



**THE LOTOS GROUP**

**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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---

<b>INTRODUCTION</b> .....	<b>4</b>
<b>1. BASIC INFORMATION ON THE LOTOS GROUP</b> .....	<b>4</b>
1.1 STRUCTURE OF THE LOTOS GROUP.....	4
1.2 CONSOLIDATED UNDERTAKINGS OF THE LOTOS GROUP .....	5
1.3 OWNERSHIP CHANGES AT THE LOTOS GROUP IN H1 2009 .....	18
1.4 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN THE PARENT UNDERTAKING AND OTHER UNDERTAKINGS .....	21
1.5 SHAREHOLDERS HOLDING, DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES, AT LEAST 5% OF THE TOTAL VOTE AT GRUPA LOTOS S.A.'S GENERAL SHAREHOLDERS MEETING .....	22
1.6 AGGREGATE NUMBER AND PAR VALUE OF SHARES, OR RIGHTS TO SHARES, IN GRUPA LOTOS S.A. HELD BY THE MANAGEMENT AND SUPERVISORY STAFF .....	24
<b>2. RULES FOLLOWED IN THE PREPARATION OF THE INTERIM CONDENSED     CONSOLIDATED FINANCIAL STATEMENTS OF THE LOTOS GROUP</b> .....	<b>25</b>
<b>3. EXTERNAL AND INTERNAL FACTORS THAT WILL BEAR ON THE LOTOS     GROUP'S PERFORMANCE OVER THE NEXT SIX MONTHS; DESCRIPTION OF KEY     THREATS AND RISKS</b> .....	<b>29</b>
3.1 KEY FINANCIAL AND ECONOMIC DATA CONTAINED IN THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS.....	29
3.2 KEY RISKS AND THREATS .....	33
3.3 DEVELOPMENT PROSPECTS FOR THE LOTOS GROUP .....	37
3.4 PACKAGE OF ANTI-CRISIS MEASURES FOR THE LOTOS GROUP .....	38
<b>4. SIGNIFICANT EVENTS AND AGREEMENTS RELEVANT FOR ASSESSING THE     FINANCIAL PERFORMANCE, FINANCIAL STANDING, ASSETS AND HUMAN     RESOURCES OF GRUPA LOTOS S.A. AND THE LOTOS GROUP, AS WELL AS ANY     CHANGES THEREIN, AND INFORMATION RELEVANT FOR ASSESSING THE     ABILITY OF GRUPA LOTOS S.A. AND THE LOTOS GROUP TO MEET THEIR     OBLIGATIONS</b> .....	<b>40</b>
4.1 EVENTS SIGNIFICANT FOR THE OPERATIONS OF THE LOTOS GROUP .....	40
4.2 SIGNIFICANT AGREEMENTS CONCLUDED BY THE PARENT UNDERTAKING IN H1 2009 AND AFTER JUNE 30TH 2009 .....	45
4.3 SIGNIFICANT AGREEMENTS CONCLUDED BY OTHER MEMBERS OF THE LOTOS GROUP IN H1 2009 AND AFTER JUNE 30TH 2009.....	47
4.4 ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT.....	47
4.5 HUMAN RESOURCES .....	48
<b>5. MATERIAL TRANSACTIONS BETWEEN GRUPA LOTOS S.A. AND ITS RELATED     UNDERTAKINGS THAT WERE NOT CONCLUDED AT ARM'S LENGTH</b> .....	<b>51</b>
<b>6. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS</b> .....	<b>51</b>
<b>7. CONTINGENT LIABILITIES – LOAN SURETIES AND GUARANTEES WITH A VALUE     OF 10% OR MORE OF GRUPA LOTOS S.A.'S EQUITY</b> .....	<b>58</b>
<b>8. THE MANAGEMENT BOARD'S POSITION REGARDING THE FEASIBILITY OF     MEETING FORECASTS PUBLISHED EARLIER FOR 2009 IN THE LIGHT OF THE</b>	

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

<b>RESULTS PRESENTED IN THE SEMI-ANNUAL REPORT IN RELATION TO THE FORECAST RESULTS .....</b>	<b>58</b>
<b>9. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS .....</b>	<b>59</b>

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

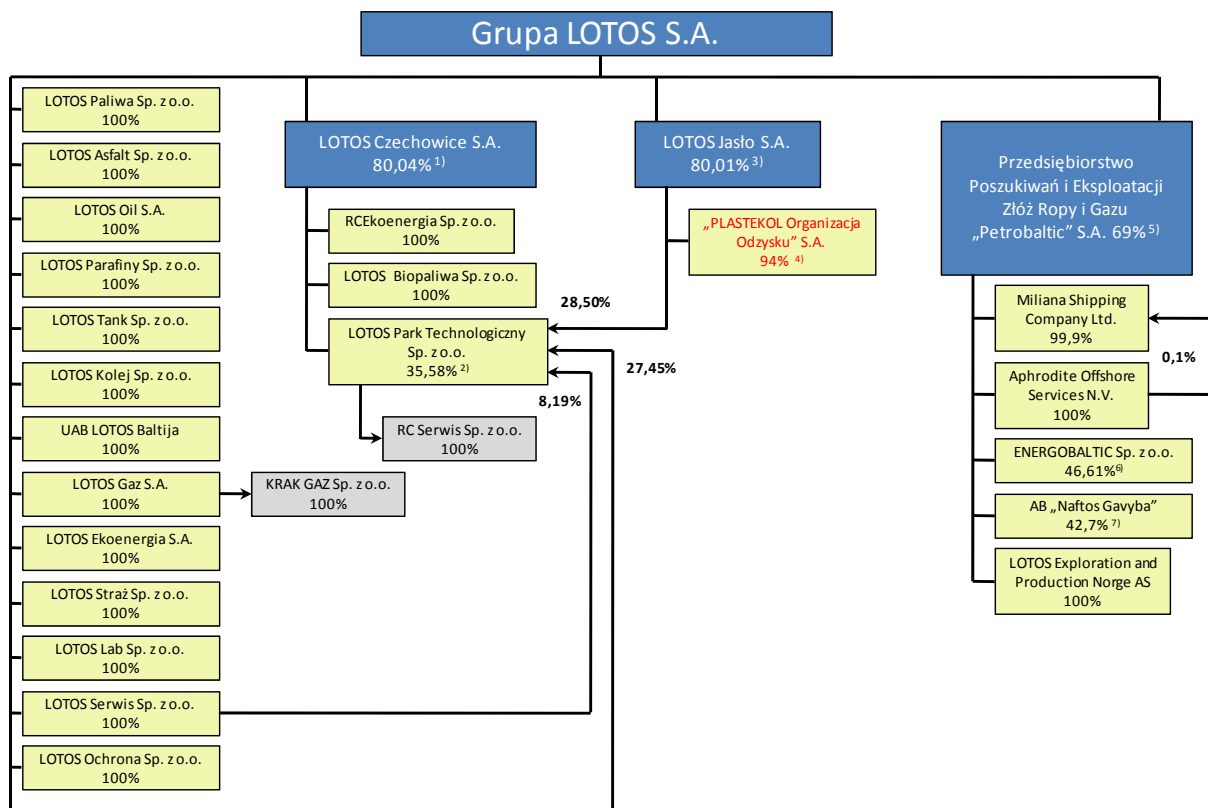
**INTRODUCTION**

This Directors' Report on the LOTOS Group's Operations in H1 2009 ("Directors' Report"), which forms part of the consolidated semi-annual report of the LOTOS Group, was prepared pursuant to the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009. The consolidated semi-annual report of the LOTOS Group comprises this Directors' Report, as well as the interim condensed consolidated financial statements for the six months ended June 30th 2009, prepared in accordance with the International Financial Reporting Standards (the condensed consolidated financial statements), along with the auditor's review report.

**1. BASIC INFORMATION ON THE LOTOS GROUP**

**1.1 STRUCTURE OF THE LOTOS GROUP**

The diagram below presents the structure of the LOTOS Group as at June 30th 2009.



- 1) State Treasury – 5%, employee shares – 14.96%
- 2) Partner Holding Management Sp. z o.o. – 0.29%
- 3) State Treasury – 5%, employee shares – 14.99%
- 4) Other shareholders – 6%
- 5) State Treasury – 30.32%, employee shares – 0.68%

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

- 6) Stablewood Power Ventures (Władysławowo) Limited – 41.43%, Przedsiębiorstwo Technik Specjalnych Hydromex Sp. z o.o. – 11.96%
- 7) UAB Meditus – 57.3%

In addition, Grupa LOTOS S.A. holds 8.97% of shares in P.P.P.P. NAFTOPORT Sp. z o.o. (a member of the group whose parent undertaking is PERN Przyjaźń S.A. of Plock).

As at June 30th 2009, December 30th 2008 and June 30th 2008, Grupa LOTOS S.A.'s share in the total vote at the General Shareholders Meetings of its subsidiary undertakings equalled Grupa LOTOS S.A.'s share in the share capital of these undertakings.

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

The Parent Undertaking's registered address is ul. Elbląska 135, 80-718 Gdańsk, Poland. In 2003, by virtue of its decision of May 28th 2003, the District Court of Gdańsk, XII Commercial Division of the National Court Register, changed the Company's name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

The Group's core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes acquisition of crude oil and natural gas reserves and their exploitation.

### 1.2.2 THE LOTOS GROUP COMPANIES

The following table presents the subsidiary undertakings of the LOTOS Group, their business profiles, consolidation method, and the Group's stakes in their share capitals.

Name	Registered office	Business profile	Method of consolidation/valuation of shares	Percentage of share capital held by the Group		
				Jun 30 2009	Dec 31 2008	Jun 30 2008
<b>Parent Undertaking</b>						
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable	Not applicable
<b>Direct Subsidiary Undertakings</b>						
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%	100.00%
LOTOS Gaz S.A. (parent undertaking of another group)	Mława	Production, wholesale and retail sale of LPG	full	100.00%	100.00%	100.00%

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group		
				Jun 30 2009	Dec 31 2008	Jun 30 2008
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	full	100.00%	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	The company has not commenced operations	full	100.00%	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	full	100.00%	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of petroleum products	full	100.00%	100.00%	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels	full	80.04%	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale	full	80.01%	80.01%	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	full	69.00%	69.00%	69.00%
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	full	100.00%	100.00%	100.00%
Rafineria Nafty GLIMAR S.A.	Gorlice	Refining; provision of services	full	-	-	91.54%
LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation)	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated	-	-	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	Business and management consultancy services	full	86.91%	86.91%	86.91%
<b>Indirect Subsidiary Undertakings</b>						
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Provision of services	full	80.04%	80.04%	80.04%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	80.04%	80.04%	80.04%
RC Serwis Sp. z o.o.	Czechowice-Dziedzice	Provision of services	-	86.91%	86.91%	86.91%
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Provision of services	full	75.21%	66.81%	66.81%

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

Name	Registered office	Business profile	Method of consolidation/valuation of shares	Percentage of share capital held by the Group		
				Jun 30 2009	Dec 31 2008	Jun 30 2008
Chemipetrol Sp. z o.o.	Jaslo	Trading in paraffin emulsions and anti-caking agents	full	-	-	80.01%
KRAK-GAZ Sp. z o.o.	Bochnia	Wholesale and retail sale of LPG	full	100.00%	100.00%	100.00%
Miliana Shipping Company Ltd.	Cyprus	Provision of services	full	68.93%	68.93%	68.93%
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007	full	69.00%	69.00%	100.00%
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Provision of services	full	69.00%	69.00%	69.00%

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

LOTOS Paliwa Sp. z o.o., spun-off from Grupa LOTOS S.A., was incorporated by virtue of a Notarial Deed of January 12th 1996 and entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on April 9th 2001 under No. KRS 000006312. The company's registered office is located in Gdańsk. As at June 30th 2009, its share capital amounted to PLN 114,706,000.00 and was divided into 114,706 shares with a par value of PLN 1,000.00 per share. The company is wholly owned by Grupa LOTOS S.A.

The company is the exclusive distributor of fuels and light fuel oil of the Group. The operations of LOTOS Paliwa Sp. z o.o. focus on:

- management and development of the service station network (CODO, DOFO and DODO stations) representing one of the largest service station networks 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 the company's total sales. In 2008, the company also started selling the *premium* fuels (*LOTOS Dynamic*) and introduced the *Navigator* loyalty programme. 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.

As at the end of June 2009, the LOTOS service station network comprised nearly 320 locations (making it the fourth largest such network in Poland), including more than 140 CODO stations. In April 2009, the company opened a motorway service area in Kołbaskowo on the A6 motorway, which is the first such station in the LOTOS network. In H1 2009, sales of fuels in the LOTOS service station network went up by ca. 25% (including an over 30% increase in the sales of Diesel oil) relative to the corresponding period of 2008.

## **LOTOS Gaz S.A.**

LOTOS Gaz S.A. joined the LOTOS Group on June 17th 2003 as a result of the acquisition by Grupa LOTOS S.A. of a 75% stake in PETRIM S.A. Upon the acquisition of the shares, the company's name was changed to LOTOS Mazowsze S.A. PETRIM S.A. was incorporated by virtue of a Notarial Deed of December 27th 2000. The company was entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, XIV Commercial Division of the National Court Register, on December 14th 2001, under No. KRS 0000069388. In June 2004, the acquisition of 75% of shares in LOTOS Mazowsze S.A. was settled. In July 2004, the remaining 25% of shares were acquired. Following the acquisition, LOTOS Mazowsze S.A. became a wholly-owned subsidiary of Grupa LOTOS S.A. On July 5th 2007, the company's name was changed to LOTOS Gaz S.A. As at June 30th 2009, the share capital of LOTOS Gaz S.A. amounted to PLN 3,680,000.00 and was divided into 160,000 Series A Shares with a par value of PLN 23.00 per share. The company's registered office is situated in Mława.

The company's activities are focused on sales of liquefied gas (LPG and heating gas). In January 2009, the company's activities related to sales of sulphur were taken over by Grupa



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

LOTOS S.A. In H1 2009, LOTOS Gaz S.A. carried out restructuring activities, which included, among other things, the "closing" of agreements on gas import from the east and – as of June 1st 2009 – discontinuation of the company's services related to the supply of LPG to LOTOS Paliwa Sp. z o.o.'s stations located in the south of Poland. These measures allowed the company to improve the profitability of its operations. On April 30th 2009, the Management Board of KRAK GAZ Sp. z o.o., a subsidiary, filed a bankruptcy petition with the District Court in Kraków.

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

The company was established by virtue of a Notarial Deed of July 26th 2002 and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on August 27th 2002, under No. KRS 0000128016. The company's registered office is located in Gdańsk. Its share capital as at June 30th 2009 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 the shares in LOTOS Oil S.A.

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

In April 2009, Fabryka Maszyn FAMUR S.A. approved certain LOTOS Oil S.A.'s products to be comprehensively applied in the working systems of its longwall shearer-loaders. In June 2009, LOTOS Oil S.A. launched a line of latest generation synthetic motor oils – LOTOS QUAZAR.

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

The company was incorporated by virtue of a Notarial Deed of December 30th 2003 and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on April 26th 2004 under No. KRS 0000204527. The company's registered office is located in Gdańsk. As at June 30th 2009, the company's share capital was PLN 2,000,000.00 and was divided into 4,000 shares with a par value of PLN 500.00 per share. The company is wholly owned by Grupa LOTOS S.A.

The company 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; additionally, it also sells heavy fuel oil. LOTOS Asphalt Sp. z o.o. is among leading players on the domestic market of bitumens. In the modified bitumen segment, which accounts for approx. 20% of the company's sales, LOTOS Asphalt Sp. z o.o. remains the unquestionable leader, with the market share exceeding 50%. The company operates three production centres: in Gdańsk, Jasło and Czechowice-Dziedzice. LOTOS Asphalt's bitumens are sold mainly on the domestic market. Export sales are made to Scandinavia, the Baltic states, CEE countries, as well as Austria, Germany and Russia.

In June 2009, LOTOS Asphalt Sp. z o.o. opened a modern waterproofing materials production plant in Jasło. It is expected that the plant will reach its full production capacity by the end of

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

2009 and will produce a dozen or so million square metres of waterproofing tarpaper, ultimately giving jobs to more than 100 people.

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

The company was established on the basis of Parafiny Rafineria Jasło Sp. z o.o., through consolidation of the paraffin-related operations of Parafiny Rafineria Jasło Sp. z o.o., RC Parafiny Sp. z o.o. and Chemipetrol Sp. z o.o. Parafiny Rafineria Jasło Sp. z o.o. was incorporated by virtue of a Notarial Deed of December 13th 1999 and was entered in the National Court Register (maintained by the District Court of Rzeszów, XII Commercial Register of the National Court Register) on May 27th 2002 under No. KRS 0000114749. On August 26th 2004, the change in the company's name from Parafiny Rafineria Jasło Sp. z o.o. to LOTOS Parafiny Sp. z o.o. was registered. The company's registered office is situated in Jasło. As at June 30th 2009, the share capital of LOTOS Parafiny Sp. z o.o. amounted to PLN 19,783,000.00 and was divided into 19,783 shares with a par value of PLN 1,000.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Parafiny Sp. z o.o.

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

**LOTOS Ekoenergia S.A.**

The company was incorporated by virtue of a Notarial Deed of July 17th 2002 and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on August 26th 2002 under No. KRS 0000128043. The registered office of Lotos Ekoenergia S.A. is located in Gdańsk. As at June 30th 2009, the company's share capital amounted to PLN 500,000.00 and was divided into 50,000 Series A shares with a par value of PLN 10.00 per share. LOTOS Ekoenergia S.A. is a wholly-owned subsidiary of Grupa LOTOS S.A.

The company was established in 2002 to execute the 10+ Programme (Comprehensive Technical Upgrade Programme, PKRT). Currently though, the project is being carried out and financed by Grupa LOTOS S.A. As at June 30th 2009, LOTOS Ekoenergia S.A. has not commenced operating activities.

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

LOTOS Kolej Sp. z o.o. was incorporated by virtue of a Notarial Deed of January 13th 2000. On October 16th 2002, the company was entered in the National Court Register currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000135118. The registered office of LOTOS Kolej Sp. z o.o. is located in Gdańsk. As at June 30th 2009, 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. The company is wholly owned by Grupa LOTOS S.A.

LOTOS Kolej Sp. z o.o. provides the LOTOS Group with comprehensive railway services. The main activities of the company include:

- provision of comprehensive railway services for Grupa LOTOS S.A. (offtake, supply, freight settlements, representation of Grupa LOTOS S.A.'s interests in relations with PKP (Polish Railways), tank car owners, forwarding companies, etc.),

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

- licensed transport,
- maintenance of infrastructure, rail vehicles and other fixed assets located at railway sidings.

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

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

LOTOS Serwis Sp. z o.o. was incorporated by virtue of a Notarial Deed of April 29th 2003. On May 9th 2003, the company was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000161302. As at June 30th 2009, the company's share capital amounted to PLN 4,000,000.00 and was divided into 8,000 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A. LOTOS Serwis Sp. z o.o.'s registered office is situated in Gdańsk.

The activities of LOTOS Serwis Sp. z o.o. consist in the provision of services related to plant engineering, repairs of machinery and production units mainly for Grupa LOTOS S.A. and other undertakings of the LOTOS Group. The company has divisions in three towns: Gdańsk, Czechowice-Dziedzice and Jasło.

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

LOTOS Lab Sp. z o.o. was incorporated by virtue of a Notarial Deed of May 29th 2003 and entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000165598 on June 24th 2003. Its registered office is situated in Gdańsk. As at June 30th 2009, the company's share capital amounted to PLN 1,000,000.00 and was divided into 2,000 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A.

LOTOS Lab Sp. z o.o. performs laboratory testing in its three laboratories situated in Gdańsk, Jasło and Czechowice-Dziedzice. It provides analytical services related to crude oil, crude oil products, water, sewage, and certain chemicals, and performs measurements and prepares documentation relating to working conditions.

**LOTOS Straż Sp. z o.o.**

The company was established by virtue of a Notarial Deed of February 4th 2004 and was entered in the National Court Register currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000196158, on February 20th 2004. As at June 30th 2009, its share capital amounted to PLN 3,900,000.00 and was divided into 7,800 equal and indivisible 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. 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 may also provide services for other entities, however,

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

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 Gdańsk refinery.

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

The company Służba Ochrony Rafinerii Gdańskiej Sp. z o.o. was established by virtue of a Notarial Deed of June 19th 1998. On January 15th 2002, the company was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000068276. Since December 19th 2003, the company has been operating under the name of LOTOS Ochrona Sp. z o.o. As at June 30th 2009, the share capital of LOTOS Ochrona Sp. z o.o. amounted to PLN 302,500.00 and was divided into 605 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A.

The activities of LOTOS Ochrona Sp. z o.o. consist in personal and property protection. The company provides services for the LOTOS Group member companies, Petrobaltic S.A. and other entities performing work on the premises of the Gdańsk refinery. The objective behind narrowing down the company's scope of operations was to help maintain a constant high level of security at the protected premises.

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

The company was established by virtue of a Notarial Deed of December 13th 2004. On January 6th 2005, it was entered in the National Court Register maintained by the District Court of Kraków-Śródmieście, XII Commercial Division of the National Court Register, under No. KRS 0000225650. As at June 30th 2009, the share capital of LOTOS Park Technologiczny Sp. z o.o. amounted to PLN 17,307,000.00 and was divided into 34,614 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. directly held 27.45% of the company's share capital.

By June 30th 2009, the company had completed the process of winding up its business. Currently, LOTOS Park Technologiczny Sp. z o.o. does not have any operating activities.

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

The company was established by virtue of a Notarial Deed of April 20th 1999. On April 4th 2002, it was entered in the National Court Register, currently maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000104463. The company's registered office is located in Jasło. By virtue of a resolution of the company's extraordinary general shareholders meeting of July 23rd 2009, the company's registered office was relocated to Gdańsk (to date, the relevant amendment to the company's articles of association has not been registered in the National Court Register). As at June 30th 2009, the share capital of LOTOS Tank Sp. z o.o. amounted to PLN 6,945,000.00 and was divided into 1,000 shares with a par value of PLN 6,945.00 per share. Grupa LOTOS S.A. is the sole shareholder in LOTOS Tank Sp. z o.o.

As part of the LOTOS Group, the company is responsible for the sales of Jet fuel JET-A1 (including development of the sales and meeting sales targets) to end customers, including directly to airport operators.

In June 2009, LOTOS Tank Sp. z o.o. opened a fuel depot at the airport in Gdańsk-Rębiechów. Currently, the company is involved in the process of obtaining the necessary permits and certificates which will enable it to start providing aircraft fuelling services at the Gdańsk airport.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

### **UAB LOTOS Baltija**

On January 31st 2000, the company was registered under the name of UAB Baltic LOTOS, under No. 110841134, and Grupa LOTOS S.A. acquired 85.03% of the company's share capital. In 2003 the company changed its name from UAB Baltic LOTOS to UAB LOTOS Baltija. Over 2004 and 2005, Grupa LOTOS S.A. acquired the remaining shares in the company, becoming its sole shareholder on November 16th 2005. The company's registered office is located in Vilnius, Lithuania. As at June 30th 2009, the share capital of UAB LOTOS Baltija amounted to LTL 720,200.00 (or PLN 932,298.9, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) and was divided into 11,080 shares with a par value of LTL 65.00 per share (or PLN 84.14, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009).

In Q1 2009, the company discontinued its trading business and currently provides consultancy and support services to the LOTOS Group companies with respect to their operations on the Lithuanian market.

### **KRAK GAZ Sp. z o.o.**

The company was established by virtue of a Notarial Deed of September 12th 1997. On November 19th 2001, it was entered in the National Court Register currently maintained by the District Court of Kraków-Śródmieście, XII Commercial Division of the National Court Register, under No. KRS 0000057636. The company became a member of the LOTOS Group on July 9th 2007, following purchase of 100% of its shares by LOTOS Gaz S.A. The company's registered office is located in Kraków. As at June 30th 2009, the share capital of KRAK GAZ Sp. z o.o. amounted to PLN 3,450,000.00 and was divided into 34,500 shares with a par value of PLN 100.00 per share. LOTOS Gaz S.A. is the sole shareholder in KRAK GAZ Sp. z o.o.

In connection with the company's difficult financial situation, on April 30th 2009 the company's Management Board filed a bankruptcy petition with the District Court in Kraków. By virtue of decision of July 23rd 2009, the District Court of Kraków-Śródmieście, VIII Commercial Division, declared KRAK GAZ Sp. z o.o. bankrupt and opened its bankruptcy-by-liquidation process.

## **THE LOTOS CZECHOWICE GROUP**

### **LOTOS Czechowice S.A.**

The company was founded through the transformation on January 9th 1996 of the state-owned enterprise operating under the name of Śląskie Zakłady Rafineryjne im. Ludwika Waryńskiego in Czechowice-Dziedzice, into a state-owned stock company Rafineria Czechowice S.A. On March 26th 2002, the company was entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000102608. The company was incorporated into the LOTOS Group in February 2005, following the purchase of its shares held by Nafta Polska S.A. (as part of the government strategy for the Polish oil sector). Since December 19th 2005, the company has been operating under the name of LOTOS Czechowice S.A. Its registered office is located in Czechowice-Dziedzice. As at June 30th 2009, the company's share capital amounted to PLN 75,000,000.00 and was divided into 7,500,000 Series A registered shares with a par value of PLN 10.00 per share. As at June 30th 2009, Grupa LOTOS S.A. held an 80.04% equity interest in the company.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

Under an agreement of July 9th 2009 between the State Treasury and Grupa LOTOS S.A., Grupa LOTOS S.A. acquired 375,000 shares in LOTOS Czechowice S.A., representing 5% of the company's share capital. Following the transaction, Grupa LOTOS S.A. came to hold a total of 85.04% shares in LOTOS Czechowice S.A.

The company's core business consists in provision of services related to trade in (distribution of) oil products, storing of fuels as well as building and maintaining reserves of fuels in accordance with the applicable laws and regulations. LOTOS Czechowice S.A.'s infrastructure, including storage and distribution depot, road tanker terminal along with a fuel and railway loading terminal allows the company to act as the Group's logistics operator complying with current and future strict regulations governing the operation of storage and distribution depots.

In H1 2009, work was underway in connection with the takeover of the management of logistics and storage by Grupa LOTOS S.A. Since May 1st 2009, logistics and storage has been managed by Grupa LOTOS S.A.

**RCEkoenergia Sp. z o.o.**

RCEkoenergia Sp. z o.o. was founded by virtue of a Notarial Deed of July 11th 2000. The company was entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000113788. Its registered office is located in Czechowice-Dziedzice. As at June 30th 2009, the share capital of RCEkoenergia Sp. z o.o. amounted to PLN 20,061,000.00, and was divided into 20,061 shares with a par value of PLN 1,000.00 per share. RCEkoenergia Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A.

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

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

LOTOS Biopaliwa Sp. z o.o. was established in 2000 under the original name of RC Parafiny Sp. z o.o. On May 10th 2006, the change of the company's name to LOTOS Biopaliwa Sp. z o.o. was registered in the National Court Register. The company is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000065231. As at June 30th 2009, the company's share capital amounted to PLN 10,000,000.00 thousand and was divided into 20,000 shares with a par value of PLN 500.00 per share. The company is wholly owned by LOTOS Czechowice S.A.

The company's core business includes the production and sale of fatty acid methyl esters (FAME), commonly known as biodiesel. In H1 2009, the company finalised an investment project consisting in the construction of a FAME installation with the annual throughput capacity of 100 thousand tonnes. On March 1st 2009, following the launch of the installation, LOTOS Biopaliwa Sp. z o.o. embarked on its core business consisting in the production of FAME.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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## **THE LOTOS JASŁO GROUP**

### **LOTOS Jasło S.A.**

The company was formed as a result of the transformation on May 17th 1996 of the state-owned enterprise Podkarpackie Zakłady Rafineryjne im. Ignacego Łukasiewicza of Jasło into a state-owned stock company Rafineria Jasło S.A. On November 30th 2001, the company was entered in the National Court Register (maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register) under No. KRS 0000068125. Since January 2nd 2006, the company's name has been LOTOS Jasło S.A. As at June 30th 2009, the share capital of LOTOS Jasło S.A. amounted to PLN 48,000,000.00 thousand and was divided into 6,000,000 Series A registered shares with a par value of PLN 8.00 per share. As at June 30th 2009, Grupa LOTOS S.A. held 80.01% of the shares in LOTOS Jasło S.A.

Under an agreement of July 9th 2009 between the State Treasury and Grupa LOTOS S.A., Grupa LOTOS S.A. acquired 300,000 shares in LOTOS Jasło S.A., representing 5% of the company's share capital. Following the transaction, Grupa LOTOS S.A. came to hold a total of 85.01% of shares in LOTOS Jasło S.A.

The company's core business consists in the provision of services related to trade in (distribution of) oil products, storing of fuels as well as building and maintaining reserves of fuels. In H1 2009, work was underway in connection with the takeover of the management of logistics and storage by Grupa LOTOS S.A.

### **PLASTEKOL Organizacja Odzysku S.A.**

Pursuant to Art. 5 of the Act on Duties of Entrepreneurs in Respect of Certain Waste Management, Product Charges and Security Deposit Fees, dated May 11th 2001 (Dz.U. No. 63, Item 639), LOTOS Jasło S.A. (previously 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 a Notarial Deed of January 8th 2002 and was entered in the National Court Register (currently maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register) under No. KRS 0000082936 on January 17th 2002. Since August 19th 2004, the company's registered office has been situated in Jasło. As at June 30th 2009, the company's share capital amounted to PLN 1,000,000.00, and was divided into 1,000 Series A registered non-preference shares with a par value of PLN 1,000.00 per share. The company's principal shareholder is LOTOS Jasło S.A., which as at June 30th 2009 held 94% of the total vote at its general shareholders meeting.

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.

## **THE PETROBALTIC GROUP**

### **Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu 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. The company was incorporated into the

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

LOTOS Group in February 2005, following the purchase of its shares held by Nafta Polska S.A. (as part of the government strategy for the Polish oil sector). Petrobaltic S.A. is registered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 00000171101. Its registered office is situated in Gdańsk. As at June 30th 2009, the company's share capital amounted to PLN 92,400,000.00 thousand and was divided into 9,240,000 shares with a par value of PLN 10.00 per share. As at June 30th 2009, Grupa LOTOS S.A. held 69.00% of the shares in Petrobaltic S.A.

Under an agreement of July 9th 2009 between the State Treasury and Grupa LOTOS S.A., Grupa LOTOS S.A. acquired 2,801,400 shares in Petrobaltic S.A., representing 30.32% of the company's share capital. Following the transaction, Grupa LOTOS S.A. came to hold a total of 99.32% shares in Petrobaltic S.A.

The core activities of Petrobaltic S.A. consist in the development of oil and gas fields and production of oil and gas in the Polish economic zone of the Baltic Sea. In 2008, the company began to expand its production operations to the North Sea, by acquiring shares in LOTOS Exploration and Production Norge AS.

At the end of 2008 and beginning of 2009, the company performed 2D and 3D seismic surveys at four license areas on the Baltic Sea. At the same time, Petrobaltic S.A. has continued preparation work to launch production from the B8 field.

In May 2009, Petrobaltic S.A. and Nordea Bank Polska S.A. entered into two credit facility agreements for a total amount of PLN 150m. In June 2009, crude oil production at the Baltic Beta rig (since the launch of production from the B3 field on May 21st 1992) exceeded 4 million cubic meters. In terms of barrels, production from the B3 field exceeded 25 million.

### **LOTOS Exploration and Production Norge AS**

LOTOS Exploration and Production Norge AS was incorporated by Grupa LOTOS S.A. on September 14th 2007. On September 22nd 2007, the company was registered by the Norwegian companies registrar Bronnoysundregistrene, under entry number 991735194. In May 2008, newly issued shares in the company were acquired by Petrobaltic S.A., which became the company's second shareholder next to Grupa LOTOS S.A. As at June 30th 2009, the company's share capital amounted to NOK 430,000,000.00 (or PLN 212,248,000.00, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) and was divided into 430,000,000 ordinary shares with a par value of NOK 1.00 (or PLN 0.49, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) per share. As at June 30th 2009, Petrobaltic S.A. held 100% of the shares in LOTOS Exploration and Production Norge AS.

The company's business consists in the exploration and production of crude oil at the Norwegian Continental Shelf, as well as provision of related services.

In January 2009, the company's share capital was increased to NOK 430m (or PLN 202,702,000.00, translated at the mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) through the issue of 240 million shares with a par value of NOK 1.00 (or PLN 0.47, translated at the mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) per share. The new issue shares were acquired by Petrobaltic S.A. On April 30th 2009, LOTOS Exploration and Production Norge AS executed a loan agreement with Grupa LOTOS S.A. for an amount equivalent to USD 13m (or PLN 42,716,700.00, translated at the mid-exchange rate quoted by the National Bank of Poland for April 30th 2009). In H1 2009, the company's operations focused on preparations for the launch of



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

production from the YME field on the Norwegian Continental Shelf (the company holds a 20% interest in the relevant YME field license).

**Miliana Shipping Company Ltd.**

Miliana Shipping Company Ltd. was registered in Cyprus on April 22nd 1999. Its registered office is situated in Nicosia, Cyprus. As at June 30th 2009, the company's share capital amounted to EUR 1,710.00 (or PLN 7,643.02, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) and was divided into 1,000 shares with a par value of EUR 1.71 (or PLN 7.64, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) per share. Petrobaltic S.A. holds 999 shares representing 99.9% of the company's share capital. Aphrodite Offshore Services N.V., a subsidiary undertaking of Petrobaltic S.A., holds 1 share in Miliana Shipping Company Ltd. Accordingly, Petrobaltic S.A. controls 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 involve risks which might have otherwise posed a threat to the upstream activities of Petrobaltic S.A.

**Aphrodite Offshore Services N.V.**

Aphrodite Offshore Services N.V. was included in the Petrobaltic Group on April 7th 1997 following the purchase of 100% of the company shares by Petrobaltic S.A. Aphrodite Offshore Services N.V. was incorporated on May 4th 1990 in the Netherlands Antilles. The company's registered office is located in Curacao, the Netherlands Antilles. As at June 30th 2009, the company's share capital amounted to USD 30,000.00 (or PLN 95,199.00, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) and was divided into 30,000 shares with a par value of USD 1.00 (or PLN 3.17, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) per share. Aphrodite Offshore Services N.V. is wholly-owned by Petrobaltic S.A.

Aphrodite Offshore Services N.V. is a company involved in sea transport and sea fleet management (its business includes purchasing, holding and transferring ownership rights, renting, leasing and commissioning the construction of ships), operation of ships and conclusion of charter agreements. The company is the sole owner of Aphrodite I, a coastal support vessel which was chartered by Miliana Shipping Company Ltd.

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

Energobaltic Sp. z o.o. was incorporated on September 10th 1997. On May 11th 2001 the company was entered in the National Register of Entrepreneurs (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register), under No. KRS 0000011924. The company's registered office is situated in Gdańsk. As at June 30th 2009, the share capital of Energobaltic Sp. z o.o. amounted to PLN 14,701,500.00, and was divided into 1,815 shares with a par value of PLN 8,100.00 per share. Petrobaltic S.A. holds 846 shares in Energobaltic Sp. z o.o., representing 46.61% of its share capital.

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

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

In connection with the difficult financial situation of the company, its Management Board developed a recovery plan, which was accepted by the Commercial Court on March 30th 2009. Since the court's decision was published in official journal *Monitor Sądowy i Gospodarczy*, i.e. since April 8th 2009, the company has been subject to restructuring proceedings. On June 29th 2009, the Meeting of Creditors of the company approved the recovery plan and Energobaltic Sp. z o.o. is now waiting for the plan to be approved by the Court. The court hearing is to be held on August 26th 2009.

### **AB Naftos Gavyba**

The company was incorporated on July 14th 2000. Its registered office is situated in Gargždai, Lithuania. As at June 30th 2009, the company's share capital amounted to LTL 150,000.00 (or PLN 194,175.00, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009), and was divided into 10,000 shares with a par value of LTL 15.00 (or PLN 19.42, translated at the mid-exchange rate quoted by the National Bank of Poland for June 30th 2009) per share. Petrobaltic S.A. holds 4,270 shares in AB Naftos Gavyba, representing 42.7% of its share capital.

The company is mainly responsible for equity operations in the oil industry. On August 7th 2009, a competent registering authority in Lithuania registered the merger of AB Naftos Gavyba and AB Geonafta. Following the merger, AB Naftos Gavyba was removed from the register. Petrobaltic S.A. and UAB Meditus hold (subsequent to the merger) shares accounting for 40.59% and 59.41% of AB Geonafta's share capital, respectively.

### **1.3 OWNERSHIP CHANGES AT THE LOTOS GROUP IN H1 2009**

There were no significant changes in the Group structure in the interim period since the end of the previous financial year, i.e. December 31st 2008 (see Note 2 to the consolidated financial statements for 2008 prepared in accordance with the IFRS), which would follow from mergers, acquisitions or sale of subsidiaries, long-term investments, restructurings or discontinuations of any businesses, except for the changes listed below:

#### **PLASTEKOL Organizacja Odzysku S.A.**

On January 30th 2009, LOTOS Jasło S.A. acquired 15 shares in PLASTEKOL Organizacja Odzysku S.A., representing 1.5% of the company's share capital, from Krzysztof Boniecki, who conducts business activity under the business name of Przedsiębiorstwo Wielobranżowe ROBAC. Following the transaction, LOTOS Jasło S.A.'s holding in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 83.5% to 85% (or, from 835 to 850 shares).

On February 13th 2009, LOTOS Jasło S.A. acquired 30 shares in PLASTEKOL Organizacja Odzysku S.A., representing 3.0% of the company's share capital, from EKO-OPEN Sp. z o.o. Following the transaction, LOTOS Jasło S.A.'s holding in the share capital of PLASTEKOL Organizacja Odzysku S.A. increased from 85% to 88% (or, from 850 to 880 shares).

On April 6th 2009, LOTOS Jasło S.A. acquired 30 shares in PLASTEKOL Organizacja Odzysku S.A., representing 3% of the company's share capital, from Jan B. Tyliś, who conducts business activity under the business name of Przedsiębiorstwo Handlowo -

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

Usługowe TYL-OIL. Following the transaction, LOTOS Jasło S.A.'s stake in PLASTEKOL Organizacja Odzysku S.A. increased from 88% to 91% (or from 880 to 910 shares).

On May 13th 2009, LOTOS Jasło S.A. acquired 30 shares of PLASTEKOL Organizacja Odzysku S.A., representing 3% of the company's share capital, from JASCHEM Zakład Petrochemiczno-Rafineryjny Sp. z o.o. Following the transaction, LOTOS Jasło S.A.'s stake in PLASTEKOL Organizacja Odzysku S.A. increased from 91% to 94% (or from 910 to 940 shares).

### **LOTOS Exploration and Production Norge AS**

On January 20th 2009, the Management Board of Petrobaltic S.A. resolved to commence the procedure for registration of another share capital increase at LOTOS Exploration and Production Norge AS and acquisition of the new shares by Petrobaltic S.A. The share capital of LOTOS Exploration and Production Norge AS was increased from NOK 190m (the equivalent of PLN 90m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) to NOK 430m (the equivalent of PLN 203m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009). The new shares comprising the increased share capital, whose aggregate par value amounts to NOK 240m (the equivalent of PLN 113m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) are equal and indivisible, and they are treated by Petrobaltic S.A. as a long-term equity investment.

Petrobaltic S.A. covered the 240 million new shares in LOTOS Exploration and Production Norge AS with cash. The purchase price for the shares was equal to their par value, i.e. NOK 240m (the equivalent of PLN 113m, translated at the NOK/PLN mid-exchange rate quoted by the National Bank of Poland for January 20th 2009) and was covered with Petrobaltic's internally-generated funds.

On February 26th 2009, the Norwegian companies registrar Brønnøysundregistrene registered the share capital increase at LOTOS Exploration and Production Norge AS.

### **KRAK-GAZ Sp. z o.o.**

On April 30th 2009, KRAK-GAZ Sp. z o.o. filed a bankruptcy petition with the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery.

On July 1st 2009, a court supervisor was appointed provisionally in order to prepare a report containing findings of his review of the data included in the bankruptcy petition, assessment of the possibility of covering the costs of bankruptcy proceedings with KRAK GAZ Sp. z o.o.'s assets (and thus the possibility of carrying out the proceedings), and of the possibility of entering into an arrangement with the creditors. On July 13th 2009, the provisional court-appointed supervisor submitted a report containing an analysis of the debtor's documentation and condition of its business.

On July 23rd 2009, the District Court for Kraków Śródmieście, VIII Commercial Division for Bankruptcy and Recovery, resolved to announce KRAK-GAZ Sp. z o.o.'s bankruptcy by way of liquidation of the company's assets.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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

On March 13th 2009, the Management Board of Energobaltic Sp. z o.o. filed a declaration of instituting recovery proceedings with the District Court for Gdańsk. On March 30th 2009, following examination of the case of Energobaltic Sp. z o.o.'s declaration, the District Court for Gdańsk, VI Commercial Division, appointed, under Art. 497.1 of the Act on Bankruptcy and Recovery, of February 28th 2003, a court supervisor for Energobaltic Sp. z o.o. recovery proceedings. As part of the proceedings, an Arrangement was entered into by Energobaltic Sp. z o.o. and Bank Ochrony Środowiska S.A., Petrobaltic S.A. and Stablewood Power Ventures (Władysławowo) Ltd. on June 29th 2009.

As at June 30th 2009, the amount of Petrobaltic S.A.'s claims under a loan granted to Energobaltic Sp. z o.o. was USD 7,894 thousand (USD 7,764 thousand as at December 31st 2008), which is equivalent to PLN 25,051 thousand (PLN 22,994 thousand as at December 31st 2008), including accrued interest. An impairment charge was recognised for the full amount receivable under the loan to Energobaltic Sp. z o.o. An impairment charge was also recognised for the value of Energobaltic Sp. z o.o. shares. In addition, as at June 30th 2009 Petrobaltic S.A. recognised a provision of PLN 21,769 thousand in connection with potential liabilities under a shareholders agreement and a necessity to buy out claims under an agreement on a loan granted by Stablewood Power Ventures (Władysławowo) Ltd. to Energobaltic Sp. z o.o., referred to in Note 42 to the consolidated financial statements for 2008 prepared in accordance with the International Financial Reporting Standards.

**Petrobaltic Group**

In the condensed consolidated financial statements and this Directors' Report on the operations of the LOTOS Group, the LOTOS Group included the financial data concerning the Group of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. ("Petrobaltic Group") for a period of six months ended on June 30th 2009, with the assumption that the Petrobaltic Group carries the shares of its associated undertaking, Naftos Gavyba (NG), using the equity method as at December 31st 2008 in the amount of PLN 73,488 thousand.

The basis for the recognition in the consolidated financial statements of NG value corresponding to the number of NG shares held by Petrobaltic S.A. was the consolidated financial statements of the NG Group drawn up in accordance with Lithuanian accounting standards.

As at June 30th 2009, AB Naftos Gavyba was owned by Petrobaltic S.A., holding 42.7% of its share capital, and UAB Meditus, holding 57.3% of its share capital. The Group holds indirectly 29.46% of AB Naftos Gavyba's share capital.

As at June 30th 2009, the Group recognised assets invested in AB Naftos Gavyba, its associated undertaking, in the total amount of PLN 25.3m (PLN 25.3m as at December 31st 2008). The recognised amount is the funds provided to UAB Naftos Gavyba (currently AB Naftos Gavyba) by Petrobaltic S.A. in 2000 to finance the purchase of AB Geonafta shares, subject to a condition precedent (Conditional Agreement on Purchase of Ownership Rights to Shares, dated July 18th 2000; the Agreement). Transfer of the shares was conditional upon AB Naftos Gavyba performing its investment commitments towards AB Geonafta, as specified in the privatisation agreement of AB Geonafta. In 2001–2005, UAB Naftos Gavyba performed all of its investment commitments, which consumed LTL 56m, and acquired 41

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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million AB Geonafta shares. The most recent increase in AB Geonafta's share capital took place on April 25th 2005. Performance of the commitments was financed in full with UAB Naftos Gavyba's own funds sourced from dividends paid out in consecutive years by AB Geonafta. With the condition precedent fulfilled on April 25th 2005, Petrobaltic S.A. could take over the shares in AB Geonafta specified in the Agreement.

On March 24th 2006, an agreement supplementary to the Agreement of July 18th 2000 was signed by Petrobaltic S.A., UAB Meditus and UAB Naftos Gavyba to postpone the deadline for transferring the ownership rights to the shares in AB Geonafta to August 31st 2007. On December 19th 2007, AB Naftos Gavyba and Petrobaltic S.A. concluded another supplementary agreement to the Agreement of July 18th 2000 between Petrobaltic S.A. and UAB Naftos Gavyba, under which the deadline for the transfer of the ownership rights to AB Geonafta shares was postponed until June 30th 2008. Under one more supplementary agreement, which took effect on June 30th 2008, the parties to the Agreement postponed the deadline for the transfer of the ownership rights to AB Geonafta shares until December 31st 2008. On February 11th 2009, another agreement supplementary to the Agreement of July 18th 2000 between Petrobaltic S.A. and AB Naftos Gavyba was signed, whereby the deadline for the transfer of the ownership rights to AB Geonafta shares was postponed until April 15th 2009.

On April 15th 2009, the agreement postponing the deadline for the acquisition of AB Geonafta shares by UAB Meditus and Petrobaltic S.A. expired.

On June 1st 2009, a new Shareholders Agreement was executed between UAB Meditus and Petrobaltic S.A. in connection with the planned merger of AB Naftos Gavyba and AB Geonafta. The Shareholders Agreement provides that the agreement of July 18th 2000 concerning the transfer of AB Geonafta shares to UAB Meditus and Petrobaltic S.A. by AB Naftos Gavyba is to be performed at least three days before the date on which AB Naftos Gavyba and AB Geonafta adopt resolutions on the companies' merger. The agreement of July 18th 2000 was actually performed on July 1st 2009 with the effect that Petrobaltic S.A. acquired directly AB Geonafta shares accounting for 12.20% of AB Geonafta's share capital (shares acquired by UAB Meditus account for 16.37% of the share capital). Changes to AB Geonafta's share capital were registered on July 9th 2009. The resolutions of AB Naftos Gavyba's and AB Geonafta's General Shareholders Meetings approving the merger of the two companies were adopted on July 20th 2009.

The merger of AB Naftos Gavyba and AB Geonafta was registered on August 7th 2009 and on the same date AB Naftos Gavyba was removed from the relevant register. Petrobaltic S.A. and UAB Meditus will hold (subsequent to the merger) shares accounting for 40.59% and 59.41% of AB Geonafta's share capital, respectively.

#### **1.4 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN THE PARENT UNDERTAKING AND OTHER UNDERTAKINGS**

In H1 2009, there were no material changes in the organisational or capital links between Grupa LOTOS S.A. and other undertakings, apart from those described in Section 1.3 and Section 1.5 of this Directors' Report.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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

To the best of the Company's knowledge, the shareholder structure of Grupa LOTOS S.A. as at the publication date of the Q1 2009 report of Grupa LOTOS S.A. (i.e. May 14th 2009) and as at June 30th 2009, was as follows:

Shareholder	Number of shares	Number of votes	Par value of shares held	Percentage of share capital held
Nafta Polska S.A.	59,025,000	59,025,000	59,025,000	51.91%
State Treasury	7,878,030	7,878,030	7,878,030	6.93%
Other	46,796,970	46,796,970	46,796,970	41.16%
<b>Total*</b>	<b>113,700,000</b>	<b>113,700,000</b>	<b>113,700,000</b>	<b>100.00%</b>

According to the information available to Grupa LOTOS S.A., as at the publication date of the Q1 2009 report of Grupa LOTOS S.A. (i.e. May 14th 2009) and as at August 31st 2009, two of its shareholders held each at least 5% of the total vote at Grupa LOTOS S.A.'s General Shareholders Meeting.

On July 17th 2009, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, issued a decision on registration of Grupa LOTOS S.A.'s share capital increase by way of an issue of Series C shares. In connection with Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A., dated June 30th 2009, concerning the Company's share capital increase through an issue of shares to be paid up by contributions in the form of shares in Petrobaltic S.A., LOTOS Jasło S.A. and LOTOS Czechowice S.A. (see: Current Report No. 23/2009 of June 30th 2009 and Current Report No. 27/2009 of July 17th 2009), dilution of the State Treasury's shares and the resulting changes in the Company's shareholder structure are to be expected. Following the registration, i.e. as at July 17th 2009, the share capital amounted to PLN 129,873,362.00 and was divided into 129,873,362 shares.

On July 30th 2009, the Management Board of Grupa LOTOS S.A. received a notification concerning the acquisition by the State Treasury (represented by Minister of the State Treasury) of 16,173,362 new issue Series C ordinary bearer shares in Grupa LOTOS S.A., with a par value of PLN 1.00 per share, representing 12.45% of the increased share capital of Grupa LOTOS S.A. and conferring the right to 16,173,362 votes, which represent 12.45% of the total vote in Grupa LOTOS S.A.

The acquisition of the significant block of shares in Grupa LOTOS S.A. by the State Treasury was effected in connection with Resolution No. 34 of the Annual General Shareholders Meeting of Grupa LOTOS S.A., dated June 30th 2009, concerning an increase in the share capital of Grupa LOTOS S.A. through an issue of shares to be paid up by contributions in the form of shares in Petrobaltic S.A., LOTOS Jasło S.A. and LOTOS Czechowice S.A. (see: Current Report No. 23/2009 of June 30th 2009), and in performance of the agreement of July 9th 2009 between the State Treasury and Grupa LOTOS S.A. providing for the acquisition by the State Treasury of the new issue Series C ordinary bearer shares.

On July 21st 2009, the Ministry of State Treasury was notified of the transmission of a copy of a valid excerpt from the Register of Entrepreneurs, Entry No. KRS 0000106150, in which

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

the Company's share capital increase through the issue of Series C shares was registered on July 17th 2009 by the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register.

In accordance with the received notification, prior to the change, the State Treasury held 7,878,030 shares in Grupa LOTOS S.A., representing in aggregate 6.93% of Grupa LOTOS S.A.'s share capital and conferring the right to 7,878,030 votes, which represented 6.93% of the total vote in Grupa LOTOS S.A. In performance of the agreement on the buy-back of own shares by Nafta Polska S.A. with a view to their retirement, concluded between Nafta Polska S.A. and the State Treasury on July 16th 2009, on July 22nd 2009 Nafta Polska S.A. transferred onto the State Treasury certain shares, including:

- 50,109,000 ordinary registered Series A shares, with a par value of PLN 1.00 per share, representing 44.07% of Grupa LOTOS S.A.'s share capital and conferring the right to 50,109,000 votes, representing 44.07% of the total vote in Grupa LOTOS S.A.;
- 8,916,000 ordinary bearer Series A shares, with a par value of PLN 1.00 per share, representing 7.84% of Grupa LOTOS S.A.'s share capital and conferring the right to 8,916,000 votes, representing 7.84% of the total vote in Grupa LOTOS S.A.,

i.e. a total of 59,025,000 shares, representing in aggregate 51.91% of Grupa LOTOS S.A.'s share capital and conferring the right to 59,025,000 votes, which represent 51.91% of the total vote in Grupa LOTOS S.A. (see: Current Report No. 32/2009 of July 28th 2009).

Following the above transaction, the State Treasury, represented by Minister of the State Treasury, held in total 66,903,030 shares in Grupa LOTOS S.A., representing in aggregate 58.84% of Grupa LOTOS S.A.'s share capital and conferring the right to 66,903,030 votes, which represented 58.84% of the total vote in Grupa LOTOS S.A.

The State Treasury holds 83,076,392 shares in Grupa LOTOS S.A., representing in aggregate 63.97% of the increased share capital of Grupa LOTOS S.A. and conferring the right to 83,076,392 votes, which represent 63.97% of the total vote in Grupa LOTOS S.A.

The State Treasury informed that it was not aware of any of Grupa LOTOS S.A. shares being held by its subsidiaries. Following the registration of the share capital increase through the issue of Series C shares, the share capital of Grupa LOTOS S.A. is divided into 129,873,362 shares.

Based on information derived from the shareholders' notifications received by the Company until the approval date of this Directors' Report, following the share capital increase the shareholder structure of Grupa LOTOS S.A. as at August 31st 2009 was as follows:

Shareholder	Number of shares	Number of votes	Par value of shares held	Percentage of share capital held
State Treasury	83,076,392	83,076,392	83,076,392	63.97%
Other	46,796,970	46,796,970	46,796,970	36.03%
<b>Total</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>100.00%</b>

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**1.6 AGGREGATE NUMBER AND PAR VALUE OF SHARES, OR RIGHTS TO SHARES, IN GRUPA LOTOS S.A. HELD BY THE MANAGEMENT AND SUPERVISORY STAFF**

Based on information derived from the declarations submitted on August 24th 2009 by the supervisory and management staff of Grupa LOTOS S.A., the following persons hold shares in Grupa LOTOS S.A. as at the publication date of this Directors' Report (there have been no changes to the shareholdings since the publication date of the Q1 2009 report, i.e. May 14th 2009):

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

To the best of the Company's knowledge, the other members of the Management Board of Grupa LOTOS S.A. and members of the Supervisory Board of Grupa LOTOS S.A. do not hold any shares or rights to shares in the Company.



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

**2. RULES FOLLOWED IN THE PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE LOTOS GROUP**

**RULES OF PRESENTATION**

The condensed consolidated financial statements of the LOTOS Group for the six months ended June 30th 2009 were prepared in accordance with International Accounting Standard No. 34 *Interim Financial Reporting* ("IAS 34") and in compliance with the EU accounting standards applicable to interim financial reporting, published and binding at the time of preparing the condensed consolidated financial statements of the LOTOS Group.

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

The condensed consolidated financial statements of the LOTOS Group for the six months ended June 30th 2009 should be read in conjunction with the audited consolidated financial statements of the LOTOS Group for 2008, prepared in accordance with the IFRS.

The financial data as at June 30th 2009 and for the six months ended on that date, as well as the comparable financial data for the six months ended June 30th 2008 contained in the condensed financial statements, were reviewed by an auditor. The financial information as at December 31st 2008 was audited by a qualified auditor, who issued an opinion on the financial statements on April 27th 2009.

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

The condensed consolidated financial statements were approved for publication by the Management Board on August 26th 2009.

**ACCOUNTING POLICIES**

The accounting policies and calculation methods adopted by the Company in the preparation of the interim condensed consolidated financial statements were the same as those used in the preparation of the consolidated financial statements for the year ended December 31st 2008 (see Note 10 to the consolidated financial statements for 2008, prepared in accordance with the IFRS).

With the exception of the Parent Undertaking, the foreign undertakings, Petrobaltic S.A., LOTOS Asphalt Sp. z o.o., LOTOS Oil S.A. and LOTOS Paliwa Sp. z o.o., the Group companies maintain their accounting books in accordance with the accounting standards defined in the Polish Accountancy Act of September 29th 1994 (the "Act") and the regulations issued thereunder ("Polish Accounting Standards" – "PAS"). The consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings, and which have been introduced to ensure consistency of the undertakings' financial information with the IFRS.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

The Group has reviewed the new interpretations, standards and amendments to the existing standards. Except for the Revised IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments*, the new interpretations, standards and amendments to existing standards which are in effect and have been adopted by the European Union, have no material impact on the accounting policies applied by the Group.

The following interpretations, standards and amendments to the existing standards have been adopted or are pending adoption by the European Union, and are effective as at January 1st 2009:

- Amendment to IAS 23 *Borrowing Costs* (adopted by the European Union),
- Amendment to IAS 1 *Presentation of Financial Statements* (adopted by the European Union),
- IFRS 8 *Operating Segments* (adopted by the European Union),
- Amendment to IFRS 2 *Share-Based Payments – Vesting Conditions and Cancellations* (adopted by the European Union),
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Instruments and Obligations Arising on Liquidation* (adopted by the European Union),
- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (endorsed by the European Union),
- Amendments to IFRS 1 *First-Time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (endorsed by the European Union),
- IFRIC 13 *Customer Loyalty Programmes* (applies to annual periods beginning on or after July 1st 2008, endorsed by the European Union),
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (applies to annual periods beginning on or after January 1st 2009, endorsed by the European Union),
- IFRIC 15 *Agreements for the Construction of Real Estate* (applies to annual periods beginning on or after January 1st 2009, not yet endorsed by the European Union),
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (applies to annual periods beginning on or after October 1st 2008, endorsed by the European Union),
- Revised IFRS 3 *Business Combinations* (applies to annual periods beginning after July 1st 2009 (with earlier adoption permitted), adopted by the European Union),
- Revised IAS 27 *Consolidated and Separate Financial Statements* (applies to annual periods beginning after July 1st 2009 (with earlier adoption permitted), adopted by the European Union).

### **Application of the Revised IAS 1**

In connection with the application of IAS 1 *Presentation of the Financial Statements* (revised in 2007), in the condensed financial statements the Company used new terminology as prescribed by the standard to name the particular sections of the financial statements. Furthermore, in compliance with the new standard, in the consolidated statement of changes in equity the Group presented only transactions with the owners. Other items were presented in the consolidated statement of comprehensive income.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

### **Application of IFRS 8**

International Financial Reporting Standard 8 *Operating Segments* (IFRS 8) superseded International Accounting Standard 14 *Segment Reporting*. Under International Accounting Standard 14 *Segment Reporting*, the Group did not prepare information on the business segments as it did not meet the criteria of identification of business segments as set forth in the standard.

IFRS 8 requires the disclosure of information on the Group's operating segments based on internal reports that are regularly reviewed by the chief operating decision makers to make decisions about resources to be allocated to each segment and to assess the segments' performance.

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

The Group's operating activity comprises two main reportable operating segments:

- upstream segment – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production,
- downstream segment – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

The segments are identified at the Group level. Grupa LOTOS S.A. is included in the downstream segment. The upstream segment is comprised of the Petrobaltic Group.

Segment performance is assessed on the basis of sales revenue, EBIT (= operating profit/(loss)) and EBITDA (= operating profit/(loss) before depreciation and amortisation).

The segments' sales revenue, EBIT and EBITDA do not account for intersegment adjustments.

Financial information of the operating segments used by the chief operating decision makers to assess their performance is presented in Note 12 to the condensed consolidated financial statements.

The Company chose the option of early application – as of June 30th 2009 – of the revised IFRS 3 *Business Combinations* and the revised IAS 27 *Consolidated and Separate Financial Statements*.

The following interpretations, standards, and amendments to existing standards, have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee but have not been adopted by the European Union:

- Amendments to IAS 39 *Financial Instruments: Exposures Qualifying for Hedge Accounting* (applies to annual periods beginning on or after July 1st 2009, not yet endorsed by the European Union),
- Revised IFRS 1 *First-Time Adoption of IFRSs* (applies to annual periods beginning on or after July 1st 2009, not yet endorsed by the European Union),
- IFRIC 17 *Distributions of Non-Cash Assets to Owners* (applies to annual periods beginning on or after July 1st 2009, not yet endorsed by the European Union),
- IFRIC 18 *Transfers of Assets from Customers* (applies to annual periods beginning on or after July 1st 2009, not yet endorsed by the European Union),

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

- Amendments to IFRIC 9 and IAS 39 *Embedded Derivatives* (applies to annual periods ending after June 30th 2009, not yet endorsed by the European Union),
- Improvements to the International Financial Reporting Standards – a collection of amendments to the IFRS (in most cases, the amendments apply to annual periods beginning on or after January 1st 2010, not yet endorsed by the European Union),
- IFRS for Small and Medium-Sized Entities (applies as of the issue date, i.e. July 9th 2009, not yet endorsed by the European Union),
- Amendments to IFRS 1 *First-Time Adoption of IFRSs* (apply to annual periods beginning on or after January 1st 2010, not yet endorsed by the European Union).

The Management Board does not expect the introduction of the new standards and interpretations specified above to have any material impact on the accounting policies applied by the Group.

### **TRANSLATION OF FINANCIAL HIGHLIGHTS INTO THE EURO**

Items of the statement of financial position as at June 30th 2009 presented in the “Financial Highlights” table were translated using the euro mid-exchange rate published by the National Bank of Poland for that date, i.e. EUR 1 = PLN 4.4696. Items of the statement of comprehensive income and the statement of cash-flows for the first six months of 2009 presented in the “Financial Highlights” table were translated at the exchange rate of EUR 1 = PLN 4.5184 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st–June 30th 2009).

Items of the statement of financial position as at December 31st 2008 presented in the “Financial Highlights” table were translated using the euro mid-exchange rate quoted by the National Bank of Poland for that date, i.e. EUR 1 = PLN 4.1724. Items of the statement of comprehensive income and the statement of cash-flows for the first six months of 2008 presented in the “Financial Highlights” table were translated at the exchange rate of EUR 1 = PLN 3.4776 (the arithmetic mean of the mid-exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st–June 30th 2008).

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**3. EXTERNAL AND INTERNAL FACTORS THAT WILL BEAR ON THE LOTOS GROUP'S PERFORMANCE OVER THE NEXT SIX MONTHS; DESCRIPTION OF KEY THREATS AND RISKS**

**3.1 KEY FINANCIAL AND ECONOMIC DATA CONTAINED IN THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

In H1 2009, sales revenue of the LOTOS Group was PLN 6,164.5m, i.e. less by PLN 1,614.9m than in H1 2008, mainly due to falling prices of crude oil and petroleum products on the global markets as compared with the prices in H1 2008 and a decline in sales volumes which was due to an overhaul shutdown at the Gdańsk refinery of Grupa LOTOS S.A. between the end of Q1 and beginning of Q2 2009. In H1 2009, the average price of Brent crude (Dated Brent) was USD 51.7 per barrel, which represented a year-on-year drop of 52.6%. The average net selling price dropped by 19.3%, from PLN 2,218 per tonne in H1 2008 to PLN 1,789 per tonne in 2009.

The H1 2009, sales volume of the LOTOS Group was 3,445.7 thousand tonnes, which represented a year-on-year decrease of 61.6 thousand tonnes (or 1.8%). The analysed period saw declines in the sales volumes of the following products: heavy fuel oils (by -170.3 thousand tonnes), reformat (by -66.5 thousand tonnes), JET A-1 fuel (by -56.2 thousand tonnes), bitumens (by -52.7 thousand tonnes), gasolines (by -48.1 thousand tonnes), bunker fuel (by -43.6 thousand tonnes), and lubricants, base oils and liquefied gases (in total, down by -18.6 thousand tonnes). At the same time, sales volumes of diesel oils and light fuel oils rose by +384.7 thousand tonnes and +9.6 thousand tonnes, respectively.

Year on year, in H1 2009 consolidated cost of sales went down by PLN 1,253.3m (or 18.5%) and amounted to PLN 5,511.5m. In the reporting period, unit cost of sales of the LOTOS Group was PLN 1,600 per tonne, i.e. 17.1% less than in H1 2008. In H1 2009, the average gross margin per tonne of products sold was PLN 190 and fell by 34.5% relative to H1 2008.

In H1 2009, the LOTOS Group generated gross profit of PLN 653.0m, lower by 35.6% compared with the corresponding period of 2008. The decrease was driven mainly by a considerable fall of crack margins on intermediate fractions of oil. In H1 2009, the average crack margin on Diesel 10 ppm, Gasoil 0.1 and JET fuel decreased year on year to USD 88.3 per tonne (down by 60.8%), USD 66.6 per tonne (down by 65.7%) and USD 105.1 per tonne (down by 62.1%), respectively. In H1 2009, the average refining margin was USD 3.97 per barrel, and was lower by 35.7% relative to H1 2008. The decrease in gross profit can be additionally attributed to the 33-day overhaul shutdown at the Gdańsk refinery of Grupa LOTOS S.A. in March–April. The PLN 79.5m cost of the overhaul shutdown was charged against profit or loss. The significantly lower oil prices in H1 2009 as compared with H1 2008 were accompanied by a decline in the Brent/Ural differential – from PLN 3.54 per barrel in 2008 to USD 0.74 per barrel in H1 2009, which also contributed to the decline in gross profit. The depreciation of the złoty in H1 2009 from USD 1/PLN 2.96 as at December 31st 2008 to USD 1/PLN 3.17 as at June 30th 2009 (down by 7.1%) resulted in foreign exchange losses in H1 2009 related to operating activities in the amount of PLN 105.0m. In H1 2008 the LOTOS Group reported foreign exchange losses of -PLN 4.7m due to a change in the USD exchange rate.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

In H1 2009, the average USD exchange rate was 47.2% higher than in H1 2008 (by 1.08 PLN/USD). Since Grupa LOTOS S.A. has a long USD position related to its operations, the depreciation of the zloty against the US dollar was a positive contributor to the Group's gross profit in H1 2009.

The selling costs incurred by the LOTOS Group in H1 2009 amounted to PLN 328.1m, and were down by 5.4% year on year, principally due to the lower volume of sales of Grupa LOTOS S.A.'s products and the implementation of the Package of Anti-Crisis Measures for the LOTOS Group. General and administrative expenses reached PLN 162.0m, i.e. 0.5% less than in the corresponding period of 2008, chiefly as a result of the implementation of the Package of Anti-Crisis Measures as well as scaling up of the Group's operations, mainly in the production area.

Despite the unfavourable macroeconomic developments related to the low refining margin and Brent/Ural differential, as well as the overhaul shutdown, in January–June 2009 the LOTOS Group reported an operating profit of PLN 153.1m, i.e. 68.1% lower relative to the figure recorded in H1 2008. In the reporting period, the LOTOS Group recorded an improvement of sales results, having increased its share of the Polish fuel market from 23.6% in 2008 to 27.5% in 2009, without any significant changes in the level of demand. The improved sales performance was driven mainly by the development of wholesale and retail trade, as well as the development of the bitumen and jet fuel markets.

In H1 2009, the Group reported a loss of -PLN 28.6m on financing activities, as compared with a profit of PLN 392.5m in H1 2008. Foreign exchange losses on revaluation of loans – denominated mainly in USD – for first six months of 2009 amounted to -PLN 116.5m, while in the corresponding period of 2008 the Group posted foreign exchange gains on revaluation of loans amounting to PLN 99.6m. In H1 2009, the result of valuation and settlement of market risk hedging transactions amounted to -PLN 2.1m, as compared with a gain on hedging transactions of PLN 175.0m recorded in H1 2008.

The positive balance resulting from the settlement of derivatives was charged to finance income for the first six months of 2009 and amounted to PLN 26.7m (PLN 253.5m for H1 2008), including: settlement of transactions hedging the refining margin (full barrel swaps) of PLN 61.0m and settlement of IRS transactions executed to hedge the interest rates risk of PLN 3.7m. The negative balance resulting from the settlement of forward transactions hedging the foreign exchange risk of -PLN 30.4m, the settlement of futures executed to hedge the prices of CO<sub>2</sub> emission rights of -PLN 2.2m and the settlement of the other transactions (FRAs and options) of -PLN 5.4m was charged to finance income, reducing the effect of the positive balance resulting from the settlement of full barrel swap and IRS transactions.

As at the end of June 2009, the effect of the valuation of open forward and futures positions was charged to finance expenses and totalled PLN 28.8m (PLN 78.5m in H1 2008), including transactions hedging the refining margin (full barrel swaps) of PLN 28.3m, forward transactions hedging foreign exchange risk of PLN 26.1m and futures executed to hedge the prices of CO<sub>2</sub> emission rights of PLN 3.2m. The Group recorded a positive valuation of swap and FRA transactions executed to hedge interest rate risk amounting to PLN 27.8m and PLN 1.0m, respectively.

The tables below present detailed information on open hedging transactions.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

Table 1. Refining margin hedging transactions (full barrel swaps) as at June 30th 2009

Period		Q3 2009
Volume (bbl)		3,000,999
Product/Raw material	Index	Weighted average barrel structure
Gasoline	Gasoline 95r 10ppm NWE barge (Argus)	25.67%
Jet fuel	Jet Cargoes CIF NWE / ARA (Platts)	10.95%
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	43.56%
Light fuel oil	Gasoil 0.1 Cargoes CIF NWE / ARA (Platts)	1.22%
Heavy fuel oil	1 PCT Cargoes FOB NEW (Platts)	0.08%
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	18.52%
Crude oil	Brent (Dtd) (Platts)	-100%
<b>Margin ranges in transactions (USD/bbl)</b>		12.4-14.3

Table 2. Foreign exchange risk hedging transactions as at June 30th 2009

Currency pair	Instrument	Volume	Currency	FX rate range
EUR/USD	Forward	245,900,000	EUR	1.2493 – 1.4222
EUR/PLN	Forward	-22,450,000	EUR	4.4283 – 4.7046
USD/PLN	Forward	-62,740,100	USD	3.1015 – 3.6860

Table 3. Interest rate risk hedging transactions as at June 30th 2009

Instrument	Start date	Expiry date	Nominal value	Currency	Interest rate range	Reference rate
FRA	Jul 15 2009	Jan 15 2010	200,000,000	USD	1.315% - 1.315%	6M LIBOR
IRS	from Oct 15 2008	from Jun 30 2011	1,280,000,000	USD	3.33% - 4.33%	6M LIBOR
	to Jul 15 2011	to Jan 15 2018				

In H1 2009, pre-tax profit was PLN 124.5 m, having declined by 85.7% year on year. Net profit from continuing operations generated by the LOTOS Group in H1 2009 amounted to PLN 89.0m, including profit attributable to owners of the parent of PLN 80.4m.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at June 30th 2009, the LOTOS Group's total assets stood at PLN 14,375.2m, which means a PLN 2,173.2m increase in H1 2009. The increase was due, among other things, to a growth in the value of non-current assets by PLN 1,714.9m and in current assets – by PLN 462.6m. In H1 2009, property, plant and equipment increased by PLN 2,528.8m, non-current financial assets – by PLN 38.8m (due to recognition of a non-current portion of positive valuation of financial instruments), intangible assets – by PLN 24.3m, deferred tax assets – by PLN 12.5m and other assets – by PLN 9.4m. Over the same period, prepayments for tangible assets under construction decreased by PLN 898.6m. The changes were attributable to the implementation of the 10+ Programme at the Parent Undertaking, expenditure on the development of the Yme field in the North Sea and expenditure on work carried out as part of the exploration phase under the PL 455 licence. In the discussed period, inventories also increased by PLN 471.6m, reflecting higher prices of crude oil and petroleum products as at the end of H1 2009 when compared with the prices as at the end of 2008, as well as the 140 thousand tonnes increase in mandatory stocks that the Company is required to maintain under relevant statutory provisions. Following the significant rise in product prices in H1 2009, trade and other receivables increased by PLN 280.0m. Over the same period, income tax receivable decreased by PLN 157.4m, mainly at the Parent Undertaking. The PLN 80.9m decrease in cash and cash equivalents was principally attributable to the expenditure on the development of the fields. As at the end of June 2009, current financial assets amounted to PLN 266.8m, of which PLN 240.4m related to hedging transactions.

The share of non-current assets in total assets increased from 58.1% in 2008 to 61.3% as at the end of the discussed period.

As at June 30th 2009, equity stood at PLN 5,913.2m and was by PLN 113.2m higher than as at December 31st 2008. This higher value was the effect of a PLN 80.4m increase in retained earnings, a PLN 24.3m increase in translation of foreign operations and a PLN 8.5m increase in minority interests.

In H1 2009, non-current liabilities increased by PLN 1,404.6m, mainly owing to a PLN 1,302.4m increase in non-current loans and borrowings, primarily in connection with the implementation of the 10+ Programme, and a PLN 92.3m rise in other financial liabilities (which resulted chiefly from recognition of a non-current portion of negative valuation of financial instruments). As at the end of June 2009, non-current liabilities totalled PLN 5,105.1m, including interest-bearing loans and borrowings of PLN 4,714.6m.

As at the end of June 2009, current liabilities totalled PLN 3,356.9m and were by PLN 655.5m (or 24.3%) higher than at the end of 2008, mainly due to a PLN 622.1m increase in trade and other payables and accruals and deferred income connected with higher prices of raw materials, and as a result of a PLN 111.3m increase in current loans and borrowings, mainly at the Parent Undertaking and at the Petrobaltic Group. As at June 30th 2009, LOTOS Group's current interest-bearing loans and borrowings stood at PLN 618.7m. As at June 30th 2009, other current financial liabilities amounted to PLN 134.2m, of which PLN 130.4m related to negative valuation of financial instruments.

The share of equity in total equity and liabilities decreased from 47.5% as at the end of 2008 to 41.1% as at the end of H1 2009. The shares of non-current and current liabilities increased by 5.2 and 1.2 percentage points, respectively.



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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## **CONSOLIDATED STATEMENT OF CASH FLOWS**

As at the end of June 2009, the cash balance recorded by the LOTOS Group was PLN 216.1m, having decreased by PLN 104.6m relative to the end of June 2008.

In H1 2009, net cash from operating activities was PLN 506.6m, and was up by PLN 507.4m on the slightly negative value recorded in H1 2008. The cash from operating activities increased in H1 2009 mainly as a result of: an increase in current liabilities (by PLN 865.5m), amortisation and depreciation (PLN 147.5m), generated net profit (PLN 89.0m), an adjustment to loss on investing activity (PLN 33.3m), and an adjustment related to foreign exchange losses (PLN 22.8m). The key factors which eroded operating cash flows in H1 2009 included: an increase in inventories (by PLN 343.4m), an increase in receivables (by PLN 282.6m), adjustments resulting from settlement of financial instruments (PLN 14.6m) and an increase in prepayments and accrued income (PLN 13.5m).

In H1 2009, net cash from investing activities amounted to PLN 1,969.9m and was by PLN 1,177.4m lower than in H1 2008. The negative cash flows in H1 2009 were mainly related to expenditure incurred on the purchase of property, plant and equipment and intangible assets and prepayments for tangible assets under construction in the total amount of PLN 1,977.6m.

In H1 2009, LOTOS Group disclosed cash flows from financing activities of PLN 1,302.0m, which was higher by PLN 660.4m relative to H1 2008. The increase was mainly attributable to cash inflows in H1 2009 under the contracted loans and borrowings, which were by PLN 1,020.6m higher than in H1 2008. In H1 2009, cash inflows under contracted loans and borrowings (of PLN 1,430.5m), increased by adjustments related to settlement of financial instruments (of PLN 14.6m), were reduced mainly by repayments of loans and borrowings (PLN 94.1m) and interest paid (PLN 48.5m).

### **3.2 KEY RISKS AND THREATS**

Similarly to other oil sector operators, the LOTOS Group is significantly exposed to external risks following from the overall macroeconomic climate in Poland and worldwide. These are chiefly risks related to fluctuations in interest and exchange rates, volatility of commodity prices and refining margins, the risk related to prices of CO<sub>2</sub> emission allowances, as well as risks related to availability of raw materials and financing sources.

Another risk factor with a substantial bearing on the Company's operations is associated with the legal environment, especially with changes in and interpretations of the tax laws, as well as changes in governmental policies and the consequent alteration of strategic goals. Further risks material in the context of the Company's business are the liquidity risk and credit risk related to financial and commercial transactions.

The Group's operations involve also:

- the environmental risk – risk of insufficient number of CO<sub>2</sub> emission allowances, risk of a serious industrial failure leading to excessive emissions into the atmosphere, water and/or soil, as well as the risk of failure to meet the requirements of domestic and EU environmental laws,
- process and technology risk – especially hazards related to the processed substances, technological processes employed, apparatuses and equipment used, as

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

- well as operating conditions related e.g. to high pressure and temperature parameters,
- health risks, e.g. employee exposure to hazards and nuisances related to their work and proximity of technological processes, potentially leading to accidents at work or occupational diseases.

At the time of the global financial turmoil, high volatility of the prices of commodities and petroleum products, and high volatility of currency exchange rates, factors of crucial importance for the Group's development will include the timely completion of the 10+ Programme, gaining access to own crude oil reserves, strengthening of the market position, and enhancing sales efficiency.

Below are described key risks in particular business segments.

### **Risks Related to the Execution of the 10+ Programme**

The execution of the 10+ Programme carries a number of risks typical of large investment projects. Apart from the usual risks related to costs and deadlines, as well as to ensuring the appropriate quality and meeting the security requirements, 2009 may also bring other risk factors following from the global financial and economic crisis.

### **Risks Related to the Upstream Business**

One of the key goals of the LOTOS Group is gradual development of oil production. The revised strategy of Grupa LOTOS S.A. for 2008–2012, published on June 16th 2008 in Current Report No. 28/2008, assumes a material increase of capital expenditure on the upstream segment.

The upstream operations are planned to be developed gradually, as the Company acquires further interests (initially chiefly minority interests) in exploration and production licences. The goal behind this approach is to gain experience through cooperation with the licence operators. Given the global economic slowdown, the production plans may have to be revised due to the need to reschedule the spending of funds on some production projects.

### **Risks Related to the Supply of Raw Materials**

The LOTOS Group continues efforts related to the strategy of oil supply diversification, focusing on two key aspects of this strategic goal:

- security of crude oil supplies,
- higher competitiveness.

### **Marketing Risks**

Given that the macroeconomic conditions in which the LOTOS Group operates strongly affect its sales, the Group is exposed to the adverse effect of market factors, especially in the context of the current economic downturn. Demand for the products of the LOTOS Group will depend on the scale and duration of the crisis.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

### **Risks Related to the Financing of Operations**

In mid-2008, Grupa LOTOS S.A. signed credit facility agreements for the financing of the 10+ Programme. The facility contracted to finance the 10+ Programme is a long-term loan, advanced by more than a dozen high-profile financial institutions.

Potential risks related to the financing activity are as follows:

- risk of limited access to financing for both investment projects and working capital,
- risk related to Grupa LOTOS S.A.'s ability to finance 40% of the 10+ Programme using its own funds, generated from current operating cash flows, which is one of the conditions attached to the credit facility for the 10+ Programme,
- risk of higher borrowing costs or deterioration of the terms of financing.

### **Risks Related to Changes in Tax Laws and Their Interpretation**

The legal environment in which the LOTOS Group operates is characterised by frequent changes in tax legislation. Newly introduced regulations and changes in the application of the existing laws influence the operations of the LOTOS Group and the type of activities it undertakes, and determine the amount of its tax liabilities. In view of the numerous legislative changes the Company has implemented internal procedures designed to ensure legal compliance as well as to identify and mitigate tax risk and its effect on the financial statements of the LOTOS Group. Legislative changes are monitored on an ongoing basis, thus enabling the Company to appropriately adapt its internal tax accounting systems.

### **Legal Risks of Strategic Nature**

In preparing its strategic analyses the LOTOS Group cooperates with governmental bodies responsible for developing and implementing the government's strategy for the oil sector. Relevant Ministries are kept informed of the progress in implementing the particular objectives of the governmental strategy as well as of the proposed development directions for the Polish oil sector. The Company also monitors the Polish and EU legislation pertaining to the oil sector and obtains opinions on laws to be enacted or already in force, especially with respect to regulations on mandatory stocks of crude oil and fuels as well as bio-components and biofuels.

### **Risk of Stricter Quality Requirements for Oil Products**

The LOTOS Group keeps close eye on the proposed new standards and regulations relevant for its production and sales. The source of information on future changes in quality requirements is Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids. Thanks to its active participation in the work of the subcommittees of Technical Committee 222, Grupa LOTOS S.A. is able to issue opinions on the proposed European standards while they are still at the stage of their development. The Company is also able to influence the required quality levels, especially with regard to motor fuels, through its participation in the Polish Organisation of Oil Industry and Trade. Participation in the work of the above organisations substantially reduces the risks of delayed compliance with future quality standards for oil products. 2009 is not expected to bring any changes in the standards or laws that would make the existing requirements for petroleum products, especially motor fuels, more stringent.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

**Environmental Risks, Process and Technology Risks, Health Risks**

To reduce the risk of adverse events, such as occupational diseases and health hazards related to the job tasks of the LOTOS Group's employees, the focus is on preventive measures and efforts.

In line with applicable laws and internal regulations, the Company identifies potential workplace hazards and assesses occupational risks related to such factors as noise, vibrations, chemical and biological substances, explosive atmospheres, plant and equipment, and nuisance to employees working with visual display units.

**Risk of Insufficient Number of CO<sub>2</sub> Emission Allowances for the Existing Units and Risk of Failure to Obtain a Sufficient Number of Allowances for New Units or Units which Have Been Substantially Modified (Resulting in Higher CO<sub>2</sub> Emissions)**

On July 1st 2008, the Polish Council of Ministers' Regulation on the National Allocation Plan of Carbon Emission Allowances for 2008–2012, issued under the EU emission trading scheme to existing installations and installations undergoing modification (Dz.U. No. 202, item 1248), was published and the allocation was made. In accordance with the current legislation, allowances for Phase II (the years 2008–2012) were given free of charge for all the installations covered by the emission trading scheme. In line with the allocation and based on: a) formal settlement of the first year of the National Allocation Plan of Carbon Emission Allowances II (2008) and b) emission forecasts until 2012, the Company does not anticipate any shortage of emission allowances for the existing units.

The need for additional allowances will arise in the second half of 2009. Grupa LOTOS S.A. is very likely to obtain additional allowances in connection with the execution of the 10+ Programme. However, some uncertainty follows from the absence of set rules for acquiring such allowances.

Grupa LOTOS S.A. manages its key risks, focusing particularly on the financial and market risks.

Financial and market risks are managed by the Financial Risk Management Committee, which is responsible for the supervision and coordination of the financial risk management process at Grupa LOTOS S.A. The efforts in this area are designed to maximise the result on market risk management at the assumed risk level, stabilise the cash flows, ensure short-term financial liquidity, and support the activities related to the arrangement of financing for investment activities.

Management of the following risks is particularly important for the operations of Grupa LOTOS S.A.:

- risk related to the prices of raw materials and petroleum products
- risk related to the prices of carbon allowances (CO<sub>2</sub>)
- currency risk
- interest rate risk
- liquidity risk
- counterparty credit risk in financial transactions
- counterparty credit risk in non-financial transactions

For all of the above risks Grupa LOTOS S.A. has put in place appropriate management procedures. The factor which determines the risk management process until 2010 is the

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

liquidity of the LOTOS Group, related especially to the implementation of the 10+ Programme.

Grupa LOTOS S.A. continues to implement the Integrated Enterprise Risk Management programme.

### **3.3 DEVELOPMENT PROSPECTS FOR THE LOTOS GROUP**

#### **EXTERNAL FACTORS**

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**The key external factors material for the development include:**

- **Quotation prices of crude oil and petroleum products** – changes of market prices of crude oil and petroleum products have a material impact on the Company's and its Group's financial performance.
- **PLN/USD exchange rate** – the performance of the Company and its Group is also, to a large/considerable extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of the raw materials and of some products are quoted in the American dollar.
- **Petroleum products demand and supply levels** – the demand for Diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and its Group.

#### **INTERNAL FACTORS**

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**The key internal factors material for the development are as follows:**

- **Implementation of the 10+ Programme** – a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. and the LOTOS Group in the longer run will be the timely implementation of the 10+ Programme. The construction and start-up of the installations provided for in the Programme will allow the Gdańsk refinery to increase its processing capacity (to 10.5 million tonnes *per annum*) and the oil conversion ratio, which will have a positive effect on the product slate.
- **Further expansion of the fuel retail sales network** – the implementation of the programme providing for the expansion of the service station network will be the key factor in strengthening the Company's position on the fuel retail market. In particular, restructuring activities aimed at improving the efficiency of service stations will play a crucial role.
- **Development of the upstream business** – the planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials, further improve its financial performance and enhance the Company's value.

The execution of the investment programmes and plans set out in the updated strategy for 2006–2012 will enhance the domestic market position of the Company and the LOTOS Group and should consequently improve its financial performance and share price.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

The key objective of Grupa LOTOS S.A.'s development policy is to retain its competitive position among the oil companies operating in the Baltic Sea basin and Central and Eastern Europe. Grupa LOTOS S.A. intends to pursue this goal through various operational and market activities.

The operational activities include the implementation of the 10+ Programme. Its completion will enable the Company to enhance the economies of scale in refining volumes and depth of conversion, which in turn should lead to an improvement of the general economic efficiency of oil processing at Grupa LOTOS S.A.'s refinery in Gdańsk.

Another important direction in the development of the Group's operating activities will be to expand its upstream business, which will enable the Group to reduce its exposure to fluctuations in crude oil prices.

As far as market activities are concerned, Grupa LOTOS S.A. intends to pursue the goal of maintaining its competitive position in the region by increasing its market shares and then keeping them at a stable level, by expanding its the CODO and DOFO service station network, and by drawing on the competitive advantage resulting from the seaside location of the Gdańsk refinery.

The policy of Grupa LOTOS also envisages development of LOTOS Jasło S.A. and LOTOS Czechowice S.A. by their expansion into new areas, i.e. logistics and distribution, biofuel production and recycling of plastics.

In line with that policy, the expansion in the abovementioned areas will be pursued with due regard to environment protection, so as to mitigate its impact on the environment.

### **3.4 PACKAGE OF ANTI-CRISIS MEASURES FOR THE LOTOS GROUP**

In view of the macroeconomic instability resulting from the current economic crisis and given the Company's ongoing investment programmes, the Management Board of Grupa LOTOS S.A. has prepared and adopted the Package of Anti-Crisis Measures for the LOTOS Group. The primary objectives of the measures are to ensure the implementation of those investment programmes which are key to Grupa LOTOS S.A. and its future shareholder value, and to guarantee the Company's liquidity in 2009.

The key elements of the Package are cost savings of approximately PLN 170m in 2009 and suspension or abandonment of approx. PLN 220m of the investment expenditure planned for 2009, which in effect should improve the LOTOS Group's cash flows by about PLN 390m.

Given the uncertain market situation and limited possibilities to raise financing, the Management Board of Grupa LOTOS S.A. decided to suspend the implementation of the investment projects provided for in the Company's strategy for 2006–2012, with the capex totalling approximately PLN 2.1bn. The limitations will not affect the key ongoing investment projects under the 10+ Programme, the development of the YME field on the Norwegian Continental Shelf, or the expenditure on the development of the B8 and B23 fields on the Baltic Sea, planned as part of the development programme for Petrobaltic S.A.

The limitations mean an over 25% reduction of the LOTOS Group's total capex planned for 2009–2012, and a nearly 40% capex reduction if the Company's investment commitments

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

connected with the 10+ Programme and the development of the YME field are taken into account. This objective will be achieved by postponing the implementation of certain projects.

The Company's Management Board is closely monitoring the market situation and in the event of any significant changes will revise the plans described above.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**4. SIGNIFICANT EVENTS AND AGREEMENTS RELEVANT FOR ASSESSING THE FINANCIAL PERFORMANCE, FINANCIAL STANDING, ASSETS AND HUMAN RESOURCES OF GRUPA LOTOS S.A. AND THE LOTOS GROUP, AS WELL AS ANY CHANGES THEREIN, AND INFORMATION RELEVANT FOR ASSESSING THE ABILITY OF GRUPA LOTOS S.A. AND THE LOTOS GROUP TO MEET THEIR OBLIGATIONS**

**4.1 EVENTS SIGNIFICANT FOR THE OPERATIONS OF THE LOTOS GROUP**

**UPSTREAM SEGMENT**

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**Petrobaltic S.A.**

With respect to the upstream operations carried out by Petrobaltic, in H1 2009 Petrobaltic continued to produce oil and gas from the B3 and B8 deposits. The total volume of crude oil production was 71.1 thousand tonnes and was lower by 67.7 thousand tonnes (down by 49%) year on year, which was primarily caused by certain operational failures which occurred in Q1 2009, and especially by the prolonged repair of the PG-1 rig hindered by adverse weather conditions (weather being a factor on which the diving work depends). In the reporting period, the volume of natural gas production was 7,966 thousand cubic meters, having also decreased relative to the same period of 2008 by 7,747 thousand cubic meters (down by 49%). In H1 2009, 96.39 thousand tonnes of crude oil produced by Petrobaltic S.A. was sold to Grupa LOTOS S.A., while 5,379 thousand cubic meters of waste gas was sold to Energobaltic Sp. z o.o.

In H1 2009, the key projects carried out by Petrobaltic S.A. included:

- production from the B8 deposit using the Petrobaltic rig until January 14th 2009,
- production from the B3 deposit, including water pumping to the deposit of the Offshore Oil Rig located at the Baltic Beta rig,
- completion of maintenance and repair work on the PG-1 rig; launch of production from B3-8, B3-13B and B3-14A,
- re-entry work on the B 3-9 and B 3-10 wells,
- 2D seismic surveys over the B22 and B101 prospects,
- 3D seismic surveys over the B28 and B23 prospects,
- geotechnical surveys of the sea bed performed to assess the possibility of rig anchoring,
- boring of the B22-1 exploration well through the Petrobaltic rig,
- replacement of the mooring and transfer buoy at the B3 deposit.

**LOTOS Exploration & Production Norge AS**

LOTOS Exploration & Production Norge AS (LOTOS E&P Norge) was recapitalised by way of an issue of new shares to provide for further development of its business and to cover the purchase of a 10% interest in the YME field, which took place in Q4 2008. Following the transaction, the company came to hold a 20% interest in the YME field.

On January 23rd 2009, following the round APA 2008, LOTOS Exploration and Production Norge AS was granted interests in the following exploration licences in the southern area of the North Sea and in the Norwegian Sea:



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

PL 497: LOTOS E&P Norge – 10% interest (other partners: Det Norske Oljeselskap ASA (the operator) – 35% interest, Bridge Energy AS – 30% interest, Dana Petroleum Norway – 25% interest).

PL 498: LOTOS E&P Norge (the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).

PL 503: LOTOS E&P Norge (the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).

PL 515: LOTOS E&P Norge – 20% interest (other partners: Rocksource ASA (the operator) – 60% interest, Skagen 44 AS – 20% interest).

LOTOS E&P Norge started the first activities under the licences, especially those under which it acts as the operator (PL 498 and PL 503).

In Q2 2009, LOTOS E&P Norge conducted exploration activities, both as the operator (licences PL498 and PL503), where such activities included an analysis of seismic data in order to mitigate the exploration risk, and as an interest holder (licences PL316DS, PL316CS, PL455, PL497 and PL515). Rules of cooperation between the partners under each of the licences were established.

The company also participated in the implementation of the YME Production Project, which included mainly drilling of production wells and work on the construction of a production rig.

While the drilling work has been conducted according to schedule, according to the information furnished by the operator of the YME field (Talisman), due to the delays in the construction of the production rig, the launch of the production from the YME field, originally scheduled for Q4 2009, is currently expected to start in late Q1 or early Q2 2010.

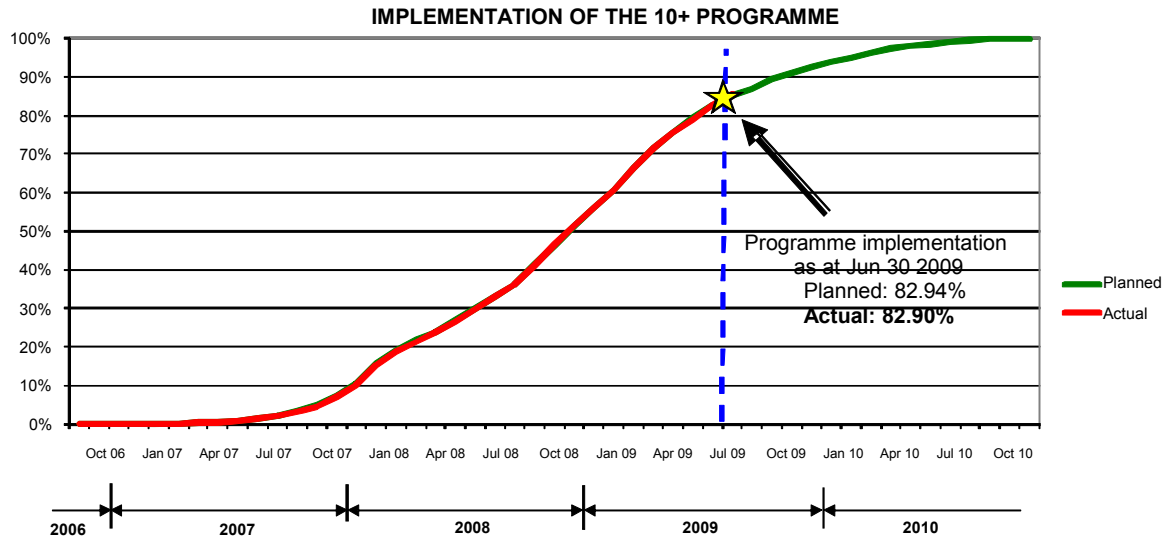
## **10+ PROGRAMME**

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In the six months ended June 30th 2009, the implementation of the 10+ Programme, the largest project of Grupa LOTOS S.A. of key importance for future growth of the Company's value, was focused on performing the concluded execution contracts.

The current progress of work under the 10+ Programme is presented in the chart below.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**



Source: Grupa LOTOS S.A.

### **ROSE Unit**

In the six months ended June 30th 2009, the work on the technical design of the ROSE unit was continued, in cooperation with the contractor, Technip Italy. In February 2009, the building permit for the unit was obtained; in May 2009, the construction design for ROSE heating oil storage tank was delivered; in June 2009 piling work was completed and the construction site was officially handed over to the first contractor. First sea shipments of ROSEMAX components were dispatched to Gdańsk (ROSEMAX is an integral part of the unit license design and comprises structural fillers for two key apparatuses of the unit, i.e. the separators and the systems of feedstock distribution for both separators).

### **HDS Unit**

As part of the HDS unit project (diesel hydrodesulphurisation), in the six months ended June 30th 2009, the assembly of pipelines and apparatuses was completed and power receivers, as well as control and instrumentation terminals, were connected. Work also continued on the fitting of thermal insulation on pipelines. Hydraulic tests of pipelines were carried out and the assembly of plates in the R1 reactor was completed. The unit start-up was completed in line with the agreed start-up timetable. Reactor system tightness testing was commenced and work related to catalyst charging was underway.

The hydrodesulphurisation unit (HDS) for diesel oil was assigned the RFSU (Ready For Start Up) status on June 26th 2009. Consequently, responsibility for the unit was transferred to the Production Division of Grupa LOTOS S.A. Next, the production process at the HDS unit was launched and the first products have already been obtained.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

***CDU/VDU Unit***

As part of the CDU/VDU project (crude distillation unit), in the six months ended June 30th 2009 the main part of construction work was completed. Supplies of apparatuses and equipment were delivered and the furnace assembly was continued. The assembly of steelwork structures was continued along with pipeline prefabrication and assembly. Work on apparatus insulation and fire protection layers continued. The final-stage design work for specific works was continued. The apparatus start-up and registration documentation was prepared.

***MHC Unit***

As part of the MHC (mild hydrocracking unit) project, in the six months ended June 30th 2009 the design work was being finalised for specific works and the design of the tester system in the reactor system was continued. Pipeline materials, steelwork elements and unit equipment were supplied. Foundation laying and the work on the underground pipeline reached the final stage. Work was also underway on the construction of cable conduits, slop channels and the underground system. Electrical works were also carried out. The assembly of internal trestles and prefabrication of pipelines continued. On June 11th and 12th 2009, the 930R1A and 930R1B reactors (with total weight of approx. 1560 tonnes) were set on the foundations.

***HGU Unit***

As part of the HGU (hydrogen generating unit) project, the design work was being finalised and start-up and commissioning documentation was being prepared. Apparatus and steelwork fire protection layers were applied and painted. Fans assembly, cabling and instrumentation terminals were completed. Apparatus insulation was completed and work on pipeline insulation was continued. The assembly of pipeline electric heating as well as control and instrumentation terminals was continued. Start-up of the first systems (drinking water and service water) was commenced.

***ASR***

ARU (Amine Regeneration) and SWS (Sour Water Stripper) units were assigned the RFSU (Ready For Start Up) status on June 26th 2009. The units were prepared for start-up. As part of the sulphur recovery SRU/TGTU projects, Technip KTI completed the assembly of instrumentation terminals, pipeline electric heating, unit lighting and insulation. At the same time the start-up work was continued and the first auxiliary utilities were fed to the units. Work on pipeline insulation was continued. As part of the LPG AWU (amine washing) project, construction work and the assembly of steelwork fire protection system reached the final stage, and pipeline assembly was completed.

***Utilities and Off-Sites***

Work on construction of inter-unit connections and utilities, storage tanks and auxiliary facilities was continued.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

During the spring 2009 overhaul shutdown (March 14th–April 9th 2009) all tasks planned within the 10+ Programme were executed. As a result, new process units under construction can be integrated with the existing system of the refinery without further disruption of the production process.

### **Financing of the 10+ Programme**

In the six months ended June 30th 2009, another several drawdowns under the credit facilities used to finance the 10+ Programme were made and their dates and amounts were set taking into account Grupa LOTOS S.A.'s payment position and the level of expenditure connected with the implementation of the 10+ Programme.

The drawdowns were disbursed by the banks in accordance with the relevant requests filed by Grupa LOTOS S.A. and based on the information on the current financial standing of Grupa LOTOS S.A. As at June 30th 2009, approx. 66.4% of the total value of the facilities available to finance the 10+ Programme had been used.

In addition to the debt financing, Grupa LOTOS S.A. also used internally generated funds to finance the 10+ Programme, in proportions provided for in the loan agreement.

In March 2009, as part of the performance of offset obligations under the agreement for delivery of multirole F-16 aircraft concluded with the government of Poland, Lockheed Martin Corporation made a payment of another licence fee instalment to the licensor of the ROSE technology (used in one of the production units covered by the 10+ Programme).

### **THE SERVICE STATION EXPANSION PROGRAMME (*PROSTA PROGRAMME*)**

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During the six months ended June 30th 2009, the Group was developing its retail service station network through its subsidiary LOTOS Paliwa Sp. z o.o., focusing on continued expansion of the COCO and CODO station network and development of the DOFO station network:

- COCO/CODO service stations in Rawicz and Nowa Sól were placed in service in January 2009.
- COCO/CODO service station in Kołbaskowo was placed in service in April 2009.
- Nine new stations – in Bielsk Podlaski, Czaplonek, Środa Śląska, Żyrzyn, Rumia, Tuchów, Radzymin, Chęciny and Przysucha – joined the LOTOS Family Commercial Partnership Programme; at the same time the DOFO service station in Lisia Góra was excluded from the Programme.
- The second edition of the Navigator Loyalty Programme was launched on March 1st 2009.

As at June 30th 2009, PREMIUM fuels were offered at 138 COCO/CODO stations and 64 DOFO stations.

As at June 30th 2009, the LOTOS service station network comprised 318 locations, including 142 CODO stations (owned by LOTOS Paliwa Sp. z o.o.), 87 DOFO stations and 89 DODO stations. A total of 104 franchise agreements were signed. In line with the objectives of the Company's strategy for 2008–2012 regarding the transfer of the DODO stations to another operational platform, since Q1 2007 the total number of COCO/CODO and DOFO service stations has been larger than the number of DODO stations.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**LOTOS CZECHOWICE S.A. AND LOTOS JASŁO S.A.**

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During the six months ended June 30th 2009, LOTOS Czechowice S.A. and LOTOS Jasło S.A. continued the restructuring of their human resources, operations, internal organisation and technologies, and pursued other activities with a view to developing their production capacities and implementing new projects involving the use of idle assets.

In addition, work was undertaken to incorporate the companies' assets (such as terminals, storage facilities) in the integrated fuel logistics system of Grupa LOTOS S.A. Additionally, as part of the work related to fuel storage, the storage facilities were being expanded. Storage will ultimately be the companies' main area of business.

**SALT CAVERNS**

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In 2008, Grupa LOTOS S.A. continued preparations for the project involving the construction of underground hydrocarbon storage facilities in salt caverns. As part of the project, caverns with a capacity of up to 7 million cubic meters (that could later be expanded to 15 million cubic meters) are to be built. The planned location of the project is between Gdańsk and Tczew; such location offers the most obvious advantages in terms of logistics, due to its close vicinity to the Druzhba pipeline operated by PERN "Przyjaźń" S.A., as well as the Gdańsk refinery and the port, which has all the required loading and unloading infrastructure. Letters of intent were signed with the competent local authorities. Furthermore, the Company entered into close cooperation with the Polish Geological Institute in order to determine the optimal location of the storage facilities. Preliminary financial analyses have confirmed the project's economic viability. Assuming that Grupa LOTOS S.A. would not make any significant financial commitment to the project, it entered into cooperation with an external partner, which prepared the financial engineering of the project and ensured its financing. As a result, Grupa LOTOS will finance only an estimated 20% of the project's value, in the form of an in-kind contribution.

At the beginning of 2009, Grupa LOTOS S.A. suspended the project until relevant financing arrangements are made with respect to strategic reserves as part of the overall system designed to ensure Poland's energy security.

**4.2 SIGNIFICANT AGREEMENTS CONCLUDED BY THE PARENT UNDERTAKING IN H1 2009 AND AFTER JUNE 30TH 2009**

**Agreement between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH**

On February 13th 2009, the Management Board of Grupa LOTOS S.A. received back the agreement, signed by both parties, between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH of Berlin. The agreement of February 1st 2009 concerns purchase of liquid fuels by Grupa LOTOS S.A. from TOTAL DEUTSCHLAND GmbH.

The agreement was executed for a specified period from February 1st to December 31st 2009. Its estimated value is PLN 563m.

The agreement does not contain any provisions on contractual penalties. The parties may seek full compensation for damages before courts of general jurisdiction in Berlin, in accordance with the German law, which is the governing law for the agreement. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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

**Agreement between Grupa LOTOS S.A. and NESTE OIL (SUISSE) SA**

On March 13th 2009, the Management Board of Grupa LOTOS S.A. received back the agreement, signed by both parties, concerning purchase of liquid fuels by Grupa LOTOS S.A. from Neste Oil (Suisse). The agreement was signed on December 10th 2008.

The agreement was executed for a specified period from January 1st to December 31st 2009. Its estimated value is PLN 624m.

The agreement does not contain any provisions on contractual penalties. The parties may seek full compensation for damages before courts of general jurisdiction in London, in accordance with the English law, which is the governing law for the agreement. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

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

**Agreements Concluded between Grupa LOTOS S.A. and J&S Service and Investment Ltd for an Aggregate Value of a Significant Agreement**

On July 3rd 2009, the aggregate value of the agreements concluded between Grupa LOTOS S.A. and J&S Service and Investment Ltd over the preceding 12 months amounted to USD 180.4m (PLN 563.6m, as translated using the PLN/USD mid exchange rate quoted by the National Bank of Poland for July 3rd 2009) and thus reached the value of a significant agreement, i.e. exceeded 10% of Grupa LOTOS S.A.'s equity.

In terms of value, the largest transaction concluded between the two parties over the preceding 12 months was the transaction whereunder Grupa LOTOS S.A. purchased crude oil from J&S Service and Investment Ltd. As at July 3rd 2009, the value of the transaction amounted to USD 48.8m (PLN 152.5m, as translated using the PLN/USD mid exchange rate quoted by the National Bank of Poland for July 3rd 2009). The agreement did not contain any conditions precedent or specify any date of events giving rise to a claim (*dies a quo*), it did not provide for any contractual penalties, and was concluded on the terms and conditions commonly applied in transactions of such type.

**Significant Agreement between Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o.**

On August 10th 2009, Grupa LOTOS S.A. entered into an agreement with LOTOS Kolej Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concerning the provision of transport and other rail-freight related services.

The agreement was executed for a specified period from August 10th 2009 to December 31st 2019, and its estimated value is PLN 2,129m (VAT excl.).

The estimated maximum value of the contractual penalties payable by LOTOS Kolej Sp. z o.o. if it fails to meet its obligations under the agreement is equal to the estimated value of the agreement. In addition, the agreement gives Grupa LOTOS S.A. the right to seek damages in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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The agreement is considered significant due to the fact that its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

**4.3 SIGNIFICANT AGREEMENTS CONCLUDED BY OTHER MEMBERS OF THE LOTOS GROUP IN H1 2009 AND AFTER JUNE 30TH 2009**

In H1 2009 and after June 30th 2009, no company of the LOTOS Group was party to any significant agreements other than the agreement described above.

**4.4 ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT**

A synthetic assessment of the LOTOS Group's overall economic and financial standing was based on an analysis of profitability, liquidity and debt ratios.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

Item	H1 2009	H1 2008
Operating profit (PLN '000)	153,074	480,402
Operating margin (1)	2.48%	6.18%
Pre-tax profit (PLN '000)	124,482	872,893
Gross sales margin (2)	2.02%	11.22%
Net profit (PLN '000)	88,996	701,817
Net margin (3)	1.44%	9.02%
Return on equity (ROE) (4)	1.51%	10.25%
Return on assets (ROA) (5)	0.62%	6.42%
Current ratio (6)	1.66	2.19
Quick ratio (7)	0.79	1.01
Average collection period (in days) (8)	40.91	35.37
Average payment period (in days) (9)	34.88	30.39
Capital employed (10)	2,205,204	3,093,237
Capital employed to total assets (11)	15.34%	28.28%
Total debt ratio (12)	58.87%	37.44%
Debt to equity ratio (13)	143.10%	59.84%

*(1) operating profit/net sales revenue*

*(2) pre-tax profit/net sales revenue*

*(3) net profit/net sales revenue*

*(4) net profit/equity at end of period*

*(5) net profit/assets at end of period*

*(6) current assets/current liabilities*

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

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

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

*(10) current assets – current liabilities*

*(11) capital employed/assets*

*(12) total liabilities/assets*

*(13) total liabilities/equity*

## **4.5 HUMAN RESOURCES**

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

In the period from January 1st 2009 until the end of the sixth term of office, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

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

On June 25th 2009, the Supervisory Board of Grupa LOTOS S.A. appointed the Management Board of Grupa LOTOS S.A. of the seventh term of office, including:

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer  
Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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Marek Sokołowski – Vice-President of the Management Board, Production and Development Director,

Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

As at the date of approval of this Directors' Report, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer

Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,

Marek Sokołowski – Vice-President of the Management Board, Production and Development Director,

Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

In the period January 1st – March 10th 2009, the composition of the Supervisory Board of Grupa LOTOS S.A. of the seventh term of office was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,

Leszek Starosta – Deputy Chairman of the Supervisory Board,

Jan Stefanowicz – Member of the Supervisory Board,

Radosław Barszcz – Member of the Supervisory Board,

Piotr Chajderowski – Member of the Supervisory Board,

Małgorzata Hirszel – Member of the Supervisory Board,

Mariusz Obszyński – Secretary of the Supervisory Board.

On March 10th 2009, the Company received a resignation, with effect from March 10th 2009, by Mr Piotr Chajderowski, Member of the Supervisory Board of Grupa LOTOS S.A. of the seventh term of office, from his position as Member of the Company's Supervisory Board of the seventh term of office. On April 27th 2009, the General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution to appoint Mr Ireneusz Fąfara to the Company's Supervisory Board of the seventh term of office.

As at June 30th 2009 and the date of approval of this Directors' Report, i.e. August 26th 2009, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,

Leszek Starosta – Deputy Chairman of the Supervisory Board,

Mariusz Obszyński – Secretary of the Supervisory Board,

Radosław Barszcz – Member of the Supervisory Board,

Małgorzata Hirszel – Member of the Supervisory Board,

Jan Stefanowicz – Member of the Supervisory Board,

Ireneusz Fąfara – Member of the Supervisory Board.

## **EMPLOYMENT STRUCTURE**

As at June 30th 2009, Grupa LOTOS S.A. employed 1,290 persons and the LOTOS Group employed 4,886 persons. The headcounts did not change materially from their respective levels as at December 31st 2008.

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

The table below shows the employment structure of Grupa LOTOS S.A. by job types as at June 30th 2009.

<b>Job type</b>	
Blue-collar jobs	497
White-collar jobs	793
<b>Total</b>	<b>1,290</b>

The table below shows the employment structure of the LOTOS Group by job types as at June 30th 2009.

<b>Job type</b>	
Blue-collar jobs	2,599
White-collar jobs	2,287
<b>Total</b>	<b>4,886</b>

	<b>Headcount as at Jun 30 2009</b>	
	<b>blue-collar jobs</b>	<b>white-collar jobs</b>
Grupa LOTOS S.A.	497	793
LOTOS Paliwa Sp. z o.o.	0	247
LOTOS Kolej Sp. z o.o.	316	113
LOTOS Oil S.A.	142	188
LOTOS Lab Sp. z o.o.	117	46
LOTOS Serwis Sp. z o.o.	527	172
LOTOS Straż Sp. z o.o.	64	12
LOTOS Asphalt Sp. z o.o.	122	117
LOTOS Gaz S.A.	7	50
LOTOS Ochrona Sp. z o.o.	171	27
UAB LOTOS Baltija	0	7
LOTOS Park Technologiczny Sp. z o.o.	0	2
RC Serwis Sp. z o.o.	10	5
LOTOS Parafiny Sp. z o.o.	189	88
LOTOS Tank Sp. z o.o.	4	12
LOTOS Jasło S.A.	71	53
PLASTEKOL Organizacja Odzysku S.A.	3	3
LOTOS Czechowice S.A.	88	58
RC Ekoenergia Sp. z o.o.	45	31
LOTOS Biopaliwa Sp. z o.o.	20	15
Petrobaltic S.A.	206	237
LOTOS E&P Norge AS	0	11
<b>Total</b>	<b>2,599</b>	<b>2,287</b>
		<b>4,886</b>

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**5. MATERIAL TRANSACTIONS BETWEEN GRUPA LOTOS S.A. AND ITS RELATED UNDERTAKINGS THAT WERE NOT CONCLUDED AT ARM'S LENGTH**

In H1 2009, Grupa LOTOS S.A. did not enter into any material transactions with its related undertakings whose terms would differ from the arm's length terms. For details of the material transactions concluded by Grupa LOTOS S.A. with its related undertakings at arm's length, see Note 16.6 to the condensed interim financial statements for the six months ended June 30th 2009.

**6. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS**

No changes have occurred with respect to pending court, arbitration, or administrative proceedings or with respect to other risks of the Company or its subsidiaries since the end of the previous financial year, i.e. December 31st 2008 (see Note 45 to the consolidated financial statements for 2008 prepared in accordance with the IFRS), except for those listed below:

1. On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it sought the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest from May 1st 1999, as compensation for damage incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o. The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Competition and Consumer Protection Office of September 26th 1996, in which the Office ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.

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

The case is pending before the Regional Court of Gdańsk (First Instance Court) and its file No. is IX GC 134/04. The Company defends itself by raising objections as to the merits of the case (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report concerning the extent of the damage

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. In the issued opinion, the expert witness indicated that based on the materials presented by PETROECCO JV Sp. z o.o. it was impossible to establish the amount of the losses or even state whether the losses were actually incurred. Besides, the expert pointed out that an opinion should be requested from an expert witness in a field other than accountancy. The lack of evidence required to issue such an opinion prevented the plaintiff from causing the appointment of another expert witness. The hearing was held on March 27th 2007. The ruling was scheduled to be announced on April 10th 2007, then postponed until April 20th 2007. Pursuant to the ruling of April 20th 2007, the suit was dismissed. On May 17th 2007, the Company filed an appeal against the decision on the cost of the proceedings. On June 4th 2007, Petroecco filed an appeal against the ruling issued on April 20th 2007. On August 12th 2007, the Company submitted its response to the appeal. On December 20th 2007, the Court dismissed PETROECCO JV Sp. z o.o.'s appeal against the decision of the Regional Court. On March 19th 2008, an enforcement motion was filed with a Court Enforcement Officer against PETROECCO JV Sp. z o.o. On April 17th 2008, PETROECCO JV Sp. z o.o. lodged a cassation complaint against the ruling issued on December 20th 2007. The complaint was delivered to Grupa LOTOS S.A. on June 17th 2008. On June 30th 2008, Grupa LOTOS S.A. sent a response to the complaint. The case was referred to pre-trial proceedings scheduled for November 14th 2008. On January 14th 2009, the Supreme Court reversed the ruling appealed against and remanded the case for re-examination by the Court of Appeals in Gdańsk.

On March 10th 2009, the case files were delivered to the Court of Appeals. On April 3rd 2009, the Court Enforcement Officer sent the decision on discontinuation of the enforcement proceedings. On May 14th 2009, the Court of Appeals referred the case to the Regional Court for re-examination. As at the date of approval of this Directors' Report, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were created and disclosed in the financial statements.

2. On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, providing for the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. On April 21st 2006, the Regional Court in Gdańsk, IX Commercial Division, issued a ruling dismissing the claim in its entirety. On June 8th 2006, the Minister of State Treasury appealed against the ruling of April 21st 2006 which dismissed the Minister's petition to declare invalidity of the agreement of August 18th 1998. On June 30th 2006, the Company filed its response to the appeal. On December 28th 2006, the Court of Appeals passed a ruling reversing the challenged decision of April 21st 2006 and declaring the agreement on the sale of two shares in Naftoport Sp. z o.o. as invalid. On April 6th 2007, the Company filed a cassation complaint and a request to stay enforcement of the decision of the second instance. By virtue of the ruling of the Court of Appeals of Szczecin dated April 20th 2007, the request to stay enforcement of the decision of the second instance was dismissed. On August 10th 2007, the Supreme Court issued a decision to accept the cassation complaint for consideration. On November 21st 2007, the Supreme Court issued a decision to remand the case back to the Court of Appeals in Szczecin. The hearing was held on May 7th 2008. The Court dismissed the claim in its entirety and decided that the costs of the proceedings in the

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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amount of PLN 100 thousand would be returned to Grupa LOTOS S.A. The Court's decision became final with effect from May 7th 2008. On August 20th 2008, the State Treasury lodged a cassation complaint. On December 11th 2008, the case files arrived at the Supreme Court, Civil Chamber Division II. In a closed session held on March 6th 2009, the Court accepted the complaint for consideration. The date of the hearing was set for May 6th 2009; during the hearing, the Supreme Court remanded the case for re-examination by the Szczecin Court of Appeals. As at the date of approval of this Directors' Report, the case was pending.

The Company's Management Board is of the opinion that the risk of an unfavourable ruling in a potential dispute is low, therefore no provisions for potential damages were created and disclosed in the financial statements.

3. On July 30th 2007, Petrobaltic S.A. received a decision issued by the Permanent Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk of June 11th 2007 in a case brought by Energobaltic Sp. z o.o. against Petrobaltic S.A. The dispute concerned performance of contract No. EB/PKT – 02/01/2001 of December 17th 2001, whereunder Petrobaltic S.A. was to design and construct a gas transmission line that would deliver gas from its drilling platform to the heat and power plant operated by the plaintiff in Władysławowo. The plaintiff alleged a delay in performance of the contract by the defendant and demanded payment of contractual penalties, whereas the defendant claimed to have performed the contract by the prescribed deadline. The aforementioned decision granted Energobaltic Sp. z o.o.'s claim in its entirety and awarded against the defendant an amount of PLN 1,424 thousand plus statutory interest for the period from July 3rd 2003 until the payment date, as well as an amount of PLN 30 thousand on account of court fees and PLN 7 thousand as reimbursement of the legal representation costs. Given this decision and in view of substantial uncertainty as to the success of a possible appeal, a provision of PLN 2,157 thousand was created.

On October 29th 2007, Petrobaltic S.A. lodged a complaint with the Regional Court of Gdańsk to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. A hearing concerning Petrobaltic S.A.'s claim to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk was held on April 9th 2008. By virtue of the decision of March 12th 2008, the Regional Court of Gdańsk, IX Commercial Division, dismissed the motion to stay enforcement of the decision of the Permanent Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk, and by virtue of the decision of April 9th 2008, the Court dismissed Petrobaltic S.A.'s claim to repeal the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk. On April 10th 2008, Petrobaltic S.A. paid a part (PLN 666 thousand) of the amount awarded against it to the bank account of Energobaltic Sp. z o.o. Petrobaltic S.A. decided that the remaining portion of the amount awarded against it would be paid through a set-off of mutual claims under the electricity sales agreement, assuming that a result of the payment and the set-off, the claim expires. However, Energobaltic Sp. z o.o. refused to acknowledge the set-off; it decided to apply the amount paid by Petrobaltic S.A. towards the settlement of default interest, and to collect the remaining part of the principal amount due in court enforcement proceedings. On June 13th 2008, Petrobaltic S.A.'s bank account was attached and the amount of PLN 1,671 thousand was seized based on a notification on commencement of enforcement proceedings (file. ref. No. KM 1233/08). The enforcement was carried out by Court Enforcement Officer for Area III in Gdańsk at the request of Energobaltic Sp. z o.o. Petrobaltic S.A. filed action for payment of PLN 1,620 thousand against Energobaltic Sp. z o.o., which is pending before the Regional Court of Gdańsk, IX Commercial Division, file ref. No. IX GNc 257/08. The action was brought in connection with Energobaltic Sp. z o.o. having enforced an amount earlier

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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paid by Petrobaltic S.A. in connection with the decision of the Court of Conciliation at the District Chamber of Legal Counsels in Gdańsk of June 11th 2007.

On August 18th 2008, in the course of admonition proceedings, the Regional Court issued an order for payment against Energobaltic Sp. z o.o. for the amount of PLN 1,620 thousand plus statutory interest for the period from June 30th 2008 until the payment date, as well as PLN 27 thousand on account of court fees, including PLN 7 thousand as reimbursement of the legal representation costs, to be paid to Petrobaltic S.A. On September 5th 2008, the defendant lodged an objection against the order. On January 6th 2009, the plaintiff filed a reply to the objection. The case is pending before the Regional Court in Gdańsk, IX Commercial Division, file ref. No. IX GC 409/08.

On April 1st 2009, the first hearing was held. The Court decided that the next hearing would be held on May 19th 2009. Subsequently, the date for the next hearing was set for July 14th 2009, and then adjourned until October 16th 2009. As at the date of approval of this Directors' Report, the case was pending.

Petrobaltic S.A. made a valuation allowance for the amount claimed by Energobaltic Sp. z o.o. as part of the enforcement proceedings initiated by Energobaltic Sp. z o.o. which are carried out against Petrobaltic S.A. by the Court Enforcement Officer.

4. In June 2009, Svenska Petroleum Exploration AB announced that it had received all due amounts – in accordance with the terms of the arrangement – from the Government of the Republic of Lithuania and AB Geonafta. Thus the proceedings described in Note 45 of the Notes to the consolidated financial statements for 2008 prepared in accordance with the IFRS were completed.
5. At LOTOS Czechowice S.A., the Head of the Customs Office of Bielsko-Biała carried out an inspection to determine the correct amount of excise tax payable for the period from January 1st 2004 to September 30th 2004, in connection with the sale of oil for B ceramic moulds.

As a result of the inspection, fiscal proceedings were instigated on May 18th 2005 on an ex officio basis. On May 5th 2006, LOTOS Czechowice S.A. received four decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January, February, and March 2004. The proceedings aimed at determining the excise tax liability for April 2004 were discontinued. On May 19th 2006, the company filed with the Director of the Customs Chamber an appeal against the aforementioned decisions as well as requests to stay execution of the decisions.

In August 2006, the company received decisions issued by the Head of the Customs Office, which discontinued the proceedings concerning excise tax for May–September 2004. On October 17th 2006, LOTOS Czechowice S.A. received the decision of the Director of the Customs Chamber of Katowice, setting the deadline by which the appeals against the decisions issued by the Head of the Customs Office of Bielsko-Biała, determining the excise tax liability for January–March 2004, would be considered, i.e. December 13th 2006. In the decision of February 9th 2007, Director of the Customs Chamber of Katowice set the deadline for resolving the case at April 13th 2007. By virtue of the decision of June 17th 2007, Director of the Katowice Customs Chamber set yet another deadline for resolving the case – August 13th 2007, and pursuant to its most recent decision of August 13th 2007, the Director of the Customs Office of Katowice set

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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October 13th 2007 as the deadline for considering the appeal. On October 19th 2007, LOTOS Czechowice S.A. received three decisions issued by the Director of the Customs Chamber of Katowice, repealing in full the decisions determining the amount of excise tax liability for January, February, and March 2004, passed by the Head of the Customs Office of Bielsko-Biała. The case is to be reconsidered by the first instance body. On November 19th 2007, LOTOS Czechowice S.A. filed with the Provincial Administrative Court three complaints against the decisions issued by the Director of the Customs Chamber of Katowice which repealed the decisions of the Head of the Customs Office of Bielsko-Biała and remanded the cases back to the Head of the Customs Office of Bielsko-Biała. On April 2nd 2008, court hearings were held concerning the aforementioned complaints, and rulings were issued whereby the complaints were dismissed. After LOTOS Czechowice S.A. had requested and received the written statements of reasons, the Management Board resolved not to file a complaint to the Supreme Administrative Court. As a result, the cases were remanded for re-examination to the first instance body, i.e. to the Head of the Customs Office of Bielsko-Biała.

By virtue of its decisions of January 7th 2009, the Head of the Customs Office in Bielsko-Biała set March 18th 2009 as a new deadline for resolving the cases concerning the excise tax liability for the period January – March 2004. Subsequently, by virtue of the decisions issued on June 29th 2009 by the Head of the Customs Office of Bielsko-Biała, the new deadline for resolving the cases concerning the excise tax liability for the period January – March 2004 was set for July 31st 2009.

On July 27th 2009, LOTOS Czechowice S.A. received three decisions issued by the Head of the Customs Office of Bielsko-Biała determining the amounts of tax liability which exceeded the tax liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 1,239 thousand – with respect to the tax liability for January 2004,
- by PLN 538 thousand – with respect to the tax liability for February 2004,
- by PLN 8 thousand – with respect to the tax liability for March 2004.

On August 13th 2009, LOTOS Czechowice S.A. lodged an appeal against the decisions with the Director of the Customs Chamber of Katowice. As at the date of approval of the financial statements, the case was pending.

In relation to the potential excise tax liabilities for the period January–March 2004, taking into account the conducted legal and tax analyses, including the analyses carried out by external tax advisers as well as an expert witness designated by the Director of the Customs Chamber, LOTOS Czechowice S.A. is of opinion that there is very little any risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements of LOTOS Czechowice S.A. and in the interim condensed consolidated financial statements of the LOTOS Group with regard to these potential liabilities.

6. On April 12th 2006, the Head of the Customs Office in Bielsko-Biała instigated proceedings concerning LOTOS Czechowice S.A. to determine the correct amount of the excise tax payable for the period September 1st – December 31st 2003, in connection with the sale of oil for B ceramic moulds. Before conclusion of the proceedings, it is difficult to determine whether the excise tax liabilities will be reassessed, and if so, what their amounts will be. By virtue of the decision of March 19th 2006, the Head of the Customs Office in Bielsko-Biała set the deadline for resolving the

**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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case at May 30th 2007. By virtue of the decision of August 13th 2007, the Head of the Customs Office in Bielsko-Biała set another deadline for resolving the case – October 17th 2007. By virtue of the decision issued on January 1st 2008, the Head of the Customs Office of Bielsko-Biała set June 30th 2008 as the new date for resolving the case. By virtue of the decisions of June 27th 2008, the Head of the Customs Office of Bielsko-Biała set August 31st 2008 as the new deadline for resolving the case concerning excise tax payable for the period September – December 2003, but under later decisions of September 3rd 2008 the deadline was extended again – until October 31st 2008.

On November 13th 2008, the Head of the Customs Office in Bielsko-Biała issued decisions determining the amounts of excise tax liability for September, October, November and December 2003, which exceeded the excise tax liability amounts reported by LOTOS Czechowice S.A. in its tax returns:

- by PLN 3,588 thousand – with respect to the tax liability for September 2003,
- by PLN 12,189 thousand – with respect to the tax liability for October 2003,
- by PLN 8,887 thousand – with respect to the tax liability for November 2003,
- by PLN 6,223 thousand – with respect to the tax liability for December 2003.

On November 21st 2008, LOTOS Czechowice S.A. filed a request with the Head of the Customs Office in Bielsko-Biała to stay enforcement of the decision related to the excise tax liability for September – December 2003. On December 1st 2008, LOTOS Czechowice S.A. filed an appeal against the decision issued by the Head of the Customs Office determining the excise tax liabilities in amounts exceeding those declared by the company, with the Director of the Customs Chamber in Katowice, through the agency of the Head of the Customs Office in Bielsko-Biała. On December 4th 2008, the Director of the Customs Chamber in Katowice initiated enforcement proceedings against LOTOS Czechowice S.A. by issuing enforcement orders with respect to the decisions of the Head of the Customs Office in Bielsko-Biała regarding excise tax liabilities for September – December 2003, and by seizing the amounts owed from LOTOS Czechowice S.A.'s bank accounts. The additional excise tax liability amounts payable under the decisions were increased by the costs of enforcement proceedings in the total amount of PLN 2,460 thousand and late interest determined as at the date of issuing the enforcement orders in the total amount of PLN 10,121 thousand.

On December 12th 2008, the company filed requests with the Director of the Customs Chamber in Katowice to stay the enforcement proceedings instigated by virtue of the enforcement orders.

On December 12th 2008, the Head of the Customs Office in Bielsko-Biała granted the request filed by the company on November 21st 2008 and issued Decision to stay enforcement of the decision concerning the excise tax liability for December 2003.

On the same day, the Director of the Customs Chamber in Katowice issued decisions to stay enforcement of the decisions concerning the excise tax liabilities for the period September – November 2003, and, invoking the decisions to stay enforcement of the Customs Office Head's decisions concerning the period September – December 2003, issued decisions to suspend the enforcement proceedings.

On December 15th 2008, the Director of the Customs Chamber in Katowice filed eight requests with the District Court of Pszczyna, along with enforcement orders, to register



**THE LOTOS GROUP**  
**DIRECTORS' REPORT ON THE GROUP'S OPERATIONS**  
**IN THE SIX MONTHS ENDED JUNE 30TH 2009**

---

compulsory ordinary mortgages (*hipoteka przymusowa zwykła*) each with the value of PLN 5,446 thousand (PLN 43,569 thousand in total) encumbering LOTOS Czechowice S.A.'s properties in the relevant Land and Mortgage Register entries.

On December 17th and 18th 2008, the District Court of Pszczyna registered the seven ordinary compulsory mortgages as was requested. On December 23rd 2008, the Court resolved to dismiss one of the requests filed by the Director of the Customs Chamber in Katowice on the grounds of having encountered obstacles in registration (inconsistencies between the contents of the Land and Mortgage Register entry and the request).

On February 23rd 2008, LOTOS Czechowice S.A. received four decisions of the Director of the Customs Chamber in Katowice repealing the earlier decisions of the Head of the Customs Office in Bielsko-Biała and remanding the cases for re-examination.

Given the decisions of the Director of the Katowice Customs Chamber of March 4th 2009 to discontinue the enforcement proceedings concerning the excise tax liabilities for September–December 2003, the Director of the Katowice Customs Chamber filed relevant requests with the District Court of Pszczyna to de-register the mortgages.

On May 4th, May 6th, and May 14th 2009, LOTOS Czechowice S.A. received notices from the District Court of Pszczyna to the effect that the compulsory mortgages, previously registered at the request of the Director of the Customs Chamber in Katowice, were de-registered. As at the date of approval of this Directors' Report, the case was pending.

In relation to the potential excise tax liabilities for the period September–December 2003, taking into account the conducted legal and tax analyses, including the analyses carried out by external tax advisers as well as an expert witness designated by the Director of the Customs Chamber, LOTOS Czechowice S.A. is of opinion that there is very little risk of unfavourable outcome of the dispute with the tax authorities, therefore no provisions were created in the financial statements of LOTOS Czechowice S.A. and in the interim condensed consolidated financial statements of the LOTOS Group with regard to these potential liabilities.

7. On December 4th 2003, in the course of payment order proceedings, the Regional Court of Krosno issued a decision in favour of LOTOS Jasło S.A., whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, LOTOS Jasło S.A. submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security (deposit) mortgage (*hipoteka kaucyjna*). As at June 30th 2009, subject to the execution of the terms of the arrangement, the amount receivable was PLN 925 thousand.

LOTOS Jasło S.A. made a valuation allowance for the said amount receivable.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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**7. CONTINGENT LIABILITIES – LOAN SURETIES AND GUARANTEES WITH A VALUE OF 10% OR MORE OF GRUPA LOTOS S.A.'S EQUITY**

No material changes occurred with respect to contingent liabilities in the period from the end of the previous financial year, i.e. December 31st 2008 (see Note 42 to the consolidated financial statements of the LOTOS Group for 2008, prepared in accordance with the IFRS), except for those listed below and those described in items 1–6 and item 8 of Note 13 to the condensed consolidated financial statements of the LOTOS Group:

1. On February 27th 2009, Grupa LOTOS S.A. submitted security for excise duty in the form of a blank promissory note for up to PLN 400,000 thousand, issued for the benefit of the Customs Office in Gdańsk to secure the Company's tax liability in connection with the suspended excise tax collection procedure. The blank promissory note is valid through January 13th 2011.

**8. THE MANAGEMENT BOARD'S POSITION REGARDING THE FEASIBILITY OF MEETING FORECASTS PUBLISHED EARLIER FOR 2009 IN THE LIGHT OF THE RESULTS PRESENTED IN THE SEMI-ANNUAL REPORT IN RELATION TO THE FORECAST RESULTS**

By August 31st 2009, Grupa LOTOS S.A. did not publish any forecasts of its financial performance in 2009.

**THE LOTOS GROUP  
DIRECTORS' REPORT ON THE GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2009**

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

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