THE LOTOS GROUP

DIRECTORS' REPORT ON THE FINANCIAL RESULTS OF THE LOTOS GROUP

IN Q3 2005

Gdańsk, November 14th 2005

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Introduction

In Q3 2005, the LOTOS Group was able for the first time to fully employ its production capacity that has been expanded this year. Also, this was the period of intensive work of the Company's Executive Board on execution of key development projects, including the Comprehensive Technical Upgrade Programme (CTUP Project) and the PROSTA Programme for the service stations network. As concerns the Project, we have undertaken a number of activities, among others, a contract was signed with Shell Global Solutions International (SGS) and a Preliminary Information Memorandum (PrePIM) was prepared and sent to selected financial institutions that were potentially interested in financing the Project. As regards execution of the PROSTA Programme, commitment of the Executive Board of Grupa LOTOS S.A. to build a modern nation-wide network of LOTOS service stations led to the conclusion of two preliminary agreements: on acquiring the ESSO service stations network from Exxon Mobil and Slovnaft service stations from MOL. The acquisitions significantly accelerated implementation of the PROSTA Programme, and resulted in an increase in the share of the retail fuels market in Poland.

A thriving oil market, coupled with the development of the LOTOS Group, contributed to the almost full utilisation of the Company's production capacity expanded to 6m tonnes annually, thus improving the financial performance compared both with Q3 2004 and Q2 2005. Sales revenue went up by 44.9% in Q3 2005 compared with the corresponding period of the previous year, reaching PLN 3,060.1m, while the operating profit grew by 105.5%, to PLN 468.7m, and the profit after tax increased by 64.7%, to PLN 380.9m.

Due to very good financial performance both in Q3 2005 and after nine months of 2005, the Executive Board of Grupa LOTOS S.A. revised its forecast of the consolidated financial performance of the LOTOS Group, which was disclosed in current report No. 84/2005. According to the revised forecast all items in the profit and loss account will improve, and the consolidated sales revenue will amount to PLN 10,078.1m, the operating profit will stand at PLN 854.4m, and the net profit will be PLN 643.5m (all three figures as computed under IFRS).

Comprehensive Technical Upgrade Programme

As concerns execution of the Comprehensive Technical Upgrade Programme (CTUP Project), which is of key importance for the Company's development and future growth of shareholder value, activities pursued by the Company in Q3 were focused on carrying out further financial and market research, negotiations of contracts relating to various areas of the Project and on initiating contacts with selected financial institutions.

On July 13th 2005, Grupa LOTOS S.A. entered into an agreement with Shell Global Solutions International, whereby SGSI is to provide engineering services and act as a technical adviser in the execution of the Comprehensive Technical Upgrade Programme.

A Preliminary Information Memorandum was prepared for the CTUP Project in co-operation with BNP Paribas, acting as the Financial Adviser. After confidentiality agreements were executed on August 31st, the Memorandum was sent to the European Bank for

Reconstruction and Development (EBRD), the European Investment Bank (EIB), Nordic Investment Bank (NIB), the Polish National Fund for Environmental Protection and Water Management, and Bank Ochrony Środowiska (BOŚ). Most of these organisations have expressed their interest in participating in the Project.

Assessment of the current status of the process of arranging Project funding, proposals relating to the funding strategy, and the schedule of further actions have been prepared for approval by the Executive Board of Grupa LOTOS S.A. In addition, a preliminary list of commercial banks that will be sent the Preliminary Information Memorandum to determine possibilities of co-operation in the financing of the Project has been drafted.

A tender process was started (bids were collected) to select an institution which will assist Grupa LOTOS S.A. in applying for EU assistance and preference funds. Concurrently, the work on identifying and defining those areas of the Project that will be included in the application for funding was commenced in co-operation with Bank Ochrony Środowiska, the Polish National Fund for Environmental Protection, and the Polish Ministry of Economy and Labour.

We continued work on the assumptions for the co-operation agreement between Grupa LOTOS S.A. and LOTOS Ekoenergia (LESA) and on updating the assumptions and the sensitivity analysis of the Project's financial model. Also, negotiations were continued with STASCO on a contract for the delivery of supplementary feedstock for the units constructed as part of the Project, the signing of which has been scheduled for Q4 2005.

Following execution of annexes to the three major licence agreements (on constructing an SDA, a MHC and an IGCC unit) and a new agreement with Lockheed Martin Corporation (LMC), LMC made first payments for three basic licences required for the project (to Shell Global Solutions and KBR). As a result, the Polish Ministry of Economic Affairs and Labour formally awarded LMC offset credits for the performance of the first two offset obligations, which also means that all conditions relating to the committed funding of the licences by LMC were satisfied, and in mid July 2005 the license agreements came into force. This made it possible to commence the base designing of the major units under the CTUP Project.

Kick-off meetings were held in mid July with the licensors, that is Shell and KBR, which marked the launch of the designing process, whereas in the following weeks arrangements on basic boundary conditions of the design were continued by mail. In September, the licensors delivered zero versions of energy and volume balances and process flow charts for the designed units. A joint review of those documents was scheduled and performed in the first week of October.

On July 22nd 2005, we initiated the process of selecting the contractor for the Integration Project and the General Contractor of the CTUP Project. Invitations to tender were sent to six international engineering companies that had been selected during a working meeting with SGSI, held under the agreement on the provision of technical advisory services by SGSI in the Project's development phase. By September 15th 2005 (the deadline set in the invitation to tender) there were six positive responses to the invitations. A Tender Committee was set up to select a company for executing the CTUP integration project and continuing performance of the EPC on a "lump sum and turn-key basis". The tenders evaluation process is also assisted by an SGSI expert. After the Tender Committee reviewed the delivered documentation, all six bidders were approved for further stages of the process. In co-operation with LMC, we also commenced a preliminary prequalification of Polish subcontractors for the EPC phase of the Project, who may participate in the performance of the third offset obligation of LMC towards Grupa LOTOS S.A. (ensuring participation of Polish companies in the implementation of the CTUP Project).

PROSTA Programme

The Company's activities in Q2 2005 related to the development of a retail fuel distribution network, pursued by the subsidiary undertaking LOTOS Paliwa as part of the PROSTA Programme, focused on the expansion of own service stations, in particular by acquiring two existing networks: ESSO and Slovnaft. Preliminary conditional agreements were executed with the owners of those networks on the acquisition of organised parts of their businesses, comprising service stations and other selected assets.

The first conditional agreement, concluded on August 24th 2005, relates to the purchase of a profit-generating business of ExxonMobile Poland Sp. z o.o., including:

- a network of 39 service stations in very good locations, whose sales volumes are amongst the highest of those reported by network stations in Poland,
- 14 undeveloped lots for new service stations, all in good locations.

In 2004, an average sales volume at an ESSO service station stood at over 5m litres, i.e. nearly three times as much as the average station sales in Poland. Additionally, the transaction covers domestic and international co-operation between Grupa LOTOS S.A. and ExxonMobile on providing services to business customers that hold fleet cards, and it also provides for a continuation of the loyalty scheme for ESSO retail customers. LOTOS Paliwa intends to take over 24 employees of ExxonMobil who had been engaged in the expansion of the ESSO network in Poland. The net price for the acquired organised part of ExxonMobil's business is PLN 278.5m. The final agreement is subject to a number of conditions, one of which is approval of the transaction by the Polish Anti-Trust and Consumer Protection Authority.

The second conditional agreement, dated September 28th 2005, relates to the acquisition of an organised part of business of Slovnaft Polska S.A., including in particular:

- 12 Slovnaft service stations located in southern Poland, in an area of strategic importance to the development of the LOTOS network,
- 2 undeveloped lots for new service stations.

Additionally, LOTOS Paliwa may take over established partnerships with ten Slovnaft Polska franchisees. The transaction's net price will amount to some EUR 15m. The final agreement is also contingent, among others, on the transaction being cleared by the Polish Anti-Trust and Consumer Protection Authority.

Following execution of the two transactions, the number of the LOTOS Group's stations managed by LOTOS Paliwa will rise from 75 to 126, and the share of the LOTOS network in the retail market will grow to approx. 8%.
As at September 30th 2005, the codo oned , LOTOS network comprised 349 stations, of which 75 were CODO, 242 DOFO partnerskie, and 32 DODO patronackie stations.

Petrobaltic and Production Activities

In Q3 2005, the upstream company Petrobaltic produced over 57 thousand tonnes of crude oil from the bed of the Baltic Sea. In the discussed period the feedstock supplied by Petrobaltic satisfied over 5% of the needs of the Gdańsk Refinery, which was operating at close to its full capacity, and nearly 10% of the needs of the Czechowice Refinery.

Southern Refineries

In Q3 2005, restructuring activities were continued to streamline the capital and organisational structure of the Group in southern Poland.

At the beginning of July 2005, as part of the restructuring of the production and sale of bitumens, LOTOS Asfalt Sp. z o.o. acquired from the Czechowice Refinery its property and other assets related to the production of bitumens.

The third quarter was also a time of preparatory work preceding acquisition by LOTOS Lab Sp. z o.o. of 100% of shares in Laboratorium Badacz Sp. z o.o., a subsidiary of the Jasło Rafinery. The transaction was completed at the beginning of October 2005.

In performance of the Group's restructuring plans for the area of southern Poland, described in the Company's Prospectus, in Q3 2005 the LOTOS Group continued to implement its strategy for the Southern Refineries, which provides for a change of the business profile of the Czechowice Refinery. In September 2005, the Supervisory Board of the Czechowice Refinery adopted a long-term strategy, having approved a resolution of the Executive Board on discontinuation of crude oil processing as of the end of Q1 2006. Further to such decision it was necessary to establish provisions and make revaluation allowances totalling approx. PLN 24.5m, charged against the result for Q3 2005.

In accordance with the restructuring programme for the Southern Refineries, Czechowice Refinery will become, next to the Jasło Refinery, a key undertaking of the LOTOS Group through which the Group will execute its policy aimed at increasing its share in the fuel market in southern Poland. This aim is to be achieved by expansion of the fuel storage and distribution base, which should ensure the possibility of increasing fuel supplies, significant improvement in the customer service quality, and meeting legal requirements concerning fuel storage.

Market Environment and Operations

In Q3 2005 the average price of Brent oil stood at USD 61.67/bbl, and was up on the previous year figure by 48.7%. When comparing Brent quotations from Q3 to Q2 2005, the price increase was USD 10.07/bbl, or 19.5%. A significant rise in oil prices over the last 12 months was accompanied by a growing Ural/Brent differential, resulting from the mismatch in the supply and demand structure of light and heavy oils. The Ural/Brent differential increased to USD 4.51/bbl in Q3 2005, up from USD 4.26/bbl in Q3 2004. Compared against Q2 2005, the increase amounted to USD 0.9/bbl, or 25%.

Substantial utilisation of distillation capacities throughout Europe, coupled with the dynamic growth in demand for oil products, partly attributable to the consequences of abnormal weather conditions in the United States (Katrina and Rita hurricanes damaged and caused stoppage of both oil platforms in the Gulf of Mexico and the refineries located along the coast), brought about an increase in the average refining margin to USD 7.7/bbl in Q3 2005, compared with USD 6.04/bbl in Q2 2005. Crack margins for the key refinery products, such as gasolines or light fuel oil increased in Q3 by 41.3% and 12.2%, respectively, compared with the Q2 figures, while the crack margin for diesel oil declined by 4.6% in the period. Compared with Q3 2004, Q3 2005 saw an increase in crack margins for all products: by 48.3% in the case of gasoline, by 31.4% in the case of diesel oil, and by 57.2% in the case of light fuel oil.

In Q3 2005, the Gdańsk Refinery processed 1,483.4 thousand tonnes of oil, thus reaching 98,9% of its installed capacity. The Ural oil had an almost 95% share in the distillation structure, while the remaining 5% of the feedstock was Rozewie oil extracted by Petrobaltic. In the last quarter, the LOTOS Group sold 383 thousand tonnes of motor gasolines, 557 thousand tonnes of diesel oil, 148 thousand tonnes of light fuel oil, 108 thousand tonnes of jet fuel, and 129 thousand tonnes of heavy fuel oil.

Employment in the LOTOS Group rose only slightly in Q3 2005 compared with Q2 2005, i.e. by 36 persons, up to 5,292 staff (since the Glimar Refinery is under bankruptcy administrator management, the company's headcount is not included in the total employment of the LOTOS Group).

It is estimated that the domestic consumption of fuels in the first seven months of 2005 was at the same level as in the corresponding period in 2004, and the market share of the LOTOS Group stood at 22.4%, for gasolines, at 22.5% for diesel oil, and at 23.6% for light fuel oil. The total share of the LOTOS Group in the domestic fuel market in the period January – July 2005 amounted to 22.7%.

Review of the Consolidated Results of the LOTOS Group for Q3 2005

Profit and Loss Account

In Q3 2005, the consolidated sales revenue of the LOTOS Group was up by 44.9% on the corresponding last year figure, and amounted to PLN 3,060.1m. Due to the increase of 41.2% in the cost of sales, to PLN 2,430.0m, the net profit on sales in Q3 2005 stood at PLN 630.0m, representing a 61% increase on the Q3 2004 figure.

The Q3 2005 consolidated operating profit stood at PLN 468.7m, up by PLN 240.6m from Q3 2004, or 105.5%, primarily due to an increase of PLN 238.8m in the net profit on sales.

The consolidated pre-tax profit totalled PLN 498.3m in Q3 2005, having grown by PLN 213.5m compared with the corresponding period of the previous year. The after-tax profit was additionally reduced by the profit attributable to minority shareholders (mainly of Petrobaltic), amounting to PLN 24.2m. The net profit stood at PLN 380.9m, which means a 64.7% growth on the Q3 2004 figure.

The following factors had the most significant bearing on the results for Q3 2005 described above, as compared with the corresponding period of the previous year:

- increased processing of crude oil at the Parent Undertaking, translating into an almost 20% increase in its sales volume,
- growing oil prices, accompanied by an accelerated growth of prices of oil products on international markets,
- consolidation of the Southern Refineries and Petrobaltic,
- margin generated by Petrobaltic as a result of selling products made from the Rozewie oil extracted after the acquisition of the company by the Parent Undertaking.

Balance Sheet

As at September 30th 2005, the Group's assets and equity and liabilities totalled PLN 6,611.69m, following an increase of PLN 2,589.2m during the first three quarters of 2005. The main contributing factors were: a more than PLN 629.9m increase in property, plant and equipment, attributable partly to the consolidation of the Southern Refineries and Petrobaltic, and a close to PLN 204m increase in financial assets, primarily due to the acquisition of bonds financed with the proceeds from the issue of Grupa LOTOS S.A. shares, carried out in June.

The Group's current assets as at the end of September 2005 were higher by over PLN 1,597.8m, primarily thanks to the higher production capacity of the Parent Undertaking, higher prices of raw materials and products, and a higher balance of cash due to proceeds from the share issue.

The Group saw its equity rise by PLN 1,515m, which resulted chiefly from a PLN 35.0m growth in the share capital and a nearly PLN 971.0m growth in reserve funds after the share capital increase, as well as an PLN 507.1m growth in retained earnings.

The non-current liabilities increased by over PLN 98.3m in the first three quarters of 2005 as a consequence of the consolidation of the Southern Refineries and Petrobaltic. High prices of crude oil, combined with larger inventories built due to the increased production and purchases of oil made by the Parent Undertaking, contributed to a rise in the balance of current liabilities, which as at September 30th 2005 stood at PLN 1,830.1m, up by PLN 841.9m from December 31st 2004. Growth in current liabilities also followed from an increase in current provisions, created in connection with the estimates adopted regarding the goodwill of companies that joined the Group as a result of the acquisition of shares in the Southern Refineries and Petrobaltic. In estimating the value of goodwill of the acquired companies, it was assumed in particular that the value of identifiable assets, liabilities and contingent liabilities was equal to the merger costs. As at the acquisition date, the related provision amounted to PLN 274.9m.

Cash Flows

As at September 30th 2005, the Group disclosed cash totalling PLN 786.3m, up by PLN 281.8m in Q3. In the analogous period of 2004, the Group's cash stood at PLN 202.3m (PLN 584.0m less).

In Q3 2005, net cash provided by operating activities was PLN 181.6m, representing a PLN 97.3m drop on Q3 2004. The primary reason for the lower net operating cash flows in

Q3 2005 was the increased balance of receivables (up by PLN 226.5m) related to the high prices of products and growing inventories, due, among others, to a higher level of mandatory reserves and high crude oil prices.

Net cash provided by investing activities in Q3 2005 totalled PLN 59.4m, a change of PLN 120.7m as compared with the -PLN 61.3m posted in Q3 2004. The change was caused primarily by sale of current financial assets, which had been acquired with the proceeds from the issue of shares.

In Q3 2005, the LOTOS Group had a negative balance of cash flows from financing activities, totalling -PLN 22.2m, which means an improvement of PLN 102.4m on Q3 2004 (when the net cash used in financing activities was -PLN 124.6m). Such balance resulted from a number of factors, including the proceeds under a loan taken by LOTOS Paliwa and outflows on early repayment of loans bythe Parent Undertaking.

Revision of the Forecast of Consolidated Financial Results for the LOTOS Group for 2005

The feasibility of meeting the financial forecasts is continuously monitored by the Company based on the review of revenue and incurred costs, and any material deviations from the published forecasts are disclosed in current reports.

Because the financial results of the LOTOS Group were better than those assumed in the previous forecast, mainly due to the faster than expected utilisation of full production capacity following the overhaul shutdown, and much better refining margins in Q3 2005, in current report no. 84/2005, the Executive Board of Grupa LOTOS S.A. presented a new forecast of 2005 financial results, revised in relation to the one disclosed by the Company in the Issue Prospectus and current reports nos. 16/2005 and 20/2005.

The below forecast of the consolidated financial results of the LOTOS Group (IFRS) was prepared by the Company on the basis of preliminary results for the first three quarters of 2005 and updated assumptions relating to the forecast for Q4 2005. According to the revised forecast, sales revenue will amount to PLN 10,078.1m, and the operating profit will stand at PLN 854.4m, whereas the net profit will be PLN 643.5m.

The assumptions underlying the previous forecast were updated, in particular with respect to the average annualised PLN/USD exchange rate in 2005 – now adopted at PLN 3.23, and the average annualised price of Brent oil in 2005 – now adopted at USD 54.03/bbl. In addition the proceeds from the Series B Shares of Grupa LOTOS S.A. were accounted for in their actual amount of PLN 1,015m.

The current forecast does not include the impact of the valuation of goodwill, performed separately for each of the companies acquired on February 3rd 2005 and subject to consolidation in the year ending December 31st 2005 (Czechowice Refinery – 80.04%, Jasło Refinery – 80.01%, Petrobaltic – 69.00%), on the consolidated financial results of the LOTOS Group. The LOTOS Group is presently performing an independent valuation of assets, liabilities, and contingent liabilities of the acquired companies. Results of such valuation may bring about changes in the items of the forecast consolidated profit and loss account. It is anticipated that the impact of the valuation may increase the net profit by some PLN 200m, as a result of an estimated excess of the fair value of net assets of the acquired companies over their acquisition price (negative goodwill).