GRUPA LOTOS S.A.

DIRECTORS' REPORT
ON THE OPERATIONS OF GRUPA LOTOS S.A. IN 2006

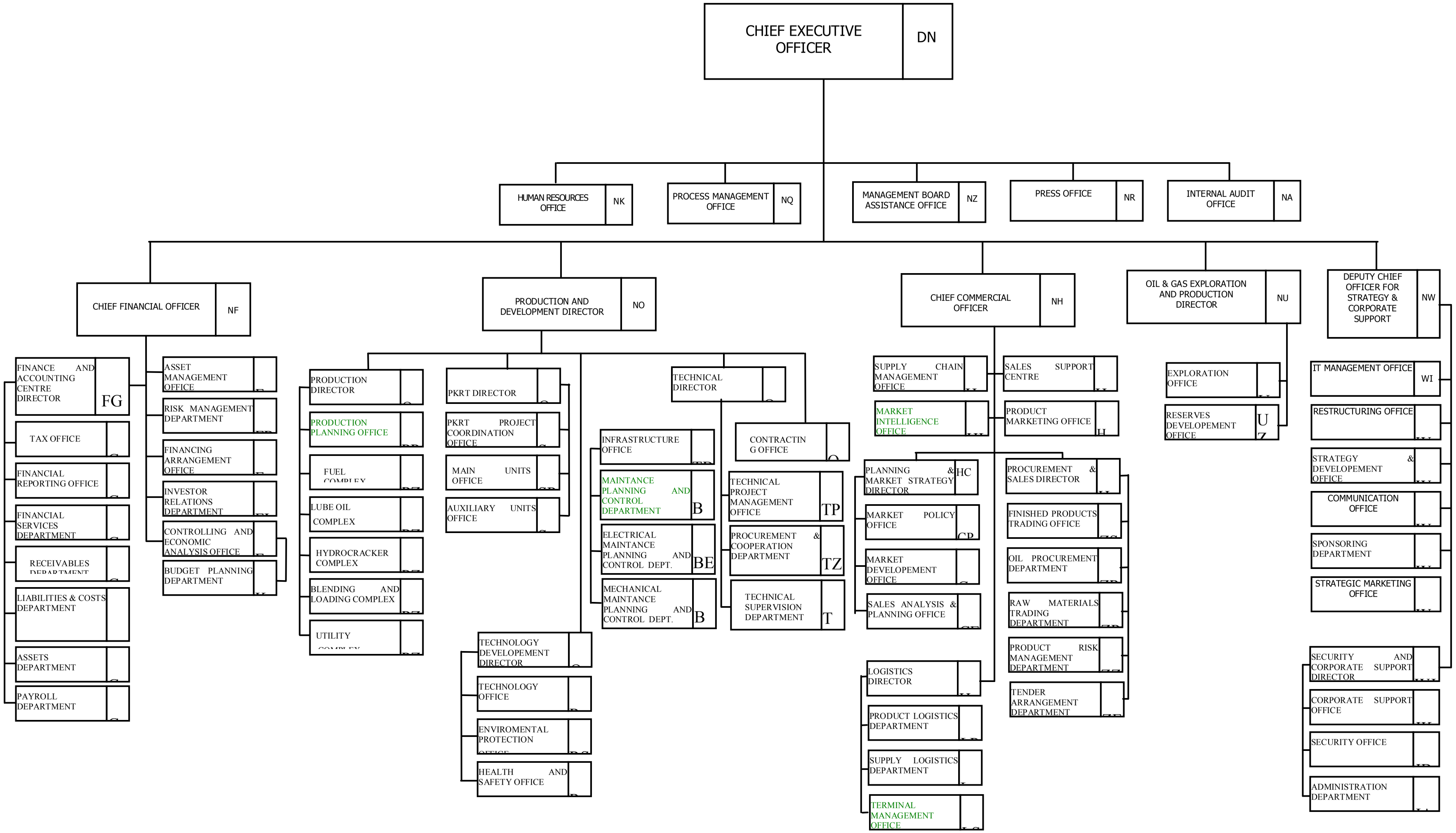
INTRODUCTION

This Directors' Report on the operations of Grupa LOTOS S.A. in 2006 was prepared by the Management Board pursuant to the Polish Minister of Finance's Regulation on current and interim reports to be published by issuers of securities, dated October 19th 2005 (Dz.U. No. 209, item 1744).

1 STRUCTURE OF GRUPA LOTOS S.A. AS AT DECEMBER 31ST 2006

As at December 31st 2006, the organisational structure of Grupa LOTOS S.A. comprised the following organisational units:

- **15** divisions, including six reporting directly to the Chief Executive Officer
- **37** offices
- **22** departments
- **5** production plants



AS AT DECEMBER 12TH 2006

On March 1st 2006, the Marketing, Promotion and PR Office in the Division of the Marketing and Communication Director was liquidated.

Based on the liquidated unit, two new units were established: Product Marketing Communications Office and PR Department.

On October 2nd 2006, as a result of restructuring, the Division of the Production and Development Director was established based on the liquidated Division of the COO.

On **December 5th 2006** the following divisions were reorganised: Division of the Chief Commercial Officer, Division of the Procurement and Distribution Director, and Division of the Deputy Chief Officer for Strategy and Corporate Support.

The Division of the Procurement and Distribution Director was liquidated, while its functions and responsibilities were transferred to the Division of the Chief Commercial Officer.

In the Division of the Chief Commercial Officer, the Marketing Office was replaced with the Product Marketing Office.

Newly-established Market Policy Office and the Sales Analysis and Planning Office replaced the Sales Planning Department and Sales Supervision Office, which had been part of the Division of the Planning and Market Strategy Director.

Moreover, the Division of the Wholesale Director and the Division of the Retail Sale Director were liquidated.

The following organisational units were created: the Sales Support Centre, Supply Chain Management Office and the Division of the Logistics Director with its subordinate units, including the Terminal Management Office, Product Logistics Department and Supply Logistics Department.

Furthermore, a Division of the Procurement and Sales Director with its subordinate organisational units, including Finished Products Trading Office, Oil Procurement Department, Raw Materials Trading Department, Product Risk Management Department and Tender Arrangement Department.

2 CHANGES IN THE SHAREHOLDER STRUCTURE OF GRUPA LOTOS S.A. IN 2006

2.1 ASSIMILATION OF SHARES

By virtue of Resolution No. 380/06 of June 28th 2006, the National Depository for Securities (Polish NDS) assimilated, on July 4th 2006, 8,250 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00033) with 55,620,959 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00025). The ordinary bearer shares had been created through conversion of 8,250 ordinary registered shares on July 3rd 2006.

Following the assimilation, the shares were marked with ISIN code PLLOTOS00025.

Since July 4th 2006:

- 55,629,209 shares of Grupa LOTOS S.A. have been marked with ISIN code PLLOTOS00025, and
- 58,070,791 shares of Grupa LOTOS S.A. have been marked with ISIN code PLLOTOS00033.

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

Following the assimilation, the shares were marked with ISIN code PLLOTOS00025.
In the period April 4th–July 3rd 2006:

- 55,620,959 shares of Grupa LOTOS S.A. were marked with ISIN code PLLOTOS00025, and
- 58,079,041 shares of Grupa LOTOS S.A. were marked with ISIN code PLLOTOS00033.

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

2.2 STRUCTURE OF GRUPA LOTOS S.A.'S SHARE CAPITAL AS AT DECEMBER 31ST 2006

	Number of shares	Number of votes	Par value	% of share capital
State Treasury	7,878,030	7,878,030	7,878,030	6.93 %
Nafta Polska S.A.	59,025,000	59,025,000	59,025,000	51.91 %
Other shareholders	46,796,970	46,796,970	46,796,970	41.16 %
Total	113,700,000	113,700,000	113,700,000	100.00 %

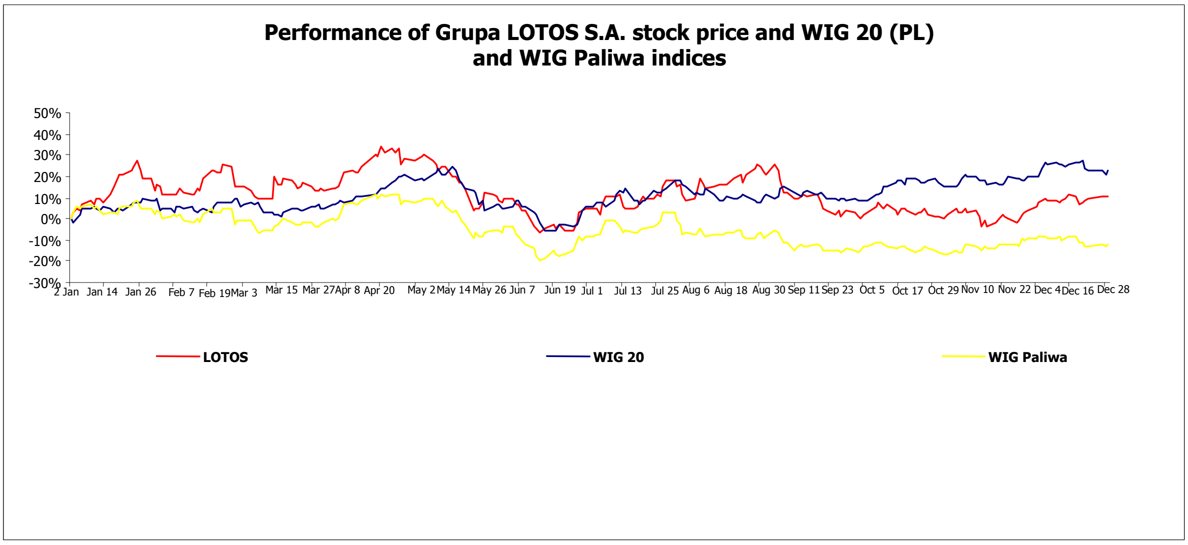
As a result of the acquisition of Grupa LOTOS S.A. shares in transactions carried out on the Warsaw Stock Exchange, which were settled on March 6th 2007, ING Nationale-Nederlanden Polska OFE came into possession of the Company shares conferring the right to over 5% of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A.
Prior to the abovementioned transactions, ING Nationale-Nederlanden Polska held 5,676,589 (five million, six hundred and seventy-six thousand, five hundred and eighty-nine) shares in Grupa LOTOS S.A., which represented 4.99% of the share capital and conferred the right to 5,676,589 votes at the General Shareholders Meeting, accounting for 4.99% of the total vote.
As at March 7th 2007, 5,876,589 (five million, eight hundred and seventy-six thousand, five hundred and eighty-nine) Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska,

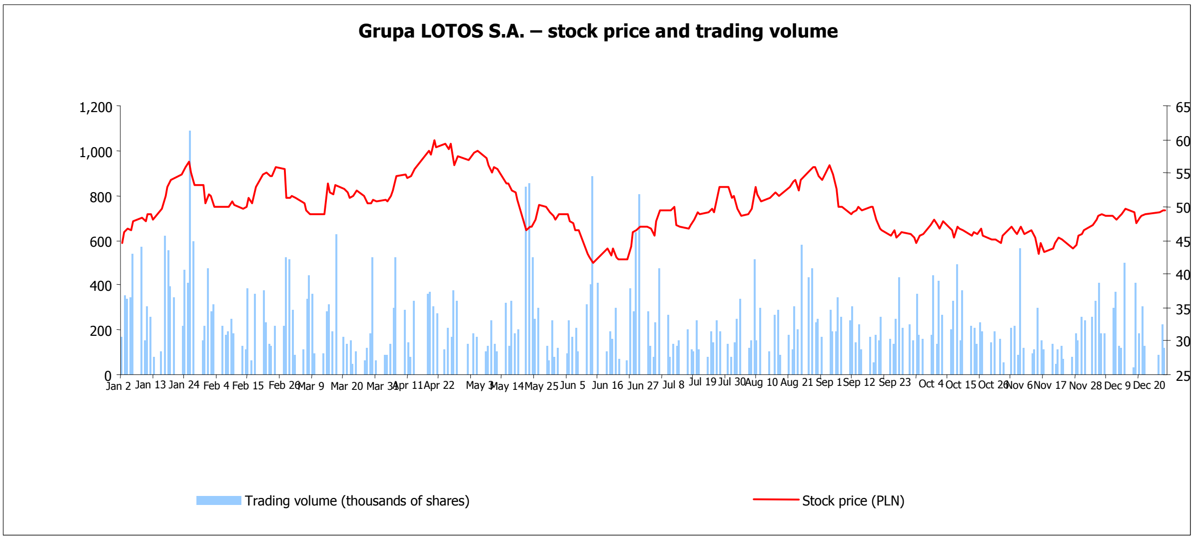
which represent 5.17% of the Company's share capital and confer the right to 5,876,589 votes at the General Shareholders Meeting, accounting for 5.17% of the total vote.

Accordingly, as at the date of these financial statements, the following are shareholders holding, directly or indirectly, through subsidiaries, 5% or more of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A.:

Shareholders	Number of shares	Number of votes	% of total vote at GM	Par value of shares	% of share capital held
State Treasury	7,878,030	7,878,030	6.93%	7,878,030	6.93%
Nafta Polska S.A.	59,025,000	59,025,000	51.91%	59,025,000	51.91%
ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny	5.876.589	5.876.589	5,17%	5.876.589	5,17%
Other	40,920,381	40,920,381	35.99%	40,920,381	35.99%
Total	**113,700,000**	**113,700,000**	**100.00%**	**113,700,000**	**100.00%**

2.3 PRICE OF GRUPA LOTOS S.A. SHARES ON THE WARSAW STOCK EXCHANGE IN 2006





Grupa LOTOS shares were first listed in January 2006, at PLN 44.70 per share. At the same time, the WIG 20 index stood at 2,693.75. During the first months, the Company stock price rose sharply, and in January reached the highest level since the first listing on the Warsaw Stock Exchange. In March, Grupa LOTOS shares were included in the following indices of the Vienna Stock Exchange: PTX (Polish blue chip index) and CECE (regional index comprising shares of largest Polish, Czech and Hungarian companies). In April, our stock price peaked at PLN 59.7, which means a 99% rise on the listing price on the WSE. A similar trend was visible in the performance of the WIG 20 index, which kept climbing from the beginning of the year to mid May, repeatedly surpassing its all-time highs.

In May, a sharp correction on the international stock-exchange markets and the WSE pushed down the stock price of Grupa LOTOS and the WIG 20 index by nearly 15% and 12%, respectively. In June, as a result of the correction our stock price declined to PLN 41.6, and WIG 20 fell down to 2,536.93, which in both cases was the lowest levels recorded in 2006. The second half of June brought a rebound, and until the beginning of September our stock price continued to grow. It was positively influenced by the development strategy for 2006–2012 presented by the Company, along with the information concerning intended exploitation of two new oil reserves in the Baltic Sea. In August, for the first time since the first listing, Grupa LOTOS stock outperformed PKN Orlen.

From September to the end of November, the stock price of Grupa LOTOS showed a downward trend and was subject to slight fluctuations, which was primarily attributable to the economic conditions on international markets, including a slide in refining margins and the Ural/Brent differential. The internal factors which had a bearing on the price of the Company shares in this period included publication of the financial forecast for 2006, which proved too conservative compared with the market expectations, and release of the results for Q3 2006, even though the Company's net profit for the period was higher than the market consensus. At the same time, starting from June the WIG 20 index continued on a path of growth, with minor fluctuations until the end of the year. In the last month of 2006, Grupa LOTOS shares showed an upward trend again.

During 2006, the stock price of Grupa LOTOS shares outperformed the WIG-Paliwa index of fuel companies, comprising shares of Grupa LOTOS, PKN Orlen, PGNiG and MOL. As at the end of the year, the price of the Company shares reached PLN 49.30, having grown by 10.3% over the year. The WIG Paliwa index was 36,014.39, which means a 12.6% decline in comparison with the value at the beginning of January, whereas WIG 20 reached 3,429.79, which represents the highest level during the year. As at the end of the year the index stood at 3,306.14, and its annual growth rate amounted 22.7%.

3 CHANGES IN THE KEY MANAGEMENT RULES OF GRUPA LOTOS S.A. AND CORPORATE GOVERNANCE RULES APPLIED BY GRUPA LOTOS S.A.

3.1 CHANGES IN THE KEY MANAGEMENT RULES OF GRUPA LOTOS S.A.

In 2006, the key changes in the management rules followed from the Company's reorganisation aimed at ensuring effective implementation of "The LOTOS Group's Strategy until 2012" and reducing the cost of the Company's operations, which will result in improvement of the efficiency ratios and better communication between the organisational units. As a result of establishing new organisational units, the scope of responsibilities of the employees in charge of the newly-created units was changed.

3.2 CORPORATE GOVERNANCE RULES APPLIED BY GRUPA LOTOS S.A.

Pursuant to the statement of the Management Board of Grupa LOTOS S.A. of May 15th 2006, the Company observes all corporate governance rules provided for in Best Practices in Public Companies (document issued by Warsaw Stock Exchange). with the exception of rules Nos. 14, 20, 27, 28, 38 and 43.

Rule No. 14
A resolution not to consider an item on the agenda may be adopted only if it is supported by sound reasons. Any motion in this respect should be accompanied by a detailed justification.
A decision to remove from the agenda an item put on the agenda at a shareholder's request or not to consider such an item requires a general meeting resolution, once all the shareholders present who put the item on the agenda have given their consent, supported by 75% of the votes present at the meeting.

Comment
Pursuant to Par. 6.5 of the General Shareholders Meeting's By-Laws, a resolution not to consider an item on the agenda of the General Shareholders Meeting may be adopted only if it is supported by sound and material reasons and the relevant motion should be accompanied by a detailed explanation. Removal of an item put on the agenda at a shareholder's request or a decision not to consider such an item requires consent of the shareholder or shareholders who requested that item on the agenda and the resolution of the General Shareholders Meeting adopted with an absolute majority of votes.
The aforementioned limitation to absolute majority of votes is related to the Company's role in the Polish oil sector and the need to retain the strategic shareholder's influence over the Company's operations in line with the Strategy for the Oil Industry in Poland.

Rule No. 20
a) At least half the members of the supervisory board should be independent members, subject to point (d) below. Independent members of the supervisory board should not have relations with the company and its shareholders or employees which could significantly affect the independent member's ability to make impartial decisions;
b) Detailed independence criteria should be laid down in the company's articles of association,
c) Without the consent of the majority of independent supervisory board members, no resolutions should be adopted on the following issues:
- performances of any kind by the company and any entities associated with the company in favour of management board members;
- consent to the execution by the company or a subsidiary of a key agreement with an entity associated with the company, a member of the supervisory board or management board, or with their associated entities; and
- appointment of an auditor to audit the company's financial statements.

d) In companies where one shareholder holds a block of shares carrying over 50% of all voting rights, the supervisory board should consist of at least two independent members, including an independent chairman of the audit committee, should such a committee be set up.

Comment
There are no "independent members" at the Company due to the Company's present shareholding structure and its role in the Polish oil sector. However, the Company does not rule out adoption of the relevant regulations in the future. The Supervisory Board has appointed the following standing committees: Remuneration Committee, Audit Committee, and Strategy and Development Committee.

Rule No. 27
Supervisory board members' remuneration should be set on the basis of transparent procedures and rules. The remuneration should be fair but should not constitute a significant cost item for the company or have a material impact on its financial results. It should also be in reasonable relation to the remuneration of members of the management board. The total amount of all supervisory board members' remuneration, as well as the remuneration of individual members, with a breakdown of its various elements, should be disclosed in the annual report together with information on the procedures and rules applied to determine it.
Comment
The Supervisory Board members' remuneration is subject to limitations and rules defined in the Act on Remunerating Persons Managing Certain Legal Entities of March 3rd 2000 (Dz.U. of 2000 No. 26, item 306, as amended) and in the secondary legislation adopted on the basis of the Act.

Rule No. 28
The supervisory board should operate in accordance with its by-laws, which should be publicly available.
The by-laws should stipulate that at least two committees should be set up:
-audit committee, and
- remuneration committee.
The remuneration committee should consist of at least two independent members and at least one person having relevant qualifications and experience in accounting and finance. The committee's tasks should be specified in the supervisory board by-laws. The committees should present reports on their activities to the supervisory board every year. The company should then make these reports available to its shareholders.
Comment
The Company has Supervisory Board's By-Laws in place, available to the public at www.lotos.pl. Presently, there are no Supervisory Board members with an "independent" status. The absence of independent members stems from the current shareholding structure of the Company and its role in the Polish fuel sector. However, the Company does not rule out that it will adopt relevant regulations in the future. Par. 9 of the Supervisory Board's By-Laws provides, however, for the appointment of three standing committees: Remuneration Committee, Audit Committee, and Strategy and Development Committee.
Additionally, in line with Par. 9.1 of the Supervisory Board's By-Laws, the Supervisory Board may appoint working teams from among its members in order to investigate specific issues.

Rule No. 38
The remuneration of management board members should be set on the basis of transparent procedures and rules, taking into account its incentive nature and ensuring effective and smooth management of the company. The remuneration should correspond to the size of the company's business enterprise, should be in reasonable relation to business results, and be related to the scope of responsibilities in a given position, taking into account the level of remuneration of members of management boards at similar companies on a similar market.
Comment
The Management Board members' remuneration is subject to limitations and rules defined in the Act on Remunerating Persons Managing Certain Legal Entities of March 3rd 2000 (Dz.U. of 2000, No. 26, item 306, as amended) and in the secondary legislation adopted on the basis of the Act.

Rule No. 43
The auditor should be selected by the supervisory board on the recommendation of the audit committee, or by the general meeting on the recommendation of the supervisory board containing the audit committee recommendation. If an auditor other than the one recommended by the audit committee is chosen by either the supervisory board or the general meeting, detailed reasons should be given. Information on the selection of an auditing entity together with the relevant justification should be disclosed in the annual report.

Comment
The selection of an auditing entity is made based on recommendation of the Audit Committee. The Audit Committee makes recommendation on the basis of transparent rules and the market conditions. Since there are no Supervisory Board members with the "independent" status, the Audit Committee does not meet the relevant criteria following from the corporate governance rules. (see comment to Rule 20 and 28)

In 2006, the Company did not depart from the corporate governance rules the compliance with which was declared in the statement by the Management Board of May 15th 2006.

Concurrently, the Management Board of Grupa LOTOS S.A. reports that the valid statement of the Company's compliance with corporate governance rules will be published by July 1st 2007, in accordance with the WSE Rules.

4 KEY PRODUCTS, GOODS AND SERVICES OF GRUPA LOTOS S.A.

Sales structure of Grupa LOTOS S.A.

(%)	2006	2005
Diesel oil	36.61%	32.87%
Gasolines	23.18%	25.59%
Fuel oil, including:	16.62%	19.22%
light fuel oil	6.57%	10.16%

Sales of Grupa LOTOS S.A. by products, goods and services

(PLN '000)

Item	Jan 1 – Dec 31 2006	% share	Jan 1 – Dec 31 2005	% share
Gasolines	5,334,104	31.8%	4,218,448	34.4%
Diesel oil	7,680,183	45.9%	5,224,488	42.6%
Light fuel oil	955,390	5.7%	1,066,129	8.7%
Heavy fuel oil	614,245	3.7%	347,529	2.8%
Jet-A1 aviation fuel	919,873	5.5%	536,256	4.4%
Base oils	355,200	2.1%	250,302	2.0%
Bitumens and components for their production	515,192	3.1%	296,497	2.4%
Liquid gases	132,568	0.8%	86,696	0.7%
Other refinery products	148,250	0.9%	189,153	1.5%
Total crude oil products and goods, including:	**16,655,005**	**99.5%**	**12,215,498**	**99.5%**
Other goods and materials	5,334	0.0%	56,082	0.0%
Services	86,910	0.5%	4,210	0.5%
Total	**16,747,249**	**100.0%**	**12,275,790**	**100.0%**
Elimination of excise tax and fuel charge	(5,117,428)		(3,730,062)	
Total	**11,629,821**		**8,545,728**	

Sales of Grupa LOTOS S.A. by products, goods and services

(thousands of tonnes)

Item	2006	% share	2005	% share
Gasolines	1,581	23.18%	1,352	25.59%
Diesel oil	2,498	36.61%	1,737	32.87%
Light fuel oil	448	6.57%	537	10.16%
Heavy fuel oil	686	10.05%	478	9.06%
Jet-A1 aviation fuel	450	6.60%	282	5.35%
Lubricants	0	0.00%	0	0.00%
Base oils	172	2.52%	156	2.95%
Bitumens and components for their production	780	11.43%	523	9.89%
Liquid gases	63	0.92%	48	0.91%
Other refinery products	145	2.13%	170	3.22%
Total crude oil products and goods	**6,823**	**100.00%**	**5,283**	**100.00%**

In 2006, Grupa LOTOS S.A.'s sales volume was 29% higher than in 2005, and stood at 6,823 thousand tonnes. An increase was recorded with respect to all product types, except for light fuel oil, whose sales fell to 448 thousand tonnes (83% of the previous year's figure). Relative to 2005, the most substantial rise in sales volume (59%) was recorded in the aviation fuel group (up by 168 thousand tonnes). Strong sales were also reported in the case of bitumens and heavy fuel oil: they rose by 49% and 43%, respectively. The increase of 760 thousand tonnes in Grupa LOTOS S.A.'s sales volume was driven mainly by a 44% rise in sales of diesel oil (the increase represents approximately 50% of the total year-on-year growth in the Company's sales volume). A factor which had a particularly significant impact on Grupa LOTOS S.A.'s strong sales in 2006 was the sales of gasoline. A 17% increase in that product group improved the total sales volume by 230 thousand tonnes. Sales of liquid gases and base oils also grew, by 30% and 10%, respectively, which in aggregate translated into a 15 thousand tonne rise in the volume of products sold.

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

Net sales revenue of Grupa LOTOS S.A. by markets

(PLN '000)	Jan 1 – Dec 31 2006	Share (%)	Jan 1 – Dec 31 2005	Share (%)
Domestic sales, including:	14,149,767	97.8%	10,348,532	84.3%
- products	13,775,347	82.3%	9,327,752	76.0%
- goods and materials	374,420	15.5%	1,020,780	8.3%
Export sales, including:	2,597,482	2.2%	1,927,258	15.7%
- products	2,597,388	2.2%	1,927,258	15.7%
- goods and materials	94	0.0%	-	-
Total	16,747,249	100.0%	12,275,790	100.0%
Including excise tax and fuel charge	(5,117,428)		(3,730,062)	
TOTAL	11,629,821		8,545,728	

Key customers of Grupa LOTOS S.A. in 2006

In 2006, Grupa LOTOS S.A. had two customers whose shares in Grupa LOTOS S.A.'s sales exceeded 10%. These were the subsidiaries LOTOS Paliwa Sp. z o.o. and LOTOS Partner Sp. z o.o., with respective shares of 38.2% and 33.3%.

Grupa LOTOS S.A.'s purchases of oil products and goods by region in 2006

(PLN '000)	Jan 1 – Dec 31 2006	Share (%)	Jan 1 – Dec 31 2005	Share (%)
	for the period		for the period	
Domestic purchases	**850,829**	**8.0%**	**1,164,705**	**15.2%**
Imports	**9,837,887**	**92.0%**	**6,501,501**	**84.8%**
Total purchases	**10,688,716**	**100.0%**	**7,666,206**	**100.0%**

Structure of Grupa LOTOS S.A.'s purchases in 2006

(PLN '000)	Jan 1 – Dec 31 2006	Share (%)
Raw materials	10,374,759	88.1%
Goods	313,417	2.7%
Services	600,998	5.1%
Other purchases	482,406	4.1%
Total	**11,771,580**	**100.0%**

Structure of Grupa LOTOS S.A. oil product supplies in 2006

(PLN '000)	Jan 1 – Dec 31 2006	Share (%)	Jan 1 – Dec 31 2005	Share (%)
Diesel oils	94,773	30.24%	-	-
Gasolines	103,603	33.05%	-	-
Light fuel oil	112,792	35.99%	597,345	100.00%
Heavy fuel oil	2,249	0.72%	-	-
Total	**313,417**	100.00%	597,345	100.00%

Grupa LOTOS S.A.'s major suppliers in 2006

In 2006, suppliers whose share in Grupa LOTOS S.A.'s purchases exceeded 10% of its revenue included J&S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of United Kingdom, whose respective shares in Grupa LOTOS S.A.'s purchases amounted to 45.2% and 21.7%.

6 KEY FINANCIAL AND ECONOMIC DATA CONTAINED IN THE ANNUAL FINANCIAL STATEMENTS AND NON-RECURRING FACTORS AND EVENTS WITH A BEARING ON GRUPA LOTOS S.A.'s PERFORMANCE

6.1 INCOME STATEMENT

SALES REVENUE

In 2006, Grupa LOTOS S.A. generated net revenue from sales of products, goods for resale and materials of PLN 11,629.8m, up by 36.1% from 2005. The net revenue from sales of products increased by 47.0 % and accounted for 97.4% of total sales revenue. The 2006 net revenue from sales of goods for resale and materials amounted to PLN 304.1m, which represented 36.2% of the 2005 figure. Net domestic revenue from sales of products accounted for 76.9% of total net revenue from sales of products. The 2006 total sales volume amounted to 6,822.6 thousand tonnes, of which 100.3 thousand tonnes were fuel sales and 53.2 thousand tonnes were crude oil sales. Relative to 2005, the total sales volume increased by 1,539.4 thousand tonnes, or 29.1% (including diesel oils by 761.2 thousand tonnes, gasolines by 229.1 thousand tonnes, bitumens and bitumen components by 257.2 thousand tonnes, and heavy fuel oils by 207.4 thousand tonnes). The 2006 increase in sales revenue was driven not only by the higher sales volume but also by higher prices of crude oil and petroleum products on global markets. The average net selling price of products and goods was PLN 1,694 per tonne and increased by 5.1% on 2005.

OPERATING PROFIT

In 2006, the cost of sales amounted to PLN 10,722.0m and was 42.0% higher than in 2005. The unit cost of sales amounted to PLN 1,563 per tonne, up by 13.4% from 2005. The gross profit on sales amounted to PLN 907.8m and was 8.9% lower year on year. The decline was attributable mainly to the deterioration in the business environment of the refining operations seen in 2006, and in particular to lower average refining margins. The average refining margin in 2006 was USD 4.81 /bbl, which means a 14.0% drop on the 2005 figure. In 2006, the Company incurred selling costs of PLN 400.2m, 28.0% up year on year, principally owing to a 29.1% rise in sales volume. The latter resulted in higher cost of railway and sea transport, and increased cost of fuel storage connected with larger volumes of fuels dispatched from warehouses in Poland. A 11.9% rise in general and administrative expenses followed from the expanded scale of business. The aforementioned factors as well as a more substantial loss on other operating activities brought about a 36.7% drop in the operating profit relative to 2005, to PLN 338.5m.

FINANCING ACTIVITIES

The 2006 profit on financing activities stood at PLN 153.0m, up by PLN 40.9m, or 36.5%, on the previous year's figure. The main causes of the increase include a PLN 14.6m increase in dividends received from subsidiary undertakings in 2006, PLN 13.9m higher foreign exchange gains, and a PLN 40.9m rise in profit on settlement of derivatives. At the same time, gains on disposal of investments fell by PLN 36.9m in 2006.

PRE-TAX PROFIT AND NET PROFIT

The 2006 pre-tax profit generated by Grupa LOTOS S.A. stood at PLN 491.5m, down by 24.0% on the 2005 figure. The 2006 net profit on continuing operations amounted to PLN 406.7m, down by PLN 125.6m year on year.

6.2 BALANCE SHEET

As at December 31st 2006 Grupa LOTOS S.A.'s assets, equity and liabilities as disclosed in the balance sheet totalled PLN 5,977.3m following an increase of PLN 601.7m in 2006. A PLN 245.3m growth (9.4%) in non-current assets relative to the figure reported as at December 31st 2005 was mainly driven by a PLN 111.5m increase in property, plant and equipment and PLN 122.5m growth in prepayments for tangible assets under construction, related principally to the Comprehensive Technical Upgrade Programme.

As at December 31st 2006, the current assets stood at PLN 3,116.1m, up by PLN 356.5m (12.9%) from 2005. The inventories grew by PLN 317.3m, mainly as a result of increased sales volume, higher prices of raw materials and products and a higher level of mandatory stocks. Increased sales volume and higher prices of products also contributed to a PLN 460.1m rise in trade receivables. Additionally, in 2006 current financial assets declined by PLN 130.6m, following the disposal of securities purchased in 2005 with the share issue proceeds and a PLN 297.7m drop in cash and cash equivalent.
The share of non-current assets in the asset structure fell slightly, from 48.7% in 2005 to 47.9% in 2006, mainly due to a drop in the share of property, plant and equipment and financial assets in total assets. A moderate rise in the share of current assets in total assets is attributable to the fact that the increase in the share of inventories and receivables was larger than the drop in the share of current financial assets and cash and cash equivalents.

A PLN 406.7m increase in equity of Grupa LOTOS S.A. resulted from higher retained earnings in 2006.
The share of equity in total equity and liabilities decreased slightly, from 75.9% in 2005 to 75.0% in 2006.

In 2006, non-current liabilities fell by PLN 11.3m, mainly due to lower deferred tax liability. As at December 31st 2006, current liabilities stood at PLN 1,311.0m, up by almost PLN 206.3m compared with the level as at December 31st 2005, which mainly resulted from revolving credit facilities contracted in 2006, whose amount stood at PLN 120.3m as at the end of the year, and a PLN 85.8m increase in current liabilities, accruals and deferred income, related mainly to taxes and social security.

6.3 CASH FLOWS

As at the end of 2006, the balance of cash held by Grupa LOTOS S.A., including bank overdrafts, was negative, at - PLN 119.0m, having decreased by PLN 418.0m relative to the end of the previous year.

Grupa LOTOS S.A.'s net cash from operating activities in 2006 amounted to -PLN 191.9m, and dropped from the positive balance of PLN 426.6m recorded in 2005. The factors which contributed to the negative balance included a PLN 451.9m increase in receivables and a PLN 317.3m increase in inventories. The difference between the 2006 net cash used in operating activities and the corresponding figure recorded in 2005 is attributable mainly to:
- PLN 257.2m lower increase in liabilities and accruals and deferred income in 2006 compared with 2005, due chiefly to higher growth of crude oil prices in 2005,
- PLN 125.6m lower net profit generated in 2006 compared with the 2005 net profit,
- PLN 101.9m higher corporate income tax paid in 2006,
- PLN 100.1m higher increase in receivables, resulting primarily from higher sales volumes,
- PLN 172.9m lower increase in inventories in 2006 compared with 2005, due to higher growth of crude oil prices in 2005 than in 2006.

In 2006, net cash used in investing activities amounted to -PLN 227.3m, having decreased from -PLN 713.2m in 2005. The change was caused mainly by the 2005 expenditure on the acquisition of non-current financial assets for PLN 234.9m in 2005 (financed with the proceeds from the new issue of shares), and sale of current financial assets for PLN 123.8m in 2006, whereas in 2005 Grupa LOTOS S.A. purchased current financial assets for PLN 90.2m.
Grupa LOTOS S.A. recorded a zero balance of net cash from financing activities in 2006, compared with a high positive balance of ca. PLN 697.6m in 2005. This decrease in cash provided by financing activities is attributable to the issue of the Company shares in 2005, partly offset by an outflow of cash on repayment of loans.

6.4 NON-RECURRING EVENTS AFFECTING THE COMPANY'S OPERATING PERFORMANCE

In 2006, there did not occur any non-recurring events which could have a bearing on Grupa LOTOS S.A.'s performance.

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

7.1 LOANS AND BORROWINGS AS AT DECEMBER 31ST 2006

Loans and borrowings

PLN '000	Dec 31 2006	Dec 31 2005
Bank loans and credit facilities	120,309	-
Loans	-	-
	=============	=============
Total	**120,309**	**-**
	=============	=============
Including:		
Non-current portion	-	-
Current portion	120,309	-

Loans and borrowings by lending institution

PLN '000	Dec 31 2006	Dec 31 2005
Current portion		
Pekao S.A.	15,255	-
ING Bank Śląski S.A.	29,646	-
PKO BP S.A.	10,635	-
Bank Handlowy w Warszawie S.A.	60,791	-
Bank Millennium S.A.	1,941	-
BZ WBK S.A.	2,040	-
Kredyt Bank S.A.	1	-
	-------------	-------------
Total current portion	**120,309**	**-**
Value of loans in a particular currency after translation into PLN		
EUR	3,965	–
USD	58,366	–
PLN	57,978	–
	=============	=============
Total	**120,309**	**-**
	=============	=============

As at December 31st 2006, the average effective interest rate on the loans is 4.80 %.

Information on the borrowings, as at December 31st 2006:

Bank's name and form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non- current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN	Foreign currency	PLN	Foreign currency	PLN	Foreign currency	Current portion	Non-current portion		
Bank Millennium S.A.	Warsaw	30,000	-	1,941	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-	USD 40,000 or equivalent	28,050	-	-	-	overdraft facility	-	T/N WIBOR + bank's margin	representation on submission to enforcement
				32,547	USD 11,183	-	-		-	LIBOR USD SW + bank's margin	
				194	EUR 51	-	-		-	EURIBOR SW + bank's margin	
ING Bank Śląski S.A.	Warsaw	-	USD 9,000 or equivalent	56	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
				25,819	USD 8,871	-	-		-	1M LIBOR USD + bank's margin	
				3,771	EUR 984	-	-		-	1M EURIBOR + bank's margin	
PKO BP S.A.	Warsaw	100,000	-	10,635	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
BZ WBK S.A.	Warsaw	30,000	-	2,040	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
Bank Pekao S.A.	Warsaw	100,000	-	15,255	-	-	-	overdraft facility	-	1M WIBOR + bank's margin	representation on submission to enforcement
Kredyt Bank S.A.	Warsaw	10,000	-	1	-	-	-	overdraft facility	-	O/N WIBOR + bank's margin	representation on submission to enforcement
TOTAL				**120,309**	**USD 20,054**						
					EUR 1,035						

Banks' margins on the loans and borrowings fall in the range between 0.05% and 2.0%.

7.2 SURETIES AND GUARANTEES GRANTED TO GRUPA LOTOS S.A.

- On July 4th 2006, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a bank guarantee for the benefit of the Head of the Customs Chamber in Gdynia in order to secure liabilities towards the customs office, liabilities connected with tax and other charges that may arise in the period from July 4th 2006 to May 4th 2007, for the aggregate amount of up to PLN 160,000 thousand. The bank's commitment under the guarantee expires on July 3rd 2007.

- On May 23rd 2005, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued three performance bonds, for the amount of PLN 8.6m, for the benefit of the Military Property Agency (Agencja Mienia Wojskowego). On July 24th 2006 they were supplemented with another three guarantees for the total amount of PLN 20.06m. The total value of the guarantees is PLN 28,656 thousand. Their validity term expires on December 31st 2007.

- On November 6th 2006, at the request of Grupa LOTOS S.A., Citibank Handlowy issued a bank guarantee in the form of a letter of credit for USD 74,998 thousand. The letter of credit was issued to secure a commercial transaction: payment for supplies of crude oil from Kuwait. The contingent liability related to the letter of credit expired on January 11th 2007.

- On December 1st 2006, at the request of Grupa LOTOS S.A., Deutsche Bank Polska issued a bank guarantee in the form of a stand-by letter of credit for USD 12,000 thousand, for the benefit of Morgan Stanley Capital Group. The letter of credit was issued to secure a commercial transaction: payment for diesel oil. The contingent liability related to the letter of credit expired on January 31st 2007.

- On January 27th 2007, at the request of Grupa LOTOS S.A., Bank Handlowy w Warszawie S.A. issued a bank guarantee in the form of a letter of credit for USD 42,600 thousand. The guarantee expired on April 10th 2007.

8 ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During the period covered by the financial statements, Grupa LOTOS S.A. was able to meet all of its liabilities towards third parties. In the period from January 1st to December 31st 2006 the Company used working capital overdraft facilities. On December 31st 2006 the Company had available funds under the overdraft facilities. For a detailed specification of debt under loans see Note 24 to the Non-Consolidated financial statements.

As regards the Company's payment standing, the liquidity ratios as at December 31st 2006 were high.

Grupa LOTOS S.A.'s overall economic and financial situation was assessed by analysing the profitability, liquidity and debt ratios.

8.1.1.1.1 Item	2006	2005
Operating profit (PLN '000)	338,477	535,081
Operating margin (*1)*	2.91%	6.26%
Pre-tax profit (PLN'000)	491,511	647,170
Gross margin (*2)*	4.23%	7.57%
Net profit (PLN '000)	406,714	532,268
Net margin (*3)*	3.50%	6.23%
Return on equity (ROE) (*4)*	9.07%	13.05%
Return on assets (ROA) (*5)*	6.80%	9.90%
Current ratio (*6)*	2.38	2.50
Quick ratio (*7)*	1.18	1.36
Average collection period (in days) (*8)*	40.05	37.56
Average payment period (in days) (*9)*	24.21	28.11
Capital employed (*10)*	1,805,118	1,654,925
Capital employed to total assets (*11)*	30.20%	30.79%
Debt ratio (*12)*	24.96%	24.13%
Debt to equity ratio (*13)*	33.27%	31.80%

(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)*365*
*(9) (average trade payables/ cost of sales)*365*
(10) current assets - current liabilities
(11) capital employed /assets
(12) total liabilities/ assets
(13) total liabilities/ equity

9 KEY RISKS AND THREATS

9.1 EXTERNAL RISKS AND THREATS RELATED TO THE COMPANY'S MARKET ENVIRONMENT:

- **Risk related to the overall macroeconomic situation** – the financial situation of the Company is dependent on the domestic and global economic situation. The financial performance of Grupa LOTOS S.A. depends on: the GDP growth rate, the inflation rate, interest rates, population's private incomes, the unemployment rate, development of the road infrastructure, and the development of the services and retail sector. Any material changes in the aforementioned factors may adversely affect the pace at which Grupa LOTOS S.A.'s financial performance develops and improves. This risk affects all companies in the sector to a similar degree.

- **Risk related to future legal regulations** – the business and financial performance of Grupa LOTOS S.A. is affected by legal regulations (both internal – Polish regulations, and external – EU regulations), on such issues as taxes, mandatory stocks, product quality standards, protection of the natural environment, fuel storage, service stations and pipelines, and competition.
  Consequently, the introduction of any new, more restrictive regulation in any of the above areas, may lead to higher costs of operations and necessitate greater capital expenditure at the Company. Grupa LOTOS S.A. analyses information on any potential future legislation, in terms of how it may impact the Company's business. This risk affects all companies in the sector to a similar degree.

- **Risk related to changes in the fiscal regulations and their interpretation** – In Poland, fiscal regulations are subject to frequent changes which quite often result in interpretational ambiguity of tax legislation and differences in opinions between entrepreneurs and tax authorities. In its operations, Grupa LOTOS S.A. seeks to minimise tax-related risk. Nevertheless, it is not possible to define to what degree the Company is exposed to this risk.

- **Risk related to CO_2 emission allowances** – Another new risk relates to the fact that Grupa LOTOS S.A. refinery may be granted CO_2 emission allowances for 2008–2012 that are not sufficient to cover the CO_2 emissions level anticipated after the completion of the Comprehensive Technical Upgrade Programme. Such a situation might force Grupa LOTOS S.A. to purchase emission allowances on the free market and could cause a rise in its operating expenses.

9.2 INTERNAL RISKS AND THREATS RELATED TO THE COMPANY'S BUSINESS:

- **Financial risks** – the Company is primarily exposed to market risk, including the risk related to the refining margin fluctuations and the currency, interest rate, and credit risks. Grupa LOTOS S.A. has established procedures for managing each of those risk types, as described in detail in its Prospectus.

- **Risk related to the execution of the Comprehensive Technical Upgrade Programme (PKRT)** – the Programme is the Company's most important and the highest-value investment and development project. Major risks related to the execution of the Programme include the risk of high costs of investments, the risk of delays in project execution, and technological risks. Other risks related to the execution of the Programme are being gradually reduced, as the work on preparing and executing the project advances.

10 SIGNIFICANT AGREEMENTS CONNECTED WITH THE OPERATIONS OF GRUPA LOTOS S.A., INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS, INSURANCE AGREEMENTS, AND COOPERATION AGREEMENTS

- On December 28th 2006, Grupa LOTOS S.A. and LOTOS Asfalt Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) signed a significant agreement concerning sale of heating oil to LOTOS Asfalt Sp. z o.o.
  The agreement was concluded for indefinite term and provides for standard contractual penalties, whose value depends on the quantity of non-supplied or uncollected product, as the case may be. The estimated five-year value of the agreement is PLN 450,000 thousand. The agreement is considered significant as its estimated value exceeds 10% of the equity of Grupa LOTOS S.A. Concurrently, in connection with the consistent implementation of the policy of streamlining and restructuring the LOTOS Group's sales division, on January 1st 2007 Grupa LOTOS S.A. discontinued the sale of fuel oil to LOTOS Mazowsze S.A. (wholly-owned subsidiary of Grupa LOTOS S.A.).

- On October 24th 2006, Grupa LOTOS S.A. entered into an agreement with PETRACO OIL COMPANY Limited of Guernsey for the delivery of 9,000,000 (nine million) tonnes of REBCO crude oil from Rosneft resources to Grupa LOTOS S.A., in the period January 1st 2007–December 31st 2011. The term of the agreement may be extended by one year. The value of deliveries to be made under the agreement until 2011 amounts to approx. USD 2,600,000,000 (two billion and six hundred million U.S. dollars, that is PLN 8,024,900,000, translated at the mid exchange rate quoted by the National Bank of Poland for October 24th 2004). The terms and conditions of the agreement, including those concerning contractual penalties, do not differ from terms and conditions commonly applied in such agreements. Execution of the agreement is part of the Company's strategy for the years 2006–2012, which provides for diversification of oil supplies through:
  - increased own production,
  - supplies delivered via the Druzhba Pipeline from countries east of Poland,
  - supplies delivered by sea from other sources.

  The agreement is considered significant as its estimated value exceeds 10% of the equity of Grupa LOTOS S.A.

- On June 29th 2006, two complementary trade agreements were concluded between Grupa LOTOS S.A. and PKN Orlen S.A. The first agreement concerns sale of liquid fuels by Grupa LOTOS S.A. to PKN Orlen S.A., the other concerns Grupa LOTOS S.A.'s purchase of liquid fuels from PKN Orlen S.A. The total estimated value of these agreements amounted to PLN 200,000 thousand. The first agreement expired on October 31st 2006, the other on September 30th 2006. The agreements did not provide for any contractual penalties and did not prevent either party from seeking satisfaction of their claims for non-performance of the contractual obligations pursuant to laws of general application. The agreements did not provide for any conditions for its validity relating to a specific date or timeframe. They were concluded on standard market terms.

- On March 6th 2006, a significant trilateral agreement was signed between ConocoPhillips Poland Sp. z o.o., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Grupa LOTOS S.A., concerning the sale and delivery of liquid fuels to ConocoPhillips Poland Sp. z o.o. The agreement expires on December 31st 2006. Its estimated value is PLN 1,000,000 thousand. The agreement provides for contractual penalties with the estimated maximum value of PLN 25,000 thousand. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation pursuant to laws of general application. The agreement was concluded on standard market terms and was classified as a significant agreement due to its value, which exceeds 10% of the value of Grupa LOTOS S.A.'s equity.

- On February 13th 2006, BP Polska Sp. z o.o., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Grupa LOTOS S.A. signed a significant agreement providing for the sale of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite term and expires on

December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand. The agreement was classified as significant as its estimated value exceeds 10% of the value of Grupa LOTOS S.A.'s equity.

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

<u>Significant Agreements Concluded after the Balance-Sheet Date</u>

- On January 23rd 2007, Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) and BP Polska Sp. z o.o. signed a significant agreement concerning sale and delivery of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite term (until December 31st 2007) and its value is estimated at PLN 1,000,000 thousand. The agreement provides for contractual penalties of up to PLN 22,000 thousand but does not contain any provisions excluding the right to seek additional compensation pursuant to laws of general application. The agreement is deemed significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A.

- On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) signed an agreement whereby LOTOS Kolej Sp. z o.o. will provide comprehensive railway services to Grupa LOTOS S.A.
  The services include:
  - dispatch and receipt of railway shipments sent by or addressed to Grupa LOTOS S.A.,
  - procurement of the required number of tank cars of appropriate type for Grupa LOTOS S.A.'s shipments,
  - technical servicing and maintenance of proper technical condition of railway assets owned by Grupa LOTOS S.A.

  The agreement was concluded for five years. It provides for standard contractual penalties, whose amount will depend on the extent of LOTOS Kolej's delay in the performance of or failure to perform the services. The value of the agreement is estimated at approximately PLN 1,000,000 over the agreement term. The agreement is deemed significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A.

In 2006, Grupa LOTOS S.A. did not enter into any significant insurance or cooperation agreements.

11 ORGANISATIONAL OR CAPITAL LINKS BETWEEN GRUPA LOTOS S.A. AND OTHER ENTITIES, SPECIFICATION OF KEY DOMESTIC AND FOREIGN INVESTMENTS

11.1 ORGANISATIONAL OR CAPITAL LINKS AS AT DECEMBER 31ST 2006

Undertakings in which the Company Holds Shares or Votes at the General Shareholders Meeting

As at December 31st 2006 and December 31st 2005, the Company's share in the total vote at the General Shareholders Meetings of its subsidiary undertakings equalled the Company's share in the share capital of these undertakings

Entity	Registered office	Business profile	Percentage of share capital held by Grupa LOTOS S.A.	
			Dec 31 2006	**Dec 31 2005**
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	Sale of fuels and provision of services for retail networks of international concerns; logistic services	100.00%	100.00%
LOTOS Mazowsze S.A.	Mława	Sale of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sales of base oils	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	Construction of basic PKRT units; the company has not commenced operations	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	100.00%(1)	87.44%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	100.00%	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A(2))	Czechowice	Storage and distribution of fuel(3)	80.04%	80.04%
LOTOS Jasło S.A. (parent undertaking of another group; formerly Rafineria Jasło S.A. (4))	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale	80.01%	80.01%

Entity	Registered office	Business profile	Percentage of share capital held by Grupa LOTOS S.A.	
			Dec 31 2006	**Dec 31 2005**
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of reserves, crude oil and natural gas production	69.00%	69.00%
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	100.00%	100.00%
BiproRaf Sp. z o.o.	Gdańsk	Design services for oil industry	(5)	50.00%
Rafineria Nafty Glimar S.A. (Glimar Refinery) in liquidation	Gorlice	Refining (currently discontinued due to the company's bankruptcy)	91.54%	91.54%
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	Management of the Glimar Refinery assets	27.45%. (6)	90.00%
Associated undertakings				
LOTOS Tank Sp. z o.o. (8)	Jasło	Wholesale of liquid and gaseous fuels and derivative products	30.00%	30.00%
Other undertakings				
Naftoport Sp.z o.o.	Gdańsk	Operation of reloading terminals for crude oil and petroleum products	8.97%	8.97%(7)
Daltrade Ltd.	London	Import and distribution of chemical products	1.99%	1.99%

(1) On December 20th 2006, Grupa LOTOS S.A. acquired the remaining 12.56% of shares in LOTOS Ochrona Sp. z o.o. under a share purchase agreement. The total acquisition price of the shares was PLN 88 thousand.

(2) On December 19th 2005, the District Court of Katowice registered the change of the name of Rafineria Czechowice S.A. to LOTOS Czechowice S.A.

(3) As of March 31 2006, the Company discontinued the processing of crude oil.

(4) On January 2nd 2006, the District Court of Rzeszów registered the change of the name of Rafineria Jasło S.A. to LOTOS Jasło S.A.

(5) In connection with the disposal by Grupa LOTOS S.A. of shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) (see Note 35), as at the date of these financial statements, the PPU BiproRaf Sp. z o.o. shares were disclosed as current financial assets.

(6) On February 17th 2006, the District Court for Kraków – Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered an increase in the share capital of LOTOS Park Technologiczny Sp. z o.o. up to PLN 12,374 thousand. Following the increase, LOTOS Park Technologiczny Sp. z o.o.'s share capital is divided into 24,748 shares with a par value of PLN 500 per share, which confer the right to 24,748 votes. The share capital was increased through a cash contribution of PLN 4,300 thousand, as a result of which Grupa LOTOS S.A. increased its holding of LOTOS Park Technologiczny Sp. z o.o.'s share capital to 38.4% On December 6th 2006, following a contribution in kind, LOTOS Jasło S.A. acquired 9,866 shares in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. for a total price of PLN 4,933 thousand. Following the transaction, LOTOS Jasło S.A. holds 28.5% of LOTOS Park Technologiczny Sp. z o.o. shares. On January 19th 2007, the District Court for Kraków – Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered an increase in the share capital of LOTOS Park Technologiczny Sp. z o.o. up to PLN 17,307 thousand. Following the increase, LOTOS Park Technologiczny Sp. z o.o.'s share capital is divided into 34,634 shares with a par value of PLN 500 per share, conferring the right to 34,634 votes. On December 28th 2006, in connection with the incorporation of CBA Racer Sp. z o.o. into LOTOS Czechowice S.A., the latter's share in LOTOS Park Technologiczny Sp. z o.o.'s share capital rose from 28.26% to 35.58%. Following these changes in the shareholder structure of LOTOS Park Technologiczny Sp. z o.o., as at December 31st 2006 Grupa LOTOS S.A. held 27.45% of shares in LOTOS Park Technologiczny Sp. z o.o.

(7) On April 14th 2005, Grupa LOTOS S.A., as the Seller, and PERN Przyjaźń S.A. ("PERN"), as the Buyer, concluded an agreement concerning the sale of 13 shares with a par value of PLN 589 thousand per share and the aggregate par value of PLN 7,657 thousand, which as at the agreement date represented 16.67% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych Naftoport Sp. z o.o. ("Naftoport"). To be finalised, the transaction had to be approved by the Competition and Consumer Protection Office; such approval was issued on April 13th 2005. Following the sale, as at December 31st 2005 Grupa LOTOS S.A. held an 8.97% equity interest in Naftoport Sp. z o.o. The Company realised a profit of PLN 26,344 thousand on the sale.

(8) On April 11th 2007, Grupa LOTOS S.A. and LOTOS Jasło S.A. concluded an agreement on the purchase of 700 shares in LOTOS Tank Sp. z o.o. (see Note 35). The total acquisition cost of the shares was PLN 642.5 thousand. Following the transaction, Grupa LOTOS S.A. holds a 100% equity interest in LOTOS Tank Sp. z o.o.

11.2 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS

SHARE CAPITAL INCREASE AT LOTOS KOLEJ SP. Z O.O.

On April 12th 2006, the company's share capital was increased by PLN 1,767,000, from PLN 233,000 to PLN 2,000,000. The share capital is divided into 4,000 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 4,000 shares, i.e. 100% of the share capital, which represent 100% of the total vote at the General Shareholders Meeting of LOTOS Kolej Sp. z o.o.

SHARE CAPITAL INCREASE AT LOTOS BIOPALIWA SP. Z O.O.

On May 10th 2006, the relevant court registered an increase in the company's share capital from PLN 265,000 to PLN 10,000,000, which was effected by way of increasing the number of shares from 530 to 20,000. The par value of one share did not change and amounts to PLN 500 per share. LOTOS Biopaliwa Sp. z o.o. continues to be a wholly-owned subsidiary of LOTOS Czechowice S.A.
The share capital increase was made pursuant to Resolution No. 1/2006 of the Extraordinary General Shareholders Meeting of RC Parafiny Sp. z o.o. of April 3rd 2006.

SHARE CAPITAL INCREASE AT LOTOS PARK TECHNOLOGICZNY SP. Z O.O.

On January 20th 2006, an increase in the company's share capital, to PLN 8,074,000, following an in-kind contribution worth PLN 4,460,000, was registered. As at January 20th 2006, the company's shareholder structure was as follows:

- PRPH RCRemo Sp. z o.o. (17.55%),
- CBA Racer Sp. z o.o. (15.68%),
- LOTOS Czechowice S.A. (60.58%),
- Grupa LOTOS S.A. (5.57%),
- Kolaja&Partners Sp. z o.o. (0.62%).

Another share capital increase, to PLN 12,374,000, was made on February 20th 2006, by way of a cash contribution of PLN 4,300,000 by Grupa LOTOS S.A. As at February 20th 2006, the company's shareholder structure was as follows:

- PRPH RCRemo Sp. z o.o. (11.45%),
- CBA Racer Sp. z o.o. (10.23%),
- LOTOS Czechowice S.A. (39.53%),
- Grupa LOTOS S.A. (38.39%),
- Kolaja&Partners Sp. z o.o. (0.4%).

As a result of incorporation of PRHP RCRemo Sp. z o.o. by LOTOS Serwis Sp. z o.o., effected on June 30th 2006, the shareholder structure changed. From the incorporation date, the company's shareholder structure was as follows:

- LOTOS Serwis Sp. z o.o. (11.45%),
- CBA Racer Sp. z o.o. (10.23%),
- LOTOS Czechowice S.A. (39.53%),
- Grupa LOTOS S.A. (38.39%),
- Kolaja&Partners Sp. z o.o. (0.4%).

The next increase in the share capital of LOTOS Park Technologiczny Sp. z o.o., to PLN 17,307,000, was made on December 22nd 2006 as a result of LOTOS Jasło S.A. joining the company as a new shareholder, which made an in-kind contribution worth PLN 4,933,000. As at December 22nd 2006, the company's shareholder structure was as follows:

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

As a result of incorporation of CBA Racer Sp. z o.o. by LOTOS Czechowice S.A., effected on December 28th 2006, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. changed again. Since the incorporation date, the company's shareholders structure has been as follows:

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

11.3 KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE COMPANY.

INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS:

Grupa LOTOS S.A.'s major investments in tangible and intangible assets made in 2006 (PLN '000)

Item	Capital expenditure Jan 1 – Dec 31 2006
Construction and assembly work	89,935
Procurement from external suppliers – purchases	22,546
Acquisition of intangible assets	11,275
Other capital expenditure	163,725
Total	**287,481**

EQUITY INVESTMENTS

In 2006, Grupa LOTOS S.A. did not carry out any equity investments with undertakings other than its related companies.

12 TRANSACTIONS WITH RELATED UNDERTAKINGS

Transactions in excess of EUR 500,000 executed by the Parent Undertaking with its related undertakings, (PLN '000)

No.	12.1.1.1.1 Party to the transaction	Sale	Purchase
		(PLN '000)	(PLN '000)
1	LOTOS Paliwa Sp. z o.o.	6,401,582	-
2	LOTOS Partner Sp. z o.o.	5,579,866	96,273
3	LOTOS Oil S.A.	175,830	-
4	LOTOS Parafiny Sp. z o.o.	63,180	-
5	LOTOS Kolej Sp. z o.o.	6,504	99,148
6	LOTOS Serwis Sp. z o.o.	4,969	57,831
7	LOTOS Mazowsze S.A.	257,145	2,271
8	LOTOS Lab Sp. z o.o.	-	13,598
9	LOTOS Ochrona Sp. z o.o.	-	5,195
10	LOTOS Straż Sp. z o.o.	-	10,281
11	LOTOS Asfalt Sp. z o.o.	541,433	-
12	BiproRaf Sp. z o.o.	-	6,231
13	Grupa Kapitałowa LOTOS Jasło S.A.	334,531	11,396
14	Grupa Kapitałowa LOTOS Czechowice S.A.	65,208	211,136
15	Grupa Kapitałowa Petrobaltic S.A	-	357,676

* The equivalent of EUR 500,000 is PLN 1,950 thousand (EUR/PLN = 3,8991 – arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of each month in the period January 1st – December 31st 2006).

Except for the transactions described below, in the period from January 1st to December 31st 2006 Grupa LOTOS S.A. did not enter into any non-typical transactions with any of its related parties whose value would exceed EUR 500 thousand.

- On December 28th 2006, Grupa LOTOS S.A. and LOTOS Asfalt Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) signed a significant agreement concerning sale of fuel oil to LOTOS Asfalt Sp. z o.o. The agreement was concluded for an indefinite term and provides for standard contractual penalties, whose value depends on the quantity of non0supplied or uncollected product, as the case may be. The estimated value of the agreement over its five-year term is approx. PLN 450,000 thousand. Concurrently, in connection with the consistent implementation of the policy of streamlining and restructuring the LOTOS Group's sales division, on January 1st 2007 Grupa LOTOS S.A. discontinued the sale of fuel oil to LOTOS Mazowsze S.A. (wholly-owned by Grupa LOTOS S.A.).
- On March 6th 2006, ConocoPhillips Poland Sp. z o.o., LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A. concluded a trilateral significant agreement providing for the sale and supply of liquid fuels to ConocoPhillips Poland Sp. z o.o. The agreement was concluded for a definite term and expires on December 31st 2006. Its estimated value is PLN 1,000,000 thousand. The agreement provides for contractual penalties with the estimated maximum value of PLN 25,000 thousand. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation pursuant to laws of general application. The agreement was concluded on standard market terms.
- On February 13th 2006, BP Polska Sp. z o.o., LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A. signed a significant agreement providing for the sale of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite term and expires on December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand.
- On February 2nd 2006, Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A. signed a significant agreement providing for the sale of liquid fuels to Neste Polska Sp. z o.o.
  The agreement was concluded for a definite term and expires on December 31st 2008. The estimated value of the agreement during its term is PLN 2,400,000 thousand. The agreement provides for

contractual penalties with the estimated maximum value of PLN 55,000 thousand. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation pursuant to laws of general application.
Simultaneously, on February 2nd 2005, in connection with the conclusion of the aforementioned trilateral agreement, LOTOS Partner Sp. z o.o. and Neste Polska Sp. z o.o. terminated the previous agreement for the sale of liquid fuels of January 1st 2004. Given the new agreement signed between Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o., and Grupa LOTOS S.A., the termination is not expected to give rise to any material financial consequences.

- On January 31st 2006 Grupa LOTOS S.A. acquired 8,600 shares (with the total value of PLN 4,300 thousand) in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. The shares were paid up with cash. In the transaction Grupa LOTOS S.A. acquired 34.7% of the shares in LOTOS Park Technologiczny Sp. z o.o., with the par value of PLN 500 per share. Following the transaction, Grupa LOTOS S.A.'s stake in LOTOS Park Technologiczny Sp. z o.o. is 38.4%. The transaction was executed as part of the programme of streamlining the structure of the LOTOS Group and the programme of restructuring the Southern Refineries. The financial assets which are the object of the transaction have been classified as significant due to the fact that the acquired shares represent more than 20% of the shares in LOTOS Park Technologiczny Sp. z o.o.
- In exchange for a contribution in kind, on January 2nd 2006 LOTOS Czechowice S.A. (formerly Rafineria Czechowice S.A.) acquired 8,920 shares, with the total value of PLN 4,460 thousand, in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. In the transaction LOTOS Czechowice S.A. acquired 55.24% of the shares in LOTOS Park Technologiczny Sp. z o.o. with the par value of PLN 500 per share. Following the transaction LOTOS Czechowice S.A. holds 60.58% of the shares in LOTOS Park Technologiczny Sp. z o.o. Prior to the transaction, Grupa LOTOS S.A. and LOTOS Czechowice S.A. held 12.5% and 11.93%, respectively, of the shares in LOTOS Park Technologiczny Sp. z o.o. Additionally, Grupa LOTOS S.A. holds an 80.04% stake in LOTOS Czechowice S.A. The transaction was executed as part of the programme of streamlining the structure of the LOTOS Group and the programme of restructuring the Southern Refineries. The financial assets which are the object of the transaction have been classified as significant due to the fact that the acquired shares represent more than 20% of the shares in LOTOS Park Technologiczny Sp. z o.o.

Transactions after the Balance-Sheet Date

- On January 23rd 2007, Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and BP Polska Sp. z o.o. signed a significant agreement concerning sale and supply of liquid fuels to BP Polska Sp. z o.o. The agreement was signed for a definite term, until December 31st 2007. Its estimated value is PLN 1,000,000 thousand. The agreement contains provisions concerning contractual penalties, whose value may not exceed PLN 22,000 thousand. The agreement does not contain any provisions which would prevent the parties from seeking additional compensation pursuant to laws of general application. The agreement was classified as significant due to its value, which exceeds 10% of the share capital of Grupa LOTOS S.A.
- On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) signed an agreement whereby LOTOS Kolej Sp. z o.o. will provide comprehensive railway services to Grupa LOTOS S.A.

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

  The agreement was concluded for five years. It provides for standard contractual penalties, whose amount will depend on the extent of LOTOS Kolej's delay in the performance of or failure to perform the services. The value of the agreement is estimated at approximately PLN 1,000,000 over the agreement term. The agreement is deemed significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A.

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

13.1 LOANS ADVANCED

Loan Advanced by Grupa LOTOS S.A. to Rafineria Nafty Glimar S.A.

On September 23rd 2003 and on April 8th 2004, Grupa LOTOS S.A. and Rafineria Nafty Glimar S.A. entered into loan agreements for the financing of operating and investing activities, including, in particular, the Glimar Hydrocomplex investment project, for an aggregate amount of PLN 90m. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty Glimar S.A. under these agreements. Additionally, in connection with the Letter of Comfort signed by Grupa LOTOS S.A. on February 12th 2004 for Bank Przemysłowo-Handlowy S.A., the Company undertook commitments relating to the co-financing of the Glimar Hydrocomplex investment project and maintaining of an appropriate financial standing of Rafineria Nafty Glimar S.A. In the opinion of the Company's Management Board, these commitments do not represent financial liabilities as at the balance-sheet date.

As at December 31st 2006 and December 31st 2005, assets under the loans were fully covered by a valuation allowance, and as at December 31st 2006 and December 31st 2005 the Company created a provision of PLN 42m for the potential liabilities relating to these agreements (see Note 25 to the financial statements of Grupa LOTOS S.A. for the year ended December 31st 2006).

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt.

Loan Advanced by Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o.

On September 8th 2005, Grupa LOTOS S.A. and LOTOS Parafiny Sp. z o.o. concluded a loan agreement under which LOTOS Parafiny Sp. z o.o. was lent PLN 2,500 thousand to be repaid in full by the end of 2008. LOTOS Parafiny Sp. z o.o. contracted the loan to finance the investment in a candle production plant in Czechowice.

On March 10th 2006, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 4,500 thousand to LOTOS Parafiny Sp. z o.o. The loan, repayable in full by the end of June 2008, is intended to finance the investment in a candle production plant in Czechowice.

Loan Advanced by Grupa LOTOS S.A. to LOTOS Park Technologiczny Sp. z o.o.

On August 24th 2005, Grupa LOTOS S.A. and LOTOS Park Technologiczny Sp. z o.o. concluded a loan agreement under which LOTOS Park Technologiczny Sp. z o.o. was lent PLN 1,900 thousand to be repaid in full by the end of August 2008.

On January 25th 2006, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 350 thousand to LOTOS Park Technologiczny Sp. z o.o. In line with the terms of the agreement, the loan was repaid in full in 2006.

As at December 31st 2006 and December 31st 2005 the total amount of loans advanced, together with interest, was PLN 7,535 thousand and PLN 4,467 thousand, respectively.

Loans Advanced after the Balance-Sheet Date

Loan Advanced by Grupa LOTOS S.A. to LOTOS Park Technologiczny Sp. z o.o.

On February 27th 2007, Grupa LOTOS S.A. executed an agreement on a loan of PLN 1,200 thousand to LOTOS Park Technologiczny Sp. z o.o. Under the terms of the loan agreement, the loan is to be disbursed in tranches.

On the agreement date, the first tranche of PLN 600 thousand was advanced. Under the terms of the agreement, the loan is repayable in full by the end of 2007.

13.2 SURETIES, GUARANTEES AND SECURITY INTERESTS

Surety Agreement of February 9th 2004 Concluded with the National Fund for Environmental Protection and Water Management

Under the agreement, the Company issued an irrevocable surety for repayment of the loan contracted by Rafineria Jasło S.A. from the National Fund for Environmental Protection and Water Management under a loan agreement of December 10th 2003. The surety covers the loan amount of up to PLN 15,000 thousand. In connection with the surety agreement, on February 6th 2004 Rafineria Jasło S.A. and the Company signed an agreement on securing the Company's interest with respect to the surety.

As at the date of these financial statements, the loan, subject to the annex of October 20th 2005, is secured with a registered pledge on the plastics processing unit owned by LOTOS Jasło, with a net value of PLN 8,155 thousand. The pledge was created under a registered pledge agreement of February 18th 2004.

Irrespectively of the above, the agreement states that LOTOS Jasło will seek to obtain a bank guarantee or surety to replace the surety issued by the Company.

If LOTOS Jasło is in breach of the agreement, it will pay the Company a contractual penalty of 10% of the surety value, subject to the reservation that if the value of the damage is higher than the contractual penalty, the Company may seek compensation equal to the full value of the damage.

Security Granted to Customs Office

- The validity of the promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure the Company's tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2008. The original validity term of the promissory note expired on March 16th 2007.

- The validity of the blank promissory note of July 7th 2005 for PLN 200,000 thousand, issued to secure the Company's tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2007. The original validity term of the blank promissory note expired on July 7th 2006.

Other Contingent Liabilities

- On January 3rd 2007, Grupa LOTOS S.A. issued a blank promissory note and a promissory note declaration as financial security for a contract with ABB Lummus Global Gmbh.

  As at December 31st 2006, the Company's liabilities under material agreements concerning capital expenditure on property, plant and equipment (PKRT) amounted to PLN 655m.

14 USE OF ISSUE PROCEEDS TO IMPLEMENT THE ISSUE OBJECTIVES

In line with the issue objectives presented in the Prospectus of Grupa LOTOS S.A., by December 31st 2006 the net issue proceeds were used to finance:

- acquisition of the Southern Refineries and Petrobaltic (PLN 257.3m),
- Comprehensive Technical Upgrade Programme (PKRT) (PLN 268.5m),
- PROSTA service stations network development programme (PLN 65m),
- modernisation projects at the Gdańsk Refinery (PLN 188m).

Considering the above, the remaining net proceeds from the issue amounting to PLN 227.3m will be used to finance the Comprehensive Technical Upgrade Programme.

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

Grupa LOTOS S.A. did not publish forecasts of its non-consolidated results for 2006. Performance under the consolidated forecasts published in Current Report No. 53/2006 of September 5th 2006 was presented in the Directors' Report on the Operations of the LOTOS Group.

16 MAJOR RESEARCH AND TECHNICAL DEVELOPMENT ACHIEVEMENTS OF GRUPA LOTOS S.A.

In 2006, the Company completed R&D work on and launched the production of the following new products:

Biodiesel EKO Oil
In 2006, the Company developed the technology and launched the production of a new type of diesel oil with 5% bio-component content (FAME).

LOTOS Oils
In 2006, the Company developed the technology and launched the production of a range of new types of lubricant oils, including:

- TURDUS SHPD 20W/50
- LOTOS Motor Oil SJ/CF 20W/50
- LOTOS Titanis LS GL-5 80W/90
- Engine oil CF-4 20W/50

Bitumens
In 2006, the Company developed the technology and launched the production of a new type of road bitumen (100/150 type), and performed a research project entitled "Research and Analysis of the Benefits of Using Multigrade 35/50 Unibit Bitumen Produced on the Basis of Grupa LOTOS S.A.'s Technologies in Road Concrete".

Other Products
In 2006, the Company began production tests and produced test batches of hydrotreated slack wax and TDAE plasticisers.

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

The cash, short-term securities and credit facility agreements as well as cash provided by operating activities of Grupa LOTOS S.A. are sufficient to fully cover the planned expenditure connected with the liabilities incurred to date in relation to the current investment projects and equity investments.

18 MATERIAL EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR AND AFTER ITS END, PRIOR TO THE RELEASE OF ANNUAL REPORT

Approval of the Strategy for the LOTOS Group until 2012

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

- In the upstream segment, the Company will develop through full integration and consolidation of Petrobaltic, maximising its value and obtaining direct access to hydrocarbon reserves abroad. The Strategy provides for the execution of projects characterised by appropriate financial parameters and acceptable level of risk, ensuring better security of oil supplies for the Company and diversification of supplies so that no more than 60% of deliveries are made from one direction. By 2012, the LOTOS Group plans to increase the annual crude oil production capacity on the Baltic Sea from 300 thousand to 1 million tonnes.
- In the refining segment, the Strategy will be carried out primarily by executing the Comprehensive Technical Upgrade Programme. The Programme assumes the construction of atmospheric and vacuum distillation units with designed annual capacity of 4.5 million tonnes, solvent deasphalting unit SDA/ROSE, mild hydrocracking unit MHC (production of fuel engine components, mainly diesel oil) and heavy residue gasification unit IGCC for own purposes. Additionally, the LOTOS Group plans to build a new diesel oil hydro-desulphurisation unit, which will enable it to produce diesel oil with sulphur content of 10ppm, increase the production capacity of the existing hydrocracking unit and the units producing motor gasolines, and to build a new unit for the separation of xylene fractions. The new units, to be launched successively in 2010, will expand the complexity and the processing capacity of the Gdańsk refinery (up to 10-10.5 million tonnes annually).
- In the marketing segment, the LOTOS Group plans to develop retail sales and achieve a target market share of 10%, assuming that the number of fuel stations will be increased to 500, sales at the stations will grow following the implementation and operation of loyalty and fleet programmes. With respect to wholesale, the Company intends to achieve a target market share of 30%, assuming growth in sales to institutional customers and development of a portfolio of long-term contracts, increase in the annual volume of sold fuel from 4 million tonnes to 8 million tonnes in 2012, commencement of sales of biofuels, and achievement of a larger share in the JET aviation fuel market thanks to such initiatives as launch of direct deliveries to airports.

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

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

Comprehensive Technical Upgrade Programme

With respect to the execution of the Comprehensive Technical Upgrade Programme (PKRT, the Project), which is of key importance for the Company' s development and future growth of the shareholder value, the

Company's efforts in the first half of 2006 focused on further technological development, negotiating agreements concerning various areas of the Project and contacts with selected financial institutions. Additionally, the Company continued the work on expanding the scope of the Project, on its technological development, on updating the Project's financial assumptions, and on selecting the contractors for the implementation of investment tasks under the Project.

The end of January and beginning of February 2006 saw the completion of work by the licensors of three main technologies for the Project – Shell Global Solutions and KBR – related to developing the front-end engineering designs of the Project's main units. The ROSE unit front-end engineering design was delivered to Grupa LOTOS S.A. by KBR in January, and the front-end engineering designs for MHC and IGCC units were delivered by SGSI in February 2007.

On January 31st 2006, the terms of cooperation were agreed upon and the parties signed agreements on the preparation of the front-end engineering design for PKRT and engineering services relating to the development of the Project (FEED-PB Agreement) with selected bidders, i.e. Fluor and the consortium of UHDE/Technip. The total value of these agreements amounted to PLN 101,736 thousand and increased the value of assets under construction. The Company is now analysing the two submitted designs in order to develop a single comprehensive design best suited to its needs. At the current stage of analysis, the Company is unable to determine the extent to which the designs can be practically used in the future in the preparation of the final version of the front-end engineering design for PKRT.

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

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

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

On June 27th 2006, the Supervisory Board of Grupa LOTOS S.A. approved the sending of letters of intent by Grupa LOTOS S.A., which have the financial effect of concluding agreements, concerning the delivery of four reactors for the MHC unit forming part of the PKRT Project. The assumption of financial obligations related to the delivery of the MHC reactors is one of the milestones in the PKRT execution schedule. To the extent described above, the work related to the construction of the reactors was executed in accordance with the schedule. As at December 31st 2006, the Company made a prepayment for the delivery in question amounting to PLN 75,290 thousand.

Upon completion in Q3 2006 of a two-stage tender for the construction of the HDS unit for diesel oil, which resulted in selection of the contractor and commencement of contract negotiations, on November 11th 2006 the Company's Management Board signed an EPC contract for the construction of the unit with ABB Lummus Global. Under the terms of the contract, the scope of the work comprises engineering, procurement and construction of the HDS unit. The unit will be constructed under a licence from Chevron Lummus Global. It will enable the Group to meet the quality requirements which are to apply to diesel oils as of 2009 (sulphur content of 10 ppm).

We continued our efforts to commence the construction of a new CDU unit as part of the Front End Engineering Design Contract of August 2006 concluded with Uhde Edeleanu. Given the significant progress of the work, in December 2006 invitations to tender for the construction of the CDU unit were sent to six leading engineering companies. Based on the bids submitted in February of 2007, Grupa LOTOS S.A. held negotiations, as a result of which the selected contractor will commence work in April 2007. Following the construction of the new CDU unit, the annual oil throughput in the Gdańsk refinery of Grupa LOTOS S.A. will increase to 10.5m tonnes in 2010 and the Company will no longer have to depend on imports of additional feedstock for the PKRT units.

After the signing of relevant agreements with Fluor and the UHDE/Technip consortium in the first quarter of 2006, the subsequent quarters of 2006 were the time of intensive work on the development of the Front End Engineering Design for the PKRT Project, and on the preparation of UHDE's and Technip's bids for the Project implementation (excluding the scope of work covered by the contracts for the construction of HDS and CDU units). The bids for the execution of the Project were submitted in mid December 2006. Grupa LOTOS S.A. is currently conducting negotiations with the bidders to optimise the scope and terms and conditions of the submitted bids. The negotiations are scheduled to be completed in April 2007.

In 2006, all the preparatory work on the construction site located on the Gdańsk refinery grounds was practically completed. The work included soil survey, soil removal, ground levelling, draining, providing electricity to the site, building temporary roads, etc. In 2007, work has commenced to prepare the construction backup facilities.

PROSTA Project

The Company's actions in 2006 connected with the development of the retail fuel station network executed by the subsidiary LOTOS Paliwa under the PROSTA project focused on continued development of the CODO stations network, in particular by incorporating the acquired ESSO and Slovnaft stations into the LOTOS network. As a result of these actions, at the end of 2006 all the stations acquired from ExxonMobil Poland Sp. z o.o. and Slovnaft operated under the brand name of LOTOS.

2006 saw the continuation of disinvestment processes aimed at optimising the structure of the service stations network and rationalising the real estate assets.

As at December 31st 2006, the LOTOS network comprised 401 service stations, including 132 COCO stations, 57 DOFO stations and 212 DODO stations.

Petrobaltic and Production Activities

In 2006, Petrobaltic, a mining company, began trial production at the B-8 reservoir, which was completed at the beginning of October 2006. Given the fact that oil processing at LOTOS Czechowice, where the crude oil produced by Petrobaltic had been processed, was discontinued at the end of the first quarter of 2006, almost all of the oil produced in 2006 was delivered to the Gdańsk refinery.

In September 2006, Petrobaltic was granted the Minister of Environmental Protection's license (No. 1/2006) for the extraction of crude oil and accompanying natural gas from the B8 reservoir.

The B8 reservoir is located nearly 68 km from the coast, off the Hel peninsula, and lies 2.1 km below the seabed.

The surveys and analyses of the B8 reservoir conducted prior to the production test revealed that its recoverable reserves amount to almost 1 million cubic metres of crude oil and more than 100 million cubic metres of natural gas. However, the trial extraction shows that the reserves of crude oil in the reservoir may be larger than expected.

In November 2006, Petrobaltic received a decision of the Minister of Environmental Protection extending the term of Licence No. 36/2001/p for gas and oil exploration and prospecting in the Gotland region, dated December 14th 2001, by three years (i.e. until December 14th 2010). Geological surveys of the reservoir revealed deposits of hydrocarbons lying approx. 1.6 km below the seabed; the sea depth is 105-125 metres. Based on the surveys, the recoverable reserves are estimated at approx. 15 million cubic metres.

Exploration and prospecting wells are planned to be drilled from 2010. If the reserves are confirmed, further production and injection wells will be drilled in 2011-2018; during that period, a production test is also planned, which will be completed when the reservoir is fully developed. In accordance with the current plans, the reservoir will be in operation until 2033.

In November 2006, Petrobaltic also received a 20-year licence to produce natural gas (gas condensate) from reservoir B6 situated within Poland's exclusive economic zone of the Baltic Sea. The licence will make it possible to continue the work on a concept for the development of the reserves.

The B6 reservoir, whose reserves are estimated at approx. 1,800 million cubic metres, is situated approx. 75 km north off Łeba.

Southern Refineries

In 2006, the Company continued the restructuring efforts aimed at streamlining the Group's capital and organisational structure and adapting LOTOS Jasło and LOTOS Czechowice to operate within the LOTOS Group.
LOTOS Biopaliwa Sp. z o.o., owned by LOTOS Czechowice and established with a view to executing investment projects, commenced the construction of a unit for the production of methyl esters of fatty acids, an additive to biodiesel (FAME). The contract for comprehensive execution of the project was executed with MAN Ferrostal on May 22nd 2006. The supplier of the technology, Novaol and Oelmühle Leer Connemann of Germany, has many-year experience in developing the production of biofuels. The unit, with an annual production capacity of 100 thousand tonnes, will be put into operation in 2008.

Merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o.

On February 27th 2007, the Management Board of Grupa LOTOS S.A. signed the plan of merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o., prepared in accordance with Art. 499.1 of the Commercial Companies Code. The two companies will be merged pursuant to Art. 492.1.1 of the Commercial Companies Code, through the transfer of all assets of LOTOS Partner Sp. z o.o. to Grupa LOTOS S.A.

As the acquirer holds 100% of shares in the acquired company, the merger will be executed pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the share capital of Grupa LOTOS S.A. The merger is executed as part of the restructuring of the LOTOS Group, aimed at streamlining its organisational structure.

The objective of the restructuring programme is to provide the LOTOS Group with more operating flexibility and facilitate quicker response to changes in the market environment. The merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. is an element of the restructuring of the sales division within the entire LOTOS Group and should not have a material effect on the consolidated financial results of the LOTOS Group.

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

19.1 EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF GRUPA LOTOS S.A.

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

- **Quotation prices of crude oil and petroleum products** – the Company's performance is materially affected by prices of crude oil and the refining margin level.
- **PLN/USD exchange rate** – the performance of the Company and the LOTOS Group is also, to some extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of raw materials and some products are quoted in the American dollar.
- **Petroleum products demand and supply levels** – the demand for diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and the LOTOS Group.

Key Internal Factors Material for the Development of Grupa LOTOS S.A. and the LOTOS Group:

- **Development of upstream business** – the planned development of the upstream business is expected to strengthen the Group's independence of external sources of raw materials and further improve its financial performance.
- **Execution of the Comprehensive Technical Upgrade Programme** – a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. and the LOTOS Group in the long run is timely execution of the Comprehensive Technical Upgrade Programme. Construction and start-up of the installations provided for in the Programme will further increase the processing capacity of the Gdańsk refinery and improve the production structure – the low-value heavy fuel oil with high sulphur content will be replaced with high-value diesel oils, for which the demand is growing.
- **Further expansion of the fuel retail sales network** – execution of the PROSTA programme is the key factor in strengthening the Company's position on the fuel retail market.

19.2 DEVELOPMENT PROSPECTS FOR GRUPA LOTOS S.A.

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

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

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

The operating activities include the implementation of the Comprehensive Technical Upgrade Programme. Completion of the Programme will enable the Company to improve 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 is creation of an upstream segment, which will enable the Group to reduce its exposure to fluctuations in crude oil prices.

As far as marketing 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 edge resulting from the seaside location of the Gdańsk refinery.

The Company's policy also envisages development of the Southern Refineries by their expansion into new areas, i.e. logistics and distribution, biofuel production and plastic recycling.

The Company's policy assumes that expansion in the abovementioned areas will be pursued with due regard to environmental protection and reduction of the company's environmental impact.

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

20.1 CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD OF GRUPA LOTOS S.A.

MANAGEMENT BOARD – fifth term of office

From January 1st until June 19th 2006, the composition of the Management Board was as follows:
1. Paweł Olechnowicz – President
2. Marek Sokołowski – Vice-President
3. Wojciech Kowalczyk – Vice-President

MANAGEMENT BOARD – sixth term of office

From June 19th to October 9th 2006, the composition of the Management Board was as follows:
1. Paweł Olechnowicz – President
2. Marek Sokołowski – Vice-President
3. Mariusz Machajewski – Vice-President

On September 29th 2006, the Supervisory Board adopted a resolution concerning the appointment of Jarosław Kryński to the Management Board of Grupa LOTOS S.A. with effect from October 9th 2006.

Therefore, from October 9th to December 31st 2006, the Management Board was composed of the following members:
1. Paweł Olechnowicz – President
2. Marek Sokołowski – Vice-President
3. Mariusz Machajewski – Vice-President
4. Jarosław Kryński – Vice-President

As at April 16th 2007, there have been no changes in the composition of the Management Board of Grupa LOTOS S.A.

20.2 CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A.

SUPERVISORY BOARD – sixth term of office

From January 1st to January 30th 2006, the composition of the Supervisory Board was as follows:
1. Cezary Nowosad – Chairman
2. Janusz Rachoń – Deputy Chairman
3. Grzegorz Urban
4. Beata Zawadzka
5. Anna Andrzejczak
6. Piotr Krupa
7. Robert Karwowski
8. Jacek Mościcki
9. Katarzyna Dawidczyk – Secretary

On January 30th 2006, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. removed the following persons from the Supervisory Board:

1. Cezary Nowosad – Chairman
2. Janusz Rachoń – Deputy Chairman
3. Grzegorz Urban
4. Anna Andrzejczak
5. Piotr Krupa
6. Robert Karwowski
7. Katarzyna Dawidczyk – Secretary

and appointed the following persons:

1. Jan Szomburg
2. Jan Stefanowicz
3. Jacek Tarnowski
4. Henryk Siodmok
5. Grzegorz Szczodrowski.

In addition, the Extraordinary General Shareholders Meeting decided that the Supervisory Board would operate as a seven-member body for the rest of the sixth term.

Consequently, following from January 30th 2006, the Supervisory Board was composed of the following persons:

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

On June 16th 2006, Jan Szomburg resigned from membership of Supervisory Board; accordingly, from June 16th 2006, the Supervisory Board's composition was as follows:

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

Until April 16th 2007, there have been no changes in the composition of the Supervisory Board of Grupa LOTOS S.A.

20.3 RULES OF APPOINTMENT AND REMOVAL OF MANAGEMENT STAFF; SCOPE OF POWERS OF THE MANAGEMENT STAFF

The Management Board is appointed by the Supervisory Board, which first appoints the President of the Management Board, and then, at the President's motion, the Vice-Presidents and the other members of the Management Board.

The Management Board is appointed for a joint term of office, which lasts three years. The President, Vice-Presidents and the other members of the Management Board as well as the entire Management Board may be removed or suspended for important reasons by the Supervisory Board at any time prior to the expiry of the term of office.

The Supervisory Board adopts resolutions on the appointment or removal of individual members or entire Management Board when at least two-thirds of the Supervisory Board members are present.

The scope of the Management Board's powers includes passing decisions concerning the management of the Company with respect to the issues not reserved for the competence of the General Shareholders Meeting or the Supervisory Board by virtue of the Commercial Companies Code or the Company's Articles of Association.

Management Board resolutions are required with regard to the matters which pursuant to the Articles of Association or applicable laws should be examined by the Supervisory Board or the General Shareholders Meeting, as well as with regard to all the matters falling beyond ordinary management, including in particular:

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

21 AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND THE MANAGEMENT STAFF

Compensation Agreements

Apart from standard management contracts concluded by Grupa LOTOS S.A. with the management staff in 2006, no agreements were executed that provide for compensation to the management staff in the event they resign or are dismissed without a good reason or in the event they resign or are dismissed as a result of the Company's takeover by another entity.

Other Agreements

In 2006, one agreement existed between the management staff and the Company. The agreement concerned a 10-year loan from the Company's Social Benefits Fund, with interest rate of 5% p.a., advanced to Mr Wojciech Kowalczyk. As at December 31st 2006, the loan amounted to PLN 15 thousand.

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

22.1 REMUNERATION PAID AND DUE TO MEMBERS OF THE MANAGEMENT BOARD OF GRUPA LOTOS S.A. IN 2006

(PLN)	Year ended December 31st 2006
Paweł Olechnowicz	171,365.43
Marek Sokołowski	169,460.43
Wojciech Kowalczyk (1)	105,873.20
Mariusz Machajewski(2)	72,641.43
Jarosław Kryński (3)	28,864.09
	==========
Total	**548,204.98**
	==========

(1) Change in the composition of the Management Board – remuneration until June 19th 2006.
(2) Change in the composition of the Management Board – remuneration from June 19th 2006.
(3) Change in the composition of the Management Board – remuneration from October 9th 2006.

Remuneration paid and due to the members of the Supervisory Board:

22.2 REMUNERATION PAID AND DUE TO MEMBERS OF THE MANAGEMENT BOARD OF GRUPA LOTOS S.A. IN CONSIDERATION OF THEIR MEMBERSHIP IN THE SUPERVISORY BOARDS OF SUBSIDIARY UNDERTAKINGS

(PLN)	Year ended December 31st 2006
Paweł Olechnowicz	31,907.12
Marek Sokołowski	41,678.16
Wojciech Kowalczyk (1)	12,637.74
22.2.1.1.1 Total	**86,223.02**

(1) Change in the composition of the Management Board – remuneration until June 19th 2006.

22.3 REMUNERATION PAID AND DUE TO MEMBERS OF THE Supervisory BOARD OF GrupA LOTOS S.A. IN 2006

(PLN)	Year ended December 31st 2006
Anna Andrzejczak	5,368.22
Katarzyna Dawidczyk	5,368.22
Robert Karwowski	5,368.22
Piotr Krupa	5,368.22

Jacek Mościki	34,262.68
Cezary Nowosad	5,368.22
Janusz Rachoń	5,368.22
Henryk Siodmok	28,894.38
Jan Stefanowicz	30,785.38
Grzegorz Szczodrowski	28,894.38
Jan Szomburg	13,204.14
Jacek Tarnowski	28,894.38
Grzegorz Urban	5,368.22
Beata Zawadzka	34,262.68
Total	**236,775.56**

22.4 LOANS AND SIMILAR BENEFITS PROVIDED TO MEMBERS OF THE MANAGEMENT AND SUPERVISORY BOARDS:

(PLN '000)	**December 31st 2006**	**December 31st 2005**
Wojciech Kowalczyk	**-**	**20**
	=============	=============
Total	-**	20*
	=============	=============

*10-year loan from the Company Social Benefits Fund, bearing interest at 4% p.a.

**On June 19th 2006, the composition of the Management Board of Grupa LOTOS S.A. changed. As at June 19th 2006, the loan amounted to PLN 18.5 thousand.

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

To the Company's knowledge, the following persons hold shares in Grupa LOTOS S.A.:

The management and supervisory staff of Grupa LOTOS S.A. holding shares in Grupa LOTOS S.A. as at December 31st 2006:

	Number of shares	**Par value (PLN)**
Management Board, including:	8,636	8,636
Marek Sokołowski	8,636	8,636
Supervisory Board	0	0
Total	8,636	8,636

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

As at December 31st 2006, the shareholder structure of Grupa LOTOS S.A. was as follows:

Shareholders	Number of shares	Number of votes	% of total vote at GM	Par value of shares	% of share capital held
State Treasury	7,878,030	7,878,030	6.93%	7,878,030	6.93%
Nafta Polska S.A.	59,025,000	59,025,000	51.91%	59,025,000	51.91%
Other	46,796,970	46,796,970	41.16%	46,796,970	41.16%
Total	**113,700,000**	**113,700,000**	**100.00%**	**113,700,000**	**100.00%**

As at March 7th 2007, 5,876,589 (five million, eight hundred and seventy-six thousand, five hundred and eighty-nine) Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska OFE (open-end pension fund), which represent 5.17% of the Company's share capital and confer the right to 5,876,589 votes at the General Shareholders Meeting, accounting for 5.17% of the total vote.

25 INFORMATION ON AGREEMENTS WHICH MAY GIVE RISE TO FUTURE CHANGES IN THE NUMBER OF SHARES HELD BY THE EXISTING SHAREHOLDERS AND BONDHOLDERS

The Management Board of Grupa LOTOS S.A. has no knowledge of any agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders.

26 INFORMATION ON HOLDERS OF SECURITIES WHICH CONFER SPECIAL CONTROL POWERS WITH RESPECT TO GRUPA LOTOS S.A.

The Management Board of Grupa LOTOS S.A. has no knowledge of any holders of securities which confer special control powers with respect to Grupa LOTOS S.A.

27 INFORMATION ON CONTROL SYSTEMS FOR EMPLOYEE STOCK OPTION PLANS

In 2006, no control system for employee stock option plans existed at Grupa LOTOS S.A.

28 INFORMATION ON RESTRICTIONS ON TRANSFERABILITY OF THE SECURITIES OF GRUPA LOTOS S.A. AND ON VOTING RIGHTS ATTACHED TO THE SHARES IN OF GRUPA LOTOS S.A.

The Management Board of Grupa LOTOS S.A. has no knowledge of any restrictions concerning transferability of securities of Grupa LOTOS S.A. or any restrictions relating to the exercise of voting rights attached to shares in Grupa LOTOS S.A.

29 INFORMATION ON THE AGREEMENT WITH A QUALIFIED AUDITOR OF FINACIAL STATEMENTS

On July 7th 2006, Grupa LOTOS S.A. and Ernst and Young Audit Sp. z o.o. of Warsaw concluded an agreement on the review of the non-consolidated and consolidated financial statements for the first half of 2006 and audit of the non-consolidated and consolidated financial statements for 2006.

The total value of the agreement was PLN 855 thousand, including PLN 850 thousand for the review of the non-consolidated and consolidated financial statements for the first half of 2006 and for the audit of the non-consolidated and consolidated financial statements for 2006.

On July 27th 2005, Grupa LOTOS S.A. and Ernst and Young Audit Sp. z o.o. of Warsaw concluded an agreement on the review of the non-consolidated and consolidated financial statements for the first half of 2005 and audit of the non-consolidated and consolidated financial statements for 2005.

The total value of the agreement was PLN 870 thousand, including PLN 865 thousand for the review of the non-consolidated and consolidated financial statements for the first half of 2005 and for the audit of the non-consolidated and consolidated financial statements for 2005.

On March 15th 2005, Grupa LOTOS S.A. concluded an agreement with Ernst and Young Audit Sp. z o.o. of Warsaw on advisory services related to the implementation of IFRS/IAS. The remuneration paid hitherto under the agreement totalled PLN 92 thousand.

30 SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, CEO	Paweł Olechnowicz
Vice-President of the Management Board, COO	Marek Sokołowski
Vice-President of the Management Board, Chief Financial Officer	Mariusz Machajewski
Vice-President of the Management Board, Chief Commercial Officer	Jarosław Kryński