



**THE LOTOS GROUP**

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2007**

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## **INTRODUCTION**

This Directors' Report on the LOTOS Group's operations in the first half of 2007 was prepared by the Management Board pursuant to the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, dated October 19th 2005.

## **1. STRUCTURE OF THE LOTOS GROUP AS AT JUNE 30TH 2007**

### **1.1 STRUCTURE OF THE LOTOS GROUP**

**LOTOS Group companies, including information on the applied method of consolidation or valuation of equity interests:**

**Parent Undertaking:**

- Grupa LOTOS S.A.

**Direct subsidiary undertakings:**

- LOTOS Paliwa Sp. z o.o. - consolidated with the full method
  - LOTOS Mazowsze S.A. - consolidated with the full method<sup>1</sup>
  - LOTOS Oil S.A. - consolidated with the full method
  - LOTOS Asfalt Sp. z o.o. - consolidated with the full method
  - LOTOS Ekoenergia S.A. - consolidated with the full method
  - LOTOS Kolej Sp. z o.o. - consolidated with the full method
  - LOTOS Serwis Sp. z o.o. - consolidated with the full method
  - LOTOS Lab Sp. z o.o. - consolidated with the full method
  - LOTOS Straż Sp. z o.o. - consolidated with the full method
  - LOTOS Ochrona Sp. z o.o. - consolidated with the full method
  - LOTOS Parafiny Sp. z o.o. - consolidated with the full method
  - LOTOS Czechowice S.A. - consolidated with the full method
  - LOTOS Jasło S.A. - consolidated with the full method
  - Petrobaltic S.A. - consolidated with the full method
  - UAB LOTOS Baltija - not consolidated<sup>2</sup>
  - Rafineria Nafty Glimar S.A. in bankruptcy - not consolidated
  - LOTOS Hydrokompleks Sp. z o.o. - not consolidated
  - LOTOS Park Technologiczny Sp. z o.o. - consolidated with the full method
  - LOTOS Tank Sp. z o.o. - consolidated with the full method<sup>3</sup>
- 

<sup>1</sup> On July 5th 2007, change of the name LOTOS Mazowsze S.A. to LOTOS Gaz S.A. was registered. On July 9th 2007, LOTOS Gaz S.A. concluded a final agreement on the acquisition of 34,500 shares (100% of the share capital) in KRAK-GAZ Sp. z o.o. KRAK-GAZ Sp. z o.o. is consolidated with full method.

<sup>2</sup> In 2006, the registered office of UAB LOTOS Baltija was moved from Kaunas to Vilnius.

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- *LOTOS Partner Sp. z o.o.*<sup>4</sup>
- *BiproRaf Sp. z o.o.*<sup>5</sup>

**Indirect subsidiary undertakings:**

- RC Ekoenergia Sp. z o.o. - consolidated with the full method
  - LOTOS Biopaliwa Sp. z o.o. - consolidated with the full method
  - RC Serwis Sp. z o.o. - not consolidated
  - RC Paliwa Sp. z o.o. in liquidation - valued with the equity method<sup>6</sup>
  - Plastekol Organizacja Odzysku S.A. - consolidated with the full method
  - Petrosoft.pl Technologie Informatyczne Sp. z o.o. - not consolidated
  - Chemipetrol Sp. z o.o. - not consolidated
  - Miliana Shipping Company Ltd. - consolidated with the full method
  - Aphrodite Offshore Services Ltd. Dutch Antilles - not consolidated
- 

- *RC Remo Sp. z o.o.*<sup>7</sup>
- *CBA Racer Sp. z o.o.*<sup>8</sup>
- *Rafineria Jasło Monto-Rem Sp. z o.o.*<sup>9</sup>
- *Rafineria Jasło Sped-Kol Sp. z o.o. in liquidation*<sup>10</sup>

**Associated undertakings:**

- Energobaltic Sp. z o.o. - valued with the equity method
- UAB Naftos Gavyba - valued with the equity method

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<sup>3</sup> On April 11th 2007, Grupa LOTOS S.A. and LOTOS Jasło S.A. (in which Grupa LOTOS S.A. holds 80.01% of shares) entered into an agreement on the acquisition of 700 shares in LOTOS Tank Sp. z o.o. (30%-owned by Grupa LOTOS S.A. as at the date of the agreement).

<sup>4</sup> On June 29th 2007, a merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was registered. The merger was effected pursuant to Art. 492.1 of the Commercial Companies Code through the transfer of all assets of LOTOS Partner Sp. z o.o. (acquiree) to Grupa LOTOS S.A. (acquirer).

<sup>5</sup> On January 15th 2007 Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw.

<sup>6</sup> On November 27th 2006, by virtue of a court decision (File No. KA. VIII NS-REJ.KRS/028721/06/350) the liquidation proceedings in relation to RC Paliwa Sp. z o.o. were opened.

<sup>7</sup> On June 30th 2006, P.R.H.P. RC Remo Sp. z o.o. was incorporated into LOTOS Serwis Sp. z o.o.

<sup>8</sup> On December 28th 2006, CBA Racer Sp. z o.o. was incorporated into LOTOS Serwis Sp. z o.o.

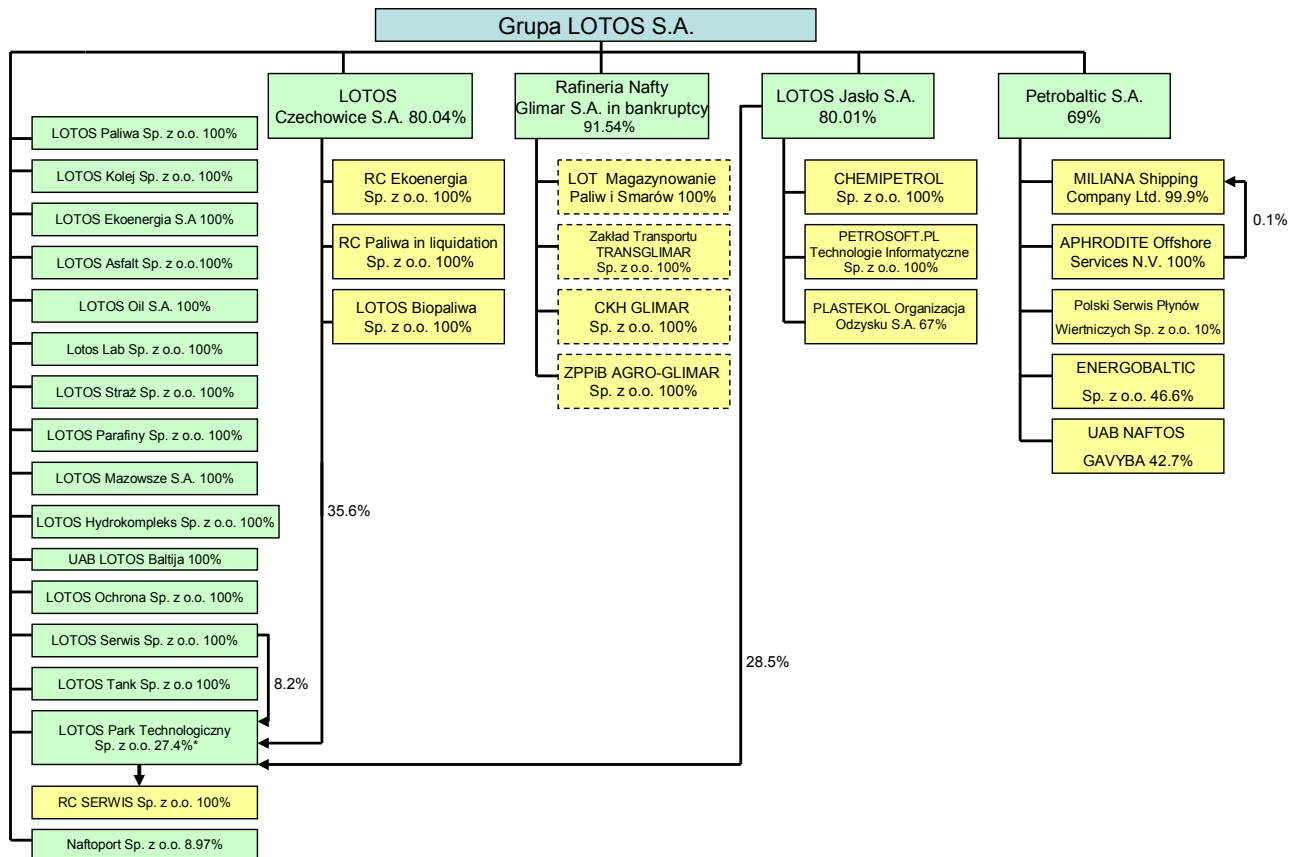
<sup>9</sup> On July 1st 2006, Rafineria Jasło Monto-Rem Sp. z o.o. was incorporated into LOTOS Serwis Sp. z o.o.

<sup>10</sup> On March 8th 2007 Rafineria Jasło Sped-Kol Sp. z o.o. in liquidation was removed from the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

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**Organisational Structure of the LOTOS Group**

As at June 30th 2007 and as at June 30th 2006, the Grupa LOTOS S.A.'s share in the total vote at the General Shareholders Meetings of its subsidiary undertakings equalled the Grupa LOTOS S.A.'s share in the share capital of these undertakings.



\* 0.3% of the shares are held by Kolaja & Partners Sp.z o.o., a company from outside the LOTOS Group.

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**1.2 CONSOLIDATED UNDERTAKINGS OF THE LOTOS GROUP**

**1.2.1 PARENT UNDERTAKING**

**Grupa LOTOS S.A.**

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

The Company's registered office is situated at ul. Elbląska 135, 80-718 Gdańsk.

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

The Company's core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. Grupa LOTOS S.A. is also engaged in the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production.

In June 2005, the shares of Grupa LOTOS S.A. were first listed on the Warsaw Stock Exchange. Following the share issue, the Group's equity increased by PLN 1,005,951 thousand (net of the issue costs) and as at June 30th 2007 amounted to PLN 4,716,026 thousand.

The Gdańsk refinery's crude oil distillation capacity amounts to approximately 6m tonnes annually.

On December 28th 2006 Grupa LOTOS S.A. and LOTOS Asphalt Sp. z o.o. concluded a significant agreement on the sale of fuel oil. As a consequence, since January 2007 LOTOS Asphalt Sp. z o.o., the Group's company, has been trading in heavy fuel oil (formerly, these activities were performed by LOTOS Mazowsze S.A.). The change follows from reorganisation of the LOTOS Group's trade division.

On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) signed an agreement whereby LOTOS Kolej Sp. z o.o. provides comprehensive railway services to Grupa LOTOS S.A. The services include:

- dispatch and receipt of railway shipments sent by or addressed to Grupa LOTOS S.A.,
- procurement of the required number of tank cars of appropriate type for Grupa LOTOS S.A.'s shipments,
- technical servicing and maintenance of technical efficiency of railway assets owned by Grupa LOTOS S.A.

The agreement was concluded for five years, and its value is estimated at approximately PLN 1,000,000 thousand over the agreement term.

On January 15th 2007 Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Uslugowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw. The equal and indivisible shares with the aggregate par value of PLN 35,000 represented 50% of the share capital of PPU BiproRaf Sp. z o.o. and were classified by Grupa LOTOS S.A. as a current investment. Grupa LOTOS S.A. sold its stake in BiproRaf Sp. z o.o. for PLN 2,750,000.

On January 23rd 2007 Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) and BP Polska Sp. z o.o. signed a significant agreement concerning sale and delivery of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite term (until December 31st 2007) and its value is estimated at PLN 1,000,000 thousand.

A scheduled stoppage of the hydrocracker in March 2007 resulted from the necessity to replace the hydrocracker catalyst.

On March 8th 2007, the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, registered a change in the share capital structure of LOTOS Ochrona Sp. z o.o. The share capital

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structure was changed pursuant to a share purchase agreement of December 20th 2006, whereby Grupa LOTOS S.A. acquired shares in LOTOS Ochrona Sp. z o.o. from its minority shareholders. As part of the transaction Grupa LOTOS S.A. acquired 12.56% of shares, and came to hold 100% of shares in LOTOS Ochrona Sp. z o.o. (prior to the transaction Grupa LOTOS S.A. held 87.44% of the share capital of LOTOS Ochrona Sp. z o.o.).

On April 11th 2007, Grupa LOTOS S.A. entered into an agreement with LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.), whereby it purchased 700 shares in LOTOS Tank Sp. z o.o. with a total par value of PLN 350 thousand for PLN 642.5 thousand. As a result of the transaction, the equity interest of Grupa LOTOS S.A. in LOTOS Tank Sp. z o.o. increased from 30% to 100% and the Company became the sole shareholder in LOTOS Tank Sp. z o.o.

On June 29th 2007, in accordance with the decision issued by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, a merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was registered. 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. (acquiree) to Grupa LOTOS S.A. (acquirer).

Grupa LOTOS S.A. is carrying out the 10+ Programme aimed at increasing the annual throughput capacity of the Gdańsk refinery by approximately 75%, to 10.5 million tonnes of crude oil. The execution of the 10+ Programme has been divided into stages:

- stage 1 provides for the construction of the following units at the Gdańsk refinery of Grupa LOTOS S.A. until 2010: crude distillation unit, diesel oil hydrodesulphurisation unit, mild hydrocracking unit, heavy residue processing unit, hydrogen production facility, and an amine sulphur recovery (ASR) unit;
- stage 2 is the construction of the IGCC (Intensified Gasification Combined Cycle) unit after 2012.

The modification of the 10+ Programme schedule is intended to enhance the Programme's efficiency and security. Thanks to the modified structure of the project it is possible:

- to spread the execution of the Programme over time, which will help eliminate shortages of staff and materials as well as mitigate limited availability of contractors,
- to reduce the costs of the Programme and better adapt the financing strategy for the Programme to the Company's capabilities,
- for Grupa LOTOS S.A. to take advantage of favourable trends on the asphalt and heavy fuel oil markets.

The Company expects that an upward trend on the asphalt market will be observed until 2012, which will enable it to increase the annual sales of asphalts to 1,300 thousand tonnes, i.e. by more than 60% relative to 2006. In the event of a downturn on the market for heavy products, such as asphalts and heavy fuel oil, the second stage of the 10+ Programme will be launched, following which the Company will be able to process the heavy residue remaining after crude distillation.

The expenditure on the 10+ Programme is planned to amount to ca. EUR 1.47bn until 2012. In accordance with the financing strategy, 70% of the funding required to carry out the Programme will be raised from external sources.

As part of the 10+ Programme, on June 19th 2007 Grupa LOTOS S.A. and FLUOR S.A. executed an EPCM contract for engineering, procurement and construction management services to build the utilities and off-sites. 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.

On June 21st 2007, as part of the 10+ Programme, Grupa LOTOS S.A. and Technip Italy S.p.A., as the general contractor, along with Technip KTI S.p.A., Technip Polska Sp. z o.o and KTI Poland S.A. signed the EPC LSTK (Lump Sum Turn Key) contract for engineering, procurement and construction of the mild hydrocracking unit (MHC) and the amine sulphur recovery complex, i.e. acid recovery unit (ARU), sour water stripper (SWS) and sulphur recovery unit/tail gas treatment unit (SRU/TGTU) for Grupa LOTOS S.A. The scope of the construction of MHC, ARU, SWS and SRU/TGTU is adjusted to the planned annual oil processing volume of 10.5 million tonnes. The value of the contract amounts to PLN 2,208,050,600 (translated at the mid exchange rate quoted by the National Bank of Poland for June 20th 2007). The contract will become effective upon fulfilment of the following conditions precedent: receipt of the required performance bonds by Grupa LOTOS S.A., issue of a letter of credit by the bank of Grupa LOTOS S.A. and transfer to Technip Italy S.p.A. of the rights and obligations under the prior agreements for delivery of relevant equipment concluded by Grupa LOTOS S.A.



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On June 28th 2007 Grupa LOTOS S.A. and Lurgi S.A. of Kraków concluded the EPC LSTK (Lump Sum Turn Key) contract for engineering, procurement and construction of a hydrogen generation unit based on the technology provided by Lurgi AG Frankfurt for Grupa LOTOS S.A.'s 10+ Programme. The hydrogen generation unit will supply the production units with hydrogen required for the production of clean fuels.

On July 19th 2007, Grupa LOTOS S.A. and Lurgi S.A. concluded a contract for engineering, procurement and construction management services to build the oil distillation unit. It will be the second unit of this type at Grupa LOTOS S.A.'s refinery in Gdańsk. Its annual capacity will be 4.5m tonnes of oil, which will make it possible to increase the oil throughput at Grupa LOTOS S.A. to 10.5m tonnes annually, or by approx. 75%. Thanks to the new unit the Company will be able to improve the supply of fuels to the domestic market.

On August 1st 2007, Grupa LOTOS S.A. and Lurgi S.A. executed an annex to the contract of July 19th 2007 for engineering, procurement and construction management services to build the oil distillation unit (Current Report No. 37/2007). In accordance with the annex, Lurgi S.A. of Kraków is to deliver components for the construction of the oil distillation unit. The construction of the unit is to be completed in the second half of 2009.

## **1.2.2 THE LOTOS GROUP COMPANIES**

### **LOTOS Paliwa Sp. z o.o.**

LOTOS Paliwa Sp. z o.o., spun-off from Grupa LOTOS S.A., was incorporated by virtue of Notarial Deed of January 12th 1996 (Rep. A No. 119/96) and entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on April 9th 2001 under No. KRS 0000006312. The company's registered office is located in Gdańsk. As at June 30th 2007, its share capital amounted to PLN 114,706,000.00 and was divided into 114,706 shares with a par value of PLN 1,000.00 per share. The company is wholly owned by Grupa LOTOS S.A.

As a result of reorganisation of this market segment of the LOTOS Group, effective as of January 3rd 2005, the company became the exclusive distributor of fuels and light fuel oil of the Group. The operations of LOTOS Paliwa Sp. z o.o. focus on:

- management and development of the service station network (CODO, DODO and DOFO stations) representing the second largest service station network on the Polish market;
- sale of fuels to institutional customers and intermediaries;
- management of the network of self-serve Diesel oil pumps and development of Diesel oil sales through such a network (LOTOS Diesel Service);
- retail sale and wholesale of light fuel oil (in H1 2007, the LOTOS Group concentrated retail sale and wholesale of light fuel oil in LOTOS Paliwa Sp. z o.o., which means that LOTOS Mazowsze S.A. discontinued the sale of light fuel oil);
- retail sale of liquid gas.

The sales of Diesel oil and unleaded 95 RON gasoline account for the largest share in the structure of fuel sales. The sales of light fuel oil also have a significant share in total sales. The company provides car maintenance services, as well as advertising and promotion services. Car maintenance services comprise car washing and basic car servicing. The company is gradually increasing the number of stations offering such services.

LOTOS Paliwa Sp. z o.o. is continuing to strengthen its position of the second largest fuel retailer on the Polish market by increasing the number of service stations in its network. At the same time, the Company commenced the process of transforming its stations from COCO to CODO stations. In June 2007, the first ten COCO stations were transformed into CODO stations.

### **LOTOS Partner Sp. z o.o.**

Preem Terminale Rzeczne Sp. z o.o. was incorporated by virtue of the Notarial Deed of June 11th 2001 (Rep. A No. 1881/2002). The company was entered into the National Court Register under No. KRS 0000025606, on July 11th 2001. On December 18th 2002, Grupa LOTOS S.A. (formerly Rafineria Gdańska S.A.) signed an agreement on the purchase of 100% of shares in Preem Terminale Rzeczne Sp. z o.o. from Preem Polska Sp. z o.o. According to the entry in the National Court Register, since January 17th 2003 Preem Terminale Rzeczne Sp. z o.o. has operated under the name of LOTOS Partner Sp. z o.o. From January 7th 2005 to June 29th 2007 the company's registered office was situated in Gdańsk.

LOTOS Partner Sp. z o.o.'s business has been focusing on:

- sale of fuels to Polish institutional customers and retail fuel station networks of foreign operators

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- organisation of primary logistics
- import and exchange of products in land transport
- provision of services related to national tenders
- sale of jet and bunker fuel

On January 23rd 2007, Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) and BP Polska Sp. z o.o. signed a significant agreement concerning the sale and supply of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a specified time, until December 31st 2007. The agreement's value is estimated at PLN 1,000,000 thousand.

On June 29th 2007, the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register registered the merger of LOTOS Partner Sp. z o.o. with Grupa LOTOS S.A. The merger was performed pursuant to Art. 492.1.1 of the Commercial Companies Code, through the transfer of all assets of LOTOS Partner Sp. z o.o. (the acquiree) to Grupa LOTOS S.A. (the acquirer). As the acquirer held 100% of shares in the acquiree, the merger was executed pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the share capital of Grupa LOTOS S.A. The merger was executed as part of the restructuring of the LOTOS Group, aimed at streamlining its organisational structure. The objective of the restructuring programme is to provide the LOTOS Group with more operating flexibility and facilitate quicker response to changes in the market environment. The incorporation of LOTOS Partner Sp. z o.o. into Grupa LOTOS S.A. 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.

#### **LOTOS Mazowsze S.A.**

PETRIM Sp. z o.o. was incorporated by virtue of the Notarial Deed of December 27th 2000 (Rep. A No. 6117/00). The company was entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, XIV Commercial Division of the National Court Register, on December 14th 2001, under No. KRS 0000069388. In June 2003 r. Grupa LOTOS S.A. acquired 75% of shares in PETRIM S.A. and changed its name from PETRIM S.A. to LOTOS Mazowsze S.A. The acquisition of 75% of shares in LOTOS Mazowsze S.A. was settled in June 2004 upon payment of a premium of PLN 4,396 thousand to the sellers. In July 2004, the remaining 25% of shares were acquired for PLN 4,004 thousand. Following the acquisition, LOTOS Mazowsze S.A. became a wholly-owned subsidiary of Grupa LOTOS S.A.

As at June 30th 2007, the share capital of LOTOS Mazowsze S.A. amounted to PLN 3,680,000.00 and was divided into 160,000 Series A Shares with a par value of PLN 23.00 per share. The company's registered office is situated in Mława.

LOTOS Mazowsze S.A. traded in liquid propane/butane, heavy fuel oil, plasticizers, sulphur and light fuel oil. With effect from January 1st 2007, in connection with the restructuring of the sales division within the entire LOTOS Group, LOTOS Mazowsze S.A.'s sales structure was changed: the Company's activities are now focused on sales of liquefied gas (LPG and heating gas) and sales of sulphur.

LOTOS Mazowsze S.A. has well-organised and efficient logistical resources, comprising two terminals in Rypin and Mława, as well as vehicles adapted to transport liquid gas and light fuel oil. Additionally, on August 8th 2007, the Company purchased an LPG terminal located in Leszcze, the Commune of Pińczów, from Tankpol R. Mosio i Wspólnicy sp. j., for PLN 2,850 thousand (VAT-exclusive).

On March 26th 2007, LOTOS Mazowsze S.A. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concluded a conditional preliminary agreement for the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. from natural persons. The conclusion of a final agreement is subject to obtaining an approval from the Competition and Consumer Protection Office for the concentration consisting in the takeover of control over KRAK-GAZ Sp. z o.o. by LOTOS Mazowsze S.A. through acquisition of its shares.

On July 5th 2007, the change of the company's name from LOTOS Mazowsze S.A. to LOTOS Gaz S.A. was registered.

On July 9th 2007, upon obtaining a concentration approval from the Competition and Consumer Protection Office, LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.), a wholly-owned subsidiary of Grupa LOTOS S.A., concluded a final agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. The shares covered by the transaction, with a total par value of PLN 3,450 thousand, are equal and indivisible and represent 100% of the share capital of KRAK-GAZ Sp. z o.o. LOTOS Mazowsze S.A., which purchased the shares for PLN 16,367.9 thousand, treats the acquisition as a long-term investment.

#### **LOTOS Oil S.A.**

The company was established by virtue of the Notarial Deed of July 26th 2002 (Rep. No. A 3411/2002) and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on August 27th 2002, under No. KRS 0000128016.

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The company's registered office is located in Gdańsk. Its share capital as at June 30th 2007 amounted to PLN 2,000,000.00 and was divided into 200,000 bearer shares (50,000 Series A shares of the first issue and 150,000 Series B shares of the second issue) with a par value of PLN 10.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Oil S.A.

LOTOS Oil S.A.'s business consists in the production and distribution of lubricants: finished car and industrial oils and lubes, base oils, as well as distribution of car-care products and car chemicals. The company operates three production centres, located in Gdańsk, Czechowice-Dziedzice and Jasło, and a Distribution Centre in Piotrków Trybunalski.

On January 1st 2007, in connection with the restructuring of the sales division within the entire LOTOS Group LOTOS Oil S.A. took over from LOTOS Mazowsze S.A. the sale of plasticizers.

**LOTOS Asphalt Sp. z o.o.**

The company was incorporated by virtue of Notarial Deed of December 30th 2003 (Rep. A No. 4586/2003), and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on April 26th 2004 under No. KRS 0000204527. The company's registered office is located in Gdańsk.

As at June 30th 2007, the company's share capital was PLN 2,000,000.00 and was divided into 4,000 shares with a par value of PLN 500 per share. The company is wholly owned by Grupa LOTOS S.A.

The company (created by way of a spin-off from Grupa LOTOS S.A.) is Grupa LOTOS S.A.'s sole customer for components for the production of bitumens.

LOTOS Asphalt Sp. z o.o. produces and sells road and industrial bitumens, emulsions and special bitumen products. Currently, LOTOS Asphalt operates three production plants: in Gdańsk, Jasło and Czechowice-Dziedzice. The Gdańsk plant produces road bitumens (35/50, 50/70, 160/220), a wide range of modified bitumens (MODBIT 30 B, MODBIT 80 B, MODBIT 150 B, MODBIT 80 C and MODBIT 160 C) as well as industrial bitumen PS95/35. The Jasło plant produces the PS industrial bitumens, bitumen mass and a comprehensive range of bitumen emulsions (fast-, medium- and slow-breaking emulsions as well as super-stable emulsions). The company is also developing the production technology for emulsions for inter-layer binding (based on harder bitumens). It is also possible to produce emulsions according to customer's order. The Jasło plant is also the producer of special road bitumens, e.g. 20/30 road bitumens and UNIBIT 35/50 multigrade bitumens. The Czechowice-Dziedzice plant additionally produces modified bitumens and operates a modern depot for redistribution of road bitumens.

The company produces primarily road bitumens (standard and modified) and, on a much smaller scale, industrial bitumens, bitumen emulsions and binders. LOTOS Asphalt's bitumens are sold mainly on the domestic market. Export sales are made to Sweden, the Czech Republic, Slovakia, Hungary, Austria, Romania, Germany, Lithuania, and Russia.

On December 28th 2006, Grupa LOTOS S.A. and LOTOS Asphalt Sp. z o.o. signed a significant agreement on sale of fuel oil. Accordingly, since January 1st 2007, LOTOS Asphalt Sp. z o.o. has been the LOTOS Group's member responsible for the sale of heavy fuel oil (formerly the responsibility of LOTOS Mazowsze S.A.). This change was made as part of the restructuring of the sales division of the LOTOS Group.

**LOTOS Ekoenergia S.A.**

The Company was incorporated by virtue of Notarial Deed of July 17th 2002 (Rep. A nr 3211/02) and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on August 26th 2002 under No. KRS 0000128043. The registered office of Lotos Ekoenergia S.A. is located in Gdańsk. LOTOS Ekoenergia S.A. is a wholly-owned subsidiary of Grupa LOTOS S.A. As at June 30th 2007, the company's share capital amounted to PLN 500,000.00 and was divided into 50,000 Series A bearer shares with a par value of PLN 10.00 per share.

The company was established in 2002 to execute the 10+ Programme (Comprehensive Technical Upgrade Programme, PKRT). As at June 30th 2007, LOTOS Ekoenergia S.A. had not commenced operating activities. In its investment plans, the LOTOS Group assumed that the main part of the 10+ Programme would be financed, constructed and operated by LOTOS Ekoenergia S.A., while Grupa LOTOS S.A. would carry out the required infrastructure adaptation work. Currently though, the project is being carried out and financed by Grupa LOTOS S.A.

**LOTOS Kolej Sp. z o.o.**

LOTOS Kolej Sp. z o.o. was incorporated by virtue of the Notarial Deed of January 13th 2000 (Rep. A No. 131/2000). On October 16th 2002, the company was entered in the National Court Register currently maintained

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by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000135118. The registered office of LOTOS Kolej Sp. z o.o. is located in Gdansk.

LOTOS Kolej Sp. z o.o. (spun off from Grupa LOTOS S.A.) provides the LOTOS Group with comprehensive railway services. In February 2004, the company took over the provision of railway services to the Southern Refineries (along with their employees and leased assets). In 2006, following discontinuation of crude oil processing by LOTOS Czechowice S.A. from April 1st 2006, the scope of the services provided by the company in Czechowice-Dziedzice was reduced. The end of September 2006 saw the expiry of the agreement on the lease of an organised part of business between LOTOS Kolej Sp. z o.o. and Rafineria Nafty Glimar S.A. (in bankruptcy), as a result of which LOTOS Kolej Sp. z o.o. ceased to provide services on the premises of the Glimar refinery.

The main activities of the company include:

- provision of comprehensive railway services for Grupa LOTOS S.A. (offtake, supply, freight settlements, representation of Grupa LOTOS S.A.'s interests in relations with PKP (Polish Railways), tank car owners, forwarding companies),
- licensed transport,
- maintenance of infrastructure, rail vehicles and other fixed assets located at railway sidings.

The company holds a licence for transport of goods by railway within the entire territory of Poland. Moreover, LOTOS Kolej Sp. z o.o. operates a rail and road tanker cleaning facility in Jasło, as well as rents tank cars for transporting liquid gases.

On June 5th 2006, an increase in the company's share capital from PLN 233,000.00 to PLN 2,000,000.00 was registered by the National Court Register. The share capital was increased with the company's reserve funds. The shares issued as part of the share capital increase were acquired by the company's existing shareholder, Grupa LOTOS S.A.

As at June 30th 2007, the company's share capital amounted to PLN 2,000,000.00 and was divided into 4,000 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Kolej Sp. z o.o.

On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) signed an agreement for the provision of comprehensive railway services for Grupa LOTOS S.A. by LOTOS Kolej Sp. z o.o. The scope of the services includes:

- dispatch and receipt of railway shipments sent by or addressed to Grupa LOTOS S.A.,
- procurement of the required number of tank cars of appropriate type for Grupa LOTOS S.A.'s shipments,
- technical servicing and maintenance of technical efficiency of railway assets owned by Grupa LOTOS S.A.
- 

The agreement was concluded for five years and its value over the entire agreement term amounts to approximately PLN 1,000,000 thousand.

#### **LOTOS Serwis Sp. z o.o.**

LOTOS Serwis Sp. z o.o. was incorporated by virtue of the Notarial Deed of April 29th 2003 (Rep. A No. 2138/2003). On May 9th 2003, the company was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000161302. As at June 30th 2007, the company's share capital amounted to PLN 2,500,000.00 and was divided into 5,000 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A. LOTOS Serwis Sp. z o.o.'s registered office is situated in Gdańsk.

The activities of LOTOS Serwis Sp. z o.o. (created on the basis of the plant engineering assets spun off from Grupa LOTOS S.A.) consist in the provision of services related to plant engineering, repairs of machinery and production units for the Parent Undertaking and other undertakings of the LOTOS Group.

June 30th 2006 saw the merger of two wholly-owned subsidiaries of LOTOS Serwis Sp. z o.o. (P.R.P.H. RCRemo Sp. z o.o. and RJ MONTO-REM Sp. z o.o.) into LOTOS Serwis Sp. z o.o.

The Company has divisions in three towns: Gdańsk, Czechowice-Dziedzice and Jasło.

#### **LOTOS Lab Sp. z o.o.**

LOTOS Lab Sp. z o.o. was incorporated by virtue of the Notarial Deed of May 29th 2003 (Rep. A No. 2665/2003) and entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000165598 on June 24th 2003. Its registered office is situated in Gdańsk. As at June 30th 2007, the company's

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share capital amounted to PLN 1,000,000.00 and was divided into 2,000 shares with a par value of PLN 500.00 per share. All the shares in the company were acquired by Grupa LOTOS S.A.

LOTOS Lab Sp. z o.o. performs laboratory testing in its three laboratories situated in Gdańsk, Jasło and Czechowice-Dziedzice. It provides analytical services related to crude oil, crude oil products, water, sewage, and certain chemicals, and performs measurements and prepares documentation relating to working conditions. In order to improve the quality of services offered, the company implemented a management system compliant with the PN-EN ISO/IEC 17025 Standard in its Gdańsk and Czechowice-Dziedzice laboratories. Moreover, on December 27th 2006 the company received confirmation that the scope of its Research Laboratory Certificate was extended to include research methods for bio-fuels and bio-components.

In Q2 2007, LOTOS Lab Sp. z o.o. took over the laboratory activities of Petrobaltic S.A. Subsequently, LOTOS Lab Sp. z o.o. and Petrobaltic S.A. concluded an agreement for the provision of laboratory services. On June 30th 2007, the parties signed an agreement for the purchase of laboratory equipment from Petrobaltic S.A. for PLN 104,565 (VAT-exclusive). In connection with the takeover of the laboratory activities from Petrobaltic S.A. by LOTOS Lab Sp. z o.o., three employees were transferred to and employed by LOTOS Lab Sp. z o.o. (two persons were employed as of July 1st 2007, and one person as of September 1st 2007).

**LOTOS Straż Sp. z o.o.**

The company was established by virtue of the Notarial Deed of February 4th 2004 (Rep. A No. 610/2004) and was entered in the Register of Entrepreneurs of the National Court Register currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000196158, on February 20th 2004.

As at June 30th 2007, its share capital amounted to PLN 3,900,000.00 and was divided into 7,800 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Straż Sp. z o.o.

LOTOS Straż Sp. z o.o. (spun off from the assets of Grupa LOTOS S.A.) provides fire protection services, including operational and rescue actions, prevention, issuing opinions concerning documentation, granting permits, as well as training services. LOTOS Straż Sp. z o.o. is obliged to provide services related to fire protection for Grupa LOTOS S.A. It can also provide services for other entities, however, only within the area of the Gdańsk refinery. This limitation arises from the need to maintain a permanent and highly reliable fire security at the refinery.

**LOTOS Ochrona Sp. z o.o.**

Śłużba Ochrony Rafinerii Gdańskiej Sp. z o.o. was established by virtue of the Notarial Deed of June 19th 1998, (Rep. A No. 2482/98). On January 15th 2002, the company was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000068276. Since December 19th 2003, the company has been operating under the name of LOTOS Ochrona Sp. z o.o. As at January 1st 2006, the company's shareholder structure was as follows: Grupa LOTOS S.A. held 529 shares (87.44%) and natural persons held the remaining 76 shares (12.56%). On December 20th 2006, Grupa LOTOS S.A. acquired the remaining 12.56% of shares, pursuant to a share purchase agreement concluded with the other shareholders. As a result of this transaction, on the agreement date Grupa LOTOS S.A. became the owner of 100% of shares in LOTOS Ochrona Sp. z o.o., conferring the right to 100% of the total vote at the company's General Shareholders Meeting. This change in the shareholder structure was registered on March 8th 2007.

As at June 30th 2007, the share capital of LOTOS Ochrona Sp. z o.o. amounted to PLN 302,500.00 and was divided into 605 shares with a par value of PLN 500.00 per share.

The activities of LOTOS Ochrona Sp. z o.o. (spun off from Grupa LOTOS S.A.) consist in personal and property protection. The company provides services for the LOTOS Group and other entities performing work on the premises of the Gdańsk refinery. The objective behind limiting the company's scope of operations was to help maintain a constant high level of security at the Gdańsk refinery.

On May 29th 2007, LOTOS Ochrona Sp. z o.o. and Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. signed an agreement defining the key conditions for the provision of facility and property protection services, managing the pass system, as well as ensuring order and security on the premises of Petrobaltic S.A. of Gdańsk. The agreement also provides for the transfer of 12 employees of Petrobaltic S.A. to LOTOS Ochrona Sp. z o.o. The agreement was concluded for an unspecified time.

**LOTOS Parafiny Sp. z o.o.**

The company was established on the basis of Parafiny Rafineria Jasło Sp. z o.o., through consolidation of the paraffin-related operations of Parafiny Rafineria Jasło Sp. z o.o., RC Parafiny Sp. z o.o. and Chemipetrol Sp. z o.o. Parafiny Rafineria Jasło Sp. z o.o. was incorporated by virtue of Notarial Deed of December 13th 1999

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(Rep. A No. 4889/99) and was entered in the National Court Register (maintained by the District Court of Rzeszów, XII Commercial Register of the National Court Register) on May 27th 2002 under No. KRS 0000114749. On August 26th 2004, the change in the company's name from Parafiny Rafineria Jasło Sp. z o.o. to LOTOS Parafiny Sp. z o.o. was registered. The company's registered office is situated in Jasło.

As at June 30th 2007, the share capital of LOTOS Parafiny Sp. z o.o. amounted to PLN 19,783,000.00 and was divided into 19,783 shares with a par value of PLN 1,000.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Parafiny Sp. z o.o.

The company's operations are based on two production centres located in Jasło and Czechowice-Dziedzice, and are focused on the production of high quality paraffin, a wide range of paraffin mass, wax, ceresine, petroleum jelly and lubes.

**LOTOS Park Technologiczny Sp. z o.o.**

The company was established by virtue of Notarial Deed of December 13th 2004 (Rep. A No. 6729/2004). On January 6th 2005, it was entered in the National Court Register maintained by the District Court of Kraków-Śródmieście, XII Commercial Division of the National Court Register, under No. KRS 0000225650. The company's registered office is located in Gorlice.

LOTOS Park Technologiczny Sp. z o.o. is actively involved in the restructuring of the Southern Refineries owned by Grupa LOTOS S.A. According to the company's Articles of Association, its core business consists in:

- business and management consultancy activities
- business management
- development and sale of own real estate, labour recruitment and provision of personnel.

As at June 30th 2006, the company's shareholders were: LOTOS Serwis Sp. z o.o. (11.45% of the share capital), CBA Racer Sp. z o.o. (10.23%), LOTOS Czechowice S.A. (39.53%), Grupa LOTOS S.A. (38.39%) and Kolaja&Partners Sp. z o.o. (0.4%).

On December 22nd 2006, an increase in the share capital of LOTOS Park Technologiczny Sp. z o.o. was registered. The share capital was increased to PLN 17,307,000.00 by way of a PLN 4,933,000.00 contribution in kind from a new shareholder, LOTOS Jasło S.A.

As at December 22nd 2006, the company's shareholder structure was as follows:

- LOTOS Serwis Sp. z o.o. (8.19%)
- CBA Racer Sp. z o.o. (7.31%)
- LOTOS Czechowice S.A. (28.26%)
- Grupa LOTOS S.A. (27.45%)
- Kolaja&Partners Sp. z o.o. (0.29%)
- LOTOS Jasło S.A. (28.50%)

The company's shareholder structure was changed again after the incorporation of CBA Racer Sp. z o.o. into LOTOS Czechowice S.A. (effected on December 28th 2006). Since the incorporation date, the company's shareholder structure has been as follows:

- LOTOS Serwis Sp. z o.o. (8.19%)
- LOTOS Czechowice S.A. (35.58% together with the shares held by the incorporated company CBA Racer Sp. z o.o.)
- Grupa LOTOS S.A. (27.45%)
- Kolaja&Partners Sp. z o.o. (0.29%)
- LOTOS Jasło S.A. (28.50%)

On January 19th 2007, the correct shareholder structure of LOTOS Park Technologiczny Sp. z o.o. was registered.<sup>11</sup> The correct shareholder structure was as follows:

- LOTOS Serwis Sp. z o.o. (8.19%)
- LOTOS Czechowice S.A. (35.58% together with the shares held by the incorporated company CBA Racer Sp. z o.o.)
- Grupa LOTOS S.A. (27.45%)
- Kolaja&Partners Sp. z o.o. (0.29%)
- LOTOS Jasło S.A. (28.50%)

On January 31st 2007, a change in the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. was registered. The change consisted in the incorporation (registered on December 28th 2006) of CBA Racer Sp. z o.o. into LOTOS Czechowice S.A. As a result, LOTOS Czechowice S.A. came to hold a total of 35.58% of

<sup>11</sup> The District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, had erroneously registered the number of shares in LOTOS Park Technologiczny Sp. z o.o. acquired by LOTOS Jasło S.A. following its contribution in kind.

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shares in LOTOS Park Technologiczny Sp. z o.o. Following the registration, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. is as follows:

- LOTOS Serwis Sp. z o.o. (8.19%)
- LOTOS Czechowice S.A. (35.58%)
- Grupa LOTOS S.A. (27.45%)
- Kolaja&Partners Sp. z o.o. (0.29%)
- LOTOS Jasło S.A. (28.50%)

In connection with the ongoing operating restructuring of the Southern Refineries and given the purpose for which LOTOS Park Technologiczny Sp. z o.o. has been established, on February 27th 2007 Grupa LOTOS S.A. concluded with LOTOS Park Technologiczny Sp. z o.o. a PLN 1,200,000.00 loan agreement in order to ensure operating liquidity of its subsidiary. The loan is to be advanced in two tranches of PLN 600,000.00 each. On April 26th 2007, the same parties concluded an agreement for a PLN 600,000.00 loan.

**LOTOS Tank Sp. z o.o.**

The company was established by virtue of Notarial Deed of April 20th 1999 (Rep. A No. 1187/99). On April 4th 2002, it was entered in the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000104463. The company's registered office is located in Jasło.

As at December 31st 2006, the company's shareholder structure was as follows:

- Grupa LOTOS S.A. held 300 shares in the company (representing 30% of total vote at its General Shareholders Meeting),
- LOTOS Jasło S.A. held 700 shares in the company (representing 70% of total vote at its General Shareholders Meeting).

On April 11th 2007, as part of the strategy aimed at streamlining the asset structure at the Southern Refineries, Grupa LOTOS S.A. purchased from LOTOS Jasło S.A. 700 shares in the company, representing 70% of its share capital, for PLN 642,500.00. Following the transaction, Grupa LOTOS S.A. became the sole shareholder in LOTOS Tank Sp. z o.o. As a result of the changes in shareholder structure, on July 13th 2007 new Articles of Association of LOTOS Tank Sp. z o.o. were adopted.

As at June 30th 2007, the company's share capital amounted to PLN 500,000.00 and was divided into 1,000 shares with a par value of PLN 500.00 per share.

LOTOS Tank Sp. z o.o.'s core business consists in trade in petroleum products and provision of fuel storage services. The company is in the process of discontinuing its operations.

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**1.2.3 THE LOTOS CZECHOWICE GROUP**

**LOTOS Czechowice S.A.**

The Company was founded through the transformation on January 9th 1996 of the state-owned enterprise operating under the name of Śląskie Zakłady Rafineryjne im. Ludwika Waryńskiego in Czechowice-Dziedzice, into a state-owned stock company Rafineria Czechowice S.A. On March 26th 2002, the Company was entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000102608. Its registered office is located in Czechowice-Dziedzice. On December 19th 2005 the change of the company's name from Rafineria Czechowice S.A. to LOTOS Czechowice S.A. was entered in the National Court Register.

As at June 30th 2007, the company's share capital amounted to PLN 75,000,000.00, and was divided into 7,500,000 shares with a par value of PLN 10.00 per share. Grupa LOTOS S.A. holds an 80.04% equity interest in the company.

LOTOS Czechowice S.A. is a service provider and producer. Its core business encompasses storage and distribution of fuels and service storage of inventories and mandatory reserves, mainly for the LOTOS Group. LOTOS Czechowice S.A.'s infrastructure including, storage and distribution depot, road tanker terminal along with a fuel and railway loading terminal allows the company to act as the Group's logistics operator complying with current and future regulations governing the operation of storage and distribution depots.

The year 2006 saw the commencement of an investment project executed at the company's subsidiary (LOTOS Biopaliwa Sp. z o.o.), consisting in the construction of a bio-component production unit (FAME). The contract concerning the unit construction was executed on May 22nd 2006 and came into force on June 30th 2006. The planned annual capacity of the new unit is 100 thousand tonnes of fatty acid methyl esters.

On November 27th 2006, by virtue of court decision (case file No. KA. VIII NS-REJ.KRS/028721/06/350) RC Paliwa Sp. z o.o., a subsidiary of LOTOS Czechowice S.A., was placed in liquidation.

On December 28th 2006, LOTOS Czechowice S.A. was merged with CBA Racer Sp. z o.o., its subsidiary. As a result, LOTOS Czechowice S.A.'s equity interest in LOTOS Park Technologiczny Sp. z o.o. increased from 28.26% to 35.58%.

**RC Ekoenergia Sp. z o.o.**

RCEkoenergia Sp. z o.o. was founded by virtue of the Notarial Deed of July 11th 2000. The company was entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000113788. Its registered office is located in Czechowice-Dziedzice.

As at June 30th 2007, the share capital of RC Ekoenergia Sp. z o.o. amounted to PLN 20,061,000, and was divided into 20,061 shares with a par value of PLN 1,000.00 per share. RC Ekoenergia Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A.

The core business of RC Ekoenergia Sp. z o.o. is the production, transmission, distribution and trade in energy media.

**LOTOS Biopaliwa Sp. z o.o.**

LOTOS Biopaliwa Sp. z o.o. was established in 2000 under the original name of RC Parafiny Sp. z o.o. On May 10th 2006, the change of the company's name to LOTOS Biopaliwa Sp. z o.o. was registered in the National Court Register. The company is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000065231.

As at June 30th 2007, the company's share capital amounted to PLN 10,000,000.00 and was divided into 20,000 shares with the par value of PLN 500.00 per share. The company is wholly owned by LOTOS Czechowice S.A. The company did not commence any operating activities by June 30th 2007.

LOTOS Biopaliwa Sp. z o.o. is a special purpose vehicle established to launch the FAME investment project. The key objective behind the project is to construct a unit for the production of fatty acid methyl esters (FAME), commonly known as biodiesel, with the annual capacity of 100 thousand tonnes.



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On March 29th LOTOS Biopaliwa Sp. z o.o. was granted the building permit for the unit for the production of fatty acid methyl esters in Czechowice-Dziedzice. The permit became final on April 4th 2007. On April 11th 2007 MAN Ferrostaal AG of Essen and Prochem S.A. accepted the construction site. The construction of the unit and the auxiliary facilities has been completed in 25%.

On June 29th 2007, LOTOS Biopaliwa Sp. z o.o. concluded an agreement with the National Fund for Environmental Protection and Water Management for a PLN 35,000,000.00 loan granted on preferential terms with a view to financing a part of the FAME project.

Currently, LOTOS Biopaliwa Sp. z o.o. is negotiating the supplies of the basic raw material (rapeseed oil) for the production of fatty acid methyl esters. Concurrently, the company is conducting talks with Grupa LOTOS S.A. concerning the sale of fatty acid methyl esters.

**RC Paliwa Sp. z o.o.**

RC Paliwa Sp. z o.o was founded on July 11th 2000. It was entered at the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000193717. Its registered office is located in Czechowice-Dziedzice.

As at June 30th 2007, the share capital of RC Paliwa Sp. z o.o. amounted to PLN 50,000.00, and was divided into 50 shares with a par value of 1,000.00 per share. RC Paliwa Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A.

RC Paliwa Sp. z o.o. does not conduct any operating activities.

On November 27th 2006, by virtue of court decision (case file No. KA. VIII NS-REJ.KRS/028721/06/350) RC Paliwa Sp. z o.o., a subsidiary of LOTOS Czechowice S.A., was placed in liquidation.

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**1.2.4 THE LOTOS JASŁO GROUP**

**LOTOS Jasło S.A.**

The company was formed as a result of the transformation on May 17th 1996 of the state-owned enterprise Podkarpackie Zakłady Rafineryjne im. Ignacego Łukasiewicza of Jasło into a state-owned stock company Rafineria Jasło S.A. On November 30th 2001, the company was entered in the National Court Register (maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register) under No. KRS 0000068125. Since January 2nd 2006, the company's name has been LOTOS Jasło S.A.

As at June 30th 2007, the share capital of LOTOS Jasło S.A. amounted to PLN 48,000,000.00 and was divided into 6,000,000 shares with a value of PLN 8.00 per share. Grupa LOTOS S.A. holds 80.01% of shares in LOTOS Jasło S.A.

LOTOS Jasło S.A. is a production and trading company whose core business encompasses:

- processing of crude oil, waste oil and hydrocarbon fraction derived from plastic waste
- recycling of plastic waste and waste oil
- production and sale of fuels
- logistics services for the LOTOS Group (fuel terminal)
- production of special petroleum products
- auxiliary activities (sewage treatment and electricity network management).

On December 22nd 2006, an increase of LOTOS Park Technologiczny Sp. z o.o.'s share capital to PLN 17,307,000 was registered following an in-kind contribution of PLN 4,933,000.00 in the form of property, plant and equipment made LOTOS Jasło S.A., which thus became a shareholder in the company. In return for the contribution, LOTOS Jasło S.A. acquired 9,866 new shares with a par value of PLN 500.00 per share.

On April 11th 2007, LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.) and Grupa LOTOS S.A. entered into an agreement on the sale of 700 shares in LOTOS Tank Sp. z o.o. for PLN 642.5 thousand. Following the transaction, LOTOS Jasło S.A. ceased to be a shareholder in LOTOS Tank Sp. z o.o.

On March 8th 2007, Rafineria Jasło Sped-Kol Sp. z o.o. in liquidation (wholly-owned by LOTOS Jasło S.A.) was deleted from the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

**PLASTEKOL Organizacja Odzysku S.A.**

Pursuant to Art. 5 of the Act on Duties of Entrepreneurs in Respect of Certain Waste Management, Product Fees and Security Deposit Fees, dated May 11th 2001 (Dz.U. No. 63, Item 639), LOTOS Jasło S.A. (formerly: Rafineria Jasło S.A.) and sixteen other companies set up a common waste recovery organisation operating as a joint-stock company under the name of PLASTEKOL Organizacja Odzysku S.A., registered office in Warsaw. The company was established by virtue of the Notarial Deed of January 8th 2002.

On May 6th 2004, the annual general shareholders meeting passed a resolution to transfer the company's registered office. Since the registration of the change, which was made on August 19th 2004, the company's registered office is situated in Jasło. On January 17th 2002, the company was entered in the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000082936.

The business of PLASTEKOL Organizacja Odzysku S.A. consists in wastewater management, waste removal, waste neutralization, sanitary services, and wholesale of waste products and scrap metal.

As at June 30th 2007, the company's share capital amounted to PLN 1,000,000.00, and was divided into 1,000 Series A registered ordinary shares with a par value of PLN 1,000.00 per share. The company's principal shareholder is LOTOS Jasło S.A., which holds 670 shares representing 67% of the total vote at the general shareholders meeting, while the remaining twelve shareholders own 330 shares, representing jointly 33% of the total vote at the general shareholders meeting.

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**1.2.5 THE PETROBALTIC GROUP**

**Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A.**

PPiEZRiG Petrobaltic S.A. (Petrobaltic S.A.) commenced its activities as a limited liability company on January 1st 1999, following commercialisation of the state-owned enterprise. In 2003, the company changed its legal form and became a joint-stock company. Currently, the company is registered in the National Court Register (maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 00000171101. Its registered office is situated in Gdańsk.

As at June 30th 2007, the company's share capital amounted to PLN 92,400,000.00 and was divided into 9,240,000 shares with a par value of PLN 10.00 per share. Since February 3rd 2005, Grupa LOTOS S.A. has held 69.00% of its share capital.

The core activities of Petrobaltic S.A. consist in the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production.

In Q2 2007, LOTOS Lab Sp. z o.o. took over a part of laboratory activities of Petrobaltic S.A. Subsequently, LOTOS Lab Sp. z o.o. and Petrobaltic S.A. concluded an agreement for the provision of laboratory services. On June 30th 2007, the parties signed an agreement for the purchase of laboratory equipment from Petrobaltic S.A. for PLN 104,565 (VAT-exclusive). In connection with the takeover of the laboratory activities from Petrobaltic S.A. by LOTOS Lab Sp. z o.o., three employees were transferred to and employed by LOTOS Lab Sp. z o.o. (two persons were employed as of July 1st 2007, and one person as of September 1st 2007).

PPiEZRiG Petrobaltic S.A. (69% owned by Grupa LOTOS S.A.) received a licence issued by the Minister of Environmental Protection on May 11th 2007 under which it may produce gasoline gas from the B4 reservoir. The effective term of the licence is 25 years. The operations under the licence should commence within 24 months from the licence date. On May 11th 2007, the Minister of Environmental Protection executed with PPiEZRiG Petrobaltic S.A. a mining use agreement concerning production of natural gas from the B4 reservoir. The agreement defines the conditions to be met by the business using the licence. The B4 reservoir is located within Poland's exclusive economic zone of the Baltic Sea, approx. 104 km north-east off Leba. The reservoir's industrial resources of gasoline gas amount to approx. 2,000m<sup>3</sup>.

**Miliana Shipping Company Ltd.**

Miliana Shipping Company Ltd. was registered in Cyprus on April 22nd 1999. Its registered office is situated in Nicosia, Cyprus.

The share capital of Miliana Shipping Company Ltd. comprises 1,000 shares with a par value of CYP 1 per share. Petrobaltic S.A. holds 999 shares representing 99.9% of the company's share capital. Through Aphrodite Offshore Services N.V., a subsidiary undertaking which holds 1 share in Miliana Shipping Company Ltd., Petrobaltic S.A. holds 100% of the share capital of Miliana Shipping Company Ltd.

Miliana Shipping Company Ltd. provides services consisting in the storage and transport of crude oil, rescue and spill prevention assistance, as well as geotechnical services. The company was established due to the necessity to legally, financially, and logistically spin off those activities that give rise to risks which may not affect the upstream activities of Petrobaltic S.A.

**Energobaltic Sp. z o.o.**

Energobaltic Sp. z o.o. was incorporated by virtue of the Articles of Association of September 10th 1997. On May 11th 2001 the company was entered in the National Register of Entrepreneurs (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register), under No. KRS 0000011924. The company's registered office is situated in Gdańsk.

As at June 30th 2007, the share capital of Energobaltic Sp. z o.o. amounted to PLN 14,701,500, and was divided into 1,815 shares with a par value of PLN 8,100 per share. Petrobaltic S.A. holds 846 shares in Energobaltic Sp. z o.o., representing 46.6% of its share capital.

The company's activities include the production and sale of heat and electricity, natural gas condensate and LPG.

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**UAB Naftos Gavyba**

UAB Naftos Gavyba was incorporated on July 14th 2000. Its registered office is situated in Gargždai, Lithuania. The share capital of UAB Naftos Gavyba comprises 10,000 shares with a par value of LTL 1.00 per share. Petrobaltic S.A. holds 4,270 shares representing 42.7% of its share capital. The company is responsible for equity operations in the oil industry. It manages the shares of AB Geonafta, in which it held 91.38% of shares as at June 30th 2007.

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**1.2.6 AS AT JUNE 30TH 2007, RAFINERIA NAFTY GLIMAR S.A. OF GORLICE WAS IN BANKRUPTCY.**

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## **2. CHANGES IN THE SHAREHOLDER STRUCTURE WITHIN THE GROUP IN THE FIRST HALF OF 2007**

### **Grupa LOTOS S.A.**

By virtue of a decision issued by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, on June 29th 2007 a merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was registered. The two companies were merged pursuant to Art. 492.1.1 of the Commercial Companies Code, through the transfer of all assets in LOTOS Partner Sp. z o.o. (acquiree) to Grupa LOTOS S.A. (acquirer).

### **LOTOS Park Technologiczny Sp. z o.o.**

On January 19th 2007 the District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered the correct structure of the share capital of LOTOS Park Technologiczny Sp. z o.o.<sup>12</sup> The correct structure of the share capital of LOTOS Park Technologiczny is as follows:

- LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.) holds 9,866 shares with a total value of PLN 4,933 thousand;
- Grupa LOTOS S.A. holds 9,500 shares with a total value of PLN 4,750 thousand;
- LOTOS Czechowice S.A. (80.04% owned by Grupa LOTOS S.A.) holds 9,782 shares with a total value of PLN 4,891 thousand;
- CBA RACER Sp. z o.o. (a subsidiary undertaking of LOTOS Czechowice S.A.) holds 2,532 shares with a total value of PLN 1,266 thousand,
- LOTOS Serwis Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) holds 2,834 shares with a total value of PLN 1,417 thousand,
- Kolaja&Partners Sp. z o.o. holds 100 shares with a total value of PLN 50 thousand.

On January 31st 2007, the District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered another change in the structure of the share capital of LOTOS Park Technologiczny Sp. z o.o. The change in the share capital structure occurred as result of incorporation (registered on December 28th 2006) of CBA Racer Sp. z o.o. into LOTOS Czechowice S.A., whereby LOTOS Czechowice S.A. came to hold a total of 35.58% of shares in LOTOS Park Technologiczny Sp. z o.o.

The share capital of LOTOS Park Technologiczny Sp. z o.o. amounts to PLN 17,307 thousand and is divided into 34,614 equal and indivisible shares with a par value of PLN 500.00 per share, which confer the right to 34,614 votes. Following registration of the change, the shareholder structure of LOTOS Park Technologiczny is as follows:

- LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.) holds 9,866 shares with a total value of PLN 4,933 thousand;
- Grupa LOTOS S.A. holds 9,500 shares with a total value of PLN 4,750 thousand;
- LOTOS Czechowice S.A. (80.04% owned by Grupa LOTOS S.A.) holds 12,314 shares with a total value of PLN 6,157 thousand;
- LOTOS Serwis Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) holds 2,834 shares with a total value of PLN 1,417 thousand,
- Kolaja&Partners Sp. z o.o. holds 100 shares with a total value of PLN 50 thousand.

### **Przedsiębiorstwo Projektowo-Uslugowe BiproRaf Sp. z o.o.**

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<sup>12</sup> The District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, had erroneously registered the number of shares in LOTOS Park Technologiczny Sp. z o.o. acquired by LOTOS Jasło S.A. following its contribution in kind.

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On January 15th 2007 Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Uługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw. The equal and indivisible shares with the aggregate par value of PLN 35,000 represented 50% of the share capital of PPU BiproRaf Sp. z o.o. and were classified as a current investment by Grupa LOTOS S.A. Grupa LOTOS S.A. sold its stake in BiproRaf Sp. z o.o. for PLN 2,750,000.

**LOTOS Ochrona Sp. z o.o.**

On March 8th 2007, the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, registered a change in the share capital structure of LOTOS Ochrona Sp. z o.o. The share capital structure was changed pursuant to a share purchase agreement of December 20th 2006, whereby Grupa LOTOS S.A. acquired shares in LOTOS Ochrona Sp. z o.o. from minority shareholders. As part of the transaction, Grupa LOTOS S.A. acquired 12.56% of shares and came to hold 100% of shares in LOTOS Ochrona Sp. z o.o. (prior to the transaction Grupa LOTOS S.A. held 87.44% of the share capital of LOTOS Ochrona Sp. z o.o.)

**LOTOS Mazowsze S.A.**

On March 26th 2007, LOTOS Mazowsze S.A. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concluded a conditional preliminary agreement on the purchase from natural persons of 34,500 shares in KRAK-GAZ Sp. z o.o. The conclusion of the final purchase agreement is conditional upon approval by the Competition and Consumer Protection Office of the business concentration involving the acquisition by LOTOS Mazowsze S.A. of control over KRAK-GAZ Sp. z o.o. by purchasing its shares.

On July 5th 2007, LOTOS Mazowsze S.A. registered change of its name to LOTOS Gaz S.A.

On July 9th 2007, LOTOS Gaz S.A. (former LOTOS Mazowsze S.A.), a wholly-owned subsidiary of Grupa LOTOS S.A., concluded a final agreement for the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. in connection with obtaining the approval of the Competition and Consumer Protection Office for the business concentration. The equal and indivisible shares with the aggregate par value of PLN 3,450 thousand represented 100% of the share capital of KRAK-GAZ Sp. z o.o. and were classified as a long-term investment by LOTOS Mazowsze S.A. LOTOS Mazowsze S.A. acquired the shares in KRAK-GAZ Sp. z o.o. for PLN 16,367.9 thousand.

**LOTOS Jasło S.A.**

On April 11th 2007 Grupa LOTOS S.A. entered into an agreement with LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.), whereby it purchased 700 shares in LOTOS Tank Sp. z o.o. for PLN 642.5 thousand. As a result of the transaction, LOTOS Jasło S.A. ceased to be a shareholder in LOTOS Tank Sp. z o.o.

On March 8th 2007, Rafineria Jasło Sped-Kol Sp. z o.o. in liquidation (wholly-owned by LOTOS Jasło S.A.) was deleted from the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

**LOTOS Tank Sp. z o.o.**

On April 11th 2007, Grupa LOTOS S.A. entered into an agreement with LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.), whereby it purchased 700 shares in LOTOS Tank Sp. z o.o. with a total par value of PLN 350 thousand for PLN 642.5 thousand. As a result of the transaction, Grupa LOTOS S.A.'s equity interest in LOTOS Tank Sp. z o.o. increased from 30% to 100% and the Company became the sole shareholder in LOTOS Tank Sp. z o.o.

**Rafineria Jasło Sped-Kol Sp. z o.o.**

On March 8th 2007, Rafineria Jasło Sped-Kol Sp. z o.o. in liquidation was deleted from the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

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**3. CHANGES IN ORGANISATION AND MANAGEMENT OF THE LOTOS GROUP**

In the first half of 2007, the key event with a bearing on the organisation and management of the LOTOS Group was the merger of Grupa LOTOS S.A. with its subsidiary LOTOS Partner Sp. z o.o. As a result of the merger, Grupa LOTOS S.A. took over the activities performed by LOTOS Partner Sp. z o.o., including:

- sale of fuels to Polish institutional customers and retail fuel station networks of foreign operators
- organisation of primary logistics
- import and exchange of products in land transport
- provision of services related to national tenders
- sale of jet and bunker fuel

These changes triggered a reorganisation in the logistics division at Grupa LOTOS S.A. aimed at adjusting its structure to the new activities.

Besides the changes described above, which took place in the first half of 2007, no other material changes in the organisation and management of Grupa LOTOS S.A. and the LOTOS Group occurred.



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**4. KEY PRODUCTS, GOODS AND SERVICES OF THE LOTOS GROUP**

Structure of the production volume – Grupa LOTOS S.A.

	H1 2007	H1 2006
Diesel	33.41%	33.61%
Gasolines	20.32%	21.39%
Fuel oils	18.78%	22.33%
Including: light fuel oil	3.87%	5.76%
Other refinery products	23.62%	22.67%

Production volume (thousands of tonnes) - Grupa LOTOS S.A.

	H1 2007	H1 2006
Diesel	1,194	1,113
Gasolines	726	709
Fuel oils	671	740
Including: light fuel oil	138	191
Other refinery products	844	751
<b>Total production volume</b>	<b>3,573</b>	<b>3,312</b>

LOTOS Group's sales revenue by products, goods and services (PLN '000)

PLN '000	Jan 1 2007 – Jun 30 2007	% share	Jan 1 2006 – Jun 30 2006	% share
Gasolines	2,559,155	30.04%	2,577,942	34.10%
Diesel oils	3,795,824	41.97%	3,601,419	40.64%
Light fuel oil	287,518	6.02%	516,496	9.82%
Heavy fuel oil	322,583	5.78%	496,324	3.22%
Jet-A1 fuel	339,509	4.60%	394,221	3.18%
Lubricants	205,762	2.27%	195,086	2.89%
Base oils	106,822	1.09%	93,216	0.56%
Bitumens and components for their production	336,841	2.73%	234,554	1.64%
Liquid gases	148,104	1.22%	104,950	0.90%
Other refinery products	88,540	3.42%	293,673	2.14%
<b>Total crude oil products and goods</b>	<b>8,190,656</b>	<b>98.95%</b>	<b>8,507,881</b>	<b>99.14%</b>
Other goods and materials	47,328	0.57%	33,902	0.40%
Services	39,676	0.48%	39,267	0.46%
<b>Total</b>	<b>8,277,660</b>	<b>100.00%</b>	<b>8,581,050</b>	<b>100.00%</b>
Elimination of excise tax and fuel charge	(2,656,176)		(2,626,346)	
<b>TOTAL</b>	<b>5,621,484</b>		<b>5,954,704</b>	

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**LOTOS Group's sales by products, goods and services (thousands of tonnes)**

	<b>Jan 1 2007 – Jun 30 2007</b>	<b>% share</b>	<b>Jan 1 2006 – Jun 30 2006</b>	<b>% share</b>
Gasolines	708	21.53%	734	22.28%
Diesel oils	1,280	38.91%	1,126	34.17%
Light fuel oil	144	4.38%	233	7.07%
Heavy fuel oil	458	13.92%	533	16.18%
Jet-A1 fuel	182	5.52%	190	5.77%
Lubricants	42	1.28%	47	1.43%
Base oils	46	1.39%	36	1.09%
Bitumens and components for their production	310	9.44%	265	8.04%
Liquid gases	65	1.96%	45	1.37%
Other refinery products	55	1.68%	86	2.61%
<b>Total crude oil products and goods</b>	<b>3,289</b>	<b>100.00%</b>	<b>3,295</b>	<b>100.00%</b>

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**5. CHANGES IN SALES MARKETS AND SOURCES OF SUPPLY OF MATERIALS, GOODS AND SERVICES**

**LOTOS Group's net sales revenue by markets (PLN '000)**

	Jan 1 2007 – Jun 30 2007	% share	Jan 1 2006 – Jun 30 2006	% share
Domestic sales, including:	6,858,137	82.8%	7,104,872	82.8%
- <i>products</i>	6,647,910	80.3%	6,957,190	81.1%
- <i>goods and materials</i>	210,227	2.5%	147,682	1.7%
Export sales, including:	1,419,523	17.2%	1,476,178	17.2%
- <i>products</i>	1,397,790	16.9%	1,468,667	17.1%
- <i>goods and materials</i>	21,733	0.3%	7,511	0.1%
<b>Total</b>	<b>8,277,660</b>	<b>100.0%</b>	<b>8,581,050</b>	<b>100.0%</b>
excise tax, fuel charge	(2,656,176)		(2,626,346)	
<b>TOTAL</b>	<b>5,621,484</b>		<b>5,954,704</b>	

**LOTOS Group's key customers in 2006**

Customer	Key products, goods and services	% share
STATOIL POLAND SP. Z O.O.	crude oil goods	16.93%
BP POLSKA SP. Z O.O.	crude oil goods	6.93%
NESTE POLSKA SP. Z O.O.	crude oil goods	4.91%
CONOCOPHILIPS POLAND SP. Z O.O.	crude oil goods	3.77%
SHELL POLSKA SP. Z O.O.	crude oil goods	2.14%

The only customers whose share in the LOTOS Group sales exceeded 10% was Statoil Polska Sp. z o.o. of Warsaw – its share amounted to 16.93%.

**LOTOS Group's purchases of raw materials and crude oil goods by region**

	Jan 1 2007 – Jun 30 2007	% share	Jan 1 2006 – Jun 30 2006	% share
Domestic purchases	923,740	17.2%	822,872	15.5%
Imports	4,437,542	82.8%	4,491,568	84.5%
<b>Total purchases</b>	<b>5,361,282</b>	<b>100.0%</b>	<b>5,314,440</b>	<b>100.0%</b>

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**LOTOS Group's supply structure in H1 2007 (PLN '000)**

	Jan 1 2007 – Jun 30 2007	% share
Raw materials	4,344,179	81.0%
Goods	275,297	5.1%
Services	428,048	8.0%
Other purchases	313,758	5.9%
<b>Total</b>	<b>5,361,282</b>	<b>100.0%</b>

**LOTOS Group's crude oil goods supply structure in H1 2007 (PLN '000)**

	Jan 1 2007 – Jun 30 2007	% shares	Jan 1 2006 – Jun 30 2006	% share
Diesel oils	70,329	28.44%	37,968	31,25%
Gasolines	88,797	35.92%	43,984	36,19%
LPG	81,705	33.05%	37,114	30,54%
Other	6,391	2.59%	2,457	2,02%
<b>Total</b>	<b>247,222</b>	<b>100.00%</b>	<b>121,523</b>	<b>100.00%</b>

**LOTOS Group's major suppliers in H1 2007**

Supplier	Key products, goods and services	% share of purchases	% share of revenue
J & S Service Investment Ltd of Cyprus	crude oil	39.50%	25.59%
Petraco Oil Company Ltd of UK	crude oil	14.79%	9.58%
PKN ORLEN	unleaded gasoline	2.67%	1.73%
NESTE Oil	base oils	2.58%	1.67%
Nexen Energy Marketing Europe	crude oil	2.03%	1.32%
Krak-Gaz sp. z o.o.	LPG	0.54%	0.35%

The supplier whose share in the LOTOS Group's purchases exceeded 10% of its revenue was J&S Service Investment Ltd of Cyprus. Its share in the Group's purchases amounted to 39.5%.

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**6. KEY FINANCIAL AND ECONOMIC DATA DISCLOSED IN THE CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS**

**6.1 INCOME STATEMENT**

In H1 2007, the LOTOS Group's sales revenue amounted to PLN 5,621.5m, which represented a year-on-year decline of 5.6%, attributable mainly to a drop in global prices of crude oil and petroleum products, the weakening of the US dollar and lower volumes sold by the Group. In H1 2007, the average USD exchange rate fell by 0.27 PLN/USD, i.e. by 8.5% relative to the average PLN/USD exchange rate in H1 2006. The average net selling price fell by 5.4%, from PLN 1,807 per tonne in H1 2006 to PLN 1,709 per tonne in the corresponding period of 2007. The volume of the Group's sales in H1 2007 stood at 3,289.4 thousand tonnes, having decreased year on year by 5.5 thousand tonnes. The period under analysis saw slumping sales of light and heavy fuel oils and gasolines, alongside a substantial rise in the sales of diesel oils and bitumens.

The H1 2007 cost of sales was PLN 4,854.2m, down by 3.8% on the previous year's figure. In the same period, the unit cost of sales amounted to PLN 1,476 per tonne, showing a year-on-year fall of 3.6%. The fact that the unit net price of products sold fell even more than the unit cost of sales led to a decrease in H1 2007 gross profit on sales, which fell by 15.8% from the level reported in the corresponding period of 2006, to PLN 767.3m. The lower gross profit on sales resulted mainly from the requirement to store increasingly larger volumes of mandatory stocks, deterioration in the purchase terms of Ural oil, abolition of the relief encouraging the use of a plastics component in the production of gasolines and diesel oils, appreciation of the Polish currency and intensified overhaul activity in Q1 2007, in particular the scheduled operational shutdown of the hydrocracking unit installed at the Gdańsk Refinery necessitated by the need to replace a worn catalyst.

Selling costs incurred the LOTOS Group in H1 2007 amounted to PLN 335.2m (up by 15.4% year on year). The main reason for the growth was the fact that the Company took over the transport function for most of the exported RG fuel oil and fuels, as well as a rise in sea freight charges. In the analysed period, general and administrative expenses amounted to PLN 149.4m and were slightly (2.7%) higher than in H1 2006. The Group reported profit on other operating activities of PLN 21.1m (versus the loss of PLN 9.6m sustained in H1 2006). The LOTOS Group's operating profit for the period January – June 2007 stood at PLN 303.9m and was lower by 34.8% from the H1 2006 figure. The difference between H1 2007 operating profit and the profit recorded in H1 2006 was reduced by net financial income of PLN 80.7m in H1 2007 (compared with the income of PLN 49.0m in H1 2006).

The H1 2007 profit before tax amounted to PLN 384.5m, down by PLN 130.1m year on year. The H1 2007 net profit on continued operations posted by the LOTOS Group amounted to PLN 305.0m, which represented a year-on-year decrease of 26.4%. The H1 2007 profit attributable to equity holders of the parent was PLN 295.6m.

**6.2 BALANCE SHEET**

As at June 30th 2007, the balance-sheet total of the LOTOS Group was PLN 8,463.7m, up by PLN 700.1m during H1 2007. The growth was mainly caused by an increase in the value of stocks (up by PLN 490.4m)

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connected with the statutory requirement to store higher volumes of mandatory stocks and higher prices of crude oil and petroleum products at the end of Q2 2007 compared with the prices reported at the end of 2006. Moreover, due to the ongoing projects executed as part of the 10+ Programme, there occurred a substantial rise in prepayments for tangible assets under construction (by PLN 343.8m). Given higher prices of the Group's products, the first six months of 2007 saw a PLN 66.0m increase in trade and other receivables. At the same time, current financial assets fell by PLN 149.8m, and the value of equity holdings in associated companies decreased by PLN 47.9m.

As at June 30th 2007, the Group's equity amounted to PLN 5,655.5m, having risen by PLN 253.6m during H1 2007, following an increase in retained earnings. Non-current liabilities in the period January – June 2007 fell by 3.3%, chiefly due to a lower level of non-current loans and borrowings, and amounted to PLN 695.6m as at the end of June 2007.

As H1 2007 saw an increase in liabilities and accruals (by PLN 331.4m), attributable chiefly to higher prices of crude oil, an increase in current loans and borrowings (by PLN 165.8m), and a PLN 30.0m drop in current provisions, current liabilities rose by PLN 470.5m and reached PLN 2,112.5 at the close of the period.

### **6.3 CASH FLOW**

As at the end of June 2007, the cash balance recorded by the LOTOS Group amounted to PLN 477.5m, having decreased by PLN 349.5m relative to the end of June 2006.

In H1 2007, net cash provided by operating activities amounted to PLN 111.8m, down by PLN 144.7m relative to H1 2006. The H1 2007 increase in net cash provided by operating activities was driven primarily by the net profit of PLN 305.0m, increase in liabilities by PLN 239.9m, amortisation and depreciation of PLN 150.5m, and a positive difference between current corporate income tax and corporate income tax paid, amounting to PLN 53.3m. The key factors with a negative impact on the operating cash flows in the reporting period included a PLN 490.4m increase in inventories, a PLN 76.3m rise in receivables, a PLN 27.0m rise in prepayments and deferred income, a PLN 26.7m decrease in provisions, and a PLN 18.8m loss on investing activities

Cash used in investing activities in H1 2007 amounted to PLN –240.1m, and relative to PLN –188.4m recorded in H1 2006 its level changed by PLN 51.7m. The change resulted mainly from high prepayments for tangible assets under construction (PLN 343.2m) as well as PLN 116.7m spent in H1 2007 on acquisition of tangible assets and intangible assets. H1 2007 also saw a PLN 183.2m increase in the cash balance following sale of current financial assets.

In H1 2007, the balance of cash used in financing activities conducted by the LOTOS Group reached PLN –17.1m, which means a 81.7% decline compared with the negative balance of PLN –9.4m recorded in H12006. The difference is attributable mainly to the payment of dividends of PLN 8.6m due to minority shareholders, which took place in H1 2007.

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**7. CONTRACTED LOANS LOAN AGREEMENTS AND LOAN MATURITY DATES, SURETIES AND GUARANTEES GRANTED**

For detailed information on contracted loans, loan agreements and loan maturity dates, see Note 31 to these consolidated financial statements for the six months ended June 30th 2007.

Detailed information concerning the LOTOS Group's sureties, guarantees and liabilities under promissory notes can be found in Note 42 to these consolidated financial statements for the six months ended June 30th 2007.

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**8. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT**

During H1 2007, the LOTOS Group was able to meet all of its liabilities towards third parties. The balance of working capital loans as at June 30th 2007 amounted to PLN 298.9m. For a detailed specification of debt under loans, see Note 31 to the financial statements.

The liquidity ratios as at June 30th 2007 showed that the LOTOS Group maintained its financial liquidity.

A synthetic assessment of the Group's overall economic and financial standing was based on a ratio analysis of profitability, liquidity and debt levels.

<i>Item</i>	<b>H1 2007</b>	<b>H1 2006</b>
Operating profit (PLN '000)	303,852	465,641
Operating margin (1)	5.41%	7.82%
Pre-tax profit (PLN '000)	384,514	514,602
Gross sales margin (2)	6.84%	8.64%
Net profit (PLN '000)	304,974	414,265
Net margin (3)	5.43%	6.96%
Return on equity (ROE) (4)	5.39%	7.93%
Return on assets (ROA) (5)	3.60%	5.43%
Current ratio (6)	2.08	2.26
Quick ratio (7)	1.04	1.31
Average collection period (in days) (8)	39.11	33.10
Average payment period (in days) (9)	32.60	31.37
Capital employed (10)	2,287,402	2,133,088
Capital employed to total assets (11)	27.03%	27.97%
Debt ratio (12)	33.18%	31.54%
Debt to equity ratio (13)	49.65%	46.07%

(1) operating profit/ net sales revenue

(2) pre-tax profit/ net sales revenue

(3) net profit/ net sales revenue

(4) net profit/ equity at end of period

(5) net profit/ assets at end of period

(6) current assets / current liabilities

(7) (current assets - inventories) /current liabilities

(8) (average trade receivables/ net sales revenue)\*181

(9) (average trade payables/ cost of sales)\*181

(10) current assets - current liabilities

(11) capital employed /assets

(12) total liabilities/ assets

(13) total liabilities/ equity



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## **9. KEY RISKS AND THREATS FOR THE LOTOS GROUP**

### **9.1 EXTERNAL RISKS AND THREATS RELATED TO THE GROUP'S MARKET ENVIRONMENT**

- **Risk related to the overall macroeconomic situation.** The financial situation of the Company and the Group is dependent on the domestic and global economic situation. The financial performance of the Group depends on: the GDP growth rate, the inflation rate, interest rates, population's private incomes, the unemployment rate, development of the road infrastructure, and the development of the services and retail sector. Any material changes in the aforementioned factors may adversely affect the pace at which the Group's financial performance develops and improves. This risk affects all companies in the sector to a similar degree.
- **Risk related to future legal regulations.** The business and financial performance of the Company and the LOTOS Group is affected by legal regulations (both internal – Polish regulations, and external – EU regulations), on such issues as taxes, mandatory reserves, product quality standards, protection of the natural environment, fuel storage, fuel stations and pipelines, and competition. Consequently, the introduction of any new, more restrictive regulation in any of the above areas, may lead to higher costs of operations and necessitate greater capital expenditure at the Company and the Group. Grupa LOTOS S.A. analyses information on any potential future legislation, in terms of how it may impact the Group's business. This risk affects all companies in the sector to a similar degree.

The new risks include the requirement to achieve the National Indicative Target, which will be mandatory as of the beginning of 2008. The insufficient supply of bio-components on the domestic market will necessitate imports of appropriate components.

Another potential risk is that the CO<sub>2</sub> emission allowances that will be granted to Grupa LOTOS S.A.'s refinery for 2008–2012 may be lower than the CO<sub>2</sub> emission envisaged after the 10+ Programme is completed. If this is the case, Grupa LOTOS S.A. may need to purchase emission allowances on the market, which will increase its operating expenses.

- **Risk related to changes in the fiscal regulations and their interpretation.** In Poland, fiscal regulations are subject to frequent changes which fairly often result in ambiguities in interpretation of tax legislation and differences in opinions between entrepreneurs and tax authorities. In their operations, Grupa LOTOS S.A. and the other Group companies seek to minimise tax-related risks, nevertheless, it is not possible to define to what degree the Company and the Group are exposed to this risk.

### **9.2 INTERNAL RISKS AND THREATS, RELATED TO THE COMPANY'S AND THE GROUP'S BUSINESS**

- **Financial risks.** The Company and the Group are primarily exposed to market risk, including the risk related to the refining margin fluctuations and currency, interest rate, and credit risks. Grupa LOTOS S.A. has established procedures for managing each of the mentioned risk types.
- **Risk related to the execution of the 10+ Programme.** The 10+ Programme is the Company's most important and valuable investment and development project. Major risks related to the execution of the Programme include the risk of high costs of investments, the risk of delays in project execution, and technological risks. The risks related to the execution of the 10+ Programme are being gradually reduced, along with the progress of the work on executing the project.
- **Risks related to the execution of the Upstream Business Development Programme.** The Upstream Business Development Programme is one of the key projects determining the creation of the value of the LOTOS Group as a vertically integrated oil concern. The programme assumes an increase in oil production from the Baltic Sea fields to 1m tonnes in 2012 and possibly international expansion. The key risks in this area include delayed commencement of production at the new oil fields related to prolonged prospecting work and considerable investment expenditure necessary to acquire appropriate technical infrastructure. The projects planned and executed by the Company take account of all the risks, which is reflected in the adopted project execution schedules and the actions taken. As far as

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international expansion is concerned, the key risk is related to the little experience the Company has in on-shore projects and the size of the potential expenditure. For these reasons, the Company currently concentrates on analytical work and studies with a view to choosing the right project and building its own know-how in the area.

- **Risk related to the execution of the PROSTA Fuel Station Network Development Programme.** The objective of the PROSTA programme is to increase the retail market share of LOTOS brand fuel stations to 10% to achieve, through own distribution channels, higher retail fuel sales. Given the fact that other leading operators of fuel stations have also announced plans to enlarge their percentage shares in the retail fuel market, the implementation of this strategic goal may prove difficult or necessitate expenditure in excess of the planned levels. Nevertheless, the results of the Company's to-date efforts to consolidate its network indicate that this strategic goal is highly likely to be achieved by the Company.
- **Risk related to the Southern Refineries.** The LOTOS Group includes LOTOS Czechowice S.A., LOTOS Jasło S.A., and Rafineria Nafty Glimar S.A. (in bankruptcy). Grupa LOTOS S.A. has been implementing a series of restructuring and development projects seeking to minimise most of the potential threats connected with the Southern Refineries' presence in the Group.

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**10. EVENTS AND AGREEMENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP**

**10.1 SIGNIFICANT AGREEMENTS CONCLUDED BY THE PARENT UNDERTAKING IN THE FIRST HALF OF 2007 AND AFTER JUNE 30TH 2007**

- On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) signed an agreement whereby LOTOS Kolej Sp. z o.o. provides comprehensive railway services to Grupa LOTOS S.A. The services include:

- dispatch and receipt of railway shipments sent by or addressed to Grupa LOTOS S.A.,
- procurement of the required number of tank cars of appropriate type for Grupa LOTOS S.A.'s shipments,
- technical servicing and maintenance of technical efficiency of railway assets owned by Grupa LOTOS S.A.

The agreement was concluded for five years. It provides for standard contractual penalties, whose amount will depend on the extent of LOTOS Kolej's delay in the performance of or failure to perform the services.

The value of the agreement is estimated at approximately PLN 1,000,000 over the agreement term.

The agreement is deemed significant, because its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

- On January 23rd 2007 Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) and BP Polska Sp. z o.o. signed a significant agreement concerning sale and delivery of liquid fuels to BP Polska Sp. z o.o.

The agreement was concluded for a definite term (until December 31st 2007) and its value is estimated at PLN 1,000,000 thousand. The agreement provides for contractual penalties of up to PLN 22,000 thousand but does not contain any provisions excluding the right to seek additional compensation on general terms.

The agreement is deemed significant as its value exceeds 10% of Grupa LOTOS S.A.'s equity.

- On June 21st 2007, as part of the 10+ Programme, Grupa LOTOS S.A. and Technip Italy S.p.A., as the general contractor, along with Technip KTI S.p.A., Technip Polska Sp. z o.o and KTI Poland S.A., signed the EPC LSTK (Lump Sum Turn Key) contract for engineering, procurement and construction of the mild hydrocracking unit (MHC) and the amine sulphur recovery complex, i.e. acid recovery unit (ARU), sour water stripper (SWS) and sulphur recovery unit/tail gas treatment unit (SRU/TGTU) for Grupa LOTOS S.A.

The scope of the construction of MHC, ARU, SWS and SRU/TGTU is adjusted to the planned annual oil processing volume of 10.5 million tonnes. The contract is to be performed within 42 months.

The value of the contract amounts to PLN 2,208,050,600 (translated at the mid exchange rate quoted by the National Bank of Poland for June 20th 2007). The agreement is deemed significant as its value exceeds 10% of Grupa LOTOS S.A.'s equity.

The contract provides for payment of contractual penalties to Grupa LOTOS S.A. in the event of a delay in the performance or failure to comply with the parameters agreed for the constructed units. The overall contractor's liability towards Grupa LOTOS S.A. is limited to 8% of the contract's value.

The contract will become effective upon fulfilment of the following conditions precedent: receipt of the required performance bonds by Grupa LOTOS S.A., issue of a letter of credit by the bank of Grupa LOTOS S.A. and transfer to Technip Italy S.p.A. of the rights and obligations under the prior agreements for delivery of relevant equipment concluded by Grupa LOTOS S.A.

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- 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 engineering, procurement and construction management services to build the oil distillation unit (Current Report No. 37/2007). In accordance with the annex, Lurgi S.A. of Kraków is to deliver components for the construction of the oil distillation unit. The construction of the unit is to be completed in the second half of 2009.

Following the execution of the annex, the aggregate value of agreements concluded between Grupa LOTOS S.A. and Lurgi S.A. in the last 12 months amounts to EUR 183m (PLN 697.7m at the mid exchange rate quoted by the National Bank of Poland for August 1st 2007). Taking into account the annex, the contract for engineering, procurement and construction management services to build the oil distillation unit is the largest transaction concluded between Grupa LOTOS S.A. and Lurgi S.A. and its value stands at approx. EUR 101m (approx. PLN 385m at the mid exchange rate quoted by the National Bank of Poland as at August 1st 2007).

The contract provides for contractual penalties. Lurgi S.A.'s liability in the event of failure to properly perform the contract is limited to 8% of the contract's value.

The contract is deemed significant as the total value of agreements concluded between Grupa LOTOS S.A. and Lurgi S.A. in the last 12 months exceeds 10% of Grupa LOTOS S.A.'s equity.

**10.2 SIGNIFICANT AGREEMENTS CONCLUDED BY THE OTHER COMPANIES OF THE LOTOS GROUP IN THE FIRST HALF OF 2007 AND AFTER JUNE 30TH 2007**

In the first half of 2007 no company of the LOTOS Group was a party to any significant agreements other than those mentioned above.

**10.3 MATERIAL EVENTS FOR THE OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP**

**10+ Programme (Comprehensive Technical Upgrade Programme)**

With respect to the execution of the 10+ Programme, the Company's largest investment project of key importance for the growth of its value, the Company's efforts in the first half of 2007 focused on reviewing the received bids, preparing the contractor selection process and launching the implementation phase of the project.

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

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

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

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

With respect to the above installations:

- the execution status of orders for the MHC reactors was examined by Belleli and GE and the terms and conditions of assigning the orders to the EPC contractor, i.e. Technip, were agreed upon. The contractor is in the process of ordering the main components of the unit (pumps, compressors, columns, heat exchangers). The engineering design of the unit is being prepared.
- Requests for proposals concerning the main equipment of the amine and sulphur recovery unit have been sent and an application for the building permit has been prepared. Talks concerning the engineering design were conducted.
- A plot of land for the hydrogen generating unit contractor has been prepared. The base engineering design documentation has been agreed upon. The contractor has started to seek proposals for the key components of the unit.
- As regards utilities and offsite facilities, the preparation of a concept for the modernisation of the sewage treatment plant has been ordered, and assumptions concerning fan cooling towers have been agreed upon. A tender for the execution of works designed to ensure an additional access way to the construction site was underway. Another tender, for a provisional fencing of the entire site of the 10+ Programme, has been announced. Terms of reference for the purposes of a tender for the construction of new tanks have been prepared and the design assumptions for the pipeline connecting the refinery and Naftoport were developed in more detail.

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

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

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

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

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***PROSTA Programme***

In H1 2007, the Company was developing its retail service station network through subsidiary LOTOS Paliwa under the *PROSTA* programme, which focused on continued expansion of the COCO and CODO station network and the development of the DOFO station network.

In the reporting period, the Company continued the following activities commenced in previous quarters:

- a CODO service station in Katowice was placed in service on January 5th 2007;
- land with the permit for construction of a service station was purchased and the construction of the service station in Opole at ul. Sosnkowskiego/Szarych Szeregów was commenced;
- two preliminary agreements were concluded, relating to the acquisition of land plots intended for the construction of service stations (in Warsaw and Strzeszowice (the Zielona Góra Province));
- the comprehensive LPG module installation programme was continued with regard to the service stations acquired from ExxonMobil and Sloznaft;
- two new stations (in Tarnów and Opatówek near Kalisz) were included into the LOTOS Family Commercial Partnership Programme;
- two agreements for the running of DOFO stations (in Kowalewo and Piława) were terminated.

As at June 30th 2007 the LOTOS service station network comprised 369 locations, including 131 COCO/CODO stations, 59 DOFO stations and 179 DODO stations.

***Petrobaltic and the production segment***

In H1 2007, in the exploration and production segment the company continued oil and gas production at the B3 reservoir, where 93,981.9 tonnes of crude oil were produced. The entire H1 2007 crude oil output from the B3 reservoir was shipped by an oil tanker to the Gdańsk refinery and the natural gas was transmitted via a pipeline to Energobaltic Sp. z o.o.'s CHP plant in Władysławowo.

The total H1 2007 crude oil and natural gas outputs amounted to 93,981.9 tonnes and 10,389,278 cubic metres, respectively (8,524,717 cubic metres of natural gas were transmitted to Władysławowo).

Petrobaltic S.A. also continued the preparations to commence the exploration of new offshore crude oil reserves outside the Polish economic zone of the Baltic Sea. An analysis of potential geologic deposits of carbohydrates in the Polish economic zone of the Baltic Sea was conducted, thus delineating a considerably larger exploration area for Petrobaltic S.A.

In May 2007, Petrobaltic S.A. obtained a 25-year licence for the production of gasoline gas from the B4 reservoir.

At the B3 reservoir, oil well stimulation work was performed (including in particular the first phase of the workover of the B3-9 and B3-15 wells), and liquidation of the B3-16 well was prepared. At the B8 reservoir, preparatory work for the drilling of the B8-Z1 well was conducted.

Petrobaltic S.A. evaluated the reserves and economic feasibility of production with respect to its four sea exploration licences:

1. Wolin
2. Gaz Południe
3. Sambia Wschód
4. Sambia Zachód

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**Southern Refineries**

LOTOS Czechowice S.A. continued the FAME investment project (an installation for production of diesel oil biocomponent content) executed by its subsidiary LOTOS Biopaliwa Sp. z o.o.

Moreover, LOTOS Czechowice S.A. prepared new investment projects (approved at the level of Grupa LOTOS S.A.) aimed at expanding the capacity of fuel storage on a service basis (construction of a new storage tank and upgrade of the existing tanks to comply with applicable legal requirements) and enhancing the product mix of distributed fuels (construction of an LPG terminal). The projects are scheduled to be completed in Q3-Q4 2008. They will lead to a gradual increase in the company's revenue from fuel storage and distribution services provided to Grupa LOTOS S.A.

LOTOS Jasło S.A. undertook efforts aimed at improving its financial performance. The company started to restructure its headcount through voluntary severance schemes and voluntary redeployment schemes.

The work at the DRW unit is limited to the production of feedstock used by LOTOS Asphalt in its production processes, as it is no longer possible to conduct economically effective production of fuels after the abolition of the relief encouraging the use of a plastics component in the production of gasolines and diesel oils and after the discontinuation of plastics pyrolysis.

A preliminary project was prepared concerning the construction of a unit for waste plastics processing. The first phase of the project – waste sorting – has already been launched. The assumptions for the next phase (regranulation of plastics so as to obtain regranulate to be used in the manufacturing of products or production of alternative fuels) were submitted to obtain corporate approvals for further implementation of the project.

Drawing upon the knowledge of specialised foreign research centres, the Company is searching for technical and technological opportunities for using the plastics processing unit as a unit for production of alternative fuels.

In cooperation with RCEkoenergia (LOTOS Czechowice's subsidiary managing energy media) analyses are conducted with a view to developing a concept for future energy and water-and-sewage management in the town of Jasło.

In addition, both Refineries undertook activities aimed at disposing of the real estate owned by the Refineries to interested parties: companies of the LOTOS Group and third parties.

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**11. CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN THE PARENT UNDERTAKING AND OTHER ENTITIES, SPECIFICATION OF KEY DOMESTIC AND FOREIGN INVESTMENT PROJECTS**

**11.1 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS**

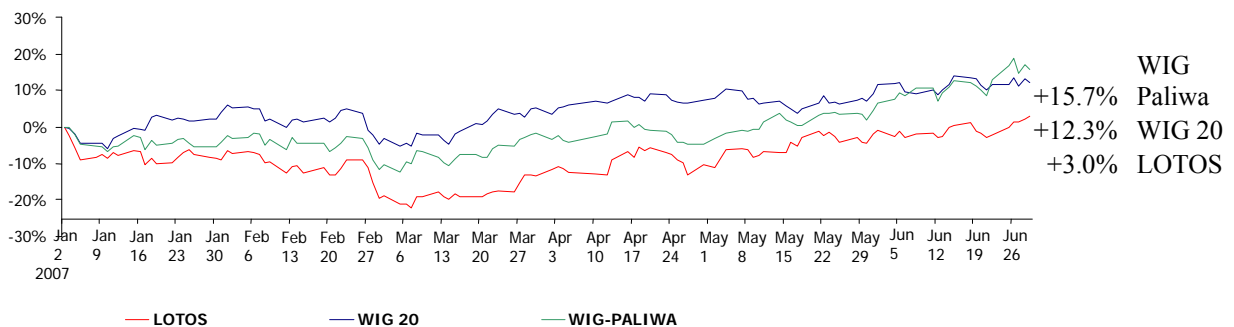
On March 9th 2007, the Management Board of Grupa LOTOS S.A. became aware that as a result of acquisition of Grupa LOTOS S.A. shares in transactions carried out on the Warsaw Stock Exchange, which were settled on March 6th 2007, ING Nationale-Nederlanden Polska OFE came to hold the Issuer shares conferring the right to over 5% of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A.

Prior to the abovementioned transactions, ING Nationale-Nederlanden Polska held 5,676,589 (five million, six hundred and seventy-six thousand, five hundred and eighty-nine) shares in Grupa LOTOS S.A., which represented 4.99% of the Company's share capital and conferred the right to 5,676,589 votes at its General Shareholders Meeting (4.99% of the total vote). On March 7th 2007, 5,876,589 (five million, eight hundred and seventy-six thousand, five hundred and eighty-nine) Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska, which account for 5.17% of the Company's share capital and confer the right to 5,876,589 votes at its General Shareholders Meeting (5.17% of the total vote).

Changes in organisational or capital links of Grupa LOTOS S.A. (parent undertaking) with subsidiary companies which are members of the LOTOS Group were presented in Section 2 "Changes in the Shareholder Structure within the Group in the First Half of 2007" and Section 3 "Changes in Organisation and Management in the LOTOS Group" of this Report.

**11.2 GRUPA LOTOS S.A. SHARE PRICE ON THE WARSAW STOCK EXCHANGE**

**Graph 1 Changes in Grupa LOTOS S.A. share price and WIG 20 and WIG-Paliwa indices in H1 2007**



Source: WSE.

At the first session in 2007, Grupa LOTOS S.A. shares were traded at PLN 49.50 and the WIG 20 index stood at 3,347.75 points. The first two months of 2007 were marked by falling prices of the Company shares and shares of other commodity companies, due to low prices of oil and oil products prevailing on international markets. In that period, the WIG 20 index was rising, reaching its all-time highs.

At the end of February and beginning of March, the Warsaw Stock Exchange was in a correction related to a massive sale of shares at the Chinese stock exchange and information on slower growth rate of the US economy. In the subsequent month, the downward trend was reversed. In April, the Company share price was subject to sharp fluctuations. The price in that period may have been affected by unsuccessful negotiations of the Polish government conducted in Kazakhstan and Azerbaijan concerning crude oil supplies from those countries to Poland and the construction of the Odessa-Brody-Gdańsk oil pipeline. The performance of the WIG 20 index in that period – a series of new all-time highs – was driven by Poland's selection to co-host the European Football Championship final: Euro 2012.

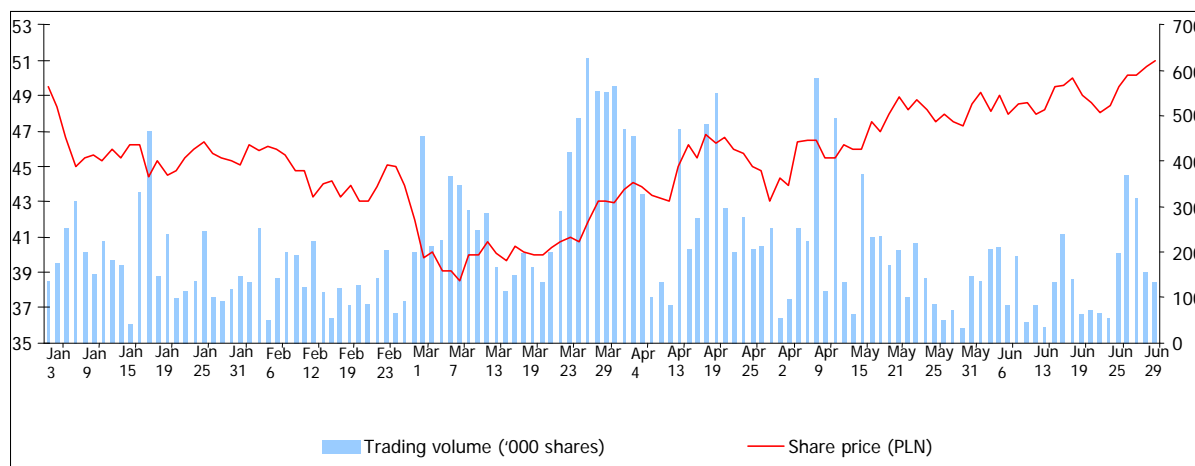


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In May and June, the price of the Company shares and the WIG 20 index entered an upward trend. The factor with the most significant bearing on the share price of Grupa LOTOS S.A. was the announcement of the Company's Q1 2007 results. The Company's performance did not match the analysts' expectations, yet due to a considerable effect of non-recurring factors the reception of the quarterly results by the market was favourable. Another factor which may have affected the share price in the discussed period was the information on the closing of negotiations by Grupa LOTOS S.A. and conclusion of further contracts for the implementation of the 10+ Programme (former Comprehensive Technical Upgrade Programme). Furthermore, the share prices of companies in the fuel sector were driven up by the information on OMV's purchase of shares in Hungar's MOL and a possible merger of both companies. In June, the WIG 20 index remained close to its maximum values and reached a new all-time high of 3,815.42 points.

As at the end of June 2007, the price of the Company shares was PLN 51.00, which represents a half-year increase of 3.0%. As at the end of H1 2007, the WIG Paliwa index (composed of shares in Grupa LOTOS, PKN Orlen, PGNiG, and MOL) stood at 3,249.95 points, which represented a 15.7% increase relative to the beginning of January 2007. The WIG 20 index as at the end of June was 3,759.28 points, with a half-year increase of 12.3%.

**LOTOS – Share price and trading volume in H1 2007**



**Dividend for 2006**

On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on the distribution of Grupa LOTOS S.A.'s net profit for 2006. Pursuant to the resolution, the net profit of PLN 406,714 thousand for the year ended December 31st 2006 shall be allocated to:

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

Pursuant to the abovementioned resolution of the Annual General Shareholders Meeting of May 28th 2007, on July 31st 2007 Grupa LOTOS S.A. paid out dividend for the financial year ended December 31st 2006 in the amount of PLN 0.36 per share.

**11.3 KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE PARENT UNDERTAKING AND THE GROUP COMPANIES**

**11.3.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS**

**The Group's major investments in tangible and intangible assets made in H1 2007 (PLN '000)**

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	<b>Capital expenditure in Jan 1–Jun 30 2007</b>
Construction and assembly work	42,735
Procurement from external suppliers – purchases	37,890
Acquisition of intangible assets	9,515
Other capital expenditure	61,262
<b>Total</b>	<b>151,402</b>

### 11.3.2 EQUITY INVESTMENTS

In H1 2007, Grupa LOTOS S.A. invested its financial surpluses in such instruments as bank deposits and buy-sell-back transactions.

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**12. TRANSACTIONS WITH RELATED UNDERTAKINGS**

**Transactions worth more than EUR 500,000, executed by the parent undertaking with related undertakings (PLN '000)**

<b>No.</b>	<b>Party to the transaction</b>	<b>Sales (PLN '000)</b>	<b>Purchases (PLN '000)</b>
1	LOTOS Paliwa Sp. z o.o.	3,358,743	-
2	LOTOS Partner Sp. z o.o.	2,380,777	47,297
3	LOTOS Oil S.A.	107,075	-
4	LOTOS Parafiny Sp. z o.o.	36,834	-
5	LOTOS Kolej Sp. z o.o.	3,255	100,454
6	LOTOS Serwis Sp. z o.o.	2,331	21,847
7	LOTOS Mazowsze S.A.	57,940	-
8	LOTOS Lab Sp. z o.o.	-	6,201
9	LOTOS Ochrona Sp. z o.o.	-	3,107
10	LOTOS Straż Sp. z o.o.	-	5,144
11	LOTOS Asphalt Sp. z o.o.	216,777	-
13	LOTOS Jasło S.A. Group	37,409	27,452
14	LOTOS Czechowice S.A. Group	-	6,550
15	Petrobaltic S.A. Group	-	122,341

\* The equivalent of EUR 500,000 is PLN 1,924 thousand (1 EUR = 3.8486 PLN– arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of the month in the period January 1st – June 30th 2007).

Besides the transactions specified above, in H1 2007 the parent undertaking did not enter into any non-standard related-party agreements worth more than EUR 500 thousand.

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**13. LOANS ADVANCED – LOANS, SURETIES AND GUARANTEES GRANTED TO THE RELATED UNDERTAKINGS OF GRUPA LOTOS S.A.**

In H1 2007, Grupa LOTOS S.A. advanced the following loans to LOTOS Park Technologiczny Sp. z o.o., its subsidiary undertaking:

- Agreement of February 27th 2007, providing for a loan of PLN 1,200,000.00 disbursable in two tranches of PLN 600,000.00 each. The loan is to be repaid by December 31st 2007.
- Agreement of June 26th 2007, providing for a loan of PLN 600,000.00. The loan principal together with interest is to be repaid by December 31st 2007.

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**14. USE OF ISSUE PROCEEDS AND IMPLEMENTATION OF THE ISSUE OBJECTIVES**

In line with the issue objectives presented in the Issue Prospectus of Grupa LOTOS S.A., as at June 30th 2007 the net issue proceeds were used to finance:

- Acquisition of the Southern Refineries and Petrobaltic S.A. – PLN 257.3m,
- The 10+ Programme ((formerly the Comprehensive Technical Upgrade Programme (PKRT)) – PLN 495.8m,
- The PROSTA Fuel Station Network Development Programme – PLN 65m,
- Financing of modernisation investments at the Gdańsk refinery – PLN 188m.

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**15. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL RESULTS AND PREVIOUSLY PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2007**

By September 20th 2007 Grupa LOTOS S.A. did not publish any performance forecasts for 2007.

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**16. ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS, INCLUDING EQUITY INVESTMENTS, IN VIEW OF AVAILABLE FUNDS**

Currently, Grupa LOTOS S.A. is financing investments using its own resources and is in the process of raising debt financing for the 10+ Programme. The financial advisors engaged by the Company to lend support in the process of raising financing for the investments have so far expressed the opinion that the attractiveness of the 10+ Programme will allow the Company to obtain debt financing, which will cover Grupa LOTOS S.A.'s needs related to the ongoing and planned investment projects.

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**17. EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF GRUPA LOTOS S.A. AND THE LOTOS GROUP; DEVELOPMENT PROSPECTS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP**

**The key external factors material for the development of Grupa LOTOS S.A. and the LOTOS Group include:**

- **Quotation prices of crude oil and petroleum products** – changes of market prices of crude oil and petroleum products have a material impact on the Company's financial performance. In the first half of 2007 the prices of crude oil (and thus of petroleum products) were lower than in the same period of 2006.
- **PLN/USD exchange rate** – the performance of the Company and its Group is also, to some extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of the raw material and of some products are quoted in the American dollar.
- **Petroleum products demand and supply levels** – the demand for diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and its Group.

**The key internal factors material for the development of Grupa LOTOS S.A. and the LOTOS Group include:**

- **Further expansion of the fuel retail sales network** – implementation of the PROSTA programme is the key factor in strengthening the Company's position on the fuel retail market. One of the main tasks is to effectively incorporate the stations acquired from ExxonMobil Polska Sp. z o.o. and Slovnaft into the LOTOS network and to build new stations on the real estate acquired in the transactions.
- **Execution of the 10+ Programme** – a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. and the LOTOS Group in the long run is timely execution of the 10+ Programme. Construction and start-up of the installations provided for in the Programme will allow the Gdańsk refinery to increase its processing capacity (to 10.5 million tonnes per annum) and oil conversion ratio, which will have a positive effect on the product slate.
- **Development of upstream business** – the planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials, further improve its financial performance and enhance the Company's value.

The restructuring and investment activities undertaken by the Management Board of Grupa LOTOS S.A. (appointed in 2002), which were crowned with the public offering, floatation of the Company shares on the Warsaw Stock Exchange and obtaining additional funds, constitute a springboard for the LOTOS Group's further development and building shareholder value.

Implementation of the 10+ Programme, as well as other investment programmes, will enhance the position of the Company and its Group on the Polish market and in the Baltic Sea basin and, consequently, enhance the financial performance and value of Grupa LOTOS S.A.



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**18. CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS OF GRUPA LOTOS S.A.**

**MANAGEMENT BOARD – sixth term of office**

In the period from January 1st to June 30th 2007, the composition of the Management Board was as follows:

1. Paweł Olechnowicz – President
2. Marek Sokołowski – Vice-President
3. Jarosław Kryński – Vice-President
4. Mariusz Machajewski – Vice-President

**SUPERVISORY BOARD**  
**– sixth term of office**

In the period from January 1st to May 28th 2007, the composition of the Supervisory Board was incomplete:

1. Jan Stefanowicz – Deputy Chairman
2. Beata Zawadzka – Member
3. Jacek Mościcki – Member
4. Jacek Tarnowski – Member
5. Henryk Siodmok – Member
6. Grzegorz Szczodrowski – Secretary

On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. removed:

1. Mr Jacek Tarnowski

from the Supervisory Board and appointed:

1. Ms Marta Busz
2. Ms Izabela Emerling

as members of the Supervisory Board. Mr Jan Stefanowicz was appointed Chairman of the Supervisory Board.

As a result, in the period from May 28th to June 30th 2007 the Supervisory Board had the following composition:

1. Jan Stefanowicz – Chairman
2. Henryk Siodmok – Deputy Chairman
3. Beata Zawadzka – Member
4. Jacek Mościcki – Member
5. Marta Busz – Member
6. Izabela Emerling – Member
7. Grzegorz Szczodrowski – Secretary

From the end of the H1 2007 to the date of release of this Report the composition of the Management or Supervisory Boards did not change.

**Rules concerning the appointment and removal of management staff. Powers of the management staff.**

1. The Management Board is appointed by the Supervisory Board. The Supervisory Board first appoints the President of the Management Board, and then, at the President's request, the Vice-Presidents and other members of the Management Board.
2. The Management Board is appointed for a joint, three-year term of office. For important reasons, the President, the Vice-Presidents and other members of the Management Board, as well as the Management Board as a whole, may be removed from office or suspended by the Supervisory Board at any time.
3. Supervisory Board's resolutions concerning appointment or removal of the particular members of the Management Board, or of the Management Board as a whole, are adopted in the presence of at least two thirds of the Supervisory Board members.

The Management Board takes any decisions related to the management of the Company's business which are not reserved for the General Shareholders Meeting or the Supervisory Board pursuant to the Commercial Companies Code or the Company's Articles of Association.

1. Management Board resolutions are required with regard to the following matters:

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- 1) setting the organisational rules of the Company, including organisation of the Company's business,
- 2) setting annual budget for the Company,
- 3) adoption of strategy for the LOTOS Group,
- 4) setting rules of procedure for the Company's business as required under the law,
- 5) making the Company's equity investments and implementing all projects related to capital expenditure in property, plant and equipment (with the exception of replacement investment projects) with the value of up to PLN 100,000,
- 6) exercising the Company's voting rights at the General Shareholders Meetings of the subsidiaries, with regard to:
  - appointing or removing members of the Management and Supervisory Boards,
  - coverage of loss,
  - increasing or reducing the share capital,
  - merging with another company or transforming the company,
  - selling or leasing the Company's business and/or encumbering it with usufruct rights,
- 7) appointing and removing members of the Management and Supervisory Boards who are appointed or removed directly by Grupa LOTOS S.A.,
- 8) establishing companies under commercial law,
- 9) acquiring and selling shares in limited-liability companies,
- 10) acquiring and selling shares, except where the shares are acquired or disposed of as part of public trading in securities, unless such acquisition or disposal results in gaining or losing the status of the parent,
- 11) acquiring and disposing of real property, perpetual usufruct rights or interest in real property,
- 12) establishing or joining partnerships, organisations or ventures which involve unlimited liability enforceable against the Company's assets.
- 13) preparing:
  - the Company's financial statements for the previous financial year, in accordance with the Polish Accountancy Act, along with the Directors' Report on the Company's operations for the previous financial year – no later than within three months from the balance-sheet date
  - consolidated financial statements and a report on the LOTOS Group's operations for the previous financial year – no later than within five months from the balance-sheet date,
- 14) convening ordinary and Extraordinary General Shareholders Meetings in due time, on its own initiative, at a written motion of the Supervisory Board or at the request of a shareholder or shareholders representing at least one-tenth of the share capital, as well as in other cases as provided for in the Commercial Companies Code,
- 15) establishing the agenda for a General Shareholders Meeting,
- 16) matters going beyond the scope of the ordinary management of the enterprise,
- 17) matters which have been objected to by at least one of the members of the Management Board,
- 18) matters which must be resolved by virtue of Management Board resolutions if so required by the President of the Management Board or at least half of the members of the Management Board, and which fall within the scope of responsibilities of particular members of the Management Board.

Any matters not specified above are handled by individual members of the Management Board in line with the division of powers and responsibilities.

**19. REMUNERATION, AWARDS, OR BENEFITS PAYABLE OR POTENTIALLY PAYABLE TO THE MANAGEMENT AND SUPERVISORY STAFF OF GRUPA LOTOS S.A.**

The value of remuneration paid and payable to the management and supervisory staff of Grupa LOTOS S.A. is presented in Note 46 to the consolidated financial statements for the first six months of 2007.

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**20. AGGREGATE NUMBER AND PAR VALUE OF ALL SHARES OF GRUPA LOTOS S.A. AND SHARES OF RELATED UNDERTAKINGS OF GRUPA LOTOS S.A. HELD BY MANAGEMENT AND SUPERVISORY STAFF**

In accordance with the information held by the Company, the following persons hold shares in Grupa LOTOS S.A.:

	As at June 30th 2007	
	<i>Number of shares</i>	<i>Number of shares</i>
Management Board:	8,636	8,636
Marek Sokołowski	8,636	8,636
Supervisory Board	0	0
<b>Total</b>	<b>8,636</b>	<b>8,636</b>

**21. SHAREHOLDERS HOLDING, DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES, 5% OR MORE OF THE TOTAL VOTE AT THE GENERAL SHAREHOLDERS MEETING OF GRUPA LOTOS S.A.**

As at June 30th 2007, the shareholding structure of Grupa LOTOS S.A. was as follows:

Shareholders	Number of shares	Number of votes	Par value of shares	% of share capital
Nafta Polska S.A	59,025,000	59,025,000	59,025,000	51.91%
State Treasury	7,878,030	7,878,030	7,878,030	6.93%
ING Polska OFE	5,800,000	5,800,000	5,800,000	5.17%
Other	40,996,970	40,996,970	40,996,970	35.90%
<b>Total</b>	<b>113,700,000</b>	<b>113,700,000</b>	<b>113,700,000</b>	<b>100.00%</b>

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**22. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS**

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