GRUPA LOTOS S.A. CAPITAL GROUP
GDAŃSK, ULICA ELBLĄSKA 135

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2007 FINANCIAL YEAR
WITH
AUDITOR'S OPINION
AND
AUDIT REPORT
## TABLE OF CONTENTS

**OPINION OF THE INDEPENDENT CERTIFIED AUDITOR** ........................................ 3

**REPORT SUPPLEMENTING THE OPINION ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF GRUPA LOTOS S.A. FOR THE 2007 FINANCIAL YEAR** ................................................................. 7

1. GENERAL INFORMATION .................................................................................. 7
2. DETAILS OF THE AUDITED ENTITY .................................................................. 7
3. INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PREVIOUS FINANCIAL YEAR ................................................................................................................... 12
4. DATA IDENTIFYING THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS AND THE CERTIFIED AUDITOR ACTING ON ITS BEHALF ................................................................. 14
5. AVAILABILITY OF DATA AND MANAGEMENT REPRESENTATIONS ..................... 14
6. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP ................. 16
7. DETAILED INFORMATION ................................................................................ 17
   1. INFORMATION ON THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS ..... 17
   2. CONSOLIDATION DOCUMENTATION ................................................................ 17
   3. JUSTIFICATION OF THE OPINION ISSUED .................................................. 18
   4. COMPLETENESS AND CORRECTNESS OF DRAWING UP ADDITIONAL INFORMATION AND EXPLANATIONS AND THE REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP .......... 20
   5. FINAL INFORMATION AND FINDINGS ......................................................... 20

**CONSOLIDATED FINANCIAL STATEMENTS OF GRUPA LOTOS S.A.**
**CAPITAL GROUP**
**FOR THE 2007 FINANCIAL YEAR**

1. Consolidated balance sheet
2. Consolidated income statement
3. Statement of changes in consolidated equity
4. Consolidated cash flow statement
5. Additional information and explanations

**REPORT ON THE ACTIVITIES OF THE CAPITAL GROUP**
To the Shareholders Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of GRUPA LOTOS S.A. Capital Group (the Group, Capital Group), with GRUPA LOTOS S.A. (the Company, Parent) as its parent with the registered office in Gdańsk, ul. Elbląska 135, including:

   - consolidated balance sheet prepared as of 31 December 2007, with total assets and liabilities plus equity of PLN 9,720,384 thousand;
   - consolidated income statement for the period from 1 January 2007 to 31 December 2007, disclosing a net profit of PLN 814,147 thousand;
   - statement of changes in consolidated equity for the period from 1 January 2007 to 31 December 2007, disclosing an increase in equity of PLN 748,975 thousand;
   - consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007, showing a net cash outflow of PLN 147,061 thousand;
   - additional information and explanations.

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

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

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

   - the fact that the parent does not have financial statements of UAB Naftos Gavyba Capital Group ("NG Group") consolidated based on equity method and failure to assess the impact of qualifications included in the opinion of the certified auditor issued to the consolidated financial statements of the NG Group,
- uncertainty as to whether and to what extent the expenses in the amount of PLN 102 million incurred due to agreements concluded on the base Program generate the expected economic benefits,

and pointed out the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- note 11 of the additional information and explanations to the financial statements, in which the Company undertakes to continue the implementation of the concept for Integrated Gasification Combined Cycle (IGCC), that allows launching of the second stage of Program 10+. We would like to point out that the second stage implementation shall depend on future events, including market factors, which might affect the effectiveness of the capital investment incurred so far, which as at 31 December 2007 amounted to PLN 46.5 million and pertained to implementation of IGCC,
- note 11 of the additional information and explanations to the financial statements, in which the Group discloses assets due to expenditure incurred on exploration of B-4 and B-6 gas deposits as well as bore-hole costs in the amount of PLN 48 million as at 31 December 2007. The Group ordered a feasibility study for the deposit development. According to the analysis, there is a need for significant capital expenditure to operate the deposits. As referred to in note 11, it is not certain whether the benefits flowing from future deposit output can cover the expenditure incurred and to be incurred to commence the production.

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

Piotr Sokółowski
Certified auditor:
No. 9752/7281

Represented by

Entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors

Warsaw, 6 May 2008

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.
REPORT SUPPLEMENTING THE OPINION ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF GRUPA LOTOS S.A. FOR THE 2007 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited entity

The Capital Group’s parent company (hereinafter: the Company or Parent) operates under the name GRUPA LOTOS S.A. The Company’s registered office is located in Gdańsk, ul. Elbląska 135.

The Company operates as a joint stock company incorporated by the notarized deed on 18 September 1991 in Warsaw (RePERTory No. 8932/91).

On 10 April 2002, the Company was recorded in the Record of Entrepreneurs kept by the District Court Gdańsk-Północ, VII Business Division of the National Court Register in Gdańsk, under the number KRS 0000106150.

In 2003, pursuant to the decision of the District Court in Gdańsk, XII Business Division of the National Court Register of 28 May 2003, the Company changed its name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

The Company has the following tax identification number NIP: 583-000-09-60, assigned by the First Tax Office in Gdańsk on 9 June 1993.

The REGON number assigned to the Company by the Statistical Office on 25 February 1998 is 190541636.


The Company operates based on the provisions of the Code of Commercial Companies.

In accordance with its Articles of Association, the scope of the Company’s business activities includes production, services and trade, in particular:

– manufacturing of crude oil refined products (PKD 23.20.A),
– processing of crude oil refined products (PKD 23.20.B),
– production of technical gases (PKD 24.11.Z),
– production of other basic inorganic chemicals (PKD 24.13.Z),
– production of other basic inorganic chemicals (PKD 24.14.Z),
– production of plastics (PKD 24.16.Z),
– production of electric energy (PKD 40.11.Z),
– transmission of electric energy (PKD 40.12.Z),
– distribution and sales of electric energy (PKD 40.13.Z),
- production of gas fuels (PKD 40.21.Z);
- distribution of gas fuels in the network system (PKD 40.22.Z);
- production of heat (steam and hot water) (PKD 40.30.A);
- distribution of heat (steam and hot water) (PKD 40.30.8);
- water consumption and treatment, except for service activity (PKD 41.00.A),
- activity in the area of water distribution (PKD 41.00.B),
- production of crude oil (PKD 11.10.A.),
- production of natural gas (PKD 11.10.B),
- general construction works on line distribution structures pipelines, electric energy lines and telecommunication-local lines - (PKD 45.21.D);
- wholesale of solid, liquid and gas fuels as well as derivative products (PKD 51.51.Z);
- wholesale of chemical products (PKD 5.55.Z),
- railway transport (PKD 60.10.2);
- pipeline transport (PKD 60.30.Z);
- cargo transshipment at sea harbors (PKD 63.11.A),
- cargo transshipment at inland harbors (PKD 63.11.B),
- cargo transshipment in other transshipment points (PKD 63.11.C),
- warehousing and storage of goods in sea harbors (PKD 63.12.A),
- warehousing and storage of goods in inland harbors (PKD 63.12.B),
- warehousing and storage of goods in other storage facilities (PKD 63.12.C),
- research and development work in chemical science (PKD 73.10.B),
- research and development work in technical science (PKD 73.10.G);
- research and development work in technical and natural science (PKD 73.10.H);

In the audited period, the Group was involved in production and processing of crude oil refining products and their wholesale and retail sale. The Group also deals with exploration and development of natural gas and crude oil fields.

The Parent holds the following concessions for its core activities:

- production of liquid fuels expiring on 30 November 2008 issued by the President of the Energy Regulatory Authority on 28 November 1998,
- production of fuels in crude oil processing and fuel composing with the use of appropriate hydrocarbon fractions and component technologies as well as in specific processes expiring on 31 December 2025 and issued by the President of the Energy Regulatory Authority on 5 October 2007,
- liquid fuel trading concession expiring on 21 December 2008 issued by the President of the Energy Regulatory Authority on 23 November 1998,
- liquid fuel trading concession expiring on 31 December 2025 issued by the President of the Energy Regulatory Authority on 5 October 2007,
- storage of liquid fuels expiring on 15 November 2016 issued by the President of the Energy Regulatory Authority on 10 October 2006,
- production of electric energy expiring on 5 October 2010 issued by the President of the Energy Regulatory Authority on 29 September 2000,
- electric energy trading concession for the period from 10 September 2001 to 10 September 2011 issued by the President of the Energy Regulatory Authority on 5 September 2001,
- transmission and distribution of electric energy for the period from 10 September 2001 to 10 September 2011 issued by the President of the Energy Regulatory Authority on 5 September 2001.

In addition, Capital Group entities hold the following concessions and licenses:
- issued by the Ministry of Environment for exploration and prospecting of oil and natural gas deposits in individual regions (South Gas region - expiring on 14 December 2012; North Gas, Gotland, Leba, Rozewie, Sambia-E, Sambia-W - expiring 14 December 2010; Wolin - expiring 14 June 2008),
- issued by the Minister of Environment for development of individual deposits (deposit B6 – expiring on 7 November 2026; B3 and B8 – expiring on 29 July 2016 and 5 September 2009; B4 – expiring on 11 May 2032),
- issued by the President of Energy Regulatory Authority for production, storage and trading of liquid fuels, trading of gas fuels, gas fuel transmission and distribution; heat transmission and distribution; electric energy production; energy transmission and distribution; trading of electric energy,
- issued by the President of the Railway Transport Office for rail transport of objects and rental of traction vehicles.

As of 31 December 2007, the Company’s share capital equaled PLN 113,700 thousand and was divided into 113,700 ordinary shares of face value PLN 1 each.

Based on the current reports published in accordance with the requirements of Article 69 of the Law on public procurement, conditions for introducing financial instruments into organized trading and on public companies of 29 July 2005 (Dz. U. No. 184 of 2005 item 1539 as amended), the Company’s structure of the share capital at 31 December 2007 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>number of votes</th>
<th>Face value per share in PLN</th>
<th>Interest in the share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>7,878,030</td>
<td>7,878,030</td>
<td>7,878,030</td>
<td>6.93 %</td>
</tr>
<tr>
<td>Nafta Polska S.A.</td>
<td>59,025,000</td>
<td>59,025,000</td>
<td>59,025,000</td>
<td>51.91 %</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>46,796,970</td>
<td>46,796,970</td>
<td>46,796,970</td>
<td>41.16 %</td>
</tr>
<tr>
<td>Total</td>
<td>113,700,000</td>
<td>113,700,000</td>
<td>113,700,000</td>
<td>100.00 %</td>
</tr>
</tbody>
</table>

No changes parent's share capital were recorded during the reporting period.

The Capital Group’s financial year is the calendar year.

As at the date of issuing the opinion, the composition of the Company’s Supervisory Board was as follows:
- Jan Stefanowicz - Chairman of the Supervisory Board,
- Henryk Siodmok - Vice 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.

The following changes in the composition of the Company’s Supervisory Board took place during the audited period:

1. At the meeting held on 28 May 2007, the General Shareholder’s Meeting of Grupa LOTOS S.A. dismissed Mr. Jacek Tarnowski as the Member of the Supervisory Board of Grupa LOTOS S.A. and appointed:
   - Jan Stefanowicz as the Chairman of the Supervisory Board of Grupa LOTOS S.A. who was the Vice Chairman of the Supervisory Board of Grupa LOTOS S.A.
   - Marta Busz as the Member of Supervisory Board of Grupa LOTOS S.A.
   - Izabela Emerling as the Member of Supervisory Board of Grupa LOTOS S.A.
2. At the meeting held on 14 June 2007, the Company’s Management Board appointed Mr. Henryk Siodmok as the Vice Chairman of the Supervisory Board of Grupa LOTOS S.A. 

As at the opinion date, the composition of the Company’s Management Board was as follows:

- Paweł Olechnowicz - Chairman of the Management Board, CEO,
- Marek Sokolowski - Vice Chairman of the Management Board, Production and Development Director,
- Mariusz Machajewski - Vice Chairman of the Management Board, Financial Economic Director.

The following changes in the Company’s Management Board took place during the audited period:

- on 13 November 2007, the Supervisory Board of GRUPA LOTOS S.A. dismissed Mr. Jarosław Kryński as the Vice-Chairman of the Management Board, Commercial Director of GRUPA LOTOS S.A.

The above changes were filed with and recorded in the proper court register.

As of 31 December 2007, Grupa LOTOS S.A. Capital Group included:

- parent – Grupa LOTOS S.A., and
- direct subsidiaries:
  - LOTOS Paliwa Sp. z o.o.,
  - LOTOS Kolej Sp. z o.o.,
  - LOTOS Ekoenergia Sp. z o.o.,
  - LOTOS Oil S.A.,
  - LOTOS Serwis Sp. z o.o.,
  - LOTOS Lab Sp. z o.o.,
  - LOTOS Asfalt Sp. z o.o.,
  - LOTOS Straż Sp. z o.o.,
  - LOTOS Gaz S.A.,
  - LOTOS Exploration and Production Norge AS,
  - LOTOS Hydrokompleks Sp. z o.o. in liquidation,
  - LOTOS Ochrona Sp. z o.o.,
  - LOTOS Czechowice S.A.,
  - LOTOS Jasło S.A.,
  - PETROBALTIC S.A.,
  - Rafineria Nafty Glimar S.A. in bankruptcy,
  - UAB LOTOS Baltija,
  - LOTOS Tank Sp. z o.o.,
  - LOTOS Parafiny Sp. z o.o.,
  - LOTOS Park Technologiczny Sp. z o.o.

- indirect subsidiaries:
  - RCEkoenergia Sp. z o.o.,
  - LOTOS Biopaliwa Sp. z o.o.,
  - RCServis Sp. z o.o.,
  - Plastekol Organizacja Odzysku S.A.,
  - Chemipetrol Sp. z o.o.,
  - KRAK – GAZ Sp. z o.o.,
- Miliana Shipping Company Ltd,
- Aphrodite Offshore Services Ltd.

The following companies have been covered by the consolidated financial statements as of 31 December 2007:

a) Parent - Grupa LOTOS S.A.

We have audited the financial statements of the parent, Grupa LOTOS S.A. for the period from 1 January to 31 December 2007. As a result of our audit, on 6 May 2008, we issued an opinion pointing out note 11 of the additional information and explanations to the financial statements, in which the Company undertakes to continue the implementation of the concept for Integrated Gasification Combined Cycle (IGCC), that allows launching of the second stage of Program 10+. We pointed out that the second stage implementation shall depend on future events, including market factors, which might affect the effectiveness of the capital investment incurred so far, which as at 31 December 2007 amounted to PLN 46.5 million and pertained to implementation of IGCC.

b) Related parties - direct subsidiaries:
- LOTOS Paliwa Sp. z o.o.,
- LOTOS Kolej Sp. z o.o.
- LOTOS Ekoenergia Sp. z o.o.,
- LOTOS Oil S.A.,
- LOTOS Serwis Sp. z o.o.,
- LOTOS Lab Sp. z o.o.,
- LOTOS Asfalt Sp. z o.o.,
- LOTOS Straż Sp. z o.o.,
- LOTOS Gaz S.A.,
- LOTOS Exploration and Production Norge AS,
- LOTOS Ochrona Sp. z o.o.,
- LOTOS Czechowice S.A.,
- LOTOS Jasło S.A.,
- PETROBALTIC S.A.,
- UAB LOTOS Baltija,
- LOTOS Tank Sp. z o.o.,
- LOTOS Parafiny Sp. z o.o.,
- LOTOS Park Technologiczny Sp. z o.o.

-indirect subsidiaries:
- RCEkoenergia Sp. z o.o.,
- LOTOS Biopaliwa Sp. z o.o.,
- RCSerwis Sp. z o.o.,
- RCPaliwa Sp. z o.o. in liquidation,
- Plastekol Organizacja Odzysku S.A.,
- Petrosoft.pl Technologie Informatyczne Sp. z o.o.,
- Chemipetrol Sp. z o.o.,
- KRAK-GAZ Sp. z o.o.,
- Miliana Shipping Company Ltd.,
- Aphrodite Offshore Services Ltd.
Entities and Capital Groups included in full consolidation:

<table>
<thead>
<tr>
<th>Company’s name</th>
<th>Registered office</th>
<th>Interest in the share capital (in %)</th>
<th>Name of entity that audited the financial statements</th>
<th>Type of opinion issued</th>
<th>Opinion date</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOTOS Paliwa Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Deloitte Audyt Sp. z o.o.</td>
<td>unqualified, with explanation</td>
<td>23.04.2008</td>
</tr>
<tr>
<td>LOTOS Kolej Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Kancelaria Biegłego Rewidenta Ewa Dreliszak</td>
<td>unqualified</td>
<td>14.03.2008</td>
</tr>
<tr>
<td>LOTOS Ekoenergia Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Stowarzyszenie Ekspertów Księgowych i Podatkowych Sp. z o.o.</td>
<td>unqualified</td>
<td>13.02.2008</td>
</tr>
<tr>
<td>LOTOS Oil S.A.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Deloitte Audyt Sp. z o.o.</td>
<td>unqualified</td>
<td>18.03.2008</td>
</tr>
<tr>
<td>LOTOS Serwis Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Moore Stephens Trzempalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o.</td>
<td>unqualified</td>
<td>04.03.2008</td>
</tr>
<tr>
<td>LOTOS Lab Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Kancelaria Biegłego Rewidenta Ewa Dreliszak</td>
<td>unqualified</td>
<td>28.02.2008</td>
</tr>
<tr>
<td>LOTOS Asfalt Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Deloitte Audyt Sp. z o.o.</td>
<td>unqualified</td>
<td>25.03.2008</td>
</tr>
<tr>
<td>LOTOS Straż Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Excluded from audit</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>LOTOS Gaz S.A.</td>
<td>Mława</td>
<td>100.00</td>
<td>Biuro Rachunkowe Jerzy Łopacki</td>
<td>unqualified</td>
<td>11.04.2008</td>
</tr>
<tr>
<td>LOTOS Ochrona Sp. z o.o.</td>
<td>Gdańsk</td>
<td>100.00</td>
<td>Excluded from audit</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>LOTOS Tank Sp. z o.o.</td>
<td>Jasło</td>
<td>100.00</td>
<td>Biuro Rachunkowe Andrzej Jaguszewski</td>
<td>unqualified</td>
<td>27.02.2008</td>
</tr>
<tr>
<td>LOTOS Parafiny Sp. z o.o.</td>
<td>Jasło</td>
<td>100.00</td>
<td>Moore Stephens Józef Król Sp. z o.o.</td>
<td>unqualified</td>
<td>28.02.2008</td>
</tr>
<tr>
<td>LOTOS Exploration and Production Norge AS</td>
<td>Stavanger Norwegia</td>
<td>100.00</td>
<td>Deloitte AS</td>
<td>unqualified</td>
<td>25.02.2008</td>
</tr>
<tr>
<td>UAB Lotos Baltija</td>
<td>Lithuania</td>
<td>100.00</td>
<td>HLB &quot;Provisus&quot; UAB</td>
<td>unqualified</td>
<td>28.03.2008</td>
</tr>
<tr>
<td>LOTOS Park Technologiczny Sp. z o.o.</td>
<td>Gorlice</td>
<td>86.91</td>
<td>PKF Consult Sp. z o.o.</td>
<td>unqualified opinion with elements pointed out</td>
<td>25.02.2008</td>
</tr>
<tr>
<td>LOTOS Czechowice S.A.</td>
<td>Czechowice</td>
<td>80.04</td>
<td>Kancelaria Porad Finansowo-księgowych Różej Sp. z o.o.</td>
<td>qualified</td>
<td>07.03.2008</td>
</tr>
<tr>
<td>LOTOS Jasło S.A.</td>
<td>Jasło</td>
<td>80.01</td>
<td>Deloitte Audyt Sp. z o.o.</td>
<td>qualified</td>
<td>31.03.2008</td>
</tr>
<tr>
<td>PETROBALTIC S.A.</td>
<td>Gdańsk</td>
<td>69.00</td>
<td>Deloitte Audyt Sp. z o.o.</td>
<td>qualified</td>
<td>17.04.2008</td>
</tr>
</tbody>
</table>

2. Information on the consolidated financial statements for the previous financial year

The activities of the Capital Group in 2006 resulted in a net profit of PLN 734,652 thousand. The consolidated financial statements of the Capital Group for the 2006 financial year were audited by a certified auditor. The audit was performed by authorized entity Ernst & Young Audit sp. z o.o. On 17 April 2007, the certified auditor issued a qualified opinion on these financial statements with a comment pointing out the following facts:

Qualifications regarded:
- Inability to estimate the amount and grounds for recognizing the expenses related to Complex Technical Development Program (PKRT) program in the consolidated income statement. The Company has signed two contracts for PKRT base project as well as estimate and offer for the project implementation. Total cost of both contracts amounted to PLN 102 million and was recognized in fixed assets under construction. The parent has
performed analysis of both projects to develop a single, complex project best suited to the Company’s needs. At this analysis stage, the Company is not able to determine the extent, to which both project will be effectively implemented in the future to develop a final base PKRT implementation project.

- Inability to assess the impact of qualifications included in the certified auditor’s opinion issued to the consolidated financial statements of the Lithuanian Capital Group UAB Naftos Gavyba (“NG Group”), which is a related party to Petrobaltic S.A. Capital Group (42.7% shares – consolidated using equity method). The qualifications regarded inability to assess all financial consequences of the arbitration proceedings, in which AB Geonafta, a subsidiary of NG Group, is a party; resulting in limited scope of audit of net value of fixed assets employed in the output operations as well as their depreciation; plus the fact that Naftos Gavyba Group prepares financial statements in accordance with Lithuanian accounting standards.

In addition, LOTOS S.A. Capital Group (the Group) discloses in its consolidated financial statements advances for purchase of shares in AB Geonafta in the total amount of PLN 25 million. The Group ordered an independent valuation of its assets employed in the Lithuanian operations. Due to lack of control, the Group has no influence over the NG Group’s operating activities and limited possibility of access to these assets. The issues in question have material impact on the realizable value of the said assets.

- Inability to assess the correctness of estimates regarding a provision created by a subsidiary, LOTOS Czechowice S.A. for the cost of post-production waste removal and utilization in so called “acid pits” as well as provision for the cost of future land recultivation due to planned liquidation of installations disclosed by the Group in the total amount of PLN 40 million. The Group estimated the quantities of post-production waste as well as the area of land to be recultivated to the best knowledge of the Group's technical personnel and based on the existing documentation; however, bore-hole technology measurements were not taken that would ensure full reliability of the estimates.

In addition, there were significant discrepancies in the value of provisions for land recultivation cost estimated by environmental experts. Moreover, there was no information on pollution concentration measurement or actual pollution locations in individual refineries of the Group.

The issues pointed out:

- The uncertainty as to the ability to realize advances paid by the Company in the amount of PLN 75 million for reactor delivery under PKRT program. By the 2006 opinion date, the Company had not placed final orders for reactors, which may lead to the situation, where the signed letters of intent are cancelled, while the advances are not returned in full amount. In addition, there is no final and approved PKRT base project, while the Supervisory Board has not approved the agreement on PKRT general contracting.

- The uncertainty as to recovery of the full goodwill arising from the acquisition of the organized part of ExxonMobile Poland Sp. z o.o. and Slovnaft Polska S.A. in the total amount of PLN 55 million. The Group tested the goodwill for impairment based on the analysis of discounted cash flows for the acquired gas stations; however, the cash flow forecasts depend on a series of future events, while the financial result generated in 2006 by the acquired gas stations was significantly lower than the estimates.

- The uncertainty as to realization of full value of activated exploration costs and assessment of mineral resources in B-4 and B-6 geological areas. The bore-hole cost and other expenditure incurred on B-4 and B-6 gas deposit exploration amount to PLN 48 million. The results of an independent analysis ordered by the Group indicate the need for further significant expenditure in order to ensure profitable deposit production. At present, the Group has not included in its mid-term plans any significant expenditure for further exploration or development of the aforementioned areas; however, in the opinion of the
Management Board, in view of the strategic nature of the said deposits, the realizable value of the activated cost of exploration and assessment of mineral resources exceeds their carrying amount.

- The uncertainty arising from the fact that under certain circumstances, liabilities may not be fully payable, as provided for in the loan agreements. The Company signed loan agreements with RN Glimar on 23 September 2003 and 8 April 2004. The loans were granted for financing of investing and operating activities in the total amount of PLN 90 million (e.g. Hydrokompleks Glimar investment). In the consolidated financial statements prepared as at 31 December 2006, the Group disclosed revaluation write-downs on the loans granted to RN Glimar and provisions for liabilities arising from the aforementioned agreements in the total amount of PLN 90 million. In addition, the Company undertook liabilities due to co-financing of Hydrokompleks Glimar investment and ensuring proper financial and economic position of RN Glimar, whose bankruptcy was declared on 19 January 2005.

The consolidated financial statements were approved for publication by the Management Board on 17 April 2007.

The General Shareholders Meeting, which approved the consolidated financial statements for the 2006 financial year was held on 28 May 2007.

The consolidated financial statements for the 2006 financial year were submitted in accordance with the law to the National Court Register on 4 June 2007 and submitted to publication in Monitor Polski B on 12 June 2007. The financial statements were published in Monitor Polski B No. 1690 on 23 October 2007.

3. Data identifying the entity authorized to audit financial statements and the certified auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 29 June 2007, concluded between Grupa LOTOS S.A. and Deloitte Audyt Sp. z o.o. with the registered office in Warsaw, ul. Piękna 18, registered under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit was conducted under the supervision of a certified auditor Piotr Sokołowski (No. 9752/7281), at the Parent’s premises from 22 October to 6 November 2007 and from 25 March to 6 May 2008.

The authorized entity was appointed by the Supervisory Board by resolution No. 95/VI/2007 of 8 May 2007 based on authorization provided for in Article 13 of the Parent’s Articles of Association.

Deloitte Audyt Sp. z o.o. and the certified auditor Piotr Sokołowski confirm that they are authorized to audit financial statements and they meet the requirements of Article 66 clauses 2 and 3 of the Accounting Act to express an unbiased and independent opinion on the financial statements of Grupa LOTOS S.A. Capital Group.

4. Availability of data and management representations

The limitations as to the scope of our audit were as follows:
- we were not able to provide an opinion as to the amount of environmental provisions for the cost of post-production waste removal and utilization in so called “acid pits” as well as provision for the cost of future liquidation of installation and land recultivation as well as the amount of a provision for costs of soil and water purification in the areas used by the Group. The Group estimated the quantities of post-production waste as well as the area of land to be recultivated to the best knowledge of the Group's technical personnel. However, bore-hole technology measurements were not taken that would confirm the estimated value of provisions calculated by the Group. The cost of land recultivation due to planned installation liquidation was significantly different from the reports of the environmental experts. In addition, the Group prepared a report on ecological analysis of soil and water pollution in one of the subsidiaries, to which it was obligated by the decision of Podkarpackie Voivodship Voivode of 2006. The report indicating that the admissible soil pollution levels were exceeded and containing the proposal and schedule of measures aimed at soil and water purification by the end of 2013 was submitted to the Voivode. The final scope and schedule for measures aimed at rectifying the irregularities in question is subject to the decision of the Marshall Office of Podkarpackie Voivodship.

- we were not able to determine, whether the shares in the parent of AB Naftos Gavyba Capital Group (NG Group) measured based on equity method in the amount of PLN 48.5 million is correct due to the qualifications included in the certified auditor’s opinion on the consolidated financial statements of NG Group for the financial year ended 31 December 2007. The certified auditor’s qualifications included in the opinion issued on 20 March 2008 regarded:

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

During the audit, all necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the certified auditor, as confirmed in a written representation of the Management Board of the holding company of 6 May 2008.
5. Economic and financial position of the Capital Group

Presented below are the main items from the consolidated income statement as well as financial ratios describing the financial result of the Capital Group and its financial situation as compared with the same items in the previous year.

<table>
<thead>
<tr>
<th>Main items from the income statement (PLN ‘000)</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenues</td>
<td>13 125 123</td>
<td>12 798 084</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>12 493 304</td>
<td>12 027 837</td>
</tr>
<tr>
<td>Other operating revenues</td>
<td>81 845</td>
<td>28 099</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>92 181</td>
<td>70 359</td>
</tr>
<tr>
<td>Financial revenues</td>
<td>313 549</td>
<td>133 295</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>44 995</td>
<td>41 561</td>
</tr>
<tr>
<td>Income tax</td>
<td>190 347</td>
<td>181 239</td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>814 147</td>
<td>734 652</td>
</tr>
</tbody>
</table>

**Profitability ratios**

- gross profit margin                          | 5%     | 6%     |
- net profit margin                            | 6%     | 6%     |
- net return on equity                         | 15%    | 16%    |

**Effectiveness ratios**

- assets turnover ratio                        | 1.35   | 1.65   |
- receivables turnover in days                 | 39     | 31     |
- liabilities turnover in days                 | 27     | 24     |
- inventory turnover in days                   | 63     | 48     |

**Liquidity/Net working capital**

- debt ratio                                   | 37%    | 30%    |
- equity to fixed assets ratio                 | 63%    | 70%    |
- net working capital (PLN ‘000)               | 2 854 175 | 2 331 909 |
- current ratio                                | 2.21   | 2.42   |
- quick ratio                                  | 1.11   | 1.38   |

The analysis of the above figures and ratios identified the following trends occurring in 2007:

- profitability ratios remained at the similar level; profit margin and net return on equity decreased by 1%,
- a decrease in asset turnover ratio; increase in other effectiveness ratios - receivables, liabilities and inventory turnover in days,
- an increase in debt ratio,
- a decrease in equity to fixed assets ratio,
- an increase in net working capital,
- a decrease in current ratio.
II. DETAILED INFORMATION

1. Information on the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2007 and include:
- consolidated balance sheet prepared as of 31 December 2007, with total assets and liabilities plus equity of PLN 9,720,384 thousand;
- consolidated income statement for the period from 1 January 2007 to 31 December 2007, disclosing a net profit of PLN 814,147 thousand;
- statement of changes in consolidated equity for the period from 1 January 2007 to 31 December 2007, disclosing an increase in equity of PLN 748,975 thousand;
- consolidated cash flow statement for the period from 1 January 2007 to 31 December 2007, showing a net cash outflow of PLN 147,061 thousand;
- additional information and explanations.

The structure of assets and liabilities plus equity as well as items affecting the financial result was presented in the consolidated financial statements.

The audit covered the period from 1 January 2007 to 31 December 2007 and was mainly focused on:
- the audit of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent;
- audit of the consolidation documentation;
- evaluation of the correctness of consolidation methods and procedures applied during consolidation;
- review of opinions and reports on the audits of financial statements of subsidiaries and associates included in consolidation that were prepared by other certified auditors;

The audit of the consolidated financial statements was conducted in line with the relevant applicable legal regulations as well as auditing standards issued by the National Council of Statutory Auditors.

2. Consolidation documentation

The Parent presented the consolidation documentation including:

1) financial statements of related parties, including:
   a) individual (original) financial statements of related parties;
   b) financial statements of controlled entities adjusted to the accounting principles (policy) applied in consolidation;
   c) restatement of previously published consolidated financial statements in accordance with the provisions of International Financial Reporting Standards;

2) all adjustments and eliminations made during consolidation, required for the preparation of the consolidated financial statements;

3) calculations of goodwill.
Basis for preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2007 financial year were prepared in accordance with International Financial Reporting Standards as approved by the European Union.

Description of entities within the Capital Group

International Financial Reporting Standards criteria were applied when determining relationships as well as the consolidation scope and methods.

Reporting period

The consolidated financial statements were prepared as of the same balance sheet date and the same financial year as the financial statement of the parent – GRUPA LOTOS S.A. Subsidiaries and associates included in consolidation prepared financial statements as of the same balance sheet date as the holding company. The financial year of all subsidiaries and associates included in consolidation ended 31 December 2007.

Consolidation method

The consolidation of the financial statements of the Capital Group was carried out in line with the full method by summing up individual items of respective financial statements of the Parent and subsidiaries included in consolidation.

After summing values, consolidation adjustments and exclusions were applied to:

- acquisition value of shares held by the Parent in subsidiaries and part of net assets of subsidiaries, corresponding to the interest held by the parent in these entities;
- mutual receivables and liabilities of entities included in consolidation;
- material revenues and expenses related to transactions between entities included in consolidation.

In the case of associates, the equity method was applied. The value of the parent’s interest held in the associate was adjusted by increases or decreases in the net assets of the associate attributable to the parent, which occurred in the period covered by consolidation and decreased by dividends receivable from these companies.

3. Justification of the opinion issued

We have issued an opinion on the audited financial statements for 2007 pointing to the following limitations of the scope of our audit:

1. In the enclosed consolidated financial statements the Group discloses a provision for the cost of post-production waste removal and utilization in so called “acid pits” as well as provision for the cost of liquidation of installation and land recultivation in the total amount of PLN 39 million. The Group estimated the quantities of post-production waste as well as the area of land to be recultivated to the best knowledge of the Group’s technical personnel. However, bore-hole technology measurements were not taken that would confirm the estimated value of provisions calculated by the Group. The cost of land recultivation due to planned installation liquidation was significantly different from the reports of the environmental experts. In addition, the Group prepared a report on ecological analysis of soil and water
pollution in one of the subsidiaries, to which it was obligated by the decision of Podkarpackie Voivodship Voivode of 2006. The report indicating that the admissible soil pollution levels were exceeded and containing the Parent’s proposal and schedule of measures aimed at soil and water purification by the end of 2013 was submitted to the Voivode. The final scope and schedule for measures aimed at rectifying the irregularities in question is subject to the decision of the Marshall Office of Podkarpackie Voivodship. As at 31 December 2007, the Company Group had not disclosed any provisions for pollution purification cost. According to the estimates of the Parent’s Management Board, potential cost of work proposed in the report will amount to PLN 1.3 million. Due to lack of a final decision of the Marshall Office of Podkarpackie Voivodship as regards final scope, schedule and method of works required, we were not able to determine the corresponding provisions, which should be recognized in the consolidated financial statements for 31 December 2007, nor were we able to give an opinion as to the reliability of the estimate for the environmental provisions referred to above.

2. The Group discloses 42.7% interest in UAB Naftos Gavyba Capital Group (“NG Group”) with its seat in Lithuania, measured based on equity method at the amount of PLN 48.5 million. The financial statements of NG Group were prepared for the financial period ended 31 December 2007 in accordance with the accounting regulations applied in Lithuania. On 20 March 2008, the certified auditor issued an opinion on NG Group financial statements with the qualification concerning:
- limited audit scope due to lack of possibility to evaluate financial consequences of arbitration proceedings, in which AB Geonafta, a subsidiary, is the party,
- lack of independent estimate of the deposits owned by AB Naftos Gavyba Group, resulting in limited audit scope as regards net value of property, plant and equipment employed in mining operations and their depreciation,
- limited audit scope as regards evaluation of shares in associates held by AB Geonafta, a subsidiary. These limitations result from qualifications in the opinions issued by certified auditors for NG Group associates as well as differences in the accounting policies applied by individual associates.

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

and the following issues pointed out:

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

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

4. **Completeness and correctness of drawing up additional information and explanations and the report on the activities of the Capital Group**

The parent company confirmed the validity of the going concern principle followed in the preparation of the consolidated financial statements. The additional information and explanations to the consolidated financial statements give a correct and complete description of valuation principles regarding assets and liabilities plus equity, principles of measurement of the financial result as well as method of preparation of the consolidated financial statements.

The parent provided the additional information and explanations consisting of tabular notes to individual items in the consolidated balance sheet and consolidated income statement well as narrative descriptions in line with IFRS.

Explanatory notes describing: property, plant and equipment, intangible assets, investments, liabilities and provisions correctly presented increases and decreases as well as their basis during the financial year.

For individual assets presented in the consolidated balance sheet, limited disposability was indicated due to these assets' being secured for the benefit of creditors.

Individual assets and liabilities as well as revenues and expenses were correctly presented by the holding company in the consolidated financial statements. The consolidated financial statements, consolidated income statement, statement of changes in consolidated equity and consolidated cash flow statement with additional notes, information and explanations which constitute their integral part, contain all the items, whose disclosure in the consolidated financial statements is required by the provisions of IFRS.

The Management Board prepared and enclosed to the consolidated financial statements the Report on the activities of the Capital Group in the 2007 financial year. The Report contains all information required under Article 49 clause 2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 October 2005 on current and periodical information submitted by issuers of securities. We have audited the Report with regard to the disclosed information derived directly from the audited consolidated financial statements.

5. **Final information and findings**

**Management Board's Representations**

Deloitte Audyt Sp. z o.o. and the certified auditor received a representation letter from the Management Board of the holding company in which the Board stated that the Capital Group complied with the laws in force.
Piotr Sokółowski
Certified auditor:
No. 9752/7281

Represented by

Entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 6 May 2008