



THE LOTOS GROUP

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30TH 2007
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS
TOGETHER WITH THE AUDITOR'S REVIEW REPORT
*(This is a translation of a document originally issued in Polish)***

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THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007

FINANCIAL HIGHLIGHTS – CONSOLIDATED

| THE LOTOS GROUP | PLN '000 | | EUR '000 | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 6 months ended Jun 30 2007 | 6 months ended Jun 30 2006 | 6 months ended Jun 30 2007 | 6 months ended Jun 30 2006 |
| | | (comparable data) | | (comparable data) |
| | (non audited) | (non audited) | (non audited) | (non audited) |
| Sales revenue | 5,621,484 | 5,954,704 | 1,460,657 | 1,526,769 |
| Operating profit | 303,852 | 465,641 | 78,951 | 119,389 |
| Pre-tax profit | 384,514 | 514,602 | 99,910 | 131,942 |
| Net profit | 304,974 | 414,265 | 79,243 | 106,216 |
| Net profit attributable to equity holders of the parent | 295,559 | 380,807 | 76,796 | 97,638 |
| Net profit attributable to minority interests | 9,415 | 33,458 | 2,446 | 8,579 |
| Net cash provided by/(used in) operating activities | 111,820 | 256,570 | 29,055 | 65,784 |
| Net cash provided by/(used in) investing activities | (240,103) | (188,399) | (62,387) | (48,305) |
| Net cash provided by/(used in) financing activities | (17,051) | (9,383) | (4,430) | (2,406) |
| Total net cash flow | (146,629) | 59,253 | (38,099) | 15,192 |
| | PLN '000 | | EUR '000 | |
| | As at Jun 30 2007 | As at Dec 31 2006 | As at Jun 30 2007 | As at Dec 31 2006 |
| | (non audited) | (comparable data) | (non audited) | (comparable data) |
| Total assets | 8,463,660 | 7,763,542 | 2,247,507 | 2,026,400 |
| Equity attributable to equity holders of the parent | 5,348,401 | 5,095,527 | 1,420,256 | 1,330,008 |
| Equity attributable to minority interests | 307,120 | 306,416 | 81,555 | 79,979 |
| Total equity | 5,655,521 | 5,401,943 | 1,501,811 | 1,409,987 |
| Basic earnings per ordinary share (PLN/EUR) | 2.60 | 3.35 | 0.68 | 0.86 |
| Diluted earnings per ordinary share (PLN/EUR) | - | - | - | - |

The Notes to the consolidated financial statements, attached on pages 10 to 97, are its integral part.

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Consolidated financial statements for the six months ended June 30th 2007

CONSOLIDATED BALANCE SHEETS
as at June 30th 2007 and December 31st 2006

| (PLN '000) | Note | Jun 30 2007 (unaudited) | Dec 31 2006 (comparable data) |
|---|------|----------------------------|----------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 3,323,083 | 3,336,839 |
| Prepayment for tangible assets under construction | 12 | 491,792 | 148,018 |
| Goodwill | 18 | 67,058 | 67,058 |
| Intangible assets | 16 | 55,014 | 55,858 |
| Investment property | 15 | 4,706 | 4,849 |
| Investments in associated undertakings | 19 | 35,527 | 83,381 |
| Financial assets | 20 | 23,607 | 23,642 |
| Deferred tax asset | 41 | 33,962 | 32,057 |
| Other non-current assets | 13 | 25,639 | 30,111 |
| | | ----- | ----- |
| Total non-current assets | | 4,060,388 | 3,781,813 |
| | | ----- | ----- |
| Current assets | | | |
| Inventories | 23 | 2,197,801 | 1,707,442 |
| Trade and other receivables, including: | 24 | 1,342,432 | 1,276,475 |
| - income tax receivables | | 1,973 | 33,068 |
| Prepayments | 14 | 41,158 | 13,562 |
| Current financial assets | 22 | 54,196 | 204,044 |
| Cash and cash equivalents | 25 | 764,318 | 772,387 |
| | | ----- | ----- |
| Total current assets | | 4,399,905 | 3,973,910 |
| | | ----- | ----- |
| Assets held for sale | 17 | 3,367 | 7,819 |
| | | ----- | ----- |
| | | ===== | ===== |
| Total assets | | 8,463,660 | 7,763,542 |
| | | ===== | ===== |

The Notes to the consolidated financial statements, attached on pages 10 to 97, are its integral part.

THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007

CONSOLIDATED BALANCE SHEETS
as at June 30th 2007 and December 31st 2006

| (PLN '000) | Note | Jun 30 2007 | Dec 31 2006 |
|---|------|--------------------|--------------------------|
| | | (unaudited) | (comparable data) |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 27 | 113,700 | 113,700 |
| Statutory reserve funds | | 970,951 | 970,951 |
| Retained earnings/(deficit) | | 4,269,059 | 4,014,432 |
| Currency-translation differences | | (5,309) | (3,556) |
| | | ----- | ----- |
| Equity attributable to equity holders of the parent | | 5,348,401 | 5,095,527 |
| | | ----- | ----- |
| Equity attributable to minority interests | 30 | 307,120 | 306,416 |
| | | ----- | ----- |
| Total equity | | 5,655,521 | 5,401,943 |
| | | ----- | ----- |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 31 | 309,283 | 330,706 |
| Non-current provisions | 32 | 207,806 | 208,082 |
| Deferred tax liability | 41 | 169,477 | 170,009 |
| Other (financial) liabilities | 33 | 9,070 | 10,801 |
| | | ----- | ----- |
| Total non-current liabilities | | 695,636 | 719,598 |
| | | ----- | ----- |
| Current liabilities | | | |
| Trade payables, accruals and deferred income, and other liabilities, including: | 34 | 1,716,467 | 1,385,106 |
| - income tax expense | | 28,013 | 3,413 |
| Interest-bearing loans and borrowings | 31 | 339,282 | 173,526 |
| Current provisions | 32 | 50,598 | 80,579 |
| Other financial liabilities | 33 | 6,156 | 2,790 |
| | | ----- | ----- |
| Total current liabilities | | 2,112,503 | 1,642,001 |
| | | ----- | ----- |
| Total liabilities | | 2,808,139 | 2,361,599 |
| | | ----- | ----- |
| Total equity and liabilities | | 8,463,660 | 7,763,542 |
| | | ===== | ===== |

The Notes to the consolidated financial statements, attached on pages 10 to 97, are its integral part.

THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007

CONSOLIDATED INCOME STATEMENTS
for the six months ended June 30th 2007 and June 30th 2006

| (PLN '000) | Note | 6 months ended Jun 30 2007 <u>(unaudited)</u> | 6 months ended Jun 30 2006 (comparable data) <u>(unaudited)</u> |
|--|------|---|--|
| Sales revenue | 35 | 5,621,484 | 5,954,704 |
| Cost of sales | 36 | (4,854,228) | (5,043,632) |
| Gross profit on sales | | 767,256 | 911,072 |
| Other operating income | 37 | 48,146 | 9,057 |
| Selling costs | 36 | (335,172) | (290,437) |
| General and administrative expenses | 36 | (149,375) | (145,400) |
| Other operating expenses | 38 | (27,003) | (18,651) |
| Operating profit | | 303,852 | 465,641 |
| Financial income | 39 | 95,828 | 72,915 |
| Financial expenses | 40 | (15,154) | (23,950) |
| Interest in investments in associated undertakings | 19 | (12) | (4) |
| Pre-tax profit | | 384,514 | 514,602 |
| Corporate income tax | 41 | (79,540) | (100,337) |
| Net profit on continued operations | | 304,974 | 414,265 |
| Attributable to: | | | |
| Equity holders of the parent | | 295,559 | 380,807 |
| Minority interests | 3 | 9,415 | 33,458 |
| | | 304,974 | 414,265 |
| Net earnings per share | | | |
| - basic | 29 | 2.60 | 3.35 |
| - diluted | | - | - |

The Notes to the consolidated financial statements, attached on pages 10 to 97, are its integral part.

THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007

CONSOLIDATED CASH FLOW STATEMENTS
for the six months ended June 30th 2007 and June 30th 2006

| (PLN '000) | Note | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (comparable data) (unaudited) |
|---|------|--|---|
| Cash flows from operating activities | | | |
| Net profit | | 304,974 | 414,265 |
| Adjustments: | | | |
| Share in net profit/(loss) of subordinated undertakings valued with equity method | | 12 | 4 |
| Depreciation and amortisation | | 150,489 | 147,953 |
| Foreign exchange gains | | (550) | (1,398) |
| Net interest and dividend paid | | 3,035 | 6,789 |
| (Profit)/loss on investing activities | | (18,834) | (7,607) |
| Current income tax | | 79,540 | 100,337 |
| Income tax paid | | (26,282) | (147,425) |
| (Increase) in receivables | 26 | (76,283) | (272,196) |
| (Increase) in inventories | 26 | (490,376) | (179,823) |
| Increase in liabilities and accruals and deferred income | 26 | 239,865 | 219,352 |
| (Increase)/Decrease in prepayments and accrued income | 26 | (26,992) | (26,321) |
| (Decrease)/ Increase in provisions | 26 | (26,660) | 3,458 |
| Other | 26 | (118) | (818) |
| Net cash provided by/(used in) operating activities | | 111,820 | 256,570 |
| Cash flows from investing activities | | | |
| Dividend received | | 28,248 | 2,154 |
| Interest received | | 8,331 | 4,629 |
| (Acquisition)/sale of property, plant and equipment and intangible assets | | (116,683) | (325,382) |
| (Acquisition)/sale of current financial assets | | 183,236 | 128,527 |
| Other, net | | (343,235) | 1,673 |
| Net cash provided by/(used in) investing activities | | (240,103) | (188,399) |
| Cash flows from financing activities | | | |
| Increase in loans and borrowings | | 14,743 | 66,376 |
| Repayment of loans and borrowings | | (9,184) | (64,156) |
| Interest paid | | (9,580) | (10,686) |
| Dividend paid to minority shareholders | | (8,593) | - |
| Other, net | | (4,437) | (917) |
| Net cash provided by/(used in) financing activities | | (17,051) | (9,383) |
| Change in cash on account of foreign exchange (gains)/losses | | (1,295) | 465 |
| Change in net cash | | (146,629) | 59,253 |
| Cash at beginning of period | 26 | 624,165 | 767,794 |
| Cash at end of period | 26 | 477,536 | 827,047 |
| - restricted cash | 25 | 25,316 | 22,179 |

The Notes to the consolidated financial statements, attached on pages 10 to 97, are its integral part.

THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007

STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
for the six months ended June 30th 2007 and June 30th 2006

| (PLN '000) | Share capital | Statutory reserve funds | Retained earnings/ (deficit) | Translation reserve | Equity attributable to equity holders of the parent | Equity attributable 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 6 months ended Jun 30 2006 | - | - | 380,807 | - | 380,807 | 33,458 | 414,265 |
| Dividend | - | - | - | - | - | (2,521) | (2,521) |
| Other | - | - | - | 1,769 | 1,769 | - | 1,769 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Jun 30 2006 (comparable data) (unaudited) | 113,700 | 970,951 | 3,715,327 | 4,035 | 4,804,013 | 285,218 | 5,089,231 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| 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 6 months ended Jun 30 2007 | - | - | 295,559 | - | 295,559 | 9,415 | 304,974 |
| Dividend | - | - | (40,932) | - | (40,932) | (8,593) | (49,525) |
| Changes in the Group's organisational structure | - | - | - | - | - | (118) | (118) |
| Other | - | - | - | (1,753) | (1,753) | - | (1,753) |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Jun 30 2007 (unaudited) | 113,700 | 970,951 | 4,269,059 | (5,309) | 5,348,401 | 307,120 | 5,655,521 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

The Notes to the consolidated financial statements, attached on pages 10 to 97, are its integral part.

THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007
Notes

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.

2. Composition of the Group

| Name | Registered office | Business profile | Method of consolidation /valuation of shares | Percentage of share capital held by the Group | | |
|---|-------------------|--|--|---|----------------|----------------|
| | | | | Jun 30 2007 | Dec 31 2006 | Jun 30 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 | 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% | 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% | 100.00% |
| LOTOS Gaz S.A. ⁽²⁾ (formerly LOTOS Mazowsze S.A.) | Mława | Sale of LPG | full | 100.00% | 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% | 100.00% |
| LOTOS Asphalt Sp. z o.o. | Gdańsk | Production and sale of bitumens | full | 100.00% | 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% | 100.00% |

THE LOTOS GROUP
Consolidated financial statements for the six months ended June 30th 2007
Notes

| Name | Registered office | Business profile | Method of consolidation /valuation of shares | Percentage of share capital held by the Group | | |
|---|----------------------|--|--|---|------------------------|-------------|
| | | | | Jun 30 2007 | Dec 31 2006 | Jun 30 2006 |
| LOTOS Kolej Sp. z o.o. | Gdańsk | Railway transport | full | 100.00% | 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% | 100.00% |
| LOTOS Lab Sp. z o.o. | Gdańsk | Laboratory testing | full | 100.00% | 100.00% | 100.00% |
| LOTOS Straż Sp. z o.o. | Gdańsk | Fire protection | full | 100.00% | 100.00% | 100.00% |
| LOTOS Ochrona Sp. z o.o. | Gdańsk | Personal and property protection | full | 100.00% | 100.00% ⁽³⁾ | 87.44% |
| LOTOS Parafiny Sp. z o.o. | Jasło | Production and sale of paraffin | full | 100.00% | 100.00% | 100.00% |
| LOTOS Tank Sp. z o.o. | Jasło | Wholesale of petroleum products | full | 100.00% ⁽⁴⁾ | 86.01% | 86.01% |
| LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A. ⁽⁵⁾) | Czechowice | Storage and distribution of fuels ⁽⁶⁾ | full | 80.04% | 80.04% | 80.04% |
| LOTOS Jasło S.A. (parent undertaking of another group; formerly Rafineria Jasło S.A. ⁽⁷⁾) | Jasło | Production and processing of refined petroleum products and their wholesale and retail sale | full | 80.01% | 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% | 69.00% |
| UAB LOTOS Baltija | Lithuania | Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia | not consolidated | 100.00% | 100.00% | 100.00% |
| BiproRaf Sp. z o.o. | Gdańsk | Design services for oil industry | not consolidated | - ⁽⁸⁾ | 50.00% | 50.00% |
| Rafineria Nafty Glimar S.A. (Glimar Refinery) in liquidation | Gorlice | Refining (currently discontinued due to the company's bankruptcy) | not consolidated due to lack of control | 91.54% | 91.54% | 91.54% |
| LOTOS Hydrokompleks Sp. z o.o. | Gorlice | Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations | not consolidated | 100.00% | 100.00% | 100.00% |
| LOTOS Park Technologiczny Sp. z o.o. | Gorlice | Business and management consultancy services | full | 86.91% | 86.91% | 89.66% |
| Indirect Subsidiary Undertakings | | | | | | |
| RCEkoenergia Sp. z o.o | Czechowice-Dziedzice | Services | full | 80.04% | 80.04% | 80.04% |
| LOTOS Biopaliwa Sp. z o.o. ⁽⁹⁾ (formerly RCParafiny Sp. z o.o.) | Czechowice-Dziedzice | No operations | full | 80.04% | 80.04% | 80.04% |
| RCRemo Sp. z o.o. | Czechowice-Dziedzice | Services | - | - | - ⁽¹⁰⁾ | 100.00% |
| CBA Racer Sp. z o.o. | Czechowice-Dziedzice | Services | - | - | - ⁽¹¹⁾ | 80.04% |
| RCSerwis Sp. z o.o. | Czechowice-Dziedzice | Services | ⁽¹²⁾ | 86.91% | 86.91% | 89.66% |
| RPCaliwa Sp. z o.o. in liquidation ⁽¹³⁾ | Czechowice-Dziedzice | Trading (not commenced) | equity method | 80.04% | 80.04% | 80.04% |
| Rafineria Jasło Monto-Rem Sp. z o.o. | Jasło | Services | full | - | - ⁽¹⁰⁾ | 100.00% |
| Plastekol Organizacja Odzysku S.A. | Jasło | Services | full | 53.61% | 53.61% | 53.61% |

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| Name | Registered office | Business profile | Method of consolidation /valuation of shares | Percentage of share capital held by the Group | | |
|---|----------------------|--|--|---|-------------|-------------|
| | | | | Jun 30 2007 | Dec 31 2006 | Jun 30 2006 |
| Rafineria Jasło Sped-Kol Sp. z o.o. | Jasło | No operations – lease of assets to LOTOS Kolej (operations discontinued) | not consolidated | - | _(14) | 80.01% |
| Petrosoft.pl Technologie Informatyczne Sp. z o.o. | Jasło | Services | not consolidated | 80.01% | 80.01% | 80.01% |
| Chemipetrol Sp. z o.o. | Jasło | Trading – assets transferred to LOTOS Parafiny in exchange for shares | not consolidated | 80.01% | 80.01% | 80.01% |
| Miliana Shipping Company Ltd. | Cyprus | Services | full | 68.93% | 68.93% | 68.93% |
| Aphrodite Offshore Services Ltd. | Netherlands Antilles | Services | not consolidated | 69.00% | 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. On March 8th 2007, the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, registered a change in the share capital structure of LOTOS Ochrona Sp. z o.o. The share capital of LOTOS Ochrona Sp. z o.o. amounts to PLN 302.5 thousand and is divided into 605 equal indivisible shares with a par value of PLN 500 per share, conferring rights to 605 votes.

⁽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. The aggregate acquisition price for the shares was PLN 642.5 thousand. Following the transaction Grupa LOTOS S.A. holds 100% shares in the share capital of LOTOS Tank Sp. z o.o.

⁽⁵⁾ On December 19th 2005, the District Court of Katowice registered the change of the name of Rafineria Czechowice S.A. to LOTOS Czechowice S.A.

⁽⁶⁾ On March 31st 2006, the Company discontinued the processing of crude oil

⁽⁷⁾ On January 2nd 2006, the District Court of Rzeszów registered the change of the name of Rafineria Jasło S.A. to LOTOS Jasło S.A.

⁽⁸⁾ On January 15th 2007, Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Uslugowe 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.

⁽⁹⁾ Name changed to LOTOS Biopaliwa Sp. z o.o. with effect from May 10th 2006.

⁽¹⁰⁾ On June 30th 2006, LOTOS Serwis Sp. z o.o. acquired Rafineria Jasło Monto-Rem Sp. z o.o. of Jasło and RC Remo Sp. z o.o. of Czechowice-Dziedzice.

⁽¹¹⁾ On December 28th 2006, CBA Racer Sp. z o.o. was incorporated into LOTOS Czechowice S.A.

⁽¹²⁾ Shares contributed to LOTOS Park Technologiczny Sp. z o.o. by LOTOS Czechowice S.A. on January 2nd 2006.

⁽¹³⁾ By virtue of the decision of November 27th 2006, issued in response to the petition for the opening of liquidation proceedings of November 9th 2006, the opening of the liquidation proceeding concerning RC Paliwa Sp. z o.o. was registered by the District Court of Katowice, VIII Commercial Division of the National Court Register.

⁽¹⁴⁾ On March 8th 2007, the company was deleted from the National Court Register of the District Court of Rzeszów, XII Commercial Division of the National Court Register.

As at June 30th 2007, December 31st 2006 and June 30th 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.

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3. Composition of the Parent Undertaking's Management and Supervisory Boards

As at June 30th 2007 and as at the date of publication of these consolidated financial statements, the Management Board of Grupa LOTOS S.A. had the following composition:

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer,
Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,
Jarosław Kryński – Vice-President of the Management Board, Chief Commercial Officer,
Marek Sokołowski – Vice-President of the Management Board, Production and Development Director.

On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. removed Mr Jacek Tarnowski from his position as Member of the Supervisory Board of Grupa LOTOS S.A. and appointed:

- Jan Stefanowicz (former Vice-Chairman the Supervisory Board) as Chairman of the Supervisory Board of Grupa LOTOS S.A.,
- Marta B.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.

As at June 30th 2007 and as at the date of publication of these consolidated financial statements, the Supervisory Board of Grupa LOTOS S.A. had the following composition:

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

4. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board on September 19th 2007.

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.

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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 June 30th 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 – June 30th 2007 along with the comparable data for January 1st – June 30th 2006.

The financial information as at June 30th 2007 and June 30th 2006 and for the six months then ended contained in these consolidated financial statements was not 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 zloty (PLN). These consolidated financial statements are presented in the zloty (PLN), and all the figures are presented in thousands of zlotys, 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, the following standard was amended by the International Accounting Standards Board:

- IAS 1 *Presentation of Financial Statements: Capital Disclosures*.

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The following standards and interpretations entered into force on January 1st 2007:

- IFRS 7: *Financial Instruments: Disclosures*.

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),
- IFRS 8: *Operating Segments* (applies to annual periods beginning after January 1st 2009),
- 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 9 (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 stipulated in IFRS 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 June 30th 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 June 30th 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 513 thousand (December 31st 2005 – PLN 1,745 thousand, June 30th 2006 – PLN 7,695 thousand).

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

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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 material undertakings it controls, prepared as at June 30th 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 21 years.

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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 depreciation rates are as follows:

| | |
|-------------------------------------|--------------|
| Buildings and structures | 1.14%–30% |
| Plant and equipment | 1.4%–50% |
| Vehicles | 6%–50% |
| Other property, plant and equipment | 6.67%–33.33% |

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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.

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.

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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 budget or the financial plan do 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.

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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.

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10.13 Foreign Currency Transactions

Transactions denominated in foreign currencies are reported in the functional currency of the Group's companies (Polish zloty) 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 is 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 zloty at relevant zloty 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 | Jun 30 2007 | Dec 31 2006 |
|--|-------------|-------------|
| USD | 2.7989 | 2.9105 |
| EUR | 3.7658 | 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.

The US dollar is the functional currency of foreign subsidiary undertakings. As at the balance-sheet date, assets and liabilities of these foreign undertakings are translated into the currency used by the Group for presentation purposes at the exchange rate prevailing on the balance-sheet date, while their income statements are translated at the weighted average exchange rate for a given financial year. The resulting currency-translation differences are recognised directly in equity as a separate component. At the time of disposal of a foreign undertaking, the accumulated deferred currency-translation differences recognised in equity and relating to this foreign undertaking are transferred to the income statement.

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.

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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.

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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 CO₂ 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.

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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.

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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 interest rate risk and currency risk include in particular FX forwards and interest rate swaps. 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

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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 Goods for Resale and Products

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.

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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.

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11. Rules of presentation

In these consolidated financial statements, the Parent Undertaking disclosed the financial information of the Group of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic (“GK Petrobaltic”) for the six months ended June 30th 2007, assuming that GK Petrobaltic accounts for the shares in Naftos Gavyba (“NG”), its associated undertaking, using the equity method, as at December 31st 2006 and adjusted by receivable dividend as referred to in Note 19. The consolidated financial statements of the NG Group (“NG Group”), prepared in line with the accounting policies applicable in Lithuania, served as the basis for disclosure in the consolidated financial statements of NG’s value corresponding to the number of NG shares held by Petrobaltic.

12. Property, Plant and Equipment and Prepayments for Tangible Assets under Construction

| PLN ‘000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|--|--|--------------------|
| Land | 213,034 | 212,371 |
| Buildings and structures | 1,656,736 | 1,677,234 |
| Plant and equipment | 701,711 | 746,967 |
| Vehicles and other tangible assets | 347,096 | 357,624 |
| Tangible assets under construction | 404,506 | 342,643 |
| Prepayments for tangible assets under construction | 491,792 | 148,018 |
| | ===== | ===== |
| Total | 3,814,875 | 3,484,857 |
| | ===== | ===== |

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

| PLN '000 | Buildings and structures | | | | Tangible assets under construction | | | Prepayments for tangible assets under construction | Total |
|---|--------------------------|------------------|---|---------------------|------------------------------------|----------------|---|--|------------------|
| | Land | | - mineral resources exploration and evaluation assets | Plant and equipment | Vehicles and other | | - mineral resources exploration and evaluation assets | | |
| Gross book value as at Jan 1 2006 | 204,515 | 1,675,122 | 72,159 | 1,059,630 | 513,012 | 271,250 | 75,693 | 17,737 | 3,741,266 |
| Increase, including: | 19,008 | 83,594 | - | 65,928 | 18,412 | 85,221 | 8,137 | 79,215 | 351,378 |
| - purchase | - | 3 | - | 376 | 3,546 | 302,402 | 8,137 | 66,235 | 372,562 |
| - transfer from investments | 19,008 | 82,918 | - | 65,183 | 13,294 | (217,181) | - | 12,885 | (23,893) |
| - other | - | 673 | - | 369 | 1,572 | - | - | 95 | 2,709 |
| Decrease, including: | (6,684) | (2,690) | - | (2,506) | (6,066) | (587) | - | - | (18,533) |
| - sale | (402) | (1,547) | - | (849) | (1,268) | (14) | - | - | (4,080) |
| - liquidation | - | (1,143) | - | (1,408) | (2,302) | (5) | - | - | (4,858) |
| - donations, transfer for no consideration | - | - | - | - | - | - | - | - | - |
| - other | (6,282) | - | - | (249) | (2,496) | (568) | - | - | (9,595) |
| Gross book value as at Jun 30 2006 (unaudited) | 216,839 | 1,756,026 | 72,159 | 1,123,052 | 525,358 | 355,884 | 83,830 | 96,952 | 4,074,111 |
| Gross book value as at Jan 1 2006 | 204,515 | 1,675,122 | 72,159 | 1,059,630 | 513,012 | 271,250 | 75,693 | 17,737 | 3,741,266 |
| Increase, including: | 23,809 | 266,777 | 55,857 | 126,897 | 57,557 | 86,759 | (17,453) | 163,874 | 725,673 |
| - purchase | - | 93 | - | 410 | 4,759 | 548,185 | 38,404 | 145,723 | 699,170 |
| - transfer from investments | 23,809 | 265,767 | 55,857 | 122,826 | 33,285 | (461,889) | (55,857) | - | (16,202) |
| - other | - | 917 | - | 3,661 | 19,513 | 463 | - | 18,151 | 42,705 |
| Decrease, including: | (9,555) | (8,141) | - | (10,705) | (27,155) | (4,674) | - | (33,593) | (93,823) |
| - sale | (5,707) | (2,099) | - | (2,762) | (5,323) | (572) | - | - | (16,463) |
| - liquidation | - | (3,639) | - | (3,794) | (4,963) | (685) | - | - | (13,081) |
| - donations, transfer for no consideration | - | (158) | - | - | (12) | - | - | - | (170) |
| - other | (3,848) | (2,245) | - | (4,149) | (16,857) | (3,417) | - | (33,593) | (64,109) |
| Gross book value as at Dec 31 2006 | 218,769 | 1,933,758 | 128,016 | 1,175,822 | 543,414 | 353,335 | 58,240 | 148,018 | 4,373,116 |

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| PLN '000 | Land | Buildings and structures | | Plant and equipment | Vehicles and other | Tangible assets under construction | | Prepayments for tangible assets under construction | Total |
|---|----------------|---------------------------------|---|----------------------------|---------------------------|---|---|---|------------------|
| | | | - mineral resources exploration and evaluation assets | | | | - mineral resources exploration and evaluation assets | | |
| Gross book value as at Jan 1 2007 | 218,769 | 1,933,758 | 128,016 | 1,175,822 | 543,414 | 353,335 | 58,240 | 148,018 | 4,373,116 |
| Increase, including: | 2,058 | 33,317 | 136 | 20,260 | 19,516 | 69,758 | 9,918 | 348,352 | 493,261 |
| - purchase | - | 29 | - | 274 | 14,155 | 113,590 | 1,678 | 16,535 | 144,583 |
| - transfer from investments | 2,058 | 33,279 | 136 | 19,889 | 5,339 | (67,161) | - | - | (6,596) |
| - other | - | 9 | - | 97 | 22 | 23,329 | 8,240 | 331,817 | 355,274 |
| Decrease, including: | (1,247) | (4,703) | - | (1,970) | (5,203) | (878) | (136) | (4,578) | (18,579) |
| - sale | (1,036) | (316) | - | (429) | (933) | (96) | - | - | (2,810) |
| - liquidation | - | (958) | - | (1,204) | (1,259) | - | - | - | (3,421) |
| - donations, transfer for no consideration | - | - | - | - | - | - | - | - | - |
| - other | (211) | (3,429) | - | (337) | (3,011) | (782) | (136) | (4,578) | (12,348) |
| Gross book value as at June 30 2007 (unaudited) | 219,580 | 1,962,372 | 128,152 | 1,194,112 | 557,727 | 422,215 | 68,022 | 491,792 | 4,847,798 |
| Accumulated depreciation as at Jan 1 2006 | 5,886 | 154,548 | 6,494 | 294,836 | 136,926 | - | - | - | 592,196 |
| Increase, including: | 1,005 | 50,256 | 3,247 | 65,950 | 28,785 | - | - | - | 145,996 |
| - depreciation | 993 | 50,224 | 3,247 | 65,881 | 25,474 | - | - | - | 142,572 |
| - other | 12 | 32 | - | 69 | 3,311 | - | - | - | 3,424 |
| Decrease | - | (484) | - | (1,457) | (3,213) | - | - | - | (5,154) |
| Accumulated depreciation as at Jun 30 2006 (unaudited) | 6,891 | 204,320 | 9,741 | 359,329 | 162,498 | - | - | - | 733,038 |

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| PLN '000 | Land | Buildings and structures | | Plant and equipment | Vehicles and other | Tangible assets under construction | | Prepayments for tangible assets under construction | Total |
|---|--------------|--------------------------|---|---------------------|--------------------|------------------------------------|---|--|------------------|
| | | | - mineral resources exploration and evaluation assets | | | | - mineral resources exploration and evaluation assets | | |
| Accumulated depreciation as at Jan 1 2006 | 5,886 | 154,548 | 6,494 | 294,836 | 136,926 | - | - | - | 592,196 |
| Increase, including: | 1,939 | 97,181 | 9,665 | 135,324 | 59,129 | - | - | - | 293,573 |
| - depreciation | 1,939 | 97,147 | 9,665 | 134,242 | 52,449 | - | - | - | 285,777 |
| - other | - | 34 | - | 1,082 | 6,680 | - | - | - | 7,796 |
| Decrease | (1,756) | (1,837) | - | (5,239) | (12,530) | - | - | - | (21,362) |
| Accumulated depreciation as at Dec 31 2006 | 6,069 | 249,892 | 16,159 | 424,921 | 183,525 | - | - | - | 864,407 |
| Accumulated depreciation as at Jan 1 2007 | 6,069 | 249,892 | 16,159 | 424,921 | 183,525 | - | - | - | 864,407 |
| Increase, including: | 710 | 50,922 | 6,045 | 65,064 | 30,340 | - | - | - | 147,036 |
| - depreciation | 710 | 50,895 | 6,045 | 65,051 | 26,930 | - | - | - | 143,586 |
| - other | - | 27 | - | 13 | 3,410 | - | - | - | 3,450 |
| Decrease | (233) | (1,190) | - | (1,340) | (4,460) | - | - | - | (7,223) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Accumulated depreciation as at Jun 30 2007 (unaudited) | 6,546 | 299,624 | 22,204 | 488,645 | 209,405 | - | - | - | 1,004,220 |
| Impairment losses as at Jan 1 2006 | - | 239 | - | 200 | 118 | 179 | - | - | 736 |
| Increase | 400 | 1 | - | 228 | 17 | 10 | - | - | 656 |
| Decrease | - | (94) | - | (108) | (22) | - | - | - | (224) |
| Impairment losses as at Jun 30 2006 (unaudited) | 400 | 146 | - | 320 | 113 | 189 | - | - | 1,168 |

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| PLN '000 | Buildings and structures | | | Plant and equipment | Vehicles and other | Tangible assets under construction | | Prepayments for tangible assets under construction | Total |
|--|--------------------------|------------------|---|---------------------|--------------------|---|---------------|--|------------------|
| | Land | | - mineral resources exploration and evaluation assets | | | - mineral resources exploration and evaluation assets | | | |
| Impairment losses as at Jan 1 2006 | - | 239 | - | 200 | 118 | 179 | - | - | 736 |
| Increase | 329 | 6,959 | - | 4,244 | 2,150 | 10,518 | 8,147 | - | 24,200 |
| Decrease | - | - | - | - | - | - | - | - | - |
| | - | (566) | - | (510) | (3) | (5) | - | - | (1,084) |
| Impairment losses as at Dec 31 2006 | 329 | 6,632 | - | 3,934 | 2,265 | 10,692 | 8,147 | - | 23,852 |
| Impairment losses as at Jan 1 2007 | 329 | 6,632 | - | 3,934 | 2,265 | 10,692 | 8,147 | - | 23,852 |
| Increase | - | - | - | - | - | 7,027 | 7,027 | - | 7,027 |
| Decrease | (329) | (620) | - | (178) | (1,039) | (10) | - | - | (2,176) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Impairment losses as at Jun 30 2007 (unaudited) | - | 6,012 | - | 3,756 | 1,226 | 17,709 | 15,174 | - | 28,703 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book value as at Jun 30 2006 (unaudited) | 209,548 | 1,551,560 | 62,418 | 763,403 | 362,747 | 355,695 | 83,830 | 96,952 | 3,339,905 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book value as at Dec 31 2006 | 212,371 | 1,677,234 | 111,857 | 746,967 | 357,624 | 342,643 | 50,093 | 148,018 | 3,484,857 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book value as at Jun 30 2007 (unaudited) | 213,034 | 1,656,736 | 105,948 | 701,711 | 347,096 | 404,506 | 52,848 | 491,792 | 3,814,875 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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As at June 30th 2007, December 31st 2006 and June 30th 2006, the net value of the items of property, plant and equipment serving as collateral for the Group's liabilities was PLN 570,911 thousand, PLN 521,638 thousand and PLN 499,392 thousand.

The cost of servicing the liabilities incurred to finance tangible assets under construction in the six months ended June 30th 2007, the year ended December 31st 2006 and in the six months ended June 30th 2006 amounted to PLN 509 thousand, PLN 1,231 thousand and PLN 836 thousand.

As at June 30th 2007, December 31st 2006 and June 30th 2006, the net value of an asset related to the liquidation of a mining plant amounted to PLN 64,691 thousand, PLN 68,096 thousand and PLN 57,157 thousand respectively.

The cost of amortisation of mineral resources exploration and evaluation assets in the six months ended June 30th 2007, the year ended December 31st 2006 and the six months ended June 30th 2006 amounted to PLN 6,420 thousand, PLN 10,286 thousand and PLN 3,547 thousand, respectively.

In the six months ended June 30th 2007 and the year ended December 31st 2006, the costs of impairment losses on mineral resources exploration and evaluation assets amounted to PLN 7,027 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.

10+ (Comprehensive Technical Upgrade Programme)

With respect to the execution of the 10+ Programme (Comprehensive Technical Upgrade Programme, the Project), which is of key importance for the Company's development and future growth of the shareholder value, the Company's efforts in the first half of 2007 focused on reviewing the received bids, preparing the contractor selection process and launching the implementation phase of the project.

In the first half of 2007, we continued our efforts to commence the construction of a new distillation unit (CDU/VDU). A tender procedure for execution of the unit was conducted on the basis of bids submitted by six international engineering companies. A preliminary contract was signed with Lurgi S.A., under which a detailed engineering design of the unit was prepared to serve as the basis for ordering the main unit components and obtaining the construction permit. Final negotiations were also conducted concerning the construction contract (which is a continuation of the preliminary contract). Following the construction of the new CDU unit, the annual oil throughput in the Gdańsk refinery of Grupa LOTOS S.A. will increase to 10.5m tonnes in 2010 up from the current level of 6m tonnes.

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In the first half of 2007, ABB Lummus Global executed the project related to the diesel hydrodesulphurisation unit (HDS) under an EPC contract with the Company. All the necessary documentation required for obtaining the construction permit was filed with the Gdańsk Municipality Office, and the main modules and apparatus (columns, reactor, separators, compressors, some of the pumps and exchangers) were ordered. ABB conducted the process of selection of the contractor to perform the construction work. The subsequent stages of the engineering design were completed. The construction of the HDS unit will enable the Group to increase its production of diesel oils and meet the quality requirements which are to apply as of 2009 (maximum sulphur content of 10 ppm).

As far as the other units to be constructed as part of the 10+ Programme are concerned, the execution concept consisting in constructing and launching, in the first place, the hydrocracking unit and the auxiliary units and extending the utilities and offsite facilities was approved. The time of execution of the heavy residue gasification unit will depend on the market situation with respect to the sale of heavy products, in particular bitumens, whose sale is an alternative for heavy residue gasification.

In connection with the above, in June 2007 a number of EPC contracts were signed for the execution of the key installations of the 10+ Programme, including a contract for the engineering design, delivery and construction of the hydrocracking unit (MHC) (a contract with Technip Italy) and the auxiliary installations, i.e. the hydrogen generating unit (HGU) (with Lurgi) and the amine sulphur recovery (ASR) unit (with Technip KTI). An EPC contract for the design, organisation of deliveries and construction management was also signed with Fluor S.A., concerning the extension of the utilities and offsite facilities (U&O). All those contracts were preceded by preliminary contracts, thanks to which work related to the engineering design could begin as early as April and May 2007.

Grupa LOTOS S.A. is continuing the work aimed at implementing the concept of gasification of heavy oil residues (IGCC). At the current stage of Grupa LOTOS S.A.'s project, whose implementation has been launched by signing execution contracts, the IGCC process can still be incorporated into the overall technological configuration. Drawing upon the experience gained to date, efforts are being undertaken to optimise the IGCC concept in terms of capital expenditure and operating costs and parameters. Both the front-end engineering design (FEED) of the gasification unit and the technical documentation concerning the integration of the gasification concept with the entire technological configuration of the refinery (the FEED for the IGCC unit, incorporating certain power generation elements, hydrogen production and gas and dust treatment) contain data which permit us to conduct further work. The design and documentation also constituted a basis for price proposals which will enable the Group to direct the work so as to achieve optimum economic benefits. Furthermore, for a few months Grupa LOTOS S.A. has been holding talks with one of the leading companies operating in the technical gases industry. The company has expressed its interest in investing in the construction of the IGCC complex in order to operate it and supply Grupa LOTOS S.A. with hydrogen/power. The existing documentation and optimisation work performed by the specialists of Grupa LOTOS S.A. provided the company with tools enabling it to make a commercial and technical assessment of potential cooperation. A concept is being considered whereby costs incurred by the Company in connection with the acquisition of the licence, front-end design and FEED documentation may represent a contribution to a special purpose vehicle to be potentially established by Grupa LOTOS S.A. and the company. The latter would be responsible for implementing the concept.

Grupa LOTOS S.A. launched a programme of recruitment of employees who – after receiving appropriate training and gaining experience at the refinery – will operate units constructed as part of the 10+ Programme.

The construction and launch of the units under the 10+ Programme will increase the oil conversion ratio and the volume of the produced fuels, especially diesel oil.

As part of the work aimed at arranging financing for the 10+ Programme, the transaction structure and an information package for banks were being prepared. Wood MacKenzie (WMK) presented its assessment of the European product market from the perspective of the production structure to be introduced by Grupa LOTOS S.A. in the future, as well as an analysis of the bitumen market. Work was underway on a comprehensive report intended for banks. Stone and Webster delivered a technical assessment of the Programme and commenced a detailed due diligence examination based on the signed execution contracts in order to prepare a final report for banks. The procedure of selecting and engaging advisers with a view to conducting a legal and insurance due diligence of the Company was launched.

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Work was also commenced on the final version of the Information Memorandum comprising the financial model for the 10+Programme. The memorandum will be included in the documentation package intended for banks interested in submitting financing proposals concerning the Programme.

13. Other Non-Current Assets

| PLN '000 | <u>Jun 30 2007</u> | <u>Dec 31 2006</u> |
|--------------------------------------|--------------------|--------------------|
| | (unaudited) | |
| Other prepayments and accrued income | 13,308 | 13,912 |
| Non-current receivables | 12,331 | 16,199 |
| | ===== | ===== |
| Total | 25,639 | 30,111 |
| | ===== | ===== |

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14. Prepayments and Accrued Income

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|---|--|--------------------|
| Insurance | 15,091 | 4,213 |
| Overhauls | 20,167 | 17,896 |
| Perpetual usufruct | 2,658 | - |
| Contributions to the Company Social Benefits Fund | 5,040 | - |
| Licences and fees | 1,279 | - |
| Rent and lease | 5,059 | - |
| Other | 5,172 | 5,365 |
| | ===== | ===== |
| Total | 54,466 | 27,474 |
| | ===== | ===== |
| Current portion | 41,158 | 13,562 |
| Non-current portion | 13,308 | 13,912 |

15. Investment property

| PLN '000 | <u>Six months ended</u> <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Six months ended</u> <u>Jun 30 2006</u> |
|-----------------|---|---|
| Opening balance | 4.849 | 5.888 |
| Increase | - | - |
| Decrease | (143) | (326) |
| | ===== | ===== |
| Closing balance | 4.706 | 5.562 |
| | ===== | ===== |

16. Intangible assets

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|----------------------------------|--|--------------------|
| Development expense | 339 | 392 |
| Software | 8,079 | 7,626 |
| Patents, trademarks and licences | 44,105 | 44,984 |
| Other | 2,491 | 2,856 |
| | ===== | ===== |
| Total | 55,014 | 55,858 |
| | ===== | ===== |

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Changes in Intangible Assets

| PLN '000 | Development expense | Patents, trademarks and licences | | | Other - mineral resources exploration and evaluation assets | Total | |
|---|------------------------|-------------------------------------|--|--------------|---|--------------|---------------|
| | | Software | - mineral resources exploration and evaluation assets | | | | |
| Gross book value as at Jan 1 2006 | 633 | 9,326 | 54,678 | 956 | 1,851 | 794 | 66,488 |
| Increase, including: | - | 1,746 | 5,909 | - | 48 | - | 7,703 |
| - purchase | - | 11 | - | - | 47 | - | 58 |
| - transfer from investments | - | 1,556 | 5,909 | - | 1 | - | 7,466 |
| - other | - | 179 | - | - | - | - | 179 |
| Decrease, including: | - | (21) | (172) | - | (29) | - | (222) |
| - sale | - | - | - | - | - | - | - |
| - liquidation | - | (13) | (1) | - | - | - | (14) |
| - other | - | (8) | (171) | - | (29) | - | (208) |
| Gross book value as at Jun 30 2006 (unaudited) | 633 | 11,051 | 60,415 | 956 | 1,870 | 794 | 73,969 |
| Gross book value as at Jan 1 2006 | 633 | 9,326 | 54,678 | 956 | 1,851 | 794 | 66,488 |
| Increase, including: | - | 4,736 | 9,601 | 176 | 2,299 | 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 | 528 | 13,893 | 64,065 | 1,132 | 4,148 | 1,620 | 82,634 |
| Gross book value as at Jan 1 2007 | 528 | 13,893 | 64,065 | 1,132 | 4,148 | 1,620 | 82,634 |
| Increase, including: | - | 1,747 | 4,039 | - | 270 | 218 | 6,056 |
| - purchase | - | 27 | - | - | - | - | 27 |
| - transfer from investments | - | 1,720 | 4,039 | - | 270 | 218 | 6,029 |
| - contribution in kind | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - |
| Decrease, including: | - | (8) | - | - | - | - | (8) |
| - sale | - | (3) | - | - | - | - | (3) |
| - liquidation | - | (5) | - | - | - | - | (5) |
| - other | - | - | - | - | - | - | - |
| Gross book value as at Jun 30 2007 (unaudited) | 528 | 15,632 | 68,104 | 1,132 | 4,418 | 1,838 | 88,682 |
| Accumulated amortisation as at Jan | 156 | 3,843 | 10,854 | 300 | 519 | 249 | 15,372 |

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| | Development expense | Patents, trademarks and licences | | | Other - mineral resources exploration and evaluation assets | Total | |
|---|------------------------|-------------------------------------|---------------|--|---|------------|---------------|
| | | Software | | - mineral resources exploration and evaluation assets | | | |
| PLN '000 1 2006 | | | | | | | |
| Increase, including: | 96 | 1,178 | 3,700 | 164 | 280 | 136 | 5,254 |
| - amortisation | 96 | 1,178 | 3,700 | 164 | 280 | 136 | 5,254 |
| - other | - | - | - | - | - | - | - |
| Decrease | - | (21) | (1) | - | - | - | (22) |
| Accumulated amortisation as at Jun 30 2006 (unaudited) | 252 | 5,000 | 14,553 | 464 | 799 | 385 | 20,604 |
| Accumulated amortisation as at Jan 1 2006 | 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 December 31 2006 | 163 | 6,215 | 19,081 | 631 | 1,292 | 539 | 26,751 |
| Accumulated amortisation as at Jan 1 2007 | 163 | 6,215 | 19,081 | 631 | 1,292 | 539 | 26,751 |
| Increase, including: | 53 | 1,295 | 4,918 | 186 | 635 | 189 | 6,901 |
| - amortisation | 53 | 1,295 | 4,918 | 186 | 635 | 189 | 6,901 |
| - other | - | - | - | - | - | - | - |
| Decrease | - | (8) | - | - | - | - | (8) |
| Accumulated amortisation as at Jun 30 2007 (unaudited) | 216 | 7,502 | 23,999 | 817 | 1,927 | 728 | 33,644 |
| Impairment losses as at Jan 1 2006 | (27) | 57 | - | - | - | - | 30 |
| Increase | - | - | - | - | - | - | - |
| Decrease | - | (2) | - | - | - | - | (2) |
| Impairment losses as at Jun 30 2006 (unaudited) | (27) | 55 | - | - | - | - | 28 |
| Impairment losses as at Jan 1 2006 | (27) | 57 | - | - | - | - | 30 |

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| | Development expense | Software | Patents, trademarks and licences | - mineral resources exploration and evaluation assets | Other - mineral resources exploration and evaluation assets | Total |
|--|------------------------|--------------|-------------------------------------|--|---|---------------|
| PLN '000 | | | | | | |
| Increase | - | - | - | - | - | - |
| Decrease | - | (5) | - | - | - | (5) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Impairment losses as at Dec 31 2006 | (27) | 52 | - | - | - | 25 |
| Impairment losses as at Jan 1 2007 | (27) | 52 | - | - | - | 25 |
| Increase | - | - | - | - | - | - |
| Decrease | - | (1) | - | - | - | (1) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Impairment losses as at Jun 30 2007 (unaudited) | (27) | 51 | - | - | - | 24 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book value as at Jun 30 2006 (unaudited) | 408 | 5,996 | 45,862 | 492 | 1,071 | 53,337 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book value as at Dec 31 2006 | 392 | 7,626 | 44,984 | 501 | 2,856 | 55,858 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Net book value as at Jun 30 2007 (unaudited) | 339 | 8,079 | 44,105 | 315 | 2,491 | 55,014 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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17. Assets held for sale

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|--------------------------|--|--------------------|
| Land | 397 | 2,756 |
| Buildings and structures | 2,924 | 1,724 |
| Plant and equipment | 44 | 33 |
| Vehicles | - | 3,287 |
| Other tangible assets | 2 | 19 |
| | ===== | ===== |
| Total | 3,367 | 7,819 |
| | ===== | ===== |

18. Business combinations

Consolidation goodwill

| PLN '000 | <u>30 czerwca 2007</u> <u>(nie badane)</u> | <u>31 grudnia 2006</u> |
|---|---|------------------------|
| Carrying value of consolidation goodwill: | | |
| LOTOS Partner Sp. z o.o. | 1,862 | 1,862 |
| LOTOS Mazowsze S.A. | 10,009 | 10,009 |
| | ===== | ===== |
| Total | 11,871 | 11,871 |
| | ===== | ===== |
| Carrying value of acquisition goodwill, including: | | |
| - purchase of ESSO service stations network | 44,256 | 44,256 |
| - purchase of Sloznaft Polska S.A. service stations network | 10,931 | 10,931 |
| | ===== | ===== |
| Total | 55,187 | 55,187 |
| | ===== | ===== |
| Total goodwill | 67,058 | 67,058 |
| | ===== | ===== |

As at June 30th 2007 and December 31st 2006, the Group recognised goodwill arising from the acquisition of the organised parts of business of ExxonMobil Poland and Sloznaft Polska in the net amount PLN 44,256 thousand and PLN 10,931 thousand, respectively. In accordance with IAS 36, the Group tested the goodwill relating to ExxonMobil Poland and Sloznaft Polska for impairment as at December 31st 2006. In line with IAS 36, the Group tests goodwill for impairment once a year.

In order to determine the value in use, a discounted cash-flow analysis (DCF) was conducted in relation to 39 service stations of the acquired ESSO Service Station Network and 12 service stations of the Sloznaft network, which were recognised as separate cash-generating units, with WACC assumed at 7.9%. The analysis was based on the future cash-flow forecast (EBITDA without financial costs) prepared by Pekao Access in March 2006 in connection with the financing of the transactions with a syndicated loan advanced by Pekao S.A. and PKO BP S.A.

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The terminal value for the discounted cash flows was calculated on the basis of the growing perpetuity formula, for which the constant growth rate of 2.8% was assumed after the period covered by the forecast. The value in use was determined by way of a goodwill valuation test carried out by the Company and was as follows:

- PLN 284,509 thousand – ESSO service stations
- PLN 84,531 thousand – Slovnaft service stations.

The carrying value of the assets purchased from ExxonMobil Poland and Slovnaft Polska amounts to:

- PLN 283,621 thousand – ESSO service stations
- PLN 57,412 thousand – Slovnaft service stations.

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

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

The Group did not test the goodwill for impairment as at June 30th 2007.

Acquisition of ESSO Service Station Network

On August 24th 2005, LOTOS Paliwa Sp. z o.o. entered into a preliminary conditional agreement on purchase of ESSO service station network in Poland from ExxonMobil Poland Sp. z o.o. The transaction concerned an organised part of ExxonMobil Poland's business, comprising in particular:

- 39 service stations along with real estate owned, held in perpetual usufruct or under long-term leases,
- 14 undeveloped lots for new service stations, owned or held in perpetual usufruct (including three lots covered by call options).

The preliminary agreement provided for a transfer of 24 employees of ExxonMobil Poland Sp. z o.o., who had been engaged in the expansion of the ESSO network in Poland.

As part of the transaction, Grupa LOTOS S.A. and ExxonMobil are to conduct domestic and international cooperation in serving ESSO customers at LOTOS stations in Poland and LOTOS customers holding fleet cards at service stations accepting ESSO cards outside Poland (in a number of European countries). It also provides for a continuation of the loyalty scheme for ESSO retail customers. Furthermore, LOTOS Paliwa Sp. z o.o. agreed to purchase (for additional consideration) assets connected with day-to-day operations of the acquired stations (stocks of fuels, receivables from agents and loyalty card holders, etc.).

On December 14th 2005, LOTOS Paliwa Sp. z o.o. and ExxonMobil Poland Sp. z o.o. completed the transaction by concluding the final agreement. The net price for the organised part of business was PLN 283,318 thousand, of which PLN 250,728 thousand accounts for the 39 service stations. LOTOS Paliwa Sp. z o.o. financed the transaction with funds from the additional contributions to equity made by Grupa LOTOS S.A. and from the loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.).

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

The goodwill disclosed in the consolidated financial statements for 2005 increased by PLN 1,539 thousand as a result of the final transaction settlement and acquisition of other service stations as part of the transaction. As at December 31st 2006, LOTOS Paliwa Sp. z o.o.'s expenditure on acquisition of the organised part of business amounted to PLN 282,843 thousand, including PLN 250,253 thousand for 39 stations.

Following the acquisition of ESSO service stations network, the goodwill in the amount of PLN 44,256 thousand was recognised, representing the difference between the acquisition cost and the fair value of the acquired assets. The difference relates to one cash-generating unit. No cash was acquired in the transaction. The recoverable value of cash-generating units was determined on the basis of their fair value.

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The acquisition cost (cost of merger of the organised part of Exxon Mobil Poland's business) included additional expenses incurred by LOTOS Paliwa Sp. z o.o. in relation to tax and financial advisory services, cost of external financing, leasehold payments and building permits.

As at December 31st 2006 and June 30th 2007, the final amount of goodwill following from the transaction is as follows:

| (PLN '000) | Jun 30 2007 |
|--------------------------------|--------------------|
| Merger cost (acquisition cost) | 295,352 |
| Non-current assets | 251,096 |
| Goodwill | 44,256 |

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

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

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

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

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

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

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

| (PLN '000) | Jun 30 2007 |
|--------------------------------|--------------------|
| Merger cost (acquisition cost) | 59,356 |
| Non-current assets | 48,425 |
| Goodwill | 10,931 |

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19. Investments in Associated Undertakings

| Company name | Registered office | Business area | Jun 30 2007 | Dec 31 2006 |
|-------------------------|---------------------|-----------------------|-------------|-------------|
| Energobaltic Sp. z o.o. | Gdańsk | Production activities | 32.16% | 32.16% |
| UAB Naftos Gavyba | Klaipeda, Lithuania | Services | 29.46% | 29.46% |

| PLN '000 | Jun 30 2007 (unaudited) | Dec 31 2006 |
|--|----------------------------|---------------|
| Investments in associated undertakings valued with equity method | | |
| Naftos Gavyba Group | 35,527 | 83,381 |
| | ===== | ===== |
| Total investments in associated undertakings | 35,527 | 83,381 |
| | ===== | ===== |

On March 30th 2007, the General Shareholders Meeting of UAB Naftos Gavyba, an associated undertaking, approved the financial statements for 2006 and resolved to allocate the profit generated in 2006 and a portion of undistributed retained earnings in the amount of LTL 100m to dividend payment. By June 30th 2007, Petrobaltic S.A. received dividend in the amount of PLN 26,075 thousand, and by July 11th 2007 it received the balance of the dividend amount of PLN 21,779 thousand.

Net assets of material undertakings valued with equity method:

| PLN '000 | Jun 30 2007 (unaudited) | Dec 31 2006 |
|-------------------------|----------------------------|-------------|
| Naftos Gavyba Group | n/a | 195,270 |
| Energobaltic Sp. z o.o. | 24,816 | 24,118 |

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

| PLN '000 | Jun 30 2007 (unaudited) | Dec 31 2006 |
|-------------------------|----------------------------|-------------|
| Naftos Gavyba Group | n/a | 73,203 |
| Energobaltic Sp. z o.o. | 117,169 | 118,761 |

Sales revenue of undertakings valued with equity method:

| PLN '000 | Six months ended Jun 30 2007 (unaudited) | Six months ended Jun 30 2006 (unaudited) |
|-------------------------|--|--|
| Naftos Gavyba Group | n/a | n/a |
| Energobaltic Sp. z o.o. | 15,670 | 12,333 |

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

| PLN '000 | <u>Six months ended Jun 30 2007 (unaudited)</u> | <u>Six months ended Jun 30 2006 (unaudited)</u> |
|-------------------------|---|---|
| Naftos Gavyba Group | n/a | n/a |
| Energobaltic Sp. z o.o. | 698 | 2,282 |

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

| PLN '000 | <u>Six months ended Jun 30 2007 (unaudited)</u> | <u>Six months ended Jun 30 2006 (unaudited)</u> |
|--|---|---|
| Naftos Gavyba Group | n/a | n/a |
| Other undertakings valued with equity method | (12) | (4) |
| | ===== | ===== |
| Total | (12) | (4) |
| | ===== | ===== |

20. Financial assets

| PLN '000 | <u>Jun 30 2007 (unaudited)</u> | <u>Dec 31 2006</u> |
|------------------------------------|------------------------------------|--------------------|
| Shares in companies | 12,900 | 12,900 |
| Other non-current financial assets | 10,707 | 10,742 |
| | ===== | ===== |
| Total | 23,607 | 23,642 |
| | ===== | ===== |

21. Methods and Material Assumptions Adopted for Measuring Financial Assets and Liabilities at Fair Value

Overview of Financial Instruments

The Group is exposed to market risk, including, in particular, fluctuations of the refining margin, exchange rates and interest rates. It manages those risks using derivatives and other financial instruments. The Parent Undertaking does not issue any derivative financial instruments held for trading.

The Parent Undertaking has implemented written guidelines for currency risk management; these guidelines define the risk tolerance level and the general risk management policy. The Company has also developed procedures designed to ensure timely and detailed monitoring and control of hedging transactions. At the meetings of the Risk Management Committee ("RMC"), results of currency risk management and results on derivatives hedging commodity risk are presented. The RMC is also responsible for recommending management strategies for individual risk types to the Management Board and proposing hedging transactions exceeding predefined risk limits.

As it does not meet formal requirements, the Group does not apply hedging accounting; accordingly, any change in fair value of derivatives is charged to the income statement.

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Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

Financial assets held for trading comprise treasury bills and investment certificates. The Parent Undertaking discloses derivative transactions with positive fair values under financial assets held for trading. These transactions include unrealised forwards and swaps. Derivative transactions with negative fair value disclosed under financial liabilities held for trading are swap contracts.

Financial Assets Available for Sale

Non-current financial assets available for sale measured at fair value as at June 30 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 June 30th 2007 and December 31st 2006, assets under the advanced loans were fully covered by an allowance. The Company also created a provision for the remaining amounts due under these agreements. The value of the provision as at June 30th 2007 was PLN 15,000 thousand (PLN 41,107 thousand as at December 31st 2006). On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt.

▪ On November 12th 2001 an agreement was concluded under which Petrobaltic S.A. granted loans 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 June 30th 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.

Financial Assets Held to Maturity

Financial assets held to maturity comprise purchased treasury bonds.

Commodity Risk

The most material component of commodity risk is the refining margin defined as the difference between the price of product sold and the price of raw materials purchased. At its meetings, the RMC adopts decisions concerning proposed hedging transactions. These decisions are subject to final approval by the President of the Management Board.

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Interest Rate Risk

The exposure of Parent Undertaking to market risk arising in connection with interest rate fluctuations primarily relates to loans with variable interest rates, reinvestment of free cash, and the balance of future cash flows. The Company does not use derivative financial instruments to hedge its investment portfolio. In order to ensure liquidity of this portfolio, the Company invests a significant portion of assets in debt securities for which there is a ready secondary market or another market on which such securities may be sold.

Currency Risk

Main sources of currency risk are raw material imports, product exports, domestic sales indexed to foreign currencies and loans denominated in foreign currencies. Currency risk management is based on planned net foreign currency positions, in line with the assumptions stipulated in "Currency Risk Management Strategy for Grupa LOTOS S.A.", which also defines the maximum limit of the total foreign currency position and the gross global position to which the Company may be exposed in a budget year. The limit is expressed as a percentage of the Company's equity. The risk management falls within the powers of the RMC or the risk management division, depending on current risk exposure.

Credit risk

As a rule, the Group executes transactions with recognised companies of good credit standing. All customers requesting trade credit undergo verification of their financial reliability. Moreover, thanks to ongoing monitoring of receivables, the risk of uncollectible receivables is low.

In terms of the Group's other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivatives, the Group's credit risk arises as a result of the other party's inability to make the payment, and the maximum exposure to this risk is equal to the carrying value of such instruments.

The Company has developed a system for determining limits of exposure with respect to individual counterparties in a transaction, based on ratings granted by recognised rating agencies, solvency ratios, and value of equity of both Grupa LOTOS S.A. and the counterparties. Results on hedging transactions are taken into account in exposure measurement. There is no material concentration of the credit risk within the Group.

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22. Current Financial Assets

| PLN '000 | <u>Jun 30 2007</u> | <u>Dec 31 2006</u> |
|---|--------------------|--------------------------|
| | <u>(unaudited)</u> | <u>(comparable data)</u> |
| Positive valuation of financial instruments, including: | | |
| - futures | 29,646 | 703 |
| - currency forwards | 616 | - |
| Treasury bonds | 29,030 | 703 |
| Other, including: | - | 178,300 |
| - prepayments for shares ⁽¹⁾ | 24,550 | 25,041 |
| | 24,302 | 24,726 |
| | ===== | ===== |
| Total | 54,196 | 204,044 |
| | ===== | ===== |

⁽¹⁾As at June 30th 2007, the Group recognised assets invested in UAB Naftos Gavyba, its associated undertaking, in the total amount of PLN 24.3m. The recognised amount is the funds provided to UAB 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 delivery of the AB Geonafta shares to Petrobaltic S.A. until December 31st 2007.

By the date of these financial statements, UAB Naftos Gavyba had not made any entry in the share register of AB Geonafta which would constitute the transfer the ownership rights to the shares purchased by Petrobaltic under a condition precedent.

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Financial Assets and Liabilities

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

| (PLN '000) | Financial assets held for trading | Financial liabilities held for trading | Loans advanced and receivables | Financial assets held to maturity | Financial assets available for sale |
|--|-----------------------------------|--|--------------------------------|-----------------------------------|-------------------------------------|
| Opening balance as at Jan 1 2007 | 179,003 | 513 | 200 | - | 9,864 |
| Gross value | 178,211 | - | 48,239 | - | 10,282 |
| Revaluation | 792 | 513 | (48,039) | - | (418) |
| Increase, including: | 1,614,733 | 4,987 | - | - | 194 |
| Acquisition | 1,585,087 | - | 714 | - | - |
| Revaluation | 29,646 | 4,987 | (714) | - | - |
| Other | - | - | - | - | 194 |
| Decrease, including: | (1,764,090) | (513) | (56) | - | (35) |
| Sale | (1,763,298) | - | (837) | - | (35) |
| Revaluation | (792) | (513) | 781 | - | 48 |
| Other | - | - | - | - | (48) |
| Closing balance as at Jun 30 2007 (unaudited) | 29,646 | 4,987 | 144 | - | 10,023 |
| Gross value | - | - | 48,116 | - | 10,393 |
| Revaluation | 29,646 | 4,987 | (47,972) | - | (370) |
| Balance-sheet disclosure | | | | | |
| Non-current investments | - | - | 57 | - | 10,023 |
| Current investments | 29,646 | 4,987 | 87 | - | - |
| Current liabilities | - | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 29,646 | 4,987 | 144 | - | 10,023 |
| | ===== | ===== | ===== | ===== | ===== |

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| (PLN '000) | Financial assets held for trading | Financial liabilities held for trading | Loans advanced and receivables | Financial assets held to maturity | Financial assets available for sale |
|--|-----------------------------------|--|--------------------------------|-----------------------------------|-------------------------------------|
| Opening balance as at Jan 1 2006 | 130,237 | 1,745 | 177 | 3,879 | 9,829 |
| Gross value | 120,013 | - | 48,216 | 3,783 | 10,247 |
| Revaluation | 10,224 | 1,745 | (48,039) | 96 | (418) |
| Increase, including: | 16,693,860 | 513 | 213 | - | 35 |
| Acquisition | 16,693,068 | - | 213 | - | - |
| Other | - | - | - | - | 35 |
| Revaluation | 792 | 513 | - | - | - |
| Decrease, including: | (16,645,094) | 1,745 | (190) | - | - |
| Sale | (16,634,870) | - | (190) | 3,783 | - |
| Revaluation | (10,224) | 1,745 | - | 96 | - |
| | | | | | |
| Closing balance as at Dec 31 2006 | 179,003 | 513 | 200 | - | 9,864 |
| Gross value | 178,211 | - | 48,239 | - | 10,282 |
| Revaluation | 792 | 513 | (48,039) | - | (418) |
| | | | | | |
| Balance-sheet disclosure | | | | | |
| Non-current investments | - | - | 92 | - | 9,829 |
| Current investments | 179,003 | 513 | 108 | - | 35 |
| Current liabilities | - | - | - | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 179,003 | 513 | 200 | - | 9,864 |
| | ===== | ===== | ===== | ===== | ===== |

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| (PLN '000) | Financial assets held for trading | Financial liabilities held for trading | Loans advanced and receivables | Financial assets held to maturity | Financial assets available for sale |
|--|-----------------------------------|--|--------------------------------|-----------------------------------|-------------------------------------|
| Opening balance as at Jan 1 2006 | 130,237 | 1,745 | 177 | 3,879 | 9,829 |
| Gross value | 120,013 | - | 48,216 | 3,783 | 10,247 |
| Revaluation | 10,224 | 1,745 | (48,039) | 96 | (418) |
| Increase, including: | 4,805,621 | 7,695 | 213 | 87 | 452 |
| Acquisition | 4,795,636 | - | 213 | - | 1,098 |
| Revaluation | 9,985 | 7,695 | - | 87 | (646) |
| Decrease, including: | (4,918,748) | (1,745) | (96) | - | - |
| Sale | (4,913,851) | - | (96) | - | - |
| Revaluation | (4,897) | (1,745) | - | - | - |
| | | | | | |
| Closing balance as at Jun 30 2006 (unaudited) | 17,110 | 7,695 | 294 | 3,966 | 10,281 |
| Gross value | 1,798 | - | 48,333 | 3,783 | 11,345 |
| Revaluation | 15,312 | 7,695 | (48,039) | 183 | (1,064) |
| | | | | | |
| Balance-sheet disclosure | | | | | |
| Non-current financial assets | - | - | 148 | - | 10,281 |
| Current financial assets | 17,110 | - | 146 | 3,966 | - |
| Current liabilities | - | 7,695 | - | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 17,110 | 7,695 | 294 | 3,966 | 10,281 |
| | ===== | ===== | ===== | ===== | ===== |

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Value of derivative transactions as at June 30th 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 Jun 30 2007 (PLN '000) ⁽²⁾ |
|-------------------|-----------------------------|----------------------------|--|--------------|---------------|---------------------------------|---------------------------------|--|
| Grupa LOTOS S.A. | Currency forward | Jan 10 2007 | Aug 13 2007 | 1.3 | EUR/USD | 13,058 | - | 1.154 |
| Grupa LOTOS S.A.. | Currency forward | Jan 11 2007 | Oct 16 2007 | 1.3 | EUR/USD | 6,547 | - | 558 |
| Grupa LOTOS S.A. | Currency forward | Apr 20 2007 | Jul 24 2007 | 2.8 | USD/PLN | - | 13,923 | 65 |
| Grupa LOTOS S.A. | Currency forward | Apr 23 2007 | Sep 25 2007 | 2.8 | USD/PLN | - | 27,779 | 163 |
| Grupa LOTOS S.A. | Currency forward | Apr 25 2007 | Sep 27 2007 | 2.8 | USD/PLN | - | 13,805 | 164 |
| Grupa LOTOS S.A. | Currency forward | Apr 26 2007 | Dec 31 2007 | 2.8 | USD/PLN | - | 13,787 | 166 |
| Grupa LOTOS S.A. | Currency forward | May 8 2007 | Jul 10 2007 | 3.8 | EUR/PLN | - | 37,571 | 90 |
| Grupa LOTOS S.A. | Currency forward | May 8 2007 | Jul 10 2007 | 3.8 | EUR/PLN | - | 37,576 | 85 |
| Grupa LOTOS S.A. | Currency forward | May 8 2007 | Jul 10 2007 | 3.8 | EUR/PLN | - | 37,523 | 138 |
| Grupa LOTOS S.A. | Currency forward | Jun 8 2007 | Jul 2 2007 | 1.3 | EUR/USD | 13,353 | - | 282 |
| Grupa LOTOS S.A. | Currency forward | Jun 8 2007 | Jul 2 2007 | 1.3 | EUR/USD | 13,400 | - | 152 |
| Grupa LOTOS S.A. | Currency forward | Jun 12 2007 | Jul 5 2007 | 1.3 | EUR/USD | 6,674 | - | 150 |
| Grupa LOTOS S.A. | Currency forward | Jun 18 2007 | Aug 13 2007 | 1.3 | EUR/USD | 13,425 | - | 134 |
| Grupa LOTOS S.A. | Currency forward | Jun 19 2007 | Jul 5 2007 | 1.3 | EUR/USD | 9,121 | - | 79 |
| Grupa LOTOS S.A. | Currency forward | Jun 27 2007 | Aug 13 2007 | 1.3 | EUR/USD | 13,443 | - | 85 |
| Grupa LOTOS S.A. | Currency forward | Jun 29 2007 | Jul 3 2007 | 3.8 | EUR/PLN | - | 18,819 | 10 |
| Grupa LOTOS S.A. | Currency forward | Jun 29 2007 | Oct 16 2007 | 2.7 | USD/PLN | - | 8,329 | 51 |
| Grupa LOTOS S.A. | Currency forward | Jan 12 2007 | Aug 16 2007 | 3.0 | USD/PLN | - | 74,500 | 4,562 |
| Grupa LOTOS S.A. | Currency forward | Jan 12 2007 | Oct 16 2007 | 3.0 | USD/PLN | - | 74,462 | 4,556 |
| Grupa LOTOS S.A. | Currency forward | Jan 16 2007 | Aug 20 2007 | 3.0 | USD/PLN | - | 83,157 | 4,832 |
| Grupa LOTOS S.A. | Currency forward | Jan 16 2007 | Aug 17 2007 | 3.0 | USD/PLN | - | 23,752 | 1,373 |
| Grupa LOTOS S.A. | Currency forward | Jan 23 2007 | Aug 27 2007 | 2.9 | USD/PLN | - | 58,972 | 3,033 |
| Grupa LOTOS S.A. | Currency forward | Jan 25 2007 | Oct 29 2007 | 3.0 | USD/PLN | - | 44,461 | 2,521 |
| Grupa LOTOS S.A. | Currency forward | Mar 30 2007 | Jul 3 2007 | 3.9 | EUR/PLN | - | 77,238 | 1,921 |

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| 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 Jun 30 2007 (PLN '000) ⁽²⁾ |
|------------------|-----------------------------|----------------------------|--|--------------|---------------|---------------------------------|---------------------------------|--|
| Grupa LOTOS S.A. | Currency forward | May 16 2007 | Jul 10 2007 | 3.8 | EUR/PLN | - | 30,341 | 211 |
| Grupa LOTOS S.A. | Currency forward | May 30 2007 | Jul 10 2007 | 3.8 | EUR/PLN | - | 38,274 | 612 |
| Grupa LOTOS S.A. | Currency forward | May 30 2007 | Jul 10 2007 | 3.8 | EUR/PLN | - | 38,277 | 615 |
| Grupa LOTOS S.A. | Currency forward | May 30 2007 | Aug 16 2007 | 3.8 | EUR/PLN | - | 38,319 | 636 |
| Grupa LOTOS S.A. | Currency forward | Jun 22 2007 | Jul 2 2007 | 1.3 | EUR/USD | 13,460 | - | 16 |
| Grupa LOTOS S.A. | Currency forward | Jun 22 2007 | Jul 5 2007 | 1.3 | EUR/USD | 6,729 | - | 4 |
| Grupa LOTOS S.A. | Currency forward | Jun 29 2007 | Jul 30 2007 | 1.3 | EUR/USD | 17,585 | - | 219 |
| Grupa LOTOS S.A. | Currency forward | Jun 29 2007 | Sep 28 2007 | 1.4 | EUR/USD | 17,622 | - | 225 |
| Grupa LOTOS S.A. | Currency forward | Jun 29 2007 | Aug 13 2007 | 1.3 | EUR/USD | 13,533 | - | 168 |
| | | | | | | | Total | 29,030 |

| Company | Type of forward transaction | Transaction execution date | Transaction settlement date ⁽³⁾ | No. of CO2 emission credits sold | Price | Fair value as at Jun 30 2007 (PLN '000) ⁽⁴⁾ |
|------------------|-----------------------------|----------------------------|--|----------------------------------|-------|--|
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (50,000) | 0.3 | 28 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (50,000) | 0.3 | 28 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (50,000) | 0.3 | 28 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (50,000) | 0.3 | 30 |
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (50,000) | 0.3 | 30 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (40,000) | 0.3 | 23 |
| Grupa LOTOS S.A. | Futures | May 25 2007 | Dec 20 2007 | (40,000) | 0.3 | 24 |
| Grupa LOTOS S.A. | Futures | May 25 2007 | Dec 20 2007 | (40,000) | 0.3 | 24 |
| Grupa LOTOS S.A. | Futures | May 30 2007 | Dec 20 2007 | (40,000) | 0.3 | 21 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (30,000) | 0.3 | 17 |
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (30,000) | 0.3 | 18 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (25,000) | 0.3 | 14 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (25,000) | 0.2 | 12 |

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| Company | Type of forward transaction | Transaction execution date | Transaction settlement date ⁽³⁾ | No. of CO2 emission credits sold | Price | Fair value as at Jun 30 2007 (PLN '000) ⁽⁴⁾ |
|------------------|-----------------------------|----------------------------|--|----------------------------------|--------------|--|
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (25,000) | 0.3 | 15 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (20,000) | 0.3 | 10 |
| Grupa LOTOS S.A. | Futures | May 22 2007 | Dec 20 2007 | (20,000) | 0.3 | 12 |
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (20,000) | 0.3 | 12 |
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (20,000) | 0.3 | 12 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (15,000) | 0.3 | 7 |
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (15,000) | 0.3 | 9 |
| Grupa LOTOS S.A. | Futures | May 24 2007 | Dec 20 2007 | (15,000) | 0.3 | 9 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (10,000) | 0.3 | 6 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (10,000) | 0.3 | 5 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (5,000) | 0.3 | 2 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (5,000) | 0.2 | 2 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007- | (3,000) | 0.2 | 2 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 20 2007 | (2,000) | 0.2 | 1 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 18 2008 | 4,000 | 21.7 | 9 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 18 2008 | 5,000 | 21.7 | 10 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 18 2008 | 5,000 | 21.8 | 9 |
| Grupa LOTOS S.A. | Futures | May 18 2007 | Dec 18 2008 | 10,000 | 21.7 | 20 |
| Grupa LOTOS S.A. | Futures | Jun 19 2007 | Dec 18 2008 | 10,000 | 21.4 | 34 |
| Grupa LOTOS S.A. | Futures | Jun 19 2007 | Dec 18 2008 | 10,000 | 21.5 | 30 |
| Grupa LOTOS S.A. | Futures | Jun 19 2007 | Dec 18 2008 | 10,000 | 21.4 | 32 |
| Grupa LOTOS S.A. | Futures | Jun 19 2007 | Dec 18 2008 | 10,000 | 21.4 | 34 |
| Grupa LOTOS S.A. | Futures | Jun 19 2007 | Dec 18 2008 | 10,000 | 21.3 | 37 |
| | | | | | Total | 616 |
| | | | | | Total | 29,646 |

⁽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.

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⁽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.

⁽³⁾ It is possible to settle the transaction early by taking an offsetting position

⁽⁴⁾ The fair value of a transaction is calculated on the basis of its market value established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction), and it is discounted at the valuation date. The CO₂ emission credits price curve is determined based on closing EUA prices on the European Climate Exchange (ECX).

| Company | Type of forward transaction | Transaction execution date | Transaction settlement date ⁽¹⁾ | Forward rate | Currency pair | Notional amount bought (EUR '000) | Notional amount bought (PLN '000) | Fair value as at Jun 30 2007 (PLN '000) ⁽²⁾ |
|------------------|-----------------------------|----------------------------|--|--------------|---------------|-----------------------------------|-----------------------------------|--|
| Grupa LOTOS S.A. | Currency forward | Mar 1 2007 | Nov 5 2007 | 4.0 | EUR/PLN | - | 11,736 | (412) |
| Grupa LOTOS S.A. | Currency forward | Mar 20 2007 | Sep 24 2007 | 2.9 | USD/PLN | - | 23,194 | (830) |
| Grupa LOTOS S.A. | Currency forward | Mar 29 2007 | Aug 2 2007 | 3.9 | EUR/PLN | - | 23,289 | (682) |
| Grupa LOTOS S.A. | Currency forward | Apr 18 2007 | Jul 3 2007 | 3.8 | EUR/PLN | - | 38,049 | (391) |
| Grupa LOTOS S.A. | Currency forward | May 17 2007 | Jul 3 2007 | 3.8 | EUR/PLN | - | 18,916 | (87) |
| Grupa LOTOS S.A. | Currency forward | May 21 2007 | Aug 16 2007 | 3.8 | EUR/PLN | - | 18,883 | (43) |
| Grupa LOTOS S.A. | Currency forward | May 21 2007 | Aug 16 2007 | 3.8 | EUR/PLN | - | 18,892 | (52) |
| Grupa LOTOS S.A. | Currency forward | Jun 20 2007 | Aug 16 2007 | 2.8 | USD/PLN | - | 11,254 | (68) |
| Grupa LOTOS S.A. | Currency forward | Jun 20 2007 | Oct 16 2007 | 2.8 | USD/PLN | - | 11,241 | (65) |
| Grupa LOTOS S.A. | Currency forward | Jun 20 2007 | Oct 16 2007 | 2.8 | USD/PLN | - | 14,072 | (102) |
| Grupa LOTOS S.A. | Currency forward | Jun 21 2007 | Oct 16 2007 | 2.8 | USD/PLN | - | 36,719 | (396) |
| Grupa LOTOS S.A. | Currency forward | Jun 22 2007 | Aug 16 2007 | 2.8 | USD/PLN | - | 28,100 | (135) |
| Grupa LOTOS S.A. | Currency forward | Jun 22 2007 | Aug 16 2007 | 2.8 | USD/PLN | - | 36,649 | (294) |
| Grupa LOTOS S.A. | Currency forward | Jun 26 2007 | Jul 30 2007 | 1.3 | EUR/USD | 17,540 | - | (94) |
| Grupa LOTOS S.A. | Currency forward | Jun 26 2007 | Sep 28 2007 | 1.4 | EUR/USD | 17,577 | - | (100) |
| Grupa LOTOS S.A. | Currency forward | Mar 13 2007 | Aug 13 2007 | 1.3 | EUR/USD | 13,280 | - | (537) |
| Grupa LOTOS S.A. | Currency forward | Jun 22 2007 | Jul 2 2007 | 1.3 | EUR/USD | 13,440 | - | (40) |
| Grupa LOTOS S.A. | Currency forward | Jun 22 2007 | Jul 5 2007 | 1.3 | EUR/USD | 9,149 | - | (3) |
| | | | | | | | Total | (4,331) |

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| Company | Type of forward transaction | Transaction execution date | Transaction settlement date ⁽³⁾ | No. of CO2 emission allowances sold | Price | Fair value as at Jun 30 2007 (PLN '000) ⁽⁴⁾ |
|------------------|-----------------------------|----------------------------|--|-------------------------------------|-------|--|
| Grupa LOTOS S.A. | Futures | Jun 6 2007 | Dec 18 2008 | 1,000 | 23.5 | (4) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 18 2008 | 4,000 | 23.2 | (14) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 18 2008 | 5,000 | 23.2 | (18) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 18 2008 | 5,000 | 23.2 | (18) |
| Grupa LOTOS S.A. | Futures | Jun 6 2007 | Dec 18 2008 | 5,000 | 23.5 | (23) |
| Grupa LOTOS S.A. | Futures | Jun 13 2007 | Dec 18 2008 | 5,000 | 23.3 | (19) |
| Grupa LOTOS S.A. | Futures | Jun 13 2007 | Dec 18 2008 | 5,000 | 23.3 | (19) |
| Grupa LOTOS S.A. | Futures | Jun 13 2007 | Dec 18 2008 | 5,000 | 23.3 | (19) |
| Grupa LOTOS S.A. | Futures | Jun 14 2007 | Dec 18 2008 | 5,000 | 23.8 | (28) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 18 2008 | 6,000 | 23.2 | (20) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 18 2008 | 1,000 | 23.0 | (27) |
| Grupa LOTOS S.A. | Futures | Jun 6 2007 | Dec 18 2008 | 1,000 | 23.2 | (36) |
| Grupa LOTOS S.A. | Futures | Jun 6 2007 | Dec 18 2008 | 10,000 | 23.5 | (46) |
| Grupa LOTOS S.A. | Futures | Jun 6 2007 | Dec 18 2008 | 10,000 | 23.5 | (47) |
| Grupa LOTOS S.A. | Futures | Jun 6 2007 | Dec 18 2008 | 10,000 | 23.5 | (47) |
| Grupa LOTOS S.A. | Futures | Jun 13 2007 | Dec 18 2008 | 10,000 | 23.2 | (34) |
| Grupa LOTOS S.A. | Futures | Jun 14 2007 | Dec 18 2008 | 25,000 | 23.8 | (147) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 17 2009 | 10,000 | 23.4 | (30) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 17 2009 | 10,000 | 23.4 | (30) |
| Grupa LOTOS S.A. | Futures | May 31 2007 | Dec 17 2009 | 10,000 | 23.4 | (30) |
| Total | | | | | | (656) |
| Total | | | | | | (4,987) |

⁽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.

⁽³⁾ It is possible to settle the transaction early by taking an offsetting position.

⁽⁴⁾ The fair value of a transaction is calculated on the basis of its market value established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction), and it is discounted at the valuation date. The CO₂ emission credits price curve is determined based on closing EUA prices on the European Climate Exchange (ECX).

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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 | - | 243 |
| Total | | | | | | | | 703 |

| 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 2007 | 2.9 | USD/PLN | - | 43,533 | (15) |
| Grupa LOTOS S.A. | Currency swap | Dec 28 2006 | Jan 2 2007 | 3.8 | EUR/PLN | - | 10,393 | (10) |
| Grupa LOTOS S.A. | Currency forward | Dec 28 2006 | Jan 10 2007 | 1.3 | EUR/USD | 13,179 | - | (33) |
| Total | | | | | | | | (513) |
| TOTAL | | | | | | | | 190 |

* 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.

The fair value of the financial instruments corresponds to their carrying value.

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23. Inventories

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|--|--|--------------------|
| Finished products | 782,388 | 506,672 |
| Semi-finished products and work in progress | 283,907 | 234,953 |
| Goods for resale | 160,733 | 101,414 |
| Materials | 970,773 | 864,403 |
| | ===== | ===== |
| Net inventories | 2,197,801 | 1,707,442 |
| | ===== | ===== |

Valuation Allowances for Inventories

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|---|--|--------------------|
| Finished products | 6,372 | 29,672 |
| Semi-finished products and work in progress | 486 | 5,886 |
| Goods for resale | 8,994 | 1,482 |
| Materials | 5,536 | 7,325 |
| | ===== | ===== |
| Total valuation allowances for inventories | 21,388 | 44,365 |
| | ===== | ===== |

During the six months ended June 30th 2007, the Group made a valuation allowance for inventories in the amount of PLN 13,744 thousand and reversed a valuation allowance for inventories in the amount of PLN 36,721 thousand.

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

As at June 30th 2007, the carrying value of finished products recognised at net selling prices was PLN 210,072 thousand (PLN 239,829 thousand as at December 31st 2006).

As at June 30th 2007, the value of inventories which serve as collateral for the Group's liabilities amounted to PLN 3,008 thousand.

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

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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 June 30th 2007, the Group calculated the value of mandatory stocks based on the newly established regulations.

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In the balance sheet, the Group disclosed the following mandatory stocks:

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|------------------|--|--------------------|
| Mandatory stocks | 1,502,679 | 1,027,858 |

24. Trade and Other Receivables

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|-------------------------------------|--|--------------------|
| Trade receivables, including: | 1,248,736 | 1,180,699 |
| - from related undertakings | 554 | 615 |
| Receivables from the state budget | 41,269 | 77,843 |
| Other receivables, including: | 52,427 | 17,933 |
| - from related undertakings | 21,194 | 154 |
| Net receivables | 1,342,432 | 1,276,475 |
| Valuation allowance for receivables | 131,174 | 136,289 |
| | ===== | ===== |
| Gross receivables | 1,473,606 | 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.

As at June 30th 2007, the Group's receivables of PLN 1,850 thousand were assigned by way of security for the Group's liabilities.

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

Impairment Losses on Receivables

| PLN '000 | <u>Six months ended</u> <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Six months ended</u> <u>Jun 30 2006</u> <u>(unaudited)</u> |
|----------------------------|---|---|
| Beginning of period | 136,289 | 134,178 |
| Recognised | 8,029 | 10,956 |
| Reversed | (13,144) | (6,605) |
| | ===== | ===== |
| End of period | 131,174 | 138,529 |
| | ===== | ===== |

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25. Cash and Cash Equivalents

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|--------------------------------|--|--------------------|
| Cash in hand and cash at banks | 735,155 | 723,213 |
| Other cash | 29,163 | 49,174 |
| | ===== | ===== |
| Total | 764,318 | 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 Company's current demand for cash, and bear interest at the interest rates set for them.

As at June 30th 2007, the amount of undrawn funds available to the Group under loans in respect of which all conditions precedent had been fulfilled, was PLN 1,141,284 thousand (PLN 401,096 thousand as at December 31st 2006).

As at June 30th 2007, restricted cash amounted to PLN 25,316 thousand (PLN 23,143 thousand as at December 31st 2006). As at June 30th 2007, restricted cash related mainly to a bank guarantee of PLN 21,668 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.

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

26. Cash structure for the cash-flow statement

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|-------------------------|--|--------------------|
| Cash at banks | 731,482 | 721,321 |
| - current accounts | 683,056 | 586,272 |
| - deposits up to 1 year | 48,426 | 135,049 |
| Cash in hand | 3,673 | 1,892 |
| Other cash | 29,163 | 49,174 |
| Overdraft facilities | (286,782) | (148,222) |
| | ===== | ===== |
| Total cash | 477,536 | 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.

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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 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
|---|--|--|
| Balance-sheet change in net non-current and current receivables | (65,957) | (272,427) |
| Change in income tax receivables | (31,095) | - |
| Change in investment receivables | (1,011) | - |
| Dividends receivable | 21,780 | - |
| Other | - | 231 |
| | ----- | ----- |
| Change in receivables as disclosed in the cash-flow-statement | (76,283) | (272,196) |
| | | |
| Liabilities PLN '000 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
| Balance-sheet change in current and non-current liabilities | 477,329 | 272,483 |
| Change in current and non-current loans | (144,333) | (2,731) |
| Change in investment liabilities | (16,976) | (40,495) |
| Change in income tax liabilities | (24,600) | - |
| Negative valuation of financial instruments | (4,433) | (5,950) |
| Accrued dividend | (40,932) | (2,521) |
| Change in the Group's structure | (4,770) | - |
| Other | (1,420) | (1,434) |
| | ----- | ----- |
| Change in liabilities as disclosed in the cash-flow-statement | 239,865 | 219,352 |
| | | |
| Inventories PLN '000 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
| Balance-sheet change in inventories | (490,359) | (179,810) |
| Other | (17) | (13) |
| | ----- | ----- |
| Change in inventories as disclosed in the cash-flow-statement | (490,376) | (179,823) |
| | | |
| Provisions PLN '000 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
| Balance-sheet change in provisions | (30,257) | 773 |
| Other | 3,597 | 2,685 |
| | ----- | ----- |
| Change in provisions as disclosed in the cash-flow statement | (26,660) | 3,458 |

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| Prepayments and accrued income PLN '000 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
|--|--|--|
| Balance-sheet change in prepayments and accrued income | (26,992) | (26,457) |
| Other | - | 136 |
| | ----- | ----- |
| Change in prepayments and accrued income as disclosed in the cash-flow statement | (26,992) | (26,321) |
| Cash PLN '000 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
| Balance-sheet change in cash | (8,069) | 59,253 |
| Interest-bearing overdraft facilities | (138,560) | - |
| | ----- | ----- |
| Change in cash as disclosed in the cash-flow statement | (146,629) | 59,253 |

Other Items of the Cash-Flow-Statement

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

| PLN '000 | Jun 30 2007 (unaudited) | Jun 30 2006 (unaudited) |
|--|--|--|
| Prepayments for tangible assets under construction | (343,774) | - |
| Other | 539 | 1,673 |
| | ===== | ===== |
| Total other, net | (343,235) | 1,673 |
| | ===== | ===== |

27. Share Capital

The structure of Grupa LOTOS S.A.'s share capital as at June 30th 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 % |
| ING Nationale-Nederlanden Polska OFE | 5,876,589 | 5,876,589 | 5,876,589 | 5.17% |
| Other shareholders | 40,920,381 | 40,920,381 | 40,920,381 | 35.99 % |
| Total | 113,700,000 | 113,700,000 | 113,700,000 | 100.00 % |

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

28. 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 payment date is July 31st 2007.

29. Earnings per Share

| | Six months ended Jun 30 2007 | Six months ended Jun 30 2006 |
|--|---------------------------------|---------------------------------|
| | (unaudited) | (unaudited) |
| Net profit attributable to equity holders of the parent (PLN '000) (A) | 295,559 | 380,807 |
| Weighted average number of shares (in thousands) (B) | 113,700 | 113,700 |
| | ===== | ===== |
| Earnings per share (PLN '000) (A/B) | 2.60 | 3.35 |

30. Minority Interests

| PLN '000 | Six months ended Jun 30 2007 | Year ended Dec 31 2006 | Six months ended Jun 30 2006 |
|---|---------------------------------|---------------------------|---------------------------------|
| | (unaudited) | | (unaudited) |
| Opening balance | 306,416 | 254,281 | 254,281 |
| Share in profit/(loss) of subsidiary undertakings | 9,415 | 54,740 | 33,458 |
| Changes in shareholder structure of subsidiary undertakings | (118) | (84) | - |
| Dividends paid out by subsidiary undertakings | (8,593) | (2,521) | (2,521) |
| | ===== | ===== | ===== |
| Balance as at end of period | 307,120 | 306,416 | 285,218 |
| | ===== | ===== | ===== |

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31. Loans and Borrowings

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|---------------------|--|--------------------|
| Bank loans | 638,015 | 492,682 |
| Other loans | 10,550 | 11,550 |
| | ===== | ===== |
| Total | 648,565 | 504,232 |
| | ===== | ===== |
| Including: | | |
| Non-current portion | 309,283 | 330,706 |
| Current portion | 339,282 | 173,526 |

Loans and Borrowings by Lender

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|---|--|--------------------|
| Non-current portion | | |
| Kredyt Bank S.A. | 41,987 | 44,987 |
| NFOŚiGW (National Fund for Environmental Protection and Water Management) | 7,800 | 9,300 |
| Pekao S.A. | 28,939 | 20,900 |
| PKO BP S.A. | 780 | 1,456 |
| Bank syndicate (PKO BP S.A. and Pekao S.A.) | 229,777 | 254,063 |
| | ----- | ----- |
| Total non-current portion | 309,283 | 330,706 |
| | ===== | ===== |
| Current portion | | |
| Kredyt Bank S.A. | 7,728 | 7,715 |
| BRE Bank S.A. | - | - |
| Pekao S.A. | 137,581 | 25,605 |
| ING Bank Śląski S.A. | 35,635 | 49,487 |
| PKO BP S.A. | 88,270 | 19,212 |
| Bank Handlowy w Warszawie S.A. | 3,342 | 61,639 |
| NFOŚiGW | 2,750 | 2,250 |
| Bank syndicate (PKO BP S.A. and Pekao S.A.) | 24,287 | 37 |
| Bank Millennium S.A. | - | 1,941 |
| Raiffeisen Bank Polska S.A. | 10,000 | 3,600 |
| BZ WBK S.A. | 29,689 | 2,040 |
| | ----- | ----- |
| Total current portion | 339,282 | 173,526 |
| | ===== | ===== |
| Total | 648,565 | 504,232 |
| | ===== | ===== |

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Bank Loans by Currency

| PLN '000 | EUR loans | USD loans | PLN loans | Total |
|--------------|--------------|---------------|----------------|----------------|
| H2 2007 | - | 3,368 | 97,687 | 101,055 |
| 2008 | 9,339 | 6,397 | 267,294 | 283,030 |
| 2009 | - | 6,397 | 57,571 | 63,968 |
| 2010 | - | 6,398 | 57,871 | 64,269 |
| 2011 | - | 907 | 54,570 | 55,477 |
| 2012 | - | - | 54,572 | 54,572 |
| after 2012 | - | - | 26,194 | 26,194 |
| | ===== | ===== | ===== | ===== |
| Total | 9,339 | 23,467 | 615,759 | 648,565 |
| | ===== | ===== | ===== | ===== |

The table above presents loans by maturity.

As at June 30th 2007, the average effective interest rate of the loans was approx. 5.23%.

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Loans and borrowings as at June 30th 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) | | Maturity date | | Financial terms and conditions (interest rate, interest payment schedule etc.) | Type of security |
|------------------------------------|-------------------|------------------------------|------------------------------|---|----------|---|----------|--------------------|---------------------|--|--|
| | | PLN | Currency | PLN | Currency | PLN | Currency | Current portion | Non-current portion | | |
| Bank PKO BP S.A. | Warsaw | 300,000 | - | 78,731 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| ING Bank Śląski S.A. | Warsaw | - | USD 40,000 or its equivalent | 3,765 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| ING Bank Śląski S.A. | Warsaw | - | | 170 | 61 USD | - | - | | - | 1M LIBOR USD + bank's margin | Representation on submission to enforcement |
| Bank Handlowy w Warszawie S.A. | Warsaw | - | USD 40,000 or its equivalent | 721 | - | - | - | overdraft facility | - | T/N WIBOR + bank's margin | Representation on submission to enforcement |
| BZ WBK S.A. | Warsaw | 30,000 | - | 29,689 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| Bank Pekao S.A. | Warsaw | 300,000 | - | 104,579 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| Kredyt Bank S.A. | Warsaw | 10,000 | - | 15 | - | - | - | overdraft facility | - | O/N WIBOR + bank's margin | Representation on submission to enforcement |
| Kredyt Bank S.A. | Gdańsk branch | 60,000 | - | 7,713 | - | 41,987 | - | Mar 31 2008 | Jun 30 2015 | 1M WIBOR + bank's margin | Mortgage, blank promissory note, assignment by way of security of receivables under insurance policies |

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| Bank's name; form of incorporation | Registered office | Loan amount as per agreement | | Outstanding loan amount (current portion) | | Outstanding loan amount (non-current portion) | | Maturity date | | Financial terms and conditions (interest rate, interest payment schedule etc.) | Type of security |
|--|-------------------|------------------------------|----------|---|----------|---|----------|--------------------|---------------------|--|--|
| | | PLN | Currency | PLN | Currency | PLN | Currency | Current portion | Non-current portion | | |
| Bank syndicate (PKO BP S.A. and Pekao S.A.) | Warsaw | 340,000 | - | 24,287 | - | 229,777 | - | Dec 31 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 |
| Pekao S.A. | Warsaw | 14,349 | - | 14,349 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | power of attorney to bank account |
| Raiffeisen Bank Polska S.A. | Rzeszów branch | 10,000 | - | 10,000 | - | - | - | Jan 31 2008 | - | 1M WIBOR + bank's margin | power of attorney to bank account, registered pledge on inventories, assignment of receivables by way of security |
| Bank Pekao S.A. | Warsaw | 10,000 | - | 8,126 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | power of attorney to bank account, assignment of receivables by way of security, registered pledge, assignment by way of security |
| Bank Handlowy w Warszawie S.A. | Warsaw | 4,000 | - | 2,621 | - | - | - | overdraft facility | - | T/N WIBOR + bank's margin | representation on submission to enforcement, assignment of receivables by way of security |
| Pekao S.A. | Warsaw | 4,130 | - | 4,130 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Power of attorney for the bank to charge the account with amounts due, representation on submission to enforcement |
| ING Bank Śląski S.A. | Warsaw | 30,000 | - | 21,295 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Mortgage, assignment by way of security |
| PKO BP S.A. | Krosno branch | 10,000 | - | 8,186 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Mortgage, promissory note, pledge, assignments by way of security |
| PKO BP S.A. | Krosno branch | 4,500 | - | 1,353 | - | 780 | - | Oct 10 2007 | Dec 31 2008 | 1M WIBOR + bank's margin | Assignment of receivables by way of security and mortgage |

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| Bank's name; form of incorporation | Registered office | Loan amount as per agreement | | Outstanding loan amount (current portion) | | Outstanding loan amount (non-current portion) | | Maturity date | | Financial terms and conditions (interest rate, interest payment schedule etc.) | Type of security |
|---|-------------------|------------------------------|------------|---|------------------|---|------------------|--------------------|---------------------|--|--|
| | | PLN | Currency | PLN | Currency | PLN | Currency | Current portion | Non-current portion | | |
| NFOŚiGW (National Fund for Environmental Protection and Water Management) | Warsaw | 15,000 | - | 2,750 | - | 7,800 | - | Apr 30 2008 | Sep 30 2010 | half of the bill rediscount rate | Surety |
| ING Bank Śląski S.A. | Katowice | 23,500 | - | 10,405 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | representation on submission to enforcement |
| Bank Pekao S.A. | Kraków | 23,166 | 6,094 EUR | - | - | 9,339 | 2,480 EUR | Sep 30 2008 | - | 1M WIBOR + bank's margin | blanket security (deposit) mortgage on real estate |
| Bank Pekao S.A. | Kraków | 47,350 | - | - | - | 2,700 | - | Sep 30 2008 | - | 1M WIBOR + bank's margin | blanket security (deposit) mortgage on real estate |
| Bank Pekao S.A. | Warsaw | 56,409 | 14,800 USD | 6,397 | 2,286 USD | 16,900 | 6,038 USD | Dec 31 2007 | Feb 28 2011 | 1M LIBOR + bank's margin | Pledge on property, plant and equipment |
| TOTAL | | | | 339,282 | 2,347 USD | 309,283 | 6,038 USD | | | | |
| | | | | | | | 2,480 EUR | | | | |

The bank margins on the loans range from 0.05% to 1.36%.

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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) | | Maturity date | | Financial terms and conditions (interest rate, interest payment schedule etc.) | Type of security |
|--|-------------------|------------------------------|----------|---|----------|---|----------|-----------------|---------------------|--|--|
| | | PLN | Currency | PLN | Currency | PLN | Currency | Current portion | Non-current portion | | |
| Kredyt Bank S.A. | Gdańsk branch | 60,000 | - | 7,714 | - | 44,987 | - | 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 |
| Pekao S.A. | Warsaw | 25,000 | - | 1 | - | - | - | 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 |
| Bank syndicate (PKO BP S.A. and Pekao S.A.) | Warsaw | 340,000 | - | 37 | - | 254,063 | - | 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 |
| Bank Pekao S.A. | Jasło branch | 6,000 | - | 3,696 | - | - | - | 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 |
| Raiffeisen Bank Polska S.A. | Rzeszów branch | 7,200 | - | 3,600 | - | - | - | 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 |

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| Bank's name; form of incorporation | Registered office | Loan amount as per agreement | | Outstanding loan amount (current portion) | | Outstanding loan amount (non-current portion) | | Maturity date | | Financial terms and conditions (interest rate, interest payment schedule etc.) | Type of security |
|------------------------------------|-------------------|------------------------------|------------------------------|---|------------|---|-----------|--------------------|---------------------|--|---|
| | | PLN | Currency | PLN | Currency | PLN | Currency | Current portion | Non-current portion | | |
| | | | | | | | | | | | |
| Bank Handlowy w Warszawie S.A. | Warsaw | 4,000 | - | 848 | - | - | - | overdraft facility | - | T/N WIBOR + bank's margin | Representation on submission to enforcement, assignment of receivables by way of security |
| ING Bank Śląski S.A. | Warsaw | 30,000 | - | 19,841 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Mortgage, assignment by way of security |
| PKO BP S.A. | Krosno branch | 15,000 | - | 7,224 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Mortgage, promissory note, pledge, assignments by way of security |
| PKO BP S.A. | Krosno branch | 4,500 | - | 1,353 | - | 1,456 | - | Oct 10 2007 | Dec 31 2008 | 1M WIBOR + bank's margin | Assignment of receivables by way of security and mortgage |
| NFOŚiGW | Warsaw | 15,000 | - | 2,250 | - | 9,300 | - | Sep 30 2007 | Sep 30 2010 | half of the bill rediscount rate | Surety |
| Bank Pekao S.A. | Warsaw | 56,409 | USD 14,800 | 6,653 | USD 2,286 | 20,900 | USD 7,181 | Dec 31 2007 | Feb 28 2011 | 1M LIBOR + bank's margin | Pledge on property, plant and equipment |
| Bank Millennium S.A. | Warsaw | 30,000 | - | 1,941 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| Bank Handlowy w Warszawie S.A. | Warsaw | - | USD 40,000 or its equivalent | 28,050 | - | - | - | overdraft facility | - | T/N WIBOR + bank's margin | Representation on submission to enforcement |
| | | | | 32,547 | USD 11,183 | - | - | | - | SW LIBOR USD + bank's margin | |
| | | | | 194 | EUR 51 | - | - | | - | SW EURIBOR + bank's margin | |
| | | | | | | | | | | | |

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| Bank's name; form of incorporation | Registered office | Loan amount as per agreement | | Outstanding loan amount (current portion) | | Outstanding loan amount (non-current portion) | | Maturity date | | Financial terms and conditions (interest rate, interest payment schedule etc.) | Type of security |
|------------------------------------|-------------------|------------------------------|-----------------------------|---|-------------------|---|------------------|--------------------|---------------------|--|---|
| | | PLN | Currency | PLN | Currency | PLN | Currency | Current portion | Non-current portion | | |
| ING Bank Śląski S.A. | Warsaw | - | USD 9,000 or its equivalent | 56 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| | | | | 25,819 | USD 8,871 | - | - | | - | 1M LIBOR USD + bank's margin | |
| | | | | 3,771 | EUR 984 | - | - | | - | 1M EURIBOR + margin | |
| PKO BP S.A. | Warsaw | 100,000 | - | 10,635 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| BZ WBK S.A. | Warsaw | 30,000 | - | 2,040 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| Bank Pekao S.A. | Warsaw | 100,000 | - | 15,255 | - | - | - | overdraft facility | - | 1M WIBOR + bank's margin | Representation on submission to enforcement |
| Kredyt Bank S.A. | Warsaw | 10,000 | - | 1 | - | - | - | overdraft facility | - | O/N WIBOR + bank's margin | Representation on submission to enforcement |
| TOTAL | | | | 173,526 | USD 22,340 | 330,706 | USD 7,181 | | | | |
| | | | | | EUR 1,035 | | | | | | |

The bank margins on the loans range from 0.05% to 2.0%.

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32. Provisions

| PLN '000 | <u>June 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> |
|--|---|--------------------|
| Non-current provisions | | |
| Provision for land reclamation | 33,796 | 34,846 |
| Length-of-service awards and retirement severance pays | 55,066 | 54,232 |
| Provision for the Offshore Oil Rig | 92,517 | 92,517 |
| Other provisions | 26,427 | 26,487 |
| | ----- | ----- |
| Total non-current provisions | 207,806 | 208,082 |
| | ===== | ===== |
| Current provisions | | |
| Provision for land reclamation | 5,284 | 5,476 |
| Length-of-service awards and retirement severance pays | 6,430 | 7,472 |
| Provision for the Offshore Oil Rig | 2,400 | 2,400 |
| Other provisions | 36,484 | 65,231 |
| | ----- | ----- |
| Total current provisions | 50,598 | 80,579 |
| | ===== | ===== |
| Total | 258,404 | 288,661 |
| | ===== | ===== |

Computation of the provisions for employee benefits as at June 30th 2007 was based on the following assumptions:

- the long-term annual growth rate of remuneration is 3.4% for 2007 and 1.8% for subsequent years;
- the discount rate for future payments of employee benefits is 5.0% (i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at December 20th 2006);
- the probability of employee attrition is based on the historical data on employee turnover at the Group 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 2005 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;
- 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 companies, meet the conditions for early retirement.

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The changes in provisions were as follows:

| PLN '000 | Provision for land reclamation ⁽¹⁾ | Length-of-service awards and retirement severance pays | Provision for the Offshore Oil Rig ⁽²⁾ | Other provisions* | Total |
|--|---|---|---|----------------------|----------------|
| As at Jan 1 2006 | 40,332 | 62,522 | 79,598 | 89,010 | 271,462 |
| Increase | - | 5,108 | - | 13,325 | 18,433 |
| Decrease | - | (2,989) | - | (14,671) | (17,660) |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jun 30 2006 (unaudited) | 40,332 | 64,641 | 79,598 | 87,664 | 272,235 |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jan 1 2006 | 40,332 | 62,522 | 79,598 | 89,010 | 271,462 |
| Increase | 2,904 | 10,491 | 17,640 | 32,835 | 63,870 |
| Decrease | (2,914) | (11,309) | (2,321) | (30,127) | (46,671) |
| | ===== | ===== | ===== | ===== | ===== |
| As at Dec 31 2006 | 40,322 | 61,704 | 94,917 | 91,718 | 288,661 |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jan 1 2007 | 40,322 | 61,704 | 94,917 | 91,718 | 288,661 |
| Increase | - | 2,748 | - | 9,230 | 11,978 |
| Decrease | (1,242) | (2,956) | - | (38,037) | (42,235) |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jun 30 2007 (unaudited) | 39,080 | 61,496 | 94,917 | 62,911 | 258,404 |
| | ===== | ===== | ===== | ===== | ===== |

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

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

The amount so computed, i.e. PLN 3,978 thousand, was charged to financial expenses for 2006, while the remaining balance, i.e. PLN 5,895 thousand, increased the value of the relevant asset related to the provision for the liquidation of the rig, in accordance with IFRIC 1.

The value of the provision created for the first time in connection with the launch of production activities in the B-8 mining area amounted to PLN 7,767 thousand. The Parent Undertaking created a relevant provision for reclamation in the above amount and an asset with the value equal to the amount of that provision.

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(*) the item "Other provisions" includes the following items:

| PLN '000 | Provision for RN Glimar ⁽¹⁾ | Provision for Energobaltic ⁽²⁾ | Provision for interest to the state budget | Other | Total |
|--|---|--|---|---------------|---------------|
| As at Jan 1 2006 | 41,107 | 24,188 | 3,416 | 20,299 | 89,010 |
| Increase | - | - | - | 13,325 | 13,325 |
| Decrease | - | - | (3,416) | (11,255) | (14,671) |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jun 30 2006 (unaudited) | 41,107 | 24,188 | - | 22,369 | 87,664 |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jan 1 2006 | 41,107 | 24,188 | 3,416 | 20,299 | 89,010 |
| Increase | - | - | - | 32,835 | 32,835 |
| Decrease | - | - | (3,416) | (26,711) | (30,127) |
| | ===== | ===== | ===== | ===== | ===== |
| As at Dec 31 2006 | 41,107 | 24,188 | - | 26,423 | 91,718 |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jan 1 2007 | 41,107 | 24,188 | - | 26,423 | 91,718 |
| Increase | - | 2,157 | - | 7,073 | 9,230 |
| Decrease | (26,107) | - | - | (11,930) | (38,037) |
| | ===== | ===== | ===== | ===== | ===== |
| As at Jun 30 2007 (unaudited) | 15,000 | 26,345 | - | 21,566 | 62,911 |
| | ===== | ===== | ===== | ===== | ===== |

⁽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 June 30th 2006, December 31st 2006, and June 30th 2007, the assets under the loans advanced were fully covered by an allowance. As at the above dates, the Company also created a provision for the remaining receivables under these agreements. In the first six months of 2007, the Company released a provision of PLN 26,107 thousand.

⁽²⁾ In 2001, Petrobaltic S.A. advanced a loan to Energobaltic Sp. z o.o., an associated company. Pursuant to the shareholders agreement ("the Shareholders Agreement"), Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV") to purchase the claims under the loan advanced by RRPV to Energobaltic in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the Gas Supply Agreement for that year. In the first six months of 2007, Petrobaltic S.A. created a provision of PLN 2,157 thousand in connection with court proceedings instigated against Petrobaltic S.A. by Energobaltic Sp. z o.o. (see Note 45 to these financial statements).

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33. Financial Liabilities

| PLN '000 | Jun 30 2007 | Dec 31 2006 |
|---|--------------------|--------------------------|
| | (unaudited) | (comparable data) |
| Negative valuation of financial instruments, including: | 4,987 | 513 |
| - futures | 656 | - |
| - swaps | - | 10 |
| - forwards | 4,331 | 503 |
| Liabilities under lease agreements | 1,580 | 2,861 |
| | ===== | ===== |
| Total | 6,567 | 3,374 |
| | ===== | ===== |
| Non-current liabilities | 411 | 584 |
| Current liabilities | 6,156 | 2,790 |
| | ===== | ===== |

34. Liabilities, Accruals and Deferred Income

| PLN '000 | Jun 30 2007 | Dec 31 2006 |
|---|--------------------|--------------------|
| | (unaudited) | |
| Trade payables, including: | 1,009,707 | 738,696 |
| to related undertakings | 478 | 993 |
| Tax and social security payable, including: | 562,669 | 511,674 |
| - income tax | 28,013 | 3,413 |
| Special accounts | 10,853 | 10,853 |
| Salaries and wages payable | 9,252 | 16,771 |
| Accrued expenses | 32,486 | 40,227 |
| Deferred income under subsidies | 19,441 | 16,560 |
| Investment liabilities | 20,919 | 38,498 |
| to related undertakings | - | 603 |
| Other liabilities, including: | 51,140 | 11,827 |
| to related undertakings | 1,020 | 1,001 |
| | ===== | ===== |
| Total | 1,716,467 | 1,385,106 |
| | ===== | ===== |

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.

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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 | Jun 30 2007 | Dec 31 2006 |
|---|--------------------|--------------------|
| | (unaudited) | |
| Assets related to the Company's Social Benefits Fund | | |
| Cash in separate bank account of the Company's Social Benefits Fund | 4,579 | 2,982 |
| Receivables from employees under the Company's Social Benefits Fund | 5,232 | 5,626 |
| Other | 348 | 251 |
| | ===== | ===== |
| Total | 10,159 | 8,859 |
| | ===== | ===== |
| Liabilities related to the Company's Social Benefits Fund | | |
| Liabilities under the Company's Social Benefits Fund | 9,294 | 8,816 |
| Other | 865 | 43 |
| | ===== | ===== |
| Total | 10,159 | 8,859 |
| | ===== | ===== |

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35. Sales Revenue

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|---|---|---|
| Sales of products | 8,006,024 | 8,387,289 |
| Sales of services | 39,676 | 38,568 |
| | ----- | ----- |
| Total sales of products | 8,045,700 | 8,425,857 |
| | ----- | ----- |
| Sales of goods for resale | 230,583 | 151,742 |
| Sales of materials | 1,377 | 3,451 |
| | ----- | ----- |
| Total sales of goods for resale and materials | 231,960 | 155,193 |
| | ===== | ===== |
| Total | 8,277,660 | 8,581,050 |
| | ----- | ----- |
| - including to related undertakings | 4,710 | 5,380 |
| | ----- | ----- |
| Elimination of excise tax and fuel charge | (2,656,176) | (2,626,346) |
| | ----- | ----- |
| Total | 5,621,484 | 5,954,704 |
| | ===== | ===== |

The transactions with associated undertakings are presented in Note 48 to the financial statements.

36. Cost by Type

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|---|---|---|
| Depreciation and amortisation | 150,489 | 147,827 |
| Raw materials and energy used | 4,698,146 | 4,827,987 |
| Contracted services | 318,838 | 284,066 |
| Taxes and charges | 40,965 | 40,995 |
| Salaries and wages | 160,533 | 140,536 |
| Social security and other benefits | 55,070 | 52,138 |
| Other costs by type | 61,224 | 53,091 |
| Goods for resale and materials sold | 226,291 | 117,516 |
| | ----- | ----- |
| Total | 5,711,556 | 5,664,156 |
| Adjustments: | | |
| Change in products and adjustments in cost of sales | (372,781) | (184,687) |
| | ===== | ===== |
| Total operating expenses, including: | 5,338,775 | 5,479,469 |
| | ----- | ----- |
| Cost of sales | 4,854,228 | 5,043,632 |
| Selling costs | 335,172 | 290,437 |
| General and administrative expenses | 149,375 | 145,400 |

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37. Other Operating Income

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|---|---|---|
| Gain on disposal of property, plant and equipment | 590 | 440 |
| Subsidies | 284 | 304 |
| Release of provisions | 31,957 | 449 |
| Reversal of valuation allowance for receivables | 8,744 | 2,990 |
| Compensation received | 1,676 | 623 |
| Other operating income | 4,895 | 4,251 |
| | ===== | ===== |
| Total | 48,146 | 9,057 |
| | ===== | ===== |

38. Other Operating Expenses

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|---|---|---|
| Loss on disposal of property, plant and equipment | 682 | 525 |
| Revaluation of non-financial assets | 13,814 | 9,728 |
| Created provisions | 2,369 | 2,413 |
| Other operating expenses | 10,138 | 5,985 |
| | ===== | ===== |
| Total | 27,003 | 18,651 |
| | ===== | ===== |

39. Financial Income

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|----------------------------------|---|---|
| Dividend received | 2,173 | 2,154 |
| Interest | 18,085 | 16,168 |
| Foreign exchange gains | 40,405 | 10,782 |
| Gains on disposal of investments | 4,902 | 6,514 |
| Revaluation of investments | 24,468 | 2,376 |
| Settlement of derivatives | 5,213 | 29,734 |
| Other | 582 | 5,187 |
| | ----- | ----- |
| Total financial income | 95,828 | 72,915 |
| | ===== | ===== |

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40. Financial Expenses

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|---------------------------------|---|---|
| Interest | 13,007 | 20,962 |
| Revaluation of financial assets | 512 | - |
| Other | 1,635 | 2,988 |
| | ----- | ----- |
| Total financial expenses | 15,154 | 23,950 |
| | ===== | ===== |

41. Corporate Income Tax

| PLN '000 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|----------------------|---|---|
| Corporate income tax | 81,977 | 110,874 |
| Deferred tax | (2,437) | (10,537) |
| | ===== | ===== |
| Total tax | 79,540 | 100,337 |
| | ===== | ===== |

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 | 6 months ended Jun 30 2007 (unaudited) | 6 months ended Jun 30 2006 (unaudited) |
|---|---|---|
| Income before tax | 384,514 | 514,602 |
| Corporate income tax at the applicable rate (19% in 2007 and 2006) | 73,058 | 97,774 |
| | ----- | ----- |
| Permanent differences, including: | 34,117 | 13,489 |
| Share in investments in associated undertakings | 12 | 4 |
| Other permanent differences | 34,105 | 13,485 |
| | ----- | ----- |
| Tax effect of differences | 6,482 | 2,563 |
| | ----- | ----- |
| Corporate income tax | 79,540 | 100,337 |
| Effective tax rate | 0.21 | 0.19 |

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As at June 30th 2007 and December 31st 2006, the net deferred tax liability comprises the following items:

| PLN '000 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> <u>(comparable data)</u> |
|--|--|--|
| Deferred tax asset: | | |
| Provision for employee benefits | 10,415 | 10,361 |
| Difference between current tax value and book value of fixed assets | 4,582 | 1,706 |
| Valuation allowance for inventories | 2,374 | 4,424 |
| Foreign exchange losses on foreign-currency settlements | - | 2,009 |
| Tax loss amortised over time | 5,938 | 21 |
| Valuation allowance for accounts receivable | 13,798 | 13,982 |
| Unrealised margin assets | 15,967 | 15,496 |
| Other | 20,407 | 27,345 |
| | ----- | ----- |
| Total deferred tax asset | 73,481 | 75,344 |
| | ===== | ===== |
| Deferred tax liability: | | |
| Difference between current tax value and book value of tangible assets | 206,374 | 209,963 |
| Other | 2,622 | 3,333 |
| | ----- | ----- |
| Total deferred tax liability | 208,996 | 213,296 |
| | ===== | ===== |
| Net deferred tax asset/(liability) | (135,515) | (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 | <u>Jun 30 2007</u> <u>(unaudited)</u> | <u>Dec 31 2006</u> <u>(comparable data)</u> |
|---|--|--|
| Deferred tax asset: | 33,962 | 32,057 |
| Deferred tax liability: | (169,477) | (170,009) |
| | ===== | ===== |
| Net deferred tax asset/(liability) | (135,515) | (137,952) |
| | ===== | ===== |

Taxable temporary differences are expected to expire in 2008–2085.

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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 with the net value of PLN 8,155 thousand, owned by LOTOS Jasło S.A. The pledge was established under the registered pledge agreement of February 18th 2004.

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

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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 2007. The original validity term of the blank promissory note expired on July 7th 2006.
2. On July 4th 2006, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a bank guarantee for the benefit of the Head of the Customs Chamber in Gdynia in order to secure liabilities towards the customs office, liabilities connected with tax and other charges that may arise in the period from July 4th 2006 to May 4th 2007, for the aggregate amount of up to PLN 160,000 thousand. The bank's commitment under the guarantee expires on July 3rd 2007.
3. On November 6th 2006, at the request of Grupa LOTOS S.A., Citibank Handlowy issued a bank guarantee in the form of a letter of credit for USD 74,998 thousand. The letter of credit was issued to secure a commercial transaction: payment for supplies of crude oil from Kuwait. The contingent liability related to the letter of credit expired on January 11th 2007.
4. On December 1st 2006, at the request of Grupa LOTOS S.A., Deutsche Bank Polska issued a bank guarantee in the form of a stand-by letter of credit for USD 12,000 thousand, for the benefit of Morgan Stanley Capital Group. The letter of credit was issued to secure a commercial transaction: payment for diesel oil. The contingent liability related to the letter of credit expired on January 31st 2007.
5. On May 23rd 2005, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued three performance bonds, for the amount of PLN 8.6m, for the benefit of the Military Property Agency (Agencja Mienia Wojskowego). On July 24th 2006 they were supplemented with another three guarantees for the total amount of PLN 20.06m. The total value of the guarantees is PLN 28,656 thousand. Their validity term expires on December 31st 2007.
6. 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.
7. 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, the amount of EUR 13,436 thousand was drawn down under the letter of credit, and the balance as at June 30th 2007 was EUR 5,598 thousand.
8. On January 26th 2007, at the request of Grupa LOTOS S.A., Bank Handlowy w Warszawie S.A. issued a bank guarantee in the form of a letter of credit for the amount of USD 42,600 thousand. The letter of credit was issued to secure a commercial transaction. The contingent liability related to the letter of credit expired on April 10th 2007.
9. 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 July 3rd 2008.

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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 June 30th 2007, the total amount of the loan advanced by RRPV to Energobaltic Sp. z o.o. was USD 6.3m (USD 5.1m in principal plus interest).

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

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

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

Liabilities under Promissory Notes towards Nafta Polska S.A.

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

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

Liabilities under Promissory Notes towards the Minister of Economy

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

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Other Liabilities under Promissory Notes

Furthermore, as at June 30th 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 20,000 thousand, with the validity term expiring on July 29th 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.

Other Contingent Liabilities of the Group

As at June 30th 2007, the Group's liabilities arising from the material agreements related to expenditure on property, plant and equipment (the 10+ Programme, FAME) amounted to PLN 3,082,223 thousand.

43. Carbon Dioxide Emission Credits

As at June 30th 2007, the Group reported excess of carbon dioxide emission credits over the actual carbon dioxide emission.

44. Material Events Subsequent to the Balance-Sheet Date

1. 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 Pomeranian 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 Pomeranian 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 Pomeranian Tax Office issued decision No. VT/440-185/07/WP/DP on instigation of tax proceedings to investigate the correctness of VAT settlements for March 2005.
2. In connection with the approval by the Competition and Consumer Protection Office of concentration involving takeover of control over KRAK-GAZ Sp. z o.o. by LOTOS Gaz Sp. z o.o. (formerly LOTOS Mazowsze S.A.) through acquisition of its shares, on July 9th 2007 the final agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. was concluded. Acquisition of KRAK-GAZ Sp. z o.o. shares by LOTOS Gaz S.A. Before the issue of the decision by 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 conclusion of the final purchase agreement is conditional upon the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Gaz S.A. of control over KRAK-GAZ Sp. z o.o. by purchasing its shares. The shares, with a total par value of PLN 3,450 thousand, are equal and indivisible, and represent 100% of the share capital of KRAK-GAZ Sp. z o.o. The acquisition is deemed a long-term investment by LOTOS Gaz S.A. The shares were acquired for PLN 16,367.9 thousand, and the transaction was financed with LOTOS Gaz S.A.'s own financial resources. The core business of KRAK-GAZ Sp. z

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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.

3. 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. The guarantee expires on December 31st 2007.
4. 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 the benefit of Technip KTI S.p.a for EUR 6,000 thousand, valid until September 30th 2007. The guarantee has been increased to EUR 20,000 thousand as of October 1st 2007.

The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. The guarantee expires on December 31st 2007.

5. 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 in the form of LOTOS Gaz S.A. The financial statements of LOTOS Paliwa Sp. z o.o. give no account of the effects of this event since the Management Board of the company appealed against the decision and believes that the appeal will be resolved favourably to LOTOS Paliwa Sp. z o.o. The Company challenged the decision in order to secure the right to reduce the tax amount due as settlement for the month in which the seller was presented with a confirmation of receipt of an adjusting invoice by the buyer, arising from settlement of the acquisition of LOTOS Mazowsze S.A. (currently LOTOS Gaz S.A.), and in order to determine whether additional tax sanctions in this respect are compliant 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 liabilities.

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.

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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-limiting practices. In October 2005 the Company received another decision of the Competition and Consumer Protection Office concerning limitation of access to a part of the evidence, against which the Company appealed to the Anti-Monopoly Court. The Regional Anti-Monopoly Court dismissed the appeals. The Company 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 Plock. 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 Plock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Consumer and Competition 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 95U gasoline had been discontinued. The case is pending.

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

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

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

In connection with the tax inspections and the issued decisions related to the value added tax, on December 29th 2003 Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) filed complaints with the Supreme Administrative Court against three decisions of the Director of the Tax Chamber of Katowice, concerning the value added tax for October 1998, July 1998 and May 1998. The total value of the disputed claims amounted to PLN 1,229 thousand. Decisions were issued in all of the above cases. Cassation complaints have been filed against all of the above decisions by Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.), in the case of the tax for July 1998, and by the Tax Chamber Director, in the case of the tax for October 1998, for July 1998 and for May 1998.

LOTOS Czechowice S.A. paid the amounts of VAT together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

In December 2005, LOTOS Czechowice S.A. received the following decisions of the Supreme Administrative Court:

- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for October 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for May 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;

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- 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 cassation complaint. The Provincial Administrative Court of Gliwice is considering the case of overpayment of VAT for August 1998 in the amount of PLN 292.7 thousand, without setting the date of the court hearing.

No negative tax consequences for LOTOS Czechowice S.A. may arise in connection with these proceedings; they may only be a source of additional income.

Proceedings Related to Excise Tax for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against LOTOS Czechowice S.A., related to the decisions concerning excise tax for certain months of 1998, against which the LOTOS Czechowice S.A. submitted appeals to the administrative court. The total value of the disputed claims under appeal proceedings is PLN 2,881 thousand.

The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise tax for September 1998, August 1998 and June 1998. By virtue of the Supreme Administrative Court's ruling, the Provincial Administrative Court's decision regarding excise tax for September 1998, August 1998 and June 1998 was reversed in whole and remanded for reconsideration.

LOTOS Czechowice S.A. paid the amounts of excise tax together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest

LOTOS Czechowice S.A. filed cassation complaints with the Supreme Administrative Court against decisions by the Provincial Administrative Court of Gliwice of April 27th 2006 in the following cases:

- the case relating to the tax for September 1998 (PLN 52.5 thousand),
- the case relating to the tax for August 1998 (PLN 842 thousand),
- the case relating to the tax for June 1998 (PLN 468.8 thousand),

Considering the case of the tax for October 1998 in the amount of PLN 1,138.8 thousand, the Provincial Administrative Court of Gliwice suspended the proceedings.

No negative tax consequences for LOTOS Czechowice S.A. may arise in connection with these proceedings; they may only be a source of additional income.

By virtue of the Provincial Administrative Court's decision of October 16th 2006 issued in the proceedings regarding the tax for August 1998 (with respect to the request for returning the difference between the court fee actually paid and the court fee due), the Provincial Administrative Court returned PLN 57.9 thousand to LOTOS Czechowice S.A.

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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-Biala 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/GI 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-Biala 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-Biala 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-Biala, 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-Biala, 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.

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

On April 12th 2006, the Head of the Customs Office instigated proceedings to determine the correct amount of the excise tax payable for the period September 1st – December 31st 2003. Before conclusion of the proceedings, it is difficult to determine whether the excise tax liabilities will be reassessed, and if so, what their amounts will be. By virtue of 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.

In relation to the potential excise tax liabilities for the period September–December 2003 and January–March 2004, taking into account the conducted legal and tax analysis, including the analysis carried out by external tax advisers as well as an expert witness designated by the Head of the Customs Office, LOTOS Czechowice is of opinion that there is hardly any risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements with regard to these potential liabilities.

Material Proceedings Pending before Public Administration Authorities in Connection with LOTOS Paliwa Sp. z o.o.'s Business

On March 30th 2006, LOTOS Paliwa Sp. z o.o received a decision of the Gdańsk Tax Office of March 28th 2006 relating to the determination of the value added tax liability for January 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office assessed an additional tax liability of the company, related to the settlement of the purchase of an organised part of business of LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.). The financial statements of LOTOS Paliwa Sp. z o.o. for the year ended December 31st 2005 give no account of the effects of this event since the Management Board of the company appealed against the decision and believes that the appeal will be considered favourably for LOTOS Paliwa Sp. z o.o. On July 25th 2006, LOTOS Paliwa Sp. z o.o. received decision of the Head of the Gdańsk Tax Chamber, dated July 21st 2006, in which the Head of the Gdańsk Tax Chamber revoked in full the decision of the Gdańsk Tax Office determining the value added tax liability for January 2005 and assessing an additional tax liability, and remanded the case for re-examination by the Gdańsk Tax Office. The case was settled with a final decision issued by the Gdańsk Tax Office on July 6th 2007 and consistent with the Management Board's expectations discussed above.

Material Proceedings Instigated against the Company

Proceedings upon Action Brought by PETROECCO JV Sp. z o.o. for Compensation for Damages Incurred as a Result of Monopolistic Practices

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it seeks the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest as at May 1st 1999, as compensation for damages incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o.

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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, 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. The hearing date has not been set as yet.

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.

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Tax Settlements

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

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company. In the Company's opinion, as at June 30th 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

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

Once the Arbitrator's decision has been confirmed and allowed, the Subsidiary will bear the following costs:

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

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Once the Arbitrator's decision has been confirmed and allowed, the Subsidiary will obtain the following sums:

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

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

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

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 32 to the financial statements).

Currently, Petrobaltic S.A. is trying to establish whether there exist grounds to seek reversal of the aforementioned decision.

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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) | Six months ended Jun 30 2007 | Six months ended Jun 30 2006 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Management Board | 449 | 337 |
| Supervisory Board | 105 | 116 |
| Management Board – subsidiary or associated undertakings | 34 | 34 |
| | ===== | ===== |
| Total | 588 | 487 |
| | ===== | ===== |

As at June 30th 2007, the Company did not grant any loans or similar benefits to the management and supervisory staff.

47. Employment Structure

Average employment by category:

| | Six months ended Jun 30 2007 | Six months ended Jun 30 2006 |
|----------------------|---|---|
| | (unaudited) | (unaudited) |
| Blue-collar workers | 3,365 | 4,357 |
| White-collar workers | 2,233 | 2,145 |
| | ===== | ===== |
| Total | 5,598 | 6,502 |
| | ===== | ===== |

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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 |
|---|-------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
| | Six months ended Jun 30 2007 | Six months ended Jun 30 2007 | As at Jun 30 2007 | As at Jun 30 2007 |
| Associated undertakings valued with equity method | 1,213 | 1,713 | 21,291 | 1,184 |
| Non-consolidated undertakings | 3,143 | 1,801 | 457 | 314 |
| Total | 4,356 | 3,514 | 21,748 | 1,498 |

In the period January 1st – June 30th 2007, the total income on sale of property, plant and equipment and intangible assets of the LOTOS Group to related undertakings was PLN 16 thousand.

In the period January 1st – June 30th 2007, the total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from related undertakings was PLN 112 thousand.

| (PLN '000) | Sales to related undertakings | Purchases from related undertakings | Receivables from related undertakings | Liabilities to related undertakings |
|---|-------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
| | Six months ended Jun 30 2006 | Six months ended Jun 30 2006 | As at Jun 30 2006 | As at Jun 30 2006 |
| Associated undertakings valued with equity method | 1,953 | - | 102 | 3,536 |
| Non-consolidated undertakings | 3,427 | 3,928 | 640 | 1,474 |
| Total | 5,380 | 3,928 | 742 | 5,010 |

In the period January 1st – June 30th 2006, the total income on sale of property, plant and equipment and intangible assets of the LOTOS Group to related undertakings was PLN 16 thousand.

In the period January 1st – June 30th 2006, the total value of property, plant and equipment and intangible assets purchased by the LOTOS Group from related undertakings was PLN 2,808 thousand.

Furthermore, during the 6 months ended June 30th 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.

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49. Entity with Significant Influence over the Group

As at June 30th 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 June 30th 2007 directly held a 6.93% stake in Grupa LOTOS S.A. As at June 30th 2007, the State Treasury held, directly and indirectly, 58.84% of shares in Grupa LOTOS S.A.

During the six months ended June 30th 2007 the value of transactions between Grupa LOTOS S.A. and Nafta Polska S.A. amounted to PLN 1 thousand.

During the six months ended June 30th 2006 the value of transactions between Grupa LOTOS S.A. and Nafta Polska S.A. amounted to PLN 4 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.

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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, Chief Commercial Officer | |
| | Jarosław Kryński |
| Vice-President of the Management Board, Production and Development Director | |
| | Marek Sokołowski |
| Chief Accountant | |
| | Tomasz Południewski |