(This is a translation of a document originally issued in Polish)

GRUPA LOTOS S.A.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31ST 2007

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

ALONG WITH THE AUDITOR'S OPINION

FINANCIAL HIGHLIGHTS

	PLN '000		EUR '000	
GRUPA LOTOS S.A.	Year ended Dec 31 2007	Year ended Dec 31 2006	Year ended Dec 31 2007	Year ended Dec 31 2006
	(audited)	(comparable data)	(audited)	(comparable data)
Sales revenue	11,866,594	11,629,821	3,141,970	2,982,694
Operating profit	416,054	338,477	110,160	86,809
Pre-tax profit	872,137	491,511	230,920	126,058
Net profit	745,084	406,714	197,279	104,310
Net cash provided by/(used in) operating activities	40,588	(191,858)	10,747	(49,206)
Net cash provided by/(used in) investing activities	(643,973)	(227,272)	(170,508)	(58,288)
Net cash provided by/(used in) financing activities	445,929	-	118,071	-
Total net cash flow	(155,152)	(417,965)	(41,080)	(107,195)
Basic earnings/(loss) per ordinary share (PLN/EUR)	6.55	3.58	1.73	0.92
Diluted earnings per ordinary share (PLN/EUR)	-	-	-	-
	PLN '000		EUR '000	
	As at Dec 31 2007	As at Dec 31 2006	As at Dec 31 2007	As at Dec 31 2006
	(audited)	(comparable data)	(audited)	(comparable data)
Total assets	7,680,471	5,814,348	2,144,185	1,517,631
Equity	5,075,515	4,352,756	1,416,950	1,136,134

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

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

BALANCE SHEETS
as at December 31st 2007 and December 31st 2006

PLN '000	Note	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,890,243	1,833,323
Prepayments for tangible assets under construction	11	766,004	122,558
Intangible assets	12	52,742	45,800
Non-current financial assets	13	677,977	696,004
		3,386,966	**2,697,685**
Current assets			
Inventories	14	2,469,830	1,575,668
Trade and other receivables, including:	15	1,605,203	1,533,448
- income tax receivables	15	-	15,182
Prepayments	16	14,059	2,348
Current financial assets	17	99,969	3,874
Cash and cash equivalents	18	104,444	1,325
		4,293,505	**3,116,663**
Total assets		**7,680,471**	**5,814,348**

BALANCE SHEETS
as at December 31st 2007 and December 31st 2006

PLN '000	Note	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
EQUITY AND LIABILITIES			
Equity			
Share capital	21	113,700	113,700
Reserve funds		970,951	970,951
Retained earnings		3,990,864	3,268,105
Total equity		**5,075,515**	**4,352,756**
Non-current liabilities			
Interest-bearing loans and borrowings	24	486,379	-
Non-current provisions	25	20,125	15,150
Deferred tax liability	34	122,431	134,897
Other financial liabilities	27	288	-
Total non-current liabilities		**629,223**	**150,047**
Current liabilities			
Trade payables, accruals and deferred income, and other liabilities, including:	26	1,554,619	1,146,367
- income tax expense	26	5,430	-
Interest-bearing loans and borrowings	24	378,580	120,309
Current provisions	25	38,570	44,355
Other financial liabilities	27	3,964	514
Total current liabilities		**1,975,733**	**1,311,545**
Total liabilities		**2,604,956**	**1,461,592**
Total equity and liabilities		**7,680,471**	**5,814,348**

INCOME STATEMENTS

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

PLN '000	Note	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data) (audited)
Sales revenue	29	11,866,594	11,629,821
Cost of sales	30	(10,851,429)	(10,712,102)
Gross profit on sales		**1,015,165**	**917,719**
Other operating income	31	41,376	1,859
Selling costs	30	(394,703)	(412,368)
General and administrative expenses	30	(195,567)	(163,731)
Other operating expenses	32	(50,217)	(5,002)
Operating profit		**416,054**	**338,477**
Financial income	33	472,125	163,211
Financial expenses	33	(16,042)	(10,177)
Pre-tax profit		**872,137**	**491,511**
Corporate income tax	34	(127,053)	(84,797)
Net profit on continued operations		**745,084**	**406,714**
Earnings per share			
- basic	23	6.55	3.58
- diluted		-	-

CASH FLOW STATEMENTS

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

PLN '000	Note	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data) (audited)
Cash flows from operating activities			
Net profit		**745,084**	**406,714**
Adjustments:			
Depreciation and amortisation		180,413	173,451
Foreign exchange gains/(losses)		(2,975)	(1,165)
Net interest and dividend paid		(206,730)	(63,232)
(Profit)/loss on investing activities		(69,130)	7,251
Current income tax		127,053	84,797
Income tax paid		(117,899)	(159,445)
(Decrease)/ /(Increase) in receivables	19	203,262	(451,855)
(Increase) in inventories	19	(893,198)	(317,332)
Increase in liabilities and accruals	19	92,436	128,221
Increase/(decrease) in provisions	19	(6,749)	1,063
Increase in prepayments and accrued income	19	(11,127)	(326)
Other, net		148	-
Net cash provided by/(used in) operating activities		**40,588**	**(191,858)**
Net cash provided by/(used in) investing activities			
(Acquisition)/sale of financial assets		3,060	123,795
Dividend received		205,218	53,129
Interest received		1,594	411
(Acquisition)/sale of property, plant and equipment and intangible assets		(219,853)	(256,704)
(Acquisition)/ sale of non-current financial assets		(4,537)	(4,389)
Prepayments for tangible assets under construction		(655,193)	(135,414)
Cash acquired as a result of merger with LOTOS Partner Sp. z o.o.		22,038	-
Other, net	19	3,700	(8,100)
Net cash provided by/(used in) investing activities		**(643,973)**	**(227,272)**
Cash flows from financing activities			
Increase in loans and borrowings		486,941	-
Repayment of loans and borrowings		-	-
Interest paid		(8)	-
Dividends paid	22	(40,932)	-
Other, net		(72)	-
Net cash provided by/(used in) financing activities		**445,929**	-
Change in cash due to foreign exchange (gains)/losses		2,304	1,165
Change in net cash	19	**(155,152)**	**(417,965)**
Cash at beginning of period	19	**(118,984)**	**298,981**
Cash at end of period		**(274,136)**	**(118,984)**
- restricted cash	18	4,458	1,151

STATEMENTS OF CHANGES IN EQUITY
for the year ended December 31st 2007 and for the year ended December 31st 2006

(PLN '000)	Share capital	Reserve funds	Retained earnings/ (deficit)	Total equity
Jan 1 2006 (comparable data) (audited)	**113,700**	**970,951**	**2,861,391**	**3,946,042**
	========	========	========	========
Net profit for the year ended Dec 31 2006	-	-	406,714	406,714
	========	========	========	========
Dec 31 2006	**113,700**	**970,951**	**3,268,105**	**4,352,756**
(comparable data) (audited)	========	========	========	========
Jan 1 2007 (comparable data) (audited)	**113,700**	**970,951**	**3,268,105**	**4,352,756**
	========	========	========	========
Net profit for the year ended Dec 31 2007	-	-	745,084	745,084
Dividend to shareholders from 2006 profit	-	-	(40,932)	(40,932)
Merger with LOTOS Partner Sp. z o.o.	-	-	18,607	18,607
	========	========	========	========
	113,700	**970,951**	**3,990,864**	**5,075,515**
Dec 31 2007 (audited)	========	========	========	========

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

Grupa LOTOS S.A. ("the Company") was established by virtue of Notarial Deed of 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 name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

As disclosed in the Company's Articles of Association, the Company's core business comprises manufacturing, trading, and provision of services, in particular:

1) Manufacture of refined petroleum products (PKD 23.20.A)
2) Processing of refined petroleum products (PKD 23.20.B)
3) Manufacture of industrial gasses (PKD 24.11.Z)
4) Manufacture of other inorganic basic chemicals (PKD 24.13.Z)
5) Manufacture of other organic basic chemicals (PKD 24.14.Z)
6) Manufacture of plastics (PKD 24.16.Z)
7) Production of electricity (PKD 40.11.Z)
8) Transmission of electricity (PKD 40.12.Z)
9) Distribution and sale of electricity (PKD 40.13.Z)
10) Manufacture of gaseous fuels (PKD 40.21.Z)
11) Distribution and sale of gaseous fuels through mains (PKD 40.22.Z)
12) Heat (steam and hot water) production (PKD 40.30.A)
13) Heat (steam and hot water) supply (PKD 40.30.B)
14) Collection and purification of water, with services provision excluded (PKD 41.00.A)
15) Services related to distribution of water (PKD 41.00.B)
16) Extraction of crude petroleum (PKD 11.10.A)
17) Extraction of natural gas (PKD 11.10.B)
18) General construction work related to linear engineering structures: pipelines, power supply lines and telecommunication transmission lines (PKD 45.21.D)
19) Wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51.Z)
20) Wholesale of chemical products (PKD 51.55.Z)
21) Transport via railway (PKD 60.10.Z)
22) Transport via pipelines (PKD 60.30.Z)
23) Cargo handling at sea ports (PKD 63.11.A)
24) Cargo handling at inland ports (PKD 63.11.B)
25) Cargo handling at other handling facilities (PKD 63.11.C)
26) Cargo storage and warehousing at sea ports (PKD 63.12.A)
27) Cargo storage and warehousing at inland ports (PKD 63.12.B)
28) Cargo storage and warehousing at other storage facilities (PKD 63.12.C)
29) Research and experimental development on chemical sciences and engineering (PKD 73.10.B)
30) Research and experimental development on technical sciences (PKD 73.10.G)
31) Research and experimental development on other natural sciences and engineering (PKD 73.10.H)

The Company's core business according to the Polish Classification of Business Activities (PKD) bears code "PKD 2320" – manufacture of refined petroleum products. The Company's segment of activities is manufacturing and distribution of crude oil, petroleum and chemical products.

The Company holds the following licenses related to its core business:

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

2. Composition of the Supervisory and Management Boards

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

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

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

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

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

1. On November 13th 2007, the Supervisory Board of Grupa LOTOS S.A. removed Jarosław Kryński from the position of Vice-President of the Management Board of Grupa LOTOS S.A., Chief Commercial Officer.
2. On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. removed Jacek Tarnowski from his position as Member of the Supervisory Board of Grupa LOTOS S.A. and appointed:
   - Jan Stefanowicz (former Deputy Chairman of the Supervisory Board) as Chairman of the Supervisory Board of Grupa LOTOS S.A.
   - Marta Busz as Member of the Supervisory Board of Grupa LOTOS S.A.
   - Izabela Emerling as Member of the Supervisory Board of Grupa LOTOS S.A.

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

3. Approval of the Financial Statements

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

4. Information Whether the Company is a Parent Undertaking or a Major Investor and Whether It Prepares Consolidated Financial Statements

Grupa LOTOS S.A. is the parent undertaking of the LOTOS Group and a major investor in subordinated undertakings and their related undertakings, controlled by the Company. Accordingly, Grupa LOTOS S.A. has prepared consolidated financial statements of its Group, which include these undertakings' financial data for the year ended December 31st 2007, and which were approved for publication by the Management Board on May 6th 2008.

5. Going Concern

The Company's financial statements were prepared on the assumption that the Company will continue its business activities in the foreseeable future. As at the date of approving these financial statements, the Company's Management Board has identified no facts or circumstances that might pose a threat to the Company continuing as a going concern in the 12 months following the balance-sheet date as a result of a planned or compulsory discontinuation or substantial limitation of its business activities.

6. Duration of the Company

The duration of the Company is unlimited.

7. Balance-Sheet Date and the Period Covered by These Financial Statements

These financial statements of Grupa LOTOS S.A. the balance-sheet data as at December 31st 2007 and comparable data as at December 31st 2006. The income statement, the cash-flow statement, and the statement of changes in the Company's equity present the data for January 1st – December 31st 2007 along with the comparable data for January 1st – December 31st 2006.

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

8. Measurement Currency and Reporting Currency

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

9. Basis for the Preparation of the Financial Statements

These financial statements were prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the EU-endorsed IFRS.

The IFRS include the standards and interpretations approved by the International Accounting Standards Board (“IASB”) and by the International Financial Reporting Interpretation Committee (“IFRIC”).

As at the date of approval of these financial statements for publication, given the continuing process of implementation of the IRFS by the EU and the type of business conducted by the Company, as far as the accounting policies applied by the Company are concerned, there are no differences between the IRFS and the EU-endorsed IRFS.

The accounting policies and calculation methods adopted in the preparation of these financial statements are the same as those used in the preparation of the financial statements for the year ended December 31st 2006 with the exception of 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, as described below.

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.

In these financial statements, the perpetual usufruct rights to land received free of charge are classified by the Company 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 Company adjusted the comparable data presented in these financial statements. As a result of the adjustment of the comparable data, 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 Company changed the presentation of the fair value of assets and liabilities related to valuation of derivative instruments. As at December 31st 2007, the Company disclosed financial assets and liabilities separately, treating them as resources or obligations. Therefore, the value of financial assets and liabilities in the financial statements as at December 31st 2006 increased by PLN 514 thousand (December 31st 2005 – PLN 1,745 thousand).

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

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

The following standards and interpretations have been in effect since January 1st 2007:

- IFRS 7 *Financial Instruments: Disclosures*,
- Amendment to IAS 1- *Capital Disclosures*,
- Revised Guidance on Implementing IFRS 4 - *Insurance Contracts*.

The Company has reviewed the new interpretations, standards and the amendments to the existing ones. The new interpretations, standards and the changes to the existing ones do not have a material affect on the accounting policies applied by the Company.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee but have not entered into force yet:

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

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

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

10. Key Accounting Policies

These financial statements have been prepared in accordance with the historical cost principle, with the exception of financial derivatives, which are measured at fair value.

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

10.1. Intangible Assets

Intangible assets are recognised if the Company is likely to obtain future economic benefits attributable directly to the assets. Initially, intangible assets are recorded at acquisition or production cost, if they are acquired in separate transactions. Intangible assets acquired as part of the acquisition of a business are capitalised 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.

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

The expected useful lives of the Company's intangible assets are from 2 to 21 years.

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

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

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

10.2. 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.

At the time of acquisition, the items of property, plant and equipment are divided into elements of material value to which separate useful economic lives can be assigned. The costs of major overhauls are also such elements.

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

Buildings and structures	10-40 years
Plant and equipment	1-25 years
Vehicles	1-10 years
Other property, plant and equipment	1-10 years

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 financial year.

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

10.3. Tangible 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.

10.4. Shares in Subsidiary and Associated Undertakings

Shares in subsidiary and associated undertakings are disclosed at historical cost.

10.5. Impairment Losses on Non-Financial Assets

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

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

As at each balance-sheet date, the Company 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 Company 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.

10.6. Inventories

Inventories are stated 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.

10.7. Trade and Other Receivables

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

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

10.8. Foreign Currency Transactions

Transactions denominated in foreign currencies are disclosed in the functional currency of the Company (Polish złoty) as at the transaction date, using the following exchange rates:

1) buy or sell rate of the bank at which the transaction is effected – in the case of sale and purchase of currencies and payment of receivables and payables; or

2) mid exchange rate quoted for the given currency by the National Bank of Poland as at that date unless a different exchange rate in specified in another document binding on a given undertaking.

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

Exchange rates applied for the balance-sheet valuation purposes:

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

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

10.10. Accruals and Deferrals

The Company discloses prepayments if they relate to future reporting periods.

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

The Company's employees are entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Company 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.

10.11. Equity

Equity is disclosed in the accounting records by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of Grupa LOTOS S.A. is the share capital of the Company and is disclosed 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.

10.12. Provisions

Provisions are created when the Company has a liability (legal or following from commercial practice) resulting from past events and when it is probable that the discharge of this liability would cause an outflow of funds representing economic benefits, and the amount of the liability may be reliably estimated. If the Company anticipates that cost covered by provisions will be reimbursed, e.g. under an insurance agreement, reimbursement of such funds is disclosed as a separate item of assets, but only when such reimbursement is practically certain to occur; cost related to a given provision is disclosed in the income statement, less any received reimbursements. If the effect of time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to 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 liability. If the discount method is applied, an increase in provisions as a result of lapse of time is disclosed as financial expenses.

10.13. Retirement Severance Pays and Length-of-Service Awards

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

10.14. 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 or borrowing.

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 or borrowing 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.

10.15. 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.

10.16. 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.

10.17. CO_2 Emission Credits

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

10.18. 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 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 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).

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax credits, 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).

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.
The Company offsets deferred tax asset against deferred tax liability only if it holds an enforceable legal right to offset income tax receivable against deferred tax liability and payable, and the deferred income tax is related to the same taxpayer and the same tax authority.

10.19. Financial Instruments

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

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

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

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

Financial liabilities other than 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 Company 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.

10.20. Derivative Financial Instruments

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

10.21. Impairment of Financial Assets

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

Assets Carried at Amortised Cost

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

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

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

Financial Assets Carried at Cost

If there exists objective evidence of impairment of a non-traded equity instrument which is not carried at fair value since such value cannot be reliably determined, 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.

10.22. Recognition of Revenue

Revenue is recognised in the amount of probable economic benefits to be derived by the Company in connection with a given transaction and when the amount of revenue may be reliably estimated.

10.23. Sales of Products , Goods for Resale and Services

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

10.24. Interest

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

10.25. Dividends

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

10.26. 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 and financial assets. 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 Company 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 Company relies on professional judgment.

Deferred Tax Asset

The Company 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.

10.27. 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 Company does not disclose the diluted earnings/loss per share, since there are no dilutive instruments outstanding.

10.28. 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 them is disclosed if the inflow of funds embodying economic benefits is likely to occur.

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

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Land	14,509	11,469
Buildings and structures	959,682	976,572
Plant and equipment	503,051	584,835
Vehicles and other tangible assets	31,640	27,038
Tangible assets under construction	381,361	233,409
	==========	==========
Total property, land and equipment	**1,890,243**	**1,833,323**
	==========	==========
Prepayments for tangible assets under construction	766,004	122,558
	==========	==========
Total	**2,656,247**	**1,955,881**
	==========	==========

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

PLN '000	**Land**	**Buildings and structures**	**Plant and equipment**	**Vehicles and other**	**Tangible assets under constructi on**	**Prepayments for tangible assets under construction**	**Total**
Gross book value as at Jan 1 2006 (comparable data) (audited)	**11,490**	**1,049,284**	**822,498**	**65,013**	**113,245**	**100**	**2,061,630**
Increase, including:	-	76,368	73,243	7,977	120,266	135,414	413,268
- purchase	-	-	-	3,377	284,104	135,414	422,895
- transfer from investments	-	76,368	73,243	4,600	(163,838)	-	(9,627)
Decrease, including:		(181)	(963)	(66)	(102)	(12,956)	(14,268)
- sale		-	(291)	-	-	-	(291)
- liquidation		(181)	(672)	(66)	-	-	(919)
- other	-	-	-	-	(102)	(12,956)	(13,058)
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Gross book value as at Dec 31 2006 (comparable data) (audited)	**11,490**	**1,125,471**	**894,778**	**72,924**	**233,409**	**122,558**	**2,460,630**
Gross book value as at Jan 1 2007 (comparable data) (audited)	**11,490**	**1,125,471**	**894,778**	**72,924**	**233,409**	**122,558**	**2,460,630**
Increase, including:	3,048	44,544	18,636	18,092	172,258	655,603	912,181
- purchase	-	-	-	15,969	245,155	655,193	916,317
- transfer from investments	2,284	37,792	16,848	941	(73,161)	-	(15,296)
- merger with LOTOS Partner Sp. z o.o.	764	6,752	1,788	1,182	264	410	11,160
-other	-	-	-	-	-	-	-
Decrease, including:	-	(744)	(524)	(315)	(148)	(12,157)	(13,888)
- sale	-	-	(15)	(187)	-	-	(202)
- liquidation	-	(744)	(492)	(128)	-	-	(1,364)
- other	-	-	(17)	-	(148)	(12,157)	(12,322)

(This is a translation of a document originally issued in Polish)

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction	Prepayments for tangible assets under construction	Total
Gross book value as at Dec 31 2007 (audited)	**14,538**	**1,169,271**	**912,890**	**90,701**	**405,519**	**766,004**	**3,358,923**
Accumulated depreciation as at 1 Jan 1 2006 (comparable data) (audited)	**21**	**94,623**	**208,949**	**36,150**	**-**	**-**	**339,743**
Increase, including:	-	54,327	101,460	9,802	-	-	165,589
- depreciation	-	54,327	101,460	9,802	-	-	165,589
Decrease	-	(51)	(466)	(66)	-	-	(583)
Accumulated depreciation as at Dec 31 2006 (comparable data) (audited)	**21**	**148,899**	**309,943**	**45,886**	**-**	**-**	**504,749**
Accumulated depreciation as at Jan 1 2007 (comparable data) (audited)	**21**	**148,899**	**309,943**	**45,886**	**-**	**-**	**504,749**
Increase, including:	8	60,874	100,278	13,465	-	-	174,625
- depreciation	1	57,887	99,466	12,846	-	-	170,200
- merger with LOTOS Partner Sp. z o.o.	7	2,987	812	619	-	-	4,425
Decrease	-	(184)	(382)	(290)	-	-	(856)
Accumulated depreciation as at Dec 31 2007 (audited)	**29**	**209,589**	**409,839**	**59,061**	**-**	**-**	**678,518**
Impairment losses as at Jan 1 2006 (comparable data) (audited)	-	-	-	-	-	-	-
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Impairment losses as at Dec 31 2006 (comparable data) (audited)	-	-	-	-	-	-	-
Impairment losses as at Jan 1 2007 (audited)	-	-	-	-	-	-	-
Increase	-	-	-	-	24,158	-	24,158
Decrease	-	-	-	-	-	-	-
Impairment losses as at Dec 31 2007 (audited)	-	-	-	-	**24,158**	-	**24,158**

(This is a translation of a document originally issued in Polish)

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles and other	Tangible assets under construction	Prepayments for tangible assets under construction	Total
Net book value as at Jan 1 2006 (comparable data) (audited)	**11,469**	**954,661**	**613,549**	**28,863**	**113,245**	**100**	**1,721,887**
	=====	=======	========	======	=======	=======	=======
Net book value as at Dec 31 2006 (comparable data) (audited)	**11,469**	**976,572**	**584,835**	**27,038**	**233,409**	**122,558**	**1,955,881**
	=====	=======	========	======	=======	=======	=======
Net book value as at Dec 31 2007 (audited)	**14,509**	**959,682**	**503,051**	**31,640**	**381,361**	**766,004**	**2,656,247**
	=====	=======	========	======	=======	=======	=======

During the year ended December 31st 2007, the Company capitalised costs of external financing in an amount of PLN 9,504 thousand. During the year ended December 31st 2006, the Company did not capitalise any costs of external financing meeting criteria of allowed alternative treatment of IAS 23 Borrowing costs.

As at December 31st 2007 and December 31st 2006 there was no property, plant and equipment securing the Company's liabilities.

The 10+ Programme (Comprehensive Technical Upgrade Programme)

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

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

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

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

A growing trend on the asphalt market will be observed at least until 2012, both in terms of product volumes and prices (or margins). Following the completion of the 10+ Programme, Grupa LOTOS S.A. plans to increase the annual sales of asphalts to no less than 1,100 thousand tonnes. At the same time, the Company continues preparations related to the heavy residue gasification and the integrated gasification combined cycle (IGCC) project, which will enable it in years 2010-2015 to launch the second phase of the 10+. As at December 31st 2007 capitalised costs related to integrated gasification combined cycle (IGCC) amount to PLN 46,525 thousand.

The expenditure on the 10+ Programme until 2012 is planned to amount to ca. EUR 1.47bn.

To finance its capital expenditure until 2010, the Company intends to contract an investment loan of USD 1,550m.

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

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

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

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

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

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

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

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

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

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

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

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

The performance of the contract is scheduled to be completed in the second half of 2009.

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

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

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

12. Intangible Assets

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Development expense	102	204
Goodwill	1,862	-
Software	2,647	1,973
Patents, trademarks and licences	48,086	43,533
Other	45	90
Total	**52,742**	**45,800**

Changes in Intangible Assets

PLN '000	Development expense	Goodwill	Software	Patents, trademarks and licences	Other	Total
Gross book value as at Jan 1 2006 (audited)	**406**	**-**	**2,131**	**52,705**	**225**	**55,467**
Increase, including:	-	-	967	8,660	-	9,627
- transfer from investments	-	-	967	8,660	-	9,627
Decrease	(100)	-	-	(1)	-	(101)

PLN '000	Development expense	Goodwill	Software	Patents, trademarks and licences	Other	Total
- liquidation	(100)	-	-	(1)	-	(101)
Gross book value as at Dec 31 2006 (audited)	**306**	**-**	**3,098**	**61,364**	**225**	**64,993**
Gross book value as at Jan 1 2007 (audited)	**306**	**-**	**3,098**	**61,364**	**225**	**64,993**
Increase, including:	-	1,862	1,451	14,007	-	17,320
- transfer from investments	-	-	1,389	13,907	-	15,296
- merger with LOTOS Partner Sp. z o.o.	-	1,862	62	100	-	2,024
Decrease	-	-	(12)	(11)	-	(23)
- liquidation	-	-	(12)	(11)	-	(23)
Gross book value as at Dec 31 2007 (audited)	**306**	**1,862**	**4,537**	**75,360**	**225**	**82,290**
Amortisation as at Jan 1 2006 (audited)	**100**	**-**	**786**	**10,456**	**90**	**11,432**
Increase, including:	102	-	339	7,376	45	7,862
- amortisation	102	-	339	7,376	45	7,862
Decrease	(100)	-	-	(1)	-	(101)
Amortisation as at Dec 31 2006 (audited)	**102**	**-**	**1,125**	**17,831**	**135**	**19,193**
Amortisation as at Jan 1 2007 (audited)	**102**	**-**	**1,125**	**17,831**	**135**	**19,193**
Increase, including:	102	-	777	9,453	45	10,377
- amortisation	102	-	715	9,449	45	10,311
- merger with LOTOS Partner Sp. z o.o.	-	-	62	4	-	66
Decrease	-	-	(12)	(10)	-	(22)
Amortisation as at Dec 31 2007 (audited)	**204**	**-**	**1,890**	**27,274**	**180**	**29,548**
Impairment losses as at Jan 1 2006 (audited)	-	-	-	-	-	-
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Impairment losses as at Dec 31 2006 (audited)	-	-	-	-	-	-
Impairment losses as at Jan 1 2007 (audited)	-	-	-	-	-	-
Increase	-	-	-	-	-	-
Decrease	-	-	-	-	-	-
Impairment losses as at Jan 1 2007 (audited)	-	-	-	-	-	-
Net book value as at Jan 1 2006 (audited)	**306**	**-**	**1,345**	**42,249**	**135**	**44,035**
Net book value as at Dec 31 2006 (audited)	**204**	**-**	**1,973**	**43,533**	**90**	**45,800**

PLN '000	Development expense	Goodwill	Software	Patents, trademarks and licences	Other	Total
	========	========	========	=======	=====	======
Net book value as at Dec 31 2007 (audited)	**102**	**1,862**	**2,647**	**48,086**	**45**	**52,742**
	========	========	========	=======	=====	======

13. Non-Current Financial Assets

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Shares in subsidiary undertakings	427,863	437,978
Shares in associated undertakings	-	150
Shares in other undertakings	3,033	6,395
Other non-current financial assets, including:	247,081	251,481
- additional contributions to equity	247,081	247,081
- loans granted	-	4,400
	==========	==========
Total	**677,977**	**696,004**
	==========	==========

Undertakings in which the Company Holds Shares or Votes at the General Shareholders Meeting

As at December 31st 2007 and December 31st 2006, the Company's share in the total vote at General Shareholders Meetings of its subsidiary undertakings equals the Company's share in the share capital of these undertakings.

Name	Registered office	Business profile	Percentage of share capital held by the Group		Carrying value of shares (PLN '000)	
			Dec 31 2007	**Dec 31 2006**	**Dec 31 2007**	**Dec 31 2006**
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	100.00%	100.00%	114,706	114,706
LOTOS Partner Sp. z o.o.	Gdańsk	sales of fuels and provision of services for retail networks of international concerns; logistic services	- (1)	100.00%	-	13,642
LOTOS Gaz S.A. (parent undertaking of another group, formerly LOTOS Mazowsze S.A.)	Mława	wholesale and retail sale of LPG	100.00%	100.00%	16,284	16,284
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, and domestic sales of base oils	100.00%	100.00%	505	505
LOTOS Asfalt Sp. z o.o.	Gdańsk	production and sale of bitumens	100.00%	100.00%	78	78
LOTOS Ekoenergia S.A.	Gdańsk	construction of basic units under the 10+ Programme; the company has not commenced operations	100.00%	100.00%	505	505
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport	100.00%	100.00%	233	233
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanical and electric operations and controlling devices, repairs	100.00%	100.00%	2,520	2,520
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing	100.00%	100.00%	50	50
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection	100.00%	100.00%	3,906	3,906
LOTOS Ochrona Sp. z o.o.	Gdańsk	personal and property protection	100.00%	100.00%	353	353
LOTOS Parafiny Sp. z o.o.	Jasło	production and sale of paraffin	100.00%	100.00%	20,843	20,843
LOTOS Tank Sp. z o.o.	Jasło	wholesale of liquid and gaseous fuels and related products	100.00% (2)	86.01%	800	150
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	storage and distribution of fuels	80.04%	80.04%	13,918	13,918
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	production and processing of refined petroleum products and their wholesale and retail sale	80.01%	80.01%	-	-
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, crude oil and natural gas production	69.00%	69.00%	245,931	245,931
UAB LOTOS Baltija	Lithuania	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	100.00%	100.00%	1,158	1,158
Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy)	Gorlice	refining (currently discontinued due to the company's bankruptcy) (3)	91.54%	91.54%	-	-
LOTOS Hydrokompleks Sp. z o.o. in liquidation(4)	Gorlice	construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	100.00%	100.00%	51	51
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	business and management consultancy services	27.45%	27.45%	2,135	3,295

Name	Registered office	Business profile	Percentage of share capital held by the Group		Carrying value of shares (PLN '000)	
			Dec 31 2007	**Dec 31 2006**	**Dec 31 2007**	**Dec 31 2006**
LOTOS Exploration and Production Norge AS	Stavanger, Norway	oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007.	100.00% (5)	-	3,887	-
Total shares in subsidiary and associated undertakings					**427,863**	**438,128**

(1) On February 27th 2007, the Management Board of Grupa LOTOS S.A. signed the plan of merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o., prepared in accordance with Art. 499.1 of the Commercial Companies Code. The two companies were merged pursuant to Art. 492.1.1 of the Commercial Companies Code, through the transfer of all assets of LOTOS Partner Sp. z o.o. to Grupa LOTOS S.A. As the acquirer held 100% of shares in the acquiree, the merger was effected pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the share capital of Grupa LOTOS S.A. The District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, issued a decision to register the merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. on June 29th 2007. The merger was executed as part of the restructuring of the LOTOS Group, aimed in particular at streamlining its organisational structure. The objective of the restructuring programme is to provide the LOTOS Group with more operating flexibility and facilitate quicker response to changes in the market environment. The merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. is an element of the restructuring of the sales division within the entire LOTOS Group and should not have a material effect on the consolidated financial results of the LOTOS Group.
The merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was accounted for using the acquisition method.
The merger was accounted for in the balance sheet of Grupa LOTOS S.A. by disclosing the assets and equity and liabilities of LOTOS Partner Sp. z o.o as at the merger date, after eliminating mutual settlements between the acquirer and the acquiree and the value of shares and equity until the control takeover date in 2002 (Grupa LOTOS S.A. took control over LOTOS Partner Sp. z o.o. – formerly Preem Terminale Rzeczne – in 2002 through purchase of shares). Furthermore, goodwill of PLN 1,862 thousand was disclosed in the balance sheet of Grupa LOTOS S.A. The value of net assets acquired at the merger date and generated by LOTOS Partner Sp. z o.o. from the takeover of control in 2002 until the merger settlement date in the amount of PLN 18,607 thousand was charged to "Retained earnings".

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

(3) On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. Having examined, on March 11th 2008, the bankruptcy case of Rafineria Nafty GLIMAR S.A of Gorlice regarding a motion to terminate the bankruptcy proceedings filed by the receiver of Capricorn Sp. z o.o. of Nowy Sącz, the District Court of Nowy Sącz, V Commercial Division of the National Court Register, issued a decision pursuant to Art. 361.2 of the Bankruptcy and Recovery Law on terminating the bankruptcy proceedings.
As at the date of publication of these financial statements the decision of the court has not become final.

(4) On November 26th 2007, by virtue of Resolution of the Extraordinary General Shareholders Meeting, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation.

(5) On September 22nd 2007, the Central Register of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, registered office in Stavanger, Norway. Grupa LOTOS S.A. acquired 100% of the shares in the new entity by paying up its entire share capital of NOK 8,000 thousand, i.e. PLN 3,871 thousand.

Changes in the Number of Shares Held by the Company

PLN '000	Shares in subsidiary undertakings	Shares in associated undertakings	Shares in other undertakings
Carrying value as at Jan 1 2006 (audited)	**435,081**	**150**	**6,395**
Shares acquired	4,389	-	-
Shares sold	-	-	-
Revaluation	(1,457)	-	-
Transfers	(35)	-	-
Carrying value as at Dec 31 2006 (audited)	**437,978**	**150**	**6,395**
Carrying value as at Jan 1 2007 (audited)	**437,978**	**150**	**6,395**
Shares acquired	4,537	-	5
Merger with LOTOS Partner Sp. z o.o.	(13,642)	-	-
Revaluation	(1,160)	-	-
Transfers	150	(150)	(3,367)
Carrying value as at Dec 31 2007 (audited)	**427,863**	**-**	**3,033**

14. Inventories

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Finished products	681,931	368,819
Semi-finished products and work in progress	263,606	219,203
Goods for sale	154,307	109,296
Materials	1,369,986	878,350
Net Inventories	**2,469,830**	**1,575,668**

As at December 31st 2007, the value of inventories which serve as collateral for the. financial liabilities of Grupa LOTOS S.A under the facility referred to in Note 24 of the Notes amounted to PLN 2,469,830 thousand. As at December 31st 2006, in Grupa LOTOS S.A., there were no inventories which serve as collateral for liabilities.

As at December 31st 2007, the carrying value of finished products valued at production cost was PLN 634,287 thousand, while the value of finished products measured at net realisable value stood at PLN 47,644 thousand (PLN 180,902 thousand and PLN 187,917 thousand, respectively, as at December 31st 2006). As at December

31st 2007, the carrying value of goods for resale valued at acquisition cost stood at PLN 152,248 thousand, while the value of goods for resale measured at net realisable value was PLN 2,059 thousand.

Valuation Allowances for Inventories

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Finished products	8,904	16,739
Semi-finished products and work in progress	-	-
Goods for sale	70	-
Materials	4,824	4,425
Total valuation allowances for inventories	**13,798**	**21,164**

During the year ended December 31st 2007, the Company made a valuation allowance for inventories in the amount of PLN 9,373 thousand and reversed a valuation allowance for inventories in the amount of PLN 16,739 thousand. During the year ended December 31st 2006, the Company made a valuation allowance for inventories in the amount of PLN 16,740 thousand and reversed a valuation allowance for inventories in the amount of PLN 5,210 thousand.

Mandatory Liquid Fuel Stocks

Until April 7th 2007, the Company 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 December 31st 2007, the Company calculated the value of mandatory stocks based on the newly established regulations.

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

PLN '000	Dec 31 2007	Dec 31 2006
Mandatory stocks	1,919,427	988,479
	===========	===========

15. Trade and Other Receivables

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Trade receivables, including:	1,581,403	1,506,275
- from related undertakings	1,032,964	1,373,514
Corporate income tax receivables	-	15,182
Other receivables, including:	23,800	11,991
- from related undertakings	173	38
	===========	===========
Net receivables	**1,605,203**	**1,533,448**
Valuation allowance for receivables	77,475	72,655
	===========	===========
Gross receivables	**1,682,678**	**1,606,103**
	===========	===========

As at December 31st 2007 and December 31 2006 none of the Company's receivables had been assigned by way of security.

Information on transactions with related parties is presented in Note 41. The payment period for trade receivables in the normal course of sales is 14–55 days.

Impairment Losses on Receivables

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Beginning of period	**72,655**	**71,780**
Increase	6,114	1,473
Decrease	(1,294)	(598)
	============	============
End of period	**77,475**	**72,655**

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The table below presents the ageing of overdue receivables not covered by the allowance as at December 31st 2007 and December 31st 2006:

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Up to one month	3,437	55,789
From one to three months	142	331
From three to six months	146	1,239
From six months to one year	-	111
More than one year	239	-
Total	**3,964**	**57,470**

In the Company's opinion, there is no significant concentration of credit risk regarding the trade receivables. As at the balance sheet date, the Company's maximum exposure to the credit risk is best represented by the carrying amounts of these instruments.

16. Prepayments

PLN '000	Dec 31 2007 (audited	Dec 31 2006 (audited)
Property and other insurance	13,994	2,319
Other	65	29
Total	**14,059**	**2,348**
Current	14,059	2,348
Non-current	-	-

17. Current Financial Assets

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Positive valuation of financial instruments, including:	96,099	704
- currency forwards	87,630	704
- futures	388	-
- commodity swaps	8,011	-
- spot	70	-
Other, including	3,870	3,170
- loans to related undertakings	3,870	3.135
- shares (1)	-	35
Total	**99,969**	**3,874**

(This is a translation of a document originally issued in Polish)

(1) Disposal of shares in PPU BiproRaf Sp. z o.o.

On January 15th 2007, Grupa LOTOS S.A. disposed of 35 shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw. The shares, with the total par value of PLN 35 thousand, are equal and indivisible, and represent 50% of the share capital of PPU BiproRaf Sp. z o.o. Grupa LOTOS S.A. sold the shares for PLN 2,750 thousand.

18. Cash and Cash Equivalents

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Cash in hand and cash at banks	104,444	1,325
Total	**104,444**	**1,325**

Cash at banks bears interest at variable rates set according to the interest rate for one-day bank deposits. Short-term deposits are placed for various periods ranging from one day to one month, depending on the Company's current demand for cash, and bear interest at the interest rates set for them.

As at December 31st 2007, restricted cash amounted to PLN 4,458 thousand (as at December 31st 2006 – PLN 1,151 thousand). The restricted cash included mainly the margin placed in the account of Grupa LOTOS S.A. held with Marex Financial, a brokerage firm, in order to enable the execution of transactions on the ICE Futures Internet platform.

As at December 31st 2007, cash in bank accounts, whereupon registered pledge was established to secure the repayment of Grupa LOTOS S.A.'s liabilities under loans, amounted to PLN 13,730 thousand. As at December 31st 2006, Grupa LOTOS S.A. held no cash which served as a security for repayment of liabilities.

19. Cash Structure in the Cash-Flow-Statement

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Cash at banks	104,436	1,302
- current accounts	18,985	1,302
- deposits up to 1 year	85,451	-
Cash in hand	8	23
Overdraft facilities	(378,580)	(120,309)
Total cash	**(274,136)**	**(118,984)**

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

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

Investing activities include transactions and events which consist in the purchase or sale of property, plant and equipment (tangible assets, investments in progress), intangible assets, non-current investments and current financial assets (excluding cash and cash equivalents), as well as related monetary costs and benefits, excluding those related to income tax.
Financing activities include transactions and events which consist in the raising and repayment of funds from sources other than operating activities, as well as related monetary costs and benefits, excluding those related to income tax. The occurrence of cash flows in the financing activities gives rise to changes in the amount of equity and financial indebtedness and the proportion between them.

Causes of Differences between the Balance-Sheet Changes in Certain Items and Changes Disclosed in the Cash-Flow-Statement

Receivables PLN '000	**Dec 31 2007** **(audited)**	**Dec 31 2006** **(audited)**
Balance-sheet change in net non-current and current receivables	(71,755)	(467,037)
Change in income tax receivables	(15,182)	15,182
Other	3,363	-
Merger with LOTOS Partner Sp. z o.o.	286,836	-
Change in receivables as disclosed in the cash-flow-statement	203,262	(451,855)

Liabilities PLN '000	**Dec 31 2007** **(audited)**	**Dec 31 2006 (comparable data)** **(audited)**
Balance-sheet change in current and non-current liabilities	1,156,640	204,836
Change in current and non-current loans	(744,650)	(120,309)
Change in income tax liabilities	(5,430)	60,211
Change in investment liabilities	(28,449)	(17,749)
Negative valuation of financial instruments	(3,245)	1,232
Merger with LOTOS Partner Sp. z o.o.	(281,935)	-
Change in finance lease liabilities	(495)	-
Change in liabilities as disclosed in the cash-flow-statement	92,436	128,221

Provisions PLN '000	**Dec 31 2007** **(audited)**	**Dec 31 2006** **(audited)**
Balance-sheet change in provisions	(13,276)	(11,064)
Change in deferred tax liability	11,458	12,127
Merger with LOTOS Partner Sp. z o.o.	(4,931)	-
Change in provisions as disclosed in the cash-flow-statement	(6,749)	1,063

Inventories PLN'000	**Dec 31 2007** **(audited)**	**Dec 31 2006** **(audited)**
Balance-sheet change in inventories	(894,162)	(317,332)
Merger with LOTOS Partner Sp. z o.o.	964	-
Change in inventories as disclosed in the cash-flow-statement	(893,198)	(317,332)

Prepayments and accrued income PLN'000	**Dec 31 2007** **(audited)**	**Dec 31 2006** **(audited)**
Balance-sheet change in prepayments and accrued income	(11,711)	(326)
Merger with LOTOS Partner Sp. z o.o.	584	-
Change in prepayments and accrued income as disclosed in the cash-flow-statement	(11,127)	(326)

Cash PLN'000	**Dec 31 2007** **(audited)**	**Dec 31 2006** **(audited)**
Balance-sheet change in cash	103,119	(297,656)
Interest-bearing overdraft facilities	(258,271)	(120,309)
Change in cash as disclosed in the cash-flow-statement	(155,152)	(417,965)

Other Items of the Cash-Flow-Statement

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

PLN '000	**Year ended Dec 31 2007 (audited)**	**Year ended Dec 31 2006 (audited)**
Contributions to equity	-	(5,100)
Loans (advanced)/ repaid	3,700	(3,000)
Total other items, net	3,700	(8,100)

20. Financial Instruments

Description of Financial Instruments

Financial Assets and Liabilities Held for Trading

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

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

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

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

Financial Assets Available for Sale

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

Loans Advanced and Receivables

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 December 31st 2007 and December 31st 2006, assets under the advanced loans were fully covered by an allowance. As at December 31st 2007, the Company had provisions for potential liabilities under these agreements (PLN 15,853 thousand and PLN 41,960 thousand as at December 31st 2007 and December 31st 2006, respectively) (see Note 25).

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

On September 8th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 2,500 thousand to LOTOS Parafiny Sp. z o.o. Subsequently, on March 10th 2006, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 4,500 thousand to LOTOS Parafiny Sp. z o.o. The loans are intended to finance the investment in a candle production plant in Czechowice. Both loans were repaid by LOTOS Parafiny Sp. z o.o. in December 2007, i.e. before their due dates defined in the respective loan agreements.

On August 24th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 1,900 thousand to LOTOS Park Technologiczny Sp. z o.o. In accordance with the terms of the agreement, the loan is to be repaid in full by the end of August 2008.

On February 27th 2007, Grupa LOTOS S.A. executed an agreement on a loan of PLN 1,200 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, the following annexes were executed: annex No. 1 of February 27th 2007, whereby the deadline for creating security for the loan was postponed, and annex No. 2 of January 30th 2008, effective as of December 31st 2007, which extended the loan repayment date to June 30th 2008.

On June 26th 2007, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 600 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, annex No. 1 to this agreement was executed on January 30th 2008, effective as of December 31st 2007, which extended the loan repayment date to June 30th 2008.

Financial Liabilities Valued at Amortised Cost

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

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

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

20.1 Carrying Value of Financial Instruments

Dec 31 2007 PLN '000	Financial assets at fair value through profit or loss- held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss-- held for trading	Financial liabilities at amortised cost	Total
Shares:	-	-	3,033	-	-	3,033
- non-current	-	-	3,033	-	-	3,033
- current	-	-	-	-	-	-
Additional contributions to equity	-	247,081	-	-	-	247,081
Loans:	-	3,870	-	-	-	3,870
- non-current	-	-	-			-
- current	-	3,870	-	-	-	3,870
Derivative financial instruments	96,099	-		-	-	96,099
Net receivables	-	1,605,203	-	-	-	1,605,203
Cash and cash equivalents	-	104,444	-	-	-	104,444
Trade liabilities	-	-	-	-	(1,048,661)	(1,048,661)
Loans and borrowings	-	-	-	-	(864,959)	(864,959)
Financial liabilities	-	-	-	(3,757)	(493)	(4,250)
Lease liabilities:	-	-	-	-	(493)	(493)
- non-current	-	-		-	(286)	(286)
- current	-	-	-	-	(207)	(207)
Derivative financial instruments	-	-	-	(3,757)	-	(3,757)
	===========	===========	===========	===========	===========	===========
Total	**96,099**	**1,960,598**	**3,033**	**(3,757)**	**-**	**141,860**
	===========	===========	===========	===========	===========	===========

As at December 31st 2007, the Company did not hold financial assets or liabilities measured at fair value through profit and loss whose components were initially recognised at fair value through profit and loss (fair value option). As at December 31st 2007, the Company did not have financial assets held to maturity.

As at December 31st 2007, the carrying value of the above classes of financial instruments corresponded to their fair value. As at December 31st 2007, the carrying value of cash and cash equivalents, current trade receivables and payables and financial liabilities at amortised cost approximated their fair value. Long-term bank loans bear interest at floating rates, with short-term interest payable.

The financial assets available for sale, measured at fair value as at December 31st 2007, comprised mainly shares for which there was no active market.

As at December 31st 2007, the Company held no financial assets with terms renegotiated to account for the possibility of outstanding interest payments or impairment.

Dec 31 2006 PLN '000	Financial assets at fair value through profit or loss- held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss- held for trading	Financial liabilities at amortised cost	Total
Shares:	-	-	6,430	-	-	6,430
- non-current	-	-	6,395	-	-	6,395
- current	-	-	35	-	-	35
Additional contributions to equity	-	247,081	-	-	-	247,081
Loans:	-	7,535	-	-	-	7,535
- non-current	-	4,400	-	-	-	4,400
- current	-	3,135	-	-	-	3,135
Derivative financial instruments	704	-	-	-	-	704
Net receivables	-	1,533,448	-	-	-	1,533,448
Cash and cash equivalents	-	1,325	-	-	-	1,325
Trade liabilities	-	-	-	-	(653,078)	(653,078)
Loans and borrowings	-	-	-	-	(120,309)	(120,309)
Financial liabilities	-	-	-	(514)	-	(514)
Lease liabilities:	-	-	-	-	-	-
- non-current	-	-	-	-	-	-
- current	-	-	-	-	-	-
Derivative financial instruments	-	-	-	(514)	-	(514)
	===========	===========	===========	===========	===========	===========
Total	**704**	**1,789,389**	**6,430**	**(514)**	**(773,387)**	**1,022,622**
	===========	===========	===========	===========	===========	===========

As at December 31st 2006, the Company did not hold financial assets or liabilities measured at fair value through profit and loss whose components were initially recognised at fair value through profit and loss (fair value option). As at December 31st 2006, the Company did not have financial assets held to maturity.

As at December 31st 2006, the carrying value of the above classes of financial instruments corresponded to their fair value. As at December 31st 2006, the carrying value of cash and cash equivalents, current trade receivables and payables and financial liabilities at amortised cost approximated their fair value. Bank loans bear interest at floating rates, with short-term interest payable.

The financial assets available for sale, measured at fair value as at December 31st 2006, comprised mainly shares for which there was no active market.

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

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

For the year ended Dec 31 2007 PLN '000	Financial assets/ liabilities at fair value through profit or loss - held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income / (expense)	-	2,458	-	6,309	8,767
Gains/ (losses) on foreign exchange differences	-	(55,508)	-	12,600	(42,908)
(Creation)/ reversal of valuation allowances	-	(154)	-	-	(154)
Gains/ (losses) on fair value measurement and realisation	122,622	-	-	-	122,622
Gains/ (losses) on disposal	310	-	2,710	-	3,020
	=========	=======	==========	========	========
Total	**122,932**	**(53,204)**	**2,710**	**18,909**	**91,347**
	=========	=======	==========	========	========

For the year ended Dec 31 2006 PLN '000	Financial assets/ liabilities at fair value through profit or loss - held for trading	Loans and receivables	Financial assets available for sale	Financial liabilities at amortised cost	Total
Interest income / (expense)	-	4,911	-	3,093	8,004
Gains/ (losses) on foreign exchange differences	-	(43,831)	-	126,965	83,134
(Creation)/reversal of valuation allowances	-	(1,199)	-	-	(1,199)
Gains/ (losses) on fair value measurement and realisation	47,145	-	-	-	47,145
Gains/ (losses) on disposal	6,663	-	-	-	6,663
	=========	=========	=========	=========	=========
Total	**53,808**	**(40,119)**	**-**	**130,058**	**143,747**
	=========	=========	=========	=========	=========

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

Company	Type of currency transaction	Transaction execution date	Transaction settlement date[1]	Forward rate	Currency pair	Notional amount sold (EUR '000)	Notional amount sold (USD '000)	Fair value as at Dec 31 2007 (PLN '000)[2]
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 11 2008	3.6	EUR/PLN	8,500	-	200
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 18 2008	2.5	USD/PLN	-	30,000	1,501
Grupa LOTOS S.A.	Currency forward	Dec 14 2007	Jan 22 2008	2.5	USD/PLN	-	30,000	1,498
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 4 2008	2.5	USD/PLN	-	30,000	2,375
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 4 2008	2.5	USD/PLN	-	18,000	1,336
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 6 2008	2.5	USD/PLN	-	50,000	3,887
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 27 2008	2.5	USD/PLN	-	40,000	3,055
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 27 2008	2.5	USD/PLN	-	20,000	1,547
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 15 2008	3.6	EUR/PLN	25,000	-	856
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	3.6	EUR/PLN	50,000	-	1,694
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	2.5	USD/PLN	-	48,000	3,754
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 22 2008	2.5	USD/PLN	-	50,000	4,700
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Jan 8 2008	2.5	USD/PLN	-	30,000	2,701
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 28 2008	3.6	EUR/PLN	45,000	-	1,398
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	2.5	USD/PLN	-	32,000	2,857
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 8 2008	2.5	USD/PLN	-	25,000	2,126
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	3.6	EUR/PLN	7,000	-	221
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 14 2008	2.5	USD/PLN	-	20,000	1,698
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 28 2008	3.6	EUR/PLN	50,000	-	1,742
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Feb 21 2008	3.6	EUR/PLN	20,000	-	733
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 25 2008	2.5	USD/PLN	-	50,000	2,163
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 26 2008	2.5	USD/PLN	-	50,000	2,162
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Jan 7 2008	3.6	EUR/PLN	10,000	-	271
Grupa LOTOS S.A.	Currency forward	Dec 28 2007	Jan 9 2008	3.6	EUR/PLN	10,000	-	229
Grupa LOTOS S.A.	Currency forward	Dec 6 2007	Jan 7 2008	1.5	EUR/USD	20,000	-	496

Company	Type of currency transaction	Transaction execution date	Transaction settlement date(1)	Forward rate	Currency pair	Notional amount sold (EUR '000)	Notional amount sold (USD '000)	Fair value as at Dec 31 2007 (PLN '000)(2)
Grupa LOTOS S.A.	Currency forward	Dec 6 2007	Jan 10 2008	1.5	EUR/USD	10,000	-	370
Grupa LOTOS S.A.	Currency forward	Dec 7 2007	Jan 11 2008	3.6	EUR/PLN	8,500	-	5
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 14 2008	1.5	EUR/USD	20,000	-	83
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 14 2008	1.5	EUR/USD	20,000	-	88
Grupa LOTOS S.A.	Currency forward	Dec 10 2007	Jan 17 2008	1.5	EUR/USD	40,000	-	208
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 16 2008	1.4	EUR/USD	50,000	-	3,714
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 16 2008	1.4	EUR/USD	50,000	-	3,784
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 9 2008	1.4	EUR/USD	50,000	-	3,701
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 25 2008	1.4	EUR/USD	50,000	-	3,846
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 11 2008	1.4	EUR/USD	50,000	-	3,724
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 19 2008	1.4	EUR/USD	40,000	-	3,066
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 20 2008	1.4	EUR/USD	50,000	-	3,747
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 28 2008	1.4	EUR/USD	40,000	-	3,032
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 23 2008	1.4	EUR/USD	40,000	-	3,125
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Jan 29 2008	1.4	EUR/USD	20,000	-	1,545
Grupa LOTOS S.A.	Currency forward	Dec 20 2007	Feb 29 2008	1.4	EUR/USD	20,000	-	1,654
Grupa LOTOS S.A.	Currency forward	Dec 21 2007	Jan 31 2008	1.4	EUR/USD	50,000	-	4,003
Grupa LOTOS S.A.	Currency forward	Dec 27 2007	Feb 13 2008	1.4	EUR/USD	50,000	-	2,735
							TOTAL	**87,630**

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

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

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

Company	Type of forward transaction	Transaction execution date	Transaction settlement date	No. of CO2 emission credits purchased	Price (EUR)	Fair value as at Dec 31 2007 (PLN '000)
Grupa LOTOS S.A.	Futures	Oct 23 2007	Dec 18 2008	10,000	22.13	10
Grupa LOTOS S.A.	Futures	Oct 23 2007	Dec 18 2008	10,000	22.10	11
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	5,000	21.50	16
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21.65	27
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21.60	29
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21.50	33
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21.50	33
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21.45	35
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21.40	36
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21.40	36
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	10,000	21.40	36
Grupa LOTOS S.A.	Futures	Jun 19 2007	Dec 18 2008	10,000	21.30	40
Grupa LOTOS S.A.	Futures	Oct 31 2007	Dec 18 2008	15,000	21.55	46
					TOTAL	**388**

Company	Type of forward transaction	Transaction execution date	Transaction settlement date	No. of barrels sold	Price (EUR)	Fair value as at Dec 31 2007 (PLN '000)
Grupa LOTOS S.A.	Commodity swap	Nov 9 2007	Apr 7 2008	1,040,000	9.21	1,638
Grupa LOTOS S.A.	Commodity swap	Nov 9 2007	Apr 8 2008	750,000	9.30	347
Grupa LOTOS S.A.	Commodity swap	Nov 12 2007	Apr 7 2008	990,000	9.30	1,776
Grupa LOTOS S.A.	Commodity swap	Nov 21 2007	Jul 8 2008	609,999	9.35	356
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Jul 8 2008	490,000	9.47	429
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Jul 8 2008	799,998	9.25	273
Grupa LOTOS S.A.	Commodity swap	Nov 12 2007	Apr 7 2008	999,999	9.19	1,526
Grupa LOTOS S.A.	Commodity swap	Nov 13 2007	Jul 8 2008	129,999	9.40	92
Grupa LOTOS S.A.	Commodity swap	Nov 20 2007	Jul 8 2008	510,000	9.27	295
Grupa LOTOS S.A.	Commodity swap	Nov 14 2007	Jul 8 2008	620,000	9.35	362
Grupa LOTOS S.A.	Commodity swap	Nov 14 2007	Jul 8 2008	90,000	9.35	53
Grupa LOTOS S.A.	Commodity swap	Nov 22 2007	Oct 7 2008	246,000	9.20	29
Grupa LOTOS S.A.	Commodity swap	Nov 27 2007	Jul 8 2008	700,002	9.60	835
					TOTAL	**8.011**

Company	**Type of currency transaction**	**Transaction execution date**	**Transaction settlement date**(1)	**Forward rate**	**Currency pair**	**Notional amount sold (EUR '000)**	**Notional amount sold (USD '000)**	**Fair value as at Dec 31 2007 (PLN '000)**(2)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	3.6	EUR/PLN	25,000	-	(863)
Grupa LOTOS S.A.	Currency forward	Dec 19 2007	Feb 29 2008	2.5	USD/PLN	-	24,000	(1,903)
							TOTAL	**(2.766)**

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

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

Company	Type of forward transaction	Transaction execution date	Transaction settlement date	No. of CO2 emission credits purchased	Price (EUR)	Fair value as at Dec 31 2007 (PLN '000)
Grupa LOTOS S.A.	Futures	Jun 14 2007	Dec 18 2008	25,000	23.85	(130)
Grupa LOTOS S.A.	Futures	Jun 14 2007	Dec 18 2008	5,000	23.80	(25)
Grupa LOTOS S.A.	Futures	May 31 2007	Dec 17 2009	10,000	23.40	(16)
Grupa LOTOS S.A.	Futures	May 31 2007	Dec 17 2009	10,000	23.40	(16)
Grupa LOTOS S.A.	Futures	May 31 2007	Dec 17 2009	10,000	23.40	(16)
Grupa LOTOS S.A.	Futures	Jun 13 2007	Dec 18 2008	5,000	23.30	(16)
Grupa LOTOS S.A.	Futures	Jun 13 2007	Dec 18 2008	5,000	23.30	(16)
Grupa LOTOS S.A.	Futures	Jun 13 2007	Dec 18 2008	5,000	23.30	(16)
					TOTAL	**(251)**

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

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

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

Company	Type of forward transaction	Transaction execution date	Transaction settlement date *	Forward rate	Currency pair	Notional amount purchased (EUR ‘000)	Notional amount purchased (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 forward	Dec 28 2006	Jan 10 2007	1.3	EUR/USD	13,179	-	(34)
							Total	**(504)**

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

* It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures defined by banks.
** The fair value of a transaction is 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 spot rates and swap points quotations published by Reuters at 11am on the valuation date.

20.3 Financial Risk Management

The Company is exposed to financial risk, including chiefly:
- market risk (risk related to the prices of raw materials and petroleum products, risk related to carbon credit prices, currency risk, interest rate risk)
- liquidity risk
- credit risk related to financial and trade transactions

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

The key objectives sought to be achieved through financial risk management are as follows:
- maximising the result on market risk management at the assumed risk level,
- stabilising cash flows,
- ensuring short-term financial liquidity,
- supporting the activities related to the arrangement of financing for investment activities.

In order to achieve these objectives, documents have been prepared and approved at appropriate decision-making levels. These documents specify the necessary framework for effective and secure functioning of the financial risk management process, including principally:
- methodology for of measuring various risk exposures,
- acceptable financial instruments,
- method of assessing financial risk management,
- limits within risk management,
- reporting method,
- credit limits for counterparties in financial transactions.

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

Risk Related to Prices of Raw Materials and Petroleum Products

The concept for the management of risk related to prices of raw materials and petroleum products covers the period until the end of 2010, by which time also the 10+ Programme is to have been completed. The main objective of the management concept is to increase the probability of generating cash flows guaranteeing safe financing of investment projects under the 10+ Programme.
The basic risk map is created by converting the map of price indices used in trade contracts into the map of indices for which there exist liquid markets of derivatives. Such conversion takes into account appropriate statistical relations between base indices and market indices. The converted map serves a basis for defining the model of the refining margin, which is the most important component of the risk related prices of raw materials and petroleum products. The margin is defined as the difference between the value of indices representing products sold and the index representing raw materials purchased.
The management concept provides for maximum security coefficients for the underlying position, decreasing each year relative to a current budget year. Within the framework of accepted limits and guidelines, the Financial Risk Management Committee adopts decisions defining the limits and volumes of hedging transactions.

As at the end of 2007, the refining margin position (including both the underlying position and the transactions executed) stood at:
- 28. 6m bbl for 2008,
- 36.6m bbl for 2009,
- 63.7m bbl for 2010.

Risk Related to Carbon Credit Prices

The risk related to carbon credit prices is managed in line with the assumptions set forth in “The Strategy for Managing the Risk Related to Carbon Credit Prices at Grupa LOTOS S.A.”. The period covered by the management is determined by the individual phases of the Kyoto protocol; currently, it is the period until the end of 2012.
The basic risk map includes the credits granted and the CO_2 emissions planned for a given phase. Depending on the market situation and credits granted, the Company maintains an appropriate position in carbon credits by entering into financial transactions or changing the underlying position.
A position limit is defined based on the number of credits granted for a given phase and comprises the aggregate of positions for individual years within the phase. The maximum loss limit is defined based on the Company’s equity.
As at the end of 2007, the position in carbon credits stood at:
Phase I (2005–2007): 11.6 thousand EUA
Phase II (2008–2012): 205.0 thousand EUA

Interest Rate Risk

Interest rate risk relates to loans bearing interest at variable rates. Interest on overdraft facilities and long-term loans is accrued at variable interest rates.
To optimise the interest balance, the LOTOS Group has introduced the cashpooling service for its companies. The service consists in the application of favourable interest rates for debit and credit balances, which are subject to offsetting as at the end of each business day.

Currency Risk

Currency risk management is performed in line with the assumptions stipulated in “The Strategy of Currency Risk Management at Grupa LOTOS S.A.”. The period covered by currency risk management is determined according to individual budget years; as at December 31st 2007, it is the period until the end of 2008. The base map of net currency positions includes principally the volumes and price formulae for purchases of raw materials and sales of products, valuation of derivatives, investments, as well as loans denominated in foreign currencies. The map is then presented in a single currency, which enables the management of such aggregate positions as the total and global gross positions, based on which position limits have been established. Depending on the market situation and limits granted, the Company maintains an appropriate currency position by entering into financial transactions or changing the underlying position. Position and maximum loss limits are expressed as percentages of the Company’s equity.
The natural currency of Grupa LOTOS S.A.’s operating market is USD. This currency is used in market price quotations for crude oil and petroleum products. On its operating activity, Grupa LOTOS S.A. has a structurally long position in USD. For this reason it has been decided that USD is the most appropriate currency for contracting and repaying long-term loans to finance the 10+ Programme, as such an approach contributes to reducing the structurally long position with a resulting reduction in strategic currency risk.
As at the end of 2007, the net currency position for year 2008 stood at:

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

Liquidity Risk

The liquidity risk management process consists in monitoring the forecast cash flows, matching maturities of assets and liabilities, analysing working capital and maintaining access to various financing sources.
In the period covered by the budget, liquidity is monitored on an ongoing basis as part of the financial risk management. In the mid and long term, it is monitored as part of the planning process, which helps create a long-term financial strategy.
In the area of financial risk, in addition to an active management of market risk, the Company takes the following measures which additionally enhance the Company's security in terms of liquidity:

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

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

Credit Risk

Management of credit risk relating to counterparties in financial transactions consists in ongoing monitoring of credit exposure in relation to the limits granted. The counterparties must have an appropriate credit rating assigned by leading rating agencies or hold guarantees granted by institutions meeting the minimum rating requirement. The establishment of credit limits is principally based on the counterparties' current ratings and the value of the Company's maximum exposure to transactions with a single counterparty, defined as a percentage of equity.
Credit exposure to financial instruments is defined at their market value, which, for certain derivatives, is additionally increased by the value of their potential revaluation.

Management of credit risk relating to counterparties in trade transactions consists in ongoing monitoring of receivables. Additionally, all customers requesting trade credit undergo verification of their financial reliability, thanks to which the risk of uncollectible receivables is low.
The Company executes the product sale transactions chiefly with undertakings from its Group. There is no material concentration of the credit risk within the Company.

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

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Shares	3,033	6,430
Derivatives	96,099	704
Additional contributions to equity	247,081	247,081
Loans	3,870	7,535
Net receivables	1,605,203	1,533,448
Cash and cash equivalents	104,444	1,325
Total	**2,059,730**	**1,796,523**

Past due financial assets by maturity as at December 31st 2007 and December 31st 2006 are presented in Note 15.

20.4 Sensitivity Analysis with Respect to Market Risk

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

Dec 31 2007 PLN '000	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	1% increase in exchange rate, effect on year's result		1% decrease in exchange rate, effect on year's result	
		USD	EUR	USD	EUR
Net receivables	142,231	1,419	3	(1,419)	(3)
Cash and cash equivalents	104,222	998	44	(998)	(44)
Trade and other payables	(702,387)	(6,775)	(249)	6,775	249
Loans	(564.221)	(5,490)	(153)	5,490	153
Financial assets – derivative instruments	96,099	(36,225)	16,058	36,225	(16,058)
Financial liabilities – derivative instruments	(3,757)	573	892	(573)	(892)
Total	**(927,813)**	**(45,500)**	**16,595**	**45,500**	**(16,595)**

Dec 31 2006 PLN '000	Carrying value in a foreign currency, translated into PLN as at the balance-sheet day	1% increase in exchange rate, effect on year's result		1% decrease in exchange rate, effect on year's result	
		USD	EUR	USD	EUR
Net receivables	100,216	1,000	2	(1,000)	(2)
Cash and cash equivalents	1,151	-	12	-	(12)
Trade and other payables	(565.728)	(5,621)	(36)	5,621	36
Loans	(62.331)	(584)	(40)	584	40
Financial assets – derivative instruments	704	(57)	(382)	57	382
Financial liabilities – derivative instruments	(514)	1,394	(486)	(1,394)	486
Total	**(526.502)**	**(3,868)**	**(930)**	**3,868**	**930**

As at December 31st 2007 the Company held futures for the purchase of CO_2 EU emission allowances (EUA), measured at fair value as at the balance-sheet date. As at December 31st 2007, the financial assets related to positive valuation of the futures for the purchase of CO_2 emission allowances amounted to PLN 388 thousand, and the financial liabilities related to negative valuation of those futures were PLN 251 thousand. A change in the price of the CO_2 emission allowances up or down by 1% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the futures for the purchase of CO_2 emission allowances of PLN 165 (165) thousand.

As at December 31st 2007 the Company held an OTC full barrel swap, measured at fair value as at the balance-sheet date. As at December 31st 2007, the financial assets related to positive valuation of the full barrel swap amounted to PLN 8,011 thousand, and the financial liabilities related to negative valuation of the full barrel swap were PLN 740 thousand. A change in the quotations of indices comprising full barrel swap up or down by

1% could potentially lead to a change in the valuation of the fair value of financial assets and liabilities related to the full barrel swap of PLN 2,148 (2,148) thousand charged to income statement.

As at December 31st 2006, the Company held no futures for the purchase of CO_2 emission allowances or OTC full barrel swaps.

As at December 31st 2007, the net carrying value of financial assets and liabilities (borrowings, cash, financial liabilities under bank loans) sensitive to interest rate risk amounted to PLN (757,138) thousand (as at December 31st 2006: PLN 111,449 thousand). As at December 31st 2007, a change of interest rates up or down by 1% could potentially lead to a change in the value of financial assets and liabilities of PLN (4,380) thousand, 4,380 thousand net (as at December 31st 2006: PLN (1,095) thousand, 1,095 thousand). .

21. Share Capital

The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2007 and December 31st 2006 was as follows:

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

The share capital is divided into 113,700,000 ordinary shares - constituting the entire share capital – with a par value of PLN 1 per share, each conferring the right to one vote at the general shareholders meeting and carrying dividend rights.

As at January 22nd 2008, 4,500,000 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska OFE, which account for 3.96% of the Company's share capital and confer the right to 4,500,000 votes at the General Shareholders Meeting of Grupa LOTOS S.A., representing 3.96% of the total vote (Current Report No. 16/2008).

22. 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, was allocated to:

– statutory reserve funds – PLN 365,782 thousand
– dividend payment – PLN 40,932 thousand.

The dividend was paid on July 31st 2007. The dividend per share was PLN 0.36.

In these financial statements, the Company discloses the distributed profit/loss under "Retained earnings".

23. Earnings per Share

	Year ended Dec 31 2007	Year ended Dec 31 2006
	(audited)	**(audited)**
Net profit (PLN '000) (A)	745,084	406,714
Weighted average number of shares (in thousands) (B)	113,700	113,700
	===========	===========
Earnings per share (PLN) (A/B)	6.55	3.58
	===========	===========

The Company does not disclose the diluted earnings/loss per share, since there are no dilutive instruments outstanding.

24. Interest-Bearing Loans and Borrowings

Loans and Borrowings

PLN '000	Dec 31 2007	Dec 31 2006
	(audited)	**(audited)**
Bank loans	864,959	120,309
	===========	===========
Total	**864,959**	**120,309**
	===========	===========
Including:		
Non-current portion	486,379	-
Current portion	378,580	120,309

Loans and Borrowings by Lender

PLN '000	Dec 31 2007	Dec 31 2006
	(audited)	**(audited)**
Non-current portion		
Bank consortium (Bank Pekao S.A., PKO BP S.A., BRE Bank S.A., Rabobank Polska S.A.)	486,379	-
	- - - - - - - - - - - -	- - - - - - - - - - - -
Total non-current portion	**486,379**	**-**
Current portion		
Pekao S.A.	188,961	15,255
ING Bank Śląski S.A.	16,388	29,646
PKO BP S.A.	16,705	10,635
Bank Handlowy w Warszawie S.A.	62,040	60,791
Bank Millennium S.A.	72,341	1,941
BZ WBK S.A.	2,101	2,040
Kredyt Bank S.A.	-	1
BPH S.A.	20,044	-
	- - - - - - - - - - - -	- - - - - - - - - - - -
Total non-current portion	**378,580**	**120,309**
	===========	============
Total	**864,959**	**120,309**
	============	============

As at December 31st 2007, the average effective interest rate for loans is approx. 5.30% (December 31st 2006: 4.80%). The banks' margins on the loans fall in the range between 0.07% and 2%. As at December 31st 2007, the amount of undrawn loan funds available to the Company was PLN 1,009,676 thousand (as at December 31st 2006: PLN 292,307 thousand); all conditions precedent relating to these loans had been fulfilled.

In the period January 1st – December 31st 2006, the Company used revolving overdraft facilities.

Execution of Loan Agreement between Grupa LOTOS S.A. and a Bank Consortium and Execution of Pledge Agreements to Secure the Loan Agreement

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising BANK POLSKA KASA OPIEKI S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw and RABOBANK POLSKA S.A. of Warsaw, executed a loan agreement.

The agreement provides for a four-year revolving loan for a total amount of USD 400,000 thousand, for refinancing and financing the inventories of Grupa LOTOS S.A. The agreement is the first element of the financing strategy for the operations of Grupa LOTOS S.A. in the coming years, related to the execution of the 10+ Programme. The lending term under the agreement may be extended by the parties by one year.

The basic security for the loan is an agreement on registered pledge over Grupa LOTOS S.A.'s inventories (along with the assignment of rights under agreements on storage of inventories and under insurance contracts) and agreement on pledge over cash receivables under an agreement for keeping bank accounts of Grupa LOTOS S.A. concluded in relation to the loan agreement (together with power of attorney to these accounts). The other provisions of the agreement, including those pertaining to contractual penalties, do not differ from provisions commonly applied in agreements of such type.

On December 20th 2007, Grupa LOTOS S.A. entered into two registered pledge agreements in order to secure liabilities incurred by Grupa LOTOS S.A. Pursuant to the agreements, the registered pledge created for the benefit of the lenders covers the inventories of Grupa LOTOS S.A. and cash receivables under an agreement for keeping Grupa LOTOS S.A.'s bank accounts related to the loan agreement.

As at December 31st 2007, the Company's liability under the aforementioned loan agreement totalled USD 200 million.

Bank Loans by Currency

PLN '000	**EUR loans**	**USD loans**	**PLN loans**	**Total**
2008	15,258	62,584	300,738	378,580
2009	-	-	-	-
2010	-	-	-	-
2011	-	486,379	-	486,379
2012	-	-	-	-
after 2012	-	-	-	-
Total	**15,258**	**548,963**	**300,738**	**864,959**

Loans as at December 31st 2007:

Bank's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non- current portion)		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 Millennium S.A.	Warsaw	120,000	-	72,341	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
PKO BP S.A.	Warsaw	254,000	-	16,705	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	40,000 USD or its equivalent	-	-	-	-	Overdraft facility	-	3M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		1,741	715 USD	-	-	Overdraft facility	-	1M LIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		14,647	4,089 EUR	-	-	Overdraft facility	-	1M EURIBOR + bank's margin	submission to enforcement
Citibank Handlowy S.A.	Warsaw	-	40,000 USD or its equivalent	586	-	-	-	Overdraft facility	-	T/N WIBOR + bank's margin	submission to enforcement
Citibank Handlowy S.A.	Warsaw	-		60,844	24,987 USD	-	-	Overdraft facility	-	SW LIBOR + bank's margin	submission to enforcement
Citibank Handlowy S.A.	Warsaw	-		610	170 EUR	-	-	Overdraft facility	-	SW EURIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw	20,000 or its equivalent	-	20,044	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw		-	-	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	submission to enforcement
BZ WBK S.A.	Warsaw	30,000	-	2,101	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement

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 Pekao S.A.	Warsaw	300,000	-	188,961	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Consortium of Bank Pekao S.A., PKO BP S.A., BRE Bank S.A., and Rabobank Polska S.A.	Warsaw		400,000 USD	-	-	486,379	199,745 USD	-	Dec 20 2011	1W LIBOR + bank's margin	registered pledge on inventories, financial and registered pledge on accounts receivable under bank account agreements related to this Agreement, power of attorney to the bank accounts, power of attorney for each bank to establish pledges on new accounts related to this Agreement, assignment of rights under agreements for holding of the LOTOS Group's inventories by third parties, assignment of rights under insurance policies covering inventories, representation on submission to enforcement
TOTAL				**378,580**	**25,702 USD**	**486,379**	**199,745 USD**				
					4,259 EUR						

Loans 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		
Bank Millennium S.A.	Warsaw	30,000	-	1,941	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	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	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		32,547	USD 11,183	-	-	Overdraft facility	-	SW LIBOR USD + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		194	EUR 51	-	-	Overdraft facility	-	SW EURIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	USD 9,000 or its equivalent	56	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		25,819	USD 8,871	-	-	Overdraft facility	-	1M LIBOR USD + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		3,771	EUR 984	-	-	Overdraft facility	-	1M EURIBOR + bank's margin	submission to enforcement
PKO BP S.A.	Warsaw	100,000	-	10,635	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
BZ WBK S.A.	Warsaw	30,000	-	2,040	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	100,000	-	15,255	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Kredyt Bank S.A.	Warsaw	10,000	-	1	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	submission to enforcement
TOTAL				**120,309**	**USD 20,054**						
					EUR 1,035						

Contractual maturities of financial liabilities as at December 31st 2007:

	Carrying value	Contractual cashflows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial liabilities:	2,420,073	2,420,073	1,933,199	207	288	486,379	-
Secured bank loans	486,379	486,379	-	-	-	486,379	-
Finance lease liabilities	495	495	-	207	288	-	-
Overdraft facilities	378,580	378,580	378,580	-	-	-	-
Trade payables and other liabilities	1,554,619	1,554,619	1,554,619	-	-	-	-
Derivatives (liabilities)	3,757	3,757	3,757	-	-	-	-
	===========	===========	===========	===========	======	===========	===========
Total	**2,423,830**	**2,423,830**	**1,936,956**	**207**	**288**	**486,379**	**-**

Contractual maturities of financial liabilities as at December 31st 2006:

	Carrying value	Contractual cashflows	Up to 6 months	6–12 months	1–2 years	2–5 years	Over 5 years
Non-derivative financial liabilities:	1,266,676	1,266,676	1,266,676				
Secured bank loans							
Finance lease liabilities							
Overdraft facilities	120,309	120,309	120,309				
Trade payables and other liabilities	1,146,367	1,146,367	1,146,367				
Derivatives (liabilities)	514	514	514				
	===========	===========	===========	===========	=====	===========	===========
Total	**1,267,190**	**1,267,190**	**1,267,190**				**-**

25. Provisions

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Non-current provisions		
Length-of-service awards and retirement severance pays	19,072	15,150
Other provisions	1,053	-
Total non-current provisions	**20,125**	**15,150**
Current provisions		
Length-of-service awards and retirement severance pays	2,753	2,189
Other provisions	35,817*	42,166
Total current provisions	**38,570**	**44,355**
Total	**58,695**	**59,505**

*Grupa LOTOS S.A. and Rafineria Nafty Glimar S.A. signed loan agreements for the financing of operating and investing activities, including, in particular, the Glimar Hydrocomplex investment project, for an aggregate amount of PLN 90m. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty Glimar S.A. under these agreements. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. As at December 31st 2007 and December 31st 2006, the assets under the loans advanced were fully covered by an allowance. As at the above dates, the Company also created a provision for the remaining receivables under these agreements, in the amounts of PLN 15,853 thousand and PLN 41,960 thousand, respectively. In the year ended December 31st 2007, the Company released a provision of PLN 26,107 thousand (See Note 20).

Computation of the provisions for employee benefits as at December 31st 2007 was based on the following assumptions:

- the long-term annual growth rate of remuneration is 6% for 2008 and 3.3% for subsequent years,
- the discount rate for future payments of employee benefits is 6.0% (i.e. it equals the return on the safest long-term securities traded on the Polish capital market as at the valuation date),
- the probability of employee attrition is based on the historical data on employee turnover at the Company and statistical data on employee attrition in the industry,
- the adopted mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 2006 published by the Polish Central Statistics Office (GUS) and assume that the Group's employee population is representative of the average Polish population in terms of mortality,
- 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 Company, meet the conditions for early retirement.

Computation of the provisions for employee benefits as at December 31st 2006 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 Company and statistical data on employee attrition in the industry;
- the adopted mortality and life expectancy ratios are based on the Life Expectancy Tables of Poland for 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 Company, meet the conditions for early retirement.

Change in provisions

PLN '000	**Length-of-service awards and retirement severance pays**	**Other provisions**	**Total**
As at Jan 1 2006 (audited)	**16,481**	**41,961**	**58,442**
Increase	1,742	4,542	6,284
Decrease	(884)	(4,337)	(5,221)
As at Dec 31 2006 (audited)	**17,339**	**42,166**	**59,505**
As at Jan 1 2007 (audited)	**17,339**	**42,166**	**59,505**
Increase	3,495	19,759	23,254
Merger with LOTOS Partner Sp. z o.o	991	4,947	5,938
Decrease	-	(30,002)	(30,002)
As at Dec 31 2007 (audited)	**21,825**	**36,870**	**58,695**

26. Current Liabilities, Accruals and Deferred Income

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (audited)
Trade payables, including:	1,048,661	653,078
to related undertakings	76,853	28,361
Tax and social security payable, including [(1)]:	402,021	433,444
- corporate income tax	5,430	-
Special accounts	197	197
Salaries and wages payable	2,964	3,398
Accrued expenses	13,879	9,879
Deferred income under subsidies	19,368	16,560
Investment liabilities, including:	57,167	28,718
to related undertakings	2,429	5,572
Other liabilities, including:	10,362	1,093
to related undertakings	33	116
	===========	===========
Total	**1,554,619**	**1,146,367**
	===========	===========

[(1)] The value of tax liabilities was reduced by the fuel charge of PLN 20,087 thousand (December 31st 2006: PLN 14,759 thousand) incurred in relation to imported diesel oil. The Company will apply to the relevant customs office for reimbursement of the amount, which in the Company's opinion is recoverable

The transactions with related undertakings are described in Note 41.

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 one month. 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.

Grupa LOTOS S.A.'s liability under excise tax arises in connection with Art. 4.1 of the Excise Tax Act of January 23rd 2004 (Dz. U. No. 29, item 257, of February 26th 2004), which provides that excise tax is applicable to:

1) production of harmonised excise goods,
2) taking harmonised excise goods out of a bonded warehouse,
3) sale of excise goods in the territory of Poland,
4) import of excise goods,
5) intra-Community acquisition or supply of goods.

Pursuant to the authorisation of the Head of the Customs Office of Gdańsk, in connection with Art. 31.1 and Art. 32.1 of the Excise Tax Act of January 23rd 2004, the Company operates a bonded warehouse in Gdańsk at the site where the refinery is situated. The business conducted at the bonded warehouse, which involves production and distribution activities, is subject to suspended-excise-tax procedure.

27. Financial Liabilities

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Negative valuation of financial instruments	3,757	514
- currency forward	2,766	504
- futur es	251	-
- full barrel swap contracts	740	-
- currency swap	-	10
Lease liabilities	207	-
	=======	=======
Total	**3,964**	**514**
	=======	=======

Financial Lease liabilities

PLN '000	Minimum lease payments	Present value of minimum lease payments
No later than 1 year	210	207
Later than 1 year and no later than 5 years	311	288
Later than 5 years	-	-
	=======	=======
Total	**521**	**495**
	=======	=======
Rents recognized as an expense in the period	-	-
	=======	=======
Present value of minimum lease payments	**521**	**495**
	=======	=======
Including:		
Current portion	-	207
Non-current portion	-	288

28. Assets for Social Purposes and Liabilities of the Company's Social Benefits Fund

The Company offsets the Social Benefits Fund's assets against its liabilities towards the Fund because the Fund's assets are not fully controlled by the Company.

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

PLN '000	**Dec 31 2007 (audited)**	**Dec 312006 (audited)**
Assets related to the Company's Social Benefits Fund		
Cash in separate bank account of the Company's Social Benefits Fund	203	820
Receivables from employees under the Company's Social Benefits Fund	2,653	2,986
Other	95	23
Total	**2,951**	**3,829**
Liabilities related to the Company's Social Benefits Fund		
Liabilities under the Company's Social Benefits Fund	2,951	3,829
Total	**2,951**	**3,829**

29. Sales Revenue

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Sales of products	17,000,129	16,285,825
Sales of services	101,065	86,910
Total sales of products	17,101,194	16,372,735
Sales of goods for resale	391,358	297,712
Sales of materials	60,988	76,802
Total sales of goods for resale and materials	452,346	374,514
Total	**17,553,540**	**16,747,249**
- including sales to related undertakings	11,546,291	13,432,487
Elimination of excise tax and fuel charge	(5,686,946)	(5,117,428)
Total	**11,866,594**	**11,629,821**

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Domestic sales of products	14,710,349	13,775,347
Export sales of products	2,390,845	2,597,388
Sales of products	17,101,194	16,372,735
Domestic sales of goods for resale and materials	443,708	374,420
Export sales of goods for resale and materials	8,638	94
Sales of goods for resale and materials	452,346	374,514
Total	**17,553,540**	**16,747,249**
- including sales to related undertakings	11,546,291	13,432,487
Elimination of excise tax and fuel charge	(5,686,946)	(5,117,428)
Total	**11,866,594**	**11,629,821**

The transactions with related undertakings are presented in Note 41.

30. Cost by Type

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (comparable data) (audited)
Depreciation and amortisation	180,413	173,451
Raw materials and energy used	10,396,341	10,089,314
Contracted services (1)	615,310	600,998
Taxes and charges	42,136	43,034
Salaries and wages	91,516	76,027
Social security and other benefits	24,265	20,628
Other costs by type	55,051	40,585
Goods for resale and materials sold	419,125	298,255
Total	**11,824,157**	**11,342,292**
Adjustments:		
Change in products and adjustments in cost of sales	(382,458)	(54,091)
Total operating expenses, including:	**11,441,699**	**11,288,201**
Cost of sales	10,851,429	10,712,102
Selling costs	394,703	412,368
General and administrative expenses	195,567	163,731

(1) Including costs of R&D work of PLN 5,386 thousand for the year ended December 31st 2007 (PLN 1,952 thousand for the year ended December 31st 2006.

31. Other Operating Income

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Gain on disposal of property, plant and equipment	212	-
Other provisions*	30,002	-
Other	11,162	1,859
Total	**41,376**	**1,859**

* Including the provisions referred to in Note 25

32. Other Operating Expenses

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Loss on disposal of property, plant and equipment	-	134
Revaluation of non-financial assets	24,460	1,225
Other provisions	14,759	-
Other	10,998	3,643
Total	**50,217**	**5,002**

33. Net Financial Income and Expenses

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Dividend received	205,218	66,001
Interest	2,458	4,911
Foreign exchange gains	138,806	35,145
Gains on disposal of investments	3,020	3,415
Revaluation of financial assets	90,991	-
Settlement of derivative instruments	31,632	53,739
Total financial income	**472,125**	**163,211**
Interest	(24,748)	(3,093)
Amount disclosed under costs of assets complying with capitalisation terms	9,504	-
Revaluation of financial assets	-	(5,138)
Other	(798)	(1.946)
Total financial expenses	**(16,042)**	**(10,177)**
Net financial income (expenses)	**456,083**	**153,034**

34. Corporate Income Tax

The main items of the Company's tax charge for the year ended December 31st 2007 and December 31st 2006:

PLN '000 **Income statement**	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Current tax	138,511	96,924
Current tax liability	138,437	96,915
Adjustments related to tax brought forward	74	9
Other	-	-
Deferred income tax	(11,458)	(12,127)
related to created and reversed temporary differences	(11,458)	(12,127)
Tax charge disclosed in the income statement	127,053	84,797
Statement of changes in equity		
Current tax	-	-
Tax impact of share capital increase	-	-
Deferred income tax	-	-
Tax benefit/(charge) disclosed under equity	-	-

(This is a translation of a document originally issued in Polish)

Reconciliation of the income tax on pre-tax profit (loss) calculated at the statutory tax rate with the income tax on pre-tax profit (loss) calculated at the Company's effective tax rate, for the year ended December 31st 2007 and December 31st 2006:

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Pre-tax profit/(loss)	872,137	491,511
Corporate income tax at the statutory rate applicable in Poland: 19%	165,706	93,387
Non-tax-deductible costs	106,778	301,499
Non-taxable income	(268,502)	(315,114)
Other	18,591	32,229
Tax effect of the differences	(27,195)	3,537
Corporate income tax	138,511	96,924
Corporate income tax at the effective rate	0.16	0.20

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

PLN '000	Dec 31 2007 (audited)	Dec 31 2006 (comparable data) (audited)
Deferred tax asset		
Provision for employee benefits	4,147	3,295
Valuation allowance on inventories	2,622	4,021
Non-tax-deductible amortisation/depreciation	1,525	1,637
Foreign exchange losses on foreign-currency settlements	-	897
Valuation allowance on accounts receivable	8,872	10,076
Other	17,220	7,155
Total deferred tax asset	**34,386**	**27,081**
Deferred tax liability:		
Difference between current tax value and book value of fixed assets	153,234	161,533
Positive valuation of foreign-currency settlements	-	363
Positive valuation of derivatives	1,407	36
Other	2,176	26
Total deferred tax liability	**156,817**	**161,978**
Net deferred tax asset/(liability)	**(122,431)**	**(134,897)**

Deferred tax asset:

35. Contingent Liabilities

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. 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 an agreement on securing the Company's interest with respect to the surety.

As at the date of these financial statements, the security for the loan, subject to Annex of October 20th 2005, is a registered pledge created under the registered pledge agreement of February 18th 2004 on plastics processing units owned by LOTOS Jasło S.A..

Irrespectively of the above, the agreement states that LOTOS Jasło S.A. will seek to obtain a bank guarantee or surety to replace the surety issued by the Company.
If LOTOS Jasło S.A. is in breach of the agreement, it will pay the Company a contractual penalty of 10% of the surety value, subject to the reservation that if the value of the damage is higher than the contractual penalty, the Company may seek compensation equal to the full value of the damage.

Security Granted to Customs Office

1. The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure the Company's tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2008. The original validity term of the blank promissory note expired on March 16th 2007.

2. The validity of the blank promissory note of July 7th 2005 for PLN 200,000 thousand, issued to secure the Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2008. The original validity term of the blank promissory note, which expired on July 7th 2006, had been extended until July 5th 2007.

3. 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.

4. On August 10th 2007, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs duty, taxes and other customs charges for the amount of PLN 7,000 thousand. The contingent liability expired on January 31st 2008.

Other Contingent Liabilities

1. On January 3rd 2007, at the request of Grupa LOTOS S.A. Bank PKO BP S.A. issued a bank guarantee for the benefit of ABB Lummus Global GmbH in the form of a letter of credit for the amount of EUR 19,034 thousand. The guarantee expires on April 30th 2008. On May 8th 2007 and on October 16th 2007 the amounts of EUR 13,436 thousand and EUR 43 thousand, respectively, were drawn down under the letter of credit, while on October 25th another EUR 31 thousand was drawn thereunder. The balance as at the date of these financial statements was EUR 5,525 thousand.

2. On July 10th 2007, at the request of Grupa LOTOS S.A. Bank PKO BP S.A. issued a bank guarantee in the form of a stand-by letter of credit for EUR 45,000 thousand for the benefit of Technip Italy S.p.a. The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. As of October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the total amount of the letter of credit was raised to EUR 52,313 thousand in the period January 1st – March 31st 2008, and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The original validity term of the guarantee expired on December 31st 2007.

3. As at December 31st 2007, the Group's liabilities arising from the material agreements related to expenditure on property, plant and equipment (the 10+ Programme) amounted to PLN 2,735 million (as at December 31st 2006: PLN 699 million).

36. Carbon Dioxide Emission Credits

As at December 31st 2007 and December 31st 2006, the Company reported excess of carbon dioxide emission credits over the actual carbon dioxide emission.

In 2007, the Company was allowed to emit 1,330 thousand tonnes of carbon dioxide, while the actual emissions were 1,152.5 thousand tonnes.

37. Material Court, Arbitration or Administrative Proceedings, Other Risks

Material Proceedings Pending before Public Administration Authorities in Connection with the Company's Business

On March 21st 2005, the President of the Competition and Consumer Protection Office issued a decision whereby anti-trust proceedings were instigated *ex officio* to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Płock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the universal U95 gasoline. In the opinion of the Company's Management Board, given that in fact the production and sale of the U95 universal gasoline were not discontinued, the allegations of the Competition and Consumer Protection Office are unfounded. In April 2005, the Management Board motioned for issuing a decision to the effect that Grupa LOTOS S.A. has not been found to use competition-limiting practices.

In July 2005, the Company appealed to the Anti-Monopoly Court against the Competition and Consumer Protection Office's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005, the Company filed another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use competition-liming practices. In October 2005 the Company received another decision of the Competition and Consumer Protection Office concerning limitation of access to a part of the evidence, against which the Company appealed to the Anti-Monopoly Court. The Regional Anti-Monopoly Court dismissed the appeals. Grupa LOTOS S.A. appealed to the Warsaw Court of Appeals against the Regional Anti-Monopoly Court's decisions, but these appeals were dismissed as well.

Pursuant to the Court's Decision of April 18th 2007, Grupa LOTOS S.A.'s right of access to evidence in the anti-trust proceedings, namely to the materials obtained during inspections at PKN ORLEN S.A.'s offices, was restricted on the basis of a petition submitted by PKN ORLEN S.A. The restriction concerned the report on inspection of the offices in Warsaw together with appendices to the report, and a part of appendices to the report on inspection of the offices in Płock. At the same time, PKN ORLEN S.A.'s petition was rejected to the extent concerning restriction of Grupa LOTOS S.A.'s right of access to the report on inspection of PKN ORLEN S.A.'s offices in Płock. On April 26th 2007, Grupa LOTOS S.A. filed a complaint against the Decision restricting Grupa LOTOS S.A.'s right of access to the evidence. On May 9th 2007, Grupa LOTOS S.A. received a notice from the Competition and Consumer Protection Office (UOKiK) to provide information on changes to U-95 and Pb95 gasoline prices. The information was sent to UOKiK on the same day. On August 2nd 2007, Grupa LOTOS S.A. sent a notification to UOKiK to the effect that the production of the U95 gasoline had been discontinued. On December 31st 2007, the President of UOKiK imposed a fine of PLN 1,000 thousand on Grupa LOTOS S.A. Consequently, on January 17th 2008 an appeal against the decision was filed with the Regional Court of Warsaw. The case is pending.

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

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

The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Competition and Consumer Protection Office of September 26th 1996, in which the Authority ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation, fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals, in case No. I ACa 824/03, and submitted for re-examination by the District Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

The case is pending before the Regional Court of Gdańsk (First Instance Court) and its file No. is IX GC 134/04. The Company defends itself by raising substantive charges (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report concerning the extent of damages which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, PETROECCO JV Sp. z o.o. filed an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the decision of the Regional Court. On March 19th 2008, an enforcement petition was filed to a court enforcement officer against PETROECCO JV Sp. z o.o. As at the date of publication of these financial statements, the case is pending.

Proceedings upon Action Brought by the Minister of State Treasury for Invalidation of the Share Purchase Agreement Concerning Shares in Naftoport Sp. z o.o.

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court in Gdańsk, IX Commercial Division, issued a ruling dismissing the claim in its entirety. On June 8th 2006, the Minister of State Treasury appealed against the ruling of April 21st 2006 which dismissed the Minister's petition to declare invalidity of the agreement of August 18th 1998. On June 30th 2006, the Company filed its response to the appeal. On December 28th 2006, the Court of Appeals passed a ruling reversing the challenged decision of April 21st 2006 and declaring the agreement on the sale of two shares in Naftoport Sp. z o.o. as invalid. On April 6th 2007, the Company filed a cassation complaint and a request to arrest enforcement of the decision of the second instance. By virtue of the ruling of the Court of Appeals of Szczecin dated April 20th 2007, the request to arrest enforcement of the decision of the second instance was dismissed. On August 10th 2007, the Supreme Court issued a decision to accept the cassation complaint for consideration. On November 21st 2007, the Supreme Court issued a decision to remand the case back to the District Court of Szczecin. As at the date of these financial statements, the case is pending.

Tax Settlements

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

Tax settlements may be subject to tax inspection for a period of five years from the end of the calendar year in which the tax payment was made. As a result of such inspections, additional tax liabilities may be assessed with respect to the tax settlements made by the Company. In the Company's opinion, as at December 31st 2007, relevant provisions for identified and measurable tax risk have been created.

38. Material Events Subsequent to the Balance-Sheet Date

No material events occurred in the period from the balance-sheet date until the date of preparation of these consolidated financial statements except for the following:

1. On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. opened a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand at the mid-exchange rate quoted by the National Bank of Poland as at January 2nd 2008) for the benefit of Technip KTI S.p.a, valid through June 30th 2008. The letter of credit was issued to secure the performance of a construction contract related to the amine complex. On April 23rd 2008, the validity period of the letter of credit was

extended to December 31st 2008. The amount of the stand-by letter of credit in the period July 1st–September 30th 2008 will be EUR 38,668 thousand, and in the period October 1st–December 31st 2008 – EUR 37,561 thousand.

2. On January 16th 2008, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a payment guarantee of USD 10,800 thousand (PLN 26,214 thousand at the average rates quoted by the National Bank of Poland on January 16th 2008) for the benefit of Total Deutschland GmbH in connection with the supply of gasoline. The guarantee expires on May 31st 2008.

39. Remuneration of the Management Board and the Supervisory Board and Information on Loans and Other Similar Benefits Advanced to Members of the Company's Management and Supervisory Staff

The remuneration paid and payable to the members of the Company's Management Board and Supervisory Board was as follows:

PLN '000	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Management Board	738*	548
Supervisory Board	239	237
Management Board – subsidiary or associated undertakings	274	86
Total **	**1,251**	**871**

* Remuneration advanced for periods before being appointed to Company's Management Board.
**The value of remuneration reflects changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. made during the reporting period.

As at December 31st 2007, the Parent Undertaking did not advance any loans and similar benefits to members of the management and supervisory staff.

40. Employment Structure

Average employment by category:

	Year ended Dec 31 2007 (audited)	Year ended Dec 31 2006 (audited)
Blue-collar workers	384	374
White-collar workers	637	505
Total	**1,021**	**879**

(This is a translation of a document originally issued in Polish)

41. Transactions with Related Undertakings

(PLN '000)	Sales to related undertakings (incl. excise tax and fuel charge)	Purchases from related undertakings (incl. excise tax and fuel charge)	Receivables from related undertakings	Liabilities to related undertakings
	year ended Dec 2007	**year ended Dec 2007**	**as at Dec 31 2007**	**as at Dec 31 2007**
Consolidated undertakings	11,546,261	724,756	1,033,135	79,102
Non-consolidated undertakings	30	3,884	2	213
Total	**11,546,291**	**728,640**	**1,033,137**	**79,315**

In the period from January 1st to December 31st 2007, the total revenue from the sale of non-current assets to related parties amounted to PLN 2 thousand.

In the period from January 1st to December 31st 2007, the total value of purchases of non-current assets from related parties amounted to PLN 8,912 thousand.

In the period from January 1st to December 31st 2007, the total value of financial income on transactions with related parties amounted to 204,885 (including dividends of PLN 203,577 thousand and interest of PLN 1,308 thousand).

In the period from January 1st to December 31st 2007, the total value of financial expenses related to transactions with related parties was PLN 1 thousand (interest expense).

In the period from January 1st to December 31st 2007, the total value of other operating income on transactions with related parties amounted to PLN 505 thousand (other operating income).

In the period from January 1st to December 31st 2007, the total value of other operating expenses connected with transactions with related parties amounted to PLN 41 thousand (including other operating expenses of PLN 39 thousand and a loss of PLN 2 thousand on disposal of non-financial non-current assets).

(PLN '000)	Sales to related undertakings (incl. excise tax and fuel charge)	Purchases from related undertakings (incl. excise tax and fuel charge)	Receivables from related undertakings	Liabilities to related undertakings
	year ended Dec 31 2006	year ended Dec 31 2006	as at Dec 31 2006	as at Dec 31 2006
Consolidated undertakings	13,432,231	845,206	1,373,428	33,156
Associated undertakings	3	3,259	1	201
Non-consolidated undertakings	253	1,392	123	692
Total	**13,432,487**	**849,857**	**1,373,552**	**34,049**

In the period January 1st – December 31st 2006, the total income on sale of property, plant and equipment and intangible assets of Grupa LOTOS S.A. to related undertakings was PLN 77 thousand.

In the period January 1st – December 31st 2006, the total value of property, plant and equipment and intangible assets purchased by Grupa LOTOS S.A. from related undertakings was PLN 22,448 thousand

In the period from January 1st to December 31st 2006, the total value of financial income on transactions with related parties amounted to 66,771 (including dividends of PLN 64,484 thousand and interest of PLN 2,280 thousand).

In the period from January 1st to December 31st 2006, the total value of other operating income on transactions with related parties amounted to PLN 652 thousand (including gain on disposal of non-financial non-current assets of PLN 77 thousand and PLN 575 thousand of other operating income).

In the period from January 1st to December 31st 2006, the total value of other operating expenses connected with transactions with related parties amounted to PLN 28 thousand (other operating expenses).

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

42. Entity with Significant Influence over the Company

As at December 31st 2007 and December 31st 2006, Nafta Polska S.A. held a 51.91% stake in Grupa LOTOS S.A. Nafta Polska S.A. is controlled by the State Treasury, which, as at December 31st 2007 and December 31st 2006, directly held a 6.93% stake in Grupa LOTOS S.A. As at December 31st 2007 and December 31st 2006, the State Treasury held, directly and indirectly, 58.84% of shares in Grupa LOTOS S.A.

The aggregate value of transactions concluded between Grupa LOTOS S.A. and Nafta Polska during the year ended December 31st 2007 was PLN 21,250 thousand, including the dividend of 21,249 thousand.

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

43. 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. The Company was included in the list of strategic companies referred to in Art. 8 of the Act, published in the Polish Council of Ministers’ Regulation on the list of companies of material importance to public order or safety, dated December 13th 2005 (Dz.U. of December 29th 2005). The responsibility of the observers acting on behalf of the State Treasury at strategic companies is to monitor the operations of these companies regarding, among other things, the following issues:

- management of company assets of material importance to its operations,
- changes of the actual business profile, changes of the intended use or discontinuation of the use of a company’s asset of material importance,
- adoption by the General Shareholders Meeting of resolutions concerning dissolution of the company, relocation of its registered office abroad, change of its business profile, sale or lease of its business or an organised part of its business, or encumbrance of the business or its organised part with limited property rights,

if there is reasonable suspicion that such a legal action would violate public order or safety.

The assumptions of the state’s policies concerning social or economic life spheres of material importance to public order or safety will be published in *Monitor Polski*.

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

The State Treasury Minister is required in certain cases, and in other cases he is authorised, to voice his objection to an action of a given strategic company of which he has been notified by the observers. Provided that it is not appealed against, such an objection renders a given legal action invalid as of the date on which it was performed. Until the approval of these financial statements, the Company has received no statement on the appointment of an observer for the Company.

44. 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 Production and Development Director	Marek Sokołowski
Chief Accountant	Tomasz Południewski