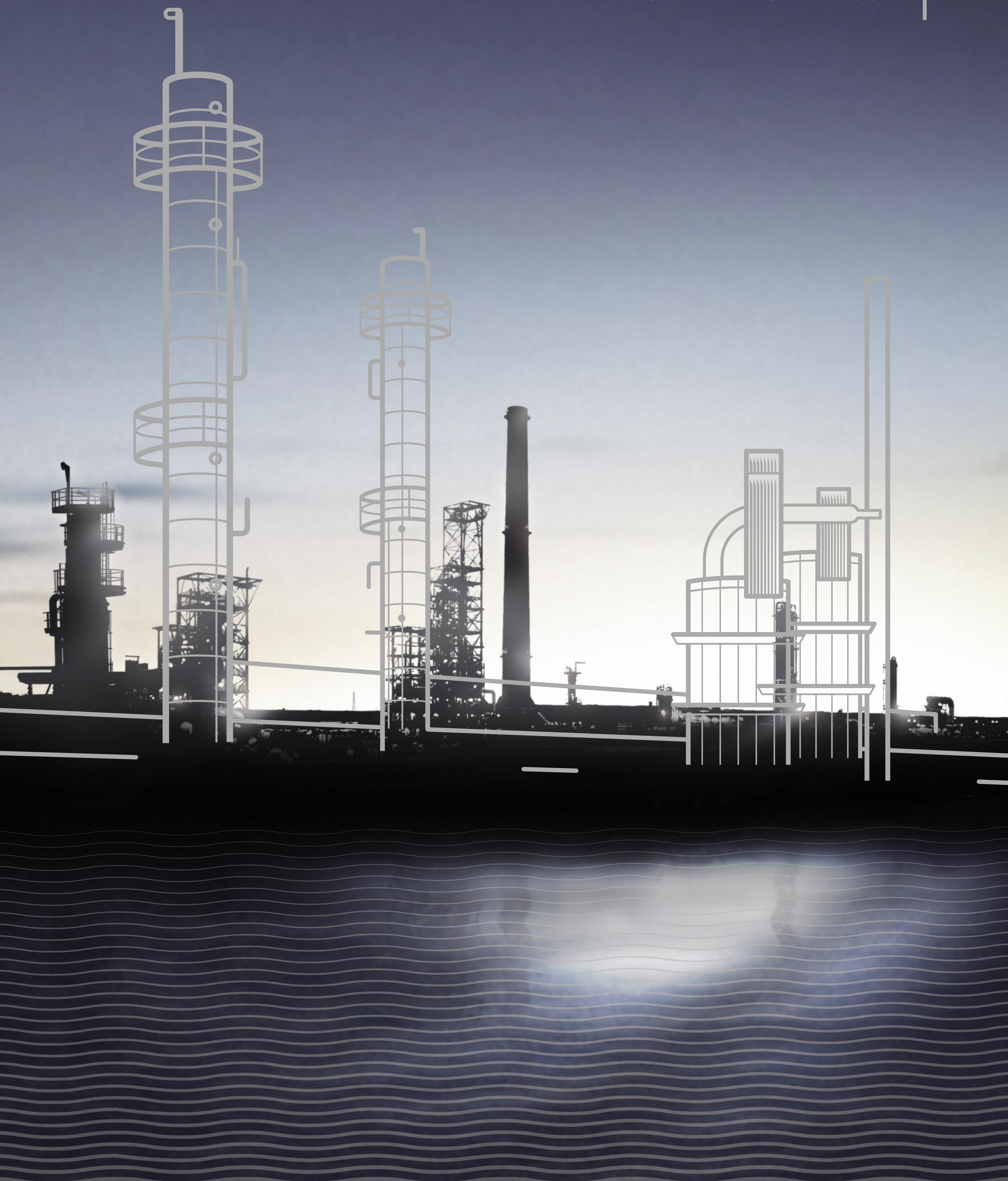
GRUPA LOTOS S.A.
ANNUAL REPORT 2007



LOTOS

GRUPA LOTOS S.A.
ANNUAL REPORT 2007

Table of Contents

1 Timeline

2007

January

A one-billion-zloty contract is executed for the sale and delivery of liquid fuels by Grupa LOTOS S.A. to BP Polska

A partnership agreement is signed between the authorities of the Pomeranian Voivodship, the Tri-City and Grupa LOTOS S.A.

Grupa LOTOS S.A. obtains the certificate of the Polish Ecology Partner in the 8th edition of the 'Environmentally-Friendly' National Ecological Competition

February

590 thousand barrels of Forties Blend petroleum are supplied for the refinery of Grupa LOTOS S.A. in Gdańsk on the 'Kronviken' tanker

ALSTOM issues its approval for Remiz TG Super 46 oil produced by LOTOS Oil

March

The operation of several production systems of the Gdańsk refinery is stopped due to the required replacement of a worn catalyst in the hydrocracking system

LOTOS Oil develops a line of engine oils dedicated to KIA cars

April

LOTOS Kolej is awarded the '2006 Business Gazelle' prize by the 'Puls Biznesu' daily

The refinery of Grupa LOTOS S.A. in Gdańsk receives 630 thousand barrels of Troll petroleum from the North Sea

Analysis results published by B.P.S. Consultants Poland Ltd. confirm the first position of LOTOS Oil on the Polish market of engine oil sales, with approx. 30% of the market share in 2007

May

Grupa LOTOS S.A. offers 130 new jobs in the operation of modern production installations to be built in 2009 within the 10+ Programme

The Ministry of the Environment grants a 25-year licence to Petrobaltic for the production of natural gasoline gas from the B-4 reservoir

The Swedish automotive concern Volvo approves the Turdus CNG 15W40 oil, produced by LOTOS Oil, which is to be applied in engines fed with natural gas

LOTOS Paliwa receives the certificate of the quality management system, which confirms the high quality of its services within fuel supplies to petrol stations, the wholesale of light fuel oil and company management

June

Grupa LOTOS S.A. executes a contract with the Technip Group for more than PLN 2.2 billion for the technical designs, supplies and construction of a hydrocracking installation (MHC), as well as a amine-sulphur complex (KAS)

Grupa LOTOS S.A. and Lurgi S.A. make a contract for the technical design, provision and construction of a hydrogen production installation based on the technology of Lurgi AG from Frankfurt. The contract is a part of the implementation of the 10+ Programme

July

Grupa LOTOS S.A. executes a contract with Lurgi S.A. for the construction of a CDU/VDU petroleum distillation installation

ABB Lummus Global enters the construction site of the HDS system for diesel oil desulphurization

The LOTOS Mazowsze company changes its name to LOTOS Gaz

August

The 10+ Programme is officially launched and the foundation act is signed for the diesel oil hydrodesulphurization system (HDS)

The modified biological treatment plant is launched, which improves the quality of sewage and reduces the volume of nitrogen by 40%

Grupa LOTOS S.A. executes a contract with Technip KTI for managing the 10+ Programme

September

Grupa LOTOS S.A. establishes the LOTOS Exploration and Production Norge AS company in order to explore and produce petroleum on the Norwegian shelf

Metso Automation issues a certificate for LOTOS Serwis

Grupa LOTOS S.A. comes 19th (6 positions higher than the previous year) in the ranking ‘List of the 500 biggest companies of Central and Eastern Europe’, prepared by the Rzeczpospolita daily and the Deloitte consulting company

October

Launch of LOTOS Dynamic brand gasoline and diesel oil

Technip KTI enters the construction site of the four amine-sulphur complex systems (KAS)

Fluor S.A. enters three construction sites of the LPG amine washing system, the underground network systems and the storage tank farm

LOTOS Semisyntetic oil is awarded in the 7th edition of the ‘Best in Poland’ Consumer Product Quality Contest

Tatra vehicle manufacturer approves Turdus oils – Semisyntetic XDPHO and Powertec, produced by LOTOS Oil

LOTOS Biopaliwa and Komagra Sp. z o.o. enter a half-billion-zloty contract for supplies of rapeseed oil, the raw material for the FAME system constructed in Czechowice-Dziedzice

November

LOTOS Asfalt is granted the 'Construction Eagle' award for the best firm in the 'Engineering and Road Infrastructure' category, granted under the auspices of the Minister of Construction

The 'Golden Clip' main award in the Polish competition of the Association of Public Relations Companies is granted to the project 'Communicating the New Strategy of Grupa LOTOS S.A. to the Employees'

Grupa LOTOS S.A. comes 2nd in the Solomon Study, the most important global petroleum report, out of 106 refineries in Europe, North Africa and the Middle East, in terms of throughput utilization, 6th in energy management and 9th in the investment return category

LOTOS Oil becomes the leader of the engine market in Poland, with the market share of approx. 30%, according to the Qualifact Moto Scan 2007. Five LOTOS Family oils, Semisyntetic, Mineral, Synthetic, City and Gas, take 5 positions in the top ten of the list

December

Grupa LOTOS S.A. signs a USD 400-million credit contract with a consortium of four banks for the implementation of the first stage of the 10+ Programme

Seven licenses for the exploration and production of petroleum and natural gas are extended for Petrobaltic. Production from the B8 reservoir commences on the Baltic Sea

LOTOS Jasło and LOTOS Park Technologiczny become part of the Tarnobrzeg Special Economic Zone

LOTOS Biopaliwa and Zakłady Tłuszczowe 'Kruszwica' S.A. execute a half-billion-zloty contract for supplies of rapeseed oil for the FAME system

2008

January

A cooperation agreement is signed by AGH University of Science and Technology, Gdańsk University of Technology and Grupa LOTOS S.A.

Waldemar Pawlak, Vice-President of the Cabinet and the Minister of the Economy, visits the Gdańsk refinery

February

The Navigator loyalty programme is launched at LOTOS petrol stations

Grupa LOTOS S.A. takes the 6th position in the ranking of 'Stock Company of 2007', prepared by the 'Puls Biznesu' daily and Pentor Research International. The Management Board of the Concern comes 10th among 346 surveyed companies

March

Almost 300 thousand cards are distributed among customers of LOTOS petrol stations during the first month of the Navigator programme

The construction of a 10-km-long transport pipeline starts, in order to connect the Gdańsk refinery with Naftopol. The investment is part of the 10+ Programme implemented by Grupa LOTOS S.A.

A contract is signed with the Belgium SARENS concern. The concern will assist in the transport and assembly of the 850-tonne reactor of the diesel oils hydrodesulphurization system at the Gdańsk refinery in summer 2008

April

The base design work is completed and the tender procedure commences for the construction of the solvent deasphaltizing complex SDA/ROSE, another element of the 10+ Programme

More than a dozen million litres of LOTOS Dynamic gasoline and diesel oil are sold during the half-year since the launch of premium fuels at LOTOS petrol stations

May

Grupa LOTOS S.A. is 6th on the list of the 500 largest businesses in 2007, according to the 'Polityka' weekly. In the group of the 50 most profitable companies, the Concern ranks 7th, and among the 50 largest public companies, 4th. On the 10th edition of the '500 List' of the Rzeczpospolita daily and KPMG, Grupa LOTOS S.A. comes 8th

Grupa LOTOS S.A. receives the Business Superbrand award, granted for the first time in the B2B category to the strongest and best recognized brands on the Polish market

In Czechowice-Dziedzice a FAME biocomponent factory is launched. The installation for PLN 80 m will produce 100 thousand tonnes of fatty acid methyl esters and 12 thousand tonnes of technical glycerine per year

2 Financial Highlights

Financial data

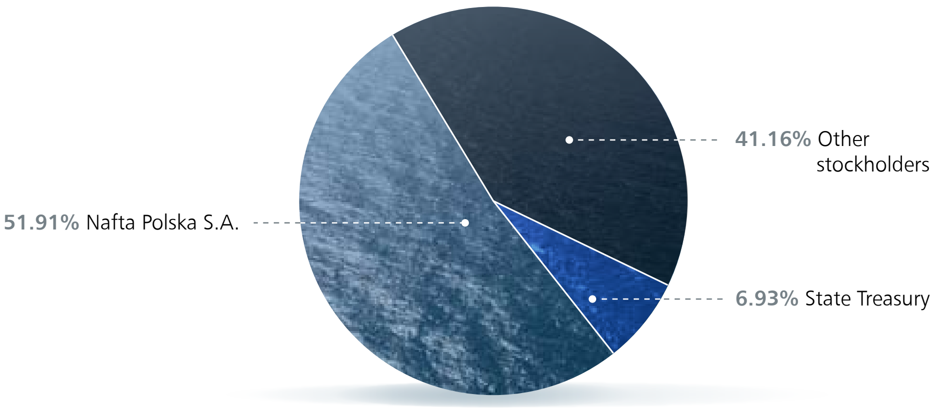
Selected consolidated financial data

	PLN'000		EUR'000	
The LOTOS Group	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparative data)	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparative data)
Sales revenues	13,125,123	12,798,084	3,475,197	3,282,317
Operating profit	713,664	798,346	188,960	204,751
Pre-tax profit	1,004,494	915,891	265,964	234,898
Net profit	814,147	734,652	215,565	188,416
Net profit attributable to equity holders of the parent company	777,160	679,912	205,772	174,377
Net profit attributable to minority interests	36,987	54,740	9,793	14,039
Net cash flows on operating activity	189,462	654,441	50,165	167,844
Net cash flows on investment activity	(816,440)	(721,514)	(216,172)	(185,046)
Net cash flows on financial activity	481,513	(78,151)	127,492	(20,043)
Total net cash flow	(147,061)	(143,629)	(38,938)	(36,836)
Basic profit per one ordinary stock (in PLN/EUR)	6.84	5.98	1.81	1.53
Diluted profit per one ordinary stock (in PLN/EUR)	-	-	-	-

Selected consolidated financial data

	PLN'000		EUR'000	
	As at 31 Dec 2007 (audited)	As at 31 Dec 2006 (comparative data)	As at 31 Dec 2007 (audited)	As at 31 Dec 2006 (comparative data)
Total assets	9,720,384	7,763,542	2,713,675	2,026,400
Equity attributable to equity holders of the parent company	5,816,227	5,095,527	1,623,737	1,330,008
Equity attributable to minority interests	334,691	306,416	93,437	79,979
Total equity	6,150,918	5,401,943	1,717,174	1,409,987

Stockholder structure



Stockholder structure of Grupa LOTOS S.A. as of 31 December 2007

	Number of stocks	Number of votes	Face value of stocks	Share of the authorised 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 stockholders	46,796,970	46,796,970	46,796,970	41.16%
Total	113,700,000	113,700,000	113,700,000	100.00%

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

The Supervisory Board controls the operation of the Company in all its spheres of activity. The Supervisory Board discharges its obligations jointly, while individual Members may be assigned to perform specific supervisory functions. The Supervisory Board may establish permanent or temporary committees in order to check specific issues. The following committees operate on a permanent basis: Audit, Strategy and Development and Organization and Management.

Composition of the Supervisory Board of Grupa LOTOS S.A. in 2007

from 1 January to 28 May 2007:

Jan Stefanowicz – Vice-Chairman
Beata Zawadzka – Member
Jacek Mościcki – Member
Henryk Siodmok – Member
Jacek Tarnowski – Member
Grzegorz Szczodrowski – Secretary

from 28 May to 31 December 2007:

Jan Stefanowicz – Chairman
Henryk Siodmok – Vice-Chairman (appointed on 14 June 2007)
Beata Zawadzka – Member
Marta Busz – Member
Izabela Emerling – Member
Jacek Mościcki – Member
Grzegorz Szczodrowski – Secretary

Jan Stefanowicz

Chairman of the Supervisory Board

Mr. Stefanowicz graduated from Nicolaus Copernicus University in Toruń. He is a solicitor, member of the Association of Polish Economists, the President of the Board of Jus et Lex Foundation, the Chairman of the Legal Counsel Commission of the Supreme Bar Council and the Chairman of the Press Freedom Monitoring Centre Council at the Polish Journalists' Association. Mr. Stefanowicz runs his own legal practice and is a partner of 'Juris' Legal Office.

He was designated a Member of the Supervisory Board of Grupa LOTOS on 30 January 2006, taking the position of Vice-Chairman of the Board. He has served as the Chairman since 28 May 2007. Moreover, he chairs the Committee of Strategy and Development of the Supervisory Board, whose task is to endorse and recommend to the Supervisory Board investment plans of major impact on the Company's assets.

Henryk Siodmok

Vice-Chairman of the Supervisory Board

Mr. Siodmok graduated from Cracow University of Economics, majoring in Economics and Foreign Trade Organization, as well as the MBA ISEAD programme at Fontainbleau, where he was granted a PhD degree in Economics.

He has been on the Management Board of ATLAS Sp. z o.o. since 2006 and has served as the President of the Board of this Company since October 2007.

Mr. Siodmok was designated a Member of the Supervisory Board of Grupa LOTOS on 30 January 2006 and has been a Vice-Chairman of the Board since 14 June 2007. Moreover, he chairs the Committee of Audit of the Supervisory Board, whose task is to consult the Supervisory Board as regards the implementation of budget and financial reporting principles, internal auditing of the Company and cooperation with the licensed auditors of the Company. Furthermore, he participates in the work of the Committee of Strategy and Development.

Marta Busz

Member of the Supervisory Board

Ms. Busz graduated from the Faculty of Foreign Trade at the Warsaw School of Economics and completed a post-graduate course in European Studies (Ecole National d'Administration and Sussex University). She has attended numerous training courses in Poland and abroad.

Ms. Busz has been involved in public administration since 1993, at the Ministry of Ownership Transformation and the Ministry of the State Treasury. At present, she works as the Deputy Director in the Department of Ownership Supervision and Privatization III.

Ms. Busz was appointed a Member of the Supervisory Board of Grupa LOTOS on 28 May 2007. She chairs the Committee of Organization and Management of the Supervisory Board of the Company, whose tasks involve submitting opinions and recommendations to the Supervisory Board with regard to the structure of management, including solutions of organizational issues, the payroll system and recruitment, in order to achieve the strategic aims of the Company. She also participates in the work of the Committee of Strategy and Development.

Beata Zawadzka

Member of the Supervisory Board

Ms. Zawadzka holds a degree from the Warsaw School of Economics, where she majored in Finance and Banking. Moreover, she completed a post-graduate course in Commercial Law at Nicolaus Copernicus University in Toruń. She is also a graduate of the MBA course at the Leon Kozminsky Academy of Entrepreneurship and Management in Warsaw. Ms. Zawadzka has attended many courses and training sessions within finance, management, marketing, strategy and business restructuring. She is a licensed attorney for management systems.

Ms. Zawadzka has worked in public administration at the Ministry of Ownership Transformation since 1993. At present, she serves as the Department Director at the Ministry of the State Treasury.

Ms. Zawadzka has been a Member of the Supervisory Board of Grupa LOTOS since 8 December 2004. She participates in the work of the Committee of Audit and the Committee of Organization and Management of the Supervisory Board.

Izabela Emerling

Member of the Supervisory Board

Ms. Emerling graduated from the Karol Adamiecki University of Economics in Katowice, where she was granted a PhD degree in Economics.

Ms. Emerling served as an Assistant since 1996 and as a Lecturer at the Department of Accounting at the University of Economics in Katowice since 2006. She belongs to the Association of Accountants in Poland. She is an author of numerous books, articles and scientific publications. She regularly participates in accounting conferences. She has given many lectures and training sessions for business within financial accounting, management accounting and financial analysis.

Ms. Emerling was designated a Member of the Supervisory Board of Grupa LOTOS on 28 May 2007. She works in the Committee of Audit of the Supervisory Board.

Jacek Mościcki

Member of the Supervisory Board

Mr. Mościcki graduated from the Central School of Planning and Statistics in Warsaw (now the Warsaw School of Economics), with a major in Finance. He holds a PhD degree in Economics. In 1978-79, he underwent scientific training at Stanford University, USA.

At present, he chairs the Supervisory Board of SANTANDER CONSUMER FINANCE S.A. and is a member of the Supervisory Board of Computerland.

Mr. Mościcki became a Member of the Supervisory Board of Grupa LOTOS on 30 January 2006. He works in the Committee of Audit of the Supervisory Board. Following a decision of the Supervisory Board of 5 March 2008, he has become responsible for the detailed and ongoing control of implementing the 10+ Programme.

Grzegorz Szczodrowski

Secretary of the Supervisory Board

Mr. Szczodrowski graduated from the University of Gdańsk and holds a PhD degree in Economics. Since 1994, Mr. Szczodrowski has been a lecturer at the Department of Economic Policy, the University of Gdańsk. He lectures at the Gdańsk School of Banking and the Bogdan Jański Academy in Warsaw. He is a member of the Association of Polish Economists. In 1999-2002 and since 2005, he has been a Member of the Council at the Faculty of Economics, the University of Gdańsk. He has written and co-written a number of books and scientific papers. He regularly organises economic conferences in Poland.

He was appointed a Member of the Supervisory Board of Grupa LOTOS on 30 January 2006. He has worked as the Secretary of the Supervisory Board and participated in the Committee of Strategy and Development and the Committee of Organization and Management of the Supervisory Board. Following a decision of the Supervisory Board of 5 March 2008, he has been responsible for the detailed and current control of implementing the 10+ Programme.

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

Ladies and Gentlemen,

In 2007, Grupa LOTOS S.A. took the path of development it is committed to pursue.

We started to implement the 10+ Programme, both within the Company's assets and finances. The end of the contracting process and the commencement of constructions allow us to move on to the next stages: improvement and updating of the processes and developing the second phase of the Programme.

It is noteworthy that, in spite of the difficult procedures of the investment process and restructuring of the LOTOS Group, we achieved very good results in 2007, fulfilling the budget premises and reaching our set targets.

I am happy to declare the validity of the strategy adopted by Grupa LOTOS S.A. We correctly assessed the needs and defined the importance of Grupa LOTOS S.A. for the fuel safety of Poland.

The intensification of the operations at Petrobaltic, which should provide Grupa LOTOS S.A. with new sources of petroleum from the Baltic Sea, establishing the LOTOS Exploration and Production Norge AS company in Norway, as well as the purchase of raw materials from suppliers from other directions, are only some of the measures that strengthen the safety of energy raw material supplies in Poland. The strategy of the LOTOS Group in this regard has been fully approved by the Cabinet, and the competent ministries declared their support.

Ladies and Gentlemen, I am are positive that the success of the Concern depends primarily on the well-defined and consistently improving strategy of the Grupa LOTOS S.A. This strategy is formulated by the Board and the managers of the Grupa LOTOS S.A. and is implemented by all employees committed to the achievement of the set objectives.

As the Chairman of the Supervisory Board, I would like to emphasize that our cooperation with the Management Board of the Grupa LOTOS S.A. has been exemplary, in spite of, or perhaps owing to, numerous polemics and discussions. We have succeeded in implementing a highly creative form of cooperation, that provides Stockholders with the objectivism of ownership supervision and the professional analyses of business projects carried out by the Management Board.

Modern business implies following good practice and corporate governance. In this area, Grupa LOTOS S.A. may be proud of its significant achievements, which are confirmed both by our customers and business partners. The favourable opinions in media and among the public are another sign of our success.

According to the modified strategy, the years to come will see our further intense development. I am convinced that with the implemented projects, we will be able to stimulate the growth of Grupa LOTOS S.A. value for the satisfaction of its Stockholders, employees and Polish society.

Kind regards,

Jan Stefanowicz

Jan Stefanowicz, Solicitor
Chairman of the Supervisory Board
Grupa LOTOS S.A.

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

Composition of the Management Board of Grupa LOTOS S.A. in 2007

from 1 January to 13 November 2007:

Paweł Olechnowicz
– President of the Management Board

Marek Paweł Sokołowski
– Vice-President of the Management Board

Mariusz Machajewski
– Vice-President of the Management Board

Jarosław Kryński
– Vice-President of the Management Board

from 13 November to 31 December 2007:

Paweł Olechnowicz
– President of the Management Board

Marek Paweł Sokołowski
– Vice-President of the Management Board

Mariusz Machajewski
– Vice-President of the Management Board

Paweł Olechnowicz

President of the Board
Chief Executive Officer

Mr. Olechnowicz graduated from Cracow University of Technology (the Faculty of Technology and Mechanisation of Foundry Engineering), completed a post-graduate course in Organization, Economics and Industrial Management at Gdańsk University of Technology, MBA INSEAD, Fontainebleau, and attended many specialist courses in management, both in Poland and abroad.

In 1977, Mr. Olechnowicz started has professional career in Zakłady Mechaniczne 'Zamech' in Elbląg (since 1990 ABB Zamech Sp. z o.o.). In 1990-1996, he was President of the Management Board and Director General of ABB Zamech Ltd. Subsequently, for 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.

Mr. Olechnowicz has served as the President of the Management Board of Grupa LOTOS S.A. since 12 March 2002. He manages and is responsible for all operations of the LOTOS Group S.A. He also serves as the Vice-President of the Board for Commerce and Vice-President of the Board for Upstream Activity until the appointment of new members of the Board.

From left to right: Mariusz Machajewski, Marek Paweł Sokołowski and Paweł Olechnowicz

Marek Paweł Sokołowski

Vice-President of the Management Board
Production and Development Director

Mr. Sokołowski graduated from Gdańsk University of Technology (the Faculty of Electrical Engineering), completed a post-graduate course in Industrial Investments and attended a number of specialist management courses in Poland and abroad.

Mr. Sokołowski has worked at Rafineria Gdańska S.A. (currently Grupa LOTOS S.A.) since 1973. In 1990, Mr Sokołowski became the Technical Director and a Management Board member. For three consecutive terms in office, he was in charge of plant engineering at the refinery and execution of investment projects. Throughout 1996-2000, he managed the development and modernization plan of the Gdańsk refinery. In mid-2000, he was appointed Chief of Technical Services and the Company's attorney.

Mr. Sokołowski has served as the Vice-President of the Management Board of Grupa LOTOS S.A. since 19 April 2002. He manages, coordinates and supervises all issues of the Production Division, the Technical Division and the Development Division that is implementing the 10+ Programme and bears all the related responsibilities.

Mariusz Machajewski

Vice-President of the Management Board
Economic-Finance Director

Mr. Machajewski is a graduate of the Faculty of Economics at the University of Gdańsk. Moreover, he attended a number of specialist training courses in management and economics in Poland and abroad.

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 Economic-Finance Director. In the period from April 2005 to June 2006, he also served as the Company's attorney.

Mr. Machajewski has been the Vice-President of the Management Board of Grupa LOTOS S.A. since 19 June 2006. He manages and bears the responsibility for all economic, financial and accounting issues of the Company.

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

Ladies and Gentlemen,

The year 2007 was an important year for Grupa LOTOS S.A. We created a long-term development prospect for the Concern. A very important decision was taken to commence the strategic project called the 10+ Programme. The Programme is the greatest investment-organizational project in the history of Grupa LOTOS S.A. and one of the major investment ventures in Poland today. It is noteworthy that the Programme complies with the policy of the Polish Government for the petroleum industry and the strategy of the LOTOS Group until 2012.

By implementing the 10+ Programme, we will increase the throughput of the Gdańsk refinery by 75% and raise market supplies of petroleum products, especially diesel oil. We will strengthen our position on the market and achieve a new level of building the value of our Company for the satisfaction of our Stockholders.

Owing to the efficient work of the Management Board, which I have the honour to chair, we have prepared a programme for financing the investments and have received its approval from the Stockholders.

Implementing the Programme will increase the competitiveness of the biggest production plant of Grupa LOTOS S.A., thus raising the development potential of the Polish economy. The 10+ Programme will provide the complete operation of new systems after 2010, reaching the throughput of more than 10 million tonnes of petroleum per year at the Gdańsk refinery and increasing the growth of the Company's value considerably.

The Management Board of Grupa LOTOS S.A. is confident that the present period of economic development has to be utilized to strengthen the most valuable national assets. Therefore, we take the new tasks facing Grupa LOTOS S.A. equally professionally and responsibly.

With its natural location by the Baltic Sea, the Concern focuses on becoming the best petroleum firm in the Baltic Sea Region in terms of the quality of its products, customer service and professional management. Within the development strategy, we have been diversifying the sources of our petroleum supplies and developing our own production with Petrobaltic.

Due to the announcement of the Norwegian project and other plans, our strategy for petroleum supplies is being modified at present and will be presented after its approval by the Supervisory Board in the middle of 2008. In Stavanger, Norway, we established LOTOS Exploration and Production Norge AS company, which may start participating in tenders for exploration-production licenses on the Norwegian Shelf even this year.

There is no doubt that a manager responsible for such an important concern must have a broad vision of every business project. Therefore, in 2007, we intensified our measures aimed at recruiting qualified personnel for the modern refinery constructed within the 10+ Programme. Our cooperation with Gdańsk University of Technology and the unique programme of training specialist staff is already bringing effects. In spite of the increasingly competitive labour market, Grupa LOTOS S.A. is recruiting highly qualified personnel and is offering a comprehensive package of benefits, including vocational training and career paths in the structures of the Concern. This is part of our programme of Corporate Social Responsibility, which is unique in Poland and, in my opinion, is a prerequisite for a professionally managed company operating in modern times.

As regards trading, last year saw the further increase in Grupa LOTOS S.A.' share on the increasingly competitive market of petroleum products. In October 2007, we successfully launched the LOTOS Dynamic brand fuels at the petrol stations of the Concern, which have quickly become appreciated by a large group of customers. In 2007, LOTOS Asfalt broke another sales record. The company sold about 900 thousand tonnes of bitumen, thus strengthening its leading position as a supplier for the development of the Polish road infrastructure. LOTOS Oil and LOTOS Parafiny were also ahead of their competitors and, as in the previous year, they ranked first on the Polish oil and paraffin markets. On the other hand, LOTOS Gaz, owing to the efficient business consolidation with KRAK-GAZ, obtained a 10% share of the domestic market and increased the chain of LOTOS stations by 50 new facilities, offering high quality LPG to drivers.

It is worth emphasizing that the asphalt, oil and paraffin businesses are developing successfully in the south of Poland, in the areas of the refineries in Czechowice-Dziedzice and Jasło. The total amount of PLN 285 million invested in 2004 by Grupa LOTOS S.A. into the restructuring and development of Southern Refineries is bringing tangible effects, namely the operation of the candle factory, the growing sales of lubricating oils and bitumen, as well as the development of the warehouse basis of fuels for the needs of the dynamically developing markets of the Śląskie and Małopolskie Voivodships.

We have also accepted other new challenges of the fuel market, mostly concerning biofuels. This market is only commencing in Poland and Grupa LOTOS S.A. is an active player in this process by fulfilling the aims of the National Index Aim, adopted by the Polish government. In Czechowice-Dziedzice a system is being created for the production of the FAME biocomponent, with the throughput of 100 thousand tonnes per year. The system will start production in the first half of 2008.

We maintain our care for the environment, so that the systematic development of petroleum processing is accompanied by the construction and modernization of systems that limit the environmental impact of the Company. Grupa LOTOS S.A. has systematically been making eco-friendly investments and this part of the budget amounted to more than PLN 99 m in 2007, which exceeds by almost three times the outlays in 2006. The detailed directions of our strategy for the environment have been presented in our report on the environmental impact, published for the first time in 2007. Within our comprehensive measures, we constantly monitor the quantity and quality of our emissions. The report, presented in June 2007 by independent experts, showed that our operations do not have any negative affect on the air at Nature 2000 sites, neither at present nor after the development of the Concern as part of the 10+ Programme.

We focus on the social mission of the business by building the transparency and social responsibility of the Company and participating in the development of the youth of Poland. We take this mission seriously and for the long-term, therefore we are publishing the first report dedicated to this subject matter this year.

Grupa LOTOS S.A. is well-known for its sponsoring within sport and recreation. We see sport as a means of popularising a healthy lifestyle, noble rivalry and the support for disciplines that are important socially. I am positive that our involvement in this area has given Polish society and our country a great many moments of joy and pride. Grupa LOTOS S.A. has taken great satisfaction from its involvement in projects that were socially important.

To summarise the year of 2007, I can honestly say that it was a good and very hard-working year for the Company. We laid strong foundations for implementing the strategic 10+ Programme. At the same time, we were developing other areas of our business intensely. As a result, I face the future and new challenges with optimism and calm. I know that the Concern is professionally prepared for them. It has been my great pleasure working with the Management Board and the executives of the Company, who met all the challenges they faced in 2007.

We worked in difficult conditions owing to intense competition. In order to face the future tasks and in acting in the interests of the Stockholders of Grupa LOTOS S.A., we took the initiative of implementing a professional incentive programme connected with the continuous growth of the Company's value. We have been developing this value successfully for the Stockholders together with all the employees since 2002, i.e. when I began managing Grupa LOTOS S.A. I am certain that 2007 was a positive milestone of this trend. Being aware of the always-changing business environment and the growing expectations of the capital market, I am positive that we will multiply our successes in the future by building value for the Stockholders, our staff, the society and for Poland.

Best regards,

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

7 The LOTOS Group

Grupa LOTOS S.A., as one of the most modern refineries in Central Europe, strives to use its resources as effectively as possible by following the highest standards. The adopted development strategy guarantees the achievement of long-term goals: increasing the power security of Poland and maximising stockholder value.

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 the ongoing development of employees and capitalisation on their capabilities.

Vision

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

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

Strategy

Strategic objective

The strategic objective of the LOTOS Group is to create shareholder value, through optimal leveraging of its existing capabilities and implementing development projects.

This objective will be implemented with key strategic programmes:

- Exploration and Production Development Programme
- Comprehensive Technological Upgrade Programme
- Sales Structures Development and Optimisation Programme
- Operational and Management Exellence Programme

The development will be conducted in three key areas:

- crude oil exploration and production
- refining
- market activity

with the focus on the strategic objective, namely increasing stockholder value.

In the area of crude oil exploration and production, the LOTOS Group intends to establish an international upstream segment operating primarily on the Baltic Sea and North Sea areas.

Within the area of refining, the main task is to implement the 10+ Programme.

In the market activity area, the Group's position on the Polish market will be strengthened and trading with Central, Eastern and Northern Europe will be developed.

Based on:

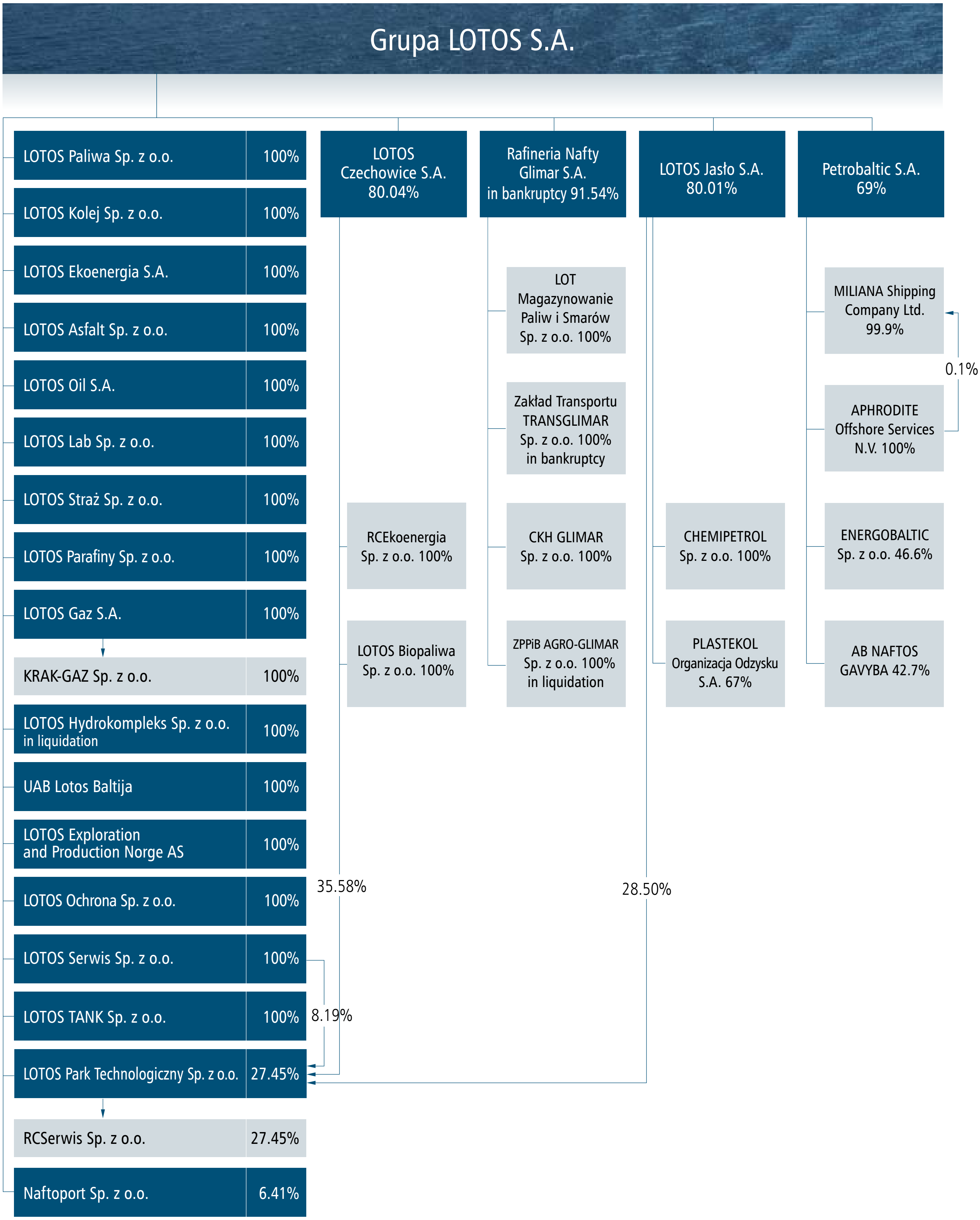
- observed changes in the market environment
- long- and medium-term trends in the petroleum sector
- its market and financial position
- the location of the main refinery

the LOTOS Group intends to utilise its development opportunities optimally, in particular in the Baltic Sea Region.

Aiming at sustainability, the Grupa LOTOS S.A. will use state-of-the-art technologies, will be open to innovative technologies resulting from new trends in the European power policy and will react flexibly to changing economic conditions.

The 'Strategy of the LOTOS Group to 2012' is being updated and new directions for development in 2013-2020 are being identified.

The LOTOS Group Structure



The LOTOS Group Structure				
Name	Registered office	Business profile	Share of Grupa LOTOS S.A. in the their capital 31 December 2006	31 December 2007
Parent undertaking				
Grupa LOTOS S.A.	Gdańsk	production and processing of refined petroleum products (mainly fuels) and their wholesale		
Direct subsidiaries Upstream segment				
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, petroleum and natural gas production	69.00%	69.00%
LOTOS Exploration and Production Norge AS	Norway	exploration and production of petroleum on the Norwegian continental shelf	-	100.00%
Direct subsidiaries Operational segment				
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice--Dziedzice	storage and distribution of fuels	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	production and processing of refined petroleum products and their wholesale and retail sale	80.01%	80.01%
LOTOS Ekoenergia S.A.	Gdańsk	the Company has not started its operation	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanic, electric and automatic control; repairs	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing	100.00%	100.00%
Rafineria Nafty Glimar S.A. in bankruptcy	Gorlice	the Company is undergoing bankruptcy proceedings (formerly: refining)	91.54%	91.54%
LOTOS Hydrokompleks Sp. z o.o. in liquidation	Gorlice	the Company has not started its operation	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection	100.00%	100.00%
Direct subsidiaries Corporate support segment				
LOTOS Ochrona Sp. z o.o.	Gdańsk	property and personal protection	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	restructuring the assets of the Southern Refineries (LOTOS Czechowice S.A. and LOTOS Jasło S.A.)	27.45%	27.45%

The LOTOS Group Structure				
Name	Registered office	Business profile	Share of Grupa LOTOS S.A. in the their capital	
			31 December 2006	31 December 2007
Direct subsidiaries **Commercial segment**				
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS petrol station chain	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, domestic sale of base oils and plasticizers	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	production and sale of bitumen and heavy fuel oil	100.00%	100.00%
LOTOS Gaz S.A. (since 5 July 2007 LOTOS Mazowsze S.A.)	Mława	sale of LPG and sulphur	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	sale and production of paraffin mass and production and sale of candles	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	wholesale of liquid and gas fuels and derivative products	86.01%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	sale of fuels and logistic services	100.00%	- [(1)]
UAB LOTOS Baltija	Lithuania	wholesale and retail sale of lubricating oils e.g. in Lithuania and Byelorussia	100.00%	100.00%
Other undertakings				
Naftoport Sp. z o.o.	Gdańsk	operation of trans-shipping terminals of crude oil and petroleum products	8.97%	6.41%
BiproRaf Sp. z o.o.	Gdańsk	design services for the petroleum industry	50.00%	- [(2)]

[(1)] On 29 January 2007 Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. were merged.
[(2)] On 15 January 2007 Grupa LOTOS S.A. sold its shares in BiproRaf Sp. z o.o. to KTI Poland S.A.

The LOTOS Group Structure		
Name	Registered office	Business profile
Indirect subsidiaries		
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	service activity
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	the special-purpose Company for the FAME project
LOT Magazynowanie Paliw i Smarów Sp. z o.o.	Gorlice	the Company has not started its operation
Zakład Transportu TRANSGLIMAR Sp. z o.o. in bankruptcy	Gorlice	service activity
CKH GLIMAR Sp. z o.o.	Wysowa	service activity
ZPPiB AGRO-GLIMAR Sp. z o.o. in liquidation	Gorlice	service activity
Chemipetrol Sp. z o.o.	Jasło	service activity
Plastekol Organizacja Odzysku S.A.	Jasło	service activity
MILIANA Shipping Company Ltd.	Cyprus	service activity
Aphrodite Offshore Services N.V.	The Netherlands Antilles	service activity
Energobaltic Sp. z o.o.	Gdańsk	production and service activity
AB NAFTOS GAVYBA	Lithuania	capital operations in the crude oil sector
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	service activity
KRAK-GAZ Sp. z o.o.	Bochnia	wholesale and retail sale of LPG

As of 31 December 2007 and 31 December 2006, the Company's share in the total vote at the General Shareholders Meetings of its subsidiaries equalled the Company's share in their share capital.

Corporate Governance

Grupa LOTOS S.A., whose stocks are listed on the Warsaw Stock Exchange and are included in the prestigious WIG20 index, strives to apply the highest standards of corporate governance. The importance of such standards, which is obvious for all players on the capital market, is also well understood by the Management Board and the Supervisory Board. The norms applied in Grupa LOTOS S.A. fulfil the highest standards of corporate governance and have been adopted in order to protect the rights of all Stockholders.

Principles of Best Practices in Public Companies 2005

In order to maintain top management standards, the Management Board of Grupa LOTOS S.A. issued a declaration on 15 May 2006 and 28 June 2007, wherein it declared its compliance with the principles of corporate governance given in the document entitled 'Best Practices in Public Companies 2005'. The Company applies all the principles given therein except for the following rules: 14, 20, 27, 28, 38 and 43. In 2007, there were no instances of non-conformity with the rules the Company accepted in the declaration of 15 May 2006.

Rules that are not applied:

Amendment to the agenda
Rule 14

The resolution on omitting an item included in the agenda may be adopted only in justified situations. A motion for the withdrawal of an item should be well substantiated. Withdrawing an item from the agenda or dropping an issue upon a motion of stockholders requires a resolution adopted by the general meeting, after approval is given by all stockholders present who have made a motion, and supported by 75% of the votes at the general meeting.

Comment

Pursuant to Article 6(5) of the Regulations of General Meetings, a resolution on withdrawing an item from the agenda may be taken only if there are important and material causes and the motion should be well substantiated by an applicant. Withdrawing an item from the agenda or dropping an issue upon a motion of Stockholders requires the approval of a Stockholder(s) who has(have) requested the item to be included in the agenda, and the resolution of the General Meeting adopted with an absolute majority of votes.

The above limitation to an absolute majority of votes results from the role of the Company on the Polish fuel market and the necessity to maintain the influence of the strategic Stockholder of our Company, according to the guidelines of the Strategy for the Petroleum Industry in Poland.

Independent members of the supervisory boards
Rule 20

- At least half of the supervisory board members should be independent, subject to the following items. Independent members of the supervisory board should be free from any connections with the company, the stockholders or employees that might have any significant impact on the capacity of an independent member to take unbiased decisions;

- Detailed criteria of independence should be given in the articles of association of the company;

- Without the consent of independent members of the supervisory board, no resolutions should be taken on the following issues:
  - any benefits received under any titles by the company or any entities related to the company for members of the management board;
  - issuing a permit on concluding a major contract by the company or its subsidiary with an entity

  that is related to the company, a member of the supervisory board or the management board and their affiliated entities;
  - selection of a licensed auditor to conduct the audit of the financial statements of the company.

- In companies where one shareholder holds a stock package granting more than 50% of the total number of votes, the supervisory board should comprise at least two independent members, including an independent chairperson of the audit committee, provided such a committee has been established.

Comment

Due to the present stockholding structure and the Company's role in the Polish fuel sector, there is no institution of independent members. However, the Company does not exclude the possibility of adopting relevant regulations in the future. Nevertheless, the Supervisory Board has designated permanent committees of the Board: Payroll / Organization and Management, Audit and Strategy and Development.

Salaries and the supervisory board
Rule 27

Remunerations of the members of the supervisory board should be determined with transparent procedures and rules. Such remunerations should be decent, but should not constitute a major cost item in the operation of a company, nor should they have any significant impact on its financial results. Their value should be reasonably correlated with the remunerations of the members of the management board. The total value of remunerations of all members, as well as the individual remunerations of each member of the supervisory board divided into their elements, should be revealed in the annual statements together with information on procedures and the rules of their determination.

Comment

Remunerations of the Members of the Supervisory Board are subject to the limitations and rules set forth in the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws No. 26 from 2000, Item 306 with subsequent amendments) and in the administrative regulations based on the Act.

Regulations of the supervisory board
Rule 28

The supervisory board should act upon its regulations, which should be publicly available. The regulations should provide for the establishment of at least two committees:

- audit
- payroll

The audit committee should include at least two independent members and at least one member holding qualifications and experience within accounting and finance. The tasks of such committees should be detailed in the regulations of the supervisory board. Committees should submit annual reports on their operations. The company should make such reports available to stockholders.

Comment

The Supervisory Board of the Company acts according to the Regulations, which are available publicly on the Internet service www.lotos.pl. At present, there are no members in the Supervisory Board with the status of being independent of the Company. The lack of independent members results from the present structure of stockholding in the Company, and its role in the Polish fuel sector. However, the Company does not exclude adopting relevant regulations in the future. Nevertheless, Article 9 of the Regulations of the Supervisory Board provides for the establishment of three permanent committees, namely:

Payroll / Organization and Management Committee, Audit Committee and Strategy and Development Committee.

Furthermore, according to Article 9(1) of the Regulations of the Supervisory Board, the Supervisory Board may appoint its members to serve in working teams to examine specific issues.

Salaries of the members of the management board
Rule 38

Remunerations of the members of the supervisory board should be determined with transparent procedures and rules, taking account of the incentive element and providing the effective and smooth management of the company. Remunerations should reflect the size of a business, be reasonably associated with economic results and the scope of responsibility resulting from a function, considering the salaries paid to members of management boards in similar companies and on a comparable market.

Comment

Remunerations of the Management Board of the Company are subject to the limitations and rules set forth in the Act of 3 March 2000 on remuneration of persons managing certain legal entities (Journal of Laws No. 26 from 2000, Item 306 with subsequent amendments) and the administrative regulations based on the Act.

Selection of a licensed auditor
Rule 43

The selection of an entity to work as a licensed auditor should be performed by the supervisory board following the recommendations of the audit committee or by the general meeting following the recommendations of the supervisory board containing the recommendations of the audit committee. The selection by the supervisory board or the general meeting of an auditor other than recommended by the audit committee should be justified in detail. Information on the selection of a licensed auditor together with the justification should be included in the annual report.

Comment

A licensed auditor is selected by the Supervisory Board based on the recommendations of the Audit Committee. The Audit Committee makes its recommendations following transparent rules and market criteria. Due to the lack of any Supervisory Board members who are independent of the Company, the Audit Committee does not fulfil the corporate governance criteria (see comments to Rules no. 20 and 28).

The Management Board of Grupa LOTOS S.A. hereby advises that a complete text of the report on the application of corporate governance rules in 2007 is available on the Group's website at www.lotos.pl.

Authorities of Grupa LOTOS S.A.

General Meeting

Competences of the General Meeting include a number of matters specified in the Articles of Association of Grupa LOTOS S.A. Any issues submitted to the General Meeting are first presented to the Supervisory Board for analysis. The questions of participation in the General Meetings and voting are governed by the 'Bylaws of the General Meetings of Grupa LOTOS S.A.'. The Bylaws include also the regulations concerning the procedure of convening and cancelling the General Meeting, its opening and proceedings, as well as the method of electing members of the Supervisory Board.

In 2007, the Ordinary General Meeting of Grupa LOTOS S.A. was held on 28 May.

Supervisory Board

The Supervisory Board exercises permanent control over the operations of Grupa LOTOS S.A. The Supervisory Board may, without interfering with the competences of other authorities, express its opinions on any issues relating to the operations of Grupa LOTOS S.A., which includes making motions and proposals to the Management Board. The Supervisory Board submits a concise assessment of Grupa LOTOS S.A.'s situation to the annual General Meeting, early enough for the Stockholders to acquaint themselves with the assessment before the date of the Meeting.

In 2007, there were eleven meetings of the Supervisory Board, which adopted 55 resolutions.

Committees of the Supervisory Board

Strategy and Development Committee

The task of the Strategy and Development Committee is to endorse and submit to the Supervisory Board the recommendations concerning planned investments that have a major impact on the Company's assets.

In 2007, the Strategy and Development Committee comprised:

from 1 January 2007 to 14 June 2007
Jan Stefanowicz – Vice-Chairman, acting as the Chairman since the resignation of Jan Szomburg (since 16 June 2006)
Henryk Siodmok
Jacek Tarnowski

from 14 June 2007 to 31 December 2007
Jan Stefanowicz – Chairman
Marta Busz
Henryk Siodmok
Grzegorz Szczodrowski

Payroll / Organization and Management Committee

(formerly the Payroll Committee – the name was changed on 14 June 2008)

The task of the Organization and Management Committee is to submit opinions and recommendations to the Supervisory Board concerning the management structure, including issues of organization, the payroll system and recruitment, so as to achieve the strategic aims of the Company.

In 2007, the Payroll / Organization and Management Committee comprised:

from 1 January 2007 to 14 June 2007
Jan Stefanowicz – Chairman
Beata Zawadzka
Grzegorz Szczodrowski

from 14 June 2007 to 31 December 2007
Marta Busz – Chairwoman
Grzegorz Szczodrowski
Beata Zawadzka

Audit Committee

The task of the Audit Committee is to consult the Supervisory Board in issues concerning the implementation of budget and financial reporting rules, internal control of the Company and cooperation with licensed auditors of the Company.

In 2007, the Audit Committee comprised:

from 1 January 2007 to 14 June 2007
Henryk Siodmok – Chairman
Beata Zawadzka
Jacek Mościcki

from 14 June 2007 to 31 December 2007
Henryk Siodmok – Chairman
Beata Zawadzka
Jacek Mościcki
Izabela Emerling

Management Board

The Management Board is responsible for running the business of Grupa LOTOS S.A. and represents it in all activities except for the ones that are reserved for the competences of the General Meeting or the Supervisory Board, or which exceed the ordinary management of the Company and which require a prior resolution of the Management Board. The scope of issues that require resolutions of the Management Board is governed by the Management Board Bylaws.

In 2007, the Management Board had 55 meetings in total and it adopted 166 resolutions.

System of internal control and risk management with reference to the process of preparing financial statements

The process of preparing, approving and distributing statements is governed by the procedure: 'Rules of Preparing, Approving and Distributing Annual, Biannual and Quarterly Statements of the LOTOS Group'.

Consolidated and individual financial statements are subject to review and analysis by an independent licensed auditor. According to the procedure, the Audit Committee is responsible for analysing the results of the audit and the content of the opinion and the report on the annual statements / consolidated annual statements, in particular:

- the main audited areas
- significant unusual transactions and the possibility of applying different solutions
- issues that are related to adopting certain premises and estimates
- significant revisions resulting from the audit, compliance with applicable regulations on accounting and reporting, in order to give a recommendation to the Supervisory Board concerning the financial statements of the Company

Financial Standing and Assets

Ladies and Gentlemen,

In 2007, the LOTOS Group generated another record-breaking net profit for the stockholders of the dominant Company, amounting to PLN 777.2 m. The continuing annual improvement in profits is related to the consistent implementation of the LOTOS Group strategy, where the focus is on increasing the sales of our products and the efficiency of our operations. An important element in improving the profits of the LOTOS Group involves the restructuring of the distribution chain and the Southern Refineries of Grupa LOTOS S.A.

The achievement of the strategic aims of the LOTOS Group has resulted in the growth of income from sales, which in 2007 amounted to PLN 13.1 billion. The increase in income was accompanied by a rising volume of sales by 60 thousand tonnes compared to 2006. Together with the higher volume of sales, the structure of products sold underwent a positive change. The LOTOS Group has been consistently increasing the share of the sales of high-margin medium distillates and in 2007 sold more than 2.8 m tonnes of diesel oil, increasing the share of this product in the total volume by 4%. 2007 saw the dynamic growth of bitumen sales amounting to 900 thousand tonnes, i.e. 14% more than in 2006. As only the B3 reservoir was in operation in 2007, the production of crude oil dropped to 190.6 thousand tonnes.

In 2007, the Company operated in an unsteady environment. We witnessed a dynamic increase in petroleum prices. Moreover, the Ural-Brent differential dropped by more than 17%, which had a negative impact on the purchase costs of our basic raw material. Additionally, an important negative factor that affected our operating result of PLN 713 m, was the depreciation of American currency, which decreased by more than 10%. On the other hand, the growing prices of petroleum products (on average by 11% compared to the previous year) and the refining margins, which were higher than in 2006, had a positive effect on the operating profit. There were also a number of one-off events that had an impact on the operating result, such as:

– the shutdown of the Hydrocracking installation at Gdańsk refinery due to the replacement of the catalyst,

– having a reserve for the risk of not using part of the investment outlays due to the postponement of the investment into gassing heavy vacuum residuals,
– write-offs due to the revaluation of a company established upon the acquisition of an organised part of the business of fuel stations.

The operating profit in 2007, although lower than in 2006 by almost PLN 85 m, was similar to the previous year's level except the above-mentioned unusual events and despite the negative market trends.

The financial profit of the LOTOS Group recorded in 2007 at PLN 291 m was due to the high profits from exchange rate differences and the results of collateral transactions.

In view of the above-mentioned factors, which had a major effect on the Group's operation, it has to be emphasized that the LOTOS Group managed to achieve most of the financial results forecast in 2007. Over 2007, the LOTOS Group increased its balance-sheet total by PLN 1,956.8 m. A rise in the value of assets was attributable primarily to the investments relating to the 10+ Programme, which until the end of 2007 consumed more than PLN 1 billion. At the same time, the reserves increased to PLN 881.9 m, due to the required volume of compulsory stocks and the higher prices of crude oil and its products compared to the prices from the end of 2006. The following years will be characterised by major changes in the balance sheet of the Company, due to the implementation of the 10+ Programme and the growing debts of the Company. Moreover, owing to the implementation of the strategy within the upstream activity, in the following years we may expect a significant growth of outlays due to the exploration programme on the Baltic Sea and the development of new reservoirs.

Considering the increasing risks due to the changes in the market environment and the necessity of our investment programmes to produce performance results causing additional debt of Grupa LOTOS S.A., we have decided to implement hedging programmes with regard to raw material and product prices and the extended scale of security against FX risks.

Since its debut on the Warsaw Stock Exchange, the financial standing and assets of Grupa LOTOS S.A. have been under constant scrutiny by investors. In 2007, the stock price of our Company dropped by 10.1%. In our opinion, this decrease reflects the general situation on financial markets and the trends followed at the beginning of 2008.

2007 also saw dynamic changes on the crude oil and financial markets. In spite of the changing environment, the LOTOS Group has consistently been implementing its strategy and the achieved results confirm its very good financial standing and provide grounds for carrying out highly ambitious investment programmes.

Kind regards

Mariusz Machajewski
Vice-President of the Management Board
Economic-Finance Director
Grupa LOTOS S.A.

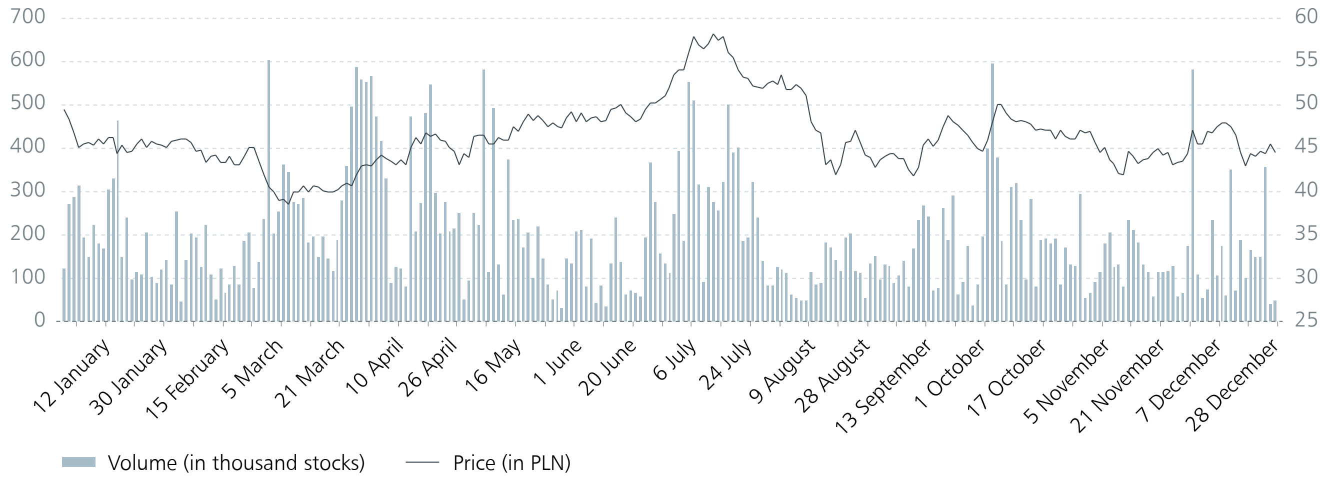
Grupa LOTOS S.A. on the Stock Exchange

In 2007, the stock price of Grupa LOTOS S.A. started at PLN 49.50, while the WIG20 index was at 3,347.75 points. In the first months, the price dropped due to the continuation of a major downward trend, which started in at the beginning of September 2006 (a correction of the downward trend occurred at the end of 2006). The first two months saw the drop in prices of other petroleum companies due to the low prices of crude oil and its products prevailing on international markets. In this period, the WIG20 index was in a rising trend and recorded a historic maximum on 22 February.

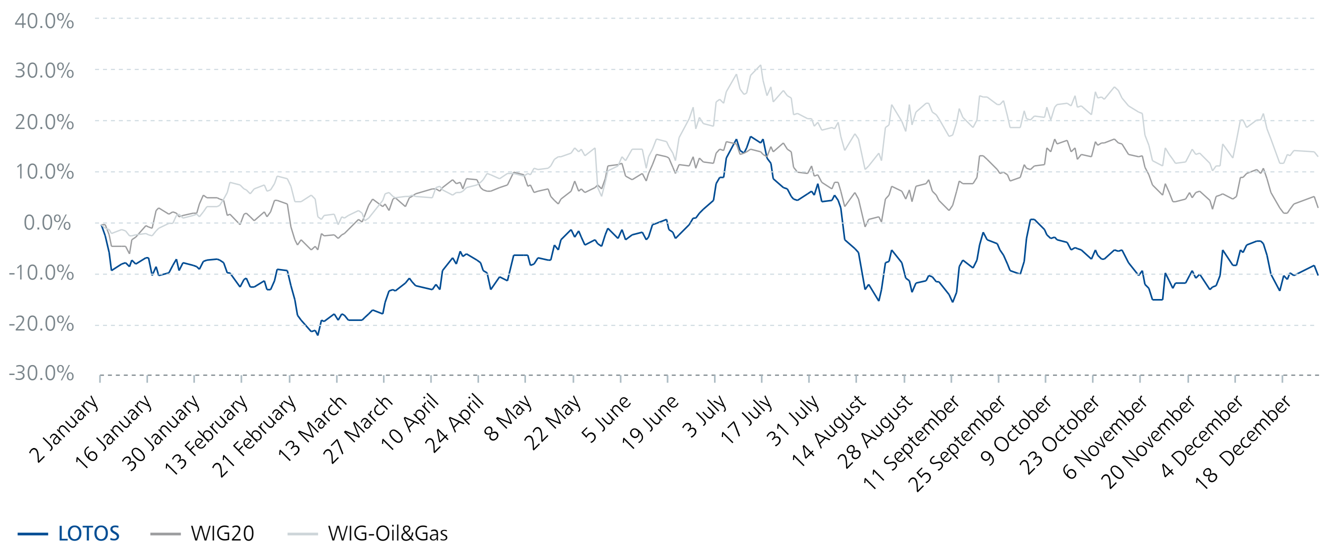
At the turn of February and March, the Warsaw Stock Exchange experienced a correction due to the news of the slowing American economy and the sale of stocks on the Chinese market. On 7 March, the WIG20 index and the Grupa LOTOS S.A. stocks recorded their minimum levels (WIG20 at 3,173.93 points and Grupa LOTOS S.A. stocks at PLN 38.50). After that, their levels increased and both WIG20 and Grupa LOTOS S.A. stock prices were in an upward trend until the historic maximums on the Warsaw Stock Exchange recorded in mid-July (a correction of the upward trend occurred in the second half of April). The WIG20 reached its maximum at 3,899.59 points on 6 July and Grupa LOTOS S.A. stock prices at PLN 58.15 on 13 July. The positive impulse for the WIG20 index came from the co-organization of the football EURO Cup 2012 granted to Poland. In Q2 2007, among sector sub-indices, the highest return rate (13.9%) was recorded for WIG-Oil&Gas (including the stocks of the following companies: PKN Orlen, PGNiG, Grupa LOTOS S.A., MOL, Petrolinvest and CP Energia), which resulted from the growth in petroleum prices on global markets.

From mid-July to mid-August, the stocks of Grupa LOTOS S.A. declined sharply (the drop by almost 28%). After that, the Company's stocks were in a lateral trend until the end of the year, subject to relatively strong fluctuations between PLN 41.8 and PLN 50.0. The growth in the price in November was related to the publication of the Company's quarterly results, which surpassed market expectations. In the same period, the WIG20 Index was in a long-term downward trend, due to the deteriorating situation on the US mortgage market. The fall of the WIG-Oil&Gas sub-index was related to the drop in the refining margin on global markets and the falling USD/PLN exchange rate.

Over 2007, the prices of Grupa LOTOS S.A. were weaker than the WIG-Oil&Gas sector sub-index. At the end of the year, the stock price achieved the level of PLN 44.50, an annual drop by 10.1%. On the other hand, the WIG-Oil&Gas index reached 3,548.44 points, an increase by 13.3% compared to January 2007, considering the change of the sub-index value resulting from the denomination as of 28 May 2007 at a 1:10 ratio (the denomination of all sector sub-indices was aimed at improving the clarity of information provided by indices for investors and analysts). As of the end of the year, the WIG20 index amounted to 3,456.05 points and its increase in the year stood at 3.2%.



Grupa LOTOS S.A. – Stock price and trading volume in 2007



Performance of Grupa LOTOS S.A. stock, as well as WIG20 and WIG-Oil&Gas indices in 2007

Operational Risk

Internal risks and threats

Risk related to the overall macroeconomic situation

The financial situation of the Company is a reflection of both the domestic and global economic situation. The financial performance of Grupa LOTOS S.A. depends on: the GDP growth rate, the inflation rate, interest rates, the population's private incomes, the unemployment rate, the development of the road infrastructure, and the development of the services and retail sectors. Any material changes in these factors may adversely affect the pace at which Grupa LOTOS S.A. develops and at which 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 Grupa LOTOS S.A. 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 Grupa LOTOS S.A. We analyse information on any potential future legislation, in terms of how it may impact the Company's business. This risk affects all companies in the sector to a comparable degree.

The risks related to changes in fiscal regulations and their interpretation

In Poland, fiscal regulations are subject to frequent change, which leads to interpretive ambiguities and differences of opinion between entrepreneurs and tax authorities. In its operations, Grupa LOTOS S.A. 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

The fact that Grupa LOTOS S.A. refinery in Gdańsk may be granted CO_2 emission allowances for 2008-2012 that are not sufficient to cover the CO_2 emission level anticipated after the completion of the 10+ Programme, might force the Company to purchase emission allowances on the open market, thus increasing its operating expenses.

Internal risks and threats

Financial risks

Grupa LOTOS S.A. is primarily exposed to market risks (related to raw material and petroleum product prices, CO_2 allowance prices, foreign exchange and interest rates), liquidity risk, as well as credit risk. Grupa LOTOS S.A. has procedures in place for managing each of the above risks.

Risks related to the execution of the 10+ Programme

Major risks related to the execution of the Programme include high costs of investments, delays in the project's execution, and technological risks. Other risks related to the execution of the 10+ Programme are being gradually reduced, as work on preparing and executing the project progresses.

Management Systems

Grupa LOTOS S.A. operates an Integrated Management System (IMS) based on the requirements of the following standards:

- PN-EN ISO 9001:2001 – Quality Management System
- PN-EN ISO 14001:2005 – Environmental Management System
- PN-N-18001:2004 – Health and Safety Management System

The certificate was granted following a positive result in an external audit conducted by the Polish Centre for Testing and Certification (PCBC).

The first element of the IMS is the Quality Management System. The primary task of this System is to provide the ability to continually deliver products that fulfil the current requirements of customers and stimulate the growth of their satisfaction and loyalty.

The second element involves environmental activity. For Grupa LOTOS S.A., environmental protection is one of the key parts of the development strategy. The technologies that are used today and will be implemented in the future fulfil the top national and international standards in this regard.

Implementing the Environmental Management System is a result of our continuous care for the environment. The primary role of this System is to support activities related to environmental protection and pollution prevention.

The third element of IMS is the Health and Safety Management System, which focuses on the involvement of personnel in creating and operating the whole System. This element requires regular measures to be taken for the improvement of health and safety.

In 2007, we recorded a significant increase in H&S awareness among our personnel. It resulted from a number of campaigns launched in order to eliminate any hazards and near misses.

The implemented and certified Integrated Management System guarantees our care for the quality of products and services, as well as proves our concern for the environment and safety at work.

Moreover, in order to stress the importance and weight of values followed at Grupa LOTOS S.A., two documents have been drawn up: the Employee Code of Conduct and the Manager Code of Conduct. The former document presents the rules that should govern relations with customers, commercial partners and among employees, as well as the principles of integrity and professional ethics. The latter Code lists the skills and qualifications required from the managers of Grupa LOTOS S.A.

Due to the growing importance of information and the means of its protection, Grupa LOTOS S.A. continues to implement the Information Safety System based on the ISO 27001:2005 standard. Introducing this System provides reliability, trust, confidence, savings and continuity of operation with the suitable protection of information resources.

Moreover, the Information Safety System enables the integration of the rules of safety management with the existing management systems. This means that the organizational mechanisms of the Information Safety System should provide a continuous increase in its level, i.e. to fulfil the principle of continuous improvement applied in quality management systems.

In order to fulfil the specific requirements set by army clients, in 2007 Grupa LOTOS S.A. commenced additional implementation of the quality management system according to NATO standards. Its aim is to provide the production and supplies of reliable and material-saving products for the military. The requirements of the system are included in AQAP 2110 (Allied Quality Assurance Publication). They are based on the ISO 9001 standard structure and include additional NATO-specific requirements, focusing on quality planning, risk and configuration management, as well as supporting the Government Quality Assurance (GQA) process.

Human Resources

Employees are the greatest asset of Grupa LOTOS S.A. Commitment to the continuous improvement and utilization of the personnel's potential is part of the Company's mission. Their expertise, professionalism and creativity, combined with result-oriented teamwork, are the primary capital of the Group.

The modern HR policy at Grupa LOTOS S.A. is both long-term and comprehensive. Measures taken within HR are in support of the fulfilment of the strategic aims of the Company. In the light of planned development and international expansion, it is essential to maintain and develop the skills of the staff, but also to recruit a new group of employees with suitable competences on the labour market.

The key objectives of the HR policy include:

- to achieve competences that correspond to the development strategy of the Company with extensive training and development of employees
- to attract and keep the most valuable and talented workers
- to continuously improve labour efficiency and optimise the utilization of employees' skills and knowledge
- to improve the incentive systems and create the conditions for completing tasks to meet expected standards
- to strengthen the role of line management
- to optimally allocate and utilise human resources across the LOTOS Group companies
- to foster a pro-innovative organizational culture
- to create the image of the Company on the market as a valuable and responsible employer

The consistent achievement of these set objectives gives benefits to the LOTOS Group in the form of growing labour efficiency, innovation and commitment of employees in line with the aims of the Company. The HR policy provides for the transfer of workers within the LOTOS Group and the creation of programmes that minimize any negative effects of reorganization.

The basic premise of the HR management strategy is to treat employees as the most important asset of the Company.

Personnel situation

As of the end of 2007, Grupa LOTOS S.A. employed 1,098 workers. An average employee was 42.5 years old. The analysis of the educational structure shows a rising share of employees with higher education. In 2007, degree holders represented 50.8% of all workers, while 39% had secondary education.

In 2007, the average staff turnover in Grupa LOTOS S.A. was at 16%. Compared to 2006, this ratio increased significantly due to acquiring the employees of LOTOS Partner, and the consolidation of the Financial-Accounting Centre services.

Recruitment process

Bearing in mind the high qualifications and skills of its staff, during the recruitment process the Company gives priority to applications submitted by its present employees. As a result, the effective transfer of knowledge across the LOTOS Group's companies is possible.

At the same time, a database of candidates from outside the Company has been maintained by receiving applications in response to job advertisements, press and Internet announcements and information distributed during Job Fairs and meetings with students.

Every job requires specialist competences, which result from the knowledge and skills necessary to perform set tasks. However, there are some standard skills that are characteristic for all employees of the Company and that are sought-after among candidates who apply for work at Grupa LOTOS S.A. The most important skills include:

Business awareness – in a large organization every member should know that we act in a broad economic and interpersonal context. Results of our work affect the work of our co-workers and the results of the Company. In order to understand this, one needs to have a wide vision of all analysed issues and the ability to add up information.

Creativity and innovation – the market poses challenges that require a creative approach and new ideas. A creative person observes a situation, is not satisfied with imperfect methods and looks for and creates innovative solutions.

Adaptation to change – it is commonly known that the only invariable thing in the world is change. Adapting to change means the readiness and ability to learn quickly and the flexibility in thinking and acting. Changes are to be seen as opportunities to improve the present situation.

Communicativeness – the ability to build relationships with other workers and external customers; this is connected with listening skills and the ability to circulate clear information, so as to facilitate the performance of tasks for oneself and others.

Teamwork skills – we are part of a team that has a common aim and values. The ability to cooperate determines the success of an employee and, in a broader perspective, of the whole organization.

Employees of Grupa LOTOS S.A. are persons who are strongly involved not only in the performance of work, but also in the life of the Company. They are loyal and proud of contributing to the Company's success; are creative and innovative, adapt to new situations and changes and are aware that teamwork is the key.

Employment in the companies of the LOTOS Group		
Company	Employment as of 31 Dec 2006	Employment as of 31 Dec 2007
Parent Company		
Grupa LOTOS S.A.	945	1,098
Petrobaltic S.A.	492	286
LOTOS Exploration and Production Norge AS	-	2
LOTOS Czechowice S.A. with subsidiaries	257	252
LOTOS Jasło S.A. with subsidiaries	295	179
LOTOS Serwis Sp. z o.o.	663	722
LOTOS Lab Sp. z o.o.	183	185
LOTOS Straż Sp. z o.o.	72	75
LOTOS Ochrona Sp. z o.o.	121	156
LOTOS Park Technologiczny Sp. z o.o.	109	118
LOTOS Paliwa Sp. z o.o.	1,322	272
LOTOS Oil S.A.	306	322
LOTOS Asfalt Sp. z o.o.	143	176
LOTOS Gaz S.A. (after 5 July 2007 LOTOS Mazowsze S.A.)	84	97
LOTOS Parafiny Sp. z o.o.	264	265
LOTOS Kolej Sp. z o.o.	285	345
LOTOS Tank Sp. z o.o.	-	5
LOTOS Partner Sp. z o.o.	75	-
UAB LOTOS Baltija	8	9
TOTAL	5,624	4,764

An important difference in the employment level in the LOTOS Group, compared to 2006, stems primarily from the restructuring of LOTOS Paliwa Sp. z o.o. in 2007. As a result, 800 employees of the Company’s petrol station chain became workers of stations leased by agents, or decided not to take up their job with a new employer.

Development system and career paths

In order to meet the challenges posed by changes in the Company and its business environment, in 2004, Grupa LOTOS S.A. established the LOTOS Academy. Its mission is to implement the LOTOS work culture and management philosophy based on the concept of an employee who is consciously involved in creating the added value required by customers and stockholders.

The LOTOS Academy supports the introduction of process management and the enhancement of the organizational culture by improving the competences of its employees in a systemic manner. To this purpose, the following new methods and tools of HR management have been developed:

- a map of skills that is the basis in the assessment of the status of human resources and the progress in their development
- codes of ethics: 'Code of Conduct for the Grupa LOTOS Employees', 'Manager Code' and 'Corporate Decalogue', which are used to enhance the organizational culture
- a system of regular employee assessments that enables the measurement of the work efficiency and the development of employee competences
- training programmes under the motto of 'Striving for Excellence', which increase business awareness
- a training calendar as the response to current and planned development needs of all employees of the LOTOS Group
- seminars for the management staff in order to broaden the present knowledge of executives
- dedicated programmes:
  - 'Personnel 2009 – 10+ Programme', with the aim to provide staff necessary for the performance of the 10+ Programme, as well as to operate and maintain the production process in the new systems
  - 'Induction Programme' as a method of forming required patterns of behaviour among new employees and shortening the time necessary for the effective fulfilment of tasks
  - 'Certification Programme for Production Staff', which supports the vocational qualifications of the production division workers within the 10+ Programme
  - 'Human Resources Development Programme', which provides the Company with the continuity of its management processes
  - 'Future Leaders Programme 2007-2009', whose aim is to prepare leaders, i.e. managers, for challenges faced by the Company in the future, by identifying the most valuable employees in the Company and providing them with broad development opportunities

The operation of the LOTOS Academy focuses on improving the performance of labour, and thus the efficiency of the Concern, and on strengthening its value and the importance of the LOTOS brand on the market. Providing employees with development opportunities attracts loyal and committed specialists, who care for the good image of the Company in the eyes of customers, investors and the local community.

Health and safety

As regards health and safety, Grupa LOTOS S.A. focuses on preventive measures and on educating employees in any exposure risks and hazards relating to their work. The Company constantly monitors any hazardous events in the domestic and international refining industry, which results in proactive measures that eliminate potential accidents and failures in Grupa LOTOS S.A.

The primary objective of the Company within H&S is to keep increasing the awareness and commitment of employees to safety issues at work. The safety culture level is of key importance, together with the responsibility of all employees for safety, not just of oneself, but also of co-workers.

The long-term positive trends observed in this regard at Grupa LOTOS S.A. demonstrate the systematic elimination of both accidents at work and the number of days lost due to accidents.

Safety in the 10+ Programme investments

The need to raise H&S awareness and sensitivity among employees and encourage their greater attention to following basic H&S rules increased in 2007 considerably, due to the challenges posed by the implementation of strategic investments within the 10+ Programme.

The timely implementation of the 10+ Programme and related factors, such as the speed of work performance and the high number of contracted workers, may cause additional hazards. Therefore, H&S specialists of the Concern constantly monitor all work performed by external contractors. Moreover, all persons employed under contracts made with Grupa LOTOS S.A. are informed in detail on the procedures applicable at the site and undergo thorough training in work safety. External contractors are also subject to assessment in terms of H&S compliance.

Promoting health and safety

In order to achieve its aims within work safety, Grupa LOTOS S.A. takes a number of above-standard initiatives that are to promote H&S issues in a manner that is accessible and involving for employees. Such measures have resulted in the higher commitment of employees, apparent, for example, in the number of proposals submitted on preventing potential hazards

in their work environment. The most interesting initiatives in this regard, undertaken at the Company in 2007, include:

- dedicated 'Safety at Work' display cabinets that promote accident-free work
- a quarterly H&S magazine 'BEZPIECZNIK', which includes e.g. information on accidents and near misses
- specialised medical rescue teams – advanced training organised biannually for production staff
- awarding the 'H&S Leader' title among all production plants, based on the longest period of accident-free operation, the number of hazards reported by employees, detection of irregularities and compliance with H&S rules
- H&S contests based on problems reported by employees and found during inspections
- H&S audits that involve managers of organizational units in the process of safety improvement in their areas
- rewarding employees who are most active in H&S
- a 'Safe Work Manual', available from managers, foremen and in control rooms, which contains H&S guidelines based on the internal requirements of the plant
- training films for workers of external contractors and employees of Grupa LOTOS S.A.
- an Intranet 'H&S PANEL' that provides employees with access to H&S materials, training presentations, training films, world novelties, knowledge competitions and materials that promote a healthy lifestyle, etc.

Lost days, and accidents at work at Grupa LOTOS S.A. in 2007	
Number of days lost	133
LTIF (Lost Time Injury Frequency)	3.1
Number of accidents	6
There were no fatal accidents	

Corporate Social Responsibility

Grupa LOTOS S.A. includes in its mission and vision, not only care for the natural environment and the value of human resources, but it positions its business in the wide context of sustainability. Therefore, the Company has been actively involved for many years in programmes that are characteristic for mature organizations, by considering in its current operations its impact on the internal and external environment and by maintaining dialogue with stakeholders on its social and environmental influence.

In 2007, a decision was taken to prepare a comprehensive Strategy of Corporate Social Responsibility of the LOTOS Group until 2012. Including these issues in the long-term Strategy contributes to the better integration of all measures taken within the organization and to even more effective utilization of human and financial resources. The aims of the LOTOS Group's CSR Strategy result from its business strategy accepted in 2006, and the core of the tasks adopted in this document is to support the process of implementing key development programmes of the Company.

System of CSR values

The system of key CSR values of the LOTOS Group has been associated with the key values of the LOTOS brand, which are founded on three pillars, i.e. human capital, natural environment and power safety. Each of these values relates to important aspects of the business.

Pillars of the LOTOS Group CSR Strategy

Human being = social responsibility

task = creating social values
working conditions, diversity, human rights, counteracting exclusion

Natural environment = environmental responsibility

task = creating ecological values
eco-efficiency, 'double dividend' investments

Power safety = business responsibility

task = creating economic values
risk management, intellectual capital, market share, brand value, reputation

The social, environmental and business dimensions of responsibility at the LOTOS Group are substantiated with the system of values of key importance for the Company's social policy, namely:

- purity
- openness
- innovation
- responsibility

Each of the above elements of the value system is the organization's response to the most significant needs, problems and challenges identified in its environment.

The value of PURITY is reflected not only in following the highest environmental and ecological standards, but also in the LOTOS Group's understanding of its business. It is the declaration of ethical and honest competition, fighting corruption and violations of human rights.

This understanding is supported with OPENNESS to changes, the needs of the world and expectations of people. It offers a prospect that goes beyond here and now, as it focuses on the future and the dynamic development of the business in its international dimension.

The success of these premises depends on the postulate of INNOVATION, i.e. the special appreciation for the intellectual capital of the Company, being the competences of its men and women, whose active involvement in the processes of the organization determines the strength and market success of the LOTOS brand.

These values can enable the LOTOS Group to become the leader in its business environment. However, they also strengthen the need for RESPONSIBILITY towards future generations and the natural environment, towards the country and its safe position in the world.

Dialogue with stakeholders

The Integrated Management System implemented at Grupa LOTOS S.A. comprises the transparent rules of communication with stakeholders of crucial significance for the organization. Representatives of the Company participate in industrial, business and social organizations, which guarantees the current monitoring of any changes that occur in its environment and the discussion on the expectations formulated towards Grupa LOTOS S.A. Such involvement reduces the risk resulting from the Company's impact on the social, natural and business environments.

The importance attached by the Company to dialogue with stakeholders is visible in improving communication with regard to aspects of sustainability in business contexts. The Environmental Report of the Company was attached to the Annual Report of Grupa LOTOS S.A. for 2006. At present, such reporting has been extended by implementing the reporting standards included in the international Global Reporting Initiative (GRI).

The Global Reporting Initiative is an independent organization that acts to develop and propagate so-called Sustainability Reporting Guidelines. GRI guidelines are applied globally and may be used by all companies that are ready to submit reports on their economic, environmental and social activity.

Global Reporting Guidelines provide a flexible scope of voluntary non-financial accounting with regard to different aspects of CSR and sustainability. They were helpful in presenting the operations of the LOTOS Group in 2006-2007 in a manner that enabled the assessment of its present commitment and the benchmarking of specific aspects with the activity of other firms. The scope of reporting will be broadened successively and the reports will be presented systematically.

By presenting the first CSR Report, the LOTOS Group has started the long-term process of implementing the GRI standard in this regard.

Social aspects of the operation

Sponsoring and charity

Grupa LOTOS S.A. focuses its sponsoring and charity campaigns on pro-social measures that are coherent with the mission and development strategy of the Company and the values represented by the LOTOS brand within areas that are important for the life of customers and the local communities around the Company's production plants.

The Company implements many of the measures in this regard in cooperation with local and regional governments and NGOs. For example, in the 'Pomerania Programme' established in 2006, Grupa LOTOS S.A. has cooperated with the authorities of the Pomeranian Voivodship in regional development. The Programme involves joint ventures and initiatives that promote the Voivodship. This dedication to closer cooperation in cultural and social development was confirmed in an agreement signed in January 2007 between Grupa LOTOS S.A. and the Voivodship Office, the Marshal Office of the Pomeranian Voivodship and the councils of the cities: Gdańsk, Sopot and Gdynia. Pursuant to the agreements, the Company communicates with representatives of these cities in joint cultural and social programmes that contribute to the promotion of the region in Poland and internationally.

Culture

Grupa LOTOS S.A. supports the organization of local cultural events that have inter-regional impact and importance. In the Pomeranian Voivodship the Company focuses on initiatives undertaken in Gdańsk, Sopot and Gdynia. The involvement of Grupa LOTOS S.A. in some of the events is coordinated with the authorities of the cities, and the selection criterion is the social dimension of cultural projects. As part of such cooperation Grupa LOTOS S.A. participated in the organization of important events for the community of the region, e.g. City Holiday in Gdańsk, Monte Cassino Street Holiday in Sopot, Świętojańska Street Holiday in Gdynia, Summer Starts in Gdynia and Świętojańska Carnival in Gdynia.

The most popular cultural event organised by the Company in the south of Poland in 2007 was the LOTOS Jazz Festival. The Company has been involved in the organization of this exceptional event since 2002. Moreover, Grupa LOTOS S.A. takes part in cultural events that promote the heritage of regions where its local subsidiaries operate: LOTOS Czechowice S.A. and LOTOS Jasło S.A.

Sport

Grupa LOTOS S.A. and the companies of the LOTOS Group support sport clubs, organizations and events. The most spectacular sponsoring event in 2007 was the participation in organising brand motor races of the KIA LOTOS CUP. LOTOS Oil S.A. is the titular sponsor of the Kia LOTOS Cup. Participation in the races is part of the cooperation between the oil-producing Company and the car manufacturer, KIA Motors. Owing to such projects, both parties may improve their products so that they can meet the requirements and expectations of drivers. Participation in the KIA LOTOS Cup races is the best opportunity to test products in extreme conditions. The first effect of this cooperation is a special line of oils, LOTOS KIA FORMULA. Grupa LOTOS S.A. is also a general sponsor of the Polish Skiing Association, a strategic sponsor of the women's basketball team, LOTOS PKO BP Gdynia, the present winners of the Polish Cup and Super-Cup, Euroleague Champions (2002, 2004) and Vice-Champions of the World League (2005), as well as the speedway team LOTOS Gdańsk. Moreover, the Company supports the 1st league men's and women's handball teams (AWFiS Gdańsk) and the athletics team SKLA Sopot.

Sport education of children and youths

For several years, Grupa LOTOS S.A. has been consistently involved in supporting projects that contribute to better youth sport culture. In such programmes, the Company uses its experience from supporting professional sport. An example of such projects is the social-sport programme 'Play with LOTOS – LOTOS for Schools', which covers all of Poland. Three thousand teams from junior secondary schools participate in the project and it is the biggest programme that promotes girls' basketball in Central Europe. Another achievement of Grupa LOTOS S.A. in sport is the project 'Searching for the Champions' Successors' undertaken together with the Polish Skiing Association within the National Programme of Ski Jumping Development. Its aim is to promote ski jumping among children and youths and to search for the greatest talents in Poland. The cycle of youth competitions organised within the programme under the LOTOS Cup banner, and the Unofficial Winter World Cup of children and youths in ski jumping in 2007 were appreciated by trainers and observers as the best-organised events for the youngest jumpers in the world.

Road safety

The improving parameters of the products offered by the LOTOS Group are contributing to the systematic enhancement of road safety. However, the Concern goes beyond such product-related measures and is involved in social campaigns that promote the safety of the youngest road users. For several years, Grupa LOTOS S.A., together with LOTOS Czechowice S.A. and LOTOS Jasło S.A., has been organising the educational-preventive programme 'Safe Way to School with LOTOS'. Its aim is to prevent road accidents in which the victims are young schoolchildren. In 2007, nine thousand children from the Pomeranian Voivodship and four thousand children from Jasło and Czechowice were covered by the programme. Within this programme Grupa LOTOS S.A. cooperates with the Police and local authorities.

In 2007, the LOTOS Group participated actively via its subsidiary, LOTOS Paliwa, in the social campaign 'Safe 8' organised upon the initiative of the Ministry of the Environment and the General Directorate for National Roads and Motorways. The objective of the campaign is to raise the awareness of safe driving among drivers. The first step of this long-term project involved the national road No. 8. In the future, the project will be extended onto all main communication routes in Poland. 21 LOTOS petrol stations located along road No. 8 took part in the campaign.

Health care

Following the adopted rules of CSR, Grupa LOTOS S.A. financially supports institutions of public health in the procurement of medical equipment used in health care and promotion. Health care programmes of the Company focus on the Pomeranian Voivodship and the south of Poland. In 2007, within the partnership with selected health care centres, Grupa LOTOS S.A. financed the procurement of specialist medical equipment, in particular for the youngest patients, e.g. equipment for nitrogen oxide therapy at the Pomeranian Centre of Traumatology of the Voivodship Specialist Hospital, the Child Cardiac Surgery Ward, a pulse meter for the Internal Diseases Ward at the Gdańsk Polanki Hospital, a gamma radiation detector at the Oncological Surgery Ward of the Pomeranian Oncology Centre and an apparatus for diagnosing heart anaemia at the University Hospital in Krakow. Moreover, in 2007, Grupa LOTOS S.A. provided equipment for the Child Diabetes Ward at Gdańsk University of Medicine.

Cooperation with universities

Cooperation between Grupa LOTOS S.A. and universities gives benefits to both partners. Via its partnership with the best universities of technology, which educate experts in the oil sector, including Gdańsk University of Technology and AGH University of Science and Technology, the Company gains access to specialists who will enter the labour market in several years' time. Cooperation with universities includes the expert contribution of the Company and the provision of scholarship programmes and practical placements, which may result in job offers at Grupa LOTOS S.A. for the best graduates.

Environmental aspects

In 2007, Grupa LOTOS S.A. was intensely involved in the 10+ Programme. Apart from the primary aim included in the development programme, i.e. to increase the processing capacities of the refinery in Gdańsk from 6 to approx. 10.5 million tonnes/year, an important

element of the Programme is the intensification of petroleum processing, so as to increase the volume of high quality fuels that fulfil the strictest standards that apply at present, or will come into force in the following years.

Grupa LOTOS S.A., seeing environmental protection as one of its priorities in the Concern's mission, selects only eco-friendly technologies that fulfil the requirements of the best available techniques as early as at the stage of investment process planning. Their emission criteria, high power efficiency and process productivity, contribute to minimising the negative environmental impact. Achieving positive results in this area is possible not only by decreasing emission indexes, but also owing to the high quality of products, which provides minimal environmental impact at the site of utilization.

The same principle has been adopted in the 10+ Programme. The development concept included in the strategy of Grupa LOTOS S.A. will provide the achievement of set economic goals with a relatively small increase in pollution emission, which complies with the best practice of sustainability.

Independent opinions received by Grupa LOTOS S.A. in 2007 by bodies that assessed the environmental impact of the investment project show that the volume of pollution emitted into air and water does not cause a significant deterioration of air and sanitary conditions in the area adjacent to the refinery or in Nature 2000 sites. The concentration of all substances emitted both in an organised and unorganised manner will fulfil the applicable referential values in the course of the investment and will not have any negative affect on the health of people or the natural balance within the measurable growth of impact.

The following decisions were taken in order to minimise the negative environmental impact, already at the design stage of the 10+ Programme investments:

- all potential discharges of hydrocarbons from safety valves will be connected to the discharge collector network and flared

- the area of the systems and all sites where a potential leakage of hydrocarbons is possible will be strengthened and provided with connections to the sewage system and the treatment plant

- the plant's subterranean drainage will operate within the systems and will be connected with the sewage treatment plant, which will be capable of receiving any leakage to soil or ground water

- the system of sensors detecting any leaks early in the apparatus and the discharge of hydrocarbons and hydrogen sulphide into the atmosphere will be extended with new installations

- releases from apparatus, pumps and pipelines will be connected to a closed drainage system and after that directed for re-processing

- in order to reduce noise emission, the purchased equipment will be made in a version of reduced operation noise level

- continuous monitoring will be organised at pollution sources and monitoring of the sewage quality at every stage of its treatment

- low-emission burners will be applied in specially designed furnaces so as to reduce the emission of nitrogen oxides, together with a system of reducing energy consumption by recovering heat from combustion gases

Contracting the complicated process designs of the 10+ Programme systems from international engineering offices gives an additional guarantee of selecting the best available tools and methods that ensure the achievement of aims recorded in the environmental policy of Grupa LOTOS S.A., namely:

- clean production, i.e. the systematic reduction in the consumption of utilities and raw materials, restricting the emissions of pollution created during production, thorough treatment of sewage, minimising the volume of produced waste and efficient failure prevention safe products, i.e. producing high quality fuels featuring the lowest possible inconvenience for the environment and men

Environmental protection investments

The nearly three-fold growth of expenditures on ecological investments recorded in 2007 compared to the previous reporting period proves the commitment of Grupa LOTOS S.A. to reducing the impact of its projects on the natural environment.

The following environmental investments completed in 2007 are particularly noteworthy:

- construction of a pipeline for treated sewage discharged into the Martwa Wisła – the construction started in 2004
- modernization of the hearth systems of power boilers – commenced in 2006

The following projects connected with environmental protection are being continued:

- construction of anti-theft monitoring on the pipelines between the Port and the Refinery, commenced in 2006
- construction of a desulphurization system of diesel oils, commenced in 2006
- construction of a xylene separation system, commenced in 2005

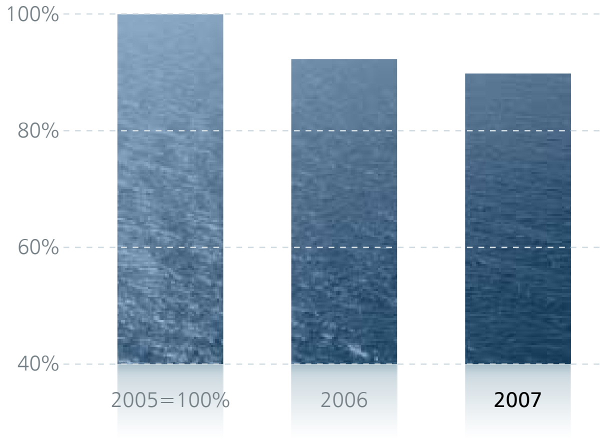
Investment outlays in '000 PLN

	2006	**2007**
Total investments	284,104	858,482
Ecological investments	34,387	99,880

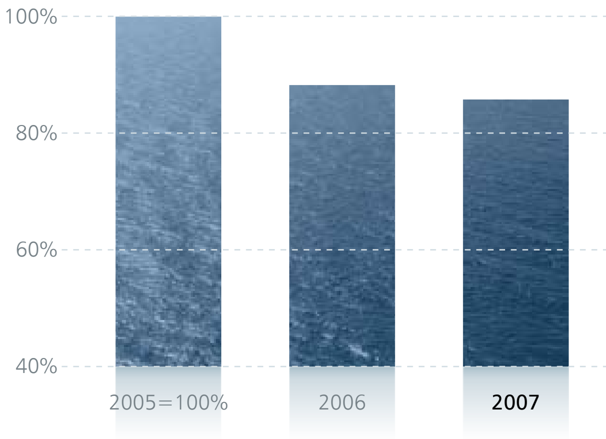
Environmental impact in figures

The detailed data concerning the impact of Grupa LOTOS S.A. have been given in the first comprehensive 'CSR Report of the LOTOS Group for 2006-2007'. The following figures include the most important volumes of pollution emitted into the air.

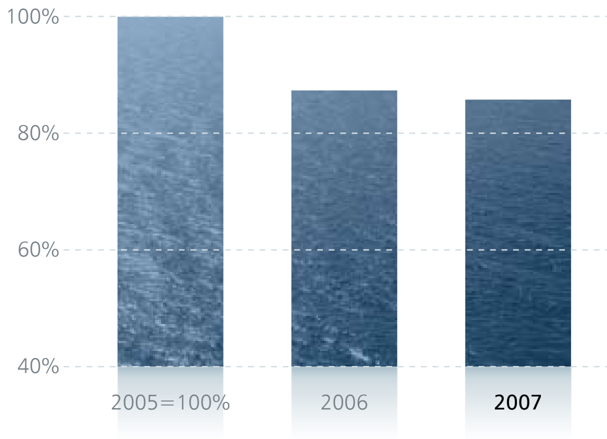
Emission into the air comes from organised sources (the most important being the chimney of the heat and power plant and two production chimneys), as well as from unorganised sources (especially two storage tanks and two flares). Moreover, the graphs present the changes in emission indexes for selected pollution with reference to the volume of petroleum processed.



Emission of carbon dioxide with reference to the volume of petroleum processed at Grupa LOTOS S.A.



Emission of sulphur dioxide with reference to the volume of petroleum processed at Grupa LOTOS S.A.



Emission of nitrogen dioxide with reference to the volume of petroleum processed at Grupa LOTOS S.A.

Actual emission of selected pollution

	2005	2006	2007
Petroleum/raw material processing [tonne]	4,836,900	6,098,600	6,156,431
SO_2 [tonne/year]	6,216	4,859	4,808
NO_2 [tonne/year]	1,442	1,601	1,583
Dust [tonne/year]	339	364	365
CO_2 [tonne/year]	979,074	1,153,625	1,152,505

8

Upstream Activities

In the present market situation, the key to success has become the growth of production and diversification of crude oil supplies. Grupa LOTOS S.A., so far active only on the Baltic Sea basin, started to explore the Norwegian Shelf reservoirs in 2007.

8 Upstream Activities

Strategy of the Upstream Segment

In 2007, the exploration and production segment of Grupa LOTOS S.A. focused on achieving two strategic objectives to be completed by 2012:

- diversification of petroleum supplies (more than 40% of raw materials should come from sources other than Russian ones);
- increasing production to 1 m tonnes of petroleum from the Baltic Sea.

Intense work was conducted throughout 2007 on the project of optimising the structure of the upstream segment in Grupa LOTOS S.A. As a result, in December 2007, a decision was taken to reorganise the segment and focus its operation on a subsidiary of Grupa LOTOS S.A., 'Petrobaltic' Petroleum and Gas Production and Exploration Joint Stock Company.

Petrobaltic, so far focusing its business on the Baltic Sea, will become a key company of Grupa LOTOS S.A. in the exploration and production of petroleum and gas all over the world. The Upstream Division of Grupa LOTOS S.A. (its tasks and personnel) have been transferred to Petrobaltic and have operated in the organizational structure of this company since the beginning of 2008.

Deposits in the Baltic Sea

In 2007, Petrobaltic worked on its own development strategy for the Baltic Sea, which is to provide the fulfilment of the second of the abovementioned strategic aims of Grupa LOTOS S.A.: increasing petroleum production to 1 m tonnes in 2012. At the turn of 2007-8, the strategy of Petrobaltic and the resulting main tasks and investment projects were approved by the Supervisory Board and at the Stockholders' Meeting.

As a result, exploratory drilling may commence on the 'Gotlandia' licence (structural object B23), as early as in 2008. The preliminary analyses show that there may be the largest hydrocarbon reservoir under the bed of the Baltic Sea. The confirmation of such analyses will bring Grupa LOTOS S.A. much closer to the achievement of the set aim.

It is noteworthy that in December 2007, Petrobaltic started industrial production from B8. Moreover, production from B3 was thoroughly modernized. The performance of these projects is a major step towards the fulfilment of the strategic aim of Grupa LOTOS S.A.

The operation of Petrobaltic does not cover only Polish territorial waters. The Company is an investor of Naftos Gavyba, a Lithuanian company. In 2007, Petrobaltic was involved in advanced negotiations with the second major shareholder of this company, UAB 'Hermis Capital'. The negotiations should lead to ordering the organizational structure of the Lithuanian capital group and its subsidiaries, as well as defining the roles of the two main shareholders. 'Hermis Capital' is going to become a financial investor, while Petrobaltic a strategic one.

Both partners have expressed their intention of making pre-contractual relations with regard to the potential sale of stocks held by UAB 'Hermis Capital' to Petrobaltic. If the parties agree on the sale price, the transaction may take place in 2008-2009.

The drop in petroleum and gas production in 2007 resulted from technical reasons. The very good result in 2006 was due to the test production on B8. The test production in 2006 gave almost 20% of the annual production. However, in 2007, tests were not carried out in that area and industrial production commenced in the last days of December 2007. The small production at the end of December did not have any major impact on the annual result.

In 2007, Petrobaltic produced a total of 190,645.5 tonnes of petroleum and 21,013,941 Nm^3 of gas. The lower production volume was also caused by the modernization of the B3 reservoir. Some of the drills were decommissioned, which affected the quantity of raw material produced. However, the modernization will provide an increase in production in the following years.

In 2007, the process of Petrobaltic's consolidation and integration with the services and divisions of Grupa LOTOS S.A. and the specialist companies of the LOTOS Group were intensified. Petrobaltic transferred to other companies of the Capital Group the laboratory (together with its personnel) and tasks within the security of facilities. The finance-accounting and payroll departments were transformed, which allowed their incorporation in the structures of the Financial-Accounting Centre of Grupa LOTOS S.A. at the beginning of 2008.

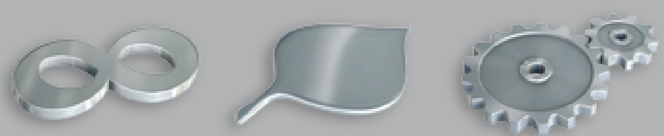
Deposits on the Norwegian Shelf

The first step to achieve the abovementioned goals was the establishment of the LOTOS Exploration and Production Norge AS Company, with its registered office in Stavanger, Norway. The Company started its business in September 2007 and Grupa LOTOS S.A. acquired 100% shares in Lotos Exploration and Production Norge, by covering the whole authorised capital of NOK 8 m, i.e. about PLN 3.9 m. The President of the Company is Henrik Carlsen, one of the most experienced people in the world in the petroleum sector. For 33 years, he worked for Statoil, e.g. as Vice-President responsible for the exploration of sea deposits of petroleum and gas. He is a winner of the prestigious title Oilman of the Year 2006, granted by the Society of Petroleum Engineers in Stavanger.

Establishing LOTOS E&P Norge will provide Grupa LOTOS S.A. with a share in the exploration of hydrocarbons on the Norwegian continental shelf. The operation of the Company may result in gaining petroleum from this area as early as in 2008-2009.

	2005	2006	**2007**
Petroleum [t]	233,514.4	265,518.0	190,645.5
Gas [Nm^3]	25,454,561	29,867,900	21,013,941

9 Operating Activities



10+ Programme

Energy security. Environmental focus. New jobs.

Grupa LOTOS S.A. seeks perfection at every stage of its activity. In order to achieve dynamic growth, the Company has developed the 10+ Programme, which involves the construction of new installations. The exploitation of their full capacities after 2010 will allow the processing of more than 10 m tonnes of crude oil per year.

9 Operating Activities

Refining activity

2007 was another record-breaking year in the operation of the Grupa LOTOS S.A. refinery. Almost 6.2 million tonnes of petroleum were processed, thus improving the excellent result from the previous year.

The basic raw material processed at Gdańsk refinery is the Russian REBCO petroleum. However, in 2007, the search for alternative raw materials commenced. Decisions were taken to purchase and process two new types of petroleum: Forties Blend and Troll Blend. The choice was economically sound and gave Grupa LOTOS S.A. an important experience in the diversification of raw material supplies.

Apart from petroleum, Gdańsk refinery received more than 1 million tonnes of additional components, which provided the optimization of production processes. As a result, a historic record in the volume of products for vehicles was achieved – in 2007, the production was at almost 3.7 million tonnes compared to 3.4 million tonnes in the previous year. Importantly, the largest part in this supply was 2.6 million tonnes of diesel oil with 10 ppm sulphur content, which is a modern fuel of the future. Other key products included 1.4 million tonnes of gasoline, 440 thousand tonnes of aviation fuels and 610 thousand tonnes of light fuel oils and bunker fuel. An important growth occurred in the production of bitumen and bitumen components. The output of 900 thousand tonnes was another consecutive record that was more than 15% better than in the previous year.

Production systems

2007 was a failure-free year in production systems. The effective management of raw material procurement and the production schedule provided a very high index of design utilization throughput the refinery, which amounted to 102.6%. This excellent outcome was achieved in spite of the March maintenance shutdown of several production systems.

The aim of the shutdown was to exchange a catalyst in one of the hydrocracking system reactors. The new catalyst belongs to the latest generation and provides excellent selectivity in producing high-quality components of diesel and aviation oils. The efficient start-up of the system after the shutdown and the quick achievement of maximum performance made the annual utilization of the design throughput of the hydrocracking system exceed 100%.

Operation within quality guarantee, competitiveness and innovation

According to the mission of Grupa LOTOS S.A., all its activities are aimed at modernising production processes and continuous development of products according to the latest global trends, with the minimising of the negative impact of production processes and products on the environment. As a result, international production solutions are implemented, which in many cases provide much better parameters in terms of quality and ecology.

Grupa LOTOS S.A. was the first petroleum company in Poland that launched low-sulphur diesel oil, gasoline and fuel oil, which exceeded the EU requirements in sulphur content in finished products.

Moreover, the continuous research conducted in domestic and international research centres resulted in the launch of Dynamic brand fuels in 2007, which feature above-standard performance specification.

The stable quality and competitiveness of Grupa LOTOS S.A. have been confirmed with long-term contracts for fuel supplies to chain Customers on the Polish and European markets.

The uniform approach to quality issues is applied in all areas of operation. In the segment of lubricating products, the focus is on introducing new products that fulfil the latest quality standards. In order to provide quality and price competitiveness, Grupa LOTOS S.A. focuses its research on the maximum use of its own base oils. The research has been successful and independent certifications of quality have been obtained for turbine, hydraulic and gear oils in the form of endorsements granted by global equipment manufacturers. The market of lubricating products is very specific and scattered; as a result, the operating conditions of the same lubricating product may be diametrically opposed. When entering new markets, one has to face many local conditions, such as bureaucratic procedures, certificates and approvals. In contacts with its Customers, Grupa LOTOS S.A. does not content itself with commercial issues, but promotes very broad technical cooperation. For example, Customers are offered help in solving operational problems, and controlled operation is provided. As a result, complete knowledge can be gained on the usefulness of a lubricating agent in actual operating conditions. Moreover, a Customer receives extensive information on the technical condition of tested appliances.

Heavy residual products include natural ingredients of petroleum and valuable raw materials for many production processes. The close cooperation with research centres has brought about the production of high quality products of excellent operational qualities. The direction of developing these products is given in European standards and the system of approvals issued by specialist institutes. In all its research, Grupa LOTOS S.A. focuses on two aspects: quality of products and environmental protection. Implementing new technologies is aimed at reducing inconvenience for the environment, by introducing new solutions at the production stage and limiting the volume of hazardous ingredients in finished products.

The most important measures in this regard included:

Developing the technology of a new generation of petroleum plasticizers that fulfil strict European standards in the content of polycyclic compounds and aromatic hydrocarbons. Offering such a product will allow Grupa LOTOS S.A. to join an elite group of producers and provide supplies of raw materials to Customers (after 1 January 2010 a ban on the application of petroleum plasticizers with a higher content of hazardous ingredients will come into force in the European Union).

Developing a technology of hydrorefining of slack wax. Hydrorefined slack wax complies with the strict standards of the German Institute of Quality Assurance and Marking RAL, which will result in additional applications and the improvement of visual qualities of paraffin products.

The project of developing 'deodorization' of bitumen loading. Due to physical and chemical properties, the production of bitumen surfaces requires operation at high temperatures. The side effect is a characteristic odour, which is inconvenient for the environment. This measure is taken only for the sake of ecology and is aimed at reducing the volume of hot vapours emitted into the atmosphere.

Grupa LOTOS S.A. is working on its continuous development and on guaranteeing the high quality of all its products with the following measures and methods:

Accurate provisions in the procedures of the Integrated Management System, with regard to all operational areas of Grupa LOTOS S.A.

Implementing a quality system that fulfils NATO requirements, set in the Allied Quality Assurance Publication AQAP 2110.

Standardization that involves participating in the implementation of international executive standards to determine product quality.

Cooperation with global leaders in the development of individual product segments (lubricating oils, paraffins, bitumen and fuels), in order to accelerate the launch of state-of-the-art products in all market segments.

Continuous cooperation with engineering offices in new process, apparatus, software and control solutions, in order to adapt new methods to production processes.

Cooperation with CONCAWE, which involves exchanging information about products and processes; joint participation in projects concerning quality, research, adaptations to legal requirements and registration of substances according to the requirements of the REACH directive.

Regular assessments by the SOLOMON company, in order to determine the position of Grupa LOTOS S.A. in comparison with major global refineries in terms of product quality, efficiency of operational areas, production organization and environmental impact.
Obtaining approvals, certificates and quality confirmations issued by independent institutions and machinery producers.

Participation of LOTOS Lab in the ASTM programme, in order to determine the quality of analyses by accredited laboratories all over the world.

Grupa LOTOS S.A. refinery in the Solomon Study

In 2007, the Grupa LOTOS S.A. refinery participated for the second time in the assessment conducted by Solomon Associates, which provides the best benchmarking system of the refining industry all over the world.

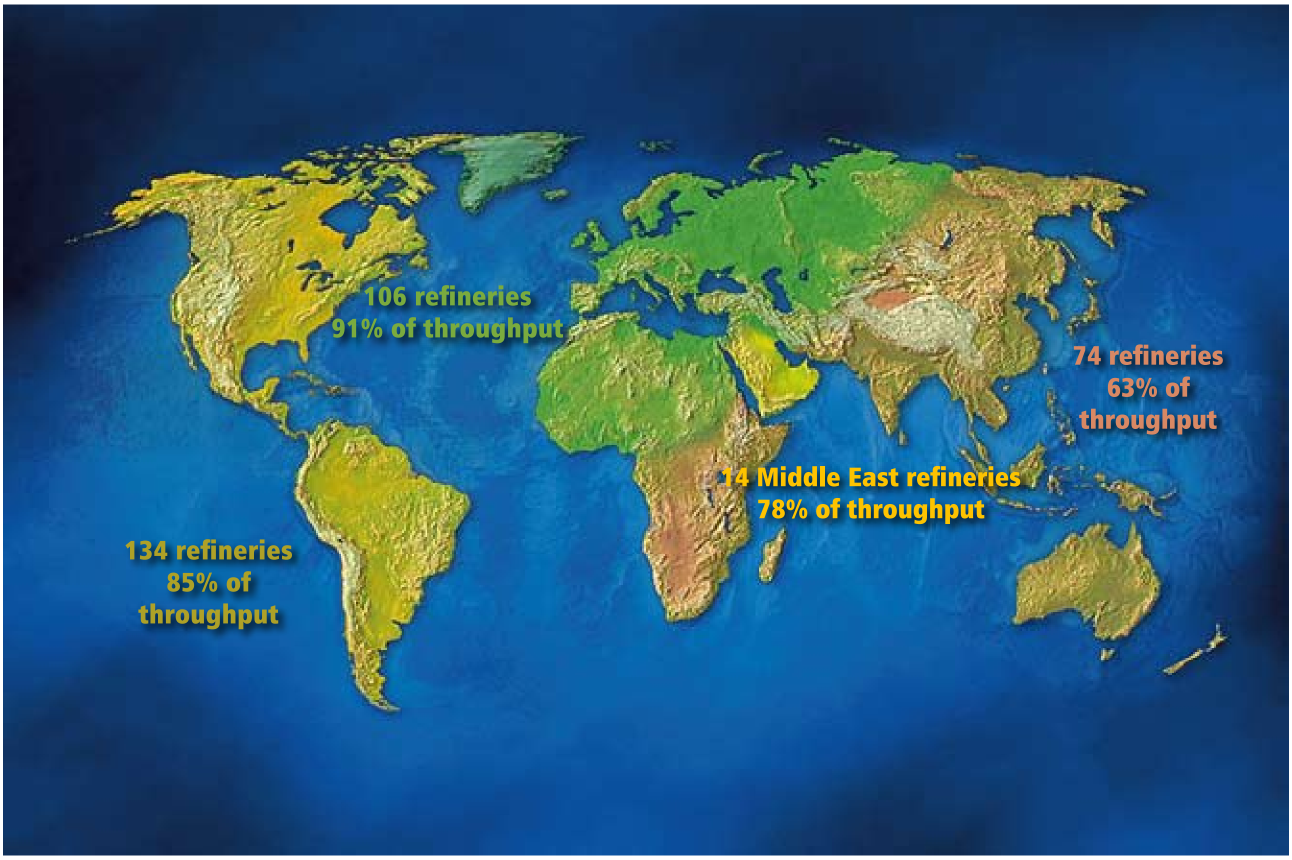
The study was dedicated to the assessment of the refining operation in 2006. Benchmarking Solomon Associates is a positioning tool which determines the location of an assessed refinery against a wide group of reference. As regards the refinery of Grupa LOTOS S.A., the comparative group comprised 106 refineries in Europe, North Africa and the Middle East.

The analyses of Solomon Associates proved that the refinery of Grupa LOTOS S.A. in Gdańsk is among the best and most effective refineries in this part of the world, and in 2006, owing to its failure-free operation, it achieved excellent positions in many benchmarking categories.

The refinery of Grupa LOTOS S.A. ranked second out of 106 benchmarked refineries in terms of utilizing the production installations. Already in 2006, the throughput was utilized completely, which, owing to the modernization in 2005, increased from 4.5 to 6 million tonnes. Moreover, the petroleum processing was very efficient and in terms of the power efficiency, the refinery ranked sixth.

The refinery adapts successfully to the fuel market, which is changing towards diesel oil, with its large and medium distillate production oriented hydrocracking system. Therefore, the margin combined with the control of operational costs gave the refinery of Grupa LOTOS S.A. a 9th position as regards investment return.

The power efficiency index is a very important and useful element in the environmental assessment of individual refineries. The refinery of Grupa LOTOS S.A. ranked 6th out of 106 European refineries in terms of its power efficiency, with the index equal 73 (power efficiency index WII). It means that the refinery of Grupa LOTOS S.A. needs only 73% of the power considered as standard (100% being an acceptable, i.e. standard value). The value of this index ranks the Company among not only European but also global leaders.



Solomon Study regions

10+ Programme

The 10+ Programme is a strategic investment task performed by Grupa LOTOS S.A. within the development of the refinery in Gdańsk. In terms of scale and value, it is one of the largest projects in the Polish economy until 2010.

New directions – energy security

The 10+ Programme complies with the policy of the Polish Government concerning the petroleum sector, which requires Grupa LOTOS S.A. to improve the power safety of Poland by providing continuity of energy raw material supplies. Government documents emphasize the importance of the 10+ Programme, in particular its section concerning the growth of the refinery throughput by 4 million tonnes per year and the purchase of petroleum from a new direction.

Moreover, Government policy provides for the increase in innovation of production by companies in the petroleum sector. Grupa LOTOS S.A. implements modern production solutions by carrying out the 10+ Programme.

Best technologies – excellent fuels

Within the 10+ Programme, a number of new technologically advanced petroleum installations are being constructed, which will enhance the efficiency of petroleum processing. The development of the systems involves the technologies that guarantee a high level of desulphurization of petroleum products and minimise the negative impact on the environment.

With global leaders – stronger on the market

Our cooperation with leading companies, such as Technip, KTI, LURGI, Fluor, Shell, KBR, Kellogg and Uhde, guarantees the achievement of the set aims relating to the stable production of fuels and other products that fulfil European standards.

Larger company – new jobs

The 10+ Programme improves the competitiveness of the Grupa LOTOS S.A. refinery, while investments contracted from Polish businesses give them development opportunities and create new jobs. It is estimated that about 1500 persons will be employed in the construction of new installations.

Profit at the Stock Exchange – benefit for society

Grupa LOTOS S.A. is planning a significant increase of its incomes, at present amounting to PLN 13 billion, owing to the implementation of the 10+ Programme. The improving financial results of the Company imply higher tax incomes for local government and the Treasury.

Basic premises of the Programme

The aim of the Programme is to increase the throughput of petroleum from 6 million tonnes to 10.5 million tonnes, i.e. to increase it by 75%, which will be provided by the new atmospheric and vacuum distillation system of petroleum (CDU/VDU).

The second key aim is to increase the level of petroleum conversion, which implies a higher gain of high-margin products from every processed tonne of raw materials. The more effective utilization of raw materials will be possible owing to the construction of the following systems:

- hydrocracking (MHC)
- hydrodesulphurization of diesel oils (HDS)
- processing heavy vacuum remnants (ROSE)

The 10+ Programme will also involve the creation of auxiliary systems: hydrogen plant (HGU), amine-sulphur complex (KAS) and storage tanks of a total capacity of more than 200 thousand m3. Moreover, the existing infrastructure will be developed in order to meet the higher demand for auxiliary utilities.

Funding

The investment expenditures for the 10+ Programme amount to approx. EUR 1.47 billion. Grupa LOTOS S.A. is planning to obtain 70% of this amount from bank credits and the remaining 30% from the Company's resources.

The process of preparing the funding concept and organization for the 10+ Programme and other financial needs of Grupa LOTOS S.A. is performed in stages.

After developing a current concept of financing the Programme, in Q3 2007 a series of individual meetings were held with commercial banks and multilateral institutions. As a result, Grupa LOTOS S.A. received declarations from all the institutions involved which included the initial conditions for financing the 10+ Programme together with some comments on the presented funding concept.

On 20 December 2007, Grupa LOTOS S.A. signed a credit contract with a consortium of four Polish banks (Bank Polska Kasa Opieki S.A., PKO BP S.A., BRE Bank S.A. and Rabobank Polska S.A.) for the amount of USD 400 m to be used on refinancing/financing the resources of Grupa LOTOS S.A.. Executing this contract was the first step in the process of financing the 10+ Programme.

The formal offering process for the basic credits required for financing the 10+ Programme started on 21 December 2007. Grupa LOTOS S.A. provided a complete information package to selected financial institutions together with invitations to make binding offers for long-term credits. The deadline for submitting tenders was set for January 2008. The following stages of organising the funding for the 10+ Programme were planned in 2008.

Contracting, designing and construction

In 2007, all major contracts were signed with system designers, equipment suppliers and contractors. The tasks performed followed the plan. According to the report of Technip, whose job is to monitor and consult the management of the refinery development programme, until 31 December 2007, 134 thousand man-hours were worked. There were no accidents during this period.

At the turn of 2007 and 2008, the advancement of the whole 10+ Programme was at 16% and for individual systems it was as follows:

Hydrocracking Diesel Desulphurization (HDS):	25%
Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU):	20%
Mild Hydrocracking Unit (MHC):	15%
Hydrogen Generation Unit (HGU):	15%
Amine-Sulphur Complex (KAS):	12%
Auxiliary systems:	2%

According to the schedule, the commencement of designing the ROSE system has been planned at the end of Q2 2008.

10+ Programme calendar 2007

January – February

- Analysis of FEED offers received for the 10+ Programme

March – April

- Obtaining corporate permits – resolutions of the Management Board and the Supervisory Board concerning the performance of the 10+ Programme

May – July

Contracting:

- Hydrogen Generation Unit (HGU) – the construction of the installation by Lurgi
- Hydrocracking (MHC) – the construction of installation by Technip
- Amine-Sulphide Complex – the construction of installation by Technip-KTI
- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – the construction of the installation by Lurgi
- Auxiliary systems – designing, procurement services and construction management by Fluor

August

- Official launch of the P10+ Programme at Grupa LOTOS S.A.
- Hydrocracking Diesel Desulphurization (HDS)
- Start of piling and foundation work

September

- Gaining an environmental permit for the 10+ Programme

October

- ROSE – contracting the revision of the base design of the installation from KBR Kellogg

November

- Amine-Sulphur Complex (KAS) - start of piling and foundation work
- Auxiliary systems - commencement of underground sewage system pipelines, cooling water and fire systems construction

December

- Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU) – commencement of work: piling
- Completing the construction of an additional entrance road to the refinery

Operation of the LOTOS Group in the South of Poland

LOTOS Czechowice

In 2007, two years had passed since the discontinuation of petroleum processing in Czechowice-Dziedzice. Owing to trading operations that involved the reduction of stock levels, the Company obtained the net profit of PLN 1.1 m (compared to the loss of PLN 4.1 m in the previous year). After completing the consolidation processes of individual departments of the former refinery in the LOTOS Group, the business of the plant has undergone further profound changes.

The Company's business involves the storage and distribution of fuels and rendering services (infrastructure, utilities, security and fire protection) to other companies operating at its site. Moreover, it has been securing and maintaining idle production systems.

The most important process was the construction investment of the subsidiary (LOTOS Biopaliwa) in the installation of the FAME methyl ester installation. Apart from suppliers and contractors, some of the LOTOS Group's companies were involved in the project: LOTOS Serwis and RCEkoenergia, which performed work relating to the construction of tanks, assembly of systems, connection of utilities, etc.

In response to warehouse-distribution demands of Grupa LOTOS S.A., LOTOS Czechowice planned and started the modernization of the next tanks in order to adapt them to modern technical and safety requirements.

In the system for separating oil from slack wax and dewaxing oils, and the system of selective refining with furfuryl alcohol, at present out of operation, the technical audit was contracted by LOTOS Parafiny and LOTOS Oil, together with the profitability study of their revitalization. The conclusions of the study were used to prepare a new approach to managing these assets with an external investor. Owing to the positive prospects, the process was started at the end of 2007 and is being continued this year.

LOTOS Jasło

The lifting of tax relief due to petroleum transport by rail as of 1 January 2007, and the adding of a component from plastics processing to fuels had a negative impact on the profitability of fuel production, which was discontinued. The production activity focused on processing used oils and the special fractions of petroleum in order to obtain input for bitumen production.

After stopping the catalytic cracking of plastics, studies were carried out together with specialist research centres on the possibility of using idle assets for other applications. The most promising seems to be the commencement of non-engine fuels production (e.g. for the power industry), as well as recycling processes (devulcanization) of rubber granulate and the application of the obtained substrate for bitumen production.

With the potential of its own organization of waste recycling (Plastekol Organizacja Odzysku S.A.), a plastics sorting plant was launched, whose task is to provide homogeneous and pure raw material (input) for further processing. Developing this direction of the recycling business involved the erection of a line for plastics regranulation, to be commissioned in 2008. Its product (homogeneous regranulate of specific plastics) will be used for further processing (e.g. the production of foils, mould products, cracking) or will be sold.

Together with technical and production reorganization, the Company restructured its organization and employment thoroughly. Individual operations of the Company were assigned as business units, which provided better management and accounting of economic activities. In order to rationalize employment, a programme of voluntary job terminations was introduced. As a result, in 2007, the employment decreased from 262 to 169 persons. The restructuring programme and the development of new businesses decreased the financial losses to PLN 1.9 m (compared to PLN 25 m lost in the previous year).

In November 2007, the land owned by LOTOS Jasło adjacent to the plant and the part of the former refinery became a part of Tarnobrzeg Special Economic Zone. The Zone created in Jasło covers an area of 10.3 ha. In the first stage, a part of the Special Economic Zone will be used for the project of LOTOS Asfalt. A roofing paper plant will be constructed for approx. PLN 32 m and 105 new jobs will be created at this facility.

Other investments

In 2007, investments focused on the implementation of the 10+ Programme. Apart from this Programme, some projects were carried out in order to increase efficiency, safety and performance of assets as well as some eco-friendly investments.

Systems of advanced installation control

Leading world specialists were involved in implementing algorithms of advanced control and automatic optimization of production processes in the following systems: hydrocracking, isomerization, petrol reforming and extracting oil fractions with furfuryl alcohol. The algorithms are based on the multi-variable controllers and optimise the production settings automatically so as to obtain maximum value of a set aim function, e.g. the value of products together with the reduced costs of processing.

Railway terminal of bitumen

The construction of the railway bitumen pouring station, which started in 2006, was completed, and as a result, LOTOS Asfalt may obtain high volumes of final product sales and may transport raw materials for oxidation at its branch in Jasło.

Fire monitoring of production systems

Grupa LOTOS S.A. maintains and increases the safety standards applicable at the refinery, thus following global trends. Within such measures, a systematic analysis was carried out of fire hazards of the apparatus and devices in the production and auxiliary systems at Gdańsk refinery. Conclusions from the analysis were used to select a set of the most exposed locations, which were covered with monitoring for the early detection of fires. This network of sensors is connected to the control stations of the system and the alarm point of LOTOS Straż.

Modernization and adaptation of the barrel production building

At the beginning of 2007, the adaptation and modernization of the building where steel barrels are made for lubricating oils was completed. Due to the discontinuation of barrel production, the building was turned into the warehouse of LOTOS Oil, a building of sales services of LOTOS Oil and the technical documentation archives of Grupa LOTOS S.A.

Upstream activity

In 2007, the activity of Petrobaltic within investment services focused on the following projects:

- continuing drilling work at the B3 reservoir within the bore-hole B3-21, in order to improve the reservoir utilization ratio
- performance of geochemical tests and drilling the watering head Z1 at the B8 reservoir under the ‘Rozewie’ licence within the continuation of development work that prepares B8 for production
- preparing a plan of managing the B23 structure under ‘Gotlandia’ licence and implementing a programme of exploration and analysis
- providing natural environment protection at production sites of the B3 and B8 reservoirs
- maintaining the production and service infrastructure

Bitumen

LOTOS Asfalt modernised the production installation in Jasło by replacing periodic oxidators with continuous oxidators, thus increasing the throughput. Moreover, the development of the loading infrastructure in Czechowice and the construction of the railway pouring station in Gdańsk were completed.

Gas

In July 2007, LOTOS Gaz S.A. purchased 100% of the shares in KRAK-GAZ. As a result, LOTOS Gaz became the owner of the liquefied gas base in Bochnia (Małopolskie Voivodship) of a capacity of 600m^3, and 50 LPG stations. The incorporation process will be completed on 1 July 2008.

Biofuels

In 2007, conceptual and organizational work was performed in order to prepare Grupa LOTOS S.A. for the amendments to legal regulations concerning biofuels in force since 1 January 2008, and to determine the development directions until 2014 required to achieve the National Index Aim set by the government. Depending on the level of market prices of ethanol, MTBE, ETBE and FAME, as well as developments on the market, Grupa LOTOS S.A. will optimise the procurement of biocomponents, taking account of the flexibility of the National Index Aim for every year.

Grupa LOTOS S.A. was also actively involved in the adaptation of applicable regulations to the changing market and production requirements. In 2007, due to no economic profitability, FAME was not added to diesel oils. However, the experience gathered in 2006 within the experimental admixtures of this biocomponent to oils will be used to compose fuels with biocomponents and B100 in 2008 and the following years.

In 2007, LOTOS Biopaliwa invested in the construction of the installation for biocomponent production, namely fatty acid methyl esters (FAME) in CD Process technology. The basic raw material for the production is rapeseed oil, but other vegetable oils may be used instead, e.g. soy or palm oils. The planned production

capacity amounts to 100 thousand tonnes of esters and 12 thousand tonnes of technical glycerine per year. The FAME biocomponents will be used as an admixture to diesel oil and for producing fuel commonly known as biodiesel. The planned investment expenditures amount to PLN 80 m and the investment is to be completed in Q2 2008.

FAME warehouse system

In order to fulfil the requirements of the National Index Aim with regard to the content of biocomponents in fuels, Grupa LOTOS S.A. constructed the installation for the storage and dosing of FAME esters in diesel oil. To this end, an existing storage tank of a vacuum fraction with piping and infrastructure was adapted and the flow capacity of the loading gantry of railway tanks was increased.

Asset management – repairs and operation

The wide introduction of prophylactic principles, failure prevention and repair planning rank the refinery in Gdańsk among the leading European refineries in terms of the reliability of its systems and the utilization of throughput. These achievements were confirmed with external audits and benchmarking (e.g. the Solomon Study). 2007 was the best year in this regard in the whole history of the Company, which provided the Company with record financial results. It is noteworthy that such results were achieved with the reduced repair budget.

The most important event as regards repairs was the work in the primary production systems conducted during the maintenance shutdown in March 2007. It was completed successfully in all important parameters essential for project management: safety, quality, schedules and budget.

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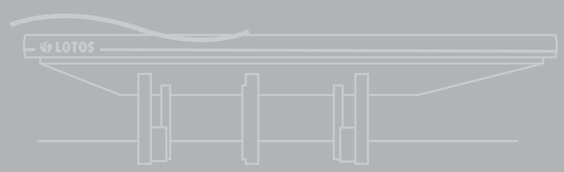


Market Activities

The growing demands of customers pose new challenges for the Company. A wide portfolio of top quality products, which fulfil all the requirements the customers, is the advantage of Grupa LOTOS S.A. and strengthens its market position.

10 Market Activities

Market environment

International fuel market

The year 2007 witnessed the dynamic development of the global economy, in particular on the Chinese and Indian markets. This trend was reflected in the increased demand for petroleum, which, combined with the falling availability of this raw material, resulted in difficulties in meeting market demand. Due to these factors, which were intensified on the one hand by the unstable situation in Iraq, Iran and Nigeria, and on the other hand by the crisis on the financial market in the USA, crude oil prices soared by 54% between January and December 2007.

On the European market, in spite of the excess supply of gasoline, which had prevailed for several years, both the prices and the cracks of this product reached record levels. This was due to growing demand on the American market (the US consume 45% of gasoline globally) fulfilled with imports from Europe, as well as because the consumption in China and India was higher than forecast.

The increasing demand for diesel oil all over Europe and the growing Chinese demand, as well as significant shortages resulting from the downturns of European refineries affected the prices of diesel oil and its cracks, which was particularly marked in Q3 and Q4 2007.

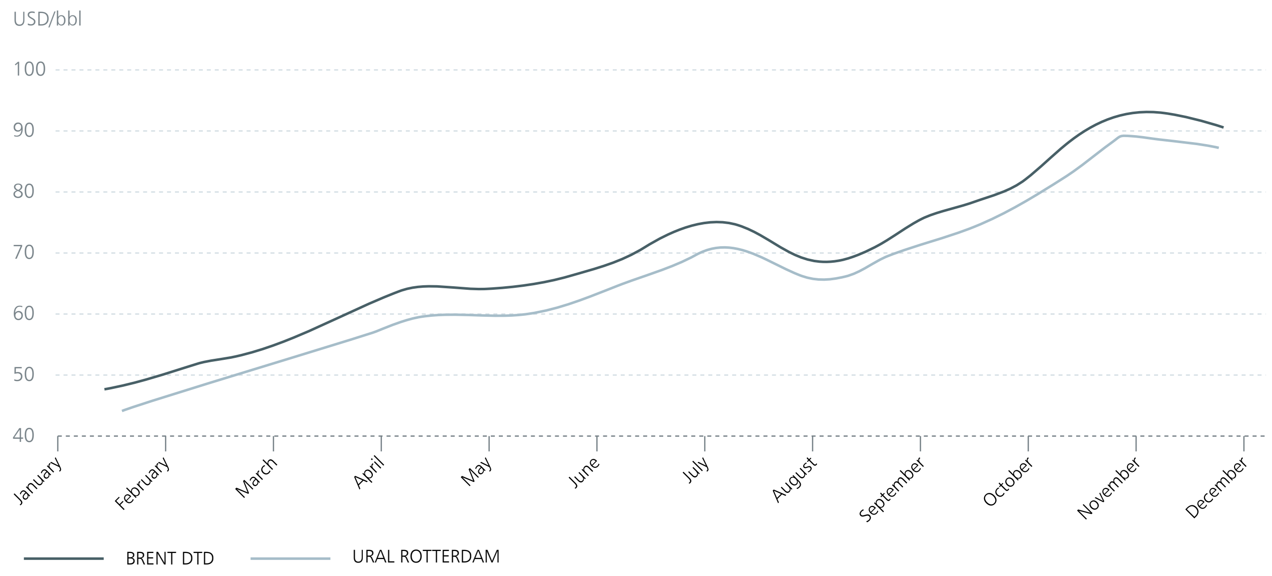
The most interesting product of 2007 was aviation fuel. The rapid development of air transport, causing a very high demand for aviation fuel, contributed to the continuous growth in prices for this product in Europe throughout the year, with the mark-up highest out of all petroleum products.

Experts forecast that the crude oil market in 2008 will be affected by the same factors as in 2007: the growing demand driven by global economic development and the concerns about supply sources resulting from geopolitical uncertainty and the lack of global stability.

Polish fuel market

Poland – macroeconomic environment

In 2007, the good economic situation in Poland was reflected also in the situation on the domestic market of petroleum products. Gross National Product broke the ten-year record and the average rise in real pay during



Average monthly crude oil prices in 2007

Source: Own study based on Platt's Crude Oil Marketwire

2007 amounted to 6.4%. Polish society grew richer, and falling unemployment and cheap credits contributed to increasing consumption, also on the automotive market. The favourable economic situation in Poland was additionally enhanced by the prospect of co-organising the European UEFA Cup, EURO 2012 and a number of related investments. Thanks to the above factors, the general value of the market is forecast to grow, while the conditions that have a favourable effect on the Polish economy should strengthen.

Gasolines

Consumption in 2007 stood at 4.7 million tonnes, an increase by 4.1% compared to the previous year. This fact confirms the continuation of the mild growing trend in gasoline consumption, which started in 2005. At the same time, production dropped by 7.4% to approx. 4 million tonnes, i.e. to the level from 2002-2005. Domestic shortages were reflected in foreign trade, as imports rose by 38% to almost 900 thousand tonnes, while exports decreased by more than 34% to 420 thousand tonnes. This means that due to growing domestic demand, more products were sold on the internal market.

Diesel oil

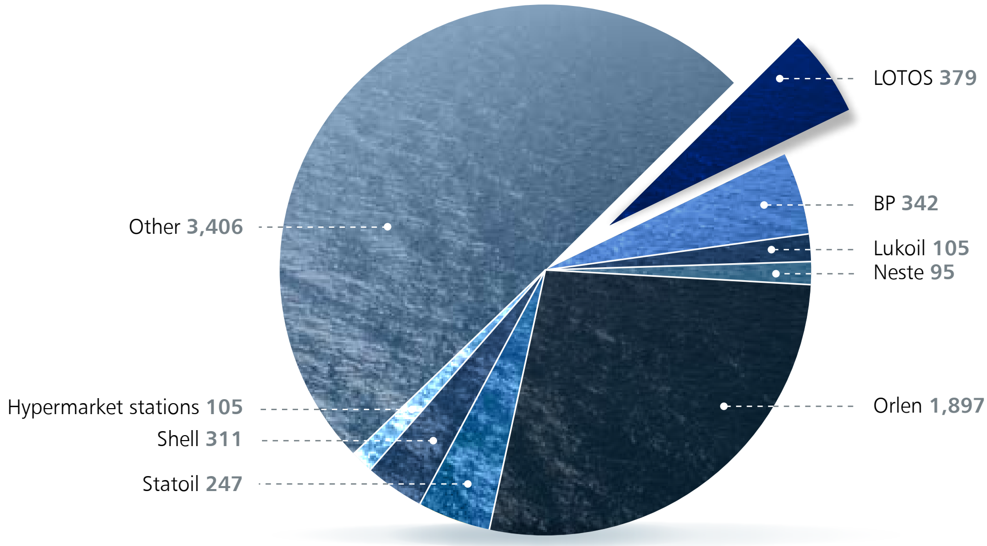
Consumption of diesel oil since 2005 featured growing dynamics. 2007 saw an increase by more than 21% to 10.5 million tonnes. The rise in production by more than 12% in 2007 proved insufficient to meet the rising demand. The increasing gap between demand and domestic production of diesel oil observed since 2000 was levelled by intensified imports. In 2007, they increased by 29% to 3.8 million tonnes.

Light fuel oil

In accordance with global trends, the Polish market recorded a systematic drop both in the production and consumption of light fuel oil. In 2007, the consumption of this product decreased by 25% to 1.4 million tonnes.

LPG (autogas)

After many years of fast growth on the LPG market, a stabilization process has been observed since 2006. The main causes of this slowdown in the segment's development are growing LPG prices in relation to



Number of service stations in Poland as of the end of 2007

Source: Own study based on POPiHN (the Polish Organisation for Oil Industry and Trade)

other fuels, increasing costs of gas installations in new cars and growing interest in cars with diesel engines. In 2007, the consumption of this product was lower by 3% than in the year before and stood at approx. 2.4 million tonnes. In spite of the drop in domestic production by 14% to 241 thousand tonnes compared to 280 thousand tonnes produced in 2006, gas imports reached 2 million tonnes, i.e. were similar to the year before. It is noteworthy that the situation on the domestic LPG market will be affected largely by the fiscal policy of the government.

JET A1

The domestic air market follows the growing trend. The year 2007 continued the trend started upon Polish accession to the European Union, in the increasing sales of jet fuels. It is estimated that domestic consumption totalled approx. 490 thousand tonnes, i.e. 15% more than in the previous year.

Biofuels

2007 saw a standstill on the biofuel market. In terms of the biocomponent share in the total fuel market, the result was worse than in 2006 and did not exceed 1%, while the National Index Aim in 2007 had been planned at 2.3%. This result stemmed from the shortage of applicable legal regulations that pertain to the fulfilment of the National Index Aim. Many enterprises did not fulfil their production capacities due to the faint interest of fuel companies, which were discouraged by the unprofitability of the sale of biofuel.

Retail market

The Polish retail market of fuels underwent further consolidation in 2007. Out of eight concerns operating in Poland, six major ones (except for Lukoil and Neste) continued to develop their chains with franchising and partnerships. After many years of the dominant position of private owners, the Polish market started to follow the Western European model, where independent and distributed station owners belong to a minority. An important event on the Polish retail market was the withdrawal of the American petroleum concern ConocoPhillips from the Polish market and the acquisition of its stations by the Russian concern Lukoil.

Activity of the LOTOS Group

Diversification of crude oil supplies

Following its strategy, Grupa LOTOS S.A. continued the measures commenced in 2006 aimed at the diversification of crude oil supplies. The fulfilment of the objectives within this area resulted in the introduction of new petroleum types for processing, as well as purchasing raw materials from new directions, including test supplies from the North Sea. All the deliveries of crude oil by sea were efficient and confirmed the readiness of the services of Grupa LOTOS S.A. to operate this alternative direction on a continuous basis.

An important event in 2007 was the establishment of a company dedicated to the exploration and production of crude oil on the Norwegian continental shelf, LOTOS Exploration and Production Norge AS.

Commerce organization

The trading operation of the LOTOS Group focuses on the mother company and subsidiaries. The functional division has been organised as follows:

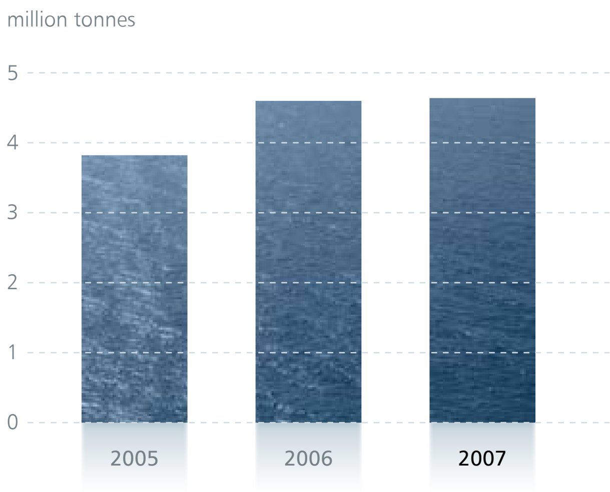
- commercial services of the mother company organise the sales of fuel to key accounts, and the export of petroleum products
- LOTOS Paliwa runs the retail sale and wholesale of fuel all over Poland
- the core business of LOTOS Gaz is LPG trading
- LOTOS Oil is involved in the production and distribution of lubricating products: finished oils, automotive and industrial lubricants and base oils
- the operation of LOTOS Asfalt includes both production and trading; the Company's business covers road and industrial bitumen, as well as bitumen emulsions and glues,
- LOTOS Parafiny produces and sells premium quality paraffin and a wide range of paraffin masses; the Company's products include also paraffin accessories for the retail market.

In recent years, the LOTOS Group, taking account of market demands and the interest of its customers, has introduced modifications in its trading structures. In the middle of 2007, the commercial activity and the logistics operator function of LOTOS Partner were transferred to the commercial structures of Grupa LOTOS S.A., together with the incorporation of the company. Another main project was the acquisition by LOTOS Gaz of 100% shares in one of the major operators on the liquefied gas market in Poland, KRAK-GAZ.

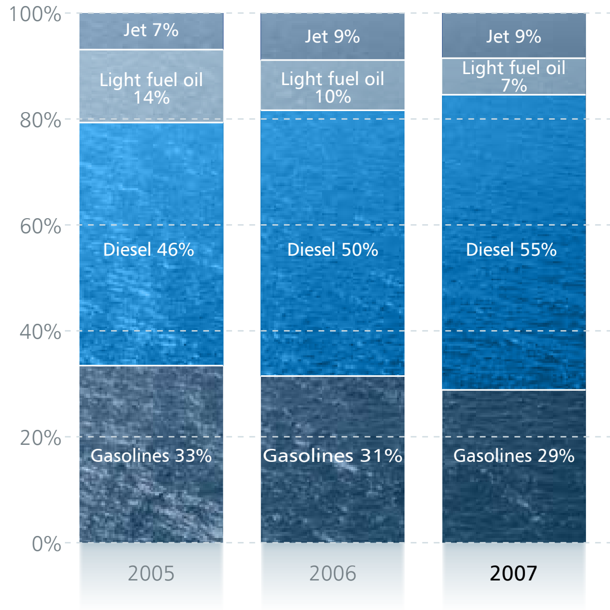
Fuel sale

In 2007, the LOTOS Group sold more than 7 million tonnes of petroleum products, including 5 million tonnes of fuels: gasoline, diesel oil, light fuel oil, LPG and aviation fuel. A significant increase in sales compared to 2006 was recorded in LPG (79%) and in diesel oil (10%). The sales of aviation fuel were stable at approx. 450 thousand tonnes.

The volume of domestic fuel sales in 2007 was similar to 2006 levels and stood at 4.3 million tonnes. In 2007, the LOTOS Group had a 23.9% share on the domestic market of gasoline, diesel oil and light fuel oil.



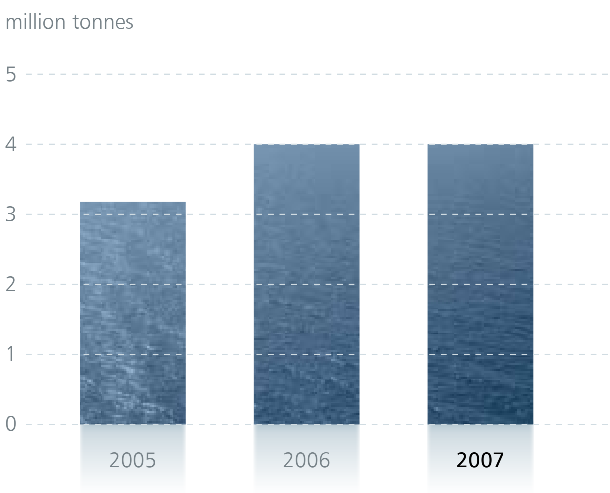
Total sales of fuels (gasoline, diesel oil and light fuel oil)



Total fuel sales structure

Following the market trend, the sales of light fuel oil decreased, reaching 72% of the sales from the previous year.

The LOTOS Group is present on the domestic fuel market via the chain of LOTOS stations and the supplies of fuels to transport and shipping companies, the road and industrial construction sector, agents, independent stations and foreign concerns operating in Poland.



Sales of fuels (gasoline, diesel oil and light fuel oil) in Poland

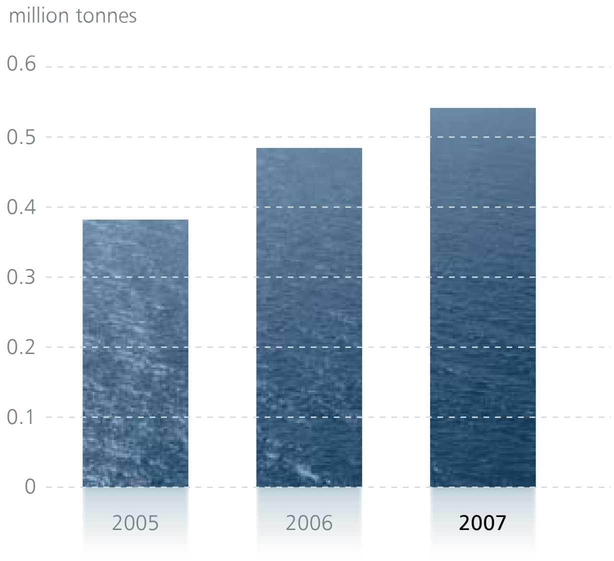
The export sales of fuel in 2007 were 19% of the total fuel sales. The primary foreign trade markets were Northern and Central Europe.

LOTOS petrol stations

In 2007, the volume of fuel sold via the LOTOS stations chain increased significantly. Owing to the acquisition of ESSO and SLOVNAFT stations in 2006, the LOTOS chain grew dynamically, which had a direct impact on sales.

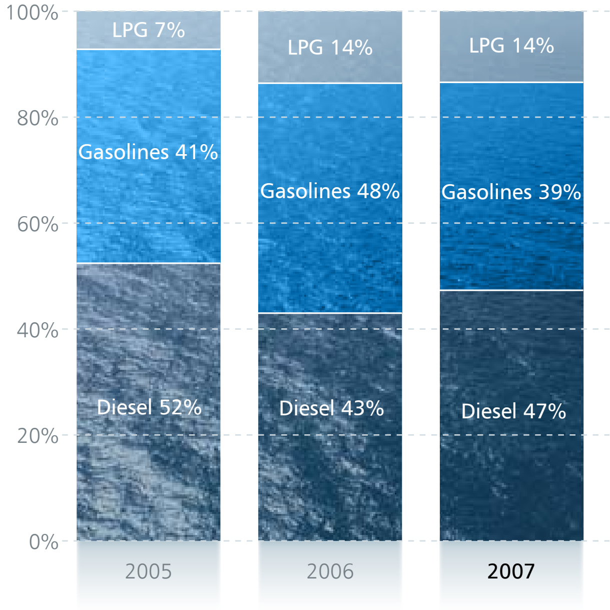
The growing trend in the diesel oil share on the Polish market, at the expense of gasoline, is reflected also in the structure of sales at LOTOS stations. Unlike in 2006, when diesel oil and gasoline sales were both 43% of the total volume, in 2007 the share of diesel oil grew to 47%, while the gasoline share dropped to 39%. The LPG sales in the total volume in 2006-2007 remained at a constant level of approx. 14%.

2007 saw major structural changes aimed at the optimization of the chain of LOTOS stations. A decision was taken to standardise the system of company-owned and company-operated (COCO) stations and to transfer them to agency stations. Another objective

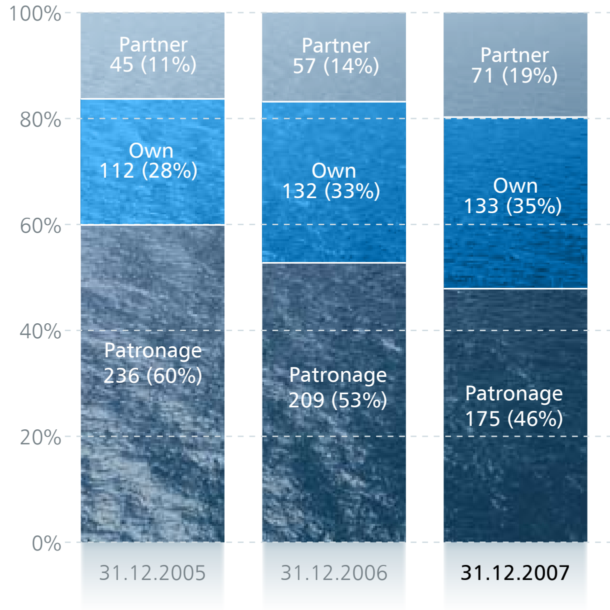


Sales of fuel via LOTOS stations (diesel and gasoline)

was to increase the number of dealer-owned franchise operated stations. In spite of the strong competition on the Polish market in 2007, 14 new facilities were acquired. As of the end of 2007, the LOTOS network comprised 379 stations. Compared to the previous year, the number of stations had decreased by 19 stations, which resulted from the policy towards dealer-owned dealer-operated stations. Owners of these stations were offered accession to the franchise operated system; however, the cooperation was discontinued if a dealer did not fulfil the criteria of the franchise programme, or refused to accept its conditions.



Structure of fuel sales at LOTOS stations



Structure of the network and the number of LOTOS stations

LOTOS Dynamic fuel

2007 witnessed the launch of new Premium fuels. The enrichment of the offer portfolio was aimed at gaining new market areas, increasing sales and market competitiveness. The basic advantage of LOTOS Dynamic series fuels is the higher dynamics and performance of car engines.

The introduction of new fuels was the right decision, as during the first 3 months after their launch, the sales of LOTOS Dynamic amounted to 2.6 million litres, i.e. 8.6% of total sales.

Lubricating oil sales

The sales of lubricating oil in 2007 on the domestic market were similar to the previous year. The lubricating oil market was determined on the one hand by the growing fleet of industrial machinery and means of transport, which increased the consumption, and on the other hand by the technological advancement within oil quality. The latter factor contributed to the lower consumption of lubricating oil and enforced the replacement of mineral oils with non-mineral ones.

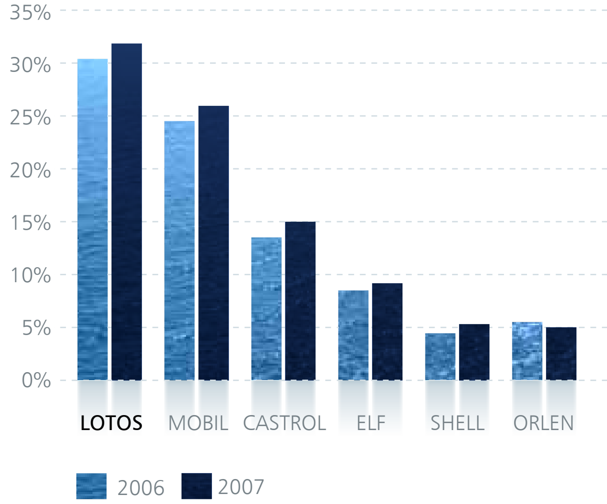
LOTOS oils are perceived as products of proven quality that comply with strict EU standards. The LOTOS Group is one of the leading producers of engine oils, owing to its advanced production technologies and the best enriching additives. The reputation of the LOTOS brand has been building up on the Central and Eastern European markets for years. In 2007, the Company's key markets included Russia, Ukraine, Byelorussia, Czech Republic, Slovakia, the Baltic States and the Black Sea Region. Nevertheless, business ties with Western European countries were successfully maintained.

2007 was a period of modernisation of the product portfolio. New products were introduced into the offer, whose qualities and technical specifications were competitive to the products sold by major market players. In 2007, LOTOS successfully defended its predominant position on the lubricating products market. Moreover, the group of oil service Customers was extended and the cooperation with present Customers was developed.

Engine oils

According to Moto Scan studies conducted by QUALIFACT in 2007, LOTOS was the unquestioned leader of the engine oils market for the consecutive year, ahead of both domestic and foreign competitors. The most popular brand on the domestic oil market was the LOTOS engine oil family, which was the flagship product of the Company.

The range of LOTOS products also includes an offer for professional users, represented by the family of Turdus oils. In 2007, this brand was extended with products that respond to growing requirements, in particular as regards compliance with emission limits.



Market share in the engine oil segment for personal cars
Source: Moto Scan 2007

Industrial oils

The commercial offer also covers the needs of specific segments, such as the power, steelmaking, mining and engineering industries. The LOTOS Group offers hydraulic and gear oils, as well as specialist lubricants.

A modern laboratory works on expanding and adapting the Group's product offer to accommodate the needs of Customers. The LOTOS Group has expanded cooperation with producers of a broad range of vehicles in order to solve operational problems. The priority was to provide Customers with post-sales services, specialist consultation and technical assistance.

The LOTOS Group has for several years maintained its strong position in the segment of lubricating products for industry. LOTOS oils and lubricants are sold to domestic and foreign Customers.

Quality and technology

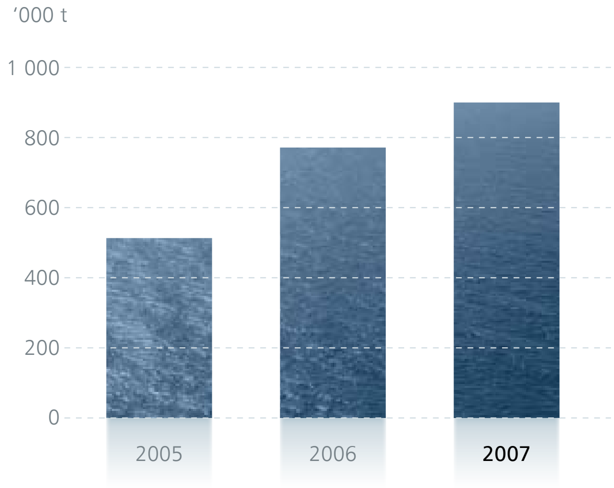
State-of-the-art technology (controlled with the Advanced Production Control system (APC)) is applied in oil production. The high quality of production is guaranteed with the Quality Management System, compliant with PN-EN ISO 9001:2001. Furthermore, the quality management system certificate that conforms to the requirements of the AQAP 2110 system, attests that LOTOS products meet the very strict norms to be observed by all suppliers to the armed forces.

Bitumen sales

In 2007, PLN 10 billion were spent on the construction of new motorways, express roads and ring roads, as well as the modernization of the existing road infrastructure. However, the main domestic investments were still at the preparation stage, therefore, only in 2008 will significant funds be spent on the

development of roads and networks. As a result, work in this segment should be intensified and the demand for bitumen should grow in the following years.

In 2007, approx. 900 thousand tonnes of bitumen were sold, which accounted for a 15% growth on the previous year. This success was achieved with the double growth in exports and the increase in sales from the terminals in Czechowice and Jasło by 28%.



Bitumen sales

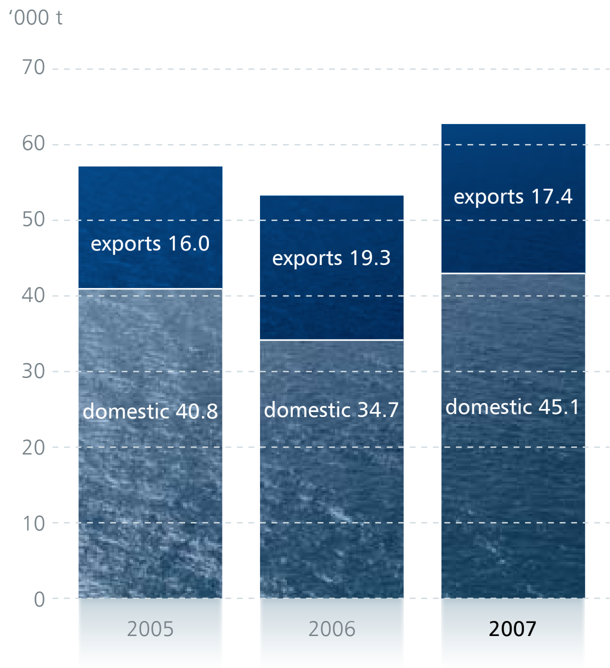
Compared to the previous year, in 2007, the sales of technologically advanced modified bitumen grew by 25%. This top quality bitumen was supplied for major road contracts, including a section of the A-1 motorway (Rusocin – Swarożyn) and the surface of the A-2 motorway (Poznań – Konin).

Quality and technology

The leading position on the domestic market and the recognition of the high quality of products and services offered by LOTOS Asfalt were confirmed with the 'Polish Construction Eagle' award and the 1st place in the Engineering and Road Infrastructure category. Another distinction was the MODBIT medal for modified bitumen, granted at the Traffic Expo Fair in Kielce.

Paraffins sales

In Poland, most of the volume of produced paraffin and paraffin mass is used in candle product manufacture. 2007 saw the continuation of the trend in growing demand, as reflected in the increase of consumption compared to 2006 by approx. 4.7%.



Paraffins sales

A major growth in candle product sales was recorded in 2007, with the greatest share in the sales value achieved for candle paraffins. The value of paraffin products exceeded 62 thousand tonnes, including 17 thousand tonnes in export sales.

Exports represented over 28% of the 2006 total sales in 2007. The main foreign markets included Slovenia, Germany, Czech Republic, Italy and the Netherlands.

Logistics

The dynamic market and technological development of Grupa LOTOS S.A., in connection with the systematic reduction of unit costs in production, requires fully integrated and transparent logistic processes in all spheres of activity in the LOTOS Group. The measures taken in this regard are aimed at creating an efficient logistic system that provides a high quality of customer services, flexibility of the supply chain and compliance with safety standards. The next steps of the integration process involve the consolidation of the primary and secondary logistic management with the logistics of sea transport and procurement. To this end, a uniform system of planning, reporting and controlling logistic costs has been designed, which enables the implementation of a broad scope of optimization measures.

Storage depots

The number of utilised storage depots and the type of distributed products were systematically optimised and adapted to market requirements. Nevertheless, the continuous growth in fuel sales and the necessity to increase the volume of obligatory reserves resulted in the growing importance of the Group's own storage depots, in particular in Czechowice and Jasło. Both facilities are equipped with modern transshipping terminals and are used not only to distribute all types of fuels, but are also key facilities for the storage of obligatory stocks.

Railway and truck transport

In order to strengthen its competitive position, the LOTOS Group relies for railway logistics on its own carrier, LOTOS Kolej. The use of its own transport resources optimises the performance of commercial tasks in spite of the lack of access to the network of domestic product pipelines. In 2007, LOTOS Kolej took over all accounts with domestic logistics' Customers and as a result, the total mass of carried products grew to more than 3.5 million tonnes. Moreover, the Company expanded on international markets in cooperation with local partners, launching its operation in Romania, the Czech Republic, Germany, the Netherlands, Slovakia and Hungary.

As regards secondary logistics, in 2007 the outsourcing process of road transport services was completed and as a result, 100% of the supplies to Customers are provided by contracted carriers. Furthermore, the transport fleet and supply procedures were standardized in all distribution channels. These measures were aimed at the continuous improvement in Customer service quality.

Sea logistics

Compared with local (the Polish coast) and regional (the Baltic Sea basin) competitors, Grupa LOTOS S.A. enjoys a considerable logistic advantage offered by its geographic location. The refinery in Gdańsk is connected with the Northern Port and Naftoport via a system of product pipelines. However, with a view to developing exports, the objective of Grupa LOTOS S.A. will be to build a maritime fuel terminal for handling larger volumes and keeping fuels in storage facilities located near the port.

Product and service quality

A system for quality testing and monitoring, from distribution through storage and sales, is designed to provide Customers with products of the highest quality. To monitor the quality of products, the LOTOS Group runs its own laboratories (in Gdańsk, Czechowice and Jasło) and uses the services of external controlling companies.

All logistic processes are customer-oriented, therefore, together with the product, Customers are provided with all required services. The IT communication is systematically developed to provide current information concerning quality and volume of products, customised to the needs of specific Customers and applicable rules and regulations.

Obligatory stocks

Applicable regulations and the growing sales of fuels require an increase in stored volumes of obligatory stocks. The stocks are maintained in the form of components, crude oil and finished products. An important objective in the logistics of storing obligatory stocks is to provide rotation of products, so as to optimise costs and mitigate seasonal trends in sales. The capacities of the refinery in Gdańsk, as well as the tanks of stock depots created in the Southern Refineries of the LOTOS Group, are used for obligatory stocks. Extra capacities for obligatory stocks are rented from external operators.

Glossary

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
Atmospheric distillation	a physicochemical process used to separate component products of a mixture, using differences in the boiling point temperatures of individual components. In the process of atmospheric distillation, individual fractions of gases, benzene, paraffin and diesel oils become separated. Atmospheric distillation is a process carried out at a pressure close to atmospheric pressure
B100	a determination of fuels produced solely from a biocomponent
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 northeast of Rozewie. It is being prepared for mining operations that are to begin in 2008
Barrel	a primary unit of measurement used in crude oil production. One barrel contains 159 litres
Base oil	unrefined oil, without improvers, obtained in the processing of crude oil. It represents the base raw material in the manufacture of lubricant oils
Benzene izomerization	a refining process that leads to increasing the octane number of a gasoline fraction by changing the chemical structure of particles
Biocomponent	an additive used in fuel production made in biomass processing
Biofuel	a fuel manufactured by adding more than 5% biocomponents to gasoline or diesel oil

CD Process	(Connemann Diesel Process) a manufacturing process of fatty acid methyl esters used at the LOTOS Biopaliwa installation located in Czechowice-Dziedzice
CDU/VDU	a basic installation system used for crude oil processing comprising a Crude Distillation Unit and Vacuum Distillation Unit
CONCAWE	(CONservation of Clean Air and Water in Europe) a non-profit organization of most refining manufacturers operating in Europe. The main aim of CONCAWE is to examine the impact of the refining business on the natural environment
Conversion	conversion processes usually involve technological cracking processes. In such processes, components with high boiling temperatures (heavy distillates) are used to manufacture light products used for fuel production. The most common conversion processes are thermal cracking, catalytic cracking and hydrocracking
Component for bitumen production	usually a heavy vacuum distillate fraction obtained from crude oil, which can be further processed at the installation for bitumen manufacture
Crack	a refining margin
DAO	(De-Asphalted Oil) oil produced with an SDA installation used as a raw material for further refining. It may be the basis for producing base oils or an input for a cracking process
ETBE	(Ethyl Tert-Butyl Ether) a high-octane biocomponent used in gasoline production. It is manufactured in petrochemical complexes with ethanol and isobutylene
Ethanol	ethyl alcohol used e.g. as a biocomponent for producing fuels and biofuels used in cars with ignition engines
FAME	(Fatty Acid Methyl Ester) a biocomponent used to manufacture fuels and biofuels for diesel engine vehicles. FAME is manufactured by the transesterification of oil with methanol in the presence of a catalyst

Forties Blend	a type of crude oil from the North Sea. Fortis Blend is light petroleum with a low content of sulphur and a high potential in gasoline production
Furfurol extraction	a technology applied to increase the quality of base mineral oils. During the process, unfavourable aromatic hydrocarbons are separated, which increases the so-called viscosity index
Gasoline reforming	a refining process that involves a reaction with a catalyst creating high-octane aromatic hydrocarbons and hydrogen
General nitrogen	the content of nitrogen for nitrogen being a part of all possible chemical forms
HDS	(Hydrodesuplhurization Diesel Unit) a system for the hydrodesulphurization of diesel oils
Heavy heating oil	an oily liquid representing a residue from the distillation of crude oil. 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
HGU	(Hydrogen Generation Unit) a system for hydrogen production
Hydrocracking	a refining process used to produce high quality fuel components during the reaction of vacuum distillates and hydrogen with a catalyst. Hydrocracking processes usually take place at very high pressure and provide components that are free of sulphur and contaminations
Hydrocomplex installation	a project of developing the Glimar Refinery in Gorlice. According to plans, the hydrocomplex was to consist of a line of core installations, i.e. hydrocracking, hydroparaffining and hydrorefining, as well as a number of auxiliary systems, including a hydrogen production plant. The aim of the hydrocomplex construction was to provide the Glimar Refinery with the capacity of producing high quality fuel products and base oils. On 19 January 2005, Glimar Nafta Refinery announced its bankruptcy, resulting in the discontinuation of work on this investment
Hydrorefining	(of slack wax) a process of purifying paraffin during the reaction with hydrogen in a catalyst

Jet A1	aviation fuel for jet and turbine engines
KAS	an amine-sulphur complex of installations for purifying the refining gases of hydrogen sulphide and for the production of liquid sulphur
Light heating oil	a product obtained in crude oil processing characterized by lower sulphur content and density than heavy heating oil. LHO is mainly used in household boiler rooms, in SMEs and institutions. It is also successfully used as the heating fuel in the boiler rooms of residential estates
LPG	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
LPG amine washing installation	a system for removing sulphur from liquid gas fractions in the form of hydrogen sulphide
Lubricant oil	a composition of base oil and improvers. 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 the movable parts of mechanical devices that touch each other and work together. Lubricant oils are used in the automotive industry and for industrial applications
MHC (Mild Hydrocracking)	a hydrocracking installation that operates in slightly milder conditions than a standard hydrocracking system
Modified asphalts	asphalts characterized by improved quality parameters, thanks to the interaction between asphalt and an applied modifier
MTBE	(Methyl Tert-Butyl Ether) a high-octane component used for gasoline production. Unlike ETBE, it is not a biocomponent
Naphtha	a fluid fraction of crude oil composed of hydrocarbons whose particles contain 9-16 atoms of carbon. Naphtha can be processed into aviation fuel and diesel oils

National Index Aim	a minimum share of biocomponents in the total volume of liquid fuels and liquid biofuels used during a calendar year in transport, calculated according to the caloric value
Natural gasoline gas	natural gas that contains, apart from methane and ethane, some quantities of heavier hydrocarbons
Oil transesterification	a chemical reaction resulting in the formation of fatty acid methyl esters. The transesterification reaction of oils is a reaction of oil with methanol in the presence of a catalyst
Own petrol station	stations owned by LOTOS Paliwa, run by external personnel
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 an insulation material
Partner petrol stations	stations that operate under the LOTOS brand under a commercial partnership based on a long-term franchise agreement
Patronage petrol stations	stations that operate under the flag of the former Gdańsk refinery on the basis of a patronage agreement
Plasticizers	plasticizing improvers added to polymer products. Grupa LOTOS S.A. manufactures hydrocarbon plasticizers for the rubber industry
Ppm	(parts per million) a popular measuring method used to express the concentration of extremely diluted solutions of chemical compounds. This measure tells how many particles of a chemical compound are to be found among one million particles of the solution
REBCO	(Russian Export Blend Crude Oil) a commercial name of Russian crude oil from the Ural

REACH	Regulation of the European Parliament and the European Council concerning the safe application of chemicals through their registration and assessment and in some cases granting commercial permits and restrictions as regards the application. It came into force on 1 June 2007 and replaces several dozen previous community legal acts, both regulations and directives introduced into Polish legislation with the Act of 11 January 2001 on chemical substances and preparations
ROSE	(Residual Oil Supercritical Extraction) a technology used at Gdańsk refinery in the SDA installation under construction
SDA	(Solvent Deasphalting) an installation used to separate vacuum remnants after crude oil processing into lighter fractions, i.e. deasphalted oil (DAO) and heavier fractions, namely bitumen components
Slack wax	a semi-product received in crude oil processing. It is used to produce wax
Troll Blend	a type of crude oil from the North Sea. The Troll Blend is an average crude oil with a low sulphur content and a high potential within the production of diesel oils
Vacuum distillation	a process analogical to the process of atmospheric distillation, conducted, however, at a reduced ambient pressure. It uses a physical property, whereby the boiling point decreases as the ambient pressure is reduced. It makes it possible to separate vacuum distillates in the atmospheric residuals. Heavy remnants of the distillation process are so-called vacuum residuals
Vacuum distillate	a fraction of hydrocarbons separated from a more complex mixture with distillation under a reduced atmospheric pressure. Vacuum distillates produced from crude oil are usually used to produce base oil, and also as input for cracking processes

12

Consolidated Financial Statements

Consolidated financial statements for the year ended December 31st 2007 prepared in accordance with the international financial reporting standards together with the auditor's opinion.

Contents

OPINION OF THE INDEPENDEND CERTIFIED AUDITOR

To the Shareholders Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of GRUPA LOTOS S.A. Capital Group (the Group, Capital Group), with GRUPA LOTOS S.A. (the Company, Parent) as its parent with the registered office in Gdańsk, ul. Elbląska 135, including:
   - consolidated balance sheet prepared as of 31 December 2007, with total assets and liabilities plus equity of PLN 9,720,384 thousand;
   - consolidated income statement for the period from 1 January 2007 to 31 December 2007, disclosing a net profit of PLN 814,147 thousand;
   - statement of changes in consolidated equity for the period from 1 January 2007 to 31 December 2007, disclosing an increase in equity of PLN 748,975 thousand;
   - consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007, showing a net cash outflow of PLN 147,061 thousand;
   - additional information and explanations.

2. Preparation of these consolidated financial statements is the responsibility of the Management Board of the Parent. Our responsibility was to audit and express an opinion on the fairness, correctness and clarity of these consolidated financial statements.

3. The consolidated financial statements of the Capital Group for the previous financial year ended 31 December 2006 were audited by another certified auditor, who issued an opinion of 17 April 2007 on these financial statements with the following qualifications:

   - failure to assess the correctness of estimates regarding a provision for the cost of post-production waste removal and utilization as well as provision for the cost of future land recultivation due to planned liquidation of installations disclosed by the Group in the total amount of PLN 40 million;

   - the fact that the parent does not have financial statements of UAB Naftos Gavyba Capital Group ("NG Group") consolidated based on equity method and failure to assess the impact of qualifications included in the opinion of the certified auditor issued to the consolidated financial statements of the NG Group,

- uncertainty as to whether and to what extent the expenses in the amount of PLN 102 million incurred due to agreements concluded on the base Program generate the expected economic benefits,

and pointed out the following:

- the issue of the Company's ability to fulfill its obligations as regards operating and investing activities of Rafineria Nafty Glimar S.A.,
- the uncertainty as to the ability to pay advances in the amount of PLN 75 million for reactor delivery under Program 10+,
- the uncertainty as to full use of assets constituting the exploration bore-hole cost as well as evaluation of mineral resources and other expenditure incurred due to exploration of B-4 and B-6 gas deposits in the total amount of PLN 48 million,
- the uncertainty as to recovery of the full goodwill arising from the acquisition of the organized part of ExxonMobil Poland Sp. z o.o. and Slovnaft Polska S.A.

Our opinion refers only to the consolidated financial statements for the financial year ended 31 December 2007.

4. The consolidated financial statements of the Grupa LOTOS S.A. Capital Group for the period ended 31 December 2007 cover financial data of 18 subsidiaries, including 4 capital groups, consolidated with the full method. The consolidated financial statements of 11 subsidiaries were audited by other entities authorized to audit financial statements. We received the financial statements of the aforementioned subsidiaries and the opinions resulting from the audits of these financial statements. Our opinion on the audit of the consolidated financial statements in respect to the data of these entities has been based on the opinions of certified auditors authorized to perform audits. The data from the financial statements of subsidiaries, in the case of which our audit was fully based on opinions of other certified auditors account for 5.06% and 5.32% of consolidated assets and consolidated sales revenues before consolidation adjustments, respectively.

5. Except for the issues described in paragraph 6-7, our audit of the consolidated financial statements was planned and performed in accordance with:

– section 7 of the Accounting Act of 29 September 1994 (Dz.U. of 2002 No. 76, item 694 with subsequent amendments);

– auditing standards issued by the National Council of Statutory Auditors in Poland;

in such a way as to obtain reasonable and efficient basis for expressing an opinion as to whether the consolidated financial statements were free of material misstatements. Our audit included, in particular, examination of the consolidation documentation supporting the amounts and disclosures in the consolidated financial statements, assessment of the accounting principles (policy) applied in the preparation of the consolidated financial statements, related material estimates as well as evaluation of the overall presentation of the consolidated financial statements.

We believe that our audit provides a reasonable basis for our opinion.

6. In the enclosed consolidated financial statements, the Group discloses a provision for the cost of post-production waste removal and utilization as well as provision for the cost of future land recultivation due to planned liquidation of installations disclosed by the Group in the total amount of PLN 39 million. The Group made estimates as regards post-production waste as well as the land based on the best knowledge of its technical personnel. However, bore-hole technology measurements were not taken that would confirm the estimated value of provisions calculated by the Group. The cost of land recultivation due to planned installation liquidation was significantly different from the reports of the environmental experts. In addition, the Group prepared a report on ecological analysis of soil and water pollution in one of the subsidiaries, to which it was obligated by the decision of Podkarpackie Voivodship Voievode of 2006. The report indicating that the admissible soil pollution levels were exceeded and containing the proposal and schedule of measures aimed at soil and water purification by the end of 2013 was submitted to the Voievode. The final scope and schedule for measures aimed at rectifying the irregularities in question is subject to the decision of the Marshall Office of Podkarpackie Voivodship. Due to lack of data on the purification methods, the Group did not estimate the related provision. Due to the above, we were not able to assess the reliability of calculations regarding the total amount of provisions for environmental issues referred to above.

7. The Group discloses 42.7% interest in UAB Naftos Gavyba Capital Group ("NG Group") with its seat in Lithuania, measured based on equity method at the amount of PLN 48.54 million. The financial statements of NG Group were prepared for the financial period ended 31 December 2007 in accordance with the accounting regulations applied in Lithuania. On 20 March 2008, the certified auditor issued an opinion on NG Group financial statements with the qualification concerning:

- limited audit scope due to lack of possibility to evaluate financial consequences of arbitration proceedings, in which AB Geonafta, a subsidiary, is the party.
- lack of independent estimate of the deposits owned by AB Naftos Gavyba Group, resulting in limited audit scope as regards net value of property, plant and equipment employed in mining operations and their depreciation,
- limited audit scope as regards evaluation of shares in associates held by AB Geonafta, a subsidiary. These limitations result from qualifications in the opinions issued by certified auditors for NG Group associates as well as differences in the accounting policies applied by individual associates.

Due to the aforementioned qualifications included in the certified auditor's opinion issued to the consolidated financial statements of NG Group for the financial year ended 31 December 2007 and due to the fact that the NG Group applies different accounting policy, we were not able to determine, whether the value of shares held in NG Group's parent disclosed in these consolidated financial statements is correct.

8. Except for consequences of any adjustments that might prove necessary, if we could verify the cost of environmental provisions and potential consequences of the issues related with the valuation of shares in NG Group, in our opinion based on the audit results and opinions of other certified auditors, the audited consolidated financial statements of GRUPA LOTOS S.A. Capital group for the financial year 2007 were prepared in all material respects in accordance with the International Financial Reporting Standards as approved by the European Union and present fairly and clearly all the information required to evaluate the economic and financial position of the Capital Group for the 12-month period ended 31 December 2007.

Without qualifying the accuracy and fairness of the audited consolidated financial statements, we would like to point out the following issues:

- note 11 of the additional information and explanations to the financial statements, in which the Company undertakes to continue the implementation of the concept for Integrated Gasification Combined Cycle (IGCC), that allows launching of the second stage of Program 10+. We would like to point out that the second stage implementation shall depend on future events, including market factors, which might affect the effectiveness of the capital investment incurred so far, which as at 31 December 2007 amounted to PLN 46.5 million and pertained to implementation of IGCC,

- note 11 of the additional information and explanations to the financial statements, in which the Group discloses assets due to expenditure incurred on exploration of B-4 and B-6 gas deposits as well as bore-hole costs in the amount of PLN 48 million as at 31 December 2007. The Group ordered a feasibility study for the deposit development. According to the analysis, there is a need for significant capital expenditure to operate the deposits. As referred to in note 11, it is not certain whether the benefits flowing from future deposit output can cover the expenditure incurred and to be incurred to commence the production.

The Report on the activities of the Capital Group in the 2007 financial year is complete in the meaning of Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 October 2005 on current and periodical information submitted by issuers of securities, and is consistent with the underlying information disclosed in the audited consolidated financial statements.

Piotr Sokołowski
Członek Zarządu
Biegły Rewident
nr ewid. 9752

Wacław Nitka
Członek Zarządu
Biegły rewident
nr ewid. 2749

....
Piotr Sokołowski
Certified auditor:
No. 9752/7281

Represented by

DELOITTE AUDYT Sp. z o.o.
ul. Piękna 18, 00-549 Warszawa
tel. 511-08-11, fax 511-08-13
NIP 527-020-07-86; REGON 010076870
....
Entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors

Warsaw, 6 May 2008

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Financial highlights – consolidated

The LOTOS Group	PLN'000		EUR'000	
	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data)	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data)
Sales revenue	13,125,123	12,798,084	3,475,197	3,282,317
Operating profit	713,664	798,346	188,960	204,751
Pre-tax profit	1,004,494	915,891	265,964	234,898
Net profit	814,147	734,652	215,565	188,416
Net profit attributable to equity holders of the parent	777,160	679,912	205,772	174,377
Net profit attributable to minority interests	36,987	54,740	9,793	14,039
Net cash provided by/(used in) operating activities	189,462	654,441	50,165	167,844
Net cash provided by/(used in) investing activities	(816,440)	(721,514)	(216,172)	(185,046)
Net cash provided by/(used in) financing activities	481,513	(78,151)	127,492	(20,043)
Total net cash flow	(147,061)	(143,629)	(38,938)	(36,836)
Basic earnings per ordinary share (PLN/EUR)	6.84	5.98	1.81	1.53
Diluted earnings per ordinary share (PLN/EUR)	-	-	-	-
	PLN'000		EUR'000	
	As at Dec 31 2007 (audited)	As at Dec 31 2006 (comparable data)	As at Dec 31 2007 (audited)	As at Dec 31 2006 (comparable data)
Total assets	9,720,384	7,763,542	2,713,675	2,026,400
Equity attributable to equity holders of the parent	5,816,227	5,095,527	1,623,737	1,330,008
Equity attributable to minority interests	334,691	306,416	93,437	79,979
Total equity	6,150,918	5,401,943	1,717,174	1,409,987

The balance-sheet items as at December 31st 2007 were translated using the euro mid-exchange rate published by the National Bank of Poland for that date, i.e. EUR 1 = PLN 3.5820. Items of the income statement and the cash flow statement for year ended December 31st 2007 were translated using the rate of exchange of EUR 1= PLN 3.7768 (the arithmetic mean of the mid-exchange rates determined by the National Bank of Poland for the last day of each month in the period from January 1st to December 31st 2007).

The balance-sheet items as at December 31st 2006 were translated using the euro mid-exchange rate published by the National Bank of Poland for that date, i.e. EUR 1 = PLN 3.8312. Items of the income statement and the cash flow statement for year ended December 31st 2006 were translated using the rate of exchange of EUR 1= PLN 3.8991 (the arithmetic mean of the mid-exchange rates determined by the National Bank of Poland for the last day of each month in the period from January 1st to December 31st 2006).

Consolidated balance sheets

as at Dec 31st 2007 and December 31st 2006

(PLN '000)	Note	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,471,247	3,336,839
Prepayment for tangible assets under construction	11	781,780	148,018
Goodwill	17	58,207	67,058
Intangible assets	15	64,999	55,858
Investment property	14	3,445	4,849
Investments in associated undertakings	18	48,519	83,381
Non-current financial assets	19	21,553	23,642
Deferred tax asset	41	31,732	32,057
Non-current receivables	12	12,668	16,199
Prepayments and accrued income	13	13,976	13,912
Total non-current assets		4,508,126	3,781,813
Current assets			
Inventories	22	2,589,322	1,707,442
Trade and other receivables, including:	23	1,542,465	1,276,475
- income tax receivables		1,867	33,068
Prepayments and accrued income	13	31,868	13,562
Current financial assets	20	119,342	204,044
Cash and cash equivalents	24	924,995	772,387
Total current assets		5,207,992	3,973,910
Assets held for sale	16	4,266	7,819
Total assets		9,720,384	7,763,542

Consolidated balance sheets

as at Dec 31st 2007 and December 31st 2006

(PLN '000)	Note	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	26	113,700	113,700
Statutory reserve funds		970,951	970,951
Retained earnings/(deficit)		4,746,221	4,014,432
Currency-translation differences		(14,645)	(3,556)
Equity attributable to equity holders of the parent		5,816,227	5,095,527
Equity attributable to minority interests	29	334,691	306,416
Total equity		6,150,918	5,401,943
Non-current liabilities			
Interest-bearing loans and borrowings	30	842,943	330,706
Non-current provisions	31	208,594	208,082
Deferred tax liability	41	154,789	170,009
Other (financial) liabilities	32	9,323	10,801
Total non-current liabilities		1,215,649	719,598
Current liabilities			
Trade payables, accruals and deferred income, and other liabilities, including:	33	1,757,451	1,385,106
- income tax expense		20,446	3,413
Interest-bearing loans and borrowings	30	517,193	173,526
Current provisions	31	74,268	80,579
Other financial liabilities	32	4,905	2,790
Total current liabilities		2,353,817	1,642,001
Total liabilities		3,569,466	2,361,599
Total equity and liabilities		9,720,384	7,763,542

Consolidated income statements

for the year ended Dec 31st 2007 and Dec 31st 2006

(PLN '000)	Note	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data) (audited)
Sales revenue	35	13,125,123	12,798,084
Cost of sales	36	(11,346,692)	(10,978,033)
Gross profit on sales		**1,778,431**	**1,820,051**
Other operating income	37	81,845	28,099
Goodwill impairment allowance	17	(21,496)	-
Selling costs	36	(697,495)	(665,553)
General and administrative expenses	36	(335,440)	(313,892)
Other operating expenses	38	(92,181)	(70,359)
Operating profit		**713,664**	**798,346**
Financial income	39	313,549	133,295
Financial expenses	40	(44,995)	(41,561)
Interest in investments in associated undertakings	18	22,276	25,811
Pre-tax profit		**1,004,494**	**915,891**
Corporate income tax	41	(190,347)	(181,239)
Net profit on continued operations		**814,147**	**734,652**

Attributable to:

Equity holders of the parent		777,160	679,912
Minority interests	29	36,987	54,740

Net earnings per share

- basic	28	6.84	5.98
- diluted		-	-

Consolidated cash flow statements

for the year ended Dec 31st 2007 and Dec 31st 2006

(PLN '000)	Note	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data) (audited)
Cash flows from operating activities			
Net profit		814,147	734,652
Adjustments:			
Share in net profit/(loss) of subordinated undertakings valued with equity method		(22,276)	(25,811)
Depreciation and amortisation		306,224	297,356
Foreign exchange gains		4,091	(6,556)
Net interest and dividend paid		855	11,098
(Profit)/loss on investing activities		(41,766)	27,651
Current income tax		190,347	181,239
Income tax paid		(157,003)	(290,568)
(Increase) in receivables	25	(252,733)	(189,154)
(Increase) in inventories	25	(883,218)	(274,491)
Increase in liabilities and accruals and deferred income	25	253,101	175,099
(Increase) in prepayments and accrued income	25	(17,987)	(7,243)
(Decrease)/ Increase in provisions	25	(4,276)	19,201
Other	25	(44)	1,968
Net cash provided by/(used in) operating activities		189,462	654,441
Cash flows from investing activities			
Dividend received		47,318	2,527
Interest received		19,036	10,951
(Acquisition)/sale of property, plant and equipment and intangible assets		(368,681)	(524,769)
(Acquisition)/sale of non-current financial assets		-	(3,449)
(Acquisition)/sale of current financial assets		184,007	(44,866)
Acquisition of Krak-Gaz Sp. z o.o. net of cash acquired		(15,829)	-
Prepayments for tangible assets under construction		(681,601)	(163,874)
Other, net		(690)	1,966
Net cash provided by/(used in) investing activities		(816,440)	(721,514)
Cash flows from financing activities			
Increase in loans and borrowings		579,791	68,399
Repayment of loans and borrowings		(23,217)	(118,888)
Interest paid		(21,603)	(20,814)
Dividend paid to parent undertaking's shareholders	27	(40,932)	-
Dividend paid to minority shareholders	29	(8,593)	(2,521)
Financial lease payments		(942)	(2,151)
Other, net		(2,991)	(2,176)
Net cash provided by/(used in) financing activities		481,513	(78,151)
Change in cash on account of foreign exchange (gains)/losses		(1,596)	1,595
Change in net cash		(147,061)	(143,629)
Cash at beginning of period	25	624,165	767,794
Cash at end of period	25	477,104	624,165
- restricted cash	24	17,296	23,143

Statements of changes in consolidated equity

for the year ended Dec 31st 2007 and Dec 31st 2006

(PLN '000)	Share capital	Statutory reserve funds	Retained earnings/ (deficit)	Transla-tion reserve	Equity attribut-able to equity holders of the parent	Equity at-tributable to minority interests	Total equity
Jan 1 2006 (comparable data)	113,700	970,951	3,334,520	2,266	4,421,437	254,281	4,675,718
Net profit for year ended Dec 31 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 (comparable data) (audited)	113,700	970,951	4,014,432	(3,556)	5,095,527	306,416	5,401,943
Jan 1 2007 (comparable data)	113,700	970,951	4,014,432	(3,556)	5,095,527	306,416	5,401,943
Net profit for year ended Dec 31 2007	-	-	777,160	-	777,160	36,987	814,147
Dividend	-	-	(40,932)	-	(40,932)	(8,593)	(49,525)
Changes in the Group's organisational structure	-	-	2,377	-	2,377	(119)	2,258
Other	-	-	(6,816)	(11,089)	(17,905)	-	(17,905)
Dec 31 2007 (audited)	113,700	970,951	4,746,221	(14,645)	5,816,227	334,691	6,150,918

Notes to the consolidated financial statements

1 General Information

Grupa LOTOS S.A. (“the Company”, “the Parent Undertaking”), the parent undertaking of the LOTOS Group (“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, Poland.

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 trade 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.

The Parent Undertaking holds the following licenses related to its core business:

- License for production of liquid fuels valid until November 30th 2008, issued by the President of URE on November 28th 1998,
- License for production of fuels through processing of crude oil and through blending of fuels with the use of suitable hydrocarbon fractions and components required by the used technology, and through specific processes, valid until December 31st 2025, issued by the President of URE on October 5th 2007,
- License for trade in liquid fuels valid until December 21st 2008, issued by the President of URE on November 23rd 1998,
- License for trade in liquid fuels valid until December 31st 2025, issued by the President of URE on October 5th 2007,
- License for storage of liquid fuels valid until October 15th 2016, issued by the President of URE on October 10th 2006,
- License for generation of electricity valid until October 5th 2010, issued by the President of URE on September 29th 2000,
- License for trade in electricity valid from September 10th 2001 until September 10th 2011, issued by the President of URE on September 5th 2001,
- License for transmission and distribution of electricity valid from September 10th 2001 until September 10th 2011, issued by the President of URE on September 5th 2001.

In addition, the companies of the LOTOS Group hold the following licenses:

- Licenses for exploration and prospecting of oil and natural gas deposits situated in certain areas of Poland (in the Gaz Południe area – valid until December 14th 2012, in the areas of Gaz Północ, Gotlandia, Łeba, Rozewie, Sambia E and Sambia W – valid until December 14th 2010, and in Wolin – valid until June 14th 2008) issued by the Minister of Natural Environment,
- Licenses for deposit exploitation issued by the Minister of Natural Environment (B6 deposit – license valid until November 7th 2026, B3 and B8 deposits – licenses valid until July 29th 2016 and September 5th 2009, and B4 deposit – license valid until May 11th 2032),
- Licenses issued by the President of URE for the following activities: production, storage and trade of liquid fuels, trade in liquid and gaseous fuels, transmission and distribution of gaseous fuels, transmission and distribution of heat, generation of electricity, transmission and distribution of electricity, and trade in electricity,
- License for freight transport by rail and traction vehicles renting issued by the President of the Railway Transport Authority (UTK).

2 Composition of the Group

The following table presents the subsidiary undertakings of the LOTOS Group, their principal business, consolidation method, and the Group's share of the total vote in their share capital.

Name	Registered office	Business profile	Method of consolidation/valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2007	Dec 31 2006
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	Sale of fuels and provision of services for retail networks of international concerns; logistic services	full	- (1)	100.00%
LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.) (2)	Mława	Wholesale and retail sale of LPG	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 units under the 10+ Programme; 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%
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%	100.00% (3)
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of petroleum products	full	100.00% (4)	86.01%
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels (5)	full	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	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%

Name	Registered office	Business profile	Method of consolida-tion/valua-tion of shares	Percentage of share capital held by the Group	
				Dec 31 2007	Dec 31 2006
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	full (6)	100.00%	100.00%
BiproRaf Sp. z o.o.	Gdańsk	Design services for oil industry	not consolidated	- (7)	50.00%
Rafineria Nafty Glimar S.A. (Glimar Refinery) in liquidation	Gorlice	Refining(8)	not consolidated due to lack of control	91.54%	91.54%
LOTOS Hydrokompleks(9) Sp. z o.o.in . liquidation	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%	86.91%
LOTOS Exploration and Production Norge AS	Stavanger Norway	Oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007	full(6)	100.00%(10)	-
Indirect Subsidiary Undertakings					
RCEkoenergia Sp. z o.o	Czechowice-Dziedzice	Services	full	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	No operations	full	80.04%	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	Services	- (11)	86.91%	86.91%
RC Paliwa Sp. z o.o. in liquidation	Czechowice-Dziedzice	Trading (not commenced)	equity method	- (12)	80.04%
Plastekol Organizacja Odzysku S.A.	Jasło	Services	full	53.61%	53.61%
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	Services	not consolidated	- (13)	80.01%
Chemipetrol Sp. z o.o.	Jasło	Trading - assets transferred to LOTOS Parafiny in exchange for shares	full (6)	80.01%	80.01%
KRAK-GAZ Sp. z o.o. (14)	Bochnia	Wholesale and retail sale of LPG	full	100.00%	-
Miliana Shipping Company Ltd.	Cypr	Services	full	68.93%	68.93%
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Services	full (6)	69.00%	69.00%

(1) On June 29th 2007 the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register issued a decision on registering the merger of Grupa LOTOS S.A. and LOTOS Partner sp. z o.o.
(2) Name changed to LOTOS Gaz S.A. with effect from July 5th 2007.
(3) On December 20th 2006, the LOTOS Group acquired from minority shareholders the remaining 12.56% of shares in LOTOS Ochrona Sp. z o.o. under a share purchase agreement.
(4) 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.
(5) On March 31st 2006, the Company discontinued the processing of crude oil
(6) As of December 31st 2007, LOTOS Exploration and Production Norge AS, UAB LOTOS Baltija, Aphrodite Offshore Services Ltd., and Chemipetrol Sp. z o.o. are consolidated with the full method.
(7) 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.
(8) On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. Having examined, on March 11th 2008, the bankruptcy case of Rafineria Nafty GLIMAR S.A of Gorlice regarding a motion to terminate the bankruptcy proceedings filed by the receiver of Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, V Commercial Division of the National Court Register, issued a decision pursuant to Art. 361.2 of the Bankruptcy and Recovery Law on terminating the bankruptcy proceedings. As at the date of publication of these financial statements the decision of the court has not become final.
(9) On November 26th 2007, by virtue of Resolution of the Extraordinary General Shareholders Meeting, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation.
(10) On September 22nd 2007, the Central Register of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, registered office in Stavanger, Norway. Grupa LOTOS S.A. acquired 100% of the shares in the new entity by paying up its entire share capital of NOK 8,000 thousand, i.e. PLN 3,871 thousand.
(11) Shares contributed to LOTOS Park Technologiczny Sp. z o.o. by LOTOS Czechowice S.A on January 2nd 2006.
(12) On October 4th 2007 RC Paliwa Sp. z o.o. in liquidation was deleted from the National Court Register by the District Court of Katowice Wschód in Katowice, VIII Commercial Division of the National Court Register.
(13) On December 27th 2007 LOTOS Jasło S.A. sold 100% of shares in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu. Sp. z o.o.
(14) On July 9th 2007 LOTOS Gaz S.A. entered into the final agreement on the purchase of 34,500 shares in KRAK - GAZ Sp. z o.o. LOTOS Gaz S.A. acquired 100% of shares in KRAK – GAZ Sp. z o.o.

As at Dec 31st 2007, December 31st 2006 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 Composition of the Parent Undertaking's Management and Supervisory Boards

As at December 31st 2007 and as at the date of release of these consolidated financial statements, the composition of the Management Board of Grupa LOTOS S.A was as follows:

Paweł Olechnowicz – President of the Management Board, CEO,
Marek Sokołowski – Vice-President of the Management Board, Production and Development Director,
Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer

As at December 31st 2007 and as at the date of release of these financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A was as follows:

Jan Stefanowicz – Chairman of the Supervisory Board,
Henryk Siodmok – Deputy Chairman of the Supervisory Board,
Grzegorz Szczodrowski – Secretary of the Supervisory Board,
Beata Zawadzka – Member of the Supervisory Board,
Marta Busz – Member of the Supervisory Board,
Izabela Emerling – Member of the Supervisory Board,
Jacek Mościcki – Member of the Supervisory Board.

During 2007, the following changes occurred in the composition of the Company's Management and Supervisory Boards:

1. On November 13th 2007, the Supervisory Board of Grupa LOTOS S.A. removed Jarosław Kryński from the position of Vice-President of the Management Board of Grupa LOTOS S.A., Chief Commercial Officer.

2. On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. removed Jacek Tarnowski from his position as Member of the Supervisory Board of Grupa LOTOS S.A. and appointed:
   - Jan Stefanowicz (former Deputy Chairman of the Supervisory Board) as Chairman of the Supervisory Board of Grupa LOTOS S.A.
   - Marta Busz as Member of the Supervisory Board of Grupa LOTOS S.A.
   - Izabela Emerling as Member of the Supervisory Board of Grupa LOTOS S.A.

3. 1.On June 14th 2007, the Supervisory Board appointed Henryk Siodmok as Deputy Chairman of the Supervisory Board of Grupa LOTOS S.A.

4 Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board on May 6th 2008.

5 Going Concern

These consolidated financial statements were prepared on the assumption that the Group companies 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.

6 Duration of the Group

The duration of the parent undertaking and its subsidiary undertakings is unlimited.

7 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 Dec 31st 2007 and the comparable data as at December 31st 2006. The income statement, the cash-flow statement and the statement of changes in the Group's equity present the data for January 1st – Dec 31st 2007 along with the comparable data for January 1st – Dec 31st 2006.

The financial information as at Dec 31st 2007 and Dec 31st 2006 and for the year then ended contained in these consolidated financial statements was audited. The financial information as at December 31st 2006 and for the year then ended was audited by an auditor who issued an opinion thereon on April 17th 2007.

8 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 złotys, unless indicated otherwise.

9 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 adopted by the International Accounting Standards Board ("IASB") and 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 2006, except for the accounting policies concerning the disclosure of the perpetual usufruct right to land obtained free of charge, i.e. by virtue of an administrative decision and presentation of financial instruments (see Note 10).

Starting from January 1st 2007, IAS 1 *Presentation of Financial Statements: Capital Disclosures* was amended by the International Accounting Standards Board.

The following standards and interpretations have been in effect since January 1st 2007:
- IFRS 7 *Financial Instruments: Disclosures*,
- Amendment to IAS 1- *Capital Disclosures*,
- Revised Guidance on Implementing IFRS 4 - *Insurance Contracts*.

The Company has reviewed the new interpretations, standards and amendments to the existing standards. The new interpretations, standards and amendments have no material impact on the accounting policies applied by the Group.

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 23 *Borrowing Costs* (effective as of January 1st 2009, not yet adopted by the European Union),
- Amendment to IAS 1 *Presentation of Financial Statements* (effective as of January 1st 2009, not yet adopted by the European Union),
- IFRS 8 *Operating Segments* (applies to annual periods beginning after January 1st 2009),
- Revised IFRS 3 *Business Combinations* (applies to annual periods beginning after July 1st 2009, not yet adopted by the European Union),
- Revised IAS 27 *Consolidated and Separate Financial Statements* (applies to annual periods beginning after July 1st 2009, not yet adopted by the European Union),
- IFRIC 11 *Group and Treasury Share Transactions* (applies to annual periods beginning after March 1st 2007),
- IFRIC 12 *Service Concession Arrangements* (applies to annual periods beginning after January 1st 2008),
- IFRIC 13 *Customer Loyalty Programmes* (applies to annual periods beginning after July 1st 2008),
- IFRIC 14, IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (applies to annual periods beginning after January 1st 2008).

The Management Board does not expect any material impact of the new standards and interpretations specified above on the accounting policies applied by the Group.

The Group does not prepare information on individual business segments, as it does not meet the requirements for reportable segments identification stipulated in the International Accounting Standard 14: *Segment Reporting*.

10 Accounting Policies

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

As at January 1st 2004, which is the date of transition to the IFRS, i.e., the perpetual usufruct rights to land, acquired free of charge by virtue of an administrative decision, were recognised in the accounting records at fair value under property, plant and equipment.

As at Dec 31st 2007, the perpetual usufruct rights to land received free of charge are classified by the Group as operating lease and disclosed at fair value as an off-balance-sheet item.

In connection with the classification of the land perpetual usufruct rights obtained free of charge as an off-balance-sheet item, the Group adjusted the comparable data presented in these financial statements. As a result of the adjustment the value of property, plant and equipment as at December 31st 2006 and January 31st 2005 fell by PLN 163,446 thousand, the value of the deferred tax liability – by PLN 31,055 thousand, and the value of equity (retained earnings) – by PLN 132,391 thousand, taking into account the effect of deferred income tax.

The adjustment had no impact on the net earnings per share.

Moreover, the Group changed the presentation of the fair value of assets and liabilities related to valuation of derivative instruments. As at Dec 31st 2007, the Group disclosed financial assets and liabilities separately. Therefore, as at December 31st 2006 the value of financial liabilities and assets increased by PLN 514 thousand (December 31st 2005 – PLN 1,745 thousand).

Moreover, in connection with IAS 18 Revenue, the Group's sales revenue for year ended December 31st 2007 was disclosed taking into account trade and volume rebates given by the Group companies. In the financial statements for 2006, the value of volume rebates increased the selling costs. The Group reclassified the value of rebates by decreasing selling costs and sales revenue for year ended December 31st 2006 by PLN 12,799 thousand.

Concurrently, during year ended December 31st 2007 the Company and the Group reclassified the costs of loading equipment. For the year ended December 31st 2006, cost of sales and general and administrative expenses fell by PLN 9,966 thousand and PLN 2,209 thousand, whereas selling costs rose by PLN 12,175 thousand.

The key accounting policies adopted by the Group are presented below.

10.1 Basis for Consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent Undertaking and financial statements of the undertakings it controls, prepared as at Dec 31st 2007.

The financial statements of the subsidiaries, subject to the restatements made to ensure compliance with the IFRS, are prepared for the same reporting period as the financial statements of the Parent Undertaking, with the use of consistent accounting policies and in accordance with uniform accounting policies applied for transactions and economic events of a similar nature. Adjustments are made in order to eliminate any discrepancies in the adopted accounting policies.

All significant balances and transactions between the Group's undertakings, including significant unrealised profits on intra-group transactions, have been eliminated in their entirety. Unrealised losses are eliminated unless they are indicative of an impairment of value.

Subsidiary undertakings are consolidated starting from the date when the Group assumes control over them and cease to be consolidated when the control is lost. The Company is deemed to exert control when it holds, directly or through its subsidiary undertakings, more than 50% of votes in a given undertaking unless it is possible to prove that the ownership of over 50% of votes is not tantamount to exerting control. The Company's ability to influence a given undertaking's financial and operational policies is also deemed exerting control.

10.2 Investments in Associated Undertakings

Investments in associated undertakings are recognised using the equity method. Associated undertakings are the undertakings over which the Parent Undertaking has significant influence, either directly or indirectly through its subsidiary undertakings, and which are neither its subsidiary undertakings nor interests in joint ventures. The financial statements of associated undertakings serve as a basis for the equity method valuation of the shares held by the Parent Undertaking. Associated undertakings' financial years coincide with the Parent Undertaking's financial year.

Investments in associated undertakings are initially recognised in the balance-sheet at acquisition cost, adjusted for subsequent changes in the Parent Undertaking's share in the net assets of the associated undertakings, and reduced by impairment losses, if any. The income statement includes the Parent Undertaking's share of the profits and losses of the associated undertakings. In the case of a change recognised directly in an associated undertaking's equity, the Parent Undertaking recognises its share in such change and, if applicable, discloses it in the statement of changes in equity.

10.3 Intangible Assets

Intangible assets are recognised if the Group is likely to obtain future economic benefits attributable directly to the assets. Initially, intangible assets are recognised at acquisition or production cost, if they are acquired in separate transactions. Intangible assets acquired as part of the acquisition of a business are recognised at fair value as at the acquisition date. Following initial recognition, intangible assets are valued at acquisition or production cost less accumulated amortisation and impairment losses.

The Group capitalises and recognises as an intangible asset both the licence fees for the exploration and identification of crude oil and natural gas reserves as well as the fees under the concluded mining use agreements for the exploration and identification of crude oil and natural gas reserves. The commencement and execution of the exploration work is conditional upon obtaining relevant licence and establishing the mining use.

Intangible assets are amortised using the straight-line method over their estimated useful lives.

The expected useful lives of the Group's intangible assets range from 2 to 25 years.

The amortisation period and the amortisation method for an intangible asset are reviewed at the end of each financial year. Changes in the expected useful life or pattern of consumption of the future economic benefits embodied in the asset are reflected by changing the amortisation period or amortisation method, respectively, and are accounted for as changes in accounting estimates.

Useful lives are also reviewed each year and, if required, they are adjusted with effect from the beginning of the following financial year.

With the exception of capitalised expenditure on research and development, expenditure on intangible assets produced by the Company is not capitalised and is disclosed under expenses for the period in which they were incurred.

10.4 Goodwill of Subordinated Undertakings

The goodwill relating to acquisition of a business undertaking is initially recognised at acquisition cost, equal to the excess of the cost of the business combination over the acquiring undertaking's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired undertaking. Following the initial recognition, goodwill is carried at acquisition cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Company calculates any impairment of value by estimating recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its carrying value, the Company recognises impairment losses. If goodwill comprises a part of a cash-generating unit and the Company sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the carrying value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, pro-rata to the interest in the retained part of the cash-generating unit.

10.5 Property, Plant and Equipment

Property, plant and equipment, other than land, are valued at acquisition or production cost, less accumulated depreciation and impairment losses.

Land is valued at acquisition cost less any impairment losses. In the case of perpetual usufruct of land, acquisition cost is understood to mean the amount paid to a third party.

Initial cost of property, plant and equipment comprises the acquisition cost plus all costs directly related to their acquisition and adaptation for use. This cost also includes the cost of replacing component parts of plant and equipment, which is recognised when incurred, if relevant recognition criteria are fulfilled. Costs incurred on an asset which is already in service, such as repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

Property, plant and equipment (including their components), other than land, are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives are as follows:

Buildings and structures	1 – 80 years
Plant and equipment	1 – 25 years
Vehicles	1 – 15 years
Other property, plant and equipment	1 – 10 years

Property, plant and equipment used for production activities are depreciated with the use of unit-of-production method, i.e. depreciation per unit of produced crude oil is charged to expenses. The depreciation rate is estimated in reference to forecasts of raw mineral production from a given geological area. If the estimated reserves change significantly as at the balance-sheet date, depreciation per unit of produced raw mineral is revalued. Then, starting in the new financial year, a re-valued depreciation rate is applied.

An item of property, plant and equipment may be derecognised from the balance sheet if it is sold or if the company does not expect to realise any economic benefits from its further use. Gains or losses on derecognition of an asset (calculated as the difference between net proceeds from its sale, if any, and the carrying value of the asset) are disclosed in the income statement in the period when the asset was derecognised.

The residual value, useful economic life and depreciation method are reviewed – and adjusted if required – with effect from the beginning of the next year.

The costs of each overhaul are included in the carrying value of property, plant and equipment, if relevant recognition criteria are fulfilled.

In its financial statements, under tangible assets, the Group discloses an asset corresponding to the value of provision for the liquidation of a mining plant. This issue is regulated under IAS 16: *Property, Plant and Equipment*, which reads: "The cost of an item of property, land and equipment comprises… the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period." The Group's obligation to incur costs of liquidation of the Offshore Oil Rig results directly from the reasons specified in IAS 16. Under Paragraph 63 of the same standard, the entities applying the IAS are obliged to test the value of an asset periodically, at least at each balance-sheet date. It should further be emphasised that the International Financial Reporting Interpretations Committee (IFRIC) has issued Interpretation IFRIC 1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Interpretation directly refers to, inter alia, IAS 16, including in particular to the revaluation of an asset recognised as future liquidation cost. Revaluation of an asset so recognised may be caused by:

- change in estimated cash used to ensure the performance of the liquidation obligation,
- change in the current market discount rate,
- increase in the value resulting from the lapse of time – shortening of the time remaining until liquidation, leading to the settlement of the discount rate.

The Group has followed the IFRIC's requirement in this respect, therefore these consolidated financial statements show the re-valued asset.

10.6 Assets under Construction

Investments in progress are valued at the amount of aggregate costs directly attributable to the acquisition or production of such assets, including financial expenses, less impairment losses, if any. Investments in progress are not depreciated until completed and placed in service.

Investments in progress comprise property, plant and equipment which is under construction or assembly and are recognised at acquisition or production cost.

Financial expenses capitalised under tangible assets under construction include servicing costs of the debt incurred to finance the assets.

The cost of exploration for crude oil and natural gas reserves is capitalised as tangible assets under construction until the size of the deposit and the economic viability of production are determined. Upon confirmation of the existence of deposits whose exploitation is technically and economically viable, the expenditure incurred on the exploration activities is transferred to tangible assets and is subsequently depreciated. If exploration drillings do not result in discovery of any deposits whose exploitation is technically and economically viable, valuation allowances for tangible assets under construction are charged to the financial result of the period in which it is found that there is no possibility of any economic utilisation of the discovered deposits.

10.7 Expenditure on Exploration and Evaluation of Resources

Assets related to exploration and evaluation of mineral resources comprise expenditure on exploration and evaluation of mineral resources disclosed as assets in accordance with the accounting policies adopted by the Group. The expenditure on exploration and evaluation of mineral resources includes expenses incurred by the Group in connection with exploration and evaluation of mineral resources before technical and economic viability of exploitation of the mineral resources can be proven. The exploration and evaluation of mineral resources involves the exploration for mineral resources, including crude oil, natural gas and similar non-renewable resources, after the company has obtained the licence to conduct exploration work in a given area, and the determination of the technical and commercial viability of exploitation of the mineral resources.

The Group classifies assets related to exploration and evaluation of mineral resources as property, plant and equipment or intangible assets, depending on the type of the acquired assets, and applies this classification policy in a consistent manner. After the technical and commercial viability of exploitation of mineral resources has been proven, the Group no longer classifies such assets as related to exploration and evaluation of mineral resources. The Group presents and discloses valuation allowances for assets related to exploration and evaluation of mineral resources in accordance with IFRS 6 and evaluates such assets in accordance with IAS 36. Valuation allowances are charged against the financial result, in accordance with IAS 36.

The Group examines a need to make valuation allowances for assets related to exploration and evaluation of mineral resources by considering, inter alia, the following circumstances related to a given area of exploration:

- the term for which the company was granted the licence to conduct exploration work expired in the course of the current financial period or will expire in the near future, and no extension of the term is envisaged;
- the Group does not provide for significant expenditure for further exploration and evaluation of mineral resources;
- exploration and evaluation of mineral resources did not result in discovery of any commercial mineral resources and the company decided to discontinue its exploration activities;
- available data suggests that despite continuation of the development work, the carrying value of the assets related to exploration and evaluation of mineral resources could not be fully recovered, even if the development work is successfully completed or the assets are sold.

10.8 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is deemed to be met only if the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Classification of an asset as held for sale means that the management intends to complete the sale within one year from the change of its classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

10.9 Impairment Losses on Non-Financial Assets

As at each balance-sheet date, the Group assesses whether there is any evidence of impairment of any of its assets. If the Group finds that there is such evidence, or if the Group is required to perform annual impairment tests, the Group estimates the recoverable value of the given asset.

The recoverable value of an asset is equal to the higher of the fair value of the asset or cash generating unit, less the transaction costs, or its value in use. The recoverable value is determined for the individual assets, unless a given asset does not generate separate cash inflows largely independent from those generated by other assets or asset groups. If the carrying value of an asset is higher than its recoverable value, the value of the asset is impaired and an impairment loss is recognised up to the established recoverable value. In assessing value in use, the projected cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses related to the assets used in the continued operations are disclosed under the cost categories corresponding to the function of the asset with respect to which impairment has been identified.

As at each balance-sheet date, the Group assesses whether there is evidence that any impairment loss recognised in the previous periods with respect to a given asset is no longer necessary or should be reduced. If there is such evidence, the Group estimates the recoverable value of the given asset. The recognised impairment loss is reversed only when following the recognition of the last impairment loss there has been a change in the estimates used to determine the recoverable value of the asset. In such a case, the carrying value of the asset is increased up to its recoverable value. The increased value may not exceed the carrying value of the asset that would have been determined (net of accumulated amortisation/depreciation) if the impairment loss related to that asset had not been recognised in the previous years. Reversal of an asset impairment loss is immediately recognised as revenue in the income statement, unless the asset has been revalued, in which case the reversal of an impairment loss is treated as an increase in the revaluation capital reserve. Following reversal of an impairment loss, in the subsequent periods the amortisation/depreciation charge related to the given asset is adjusted so that over the remaining useful life of that asset its verified carrying value, less its residual value, can be regularly written off.

10.10 Investment Property

Investment property is valued at acquisition cost less accumulated depreciation and impairment losses.

Investment property, including investments in land, perpetual usufruct of land, buildings and structures, include property which the Company does not use for its own purposes but which will generate benefits in the form of value appreciation or income from rent.

10.11 Inventories

Inventories are valued at the lower of: their acquisition or production cost or their net realisable value.

Costs incurred in order to bring each inventory item to its present location and conditions are accounted for in the following manner:
- materials and goods for resale – acquisition cost calculated on weighted average basis,
- finished goods and work-in-progress – the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity.

Net realisable value is the selling price estimated as at the balance sheet date net of VAT, excise taxes and fuel charge, less any rebates, discounts and other similar items, and less the estimated costs to complete and costs to sell.

10.12 Trade Receivables and Other Receivables

Trade receivables, which typically mature in 14 to 55 days, are valued and recognised at amounts initially invoiced, accounting for valuation allowances for doubtful receivables. Valuation allowances for receivables are estimated when the collection of the full amount of receivables is no longer probable. Uncollectible receivables are written off through the income statement when recognised as unrecoverable accounts.

If the effect of time value of money is significant, the value of receivables is determined by discounting the projected future cash flows to their present value using a pre-tax discount rate reflecting the current market estimates of the time value of money. If the discount method is applied, an increase in receivables over time is recognised as financial income.

10.13 Foreign Currency Transactions

Transactions denominated in foreign currencies are reported in the functional currency of the Group's companies (Polish złoty) as at the transaction date, using the following exchange rates:
1. buy or sell rate of the bank at which the transaction is effected – in the case of sale and purchase of currencies and payment of receivables and payables; or
2. mid exchange rate quoted for the given currency by the National Bank of Poland as at that date unless a different exchange rate in specified in another document binding on a given undertaking.

Monetary assets and liabilities denominated in foreign currencies as at the balance-sheet date are translated into the złoty at relevant złoty mid exchange rates quoted by the National Bank of Poland as at that date. The resulting foreign exchange gains and losses are carried as financial income/(expense) or cost of sales, except for foreign exchange gains and losses which are considered a part of external financing cost and are capitalised under non-current assets. Non-monetary assets and liabilities recognised at historic cost expressed in a foreign currency are recognised at the historic exchange rate effective as at the date of the transaction. Non-monetary assets and liabilities disclosed at fair value expressed in a foreign currency are translated as at the balance-sheet date at the exchange rate effective as at the date of determining the fair value.

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

Mid exchange rate quoted by NBP as at	Dec 31 2007	Dec 31 2006
USD	2.4350	2.9105
EUR	3.5820	3.8312

The financial statements of foreign undertakings are translated into the Polish currency at the following exchange rates:

- items of the balance sheet – at the mid exchange rate quoted by the National Bank of Poland for the balance-sheet date;
- items of the income statement – at the exchange rate computed as the arithmetic mean of mid exchange rates quoted by the National Bank of Poland for the days ending each financial month.

The resulting currency-translation differences are recognised directly in equity as a separate component.

10.14 Cash and Cash Equivalents

Cash in hand and at banks, as well as and non-current deposits held to maturity are valued at face value.

Cash and cash equivalents as disclosed in the consolidated cash-flow statement comprise cash in hand and cash at banks, overdraft facilities as well as those bank deposits maturing within three months which are not classified as placements.

10.15 Accruals and Deferrals

The Group recognises prepayments if they relate to future reporting periods.

Accrued expenses are recognised at probable values of current-period liabilities.

Employees of the Group undertakings are entitled to holidays in accordance with the rules set forth in the Polish Labour Code, The Group recognises the cost of employee holidays on an accrual basis using the liability method, The amount of the provision for unused holidays is calculated on the basis of the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time.

10.16 Equity

Equity is recognised in the consolidated financial statements by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of the LOTOS Group is the share capital of the Parent Undertaking and is recognised at its par value, in the amount specified in the Company's Articles of Association and in the relevant entry in the National Court Register.

10.17 Provisions

Provisions are created when the Group has an obligation (legal or following from commercial practice) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation may be reliably estimated. If the Group anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate item of assets, but only when such recovery is practically certain to occur. The cost related to a given provision is disclosed in the income statement, less any recoveries. If the effect of the time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to their present value at gross discount rates reflecting the current market estimates of the time value of money and risks, if any, related to a given obligation. If the discount method is applied, an increase in provisions as a result of lapse of time is recognised as financial expenses.

10.18 Retirement Severance Pays and Length-of-Service Awards

In accordance with the company remuneration systems applied by the LOTOS Group companies, the Group's employees are entitled to length-of-service awards and severance pays upon retirement due to old age or disability. Length-of-service awards are paid out after a specific period of employment. Old-age and disability retirement severance pays are one-off and paid upon retirement. Amounts of severance pays and length-of-service awards depend on the length of employment and the average remuneration. The Company creates a provision for future liabilities under retirement severance pays and length-of-service awards in order to assign costs to the periods in which they are incurred. According to IAS 19, length-of-service awards are classified as other long-term employee benefits, while retirement severance pays – as defined post-employment benefit plans. The present value of the obligations as at each balance-sheet date is calculated by an independent actuary. The calculated value of the obligations is equal to the amount of discounted future payments, taking into account the employment turnover, and relate to the period ending at the given balance-sheet date. Information concerning demographics and employment turnover is sourced from historical data. Actuarial gains and losses are recognised in the income statement.

10.19 Profit Distribution for Employee Benefits and Special Accounts

According to business practice followed in Poland, company shareholders have the right to allocate a part of profit for employee benefits in the form of contributions to the Company's social benefits fund and for other special accounts. In the financial statements prepared in accordance with the IFRS such distributions are charged to operating expenses of the period which the distribution concerns.

10.20 Interest-Bearing Bank Loans, Borrowings, and Debt Securities

All bank loans, borrowings, and debt securities are initially recognised at acquisition cost equal to the fair value of funds received, less cost of obtaining the loan.

Following initial recognition, interest-bearing loans, borrowings, and debt securities are valued at amortised acquisition cost, using the effective interest rate method. Amortised acquisition cost includes cost of obtaining the loan as well as discounts or premiums obtained at settlement of the liability. Gains or losses are charged to the income statement upon removal of the liability from the balance sheet or recognition of value impairment.

10.21 Costs of External Financing

Costs of external financing are disclosed as the costs of the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed, which costs are capitalised as a part of the acquisition or production cost of such an asset.

To the extent that the funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the costs of external financing which may be capitalised as part of such asset is determined as the difference between the actual costs of external financing incurred in connection with a given loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that the funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the costs of external financing which may be capitalised is determined by applying the capitalisation rate to the capital expenditure on that asset.

10.22 Government Subsidies

If there is reasonable certainty that the subsidy will be received and that all related conditions will be fulfilled, government subsidies are recognised at fair value.

If a subsidy concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. If it concerns an asset, its fair value is recognised as deferred income, and then it is written off annually in equal parts through profit or loss over the estimated useful life of the asset.

10.23 CO_2 Emission Credits

The Group recognises carbon dioxide emission credits in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the emission credits limit granted to it, and the liability is recognised only after the Company actually exceeds the limit. Income from the sale of unused emission credits is recognised in the income statement at the time of sale.

10.24 Income Tax

Mandatory decrease of profit/(increase of loss) comprises: current income tax (CIT) and deferred income tax. The current portion of the income tax is calculated based on the net profit/(loss) (taxable income) for a given financial year. The net profit (loss) established for tax purposes differs from the net profit (loss) established for financial reporting purposes due to the exclusion of the income which is taxable and the costs which are deductible in future years and the expenses and income items which will never be subject to deduction/taxation. The tax charges are calculated based on the tax rates effective for a given financial year.

For the purposes of financial reporting, the Company creates a deferred tax liability using the balance-sheet liability method in relation to all temporary differences existing as at the balance-sheet date between the tax base of assets and liabilities and their carrying value as disclosed in the consolidated financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss), and
- in the case of taxable temporary differences associated with investments in subsidiary or associated undertakings, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax assets, and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences, assets and losses to be used:

- except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated undertakings and interests in joint ventures, the related deferred tax asset is recognised in the balance sheet to the extent it is probable that in the foreseeable future the temporary differences will be reversed and taxable income will be generated which will enable the deductible temporary differences to be offset.

The carrying value of a deferred tax asset is verified as at each balance-sheet date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of this deferred tax asset would be generated.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of particular asset or release of particular provision, based on tax rates (and tax legislation) effective as at the balance-sheet date or tax rates (and tax legislation) certain to be effective as at the balance-sheet date in the future.

Income tax related to items posted directly to equity is disclosed under equity and not in the income statement. Deferred tax assets and deferred tax liability are recognised in the balance sheet in the amount obtained after they are offset for particular undertakings consolidated within the Group.

10.25 Financial Instruments

At the time of their initial recognition, financial instruments are valued at acquisition cost (price), equal to the fair value of the payment made for them. The transaction costs are included in the initial value of the financial instruments.

Following the initial recognition, financial instruments are classified under one of the following four categories and are valued as follows:

- Financial instruments which are recognised at fair value through profit or loss.
- Financial instruments held to maturity which are recognised at amortised cost using the effective interest rate.
- Loans and accounts receivable which are recognised at amortised cost using the effective interest rate; the related gains and losses are disclosed in the income statement. Accounts receivable which mature in the short term and do not have a specified interest rate are recognised at amounts due.
- Financial instruments available for sale which are recognised at fair value; the revaluation gains/losses are charged to the revaluation capital reserve until the investment is sold or its value is reduced. Then, the cumulative revaluation gain/loss is charged to the income statement.

The fair value of financial instruments for which a ready market exists is determined in relation to the prices quoted on that market as at the relevant balance-sheet date. If there is no quoted market price, the fair value is estimated using appropriate valuation techniques.

Financial liabilities other than under financial instruments at fair value through profit or loss are recognised at amortised cost using the effective interest rate.

Financial instruments are derecognised from the balance sheet when the Group loses control over contractual rights comprising particular financial instruments; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

10.26 Derivative Financial Instruments

Derivatives used by the Group to hedge against currency risk include in particular FX forwards. Derivative financial instruments of this type are measured at fair value. Derivative instruments are recognised as assets if their value is positive and as liabilities if their value is negative. Gains or losses resulting from changes in the fair value of a derivative which does not qualify for hedge accounting are charged directly to the net profit or loss for the financial year. Fair value of FX forwards is established by reference to the forward rates of contracts with similar maturity prevailing at a given time. Fair value of interest rate swaps is established by reference to the market value of similar instruments.

10.27 Impairment of Financial Assets

As at each balance-sheet date the Company determines whether there is objective evidence of impairment of a financial asset or a group of financial assets.

Assets Carried at Amortised Cost

If there is objective evidence that the value of loans and receivables measured at amortised cost has been impaired, the impairment loss is recognised in the amount equal to the difference between the carrying value of a financial asset and the present value of estimated future cash flows (excluding future losses relating to irrecoverable receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. the interest rate used at the time of initial recognition). The carrying value of an asset is reduced directly or by creating relevant provisions. The amount of loss is recognised in the income statement.

First the Company determines whether there exists objective evidence of impairment with respect to each financial asset that is deemed material, and with respect to financial assets that are not deemed material individually. If the analysis shows that there exists no objective evidence of impairment of an individually tested asset, regardless of whether it is material or not, the Company includes the asset into the group of financial assets with similar credit risk profile and tests it for impairment together with the other assets from this group. Assets which are tested for impairment individually, and with respect to which an impairment loss has been recognised or a previously recognised loss is deemed to remain unchanged, are not taken into account when a group of assets are jointly tested for impairment.

If an impairment loss decreases in the next period, and the decrease may be objectively associated with an event that occurred subsequent to the impairment loss recognition, the recognised impairment loss is reversed. The subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost as at the reversal date.

Financial Assets Carried at Cost

If there exists objective evidence of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, or of a related derivative instrument which must be settled by delivery of such non-traded equity instrument, the amount of impairment loss is established as the difference between the carrying value of the financial asset and the present value of estimated future cash flows discounted with the market rate applicable to similar financial assets prevailing at a given time.

Financial Assets Available for Sale

If there exists objective evidence of impairment of a financial asset available for sale, the amount of the difference between the acquisition cost of that asset (less any principal payments and depreciation/amortisation charges) and its current fair value, reduced by any impairment losses previously recognised in the income statement, is derecognised from equity and charged to the income statement. Reversal of an impairment loss concerning equity instruments qualified as available for sale may not be recognised in the income statement. If the fair value of a debt instrument available for sale increases in the next period, and the increase may be objectively associated with an event that occurred subsequent to the impairment loss recognition in the income statement, the amount of the reversed impairment loss is recognised in the income statement.

10.28 Recognition of Revenue

Revenue is recognised in the amount of probable economic benefits to be derived by the Group which may be reliably estimated.

10.29 Sales of Products, Goods for Resale and Services

Sales revenue is disclosed at the fair value of payments received or due, and it represents the accounts receivable for the products, goods for resale and services provided in the ordinary course of business, less discounts, VAT and other sales-related taxes (excise tax, fuel charge). The sales of products and goods for resale are recognised at the moment of delivery, when material risk and benefits resulting from the ownership of the products and goods have been transferred to the purchaser.

10.30 Interest

Interest income is recognised as the interest accrues (using the effective interest rate), unless the receipt of the interest is doubtful.

10.31 Dividends

Dividend is recognised as financial income as of the date on which the appropriate governing body of the Company adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

10.32 Management's Estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of judgments and estimates which affect the value of items disclosed in the financial statements and in the notes thereto. Although the judgments and estimates are based on the Management Board's best knowledge of the current and future events and actions, the actual results might differ from the estimates. The areas in which the Management Board prepared estimates include provisions, property, plant and equipment, as well as intangible assets, goodwill, merger transactions, financial assets, and the deferred tax asset.

The material assumptions used in the estimates are described in the relevant notes.

Valuation of Provisions

Provisions for employee benefits were estimated with actuarial methods.

Depreciation/Amortisation Charges

Depreciation/amortisation charges are determined based on the expected useful lives of property, plant and equipment and intangible assets. The Group reviews the useful lives of its assets annually, on the basis of current estimates.

Fair Value of Financial Instruments

The fair value of financial instruments for which no active market exists is determined by means of appropriate valuation methods. In selecting appropriate methods and assumptions, the Group relies on professional judgment.

Deferred Tax Asset

The Group recognises a deferred tax asset if it is assumed that taxable profit will be generated in the future against which the asset can be used. If the taxable profit deteriorates in the future, this assumption may prove invalid.

10.33 Net Earnings per Share

Earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in this reporting period. The Group does not disclose the diluted earnings/loss per share, since there are no dilutive instruments outstanding.

10.34 Contingent Liabilities and Receivables

A contingent liability is understood as a duty to discharge an obligation which is conditional upon the occurrence of certain circumstances. Contingent liabilities are not recognised in the balance sheet, however information on contingent liabilities is disclosed, unless the likelihood of the outflow of funds embodying economic benefits is negligible. Contingent receivables are not recognised in the balance sheet, however information on contingent receivables is disclosed if an inflow of funds embodying economic benefits is probable.

11 Property, Plant and Equipment and Prepayments for Tangible Assets under Construction

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Land	214,173	212,371
Buildings and structures	1,729,902	1,677,234
Plant and equipment	679,138	746,967
Vehicles and other tangible assets	255,868	357,624
Tangible assets under construction	592,166	342,643
Total	3,471,247	3,336,839
Prepayments for tangible assets under construction	781,780	148,018
Total	4,253,027	3,484,857

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

PLN '000	Land	Buildings and structures		Plant and equipment
			mineral resources exploration and evaluation assets	
Gross book value as at Jan 1 2006 (comparable data) (audited)	204,515	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 (comparable data) (audited))	218,769	1,933,758	128,016	1,175,822
Gross book value as at Jan 1 2007 (comparable data) (audited)	218,769	1,933,758	128,016	1,175,822
Increase, including:	3,790	176,398	136	62,369
- purchase	38	-	-	389
- transfer from investments	4,453	82,933	136	59,125
- cotribution in kind	-	-	-	-
- transfer	(1,144)	76,005	-	(137)
- inclusion of new undertakings in consolidation	443	13,626	-	2,920
- other	-	3,834	-	72
Decrease, including:	(1,133)	(14,009)	(3,878)	(6,091)
- sale	(1,133)	(435)	-	(1,229)
- liquidation	-	(8,591)	(3,878)	(4,348)
- donations, transfer for no consideration	-	-	-	-
- other	-	(4,983)	-	(514)
Gross book value as at Dec 31 2007 (audited)	221,426	2,096,147	124,274	1,232,100
Accumulated depreciation as at Jan 1 2006 (comparable data) (audited)	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 (comparable data) (audited)	6,069	249,892	16,159	424,921

Vehicles and other	Tangible assets under construction		Prepayments for tangible assets under construction	Total
		mineral resources exploration and evaluation assets		
513,012	**271,250**	**75,693**	**17,737**	**3,741,266**
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**	**4,373,116**
543,414	**353,335**	**58,240**	**148,018**	**4,373,116**
(47,727)	288,703	10,799	681,601	1,165,134
16,059	470,193	1,750	681,601	1,168,280
11,810	(181,834)	-	-	(23,513)
-	-	-	-	-
(78,978)	-	-	-	(4,254)
3,376	335	-	-	20,700
6	9	9,049	-	3,921
(23,506)	(7,274)	-	(47,839)	(99,852)
(5,672)	(141)	-	-	(8,610)
(4,989)	-	-	-	(17,928)
-	-	-	-	-
(12,845)	(7,133)	-	(47,839)	(73,314)
472,181	**634,764**	**69,039**	**781,780**	**5,438,398**
136,926	**-**	**-**	**-**	**592,196**
59,129	-	-	-	293,573
52,449	-	-	-	285,777
6,680	-	-	-	7,796
(12,530)	-	-	-	(21,362)
183,525	**-**	**-**	**-**	**864,407**

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

PLN '000	Land	Buildings and structures		Plant and equipment
			mineral resources exploration and evaluation assets	
Accumulated depreciation as at Jan 1 2007 (comparable data) (audited)	6,069	249,892	16,159	424,921
Increase, including:	1,384	115,228	6,584	130,466
- depreciation	1,450	105,070	6,584	130,335
- transfer	(66)	10,132	-	(111)
- inclusion of new undertakings in consolidation	-	-	-	229
- other	-	26	-	13
Decrease	(211)	(1,795)	(1,047)	(4,323)
Accumulated depreciation as at Dec 31 2007 (audited)	7,242	363,325	21,696	551,064
Impairment losses as at Jan 1 2006 (comparable data)	-	239	-	200
Increase	329	6,959	-	4,244
Decrease	-	(566)	-	(510)
Impairment losses as at Dec 31 2006 (comparable data) (audited)	329	6,632	-	3,934
Impairment losses as at Jan 1 2007 (comparable data) (audited)	329	6,632	-	3,934
Increase	11	922	-	516
- inclusion of new undertakings in consolidation	-	-	-	-
Decrease	(329)	(4,634)	-	(2,552)
Impairment losses as at Dec 31 2007 (audited)	11	2,920	-	1,898
Net book value as at Jan 1 2006 (comparable data) (audited)	198,629	1,520,335	65,665	764,594
Net book value as at Dec 31 2006 (comparable data) (audited)	212,371	1,677,234	111,857	746,967
Net book value as at Dec 31 2007 (audited)	214,173	1,729,902	102,578	679,138

Vehicles and other	Tangible assets under construction		Prepayments for tangible assets under construction	Total
		mineral resources exploration and evaluation assets		
183,525	-	-	-	864,407
44,638	-	-	-	291,716
55,051	-	-	-	291,906
(11,042)	-	-	-	(1,087)
584	-	-	-	813
45	-	-	-	84
(12,665)	-	-	-	(18,994)
215,498	-	-	-	1,137,129
118	179	-	-	736
2,150	10,518	8,147	-	24,200
(3)	(5)	-	-	(1,084)
2,265	10,692	8,147	-	23,852
2,265	10,692	8,147	-	23,852
699	31,916	7,231	-	34,064
-	-	-	-	-
(2,149)	(10)	-	-	(9,674)
815	42,598	15,378	-	48,242
375,968	271,071	75,693	17,737	3,148,334
357,624	342,643	50,093	148,018	3,484,857
255,868	592,166	53,661	781,780	4,253,027

As at Dec 31st 2007, December 31st 2006, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 575,531 thousand and PLN 521,638 thousand.

The cost of servicing the liabilities incurred to finance tangible assets under construction and prepayments for tangible assets under construction in the year ended Dec 31st 2007 and in the year ended Dec 31st 2006 amounted to PLN 10,528 thousand and PLN 1,231 thousand.

As at Dec 31st 2007, December 31st 2006 the net value of an asset related to the liquidation of a mining plant, referred to in Note 10.5 of the Notes, amounted to PLN 58,005 thousand and PLN 68,096 thousand respectively.

The cost of amortisation of mineral resources exploration and evaluation assets in the year ended Dec 31st 2007, the year ended December 31st 2006 amounted to PLN 6,754 thousand and PLN 10,286 respectively.

In the year ended Dec 31st 2007 and in the year ended December 31st 2006, the costs of impairment losses on mineral resources exploration and evaluation assets amounted to PLN 7,231 thousand and PLN 8,147 thousand, respectively.

The fair value of perpetual usufruct rights to land obtained by virtue of the administrative decision and disclosed as off-balance-sheet item is PLN 163,446 thousand (for detailed information see Note 10 to the financial statements).

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. The activities undertaken currently include search for a partner for joint development of the B–4 and B–6 natural gas deposits. The geological and reserve analyses carried out to-date by potential partners confirm the positive assessment of the deposits, and create an opportunity for future cooperation aimed at executing a joint project.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

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

Following completion of the preparatory phase, the Programme's implementation commenced. The following units at the Gdańsk Refinery of Grupa LOTOS S.A. are to be completed by the end of 2010:
- crude distillation unit (CDU)
- hydrodesulphurisation unit (HDS) for diesel oil
- mild hydrocracker (MHC)
- residue oil supercritical extraction (ROSE)
- hydrogen plant
- amine sulphur recovery unit
- infrastructure expansion (tanks, utilities, inter-facility connections)

The heavy residue gasification unit for treating the residue from crude oil processing is to be constructed in 2010-2015, depending on conditions prevailing on the bitumen market.

The Programme schedule is intended to enhance the Programme's efficiency and security. Thanks to the modified structure of the project it is possible to:
- reduce the risk resulting from shortages of staff and materials as well as from limited availability of contractors,
- reduce the costs of the Programme and better adapt the financing strategy for the Programme to the Company's capabilities,
- take advantage of favourable trends on the asphalt market by Grupa LOTOS S.A.

A growing trend on the asphalt market will be observed at least until 2012, both in terms of product volumes and prices (or margins). Following the completion of the 10+ Programme, Grupa LOTOS S.A. plans to increase the annual sales of asphalts to no less than 1,100 thousand tonnes. The Parent Undertaking is currently carrying out preparatory work in connection with the heavy residue gasification and the integrated gasification combined cycle (IGCC) project, which will enable the Company to launch the second phase of the 10+ Programme in 2010–2015. The second phase of the Programme will focus on the construction and commissioning of a heavy residue gasification unit (IGCC). As at December 31st 2007 capitalised costs related to integrated gasification combined cycle (IGCC) amount to PLN 46,525 thousand.

The expenditure on the 10+ Programme until 2012 is planned to amount to ca. EUR 1.47bn.
In order to finance the expenditure to be incurred until 2010, the Company plans to take out an investment loan of USD 1,550m.

Execution of the 10+ Programme – Conclusion of the EPCM Contract (Engineering, Procurement and Construction Management Services, to build the utilities and off-sites under the 10+ Programme)

On June 19th 2007, Grupa LOTOS S.A. and FLUOR S.A. signed an engineering, procurement and construction management services contract to build the utilities and off-sites under the 10+ Programme. The construction of the utilities and off-sites will enable the Company to comply with the EU requirements concerning the quality of diesel oils, which will be in force as of 2009. The scope of the construction is adjusted to the planned annual oil processing volume of 10.5 million tonnes. The contract is to be executed over a period of 34 months. The contract is an element of the growth strategy of the LOTOS Group, providing for the construction of the Programme's production installations. The contract is the second of a series of contracts, after the EPC contract for the construction of a hydrodesulphurisation unit (HDS) for diesel oil.

Execution of the Contract for Engineering Design, Procurement and Construction of the Hydrocracking Unit and Amine Sulphur Recovery Unit under the 10+ Programme

On June 21st 2007, Grupa LOTOS S.A. and Technip Italy S.p.A. as the general contractor, together with Technip KTI S.p.A., Technip Polska Sp. z o.o. and KTI Poland S.A., signed an EPC LSTK (lump-sum turnkey) contract for the engineering design, procurement and construction of a mild hydrocracker (MHC) and an amine sulphur recovery unit, that is a complex comprising hydrogen sulphide recovery unit (ARU), sour water stripper (SWS), sulphur recovery unit/tail gas treatment unit (SRU/TGTU) for Grupa LOTOS S.A. under the 10+ Programme.

The scope of implementation of the MHC, ARU, SWS and SRU/TGTU units is adapted to the planned crude oil throughput capacity of 10.5m tonnes p.a. The performance of the contract is scheduled to last about 42 months.

The value of the contract amounts to PLN 2,208,051 thousand (translated at the mid exchange rate quoted by the National Bank of Poland for June 20th 2007).

The contract provides for contractual penalties payable to Grupa LOTOS S.A. for a delay or failure to achieve the agreed parameters of the units built under the contract. The contractor's total liability towards Grupa LOTOS S.A. is limited to 8% of the contract value.

Conclusion of an Engineering, Procurement and Construction Lump-Sum Turnkey Contract for a Hydrogen Production Unit Signed as Part of the 10+ Programme

On June 28th 2007, Grupa LOTOS S.A. and Lurgi S.A. of Kraków signed an EPC LSTK (lump-sum turnkey) contract for the engineering design, procurement and construction of a hydrogen production unit based on the technology delivered by Lurgi AG of Frankfurt, as part of the implementation of the 10+ Programme of Grupa LOTOS S.A. The hydrogen production unit will be supplying hydrogen necessary for the production of clean fuels. The new unit is adapted to the planned crude oil throughput capacity of 10.5 million tonnes. The performance of the contract is scheduled to last up to 28 months.

Conclusion of an Engineering, Procurement and Construction Contract for an Oil Distillation Unit Signed as Part of the 10+ Programme

On July 19th 2007, Grupa LOTOS S.A. and Lurgi S.A. of Kraków signed a contract for the engineering design, procurement and management of the construction work for an oil distillation unit.

It will be the second unit of this type to be constructed at Grupa LOTOS S.A.'s Gdańsk Refinery. Its annual capacity will be 4.5 m tonnes of crude oil, which will make it possible to increase the oil throughput capacity at Grupa LOTOS S.A. to approx. 10.5 million tonnes p.a., that is by ca. 75%. Once completed, the new unit will also help increase the supply of fuels on the domestic market. The performance of the contract is scheduled to be completed in the second half of 2009.

On August 1st 2007, Grupa LOTOS S.A. and Lurgi S.A. of Kraków executed an annex to the contract of July 19th 2007 for the engineering design, procurement and management of the construction work for an oil distillation unit (Current Report No. 37/2007). Under the annex, Lurgi S.A. of Kraków will also deliver the installations for the planned oil distillation unit.

The execution of the annex made the contract for the construction of an oil distillation facility covering the engineering design, delivery of installations and management of construction work on the oil distillation unit the largest transaction concluded between the two parties, with the value of approx. EUR 101m (approx. PLN 385m at the mid-exchange rate quoted by the National Bank of Poland for August 1st 2007).

The agreement provides for contractual penalties. The limit of financial liability for failure by Lurgi S.A. to properly perform the contract is equal to 8% of the contract value.

12 Non-Current Receivables

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Non-current receivables	12,668	16,199
Total	12,668	16,199

Non-current liabilities represent primarily expenditure on branding partners' service stations, operated under 10-year contracts.

13 Prepayments and Accrued Income

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Insurance	16,360	4,213
Overhauls	22,566	17,896
Other	6,918	5,365
Total	45,844	27,474
Current portion	31,868	13,562
Non-current portion	13,976	13,912

14 Investment property

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Opening balance	5,573	5,888
Increase, including:	372	-
- value appreciation	372	-
Decrease, including:	(2,500)	(1,039)
- sale	(2,500)	(214)
- impairment loss	-	(825)
Closing balance	3,445	4,849

As at December 31st 2007, investment property, including investments in land, perpetual usufruct of land, buildings and structures, included also property which the Company does not use for its own purposes but which generate benefits in the form of value appreciation or rent income (gas distribution plant, service stations).

15 Intangible assets

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Development expense	286	392
Software	6,243	7,626
Patents, trademarks and licences	55,228	44,984
Other	3,242	2,856
Total	64,999	55,858

Changes in Intangible Assets

PLN '000	Development expense	Software	Patents, trademarks and licences		Other		Total
				mineral resources exploration and evaluation assets		mineral resources exploration and evaluation assets	
Gross book value as at Jan 1 2006 (audited)	633	9,326	54,678	956	1,851	794	66,488
Increase, including:	-	4,736	9,601	176	2,299	826	16,636
- purchase	-	35	62	-	-	-	97
- transfer from investments	-	4,485	9,465	176	2,252	826	16,202
- 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 (audited)	528	13,893	64,065	1,132	4,148	1,620	82,634
Gross book value as at Jan 1 2007 (audited)	528	13,893	64,065	1,132	4,148	1,620	82,634
Increase, including:	-	1,493	20,435	1,456	1,686	1,608	23,614
- purchase	-	6	-	-	-	-	6
- transfer from investments	-	1,488	20,339	1,456	1,686	1,608	23,513
- contribution in kind	-	-	-	-	-	-	-
- transfer	-	(97)	96	-	-	-	(1)
- inclusion of new underta-kings in consolidation	-	96	-	-	-	-	96
- other	-	-	-	-	-	-	-
Decrease, including:	-	(51)	(11)	-	-	-	(62)
- sale	-	(2)	-	-	-	-	(2)
- liquidation	-	(43)	(11)	-	-	-	(54)
- other	-	(6)	-	-	-	-	(6)
Gross book value as at Dec 31 2007 (audited)	528	15,335	84,489	2,588	5,834	3,228	106,186
Accumulated amortisation as at Jan 1 2006 (audited)	156	3,843	10,854	300	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 (audited)	163	6,215	19,081	631	1,292	539	26,751

PLN '000	Development expense	Software	Patents, trademarks and licences		Other		Total
				mineral resources exploration and evaluation assets		mineral resources exploration and evaluation assets	
Accumulated amortisation as at Jan 1 2007 (audited)	163	6,215	19,081	631	1,292	539	26,751
Increase, including:	106	2,875	10,191	372	1,300	381	14,472
- amortisation	106	2,820	10,191	372	1,300	381	14,417
- inclusion of new undertakings in consolidation	-	56	-	-	-	-	56
- transfer	-	(1)	-	-	-	-	(1)
- other	-	-	-	-	-	-	-
Decrease	-	(49)	(11)	-	-	-	(60)
Accumulated amortisation as at Dec 31 2007 (audited)	269	9,041	29,261	1,003	2,592	920	41,163
Impairment losses as at Jan 1 2006 (audited)	(27)	57	-	-	-	-	30
Increase	-	-	-	-	-	-	-
Decrease	-	(5)	-	-	-	-	(5)
Impairment losses as at Dec 31 2006 (audited)	(27)	52	-	-	-	-	25
Impairment losses as at Jan 1 2007 (audited)	(27)	52	-	-	-	-	25
Increase	-	-	-	-	-	-	-
Decrease	-	(1)	-	-	-	-	(1)
Impairment losses as at Dec 31 2007 (audited)	(27)	51	-	-	-	-	24
Net book value as at Jan 1 2006 (audited)	504	5,426	43,824	656	1,332	545	51,086
Net book value as at Dec 31 2006 (audited)	392	7,626	44,984	501	2,856	1,081	55,858
Net book value as at Dec 31 2007 (audited)	286	6,243	55,228	1,585	3,242	2,308	64,999

16 Assets held for sale

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Land	1,309	2,756
Buildings and structures	2,914	1,724
Plant and equipment	42	33
Vehicles	-	3,287
Other tangible assets	1	19
Total	4,266	7,819

Non-current assets and assets groups held for sale represents items that the Group intends to sell within one year from the change of their classification.

17 Business combinations

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Carrying value of consolidation goodwill:		
LOTOS Partner Sp. z o.o.	1,862	1,862
LOTOS Mazowsze S.A.	10,009	10,009
Krak-Gaz Sp. z o.o. [(2)]	12,645	-
Total	24,516	11,871
Carrying value of acquisition goodwill[(1)], including:		
- purchase of ESSO service stations network	31,759	44,256
- purchase of Slovnaft Polska S.A. service stations network	1,932	10,931
Total	33,691	55,187
Total goodwill	58,207	67,058

[(1)] Goodwill generated upon the merger of ExxonMobil Poland and Slovnaft Polska

As at December 31st 2007, the Group disclosed goodwill created upon the purchase of an organised part of an enterprise from ExxonMobile Poland and Slovnaft Polska, with a net value of PLN 31,759 thousand and PLN 1,932 thousand, respectively (PLN 44,256 thousand and PLN 10,931 thousand, respectively, as at December 31st 2006).

Based on IAS 36, as at December 31st 2007, the Group performed a test of goodwill acquired upon the purchases from ExxonMobile i Slovnaft for impairment. In accordance with IAS 36, the Group tests goodwill for impairment annually. In order to determine the value in use, discounted cash flows (DCFs) were analysed for the purchased 39 service stations of the ESSO network and 12 service stations of the SLOVNAFT network, organised as separated cash generating centres, with use of WACC = 10.2%. The analysis was based on forecasts of future cash flows (EBITDA net of financial expenses) prepared based on the 2008 budget approved by the Management Board of LOTOS Paliwa Sp. z o.o. and on the planned cash inflows and outflows, as specified in the approved development strategy until 2012 for LOTOS Paliwa Sp. z o.o. The DCF residual value was computed based on the formula for perpetuity with growth.

As part of the goodwill test performed by the Group, the value in use was determined at:
- PLN 272,733 thousand for the ESSO service stations,
- PLN 49,783 thousand for the Slovnaft service stations.

The balance-sheet value of assets purchased from ExxonMobile and Slovnaft Polska amounts to:
- PLN 278,463 thousand for the ESSO service stations,
- PLN 57,717 thousand for the Slovnaft service stations.

As the test showed an excess of the carrying amount of the assets purchased from ExxonMobile and Slovnaft Polska over their value in use determined in the course of the goodwill test performed by the Group, the Group recognised a goodwill impairment loss in a total amount of PLN 21,496 thousand.
In 2006, the Group did not disclose any goodwill impairment losses.

(2) Acquisition of KRAK-GAZ Sp. z o.o. shares by LOTOS Gaz S.A
Upon obtaining the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.) of control over KRAK-GAZ Sp. z o.o. by purchasing its shares, on July 9th 2007 LOTOS Gaz S.A. entered into the final agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. Prior to obtaining approval from the Competition and Consumer Protection Office, on March 26th 2007 LOTOS Gaz 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 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 Gaz S.A.

The shares were acquired for PLN 16,368 thousand, and the transaction was financed with LOTOS Gaz S.A.'s own financial resources. The acquisition cost (the cost of merger) was affected by additional expenses incurred by LOTOS Gaz S.A. in connection with tax and financial consulting services.

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 Gaz S.A. is part of Grupa LOTOS S.A.'s strategy aimed at increasing its share in the domestic LPG market.

Pursuant to IFRS 3, as at the date 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 interest in the value of the assets, liabilities and contingent liabilities so measured constitutes the 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, LOTOS Gaz S.A., in accordance with the above policies, performed a valuation of goodwill and recognised the difference between the acquisition cost of businesses and the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following the acquisition of KRAK-GAZ Sp. z o.o., a goodwill of PLN 12,645 thousand, representing the difference between the acquisition cost and the value of acquired assets, was recognised.

(PLN '000)	Dec 31 2007
Merger cost (acquisition cost)	17,329
Interest in the equity of acquired undertakings	100.00%
Current assets, including:	42,987
Cash and cash equivalents	91
Non-current assets	20,210
Total assets	**63,197**
Provisions and other	792
Current liabilities and accruals and deferred income	57,721
Total liabilities	**58,513**
Net assets	4,684
The Company's share in net assets	4,684
Excess of the share in net assets over acquisition cost	**12,645**

By December 31st 2007, LOTOS Gaz S.A. had discharged the liabilities related to the acquisition of the shares in the amount of PLN 15,711 thousand. The value of acquired shares in KRAK-GAZ Sp. z o.o., net of acquired cash in the amount of PLN 91 thousand, is PLN 15,738 thousand.

18 Investments in Associated Undertakings

As at December 31st 2007 and December 31st 2006, the Group discloses the following investments in associated undertakings:

Company name	Registered office	Business area	Dec 31 2007	Dec 31 2006
Energobaltic Sp. z o.o.	Gdańsk	Production activities	32.16%	32.16%
AB Naftos Gavyba	Klaipeda, Lithuania	Services	29.46%	29.46%

Investments in associated undertakings are recognised with the equity method. The balance-sheet value of investments in associated undertakings is as follows:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
AB Naftos Gavyba Group	48,519	83,381
Energobaltic Sp. z o.o.*	-	-
Total investments in associated undertakings	**48,519**	**83,381**

[*] a valuation allowance was made for the value of shares in Energobaltic Sp. z o.o. (see Note 21).

On March 30th 2007, the General Shareholders Meeting of UAB Naftos Gavyba (currently AB 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. By Dec 31st 2007, Petrobaltic S.A. received dividend in the amount of PLN 47,854.

Net assets of material undertakings valued with equity method:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
AB Naftos Gavyba Group	113,628	195,270
Energobaltic Sp. z o.o.	27,288	24,118

Liabilities and provisions for liabilities of material undertakings valued with equity method:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
AB Naftos Gavyba Group	151,857	73,203
Energobaltic Sp. z o.o.	105,319	118,761

Sales revenue of undertakings valued with equity method:

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
AB Naftos Gavyba Group	148,812	102,488
Energobaltic Sp. z o.o.	31,133	24,424

Net profit/(loss) of undertakings valued with equity method:

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
AB Naftos Gavyba Group	52,197	60,458
Energobaltic Sp. z o.o.	3,170	9,047

Share in profit (loss) of undertakings valued with equity method:

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
AB Naftos Gavyba Group	22,288	25,815
Other undertakings valued with equity method	(12)	(4)
Total	22,276	25,811

In the statement of changes in consolidated equity for the year ended December 31st 2007, the Group recognised a share in a change of the equity of the AB Naftos Gavyba Group, amounting to PLN 6,816 thousand.

19 Long-term Financial assets

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Shares in non consolidated companies	1,461	2,877
Shares in other companies	6,632	10,023
Other non-current financial assets, including:	13,460	10,742
- liquidation fund	13,443	10,650
- loans	17	92
Total	21,553	23,642

20 Current Financial Assets

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Positive valuation of financial instruments, including:	96,099	703
- futures	388	-
- currency forwards	87,630	703
- full barrel swap contracts	8,011	-
- spot	70	-
Treasury bonds	-	178,300
Other, including:	23,243	25,041
- prepayments for shares [1]	23,117	24,726
- current loans	41	108
- shares	85	207
Total	119,342	204,044

(1) As at December 31st 2007, the Group recognised assets invested in AB Naftos Gavyba, its associated undertaking, in the total amount of PLN 23.1m (PLN 24.7m as at December 31st 2006). The recognised amount is the funds provided to UAB Naftos Gavyba (currently AB Naftos Gavyba) by Petrobaltic S.A. 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 S.A. could take over the shares in AB Geonafta specified in the Agreement. 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. Petrobaltic S.A. and UAB Naftos Gavyba are currently holding negotiations to reach an agreement providing for a postponement of the deadline for the transfer of the ownership rights to AB Geonafta shares to Petrobaltic S.A. until August 31st 2007. On December 19th 2007, AB Naftos Gavyba and Petrobaltic S.A. concluded an additional arrangement to the Agreement of July 18th 2000 between Petrobaltic S.A. and UAB Naftos Gavyba. Under the additional arrangement, the deadline for the transfer of the ownership rights to AB Geonafta shares was postponed until June 30th 2008.
By the date of these financial statements, AB 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 the condition precedent.

21 Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

The Group discloses derivative transactions with positive fair values under financial assets held for trading. These transactions include unrealised currency forwards, futures and swaps. Derivative transactions with negative fair value are disclosed under financial liabilities held for trading

Fair value of FX forwards is established by reference to future discount cash flows connected with the concluded transactions, calculated on the basis of the difference between the forward rate and the transaction price. The forward rate is calculated on the basis of the fixing rate quotations of the National Bank of Poland and the zero-coupon interest rate curve (CLOSE YIELD), as published by Reuters on the valuation date. The interest rate curve and the fixing rate quotations of the National Bank of Poland are given for the valuation date.

Fair value of full barrel swaps is established by reference to future cash flows connected with the concluded transactions, calculated on the basis of the difference between the average market price and the transaction price. Commodity swaps are valued on the basis of a hypothetical opposite transaction (closing transaction) with the use of mid quotations.

Fair value of futures transactions is established in reference to the future cash flows connected with the concluded transactions, calculated on the basis of the difference between the applicable market price quoted by the European Climate Exchange (ECX) on the valuation date and the transaction price.

Financial Assets Available for Sale

Non-current financial assets available for sale measured at fair value as at December 31st 2007 and December 31st 2006 include mainly shares and equity interests for which there is no active market.

Loans Advanced and Receivables

1. On September 23rd 2003 and April 8th 2004, Grupa LOTOS S.A. signed with Rafineria Nafty Glimar S.A. 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. Additionally, in connection with the Letter of Comfort signed by Grupa LOTOS S.A. on February 12th 2004 for Bank Przemysłowo-Handlowy S.A., the Company undertook commitments relating to the co-financing of the Glimar Hydrocomplex investment project and maintaining of an appropriate financial standing of Rafineria Nafty Glimar S.A. In the opinion of the Company's Management Board, these commitments do not represent financial liabilities as at the balance-sheet date.

   As at Dec 31st 2007 and December 31st 2006, assets under the advanced loans were fully covered by an allowance. The Company also has a provision for the remaining amounts due under these agreements. The value of the provision as at Dec 31st 2007 was PLN 16m (PLN 42m as at December 31st 2006) (See Note 31).

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. Upon consideration on March 11th 2008 of the case of bankruptcy of Rafineria Nafty GLIMAR S.A. of Gorlice in connection with the motion for cancellation of bankruptcy proceedings submitted by bankruptcy administrator Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, Division V of the Commercial Court, decided to discontinue the bankruptcy proceedings pursuant to Art. 361.2 of the Bankruptcy and Recovery Law. As at the date of publication of these financial statements the decision of the court has not become final.

2. On November 12th 2001 an agreement was concluded under which Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to USD 7,129 thousand as at December 31st 2007 (USD 6,879 thousand as at December 31st 2006), which represented the equivalent of PLN 19,955 thousand (PLN 20,022 thousand as at December 31st 2006). On the basis of an analysis of the economic and financial standing of Energobaltic Sp. z o.o., performed based on the 2005 financial statements, and considering the projections for the following years and the related risk of a loss of liquidity in the event of failure of the measures taken by the Management Board of Energobaltic Sp. z o.o. to restructure the company's indebtedness, i.e. to postpone the repayment of bank loans and shareholder loans, a valuation allowance was made for the full value of the loan. A valuation allowance was also made for the value of shares held in Energobaltic Sp. z o.o.(See Note 18).

Financial Liabilities Valued at Amortised Cost

Financial liabilities valued at amortised cost include loans, overdraft facilities and liabilities under financed lease.

None of the following economic events or situations requiring disclosure occurred at the Group during the reporting periods ended December 31st 2007 and December 31st 2006:

- The Group did not reclassify any financial assets (IFRS 7, Par. 12.),
- No collateral was established for the benefit of the Group on any class of assets, which would result in credit enhancements (IFRS 7, Par. 15.),
- The Group did not issue any instrument that contains both a liability and an equity component (IFRS 7, Par. 17.),
- The Group met all contractual provisions (IFRS 7, Par. 18.),
- Interest income in connection with impaired financial assets was recognised by the Group as immaterial (IFRS 7, Par. 20.d.),
- Due to non-compliance with formal requirements, the Group does not apply hedge accounting; accordingly, changes in fair value of derivative instruments are charged to the income statement (IFRS 7, Par. 22.),
- The Group did not acquire any financial assets at a price different from their fair value (IFRS 7, Par.28.)
- The Group did not obtain any assets by taking possession of collateral held as security (IFRS 7, Par. 38.)

The methods and assumptions used to measure fair value of financial instruments held are described in Notes 10 and 20 of the Notes to the financial statements.

21.1 Carrying Value of Financial Instruments

Dec 31 2007 PLN '000	Financial assets at fair value through profit or loss- held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Shares:	-	-	6,717	-	-	6,717
- non-current	-	-	6,632	-	-	6,632
- current	-	-	85	-	-	85
Prepayments for shares	-	23,117	-	-	-	23,117
Liquidation fund	-	13,443	-	-	-	13,443
Loans:	-	58	-	-	-	58
- non-current	-	17	-	-	-	17
- current	-	41	-	-	-	41
Derivative financial instruments	96,099	-	-	-	-	96,099
Net receivables	-	1,555,133	-	-	-	1,555,133
- non-current	-	12,668	-	-	-	12,668
- current	-	1,542,465	-	-	-	1,542,465
Cash and cash equivalents	-	924,995	-	-	-	924,995
Trade liabilities	-	-	-	-	(1,106,023)	(1,106,023)
Loans and borrowings	-	-	-	-	(1,360,136)	(1,360,136)
Financial liabilities	-	-	-	(3,906)	(1,628)	(5,534)
Lease liabilities:	-	-	-	-	(1,628)	(1,628)
- non-current	-	-	-	-	(629)	(629)
- current	-	-	-	-	(999)	(999)
Derivative financial instru-ments	-	-	-	(3,906)	-	(3,906)
Total	96,099	2,516,746	6,717	(3,906)	(2,467,787)	147,869

As at December 31st 2007, the Group held no financial assets with terms renegotiated to account for the possibility of outstanding interest payments or impairment. As at December 31st 2007, the Group did not hold financial assets or liabilities measured at fair value through profit and loss whose components were initially recognised at fair value through profit and loss (fair value option). As at December 31st 2007, the Group did not have financial assets held to maturity. As at December 31st 2007, the carrying value of the above classes of financial instruments corresponded to their fair value. As at December 31st 2007, the carrying value of cash and cash equivalents, current trade receivables and payables and financial liabilities at amortised cost approximated their fair value. Long-term bank loans bear interest at floating rates, with short-term interest payable. The financial assets available for sale, measured at fair value as at December 31st 2007, comprised mainly shares for which there was no active market.

Dec 31 2006 PLN '000	Financial assets at fair value through profit or loss-held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss - held for trading	Financial liabilities at amortised cost	Total
Shares:	-	-	10,230	-	-	10,230
- non-current	-	-	10,023	-	-	10,023
- current	-	-	207	-	-	207
Prepayments for shares	-	24,726	-	-	-	24,726
Liquidation fund	-	10,650	-	-	-	10,650
Loans:	-	200	-	-	-	200
- non-current	-	92	-	-	-	92
- current	-	108	-	-	-	108
Derivative financial instruments	703	-	-	-	-	703
Net receivables	-	1,292,674	-	-	-	1,292,674
- non-current	-	16,199	-	-	-	16,199
- current	-	1,276,475	-	-	-	1,276,475
Non-current financial instruments:	178,300	-	-	-	-	178,300
Treasury bonds	178,300	-	-	-	-	178,300
Cash and cash equivalents	-	772,387	-	-	-	772,387
Trade liabilities	-	-	-	-	(738,696)	(738,696)
Loans and borrowings	-	-	-	-	(504,232)	(504,232)
Financial liabilities	-	-	-	(514)	(2,861)	(3,375)
Lease liabilities:	-	-	-	-	(2,861)	(2,861)
- non-current	-	-	-	-	(584)	(584)
- current	-	-	-	-	(2,277)	(2,277)
Derivative financial instruments	-	-	-	(514)	-	(514)
Total	179,003	2,100,637	10,230	(514)	(1,245,789)	1,043,567

As at December 31st 2006, the Group held no financial assets with terms renegotiated to account for the possibility of outstanding interest payments or impairment. As at December 31st 2006, the Group did not hold financial assets or liabilities measured at fair value through profit and loss whose components were initially recognised at fair value through profit and loss (fair value option). As at December 31st 2006, the Group did not have financial assets held to maturity. As at December 31st 2006, the carrying value of the above classes of financial instruments corresponded to their fair value. As at December 31st 2006, the carrying value of cash and cash equivalents, current trade receivables and payables and financial liabilities at amortised cost approximated their fair value. Long-term bank loans bear interest at floating rates, with short-term interest payable. The financial assets available for sale, measured at fair value as at December 31st 2006, comprised mainly shares for which there was no active market.

21.2 Items of Income, Expenses, Gains and Losses Disclosed in the Income Statement by Categories of Financial Instruments

For the year ended Dec 31 2007 PLN '000	Financial assets/ liabilities at fair value through profit or loss-held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income / (expense)	-	41,205	-	(28,182)	13,023
Gains/ (losses) on foreign exchange differences	-	(71,414)	-	11,239	(60,175)
(Creation)/ reversal of valuation allowances	-	5,976	-	-	5,976
Gains/ (losses) on fair value measurement and realisation	122,473	-	-	-	122,473
Gains/ (losses) on disposal	2,188	-	2,710	-	4,898
Total	124,661	(24,233)	2,710	(16,943)	86,195

For the year ended Dec 31 2006 PLN '000	Financial assets/ liabilities at fair value through profit or loss-held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income / (expense)	-	31,693	-	(30,324)	1,369
Gains/ (losses) on foreign exchange differences	-	(47,724)	-	123,868	76,144
(Creation)/ reversal of valuation allowances	-	(12,495)	-	-	(12,495)
Gains/ (losses) on fair value measurement and realisation	47,145	-	-	-	47,145
Gains/ (losses) on disposal	8,952	-	-	-	8,952
Total	56,097	(28,526)	-	93,544	121,115

Value of derivative transactions as at Dec 31st 2007 (PLN '000):

Company	Type of forward transaction	Transaction execution date	Transaction settlement date [1]	Forward rate	Currency pair	Notional amount sold (EUR '000)	Notional amount sold (PLN '000)	Fair value as at Dec 31 2007 (PLN '000) [2]
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 11 2008	3.6	EUR/PLN	8,500	-	200
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 18 2008	2.5	USD/PLN	-	30,000	1,501
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 22 2008	2.5	USD/PLN	-	30,000	1,498
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 4 2008	2.5	USD/PLN	-	30,000	2,375
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 4 2008	2.5	USD/PLN	-	18,000	1,336
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 6 2008	2.5	USD/PLN	-	50,000	3,887
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 27 2008	2.5	USD/PLN	-	40,000	3,055
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 27 2008	2.5	USD/PLN	-	20,000	1,547
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 15 2008	3.6	EUR/PLN	25,000	-	856
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	3.6	EUR/PLN	50,000	-	1,694
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	2.5	USD/PLN	-	48,000	3,754
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 22 2008	2.5	USD/PLN	-	50,000	4,700
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Jan 8 2008	2.5	USD/PLN	-	30,000	2,701
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 28 2008	3.6	EUR/PLN	45,000	-	1,398
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	2.5	USD/PLN	-	32,000	2,857
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	2.5	USD/PLN	-	25,000	2,126
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	3.6	EUR/PLN	7,000	-	221
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	2.5	USD/PLN	-	20,000	1,698
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 28 2008	3.6	EUR/PLN	50,000	-	1,742
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Feb 21 2008	3.6	EUR/PLN	20,000	-	733
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 25 2008	2.5	USD/PLN	-	50,000	2,163
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 26 2008	2.5	USD/PLN	-	50,000	2,162
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Jan 7 2008	3.6	EUR/PLN	10,000	-	271
Grupa LOTOS S.A.	Currency forward	Dec 28 2007	Jan 9 2008	3.6	EUR/PLN	10,000	-	229
Grupa LOTOS S.A.	Currency forward	Dec 6 2007	Jan 7 2008	1.5	EUR/USD	20,000	-	496
Grupa LOTOS S.A.	Currency forward	Dec 6 2007	Jan 10 2008	1.5	EUR/USD	10,000	-	370
Grupa LOTOS S.A.	Currency forward	Dec 7 2007	Jan 11 2008	3.6	EUR/PLN	8,500	-	5
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 14 2008	1.5	EUR/USD	20,000	-	83
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 14 2008	1.5	EUR/USD	20,000	-	88
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 17 2008	1.5	EUR/USD	40,000	-	208
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 16 2008	1.4	EUR/USD	50,000	-	3,714
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 16 2008	1.4	EUR/USD	50,000	-	3,784
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 9 2008	1.4	EUR/USD	50,000	-	3,701
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 25 2008	1.4	EUR/USD	50,000	-	3,846
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 11 2008	1.4	EUR/USD	50,000	-	3,724
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 19 2008	1.4	EUR/USD	40,000	-	3,066
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 20 2008	1.4	EUR/USD	50,000	-	3,747
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 28 2008	1.4	EUR/USD	40,000	-	3,032
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 23 2008	1.4	EUR/USD	40,000	-	3,125
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 29 2008	1.4	EUR/USD	20,000	-	1,545
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 29 2008	1.4	EUR/USD	20,000	-	1,654
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 31 2008	1.4	EUR/USD	50,000	-	4,003
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 13 2008	1.4	EUR/USD	50,000	-	2,735
							TOTAL	87,630

Company	Type of forward transaction	Transaction execution date	Transaction settlement date (1)	Forward rate	Currency pair	Notional amount sold (EUR '000)	Notional amount sold (PLN '000)	Fair value as at Dec 31 2007 (PLN '000) (2)
Grupa LOTOS S.A.	Spot	Dec 28 2007	Jan 2 2008	3.6	EUR/PLN	3,500	-	70
							TOTAL	70

(1) It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures defined by banks.
(2) The fair value of a transaction is calculated on the basis of its discounted market value established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction) taken on the valuation date. In the case of currency swaps, in order to determine their fair value, such transactions are valued using forward rates calculated on the basis of fixing rate quotations of the National Bank of Poland and the zero-coupon interest rate curve (CLOSE YIELD), as published by Reuters on the valuation date.

Company	Type of forward transaction	Transaction execution date	Transaction settlement date	No. of CO_2 emission credits sold	Price	Fair value as at Dec 31 2007 (PLN '000)
Grupa LOTOS S.A.	Futures	Oct 23 2007	Dec 18 2008	10,000	22,13	10
Grupa LOTOS S.A.	Futures	Oct 23 2007	Dec 18 2008	10,000	22,10	11
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	5,000	21,50	16
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21,65	27
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21,60	29
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21,50	33
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21,50	33
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21,45	35
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21,40	36
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21,40	36
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21,40	36
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21,30	40
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	15,000	21,55	46
					TOTAL	388

Company	Type of forward transaction	Transaction execution date	Transaction settlement date	No of barrels sold	Price (EUR)	Fair value as at Dec 31 2007 (PLN '000)
Grupa LOTOS S.A.	Full barrel swap	Nov 9 2007	Apr 7 2008	1,040,000	9.21	1,638
Grupa LOTOS S.A.	Full barrel swap	Nov 9 2007	Apr 8 2008	750,000	9.30	347
Grupa LOTOS S.A.	Full barrel swap	Nov 12 2007	Apr 7 2008	990,000	9.30	1,776
Grupa LOTOS S.A.	Full barrel swap	Nov 21 2007	Jul 8 2008	609,999	9.35	356
Grupa LOTOS S.A.	Full barrel swap	Nov 13 2007	Jul 8 2008	490,000	9.47	429
Grupa LOTOS S.A.	Full barrel swap	Nov 13 2007	Jul 8 2008	799,998	9.25	273
Grupa LOTOS S.A.	Full barrel swap	Nov 12 2007	Apr 7 2008	999,999	9.19	1,526
Grupa LOTOS S.A.	Full barrel swap	Nov 13 2007	Jul 8 2008	129,999	9.40	92
Grupa LOTOS S.A.	Full barrel swap	Nov 20 2007	Jul 8 2008	510,000	9.27	295
Grupa LOTOS S.A.	Full barrel swap	Nov 14 2007	Jul 8 2008	620,000	9.35	362
Grupa LOTOS S.A.	Full barrel swap	Nov 14 2007	Jul 8 2008	90,000	9.35	53
Grupa LOTOS S.A.	Full barrel swap	Nov 22 2007	Oct 7 2008	246,000	9.20	29
Grupa LOTOS S.A.	Full barrel swap	Nov 27 2007	Jul 8 2008	700,002	9.60	835
					TOTAL	8,011

Company	Type of forward transaction	Transaction execution date	Transaction settlement date [1]	Forward rate	Currency pair	Notional amount sold (EUR '000)	Notional amount sold (PLN '000)	Fair value as at Dec 31 2007 (PLN '000) [2]
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	3.6	EUR/PLN	25,000	-	(863)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	2.5	USD/PLN	-	24,000	(1,903)
Grupa Kapitałowa LOTOS Gaz S.A.	Currency forward	Dec 03 2007	Jan 04 2008	2.8	USD/PLN	-	100	(39)
Grupa Kapitałowa LOTOS Gaz S.A	Currency forward	Dec 07 2007	Jan 07 2008	2.8	USD/PLN	-	100	(35)
Grupa Kapitałowa LOTOS Gaz S.A	Currency forward	Dec 21 2007	Jan 21 2008	2.8	USD/PLN	-	100	(40)
Grupa Kapitałowa LOTOS Gaz S.A	Currency forward	Dec 21 2007	Jan 21 2008	2.8	USD/PLN	-	100	(35)
							TOTAL	(2,915)

(1) It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures defined by banks.

(2) The fair value of a transaction is calculated on the basis of its discounted market value established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction) taken on the valuation date. In the case of currency swaps, in order to determine their fair value, such transactions are valued using forward rates calculated on the basis of fixing rate quotations of the National Bank of Poland and the zero-coupon interest rate curve (CLOSE YIELD), as published by Reuters on the valuation date.

Company	Type of forward transaction	Transaction execution date	Transaction settlement date (1)	No. of CO_2 emission credits sold	Price (EUR)	Fair value as at Dec 31 2007 (PLN '000) (2)
Grupa LOTOS S.A.	Futures	Jun 14 2007	Dec 18 2008	25,000	23.85	(130)
Grupa LOTOS S.A.	Futures	Jun 14 2007	Dec 18 2008	5,000	23.80	(25)
Grupa LOTOS S.A.	Futures	May 31 2007	Dec 17 2009	10,000	23.40	(16)
Grupa LOTOS S.A.	Futures	May 31 2007	Dec 17 2009	10,000	23.40	(16)
Grupa LOTOS S.A.	Futures	May 31 2007	Dec 17 2009	10,000	23.40	(16)
Grupa LOTOS S.A.	Futures	Jun 13 2007	Dec 18 2008	5,000	23.30	(16)
Grupa LOTOS S.A.	Futures	Jun 13 2007	Dec 18 2008	5,000	23.30	(16)
Grupa LOTOS S.A.	Futures	Jun 13 2007	Dec 18 2008	5,000	23.30	(16)
					TOTAL	(251)

Company	Type of forward transaction	Transaction execution date	Transaction settlement date	No of barrels sold	Price (EUR)	Fair value as at Dec 31 2007 (PLN '000) (2)
Grupa LOTOS S.A.	Full barrel swap	Nov 21 2007	Oct 7 2008	500,001	9.10	(63)
Grupa LOTOS S.A.	Full barrel swap	Dec 13 2007	Oct 7 2008	500,001	8.90	(307)
Grupa LOTOS S.A.	Full barrel swap	Dec 20 2007	Oct 7 2008	999,999	9.00	(370)
					TOTAL	(740)

(1) It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures defined by banks.

(2) The fair value of a transaction is calculated on the basis of its discounted market value established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction) taken on the valuation date. In the case of currency swaps, in order to determine their fair value, such transactions are valued using forward rates calculated on the basis of fixing rate quotations of the National Bank of Poland and the zero-coupon interest rate curve (CLOSE YIELD), as published by Reuters on the valuation date.

Value of derivative transactions as at December 31st 2006 (PLN '000):

Company	Type of forward transaction	Transaction execution date	Transaction settlement date*	Forward rate	Currency pair	Notional amount sold (USD '000)	Notional amount sold (PLN '000)	Fair value as at Dec 31 2006 (PLN '000)**
Grupa LOTOS S.A.	Currency forward	Dec 20 2006	Jan 2 2007	2.9	USD/PLN	-	43,198	460
Grupa LOTOS S.A.	Currency forward	Dec 15 2006	Jan 19 2007	1.3	EUR/USD	13,089	-	244
							TOTAL	704

Company	Type of forward transaction	Transaction execution date	Transaction settlement date *	Forward rate	Currency pair	Notional amount bought (EUR '000)	Notional amount bought (PLN '000)	Fair value as at Dec 31 2006 (PLN '000)**
Grupa LOTOS S.A.	Currency forward	Dec 21 2006	Jan 29 2007	2.9	USD/PLN	-	57,700	(455)
Grupa LOTOS S.A.	Currency forward	Dec 28 2006	Mar 16 007	2.9	USD/PLN	-	43,533	(15)
Grupa LOTOS S.A.	Currency forward	Dec 28 2006	Jan 10 2007	1.3	EUR/USD	13,179	-	(34)
							TOTAL	(504)

Company	Type of forward transaction	Transaction execution date	Transaction settlement date *	Forward rate	Currency pair	Notional amount purchased (EUR '000)	Notional amount purchased (PLN '000)	Fair value as at Dec 31 2006 (PLN '000)**
Grupa LOTOS S.A.	Currency swap	Dec 28 2006	Jan 2 2007	3.8	EUR/PLN	-	10,393	(10)
							TOTAL	(10)

* It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures defined by banks.

** The fair value of a transaction is calculated on the basis of its discounted market value established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction) taken on the valuation date. In the case of currency swaps, in order to determine their fair value, such transactions are valued using forward rates calculated on the basis of fixing rate quotations of the National Bank of Poland and the zero-coupon interest rate curve (CLOSE YIELD), as published by Reuters on the valuation date.

21.3 Financial Risk Management

The Group is exposed to financial risk, including chiefly:

- market risk (risk related to the prices of raw materials and petroleum products, risk related to carbon credit prices, currency risk, interest rate risk),
- liquidity risk,
- credit risk related to financial and trade transactions.

The Financial Risk Management Committee ("FRMC")of the Dominant Company is responsible for the supervision and coordination of the financial risk management process at Grupa LOTOS S.A. In order to ensure the efficiency and operational security of this process, the following areas have been distinguished: financial transaction area (front-office), risk analysis and control area (middle-office), and transaction documentation and settlement area (back-office).

The key objectives sought to be achieved through financial risk management are as follows:

- maximising the result on market risk management at the assumed risk level,
- stabilising cash flows,
- ensuring short-term financial liquidity,
- supporting the activities related to the arrangement of financing for investment activities.

In order to achieve these objectives, documents in the Dominant Company have been prepared and approved at appropriate decision-making levels in the Dominant Company. These documents specify the necessary framework for effective and secure functioning of the financial risk management process, including principally:

- methodology for of measuring various risk exposures,
- acceptable financial instruments,
- method of assessing financial risk management,
- limits within risk management,
- reporting method,
- credit limits for counterparties in financial transactions.

The Dominant Company monitors all managed markets risk on an ongoing basis. It is not permitted to open a position with respect to risks which do not arise as part of the Company's core activity. The Company uses liquid derivatives which it is able to value by applying commonly used valuation models. The valuation of the underlying position and derivatives is performed based on market data received from reliable providers.

Due to non-compliance with formal requirements, the Group does not apply hedge accounting; accordingly, changes in fair value of derivative instruments are charged to the income statement.

Risk Related to Prices of Raw Materials and Petroleum Products

The concept for the management of risk related to prices of raw materials and petroleum products covers the period until the end of 2010, by which time also the 10+ Programme is to have been completed. The main objective of the management concept is to increase the probability of generating cash flows guaranteeing safe financing of investment projects under the 10+ Programme.

The basic risk map is created by converting the map of price indices used in trade contracts into the map of indices for which there exist liquid markets of derivatives. Such conversion takes into account appropriate statistical relations between base indices and market indices. The converted map serves a basis for defining the model of the refining margin, which is the most important component of the risk related prices of raw materials and petroleum products. The margin is defined as the difference between the value of indices representing products sold and the index representing raw materials purchased.

The management concept provides for maximum security coefficients for the underlying position, decreasing each year relative to a current budget year. Within the framework of accepted limits and guidelines, the Financial Risk Management Committee adopts decisions defining the limits and volumes of hedging transactions.

As at the end of 2007, the refining margin position of the Dominant Company (including both the underlying position and the transactions executed) stood at:

- 28.6m bbl for 2008,
- 36.6m bbl for 2009,
- 63.7m bbl for 2010.

Risk Related to Carbon Credit Prices

The risk related to carbon credit prices is managed in line with the assumptions set forth in "The Strategy for Managing the Risk Related to Carbon Credit Prices at Grupa LOTOS S.A.". The period covered by the management is determined by the individual phases of the Kyoto protocol; currently, it is the period until the end of 2012.

The basic risk map includes the credits granted and the CO_2 emissions planned for a given phase. Depending on the market situation and credits granted, the Company maintains an appropriate position in carbon credits by entering into financial transactions or changing the underlying position.

A position limit is defined based on the number of credits granted for a given phase and comprises the aggregate of positions for individual years within the phase. The maximum loss limit is defined based on the Company's equity.

As at the end of 2007, the position of the Dominant Company in carbon credits stood at:

- Phase I (2005–2007): 11.6 thousand EUA
- Phase II (2008–2012): 205.0 thousand EUA

Interest Rate Risk

Interest rate risk relates to loans bearing interest at variable rates. Interest on overdraft facilities and long-term loans is accrued at variable interest rates.

To optimise the interest balance, the LOTOS Group has introduced the cashpooling service for its companies. The service consists in the application of favourable interest rates for debit and credit balances, which are subject to offsetting as at the end of each business day.

Currency Risk

Currency risk management is performed in line with the assumptions stipulated in "The Strategy of Currency Risk Management at Grupa LOTOS S.A.". The period covered by currency risk management is determined according to individual budget years; as at December 31 2007, it is the period until the end of 2008. The base map of net currency positions includes principally the volumes and price formulae for purchases of raw materials and sales of products, valuation of derivatives, investments, as well as loans denominated in foreign currencies. The map is then presented in a single currency, which enables the management of such aggregate positions as the total and global gross positions, based on which position limits have been established. Depending on the market situation and limits granted, the Company maintains an appropriate currency position by entering into financial transactions or changing the underlying position. Position and maximum loss limits are expressed as percentages of the Company's equity.

The natural currency of Grupa LOTOS S.A.'s operating market is USD. This currency is used in market price quotations for crude oil and petroleum products. On its operating activity, Grupa LOTOS S.A. has a structurally long position in USD. For this reason it has been decided that USD is the most appropriate currency for contracting and repaying long-term loans to finance the 10+ Programme, as such an approach contributes to reducing the structurally long position with a resulting reduction in strategic currency risk.

As at the end of 2007, the net currency position of the Dominant Company for year 2008 stood at:

- USD/PLN = -54.5 m USD,
- EUR/PLN = 57.6 m EUR

Liquidity Risk

The liquidity risk management process consists in monitoring the forecast cash flows, matching maturities of assets and liabilities, analysing working capital and maintaining access to various financing sources.

In the period covered by the budget, liquidity in the Dominant Company is monitored on an ongoing basis as part of the financial risk management. In the mid and long term, it is monitored as part of the planning process, which helps create a long-term financial strategy.

In the area of financial risk, in addition to an active management of market risk, the Dominant Company takes the following measures which additionally enhance the security in terms of liquidity:

- minimises the margins with respect to valuation of derivatives,
- limits the risk of an early termination of transactions,
- establishes limits for spot financial instruments of low liquidity,
- establishes credit limits for counterparties in financial transactions.

Note 24 presents additional unused cash remaining at the Group's disposal. Note 24 contains information on the contractual maturities of financial liabilities as at December 31st 2007 and December 31st 2006.

Credit Risk

Management of credit risk relating to counterparties in financial transactions consists in ongoing monitoring of credit exposure in relation to the limits granted. The counterparties must have an appropriate credit rating assigned by leading rating agencies or hold guarantees granted by institutions meeting the minimum rating requirement.

As to management of credit risk relating to counterparties in non-financial transactions, all customers requesting trade credit undergo verification of their financial reliability. Furthermore, due to ongoing monitoring of receivables, the risk of uncollectible receivables is low.

Balance-sheet values of financial assets represent the maximum credit exposure. The maximum credit risk exposure as at the balance-sheet date stood at:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Shares:	8,178	13,107
- non-current	8,093	12,900
- current	85	207
Prepayments for shares	23,117	24,726
Derivative financial instruments	96,099	703
Liquidation fund	13,443	10,650
Treasury bonds	-	178,300
Loans:	58	200
- non-current	17	92
- current	41	108
Net receivables	1,555,133	1,292,674
- non-current	12,668	16,199
- current	1,542,465	1,276,475
Cash and cash equivalents	924,995	772,387
Total	**2,621,023**	**2,292,747**

Past due financial assets by maturity as at December 31st 2007 and December 31st 2006 are presented in Note 23.

21.4 Sensitivity Analysis with Respect to Market Risk

Below is presented an analysis of sensitivity to currency risk as at December 31st 2007, along with the effect of such a risk on the financial performance, assuming a 1% increase or decrease in the USD/PLN and EUR/PLN currency exchange rates and constant levels of all other variables.

Dec 31 2007 PLN '000	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	1% increase in exchange rate, effect on year's result		1% decrease in exchange rate, effect on year's result	
		USD	EUR	USD	EUR
Net receivables	186,284	1,629	234	(1,629)	(234)
Cash and cash equivalents	161,871	1,290	329	(1,290)	(329)
Trade and other payables	(715,476)	(6,794)	(361)	6,794	361
Loans	(596,491)	(5,665)	(300)	5,665	300
Financial assets – derivative instruments	96,099	(36,225)	16,058	36,225	(16,058)
Financial liabilities – derivative instruments	(3,906)	583	892	(583)	(892)
Total	(871,619)	(45,182)	16,852	45,182	(16,852)

Dec 31 2006 PLN '000	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	1% increase in exchange rate, effect on year's result		1% decrease in exchange rate, effect on year's result	
		USD	EUR	USD	EUR
Net receivables	106,134	1,018	66	(1,018)	(66)
Cash and cash equivalents	18,094	109	137	(109)	(137)
Trade and other payables	(474,485)	(4,745)	(159)	4,745	159
Loans	(52,537)	(488)	(37)	488	37
Financial assets – derivative instruments	704	(57)	(382)	57	382
Financial liabilities – derivative instruments	(514)	1,394	(486)	(1,394)	486
Total	(402,604)	(4,106)	(861)	(4,106)	861

As at December 31st 2007 the Dominant Company held futures for the purchase of CO2 EU emission allowances (EUA), measured at fair value as at the balance-sheet date. As at December 31st 2007, the financial assets related to positive valuation of the futures for the purchase of CO2 emission allowances amounted to PLN 388 thousand, and the financial liabilities related to negative valuation of those futures were PLN 251 thousand. A change in the price of the CO2 emission allowances up or down by 1% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the futures for the purchase of CO2 emission allowances of PLN 165 (165) thousand.

As at December 31st 2007 the Dominant Company held an OTC full barrel swap, measured at fair value as at the balance-sheet date. As at December 31st 2007, the financial assets related to positive valuation of the full barrel swap amounted to PLN 8,011 thousand, and the financial liabilities related to negative valuation of the full barrel swap were PLN 740 thousand. A change in the quotations of indices comprising full barrel swap up or down by 1% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the full barrel swap of PLN 2,148 (2,148) thousand charged to income statement.

As at December 31st 2006, the Dominant Company held no futures for the purchase of CO2 emission allowances or OTC full barrel swaps.

As at December 31st 2007, the net carrying value of financial assets and liabilities (borrowings, cash, financial liabilities under bank loans) sensitive to interest rate risk amounted to PLN (423,268) thousand (as at December 31st 2006: PLN 276,144 thousand). As at December 31st 2007, a change of interest rates up or down by 1% could potentially lead to a change in the value of financial assets and liabilities of PLN (4,380) thousand, 4,380 thousand net (as at December 31st 2006: PLN (2,555) thousand, 2,555 thousand).

22 Inventories

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Finished products	777,345	506,672
Semi-finished products and work in progress	308,715	234,953
Goods for resale	160,429	101,414
Materials	1,342,833	864,403
Net inventories	2,589,322	1,707,442

Valuation Allowances for Inventories

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Finished products	9,990	29,672
Semi-finished products and work in progress	319	5,886
Goods for resale	1,372	1,482
Materials	8,384	7,325
Total valuation allowances for inventories	20,065	44,365

In the year ended December 31st 2007, the Group created a valuation allowance for inventories in the amount of PLN 13,326 thousand, including PLN 207 thousand under the change in the composition of the Group (PLN 38,082 thousand as at December 31st 2006) and reversed a valuation allowance for inventories in the amount of PLN 37,626 thousand (PLN 15,533 thousand as at December 31st 2006).

As at December 31st 2007, the carrying value of inventories valued at production or acquisition cost stood at PLN 2,530,203 thousand, while value of inventories measured at net realisable value was PLN 59,119 thousand (PLN 1,467,613 thousand and PLN 239,829 thousand, respectively, as at December 31st 2006).

As at December 31st 2007, inventories serving as security for the Group's liabilities stood at PLN 2,482,864 thousand (PLN 9,115 thousand as at December 31st 2006).

Mandatory Liquid Fuel Stocks

Until April 7th 2007, the Group applied regulations concerning mandatory liquid fuel stocks pursuant to Art. 19a.5 of the Polish State Reserves and Mandatory Fuel Stocks Act of May 30th 1996 (Dz.U. of 2003 No. 24, item 197, Dz.U. of 2004 No. 42, item 386, Dz.U. of 2005 No. 132, item 1110 and No. 143, item 1201). Pursuant to the above Act, producers and importers of liquid fuels are obliged to create mandatory liquid fuel stocks, hereinafter referred to as "stocks," based on the volume of liquid fuels produced or imported – from an EU member state or another state – in the previous year, taking into account the schedule for reaching the volume of liquid fuel stocks required at the end of a given year, in accordance with the appendix to the Regulation of the Minister of Economy on the schedule for the creation of liquid fuel stocks, dated December 19th 2005 (Dz.U. of 2005 No. 266, item 2240).

This schedule specifies the path to reach in 2008, and subsequent years, the level of stocks corresponding to 76-day average internal fuel consumption at the end of the year. Thus, together with the existing economic reserves accounting for a 14-day consumption, the 90-day stocks required by the EU regulations will be reached.

In each subsequent year, the required level of stocks should be increased by the stocks volume required for such number of days as is specified for each subsequent year in the Regulation of the Minister of Economy on the schedule for the creation of liquid fuel stocks, dated December 19th 2005.

Mandatory fuel stocks may be stored in the form of finished products, semi-finished products and crude oil. However, the total volume of stocks in the form of semi-finished products and crude oil (taking into account the capacity for processing crude oil into fuels) may not exceed the share of each type of fuels in the stocks, as stipulated in the Regulation of the Minister of Economy on the detailed procedure for the creation and determination of the volume of liquid fuel stocks, dated May 12th 2006 (Dz.U. of 2006 No. 92, item 642).

April 7th 2007 saw the introduction, by virtue of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas, as well as on the Rules to be Followed in the Event of a Threat to National Fuel Security or a Disruption on the Petroleum Market, dated February 16th 2007 (Dz.U. of 2007, No. 52, item 343, dated March 23rd 2007) of new regulations applicable to mandatory stocks, The mandatory stocks include crude oil, petroleum products (liquid fuels) and LPG. The Act defined the basis for calculation of the required amount of mandatory stocks as well as the entities subject to the requirement to increase mandatory stocks (73 days in 2007 and 76 days following 2008, excluding LPG).

Detailed rules are set forth in the following regulations of the Minister of Economy, effective as of May 25th 2007:

- Regulation concerning the detailed list of commodities and petroleum products included in the intervention stocks, dated April 24th 2007 (Dz. U. No. 81 item 546),
- Regulation concerning the detailed procedure for creation and maintenance of mandatory stocks of crude oil or fuels and determining their amount, dated April 24th 2007 (Dz. U. No. 81 item 547),
- Regulation concerning the register of producers and traders obliged to create and maintain mandatory stocks of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 548),
- Regulation concerning the detailed procedure for the reduction of the amount of mandatory stocks of crude oil or fuels, dated April 24th 2007 (Dz. U. No. 81 item 549).

As at Dec 31st 2007, the Group calculated the value of mandatory stocks based on the newly established regulations.

In the balance sheet, the Group disclosed the following mandatory stocks:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Mandatory stocks	1,926,275	1,027,858

23 Trade and Other Receivables

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Trade receivables, including:	1,404,493	1,180,699
- from related undertakings	121	615
Receivables from the state budget	94,053	77,843
Other receivables, including:	43,919	17,933
- from related undertakings	-	154
Net receivables	1,542,465	1,276,475
Valuation allowance for receivables	123,692	136,289
Gross receivables	1,666,157	1,412,764

For information on transactions with related undertakings see Note 48.

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.

Impairment Losses on Receivables

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Beginning of period	136,289	134,178
Recognised	14,144	23,615
Change in the Group's structure	2,695	-
Reversed	(26,741)	(21,504)
End of period	123,692	136,289

The table below presents the ageing of overdue receivables not covered by the allowance as at December 31st 2007 and December 31st 2006:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Up to one month	68,442	92,413
From one to three months	6,800	6,951
From three to six months	1,288	1,488
From six months to one year	1,005	1,209
More than one year	6,392	471
Total	83,927	102,532

There is no significant concentration of credit risk regarding trade receivables. As at the balance-sheet date, the Group's maximum exposure to credit risk is best represented by the carrying amounts of these instruments.

The LOTOS Group manages credit risk related to commercial contracts using such tools as security mortgage on real property, bank and insurance guarantees, agreements on assignment of claims or term deposits, registered pledges, promissory notes or sureties.

24 Cash and Cash Equivalents

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Cash in hand and cash at banks	868,544	723,213
Other cash	56,451	49,174
Total	924,995	772,387

Cash at banks bears interest at variable rates set according to the short-term interbank interest rates. Short-term deposits are placed for various periods ranging from one day to one month, depending on the Group's current demand for cash, and bear interest at the interest rates set for them.

As at December 31st 2007, the amount of undrawn funds available to the Group under loans in respect of which all conditions precedent had been fulfilled, was PLN 1,098,762 thousand (PLN 401,096 thousand as at December 31st 2006).

As at December 31st 2007, restricted cash amounted to PLN 17,296 thousand (PLN 23,143 thousand as at December 31st 2006). As at December 31st 2007, restricted cash related mainly to:

- a bank guarantee of PLN 10,679 thousand, advanced to LOTOS Biopaliwa to secure payments to MAN Ferrostal of Germany, the general contractor for the construction of the main FAME unit used for biodiesel production; and
- a margin of PLN 4,458 thousand placed in the account of Grupa LOTOS S.A. held with Marex Financial, a brokerage firm, in order to enable the execution of transactions on the ICE Futures Internet platform

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

As at December 31st 2007, cash in bank accounts whereupon registered pledge was established to secure the repayment of the LOTOS Group's liabilities amounted to PLN 13,730 thousand. As at December 31st 2006, the LOTOS Group held no cash which served as security for repayment of liabilities.

25 Cash structure for the cash-flow statement

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Cash at banks	868,291	721,321
- current accounts	454,760	586,272
- deposits up to 1 year	413,531	135,049
Cash in hand	253	1,892
Other cash	56,451	49,174
Overdraft facilities	(447,891)	(148,222)
Total cash	477,104	624,165

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, non-current 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 2007 (audited)	Dec 31 2006 (audited)
Balance-sheet change in net non-current and current receivables	(262,459)	(212,855)
Change in income tax receivables	(31,201)	24,363
Change in investment receivables	7,214	-
Inclusion of new undertakings in consolidation	30,455	-
Other	3,258	(662)
Change in receivables as disclosed in the cash-flow-statement	(252,733)	(189,154)

Liabilities PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Balance-sheet change in current and non-current liabilities	1,228,886	209,823
Change in current and non-current loans	(840,707)	(97,982)
Change in investment liabilities	(42,236)	914
Inclusion of new undertakings in consolidation	(73,709)	-
Change in finance lease liabilities	1,233	-
Change in income tax liabilities	(17,033)	61,889
Negative valuation of financial instruments	(3,392)	1,232
Other	59	(777)
Change in liabilities as disclosed in the cash-flow-statement	253,101	175,099

Inventories PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Balance-sheet change in inventories	(881,880)	(274,503)
Inclusion of new undertakings in consolidation	7,222	-
Other	(8,560)	12
Change in inventories as disclosed in the cash-flow-statement	(883,218)	(274,491)

Provisions PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Balance-sheet change in provisions	(21,019)	(414)
Inclusion of new undertakings in consolidation	(778)	-
Change in deferred tax liability	15,220	17,613
Other	2,301	2,002
Change in provisions as disclosed in the cash-flow statement	(4,276)	19,201

Prepayments and accrued income PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Balance-sheet change in prepayments and accrued income	(18,370)	(7,640)
Inclusion of new undertakings in consolidation	258	-
Other	125	397
Change in prepayments and accrued income as disclosed in the cash-flow statement	(17,987)	(7,243)

Cash PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Balance-sheet change in cash	152,608	4,593
Interest-bearing overdraft facilities	(285,619)	(148,222)
Inclusion of new undertakings in consolidation	(14,050)	-
Change in cash as disclosed in the cash-flow statement	(147,061)	(143,629)

26 Share Capital

The structure of Grupa LOTOS S.A.'s share capital as at Dec 31st 2007 and December 31st 2006 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 %

The share capital is divided into 113,700,000 ordinary shares - constituting the entire share capital – with a par value of PLN 1 per share, each conferring the right to one vote at the general shareholders meeting and carrying dividend rights.

As at January 22nd 2008, 4,500,000 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska OFE, accounting for 3.96% of the Company's share capital and 4,500,000 votes at its General Shareholders Meeting (3.96% of the total vote), see Current Report No. 16/2008.

27 Dividends

On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on distribution of the 2006 net profit of Grupa LOTOS S.A. Pursuant to the resolution, the Company's entire net profit for the year ended December 31st 2006, amounting to PLN 406,714 thousand, will be allocated to:

- statutory reserve funds – PLN 365,782 thousand
- dividend payment – PLN 40,932 thousand.

The dividend was paid on July 31st 2007. The dividend per share was PLN 0.36.

In these financial statements, the Company discloses the distributed profit/loss under “Retained earnings”.

28 Earnings per Share

	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Net profit attributable to equity holders of the parent (PLN ‘000) (A)	777,160	679,912
Weighted average number of shares (in thousands) (B)	113,700	113,700
Earnings per share (PLN ‘000) (A/B)	6,84	5,98

The Group does not disclose diluted earnings/loss per share since there exist no instruments with a dilutive effect.

29 Minority Interests

PLN ‘000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Opening balance	306,416	254,281
Share in profit/(loss) of subsidiary undertakings	36,987	54,740
Changes in shareholder structure of subsidiary undertakings	(119)	(84)
Dividends paid out by subsidiary undertakings	(8,593)	(2,521)
Balance as at end of period	334,691	306,416

30 Loans and Borrowings

PLN ‘000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Bank loans	1,333,917	492,682
Other loans	26,219	11,550
Total	1,360,136	504,232
Including:		
Non-current portion	842,943	330,706
Current portion	517,193	173,526

Execution of Loan Agreement between Grupa LOTOS S.A. and a Bank Consortium and Execution of Pledge Agreements to Secure the Loan Agreement

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising BANK POLSKA KASA OPIEKI S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw and RABOBANK POLSKA S.A. of Warsaw, executed a loan agreement.

The agreement provides for a four-year revolving loan for a total amount of USD 400,000 thousand, for refinancing and financing the inventories of Grupa LOTOS S.A. The agreement is the first element of the financing strategy for the operations of Grupa LOTOS S.A. in the coming years, related to the execution of the 10+ Programme. The lending term under the agreement may be extended by the parties by one year.

The basic security for the loan is an agreement on registered pledge over Grupa LOTOS S.A.'s inventories (along with the assignment of rights under agreements on storage of inventories and under insurance contracts) and agreement on pledge over cash receivables under an agreement for keeping bank accounts of Grupa LOTOS S.A. concluded in relation to the loan agreement (together with power of attorney to these accounts). The other provisions of the agreement, including those pertaining to contractual penalties, do not differ from provisions commonly applied in agreements of such type.

On December 20th 2007, Grupa LOTOS S.A. entered into two registered pledge agreements in order to secure liabilities incurred by Grupa LOTOS S.A. Pursuant to the agreements, the registered pledge created for the benefit of the lenders covers the inventories of Grupa LOTOS S.A. and cash receivables under an agreement for keeping Grupa LOTOS S.A.'s bank accounts related to the loan agreement.

As at December 31st 2007, the Company's liability under the aforementioned loan agreement totalled USD 200 million.

Loans and Borrowings by Lender

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Non-current portion		
Kredyt Bank S.A.	38,987	44,987
Bank syndicate (PKO BP S.A. i Pekao S.A.)	260,683	254,063
PKO BP S.A.	-	1,456
Bank Pekao S.A	26,925	20,900
NFOŚiGW	21,969	9,300
Raiffeisen Bank Polska	8,000	-
Bank syndicate (Pekao S.A., PKO BP S,A,, BRE Bank S,A,, Rabobank Polska S,A)	486,379	-
Total non-current portion	842,943	330,706

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Current portion		
Kredyt Bank S.A.	6,000	7,715
Pekao S.A	235,560	25,605
ING Bank Śląski S.A.	42,199	49,487
PKO BP S.A.	24,600	19,212
NFOŚiGW	4,250	2,250
Bank syndicate (PKO BP S.A. i Pekao S.A)	43,505	37
Bank Millennium S.A.	72,341	1,941
Raiffeisen Bank Polska S.A.	4,000	3,600
BZ WBK S.A.	2,101	2,040
Bank Handlowy w Warszawie S.A.	62,040	61,639
Bank Gospodarki Żywnościowej S.A.	553	-
Bank BPH S.A.	20,044	-
Total current portion	517,193	173,526
Total	1,360,136	504,232

Bank Loans by Currency

PLN '000	EUR loans	USD loans	PLN loans	Total
2008	15,260	68,150	433,783	517,193
2009	3,613	5,566	56,671	65,850
2010	3,613	5,566	61,246	70,425
2011	3,613	487,170	57,948	548,731
2012	3,613	-	52,115	55,728
2013	327	-	49,448	49,775
after 2013	-	-	52,434	52,434
Total	30,039	566,452	763,645	1,360,136

The table above presents loans by maturity.

As at Dec 31st 2007, the average effective interest rate of the loans was approx. 5.56%. (Dec 31st 2006: 5.08%).

Loans and borrowings as at Dec 31st 2007:

Bank's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non- current portion)	
		PLN	Currency	PLN	Currency	PLN	Currency
Bank Millennium S.A.	Warsaw	120,000	-	72,341	-	-	-
PKO BP S.A.	Warsaw	254,000	-	16,705	-	-	-
ING Bank Śląski S.A.	Warsaw	-	40,000 USD or its equivalent	-	-	-	-
ING Bank Śląski S.A.	Warsaw	-		1,741	715 USD	-	-
ING Bank Śląski S.A.	Warsaw	-		14,647	4,089 EUR	-	-
Bank Handlowy w Warszawie S.A.	Warsaw	-	40,000 USD or its equivalent	586	-	-	-
Bank Handlowy w Warszawie S.A.	Warsaw	-		60,844	24,987 USD	-	-
Bank Handlowy w Warszawie S.A.	Warsaw	-		610	170 EUR	-	-
Bank BPH S.A.	Warsaw	20,000 or its equivalent	-	20,044	-	-	-
Bank BPH S.A.	Warsaw		-	-	-	-	-
BZ WBK S.A.	Warsaw	30,000	-	2,101	-	-	-
Bank Pekao S.A.	Warsaw	300,000	-	188,961	-	-	-
Bank sydnicate (Bank Pekao S.A., PKO BP S.A., BRE Bank S.A., Rabobank Polska S.A.)	Warsaw		400,000 USD	-	-	486,379	199,745 USD
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	38,987	-
Bank syndicate (PKO BP S.A. i Bank Pekao S.A.)	Warsaw	340,000	-	43,505	-	260,683	-
Bank Pekao S.A.	Warsaw	14,349	-	3,423	-	-	-
Bank Pekao S.A.	Warsaw	8,687	-	8,687	-	-	-
Raiffeisen Bank Polska S.A.	Rzeszów branch	10,000	-	2,000	-	8,000	-
Raiffeisen Bank Polska S.A.	Rzeszów branch	10,000	-	2,000	-	-	-
Bank Gospodarki Żywnościowej S.A.	Kraków	2,641	-	553	-	-	-
Bank Pekao S.A.	Warsaw	20,000	-	18,381	-	-	-
ING Bank Śląski S.A.	Kraków	10,000	-	9,797	-	-	-

Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
Current portion	Non-current portion		
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
	-	1M LIBOR + bank's margin	submission to enforcement
	-	1M EURIBOR + bank's margin	submission to enforcement
overdraft facility	-	T/N WIBOR + bank's margin	submission to enforcement
	-	SW LIBOR + bank's margin	submission to enforcement
	-	SW EURIBOR + bank's margin	submission to enforcement
overdraft facility	-	O/N WIBOR + bank's margin	submission to enforcement
	-	1M LIBOR + bank's margin	submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
-	Dec 20 2011	1W LIBOR + bank's margin	registered pledge on inventories, financial and registered pledge on accounts receivable under bank account agreements related to this Agreement, power of attorney to the bank accounts, power of attorney for each bank to establish pledges on new accounts related to this Agreement, assignment of rights under agreements for holding of the LOTOS Group's inventories by third parties, assignment of rights under insurance policies covering inventories, representation on submission to enforcement
Dec 31 2008	Jun 30 2015	1M WIBOR + bank's margin	mortgage
Dec 31 2008	Dec 31 2014	1M WIBOR + bank's margin	mortgage
overdraft facility	-	1M WIBOR + bank's margin	proxy to bank account
overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement, proxy to bank account
Jan 31 2008	Dec 28 2012	1M WIBOR + bank's margin	proxy to bank account, deposit mortgage on real estate
Jan 31 2008	-	1M WIBOR + bank's margin	transfer of receivables, registered pledge on inventories, assignment
Sep 30 2008	-	1M WIBOR + bank's margin	registered pledge on property, plant and equipment
overdraft facility	-	1M WIBOR + bank's margin	proxy to bank account
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement

Loans and borrowings as at Dec 31st 2007: (continued)

Bank's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non- current portion)	
		PLN	Currency	PLN	Currency	PLN	Currency
Bank Pekao S.A.	Warsaw	5,000	-	4,684	-	-	-
Bank Pekao S.A.	Warsaw	430	-	430	-	-	-
ING Bank Śląski S.A.	Warsaw	30,000	-	16,014	-	-	-
PKO BP S.A.	Warsaw	9,000	-	7,895	-	-	-
NFOŚiGW	Warsaw	15,000	-	3,000	-	6,300	-
Bank Pekao S.A.	Kraków	25,289	7,060 EUR	2	1 EUR	14,777	4,125 EUR
Bank Pekao S.A.	Kraków	20,000	-	5,426	-	-	-
Bank Pekao S.A.	Kraków	44,754	-	-	-	225	
NFOŚiGW	Warsaw	35,000	-	1,250	-	15,669	-
Bank Pekao S.A.	Warsaw	56,409	14,800 USD	5,566	2,256 USD	11,923	4,895 USD
TOTAL				517,193	27,958 USD	842,943	204,640 USD
					4,260 EUR		4,125 EUR

The bank margins on the loans range from 0.07% to 2.30%

Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
Current portion	Non-current portion		
overdraft facility	-	1M WIBOR + bank's margin	assignment of receivables
overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables
overdraft facility	-	1M WIBOR + bank's margin	mortgage, pledge, promissory notes, assignment
Sep 30 2008	Sep 30 2009	half of the bill rediscount rate	surety
Mar 31 2008	Dec 31 2015	1M EUIBOR + bank's margin	ordinary mortgage on real estate
Sep 30 2008	-	1M WIBOR + bank's margin	deposit mortgage on real estate
-	Dec 31 2015	1M WIBOR + bank's margin	ordinary mortgage on real estate
Oct 01 2008	Dec 20 2014	half of the bill rediscount rate	bank guarantee, own promissory notes
Dec 31 2008	Feb 28 2011	1M LIBOR + bank's margin	pledge on property, plant and equipment

Loans and borrowings as at December 31st 2006:

Bank's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non- current portion)	
		PLN	Currency	PLN	Currency	PLN	Currency
Kredyt Bank S.A.	Gdańsk branch	60,000	-	7,714	-	44,987	-
Pekao S.A.	Warsaw	25,000	-	1	-	-	-
Bank syndicate (PKO BP S.A. a nd Pekao S.A.)	Warsaw	340,000	-	37	-	254,063	-
Bank Pekao S.A.	Jasło branch	6,000	-	3,696	-	-	-
Raiffeisen Bank Polska S.A.	Rzeszów branch	7,200	-	3,600	-	,	,
Bank Handlowy w Warszawie S.A.	Warsaw	4,000	-	848	-	-	-
ING Bank Śląski S.A.	Warsaw	30,000	-	19,841	-	-	-
PKO BP S.A.	Krosno branch	15,000	-	7,224	-	-	-
PKO BP S.A.	Krosno branch	4,500	-	1,353	-	1,456	-
NFOŚiGW	Warsaw	15,000	-	2,250	-	9,300	-
Bank Pekao S.A.	Warsaw	56,409	14,800 USD	6,653	2,286 USD	20,900	7,181 USD
Bank Millennium S.A.	Warsaw	30,000	-	1,941	-	-	-
Bank Handlowy w Warszawie S.A.	Warsaw	-	USD 40,000 or its equivalent	28,050	-	-	-
				32,547	11,183 USD	-	-
				194	51 EUR	-	-
ING Bank Śląski S.A.	Warsaw	-	USD 9,000 or its equivalent	56	-	-	-
				25,819	8,871 USD	-	-
				3,771	984 EUR	-	-
PKO BP S.A.	Warsaw	100,000	-	10,635	-	-	-
BZ WBK S.A.	Warsaw	30,000	-	2,040	-	-	-
Bank Pekao S.A.	Warsaw	100,000	-	15,255	-	-	-
Kredyt Bank S.A.	Warsaw	10,000	-	1	-	-	-
TOTAL				173,526	22,340 USD	330,706	7,181 USD
					1,035 EUR		

The bank margins on the loans range from 0.05% to 2.0%.

Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
Current portion	Non-current portion		
Dec 31 2007	Jun 30 2015	1M WIBOR + bank's margin	mortgage, blank promissory note, assignment by way of security of receivables under insurance policies
Mar 31 2007	-	1M WIBOR + bank's margin	power of attorney for the bank to charge the account with amounts due, representation on submission to enforcement
Jun 30 2007	Dec 31 2014	3M WIBOR + bank's margin	security (deposit) mortgage for each lender, representation on submission to enforcement, assignment by way of security of receivables under insurance policies, trade agreements, lease agreements, registered pledge on assets
Mar 26 2007	-	1M WIBOR + bank's margin	blank promissory note, power of attorney to bank account, assignment of receivables by way of security, blanket security (deposit) mortgage, registered pledge
Jan 20 2007	-	1M WIBOR + bank's margin	power of attorney to bank account, registered pledge on inventories, assignment of receivables by way of security
overdraft facility	-	T/N WIBOR + bank's margin	representation on submission to enforcement, assignment of receivables by way of security
overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment by way of security
overdraft facility	-	1M WIBOR + bank's margin	mortgage, promissory note, pledge, assignments by way of security
Oct 10 2007	Dec 31 2008	1M WIBOR + bank's margin	assignment of receivables by way of security and mortgage
Sep 30 2007	Sep 30 2010	half of the bill rediscount rate	surety
Dec 31 2007	Feb 28 2011	1M LIBOR + bank's margin	pledge on property, plant and equipment
overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
overdraft facility	-	T/N WIBOR + bank's margin	representation on submission to enforcement
	-	SW LIBOR USD + bank's margin	
	-	SW EURIBOR + bank's margin	
overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
	-	1M LIBOR USD + bank's margin	
	-	1M EURIBOR + bank's margin	
overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
overdraft facility	-	O/N WIBOR + bank's margin	representation on submission to enforcement

Contractual maturities of financial liabilities as at December 31st 2007:

PLN '000	Carrying value	Contractual cashflows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial liabilities:	3,060,079	3,060,079	2,168,875	47,632	66,479	674,884	102,209
Secured bank loans	912,245	912,245	24,752	44,550	65,850	674,884	102,209
Finance lease liabilities	1,628	1,628	-	999	629	-	-
Overdraft facilities	447,891	447,891	447,891	-	-	-	-
Trade payables and other liabilities	1,698,315	1,698,315	1,696,232	2,083	-	-	-
Derivatives (liabilities)	3,906	3,906	3,906	-	-	-	-
Total	3,063,985	3,063,985	2,172,781	47,632	66,479	674,884	102,209

Contractual maturities of financial liabilities as at December 31st 2006:

PLN '000	Carrying value	Contractual cashflows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial liabilities:	1,835,412	1,835,412	1,478,769	25,353	66,264	184,262	80,764
Secured bank loans	356,010	356,010	7,334	17,970	65,680	184,262	80,764
Finance lease liabilities	2,861	2,861	-	2,277	584	-	-
Overdraft facilities	148,222	148,222	148,222	-	-	-	-
Trade payables and other liabilities	1,328,319	1,328,319	1,323,213	5,106	-	-	-
Derivatives (liabilities)	514	514	514	-	-	-	-
Total	1,835,926	1,835,926	1,479,283	25,353	66,264	184,262	80,764

31 Provisions

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Non-current provisions		
Provision for land reclamation	33,795	34,846
Length-of-service awards and retirement severance pays	60,295	54,232
Provision for the Offshore Oil Rig	89,801	92,517
Other provisions*	24,703	26,487
Total non-current provisions	208,594	208,082
Current provisions		
Provision for land reclamation	5,210	5,476
Length-of-service awards and retirement severance pays	8,888	7,472
Provision for the Offshore Oil Rig	2,400	2,400
Other provisions*	57,770	65,231
Total current provisions	74,268	80,579
Total	282,862	288,661

Computation of the provisions for employee benefits as at December 31st 2007 was based on the following assumptions:

- the long-term annual growth rate of remuneration is 6% for 2008 and 3.3% for subsequent years (December 31st 2006: 3.4%; 1.8% for subsequent years),
- the discount rate for future payments of employee benefits is 6.0% (i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at the valuation date) (December 31st 2006: 5%),
- the probability of employee attrition is based on the historical data on employee turnover at the Company and statistical data on employee attrition in the industry,
- the adopted mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2006 published by the Polish Central Statistics Office (GUS) and assume that the Group's employee population is representative of the average Polish population in terms of mortality (December 31st 2006: Life Expectancy Tables of Poland, 2005),
- it is assumed that the Group employees will retire according to the standard system, i,e, men – after reaching the age of 65, women – after reaching the age of 60, except for those employees who, based on the information provided by the Group, meet the conditions for early retirement.

The changes in provisions were as follows:

PLN '000	Provision for land reclamation	Length-of-service awards and retirement severance pays	Provision for the Offshore Oil Rig(1)	Other provisions*	Total
As at Jan 1 2006 (audited)	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 (audited)	40,322	61,704	94,917	91,718	288,661
As at Jan 1 2007 (audited)	40,322	61,704	94,917	91,718	288,661
Increase	242	14,183	-	27,355	41,780
Decrease	(1,559)	(6,704)	(2,716)	(36,600)	(47,579)
As at Dec 31 2007 (audited)	39,005	69,183	92,201	82,473	282,862

(1) As at December 31st 2007, the Management Board of Petrobaltic S.A. analysed the costs needed to be incurred to liquidate the Offshore Oil Rig in the B-3 and B-8 mining areas, which were also used in the previous years. 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 2006. The increase amounted to PLN 3,510 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 B-3 Offshore Oil Rig as at December 31st 2006 (PLN 87,150 thousand).
The amount so computed, i.e. PLN 4,358 thousand, was charged to financial expenses for 2007, while the balance of PLN 848 thousand decreased 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 as at December 31st 2006 in connection with the launch of production activities in the B-8 mining area was, following a cost analysis, increased by PLN 313 thousand as at the end of 2007. 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 B-8 Offshore Oil Rig as at December 31st 2006 (PLN 7,767 thousand). The discount amount so computed, i.e. PLN 388 thousand, was charged to financial expenses for 2007 in correspondence with a relevant asset related to the provision for the liquidation of the B-8 Offshore Oil Rig, and reduced the asset by PLN 76 thousand.
As at December 31st 2007, provision for the liquidation of the B-3 and B-8 Offshore Oil Rigs totalled PLN 92,201 thousand, and the value of the related asset was PLN 58,314 thousand.

(*) the item "Other provisions" includes the following items:

PLN '000	Provision for RN Glimar(1)	Provision for Energobaltic	Provision for interest to the state budget	Other	Total
As at Jan 1 2006 (audited)	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 (audited)	41,107	24,188	-	26,423	91,718
As at Jan 1 2007 (audited)	41,107	24,188	-	26,423	91,718
Increase	-	2,239	-	25,116	27,355
Reclassification	853			(853)	-
Decrease	(26,107)	(2,478)	-	(8,015)	(36,600)
As at Dec 31 2007 (audited)	15,853	23,949	-	42,671	82,473

(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 2007 and December 31st 2006, the assets under the loans advanced were fully covered by an allowance. As at December 31st 2007, the Company also created a provision for the remaining receivables under these agreements, in the amounts of PLN 15,853 thousand. In the year ended December 31st 2007, the Company released a provision of PLN 26,107 thousand (see Note 21).

32 Other (financial) liabilities

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Other liabilities	8,694	10,217
Liabilities under lease agreements	629	584
Total	9,323	10,801

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Negative valuation of financial instruments, including:	3,906	514
- futures	251	-
- full barrel swaps	740	-
- currency swaps	-	10
- currency forwards	2,915	504
Liabilities under lease agreements	1,628	2,861
Total	5,534	3,375
Non-current liabilities	629	584
Current liabilities	4,905	2,791

Financial Lease liabilities

PLN '000	Minimum lease payments	Present value of minimum lease payments
No later than 1 year	1,060	999
Later than 1 year and no later than 5 years	664	629
Later than 5 years	-	-
Total	1,724	1,628
Rents recognized as an expense in the period	66	-
Present value of minimum lease payments	1,658	1,628
Current part	1,060	999
Non-current part	664	629

33 Liabilities, Accruals and Deferred Income

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Trade payables, including:	1,106,023	738,696
- to related undertakings	331	993
Tax and social security payable, including[1]:	465,970	511,674
- income tax	20,446	3,413
Special accounts	13,646	10,853
Salaries and wages payable	10,615	16,771
Accrued expenses	39,768	40,227
Deferred income under subsidies	19,368	16,560
Investment liabilities	80,734	38,498
- to related undertakings	-	603
Other liabilities, including:	21,327	11,827
- to related undertakings	1,000	1,001
Total	**1,757,451**	**1,385,106**

(1) The value of tax liabilities was reduced by the fuel charge of PLN 20,087 thousand (December 31st 2006: PLN 14,759 thousand) incurred in relation to imported diesel oil, The Dominant Company 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 48.

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.

34 The Company's Social Benefits Fund's assets and liabilities

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 Group offset the Fund's assets against its liabilities towards the Fund as the assets are not fully controlled by the Group companies.

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

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	1,838	2,982
Receivables from employees under the Company's Social Benefits Fund	5,294	5,626
Other	233	251
Total	7,365	8,859
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	7,324	8,816
Other	41	43
Total	7,365	8,859

35 Sales Revenue

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Sales of products	17,967,792	17,860,278
Sales of services	96,633	79,920
Total sales of products	18,064,425	17,940,198
Sales of goods for resale	873,752	390,739
Sales of materials	4,622	8,033
Total sales of goods for resale and materials	878,374	398,772
Total	**18,942,799**	**18,338,970**
- including to related undertakings	2,515	10,848
Elimination of excise tax and fuel charge	(5,817,676)	(5,540,886)
Total	13,125,123	12,798,084

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Domestic sales of products	15,335,203	15,069,527
Export sales of products	2,729,222	2,870,671
Sales of products	18,064,425	17,940,198
Domestic sales of goods for resale and materials	801,454	364,458
Export sales of goods for resale and materials	76,920	34,314
Sales of goods for resale and materials	878,374	398,772
Total	18,942,799	18,338,970
- including to related undertakings	2,515	10,848
Elimination of excise tax and fuel charge	(5,817,676)	(5,540,886)
Total	**13,125,123**	**12,798,084**

The transactions with associated undertakings are presented in Note 48 to the financial statements.

36 Cost by Type

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Depreciation and amortisation	306,224	297,356
Raw materials and energy used	10,394,876	10,174,024
Contracted services	721,836	642,037
Taxes and charges	78,091	82,970
Salaries and wages	335,812	306,960
Social security and other benefits	95,015	103,658
Other costs by type	103,852	95,436
Goods for resale and materials sold	791,453	303,486
Total	**12,827,159**	**12,005,927**
Adjustments:		
Change in products and adjustments in cost of sales	(447,532)	(48,449)
Total operating expenses, including:	**12,379,627**	**11,957,478**
Cost of sales	11,346,692	10,978,033
Selling costs	697,495	665,553
General and administrative expenses	335,440	313,892

37 Other Operating Income

PLN ‘000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Gain on disposal of property, plant and equipment	6,748	7,050
Subsidies	601	634
Release of provisions*	31,696	942
Reversal of valuation allowance for non-financial assets	25,740	7,615
Compensation received	8,589	5,639
Other operating income	8,471	6,219
Total	81,845	28,099

* Including provisions referred to in Note 25.

38 Other Operating Expenses

PLN ‘000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Loss on disposal of property, plant and equipment	5,076	380
Valuation allowance of non-financial assets	44,387	30,645
Created provisions	17,747	12,205
Other operating expenses	24,971	27,129
Total	92,181	70,359

39 Financial Income

PLN ‘000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Dividend received	1,994	2,527
Interest	41,205	31,693
Foreign exchange gains	139,288	34,943
Gains on disposal of investments	5,122	7,540
Revaluation of financial assets	91,037	89
Settlement of derivatives	31,632	53,739
Other	3,271	2,764
Total financial income	313,549	133,295

40 Financial Expenses

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Interest	37,739	30,324
Revaluation of financial assets	540	5,322
Other	6,716	5,915
Total financial expenses	44,995	41,561

41 Corporate Income Tax

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Corporate income tax	205,237	204,316
Deferred tax	(14,890)	(23,077)
Total tax	190,347	181,239
Corporate income tax recorded in equity	190,347	181,239
Corporate income tax recorded in profit and loss account	-	-

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 2007 (audited)	Year ended Dec 31 2006 (audited)
Income before tax	1,004,494	915,891
Corporate income tax at the applicable rate (19% in 2007 and 2006)	190,854	174,019
Permanent differences	(160,300)	(33,337)
Other differences	258,278	218,602
Share in investments in associated undertakings	(22,276)	(25,811)
Tax effect of differences	14,383	30,297
Corporate income tax	205,237	204,316
Effective tax rate	0.20	0.22

As at Dec 31st 2007 and December 31st 2006, the net deferred tax liability comprises the following items:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Deferred tax asset:		
Provision for employee benefits	12,920	10,361
Difference between current tax value and book value of fixed assets	6,941	1,706
Valuation allowance for inventories	3,145	4,424
Foreign exchange losses on foreign-currency settlements	-	2,009
Tax loss amortised over time	5,421	21
Valuation allowance for accounts receivable	12,155	13,982
Unrealised margin assets	11,995	15,496
Other	35,023	27,345
Total deferred tax asset	87,600	75,344
Deferred tax liability:		
Difference between current tax value and book value of fixed assets	206,281	209,963
Positive valuation of derivatives	1,407	36
Other	2,969	3,297
Total deferred tax liability	210,657	213,296
Net deferred tax asset/(liability)	(123,057)	(137,952)

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

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

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Deferred tax asset:	31,732	32,057
Deferred tax liability:	(154,789)	(170,009)
Net deferred tax asset/(liability)	(123,057)	(137,952)

Taxable temporary differences are expected to expire in 2008-2085.

42 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, 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 July 7th 2005 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2008. The original validity term of the blank promissory note, which expired on July 7th 2006, has been extended until July 5th 2007.

2. 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.

3. On January 3rd 2007, at the request of Grupa LOTOS S.A. Bank PKO BP S.A. issued a bank guarantee for the benefit of ABB Lummus Global GmbH in the form of a letter of credit for the amount of EUR 19,034 thousand. The guarantee expires on April 30th 2008. On May 8th 2007 and on October 16th 2007 the amounts of EUR 13,436 thousand and EUR 43 thousand, respectively, were drawn down under the letter of credit, while on October 25th another EUR 31 thousand was drawn thereunder. The balance as at the date of these consolidated financial statements was EUR 5,525 thousand.

4. On April 27th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs-duty debts, taxes and other customs-related charges for the amount of PLN 160,000 thousand. The guarantee expires on May 4th 2008, while the guarantor's liability continues until July 3rd 2008. On May 5th 2008, the amount of the guarantee was changed to

PLN 200,000 thousand. The guarantee expires on May 5th 2009, while the guarantor's liability continues until July 3rd 2009.

5. On July 10th 2007, at the request of Grupa LOTOS S.A. Bank PKO BP S.A. issued a bank guarantee in the form of a stand-by letter of credit for EUR 45,000 thousand for the benefit of Technip Italy S.p.a. The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. As of October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the total amount of the letter of credit will be raised to EUR 52,313 thousand in the period January 1st – March 31st 2008 (including these dates), and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The original validity term of the guarantee expired on December 31st 2007.

6. On August 10th 2007, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs duty, taxes and other customs charges for the amount of PLN 7,000 thousand. The contingent liability expired on January 31st 2008.

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

Liabilities to Bank Ochrony Środowiska S.A.

In connection with the loans 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 for environmental protection purposes, on December 12th 2001 Petrobaltic S.A. made a representation to the Bank, amended by a representation made by the shareholders on November 6th 2006, whereby it agreed (below are presented currently binding terms and conditions):

- 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 prior consent of the Bank, with the proviso that the Bank's consent may not be unreasonably withheld.

Failure to discharge the Shareholders' Obligation may result in termination of the loan agreements by the Bank. Concurrently, Petrobaltic S.A. will be relieved from the Shareholders' Obligation if both of the following conditions are met:

- Petrobaltic S.A. provides the Bank and Energobaltic Sp. z o.o. with a written notification to the effect that oil production from the B8 reservoir has commenced, and – after the first three months of production from the B8 reservoir – Petrobaltic S.A. confirms in the same manner that the gas volume estimates pertaining to the reserve – contained in the gas supply forecast of December 7th 2005 submitted to the Bank by Energobaltic Sp. z o.o. – has proven correct,
- the economic and financial standing of Energobaltic Sp. z o.o. poses no threat to timely repayment of the loans.

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 instalment, at a 2% discount. As at December 31st 2007, the total amount of the loan advanced by RRPV to Energobaltic Sp. z o.o. was USD 6.4m (principal of USD 5m plus interest), equivalent of PLN 15.6m.

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 the date of publication of these consolidated financial statements, 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 2009 if Petrobaltic S.A. is in breach of the terms and conditions of the Gas Supply Agreement in 2008. 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.

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 5,675 thousand.

Other Liabilities under Promissory Notes

Furthermore, as at December 31st 2007, 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 18,000 thousand, with the validity term expiring on July 29th 2011,
- a liability under a blank promissory note of PLN 5,000 thousand, issued to PZU (Rzeszów Branch) as excise guarantee security, expiring on July 29th 2008,
- a liability under a blank promissory note issued to NFOŚiGW of Warsaw (National Fund for Environmental Protection and Water Management) as security for repayment of interest on loan and contractual penalties, if any, under loan agreement, expiring on March 30th 2011.

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

On March 18th 2007, LOTOS Oil S.A. issued and submitted to the Customs Office a blank promissory note with a promissory note declaration, for the amount of PLN 10,000 thousand in order to secure an excise tax liability. The promissory note was issued to replace a bank guarantee. It is valid until October 31st 2008.

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

On December 19th 2007, LOTOS Gaz S.A. and Pekao S.A. concluded a surety agreement whereby LOTOS Gaz S.A. granted a surety for the repayment of a PLN 5,000 thousand loan contracted by Krak – Gaz Sp. z o.o. under loan agreement No. 12/2006/CKK, dated May 16th 2006. The surety amounts up to PLN 7,500 thousand.

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Biopaliwa Sp. z o.o.

On August 7th 2007, LOTOS Biopaliwa Sp. z o.o. issued a blank promissory note with the "no protest" clause for the benefit of the National Fund for Environmental Protection and Water Management, valid through June 30th 2015. The promissory note was issued to secure the repayment of interest, contractual penalties (if any) and other liabilities under a loan agreement concluded on June 29th 2007 by LOTOS Biopaliwa Sp. z o.o. with the National

Fund for Environmental Protection and Water Management. The amount of the loan was PLN 35,000 thousand. The repayment of the loan is secured with a bank guarantee issued for the benefit of the National Fund for Environmental Protection and Water Management on August 7th 2007 by Pekao S.A. against the loan limit under an investment loan agreement of December 14th 2006.

Other Contingent Liabilities of the Group

As at December 31st 2007, the Group's liabilities under material agreements related to expenditure on property, plant and equipment (the 10+ Programme) amounted to PLN 2,735 million (PLN 655 million as at December 31st 2006).

43 Carbon Dioxide Emission Credits

As at December 31st 2007 and December 31st 2006, the Group reported an excess of carbon dioxide emission credits over the actual carbon dioxide emissions.

In 2007, the Group companies were assigned credits for 1,497.2 thousand tonnes of carbon dioxide, while the actual emissions were 1,235.6 thousand tonnes.

44 Material Events Subsequent to the Balance-Sheet Date

No material events occurred in the period from the balance-sheet date until the date of these consolidated financial statements, except for the following:

1. On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. opened a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand at the mid-exchange rate quoted by the National Bank of Poland as at January 2nd 2008) for the benefit of Technip KTI S.p.a, valid through June 30th 2008. The letter of credit was issued to secure the performance of a construction contract related to the amine complex. On April 23rd 2008, the validity period of the letter of credit was extended to December 31st 2008. The amount of the stand-by letter of credit in the period July 1st–September 30th 2008 will be EUR 38,668 thousand, and in the period October 1st–December 31st 2008 – EUR 37,561 thousand.

2. On January 16th 2008, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a payment guarantee of USD 10,800 thousand (PLN 26,214 thousand at the average exchange rates quoted by the National Bank of Poland on January 16th 2008) for the benefit of Total Deutschland Gmbh in connection with the supply of gasoline. The guarantee expires on May 31st 2008.

45 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 Company appealed to the Anti-Monopoly Court against the Competition and Consumer Protection Office's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005, the Company filed another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use 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. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Anti-Monopoly Court's decisions, but these appeals were dismissed as well.

Pursuant to the Court's Decision of April 18th 2007, Grupa LOTOS S.A.'s right of access to evidence in the anti-trust proceedings, namely to the materials obtained during inspections at PKN ORLEN S.A.'s offices, was restricted on the basis of a petition submitted by PKN ORLEN S.A. The restriction concerned the report on inspection of the offices in Warsaw together with appendices to the report, and a part of appendices to the report on inspection of the offices in Płock. At the same time, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Płock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office (UOKiK) to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to UOKiK on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to UOKiK to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of UOKiK imposed a fine of PLN 1,000 thousand on Grupa LOTOS S.A. Consequently, on January 17th 2008 an appeal against the decision was filed with the Regional Court of Warsaw. The case is pending.

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

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

Proceedings Related to Value Added Tax for Certain Months of 1998

In connection with the tax inspections and the 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. Currently, the proceedings are pending before the Constitutional Court concerning breach of the Constitution, committed by issuing a decision on dismissal of a cessation complaint.

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

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

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

Proceedings Related to Excise Tax for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against LOTOS Czechowice S.A., related to the decisions concerning excise tax for certain months of 1998, against which the LOTOS Czechowice S.A. submitted appeals to the administrative court. The total value of the claims disputed under appeal proceedings is PLN 2,881 thousand.

The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise tax for September 1998, August 1998 and June 1998. By virtue of the Supreme Administrative Court's ruling, the Provincial Administrative Court's decision regarding excise tax for September 1998, August 1998 and June 1998 was 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 the decisions of the Provincial Administrative Court of Gliwice dated April 27th 2006 in the cases concerning taxes for:
- September 1998 – PLN 52.5 thousand,
- August 1998 – PLN 842 thousand,
- June 1998 – PLN 468.8 thousand,

Considering the case of the tax for October 1998, in the amount of PLN 1,138.8 thousand, the Provincial Administrative Court of Gliwice suspended the proceedings.

No negative tax consequences for LOTOS Czechowice S.A. may arise in connection with these proceedings; they may only be a source of additional income.

By virtue of the decision of the Provincial Administrative Court of Gliwice, dated October 16th 2006, issued in the proceedings regarding tax for August 1998 (with respect to the request for returning the difference between the court fee actually paid and the court fee due), the Provincial Administrative Court decided to return PLN 57.9 thousand to LOTOS Czechowice S.A.

On December 29th 2007, the Supreme Administrative Court issued a ruling dismissing the cassation complaints in the following cases:
- the case relating to the tax for September 1998 (PLN 52.5 thousand),
- the case relating to the tax for August 1998 (PLN 842 thousand),
- the case relating to the tax for June 1998 (PLN 468.8 thousand).

The company intends to appeal to the last instance authority and lodge a complaint to the Constitutional Court, which may repeal the decisions of the tax authorities as issued on the basis of unconstitutional provisions of the regulations of the Minister of Finance. The objection stated in the complaint will concern exceeding the statutory competence of the Minister of Finance as regards issuing regulations.

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

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. The company received the amount in April 2007.

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. By virtue of the decision of June 17th 2007, Director of the Katowice Customs Chamber set yet another deadline for resolving the case – August 13th 2007, and pursuant to its most recent decision of August 13th 2007, the Director of the Customs Office of Katowice set October 13th 2007 as the deadline for considering the appeal. On October 19th 2007, LOTOS Czechowice S.A. received three decisions issued by the Director of the Customs Chamber of Katowice, repealing in full the decisions determining the amount of excise tax liability for January, February, and March 2004, passed by the Head of the Customs Office of Bielsko-Biała. The case is to be reconsidered by the first instance body. On November 19th 2007, the Company filed with the Provincial Administrative Court three complaints against the decisions issued by the Director of the Customs Chamber of Katowice which repealed the decisions of the Head of the Customs Office of Bielsko-Biała and remanded the cases back to the Head of the Customs Office of Bielsko-Biała. On April 2nd 2008, court hearings were held concerning the aforementioned complaints, and rulings were issued whereby the complaints were dismissed. LOTOS Czechowice S.A. requested written statements of reasons to be prepared for the said rulings. A decision on further steps will be made after the statements are received.

In relation to the potential excise tax liabilities for the period January – March 2004, taking into account the conducted legal and tax analysis, including the analyses carried out by external tax advisers as well as an expert witness designated by the Director of the Customs Chamber, LOTOS Czechowice S.A. is of opinion that there is very little any risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to these potential liabilities.

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

On April 12th 2006, the Head of the Customs Office in Bielsko-Biała instigated proceedings concerning LOTOS Czechowice S.A. to determine the correct amount of the excise tax payable for the period September 1st – December 31st 2003. Before conclusion of the proceedings, it is difficult to determine whether the excise tax liabilities will be reassessed, and if so, what their amounts will be. By virtue of the decision of March 19th 2006, the Head of the Customs Office in Bielsko-Biała set the deadline for the settlement of the matter at May 30th 2007. By virtue of the decision of August 13th 2007, the Head of the Customs Office in Bielsko-Biała set another deadline for resolving the case – October 17th 2007. By virtue of the decision issued on January 1st 2008, the Head of the Customs Office of Bielsko-Biała set June 30th 2008 as the new date for resolving the case.

In relation to the potential excise tax liabilities for the period September – December 2003, taking into account the conducted legal and tax analysis, including the analyses carried out by external tax advisers as well as an expert witness designated by the Director of the Customs Chamber, LOTOS Czechowice S.A. is of opinion that there is very little risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to these potential liabilities.

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Paliwa Sp. z o.o. 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 Gaz S.A. (formerly LOTOS Mazowsze S.A.). On July 25th 2006, LOTOS Paliwa Sp. z o.o. received decision of the Head of the Gdańsk Tax Chamber, dated July 21st 2006, in which the Head of the Gdańsk Tax Chamber revoked in full the decision of the Gdańsk Tax Office determining the value added tax liability for January 2005 and assessing an additional tax liability, and remanded the case for re-examination by the Gdańsk Tax Office. On July 6th 2007, LOTOS Paliwa Sp. z o.o. was notified of decision no. PV/4400-96/124/VT/06/AR issued by the Head of the Gdańsk Tax Office, stating that the amount of tax difference to be refunded to the company was exceeded by PLN 23 thousand and requiring the company to additionally pay PLN 7 thousand on account of tax. LOTOS Paliwa Sp. z o.o. decided not to appeal against the decision as it considered it favourable for the company. According to a previous decision relating to the same matter and issued on March 28th 2006 (decision no. Nr PV/440-95/124/VT/AG), the Head of the Gdańsk Tax Office decided that the company had understated its tax liability by PLN 24,055 thousand and obliged the company to additionally pay PLN 7,850 on account of tax (the decision was later repealed by virtue of a decision issued by the Head of the Tax Chamber in Gdańsk on July 21st 2006).

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

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

The decision concerns the right to reduce the tax amount due as settlement for the month in which the seller was provided by the buyer with a confirmation of receipt of an adjusting invoice, arising from settlement of the acquisition of LOTOS Mazowsze S.A. (currently LOTOS Gaz S.A.), and compliance of additional tax sanctions in this respect with the constitution. As regards potential tax liabilities under the sanctions connected with the settlement of acquisition of an organised part of LOTOS Mazowsze S.A's. (currently LOTOS Gaz S.A.) business and corrections related to the VAT-7 tax returns, taking into account the results of legal and tax analyses, including the analysis carried out by external tax advisers, 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 additional liabilities.

Material Court 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.

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 the issued opinion, the expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, PETROECCO JV Sp. z o.o. filed an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the decision of the Regional Court. On March 19th 2008, an enforcement petition was filed to a court enforcement officer against PETROECCO JV Sp. z o.o. As at the date of publication of these consolidated financial statements, the case is pending.

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, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court in Gdańsk, IX Commercial Division, issued a ruling dismissing the claim in its entirety. On June 8th 2006, the Minister of State Treasury appealed against the ruling of April 21st 2006 which dismissed the Minister's petition to declare invalidity of the agreement of August 18th 1998. On June 30th 2006, the Company filed its response to the appeal. On December 28th 2006, the Court of Appeals passed a ruling reversing the challenged decision of April 21st 2006 and declaring the agreement on the sale of two shares in Naftoport Sp. z o.o. as invalid. On April 6th 2007, the Company filed a cassation complaint and a request to arrest enforcement of the decision of the second instance. By virtue of the ruling of the Court of Appeals of Szczecin dated April 20th 2007, the request to arrest enforcement of the decision of the second instance was dismissed. On August 10th 2007, the Supreme Court issued a decision to accept the cassation complaint for consideration. On November 21st 2007, the Supreme Court issued a decision to remand the case back to the District Court of Szczecin. As at the date of these consolidated financial statements, the case is pending.

Tax Settlements

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange control) are subject to inspection by competent administration authorities, which are authorised to impose high penalties and sanctions. As the legal regulations regarding these issues in Poland are relatively new, they are often ambiguous and inconsistent. Differences in the 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. As at December 31st 2007, 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 Competent Arbitration Bodies 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 in Copenhagen (hereinafter referred to as the Arbitrator), which reached a final decision on October 30th 2003. The award of the International Court of Arbitration in Copenhagen became final in three EU states: the United Kingdom, Denmark and Germany. However, it has not taken effect in the Lithuanian jurisdiction yet.

Once the Arbitrator's decision has been confirmed and allowed in Lithuania, 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 in Lithuania, 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.

Material Court Proceedings Instigated by ENERGOBALTIC Sp. z o.o. against Petrobaltic S.A.

On July 30th 2007, Petrobaltic S.A. received a decision issued by the Permanent Court of Arbitration at the District Chamber of Legal Counsels in Gdańsk on June 11th 2007 in a case brought by ENERGOBALTIC Sp. z o.o. against PETROBALTIC S.A. The dispute concerned performance of contract No. EB/PKT – 02/01/2001 of December 17th 2001, whereunder PETROBALTIC S.A. was to design and construct a gas transmission line that would deliver gas from its drilling platform to the heat and power plant operated by the plaintiff in Władysławowo. The plaintiff alleged a delay in performance of the contract by the defendant and demanded payment of contractual penalties, whereas the defendant claimed to have performed the contract by the prescribed deadline. The aforementioned decision granted ENERGOBALTIC Sp. z o.o.'s claim in its entirety and awarded against the defendant an amount of PLN 1,424 thousand plus statutory interest for the period from July 3rd 2003 until the payment date, as well as an amount of PLN 30 thousand on account of court fees and PLN 7 thousand as reimbursement of the legal representation costs. In view of substantial uncertainty as to the success of a possible appeal, a provision of PLN 2,157 thousand was created in connection to the award (see Note 31 to the financial statements). On October 29th 2007, PETROBALTIC S.A. lodged a complaint with the District Court of Gdańsk to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. The hearing is to be held at the end of the first quarter of 2008.

46 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 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 2007 (audited)	Year ended Dec 31 2006 (audited)
Management Board	738*	548
Supervisory Board	239	237
Management Board – subsidiary or associated undertakings	274	86
Total**	**1,251**	**871**

* Remuneration advanced for periods before being appointed to Company's Management Board.
** The value of remuneration reflects changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. made during the reporting period.

As at Dec 31st 2007, the Company did not grant any loans or similar benefits to the management and supervisory staff.

47 Employment Structure

Average employment by category:

	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Blue-collar workers	3,042	3,320
White-collar workers	2,262	2,103
Total	5,304	5,423

48 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 2007 (audited)	Year ended Dec 31 2007 (audited)	As at Dec 31 2007 (audited)	As at Dec 31 2007 (audited)
Associated undertakings valued with equity method	2,373	3,536	-	-
Non-consolidated undertakings	142	3,360	121	1,331
Total	2,515	6,896	121	1,331

In the period January 1st – Dec 31st 2007, the total income on sale of property, plant and equipment and intangible assets of the LOTOS Group to related undertakings was PLN 230 thousand.

In the period January 1st – Dec 31st 2007, the total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from related undertakings was PLN 210 thousand.

In the period January 1st – Dec 31st 2007 the total value of financial income on transactions with related parties amounted to PLN 320 thousand (dividend income).

In the period January 1st – Dec 31st 2007 the total value of financial expenses on transactions with related parties amounted to PLN 777 thousand (provision for interest on liabilities).

In the period January 1st – Dec 31st 2007 the total value of other operating income on transactions with related parties amounted to PLN 168 thousand (gain on disposal of non-financial non-current assets).

In the period January 1st – Dec 31st 2007 the total value of other operating expenses on transactions with related parties amounted to 1,488 thousand (including loss on disposal of non-financial non-current assets of PLN 26 thousand, and other operating expenses totalling PLN 1,462 thousand).

(PLN '000)	Sales to related undertakings	Purchases from related undertakings	Receivables from related undertakings	Liabilities to related undertakings
	Year ended Dec 31 2006 (audited)	Year ended Dec 31 2006 (audited)	As at Dec 31 2006 (audited)	As at Dec 31 2006 (audited)
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 – Dec 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 – Dec 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.

In the period January 1st – Dec 31st 2006, the total value of financial income on transactions with related parties amounted to PLN 25 thousand (including dividend of PLN 24 thousand and interest totalling PLN 1 thousand).

In the period January 1st – Dec 31st 2006, the total value of financial expenses on transactions with related parties amounted to PLN 173 thousand (including interest of PLN 18 thousand, investment revaluation write-off of PLN 98 thousand, and other financial expenses totalling PLN 57 thousand).

In the period January 1st – Dec 31st 2006, the total value of other operating income on transactions with related parties amounted to PLN 18 thousand (including gain on disposal of non-financial non-current assets of PLN 7 thousand, and other operating income totalling PLN 11 thousand).

In the period January 1st – Dec 31st 2006, the total value of other operating expenses on transactions with related parties amounted to PLN 98 thousand (loss on disposal of non-financial non-current assets).

Furthermore, during the Year ended Dec 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.

49 Entity with Significant Influence over the Group

As at Dec 31st 2007, 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 Dec 31st 2007 directly held a 6.93% stake in Grupa LOTOS S.A. As at Dec 31st 2007, the State Treasury held, directly and indirectly, 58.84% of shares in Grupa LOTOS S.A.

During the year ended Dec 31st 2007 the value of transactions between Grupa LOTOS S.A. and Nafta Polska S.A. amounted to PLN 21,250 thousand (including payment of dividend of PLN 21,249 thousand).

During the year ended Dec 31st 2006 the value of transactions between Grupa LOTOS S.A. and Nafta Polska S.A. amounted to PLN 7 thousand.

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

51 Signatures of the Management Board Members and the Person Responsible for Keeping the Accounting Books of Grupa LOTOS S.A.

President of the Management Board, CEO	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	Marek Paweł Sokołowski
Chief Accountant	Tomasz Południewski

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