



THE LOTOS GROUP

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
IN THE SIX MONTHS ENDED JUNE 30TH 2006**

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INTRODUCTION

This Directors' Report on the LOTOS Group's operations in the first half of 2006 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 2006

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 Partner Sp. z o.o. - consolidated with the full method
- LOTOS Mazowsze S.A. - consolidated with the full method
- LOTOS Oil S.A. - consolidated with the full method
- LOTOS Asphalt 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
- BiproRaf Sp. z o.o. – not consolidated
- 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

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Indirect subsidiary undertakings:

- RCEkoenergia Sp. z o.o - consolidated with the full method
- LOTOS Biopaliwa Sp. z o.o. (formerly RCParafiny Sp. z o.o.) - consolidated with the full method
- RCRemo Sp. z o.o. - consolidated with the full method
- CBA Racer Sp. z o.o. - consolidated with the full method
- RCSerwis Sp. z o.o. – not consolidated
- RCPaliwa Sp. z o.o. – valued with the equity method
- RCTransport Sp. z o.o. – valued with the equity method
- Jasbit – Rafineria Jasło Sp. z o.o. in liquidation - not consolidated
- LOTOS Tank Sp. z o.o. - consolidated with the full method
- Rafineria Jasło Monto-Rem Sp. z o.o. - consolidated with the full method
- Plastekol Organizacja Odzysku S.A. - consolidated with the full method
- Rafineria Jasło Sped-Kol Sp. z o.o. - not consolidated
- 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

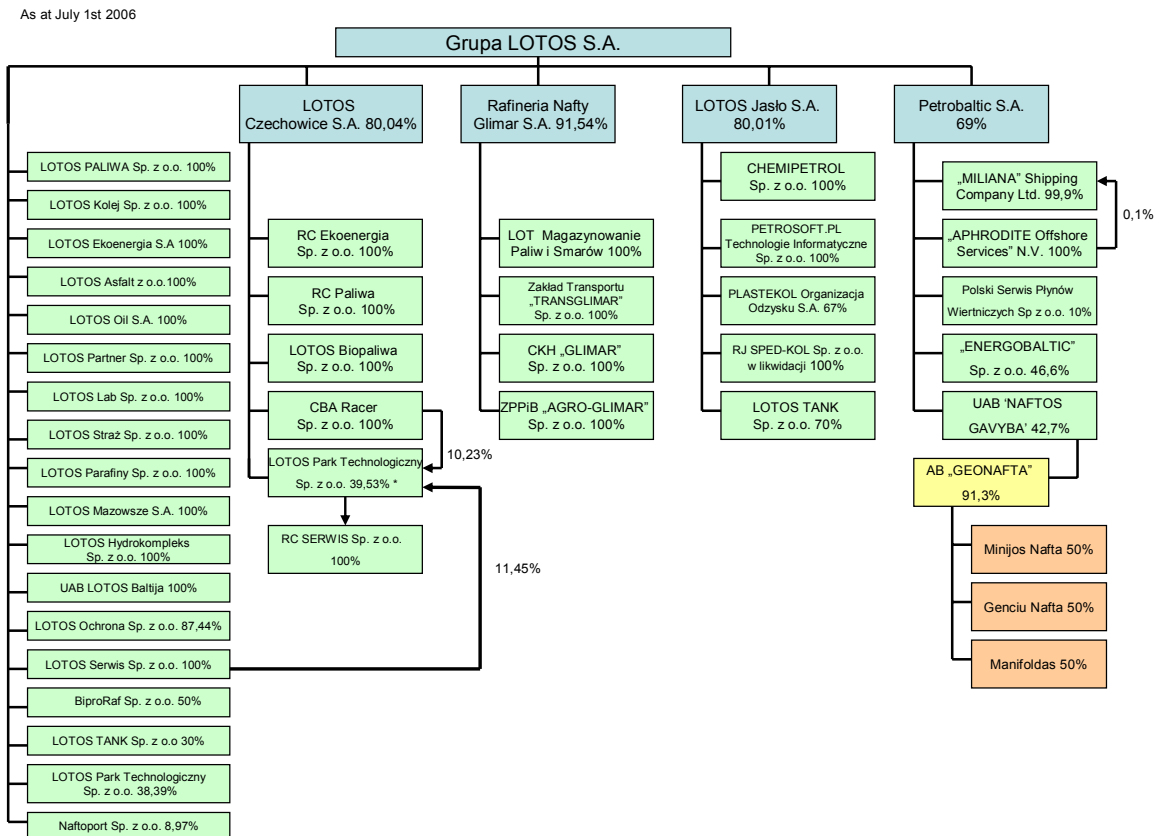
Associated undertakings:

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

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Organisational Structure of the LOTOS Group

As at June 30th 2006 and June 30th 2005, the Group's share in the total vote at the general shareholders meetings of its subsidiary undertakings equalled the Group's share in the share capital of these undertakings.



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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", "the Parent Undertaking"), the parent undertaking of the LOTOS Group, was established by virtue of the Notarial Deed of September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (currently the District Court for Gdańsk-Północ, VII Commercial Division of the National Court Register) under No. KRS 0000106150. The Company was assigned 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 core business of the LOTOS Group consists in the production and processing of refined petroleum products and their wholesale and retail sale. The LOTOS Group is also engaged in the acquisition and exploitation of oil and gas reserves.

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 2006 amounted to PLN 3,744,583 thousand.

In connection with the "Spring 2005" maintenance project carried out at the Gdańsk refinery, its annual crude oil distillation capacity was increased from approximately 4.5m tonnes to 6m tonnes.

1.2.2 THE LOTOS GROUP COMPANIES

LOTOS Paliwa Sp. z o.o.

LOTOS Paliwa Sp. z o.o.(created by way of a spin-off from Grupa LOTOS S.A.) is engaged in retail sale and wholesale of fuels and light fuel oil in Poland (excluding provision of supplies to foreign oil concerns and participation in national tenders). The company was entered in the National Court Register under entry No. KRS 0000006312. Its registered office is located in Gdańsk. As at June 30th 2006, the company's share capital was PLN 114,706,000 and was divided into 114,706 shares with a par value of PLN 1,000 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 sole distributor of fuels and light fuel oil within the Group in the following distribution channels:

- management and development of the fuel station network (CODO, DODO and DOFO stations) representing the second largest fuel 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;
- 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.

The number of its CODO stations rose from 74 to 125, and after new stations are built on the acquired properties the number of stations will grow to 141. In terms of the number of stations, the LOTOS Group is strengthening its runner-up position on the retail fuel market in Poland by expanding its network (including DOFO and DODO stations) from 346 to 399 stations. The share of LOTOS stations in the overall market of fuel stations will rise to approx. 7.5%.

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LOTOS Partner Sp. z o.o.

Preem Terminale Rzezcne S.A. was incorporated by virtue of the Notarial Deed of June 11th 2001 (Rep. A No. 1881/2002). The company was entered into the Register of Entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw, XIX Commercial Division of 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 Rzezcne 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 Rzezcne Sp. z o.o. has operated under the name of LOTOS Partner Sp. z o.o. On January 7th 2005, a change of LOTOS Partner's registered office was registered – the company's registered office is currently situated at ul. Elbląska 135, Gdańsk. As at June 30th 2006, the share capital of LOTOS Partner was PLN 11,859,500.00 and was divided into 23,719 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A.

LOTOS Partner's business consists in the provision of fuel supplies to institutional customers, in particular to retail station networks of foreign oil concerns operating in Poland. The company also distributes aviation fuel. At the beginning of 2005, LOTOS Partner discontinued its activity related to the development of self-serve diesel oil pumps (LDS) and distribution of light, low-sulphur fuel oil (LOTOS RED). These changes result from the sale of LOTOS Diesel Service and LOTOS RED, as an organised part of business, to LOTOS Paliwa Sp. z o.o., which took over these activities.

LOTOS Partner Sp. z o.o.'s business currently involves:

- 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 aviation fuel

On February 2nd 2006, Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o. (wholly-owned by Grupa LOTOS S.A.) and Grupa LOTOS S.A. signed a significant agreement concerning sale of liquid fuels to Neste Polska Sp. z o.o. The agreement expires on December 31st 2008. The estimated value of the agreement during its term is PLN 2,400,000 thousand. On February 13th 2006, LOTOS Partner Sp. z o.o. signed another trilateral agreement with Grupa LOTOS S.A. and BP Polska Sp. z o.o., concerning sale of liquid fuels to BP Polska Sp. z o.o. The agreement expires on December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand. Another significant trilateral agreement was concluded by LOTOS Partner Sp. z o.o. on March 6th 2006 with Grupa LOTOS S.A. and ConocoPhillips Poland Sp. z o.o. The agreement provides for the sale and supply of liquid fuels to ConocoPhillips Poland Sp. z o.o. The estimated value of the agreement, expiring on December 31st 2006, is PLN 1,000,000 thousand.

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 Register of Entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw, XXI 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. The company's registered office is situated at ul. Grzebskiego 10, Mława.

Until the end of 2004, the core business of LOTOS Mazowsze S.A. comprised wholesale and retail sale of liquid fuels and LPG. In January 2005, the company sold to LOTOS Paliwa Sp. z o.o. an organised part of business comprising wholesale of fuels and light fuel oil. LOTOS Mazowsze S.A. focused its operations on trade in LPG, heavy fuel oil and other special products. The company operates throughout Poland and sells:

- propane/butane
- heavy fuel oil
- plasticizers
- sulphur
- light fuel oil

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LOTOS Mazowsze S.A. has well-organised and efficient logistical resources, comprising 2 terminals in Rypin and Mława, as well as vehicles adapted to transport liquid gas and light fuel oil.

As at June 30th 2006, the share capital of LOTOS Mazowsze S.A. amounted to PLN 3,680,000.00 and was divided into 160,000 shares with a par value of PLN 23.00 per share.

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 Register of Entrepreneurs of National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, on August 27th 2002, under No. KRS 0000128016. On February 2nd 2004, LOTOS Oil S.A. and Grupa LOTOS S.A. signed an agreement on the purchase of an organised part of business – the Lubricant Production Plant. From February 1st 2004 to January 2nd 2006, the company leased the Production Division in Czechowice and from May 4th 2004 to August 31st 2006 – the Production Division in Gorlice. On August 1st 2005, the company's structure was expanded to include the oil production division in Jasło. On December 1st 2005, the company purchased the assets of a low-volume production division, which it had leased from August 1st 2005, from CBARacer Sp. z o.o. of Czechowice.

On June 14th 2005, an increase in the company's share capital from PLN 500,000.00 to PLN 2,000,000.00 was registered by the National Court Register. The share capital was increased with the funds from the net profit earned for 2004.

LOTOS Oil S.A.'s business consists in the production and distribution of lubricants: finished car and industrial oils, and lubes (domestic and foreign markets), base oils (domestic and foreign markets), as well as distribution of car-care products and car chemicals.

The company's share capital as at June 30th 2006 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.

As part of the process of restructuring the assets of the Southern Refineries, on January 2nd 2006 LOTOS Oil S.A. signed an agreement on purchase of the property (Czechowice Division) leased from LOTOS Czechowice S.A. On July 18th 2006, the company signed an agreement on the purchase of the *Ewa* warehouse, situated in Czechowice-Dziedzice, from LOTOS Czechowice S.A.

LOTOS Asphalt Sp. z o.o.

The company is entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under entry No. KRS 0000204527.

As at June 30th 2006, the company's share capital was PLN 2,000,000 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.

Currently, LOTOS Asphalt Sp. z o.o. (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. 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 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.

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LOTOS Parafiny Sp. z o.o.

The company was incorporated by virtue of the Notarial Deed of December 13th 1999 (Rep. A No. 4889/99). On May 27th 2002, the District Court of Rzeszów (XII Commercial Division of the National Court Register) entered the company in the Register of Entrepreneurs of the National Court Register, under No. KRS 0000114749. The registered office of LOTOS Parafiny is situated at ul. 3-go Maja 101, Jasło.

On August 6th 2004, following the registration by the National Court Register of a share capital increase the following shareholders acquired interests in the company:

- RC Parafiny Sp. z o.o.
- Grupa LOTOS S.A.
- Chemipetrol Sp. z o.o.

The company's share capital was increased from PLN 904,000.00 to PLN 19,783,000.00.

On August 26th 2004, the company registered change of its name from Parafiny – Rafineria Jasło Sp. z o.o. to LOTOS Parafiny Sp. z o.o.

On December 16th 2005, Grupa LOTOS S.A. signed an agreement to acquire 14,639 shares in LOTOS Parafiny Sp. z o.o. from the following parties and in the following numbers:

- a) LOTOS Jasło S.A. (formerly Rafineria Jasło S.A.) – 5,108 shares with an aggregate par value of PLN 5,108,000.00, representing 25.82% of the share capital of LOTOS Parafiny Sp. z o.o.;
- b) RC Parafiny Sp. z o.o. – 9,003 shares with an aggregate par value of PLN 9,003,000.00, representing 45.51% of the share capital of LOTOS Parafiny Sp. z o.o.;
- c) Chemipetrol Sp. z o.o. – 528 shares with an aggregate par value of PLN 528,000.00, representing 2.67% of the share capital of LOTOS Parafiny Sp. z o.o.

On January 23rd 2006, the District Court of Rzeszów, XII Commercial Division of the National Court Register, registered the change of the share capital structure at LOTOS Parafiny Sp. z o.o. Following the transaction, Grupa LOTOS S.A. increased its shareholding in LOTOS Parafiny Sp. z o.o. from 26% to 100% of shares.

LOTOS Parafiny is engaged in the production and distribution of high quality refined paraffin and a wide range of paraffin waxes. LOTOS Parafiny sells paraffin products in Poland and abroad.

On June 14th 2005, changes related to the company's business profile were entered in the National Court Register. The changes were aimed at adapting the company's business profile to its current economic needs. LOTOS Parafiny expanded its scope of activities to include production of candles, votive candles and similar products, as well as retail sale of products manufactured by the company, including sale outside shop networks. These changes enabled the company to create and sell, also through the Internet, a new product line – LOTOS Ogród – including torches, garden lanterns, kindling and charcoal.

On June 22nd 2006, the company held the official launch of the candle production plant in Czechowice-Dziedzice (the Prometheus project).

LOTOS Ekoenergia S.A.

LOTOS Ekoenergia S.A. was established on July 17th 2002. The company is wholly-owned by Grupa LOTOS S.A. Its share capital amounts to PLN 500,000 and is divided into 50,000 bearer shares with a par value of PLN 10 per share.

LOTOS Ekoenergia S.A. was established in 2002 to execute the Comprehensive Technical Upgrade Programme (PKRT, the Programme), consisting in the construction of three units, i.e. solvent deasphalting unit SDA/ROSE™, mild hydrocracking unit MHC, and heavy residue gasification unit IGCC. In the first half of 2006, the company did not commence operating activities. In its investment plans, the LOTOS Group assumed that the main part of the PKRT investment project 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, the project is being carried out and financed by Grupa LOTOS S.A. The final financing structure is being analysed in consultation with a financial adviser.

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 Register of Entrepreneurs of the National

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Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under No. KRS 0000135118.

The activities of LOTOS Kolej Sp. z o.o. (spun off from the assets of Grupa LOTOS S.A.) consist in the provision of comprehensive railway services within the LOTOS Group. In February 2004, the company took over the provision of railway services to the Southern Refineries (along with their employees and assets under a lease agreement). In 2005, the company acquired from LOTOS Czechowice (formerly Rafineria Czechowice S.A.), LOTOS Jasło (formerly Rafineria Jasło S.A.) and Sped-Kol Sp. z o.o., railway engines, tank cars and other movables related to the operation of railway sidings in Czechowice-Dziedzice and Jasło.

The main tasks executed by the company include:

- provision of comprehensive railway services for the LOTOS Group
- licensed transport
- maintenance of infrastructure, rail vehicles and other fixed assets located at the railway siding.

The company holds a licence for transport of goods by railway within the entire territory of Poland. Moreover, LOTOS Kolej Sp. z o.o. offers rail and road tanker cleaning services in Jasło and rents tankers for the transport of 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 2006, 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.

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 Register of Entrepreneurs of the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under No. KRS 0000161302. The company is wholly-owned by Grupa LOTOS S.A. Its registered office is situated at ul. Elbląska 135, Gdańsk.

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

On January 5th 2006, in line with the Strategy adopted by the LOTOS Group, LOTOS Serwis Sp. z o.o. purchased 100% of shares in P.R.P.H. RCRemo Sp. z o.o. from LOTOS Czechowice S.A., and 100% of shares in RJ MONTO-REM Sp. z o.o. from LOTOS Jasło S.A.

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

As at June 30th 2006, the share capital of LOTOS Serwis Sp. z o.o. amounted to PLN 2,500,000.00 and was divided into 5,000 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Serwis Sp. z o.o.

LOTOS Lab Sp. z o.o.

The company was entered in the National Court Register under entry No. KRS 0000165598 on June 24th 2003. Its registered office is situated at ul. Elbląska 135, Gdańsk. As at June 30th 2006, the company's share capital amounted to PLN 1,000,000 and was divided into 2,000 shares with a par value of PLN 500 per share. All the shares in the company were acquired by Grupa LOTOS S.A.

On October 3rd 2005, LOTOS Lab and LOTOS Jasło executed a share purchase agreement concerning the shares in Laboratorium Badacz Sp. z o.o. As a result of the agreement, LOTOS Lab acquired 100% of shares in Laboratorium Badacz Sp. z o.o. The merger was effected on January 3rd 2006 by way of transfer of all the assets of Laboratorium Badacz to LOTOS Lab. As a result of the merger, Laboratorium Badacz and its governing bodies were dissolved and the Jasło Division of LOTOS Lab Sp. z o.o. was created. The amount of the share capital of LOTOS Lab remained unchanged.

On December 1st 2005, LOTOS Lab acquired an organised part of business and took over the employees of CBA Racer Sp. z o.o., previously owned by LOTOS Czechowice. On December 9th 2005, the company's

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Management Board established the Czechowice Division of LOTOS Lab Sp. z o.o. The Czechowice and Jasło Divisions of LOTOS Lab Sp. z o.o. were entered in the National Court Register on January 24th 2006.

LOTOS Lab Sp. z o.o. performs laboratory testing. It provides analytical services related to crude oil, crude oil products, water, sewage, and certain chemicals, as well as performs measurements and prepares documentation relating to working conditions.

The Gdańsk-based laboratory of LOTOS Lab Sp. z o.o. holds an accreditation certificate compliant with the PN-EN ISO/IEC 17025:2001 standard, as well as the Integrated Management Certificate confirming compliance with the following standards: PN-EN ISO 9001:2001, PN-N-18001:2004, and PN-EN ISO 14001:2005. The scope of accreditation under the PN-EN ISO/IEC 17025:2001 standard encompasses 152 testing methods relating to the testing of raw materials, semi-finished products, crude oil products, water, sewage and working conditions. LOTOS Lab Sp. z o.o. has concluded agreements with most of the companies of the LOTOS Group and is dynamically increasing the number of tests performed for external customers, which currently do not represent a significant portion of the company's sales revenue.

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 maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under No. KRS 0000196158, on February 20th 2004.

As at June 30th 2006, 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.

Slużba 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 Register of Entrepreneurs of the National Court Register maintained by the District Court of Gdańsk, XII 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 June 30th 2006, its share capital amounted to PLN 302,500.00 and was divided into 605 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. holds 87.44% of the company's share capital.

The activities of LOTOS Ochrona Sp. z o.o. (spun off from the assets of Grupa LOTOS S.A.) consist in personal and property protection. The company provides services for the LOTOS Group and other entities.

LOTOS Park Technologiczny Sp. z o.o.

LOTOS Park Technologiczny Sp. z o.o. was established by virtue of the Notarial Deed of December 13th 2004 (Rep. A No. 6729/2004), and entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for Kraków Śródmieście in Kraków, XII Commercial Division, under No. 0000225650, on January 6th 2005. Before September 13th 2005, the company was wholly owned by Grupa LOTOS S.A. On that date, an increase in the company's share capital, from PLN 50,000.00 to PLN 500,000.00, was registered. In exchange for a cash contribution of PLN 400,000.00, Grupa LOTOS S.A. acquired 90% of the company's shares, and Kolaja&Partners Sp. z o.o., a new shareholder, acquired 10% of the shares, for a cash contribution of PLN 50,000.00.

In line with the restructuring schedule for the Southern Refineries, based on the Notarial Deed of November 25th 2005 (Rep. A No. 5551/2005 – resolution of the Extraordinary General Shareholders Meeting), the capital of LOTOS Park Technologiczny Sp. z o.o. was increased through a contribution of real estate. The total value of the contribution amounted to PLN 3,114,000.00, of which real estate worth PLN 1,266,000.00 was contributed by CBARacer Sp. z o.o., PLN 1,417,000.00 – by RCRemo Sp. z o.o., and PLN 431,000.00 – by LOTOS Czechowice S.A. (former Rafineria Czechowice S.A.) (Measurement Division of Rafineria Czechowice S.A.). As part of further implementation of the restructuring programme for the Southern Refineries, based on the Notarial Deed of December 21st 2005 (Rep. A No. 6124/2005 – resolution of the Extraordinary General

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Shareholders Meeting of LOTOS Czechowice S.A. (former Rafineria Czechowice S.A.)) Grupa LOTOS S.A. contributed to the company 100% of shares in RCSerwis Sp. z o.o. as well as the TERPEN Fats Processing Division, as an organised part of business. The value of the contribution totalled PLN 4,460,000.00. In both cases, capital increases took effect upon entry into the National Court Register, that is on January 20th 2006.

As of January 20th 2006, RCSerwis Sp. z o.o. became a wholly-owned subsidiary of LOTOS Park Technologiczny Sp. z o.o. Based on the Notarial Deed of January 30th 2005 (Rep. A No. 161/2006 – resolution of the Extraordinary General Shareholders Meeting), it was decided that Grupa LOTOS S.A. would make a cash contribution of PLN 4,300,000.00 to LOTOS Park Technologiczny Sp. z o.o. The business plan of LOTOS Park Technologiczny Sp. z o.o. provides that the above cash contribution is one of the sources of financing for the company's operations in 2006. The share capital increase was entered in the National Court Register on February 20th 2006. In connection with the entry of newly merged companies – LOTOS Serwis Sp. z o.o. and RCRemo Sp. z o.o. (as well as RJ Monto – Rem Sp. z o.o.) – in the National Court Register, on June 30th 2006 LOTOS Serwis Sp. z o.o. became, in place of RC Remo Sp. z o.o., a shareholder in LOTOS Park Technologiczny Sp. z o.o.

As part of the process of asset restructuring at the Southern Refineries, on January 2nd 2006 LOTOS Park Technologiczny Sp. z o.o. took over, on the basis of Art. 23' of the Labour Code, 33 employees of the TERPEN Division (LOTOS Czechowice S.A.), and on June 1st 2006 – 17 employees from the HR Management Department, Environmental Protection Department, Development and Investment Preparation Department, and Administration Department.

As at June 30th 2006, the company's share capital amounted to PLN 12,374,000.00 and was divided into 24,748 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. holds 38.4% of shares in LOTOS Park Technologiczny Sp. z o.o.

The core business of LOTOS Park Technologiczny Sp. z o.o. consists in the provision of business and management advisory services, as well as business management.

In accordance with the entry in the National Court Register, on January 20th 2006 RC Serwis Sp. z o.o. became a wholly-owned subsidiary of LOTOS Park Technologiczny Sp. z o.o. By virtue of the Notarial Deed of March 27th 1998, RC Serwis Sp. z o.o. 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 0000094669. The company's registered office is situated at ul. Łukowa 39, Czechowice-Dziedzice. Its share capital as at June 30th 2006 amounted to PLN 900,000.00 and was divided into 900 shares with a par value of PLN 1,000.00 per share. The company provides hotel and catering services as well as cleaning and related services.

1.2.3 THE CZECHOWICE REFINERY GROUP (CURRENTLY LOTOS CZECHOWICE S.A.)

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. 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 0000102608. Its registered office is located at ul. Łukasiewiczza 2, Czechowice-Dziedzice. On December 19th 2005 the change of the company's name to LOTOS Czechowice S.A. was entered in the National Court Register.

As at June 30th 2005, the company's share capital amounted to PLN 75,000,000, and was divided into 7,500,000 shares with a par value of PLN 10 per share. Grupa LOTOS S.A. holds an 80.04% equity interest in the company.

The core business of LOTOS Czechowice consisted in the production and processing of oil products and their wholesale and retail sale.

In May 2005, the non-current assets of LOTOS Czechowice S.A.'s Measurement Division were sold to RCRemo Sp. z o.o.

On June 16th 2005, an agreement was signed providing for the sale of the shares in CWW Chemik, a holiday centre, to an external investor.

In July 2005 the Company sold separated parts of its business, i.e. real estate and the infrastructure of the Bitumen Plant to LOTOS Asphalt Sp. z o.o.

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On September 6th 2005, the company's Management Board adopted a resolution on the discontinuation of oil refining as of March 31st 2006, which came into force on September 22nd 2005, i.e. the date of the Supervisory Board's approval of the "Long-Term Strategy for RC S.A."

On December 1st 2005, real estate accommodating the infrastructure of the measurement and automatics business was contributed to LOTOS Park Technologiczny.

On December 2nd 2005, as part of shareholding restructuring, the Company sold the 3,360 shares it held in ORLEN Oil Sp. z o.o.

On January 2nd 2006, the assets earlier leased to LOTOS Oil were sold to that company.

On January 5th, LOTOS Czechowice sold 100% of shares in RC Remo Sp. z o.o. to LOTOS Serwis Sp. z o.o. Also in January 2006, RC Serwis Sp. z o.o. was contributed to LOTOS Park Technologiczny in exchange for shares.

On January 20th 2006, the contribution of an organised part of business – the Fats Processing Division (the TERPEN Plant) – to LOTOS Park Technologiczny was entered in the National Court Register.

On March 2nd 2006, the conditions for the sale of RC Transport Sp. z o.o. to an entity from outside the LOTOS Group were fulfilled.

On April 3rd 2006, LOTOS Czechowice S.A. finally ceased to operate its crude oil distillation unit. Thus, in line with the "Long-Term Strategy", LOTOS Czechowice S.A. discontinued the processing of crude oil.

Formerly a production and trading enterprise, the company is now transforming into a service provider and producer. Its core business will encompass storage and distribution of fuels and service storage of inventories and mandatory reserves, mainly for the LOTOS Group.

Interests sold in 2006:

Przedsiębiorstwo Remontowo-Produkcyjno-Handlowe RC Remo Sp. z o.o. (RCRemo Sp. z o.o.)

On January 5th 2006, LOTOS Czechowice sold 100% of shares in RCRemo Sp. z o.o. to LOTOS Serwis Sp. z o.o.

RCSerwis Sp. z o.o.

In January 2006 RCSerwis Sp. z o.o. was contributed to LOTOS Park Technologiczny Sp. z o.o.

RCTransport Sp. z o.o.

On March 2nd 2006, the conditions for the sale of RC Transport Sp. z o.o. to an entity from outside the LOTOS Group were fulfilled.

RCEkoenergia Sp. z o.o.

RCEkoenergia Sp. z o.o. was founded by virtue of the Notarial Deed of July 11th 2000. 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 0000113788. Its registered office is located at ul. Łukasiewicza 2, Czechowice-Dziedzice.

As at June 30th 2006, the share capital of RC Ekoenergia Sp. z o.o. amounted to PLN 18,321,000, and was divided into 18,321 shares with a par value of PLN 1,000 per share. RC Ekoenergia Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Ekoenergia Sp. z o.o.

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. (formerly RC Parafiny 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.

The company is responsible for the preparation and execution of the FAME project, i.e. the production of biocomponents to be added to diesel oil.

On May 22nd 2006, LOTOS Biopaliwa Sp. z o.o. and MAN Ferrostaal Aktiengesellschaft signed a contract for the construction of the installation for the production of the biodiesel fuel with a daily production capacity of 280 tonnes. The contract became effective on June 30th 2006.

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As at June 30th 2006, the company's share capital amounted to PLN 10,000,000 and was divided into 20,000 shares with the par value of PLN 500 per share. The company is wholly owned by LOTOS Czechowice S.A. Indirectly, through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in LOTOS Biopaliwa Sp. z o.o. is held by Grupa LOTOS S.A. As at June 30th 2006, the company did not conduct any operating activities.

Centrum Badawczo-Analityczne Racer Sp. z o.o.

CBA Racer Sp. z o.o., established on November 20th 2000, had not commenced operations until March 1st 2005. 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 0000084032.

As at June 30th 2006, the share capital of CBA Racer Sp. z o.o. amounted to PLN 3,729,000, and was divided into 7,458 shares with a par value of PLN 500 per share. CBA Racer Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in CBA Racer Sp. z o.o.

On November 25th 2005 a resolution was adopted to contribute a part of CBA Racer Sp. z o.o.'s assets (valued at PLN 1,266,000.00) to LOTOS Park Technologiczny in exchange for shares (entered into the National Court Register on January 20th 2006). On December 1st 2005 the company sold an organised part of its business to LOTOS Lab and part of its assets to LOTOS Oil (the assets had been previously leased by LOTOS Oil).

The business of CBA Racer Sp. z o.o. consisted in the provision of testing services related to quality of raw materials, intermediate products and oil products, as well as services related to environmental protection and health and safety at work.

Since December 1st 2005 the Company has not conducted any operating activities.

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 at ul. Łukasiewicza 2, Czechowice-Dziedzice.

As at June 30th 2006, the share capital of RC Paliwa Sp. z o.o. amounted to PLN 50,000, and was divided into 50 shares with a par value of 1,000 per share. RC Paliwa Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Paliwa Sp. z o.o.

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

1.2.4 THE JASŁO REFINERY GROUP (PARENT UNDERTAKING: RAFINERIA JASŁO S.A., CURRENTLY LOTOS JASŁO S.A.)

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 Register of Entrepreneurs of the National Court Register, maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000068125.

Upon fulfilment of the conditions of the share purchase agreement concerning shares in Rafineria Czechowice S.A., Rafineria Jasło S.A., Rafineria Nafta Glimar S.A. and Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A., concluded on January 13th 2005 between Nafta Polska S.A. and Grupa LOTOS S.A., on February 3rd 2005 Grupa LOTOS S.A. acquired from Nafta Polska S.A. 4,800,798 registered shares in Rafineria Jasło S.A. and became its parent undertaking within the meaning of Art. 4.1.4 of the Commercial Companies Code. On December 20th 2005, the company's extraordinary general shareholders meeting passed a resolution amending the company's articles of association with respect to the company name. Since January 2nd 2006, the company's name has been LOTOS Jasło S.A.

The company's core business consists in the production and processing of refined petroleum products and their retail sale and wholesale.

As part of the restructuring of the Southern Refineries' assets:

- on August 1st 2005, a lease agreement was executed whereby LOTOS Oil S.A. leased from LOTOS Jasło S.A. the Oil Production Plant;

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- on October 3rd 2005, 100% of shares in Laboratorium Badacz Sp. z o.o. were sold to LOTOS Lab Sp. z o.o.;
- on December 16th 2005, 25.82% of shares in LOTOS Parafiny Sp. z o.o. were sold to Grupa LOTOS S.A.;
- on December 9th 2005, upon conclusion of a year-long liquidation proceedings, JASBIT – Rafineria Jasło Sp. z o.o. ceased to exist as a legal entity;
- on October 26th 2005, following consolidation of the bitumens production operations, an agreement for the sale of the assets to LOTOS Asphalt Sp. z o.o. was executed;
- on January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTO – REM Sp. z o.o. from its minority shareholders, and on January 5th 2006 it sold its entire stake in the company to LOTOS Serwis Sp. z o.o.;
- on February 1st 2006, the extraordinary shareholders meeting adopted a resolution to liquidate RJ SPED–KOL Sp. z o.o. (date of opening of the liquidation proceedings); since the opening of the liquidation proceedings, the company has conducted its business under the name of RJ SPED–KOL Sp. z o.o. in liquidation;
- on March 1st 2006 the employees of LOTOS Czechowice S.A.'s IT and telecommunications divisions were transferred to Petrosoft.pl; moreover, Petrosoft.pl purchased from LOTOS Czechowice S.A. the assets used directly by the transferred employees.

As at June 30th 2006, 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.

Rafineria Jasło MONTO-REM Sp. z o.o.

On January 5th 2006, LOTOS Jasło S.A. sold 100% of shares in RJ MONTO–REM to LOTOS Serwis Sp. z o.o. On June 30th 2006, LOTOS Serwis Sp. z o.o. and RJ MONTO–REM Sp. z o.o. were merged.

LOTOS TANK Sp. z o.o.

The company was established by virtue of Notarial Deed No. A 1187/99 of April 20th 1999. On April 4th 2002, it was entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000104463. Its registered office is situated at ul. 3 Maja 101, Jasło.

The share capital of LOTOS TANK Sp. z o.o. as at June 30th 2005 amounted to PLN 500,000.00, and was divided into 1,000 shares with a par value of PLN 500.00 per share. The company's shareholders – Grupa LOTOS S.A. and LOTOS Jasło S.A. – hold, respectively, 300 shares representing 30% of the total vote at the general shareholders meeting and 700 shares representing 70% of the total vote at the general shareholders meeting.

The company'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.

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 at ul. 3 Maja 101, 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.

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As at June 30th 2006, 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.

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 under No. KRS 0000171101 in the District Court of Gdańsk, XII Commercial Division of the National Court Register. Its registered office is situated at ul. Stary Dwór 9, Gdańsk Poland.

As at June 30th 2006, the company's share capital amounted to PLN 92,400,000, and was divided into 9,240,000 shares with a par value of PLN 10 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.

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 1 CYP 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 maintained by the District Court of Gdańsk, II Commercial Division, under No. KRS 0000011924. The company's registered office is situated at ul. Stary Dwór 9, Gdańsk.

As at June 30th 2006, 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. Grupa LOTOS S.A.– indirectly through Petrobaltic S.A.– holds 32.16% of shares in Energobaltic Sp. z o.o.

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

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 1 LTL per share. Petrobaltic S.A. holds 4,270 shares representing 42.7% of its share capital. Grupa LOTOS S.A. holds – indirectly through Petrobaltic S.A.– 29.46% of the share capital of UAB Naftos Gavyba.

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 2006.

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1.2.6 AS AT JUNE 30TH 2006, RAFINERIA NAFTY GLIMAR S.A. OF GORLICE WAS IN BANKRUPTCY.

2. CHANGES IN THE SHAREHOLDER STRUCTURE OF THE GROUP IN THE FIRST HALF OF 2006

2.1 SHAREHOLDER STRUCTURE OF GRUPA LOTOS S.A. IN THE FIRST HALF OF 2006

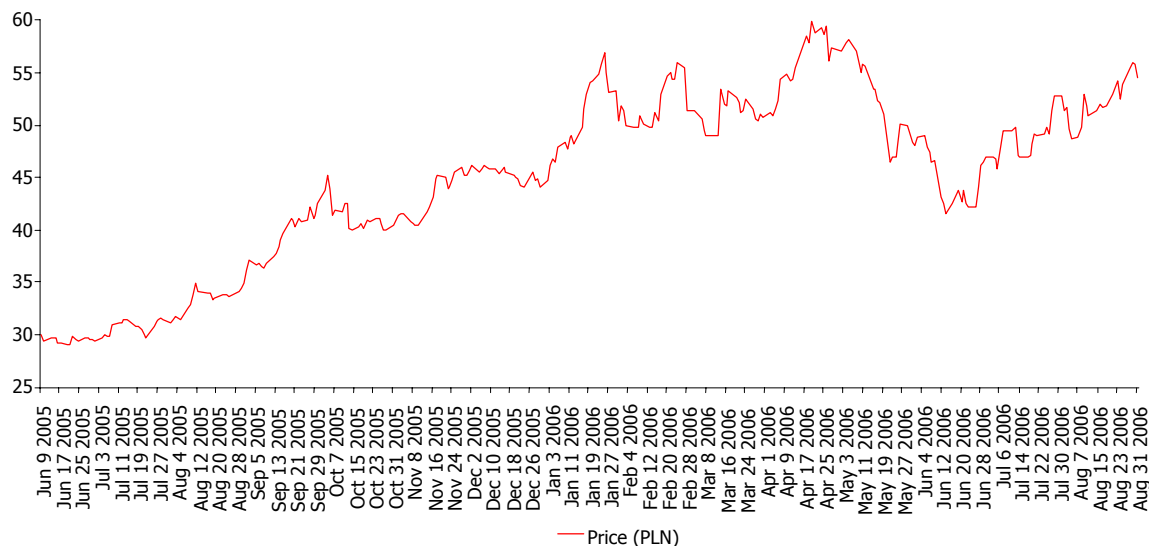
Assimilation of Shares

The Management Board of the Warsaw Stock Exchange made the decision (by virtue of Resolution No. 78/2006 of March 22nd 2006) to introduce to stock exchange trading 11,819 Series A ordinary bearer shares of Grupa LOTOS S.A. with a par value of PLN 1 per share, bearing the following ISIN Code assigned by the Polish National Depository for Securities: PLLOTOS00033. The shares were introduced to trading on the main market, on April 4th 2006, by way of the ordinary procedure.

By virtue of Resolution No. 148/06 of March 29th 2006, the National Depository for Securities assimilated, on April 4th 2006, 11,819 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00033) with 55,609,140 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00025). The 11,819 ordinary bearer shares had been created through a conversion of 11,819 ordinary registered shares on April 3rd 2006.

Grupa LOTOS S.A. has adopted rules for conversion of registered shares into bearer shares, which were published on January 9th 2006 in Current Report No. 3/2006.

Price of Grupa LOTOS S.A. shares since their first listing on the WSE



2.2. CHANGES IN THE SHAREHOLDER STRUCTURE OF THE LOTOS GROUP SUBSIDIARIES IN THE FIRST HALF OF 2006

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LOTOS Serwis Sp. z o. o.:

- On January 5th 2006, LOTOS Serwis Sp. z o.o. concluded an agreement on purchase of 100% of shares in Przedsiębiorstwo Remontowo-Produkcyjno-Handlowe RC Remo Sp. z o.o. and Rafineria Jasło Monto-Rem Sp. z o.o. from Rafineria Czechowice S.A.
- On June 30th 2006, RC Remo Sp. z o.o. and RJ Monto-Rem Sp. z o.o. were merged into LOTOS Serwis Sp. z o.o.

LOTOS Kolej Sp. z o.o.

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

LOTOS Lab Sp. z o.o.

- On January 3rd 2006, Laboratorium Badacz Sp. z o.o. and LOTOS Lab Sp. z o.o. were merged (in line with the agreement of October 3rd 2005 on purchase of 100% of shares in Laboratorium Badacz Sp. z o.o. from Rafineria Jasło S.A.)
- On January 24th 2006, two new branches on LOTOS Lab were established: the Czechowice Branch and the Jasło Branch.

LOTOS Park Technologiczny Sp. z o.o.

- On January 20th 2006, a share capital increase was registered. The increase was effected upon joining the company by three new shareholders. Prior to the increase, the share capital amounted to PLN 500,000.00 and the company had two shareholders: Grupa LOTOS S.A., holding 90% of shares (PLN 450,000.00) and Kolaja & Partners Sp. z o.o., holding 10% of shares (PLN 50,000.00). Following the increase, the share capital amounts to PLN 8,074,000.00 and the company's shareholders are as follows: RC Remo Sp. z o.o., holding 17.55% of shares (PLN 1,417,000.00), Centrum Badawczo-Analityczne Racer Sp. z o.o., holding 15.68% of shares (PLN 1,266,000.00), LOTOS Czechowice S.A., holding 60.58% of shares (PLN 4,891,000.00), Grupa LOTOS S.A., holding 5.57% of shares (PLN 450,000.00), and Kolaja & Partners Sp. z o.o. holding 0.62% of shares (PLN 50,000.00). The new shareholders acquired shares in the increased share capital for contributions in kind.
- On January 20th 2006, RC Serwis Sp. z o.o. became a wholly-owned subsidiary of LOTOS Park Technologiczny Sp. z o.o. (following LOTOS Czechowice S.A.'s contribution of 100% of shares in RC Serwis Sp. z o.o.).
- On February 20th 2006, the share capital of LOTOS Park Technologiczny Sp. z o.o. was increased by way of a cash contribution of PLN 4.3m made by an existing shareholder, Grupa LOTOS S.A.
- Following the entry of the merger of LOTOS Serwis Sp. z o.o. and RC Remo Sp. z o.o. (and also RJ Monto-Rem Sp. z o.o.) in the National Court Register on June 30th 2006, LOTOS Serwis Sp. z o.o. replaced RC Remo Sp. z o.o. as a shareholder in LOTOS Park Technologiczny Sp. z o.o.
- As part of asset restructuring at the Southern Refineries, on January 2nd 2006, in accordance with Art. 23' of the Polish Labour Code, LOTOS Park Technologiczny Sp. z o.o. took over 33 employees of the TERPEN Plant (LOTOS Czechowice S.A.), and on June 1st 2006 – 17 employees of the HR Management Department, Environmental Protection Department, Development and Investment Preparation Department, and Administration Department.

RC Transport Sp. z o.o.

In the first half of 2006, two conditions precedent under the agreement on sale of 100% of shares in RC Transport Sp. z o.o. were fulfilled:

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- Conclusion by the Buyer (PAUL KLACSKA GESELLSCHAFT M.B.H.) of a transport agreement with LOTOS Paliwa Sp. z o.o. (the condition was fulfilled on March 1st 2006);
- Payment by the Buyer (PAUL KLACSKA GESELLSCHAFT M.B.H.) to LOTOS Czechowice S.A. for the acquired shares (the condition was fulfilled on March 2nd 2006).
- **LOTOS Biopaliwa Sp. z o.o. (formerly: RC Parafiny Sp. z o.o.):**
 - On May 10th 2006, the change of the company's name to LOTOS Biopaliwa Sp. z o.o. and a capital increase were registered at the National Court Register; the share capital amount before the increase was PLN 265,000.00, after the increase – PLN 10,000,000.00.
 - On June 23rd 2006, LOTOS Czechowice made additional contributions to equity in the amount of PLN 13,715 thousand and PLN 16,500 thousand, to be applied by the company to place a security deposit to secure payments under an agreement for the construction biodiesel production unit.

LOTOS Jasło S.A.

On January 2nd 2006, the company's name was changed from Rafineria Jasło S.A. to LOTOS Jasło S.A.

RJ Sped-Kol Sp. z o.o.

On February 1st 2006, the Extraordinary General Shareholders Meeting adopted a decision to dissolve the company (the liquidation proceedings were opened on the same date); since the opening of the liquidation proceedings, the company has conducted its business under the name of RJ SPED-KOL Sp. z o.o. in liquidation.

LOTOS Parafiny Sp. z o. o.

In accordance with the resolution adopted by the Extraordinary Shareholders Meeting on January 10th 2006, Grupa LOTOS S.A. made an additional contribution to equity in the amount of PLN 5.1m.

LOTOS Oil Sp. z o. o.

- On January 2nd 2006, the company purchased from LOTOS Czechowice S.A. the real estate it had leased from LOTOS Czechowice S.A. (the Czechowice Branch).
- On August 31st 2006, the lease of the Gorlice Branch expired.
- On July 18th 2006, the company signed an agreement, under which it purchased real estate (the Ewa warehouse) in Czechowice-Dziedzice from LOTOS Czechowice S.A.

3. CHANGES IN ORGANISATION AND MANAGEMENT OF THE LOTOS GROUP

The first half of 2006 saw a change in the organisational structure of Grupa LOTOS S.A., as a result of which the scopes of powers and responsibilities were rearranged and defined in more detail in the Division of the Marketing and Communication Director (NM). The Marketing, Promotion and PR Office (MM) was liquidated. Based on the liquidated units, two new units were established: Marketing Communications Office (MK) and PR Division (MR).

No other material changes occurred in the first half of 2006 in the organisation and management of the LOTOS Group.

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

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

	H1 2006	H1 2005
Diesel oils	33.6%	28.9%
Gasolines	21.4%	23.1%
Fuel oils	22.3%	26.2%
Including: light fuel oil	5.8%	11.7%
Other refining products	22.7%	21.8%

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

	H1 2006	H1 2005
Diesel oils	1,113.1	594.4
Gasolines	708.6	476.1
Fuel oils	739.6	538.8
Including: light fuel oil	190.8	241.1
Other refining products	750.8	449.6
Total production volume	3,312.1	2,058.9

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

PLN '000	Jan 1 2006 – Jun 30 2006	% share	Jan 1 2005 – Jun 30 2005	% share
Gasolines	2,577,942	30.04%	1,850,743	34.10%
Diesel oils	3,601,419	41.97%	2,206,264	40.64%
Light fuel oil	516,496	6.02%	533,089	9.82%
Heavy fuel oil	496,324	5.78%	174,574	3.22%
Jet-A1 aviation fuel	394,221	4.60%	172,335	3.18%
Lubricants	195,086	2.27%	157,127	2.89%
Base oils	93,216	1.09%	30,491	0.56%
Bitumens and components for their production	234,554	2.73%	89,149	1.64%
Liquid gases	104,950	1.22%	48,685	0.90%
Other refinery products	293,673	3.42%	116,389	2.14%
Total crude oil products and goods	8,507,881	99.14%	5,378,846	99.09%
Other goods and materials	33,902	0.40%	25,176	0.46%
Services	39,267	0.46%	24,242	0.45%
Total	8,581,050	100.00%	5,428,264	100.00%
Elimination of excise tax and fuel charge	(2,626,346)		(1,796,383)	
Total	5,954,704		3,631,881	

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

	H1 2006	%	H1 2005	%
Gasolines	734	22.3%	581	25.3%
Diesel oils	1,126	34.2%	747	32.6%
Light fuel oil	233	7.1%	294	12.8%
Heavy fuel oil	533	16.2%	276	12.0%
Jet-A1 aviation fuel	190	5.7%	103	4.5%
Lubricants	47	1.4%	46	2.0%
Base oils	36	1.1%	19	0.8%
Bitumens and components for their production	265	8.0%	126	5.5%
Liquid gases	45	1.4%	23	1.0%
Other refinery products	86	2.6%	79	3.5%
Total crude oil products and goods	3,295	100.0%	2,294	100.0%

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 2006 – Jun 30 2006	% share	Jan 1 2005 – Jun 30 2005	% share
Domestic sales, including:	7,104,872	82.8%	4,738,978	87.3%
- <i>products</i>	6,957,190	81.1%	4,036,831	74.4%
- <i>goods and materials</i>	147,682	1.7%	702,147	12.9%
Exports, including:	1,476,178	17.2%	689,286	12.7%
- <i>products</i>	1,468,667	17.1%	685,800	12.6%
- <i>goods and materials</i>	7,511	0.1%	3,486	0.1%
Total	8,581,050	100.00%	5,428,264	100.00%
excise tax, fuel charge	(2,626,346)		(1,796,383)	
TOTAL	5,954,704		3,631,881	

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LOTOS Group's major customers in the first half of 2006

The only customer whose share in the LOTOS Group sales exceeded 10% was the Statoil Group. Its share in the LOTOS Group sales amounted to 20.2%.

Geographic structure of the LOTOS Group's purchases

	Jan 1 2006 – Jun 30 2006	% share	Jan 1 2005 – Jun 30 2005	% share
Domestic purchases	822,872	15.5%	679,516	24.8%
Imports	4,491,568	84.5%	2,061,900	75.2%
Total purchases	5,314,440	100.0%	2,741,416	100.0%

LOTOS Group's supply structure in the first half of 2006 (PLN '000)

	Jan 1 2006 – Jun 30 2006	% share
Raw materials	4,749,054	89.36%
Goods	147,445	2.77%
Services	195,894	3.69%
Other purchases	222,047	4.18%
Total	5,314,440	100%

LOTOS Group's petroleum products supply structure in the first half of 2006 (PLN '000)

	Jan 1 2006 – Jun 30 2006	% share	Jan 1 2005 – Jun 30 2005	% share
Diesel oils	37,968	31.25%	89,899	21.80%
Gasolines	43,984	36.19%	221,981	53.83%
LPG	37,114	30.54%	11,042	2.67%
Other	2,457	2.02%	89,469	21.70%
Total	121,523	100%	412,391	100%

LOTOS Group's major suppliers in the first half of 2006

The suppliers whose share in the LOTOS Group's purchases exceeded 10% of the Group's revenue included J&S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of the UK. These companies' shares in the LOTOS Group's purchases amounted to 48.69% and 22.90%, respectively.

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**6. DISCUSSION OF THE KEY FINANCIAL AND ECONOMIC DATA CONTAINED
IN THE SEMI-ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

6.1 PROFIT AND LOSS ACCOUNT

In the first half of 2006, the LOTOS Group generated sales revenue of PLN 5,954.7m, which was by 64.0% higher than in the first half of 2005. This growth is chiefly attributable to higher (by 1,228.7 thousand tonnes, i.e. 66.2%) volume of the refinery products sold by the parent undertaking and higher unit selling prices. During the first half of 2006 the Group sold 3,294.9 thousand tonnes of petroleum products and goods (by 1,000.9 thousand tonnes, i.e. 43.6% more than in the first half of 2005). In the first half of 2006, the cost of sales amounted to PLN 5,043.6m, up by 62.1% compared with the corresponding period of the previous year. The profit on sales in the first half of 2006 totalled PLN 911.1m and was by 74.9%, i.e. PLN 390.1m higher than the profit on sales achieved in the first half of 2005.

The consolidated operating profit for the first half of 2006 stood at PLN 465.6m and remained practically unchanged compared with the same period of 2005. This picture of the Group's financial results was largely determined by the negative goodwill of PLN 266.6m related to the valuation of the Southern Refineries and Petrobaltic, which positively affected the Group's operating profit in 2005. Concurrently, the selling costs increased in the first half of 2006 by 43.6%, due to, among other things, higher sales volumes.

In the first half of 2006, the LOTOS Group recorded financial income of PLN 72.9m, which was by PLN 46.2m higher than in the corresponding period of 2005. The Group's financial expenses were by PLN 23.6m lower compared with the first half of 2005.

The consolidated pre-tax profit in the first half of 2006 amounted to PLN 514.6m and was PLN 53.7m higher than in the same period of the previous year. The net profit stood at PLN 414.3m, and was PLN 3.4m lower than in the first half of 2005. After deducting the profit attributable to minority shareholders, the profit attributable to the shareholders of the Parent Undertaking amounted to PLN 380.8m.

After adjusting the Company's results for the first half of 2005 for the effect of the aforementioned valuation of the Southern Refineries and Petrobaltic, it turns out that the operating profit in the first half of 2006 increased by PLN 269.0m, i.e. by 136.7%, and the net profit attributable to the shareholders of the Parent Undertaking increased by PLN 240.9m, i.e. by 172.1%.

6.2 BALANCE SHEET

As at June 30th 2006, the LOTOS Group's assets totalled PLN 7,627.2m, a growth of 9.1% compared with the figure as at December 31st 2005. The value of non-current assets increased during the first six months of 2006 by PLN 219.3m, mainly as a result of a PLN 191.6m increase in property, plant and equipment.

As far as the structure of the assets is concerned, the share of non-current assets in the total assets fell from 51.2% as at December 31st 2005 to 49.8% on June 30th 2006.

The increase in current assets to PLN 3,819.9m as at the end of June 2006, i.e. by PLN 411.8m, is attributable mainly to higher sales volume and higher prices of raw materials and finished products. In the analysed period, inventories increased by PLN 179.8m and trade and other receivables – by PLN 270.3m. Concurrently, in the first half of 2006 current financial assets fell by PLN 121.0m.

As at June 30th 2006, the shareholders' equity amounted to PLN 5,221.6m. The PLN 413.5m increase in equity in the first half of 2006 resulted primarily from the growth in retained earnings and minority interests, by PLN 380.8m and PLN 30.9m, respectively.

As at June 30th 2006, non-current liabilities amounted to PLN 718.7m. Their value went up slightly in the first half of 2006 due to the increase in loans and borrowings.

High oil prices and a high level of inventories due to larger volumes of crude oil processed by the parent undertaking contributed to a growth in current liabilities as at June 30th 2006 to PLN 1,686.8m, i.e. by PLN 221.2m, compared with the figure recorded as at December 31st 2005.

The structure of the shareholders' equity and liabilities at the end of June 2006 was very similar to their structure at the end of 2005. The only change was a slight decrease of the share of non-current liabilities, accompanied by a rise in current liabilities.

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6.3 CASH FLOWS

As at June 30th 2006, the LOTOS Group held cash of PLN 827.0m, i.e. PLN 266.1m more than on June 30th 2005.

In the first half of 2006, the net cash provided by operating activities was PLN 256.6m, a drop of PLN 32.3m compared with the first half of 2005. Lower cash provided by operating activities in the first half of 2006 was primarily the effect of a higher growth in receivables as at the end of June 2006 compared with the same period of 2005, attributable to larger sales volumes and higher product prices.

The net cash used in investing activities in the first half of 2006 totalled PLN -188,4m and changed by PLN 556.9m compared with the first half of 2005, when the net cash used in investing activities amounted to PLN -745,3m. The main reason behind this considerable difference were the expenses related to the purchase of long-term and current financial assets in the first half of 2005, financed with the proceeds from the public issue of the LOTOS Group shares. Concurrently, in the first half of 2006 the Group recorded investing cash inflow of PLN 128.5m related to the sale of current financial assets.

In the first half of 2006, the LOTOS Group recorded a slightly negative (mainly due to repayment of loans and borrowings) balance of the net cash from financing activities of PLN -9.4m, compared with the positive balance of PLN 861.1m in the first half of 2005, related to the issue of the Company shares.

7. INFORMATION ON CONTRACTED LOANS AND BORROWINGS, (INCLUDING THEIR MATURITY DATES) AND ON ISSUED SURETIES AND GUARANTEES

For detailed information on contracted loans and borrowings and their maturity dates see Note 29 to the consolidated financial statements for the six months ended June 30th 2006.

The LOTOS Group's sureties, guarantees and liabilities under promissory notes are described in detail in Note 38 to the consolidated financial statements for the six months ended June 30th 2006.

8. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During the period covered by this Report, the LOTOS Group had full capability to discharge its liabilities towards other parties.

As at June 30th 2006, the current portion of loans and borrowings amounted to approx. PLN 86,745 thousand. The detailed structure of the Group's loans and borrowings is presented in Note 29 to the consolidated financial statements prepared for the six months ended June 30th 2006.

In the first half of 2006, the LOTOS Group did not grant any loans except for those from the Company Social Benefits Fund and the loans granted to related undertakings, as described in Section 13.

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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 potential risks which may arise in the future include the introduction of legal regulations whereby fuel producers would be required to add a specified percentage of biocomponents to the fuel produced, with the current exemptions from excise tax for addition of biocomponents being maintained at an unchanged level or limited.

Another potential risk is that the CO₂ emission allowances that will be granted to Grupa LOTOS S.A.'s refinery for 2008–2012 may be lower than the CO₂ emission envisaged after the Comprehensive Technical Upgrade 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 Comprehensive Technical Upgrade Programme (PKRT).** The 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 risk related to ensuring feedstock for installations and access to markets for finished products has been significantly mitigated thanks to the signing of feedstock supply agreements and offtake contracts for the products manufactured at the units. Other risks related to the execution of the Programme are being gradually reduced, along with the progress of the work on preparing and 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

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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 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% by 2010 and to expand the network of stations operating under the LOTOS logo to 500, to achieve, through own distribution channels, to 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.

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 2006

- On June 29th 2006, two complementary trade agreements were concluded between Grupa LOTOS S.A. and PKN Orlen S.A. The first agreement concerns sale of liquid fuels by Grupa LOTOS S.A. to PKN Orlen S.A., the other concerns Grupa LOTOS S.A.'s purchase of liquid fuels from PKN Orlen S.A.

The total estimated value of these agreements amounts to PLN 200,000 thousand. The first agreement expires on October 31st 2006, the other on September 30th 2006.

The agreements do not provide for any contractual penalties and do not prevent either party from seeking their claims for non-performance of the contractual obligations on general terms.

The agreements do not provide for any reserved dates. They were concluded on standard market terms.

10.2 SIGNIFICANT AGREEMENTS CONCLUDED BY THE OTHER COMPANIES OF THE LOTOS GROUP IN THE FIRST HALF OF 2006

- On April 11th 2006, LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading) entered into an agreement on feedstock supply for the installations which are to be constructed under the Comprehensive Technical Upgrade Programme of Grupa LOTOS S.A. (PKRT).

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The agreement, whose term is 12 years from the commencement of commercial operation of the PKRT project, secures the supply of feedstock by Shell Trading to LOTOS Ekoenergia S.A. The commencement of performance of the obligations related to the supply and offtake of feedstock is subject to prior implementation of PKRT.

The value of the agreement to LOTOS Ekoenergia S.A. over the agreement term is estimated at PLN 11bn, counting from the anticipated date of commencement of supplies, based on the forecast oil market prices.

The agreement stipulates contractual penalties for failure to perform by any of the parties of its obligations of supply/offtake of agreed volumes of feedstock meeting relevant quality requirements. The value of the penalties may exceed the PLN equivalent of EUR 200,000.

The abovementioned agreement, in addition to the earlier concluded offtake agreement securing the collection from LOTOS Ekoenergia S.A. by Shell Trading of the product surplus generated after the implementation of the PKRT project, is another essential step in the process of execution of the Programme, which was specified as one of the main issue objectives in the Issue Prospectus of Grupa LOTOS S.A.

The agreement was classified as significant because its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

Concurrently, an annex was signed to the agreement of March 31st 2005 between LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading), securing the offtake of the product surplus generated after the implementation of the PKRT project (offtake agreement). Under the annex, the offtake agreement will be terminated if the financial closing of the project is not completed by June 30th 2007 and the project's operations are not launched within 42 months from that date. Furthermore, LOTOS Ekoenergia has the right to extend the above deadlines respectively by 12 and 6 months.

- On March 9th 2006, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) finalised its transaction with Sloznaft Polska S.A. by executing the final agreement on the purchase of the network of Sloznaft fuel stations in Poland from Sloznaft Polska S.A. The transaction consisted in the acquisition of an organised part of the business of Sloznaft Polska S.A., including:
 - 12 Sloznaft Polska S.A. fuel stations located in southern Poland, an area which is of strategic importance for the development of the LOTOS network;
 - two undeveloped properties designated as fuel station sites, with the proviso that an agreement concerning the purchase of one of the properties is a conditional agreement.

As part of the transaction providing for the purchase of the organised part of business, LOTOS Paliwa entered into cooperation with the selected franchisees of Sloznaft Polska S.A.

The purchase of the organised part of business of Sloznaft Polska S.A. was another major step forward (after the purchase of the 39 ESSO stations) on the way to fully implement the PROSTA Programme, which envisages the development of a nationwide network of fuel stations.

Following the transaction, the LOTOS Group increased the number of its own fuel stations from 119 (the number achieved after the acquisition of the 39 ESSO stations) to 131, and following the construction in the current year of fuel stations on selected plots of land acquired as part of the two transactions the number of stations will rise to 136.

The net price paid under the transaction was EUR 15,000 thousand, i.e. approximately PLN 57,574 thousand. The average purchase price per station was EUR 1,244 thousand, i.e. approximately PLN 4,774 thousand.

The transaction was financed with LOTOS Paliwa Sp. z o.o.'s own funds acquired through additional contributions to equity by Grupa LOTOS S.A. (payment for the transaction was one of the objectives of the public issue of shares) and with a loan contracted under the loan agreement between LOTOS Paliwa Sp. z o.o. and the syndicate of Bank Pekao S.A. and PKO BP S.A., signed in 2004.

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- On March 6th 2006, a significant trilateral agreement was signed between ConocoPhillips Poland Sp. z o.o., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Grupa LOTOS S.A., concerning the sale and delivery of liquid fuels to ConocoPhillips Poland Sp. z o.o. The agreement expires on December 31st 2006. Its estimated value is PLN 1,000,000 thousand. The agreement provides for contractual penalties with the estimated maximum value of PLN 25,000 thousand. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation pursuant to general provisions of the law. The agreement was concluded on standard market terms and was classified as a significant agreement due to its value, which exceeds 10% of the value of Grupa LOTOS S.A.'s equity.
- On February 13th 2006, BP Polska Sp. z o.o., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Grupa LOTOS S.A. signed a significant agreement providing for the sale of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a specified period and expires on December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand. The agreement was classified as significant as its estimated value exceeds 10% of the value of Grupa LOTOS S.A.'s equity.
- On February 2nd 2006, Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Grupa LOTOS S.A. signed a significant agreement providing for the sale of liquid fuels to Neste Polska Sp. z o.o. The agreement was concluded for a definite period, i.e. until December 31st 2008. The estimated value of the agreement during its term is PLN 2,400,000 thousand. The agreement provides for contractual penalties with the estimated maximum value of PLN 55,000 thousand. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation pursuant to general provisions of the law. The agreement was classified as significant because its estimated value exceeds 10% of the value of Grupa LOTOS S.A.'s equity. Simultaneously, on February 2nd 2005, in connection with the conclusion of the trilateral agreement, LOTOS Partner Sp. z o.o. and Neste Polska Sp. z o.o. terminated their earlier agreement on the sale of liquid fuels of January 1st 2004. **Given the new agreement signed between Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o., and Grupa LOTOS S.A., the termination is not expected to give rise to any material financial consequences.**

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

Approval of the Strategy for the LOTOS Group until 2012

On June 27th 2006, the Supervisory Board of Grupa LOTOS S.A. approved the Strategy of the LOTOS Group until 2012. The Strategy provides for continued development of the shareholder value by optimally leveraging the potential in three business areas.

- In the upstream segment, the Company will develop through full integration and consolidation of Petrobaltic, maximising its value and obtaining direct access to hydrocarbon reserves abroad. The Strategy provides for the execution of projects characterised by appropriate financial parameters and acceptable level of risk, ensuring better security of oil supplies for the Company and diversification of supplies so that no more than 60% of deliveries are made from one direction. By 2012, the LOTOS Group plans to increase the annual crude oil production capacity on the Baltic Sea from 300 thousand to 1 million tonnes.

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- In the refining segment, the Strategy will be carried out primarily by executing the Comprehensive Technical Upgrade Programme. The Programme assumes the construction of atmospheric and vacuum distillation units with designed annual capacity of 4.5 million tonnes, solvent deasphalting unit SDA/ROSE, mild hydrocracking unit MHC (production of fuel engine components, mainly diesel oil) and heavy residue gasification unit IGCC for own purposes. Additionally, the LOTOS Group plans to build a new diesel oil hydro-desulphurisation unit, which will enable it to produce diesel oil with sulphur content of 10ppm, increase the production capacity of the existing hydrocracking unit and the units producing motor gasolines, and to build a new unit for the separation of xylene fractions. The new units, to be launched successively in 2010, will expand the complexity and the processing capacity of the Gdańsk refinery (up to 10-10.5 million tonnes annually).
- In the sales segment, the LOTOS Group plans to develop retail sales and achieve a target market share of 10%, assuming that the number of fuel stations will be increased to 500, sales at the stations will grow following the implementation and operation of loyalty and fleet programmes, and a new, modern and branded fuel will be marketed within the LOTOS station network. With respect to wholesale, the Company intends to achieve a target market share of 30%, assuming growth in sales to institutional customers and development of a portfolio of long-term contracts, increase in the annual volume of sold fuel from 4 million tonnes to 8 million tonnes in 2012, commencement of sales of biofuels, and achievement of a larger share in the JET aviation fuel market thanks to such initiatives as launch of direct deliveries to airports.

The planned investment expenditure related to the performance of the adopted strategy in 2006–2012 will reach up to PLN 7.3bn.

In line with the objectives assumed in the financial strategy, following the execution of key strategic projects the debt/equity ratio at the Company should fall within the range of 0.3–0.4, while ROACE and the EBITDA margin should not decline below 12% and 9%, respectively. It is expected that in 2012 ROACE and the EBITDA margin for the LOTOS Group will amount to 15.6% and 13.5%, respectively, while the Company's debt/equity ratio (which during the most intensive stage of executing the investment projects, i.e. in 2009, should not exceed 0.8), will fall to 0.11. As regards the dividend policy, the primary objective will be to optimise the Group's financing structure. During the execution of the key strategic projects, the portion on net profit allocated to dividend will not exceed 10%. Thereafter, the dividend is planned to increase to 30% of the net profit.

Comprehensive Technical Upgrade Programme

With respect to the execution of the Comprehensive Technical Upgrade Programme (PKRT, the Project), which is of key importance for the Company's development and future growth of the shareholder value, the Company's efforts in the first half of 2006 focused on further technological development, negotiating agreements concerning various areas of the Project and contacts with selected financial institutions. Additionally, the Company continued the work on expanding the scope of the Project, on its technological development, and on updating the Project's financial assumptions.

The end of January and beginning of February 2006 saw the completion of work by the licensors of three main technologies for the Project – Shell Global Solutions and KBR – related to developing the base designs of the Project's main units. The ROSE unit base design was delivered to the LOTOS Group by KBR in January, and the base designs for MHC and IGCC units were delivered by SGSI in February.

On January 31st 2006, the terms of cooperation were agreed upon and the parties signed agreements on the execution of the integrative base design for PKRT and provision of engineering services relating to the development of the Project (FEED-PB Agreement) with selected bidders, i.e. Fluor and the consortium of UHDE/Technip.

On April 11th 2006, an agreement was signed with STASCO, for the supply of additional feedstock for the Project units.

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Given the rapid changes of conditions prevailing on global oil markets, the rise in the prices of crude oil and petroleum products, as well as higher costs of materials, investment equipment, labour and services in the oil industry, the LOTOS Group mandated Purvin&Gertz, an independent market consultant, to update the assumptions adopted in the Project's financial model. Concurrently, the estimate of capital expenditure on the Project execution was updated.

Relying on the modelling results, based on updated assumptions, it was decided to change the Project's scope and structure. In addition to the main PKRT units (IGCC, MHC, ROSE), a new crude distillation unit will be built (CDU), thanks to which it will not be necessary to import additional feedstock for PKRT units. Moreover, in order to enable the Company to produce more atmospheric and vacuum distillates while meeting quality requirements for diesel oils, to be effective from 2009 (10ppm S), the PKRT project will also encompass the construction of a diesel oil hydro-desulphurisation unit (HDS), modernisation of the existing hydrocracking unit and construction of storage tanks required in connection with expanded production scale. Both production units (HDS, the hydrocracking unit) will be built based on the licence from Chevron Lummus Global.

On June 27th 2006, the Supervisory Board of Grupa LOTOS S.A. approved the sending of letters of intent by the LOTOS Group, which have the financial effect of concluding agreements, concerning the delivery of four reactors for the MHC unit forming part of the PKRT Project. The assumption of financial obligations related to the delivery of the MHC reactors is one of the milestones in the PKRT execution schedule.

PROSTA Project

The Company's actions in the first half of 2006 connected with the development of the retail fuel station network executed by the subsidiary LOTOS Paliwa under the PROSTA project focused on continued development of the CODO stations network, in particular by incorporating the ESSO and Slovnaft stations acquired in 2005 into the LOTOS network, launching the construction of two fuel stations on the sites located in Gdynia and Tychy and expanding the DOFO station network.

On March 9th 2006, a final agreement on the acquisition of an organised part of business from Slovnaft Polska S.A. was concluded. The acquisition comprised 12 fuel stations situated in southern Poland, an area of strategic importance for the development of the LOTOS network, and two pieces of undeveloped real estate, designated as sites for new fuel stations.

The Company has completed the incorporation of ESSO and Slovnaft stations into the LOTOS network. As at June 30th 2006, all 39 ESSO stations acquired in 2005 and 12 Slovnaft stations acquired under the final agreement of March 9th 2006 were part of the LOTOS network. The stations are undergoing change of their exterior design to comply with the LOTOS visualisation.

Petrobaltic and Upstream Business

In the first half of 2006, Petrobaltic started the trial operation of the B-8 reserve. Total production at B-3 and B-8 reserves in the first half of 2006 amounted to more than 138.2 thousand tonnes of crude oil. Given the fact that oil processing at LOTOS Czechowice, where the crude oil produced by Petrobaltic had been processed before, was discontinued at the end of the first quarter of 2006, almost all of the oil produced in the second quarter of 2006 was delivered to the Gdańsk refinery.

Southern Refineries

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In the first half of 2006, the Company continued the restructuring efforts aimed at streamlining the capital and organisational structure and adapting LOTOS Jasło and LOTOS Czechowice to function within the LOTOS Group.

LOTOS Biopaliwa Sp. z o.o., owned by LOTOS Czechowice and established with a view to executing investment projects, commenced the construction of a unit for the production of methyl esters of fatty acids, an additive to biodiesel (FAME). The contract for comprehensive execution of the project was executed with MAN Ferrostal on May 22nd 2006. The supplier of the technology, Novaol and Oelmühle Leer Connemann of Germany, has many years of experience in developing the production of biofuels. The project is worth PLN 71m. The unit, with annual production capacity of 100 thousand tonnes, will be launched in 2008.

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

11.1 CHANGES IN THE ORGANISATIONAL OR CAPITAL LINKS

For a description of changes in the organisational or capital links between the Parent Undertaking and other entities see Section 2 – Changes in the Shareholder Structure of the Group in the First Half of 2006, and Section 3 – Changes in Organisation and Management of the LOTOS Group of the Directors' Report.

In addition to the events described in the sections referred to above, no other material changes occurred in the organisational or capital links between Grupa LOTOS S.A. and other entities in the first half of 2006:

11.2 KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE PARENT UNDERTAKING AND THE GROUP COMPANIES

11.2.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS

The LOTOS Group's major investments in tangible and intangible assets made in the first half of 2006 (PLN '000)

Item	Capital expenditure Jan 1 – Jun 30 2006
Construction and assembly work	173,348
Procurement from external suppliers – purchases	27,497
Acquisition of intangible assets	9,997
Other capital expenditure	79,656
Total	290,498

11.2.2 EQUITY INVESTMENTS

In the first half of 2006, Grupa LOTOS S.A. invested cash surpluses in the following instruments: bank deposits, synthetic deposits (combination of FX swap transactions and bank deposits), Polish Treasury bills and buy-sell-back transactions on Polish Treasury securities.

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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)

No.	Party to the transaction	Sales (PLN '000)	Purchases (PLN '000)
1	LOTOS Paliwa Sp. z o.o.	2,880,131	-
2	LOTOS Partner Sp. z o.o.	2,626,471	46,481
3	LOTOS Oil S.A.	80,677	-
4	LOTOS Parafiny Sp. z o.o.	30,612	-
5	LOTOS Kolej Sp. z o.o.	3,153	43,634
6	LOTOS Serwis Sp. z o.o.	2,569	26,855
7	LOTOS Mazowsze S.A.	104,065	-
8	LOTOS LAB Sp. z o.o.	-	6,776
9	LOTOS Ochrona Sp. z o.o.	-	2,581
10	LOTOS Straż Sp. z o.o.	-	5,130
11	LOTOS Asfalt Sp. z o.o.	169,713	-
12	BiproRaf Sp. z o.o.	-	3,184
13	Grupa Kapitałowa LOTOS Jasło S.A.	204,948	-
14	Grupa Kapitałowa LOTOS Czechowice S.A.	64,751	206,525
15	Grupa Kapitałowa Petrobaltic S.A.	-	198,770

*The equivalent of EUR 500,000 is PLN 1,949 thousand (EUR/PLN = 3,8985 – 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 2006).

13. LOANS ADVANCED – LOANS, SURETIES AND GUARANTEES GRANTED TO THE LOTOS GROUP'S RELATED UNDERTAKINGS

Loans granted by Grupa LOTOS S.A. to LOTOS Park Technologiczny Sp. z o.o.

On January 25th 2006, Grupa LOTOS SA granted LOTOS Park Technologiczny Sp. z o.o. a cash loan of PLN 350 thousand. The loan was repaid in one instalment three months after the loan agreement date, along with interest accrued from until the repayment date.

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Loans granted by Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o.

On March 10th 2006, Grupa LOTOS S.A. granted LOTOS Parafiny Sp. z o.o. a loan of PLN 4.5m. The loan will be repaid in two instalments by December 31st 2008.

For detailed information on loans, sureties, and guarantees see Notes 29 and 38 to the consolidated financial statements for the six months ended June 30th 2006.

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

Acquisition of the Southern Refineries and Petrobaltic

As stated in the description of the issue objectives presented in the Issue Prospectus of Grupa LOTOS S.A., the transaction was settled in June 2005 with the proceeds obtained by Grupa LOTOS S.A. from the issue of 35,000,000 Series B shares. Remaining issue proceeds were allotted to working capital.

Additionally, by June 30th 2006, the net issue proceeds were used for the following purposes:

- Financing of the Comprehensive Technical Upgrade Programme (PKRT) – PLN 65.7m
- Financing of modernisation investments at the Gdańsk refinery – PLN 135.4m
- In November 2005, PLN 65m was allocated for contributions to the equity of LOTOS Paliwa Sp. z o.o. in connection with the execution of the PROSTA programme (development of the fuel station network).

The remaining net issue proceeds of PLN 482m will be applied to carry out the PKRT project and modernisation investments at the Gdańsk refinery.

15. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL RESULTS AND PREVIOUSLY PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2006

Grupa LOTOS S.A. published forecasts of the financial results for 2006 after the balance-sheet date of June 30th 2006; in developing the forecasts, the Company took into account its performance for the first half of 2006.

The forecast published on September 5th 2006 contains the following items of the profit and loss account (PLN '000 000):

Forecasted items of the profit and loss account	(PLN '000 000)
Sales revenue	13.436
Amortisation/depreciation	307
Operating profit	819
Net profit	723
Net profit attributable to parent undertaking's shareholders	657

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An assessment of whether the above forecast can be met as well as its revision, if any, will be presented by the Management Board in the next interim report of Grupa LOTOS S.A.

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

The cash, short-term securities and credit facility agreements of the LOTOS Group fully secure the expenditure planned to complete the current investment projects and equity investments.

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** – in the first half of 2006 the prices of crude oil increased further, only to be followed by the prices of petroleum products. A substantial rise was also reported in the refining margin.
- **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 raw materials and 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.
- **Change of legal regulations with respect to excise tax reliefs** – excise tax reliefs are enjoyed primarily by Rafineria Jasło S.A. (member of the LOTOS Group). Given the planned limitations in the excise tax reliefs (until some of them, e.g. transport relief, are eventually abolished), the Company has been pursuing restructuring and investment activities designed to transform the business of Rafineria Jasło S.A. so as to ensure that it remains profitable even after the reliefs are reduced. The activities include transformation of Rafineria Jasło S.A. into a waste processing centre.

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** – execution 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 transaction.
- **Execution of the Comprehensive Technical Upgrade 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 Comprehensive Technical Upgrade Programme. Construction and start-up of the installations provided for in the Programme will further increase the processing capacity of the Gdańsk refinery and improve the production structure – the low-value heavy fuel oil with high sulphur content will be replaced with high-value diesel oils, for which the demand is growing.

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- **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 and further improve its financial performance.

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.

Execution of the investment programmes and plans set forth in the Issue Prospectus will enhance the domestic market position of the Company and its Group and, consequently, will improve their financial performance and share price.

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

MANAGEMENT BOARD – fifth term of office

Until June 19th 2006, the composition of the Management Board was as follows:

1. Paweł Olechnowicz – President of the Management Board
2. Marek Sokołowski – Vice-President of the Management Board
3. Wojciech Kowalczyk – Vice-President of the Management Board

MANAGEMENT BOARD – sixth term of office

On June 19th 2006, the Supervisory Board appointed the Management Board of Grupa LOTOS S.A. for the sixth term of office:

1. Paweł Olechnowicz – President of the Management Board
2. Marek Sokołowski – Vice-President of the Management Board
3. Mariusz Machajewski – Vice-President of the Management Board

As at June 30th 2006, the Management Board of Grupa LOTOS S.A. was composed of the following persons:

1. Paweł Olechnowicz – President of the Management Board
2. Marek Sokołowski – Vice-President of the Management Board
3. Mariusz Machajewski – Vice-President of the Management Board

SUPERVISORY BOARD – sixth term of office

From January 1st to June 16th 2006, the composition of the Supervisory Board was as follows:

1. Jan Szomburg – Chairman
2. Jan Stefanowicz – Deputy Chairman
3. Grzegorz Szczodrowski – Secretary
4. Beata Zawadzka

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5. Jacek Mościcki
6. Jacek Tarnowski
7. Henryk Siodmok

On June 16th 2006, Mr Jan Szomburg resigned from the position of Chairman and member of the Supervisory Board of Grupa LOTOS S.A. No changes occurred in the composition of the Supervisory Board of Grupa LOTOS S.A. until September 28th 2006.

As at June 30th 2006, the Supervisory Board of Grupa LOTOS S.A was composed of the following persons:

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

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 41 to the consolidated financial statements for the first six months of 2006.

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 2006	
	<i>Number of shares</i>	<i>Par value (PLN)</i>
Management Board:	8,636	8,636
Marek Sokołowski	8,636	8,636
Total	8,636	8,636

To the Company's knowledge, members of the Supervisory Board do not hold any Company shares or rights thereto.

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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 2006, 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	7,878,030	7,878,030	7,878,030	6.93%
State Treasury	59,025,000	59,025,000	59,025,000	51.91%
Other	46,796,970	46,796,970	46,796,970	41.16%
Total	113,700,000	113,700,000	113,700,000	100.00%

The Company has no information concerning other shareholders holding, directly or indirectly through subsidiaries, 5% or more of the total vote at the General Shareholders Meeting of the Parent Undertaking, as no shareholder informed the Company of such fact by the date of this Report.

22. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, CEO	
	Paweł Olechnowicz
Vice-President of the Management Board, COO	
	Marek Sokołowski
Vice-President of the Management Board, CFO	
	Mariusz Machajewski