreign exchange and interest rates), as well as credit risk. The LOTOS Group has in place procedures for managing each of the above risks, described in detail in its Issue Prospectus.

RISK RELATED TO EXECUTION OF THE COMPREHENSIVE TECHNICAL UPGRADE PROGRAMME

PKRT is the Group's most important and valuable investment and development project. Major risks related to the execution of the Programme include high costs of investments, delays in project execution, and technological risks. Other risks related to the execution of the Programme are being gradually reduced, as the work on preparing and executing the project progresses.

MANAGEMENT SYSTEMS

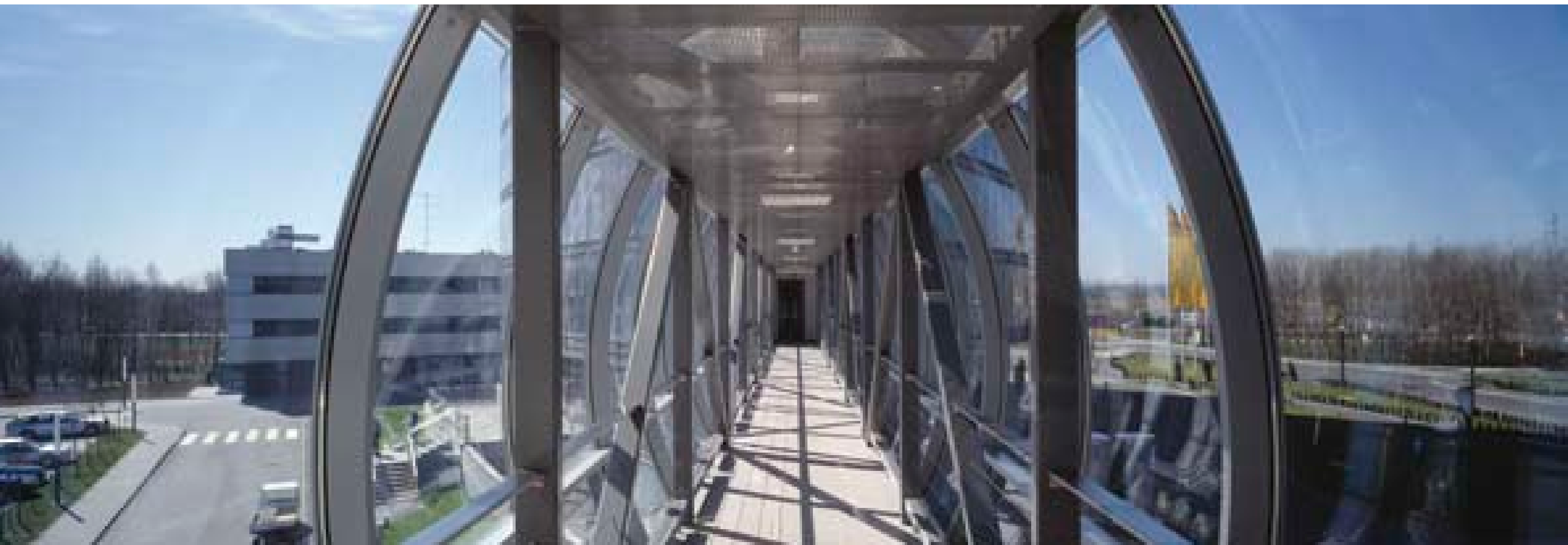
MANAGEMENT OF THE LOTOS GROUP

The diversity and complexity of the markets on which the LOTOS Group operates, as well as the nature of its business (business functions, such as supply-chain management, production and sale) determine the organisational and regulatory solutions employed at the LOTOS Group. As a result, the LOTOS Group represents an interconnected fabric of numerous processes and systems, as well as their constituent elements. They are managed as a coherent whole, thus the organisation may function efficiently. The processes interact with one another, creating a network of mutually reinforcing elements, working jointly towards the attainment of the adopted business goals. The strategic goals are pursued through continual enhancement of the fabric of business processes.

In its approach, the LOTOS Group focuses first and foremost on the processes implemented across the LOTOS Group companies and the results they deliver. The processes which create value for customers, comprising the core business of the LOTOS Group and its subsidiaries, remain at the centre of attention.
Thanks to the process approach applied by the LOTOS Group, it was possible to:

- harmonise and optimise business processes and activities
- introduce, and subsequently modify, expand and update the Integrated IT System
- define the relations and links between individual Group members
- enhance management efficiency by identifying decision-making units
- improve operating efficiency and synergy potential within the Group
- design, and subsequently make changes to the Group's organisational structure
- support the implemented and operating Integrated Management System
- support and optimise the information flow system, including document circulation
- continually enhance functions and tasks (monitoring of metrics, coordination of streamlining initiatives)
- support the management of formal and organisational changes across the LOTOS Group (coordination of changes in terms of their coherence).

The process approach relies to a large extent on process efficiency measurements undertaken on an ongoing basis.
The measurements are carried out not only internally – they also involve an assessment of the quality of relations with customers and business partners, as financial performance reflects good customer relations and high-quality processes enabling us to respond to customer needs in a quick and cost-effective way.



The LOTOS Group's human resources are the greatest component of its value.

The LOTOS Group's employee base, which represents the greatest component of its value, is made up of experts in their respective fields. Their expertise, professional approach, creative thinking and aptitude for results-oriented teamwork represent the Company's most valuable assets.
A modern HR policy in place at the Grupa LOTOS S.A. is based on a strategic and comprehensive approach. It is aimed at creating work conditions that are conducive to the performance of tasks and development of the employees' potential, and ensuring an optimum employment structure, especially in the light of the recently launched Comprehensive Technical Upgrade Programme envisioned as the key element of the Group's strategy for the years 2006-2012.

The key objectives of Grupa LOTOS S.A.'s HR policy are:

- to take full advantage of the competencies and expertise of employees – to effectively develop and draw on their intellectual strengths
- to create incentive-based schemes – performance-related financial and non-financial incentives
- to optimally allocate and utilise human resources across the LOTOS Group companies, while keeping financial costs to a minimum and avoiding mobilisation of excessive organisational and human resources
- to ensure proper conditions for the execution of tasks up to expected standards – to improve the corporate culture (change of employee behaviour, increased motivation and commitment, teamwork).

EMPLOYMENT

As at the end of 2006, the headcount at grupa LOTOS S.A. was 945 employees, whose average age was 43. The proportion of employees holding a university degree to total workforce was close to 48%, while those with secondary education accounted for more than 40% of all employees. In the coming years, the proportion is bound to shift in favour of university graduates.
The staff turnover rate in 2006 was approx. 4.5%, which is natural in the ordinary course of business.

RECRUITMENT AND SELECTION PROCESS

Recruitment Process

Bearing in mind the excellent qualifications and capabilities of its staff, during the recruitment process the LOTOS Group gives priority to applications submitted by its existing employees, which enables effective transfer of knowledge across the LOTOS Group. The LOTOS Group must ensure that at every stage of its operations there are enough human resources with the right competencies, especially in connection with the implementation of the Comprehensive Technical Upgrade Programme, the restructuring efforts carried out at the Group companies, changes to its work organisation, and the retirement forecasts, and must be able to offer assistance to employees from areas affected by restructuring by providing them with training, retraining and redeployment within the LOTOS Group. Selection of candidates to fill particular posts relies on internal recruitment, which involves promotion of existing employees to higher positions. External recruitment is resorted to only in justified cases – if the LOTOS Group needs to recruit some rare qualifications.

Since 2002 the Grupa LOTOS S.A., as one of the largest employers in Pomerania, has been organising the Absolwent (Graduate) Programme, whose successive editions are large recruitment campaigns which result in about 20 new employees joining the Company.

The Programme is an opportunity to obtain a training placement, thus enabling young and ambitious university graduates to gain hands-on professional experience. In recruiting its staff, the Grupa LOTOS S.A. cooperates with career development centres of various universities throughout Poland. During their first year in employment, new employees receive special tutelage, get acquainted with the specifics of how the individual Group companies work by being moved to various units or posts within the LOTOS Group, and undergo intensive training. After 12 months, those who receive the highest ratings from their individually assigned tutors and the management staff are offered further employment.

Thanks to the Graduate Programme, 70 new employees have been employed by the Grupa LOTOS S.A. and joined the financial, sales and operational divisions. The Graduate Programme, which has become a fixture of the Group's HR policy, is aimed at improving the age structure of the employees of Grupa LOTOS S.A. and its subsidiaries, while providing them with the benefit of a fresh outlook and high skills requisite for the performance of tasks. Following the dramatic change which affected the labour market in 2006 as a result of an outflow of qualified workforce abroad, the Grupa LOTOS S.A. is undertaking active recruitment efforts. It cooperates with a number of universities and polytechnics, offering jobs to graduates of outstanding academic merit.

Headcount at companies comprising the LOTOS Group (as at December 31st 2006)

Company	Headcount as at Dec 31 2006
Grupa LOTOS S.A.	945
LOTOS Paliwa Sp. z o.o.	1,322
LOTOS Kolej Sp. z o.o.	285
LOTOS Oil S.A.	306
LOTOS Partner Sp. z o.o.	75
LOTOS Lab Sp. z o.o.	183
LOTOS Serwis Sp. z o.o.	663
LOTOS Straż Sp. z o.o.	72
LOTOS Asfalt Sp. z o.o.	143
LOTOS Mazowsze S.A.	84
LOTOS Ochrona Sp. z o.o.	121
UAB LOTOS Baltija	8
LOTOS Park Technologiczny Sp. z o.o.	90
RC Serwis Sp. z o.o.	19
LOTOS Parafiny Sp. z o.o.	264
Petrobaltic S.A.	492
LOTOS Czechowice S.A. including subsidiaries	257
LOTOS Jasło S.A. including subsidiaries	295
Total	**5,624**

THE LOTOS ACADEMY – PERSONNEL DEVELOPMENT TOOLS

In order to cope with the challenges posed by the changes affecting the Company and the evolving economic environment, in December 2004 Grupa LOTOS S.A. established the LOTOS Academy. Its mission is to implement the work culture and management philosophy based on the concept whereby all employees are consciously engaged in the creation of added value sought by the Company's customers and shareholders.

The LOTOS Academy's role is to support the implementation of process management at the LOTOS Group and to enhance its corporate culture by developing personnel skills, with special emphasis on corporate competencies specifically required of its employees. To accomplish this end, the following set of new HR management methods and tools has been adopted:

- skill chart – identification and monitoring of competencies with key importance for Grupa LOTOS S.A.'s core processes
- rules of ethical conduct – Code of Conduct for the LOTOS Group Employees, Code of Conduct for the LOTOS Group Managers, Corporate Decalogue – enhancement of corporate culture
- Periodic Employee Assessment System – assessment of work efficiency and skill development, skill management
- training and development programmes under the motto "Striving for Excellence", pursued in accordance with the training schedule – development of personal and corporate skills, raising business awareness of personnel
- development programmes for selected employee groups – induction scheme for newly recruited employees, Human Resources Development Programme (individual career paths, reserve resources), Leader of the Future Programme (preparation of candidates to succeed to key positions at the LOTOS Group), job preparation programme designed for future employees of the Comprehensive Technical Upgrade Programme division
- seminars and workshops for management staff – expanding the HR management skills, knowledge management, coaching philosophy implementation.

Those efforts are undertaken with a view to achieving greater work efficiency, which translates into improved overall business efficiency, while adding to the Company's value and strengthening the LOTOS brand. By offering its employees a chance to develop professionally, Grupa LOTOS S.A. wins a loyal and committed team of experts, who help foster the positive Company image with customers, investors and local communities. The main objective behind the establishment of the LOTOS Academy was to create a loyal and mutually supportive team of employees, forming the backbone of a transparent and efficient organisation capable of facing up to competition from strong EU players. The possibility of raising one's professional qualifications emerges as one of the most powerful staff incentives in the rapidly changing environment.

SAFETY AT WORK AND HEALTH PROTECTION

The awareness of workplace safety issues displayed by Grupa LOTOS S.A.'s employees and management staff is increasing year by year, as is their involvement in the creation of accident-free work environment. The regularly scheduled health and safety training courses (which focus on first aid techniques, fire fighting drills, threat identification), professional risk assessment workshops, rising popularity of safety-at-work issues, as well as awareness campaigns informing employees about dangerous incidents worldwide, greatly contribute to reducing the safety risks at the refinery.

Grupa LOTOS S.A. also takes steps to ensure safety of its subcontractors. Before commencing work at the refinery, third-party employees have to undergo training concerned with on-site safety procedures and later, in the course of work, their safety is overseen by a team of safety and health specialists. When signing contracts with Grupa LOTOS S.A., members of third-party subcontractors' management boards undertake to acquaint all their employees with the internal requirements effective at Grupa LOTOS S.A., as set out in the Guidance on Rules of Procedure at Grupa LOTOS S.A. Facilities, and other Company documents delivered to them.

An appreciable increase in awareness of workplace safety issues and compliance with the related regulations and rules is confirmed by the accident-free work of the subcontractors and a growing number of reported accident-prone situations, which helps eliminate the threats potentially leading to unwanted events. This testifies to the ever-growing culture in the area of workplace safety at Grupa LOTOS S.A.

The safety-at-work policy followed by Grupa LOTOS S.A. receives acclaim from representatives of multinational companies, external auditors and insurance firms. Grupa LOTOS S.A.'s objective is to work out common group-wide workplace safety standards and keep the LTIF (Lost Time Injury Frequency) rate below the average for European refineries. Striving to continually improve the level of safety, it relies on internally-developed tools, but also employs world-recognised solutions related to safety of workplace, as well as processes and technologies.

Pursuing the mission of corporate social responsibility, Grupa LOTOS S.A. supports numerous charity and social campaigns and events and participates in activities promoting culture, science, education, and healthcare. It also supports a host of social institutions and foundations.

LOTOS FOR CULTURE

Grupa LOTOS S.A. is an active patron of culture. For many years now, the Company has been sponsoring a number of attractive and prestigious cultural events addressed to a wide spectrum of audiences. This is best acknowledged by music and opera lovers. Owing to the Company's commitment, 2006 saw four premiere performances at Opera Bałtycka.

The Company regularly supports the Gdańska Wiosna festival (the Spring in Gdańsk Festival), which is held in high esteem by classical music connoisseurs. The festival features concerts of distinguished artists. The Gdańska Wiosna Festival is a firm fixture in the calendar of cultural events taking place in Pomerania. Międzynarodowe Seminarium Skrzypcowe (International Violin Seminar) and the LOTOS Mozart Prize competition were also held within the Festival's framework.

Teatr Atelier im. Agnieszki Osieckiej (Agnieszka Osiecka Atelier Theatre) in Sopot is a chamber theatre engaged in promoting contemporary plays which are scarcely performed on the stages in Poland. Grupa LOTOS S.A. supports the activities of this unique Sopot theatre.

The Company also maintains cooperation with Polish Chamber Philharmonic in Sopot by supporting in the organisation of concerts.
Grupa LOTOS S.A. conducts production and marketing operations also in the south of Poland. Hence, it initiates and supports major cultural events in the region. Undoubtedly, those include LOTOS Jazz Festival – Bielska Zadymka Jazzowa, the largest jazz festival in Poland. Its participants include distinguished artists from around the world. A number of concerts and accompanying events take place during the four festival days. In a survey carried out among the readers and critics of the *Jazz Forum* monthly, LOTOS Jazz Festival was ranked as one of the major jazz music events in the country.

Additionally, in 2006 Grupa LOTOS S.A. sponsored the following events: Festiwal Gwiazd (the Festival of Stars), XXXI Festiwal Polskich Filmów Fabularnych (the 31st Polish Feature Film Festival), Festiwal Dobrego Humoru (the Good Humour Festival), Festiwal Teatrów Ulicznych FETA (the FETA International Street and Open-Air Theatre Festival), Festiwal Operowo-Operetkowy (the Opera and Operetta Festival) in Ciechocinek, Dni Kultury Ukraińskiej (the Ukrainian Culture Days), and Gdański Areopag (the Gdańsk Areopagus), a remarkable intellectual event.

As part of the activities undertaken for the benefit of local communities, Grupa LOTOS S.A. co-organised social events intended for the people of Tri-City. These included: II Światowy Zjazd Gdańszczan (the 2nd International Reunion of Gdańsk Citizens), promoting the history and cultural diversity of the city of Gdańsk, the Świętojańska Street Celebrations in Gdynia and the Bohaterów Monte Cassino Street Celebrations in Gdańsk.

LOTOS FOR EDUCATION

Grupa LOTOS S.A. applies state-of-the-art technology and consistently makes investments towards its development. This is why it is willing to engage in cooperation with academic communities and universities. An example of such cooperation is the long-term and fruitful relation with the Gdańsk University of Technology, which has been a source of mutually beneficial initiatives concerning scientific research and joint projects, especially in the field of bitumen production, and has helped discover and promote young scientific talents. The Company supports conferences and scientific seminars organised by the Gdańsk University of Technology and provides scholarship funding for the most promising students and academics.

Among a number of other events, Grupa LOTOS S.A. sponsored the ”Karole” competition, organised at the Management and Economics Faculty of the Gdańsk University of Technology. The competition was designed to promote the brightest students of the Faculty and facilitate the start of their professional career.

LOTOS FOR CHILDREN

Safe Way to School – Caring for Children's Safety

LOTOS offers supreme quality fuels, bitumen and lubricating oils. Better roads constructed with the highest quality bitumen and longer useful lives of engines thanks to proven engine oil production technologies improve traffic safety. Grupa LOTOS S.A. also cares for the safety of pedestrians, in particular children. Hence, for the fifth time the programme called “Safe Way to School with LOTOS – LOTOS Cares for Children's Safety” was carried out in cooperation with the Polish police. The Programme aims at spreading the knowledge of safe traffic behaviour. In 2006, the Programme was accompanied by the “Freedom for Cat's Eyes” competition, where the best drawings or photos illustrating the rules of safe behaviour in traffic were selected.

First and foremost, Grupa LOTOS S.A. offers support to children coming from underprivileged environments. Once again, the Company organised a Santa Claus party for children from children homes and those from poor families.

LOTOS FOR HEALTHCARE

For many years, Grupa LOTOS S.A. has been providing its support to institutions which could not function properly without the assistance of private business and philanthropists. Without any doubt, such institutions include healthcare facilities. The Company furnishes them with indispensable, often life-saving, medical equipment. The support was offered to Mother and Child Healthcare Centre in Gdańsk by providing it with funds to purchase an X-ray lamp. Grupa LOTOS S.A. financed an infusion pump and an apnea detector for premature infants at Saint Adalbert's Specialist Hospital in Gdańsk. Funds were also granted to co-finance development of a conceptual design of a modern Invasive Medicine Centre at the Medical Universtiy of Gdańsk. Financial support was offered for the renovation of the Cardiosurgery Clinic and recovery rooms at the Medical University of Gdańsk.

LOTOS FOR SPORT

As the largest company in the region of Pomerania, Grupa LOTOS S.A. supports sports clubs and organisations and sponsors mass sporting events. It shows responsibility in its sponsoring activities: while engaging in major sporting events for seniors, it also pays due attention to young athletes, through two successfully developing nationwide social/sporting programmes.
The Company acts as the general sponsor of the Polish Ski Association, the title sponsor of the LOTOS Gdynia women's basketball team and the LOTOS Gdańsk speedway team, as well as the "LOTOS Team Race&Rally".

In 2006, the Company's sponsorship also covered the following athletic competitions: the Józef Żylewicz Memorial Competition, the Janusz Sidło Memorial Competition, the Sopot Pier Pole Vault competition, the Saint Dominic Running Event, and the Amber Mile running event.

The Company supports the Ski Jump National Development Programme – "In Search of the Champion's Successors", which is targeted at the youngest ski jumpers, and the "Play with LOTOS – LOTOS for Schools" project, the largest nationwide girls' basketball event in Central Europe.

The biggest achievements in sport's sponsorship:

- First place in the European Rallycross Championships – Krzysztof Groblewski
- Second place in the Polish Women's Basketball Championships
- The GKŻ LOTOS Gdańsk speedway team's advance to the first league
- Second place in the Polish Rally Championships – the M. Bębenek & G. Bębenek team
- Second place in the Polish Mountain Rally Championships – Mariusz Stec

LOTOS FOR THE NATURAL ENVIRONMENT

Operations conducted by Grupa LOTOS S.A. are fully compliant with legal requirements. The Company also intends to and is able to meet any norms and requirements necessary to minimise damage to the natural environment.
Special attention has been given to air pollution emitted by the Company's refinery, the quantity and quality of waste water discharged to the Rozwójka canal and the Martwa Wisła river as well as to safe management of waste.
With a view to minimising the harmful environmental impact of its operations, Grupa LOTOS S.A. takes the following measures:

- ongoing monitoring of air and water emissions
- regular monitoring of hydrocarbon concentration around the Company – three out of five stations providing ongoing pollutant measurements now also provide data on BTEX compounds
- monitoring the quality of water in the Rozwójka canal (the collector of wastewater treated in the Company's treatment plant)
- successful modernisation of the Company's plant for biological treatment of industrial wastewater using the BIOGRADEX technology – improved efficiency of reducing the total nitrogen content (by approx. 40%) and consequent higher efficiency of the Company's wastewater treatment plant
- strict supervision of waste management – control exercised at each stage of waste production and neutralisation
- double sealing of tanks with floating roofs
- ensuring airtightness of all process installations and connecting them to the emergency discharge system where hydrocarbons are burned in flares
- ensuring that the process of pumping fuel to road tankers and railway tank-cars is performed using the airtight vapour recovery system.

Grupa LOTOS S.A. applies complicated, multi-stage production processes which involve highly complex technology and equipment. To satisfy the users of the Company's products and the increasingly higher requirements concerning environmental protection (both Polish and EU-imposed), Grupa LOTOS S.A. must use ever more advanced technological solutions.
Since environmental protection is one of the Company's key priorities, already at the stage of planning and execution of investment processes the Company selects such technology which is environmentally friendly and which satisfies the Best Available Technology (BAT) criterion. Grupa LOTOS S.A. invests only in those new technological solutions which improve the efficiency of production processes, are marked by high rates of utilisation of raw materials and semi-finished products, relatively low consumption of process carriers and energy, and low rates of waste discharge offensive odour or noise emissions. Such an approach helps minimise and – where possible – prevent pollutant emissions and improves the production processes' efficiency with respect to consumption of energy and materials.

WE INVEST IN ENVIRONMENTAL PROTECTION

One of the key objectives of the PKRT Programme (Comprehensive Technical Upgrade Programme) is meeting strict environmental quality requirements concerning crude-derived fuels as well as minimising the refinery's environmental impact.
High quality fuels produced by Grupa LOTOS S.A. meet the quality and environmental requirements imposed by the European Union. They are both environmentally friendly and safe for motor vehicle engines.
Grupa LOTOS S.A. is aware of the fact that greater production of renewable energy is necessary for ensuring sustainable global growth, unavoidable in view of Poland's international obligations. Therefore, since 1997 gasoline produced by the Company has had a bio-component content, and in 2006 Grupa LOTOS S.A. also started to produce diesel oil containing up to 5% V/V FAME (methyl esters of fatty acids).

The Company constantly improves its technology to minimise the environmental impact.
In 2006, Grupa LOTOS S.A. continued the following projects:

- construction of a sewer pipe discharging treated wastewater to the Martwa Wisła – commenced in 2004
- construction of xylene separation unit – commenced in 2005
- construction of oil desulphurisation unit – commenced in 2005
- construction of an anti-theft monitoring system on the Port-Refinery pipeline – commenced in 2006
- modernisation of furnace systems in power boilers – commenced in 2006.

…Environmentally Friendly Company….
(from the Mission Statement of Grupa LOTOS S.A.)

Globally, the refining industry is perceived as harmful to the natural environment – both in public opinion and legal regulations. However, although Grupa LOTOS S.A. increased its throughput capacity in mid-2005 by 30% (6m tonnes of oil processed last year), it makes every effort for the Gdańsk refinery to be treated as only potentially harmful, as it actually meets the most stringent environmental standards and requirements with a wide safety margin.

The Company's environmental policy has long been focused on:

- cleaner production, i.e. gradual reduction of consumption of process-carriers and raw materials, limiting the emission of pollutants, full treatment of wastewater and minimising the amount of produced waste, effective prevention of breakdowns
- safe products, i.e. production of high quality fuels with the lowest possible harmful impact on the environment and humans.

The main concerns of Grupa LOTOS S.A. include ongoing control over and improvement of product quality, professional management, environmental activity, customer service quality and safety at work.

ENVIRONMENTAL IMPACT

Air

The refinery's air emission sources are both organised and unorganised. The most important organised source is the flue stack of the combined heat and power plant. In addition, two smaller technological emitters discharge combustion gases from process furnaces. Those emitters discharge mainly carbon dioxide and considerably smaller amounts of sulphur dioxide, nitric oxide and dust.

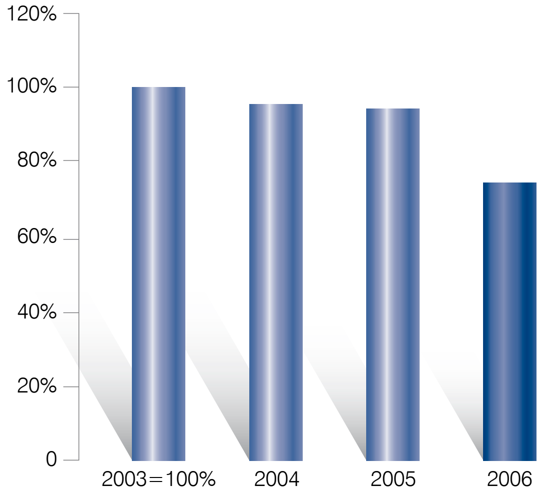
Unorganised emissions come from two gas flares from open tanks in the wastewater treatment plant and from storage tanks for raw materials and products.

Wastewater

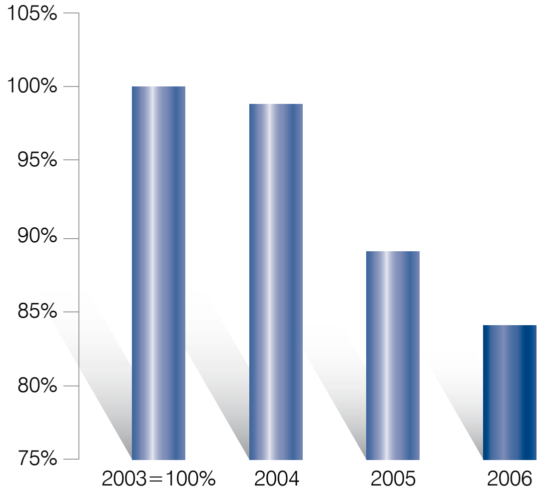
The refinery generates industrial and non-industrial wastewater which, following treatment at the refinery's water treatment plant, is discharged through the Rozwójka canal to the Martwa Wisła river.

Year	SO_2 [t]	CO_2 [t]
2006	4,859	1,153,625
2005	6,216	979,074

Actual emissions of sulphur dioxide and carbon dioxide



Emission of sulphur dioxide relative to the amount of crude oil processed in 2003-2006 in Grupa LOTOS S.A.

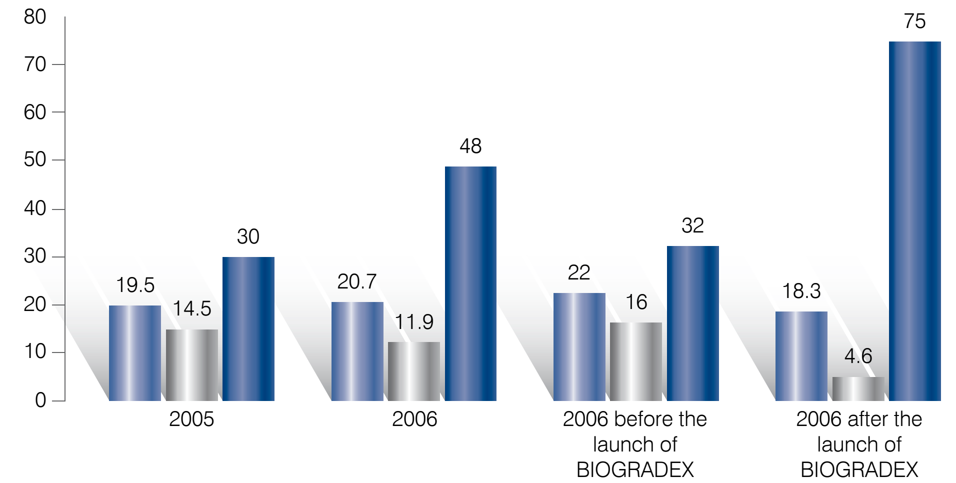


Emission of greenhouse gases (CO_2) relative to the amount of crude oil processed in 2003-2006 in Grupa LOTOS S.A.

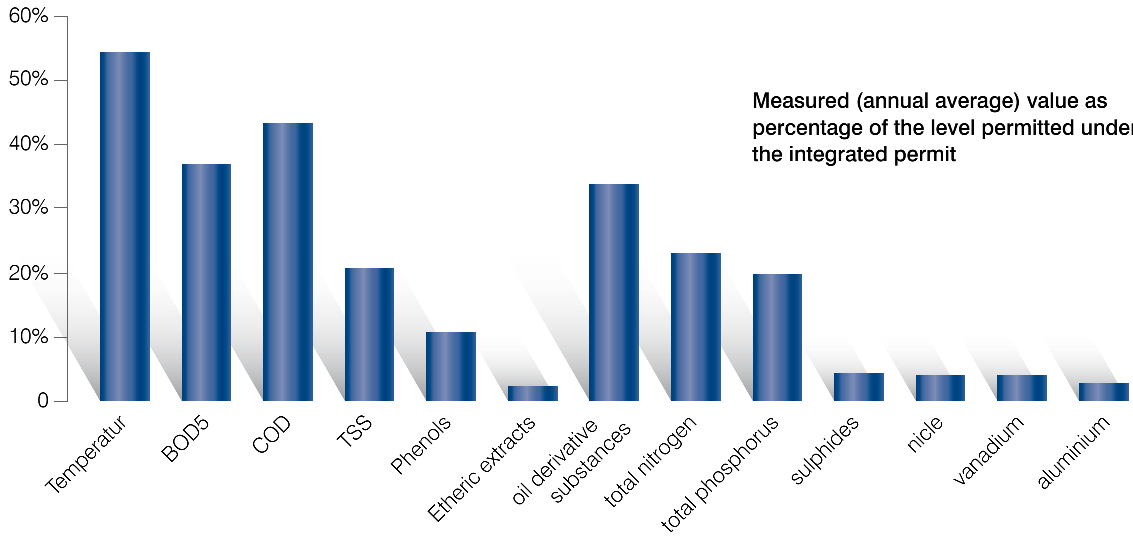
We attach great weight to wastewater management, as we realise that the refining operations have an impact on the delicate environmental balance of the Gdańsk Bay and, consequently, on the Baltic Sea as a whole.
The water treatment plant's excellent performance confirms that the Company's care is not only declarative.

In 2006, the extension of the water treatment plant was completed. The upgrade was designed to strengthen the performance of the activated sludge chamber, which is one of the plant's key components. The biological filtration is the most sensitive and, thereby, the critical stage in controlling the quality of discharged wastewater. The amount and condition of the activated sludge (active biological material) affect the contaminant content (i.e. contaminant concentration levels). Better work of the activated sludge means less contaminants and cleaner water. The results of the modernisation work are well illustrated in the chart below.

The permitted values for some of the parameters in the refinery's treatment plant, which are defined by the law (Regulation on Discharge of Wastewater to Waters or Soil), were reduced by 20%.



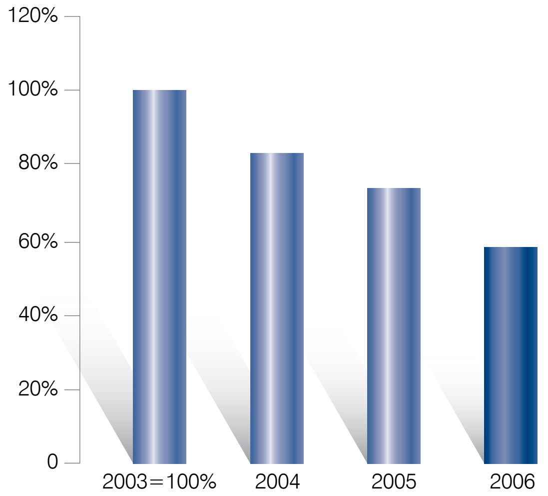
The total nitrogen reduction rate before and after the upgrading of the refinery's water treatment.



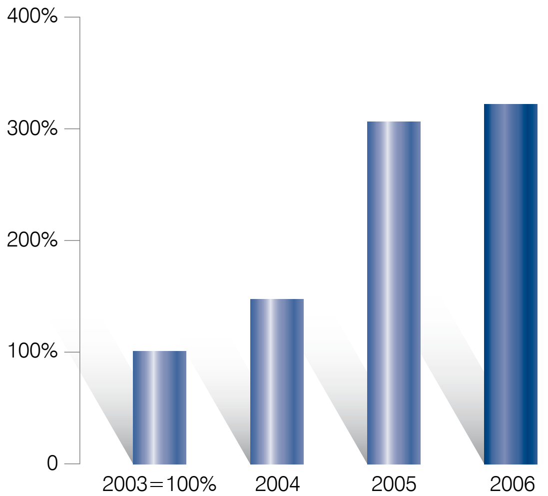
Measured (annual average) value as percentage of the level permitted under the integrated permit

Waste Deposits

One of Grupa LOTOS S.A.'s priorities is to conduct a reasonable waste management programme. The restrictions on amounts of produced waste not only reduce the environmental burden, but also generate tangible, quantifiable economic benefits in the form of a more efficient use of the raw materials and lower treatment costs. This is why we first of all seek to reduce theamount of generated waste through prevention at source. Unavoidable waste is recovered (or recycled) in the first place, and only if the recovery is impossible, it is neutralized. All the waste generated at the Company's refinery is collected in special dump sites or containers, and then picked up by companies licensed to transport, collect, recover or neutralise waste.



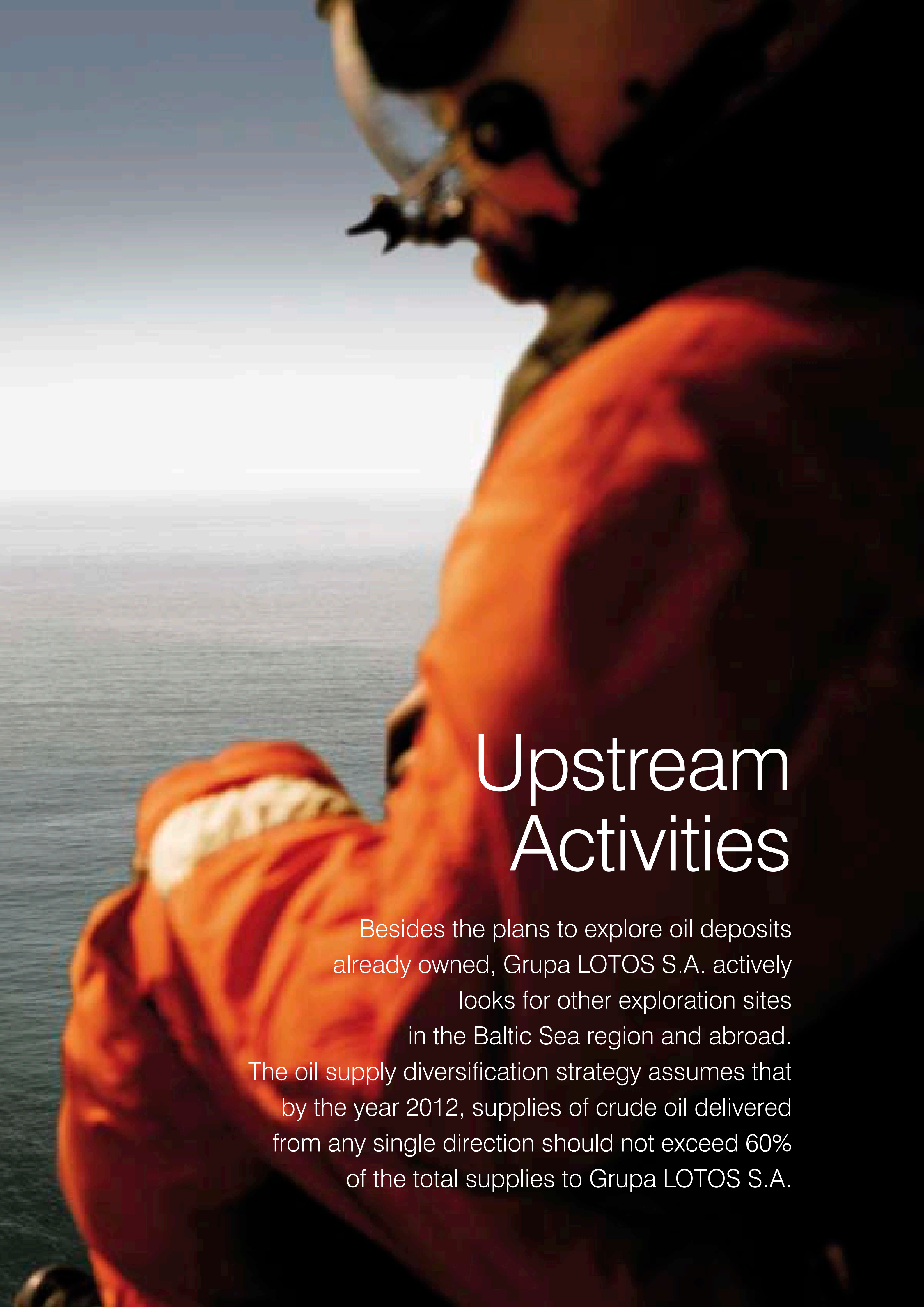
Ratio of generated waste to the volume of crude oil processed in 2003–2006



Ratio of waste recycled to waste generated in 2003–2006

Effective Self-Limitation Measures

As follows from the information presented above, Grupa LOTOS S.A. strives to prevent waste production or minimise its adverse impact through adequate planning and management of production processes at the plant by employing the most effective technology and equipment.



Upstream Activities

Besides the plans to explore oil deposits already owned, Grupa LOTOS S.A. actively looks for other exploration sites in the Baltic Sea region and abroad. The oil supply diversification strategy assumes that by the year 2012, supplies of crude oil delivered from any single direction should not exceed 60% of the total supplies to Grupa LOTOS S.A.

8 Upstream Activities

KEY OBJECTIVES OF THE UPSTREAM SEGMENT

The key objectives of Grupa LOTOS S.A.'s upstream (exploration and production) segment are to manage and supervise exploration and production of crude oil deposits; this segment is also responsible for the implementation of Grupa LOTOS S.A.'s upstream strategy. The segment was established based on the experience gained by Petrobaltic S.A., which conducts exploration and production projects in the Baltic Sea region.

Strategic objectives of Grupa LOTOS S.A.'s upstream segment:

- to increase the security of crude oil supplies for processing at the refinery and to gain direct access to deposits of hydrocarbons
- to increase the Company's value through development of the upstream business and, thereby, to gain access to crude oil priced below international market prices
- to achieve a stable position in the hydro carbons upstream sector by 2012 by consistently applying a programme providing for the increase of crude oil production from deposits under the Baltic Sea owned by Petrobaltic S.A., to 1m tonnes a year, and by executing new projects outside of Poland
- to streamline and restructure the upstream operations on the currently producing B3 and B8 reservoirs
- to fully integrate and consolidate Petrobaltic S.A. with Grupa LOTOS S.A.

The implementation of the development strategy will be facilitated by Grupa LOTOS S.A.'s advantage in the upstream expertise over other oil companies, and on the efficiency of Petrobaltic S.A.'s operations. The primary objective of Grupa LOTOS S.A.'s upstream business was to increase shareholder value; this was the reason why so much emphasis has been placed on financially-sound projects offering acceptable levels of risk.

PETROBALTIC S.A.

In 2006, Grupa LOTOS S.A. consistently expanded its own upstream segment. In line with the LOTOS Group's strategy, the two key objectives to be achieved by the segment by 2012 are:

- to produce up to 1m tonnes of crude oil a year from the Baltic Sea oilfields;
- to diversify the sources of crude oil supplies – not more than 60% of crude oil processed by the Grupa LOTOS S.A. can come from a single source.

Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. will be pivotal in the implementation of these objectives (Grupa LOTOS S.A. currently holds 69% of the company's share capital).

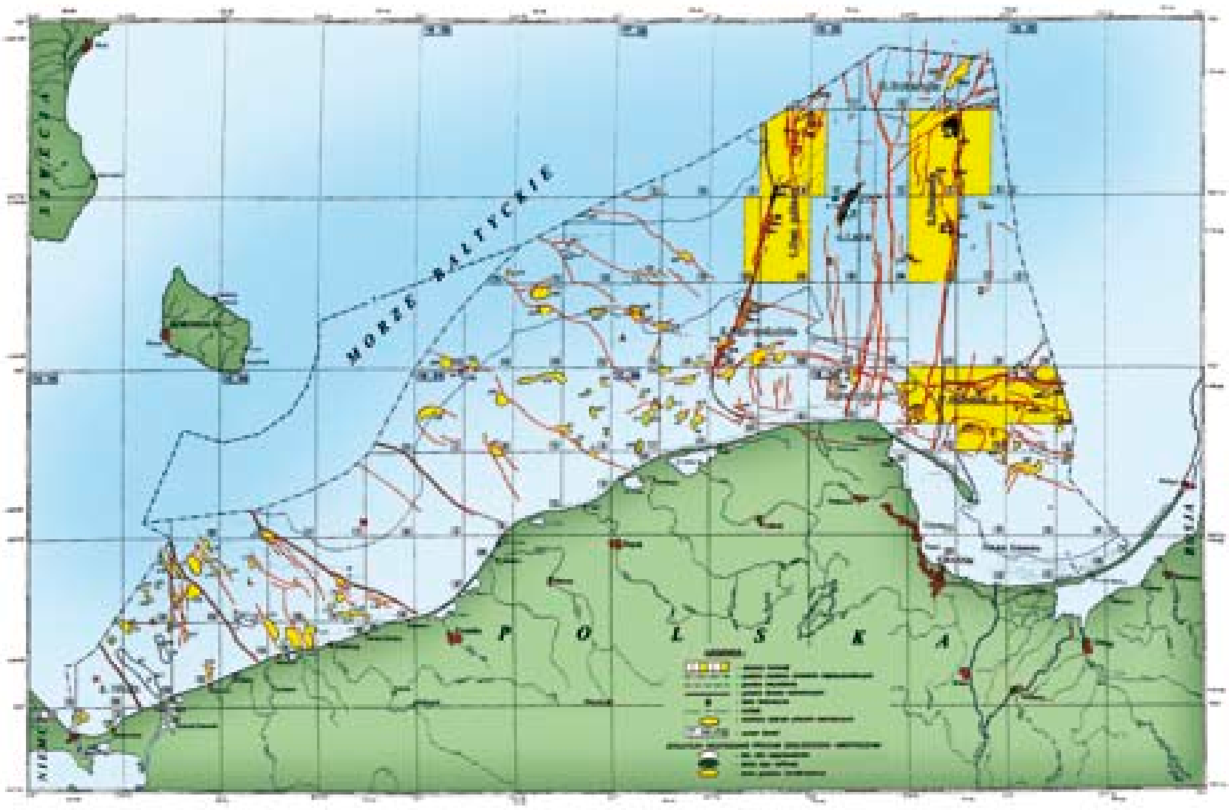
In 2006, the production from Polish offshore hydrocarbon deposits in the Baltic Sea proved very successful in financial terms. It was almost 11% higher than planned, sales revenue exceeded the planned figure by nearly 27%, while gross profit was a steep 36% higher than forecast.

The results of a production test on the B8 reservoir were very successful. Based on initial estimates, the oilfield has a capacity of at least 1m³ metres of crude. The volume of oil produced during the test had a significant impact on the production and economic results of the enterprise. In 2006, Petrobaltic S.A. posted record-high profits and profitability.

	2001	2002	2003	2004	2005	2006
Oil sales volumes ['000 m³]	351.2	351.7	329.3	287.3	300.1	306.2
Total revenue [PLN m]	271.7	305.2	298.6	264.9	368.7	424.4
Gross margin	46.7%	31.8%	66.8%	45.3%	54.1%	49.3%

Results of Petrobaltic S.A. in 2001-2006

From its inception to the end of 2006, Petrobaltic S.A. produced over 3.5m m^3 of crude oil and 300.5m m^3 of natural gas.
The sound financial position allowed Petrobaltic S.A. to conduct large-scale investing activities. In 2006, the company's total capital expenditure was over PLN 51.3m. This amount was mainly invested in development of the B8 reservoir. Petrobaltic S.A. retains free cash with a view to investing it in new crude oil and gas deposits.
In 2006, the presence of the B23 reservoir in the Gotland concession was confirmed; initial geological surveys indicate that it may contain vast amounts of hydrocarbons. To verify the results of the initial analyses and estimates, it will be necessary to perform drillings. In the second half of 2006, Petrobaltic S.A. began search for a rig or a drillship from which preparatory drillings could be made.
Petrobaltic S.A. is also conducting studies into how to develop the B6 reservoir natural gas deposits. In November 2006, Petrobaltic S.A. was awarded a 20-year concession for production of natural gas from the reservoir. Additionally, the Minister of Environment and Petrobaltic S.A. executed a mining use agreement to produce natural gas from the B6 reservoir.
In terms of the enterprise's organization, 2006 was the year of integration and consolidation of Petrobaltic S.A. with Grupa LOTOS S.A.



Area of activity of Petrobaltic S.A. at the Baltic Sea

NEW OIL FIELDS

Grupa LOTOS S.A.'s exploration work concentrated on two directions:

- the Baltic Sea, and
- other areas.

Exploration work on the Polish Baltic Sea shelf has continued since mid 1970s, but gained significance for the economy of Poland and the seaboard provinces only after the establishment of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic. Petrobaltic S.A.'s first mission was to develop B3, the largest oil field in the Polish zone of the Baltic Sea. Oil production from B3 was successfully launched in 1993, accounting in some periods for approximately 50% of Poland's total oil production. From the very first months of oil production at B3, work and analyses continued with a view to developing the associated natural gas resources. The gas was to be used initially for the needs of the offshore oil production platform, and later – following the implementation of a project designed by Energobaltic Sp. z o.o. – for the purposes of production of electricity and heat for the town of Władysławowo.

After the inclusion of Petrobaltic S.A. in the LOTOS Group and establishment of the Exploration Business Segment and the Upstream Division, exploration activities were intensified, also in the Baltic Sea region. Grupa LOTOS S.A. lent support to Petrobaltic S.A. with respect to assessment of the B23 structural trap, analysis of possible reserves of the Polish Baltic Sea shelf, identification of other concession areas in the Baltic Sea region and assessment of their reserves, and on other aspects of the upstream activities.

New attractive accumulations of crude oil and natural gas, namely the B8, B4 and B6 fields, are awaiting development, and preparations are under way for exploration work at the B23 structure and in other concession areas, also beyond the Polish zone of the Baltic Sea.

As confirmed by the evaluations and analyses made by researchers from the AGH University of Science and Technology in Kraków, the Baltic Sea region, including the Polish shelf, is prospective for further oil exploration. It is enough to look at the general maps presenting the southern Baltic Sea and the Polish sea zone to note the yellow-coloured structures identified through seismic work. Each of these structures may contain a potential new accumulation of hydrocarbons which can be of commercial significance for the Polish economy.

To note, the geological research performed to date has shown that also the Russian, Lithuanian, Latvian and German shelves are prospective for oil. A rising number of companies are seeking to obtain concessions for exploration work in the Baltic Sea region.

OIL PRODUCTION AND THE ENVIRONMENT

In human activity and corporate business activities it is often only the aspect of the environmental interference that is noted. Each form of our technological activity affects the environment in which we live. Exploration and production of crude oil is a certain form of utilization of non-renewable resources of our planet, and as such must be conducted in a responsible and professional manner.

However, we must be aware that the technologies which are currently available enable us to conduct exploration and production work in a manner which is safe for the environment and for humans, also at sea. In return we obtain energy carriers – natural gas and crude oil from under the bed of the Baltic Sea – which are clean of hydrogen sulphide and other sulphur compounds.

Petrobaltic S.A.'s geological, drilling and marine support personnel are prepared and trained to fight the elements at sea and on land. They often rushed to help humans and see vessels which found themselves in a difficult or dangerous situation. They are prepared to remove oil spillages, extinguish fires, evacuate people or search for and pick up shipwrecked persons.

The logistics of exploration and production at sea requires the use of aircraft and helicopters. They are used to transport the workforce, specialists, equipment and materials which are necessary for the safe operation of offshore oil and gas production platforms and drilling rigs.

Prior to and during the execution of offshore oil projects, geochemical research is conducted to analyse the hydrocarbon anomalies and assess contamination of the bottom sediments with geogenic hydrocarbons of natural origin which migrate towards the surface from the deep layers of a formation's sediment cover.

In order to eliminate the risk of contamination of the marine environment, seawater is used as drilling mud whenever possible. During and after drilling work samples of water, bottom sediments and reservoir fluids are taken for control analyses.
Platform wastewater treatment installations are controlled on a regular basis and the waste which cannot be utilized at sea is collected and transported to land by special support tugboats.

GENERAL INFORMATION ON THE BALTIC SEA

The Baltic Sea covers an area of approximately 385 thousand km^2. The average depth of the reservoir is slightly over 52 m, although the maximum depth (in the Landsort deep) is 459 m.

The salinity of the Baltic Sea varies between its various zones and is changeable, ranging from 1 to 20‰. The average salinity is 8‰. The approximately 250 rivers which terminate at the Baltic Sea and the limited inflow of ocean water contribute to low salinity of the reservoir.
Contrary to what may appear, the Baltic Sea is not an easy region to conduct oil exploration.

Its typical "short" wave, sudden breaks in the weather and low air and water temperatures are hardfelt by the offshore crews. Baltic's typical wave is short and steep; its average height is approximately 5 m, but during strong storms it frequently rises to 10 m. On December 23rd 2004 a record-high 14-meter wave was recorded. In accordance with the applicable procedures for anchoring jack-up platforms, it was necessary to lift the bottom of the platform hull over the maximum registered wave height.

INFORMATION ON THE PLATFORM AND DRILLING EQUIPMENT

The “Petrobaltic” drilling platform is a Levingston class 111 jack-up offshore platform, intended for use on reservoirs with water depth of approximately 92 m and wind speed of up to 56 m per second. Up to 60 people may work on the platform. Equipped with the National 1320 UE drawworks, Bayley, drilling tower, National 760 FA crown block and National 660-G-500 travelling block, the platform has a nominal lifting capacity of 360 tonnes.

Support tugboats are see vessels which are indispensable for efficient operation of drilling platforms. Two of such tugboats operated by Petrobaltic, *“Granit”* and *“Bazalt”*, are see vessel with displacement of approximately 1600 DWT, intended for tugging large floating objects, laying pipelines, transport of equipment and materials in solid, loose or liquid form.
Smaller tugboats – *“Kambr”* and *“Vivero”* – provide support to the platforms by successfully handling less exigent tasks.

Any offshore drilling work must be preceded by geotechnical surveys necessary to ensure safe anchoring of a jack-up platform. Such geotechnical work is performed from *Santa Barbara* survey ship.

Santa Barbara has the capacity to perform shallow drillings, collect sediment samples using a scoop or vibroprobes and to analyse the properties of bottom sediments with the use of a penetrometer. Bathymetric, sonar, seismoacoustic and many other surveys which are indispensable to ensure safe and efficient offshore oil exploration, are performed from this ship.

In view of its investment plans, encouraging results of research and optimistic evaluations of the possible reserves of the Baltic Sea region, in the second half of 2006 Petrobaltic S.A. began search for a platform or a drillship, from which it could conduct exploratory drillings.

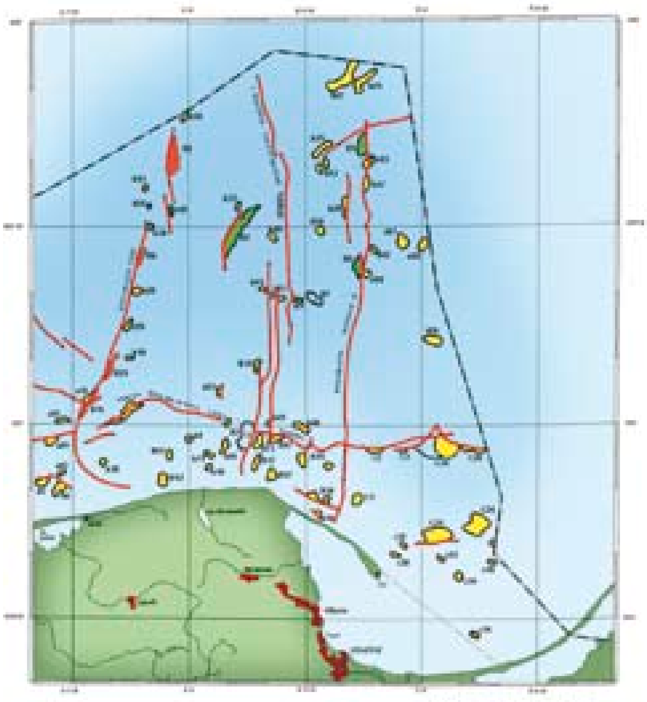
PLANS AND INVESTMENTS

At the current stage of the exploration work at the Baltic Sea, activities focus on the following major areas:

- Development of and production from the identified and documented hydrocarbon deposits at the B3, B8, B4 and B6 fields
- Exploration work at the identified and seismically documented structures B23 and E23
- Preparation for further exploration work at other seismically identified structures.

Given Petrobaltic S.A.'s technical capabilities and the location of its base, and relying on the results of geological and seismic research, the company has so far focused its activities in the region of the Łeba section. However, other regions of the Polish, Russian, Lithuanian and Latvian shelf are also prospective for oil exploration. This is confirmed by the results of regional surface geochemical analyses performed at the request of the Ministry of Environment and financed by the National Fund for Environmental Protection and Water Management, as well as by assessments made by specialists, according to whom possible equivalent reserves of the Polish zone of the Baltic Sea may – depending on the adopted methodology of analysis – amount to approximately 200m m^3 of crude oil, accumulated in the numerous identified structural traps located all over the Polish sea zone.

Southern Baltic See - general map



The Łeba section - general map

Operating Activities

In 2006, the quantity of crude oil processed at the Gdańsk refinery was at the highest ever level in the Company's history, reaching 6.1m tonnes of crude, which corresponds to 101.6% of the processing capacity.

9 Operating Activities

REFINING

2006 was another record-breaking year in terms of crude throughput volume, which reached 6.1m tonnes and was as much as 1.3m higher than in 2005, also a record-breaking year.

Grupa LOTOS S.A. now benefits from the effects of its upgrade and investment projects, especially the most recent ones. The Russian Ural crude continues to be the main type of crude oil processed by the Company (5.7m tonnes), which is also supplemented by light crudes, like the Rozewie crude extracted from the Baltic Sea, and heavier crudes, like the Kuwait crude, the first trial shipments of which were processed by the refinery in Gdańsk.

Traditionally, the Company used almost 1m tonnes other raw materials, supplied by third parties for production of fuels and oils, which allowed it to achieve the record-breaking volumes of fuel output, including: 1.5m tonnes of gasoline, 2.7m tonnes of diesel oil and 660 thousand tonnes of light fuel and marine oils. The aviation fuel output was 450 thousand tonnes, while the production volume of bitumen and bitumen components reached as much as 780 thousand tonnes, or 30% more than in 2005.

PRODUCTION UNITS

Modern production units, such as hydrocracking, CCR reforming and Merox aviation fuel units allow the Company to produce the highest-quality fuels, which in turn enable it to achieve high production margins. Such a strong operating performance is due mainly to the stable and continuous operations of the production units at their full design processing capacity throughout the whole year.

COMPREHENSIVE TECHNICAL UPGRADE PROGRAMME

In 2006, actions taken as part of the implementation of the Comprehensive Technical Upgrade Programme (PKRT), which is of key importance for the Company's development and its future shareholder value growth, included: final determination of the scope of the Programme, preparation of base designs for the main units, negotiation of agreements related to various areas of the design, and discussions with financial and insurance institutions.
In January 2006, the terms of cooperation were agreed upon and the agreements were concluded with Fluor and the Uhde/Technip consortium for

execution of the PKRT Integration Base Design, including extension of the crucial auxiliary systems and the technical infrastructure.

In June 2006, the Supervisory Board of Grupa LOTOS S.A. approved conclusion of the contract for delivery of four reactors for the hydrocracking (MHC) unit, covered by the PKRT Programme. Assuming the financial liabilities connected with delivery of the MHC reactors was one of the key milestones in the PKRT's timeline.

The Company also took steps to build a new distillation unit (CDU), which in 2010 will increase the crude oil throughput capacity to 10.5m tonnes per year. In August 2006, the Company signed an agreement for development of base design for the distillation unit.

Upon conclusion of the tender for execution of a diesel oil hydrotreating unit (HDS), in November 2006 the Management Board of Grupa LOTOS S.A. signed with ABB a turn-key contract for execution of the HDS unit under a Chevron license. Under the contract, the scope of the work comprises the technical design, deliveries and construction of the HDS unit. The launch of the unit will enable the Company to meet the quality requirements which are to apply to diesel oils as of 2009.

In December 2006, the preparatory work at the Gdańsk refinery – such as soil survey, soil removal, ground levelling, draining, providing electricity to the construction site, building temporary roads – was practically completed.

The preparatory work related to execution of the key elements of the PKRT Programme is at its final stage, and construction of the first units (HDS) has already started. The Company has also taken steps to optimise the scope and manner of execution of the project, taking into account the current market positions of contractors and suppliers.

The main effects expected of the PKRT Programme include higher margins, achieved by increasing the scale and level of conversion of the crude oil throughput at the Gdańsk refinery, which will result in higher fuel production volumes (mainly diesel oil).

STRATEGIC REGIONS: THE PROVINCES OF KATOWICE, KRAKÓW AND RZESZÓW.

The Katowice region has already become, apart from the Gdańsk region, the most important market for the products of Grupa LOTOS S.A. The region's attractiveness is due mainly to the strong demand for the Company's products on the local market and the region's well-developed transport infrastructure. Based on the combined assets of LOTOS Czechowice S.A. and LOTOS Jasło S.A., Grupa LOTOS S.A. builds strong market structures in the region to operate mainly on the fuel, oil, wax and bitumen markets.

STRONG MARKET POSITIONS

The Katowice and Kraków regions are not only the largest markets but also the markets enjoying the fastest growing consumption of liquid fuels. The regions have very well developed communications infrastructure and industrial facilities and a very good access to the transport network. The most important and largest international companies invest in the economic zones located in the regions. In 2006, Grupa LOTOS S.A. sold over 986 thousand tonnes of its products in southern Poland, which represents nearly 28% of the Company's total sales volume of oil products. Fuel sales in the southern regions account for the same percentage of the total fuel sales of Grupa LOTOS S.A. The Company's sales of lubricants, waxes and bitumen in the southern regions of Poland account for 46%, 63% and 30%, respectively, of its total sales in these product groups.

LOTOS ASFALT SP. Z O.O.

In 2006, the Company launched a modern distribution and storage hub in Jasło. The new facility will enable dynamic development of the Company's trading operations and strengthen its position in the Rzeszów and Kraków regions. LOTOS Asfalt Sp. z o.o. also expands its export activities into the markets of the neighbouring countries, including Ukraine.

The new distribution and storage hub is fully airtight and complies with stringent environmental protection requirements. The modern storage tank farm may store up to several thousand tonnes of bitumen. The automated loading facilities make the transfer of products from tanks to road tankers quicker and safer. Bitumen from the Jasło storage facility may also be transported by rail, which is enabled by the upgraded unloading terminal for rail tankers.

LOTOS LAB SP. Z O.O.

The operations of LOTOS Lab Sp. z o.o. are related to process analytics, taking samples, quality control, and releasing material supplies for production and finished products for dispatch, testing finished products in the distribution network, analyzing the water used for energy generation and technological purposes as well as drinking

water and ground water, testing wastewater, taking readings of and documenting the parameters of work environment conditions. These services are provided to the companies in the LOTOS Group as well as to external clients.

LOTOS JASŁO S.A.

For the LOTOS Group, LOTOS Jasło S.A. is the most important manufacturing and distribution center in South-East Poland. Strong development in this geographical market, along with the markets of Ukraine, Slovakia, or Hungary, is considered by the LOTOS Group to be a priority. Eight companies of the LOTOS Group operate on the basis of LOTOS Jasło S.A.

LOTOS CZECHOWICE S.A.

LOTOS Czechowice S.A. has adapted its assets and human resources to providing fuel storage and distribution services to other producers (mainly Grupa LOTOS S.A.), infrastructure management services, services related to production and distribution of energy carriers, as well as auxiliary services.

LOTOS PARAFINY SP. Z O.O.

In the middle of 2006, the Company launched its candle factory in Czechowice, employing 140 staff. The factory uses modern Weissbach production lines to produce approx. 4 thousand tonnes of candle per year. The investment project, valued at approx. PLN 18m, allowed the company to launch an exclusive range of products under the PROMETEO brand name.

LOTOS BIOPALIWA SP. Z .O.O.

The company signed a contract with MAN Ferrostal for construction of a modern fatty acids ester installation. The project will be based on the technology and license of CD Process (Connemann Diesel). Once the installation is launched, LOTOS Czechowice S.A. will be able to produce 100 thousand tonnes of the highest-quality bio-component per year. The value of the project is estimated at approx. PLN 71m.

LOTOS PARK TECHNOLOGICZNY SP. Z O.O.

LOTOS Park Technologiczny Sp. z o.o. continued its activities aimed at supporting the restructuring process of LOTOS Jasło S.A. and LOTOS Czechowice S.A. In 2006, nearly 60 companies cooperated with LOTOS Park Technologiczny Sp. z o.o. The company will support the Southern Refineries in the restructuring process until 2010.
Currently, LOTOS Park Technologiczny Sp. z o.o. has two branches, located in Czechowice and Jasło. As at the end of 2006, the company employed 198 staff.

CONSOLIDATION

In 2006, the process of merging the LOTOS Group service companies was completed. LOTOS Serwis Sp. z o.o. of Gdańsk acquired RC Remo Sp. z o.o. of Czechowice-Dziedzice and MONTO-REM Sp. z o.o. of Jasło which provide engineering, automation and electrical maintenance services. LOTOS Serwis Sp. z o.o. is another company which – after the oil, rail and bitumen companies – consolidates its assets with the Southern Refineries. The merger of the companies will allow them to retain the headcount and create new jobs for sales force in southern Poland. The consolidated service companies plan to expand their operations into new unexploited areas. The merged organisation adopts a new Integrated Management System.

CAPITAL EXPENDITURE

In 2006, Grupa LOTOS S.A.'s investment activities were carried out in several different areas. One of the major investment efforts focused on preparatory work leading up to the implementation of the Comprehensive Technical Upgrade Programme.
A contract was signed for the turn-key construction of an HDS unit for diesel oils. Other projects were aimed at ensuring optimal performance and improving efficiency of the Company's assets, for instance through development of advanced automated control of technological processes, construction of an amine scrubbing column, or refurbishment and adaptation of buildings. Various environmental projects were also undertaken, including an upgrade of the combustion systems of the CHP boilers and construction of a biofilter for the onsite sewage treatment plant at the Gdańsk refinery. Additionally, the investment efforts extended to projects aimed at safety improvement – a CCTV monitoring system was set up at the Gdańsk refinery, and the existing fire alarm system was upgraded.

Grupa LOTOS S.A.'s office compound in Gdańsk

The developing Grupa LOTOS S.A. is set on ensuring that its staff work in suitable conditions. The year 2006 saw the construction of a new eight-storey A1 class office building and renovation of the nearby medical facility. An administrative compound was thus created, which will also house the trading companies, until now located in various places all over Gdańsk. The new building will also serve as something of the Company's emblem, as its modern design and illuminated front elevation attract the gaze of sightseers visiting Gdańsk.

Upgrade of the combustion systems of the CHP boilers

As a result of the project, emissions of nitrogen oxides into the air were considerably reduced. The content of pollutants in flue gases emitted by the steam boilers which supply heat for the production units is currently subject to continuous monitoring. The refinery meets all the standards with respect to polluting emissions.

CCTV and fire alarm systems

In order to address the security needs, a CCTV monitoring system was developed and installed on the premises of the Gdańsk refinery. Based on state-of-the-art technological solutions, the system protects the grounds of the refinery against unauthorised access. Additionally, with a view to improving fire security, the existing fire alarm system underwent an upgrade. Signals sent by fire sensors are now visualised at the Crisis Management Centre, which allows the emergency services to respond to fire threats promptly and accurately.

Construction of the xylene fraction separation unit

The project will be the first petrochemical unit to be built at the Gdańsk refinery. In 2006, the base design and the engineering design of the project were developed, while the Company ordered a set of component apparatuses. The construction work will be carried out in 2007 and the first market-ready products are to appear in 2008.

Retail candle production plant in Czechowice
The production and storage facility, whose construction cost more than PLN 14m, has the annual manufacturing and packaging capacity of 4000 tonnes of candles. The plant's output has already allowed LOTOS Parafiny Sp. z o.o. to make first substantial deliveries to nationwide retail chains and to become one of the major industry players on the retail market.

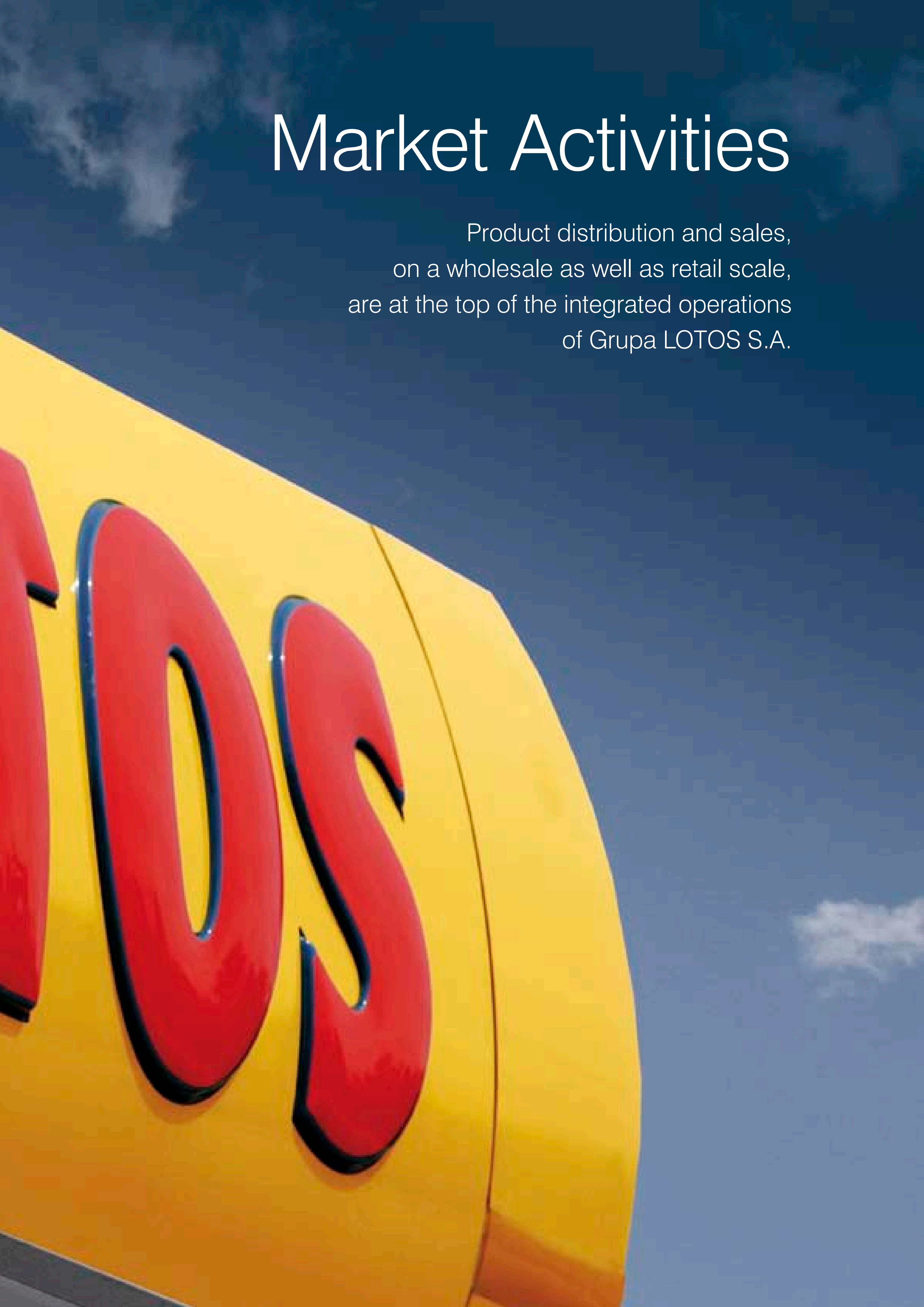
Development of the service station network
LOTOS Paliwa Sp. z o.o. and Slovnaft Polska S.A. entered into a transaction worth EUR 15m whereby LOTOS Paliwa Sp. z o.o. acquired 12 service stations and land plots for development of new stations, as well as took over cooperation with selected franchisees of Slovnaft Polska S.A. The acquisition was executed as part of the PROSTA Programme of development of the LOTOS-branded service station network and helped strengthen the Company's market position, especially in southern Poland.

Logistics assets
Development of logistics infrastructure – filling stands and storage tanks – is the focus of investment efforts at several companies. The most important project is construction of a filling terminal at LOTOS Czechowice S.A., which will be used to load fuels into rail cars and will enable future shipment of fuels containing bio-components. The year 2006 brought the launch of investment projects at LOTOS Asfalt Sp. z o.o. aimed at increasing the asphalt shipping capacity in Gdańsk and Czechowice (e.g. filling stands for loading asphalts into rail and road vehicles). The projects are scheduled to be completed before the 2007 asphalt sale season starts.

Production from oil reserves
In 2006, Petrobaltic S.A. undertook projects with an aggregate value in excess of PLN 51m. The funds were applied primarily towards financing preparatory work preceding the development of the B8 reservoir, including PLN 21m for drilling the B8-4K well and PLN 23m for preparing test oil production from the reservoir.
At the end of 2006, the Company incurred investment expenditure of more than PLN 7m to start drilling the B3-21 well at the B3 reservoir.

Market Activities

Product distribution and sales,
on a wholesale as well as retail scale,
are at the top of the integrated operations
of Grupa LOTOS S.A.



10 Market Activities

FUEL MARKET

The Polish fuel market in 2006 was rather unstable, a tendency consistent with the situation prevailing on international markets. The crisis came at the end of the third quarter and beginning of the fourth, when demand for diesel oil outweighed the supply. This was attributable mainly to:

- Growing demand for diesel oils driven by significantly increasing numbers of vehicles powered by compression-ignited engines (a phenomenon known as "dieselization"). It is a pan-European shift, which causes the entire continent to be affected by structural imbalance between the demand and supply of intermediate oil fractions.
- Elimination of the grey market for light fuel oil.
- Obligation to increase the volume of diesel oil stored as mandatory stocks, which follows from a legislative change (designed to ensure that all market participants have equal footage as regards the requirements to create mandatory stocks).

Thanks to the timely actions taken by Grupa LOTOS S.A. (additional volumes of diesel oil imported by Grupa LOTOS S.A. and postponement of the deadline for creation of additional stocks granted by the Minister of Economy to certain enterprises) it was possible to meet the increased demand.

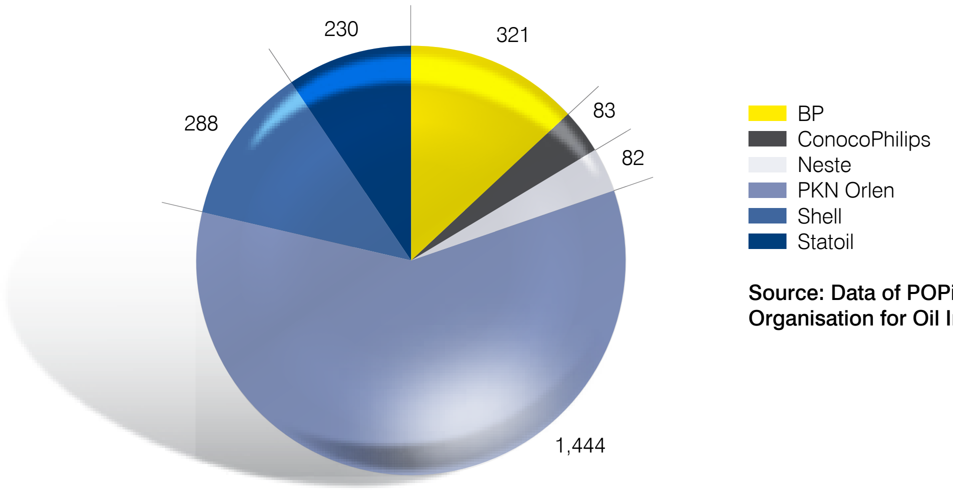
2006 saw a slight year-on-year growth in gasoline consumption (up from 4,031 thousand tonnes in 2005 to 4,100 thousand tonnes in 2006). However, the impact of the ever-growing popularity of autogas (LPG), which successfully replaces gasolines as a road vehicle fuel, remains conspicuous. The structural oversupply of gasolines is another phenomenon observed across Europe, and a majority of the excess supply of gasoline is exported to the American market.

The consumption of light fuel oil continues to fall. In 2006, it stood at approx. 1,800 thousand tonnes, compared with 2,534 thousand tonnes reported a year before. Both natural gas and LPG are increasingly popular as heat transfer media. In addition, grey market practices with regard to trade in light fuel oil (used as a substitute for diesel oil, subject to a much lower excise duty) were successfully curbed.

There were no major developments on the retail market, although the launch of new economy service stations (BLISKA stations by PKN Orlen)

and the arrival of a new entrant in the unmanned station segment (apart from NESTE and Statoil's 1-2-3 stations, a new player – Finnish ST1) are certainly deserving of note.
The opinion that the service station market is approaching saturation is now widely shared, which may be the reason for emergence of new operating platforms (unmanned, self-service stations). At the end of the year, Conoco Philips announced the takeover of its stations (including those located in Poland) by Russia's Lukoil. The Russian giant has expressed the intention to ultimately operate 200-300 stations in Poland.

The number of independent service stations in Poland is estimated at 3,500.



Source: Data of POPiHN (the Polish Organisation for Oil Industry and Trade)

MARKET POTENTIAL

Being a part of European and global markets, the Polish fuel market is prone to be influenced by the trends prevailing on these markets.

The trends likely to be seen in the coming years include continued growth in consumption of diesel oil, accompanied by a negligible rise or stagnation of demand for gasoline and an accelerating fall in sales of light fuel oil. The above forecasts are based on the following factors:

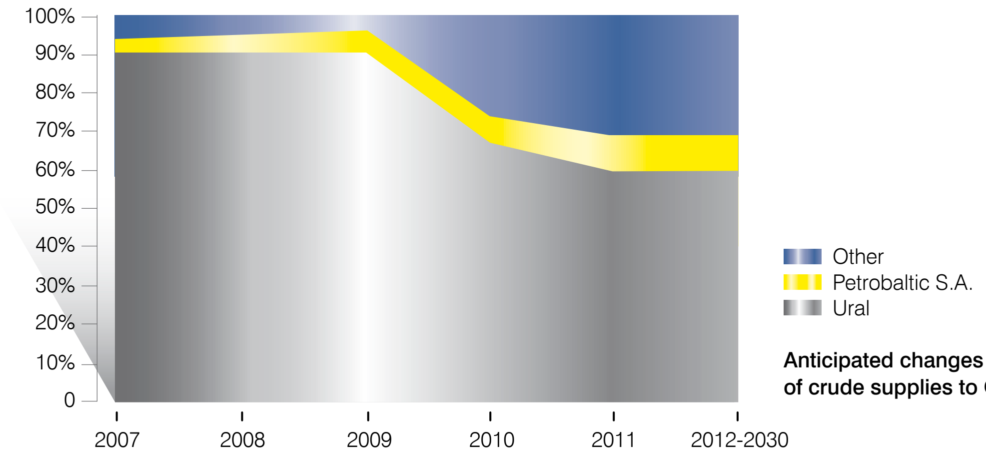
- Rapid growth of the world economy, driven especially by India and China.
- Global growth in demand for oil derivatives (although biofuels are gaining a significant portion of the market, in at least ten-year perspective they should not threaten the market share of oil-derivative fuels).
- The annual economic growth rate (incremental GDP) will not fall below 5% and, under high scenarios, it may even reach 7%–8%. This will cause the car market to thrive, while contributing to the expansion of the road network, including motorways, and increased freight transport by road.
- Growing number of motor vehicles, especially cars powered by diesel engines.

DIVERSIFICATION OF CRUDE OIL SUPPLIES

In terms of oil supplies, the market environment of Grupa LOTOS S.A. did not materially change in 2006. However, in view of the programme for intense development of its refinery and of the difficulties experienced by other refineries in the region with crude supplies through the Druzhba pipeline in 2006, the Management Board of Grupa LOTOS S.A. has defined the target geographical structure of the crude supplies.

According to the strategy adopted by Grupa LOTOS S.A. with respect to diversification of its crude supplies, by 2012 supplies from any one geographical direction should not account for more than 60% of the total supplies to Grupa LOTOS S.A. This objective, combined with the planned increase in the throughput capacity from the current level of over 6m tonnes to over 10m tonnes, requires that over 3m tonnes of crude be contracted from sources other than the current ones to ensure that the target diversification is achieved. It has also been assumed that about 1m tonnes of oil will be obtained via the development of the Group's own upstream business.

In 2006, Grupa LOTOS S.A. initiated the opening of alternative routes of crude oil supplies by sea from Kuwait and Norway (condensate). These initiatives increased the degree of diversification of crude oil supplies to the Company from about 5% in 2005 to about 10% in 2006, thus improving the Company's security in this area.



Anticipated changes in the structure of crude supplies to Grupa LOTOS S.A.

FUELS

Fuels produced by Grupa LOTOS S.A. meet the strictest quality and environmental standards imposed by the European Union.

LPG

Grupa LOTOS S.A. produces liquefied petroleum gas (LPG), which is chiefly applied as engine fuel. The 2006 output of LPG was 63 thousand tones, showing a 40% increase relative to 2005.

GASOLINES

Virtually all types of gasoline produced by the Gdańsk refinery, already comply with the EU-imposed quality requirements related, for example, to the content of sulphur, benzene and aromatic compounds, which are due to take effect only in 2009.

JET A1

Near the end of 2005, a second advanced aviation fuel production unit (MEROX) was placed in service, allowing Grupa LOTOS S.A. to increase its JET A1 aviation fuel production volume to 450 thousand tonnes in 2006 (up by more than 60%). The aviation fuel is in great demand with Scandinavian customers.

DIESEL OIL

The Gdańsk refinery produces the Eurodiesel LOTOS oil, whose sulphur content does not exceed 10ppm (ca. 95% of total diesel oil output) and the Eurodiesel EKO oil, which contains 50ppm of sulphur.

The Company also produces diesel oil with enhanced low-temperature properties called Eurodiesel City, whose sales in 2006 rose by 20% over the previous year. Grupa LOTOS S.A. was the first Polish oil company to have launched production of a diesel oil containing up to 5% of the FAME bio-component (methyl esters of rapeseed oil). In 2006, production volume of that fuel reached 32 thousand tonnes.

LIGHT FUEL OIL

Grupa LOTOS S.A. produces two brands of light fuel oil: LOTOS RED 0.1 with reduced sulphur content of 0.1% and LOTOS RED 0.2. The total light fuel oil output was 415 thousand tonnes, out of which some 30% featured low sulphur content.

SERVICE STATIONS

RETAIL SALES

In line with the strategy pursued by Grupa LOTOS S.A., the network of service stations, being one of the channels for distribution of products manufactured by Grupa LOTOS S.A., aims to improve its operating efficiency with a view to strengthening the position on the retail market.

Under the PROSTA Programme launched in 2004, the Company's strategic objective is to gain a 10% share in the retail fuel market in 2010.

This distribution channel will develop through:
- extension of the COCO stations network
- extension of the network of stations operating under the LOTOS Family Commercial Partnership Programme
- network optimisation.

As a key element in strengthening the LOTOS brand image, uniform standards are being implemented at the LOTOS network stations.

COMPANY OWNED COMPANY OPERATED (COCO) STATIONS

The network of COCO stations comprises 133 facilities located countrywide. The strategic objective of LOTOS Paliwa Sp. z o.o. is to raise the number of stations to 146 while maintaining high sales and service quality standards.

DEALER OWNED FRANCHISE OPERATED (DOFO) STATIONS

Striving to meet customer expectations, since October 2003, LOTOS Paliwa Sp. z o.o. has been implementing the LOTOS Family Commercial Partnership Programme. LOTOS Paliwa Sp. z o.o. offers a modern cooperation model where both sides are equal partners. The benefits of the participation in the commercial partnership programme include:
- a long-term right to operate under the LOTOS brand
- guaranteed supplies of high quality fuel

- the Starting Package funded by LOTOS Paliwa Sp. z o.o., comprising a set of investments executed at the cost of LOTOS Paliwa Sp. z o.o. to modernise the stations
- operating as part of a uniform network
- enabling the partner to serve the participants of the LOTOS Business programme and holders of UTA and DKV fleet cards.

The gradual development of DOFO stations is part of the Company's strategy aimed at strengthening the LOTOS network. The objective behind the efforts undertaken in this segment is to increase the number of DOFO stations to 230. As at 31st December 2006, the total number of DOFO stations, which complemented the existing COCO stations' coverage, was 57.

DEALER OWNED DEALER OPERATED (DODO) STATIONS

The network, which was established in June 1995, comprised 209 stations as at 31st December 2006. Due to the benefits offered by cooperation under the Commercial Partnership Programme, 20 stations operating under the DODO model switched to DOFO.

NEW INVESTMENTS

In 2005, as part of the PROSTA Programme, LOTOS Paliwa Sp. z o.o. acquired 39 Esso stations. Another transaction, which considerably increased the number of stations in the LOTOS network, consisted in the purchase of 12 Slovnaft stations in March 2006. The Esso and Slovnaft stations were finally merged into the LOTOS network by the end of October 2006. As part of the acquisition of Esso and Slovnaft Stations LOTOS Paliwa Sp. z o.o. also purchased 16 plots of land for service station sites.

The benefits brought by the acquisition of a total of 51 service stations include:
- considerable strengthening of the LOTOS brand in the key strategic regions of Poland: Great Poland, Mazovia and Silesia
- a rapid increase in the market share
- strong opowth
- expansion of the market
- winning a better position to attract customers.

As at December 31st 2006, the LOTOS network comprised 400 stations.

ENGINE OILS

LOTOS Oil S.A.'s business consists in the production and distribution of lubricating, base and industrial oils, as well as lubes. The Company has three oil producing centres, located in Gdańsk, Czechowice and Jasło.

A GOOD YEAR

In 2006, LOTOS Oil S.A. managed to strengthen its position on the Polish market of lubricant suppliers for the automotive sector and the industry. Compared with 2005, 2006 saw an almost 10% rise in the sales of the company's own products, including both engine and industrial oils.

AUTOMOTIVE SECTOR

The company's flagship product is the family of engine oils marketed under the LOTOS brand, which is the most popular brand on the domestic oil market. According to the most recent research by Auto Scan B.P.S. Consultants Poland Ltd., in 2006 LOTOS Oil S.A. was an undisputed leader in the engine oil market, achieving a 32.7% market share and leaving behind both domestic and foreign competitors.

The other oil brand, designed for professional users, is represented by the family of TURDUS oils, which are modern products for specialised use.

INDUSTRY

For many years, the company has been a market leader as a supplier of lubricants for industrial purposes, with a special emphasis on the power, steelmaking, mining and engineering industries. LOTOS Oil S.A. also offers hydraulic and gear oils. Additionally, its business includes low-volume production of specialised lubricants. Industrial oils and lubricants are supplied to domestic and foreign customers. A modern laboratory is working on expanding and enhancing the company's product offering to accommodate the needs of the rapidly changing economic environment.

The company is expanding cooperation with producers of a broad range of vehicles and machines. The cooperation is not limited to sales efforts only. More and more frequently, it involves advisory, consultancy and assistance in solving problems, sometimes very complex. In 2006, the experts of LOTOS Oil S.A. actively participated in handling the problems encountered during the operation of machinery by industrial customers.

GROWING IMPORTANCE OF EXPORTS

LOTOS Oil S.A. is one of the key producers of engine oils in Central and Eastern Europe. The oils produced by LOTOS are characterized by superior quality; their production relies on modern solutions compliant with stringent EU standards. The high and stable quality of oils, achieved thanks to the application of advanced production technologies and the best enriching additives, drives their sales up year by year. Apart from Poland, the company's key markets include Russia, Ukraine, Belarus, the Czech Republic, Slovakia, as well as the countries in the Balkans and the Black Sea region. Additionally, the company is successfully creating business ties with African and Western European customers.

QUALITY AND TECHNOLOGY

LOTOS Oil S.A.'s products meet the most rigorous standards not only because they are produced using state-the-art technology (controlled witch the Advanced Production Control system (APC)), but also because the whole production process is subject to the Quality Management System compliant with the internationally recognised ISO 9001:2000 standard. The quality management system certificate, compliant with the requirements of the AQAP 2110 system, attests that the products of LOTOS Oil S.A. comply also with very strict norms to be observed by all suppliers to armed forces and by defence sector companies in NATO countries. This is another example of evidence confirming the importance which LOTOS Oil S.A. attaches to the quality of its products.

BITUMEN

LOTOS Asfalt Sp. z o.o. has been the largest producer of road and industrial bitumen in Poland since 2006. In that year, it sold a record-high volume of bitumen (800 thousand tonnes), which accounted for 47% of the market. The company's achievements in 2006 included the strengthening of its position on the market of modified bitumen.

In March 2006, a modern bitumen terminal was completed in Jasło. Thanks to the numerous investments made in the southern divisions (Jasło and Czechowice), a total of 200 thousand tonnes of bitumen were sold by these divisions.

BITUMEN TERMINAL IN JASŁO

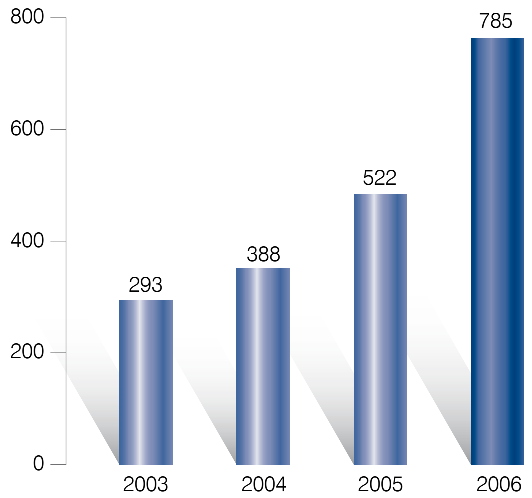
The company supplies road bitumen, industrial bitumen, emulsions and bitumen additives to both domestic and foreign customers. In 2006, the bitumen produced by LOTOS Asfalt Sp. z o.o. was used in the construction of key transport routes in Poland, including A-1 and A-2 motorways and the well-known Zakopianka road. Additionally, the products of LOTOS Asfalt Sp. z o.o. are used to build roads in Slovakia, the Czech Republic, Hungary, Austria, Germany, Romania, Lithuania, Russia and Sweden.

QUALITY

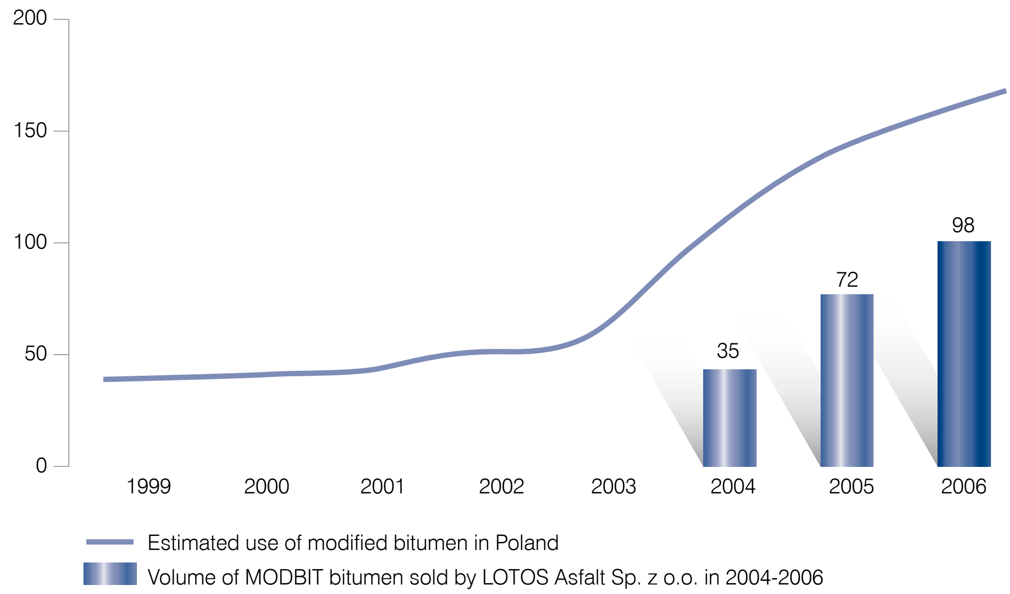
The quality of LOTOS Asfalt Sp. z o.o.'s products was confirmed by the award to the company, as the first ever in Poland, of the Certificate of Factory Production Control. The Factory Production Control system was also certified by the road administration authorities of the Czech Republic and Slovakia with respect to the production of road bitumen.
Furthermore, 2006 saw implementation and certification of the Integrated Management System compliant with the PN-EN ISO 9001:2001, PN-N-18001:2004 and PN-EN ISO 14001:2005 standards.

AWARDS AND DISTINCTIONS

LOTOS Asfalt Sp. z o.o. places great emphasis on consistency of production processes and high quality of its products. This approach is confirmed by numerous awards and distinctions, including a medal at the Autostrada Polska 2006 International Fair of Road Construction, in recognition of JASBIT K3-60 SS, a cation road bitumen emulsion for thin layers, applied cold (slurry surfacing type).



Sales of bitumen in 2003-2006



Sales of modified bitumen 2004-2006

PARAFFINS

In 2006, LOTOS Parafiny Sp. z o.o. remained the leader on the domestic market of paraffin products. The company's advantage over other market participants was particularly well seen in terms of the quality of votive candle paraffins and the volume of B2B sales of these products. The first half of 2006 saw a strong increase in both sales of and demand for the company's products, from both domestic and foreign customers.

In 2006, as part of the "Strategy for the LOTOS Group until 2012", the company decided to invest in new technologies. These measures are expected to contribute to expanding the company's range of specialised paraffin products, which are the most dynamically growing group of paraffin products worldwide. The company's activities in 2006 focused on pursuing its strategic targets with respect to increasing market share and marketing a wide range of candles and votive candle products.

In 2006, the company proceeded successfully with the implementation of the PROMETEO and LOTOS Ogród projects, which are to have a significantly stronger effect on the company's performance in the coming years. From a manufacturer of semi-finished products, which supplied a variety of materials for further processing, the company turned into a final product manufacturer. Thereby, LOTOS Parafiny Sp. z o.o. implemented the development plans adopted at the time of consolidation in 2004. Similar to other candle producers, the company developed designs and attractive form and packaging for products without neglecting the technological innovativeness of candle manufacturing.

In 2006, the company reported higher profitability on sales of candle products and a relatively low volume of returned products (particularly votive candles). These developments confirm the good climate for the paraffin industry and its growth. The company benefited from continued demand for paraffin products (i.e. candles, votive candles and tea-lights) thanks to their universal availability in large retail chains, the growing purchasing power of Polish consumers and considerable exports. The company's sales under long-term agreements represent around 70% of its turnover.

The innovativeness of the sales efforts was confirmed by the introduction of candles into the direct sales channel in Q4 2006. For the first time in the company's history, the sales of final products (candles and votive candles) accounted for a significant portion of sales revenue. Direct sales were realised under framework agreements concluded for one-year periods.

Exports represented over 36% of the 2006 total sales. The main foreign markets included Germany, the Netherlands, Scandinavia, Italy and former Yugoslavia. The increase in exports and intra-EU sales was driven mainly by the penetration of the company' existing foreign markets, irregular deliveries of paraffin from China, and shortages of raw materials in the first half of the year.

LOGISTICS

NEW CHALLENGES

New challenges facing Grupa LOTOS S.A. in connection with the market and technology development require a fully integrated operation in all spheres of activity, including logistics. Implementation of the 2006-2012 strategy entails transformations within Grupa LOTOS S.A. whose purpose is to flexibly adjust the organisational structure to the tasks set for the Company. The first stage, consisting in the incorporation of LOTOS Partner Sp. z o.o, a logistics operator, into Grupa LOTOS S.A., has already commenced. The creation of an efficient logistics system covering both internal and external customers is aimed at generating the highest cumulative result for Grupa LOTOS S.A.

The Comprehensive Technical Upgrade Programme (PKRT) necessitates expansion of the logistics infrastructure (warehousing and transport facilities) for the purposes of distributing products on the domestic market and for exports. Investments in expanding the Company's logistics assets, which are required for the operation of the PKRT units, will play an important role in improving Poland's energy security and reducing its reliance on fuel imports.

As part of the existing logistics structures, Grupa LOTOS S.A. regularly checks and adapts its logistics chain to meet the requirements imposed by changing market conditions, which enables it to take quick and effective measures in the marketing segment. This ability to flexibly adjust logistics to market needs, with a continued focus on the LOTOS Group's strategic objectives, helps us build competitive advantage and, consequently, increase shareholder value.

STORAGE DEPOTS

As a result of the growing volumes of fuel sales reported in 2006, the Company had to increase its commercial stocks and adjust own and leased storage facilities to its current needs. The volumes of fuel handled at the terminals operated by LOTOS Czechowice S.A. and LOTOS Jasło S.A. rose significantly as well. In land logistics, Grupa LOTOS S.A. relied on ten distribution areas located countrywide. Smaller fuel terminals owned by Grupa LOTOS S.A. are designed to blend specialised products and biofuels in the future.

Larger volumes of processed crude and the legal requirements related to harmonisation of Polish regulations with the European legal system result in the Company's obligation to keep higher volumes of mandatory stocks, which will be stored in own and leased facilities. The 2006 volumes of mandatory stocks were increased taking into account the highest possible share of moving stocks in total mandatory stocks, and appropriate structure of mandatory stocks, consistent with the quality requirements imposed on Poland by the EU (applicable to years 2008-2009). As at the end of 2006, 87% of the mandatory stocks in external storage facilities complied with the quality requirements which will apply starting from 2009.

TRANSPORT

Due to the lack of access to product pipelines, the biggest challenges in terms of product transport on the domestic market will be faced by to the railway transport. In 2006, the Company relied for railway transport on its own carrier (LOTOS Kolej Sp. z o.o.), which additionally reduced its distribution costs. LOTOS Kolej Sp. z o.o. has developed an operational and development strategy for the Company for the coming years. The strategy assumes growth of the transport services: the total volume of goods transport for Grupa LOTOS S.A. under license agreements will increase from 2.7m tonnes in 2006 to 7m tonnes in 2012.

SEA LOGISTICS

Compared with local and regional competitors, Grupa LOTOS S.A. enjoys a considerable logistics advantage offered by its location. It also has access to direct pipeline connections with Port Północny (the Northern Port) as well as state-of-the-art loading facilities in the port. The Gdańsk refinery is connected with the port through product pipelines. However, with a view to developing exports, Grupa LOTOS S.A.'s strategic objective will be to build a maritime fuel terminal for handling the loading of larger volumes of products and keeping fuels in the port's storage facilities.

BIOFUELS

The Company is gradually rolling out biofuels across the domestic market. In these efforts, the Company leverages the experience gained to date in connection with a pilot programme for distribution of diesel oil with the FAME additive. Additionally, the share of alcohol-based gasoline in total gasoline sold has increased.

In 2006, the Company executed the pilot programme of selling diesel oil with up to 5% FAME content (compliant with the PN-EN 590:2006 standard). The product was distributed from selected storage depots.

PRODUCT QUALITY

A detailed system for quality testing and monitoring at each stage, from production through distribution, storage and marketing, is designed to provide customers with products of the highest quality, at stable volumes. To monitor the quality of products, Grupa LOTOS S.A. runs its own laboratories (in Gdańsk, Czechowice and Jasło) and uses the services of external companies.

QUALITY OF SERVICES

All logistics processes are customer-oriented – together with the product, customers are provided with all the required services. The Company has plans to improve customer service with respect to the scope of product information provided to customers and an on-line service system customised to the needs of specific key customers.

Consolidated Financial Statements

for the year ended December 31st 2006,
prepared in accordance with the International
Financial Reporting Standards,
with the Auditor's Opinion.

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ERNST & YOUNG

Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warszawa

Tel. +48 (0) 22 557 70 00
Faks +48 (0) 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

We issued the following audit opinion dated 17 April 2007 on the consolidated financial statements of the Capital Group Grupa LOTOS S.A. for the year ended 31 December 2006:

"To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of Capital Group Grupa LOTOS S.A. ('the Group'), for which the holding company is Grupa LOTOS S.A. ('the Company') located in Gdańsk, at 135 Elbląska Street, for the year ended 31 December 2006 containing:
   - the consolidated balance sheet as at 31 December 2006 with total assets amounting to 7.926.475 thousand zlotys,
   - the consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 734.652 thousand zlotys,
   - the consolidated statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 726.225 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 143.629 thousand zlotys and
   - the additional notes and explanations

   ('the attached consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2].

3. We conducted, except as discussed in paragraphs 5-7 below, our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the prior financial year ended 31 December 2005 were subject to our audit and we issued a qualified opinion including emphases of matter on these financial statements, dated 27 April 2006. The qualifications concerned: inability to assess the potential effect of the issues, which were subject to qualifications included in the auditors' opinion on the consolidated financial statements of the Lithuanian Capital Group UAB Naftos Gavyba and inability to verify the appropriateness of the estimations of provisions created by the subsidiary LOTOS Czechowice S.A. for both, the potential cost of removing and utilizing production waste stored in so called 'acid holes' plus provisions for future reclamation of land, on which certain installations designed as being due for liquidation are located in total amount of 39 million zlotys.

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'

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The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

The emphases of matter related to recognition of profit of 267 million zlotys in the consolidated financial statements as a result of excess of interest in the net assets fair value over the acquisition cost on the share purchase transaction of Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. in bankruptcy (91.54%) and Petrobaltic S.A. (69.00%), and also the liabilities relating to financing of operating and investment activities of Rafineria Nafty Glimar S.A. ('RN Glimar') becoming payable. To the qualifications and emphases of matter included in the auditors' opinion to the consolidated financial statements for the prior financial year ended 31 December 2005 we also refer to in the paragraphs 6, 7 and 9 of this opinion.

5. As presented in detail in Note 11 to the attached consolidated financial statements the Company is in process of executing the Comprehensive Technological Development Programme ('PKRT'). Within the confines of this programme the Company signed two agreements on the execution of the front-end engineering design for PKRT, valuation and tending an offer for execution of the worked out project. The aggregate cost of both agreements amounted to 102 million zlotys and increased the value of tangible assets under construction. Currently, the Company is in course of analysing both projects with a view to preparing a complex project that would be most suitable for the Company's needs. The current state of analysis is not sufficient for the Company to determine the scope to which both projects will be used in the future with regard to preparation of the final base project for PKRT. Taking all of the above into consideration, we are unable to express whether and in which amount the part of above projects' costs incurred should be charged to the consolidated profit and loss account.

6. The Group recognized in the attached consolidated financial statements provisions created for both the potential cost of removing and utilizing production waste plus a provision for future reclamation of land, on which certain installations designated as being due for liquidation are located. Total provisions amounted to 40 million zlotys. With reference to the amount of post production waste and the area of land, which were the basis for the calculation of the provisions' value, the estimation was performed on the basis of the Group's documentation as well as its technological employees best knowledge, however no quantity survey, using proper drilling techniques, which would ensure full credibility of the results, was conducted. Furthermore, there is a significant range of the value of the provisions for the reclamation of the land, as assessed by the environmental experts. Taking all the above into consideration, as well as lack of measurement data regarding pollution concentration plus actual contaminated locations in the Group's refineries, we were unable to verify the appropriateness of the performed estimations and the resulting value of the provisions stated above.

7. The Group presents 42,7% share in the UAB Naftos Gavyba Capital Group ('The NG Group'), located in Lithuania, using the equity method, in the amount of 83 million zlotys. The basis of including in the attached consolidated financial statements the value of the NG Group, being the value of interest in the equity of the NG Group, was the consolidated financial statements of the NG Group prepared as at 31 December 2006 according to accounting principles applicable in Lithuania. The auditor of the consolidated financial statements of the NG Group issued a qualified opinion, dated 13 March 2007, and the qualifications concerned:

   - limitation of scope relating to inability to assess all financial consequences of arbitration proceeding, of which one of the subsidiary – AB Geonafta is a party. The proceedings are described in detail in paragraph 41 to the attached consolidated financial statements.
   - lack of independent assessment of the size of natural resources owned by the NG Group and as a result limitation of scope in relation to the net book value of fixed assets used in mining activities and corresponding depreciation.

   Furthermore, the Group presents in the attached consolidated financial statements advances for purchase of AB Geonafta shares in the total amount of 25 million zlotys. The Group commissioned carrying out an independent valuation of possessed assets engaged in the Lithuanian venture. As a result of lack of control, the Group has no influence on the operating activity of the NG Group and limited abilities to administer these assets. Above mentioned issues have crucial effect on the realisable value of these assets.

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Taking into consideration qualifications concerning the consolidated financial statements of the NG Group for the year ended 31 December 2006 presented above, application of different accounting principles by the NG Group as well as lack of influence on the operating activity of the NG Group and results of independent valuation, as at the date of issuing this opinion we were unable to assess whether the value of assets engaged in the NG Group and AB Geonafta presented in the attached consolidated financial statements is correct and fully realisable.

8. In our opinion, except for potential effects of the matters described in paragraphs 5-7, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006,
   - have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU,
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

9. Without further qualifying our opinion, we draw attention to the following issues:

   (a) As presented detail in Note 11 to the attached consolidated financial statements, the Company made prepayments for deliveries of reactors, which are part of the PKRT project, totalling to 75 million zlotys. Taking into account that till the date of issuing this opinion the Company has not placed the final purchase order for these reactors there is a risk that the signed intent letters might be cancelled and advances might not be returned in full amount. Due to the fact that the final date of placing an order for two out of four reactors has already expired, the date of placing the final order for another two reactors is approaching, the final comprehensive project of PKRT has not yet been approved, as mentioned in paragraph 5 of this opinion, and the fact that the Supervisory Board has not consented to sign an agreement for general execution of PKRT, there is an uncertainty concerning the realization of the advances presented in the attached consolidated financial statements.

   (b) As at 31 December 2006, the Group recognised goodwill arising from the acquisition of the organised parts of business of ExxonMobile Poland Sp. z o.o. and Slovnaft Polska S.A. in total amount of 55 million zlotys. As presented in Note 16 to the attached consolidated financial statements, the Group carried out the impairment test for goodwill based on analysis of discounted cash flows for purchased petrol stations of ESSO and SLOVNAFT chains. Due to the fact that the forecasted cash flows are determined by the series of future events and financial outcomes achieved in year 2006 by the purchased petrol stations are significantly lower than expected, in our opinion there is an uncertainty concerning the realisable value of the total goodwill amount presented in the attached consolidated financial statements.

   (c) The Group presents as assets from exploration and evaluation of mineral resources the costs of drilling and other costs incurred in connection with exploration of gas reserves from B-4 and B-6 areas in the total amount of 48 million zlotys. As disclosed in Note 11 to the attached consolidated financial statements the Group commissioned an independent analysis of the economic viability of development of these reserves. According to the findings of the analysis, significant capital expenditure is required to obtain positive profitability from their exploration. Currently, the Group does not assume incurring significant costs for further search or exploration of B-4 and B-6 geological areas in its mid-term plans, however according to the Management Board assessment, due to the strategic nature of these reserves, the value possible to recover from the activated costs of exploration and evaluation of mineral resources on these areas outweighs the balance sheet value. In our opinion there is an uncertainty concerning the realisable value of the full amount of activated costs in the attached consolidated financial statements.

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

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Translation of auditors' report originally issued in Polish.

(d) As described in detail in Note 19 to the attached consolidated financial statements the Company signed loan agreements with RN Glimar, dated 23 September 2003 and 8 April 2004, in order to finance its operating and investing activities, including in particular the Hydrokompleks Glimar project, for the total amount of 90 million zlotys. In the attached consolidated financial statements prepared as at 31 December 2006 the Group created the provision for the loans granted to RN Glimar and provisions for liabilities resulting from the above-mentioned agreements in the total amount of 90 million zlotys. We draw attention to the fact that, in accordance with the loan agreements, under certain circumstances not all of these liabilities may be payable in their full amount.

In addition, as described in detail in the above mentioned Note, the Company committed to co-finance the Hydrokompleks Glimar project and to maintain appropriate financial and economic position of RN Glimar, which on 19 January 2005 was declared bankrupt.

10. We have read the 'Directors' Report for the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)."

In our opinion the information presented in the published, condensed consolidated financial statements on pages 90 to 147 of this annual report is in all material respects fairly stated in relation to the consolidated financial statements from which it has been derived. The consolidated financial statements that were audited by us include notes that were not presented in the attached condensed consolidated financial statements. In order for the reader to obtain a true and fair view of the state of affairs of the Group as at 31 December 2006 and the results of its operation for the year ended 31 December 2006, the reader must review the consolidated financial statements in their entirety including all supporting schedules and statutory disclosures as required by the International Financial Reporting Standards.

	on behalf of
	Ernst & Young Audit sp. z o.o.
Certified Auditor	Rondo ONZ 1, 00-124 Warsaw
Registration No. 10402/7665	Reg. No. 130
Marcin Zieliński	Jacek Hryniuk
	Certified Auditor
	Registration No. 9262/6958

Warsaw, 17 April 2007

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CONSOLIDATED BALANCE SHEETS

as at December 31st 2006 and December 31st 2005

PLN '000	Note	Dec 31 2006	Dec 31 2005
ASSETS			
Non-current assets			
Property, plant and equipment, including:	10	3,500,285	3,294,043
Prepayments for tangible assets under construction	10	148,018	17,737
Goodwill	15	67,058	54,588
Intangible assets	14	55,858	51,086
Investment property	13	4,849	5,888
Investments in associated undertakings	16	83,381	83,336
Financial assets	17	23,642	20,193
Deferred tax asset	35	32,057	26,593
Other non-current assets	11	30,111	28,016
Total non-current assets		**3,945,259**	**3,581,480**
Current assets			
Inventories	19	1,707,442	1,432,939
Trade and other receivables, including:	20	1,276,475	1,060,348
- income tax receivables		33,068	8,705
Prepayments	12	13,562	11,288
Current financial assets	18	203,531	135,760
Cash and cash equivalents	21	772,387	767,794
Total current assets		**3,973,397**	**3,408,129**
Assets held for sale		**7,819**	**-**
Total assets		**7,926,475**	**6,989,609**

CONSOLIDATED BALANCE SHEETS

as at December 31st 2006 and December 31st 2005

PLN '000	Note	Dec 31 2006	Dec 31 2005
EQUITY AND LIABILITIES			
Equity			
Share capital	23	113,700	113,700
Reserve funds		970,951	970,951
Retained earnings/(deficit)		4,146,823	3,466,911
Currency-translation differences		(3,556)	2,266
Equity attributable to equity holders of the parent		**5,227,918**	**4,553,828**
Equity attributable to minority interests	26	**306,416**	**254,281**
Total equity		**5,534,334**	**4,808,109**
Non-current liabilities			
Interest-bearing loans and borrowings	27	330,706	294,198
Non-current provisions	28	208,082	191,802
Deferred tax liability	35	201,064	218,677
Other (financial) liabilities		10,801	11,230
Total non-current liabilities		**750,653**	**715,907**
Current liabilities			
Trade payables, accruals and deferred income, and other liabilities, including:	29	1,385,106	1,273,519
- income tax expense		3,413	65,302
Interest-bearing loans and borrowings	27	173,526	111,452
Current provisions	28	80,579	79,660
Other financial liabilities		2,277	962
Total current liabilities		**1,641,488**	**1,465,593**
Total liabilities		**2,392,141**	**2,181,500**
Total equity and liabilities		**7,926,475**	**6,989,609**

CONSOLIDATED INCOME STATEMENTS

for the years ended December 31st 2006 and December 31st 2005

PLN '000	Note	Year ended Dec 31 2006	Year ended Dec 31 2005
Sales revenue	30	12,810,883	9,645,545
Cost of sales	31	(10,987,999)	(8,053,554)
Gross profit on sales		**1,822,884**	**1,591,991**
Other operating income	32	28,099	35,645
Excess of net assets' fair value over acquisition cost		-	266,625
Selling costs	31	(666,177)	(501,650)
General and administrative expenses	31	(316,101)	(273,986)
Other operating expenses	33	(70,359)	(48,718)
Operating profit		**798,346**	**1,069,907**
Financial income	34	133,295	75,742
Financial expenses	34	(41,561)	(52,557)
Share in investments in associated undertakings	16	25,811	28,472
Sale of investments in associated undertakings		-	16,090
Pre-tax profit		**915,891**	**1,137,654**
Corporate income tax	35	(181,239)	(168,815)
Net profit on continued operations		**734,652**	**968,839**
Attributable to:			
Equity holders of the parent		679,912	915,124
Minority interests	26	54,740	53,715
Net earnings per share			
- basic	25	5.98	9.47
- diluted		-	-

CONSOLIDATED CASH FLOW STATEMENTS
for the years ended December 31st 2006 and December 31st 2005

PLN '000	Note	Year ended Dec 31 2006	Year ended Dec 31 2005
Cash flows from operating activities			
Net profit		**734,652**	**968,839**
Adjustments:			
Share in net profit/(loss) of subordinated undertakings valued with equity method		(25,811)	(28,472)
Depreciation and amortisation		297,356	263,615
Foreign exchange gains/(losses)		(6,556)	568
Net interest and dividend paid		11,098	7,059
(Profit)/loss on investing activities		27,651	(17,340)
Current income tax		181,239	168,815
Income tax paid		(290,568)	(135,467)
Increase in receivables	22	(189,154)	(163,192)
Increase in inventories	22	(274,491)	(458,772)
Increase in liabilities and accruals and deferred income	22	175,099	271,859
(Decrease) in prepayments and accrued income	22	(7,243)	(8,868)
Increase/(decrease) in provisions	22	19,201	(3,435)
Other	22	1,968	(267,027)
Net cash provided by/(used in) operating activities		**654,441**	**598,182**
Cash flows from investing activities			
Sale of non-current financial assets		-	41,648
Dividends received		2,527	33,469
Interest received		10,951	315
(Acquisition)/sale of property, plant and equipment and intangible assets		(540,625)	(799,195)
Acquisition of non-current financial assets, including:		(3,449)	(119,554)
Acquisition of subsidiary undertakings, net of cash acquired		-	(117,680)
(Acquisition)/sale of debt securities		531	-
(Acquisition)/ sale of current financial assets		(45,397)	(90,193)
Other, net		(146,052)	17,448
Net cash provided by/(used in) investing activities		**(721,514)**	**(916,062)**
Net cash provided by/(used in) investing activities			
Increase in loans and borrowings		68,399	351,349
Share issue		-	1,015,000
Repayment of loans and borrowings		(118,888)	(396,018)
Interest paid		(20,814)	(16,513)
Dividends paid to parent undertaking's shareholders		-	(15,740)
Dividends paid to minority shareholders		(2,521)	(3,022)
Other, net		(4,327)	(4,740)
Net cash provided by/(used in) financing activities		**(78,151)**	**930,316**
Change in cash due to foreign exchange (gains)/losses		1,595	346
Change in net cash		**(143,629)**	**612,782**
Cash at beginning of period	**22**	**767,794**	**155,012**
Cash at end of period	**22**	**624,165**	**767,794**
- restricted cash	22	23,143	1,572

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31st 2006 and December 31st 2005

PLN '000	Share capital	Reserve funds	Retained earnings/ (deficit)	Translation reserve	Equity attributable to equity holders of the parent	Equity attributable to minority interests	Total equity
Jan 1 2005	**78,700**	**-**	**2,563,930**	**-**	**2,642,630**	**14,882**	**2,657,512**
Net profit for the year ended Dec 31 2005	-	-	915,124	-	915,124	53,715	968,839
Share issue	35,000	-	-	-	35,000	-	35,000
Share premium	-	980,000	-	-	980,000	-	980,000
Issue expenses including income tax	-	(9,049)	-	-	(9,049)	-	(9,049)
Other	-	-	3,597	2,266	5,863	185,684	191,547
Dividend	-	-	(15,740)	-	(15,740)	-	(15,740)
Dec 31 2005 (comparable data)	**113,700**	**970,951**	**3,466,911**	**2,266**	**4,553,828**	**254,281**	**4,808,109**
Jan 1 2006	**113,700**	**970,951**	**3,466,911**	**2,266**	**4,553,828**	**254,281**	**4,808,109**
Net profit for the twelve months ended December 31st 2006	-	-	679,912	-	679,912	54,740	734,652
Dividend	-	-	-	-	-	(2,521)	(2,521)
Other	-	-	-	(5,822)	(5,822)	(84)	(5,906)
Dec 31 2006	**113,700**	**970,951**	**4,146,823**	**(3,556)**	**5,227,918**	**306,416**	**5,534,334**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Grupa LOTOS S.A. ("the Company", "the Parent Undertaking"), the Parent Undertaking of the Group of Grupa LOTOS S.A. ("the Group"), was established by virtue of the Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (currently the District Court for Gdańsk – Północ, VII Commercial Division of the National Court Register) under entry No. KRS 0000106150. The Company was assigned the Industry Identification Number (REGON) 190541636.
The Company's registered office is situated at ul. Elbląska 135, 80-718 Gdańsk.

In 2003, by virtue of its decision of May 28th 2003, the District Court of Gdańsk, XII Commercial Division of the National Court Register, changed the Company's name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

The Group's core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes exploration and extraction of crude oil and natural gas reserves.

2. COMPOSITION OF THE GROUP

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2006	Dec 31 2005
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	sales of fuels and provision of services for retail networks of international concerns; logistic services	full	100.00%	100.00%
LOTOS Mazowsze S.A.	Mława	sales of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, and domestic sales of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	construction of basic PKRT units; the company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2006	Dec 31 2005
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	personal and property protection	full	100.00%(1)	87.44%
LOTOS Parafiny Sp. z o.o.	Jasło	production and sale of paraffin	full	100.00%	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A.(2))	Czechowice	storage and distribution of fuels(3)	full	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group, formerly Rafineria Jasło S.A.(4))	Jasło	production and processing of refined petroleum products and their wholesale and retail sale	full	80.01%	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, crude oil and natural gas production	full	69.00%	69.00%
UAB LOTOS Baltija	Litwa	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	not consolidated	100.00%	100.00%
BiproRaf Sp. z o.o.(5)	Gdańsk	design services for oil industry	not consolidated	50.00%	50.00%
Rafineria Nafty Glimar S.A.w upadłości (in bankruptcy)	Gorlice	refining (currently discontinued due to the company's bankruptcy)	not consolidated due to lack of control	91.54%	91.54%
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	Business and management consultancy services	full	86.91%	90.00%
Laboratorium Badacz Sp. z o.o.	Jasło	services	not consolidated	(6)	100.00%
Indirect Subsidiary Undertakings					
RC Ekoenergia Sp. z o.o	Czechowice-Dziedzice	services	full	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.(7) (former RC Parafiny Sp. z o.o.)	Czechowice-Dziedzice	no operations	full	80.04%	80.04%
RC Remo Sp. z o.o.	Czechowice-Dziedzice	services	-	(8)	80.04%
CBA Racer Sp. z o.o.	Czechowice-Dziedzice	services	-	(9)	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	services	(10)	86.91%	80.04%

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2006	Dec 31 2005
RC Paliwa Sp. z o.o. in liquidation(11)	Czechowice-Dziedzice	trading (not commenced)	equity method	86.91%	80.04%
RC Transport Sp. z o.o.	Czechowice-Dziedzice	services	-	(12)	80.04%
LOTOS Tank Sp. z o.o.(13)	Jasło	trading	full/equity method	86.01%	86.01%
Rafineria Jasło Monto-Rem Sp. z o.o.	Jasło	services	full	(8)	79.56%
Plastekol Organizacja Odzysku S.A.	Jasło	services	full	53.61%	53.61%
Rafineria Jasło Sped-Kol Sp. z o.o.	Jasło	no operations – lease of assets to LOTOS Kolej	not consolidated	(14)	80.01%
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	services	not consolidated	80.01%	80.01%
Chemipetrol Sp. z o.o.	Jasło	trading – assets transferred to LOTOS Parafiny in exchange for shares	not consolidated	80.01%	80.01%
Miliana Shipping Company Ltd.	Cyprus	services	full	68.93%	68.93%
Aphrodite Offshore Services Ltd.	Netherlands Antilles	services	not consolidated	69.00%	69.00%

(1) On December 20th 2006, Grupa LOTOS S.A. acquired the remaining 12.56% of shares in LOTOS Ochrona Sp. z o.o. under a share purchase agreement. On March 8th 2007, the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, registered a change in the share capital structure of LOTOS Ochrona Sp. z o.o. The share capital of LOTOS Ochrona Sp. z o.o. amounts to PLN 302.5 thousand and is divided into 605 equal indivisible shares with a par value of PLN 500 per share, conferring rights to 605 votes.
(2) On December 19th 2005, the District Court of Katowice registered the change of the name of Rafineria Czechowice S.A. to LOTOS Czechowice S.A.
(3) On March 31st 2006, the Company discontinued the processing of crude oil.
(4) On January 2nd 2006, the District Court of Rzeszów registered the change of the name of Rafineria Jasło S.A. to LOTOS Jasło S.A.
(5) As described in Note 38 of the Notes to the financial statements, on January 15th 2007, Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw for the price of PLN 2,750 thousand.
(6) On January 3rd 2006 Laboratorium Badacz Sp. z o.o. was liquidated and merged into LOTOS Lab Sp. z o.o. by transferring all its assets to LOTOS Lab Sp. z o.o.
(7) Name changed to LOTOS Biopaliwa Sp. z o.o. with effect from May 10th 2006.
(8) On June 30th 2006, LOTOS Serwis Sp. z o.o. acquired Rafineria Jasło Monto-Rem Sp. z o.o. of Jasło and RC Remo Sp. z o.o. of Czechowice-Dziedzice.
(9) On December 28th 2006, CBA Racer Sp. z o.o. was incorporated into LOTOS Czechowice S.A.
(10) Shares contributed to LOTOS Park Technologiczny Sp. z o.o. by LOTOS Czechowice S.A.
(11) By virtue of the decision of November 27th 2006, issued in response to the petition for the opening of liquidation proceedings of November 9th 2006, the opening of the liquidation proceeding concerning RC Paliwa Sp. z o.o. was registered by the District Court of Katowice, VIII Commercial Division of the National Court Register.
(12) On February 16th 2006, LOTOS Czechowice S.A. signed an agreement on sale, to Paul Klacska Sp. z o.o., of 100% of shares in RC Transport Sp. z o.o., that is 3,213 shares with a par value of PLN 500 per share and total par value of PLN 1,606.5 thousand. The selling price of all the shares is PLN 2,800 thousand.
(13) On April 11th 2007, Grupa LOTOS S.A. and LOTOS Jasło S.A. executed an agreement on the sale of 700 shares in LOTOS Tank Sp. z o.o. (see Note 38). The total price paid for the shares was PLN 642.5 thousand. Following the transaction, Grupa LOTOS S.A. holds 100% of shares in LOTOS Tank Sp. z o.o.
(14) On March 8th 2007, the company was deleted from the National Court Register of the District Court of Rzeszów, XII Commercial Division of the National Court Register.

As at December 31st 2006 and December 31st 2005, the Company's share in the total vote at the General Shareholders Meetings of its subsidiary undertakings equalled the Company's share in the share capital of these undertakings.

3. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were approved for publication by the Management Board on April 17th 2007.

4. GOING CONCERN

These consolidated financial statements were prepared on the assumption that the companies of the Group would continue their business activities in the foreseeable future. As at the date of signing these consolidated financial statements no facts or circumstances have been identified that might pose a threat to the Group's companies continuing as going concerns in the 12 months following the balance-sheet date.

In 2007, one of the Group's companies – LOTOS Jasło S.A. has commenced the implementation of an extensive restructuring programme aimed at reducing the staff headcount and eliminating unprofitable production areas. The programme provides for maintenance and expansion of profitable areas of the company's business as well as new investment projects related to production, which are to ensure positive financial results and the company's continuing its operations.

As the technical and technological condition of processing units at LOTOS Czechowice S.A., the Group's company, is not adequate in view of the changing environment, as well as the ever-increasing quality requirements for oil products and growing expectations of customers in this respect, the range of the company's products which can be successfully placed on the market has been decreasing.

As a result of the aforementioned factors oil processing by LOTOS Czechowice S.A. ceased to be economically viable and as such was discontinued on March 31st 2006.
Following the discontinuation, the company's core business comprises storage and distribution of fuels.

A project that should facilitate future efficient operation of the Group's companies located in Czechowice is the continued construction of a fatty acid methyl esters (FAME) production unit by a subsidiary of LOTOS Czechowice S.A. The fatty acid methyl esters are used as biofuels to Diesel engines or biocomponents of diesel oil. The FAME project is of great significance to the exploitation of infrastructure and human resources of LOTOS Czechowice S.A.

5. DURATION OF THE GROUP

The duration of the Parent Undertaking and its subsidiaries is unlimited.

6. BALANCE-SHEET DATE AND THE PERIOD COVERED BY THESE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements of the LOTOS Group comprise the balance-sheet data as at December 31st 2006 and the comparable data as at December 31st 2005. The income statement, the cash-flow statement and the statement of changes in the Group's equity present the data for January 1st – December 31st 2006 along with the comparable data for January 1st – December 31st 2005.

The financial information as at December 31st 2006 and for the year then ended contained in these consolidated financial statements was audited. The financial information as at December 31st 2005 and for the year ended on December 31st 2005 was audited by a chartered auditor, who issued an audit opinion on April 27th 2006.

7. MEASUREMENT CURRENCY AND REPORTING CURRENCY

The measurement and reporting currency of these consolidated financial statements is the Polish złoty (PLN). These consolidated financial statements are presented in the złoty (PLN), and all the figures are presented in thousands of złoty, unless indicated otherwise.

Exchange rates applied for the purposes of balance-sheet valuation:

Mid exchange rate quoted by NBP as at	Dec 31 2006	Dec 31 2005
USD	2.9105	3.2613
EUR	3.8312	3.8598

8. BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and the EU-endorsed IFRS.
The IFRS include the standards and interpretations approved by the International Accounting Standards Board ("IASB") and by the International Financial Reporting Interpretation Committee ("IFRIC").

With the exception of the Parent Undertaking and foreign undertakings, the Group companies maintain their accounting books in accordance with the accounting standards specified in the Polish Accountancy Act of September 29th 1994 (the "Act") and the provisions issued thereunder ("Polish Accounting Standards" – "PAS"). These consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings, and which have been introduced to adjust the financial information concerning these undertakings to the IFRS.

The accounting policies and calculation methods adopted in the preparation of these consolidated financial statements are the same as those used in the preparation of the consolidated financial statements for the year ended December 31st 2005.

Starting from January 1st 2006, the following standards were amended by the International Accounting Standards Board:
- IAS 19: *Employee Benefits*
- IAS 21: *The Effects of Changes in Foreign Exchange Rates*
- IAS 39: *Financial Instruments: Recognition and Measurement.*

The following standards and interpretations have been in effect since January 1st 2006:
- IFRS 6: *Exploration for and Evaluation of Mineral Resources*
- IFRIC 4: *Determining whether an Arrangement contains a Lease*
- IFRIC 5: *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- IFRIC 6: *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.*

The Company has reviewed the new standards and the amendments to the existing ones. The new standards and the changes to the existing ones do not apply to these consolidated financial statements, with the exception of IFRS 6: *Exploration for and Evaluation of Mineral Resources*, whose adoption had no material impact on the Group's accounting policies.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee but have not entered into force yet:
- Amendment to IAS 1: Presentation of Financial Statements: Capital Disclosures (applies to annual periods beginning after January 1st 2007),
- Amendment to IAS 23: *Borrowing Costs* (effective as of January 1st 2009, not yet adopted by the European Union),
- IFRS 7: *Financial Instruments: Disclosures* (applies to annual periods beginning after January 1st 2007),
- IFRS 8: *Operating Segments* (applies to annual periods beginning after January 1st 2009),
- IFRIC 7: *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (applies to annual periods beginning after March 1st 2006),
- IFRIC 8: *Scope of IFRS 2* (applies to annual periods beginning after May 1st 2006),
- IFRIC 9: *Reassessment of Embedded Derivatives* (applies to annual periods beginning after June 1st 2006),
- IFRIC 10: *Interim Financial Reporting and Impairment* (applies to annual periods beginning after November 1st 2006),
- IFRIC 11: *Group and Treasury Share Transaction*s (applies to annual periods beginning after March 1st 2007),
- IFRIC 12: *Service Concession Arrangements* (applies to annual periods beginning after January 1st 2008).

The Management Board expects that the implementation of the standards and interpretations listed above will not have a material effect on the accounting policies applied by the Group.

Due to the introduction of IRFS 7 and amendments to IAS 1, the Group is obliged to provide further disclosures concerning the capital and financial instruments held by the Group in the year beginning on January 1st 2007. The Group is currently analysing the abovementioned requirements in order to make adequate disclosures in the financial statements prepared for the year beginning on January 1st 2007.

The Group does not prepare information on individual business segments, as it does not meet the requirements stipulated in IFRS 14: *Segment Reporting*.

9. ACCOUNTING POLICIES

The consolidated financial statements have been prepared using the historical cost method, except for financial derivatives, which are measured at fair value.

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent Undertaking and financial statements of the material undertakings it controls, prepared as at December 31st 2005.

The key accounting policies adopted by the Group are presented in the complete version of the financial statements available on the Company's web site www.lotos.pl.

10. PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS FOR TANGIBLE ASSETS UNDER CONSTRUCTION

PLN '000	Dec 31 2006	Dec 31 2005
Land	375,817	362,075
Buildings and structures	1,677,234	1,520,335
Plant and equipment	746,967	764,594
Vehicles and other tangible assets	357,624	375,968
Tangible assets under construction	342,643	271,071
Prepayments for tangible assets under construction	148,018	17,737
Total	**3,648,303**	**3,311,780**

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

PLN '000	Land	Buildings and structures, including:		Plant and equipment
			mineral resources exploration and evaluation assets	
Gross book value as at Jan 1 2005	**239,713**	**1,150,536**	**-**	**801,560**
Increase, including:	128,528	531,128	72,159	276,058
- purchase	15	287	-	2,539
- transfer from investments	103,045	304,954	-	177,593
- inclusion of new undertakings in consolidation	25,468	225,101	72,159	90,832
- other	-	786	-	5,094
Decrease, including:	(280)	(6,542)	-	(17,988)
- sale	(280)	(548)	-	(425)
- liquidation	-	(798)	-	(11,004)
- donations, transfer for no consideration	-	(93)	-	-
- other	-	(5,103)	-	(6,559)
Gross book value as at Dec 31 2005	**367,961**	**1,675,122**	**72,159**	**1,059,630**
Gross book value as at Jan 1 2006	**367,961**	**1,675,122**	**72,159**	**1,059,630**
Increase, including:	23,809	266,777	55,857	126,897
- purchase	-	93	-	410
- transfer from investments	23,809	265,767	55,857	122,826
- other	-	917	-	3,661
Decrease, including:	(9,555)	(8,141)	-	(10,705)
- sale	(5,707)	(2,099)	-	(2,762)
- liquidation	-	(3,639)	-	(3,794)
- donations, transfer for no consideration	-	(158)	-	-
- other	(3,848)	(2,245)	-	(4,149)
Gross book value as at Dec 31 2006	**382,215**	**1,933,758**	**128,016**	**1,175,822**
Accumulated depreciation as at Jan 1 2005	**4,278**	**79,383**	**-**	**166,784**

Vehicles and other means of transport	Tangible assets under construction, including:		Prepayments for tangible assets under construction	Total
		mineral resources exploration and evaluation assets		
143,351	**136,474**	**-**	**8,173**	**2,479,807**
389,791	139,028	75,693	23,516	1,488,049
36,821	744,862	23,080	20,505	805,029
49,547	(688,299)	(65)	-	(53,160)
294,527	82,465	52,678	388	718,781
8,896	-	-	2,623	17,399
(20,130)	(4,252)	-	(13,952)	(63,144)
(5,924)	(20)	-	-	(7,197)
(2,106)	-	-	-	(13,908)
-	-	-	-	(93)
(12,100)	(4,232)	-	(13,952)	(41,946)
513,012	**271,250**	**75,693**	**17,737**	**3,904,712**
513,012	**271,250**	**75,693**	**17,737**	**3,904,712**
57,557	86,759	(17,453)	163,874	725,673
4,759	548,185	38,404	145,723	699,170
33,285	(461,889)	(55,857)	-	(16,202)
19,513	463	-	18,151	42,705
(27,155)	(4,674)	-	(33,593)	(93,823)
(5,323)	(572)	-	-	(16,463)
(4,963)	(685)	-	-	(13,081)
(12)	-	-	-	(170)
(16,857)	(3,417)	-	(33,593)	(64,109)
543,414	**353,335**	**58,240**	**148,018**	**4,536,562**
89,732	**-**	**-**	**-**	**340,177**

PLN '000	Land	Buildings and structures, including:		Plant and equipment
			mineral resources exploration and evaluation assets	
Increase, including:	1,609	75,850	6,494	138,191
- depreciation	1,609	74,835	6,494	132,477
- other	-	1,015	-	5,714
Decrease	(1)	(685)	-	(10,139)
Accumulated depreciation as at Dec 31 2005	**5,886**	**154,548**	**6,494**	**294,836**
Accumulated depreciation as at Jan 1 2006	**5,886**	**154,548**	**6,494**	**294,836**
Increase, including:	1,939	97,181	9,665	135,324
- depreciation	1,939	97,147	9,665	134,242
- other	-	34	-	1,082
Decrease	(1,756)	(1,837)	-	(5,239)
Accumulated depreciation as at Dec 31 2006	**6,069**	**249,892**	**16,159**	**424,921**

Impairment losses as at Jan 1 2005	**-**	**-**	**-**	**-**
Increase	-	239	-	200
Decrease	-	-	-	-
Impairment losses as at Dec 31 2005	**-**	**239**	**-**	**200**
Impairment losses as at Jan 1 2006	**-**	**239**	**-**	**200**
Increase	329	6,959	-	4,244
Decrease	-	(566)	-	(510)
Impairment losses as at Dec 31 2006	**329**	**6,632**	**-**	**3,934**
Net book value as at Jan 1 2005	**235,435**	**1,071,153**	**-**	**634,776**
Net book value as at Dec 31 2005	**362,075**	**1,520,335**	**65,665**	**764,594**
Net book value as at Dec 31 2006	**375,817**	**1,677,234**	**111,857**	**746,967**

Vehicles and other means of transport	Tangible assets under construction, including:		Prepayments for tangible assets under construction	Total
		mineral resources exploration and evaluation assets		
52,047	-	-	-	267,697
45,981	-	-	-	254,902
6,066	-	-	-	12,795
(4,853)	-	-	-	(15,678)
136,926	**-**	**-**	**-**	**592,196**
136,926	**-**	**-**	**-**	**592,196**
59,129	-	-	-	293,573
52,449	-	-	-	285,777
6,680	-	-	-	7,796
(12,530)	-	-	-	(21,362)
183,525	**-**	**-**	**-**	**864,407**

156	**-**	**-**	**-**	**156**
5	189	-	-	633
(43)	(10)	-	-	(53)
118	**179**	**-**	**-**	**736**
118	**179**	**-**	**-**	**736**
2,150	10,518	8,147	-	24,200
(3)	(5)	-	-	(1,084)
2,265	**10,692**	**8,147**	**-**	**23,852**
53,463	**136,474**	**-**	**8,173**	**2,139,474**
375,968	**271,071**	**75,693**	**17,737**	**3,311,780**
357,624	**342,643**	**50,093**	**148,018**	**3,648,303**

As at December 31st 2006, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 521,638 thousand.

The cost of servicing the liabilities incurred to finance tangible assets under construction in the year ended December 31st 2006 and in the year ended December 31st 2005 amounted to PLN 1,231 thousand and PLN 3,194 thousand, respectively.

As at December 31st 2006 and December 31st 2005, the net value of an asset related to the liquidation of a mining plant amounted to PLN 68,096 thousand and PLN 59,879 thousand, respectively.

The cost of amortisation of mineral resources exploration and evaluation assets in the years ended December 31st 2006 and December 31st 2005 amounted to PLN 10,286 thousand and PLN 7,094 thousand, respectively.

In the period ended December 31st 2006, the costs of impairment losses on mineral resources exploration and evaluation assets amounted to PLN 8,147 thousand.

Prospects for Development of Gas Reserves from the B-4 and B-6 Areas

The item "Tangible assets under construction" includes expenditure of PLN 48m incurred by Petrobaltic S.A. in connection with exploration of gas reserves from the B-4 and B-6 areas. Petrobaltic S.A. commissioned an analysis of the economic viability of development of these reserves. 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 their development is possible if the investment plans of Petrobaltic S.A. and Grupa LOTOS S.A. are synchronised.

11. OTHER NON-CURRENT ASSETS

PLN '000	Dec 31 2006	Dec 31 2005
Other prepayments and accrued income	13,912	8,548
Non-current receivables	16,199	19,468
Total	**30,111**	**28,016**

12. PREPAYMENTS AND ACCRUED INCOME

PLN '000	Dec 31 2006	Dec 31 2005
Property insurance	4,213	3,397
IT services	68	211
Overhauls	17,896	13,391
Other	5,297	2,837
Total	**27,474**	**19,836**
Current portion	13,562	11,288
Non-current portion	13,912	8,548

13. INVESTMENT PROPERTY

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Opening balance	5,888	231
Increase:	-	15,957
Change in the Group's composition	-	15,957
- other	-	-
Decrease:	(1,039)	(10,300)
- sale	(214)	(10,300)
- other	(825)	-
Closing balance	**4,849**	**5,888**

14. INTANGIBLE ASSETS

PLN '000	Dec 31 2006	Dec 31 2005
Development expense	392	504
Software	7,626	5,426
Patents, trademarks and licences	44,984	43,824
Other	2,856	1,332
Total	**55,858**	**51,086**

Changes in Intangible Assets

PLN '000	Development expense	Software	Patents, trademarks and licences, including:		Other		Total
				mineral resources exploration and evaluation assets		mineral resources exploration and evaluation assets	
Gross book value as at Jan 1 2005	**100**	**5,352**	**46,759**	**-**	**881**	**-**	**53,092**
Increase, including:	533	4,710	8,010	956	1,591	794	14,844
- purchase	-	386	299	-	647	-	1,332
- transfer from investments	-	3,611	6,707	-	123	-	10,441
- inclusion of new undertakings in consolidation	227	713	967	956	821	794	2,728
- other	306	-	37	-	-	-	343
Decrease, including:	-	(736)	(91)	-	(621)	-	(1,448)
- sale	-	(71)	-	-	-	-	(71)
- liquidation	-	(415)	-	-	-	-	(415)
- other	-	(250)	(91)	-	(621)	-	(962)
Gross book value as at Dec 31 2005	**633**	**9,326**	**54,678**	**956**	**1,851**	**794**	**66,488**
Gross book value as at Jan 1 2006	**633**	**9,326**	**54,678**	**956**	**1,851**	**794**	**66,488**
Increase, including:	-	4,736	9,601	176	2,299	-	16,636
- purchase	-	35	62	176	-	-	97
- transfer from investments	-	4,485	9,465	-	2,252	826	16,202
- contribution in kind	-	-	-	-	-	-	-
- other	-	216	74	-	47	-	337
Decrease, including:	(105)	(169)	(214)	-	(2)	-	(490)
- sale	-	(11)	-	-	-	-	(11)
- liquidation	(105)	(40)	(6)	-	-	-	(151)
- other	-	(118)	(208)	-	(2)	-	(328)
Gross book value as at Dec 31 2006	**528**	**13,893**	**64,065**	**1,132**	**4,148**	**1,620**	**82,634**
Accumulated amortisation as at Jan 1 2005	**100**	**2,586**	**4,718**	**-**	**62**	**-**	**7,466**
Increase, including:	56	1,738	6,140	300	457	249	8,391
- amortisation	56	1,738	6,137	300	457	249	8,388
- other	-	-	3	-	-	-	3
Decrease	-	(481)	(4)	-	-	-	(485)
Accumulated amortisation as at Dec 31 2005	**156**	**3,843**	**10,854**	**300**	**519**	**249**	**15,372**

PLN '000	Development expense	Software	Patents, trademarks and licences, including:		Other		Total
				mineral resources exploration and evaluation assets		mineral resources exploration and evaluation assets	
Accumulated amortisation as at Jan 1 2006	**156**	**3,843**	**10,854**	**-**	**519**	**249**	**15,372**
Increase, including:	110	2,696	8,233	331	773	290	11,812
- amortisation	110	2,696	8,000	331	773	290	11,579
- other	-	-	233	-	-	-	233
Decrease	(103)	(324)	(6)	-	-	-	(433)
Accumulated amortisation as at Dec 31 2006	**163**	**6,215**	**19,081**	**631**	**1,292**	**539**	**26,751**
Impairment losses as at Jan 1 2005	**-**	**49**	**-**	**-**	**-**	**-**	**49**
Increase	-	8	-	-	-	-	8
Decrease	(27)	-	-	-	-	-	(27)
Impairment losses as at Dec 31 2005	**(27)**	**57**	**-**	**-**	-	**-**	**30**
Impairment losses as at Jan 1 2006	**(27)**	**57**	**-**	**-**	**-**	**-**	**30**
Increase	-	-	-	-	-	-	-
Decrease	-	(5)	-	-	-	-	(5)
Impairment losses as at Dec 31 2006	**(27)**	**52**	**-**	**-**	**-**	**-**	**25**
Net book value as at Jan 1 2005	**-**	**2,717**	**42,041**	**-**	**819**	**-**	**45,577**
Net book value as at Dec 31 2005	**504**	**5,426**	**43,824**	**656**	**1,332**	**545**	**51,086**
Net book value as at Dec 31 2006	**392**	**7,626**	**44,984**	**501**	**2,856**	**1,081**	**55,858**

15. BUSINESS COMBINATIONS

Consolidation Goodwill

PLN '000	Dec 31 2006	Dec 31 2005
Carrying value of consolidation goodwill:		
LOTOS Partner Sp. z o.o.	1,862	1,862
LOTOS Mazowsze S.A.	10,009	10,009
Total	**11,871**	**11,871**
Carrying value of acquisition goodwill		
- purchase of ESSO service stations network	44,256	42,717
- purchase of Slovnaft Polska S.A. service stations network	10,931	-
Total	**55,187**	**42,717**
Total goodwill	**67,058**	**54,588**

As at December 31st 2006, the Group recognised goodwill arising from the acquisition of the organised parts of business of ExxonMobil Poland and Slovnaft Polska in the net amount PLN 44,256 thousand and PLN 10,931 thousand, respectively. In accordance with IAS 36, the Group tested the goodwill relating to ExxonMobil Poland and Slovnaft Polska for impairment. In order to determine the value in use, a discounted cash-flow analysis (DCF) was conducted in relation to 39 service stations of the acquired ESSO Service Station Network and 12 service stations of the Slovnaft network, which were recognised as separate cash-generating units, with WACC assumed at 7.9%. The analysis was based on the future cash-flow forecast (EBITDA without financial costs) prepared by Pekao Access in March 2006 in connection with the financing of the transactions with a syndicated loan advanced by Pekao S.A. and PKO BP S.A. The terminal value for the discounted cash flows was calculated on the basis of the growing perpetuity formula, for which the constant growth rate of 2.8% was assumed after the period covered by the forecast. The value in use was determined by way of a goodwill valuation test carried out by the Company and was as follows:
- PLN 284,509 thousand – ESSO service stations
- PLN 84,531 thousand – Slovnaft service stations.

The carrying value of the assets purchased from ExxonMobil Poland and Slovnaft Polska amounts to:
- PLN 283,621 thousand – ESSO service stations
- PLN 57,412 thousand – Slovnaft service stations.

In view of an excess of the value in use over the book value of the assets, as shown by the test, the Group did not recognise any goodwill impairment loss.

No goodwill valuation allowances were made by the Group in 2005.

Acquisition of ESSO Service Station Network

On August 24th 2005, LOTOS Paliwa Sp. z o.o. entered into a preliminary conditional agreement on purchase of ESSO service station network in Poland from ExxonMobil Poland Sp. z o.o. The transaction concerns an organised part of ExxonMobil Poland's business, comprising in particular:
- 39 service stations along with real estate owned, held in perpetual usufruct or under long-term leases,
- 14 undeveloped lots for new service stations, owned or held in perpetual usufruct (including three lots covered by call options).

The preliminary agreement provided for a transfer of 24 employees of ExxonMobil Poland Sp. z o.o., who had been engaged in the expansion of the ESSO network in Poland.
As part of the transaction, Grupa LOTOS S.A. and ExxonMobil are to conduct domestic and international cooperation in serving ESSO customers at LOTOS stations in Poland and LOTOS customers holding fleet cards at service stations accepting ESSO cards outside Poland (in a number of European countries). It also provides for a continuation of the loyalty scheme for ESSO retail customers. Furthermore, LOTOS Paliwa Sp. z o.o. agreed to purchase (for additional consideration) assets connected with day-to-day operations of the acquired stations (stocks of fuels, receivables from agents and loyalty card holders, etc.).
On December 14th 2005, LOTOS Paliwa Sp. z o.o. and ExxonMobil Poland Sp. z o.o. completed the transaction by concluding the final agreement. The net price for the organised part of business was PLN 283,318 thousand, of which PLN 250,728 thousand accounts for the 39 service stations. LOTOS Paliwa Sp. z o.o. financed the transaction with funds from the additional contributions to equity made by Grupa LOTOS S.A. and from the loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.).

As at December 31st 2005, the expenditure incurred by LOTOS Paliwa Sp. z o.o. to purchase the organised part of business amounted to PLN 248,048 thousand, of which PLN 215,458 thousand was spent to acquire 33 stations. Acquisition of the ESSO stations resulted in the recognition of goodwill in the amount of PLN 42,717 thousand, representing the difference between the acquisition cost and the fair value of the acquired assets.

The goodwill disclosed in the consolidated financial statements for 2005 increased by PLN 1,539 thousand as a result of the final transaction settlement and acquisition of other service stations as part of the transaction. As at December 31st 2006, LOTOS Paliwa Sp. z o.o.'s expenditure on acquisition of the organised part of business amounted to PLN 282,843 thousand, including PLN 250,253 thousand for 39 stations.
Following the acquisition of ESSO service stations network, the goodwill in the amount of PLN 44,256 thousand was recognised, representing the difference between the acquisition cost and the fair value of the acquired assets. The difference relates to one cash-generating unit. No cash was acquired in the transaction. The recoverable value of cash-generating units was determined on the basis of their fair value.
The acquisition cost (cost of merger of the organised part of Exxon Mobil Poland's business) included additional expenses incurred by LOTOS Paliwa Sp. z o.o. in relation to tax and financial advisory services, cost of external financing, leasehold payments and building permits.

As at December 31st 2006, the final amount of goodwill following from the transaction is as follows:

PLN '000	Dec 31 2006
Merger cost (acquisition cost)	295,352
Non-current assets	251,096
Goodwill	44,256

Acquisition of Slovnaft Polska S.A.'s Service Station Network

In connection with Current Report No. 76/2005 of September 28th 2005, concerning the conclusion by LOTOS Paliwa Sp. z o.o. of a preliminary conditional agreement on acquisition of the network of Slovnaft service stations in Poland from Slovnaft Polska S.A., having fulfilled all conditions precedent of the agreement, on March 9th 2006 LOTOS Paliwa Sp. z o.o. closed the transaction with Slovnaft Polska S.A. by concluding the final agreement.

The transaction consisted in the acquisition of an organised part of Slovnaft Polska S.A.'s business, comprising:

- 12 Slovnaft service stations situated in southern Poland, in an area of strategic importance to the development of the LOTOS network,
- 2 undeveloped lots for new service stations (the sale agreement for one of the lots is a conditional agreement).

The net price of the transaction was EUR 15,000 thousand. LOTOS Paliwa Sp. z o.o. financed the transaction with funds from additional contributions to equity made by Grupa LOTOS S.A., representing one of the objectives of the public offering, and with a loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.).

As at December 31st 2006, the expenditure incurred by LOTOS Paliwa Sp. z o.o. on the purchase of the organised part of business amounted to PLN 57,434 thousand (12 service stations).

Upon acquisition of the Slovnaft service station network, goodwill of PLN 10,931 thousand was recognised, representing the difference between the acquisition price and the fair value of the acquired net assets. The difference concerns one cash generating unit. No cash was acquired in the transaction. The recoverable value of cash generating units was determined based on their fair value.

PLN '000	Dec 31 2006
Merger cost (acquisition cost)	59,356
Non-current assets	48,425
Goodwill	10,931

Acquisition of Shares in Rafineria Czechowice S.A., Rafineria Jasło S.A., Rafineria Nafty Glimar S.A. and Petrobaltic S.A.

February 3rd 2005 saw finalisation of the agreement of January 13th 2005 whereby Grupa LOTOS S.A. purchased from Nafta Polska S.A. shares in the following companies:

- 80.04% of shares in Rafineria Czechowice S.A.,
- 80.01% of shares in Rafineria Jasło S.A.,
- 91.54% of shares in Rafineria Nafty Glimar S.A. in bankruptcy,
- 69.00 % of shares in Petrobaltic S.A.

The aggregate value of the shares purchased under the agreement amounted to PLN 257,276 thousand and was fully paid by Grupa LOTOS S.A. with cash.

Since:

- as at the transaction date, both Grupa LOTOS S.A. and the undertakings whose shares were acquired were controlled by Nafta Polska S.A.,
- IFRS 3: Business Combinations does not specify consolidation methods for transactions between jointly controlled entities,

the Parent Undertaking had the right to choose the method of accounting for the transaction from among the methods under other accounting standards or under IFRS 3: Business Combinations. The Company chose the purchase method described in detail in IFRS 3 as the binding consolidation method.

Pursuant to IFRS 3, as at the date on which an entity is taken over, i.e. as at the acquisition date, the acquirer is obliged to allocate the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date. Any difference between the acquisition cost and the acquirer's share in the value of the assets, liabilities and contingent liabilities so measured constitutes the (negative) goodwill.
The allocation is made exclusively with respect to those assets and liabilities that exist on the acquisition date. In addition, IFRS 3 prohibits, in relation to the acquired net assets, the creation of provisions for operating losses of future periods as they are an item arising after the acquisition.
As at the date of these consolidated financial statements, the Company, in accordance with the above policies, performed a separate valuation of goodwill for each acquired company and recognised the difference between the acquisition cost and its hare in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Since control over the assets of Rafineria Nafty Glimar S.A. ("Glimar Refinery") has been assumed by a bankruptcy administrator, the company is not consolidated by Grupa LOTOS S.A. As at December 31st 2005, the carrying value of the Glimar Refinery shares is PLN 0.

The purchase prices and the fair values of each of the companies' key items of net assets as at the acquisition date (February 3rd 2005) were as follows:

PLN '000	Rafineria Jasło	Rafineria Czechowice	Petrobaltic
Merger cost (purchase price)	**0.001**	**13,918**	**245,931**
Share in the share capital of the acquired undertakings	80.01%	80.04%	69,00%
Current assets, including:	102,768	222,533	141,817
Cash and cash equivalents	3,576	23,950	114,643
Non-current assets	121,728	92,293	631,814
Total assets	**224,496**	**314,826**	**773,631**
Provisions and other	11,646	67,388	159,175
Non-current liabilities	15,051	-	36,977
Current liabilities and accruals and deferred income	108,499	129,761	54,528
Total liabilities	**135,196**	**197,149**	**250,680**
Net assets	**89,300**	**117,677**	**522,951**
Company's share in net assets	**71,449**	**94,189**	**360,836**
Excess of company's share in net assets over the acquisition cost	**71,449**	**80,271**	**114,905**
Total negative goodwill charged to consolidated income statement*	**266,625**		

* Negative goodwill does not represent cash flows.

The prices of shares in companies acquired in the transaction were determined by the parties to the sale agreement of January 13th 2005 based on reports by independent consultancy companies acting individually at the request of Nafta Polska S.A. as the seller and Grupa LOTOS S.A. as the buyer.

The companies were valued in accordance with generally accepted market practice, primarily with the use of an income-based method, i.e. the discounted cash flow method (DCF). This method involves calculating the total value of projected cash flows, taking into account changes in the time value of money, based on a company's business plan containing complete projections of its financial performance. This approach presents the value of the whole company as an operating business organisation for a potential investor intending to conduct the company's business in line with the approved business plan.

The DCF valuation of the Southern Refineries was based on business plans and financial projections submitted by the Management Boards of the companies, and the values arrived at in this valuation were lower than those finally agreed upon in the agreement of January 13th 2005. The objective of the acquisition of the Southern Refineries and Petrobaltic S.A. by Grupa LOTOS S.A. was to implement the assumptions of the Strategy for the Oil Industry in Poland, including general restructuring of the Southern Refineries which would enable them to continue at least part of their operations in the changing legal environment (e.g. introduction of stricter requirements with respect to product standards and the environmental protection, abolition of excise tax credit) and market environment.

When acquiring the shares, Grupa LOTOS S.A. intended to carry out the restructuring and ensure continued operations of the Southern Refineries and Petrobaltic S.A. to the extent permitted by legal and market conditions. This means that the use of the DCF valuation method was in accordance with the market standards, and the economic value of shares in the acquired companies was not materially different from the amounts agreed upon in the agreement.

The excess of the value of Grupa LOTOS S.A.'s share in the acquired net assets of the consolidated companies over their acquisition cost (disclosed in the consolidated income statements at PLN 267m) results from the application of IFRS 3 and measurement of the identifiable individual assets, liabilities and contingent liabilities of the acquired companies at fair value as at the acquisition date. The valuation method applied to the acquired net assets for the purposes of IFRS 3 differs significantly from the valuation method applied to the companies' shares for the purposes of the transaction. In the first case, the fair value of individual non-current assets was determined by way of an independent valuation by asset appraisal experts, while the value of individual liabilities and contingent liabilities was determined and disclosed based on the Company's best estimates, taking into account e.g. the results of environmental protection experts' work.

For the purposes of IFRS 3, the fair value of individual items of property, plant and equipment was determined in the following manner:

- The fair value of real estate was measured using the comparative approach, the price comparison method, and the statistical market analysis techniques; the first assets to be valued were separate pieces of real estate held by each of the companies, and subsequently the fair value of the whole real estate (including land), broken down by individual items of property, plant, and equipment, was determined with the use of appropriate asset classification rules,
- Movables were valued using the multiples method, taking into account the adjusted initial value of tangible assets (including official adjustments of value), the technical condition, the technical and economic wear and tear (percentage), and the effect of macroeconomic factors (such as inflation, changes in the value of currency, etc).

The valuation showed an increase in the value of those assets which are disclosed as off-balance-sheet items in accordance with the PAS (perpetual usufruct of land) as well as those which have been fully depreciated but are still used in the business activities of the companies and continue to deliver economic benefits. Moreover, the value of the acquired companies' liabilities and contingent liabilities which had not been disclosed in the financial statements of the companies or were disclosed in lower amounts, was also increased as a result of the valuation.

Compared with the initially estimated goodwill arising from the business combinations, as presented in the consolidated interim financial statements, a significant change occurred, namely negative goodwill was identified, and presented in the consolidated interim financial statements in the balance sheet under provisions.

By acquiring the Southern Refineries and Petrobaltic S.A., Grupa LOTOS S.A. assumed liabilities whose fair value cannot be reliably estimated at present. It is also difficult to determine whether an outflow of economic benefits will be necessary to settle the liabilities. Therefore, the liabilities were not disclosed as at the acquisition date (February 3rd 2005). The negative goodwill write-off disclosed in these consolidated financial statements due to the requirements of IFRS 3 was not decreased by the undetermined fair value of such future liabilities. The effects, if any, of discharging these liabilities will have to be disclosed in future consolidated financial statements of the Group.

16. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Company name	Registered office	Business area	Dec 31 2006	Dec 31 2005
Energobaltic Sp. z o.o.	Gdańsk	Production activities	32.16%	32.16%
UAB Naftos Gavyba	Klaipeda, Lithuania	Services	29.46%	29.46%

The Group’s share in the associated undertakings is as follows: 46.6% in Energobaltic Sp. z o.o. and 42.7% in UAB Naftos Gavyba.

PLN ‘000	Dec 31 2006	Dec 31 2005
Investments in associated undertakings valued with equity method		
Naftos Gavyba Group	83,381	58,425
Total	83,381	58,425
Other non-current financial assets (1)	-	24,911
Total investments in associated undertakings	**83,381**	**83,336**

(1) As at December 31st 2005, the Group recognised assets invested in UAB Naftos Gavyba, its associated undertaking. The recognised amount is the funds provided to UAB Naftos Gavyba by Petrobaltic in 2000 to finance the purchase of AB Geonafta shares, subject to a condition precedent (Conditional Agreement on Purchase of Ownership Rights to Shares, dated July 18th 2000; the Agreement). Transfer of the shares was conditional upon UAB Naftos Gavyba performing its investment commitments towards AB Geonafta, as specified in the privatisation agreement of AB Geonafta. In 2001–2005, UAB Naftos Gavyba performed all of its investment commitments, which consumed LTL 56m, and acquired 41 million AB Geonafta shares. The most recent increase in AB Geonafta’s share capital took place on April 25th 2005. Performance of these obligations was financed in full with UAB Naftos Gavyba’s own funds sourced from dividends paid out in consecutive years by AB Geonafta. With the condition precedent fulfilled on April 25th 2005, Petrobaltic could take over the shares in AB Geonafta specified in the Agreement.

As at December 31st 2006, the Group recognised assets invested in UAB Naftos Gavyba, its associated undertaking, in the total amount of PLN 24.7m, The assets are presented the consolidated financial statements of the Group for 2006 under “Other current financial assets”.

By the date of these financial statements, UAB Naftos Gavyba had not made any entry in the share register of AB Geonafta which would constitute the transfer the ownership rights to the shares purchased by Petrobaltic under a condition precedent. On March 24th 2006, an agreement supplementary to the Agreement of July 18th 2000 was signed by Petrobaltic S.A. and UAB Naftos Gavyba to postpone the deadline for transferring the ownership rights to the shares in AB Geonafta to August 31st 2007. Consequently, as at December 31st 2006, the prepayment of PLN 24.7m was reclassified in the Group’s balance sheet from non-current investment to current investments.

On March 30th 2007, the General Shareholders Meeting of UAB Naftos Gavyba, an associated undertaking, approved the financial statements for 2006 and resolved to allocate the profit generated in 2006 and a portion of undistributed retained earnings in the amount of LTL 100m to dividend payment.

17. FINANCIAL ASSETS

PLN '000	Dec 31 2006	Dec 31 2005
Shares in companies	12,900	11,985
Other non-current financial assets	10,742	8,208
Total	**23,642**	**20,193**

18. CURRENT FINANCIAL ASSETS

PLN '000	Dec 31 2006	Dec 31 2005
Positive valuation of financial instruments, including:	190	5,328
- Currency forwards	190	2,016
- Currency swaps	-	24
- Currency and interest rate swaps	-	3,288
Repo transactions	-	30,024
Treasury bonds	178,300	3,879
Treasury bills	-	93,140
Other, including:	25,041	3,389
- prepayments for shares [1]	24,726	-
Total	**203,531**	**135,760**

(1) The assets invested in AB Geonafta, a subsidiary undertaking (See Note 16).

Financial Assets and Liabilities

Changes in financial assets and liabilities by category in consecutive reporting periods:

PLN '000	Financial assets held for trading	Financial liabilities held for trading	Loans advanced and receivables	Financial assets held to maturity	Financial assets available for sale
Opening balance as at Jan 1 2006	**128,492**	**-**	**177**	**3,879**	**6,395**
Gross value	120,013	-	48,216	3,783	6,813
Revaluation	8,479	-	(48,039)	96	(418)
Increase, including:	16,693,347	-	213	-	35
Acquisition	16,693,068	-	213	-	-
Other	-	-	-	-	35
Revaluation	279	-	-	-	-
Decrease, including:	(16,643,349)	-	(190)	-	-
Sale	(16,634,870)	-	(190)	3,783	-
Revaluation	(8,479)	-	-	96	-

PLN '000	Financial assets held for trading	Financial liabilities held for trading	Loans advanced and receivables	Financial assets held to maturity	Financial assets available for sale
Closing balance as at Dec 31 2006	**178,490**	**-**	**200**	**-**	**6,430**
Gross value	178,211	-	48,239	-	6,848
Revaluation	279	-	(48,039)	-	(418)
Balance-sheet disclosure					
Non-current investments	-	-	92	-	6,395
Current investments	178,490	-	108	-	35
Current liabilities	-	-	-	-	-
Total	**178,490**	**-**	**200**	**-**	**6,430**

Opening balance as at Jan 1 2005	**43,234**	**-**	**-**	**3,952**	**1,509**
Gross value	22,029	-	48,039	3,783	1,927
Revaluation	21,205	-	(48,039)	169	(418)
Increase, including:	8,111,541	-	3,097	-	6,312
Acquisition	8,091,910	-	177	-	-
Revaluation	8,479	-	2,920	-	-
Other	-	-		-	6,312
Inclusion of new undertakings in consolidation	11,152	-	-	-	-
Decrease, including:	(8,026,283)	-	(2,920)	(73)	(1,426)
Sale	(8,005,078)	-	-	-	(1,426)
Revaluation	(21,205)	-	(2,920)	(73)	-
Closing balance as at Dec 31 2005	**128,492**	**-**	**177**	**3,879**	**6,395**
Gross value	120,013	-	48,216	3,783	6,813
Revaluation	8,479	-	(48,039)	96	(418)
Balance-sheet disclosure					
Long-term investments	-	-	-	-	6,395
Current investments	128,492	-	177	3,879	-
Current liabilities	-	-	-	-	-
Total	**128,492**	**-**	**177**	**3,879**	**6,395**

19. INVENTORIES

PLN '000	Dec 31 2006	Dec 31 2005
Finished products	506,672	418,958
Semi-finished products and work in progress	234,953	273,078
Goods for resale	101,414	15,216
Materials	864,403	725,687
Net inventories	**1,707,442**	**1,432,939**

Valuation Allowances for Inventories

PLN '000	Dec 31 2006	Dec 31 2005
Finished products	29,672	9,629
Semi-finished products and work in progress	5,886	2,353
Goods for resale	1,482	1,107
Materials	7,325	8,727
Total valuation allowances for inventories	**44,365**	**21,816**

During the year ended December 31st 2006, the Group made a valuation allowance for inventories in the amount of PLN 38,082 thousand and reversed a valuation allowance for inventories in the amount of PLN 15,533 thousand.

During the year ended December 31st 2005, the Group made a valuation allowance for inventories in the amount of PLN 19,192 thousand and reversed a valuation allowance for inventories in the amount of PLN 9,671 thousand.

As at December 31st 2006, the carrying value of finished products recognised at net selling prices was PLN 239,829 thousand (PLN 148,879 thousand as at December 31st 2005).

As at December 31st 2006, the value of inventories which serve as collateral for the Group's liabilities amounted to PLN 9,115 thousand.

Mandatory Liquid Fuel Stocks

In the balance sheet, pursuant to the Polish State reserves and Mandatory Fuel Reserves Act of May 30th 1996, the Group disclosed the following mandatory stocks:

PLN '000	Dec 31 2006	Dec 31 2005
Mandatory stocks	**1,027,858**	**800,688**

20. TRADE AND OTHER RECEIVABLES

PLN '000	Dec 31 2006	Dec 31 2005
Trade receivables, including:	1,180,699	926,267
- from related undertakings	615	501
Receivables from the state budget	77,843	107,517
Other receivables, including:	17,933	26,564
- from related undertakings	154	47
Net receivables	**1,276,475**	**1,060,348**
Valuation allowance for receivables	136,289	134,178
Gross receivables	**1,412,764**	**1,194,526**

For information on transactions with related undertakings see Note 42.

The payment period for trade receivables in the normal course of business is 14-55 days. The concentration of risk related to sales is limited due to the large number of the Group's business partners.

As at December 31st 2006, the Group's receivables of PLN 14,153 thousand were assigned by way of security for the Group's liabilities.

Impairment Losses on Receivables

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Beginning of period	**134,178**	**92,244**
Recognised	19,350	55,988
Reversed	(17,239)	(14,054)
End of period	**136,289**	**134,178**

21. CASH AND CASH EQUIVALENTS

PLN '000	Dec 31 2006	Dec 31 2005
Cash in hand and cash at banks	723,213	762,753
Other cash	49,174	5,041
Total	**772,387**	**767,794**

Cash at banks bears interest at variable rates set according to the interest rate for one-day bank deposits. Short-term deposits are placed for various periods ranging from one day to one month, depending on the Company's current demand for cash, and bear interest at the interest rates set for them. As at December 31st 2006, the amount of undrawn funds available to the Group under loans in respect of which all conditions precedent had been fulfilled, was PLN 401,096 thousand (as at December 31st 2005: PLN 763,681 thousand).

As at December 31st 2006, restricted cash amounted to PLN 23,143 thousand (as at December 31st 2005: PLN 1,572 thousand). As at December 31st 2006, restricted cash related mainly to a bank guarantee of PLN 21,668 thousand, provided by LOTOS Biopaliwa to secure the payment under an agreement for the construction of a biodiesel production unit, concluded with MAN Ferrostal of Germany.

The restricted cash is disclosed in the balance sheet under "Other cash".

22. CASH STRUCTURE FOR THE CASH-FLOW STATEMENT

PLN '000	Dec 31 2006	Dec 31 2005
Cash at banks	721,321	761,024
- current accounts	586,272	515,259
- deposits up to 1 year	135,049	245,765
Cash in hand	1,892	1,729
Other cash	49,174	5,041
Overdraft facilities	(148,222)	-
Total cash	**624,165**	**767,794**

Breakdown of the Group's Activities as Disclosed in the Cash-Flow-Statement

Operating activities include transactions and events related to the core business of an undertaking and other activities which are not included in investing or financing activities.

Investing activities include transactions and events which consist in the purchase or sale of property, plant and equipment (tangible assets, investments in progress), intangible assets, long-term investments and current financial assets (excluding cash and cash equivalents), as well as related monetary costs and benefits, excluding those related to income tax.

Financing activities include transactions and events which consist in the raising and repayment of funds from sources other than operating activities, as well as related monetary costs and benefits, excluding those related to income tax. The occurrence of cash flows in the financing activities gives rise to changes in the amount of equity and financial indebtedness and the proportion between them.

Causes of differences between the balance-sheet changes in certain items and changes disclosed in the cash-flow-statement

Receivables PLN '000	Dec 31 2006	Dec 31 2005
Balance-sheet change in net non-current and current receivables	(212,858)	(335,213)
Change in income tax receivables	24,363	(4,972)
Inclusion of new undertakings in consolidation	-	153,099
Other	(659)	23,894
Change in receivables as disclosed in the cash-flow-statement	**(189,154)**	**(163,192)**

Liabilities PLN '000	Dec 31 2006	Dec 31 2005
Balance-sheet change in current and non-current liabilities	211,055	620,642
Change in current and non-current loans	(98,582)	45,468
Change in investment liabilities	914	23,806
Inclusion of new undertakings in consolidation	-	(331,509)
Change in income tax liabilities	61,889	(64,847)
Other	177	(21,701)
Change in liabilities as disclosed in the cash-flow-statement	**175,099**	**271,859**

Inventories PLN '000	Dec 31 2006	Dec 31 2005
PLN '000		
Balance-sheet change in inventories	(274,503)	(604,319)
Inclusion of new undertakings in consolidation	-	145,508
Other	12	39
Change in inventories as disclosed in the cash-flow-statement	**(274,491)**	**(458,772)**

Provisions PLN '000	Dec 31 2006	Dec 31 2005
Balance-sheet change in provisions	414	201,587
Inclusion of new undertakings in consolidation	-	(181,800)
Change in deferred tax liability	17,613	(27,717)
Other	2,002	4,495
Change in provisions as disclosed in the cash-flow statement	**19,201**	**(3,435)**

Prepayments and accrued income PLN'000	Dec 31 2006	Dec 31 2005
Balance-sheet change in prepayments and accrued income	(7,638)	(14,620)
Inclusion of new undertakings in consolidation	-	6,232
Other	395	(480)
Change in prepayments and accrued income as disclosed in the cash-flow statement	**(7,243)**	**(8,868)**

Cash PLN'000	Dec 31 2006	Dec 31 2005
Balance-sheet change in cash	4,593	612,782
Interest-bearing overdraft facilities	(148,222)	-
Other	-	-
Change in cash as disclosed in the cash-flow statement	**(143,629)**	**612,782**

Other Items of the Cash-Flow-Statement

The item “Other, net” under cash flows from investing activities includes the following adjustments:

PLN ‘000	Year ended Dec 31 2006	Year ended Dec 31 2005
Excess of share in net assets over acquisition cost	-	(266,625)
Other	1,968	(402)
Total other, net	**1,968**	**(267,027)**

The item “Other, net” under cash flows from investing activities includes the following adjustments:

PLN ‘000	Year ended Dec 31 2006	Year ended Dec 31 2005
Prepayments for tangible assets under construction	(148,018)	-
Other	1,966	17,448
Total other, net	**(146,052)**	**17,448**

23. SHARE CAPITAL

The structure of Grupa LOTOS S.A.’s share capital as at December 31st 2006 and December 31st 2005 was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of share capital
State Treasury	7,878,030	7,878,030	7,878,030	6.93 %
Nafta Polska S.A.	59,025,000	59,025,000	59,025,000	51.91 %
Other shareholders	46,796,970	46,796,970	46,796,970	41.16 %
Total	**113,700,000**	**113,700,000**	**113,700,000**	**100.00 %**

As a result of the acquisition of Grupa LOTOS S.A. shares in transactions carried out on the Warsaw Stock Exchange, which were settled on March 6th 2007, ING Nationale-Nederlanden Polska OFE came into possession of the Company shares conferring the right to over 5% of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A. Prior to the abovementioned transactions, ING Nationale-Nederlanden Polska held 5,676,589 shares in Grupa LOTOS S.A., which represented 4.99% of the share capital and conferred the right to 5,676,589 votes at the General Shareholders Meeting, accounting for 4.99% of the total vote. As at March 7th 2007, 5,876,589 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska, which account for 5.17% of the Company’s share capital and confer the right to 5,876,589 votes at the General Shareholders Meeting, representing 5.17% of the total vote.

Share Issue

On May 17th 2005, Grupa LOTOS S.A. applied to the Warsaw Stock Exchange for admission to trading on the main market of:
- 58,229,340 Series A ordinary registered shares,
- 20,470,660 Series A ordinary bearer shares,
- 35,000,000 Series B ordinary bearer shares,
- 35,000,000 rights to Series B new shares.

On June 3rd 2005, pursuant to Resolution No. 178/2005, the Management Board of the Warsaw Stock Exchange admitted the following shares of Grupa LOTOS S.A., with a par value of PLN 1 per share, to trading on the main market:
- 58,229,340 Series A ordinary registered shares,
- 20,470,660 Series A ordinary bearer shares,
- up to 35,000,000 Series B ordinary bearer shares, subject to a condition that the Company's share capital is increased through the issue of Series B shares.

Pursuant to Resolution No. 178/2005 of June 3rd 2005, the Management Board of the Warsaw Stock Exchange admitted up to 35,000,000 rights to Series B shares of Grupa LOTOS S.A. to trading on the main market.

On June 4th and June 6th 2005, the Company allotted Series B shares in the Retail Offering and the Institutional Offering, respectively. Upon the allotment, the Public Offering was announced as successful.

1. The Public Offering comprised 35,000,000 Series B Shares:
   The shares were offered as follows:
   - 8,800,000 shares in the Retail Offering,
   - 26,200,000 shares in the Institutional Offering, including:
   - 16,500,000 shares in the Polish Institutional Offering, and
   - 9,700,000 shares in the International Institutional Offering.
2. The reduction rate in the Retail Offering was 96.58%. Retail investors placed the aggregate number of 31,646 subscription orders for 257,634,549 Series B shares.
3. In the Institutional Offering, during the book-building process Polish and international institutional investors declared demand for 86,192,129 offered shares. In the Institutional Offering, Series B shares were allotted in accordance with the subscription orders placed.
4. All the shares offered by the Company, i.e. 35,000,000 Series B shares, were allotted as a result of the subscription.
5. The shares were acquired at the issue price of PLN 29.00.
6. The aggregate number of orders placed in the Public Offering for Series B shares was 31,763, including:
   - 31,646 in the Retail Offering, and
   - 117 in the Institutional Offering.

By virtue of Resolutions No. 179/2005 and 180/2005 of June 8th 2005, the Management Board of the Warsaw Stock Exchange decided to:

- introduce, by way of an ordinary procedure, 20,545,970 Series A ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share (ISIN code: PLLOTOS00025) to trading on the main market,
- introduce 35,000,000 rights to Series B ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share (ISIN code: PLLOTOS00041), to trading on the main market.

The abovementioned shares and rights to Series B ordinary bearer shares of Grupa LOTOS S.A. were first quoted on the Warsaw Stock Exchange on June 9th 2005.

The Management Board of the Warsaw Stock Exchange set the last listing date for 35,000,000 rights to Series B ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share (ISIN code: PLLOTOS00041), at July 7th 2005.

On June 28th 2005, the Company's Management Board received the decision of the District Court of Gdańsk, XII Commercial Division of the National Court Register, concerning registration of Grupa LOTOS S.A.'s share capital increase through the issue of Series B shares. The share capital increase was registered by the Court on June 28th 2005. Following the registration, the share capital amounted to PLN 113,700,000 and was divided into 113,700,000 shares. The total number of votes attached to all the shares issued by Grupa LOTOS S.A. after the registration of the share capital increase is 113,700,000 votes.

The issue price was set at PLN 29.00 per share. The issue proceeds were PLN 1,015,000 thousand. The share premium was PLN 980,000 thousand and was disclosed under reserve funds, net of the expenses directly related to the share issue, adjusted for income tax of PLN 9,049 thousand (See "Statement of changes in equity"). The net proceeds from the share issue (net of the expenses directly related to the share issue, adjusted for income tax) reached PLN 1,005.9m.

24. DIVIDENDS

On June 19th 2006, the Annual General Shareholders Meeting adopted a resolution concerning the distribution of the 2005 net profit of the Parent Undertaking. Pursuant to the resolution, the Company's entire net profit for the year ended December 31st 2005, amounting to PLN 532,268 thousand, was allocated to the Company's reserve funds. In these financial statements, the Company discloses the distributed profit/loss under "Retained earnings".

As at the date of these financial statements, the Company's Management Board has not made any decisions regarding distribution of the 2006 profit.

On May 13th 2005, the General Shareholders Meeting of the Parent Undertaking approved the 2004 dividend amount of PLN 15,740 thousand (PLN 0.20 per share). Pursuant to the Resolution of the General Shareholders Meeting of Grupa LOTOS S.A. on the distribution of the Company's net profit for the year ended December 31st 2004, adopted on May 13th 2005, the dividend payment date was set at June 22nd 2005. Starting January 1st 2005, the Parent Undertaking will distribute its net profit computed in accordance with the IFRS.

25. EARNINGS PER SHARE

	Year ended Dec 31 2006	Year ended Dec 31 2005
Net profit attributable to equity holders of the parent (PLN '000) (A)	679,912	915,124
Weighted average number of shares (in thousands) (B)*	113,700	96,632*
Earnings per share (PLN '000) (A/B)	**5.98**	**9.47**

* Earnings per share for the year ended December 31st 2005 were computed on the basis of the weighted average number of shares in the period January 1st – December 31st 2005.

26. MINORITY INTERESTS

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Opening balance	254,281	14,882
Inclusion of new undertakings in consolidation	-	203,454
Share in profit/(loss) of subsidiary undertakings	54,740	53,715
Changes in shareholder structure of subsidiary undertakings	(84)	(16,272)
Dividends paid out by subsidiary undertakings	(2,521)	(2,521)
Other	-	1,023
Balance as at end of period	**306,416**	**254,281**

27. LOANS AND BORROWINGS

PLN '000	Dec 31 2006	Dec 31 2005
Bank loans	492,682	392,100
Other loans	11,550	13,550
Total	**504,232**	**405,650**
Including:		
Non-current portion	330,706	294,198
Current portion	173,526	111,452

Loans and Borrowings by Lender

PLN '000	Dec 31 2006	Dec 31 2005
Non-current portion		
Kredyt Bank S.A.	44,987	50,987
BRE Bank S.A.	-	2,233
NFOŚiGW	9,300	11,550
PeKaO S.A	20,900	30,874
PKO BP S.A.	1,456	2,809
Bank syndicate (PKO BP S.A. and PeKaO S.A)	254,063	195,745
Total non-current portion	**330,706**	**294,198**
Current portion		
Kredyt Bank S.A.	7,715	7,776
BRE Bank S.A.	-	2,912
PeKaO S.A	25,605	32,542
ING Bank Śląski S.A.	49,487	31,898
PKO BP S.A.	19,212	29,985
Podkarpacki Bank Spółdzielczy S.A.	-	4,300
Bank Handlowy w Warszawie S.A.	61,639	2
NFOŚiGW	2,250	2,000
Bank syndicate (PKO BP S.A. and PeKaO S.A)	37	37
Bank Millennium S.A.	1,941	-
Raiffeisen Bank Polska S.A.	3,600	-
BZ WBK S.A.	2,040	-
Total current portion	**173,526**	**111,452**
Total	**504,232**	**405,650**

Bank Loans by Currency

PLN '000	EUR loans	USD loans	PLN loans	Total
2007	3,965	65,019	104,542	173,526
2008	-	6,653	59,027	65,680
2009	-	6,653	57,571	64,224
2010	-	6,653	57,871	64,524
2011	-	943	54,571	55,514
after 2011	-	-	80,764	80,764
Total	**3,965**	**85,921**	**414,346**	**504,232**

The table above presents loans according to their maturity dates. As at December 31st 2006, the average effective interest rate of the loans was approx. 5.08%.

28. PROVISIONS

PLN '000	Dec 31 2006	Dec 31 2005
Non-current provisions		
Provision for land reclamation	34,846	37,190
Length-of-service awards and retirement severance pays	54,232	49,771
Provision for the Offshore Oil Rig	92,517	77,198
Other provisions	26,487	27,643
Total non-current provisions	**208,082**	**191,802**
Current provisions		
Provision for land reclamation	5,476	3,142
Length-of-service awards and retirement severance pays	7,472	12,751
Provision for the Offshore Oil Rig	2,400	2,400
Other provisions	65,231	61,367
Total current provisions	**80,579**	**79,660**
Total	**288,661**	**271,462**

The changes in provisions were as follows:

PLN '000	Provision for land reclamation (1)	Length-of-service awards and retirement severance pays	Provision for the Offshore Oil Rig (2)	Other provisions*	Total
As at Jan 1 2005	**2,050**	**44,045**	-	**51,497**	**97,592**
Increase	39,915	30,342	82,026	63,241	215,524
Decrease	(1,633)	(11,865)	(2,428)	(25,728)	(41,654)
As at Dec 31 2005	**40,332**	**62,522**	**79,598**	**89,010**	**271,462**
As at Jan 1 2006	**40,332**	**62,522**	**79,598**	**89,010**	**271,462**
Increase	2,904	10,491	17,640	32,835	63,870
Decrease	(2,914)	(11,309)	(2,321)	(30,127)	(46,671)
As at Dec 31 2006	**40,322**	**61,704**	**94,917**	**91,718**	**288,661**

(1) The provision relates mainly to the cost of liquidation of process waste (PLN 14,194 thousand), reclamation of land related to the DRW-100, DRW-600, Furfurol and ABT units (PLN 19,650 thousand) and the cost of liquidation and disposal of assets, including the recovery of assets (PLN 5,351 thousand) at LOTOS Czechowice S.A.

(2) As at December 31st 2006, the Management Board of Petrobaltic S.A. analysed the costs needed to be incurred to liquidate the Offshore Oil Rig in the B-3 mining area, which was also used in the previous years, and in the B-8 mining area, where the trial production operations commenced in 2006. As a result of the analysis, it was found that the costs necessary to be incurred in future on the liquidation of the Offshore Oil Rig in the B-3 mining area increased relative to the value of the provision created for this purpose and presented in the balance sheet as at December 31st 2005. The increase amounted to PLN 9,872 thousand and reflected both the changes in the expected expenses due to price changes, and the lapse of time and the related change in the time value of money. The change in the time value of money was determined by applying a 5% discount rate to the value of the provision for the liquidation of the Offshore Oil Rig as at December 31st 2005 (PLN 79,570 thousand).

The amount so computed, i.e. PLN 3,978 thousand, was charged to financial expenses for 2006, while the remaining balance, i.e. PLN 5,895 thousand, increased the value of the relevant asset related to the provision for the liquidation of the rig, in accordance with IFRIC 1. The value of the provision created for the first time in connection with the launch of production activities in the B-8 mining area amounted to PLN 7,767 thousand. The Parent Undertaking created a relevant provision for reclamation in the above amount and an asset with the value equal to the amount of that provision.

(*)The item “Other provisions” includes the following items:

PLN ‘000	Provision for RN Glimar(1)	Provision for Energobaltic(2)	Provision for interest to the state budget	Other	Total
As at Jan 1 2005	41,107	-	-	10,390	51,497
Increase	-	24,188	3,416	35,637	63,241
Decrease	-	-	-	(25,728)	(25,728)
As at Dec 31 2005	**41,107**	**24,188**	**3,416**	**20,299**	**89,010**
As at Jan 1 2006	**41,107**	**24,188**	**3,416**	**20,299**	**89,010**
Increase	-	-	-	32,835	32,835
Decrease	-	-	(3,416)	(26,711)	(30,127)
As at Dec 31 2006	**41,107**	**24,188**	**-**	**26,423**	**91,718**

(1) Grupa LOTOS S.A. and Rafineria Nafty Glimar S.A. signed loan agreements for the financing of operating and investing activities, including, in particular, the Glimar Hydrocomplex investment project, for an aggregate amount of PLN 90m. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty Glimar S.A. under these agreements. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. As at December 31st 2006 and December 31st 2005, the assets under the loans advanced were fully covered by an allowance. As at the above dates, the Company also created a provision for the remaining receivables under these agreements.

(2) In 2001, Petrobaltic S.A. advanced a loan to Energobaltic Sp. z o.o., an associated company. Pursuant to the shareholders agreement (“the Shareholders Agreement”), Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited (“RRPV”) to purchase the claims under the loan advanced by RRPV to Energobaltic in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the Gas Supply Agreement for that year.

29. LIABILITIES, ACCRUALS AND DEFERRED INCOME

PLN ‘000	Dec 31 2006	Dec 31 2005
Trade payables, including:	738,696	844,341
to related undertakings	993	3,270
Tax and social security payable, including: (1)	511,674	319,236
- income tax	3,413	65,302
Special accounts	10,853	8,182
Salaries and wages payable	16,771	7,432
Accrued expenses	40,227	32,615
Deferred income under subsidies	16,560	13,144
Investment liabilities, including:	38,498	39,412
to related undertakings	603	1,953
Other liabilities, including:	11,827	9,157
to related undertakings	1,001	871
Total	**1,385,106**	**1,273,519**

(1) The value of tax liabilities was reduced by the fuel charge of PLN 14,759 thousand incurred in relation to imported diesel oil. Grupa LOTOS S.A. will apply to the relevant customs office for reimbursement of the amount, which in the Company’s opinion is recoverable.

Transactions with related undertaking are described in Note 42. Trade payables do not bear interest and are, as a rule, settled on a 7-30 day basis. Other liabilities do not bear interest, and their average payment period is three months. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

Pursuant to Art. 4.1.2. of the Excise Tax Act of January 23rd 2004 (Dz. U. No. 29, item 257, of February 26th 2004), a tax liability arises e.g. at the moment of taking harmonised excise goods out of a bonded warehouse. The Parent Undertaking and some other Group companies operate registered bonded warehouses, in which harmonised excise goods are subject to suspended-excise-tax procedure and may be the object of the actions provided for in the Excise Tax Act.

The Act on Employee Benefits Fund of March 4th 1994, as amended, stipulates that each employer of more than 20 staff (in full-time job equivalents) should create the Social Benefits Fund. In accordance with the statute and internal rules of procedure, the Group creates such fund and makes regular contributions to it, which are charged to costs. The purpose of the Social Benefits Fund is to subsidise social activities of the Group companies, finance loans to employees and other social spending.

The table below sets forth the Company's Social Benefits Fund's assets and liabilities.

PLN '000	Dec 31 2006	Dec 31 2005
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	2,982	2,770
Receivables from employees under the Company's Social Benefits Fund	5,626	6,662
Other	251	152
Total	**8,859**	**9,584**
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	8,816	9,146
Other	43	438
Total	**8,859**	**9,584**

30. SALES REVENUE

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Sales of products	17,873,077	12,934,840
Sales of services	79,920	59,937
Total sales of products	**17,952,997**	**12,994,777**
Sales of goods for resale	390,739	850,819
Sales of materials	8,033	2,823
Total sales of goods for resale and materials	**398,772**	**853,642**
Total	**18,351,769**	**13,848,419**
- including to related undertakings	10,848	9,756
Elimination of excise tax and fuel charge	**(5,540,886)**	**(4,202,874)**
Total	**12,810,883**	**9,645,545**

The transactions with associated undertakings are presented in Note 42 to the financial statements.

31. COST BY TYPE

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Depreciation and amortisation	297,356	263,290
Raw materials and energy used	10,174,024	7,308,386
Contracted services	642,037	500,787
Taxes and charges	82,970	65,750
Salaries and wages	306,960	274,593
Social security and other benefits	103,658	81,627
Other costs by type	108,236	105,150
Goods for resale and materials sold	303,486	640,545
Total	**12,018,727**	**9,240,128**
Adjustments:		
Change in products and adjustments in cost of sales	(48,450)	(410,938)
Total operating expenses, including:	**11,970,277**	**8,829,190**
Cost of sales	10,987,999	8,053,554
Selling costs	666,177	501,650
General and administrative expenses	316,101	273,986

32. OTHER OPERATING INCOME

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Gain on disposal of property, plant and equipment	7,050	4,335
Subsidies	634	732
Release of provisions	942	3,513
Reversal of valuation allowance for receivables	6,617	9,349
Compensation received	5,639	4,020
Other operating income	7,217	13,696
Total	**28,099**	**35,645**

33. OTHER OPERATING EXPENSES

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Loss on disposal of property, plant and equipment	380	54
Revaluation of non-financial assets	30,645	24,258
Created provisions	12,205	4,048
Other operating expenses	27,129	20,358
Total	**70,359**	**48,718**

34. NET FINANCIAL INCOME AND EXPENSES

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Dividend received	2,527	581
Interest	31,693	25,071
Foreign exchange gains	34,943	20,247
Gains on disposal of investments	7,540	16,078
Settlement of derivatives	53,739	12,805
Other	2,853	960
Total financial income	**133,295**	**75,742**
Interest	(30,324)	(29,021)
Foreign exchange losses	(392)	(1,796)
Loss on disposal of investments	-	(50)
Revaluation of financial assets	(5,322)	(14,423)
Other	(5,523)	(7,267)
Total financial expenses	**(41,561)**	**(52,557)**
Net financial income (expenses)	**91,734**	**23,185**

35. CORPORATE INCOME TAX

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Corporate income tax	204,316	208,496
Deferred tax	(23,077)	(39,681)
Total tax	181,239	168,815

The current portion of the income tax was calculated at the rate of 19% on the tax base.

The difference between the tax amount disclosed in the profit income statement and the amount calculated by applying the tax rate to pre-tax profit results from the following items:

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Income before tax	912,491	1,137,654
Corporate income tax at the applicable rate (19% in 2006 and 2005)	173,373	216,154
Permanent differences, including:	**41,397**	**(249,154)**
Excess of net assets' fair value over acquisition cost	-	(266,625)
Share in investments in associated undertakings	(25,811)	(28,472)
Other permanent differences	67,208	45,943
Tax effect of differences	**7,866**	**(47,339)**
Corporate income tax	181,239	168,815
Effective tax rate	**0.20**	**0.15**

As at December 31st 2006 and December 31st 2005, the net deferred tax liability comprises the following items:

PLN '000	Dec 31 2006	Dec 31 2005
Deferred tax asset:		
Provision for employee benefits	10,361	9,612
Difference between current tax value and book value of fixed assets	1,706	1,835
Valuation allowance for inventories	4,424	2,491
Foreign exchange losses on foreign-currency settlements	2,009	1,460
Tax loss amortised over time	21	457
Valuation allowance for accounts receivable	13,982	11,899
Unrealised margin assets	15,496	11,551
Other	27,345	16,323
Total deferred tax asset	**75,344**	**55,628**
Deferred tax liability:		
Difference between current tax value and book value of tangible assets	241,018	244,774
Positive valuation of foreign-currency settlements	-	-
Positive valuation of derivatives	36	1,012
Other	3,297	1,926
Total deferred tax liability	**244,351**	**247,712**
Net deferred tax asset/(liability)	**(169,007)**	**(192,084)**

Since the Group companies are separate taxpayers, deferred tax asset and deferred tax liability are calculated at each company individually.

Consequently, consolidated balance-sheets present deferred tax assets and liabilities as follows:

PLN '000	Dec 31 2006	Dec 31 2005
Deferred tax asset:	32,057	26,593
Deferred tax liability:	(201,064)	(218,677)
Net deferred tax asset/(liability)	**(169,007)**	**(192,084)**

Taxable temporary differences are expected to expire in 2007-2084.

36. CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES

Material Contingent and Off-Balance-Sheet Liabilities of Grupa LOTOS S.A.

Surety Agreement of February 9th 2004 Concluded with the National Fund for Environmental Protection and Water Management

Under the agreement, the Company issued an irrevocable surety to repay the loan contracted by Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) from the National Fund for Environmental Protection and Water Management under a loan agreement of December 10th 2003. The surety covers the loan amount of up to PLN 15,000 thousand. In connection with the surety agreement, on February 6th 2004 Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) and the Company signed on securing the Company's interest with respect to the surety.

As at the date of these consolidated financial statements, the surety issued with respect to the loan, subject to annex of October 20th 2005, is a registered pledge on the plastics processing units with the net value of PLN 8,155 thousand, owned by LOTOS Jasło S.A. The pledge was established under the registered pledge agreement of February 18th 2004.

Irrespectively of the above, under the agreement Rafineria Jasło S.A. will seek to obtain a bank guarantee or surety to replace the surety issued by the Company. Should LOTOS Jasło S.A. breach the provisions of the agreement, it will pay the Company a contractual penalty in the amount of 10% of the surety; with the proviso that if the damage exceeds the contractual penalty, the Company is entitled to seek compensation for the total amount of the damage.

Material Liabilities of the Parent Undertaking under Promissory Notes

1. The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure the Company's tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2008. The original validity term of the blank promissory note expired on March 16th 2007.
2. The validity of the blank promissory note of July 7th 2005 for PLN 200,000 thousand, issued to secure the Company's tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2007. The original validity term of the blank promissory note expired on July 7th 2006
3. On July 4th 2006, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a bank guarantee for the benefit of the Head of the Customs Chamber in Gdynia in order to secure liabilities towards the customs office, liabilities connected with tax and other charges that may arise in the period from July 4th 2006 to May 4th 2007, for the aggregate amount of up to PLN 160,000 thousand. The bank's commitment under the guarantee expire on July 3rd 2007.
4. On May 23rd 2005, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued three performance bonds, for the amount of PLN 8.6m, for the benefit of the Military Property Agency (Agencja Mienia Wojskowego). On July 24th 2006 they were supplemented with another three guarantees for the total amount of PLN 20.06m. The total value of the guarantees is PLN 28,656 thousand. Their validity term expires on December 31st 2007.
5. On November 6th 2006, at the request of Grupa LOTOS S.A., Citibank Handlowy issued a bank guarantee in the form of a letter of credit for USD 74,998 thousand. The letter of credit was issued to secure a commercial transaction: payment for supplies of crude oil from Kuwait. The contingent liability related to the letter of credit expired on January 11th 2007.

6. On December 1st 2006, at the request of Grupa LOTOS S.A., Deutsche Bank Polska issued a bank guarantee in the form of a stand-by letter of credit for USD 12,000 thousand, for the benefit of Morgan Stanley Capital Group. The letter of credit was issued to secure a commercial transaction: payment for diesel oil. The contingent liability related to the letter of credit expired on January 31st 2007.

Material Contingent and Off-Balance-Sheet Liabilities of Petrobaltic S.A.

Liabilities to Bank Ochrony Środowiska S.A.

In connection with the loan advanced by Bank Ochrony Środowiska S.A. (the "Bank") to Energobaltic Sp. z o.o. (Energobaltic) under (i) the investment loan agreement of September 11th 2001, and (ii) the preferential investment loan agreement of September 11th 2001 concerning environmental protection, on December 12th 2001, Petrobaltic S.A. made a representation to the Bank whereby it agreed:

- to increase the share capital of Energobaltic Sp. z o.o. by an amount equal to the company's cumulative net loss incurred in the period from the abovementioned loan agreements date to the date of the first sale (confirmed by an invoice) of power from the CHP plant in Władysławowo (according to the Issuer's information, such sale was made on July 3rd 2003), if the loss exceeds 20% of Energobaltic's share capital;
- to apply a part of net profit (in the amount not exceeding the amount assumed in the Bank-approved final projection for the project financed with the loan) towards share capital increase in Energobaltic Sp. z o.o.;
- not to dispose of or encumber its shares in Energobaltic Sp. z o.o. without a prior consent of the Bank.

Liabilities to Rolls-Royce Power Ventures Limited (Władysławowo)

Under the Shareholder Agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV"), to purchase the claims under the loan advanced by RRPV to Energobaltic.

In connection with the expected reduction of the volume of waste gas supplied to Energobaltic Sp. z o.o. by Petrobaltic S.A. in 2005, on September 22nd 2005, RRPV sent a letter stating that if Petrobaltic S.A. did not comply with the provisions of Art. 16.1.6 of the Gas Supply Agreement, it would issue a default notice under Art. VIII Section 1 of the Shareholder Agreement.

Following receipt of the notice, under the Shareholder Agreement Petrobaltic is obliged to offer to RRPV to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV accepts the offer, Petrobaltic will be obliged to gradually (2012–2016) purchase RRPV's claims under the loan, at maturity of each principal installment, at a 2% discount. As at December 31st 2006, the total amount of the loan advanced by RRPV to Energobaltic Sp. z o.o. was USD 6.1m (USD 5.1m in principal plus interest).

Following the purchase of RRPV's shares in Energobaltic Sp. z o.o., Petrobaltic S.A. would hold 1,598 shares representing 88.04% of the aggregate number of the shares.

As at today, no such notice has been issued. Therefore, as we were advised in an opinion issued by an external law firm, the conditional offer could be executed only in 2008 if Petrobaltic is in breach of the terms and conditions of the Gas Supply Agreement in 2007. However, in view of the poor financial standing of Energobaltic Sp. z o.o. and the level of gas supplies lower than expected as a result of delays in the commencement of production at the B8 reservoir, the Management Board of Petrobaltic S.A., guided by the conservative valuation principle, maintained the provision for future liabilities which might arise under the Shareholder Agreement. The provision covers the loan advanced by RRPV to Energobaltic Sp. z o.o. (less the 2% discount) and the par value of RRPV's shares in Energobaltic Sp. z o.o.

In the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV"), to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV performs in accordance with the shareholder agreement, Petrobaltic S.A. may be obliged to gradually (2007–2011) purchase RRPV's claims under the loan at maturity of each principal instalment. If RRPV accepts Petrobaltic S.A.'s offer to purchase the claims, it will mean fulfilment of the condition precedent for RRPV's offer, made in 2001, to sell all the shares held by RRPV in Energobaltic at the time a default notice is served under the gas supply agreement. As at the date of these consolidated financial statements, no such notice was delivered. Any breach of the terms and conditions of the gas supply agreement in the following years entitles RRPV to issue such a notice within the timeframes provided for in the agreement. In view of the above, Petrobaltic S.A. created a provision of PLN 24,188 thousand related to the shareholder agreement and disclosed under other provisions (current portion).

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Jasło S.A.

Liabilities under Promissory Notes towards Nafta Polska S.A.

Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) has issued nine blank promissory notes to Nafta Polska S.A. Under the promissory note declarations of January 19th 2000, the promissory notes secure the liabilities of the Rafineria Jasło S.A. under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between Rafineria Jasło S.A. and Carbon Black Polska Sp. z o.o. The promissory notes may be filled in by Nafta Polska if Rafineria Jasło S.A. fails to perform any of its obligations under the agreement. As provided for in the declarations, each promissory note may be filled in with up to PLN 1,000 thousand.

Under an agreement of January 19th 2000 between Nafta Polska S.A. and Rafineria Jasło S.A., if no obligation arises on the part of Nafta Polska S.A. to provide any performance, in whole or in part, under the performance bond agreement relating to the agreement on environmental issues with Carbon Black Polska Sp. z o.o. by the time Nafta Polska S.A. is removed from the enterprise register, Nafta Polska S.A. will place the unrealised promissory notes in court deposit so that they can be returned after the court's decision on removing Nafta Polska S.A. from the enterprise register becomes final. Similarly, the unrealised promissory notes will be returned to Rafineria Jasło S.A. after 10 years following the agreement date if Nafta Polska S.A. is not removed from the enterprise register and is not obliged to any performance under the surety agreement.

Liabilities under Promissory Notes towards the Minister of Economy

Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) has also issued a blank promissory note to the Minister of Economy. Under the promissory note declaration issued on November 13th 2002, the promissory note is to secure performance of Rafineria Jasło S.A.'s obligations under an agreement on financial support for a new investment project, concluded between the Minister of Economy and Rafineria Jasło S.A. on November 1st 2002. The promissory note may be filled in with an amount of up to PLN 5,674 thousand.

Other Liabilities under Promissory Notes

Furthermore, as at December 31st 2006, LOTOS Jasło S.A. had a liability under a blank promissory note issued to secure a working capital overdraft facility granted by PKO BP S.A., the Krosno branch, for the amount of PLN 15,000 thousand, with the validity term expiring on July 28th 2011.

Other Contingent Liabilities of the Group

As at December 31st 2006 the Group's liabilities arising from the material agreements related to expenditure on property, plant and equipment (PKRT, FAME) amounted to PLN 699m.

37. CARBON DIOXIDE EMISSION CREDITS

As at December 31st 2006 the Group reported excess of carbon dioxide emission credits over the actual carbon dioxide emission.

38. MATERIAL EVENTS SUBSEQUENT TO THE BALANCE-SHEET DATE

1. On January 15th 2007, Grupa LOTOS S.A. disposed of 35 shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw. The shares, with the total par value of PLN 35 thousand, are equal and indivisible, and represent 50% of the share capital of PPU BiproRaf Sp. z o.o. Grupa LOTOS S.A. sold the shares for PLN 2,750 thousand. The transaction was executed as part of the programme aimed at streamlining the structure of the LOTOS Group.
2. On February 27th 2007, the Management Board of Grupa LOTOS S.A. signed the plan of merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o., prepared in accordance with Art. 499.1 of the Commercial Companies Code. The two companies will be merged pursuant to Art. 492.1.1 of the Commercial Companies Code, through the transfer of all assets of LOTOS Partner Sp. z o.o. to Grupa LOTOS S.A. As the acquirer holds 100% of shares in the acquired company, the merger will be executed pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the share capital of Grupa LOTOS S.A. The merger is executed as part of the restructuring of the LOTOS Group, aimed at streamlining its organisational structure. The objective of the restructuring programme is to provide the LOTOS Group with more operating flexibility and facilitate quicker response to changes in the market environment. The merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. is an element of the restructuring of the sales division within the entire LOTOS Group and should not have a material effect on the consolidated financial results of the LOTOS Group.
3. On March 26th 2007, LOTOS Mazowsze S.A. concluded a conditional preliminary agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. from natural persons. The conclusion of the final purchase agreement is conditional upon the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Mazowsze S.A. of control over KRAK-GAZ Sp. z o.o. by purchasing its shares. The shares, with a total par value of PLN 3,450 thousand, are equal and indivisible, and represent 100% of the share capital of KRAK-GAZ Sp. z o.o. The acquisition is deemed a long-term investment by LOTOS Mazowsze S.A. The shares were acquired for PLN 16,367.9 thousand, and the transaction was financed with LOTOS Mazowsze S.A.'s own financial resources. The core business of KRAK-GAZ Sp. z o.o. consists in wholesale and retail distribution of LPG. The acquisition of the equity interest in the company by LOTOS Mazowsze S.A. is part of Grupa LOTOS S.A.'s strategy aimed at increasing its share in the domestic LPG market.
4. On February 27th 2007, Grupa LOTOS S.A. executed an agreement on a loan of PLN 1,200 thousand to LOTOS Park Technologiczny Sp. z o.o. Under the terms of the agreement, the loan was to be disbursed in tranches. The first tranche of PLN 600 thousand was advanced on the agreement date, and the second one, also of PLN 600 thousand, on March 30th 2007. In accordance with the terms of the agreement, the loan is repayable in full by the end of 2007.

5. On March 30th 2007, the General Shareholders Meeting of UAB Naftos Gavyba approved the financial statements for 2006 and resolved to allocate the profit generated in 2006 and a portion of undistributed retained profits in the amount of LTL 100m to dividend payment.

6. On April 11th 2007, Grupa LOTOS S.A. and LOTOS Jasło S.A executed an agreement providing for the purchase of 700 shares of LOTOS Tank Sp. z o.o. The shares, with the total par value of PLN 350 thousand, are equal and indivisible, and represent 70% of the share capital of LOTOS Tank Sp. z o.o. Grupa LOTOS S.A. acquired the shares for PLN 642.5 thousand, using its own financial resources. As a result of the transaction, Grupa LOTOS S.A. holds 1,000 shares, representing 100% of LOTOS Tank Sp. z o. o.'s share capital. The shares were acquired by Grupa LOTOS S.A. in pursuance of its strategy. The acquisition is a part of the consistently implemented programme aimed at streamlining the structure of the LOTOS Group, and the programme for the restructuring of the Southern Refineries. The value of the assets purchased under the agreement as disclosed in the accounting books of LOTOS Jasło S.A. is PLN 355.2 thousand.

39. MATERIAL COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS, OTHER RISKS OF 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-limiting practices.
In July 2005, the Parent Undertaking 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 competition-liming 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. The Parent Undertaking appealed to the Warsaw Court of Appeals against the Regional Anti-Monopoly Court's decisions, but these appeals were dismissed as well. The case is pending.

Material Proceedings Pending before Public Administration Authorities in Connection with the Business of LOTOS Czechowice S.A.

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

Proceedings Related to the Value Added Tax for Certain Months of 1998

In connection with the tax inspections and the issued 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.
The Provincial Administrative Court of Gliwice is considering the case of overpayment of VAT for August 1998 in the amount of PLN 292.7 thousand, without setting the date of the court hearing.
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.

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 disputed claims 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 reversed in whole and remanded for reconsideration.
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 decisions by the Provincial Administrative Court of Gliwice of April 27th 2006 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).

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 Provincial Administrative Court's decision of October 16th 2006 issued in the proceedings regarding the 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.

Proceedings Related to Excise Tax for Certain Months of 2000 and 2001

By virtue of its decisions of December 7th 2004, the Head of the Customs Office of Bielsko-Biała instigated ex officio two proceedings with respect to Rafineria Czechowice S.A. (currently LOTOS Czechowice) in order to determine the amount of excise tax liability, and reopened seven proceedings in order to determine the excise tax liability for March. The proceedings were closed – on March 31st 2005, the Head of the Customs Office issued a decision under which Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) paid its tax arrears (plus interest) in the amount of PLN 273 thousand.

Proceedings Related to Corporate Income Tax for 1999

On January 21st 2005, LOTOS Czechowice S.A. received from the Head of the Second Tax Office of the Katowice Province in Bielsko-Biała a decision of January 19th 2005, on instigation ex officio of tax proceedings related to the 1999 corporate income tax. On June 20th 2005, the Head of the Second Tax Office of the Katowice Province issued a decision closing the proceedings. On July 15th 2005, PLN 856 thousand was transferred to the bank account of LOTOS Czechowice S.A. as payment under the challenged decision. In July 2005 LOTOS Czechowice S.A. appealed against the decision, as a result of which the amount to be reimbursed may be increased by approximately PLN 241 thousand. On September 15th 2005, LOTOS Czechowice S.A. was notified that the appeal would be dealt with by November 18th 2005.
On November 2nd 2005, LOTOS Czechowice S.A. submitted a request for the prolongation of the time allowed for presenting its position with respect to the evidence gathered in the case up until November 10th 2005. On November 21st 2005, LOTOS Czechowice S.A. received a decision of the Director of the Tax Chamber, dated November 18th 2005, upholding the challenged decision issued by the first instance authority. On December 21st 2005, LOTOS Czechowice S.A. filed a complaint against the decision issued by the Director of the Tax Chamber of Katowice on November 18th 2005. The value of the disputed claims was PLN 282,932.
In February 2006, LOTOS Czechowice S.A. received from the Provincial Administrative Court of Gliwice a letter of the Director of the Tax Chamber, dated January 19th 2006, in which he requested that the Czechowice Refinery's appeal be dismissed.
By virtue of its decision I SA/Gl 125/06 of June 9th 2006, the Provincial Administrative Court of Gliwice reversed the decision appealed against and awarded the return of the costs of proceedings in the amount of PLN 9.6 thousand for the benefit of LOTOS Czechowice S.A. from the Director of the Tax Chamber of Katowice.
The decision of the Director of the Tax Chamber of Katowice of March 13th 2007 reversed the decision of the Head of the Second Tax Office of the Katowice Province in Bielsko-Biała and determined the return of PLN 241.5 thousand for the benefit of LOTOS Czechowice S.A.

Inspection Related to Corporate Income Tax for 2000

On July 25th 2006, LOTOS Czechowice S.A. received from the Head of the Second Tax Office of the Katowice Province in Bielsko-Biała an authorisation for a tax inspection, dated July 24th 2006, concerning corporate income tax for 2000. In August 2006, LOTOS Czechowice S.A. received the post-inspection report. LOTOS Czechowice S.A. submitted its explanations and objections to the report in September 2006. On September 29th 2006, LOTOS Czechowice received decisions issued by the Head of the Second Tax Office for the Katowice Province in Bielsko-Biała concerning the institution, ex offfcio, of tax proceedings for the determination of corporate income tax liability for 2000 and interest on the tax arrears. By virtue of the decision of December 12th 2006 issued by the Head of the Second Tax Office for the Katowice Province in Bielsko-Biała, the 2000 corporate income tax liability was increased by PLN 31 thousand. LOTOS Czechowice S.A. paid the amount along with due interest.

Inspection Related to Excise Tax for Certain Months of 2004

The Head of the Customs Office of Bielsko-Biała conducted an inspection at LOTOS Czechowice S.A. in order to determine the correct amount of the excise tax payable for the period January 1st 2004 – September 30th 2004. As a result of the inspection, tax proceedings were instigated ex officio on May 18th 2005. On May 5th 2006, LOTOS Czechowice S.A. received four decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the amount of excise tax liability for January, February, and March 2004. The proceedings concerning determination of the amount of excise tax liability for April 2004 were discontinued. On May 19th 2006, the company appealed to the Director of the Customs Chamber against the abovementioned decisions and filed motions for suspending their execution. In August 2006, LOTOS Czechowice S.A. received decisions issued by the Head of the Customs Office and discontinuing the proceedings concerning the tax liability for May–September 2004. On October 17th 2006, LOTOS Czechowice S.A. received a decision issued by the Director of the Customs Chamber of Katowice and setting December 13th 2006 as the deadline for the examination of the appeals against the decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the amount of excise tax liability for January, February, and March 2004. In the decision of February 9th 2007, the Director of the Customs Chamber of Katowice set April 13th 2007 as the date for concluding the proceedings. As at the date of approval of these consolidated financial statements the issue was not resolved.

Proceedings Concerning Excise Tax Liabilities in the Period September 1st – December 31st 2003

On April 12th 2006, the Head of the Customs Office instigated proceedings to determine the correct amount of the excise tax payable for the period September 1st – December 31st 2003. 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 his decision of March 19th 2006, the Head of the Customs Office in Bielsko-Biała set the deadline for the settlement of the matter at May 30th 2007.

In relation to the potential excise tax liabilities for the period September–December 2003 and January–March 2004, taking into account the conducted legal and tax analysis, including the analysis carried out by external tax advisers as well as an expert witness designated by the Head of the Customs Office, LOTOS Czechowice 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 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 of the company, related to the settlement of the purchase of an organised part of business of LOTOS Mazowsze S.A. The financial statements of LOTOS Paliwa Sp. z o.o. for the year ended December 31st 2005 give no account of the effects of this event since the Management Board of the company appealed against the decision and believes that the appeal will be considered favourably for LOTOS Paliwa Sp. z o.o. 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. The case will be settled in the first instance by April 30th 2007, as stated in the notice issued by the Head of the Gdańsk Tax Office concerning failure to settle the case by the set deadline, dated March 15th 2007.

The proceeding are pending in connection with the right to deduct VAT in relevant periods, arising from settlement of the acquisition of an organised part of LOTOS Mazowsze business, and in order to determine whether additional tax sanctions in this respect are compliant with the constitution. As a result of corrections, VAT was reimbursed to LOTOS Paliwa in the amount disclosed in the financial statements under liabilities under tax, duty, social security and other benefits payable.
As regards potential tax liabilities under sanctions connected with the settlement of acquisition of an organised part of LOTOS Mazowsze business and corrections related to the VAT-7 tax returns, taking into account the conducted legal and tax analysis, including the analysis carried out by external tax advisers, the Management Board of LOTOS Paliwa 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 these potential liabilities.

Material Proceedings Instigated against the Company.

Proceedings upon Action Brought by PETROECCO JV Sp. z o.o. for Compensation for Damages 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 seeks the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest as at May 1st 1999, as compensation for damages 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 Authority 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 District 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.

As at the date of these consolidated financial statements, 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 substantive charges (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 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 damages which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities.
In its decision of July 2006, the Regional Court of Gdańsk requested a second expert witness opinion regarding the extent of losses suffered by the plaintiff due to 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.

Proceedings upon Action Brought by the Minister of State Treasury for 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, concerning the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, a ruling rejecting the claim in its entirety was passed. On June 8th 2006, the Minister of State Treasury appealed against a court ruling of April 21st 2006. 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 arrest enforcement of the decision of the second instance.

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 construction of tax legislation are frequent, both within governmental authorities and between those authorities and enterprises, 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 2006, relevant provisions for identified and measurable tax risk have been created.

Court Proceedings Instigated by 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, the Regional Court of Krosno issued, in the course of binding advice procedure, 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 mortgage.

Material Proceedings Pending before the Competent Arbitration Court in Connection with the Activities of Petrobaltic S.A. and its Subsidiary

AB Geonafta, a subsidiary of Naftos Gavyba (hereinafter referred to as the Subsidiary) is a party to court proceedings against AB Svenska Petroleum Exploration (hereinafter referred to as SPE) related to the establishing of UAB Genciu Nafta, whose founders and shareholders are the Subsidiary and SPE. The litigation concerns applying the provisions of the Subsidiary's Articles of Association, and it was referred to the International Court of Arbitration at the International Chamber of Commerce (hereinafter referred to as the Arbitrator), which reached a final decision on October 30th 2003. The outcome of this case will remain unknown until the Arbitrator's award takes effect in the Lithuanian jurisdiction.

Once the Arbitrator's decision has been confirmed and allowed, the Subsidiary will bear the following costs:
a. The Subsidiary together with the Lithuanian government will reimburse SPE for the amount of USD 12,579 thousand along with interest calculated at the rate of 6% annually on that amount for the period from January 1st 2002 to the reimbursement date. If the Arbitrator's decision is confirmed in the Lithuanian jurisdiction, the Subsidiary will seek to have the Lithuanian government cover the liability in its entirety;
b. The Subsidiary shall reimburse SPE for the amount of USD 312 thousand to cover the costs of court proceedings.

Once the Arbitrator's decision has been confirmed and allowed, the Subsidiary will obtain the following sums:
a. SPE will reimburse the Subsidiary for the amount of USD 1,325 thousand along with interest calculated at the rate of 6% annually on that amount for the period from April 6th 2002 to the reimbursement date;
b. The Subsidiary will have the right to demand that the elected President of the Management Board and the Chief Executive Officer of UAB Genciu Nafta be the candidates put forward by the Subsidiary's representatives;
c. The Subsidiary will have the right to demand that its share in the profits from oil production by UAB Genciu Nafta be increased from 50% to 75%, with effect as of January 1st 2002;
d. The Subsidiary will have the right to demand that UAB Genciu Nafta repay the debt which it owes to the Subsidiary in the amount of LTL 664 thousand.

In 2004, dividend in the amount of LTL 5,973 thousand and an outstanding payment for deliveries and services in the amount of LTL 885 thousand were allegedly remitted to the Subsidiary by UAB Minijos Nafta. The funds were blocked by a court enforcement officer in Copenhagen due to the claims filed by SPE against the Subsidiary. The subsidiary appealed against the court enforcement officer's decision to the Danish Supreme Court.

As at the date of these financial statements AB Geonafta has not settled the abovementioned payment and the amounts due in connection with the court proceedings, as their outcome remains unknown and will remain so until the Arbitrator's award takes effect in the Lithuanian jurisdiction. On July 1st 2005, UAB Minijos Nafta's liability towards AB Geonafta expired as AB Geonafta obtained both sums in the aggregate amount of LTL 6,858 thousand.

40. REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD AND INFORMATION ON LOANS AND OTHER SIMILAR BENEFITS ADVANCED TO MEMBERS OF THE PARENT UNDERTAKING'S MANAGEMENT AND SUPERVISORY STAFF

The remuneration paid and payable to the members of the Management Board and the Supervisory Board of the Parent Undertaking was as follows:

PLN '000	Year ended Dec 31 2006	Year ended Dec 31 2005
Management Board	548	497
Supervisory Board	237	286
Management Board – subsidiary or associated undertakings	86	43
Total *	**871**	**826**

*The value of remuneration provides for changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. made during the reporting period.

Information on loans and similar benefits advanced to members of the management and supervisory staff:

PLN '000	Dec 31 2006	Dec 31 2005
Management Board	-	20
Total	**-****	20*

*10- year loan from the Company Social Benefits Fund, bearing interest at 4% p.a.
** On June 19th 2006, the composition of the Management Board of Grupa LOTOS S.A. changed. As at June 19th 2006, the value of advanced loans was PLN 18.5 thousand.

41. EMPLOYMENT STRUCTURE

Average employment by category:

	Year ended Dec 31 2006	Year ended Dec 31 2005
Blue-collar workers	3,320	3,146
White-collar workers	2,103	1,994
Total	**5,423**	**5,140**

42. TRANSACTIONS WITH RELATED UNDERTAKINGS

Transactions with related undertakings are executed on arms length terms.

(PLN '000)	Sales to related undertakings	Purchases from related undertakings	Receivables from related undertakings	Liabilities to related undertakings
	year ended Dec 31 2006	year ended Dec 31 2006	as at Dec 31 2006	as at Dec 31 2006
Associated undertakings valued with equity method	4,444	3,259	103	3,213
Non-consolidated undertakings	6,404	7,260	666	1,396
Total	**10,848**	**10,519**	**769**	**4,609**

In the period January 1st – December 31st 2006, the total income on sale of property, plant and equipment and intangible assets of the LOTOS Group to related undertakings was PLN 76 thousand.

In the period January 1st – December 31st 2006, the total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from related undertakings was PLN 5,600 thousand.

Furthermore, during the 12 months ended December 31st 2006, a member of the Management Board of Grupa LOTOS S.A. sold, during ordinary trading sessions at the Warsaw Stock Exchange, a total of 42,755 shares of Grupa LOTOS S.A. for an average price of PLN 42.65 per share. The total value of the transactions amounted to PLN 1,823.5 thousand.

(PLN '000)	Sales to related undertakings	Purchases from related undertakings	Receivables from related undertakings	Liabilities to related undertakings
	year ended Dec 31 2005	year ended Dec 31 2005	as at Dec 31 2005	as at Dec 31 2005
Associated undertakings valued with equity method	4,887	3,907	229	1,440
Non-consolidated undertakings	4,869	17,253	319	4,654
Total	**9,756**	**21,160**	**548**	**6,094**

In the period January 1st – December 31st 2005, the total income on sale of property, plant and equipment and intangible assets of the LOTOS Group to related undertakings was PLN 31 thousand.

In the period January 1st – December 31st 2005, the total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from related undertakings was PLN 7,791 thousand.

43. ENTITY WITH SIGNIFICANT INFLUENCE OVER THE GROUP

As at December 31st 2006, Nafta Polska S.A. held a 51.91% stake in Grupa LOTOS S.A. Nafta Polska S.A. is controlled by the State Treasury, which, as at December 31st 2006, directly held a 6.93% stake in Grupa LOTOS S.A. As at December 31st 2006, the State Treasury held, directly and indirectly, 58.84% of shares in Grupa LOTOS S.A.

The aggregate value of transactions concluded between Grupa LOTOS S.A. and Nafta Polska during the year ended December 31st 2006 was PLN 7 thousand.

During the year ended December 31st 2005, apart from the transaction referred to in Note 15, the value of transactions between Grupa LOTOS S.A. and Nafta Polska S.A. amounted to PLN 23,932 thousand, including the dividend paid in the amount of PLN 11,805.

44. OTHER INFORMATION

The Act on Special Rights Vested in the State Treasury and How These Rights Should Be Exercised in Companies of Material Importance to Public Order or Safety ("strategic companies"), dated June 3rd 2005 (Dz.U. No. 132, item 1108) ("the Act") introduced the institution of observers on behalf of the State Treasury. Grupa LOTOS S.A. was included in the list of strategic companies referred to in Art. 8 of the Act, published in the Polish Council of Ministers' Regulation on the list of companies of material importance to public order or safety, dated December 13th 2005 (Dz.U. of December 29th 2005). The responsibility of the observers acting on behalf of the State Treasury at strategic companies is to monitor the operations of these companies regarding, among other things, the following issues:
- management of company assets of material importance to its operations,
- changes of the actual business profile, changes of the intended use or discontinuation of the use of a company's asset of material importance,
- adoption by the General Shareholders Meeting of resolutions concerning dissolution of the company, relocation of its registered office abroad, change of its business profile, sale or lease of its business or an organised part of its business, or encumbrance of the business or its organised part with limited property rights,
- if there is reasonable suspicion that such a legal action would violate public order or safety.
- The assumptions of the state's policies concerning social or economic life spheres of material importance to public order or safety will be published in Monitor Polski.

The observers are authorised to request from companies any documents or explanations regarding the above issues, and, having analysed them, they are required to submit the obtained materials to the Minister of the State Treasury, together with their position expressed in writing and the statement of reasons.

The State Treasury Minister is required in certain cases, and in other cases he is authorised, to voice his objection to an action of a given strategic company of which he has been notified by the observers. Provided that it is not appealed against, such an objection renders a given legal action invalid as of the date on which it was performed.

Until the approval of these financial statements, Grupa LOTOS S.A. has received no statement on the appointment of an observer for the Company.

Complete consolidated finacial statements can be found on the Internet site:
http://www.ir.lotos.pl/en/term _ reports.html

A

APC – (Advanced Process Control) is a computerized manufacturing process control system in place in the Gdańsk refinery since 2001. APC simultaneously controls a large number of technological process parameters at the industrial plant. With the help of this system, one can optimize the plant operations, increasing the yield of the desired products, and keep the plant working safely.

Aromatic compounds – chemical compounds which are characterised by the presence in their particles of rings with a delocalized double bond system, a so-called aromatic system. Widely known aromatic compounds include: benzene, toluene, xylenes, naphthalene.

Atmospheric distillation – a physicochemical process used to separate component products of a mixture, using differences in boiling point temperatures of individual components. In the process of atmospheric distillation, individual fractions become separated. Atmospheric distillation is a process carried out at a pressure close to atmospheric pressure.

B

B3 Oil Field – a marine natural gas and oil field located about 73 km north of Rozewie. In operation since 1992, it hosts the Marine Oil Mine *(Morska Kopalnia Ropy)*. At the moment, it is the main source of crude oil extracted by Petrobaltic S.A.

B8 Oil Field – a marine natural gas and oil field located about 68 km north-east of Rozewie. It is being prepared for mining operations which are to begin in 2008.

Base oil – an unrefined oil, without adjuvants, obtained in the processing of crude. It represents the base input in the manufacture of lubricant oils.

Benzene – the simplest organic compound in the group of aromatic hydrocarbons. Benzene represents one of the key inputs in organic synthesis. It is used, among others, to manufacture plastics, synthetic fibres, dyes, or detergents.

Biofuel – fuel manufactured by adding so-called “biocomponents” (products obtained through processing plant products) to petrol or diesel fuel. Biocomponents are usually made by alcoholic fermentation (most often ethanol) – benzine products with ethanol additives, or by processing the seeds of oil-producing plants (e.g. rapeseed oil) – in biodiesel.

Biturox – a state-of-the-art asphalt oxidation system used for controlled oxidation of vacuum residues of crude oil, a result of which asphalt of increased hardness is produced, which allows it to be used as a road surface, for example. Biturox is a trade name of a patented asphalt oxidation technology using a specially engineered chemical reactor.

C

CFPP – (Cold Filter Plugging Point) means the border temperature below which paraffin crystals begin to form in diesel oil, thus preventing the flow of diesel oil and engine operation.

Component for asphalt manufacture – usually a heavy vacuum distillate fraction obtained from crude oil, which can then be further processed on the installation for asphalt manufacture.

Comprehensive Technical Upgrade Programme – *(Program Kompleksowego Rozwoju Technicznego – PKRT)*, a programme under which a number of state-of-the-art process installations are to be constructed in the Gdańsk refinery by the year 2010, thanks to which the facility will significantly increase its processing and manufacturing capacity. After the completion of the programme, worth in total about PLN 5.6 billion, the Gdańsk facility will become one of the most technologically advanced refineries in Europe.

Conversion – by “conversion processes” one most often understands the technological processes of cracking. In these processes, components with high boiling points (heavy distillates) are turned into light products, used to manufacture fuel products. The most widely used conversion processes are thermal cracking, catalytic cracking, and hydrocracking.

D

Dual-shell tank – a type of tank for holding liquid fuels (called also: dual-wall tank) which has two walls between which there is a monitoring system installed to monitor tightness and/or an alarm system to inform about any leaks. Under the commercial partnership system used by the company *(Partnerstwo Handlowe Rodzina LOTOS)*, assembly of dual-shell tanks (along with the disassembly of old tanks) represents one of the fundamental investment outlays under the so-called "start-up package" (if the filling station lacks such an installation).

F

FAME – (Fatty Acid Methyl Ester) such esters are a biocomponent used to manufacture biofuels for diesel engine vehicles. FAME is manufactured by transesterification of oil with methanol in the presence of a catalyst.

Fill-in hermetisation and vapour-recycling system – a method to fill in road and rail tankers. When pouring the liquid fuel (especially benzine) into a tank, the vapours pushed out of the empty space are hermetically collected and absorbed. This prevents volatile hydrocarbons from being discharged into the atmosphere.

G

General nitrogen – the contents of nitrogen are determined for nitrogen bound in all possible chemical forms.

General suspended solids – non-soluble substances which float, suspended, in water and sewage.

H

Heavy heating oil – an oily liquid representing a residue from the atmospheric distillation of crude oil. It is composed of large-particle hydrocarbons. Heavy heating oil finds its use in industrial installations of large manufacturing or processing facilities, as well as in combined power plants. It is also used as bunker fuel for ships.

Hydro-complex installation – the expansion project in the Glimar Refinery in Gorlice. According to its assumptions, the complex was planned to include a line of basic installations – hydrocracking, hydrodeparaffinisation, and hydrorefining, plus a number of auxiliary installations, including one for hydrogen production. The objective of the construction of the hydro-complex installation was to provide the Glimar Refinery with the possibility to produce high-quality fuels and oil-based products. The Glimar Oil Refinery went into bankruptcy on 19 January 2005, which halted the development of the unfinished project.

Hydrocracking – the complex of hydrocracking installations launched at the Gdańsk refinery at the beginning of the year 2000. It manufactures the components needed to produce high-quality fuels with minimum sulphur contents.

Hydro-desulphurisation – (HDS) a technological process in which hydrogen reacts with chemical compounds containing sulphur, using a catalyst. Sulphur is converted to and removed in the form of H_2S, a result of which a sulphur-free product is obtained. The hydro-desulphurisation reactions are the method most widely used today for obtaining sulphur-free fuels.

I

IGCC – (Integrated Gasification Combined Cycle) is either a combined gas-and-steam techno-logy with an integrated fuel gasification process or a complex for gasification of heavy residue left after the processing of crude oil. The technology makes it possible to construct power plants whose efficiency is much greater than that of conventional coal-based power plants. Compared with conventional technologies, IGCC power plants use less water, cause lower SO_2 and CO_2 emissions, and meet all EU standards.

J

Jet A1 – high-quality airplane fuel designed for jet engines and obtained in the "naphtha sweetening" process in Merox installations. About 80% of Jet A1 manufactured in 2006 by Grupa LOTOS S.A. was exported, for example to the UK, Sweden, Denmark, Norway, Finland and the Czech Republic. The fuel is also successfully delivered to Polish airports in Wrocław, Szczecin, Bydgoszcz, Rzeszów, and Gdańsk.

L

Light heating oil – a product obtained in crude oil processing characterized by lower sulphur content and lower density than heavy heating oil. LHO is mainly used in household boiler rooms and in small and medium-sized businesses and institutions. It is also successfully used as the heating fuel in the boiler rooms of residential estates. Grupa LOTOS S.A. sells high-quality LHO under the LOTOS Red trade name.

LPG – (Liquified Petroleum Gas) is a liquefied gas, being a mixture of propane and butane, obtained in the processing of crude oil. Among its other applications, LPG is used as engine fuel or as fuel for household gas stoves.

Lubricant oil – is a composition of base oil and adjuvants (additives which improve its properties). The quantity, type and relative proportions of these components are decisive for the class of the oil manufactured. Their main task is to reduce friction between the surfaces of movable parts of mechanical devices which touch each other and work together. Lubricant oils are used in the automotive industry and for industrial applications.

M

Merox (crude sweetening installation) – processes units for catalytic processing of fractions of crude oil with the view to removing sulphur compounds, used in the manufacturing of airplane fuel. In the Merox process, mercaptans are oxidised to the form of disulphides which, while not decreasing total sulphur content, has a significant impact on improving the operational properties of fuel.

MHC – (Mild Hydrocracking) is the process used for desulphurisation and conversion of heavy distillates into fuel components. It will ensure conversion within the range of 20-60%. The process runs at the pressure of 50-85 bar. The residue from the mild hydrocracking installation is a desulphurised component to be used for further processing in catalytic cracking or hydrocracking installations.

Modified asphalts – asphalts characterized by improved quality parameters, thanks to the interaction between the asphalt and the modifier used.

Municipal sewage – (called also household sewage), is the liquid waste coming from offices and service facilities.

N

Naphtha – the fluid fraction of crude oil, composed of hydrocarbons whose particles contain 9-16 atoms of carbon. In the cracking and reforming processes naphtha can be processed into benzine and other petroleum derivatives. However, it is mainly used as fuel for jets, rockets and turboprop engines.

O

Oil-contaminated effluent – rainfall and thaw water coming from paved surfaces underneath installations, in depots, tank troughs, or resulting from apparatus and equipment washing and cleaning, and tank draining.

Own filling stations – stations owned by LOTOS Paliwa, run either by managers or agents.

Oxidation – one of main technological processes used for asphalt manufacture as a result of controlled oxidation of heavy vacuum residue. In the process, asphalt of increased firmness (penetration) is obtained, which, among other uses, can be used as a binder for road construction.

P

Paraffin – a mixture of solid saturated hydrocarbons, separated from the fractions of crude oil. It is used, among others, to manufacture candles, floor polish and as insulation material.

Partner filling stations – stations which operate under the LOTOS brand under a commercial partnership based on a long-term franchise agreement

Patronage filling stations – stations which operate under the flag of the Gdańsk refinery on the basis of a patronage agreement.

Petroleum-derivative goods – products available on the market, obtained in the process of crude oil processing. The most popular petroleum-derivative products are, among others, benzines, diesel oil, lubricants or engine oils.

Post-oxidation gases – process gases arising in the process of oxidation of heavy vacuum residue with atmospheric air, leading to the manufacture of asphalts. They are subjected to preliminary purification in the installation and then final utilization in a thermal afterburner.

Ppm – (parts per million) – is the measuring method approved in the world used to express the concentration of extremely diluted solutions of chemical compounds. This measure tells how many particles of the chemical compound are to be found among one million particles of the solution.

Process effluent – liquid industrial waste resulting from technological processes. These include first of all: brine obtained in desalination of crude, acid waste (sulphur-containing) and alkaline waste coming from the installation for tail gas cleanup units.

Processing capacity – the potential of technological installations of a refinery used for the processing of crude oil, measured in tones per annum. The processing capacity of the Gdańsk refinery of Grupa LOTOS S.A. equals 6 million tones per year.

R

Raw benzine – a benzine fraction coming directly from atmospheric distillation of crude oil or from other processes in the petrochemical or coke processing industry. It is an intermediate product from which finished benzine products are obtained.

S

SDA – (Solvent De-Asphalting) – one of the technological processes in the refining of crude oil, used for the processing of heavy vacuum fractions. In the process, specific petroleum fractions are separated in the extraction process, using specially selected organic solvents. The extracted fractions are directed for further processing.

Semi-finished product – in the manufacturing process in the Gdańsk refinery, semi-finished products include, among others, raw benzine or base oil.

Sewage collector – the main channel through which liquid waste flows.

U

Unmanned PG-1 platform – a drilling-head platform standing over the B3 oil field, remotely controlled from the Operations Centre on the manned Baltic Beta platform.

V

Vacuum distillate – a fraction of hydrocarbons separated from a more complex mixture by distillation under a reduced atmospheric pressure. Vacuum distillates are usually used to produce base oil, and also as input for cracking processes.

Vacuum distillation – a process analogical to the process of atmospheric distillation, conducted, however, at reduced ambient pressure. It uses physical property, whereby the boiling point decreases as the ambient pressure is reduced. It makes it possible to separate the components of mixtures which, at atmospheric pressure, would disintegrate below the boiling point.

X

Xylene fraction – a mix of hydrocarbons containing mostly aromatic hydrocarbons with eight carbon atoms – xylenes and ethylbenzene.

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Grupa LOTOS S.A.
ul. Elbląska 135
80-718 Gdańsk
www.lotos.pl