



THE LOTOS GROUP

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
IN 2006**

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INTRODUCTION

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

1. ORGANISATION OF THE LOTOS GROUP

1.1 STRUCTURE OF THE LOTOS GROUP AS AT DECEMBER 31ST 2006

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

Parent Undertaking

- Grupa LOTOS S.A.

Direct subsidiary undertakings:

- LOTOS Paliwa Sp. z o.o. – consolidated with the full method
- LOTOS Partner Sp. z o.o. - consolidated with the full method
- LOTOS Mazowsze S.A. - consolidated with the full method
- LOTOS Oil S.A. - consolidated with the full method
- LOTOS Asphalt Sp. z o.o. - consolidated with the full method
- LOTOS Ekoenergia S.A. - consolidated with the full method
- LOTOS Kolej Sp. z o.o. - consolidated with the full method
- LOTOS Serwis Sp. z o.o. - consolidated with the full method
- LOTOS Lab Sp. z o.o. - consolidated with the full method,
- LOTOS Straż Sp. z o.o. - consolidated with the full method,
- LOTOS Ochrona Sp. z o.o. - consolidated with the full method
- LOTOS Parafiny Sp. z o.o. - consolidated with the full method
- Rafineria Czechowice S.A. - consolidated with the full method
- Rafineria Jasło S.A. - consolidated with the full method
- Petrobaltic S.A. - consolidated with the full method
- UAB LOTOS Baltija - not consolidated
- BiproRaf Sp. z o.o. - not consolidated
- Rafineria Nafty Glimar S.A. in bankruptcy - not consolidated (lack of control)
- LOTOS Hydrokompleks Sp. z o.o. - not consolidated
- LOTOS Park Technologiczny Sp. z o.o. - consolidated with the full method

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- Laboratorium Badacz Sp. z o.o. - not consolidated

Indirect subsidiary undertakings:

- RCEkoenergia Sp. z o.o - consolidated with the full method
- LOTOS Biopaliwa Sp. z o.o. - consolidated with the full method
- RCRemo Sp. z o.o. - consolidated with the full method
- CBA Racer Sp. z o.o. - consolidated with the full method
- RCSerwis Sp. z o.o. – shares contributed to LOTOS Park Technologiczny Sp. z o.o. by LOTOS Czechowice S.A.
- RCPaliwa Sp. z o.o. – valued with the equity method
- LOTOS Tank Sp. z o.o. - consolidated with the full method
- Rafineria Jasło Monto-Rem Sp. z o.o. - consolidated with the full method
- Plastikol Organizacja Odzysku S.A. - consolidated with the full method
- Rafineria Jasło Sped-Kol Sp. z o.o. - not consolidated
- PETROSOFT.PL Technologie Informatyczne Sp. z o.o. - not consolidated
- Chemipetrol Sp. z o.o. - not consolidated
- Miliana Shipping Company Ltd. - consolidated with the full method
- Aphrodite Offshore Services Ltd. – not consolidated

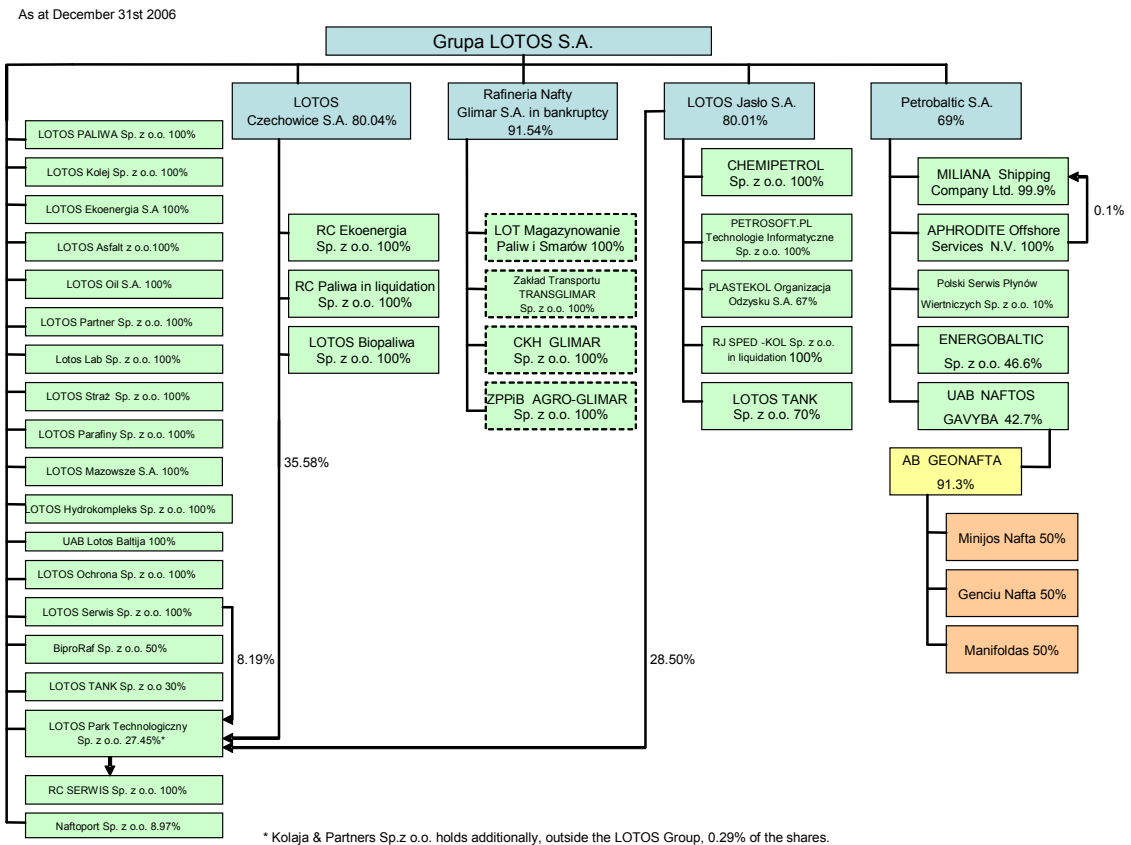
Associated undertakings:

- Energobaltic Sp. z o.o. – valued with the equity method
- UAB Naftos Gavyba – valued with the equity method
- AB Geonafta
- UAB Minijos Nafta
- UAB Genciu Nafta
- UAB Manifoldas
- UAB Gelmiu Turtaj

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Organisational Structure of the LOTOS Group

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



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1.2 CONSOLIDATED UNDERTAKINGS OF THE LOTOS GROUP

1.2.1 PARENT UNDERTAKING

Grupa LOTOS S.A.

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

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

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

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

In June 2005, the shares of Grupa LOTOS S.A. were first listed on the Warsaw Stock Exchange. Following the share issue, the Group's equity increased by PLN 1,005,951 thousand (net of the issue costs) and as at June 30th 2005 amounted to PLN 3,744,583 thousand.

In 2005, Grupa LOTOS S.A. was merged with two refineries located in the south of Poland: Rafineria Czechowice S.A. and Rafineria Jasło S.A. Additionally, as a result of the "Spring 2005" maintenance project carried out at the Gdańsk refinery, its crude oil distillation capacity was increased from approximately 4.5m tonnes to 6m tonnes annually.

1.2.2 THE LOTOS GROUP COMPANIES

LOTOS Paliwa Sp. z o.o.

The company was incorporated under Notarial Deed of January 12th 1996 (Rep. A No. 119/96), and was entered in the National Court Register on April 9th 2001 under No. KRS 0000006312. LOTOS Paliwa Sp. z o.o. (created by way of a spin-off from Grupa LOTOS S.A.) is engaged in retail sale and wholesale of fuels and light fuel oil in Poland (excluding provision of supplies to foreign oil concerns and participation in national tenders). The company's registered office is located in Gdańsk. As at December 31st 2006, its share capital was PLN 114,706,000 and was divided into 114,706 shares with a par value of PLN 1,000 per share. The company is wholly owned by Grupa LOTOS S.A.

As a result of reorganisation of this market segment of the LOTOS Group, effective as of January 3rd 2005, the company became the distributor of fuels and light fuel oil within the Group in the following distribution channels:

- management and development of the service station network (CODO, DODO and DOFO stations) representing the second largest service station network on the Polish market;
- sale of fuels to institutional customers and intermediaries;
- management of the network of self-serve Diesel oil pumps and development of Diesel oil sales through such a network (LOTOS Diesel Service);
- retail sale and wholesale of light fuel oil;
- retail sale of liquid gas.

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

On March 9th 2006, LOTOS Paliwa Sp. z o.o. and Slovanft Polska S.A. finalised a transaction whereby LOTOS Paliwa Sp. z o.o. acquired an organised part of business from Slovanft Polska S.A.. The acquired assets included:

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- 12 service stations located in Southern Poland;
- 2 undeveloped lots for new service stations.

As part of the transaction LOTOS Paliwa Sp. z o.o. will take over cooperation with selected franchisees of Slovanft Polska S.A. The acquisition of the organised part of business from Slovanft Polska S.A. was, after the purchase of 39 ESSO stations, another key step in the implementation of the PROSTA countrywide service stations network development programme.

On June 29th 2006 the Maintenance and Investment Department was spun-off from LOTOS Paliwa Sp. z o.o., and transferred to LOTOS Serwis Sp. z o.o. (the employees were transferred under Art. 23' of the Polish Labour Code). On January 31st 2007, LOTOS Serwis Sp. z o.o. disposed of the Transport Department, in the form of an organised part of business, to a company from outside the LOTOS Group.

LOTOS Partner Sp. z o.o.

The company was incorporated by virtue of Notarial Deed of June 11th 2001 (Rep. A No. 1881/2001), and was entered in the National Court Register on July 11th 2001 under No. KRS 000025606. The registered office of LOTOS Partner Sp. z o.o. is located in Gdańsk. As at December 31st 2006, the share capital of LOTOS Partner was PLN 11,859,500 and was divided into 23,719 shares with a par value of PLN 500 per share. The company is wholly owned by Grupa LOTOS S.A.

LOTOS Partner's business consists in the provision of fuel supplies to institutional customers, in particular to retail station networks of foreign oil concerns operating in Poland.

The company's business includes also:

- organisation of primary logistics to the order of Grupa LOTOS S.A.
- organisation of fuel import and exchange of goods by road,
- provision of services related to national tenders,
- sale of JET-A1 aviation fuel.

LOTOS Mazowsze S.A.

The company was established on June 17th 2003 through the acquisition of 75% of shares in PETRIM S.A. The transaction was settled in June 2004, by payment of a premium of PLN 4,396 thousand to the sellers. In July 2004, the remaining 25% stake in LOTOS Mazowsze S.A. was acquired for PLN 4,004 thousand. Following the acquisition, LOTOS Mazowsze S.A. became a wholly-owned subsidiary of Grupa LOTOS S.A. The company's registered office is located in Mława. As at December 31st 2006, the share capital of LOTOS Mazowsze S.A. amounted to PLN 3,680,000 and was divided into 160,000 Series A registered shares with a par value of PLN 23 per share. The logistics structure of LOTOS Mazowsze S.A. is well-organised and efficient. In 2006, the company's operations are focused on trading in LPG, heavy fuel oil and other special products. The company operates throughout Poland, selling the following products:

- liquid propane butane gas,
- heavy fuel oil,
- light fuel oil,
- plasticizers,
- sulphur.

On January 1st 2007, LOTOS Mazowsze S.A. discontinued sale of fuel oil following the conclusion, on December 28th 2006, of a significant agreement between Grupa LOTOS S.A. and LOTOS Asfalt Sp. z o.o., providing for the sale of fuel oil to LOTOS Asfalt Sp. z o.o.

LOTOS Oil S.A.

The company was incorporated under Notarial Deed of July 26th 2002 (Rep. A No. 3411/2002), and was entered in the National Court Register on August 27th 2002 under No. KRS 0000128016. The company's registered office is located in Gdańsk. As at December 31st 2006, the company's share capital was PLN 2,000,000 and was divided into 200,000 bearer shares (50,000 Series A Shares of initial issue and 150,000 Series B Shares of secondary issue) with a par value of PLN 10 per share. LOTOS Oil S.A. is a wholly-owned subsidiary of Grupa LOTOS S.A.

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

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The company operates based on three production centres located in Gdańsk, Czechowice-Dziedzice and Jasło, and a Distribution Centre in Piotrków Trybunalski.

As part of the restructuring of the Southern Refineries, on January 2nd 2006 LOTOS Oil S.A. concluded an agreement for the purchase of real property (the Czechowice Division) which until then had been leased from LOTOS Czechowice S.A. On July 18th 2006, the company signed an agreement for the purchase of real property in Czechowice-Dziedzice (site of the Ewa warehouse) from LOTOS Czechowice S.A. Another real property purchase was effected on December 12th 2006: the company acquired the production assets it had leased from LOTOS Jasło S.A. With effect from August 31st 2006 LOTOS Oil S.A., terminated a lease agreement with Rafineria Nafty Glimar S.A. (in bankruptcy) concerning production assets in Gorlice; the agreement had been in force from May 4th 2004).

LOTOS Asphalt Sp. z o.o.

The company was incorporated by virtue of Notarial Deed of December 30th 2003 (Rep. A No. 4586/2003), and was entered in the National Court Register on April 26th 2004 under No. KRS 0000204527. The company's registered office is located in Gdańsk. As at December 31st 2006, the company's share capital was PLN 2,000,000 and was divided into 4,000 shares with a par value of PLN 500 per share. The company is wholly owned by Grupa LOTOS S.A.

Currently, LOTOS Asphalt Sp. z o.o. operates based on three trade and production centres located in Gdańsk (leased from Grupa LOTOS S.A.), Jasło and Czechowice-Dziedzice.

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

The company produces mainly road bitumens (standard and modified), industrial bitumens, bitumen emulsions and binders. In 2007, the company will begin to sell fuel oil. On December 28th 2006, LOTOS Asphalt Sp. z o.o. concluded a significant agreement with Grupa LOTOS S.A, which, among other things, provides for the sale of fuel oil to LOTOS Asphalt Sp. z o.o. The agreement was concluded for indefinite term. Concurrently, starting from January 1st 2007 Grupa LOTOS S.A. ceased to sell fuel oil to LOTOS Mazowsze S.A., in connection with the consistently implemented optimisation and restructuring of Grupa LOTOS S.A.'s sales division.

In 2006, the company increased the share of bitumens sold outside Poland in its total sales. LOTOS Asphalt Sp. z o.o.'s products are sold on the Swedish, Lithuanian, Czech, Slovak, Austrian, Hungarian and German markets. Moreover, the company signed an agreement with the National Fund for Environmental Protection and Water Management, providing for additional funding of the project designated as "Expansion of the Enterprise by Adapting to the Requirements of the Integrated Permit", which involves adapting to the regulations set forth in the Environmental Protection Act (Dz.U. No 62, item 627, as amended) and the Regulation by the Minister of Environmental Protection on types of facilities which may cause substantial pollution of the components of the environment or the environment as a whole, dated July 26th 2002.

LOTOS Parafiny Sp. z o.o.

The company was established on the basis of Parafiny Rafineria Jasło Sp. z o.o., through consolidation of the paraffin-related operations of Parafiny Rafineria Jasło Sp. z o.o., RC Parafiny Sp. z o.o. and Chemipetrol Sp. z o.o.

Parafiny Rafineria Jasło Sp. z o.o. was incorporated under Notarial Deed of December 13th 1999 (Rep. A No. 4889/99), and was entered in the National Court Register on May 27th 2002 under No. KRS 0000114749.

On June 30th 2004, the following shareholders acquired interests in the company:

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

The company's share capital was increased from PLN 904,000 to PLN 19,783,000. Subsequently, on August 26th 2004, the company was renamed and registered as LOTOS Parafiny Sp. z o.o.

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

- a) LOTOS Jasło S.A. – 5,108 shares with an aggregate par value of PLN 5,108,000, representing 25.82% of the share capital of LOTOS Parafiny Sp. z o.o.;
- b) RC Parafiny – 9,003 shares with an aggregate par value of PLN 9,003,000, representing 45.51% of the share capital of LOTOS Parafiny Sp. z o.o.;

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c) Chemipetrol Sp. z o.o. – 528 shares with an aggregate par value of PLN 528,000, representing 2.67% of the share capital of LOTOS Parafiny Sp. z o.o.

Following the transaction, Grupa LOTOS S.A. increased its shareholding in LOTOS Parafiny Sp. z o.o. from 26% to 100% of the shares, conferring the rights to 100% of the total vote at the General Shareholders Meeting.

On January 23rd 2006, the District Court of Rzeszów, XII Commercial Division of the National Court Register registered the change of the share capital structure at LOTOS Parafiny Sp. z o.o.

The company's registered office is situated in Jasło. Its operations are based on two production centres located in Jasło and Czechowice-Dziedzice, and are focused on the production of high quality paraffin, a wide range of paraffin mass, wax, ceresine, petroleum jelly and lubes. In addition, in 2006 the company entered into a new segment of the finished products market, by introducing a wide range of candles and votive candles under the new PROMETEO brand. LOTOS Parafiny Sp. z o.o. also manufactures a line of products known as LOTOS Ogród, including a wide variety of torches, garden lanterns, kindling and charcoal.

In 2006, the company executed the PROMETEUSZ investment project, consisting in the launch of a candle and votive candle production plant. On January 12th 2006, the sole shareholder of the company – Grupa LOTOS S.A. – was obligated by the Extraordinary General Shareholders Meeting to make additional payment for the benefit of the company, in the amount of PLN 5,100,000, i.e. PLN 257.80 per each share held, with a view to executing the PROMETEUSZ project. The additional payment was made in accordance with the Agreement on Financing the PROMETEUSZ Investment Project of LOTOS Parafiny concluded on August 17th 2005. On March 10th 2006, under the agreement, Grupa LOTOS S.A. advanced to the company (pursuant to a loan agreement) the second loan in the amount PLN 4,500,000 to finance the PROMETEUSZ project. On June 22nd 2006, the candle production plant in Czechowice-Dziedzice (PROMETEUSZ investment project) was officially opened, and the production was launched. In Q3 2006, it made deliveries of votive candles under the first major contracts. 2006 also saw the commencement of candle products sale through the Direct Distribution Channel.

In 2006, the company acquired real property from another company of the LOTOS Group. Under the agreement concluded on October 31st 2006 by the Management Board of LOTOS Parafiny Sp. z o.o. with LOTOS Park Technologiczny Sp z o.o., the latter disposed of perpetual usufruct rights to land in Czechowice-Dziedzice, on which the barrel plant is situated. On November 22nd 2006, the company acquired perpetual usufruct rights to undeveloped real property as well as perpetual usufruct rights and ownership rights to buildings from LOTOS Czechowice S.A.

LOTOS Ekoenergia S.A.

The Company was incorporated by virtue of Notarial Deed of July 17th 2002 (Rep. A nr 3211/02) and was entered in the National Court Register on August 26th 2002 under No. KRS 0000128043. The registered office of Lotos Ekoenergia S.A. is located in Gdansk. As at December 31st 2006, the company's share capital amounted to PLN 500,000 and was divided into 50,000 Series A bearer shares with a par value of PLN 10 per share.

LOTOS Ekoenergia S.A. is a special purpose vehicle established to execute the Comprehensive Technical Upgrade Programme (PKRT, the Programme), consisting in the construction of new units with the objective of increasing the annual throughput capacity of the Gdańsk refinery to 10.5 million tonnes of crude oil, with a higher conversion ratio.

In 2006, the company did not commence its operations. The decision concerning LOTOS Ekoenergia S.A.'s potential involvement in the implementation of the Programme will be made in 2007.

LOTOS Kolej Sp. z o.o.

LOTOS Kolej Sp. z o.o. was incorporated under Notarial Deed of January 13th 2000. The company was entered in the National Register of Entrepreneurs maintained by the District Court of Gdańsk Północ in Gdańsk, VII Commercial Division of the National Court Register, under entry No. KRS 0000135118.

On April 12th 2006, the company's share capital was increased by PLN 1,767,00, 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.

The activities of LOTOS Kolej Sp. z o.o. (spun off from Grupa LOTOS S.A.) consist in the provision of comprehensive railway services for the Parent Undertaking. In February 2004, the company took over the provision of railway services to the Southern Refineries (along with their employees and leased assets). In 2006, following discontinuation of crude oil processing by LOTOS Czechowice S.A. from April 1st 2006, the scope of the services provided by the Company was reduced. The end of September 2006 saw the expiry of the agreement on the lease of an organised part of business between LOTOS Kolej Sp. z o.o. and Rafineria Nafty Glimar S.A.

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(in bankruptcy), as a result of which LOTOS Kolej Sp. z o.o. ceased to provide services on the premises of the Glimar refinery.

The main activities of the company include:

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

LOTOS Kolej Sp. z o.o. operates and maintains rail vehicles at the LOTOS Group's railway sidings. The company holds a licence for transport of goods by railway within the entire territory of Poland. Moreover, LOTOS Kolej Sp. z o.o. rents tank cars for transporting liquid gases.

LOTOS Serwis Sp. z o.o.

The company is entered in the National Court Register maintained by the District Court for Gdańsk Północ in Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000161302. The company is wholly owned by Grupa LOTOS S.A. Its registered office is located in Gdańsk.

As at December 31st 2006, the share capital of LOTOS Serwis Sp. z o.o. amounted to PLN 2,500,000 and was divided into 5,000 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 100% of the share capital of LOTOS Serwis Sp. z o.o.

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

On January 5th 2006, in line with the strategy of the LOTOS Group, LOTOS Serwis acquired from LOTOS Czechowice S.A. 100% of shares in P.R.P.H. RCRemo Sp. z o.o., and from LOTOS Jasło S.A. – 100% of shares in RJ MONTO-REM Sp. z o.o. On July 1st 2006, these companies were incorporated into LOTOS Serwis Sp. z o.o. The Company has divisions in three towns: Gdańsk, Czechowice-Dziedzice and Jasło.

In 2006, the Maintenance and Investment Department of LOTOS Paliwa Sp. z o.o. was transferred to LOTOS Serwis Sp. z o.o. (the company's staff was taken over under Art. 23' of the Polish Labour Code). Subsequently, on July 1st 2006, LOTOS Serwis Sp. z o.o. and LOTOS Paliwa Sp. z o.o. executed an agreement whereby LOTOS Serwis Sp. z o.o. would build service stations, perform the finishing work in accordance with the required visual scheme and provide repair and day-to-day maintenance services on behalf of LOTOS Paliwa Sp. z o.o.

LOTOS Lab Sp. z o.o.

The company was entered in the National Court Register under No. KRS 0000165598 on June 24th 2003. Its registered office is situated in Gdańsk.

As at December 31st 2006, the company's share capital amounted to PLN 1,000,000 and was divided into 2,000 shares with a par value of PLN 500 per share. All the shares in the company were acquired by Grupa LOTOS S.A.

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

On January 24th 2006, an entry was made in the National Court Register in connection with the establishment of two new divisions of LOTOS Lab Sp. z o.o.: the Jasło Division and the Czechowice Division.

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

LOTOS Lab Sp. z o.o. obtained a certificate confirming its compliance with the strict quality standard ISO/IEC 17025, whereby it became a certified laboratory. In February 2006, the Czechowice Division was audited to renew the PCA certificate awarded to the company, which was necessitated by changes in its shareholder structure. On December 27th 2006, the company received confirmation that the scope of its Research Laboratory Certificate was extended to include research methods for bio-fuels and bio-components.

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LOTOS Straż Sp. z o.o.

The company was established by virtue of Notarial Deed of February 4th 2004 (Rep. A 610/2004) and entered in the National Court Register under No. KRS 196158 on February 20th 2004. The company's registered office is located in Gdańsk. As at December 31st 2006, its share capital amounted to PLN 3,900,000 and was divided into 7,800 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 100% of the share capital of LOTOS Straż Sp. z o.o.

LOTOS Straż Sp. z o.o. (established by spinning off the Fire Brigade Department from Grupa LOTOS S.A.) provides fire protection services, including operational and rescue actions, prevention activities, issuing opinions concerning documentation on fire protection measures, training services concerning the operation of fire extinguishing and life-saving equipment, as well as fire protection equipment. LOTOS Straż Sp. z o.o. is obliged to provide services related to fire protection for Grupa LOTOS S.A. It can also provide services for other entities, however, only within the area of the Gdańsk refinery. This limitation arises from the need to maintain permanent and highly reliable fire security at the refinery.

In 2006, the Company finally settled the purchase of a new heavy fire engine.

LOTOS Ochrona Sp. z o.o.

The company was established by virtue of Notarial Deed of June 19th 1998 under the name SORG Sp. z o.o. (Rep. A No. 2482/1998). On January 15th 2002, it was entered in the National Court Register under No. KRS 0000068276. Since January 12th 2004, the company has been operating under the name of LOTOS Ochrona Sp. z o.o. with registered office in Gdańsk. As at December 31st 2006, the share capital of LOTOS Ochrona Sp. z o.o. amounted to PLN 302,500 and was divided into 605 shares with a par value of PLN 500 per share. The activities of LOTOS Ochrona Sp. z o.o. (spun off from Grupa LOTOS S.A.) consist in personal and property protection. The company provides services for the LOTOS Group and other entities performing work on the premises of the Gdańsk refinery. The objective behind limiting the company's scope of operations was to help maintain a constant high level of security at the Gdańsk refinery.

As at January 1st 2006, the company's shareholder structure was as follows: Grupa LOTOS S.A. held 87.44% of shares, and natural persons held the remaining 12.56% of shares. On December 20th 2006, Grupa LOTOS S.A. acquired the remaining 12.56% of shares, pursuant to a share purchase agreement concluded with the other shareholders. As a result of this transaction, on the agreement date Grupa LOTOS S.A. became the owner of 100% of shares in LOTOS Ochrona Sp. z o.o., conferring the right to 100% of the total vote at the company's General Shareholders Meeting.

In November 2006, LOTOS Ochrona Sp. z o.o. started to train reserve personnel as part of a programme run by Pomorski Park Naukowo-Technologiczny – *Open Learning*. In December 2006, the company commenced property protection services at another building of Grupa LOTOS S.A. ("Centrum" building)

LOTOS Park Technologiczny Sp. z o.o.

The company was established under Notarial Deed of December 13th 2004 (Rep. A nr 6729/2004). On January 6th 2005, it was entered in the National Court Register under No. KRS 0000225650. The company's registered office is located in Gorlice.

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

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

The company's share capital was increased to PLN 8,074,000 by way of contributions in kind totalling PLN 4,460,000; the increase was registered on January 20th 2006. 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%. The company's share capital was increased again on February 20th 2006, to PLN 12,374,000, by way of cash contribution of PLN 4,300,000 made by Grupa LOTOS S.A. As at February 20th 2006, the company had the following shareholder structure: 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%. However, as a result of PRHP RCRemo Sp. z o.o.'s incorporation into LOTOS Serwis Sp. z o.o., effected on June 30th 2006, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. changed again. As at the incorporation date,

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the company's shareholders were 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%. Another share capital increase at LOTOS Park Technologiczny Sp. z o.o., to PLN 17,307,000, was made on December 22nd 2006, as the company's new shareholder – LOTOS Jasło S.A. – made a contribution in kind of PLN 4,933,000. As at December 22nd 2006, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. was as follows: LOTOS Serwis Sp. z o.o. – 8.19%, CBA Racer Sp. z o.o. – 7.31%, LOTOS Czechowice S.A. – 28.26%, Grupa LOTOS S.A. – 27.45%, Kolaja&Partners Sp. z o.o. – 0.29%, LOTOS Jasło S.A. – 28.50%. The company's shareholder structure was changed again after the incorporation of CBA Racer Sp. z o.o. into LOTOS Czechowice S.A. (effected on December 28th 2006). Since the incorporation date, the company's shareholder structure has been as follows: LOTOS Serwis Sp. z o.o. – 8.19%, LOTOS Czechowice S.A. – 35.58%, Grupa LOTOS S.A. – 27.45%, Kolaja&Partners Sp. z o.o. – 0.29%, LOTOS Jasło S.A. – 28.50%.

As part of the restructuring of the Southern Refineries, on January 2nd 2006 LOTOS Park Technologiczny Sp. z o.o. took over from LOTOS Czechowice S.A. 33 workers employed at the TERPEN Plant (fatty raw materials processing plant), and on June 1st 2006 another 17 persons were transferred, including:

- five employees from the HR department,
- six employees from the administration department,
- two employees from the technical warehouse,
- four employees from the development and investment department.

All of the persons listed above were transferred to the company under Art. 23' of the Polish Labour Code.

1.2.3 THE LOTOS CZECHOWICE GROUP

LOTOS Czechowice S.A.

The company was founded by virtue of Notarial Deed of January 9th 1996 and entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000102608. Its registered office is located in Czechowice-Dziedzice. Initially it operated under the name of Rafineria Czechowice S.A., until the change of the company's name to LOTOS Czechowice was entered in the National Court Register on December 19th 2005.

As at December 31st 2006, the company's share capital amounted to PLN 75,000,000, and was divided into 7,500,000 shares with a par value of PLN 10 per share. Grupa LOTOS S.A. holds an 80.04% equity interest in the company.

In Q1 2006, the core business of LOTOS Czechowice consisted in the production and processing of oil products and their wholesale and retail sale. On March 31st 2006, the company discontinued oil processing activities and since then its core business has been provision of fuel storage and distribution services for the LOTOS Group companies.

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

On January 2nd 2006, LOTOS Czechowice S.A.'s oil production assets which had been leased by LOTOS Oil S.A. were sold to that company.

In January 2006, the following contributions were made to LOTOS Park Technologiczny Sp. z o.o.: an organised part of business – the TERPEN Plant (Wydział Przeróbki Surowców Tłuszczowych PPW4) and 900 shares representing 100% of the share capital of RC Serwis Sp. z o.o. In exchange for the contribution, the company acquired shares in LOTOS Park Technologiczny Sp. z o.o. (the share capital increase at LOTOS Park Technologiczny Sp. z o.o. was registered on January 20th 2006).

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

On February 16th 2006, a share purchase agreement was concluded whereby 100% of shares held by the company in RC Transport Sp. z o.o. were sold to an investor from outside the Group. The transaction was made in accordance with the terms and conditions set forth in a preliminary agreement of December 2005.

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

On December 28th 2006, LOTOS Czechowice S.A. was merged with CBA Racer Sp. z o.o., its subsidiary.

As part of the restructuring of the Southern Refineries, on January 2nd 2006 LOTOS Park Technologiczny Sp. z o.o. took over from LOTOS Czechowice S.A. 33 workers employed at the TERPEN Plant, and on June 1st 2006 another 17 persons were transferred, including:

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- five employees from the HR department,
- six employees from the administration department,
- two employees from the technical warehouse,
- four employees from the development and investment department.

All of the persons listed above were transferred under Art. 23' of the Polish Labour Code.

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

On January 20th 2006, a share capital increase was registered at LOTOS Park Technologiczny Sp. z o.o. The share capital was increased by way of, *inter alia*, contribution of real property by RC Remo Sp. z o.o., whose value stood at PLN 1,417,000 and for which RC Remo Sp. z o.o. acquired 2,834 new shares with a par value of PLN 500 per share.

In accordance with the decisions taken in 2005 with regard to the consolidation of the plant engineering functions, on January 5th 2006 100% of shares in RC Remo Sp. z o.o. were sold by LOTOS Czechowice S.A. (the company's sole shareholder) to LOTOS Serwis Sp. z o.o. On June 30th 2006, P.R.H.P. RC Remo Sp. z o.o. was incorporated into LOTOS Serwis Sp. z o.o.

RC Ekoenergia Sp. z o.o.

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

As at December 31st 2006, the share capital of RC Ekoenergia Sp. z o.o. amounted to PLN 20,061,000, and was divided into 20,061 shares with a par value of PLN 1,000 per share. RC Ekoenergia Sp. z o.o. is wholly owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Ekoenergia Sp. z o.o.

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

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

CBA Racer Sp. z o.o., established on November 24th 2000, had not commenced operations until March 1st 2001.

On January 20th 2006, a share capital increase at LOTOS Park Technologiczny Sp. z o.o. was registered. The share capital was increased, *inter alia*, by way of contribution by CBA Racer Sp. z o.o. real property with the value of PLN 1,266,000, in exchange for 2,532 new shares with a par value of PLN 500 per share.

Following consolidation with other LOTOS S.A. Group companies and due to implementation of the Long-Term Strategy, the operations of CBA Racer Sp. z o.o. were discontinued on December 1st 2005. Then, the process of incorporating CBA Racer Sp. z o.o. into LOTOS Czechowice S.A. was commenced. The merger of the two companies, and consequently the closing of the incorporation process, was completed on December 28th 2006.

RC Paliwa Sp. z o.o.

RC Paliwa Sp. z o.o. was founded on July 11th 2000 and registered three days later (July 14th 2000) at the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000193717. The company's registered office is located in Czechowice-Dziedzice.

On November 27th 2006, liquidation proceedings were launched with respect to the company by virtue of a Court's decision (File No. KA. VIII NS-REJ.KRS/028721/06/350).

RC Serwis Sp. z o.o.

RC Serwis Sp. z o.o., founded by virtue of Notarial Deed dated March 27th 1998, was entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under entry No. KRS 0000094669.

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In January 2006, the company was contributed to LOTOS Park Technologiczny Sp. z o.o. RC Serwis Sp. z o.o. provides hotel and catering services as well as cleaning services and certain employee-related services.

RC Transport Sp. z o.o.

RC Transport Sp. z o.o., established on December 3rd 2001, is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under entry No. KRS 072738528. Its registered office is located in Czechowice-Dziedzice.

On February 16th 2006, an agreement was concluded under which LOTOS Czechowice S.A. sold 100% of its shares in RC Transport Sp. z o.o. to an external investor. The sale transaction was effected in accordance with the terms and conditions stipulated in a preliminary agreement of December 2005.

LOTOS Biopaliwa Sp. z o.o. (until May 10th 2006 the company operated under the name RC Parafiny Sp. z o.o.)

On May 10th 2006, the change of the company's name (from RC Parafiny Sp. z o.o. to LOTOS Biopaliwa Sp. z o.o.) and an increase in the company's share capital from PLN 265,000 to PLN 10,000,000 were registered by court. The latter was effected by way of increasing the number of shares from 530 to 20,000. The par value of one share remained unchanged at PLN 500. The sole owner of the company, both prior and subsequent to the share capital increase, is LOTOS Czechowice S.A.

The share capital increase was conducted by virtue of Resolution No. 1/2006 adopted by the Extraordinary General Shareholders Meeting of RC Parafiny Sp. z o.o. on April 3rd 2006.

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

The contract for the construction of the principal unit was concluded between MAN Ferrostaal AG of Essen and LOTOS Biopaliwa Sp. z o.o. on May 22nd 2006. On June 30th 2006, LOTOS Biopaliwa Sp. z o.o. and MAN Ferrostaal signed a statement confirming that conditions precedent had been met. Consequently, the contract became effective on June 30th 2006.

On June 26th 2006, LOTOS Biopaliwa Sp. z o.o. purchased real property from LOTOS Czechowice S.A. (by virtue of notarial deed) for the purposes of the project. In September 2006, LOTOS Biopaliwa Sp. z o.o. hired persons previously employed at LOTOS Czechowice S.A. who are engaged in the FAME project. Furthermore, Grupa LOTOS S.A. entered into outsourcing agreements with other Group companies concerning services required in its day-to-day operations.

1.2.4 THE LOTOS JASŁO GROUP

LOTOS Jasło S.A.

The company was formed as a result of transformation of the state-owned enterprise Podkarpackie Zakłady Rafineryjne im. Ignacego Łukasiewicza of Jasło, which had a more than a hundred years long presence in the Polish oil industry. From July 1st 1996, the company operated under the name Rafineria Jasło Spółka Akcyjna. On December 20th 2005, the company's Extraordinary General Shareholders Meeting passed a resolution amending the company's Articles of Association with respect to the company name. Since January 2nd 2006, the company name has been LOTOS Jasło Spółka Akcyjna.

LOTOS Jasło S.A. was entered in the Register of Entrepreneurs maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000068125.

As at December 31st 2006, the share capital of Rafineria Jasło S.A. amounted to PLN 48,000,000, and was divided into 6,000,000 shares with a par value of PLN 8 per share.

On February 3rd 2005, Grupa LOTOS S.A. of Gdańsk, upon fulfilment of the conditions stipulated in the share purchase agreement concerning shares in Rafineria Czechowice S.A., Rafineria Jasło S.A., Rafineria Nafta Glimar S.A. and Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A., concluded on January 13th 2005 between Nafta Polska S.A. and Grupa LOTOS S.A., acquired 4,800,798 registered shares in Rafineria Jasło S.A. from Nafta Polska S.A. of Warsaw, thereby becoming the parent undertaking of the company within the meaning of Art. 4.1.4 of the Commercial Companies Code.

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

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTA - REM Sp. z o.o. from minority shareholders, and, on January 5th 2006, disposed of the entire stake to LOTOS Serwis Sp. z o.o.

On February 1st 2006, liquidation proceedings were launched with respect to Rafineria Jasło SPED-KOL Sp. z o.o. As at December 12th 2006, the liquidation report had been drawn up, which was approved by the Extraordinary General Shareholders Meeting of SPED-KOL Sp. z o.o. (in liquidation) on December 22nd 2006.

On March 1st 2006, the businesses of PETROSOFT.PL Technologie Informatyczne Sp. z o.o., a subsidiary of LOTOS Jasło S.A., and the IT Department of LOTOS Czechowice S.A. were consolidated.

On December 12th 2006, following consolidation of oil production operations, an agreement for the sale of assets to LOTOS Oil S.A. was executed.

On December 22nd 2006, the share capital of LOTOS Park Technologiczny Sp. z o.o. was increased to PLN 17,307,000 after LOTOS Jasło S.A. acquired a stake in the company as a new shareholder. LOTOS Jasło S.A. made a non-cash contribution in the form of property, plant and equipment with the value of PLN 4,933,000. In exchange for the contribution, LOTOS Jasło S.A. acquired 9,866 new shares with a par value of PLN 500 per share.

In addition, in 2006 LOTOS Jasło S.A. sold assets leased by RAF-TRANS Jasło Zakład Transportu Sp. z o.o. for the benefit of the latter: an administration building together with the land plot (the site of former Naftobudowa) were sold to RAF-TRANS Jasło Zakład Transportu Sp. z o.o., while drinking water supply system and sewage system as well as residential sewage pumping facilities were sold to the Municipality of Jasło.

LOTOS TANK Sp. z o.o.

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

The share capital of LOTOS TANK Sp. z o.o. as at December 31st 2006 amounted to PLN 500,000, and was divided into 1,000 shares with a par value of PLN 500 per share.

The company's shareholders – Grupa LOTOS S.A. and LOTOS Jasło S.A. – hold, respectively, 300 shares representing 30% of the total vote at the General Shareholders Meeting and 700 shares representing 70% of the total vote at the General Shareholders Meeting.

The company's core business consists in trade in petroleum products and provision of fuel storage services.

PLASTEKOL Organizacja Odzysku S.A.

Pursuant to Art. 5 of the Act on Duties of Entrepreneurs in Respect of Certain Waste Management, Product Charges and Security Deposit Fees, dated May 11th 2001 (Dz.U. No. 63, Item 639), Rafineria Jasło S.A. and sixteen other companies set up a common waste recovery organisation operating as a joint-stock company under the name of PLASTEKOL Organizacja Odzysku S.A., registered office in Warsaw. The company was established by virtue of the Deed of Incorporation of January 8th 2002 and was entered in the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000082936 on January 17th 2002.

On May 6th 2004, the annual General Shareholders Meeting passed a resolution to relocate the company's registered office. Since the registration of the change on August 19th 2004, the company's registered office has been situated in Jasło.

As at December 31st 2006 the company's share capital amounted to PLN 1,000,000, and was divided into 1,000 Series A registered ordinary shares with a par value of PLN 1,000 per share. The company's principal shareholder is LOTOS Jasło S.A., which holds 670 shares representing 67% of the total vote at the General Shareholders Meeting, while the remaining twelve shareholders own 330 shares, representing jointly 33% of the total vote at the General Shareholders Meeting.

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

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Rafineria Jasło MONTO-REM Sp. z o.o.

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTO-REM Sp. z o.o. from minority shareholders. On January 5th 2006, LOTOS Jasło sold 100% of shares in Rafineria Jasło MONTO – REM to LOTOS Serwis Sp. z o.o. On July 1st 2006, Rafineria Jasło MONTO-REM Sp. z o.o. was incorporated into LOTOS Serwis Sp. z o.o.

Rafineria Jasło SPED-Kol Sp. z o.o.

On February 1st 2006, liquidation proceedings of the company were initiated. The liquidation report was prepared as at December 12th 2006, and was approved by the Extraordinary General Shareholders Meeting of SPED-KOL Sp. z o.o. (in liquidation) on December 22nd 2006.

1.2.5 THE PETROBALTIC GROUP

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

PPiEZRiG Petrobaltic S.A. (Petrobaltic S.A.) commenced its activities as a limited liability company on January 1st 1999, following commercialisation of a state-owned enterprise. Currently, the company is registered under No. KRS 0000171101 with the Gdańsk-Północ District Court of Gdańsk, VII Commercial Division of the National Court Register. Its registered office is situated in Gdańsk.

As at December 31st 2006, the company's share capital amounted to PLN 92,400,000, and was divided into 9,240,000 shares with a par value of PLN 10 per share. Since February 3rd 2005, Grupa LOTOS S.A. has held 69.00% of the company's share capital.

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

Miliana Shipping Company Ltd.

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

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

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

Energobaltic Sp. z o.o.

Energobaltic Sp. z o.o. was incorporated by virtue of Notarial Deed dated September 10th 1997, and on May 11th 2001 the company was entered in the National Register of Entrepreneurs presently maintained by the Gdańsk-Północ District Court of Gdańsk, VII Commercial Division, under No. KRS 0000011924. The company's registered office is situated in Gdańsk.

As at December 31st 2006, the share capital of Energobaltic Sp. z o.o. amounted to PLN 14,701,500, and was divided into 1,815 shares with a par value of PLN 8,100 per share. Petrobaltic S.A. holds 846 shares in Energobaltic Sp. z o.o., representing 46.6% of its share capital. Grupa LOTOS S.A. – indirectly, through Petrobaltic S.A. – holds 32.16% of shares in Energobaltic Sp. z o.o.

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

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UAB Naftos Gavyba

UAB Naftos Gavyba was incorporated on July 14th 2000. Its registered office is situated in Klaipeda, Lithuania. The share capital of UAB Naftos Gavyba comprises 10,000 shares with a par value of 1 LTL per share. Petrobaltic S.A. holds 4,270 shares representing 42.7% of the company's share capital. Grupa LOTOS S.A. holds – indirectly through Petrobaltic S.A.– 29.46% of the share capital of UAB Naftos Gavyba. At the end of April 2006, the Management Board of Petrobaltic S.A. became aware of changes in the shareholder structure of UAB Naftos Gavyba. UAB Naftos Tekme acquired all the UAB Naftos Gavyba shares not held by Petrobaltic S.A, thus becoming the largest shareholder in the company with a 57.3% stake in its share capital.

The company is responsible for equity operations in the oil industry. It manages the shares of AB Geonafta, in which it held 91.38% of shares as at December 31st 2006. AB Geonafta holds 50% equity interests in the following companies: UAB Minijos Nafta, UAB Genciu Nafta, and UAB Manifoldas.

On March 24th 2006, an agreement supplementary to the Agreement of July 18th 2000 had been signed by Petrobaltic S.A. and UAB Naftos Gavyba to postpone the deadline for transferring the ownership rights to the shares in AB Geonafta to August 31st 2007. However, following the changes in the shareholder structure of Naftos Gavyba that took place in April 2006, the Management Board decided to suspend the proposed actions relating to the termination of the conditional share purchase agreement concerning AB Geonafta shares. By virtue of its resolution of May 17th 2006, the Supervisory Board revoked in whole the resolutions of March 31st 2006. To determine the future strategy of Petrobaltic S.A., the Management Board recommended that appropriate legal and economic analyses be performed.

1.2.6 AS AT DECEMBER 31ST 2006 RAFINERIA NAFTY GLIMAR S.A. OF GORLICE WAS IN BANKRUPTCY

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

2.1 ASSIMILATION OF THE COMPANY SHARES

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.

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.

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.

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

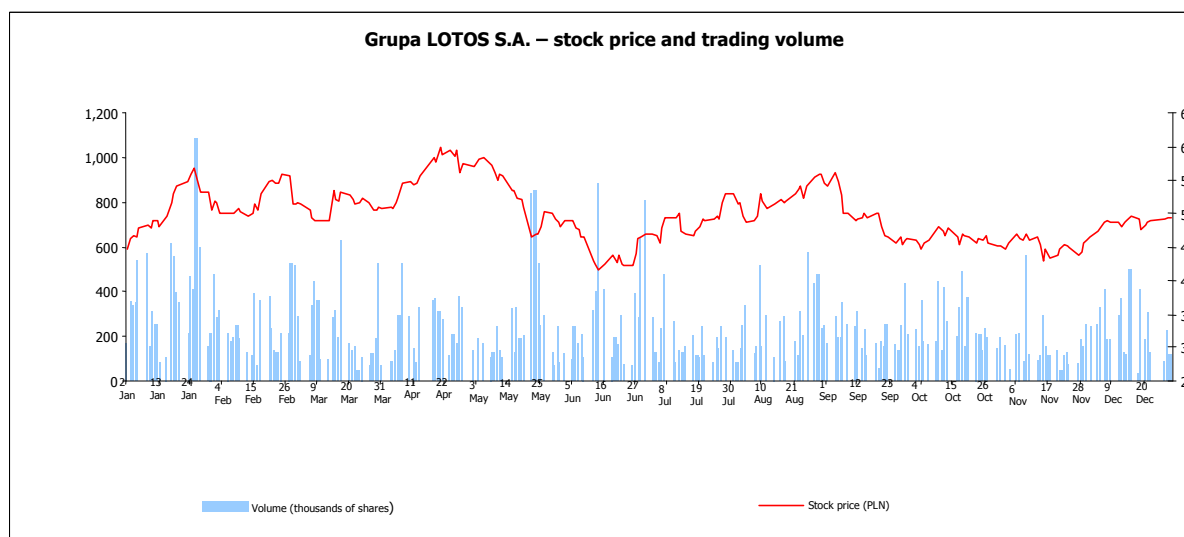
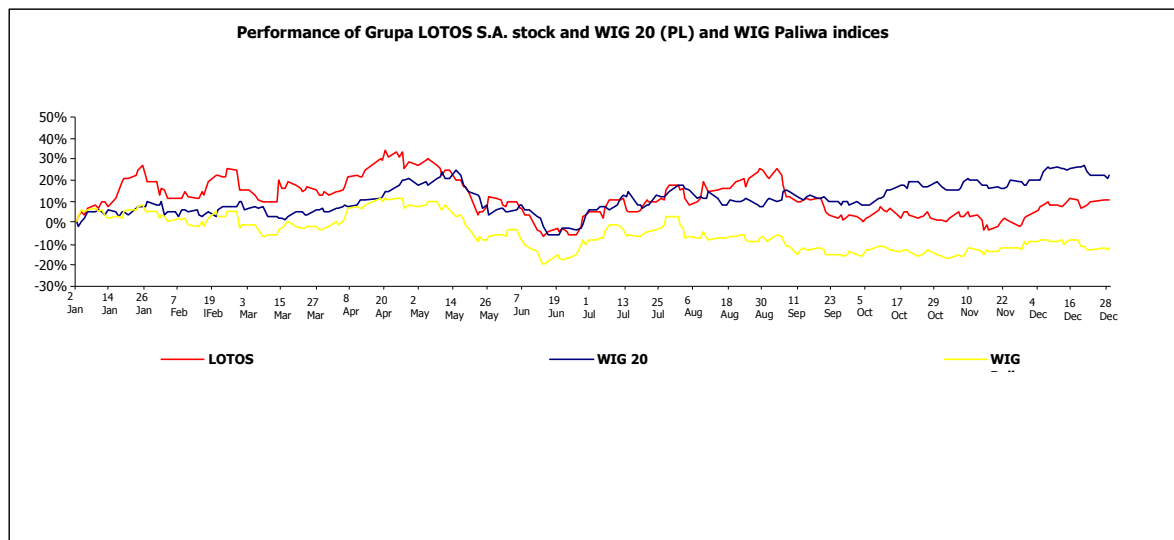
	Number of shares	Number of votes	Par value	% of share capital
State Treasury	7,878,030	7,878,030	7,878,030	6.93 %
Nafta Polska S.A.	59,025,000	59,025,000	59,025,000	51.91 %
Other shareholders	46,796,970	46,796,970	46,796,970	41.16 %
Total	113,700,000	113,700,000	113,700,000	100.00 %

On March 9th 2007, Grupa LOTOS S.A. was notified by ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A. that on March 7th 2007, 5,876,589 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny. The shares 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.

Prior to the change, ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny held 5,676,589 Grupa LOTOS S.A. shares, representing 4.99% of the Company's share capital and conferring the right to 5,676,589 votes at the General Shareholders Meeting, accounting for 4.99% of the total vote.

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2.3 PRICE OF GRUPA LOTOS S.A. SHARES 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

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in the Baltic Sea. In August, for the first time since the first listing, Grupa LOTOS shares 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%.

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

On April 12th 2006, the company's share capital was increased by PLN 1,767,00, 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.

2.5 SHARE CAPITAL INCREASE AT LOTOS BIOPALIWA SP. ZO.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.

2.6 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%),

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- 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 shareholders 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 effected on December 22nd 2006, as a result of LOTOS Jasło S.A. joining the company as a new shareholder and making 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%).

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

LOTOS Paliwa Sp. z o.o.

On June 29th 2006, the Maintenance and Investment Department was spun off from the organisational structure of LOTOS Paliwa Sp. z o.o., and transferred to LOTOS Serwis Sp. z o.o. (the employees were transferred under Art. 23' of the Polish Labour Code). On January 31st 2007, the Company disposed of the Transport Department, in the form of an organised part of business, to an entity from outside the LOTOS Group.

LOTOS Oil S.A.

As part of the restructuring of the Southern Refineries, on January 2nd 2006 LOTOS Oil S.A. concluded an agreement for the purchase of real property (the Czechowice Division) which until then had been leased from LOTOS Czechowice S.A., for PLN 11,592,000.00 (VAT exclusive) On July 18th 2006, the company signed an agreement for the purchase of real property in Czechowice-Dziedzice (site of the Ewa warehouse) from LOTOS Czechowice S.A., for PLN 00,732.00. Another real property purchase was effected on December 12th 2006: the company acquired the production assets it had leased from LOTOS Jasło S.A., for PLN 1,010,050.00. With effect from August 31st 2006 LOTOS Oil S.A., terminated a lease agreement with Rafineria Nafty Glimar S.A. (under bankruptcy proceedings) concerning production assets in Gorlice (the agreement had been in force from May 4th 2004).

LOTOS Asphalt Sp. z o.o.

On April 12th 2006, the existing Articles of Association of the company were repealed and a new consolidated text of the Articles of Association was adopted.

LOTOS Parafiny Sp. z o.o.

In 2006, the company acquired real property from another company of the LOTOS Group. Under the agreement concluded on October 31st 2006 by the Management Board of LOTOS Parafiny Sp. z o.o. with LOTOS Park Technologiczny Sp z o.o., the latter disposed of perpetual usufruct rights to land in Czechowice-Dziedzice, on which the barrel plant is situated, for PLN 550,000 (VAT exclusive). On November 22nd 2006, the company acquired perpetual usufruct rights to undeveloped real property as well as perpetual usufruct rights and ownership rights to buildings from LOTOS Czechowice S.A. for a price of PLN 840,814 (VAT exclusive).

On April 12th 2006, the existing Articles of Association of the company were repealed and a new consolidated text of the Articles of Association was adopted.

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LOTOS Serwis Sp. z o.o.

On January 5th 2006, LOTOS Serwis Sp. z o.o. acquired from LOTOS Czechowice S.A. 100% of shares in P.R.P.H. RC Remo Sp. z o.o., and from LOTOS Jasło S.A. – 100% of shares in Rafinieria Jasło MONTO-REM Sp. z o.o. On June 30th 2006, P.R.H.P. RCRemo Sp. z o.o. and Rafinieria Jasło MONTO-REM Sp. z o.o. were incorporated into LOTOS Serwis Sp. z o.o. On June 29th 2006, the Maintenance and Investment Department was spun off from the organisational structure of LOTOS Paliwa Sp. z o.o., and transferred to LOTOS Serwis Sp. z o.o. (the employees were transferred under Art. 23' of the Polish Labour Code).

On April 12th 2006, the existing Articles of Association of the company were repealed and a new consolidated text of the Articles of Association was adopted.

LOTOS Lab Sp. z o.o.

On January 3rd 2006, Laboratorium Badacz Sp. z o.o. was liquidated and merged into LOTOS Lab Sp. z o.o. by transferring all its assets to the latter. The relevant entry in the National Court Register was made on January 3rd 2006. On January 24th 2006, an entry was made in the National Court Register in connection with the establishment of two new divisions of LOTOS Lab Sp. z o.o.: the Jasło Division and the Czechowice Division. In connection with the establishment of the divisions, the company's Management Board adopted a resolution amending the Organisational Rules and the Organisational Structure of the Company.

On April 12th 2006, the a new consolidated text of the Articles of Association was adopted, whereby the core business of the company was changed to "Technical testing and analysis (PKD 74.30.Z)".

LOTOS Kolej Sp. z o.o.

On April 12th 2006, the existing Articles of Association of the company were repealed and a new consolidated text of the Articles of Association was adopted.

The end of September 2006 saw the expiry of the agreement concerning the lease of an organised part of business between LOTOS Kolej Sp. z o.o. and Rafinieria Nafty Glimar S.A. (in bankruptcy), as a result of which LOTOS Kolej Sp. z o.o. ceased to provide services on the premises of the Glimar refinery.

LOTOS Straż Sp. z o.o.

On April 12th 2006, the existing Articles of Association of the company were repealed and a new consolidated text of the Articles of Association was adopted.

LOTOS Park Technologiczny Sp. z o.o.

On January 20th 2006, an increase in the share capital of the company, to PLN 8,074,000, was registered. The share capital was increased by way of in-kind contributions totalling PLN 4,460,000, made by:

- CBA Racer Sp. z o.o., which contributed real property worth PLN 1,266,000 and acquired 2,532 new shares with a par value of PLN 500 per share;
- RC Remo Sp. z o.o., which contributed real property worth PLN 1,417,000 and acquired 2,834 new shares with a par value of PLN 500 per share;
- LOTOS Czechowice S.A., which contributed real property worth PLN 431,000, an organised part of business in the form of PPW-4 TERPEN Division (fatty raw materials processing plant) worth PLN 2,662,000, and 900 shares representing 100% of the share capital of RC Serwis Sp. z o.o., worth PLN 1,798,000, and acquired 9,782 new shares with a par value of PLN 500 per share.

The next increase in the share capital of LOTOS Park Technologiczny Sp. z o.o., to PLN 17,307,000, was effected on December 22nd 2006, as a result of LOTOS Jasło S.A. joining the company as a new shareholder and making an in-kind contribution worth PLN 4,933,000 in the form of property, plant and equipment. In

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exchange for the in-kind contribution, LOTOS Jasło S.A. acquired 9,866 new shares with a par value of PLN 500 per share.

Furthermore, on October 31st 2006, the company's Management Board executed an agreement providing for the sale of perpetual usufruct rights to real property in Czechowice-Dziedzice on which the barrel plant is situated, to LOTOS Parafiny Sp. z o.o., for a price of PLN 550,000 (VAT exclusive).

As part of the restructuring of the Southern Refineries, on January 2nd 2006, LOTOS Park Technologiczny Sp. z o.o. took over from LOTOS Czechowice S.A. 33 workers employed at the TERPEN Plant, and on June 1st 2006, another 17 persons were transferred, including:

- five employees from the HR department,
- six employees from the administration department,
- two employees from the technical warehouse,
- four employees from the development and investment department.

All of the persons listed above were transferred to the company under Art. 23' of the Polish Labour Code.

LOTOS Czechowice S.A.

In 2006, as part of the restructuring of the Southern Refineries, LOTOS Czechowice S.A. disposed of or contributed assets that had been classified as not related to the company's core business, to companies from the LOTOS Group and entities from outside the Group.

On January 2nd 2006, LOTOS Czechowice S.A. executed an agreement for the sale of real property (the Czechowice Division) which had been leased by LOTOS Oil S.A. to LOTOS Oil S.A. for PLN 11,592,000 (VAT exclusive).

On January 20th 2006, a share capital increase at LOTOS Park Technologiczny Sp. z o.o. was registered by court. The increase was effected *inter alia* by way of LOTOS Czechowice S.A.'s contribution of real property worth PLN 431,000, an organised part of business in the form of PPW-4 TERPEN Plant (fatty raw materials processing plant) worth PLN 2,662,000, and 900 shares representing 100% of the share capital of RC Serwis Sp. z o.o., worth PLN 1,798,000, in exchange for which LOTOS Czechowice S.A. acquired 9,782 new shares with a par value of PLN 500 per share

On February 16th 2006, an agreement on sale of 100% of shares in RC Transport Sp. z o.o. held by LOTOS Czechowice S.A. to an external investor was executed. The sale was made on the terms defined in the preliminary agreement concluded in December 2005.

On July 18th 2006, the company signed an agreement for the sale of real property situated in Czechowice-Dziedzice (Ewa warehouse) to LOTOS Oil S.A. The total transaction price was PLN 99,732.

On November 22nd 2006, LOTOS Parafiny Sp. z o.o. acquired perpetual usufruct rights to an undeveloped property and perpetual usufruct rights and ownership rights to buildings from LOTOS Czechowice S.A., for a price of PLN 840,814 (VAT exclusive).

On November 27th 2006, by virtue of the relevant court's decision (file ref. No. KA. VIII NS-REJ.KRS/028721/06/350), liquidation proceedings were instigated with respect to RC Paliwa Sp. z o.o., a subsidiary of LOTOS Czechowice S.A.

On December 28th 2006, LOTOS Czechowice S.A. and CBA Racer Sp. z o.o. were merged, which marked the completion of the incorporation process.

As part of the restructuring of the Southern Refineries, on January 2nd 2006, LOTOS Park Technologiczny Sp. z o.o. took over from LOTOS Czechowice S.A. 33 employees of the TERPEN Plant, and on June 1st 2006, another 17 persons were transferred, including:

- five employees from the HR department,
- six employees from the administration department,
- two employees from the technical warehouse,
- four employees from the development and investment department.

All of the persons listed above were transferred to the company under Art. 23' of the Polish Labour Code.

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P.R.H.P. RC Remo Sp. z o.o.

On January 5th 2006, LOTOS Czechowice S.A. sold 100% of the shares in P.R.H.P. RC Remo Sp. z o.o. to LOTOS Serwis Sp. z o.o.

On January 20th 2006, a share capital increase at LOTOS Park Technologiczny Sp. z o.o. was registered by court. The increase was effected *inter alia* by way of contribution by RC Remo Sp. z o.o. of real property worth PLN 1,417,000 in exchange for 2,834 new shares with a par value of PLN 500 per share.

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

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

Due to implementation of the Long-Term Strategy and following consolidation with other LOTOS Group companies, the company's operations were discontinued on December 1st 2005. On January 20th 2006, a share capital increase at LOTOS Park Technologiczny Sp. z o.o. was registered. The increase was effected *inter alia* by way of contribution by CBA Racer Sp. z o.o. of real property worth PLN 1,266,000, in exchange for 2,532 new shares with a par value of PLN 500 per share.

On December 28th 2006, CBA Racer Sp. z o.o. was incorporated into LOTOS Czechowice S.A.

RC Serwis Sp. z o.o.

On January 20th 2006, an increase in the share capital of LOTOS Park Technologiczny Sp. z o.o. was registered. The increase was effected *inter alia* by way of contribution by LOTOS Czechowice S.A. of 900 shares representing 100% of the share capital of RC Serwis Sp. z o.o.

RC Transport Sp. z o.o.

On February 16th 2006, an agreement on sale of 100% of shares in RC Transport Sp. z o.o. held by the company to an external investor was executed. The sale was made on the terms defined in the preliminary agreement concluded in December 2005.

LOTOS Biopaliwa Sp. z o.o.

On June 26th 2006, by virtue of a notarial deed, LOTOS Biopaliwa Sp. z o.o. purchased from LOTOS Czechowice S.A. property for PLN 949,000 for the purposes of the FAME project. In September 2006, former employees of LOTOS Czechowice, who had been engaged in the FAME Project, were employed by the company. Additionally, outsourcing agreements with other LOTOS Group companies were executed, to enable the company to conduct its day-to-day operations.

LOTOS Jasło S.A.

In 2006, as part of the restructuring of the Southern Refineries, LOTOS Czechowice S.A. disposed of or contributed assets that had been classified as not related to the company's core business, to companies from the LOTOS Group and entities from outside the Group.

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTA - REM Sp. z o.o. from minority shareholders, and, on January 5th 2006, disposed of the entire stake to LOTOS Serwis Sp. z o.o.

On February 1st 2006, liquidation proceedings were instigated with respect to Rafineria Jasło SPED-KOL Sp. z o.o. As at December 12th 2006, the liquidation report had been drawn up, which was approved by the Extraordinary General Shareholders Meeting of SPED-KOL Sp. z o.o. (in liquidation) on December 22nd 2006.

On March 1st 2006, the businesses of PETROSOFT.PL Technologie Informatyczne Sp. z o.o., a subsidiary of LOTOS Jasło S.A., and the IT Department of LOTOS Czechowice S.A. were consolidated.

On December 12th 2006, the company sold to LOTOS Oil S.A. production assets that had been leased by that company, at a price of PLN 1,010,050.

On December 22nd 2006, a share capital increase at LOTOS Park Technologiczny Sp. z o.o. was registered. The increase was effected *inter alia* by way of contribution by LOTOS Jasło S.A., worth PLN 4,933,000, including

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property, plant and equipment. In exchange for its contribution, LOTOS Jasło S.A. acquired 9,866 new shares with a par value of PLN 500 per share

Additionally, in 2006, the company sold assets leased by RAF-TRANS Jasło Zakład Transportu Sp. z o.o., to the latter: an administration building together with the land (the site of former Naftobudowa) were sold to RAF-TRANS Jasło Zakład Transportu Sp. z o.o., and drinking water supply system and sewage system as well as residential sewage pumping facilities were sold to the Municipality of Jasło.

Rafineria Jasło MONTO-REM Sp. z o.o.

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTO - REM Sp. z o.o. from minority shareholders. On January 5th 2006, LOTOS Jasło sold 100% of shares in Rafineria Jasło MONTO-REM to LOTOS Serwis Sp. z o.o. On June 30th 2006, Rafineria Jasło MONTO-REM Sp. z o.o. was incorporated into LOTOS Serwis Sp. z o.o.

Rafineria Jasło SPED-KOL Sp. z o.o.

On February 1st 2006, liquidation proceedings with respect to the company were instigated. As at December 12th 2006, the liquidation report had been drawn up, which was approved by the Extraordinary General Shareholders Meeting of SPED-KOL Sp. z o.o. (in liquidation) on December 22nd 2006.

3.3 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

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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

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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.

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4. DESCRIPTION OF THE LOTOS GROUP'S DEVELOPMENT POLICY

The underlying objective of the LOTOS Group's development policy is to enhance the competitiveness of the Group among oil companies operating in the Baltic Sea region.

With a view to building shareholder value, the Group intends to pursue the goal of improving its competitive position in the region by innovation-oriented expansion of the upstream business, oil processing and distribution of products meeting most stringent quality standards, to be carried out in an environment-friendly manner and in compliance with the energy security policy, in such a way as to meet the customers' expectations, use effectively the employees' potential and provide them with opportunities for further development of their professional skills.

The Group's development policy is based on implementation of key development projects within the frameworks of strategic programmes.

With respect to the Group's operating activities, an important development direction is set forth in the **Exploration and Production Development Programme**, providing for creation of an upstream segment, which in the long run will secure increase in own annual production of crude oil from 300 thousand tonnes to 1m tonnes. Moreover, the LOTOS Group actively seeks other upstream projects, including abroad, which will facilitate diversification of oil supplies so that in 2012 no more than 60% of supplies come from one source, in order to reduce the Group's exposure to fluctuations in crude oil prices, at the same time remaining in compliance with the energy security policy.

Another focus area of the Group's operating activities is implementation of the **Comprehensive Technical Upgrade Programme**. Completion of the Programme will enable the Group to improve the economies of scale in refining volumes (target growth to 10.5 tonnes annually) and conversion ratio, which should make it possible for the Group to successfully face the market challenges and fulfil environmental requirements of the European market, 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.

As far as marketing activities are concerned, through implementation of the **Sales Force Development and Optimisation Programme**, the LOTOS Group intends to increase its shares in the domestic fuel market and domestic retail fuel market to 30% and 10%, respectively. The Group is expanding its COCO, CODO and DOFO service station network, and through certain logistics activities (assuming intense trading activity in the Baltic Sea basin), it plans to build on the Group's competitive advantage resulting from the seaside location of the Gdańsk refinery.

The Group's policy also envisages restructuring of the Southern Refineries by development of their business in new areas, i.e. logistics and distribution, biofuel production and plastic recycling.

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

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

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

PLN '000	Jan 1 2006 – Dec 31 2006	% share	Jan 1 2005 – Dec 31 2005	% share
Gasolines	5,471,410	29.8%	4,375,812	31.6%
Diesel oil	8,015,889	43.7%	5,826,599	42.1%
Light fuel oil	1,013,948	5.5%	1,143,944	8.3%
Heavy fuel oil	679,907	3.7%	476,943	3.4%
Jet-A1 aviation fuel	921,545	5.0%	537,922	3.9%
Lubricants	401,290	2.2%	368,700	2.7%
Base oils	238,263	1.3%	147,717	1.1%
Bitumens and components for their production	783,672	4.3%	412,332	3.0%
Liquid gases	260,676	1.4%	139,400	1.0%
Other refinery products	393,575	2.2%	298,976	2.1%
Total crude oil products and goods, including:	18,180,175	99.1%	13,728,345	99.2%
Other goods and materials	91,674	0.5%	60,137	0.4%
Services	79,920	0.4%	59,937	0.4%
Total	18,351,769	100.0%	13,848,419	100.0%
Elimination of excise tax and fuel charge	(5,540,886)		(4,202,874)	
Total	12,810,883		9,645,545	

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

	Jan 1 2006 – Dec 31 2006	% share	Jan 1 2005 – Dec 31 2005	% share
Gasolines	1,596	22.64%	1,382	24.25%
Diesel oils	2,558	36.29%	1,900	33.35%
Light fuel oil	485	6.88%	568	9.97%
Heavy fuel oil	738	10.48%	614	10.78%
Jet-A1 aviation fuel	450	6.38%	282	4.95%
Lubricants	94	1.34%	89	1.56%
Base oils	90	1.28%	81	1.42%
Bitumens and components for their production	785	11.13%	522	9.16%
Liquid gases	104	1.48%	64	1.12%
Other refinery products	149	2.12%	196	3.44%
Total crude oil products and goods	7,050	100.00%	5,698	100.00%

In 2006, the LOTOS Group's sales went up by 25% relative to 2005, and reached 7,050 thousand tonnes. Growth was reported with respect to all product groups, except for light fuel oil, whose sales dropped to 485 thousand tonnes, or 85% of the previous year's figure. In comparison with 2005, the largest growth was seen in liquid gases and aviation fuel, of 63% and 59%, respectively. High sales were also reported in bitumens and heavy fuel oil: up by 50% and 20%, respectively. The most crucial factor contributing to the increase in the LOTOS Group's sales was a 35% growth in sales of diesel oils, which translated into sales increase of approx. 650,000 tonnes, representing 50% of the total sales growth relative to 2005.

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

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

PLN '000	Jan 1 2006 – Dec 31 2006	% share	Jan 1 2005 – Dec 31 2005	% share
Domestic sales, including:	15,446,784	84.2%	11,707,384	84.5%
- products	15,082,326	82.2%	10,864,564	78.4%
- goods and materials	364,458	2.0%	842,820	6.1%
Exports, including:	2,904,985	15.8%	2,141,035	15.5%
- products	2,870,671	15.6%	2,130,213	15.4%
- goods and materials	34,314	0.2%	10,822	0.1%
Total	18,351,769	100.0%	13,848,419	100.0%
excise tax, fuel charge	(5,540,886)		(4,202,874)	
TOTAL	12,810,883		9,645,545	

LOTOS Group's key customers in 2006

The only customers whose share in the LOTOS Group sales exceeded 10% was Statoil Polska Sp. z o.o. of Warsaw – its share amounted to 13.4%

LOTOS Group's purchases by region (PLN '000)

PLN '000	Jan 1 2006 – Dec 31 2006	% share	Jan 1 2005 – Dec 31 2005	% share
Domestic purchases	794,285	7.4%	2,430,731	26.8%
Imports	9,894,728	92.6%	6,639,888	73.2%
Total purchases	10,689,013	100.0%	9,070,619	100.0%

LOTOS Group's goods supply structure in 2006 (PLN '000)

PLN '000	Jan 1 2006 – Dec 31 2006	% share	Jan 1 2005 – Dec 31 2005	% share
Diesel oils	95,359	29.98%	75,801	15.30%
Gasolines	106,148	33.36%	7,806	1.58%
LPG	110,446	34.71%	45,327	9.15%
Other	6,211	1.95%	366,573	73.97%
Total	318,164	100.00%	495,507	100.00%

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LOTOS Group's supply structure in 2006 (PLN '000)

PLN '000	Jan 1 2006 – Dec 31 2006	% share
Raw materials	10,377,011	84.2%
Goods	374,795	3.0%
Services	720,910	5.9%
Other purchases	850,291	6.9%
Total	12,323,007	100.0%

LOTOS Group's major suppliers in 2006

The suppliers whose share in the LOTOS Group purchases in 2006 exceeded 10% of the LOTOS Group's revenue were J & S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of United Kingdom – their shares in the Group's purchases amounted to 44.2% and 20.7%, respectively.

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7. KEY FINANCIAL AND ECONOMIC DATA DISCLOSED IN THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND NON-RECURRING FACTORS AND EVENTS WITH A BEARING ON THE GROUP'S PERFORMANCE

7.1 INCOME STATEMENT

In 2006, the LOTOS Group generated sales revenue of PLN 12,810.9m, up by 32.8% on the 2005 figure. The growth was driven mainly by larger volumes sold (increase of 23.7%, i.e. 1,351.7 thousand tonnes) and higher net unit selling prices of products and goods. The cost of sales in 2006 was PLN 10,988.0m, up by 36.4% on the previous year's figure. The gross profit on sales in 2006 totalled PLN 1,822.9m, representing a 14.5% (PLN 230.9m) increase in relation to 2005.

The consolidated 2006 operating profit stood at PLN 798.3m, down by PLN 271.6m (25.4%) from 2005. The factor of key importance to the level of the Group's operating results was the excess of the fair value of net assets of the acquired Southern Refineries and Petrobaltic over their acquisition cost, amounting to PLN 266.6m, which increased the operating profit. At the same time, in 2006 a 32.8% increase in selling costs was recorded, primarily due to growth in the sales volume, and a 15.4% increase in general administrative expenses, related, among other things, to the acquisition of the Southern Refineries and Petrobaltic.

The financial income of the Group totalled PLN 133.3m, up by PLN 57.6m in comparison with the 2005 figure. At the same time, the Group's financial expenses declined by PLN 11.0m in relation to 2005. In 2005, the Group's operating profit was increased by the profit realised on the sale of Naftoport shares in the amount of PLN 16.1m. The operating profit for 2006 was increased by PLN 25.8m (i.e. PLN 2.7m down on the 2005 figure) attributable to the share in the results of companies valued with equity method, mostly of the Naftos Gavyba Group. The 2006 consolidated pre-tax profit totalled PLN 915.9m, having decreased by PLN 221.8m from the figure reported for 2005. In 2006, the Group reported net profit on continued operations of PLN 734.7m, down by PLN 234.2m relative to 2005. Profit attributable to the equity holders of the Parent Undertaking was PLN 679.9m, PLN 235.2m less than in 2005.

Following adjustment to the LOTOS Group's 2006 net profit made to account for the effect of the aforementioned revaluation resulting from the valuation of the Southern Refineries and Petrobaltic, the 2006 operating result declined by 0.6% compared with the previous year, and the net profit went up by PLN 32.4m.

7.2 BALANCE SHEET

As at December 31st 2006, the LOTOS Group's assets totalled PLN 7926.5m, up by 13.4% compared with the figure reported as at December 31st 2005. The value of non-current assets grew over the 12 months of 2006 by PLN 363.8m, mainly as a result of a PLN 206.2m increase in property, plant and equipment and PLN 130.3m growth in prepayments for tangible assets under construction.

The share of non-current assets in the asset structure fell from 51.2% in 2005 to 49.8% in 2006.

The increase in current assets by PLN 565.3m to PLN 3,973.4m reported as at the end of December 2006 was driven mainly by greater sales volume and higher crude oil prices. In 2006, due to these factors, inventories and trade receivables went up by PLN 274.5m and PLN 254.4m, respectively.

As at December 31st 2006, equity amounted to PLN 5,534.3m. A PLN 726.2m increase relative to the figure recorded as at December 31st 2005 resulted mainly from a PLN 679.9m increase in retained earnings and PLN 52.1m increase in minority interest.

As at December 31st 2005, non-current liabilities stood at PLN 750.7m, and in 2006 they grew by 4.9%, mainly due to an increase in bank loans and long-term provisions. As at the end of 2006, current liabilities stood at PLN 1,641.5, having grown by PLN 175.9m, mainly due to higher tax and social insurance liabilities as well as higher short-term loans and borrowings.

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The proportion of equity to liabilities increased slightly, from 68.8% as at the end of 2005 to 69.8% in 2006, and the share of non-current liabilities fell by 0.8 percentage points.

Structure of assets and equity and liabilities

PLNm	Dec 31 2006	Dec 31 2005	% change from Dec 31 2005
Non-current assets	3,945,259.00	3,581,480.00	10.16%
<i>percentage of the balance-sheet total</i>	<i>49.77%</i>	<i>51.24%</i>	
Current assets	3,973,397.00	3,408,129.00	16.59%
<i>percentage of the balance-sheet total</i>	<i>50.13%</i>	<i>48.76%</i>	
Assets available for sale	7,819.00		-
<i>percentage of the balance-sheet total</i>	<i>0.10%</i>		
TOTAL ASSETS	7,926,475.00	6,989,609.00	13.40%
Equity attributable equity holders of the parent	5,227,918.00	4,553,828.00	14.80%
<i>percentage of the balance-sheet total</i>	<i>65.96%</i>	<i>65.15%</i>	
Minority interests	306,416.00	254,281.00	20.50%
<i>percentage of the balance-sheet total</i>	<i>3.87%</i>	<i>3.64%</i>	
Non-current liabilities	750,653.00	715,907.00	4.85%
<i>percentage of the balance-sheet total</i>	<i>9.47%</i>	<i>10.24%</i>	
Current liabilities	1,641,488.00	1,465,593.00	12.00%
<i>percentage of the balance-sheet total</i>	<i>20.71%</i>	<i>20.97%</i>	
TOTAL EQUITY AND LIABILITIES	7,926,475.00	6,989,609.00	13.40%

7.3 CASH FLOWS

As at December 31st 2006, the LOTOS Group reported cash totalling PLN 624.2m, which means a PLN 143.6m decrease during 2006.

In 2006, net cash provided by operating activities was PLN 654.4m, a PLN 56.3m increase on 2005. The main factors increasing the cash flows in 2006 were a PLN 734.7m net profit, amortisation and depreciation in the amount of PLN 297.4m and the balance of liabilities larger by PLN 175.1m. The key factors contributing to a decrease in operating cash flows in the reported year were a PLN 274.5m growth in inventories, PLN 189.2m increase in receivables, and a negative balance between income tax paid and current income tax, in the amount of PLN 109.3m.

Net cash used in investing activities in 2006 totalled PLN 721.5m, down by PLN 194.5m as compared with the figure posted in 2005. The largest cash outflows related to investing activities pertained to the acquisition of property, plant and equipment and intangible assets (PLN 540.6m), and the acquisition of current financial assets (PLN 45.4m).

In 2006, the LOTOS Group reported a slightly negative balance of cash flows from financing activities totalling PLN 78.2m, related primarily to repayment of loans and borrowings. To compare, in 2005 the Group reported a large positive balance of PLN 930.3m, which resulted from the issue of the Company shares.

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7.4 NON-RECURRING EVENTS WITH AN IMPACT ON THE COMPANY'S RESULT OF OPERATIONS

No extraordinary events were reported in 2006, which could have a bearing on the LOTOS Group's results.

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

8.1 CONTRACTED LOANS AND LOAN AGREEMENTS

For detailed information on contracted loans and loan agreements, see Note 29 to the consolidated financial statements of the LOTOS Group for 2006.

8.2 GUARANTEES

- 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.

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9. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During 2006, the LOTOS Group was able to meet all of its liabilities towards third parties.

The balance of working capital loans as at December 31st 2006 amounted to PLN 158.3m. For a detailed specification of debt under loans see Note 29 to the financial statements.

As regards the Company's payment standing, the liquidity ratios as at December 31st 2005 were high.

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

Item	2006	2005
Operating profit (PLN '000)	798,346	1,069,907
Operating margin (1)	6.23%	11.09%
Pre-tax profit (PLN'000)	915,891	1,137,654
Gross margin (2)	7.15%	11.79%
Net profit (PLN'000)	734,652	968,839
Net margin (3)	5.73%	10.04%
Return on equity (ROE) (4)	13.27%	20.15%
Return on assets (ROA) (5)	9.27%	13.86%
Current ratio (6)	2.42	2.33
Quick ratio (7)	1.38	1.35
Average collection period (in days) (8)	30.02	30.93
Average payment period (in days) (9)	26.29	29.20
Capital employed (10)	2,331,909	1,942,536
Capital employed to total assets (11)	29.42%	27.79%
Debt ratio (12)	30.18%	31.21%
Debt to equity ratio (13)	43.22%	45.37%

(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*

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10. KEY RISKS AND THREATS AND THE EXTENT TO WHICH THE GROUP IS EXPOSED TO THESE RISKS AND THREATS

10.1 EXTERNAL RISKS AND THREATS RELATED TO THE GROUP'S MARKET ENVIRONMENT

- **Risk related to the overall macroeconomic situation** – the financial situation of the Company 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 CO₂ emission allowances** – Another new risk relates to the fact that Grupa LOTOS S.A. refinery may be granted CO₂ emission allowances for 2008–2012 that are not sufficient to cover the CO₂ 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.

10.2 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.

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

11.1 SIGNIFICANT AGREEMENTS CONCLUDED BY GRUPA LOTOS S.A. IN 2006

- On December 28th 2006, Grupa LOTOS S.A. and LOTOS Asphalt Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) signed a significant agreement concerning sale of heating oil to LOTOS Asphalt 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.

11.2 SIGNIFICANT AGREEMENTS CONCLUDED BY THE OTHER COMPANIES OF THE LOTOS GROUP IN 2006

- On April 11th 2006, LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading) entered into an agreement on feedstock supply for the

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installations which are to be constructed under the Comprehensive Technical Upgrade Programme of Grupa LOTOS S.A. (PKRT).

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

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

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

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

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

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

- On March 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.

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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.

Significant Agreements Concluded after the Balance-Sheet Date

- 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.

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

12.1 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS

LOTOS Ochrona Sp. z o.o.

As at January 1st 2006, the company's shareholder structure was as follows: Grupa LOTOS S.A. held 87.44% of the shares, with the balance of 12.56% held by private individuals. On December 20th 2006, under a share purchase agreement Grupa LOTOS S.A. purchased the remaining 12.56% of the shares. The price per share was PLN 1,129, while the total transaction value amounted to PLN 85,804. Following the transaction Grupa LOTOS S.A. holds 100% shares in LOTOS Ochrona Sp. z o.o., which confer the right to 100% of the total vote at the General Shareholders Meeting.

LOTOS Park Technologiczny Sp. z o.o.

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%). On February 20th 2006, the relevant court registered an increase in the company's share capital to PLN 12,374,000, which was effected by way of a cash contribution of PLN 4,300,000 by Grupa LOTOS S.A. As a result of the share capital increase, Grupa LOTOS S.A. acquired 8,600 shares with a par value of PLN 500 per share and the total value of PLN 4,300,000. 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%).

During the financial year, there were a number of further changes in the shareholder structure of the company (without active participation of Grupa LOTOS S.A.), as a result of which as at December 31st 2006, the shareholder structure was 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%).

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12.2 KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE GROUP

12.2.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS:

The Group's major investments in tangible and intangible assets made in 2006 (PLN '000)

Item	Capital expenditure in the period Jan 1 – Dec 31 2006
Construction and assembly work	166,509
Procurement from external suppliers – purchases	200,187
Acquisition of intangible assets	33,631
Other capital expenditure	171,212
Total	571,539

12.2.2 EQUITY INVESTMENTS:

Acquisition of Shares in KRAK-GAZ Sp. z o.o. by LOTOS Mazowsze

On March 26th 2007, LOTOS Mazowsze S.A. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concluded a conditional preliminary agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. from natural persons. The conclusion of the final purchase agreement is conditional upon the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Mazowsze S.A. of control over KRAK-GAZ Sp. z o.o. by purchasing its shares. The value of the shares in KRAK-GAZ Sp. z o.o. to be purchased under the agreement was determined at PLN 16.367,9 thousand. LOTOS Mazowsze S.A. plans to finance the transaction with its own financial resources. The core business of KRAK-GAZ Sp. z o.o. consists in wholesale and retail distribution of LPG. The acquisition of the equity interest in the company by LOTOS Mazowsze S.A. is part of Grupa LOTOS S.A.'s strategy aimed at increasing its share in the domestic LPG market

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13. TRANSACTIONS WITH RELATED UNDERTAKINGS

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

No.	Party to the transaction	Sales (PLN '000)	Purchases (PLN '000)
1	LOTOS Paliwa Sp. z o.o.	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 (exchange rate = 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 non-supplied 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.).
- In exchange for a contribution in kind, on December 6th 2006 LOTOS Jasło S.A. (in which Grupa LOTOS S.A. holds a stake of 80.01%) acquired 9,866 shares, with the par value of PLN 500 per share, in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. (in which Grupa LOTOS S.A. holds 38.4% of the share capital). The transaction between LOTOS Jasło S.A. and LOTOS Park Technologiczny Sp. z o.o. was concluded by way of an agreement providing for the transfer to LOTOS Park Technologiczny Sp. z o.o. of the perpetual usufruct right to real property and the ownership right to buildings, structures, plant and equipment, with the total value of PLN 4,933 thousand, to cover the increase in the share capital of LOTOS Park Technologiczny Sp. z o.o. to PLN 17,307 thousand. As a result of the transaction LOTOS Jasło S.A. acquired 28.5% of the shares in LOTOS Park Technologiczny Sp. z o.o. 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.
- 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

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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.
- On January 5th 2006, LOTOS Serwis Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., acquired with its own funds:
 - 2,428 shares in Przedsiębiorstwo Remontowo–Produkcyjno–Handlowe RCRemo Sp. z o.o. of Czechowice–Dziedzice, for a total amount of PLN 3,000 thousand, from LOTOS Czechowice S.A., in which Grupa LOTOS S.A. holds a stake of 80.04%;
 - 3,200 shares in Rafineria Jasło Monto–Rem Sp. z o.o. of Jasło, for a total amount of PLN 1,768 thousand, from LOTOS Jasło S.A., in which Grupa LOTOS S.A. holds a stake of 80.01%.

Until the transaction Rafineria Jasło Monto–Rem Sp. z o.o. operated within the structures of the LOTOS Jasło S.A. Group, as a wholly owned subsidiary of LOTOS Jasło S.A., and RCRemo Sp. z o.o. was fully controlled by LOTOS Czechowice S.A. Following the transaction LOTOS Serwis Sp. z o.o. holds 100% of the shares in RCRemo Sp. z o.o. and 100% of the shares in Rafineria Jasło Monto – Rem Sp. z o.o. The par value of one share in RCRemo Sp. z o.o. and of one share in Rafineria Jasło Monto–Rem Sp. z o.o. amounts to PLN 1 thousand and PLN 500, respectively. The total par value of 100% of the shares acquired by LOTOS Serwis Sp. z o.o. in each of the companies amounts to PLN 2,428 thousand and PLN 1,600 thousand, respectively. 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.

- 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

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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.

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.

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14. LOANS ADVANCED, INCLUDING LOANS, SURETIES AND GUARANTEES GRANTED TO RELATED UNDERTAKINGS OF GRUPA LOSTOS S.A.

14.1 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 advanced were fully covered by a valuation allowance, and as at December 31st 2006 and December 31st 2005 the Company created a provision for the remaining receivables under these agreements. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt.

Loan Advanced by Petrobaltic S.A. to Energobaltic Sp. z o.o.

On November 12th 2001, an agreement was concluded under which Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to USD 6,879 thousand as at December 31st 2006 (USD 6,386 thousand as at December 31st 2005), which represented the equivalent of PLN 20,022 thousand (PLN 20,825 thousand as at December 31st 2005). On the basis of an analysis of the economic and financial standing of Energobaltic Sp. z o.o., performed based on the 2005 financial statements, and considering the projections for the following years and the related risk of a loss of liquidity in the event of failure of the measures taken by the Management Board of Energobaltic Sp. z o.o. to restructure the company's debt, i.e. to postpone the repayment of bank loans and shareholder loans, a valuation allowance was made for the full value of the loan (including interest). A valuation allowance was also made for the value of shares held in Energobaltic Sp. z o.o.

Under the shareholder agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. is obliged to submit to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV"), an offer to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV exercises its rights under the shareholder agreement, Petrobaltic S.A. may be obliged to gradually (2007–2011) purchase RRPV's claims under the loan at maturity of each principal instalment. If RRPV accepts Petrobaltic S.A.'s offer to purchase the claims, it will mean fulfilment of the condition precedent for RRPV's offer, made in 2001, to sell all the shares held by RRPV in Energobaltic at the time a default notice is served under the gas supply agreement. As at the date of these consolidated financial statements, no such notice was delivered. Any breach of the terms and conditions of the gas supply agreement in the following years entitles RRPV to issue such a notice within the timeframes provided for in the agreement. In view of the above, Petrobaltic S.A. created a provision of PLN 24,188 thousand related to the shareholder agreement and disclosed under other provisions (current portion).

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

On September 8th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 2,500 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

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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. executed an agreement under which it granted a loan of PLN 1,900 thousand to LOTOS Park Technologiczny Sp. z o.o. In accordance with the terms of the agreement, the loan is 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 accordance 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

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 agreement, the loan was to be disbursed in tranches. The first tranche of PLN 600 thousand was advanced on the agreement date, and the second one, also of PLN 600 thousand, on March 30th 2007. In accordance with the terms of the agreement, the loan is repayable in full by the end of 2007.

14.2 MATERIAL SURETIES

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 to repay 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 whereby security was established for 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 Rafineria Jasło S.A. will seek to obtain a bank guarantee or surety to replace the surety issued by the Company.

If Rafineria Jasło S.A. 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.

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14.3 MATERIAL LIABILITIES UNDER PROMISSORY NOTES

- The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2008. The original validity term of the blank 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.
- The Jasło Refinery has issued nine blank promissory notes to Nafta Polska S.A. Under the promissory note declarations of January 19th 2000, the promissory notes secure the liabilities of the Jasło Refinery under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between the Jasło Refinery and Carbon Black Polska Sp. z o.o. The promissory notes may be filled in by Nafta Polska S.A. if the Jasło Refinery fails to perform any of its obligations under the agreement. As provided for in the declarations, each promissory note may be filled in with up to PLN 1,000 thousand. Under an agreement of January 19th 2000 between Nafta Polska S.A. and the Jasło Refinery, if no obligation arises on the part of Nafta Polska S.A. to provide any performance, in whole or in part, under the performance bond agreement relating to the agreement on environmental issues with Carbon Black Polska Sp. z o.o. by the time Nafta Polska S.A. is removed from the enterprise register, Nafta Polska S.A. will place the unrealised promissory notes in court deposit so that they can be returned after the court's decision on removing Nafta Polska S.A. from the enterprise register becomes final. Similarly, the unrealised promissory notes will be returned to the Jasło Refinery after 10 years following the agreement date if Nafta Polska S.A. is not removed from the enterprise register and is not obliged to any performance under the surety agreement.
- Rafineria Jasło S.A. has also issued a blank promissory note to the Minister of Economy. Under the promissory note declaration issued on November 13th 2002, the promissory note is to secure performance of the Jasło Refinery's obligations under an agreement on financial support for a new investment project, concluded between the Minister of Economy and the Jasło Refinery on November 1st 2002. The promissory note may be filled in with an amount of up to PLN 5,674 thousand.
- Furthermore, as at December 31st 2006, LOTOS Jasło S.A. had a liability under a blank promissory note issued to secure a working capital overdraft facility granted by PKO BP S.A., the Krosno branch, for the amount of PLN 15,000 thousand, with the validity term expiring on July 28th 2011.

Promissory Notes Issued after the Balance-Sheet Date:

- 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.

14.4 OTHER MATERIAL CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES

- In connection with the loan advanced by Bank Ochrony Środowiska S.A. (the "Bank") to Energobaltic Sp. z o.o. (Energobaltic) under (i) investment loan agreement of September 11th 2001, and (ii) preferential investment loan agreement of September 11th 2001 concerning environmental protection, on December 12th 2001, Petrobaltic made a representation to the Bank whereby it agreed:
 - to increase the share capital of Energobaltic by an amount equal to the company's cumulative net loss incurred in the period from the abovementioned loan agreements date to the date of the first sale (confirmed by an invoice) of power from the CHP plant in Władysławowo (according to the Issuer's information, such sale was made on July 3rd 2003), if the loss exceeds 20% of Energobaltic's share capital,

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- to apply a part of net profit (in the amount not exceeding the amount assumed in the Bank-approved final projection for the project financed with the loan) towards share capital increase in Energobaltic,
 - not to dispose of or encumber its shares in Energobaltic without a prior consent of the Bank.
- Liabilities to Rolls-Royce Power Ventures Limited (Władysławowo).

Under the Shareholder Agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. is lower than the minimum offtake amount provided for in the Gas Supply Agreement, Petrobaltic S.A. is obliged to submit to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV"), an offer to purchase the claims under the loan advanced by RRPV to Energobaltic Sp. z o.o.

In connection with the expected reduction of the volume of waste gas supplied to Energobaltic Sp. z o.o. by Petrobaltic S.A. in 2005, on September 22nd 2005, RRPV sent a letter stating that if Petrobaltic S.A. did not comply with the provisions of Art. 16.1.6 of the Gas Supply Agreement, it would issue a default notice under Art. VIII Section 1 of the Shareholder Agreement.

Following receipt of the notice, under the Shareholder Agreement Petrobaltic is obliged to offer to RRPV to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV accepts the offer, Petrobaltic will be obliged to gradually (2012–2016) purchase RRPV's claims under the loan, at maturity of each principal installment, at a 2% discount. As at December 31st 2006, the total amount of the loan advanced by RRPV to Energobaltic Sp. z o.o. was USD 6.1m (USD 5.1m in principal plus interest).

Following the purchase of RRPV's shares in Energobaltic Sp. z o.o., Petrobaltic S.A. would hold 1,598 shares representing 88.04% of the aggregate number of the shares.

As at today, no such notice has been issued. Therefore, as we were advised in an opinion issued by an external law firm, the conditional offer could be executed only in 2008 if Petrobaltic is in breach of the terms and conditions of the Gas Supply Agreement in 2007. However, in view of the poor financial standing of Energobaltic Sp. z o.o. and the level of gas supplies lower than expected as a result of delays in the commencement of production at the B8 reservoir, the Management Board of Petrobaltic S.A., guided by the conservative valuation principle, maintained the provision for future liabilities which might arise in connection with the implementation of the Shareholder Agreement. The provision covers the loan advanced by RRPV to Energobaltic Sp. z o.o. (less the 2% discount) and the par value of RRPV's shares in Energobaltic Sp. z o.o.

After the Balance-Sheet Date:

On January 3rd 2007, Bank PKO BP issued a documentary letter of credit for EUR 19,034 thousand to Grupa LOTOS S.A., valid until April 30th 2008.

As at December 31st 2006, the Group's liabilities under the executed material agreements concerning expenditure on property, plant and equipment (PKRT, FAME) amount to PLN 699m.

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15. 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.

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

The 2006 financial performance presented in these consolidated financial statements for 2006 does not differ materially from the forecast published in Current Report No. 53/2006 of September 5th 2006.

Forecast and actual values of selected items of the consolidated income statement of the LOTOS Group in accordance with the IFRS (PLNm):

Item	Forecast	Actual	Performance
Sales revenue	13.436	12.811	95 %
Depreciation/amortisation:	307	297	96 %
Operating profit:	819	794	96 %
Net profit:	723	733	101 %
Net profit (attributable to equity holders of the parent):	657	678	103 %

Position of the Management Board of Grupa LOTOS S.A. Concerning Changes in the Consolidated Financial Results of the LOTOS Group for 2006 Compared with the Cumulative Financial Results for the Four Quarters of 2006

The consolidated financial results of the LOTOS Group for 2006 do not differ materially from the results presented on a cumulative basis after four quarters of 2006, published on February 28th 2007.

The differences in the results presented in the Q4 2006 quarterly report and this Annual Report for 2006 are primarily due to inclusion into the 2006 consolidated financial results of the LOTOS Group of Petrobaltic S.A.'s share in the result of the associated undertaking – the UAB Naftos Gavyba Group.

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17. DESCRIPTION OF MATERIAL OFF-BALANCE-SHEET ITEMS

For a detailed description of major off-balance-sheet items, see Note 38 to the consolidated financial statements of the LOTOS Group for 2006.

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**18. MAJOR RESEARCH AND TECHNICAL DEVELOPMENT
ACHIEVEMENTS OF THE LOTOS GROUP**

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.

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**19. 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 the LOTOS Group 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.

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20. MATERIAL EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR AND AFTER ITS END, PRIOR TO THE RELEASE OF THE 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 sales segment, the LOTOS Group plans to develop retail sales and achieve a target market share of 10%, assuming that the number of fuel stations will be increased to 500, sales at the stations will grow following the implementation and operation of loyalty and fleet programmes, and a new, modern and branded fuel will be marketed within the LOTOS station network. With respect to wholesale, the Company intends to achieve a target market share of 30%, assuming growth in sales to institutional customers and development of a portfolio of long-term contracts, increase in the annual volume of sold fuel from 4 million tonnes to 8 million tonnes in 2012, commencement of sales of biofuels, and achievement of a larger share in the JET aviation fuel market thanks to such initiatives as launch of direct deliveries to airports.

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

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

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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 the LOTOS Group 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 the PKRT Project and the provision of engineering services relating to the development of the Project (FEED-PB Agreement) with the 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 built based on the licence from Chevron Lummus Global.

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

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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 2007, Grupa LOTOS S.A. held negotiations, 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 ESSO and Slovnaft stations acquired in 2005 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 mining on 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.

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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.

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21. EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF THE LOTOS GROUP; DEVELOPMENT PROSPECTS OF THE GROUP

21.1 EXTERNAL AND INTERNAL FACTORS MATERIAL TO THE DEVELOPMENT OF THE LOTOS GROUP

The key external factors material to 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 its Group is also, to some extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of raw materials and some products are quoted in the American dollar.
- Petroleum products demand and supply levels – the demand for diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and its Group.

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

- Development of upstream business – the planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials and further improve its financial performance.
- 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.

21.2 DEVELOPMENT PROSPECTS OF THE GROUP

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

Execution of the investment programmes and plans set forth in the 2006-2012 strategy will enhance the domestic market position of the Company and its Group and, consequently, will improve their 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 marketing 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 conversion ratio, 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.

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Another important direction in the operating area is development of the upstream business, 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 leveraging the competitive advantage 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.

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22. CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS OF THE LOTOS GROUP

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

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

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

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

22.2 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

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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

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

22.3 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.

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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.

22.4 CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS OF THE GROUP COMPANIES S.A.

Changes in the Composition of the Supervisory Boards:

LOTOS Paliwa Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Paweł Olechnowicz,
- Jarosław Kryński,

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- Mariusz Machajewski.

On November 15th 2006, the Extraordinary General Shareholders Meeting removed Messrs Wojciech Kowalczyk and Leszek Dylík from the Supervisory Board and simultaneously appointed Mr Jarosław Kryński to the Supervisory Board.

In the period June 28th – November 15th 2006, the Supervisory Board was composed of:

- Paweł Olechnowicz,
- Wojciech Kowalczyk,
- Leszek Dylík,
- Mariusz Machajewski.

On June 28th 2006, the General Shareholders Meeting reappointed Members of the Supervisory Board, including Mr Paweł Olechnowicz as the Chairman, Mr Wojciech Kowalczyk as the Deputy Chairman, Mr Leszek Dylík as the Secretary and Mr Mariusz Machajewski as a Member of the Supervisory Board, to perform their duties during the sixth term of office of the Supervisory Board.

In the period January 5th – June 28th 2006, the Supervisory Board was composed of:

- Paweł Olechnowicz,
- Wojciech Kowalczyk,
- Leszek Dylík,
- Mariusz Machajewski.

On January 5th 2006, the Extraordinary General Shareholders Meeting enlarged the Supervisory Board of the fifth term of office by appointing Mr Mariusz Machajewski.

As at January 1st 2006, the Supervisory Board was composed of:

- Paweł Olechnowicz,
- Wojciech Kowalczyk,
- Leszek Dylík.

LOTOS Mazowsze S.A.

As at December 31st 2006, the Supervisory Board was composed of:

- Andrzej Pieniecki,
- Radosław Gorszka,
- Henryk Malesa.

On October 2nd 2006, the Extraordinary General Shareholders Meeting removed Mr Dariusz Falkiewicz from office and appointed Mr Andrzej Pieniecki in his place.

As at January 1st 2006, the Supervisory Board was composed of:

- Dariusz Falkiewicz,
- Radosław Gorszka,
- Henryk Malesa.

LOTOS Oil S.A.

As at December 31st 2006, the Supervisory Board was composed of:

- Leszek Stokłosa,
- Radosław Gorszka,
- Jarosław Koźlik.

On November 10th 2006, the Extraordinary General Shareholders Meeting removed Messrs Wojciech Kowalczyk and Mieczysław Broniszewski from office and appointed Messrs Leszek Stokłosa and Jarosław Koźlik in their stead.

As of January 5th 2006, the Supervisory Board was composed of:

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- Wojciech Kowalczyk,
- Radosław Gorszka,
- Mieczysław Broniszewski.

On January 5th 2006, the Extraordinary General Shareholders Meeting removed Mr Rafał Kapała from the Supervisory Board and appointed Mr Radosław Gorszka in his stead.

As at January 1st 2006, the Supervisory Board was composed of:

- Wojciech Kowalczyk,
- Rafał Kapała,
- Mieczysław Broniszewski.

LOTOS Partner Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Wojciech Kowalczyk,
- Marek Herra,
- Piotr Dąbek,
- Jarosław Kryński.

On December 20th 2006, the Supervisory Board removed Mr Andrzej Szczęśniak from the office of President of the Management Board and decided to delegate Mr Wojciech Kowalczyk, Chairman of the Supervisory Board, to perform the duties of the company's Management Board for a definite term specified period of time. Therefore, in connection with this temporary delegation, the Extraordinary General Shareholders Meeting of the company supplemented the composition of the Supervisory Board by appointing Mr Jarosław Kryński on December 29th 2006.

As at January 1st 2006, the Supervisory Board was composed of:

- Wojciech Kowalczyk,
- Marek Herra,
- Piotr Dąbek.

LOTOS Asfalt Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Paweł Wiśniewski,
- Dariusz Falkiewicz,
- Kazimierz Kowalczyk.

On November 17th 2006, the Extraordinary General Shareholders Meeting removed Mr Piotr Dąbek from the Supervisory Board and appointed Mr Paweł Wiśniewski in his stead.

As at January 1st 2006, the Supervisory Board was composed of:

- Piotr Dąbek,
- Dariusz Falkiewicz,
- Kazimierz Kowalczyk.

LOTOS Kolej Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Marek Sokołowski,
- Anna Gutjar,
- Wojciech Kowalczyk.

On November 7th 2006, Mr Andrzej Pieniecki was replaced by Mr Wojciech Kowalczyk.

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As at January 1st 2006, the Supervisory Board was composed of:

- Marek Sokołowski,
- Andrzej Pieniecki,
- Anna Gutjar.

LOTOS Lab Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Marek Herra,
- Andrzej Pieniecki,
- Małgorzata Kurek – Czuber.

On November 7th 2006, Mr Zbigniew Paszkowicz was replaced by Mr Andrzej Pieniecki.

As at January 1st 2006, the Supervisory Board was composed of:

- Marek Herra,
- Zbigniew Paszkowicz,
- Małgorzata Kurek – Czuber.

LOTOS Serwis Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Marek Sokołowski,
- Grzegorz Błędowski,
- Anna Gutjar.

On November 7th 2006, Mr Zbigniew Paszkowicz was replaced by Mr Grzegorz Błędowski.

As at January 1st 2006, the Supervisory Board was composed of:

- Marek Sokołowski,
- Zbigniew Paszkowicz,
- Anna Gutjar.

UAB LOTOS Baltija

In 2006, there were no changes in the composition of the company's Supervisory Board.

As at December 31st 2006, the Supervisory Board was composed of:

- Dariusz Falkiewicz,
- Anna Gutjar,
- Artur Warsocki.

LOTOS Straż Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Marek Sokołowski,
- Marek Herra,
- Paweł Wiśniewski.

On January 5th 2006, the Extraordinary General Shareholders Meeting removed Mr Radosław Gorszka from the Supervisory Board and appointed Mr Paweł Wiśniewski in his stead.

As at January 1st 2006, the Supervisory Board was composed of:

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- Marek Sokołowski,
- Marek Herra,
- Radosław Gorszka.

LOTOS Parafiny Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Wojciech Kowalczyk,
- Marta Wolska,
- Jerzy Franek.

In 2006, the composition of the Supervisory Board changed. On January 10th 2006, the Extraordinary General Shareholders Meeting removed Messrs Adam Loewe and Józef Folcik from the Supervisory Board and appointed Mr Jerzy Frank and Ms Marta Wolska in their stead.

As at January 1st 2006, the Supervisory Board was composed of:

- Wojciech Kowalczyk,
- Adam Loewe,
- Józef Folcik.

LOTOS Ochrona Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Andrzej Schulz,
- Grzegorz Błędowski,
- Karolina Przymanowska.

On December 15th 2006, the Extraordinary General Shareholders Meeting removed Mr Dariusz Maciejewski from the Supervisory Board and appointed Mr Andrzej Schulz in his stead.

After May 22nd 2006, the Supervisory Board was composed of:

- Dariusz Maciejewski,
- Grzegorz Błędowski,
- Karolina Przymanowska.

On May 22nd 2006, the Extraordinary General Shareholders Meeting removed Mr Radosław Gorszka from the Supervisory Board and appointed Ms Karolina Przymanowska in his stead.

As at January 1st 2006, the Supervisory Board was composed of:

- Dariusz Maciejewski,
- Grzegorz Błędowski,
- Radosław Gorszka.

LOTOS Park Technologiczny Sp. z o.o.

As at December 31st 2006, the Supervisory Board was composed of:

- Leszek Stokłosa,
- Henryk Malesa,
- Leszek Wasilewski.

On November 15th 2006, Mr Czesław Oruba resigned from the position of a Member of the Supervisory Board. Simultaneously, on the same day the company's Supervisory Board removed Mr Marek Sokołowski from the Supervisory Board and appointed Mr Leszek Stokłosa in his stead as Chairman of the Supervisory Board.

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As at January 1st 2006, the Supervisory Board was composed of:

- Marek Sokołowski,
- Henryk Malesa,
- Leszek Wasilewski,
- Czesław Oruba.

LOTOS Czechowice S.A.

In the period June 23rd – December 31st 2006, the company's Supervisory Board was composed of:

- Marek Sokołowski,
- Małgorzata Czczott,
- Jarosław Nowak.

In the period February 15th – June 23rd 2006, the company's Supervisory Board was composed of:

- Marek Sokołowski,
- Grzegorz Hreczek,
- Jarosław Nowak,
- Małgorzata Czczott,
- Alojzy Danel.

In the period January 1st – February 15th 2006, the company's Supervisory Board was composed of:

- Marek Sokołowski,
- Grzegorz Hreczek,
- Rafał Kapała,
- Alojzy Danel.

LOTOS Jasło S.A.

As at December 31st 2006, the Supervisory Board was composed of:

- Wojciech Kowalczyk,
- Lucjan Jarzyński,
- Stanisław Płatek,
- Marek Herra,
- Eugeniusz Łopatkiewicz.

Due to the decease, on July 15th 2006, of Ryszard Oleszkowicz, a Supervisory Board Member who was a representative of the company's employees, by-election was held, as a result of which Mr Eugeniusz Łopatkiewicz was elected as the employees' representative. On September 15th 2006, the Extraordinary General Shareholders Meeting appointed Mr Eugeniusz Łopatkiewicz to the company's Supervisory Board of the fifth term of office.

On May 31st 2006, the Ordinary General Shareholders Meeting set the number of the Members of the Supervisory Board of the fifth term of office at five and appointed the following persons:

- Wojciech Kowalczyk,
- Lucjan Jarzyński,
- Stanisław Płatek,
- Marek Herra,
- Ryszard Oleszkowicz.

As at January 1st 2006, the Supervisory Board was composed of:

- Mariusz Machajewski,
- Lucjan Jarzyński,
- Stanisław Płatek,
- Eugeniusz Łopatkiewicz,
- Marek Herra.

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Petrobaltic S.A.

In 2006, the composition of the company's Supervisory Board did not change.

As at December 31st 2006, the Supervisory Board was composed of:

- Paweł Olechnowicz,
- Józef Głowacki,
- Ryszard Pieniążek,
- Ewa Eljasiak,
- Jerzy Kamiński,
- Sławomir Sadowski.

CHANGES IN THE COMPOSITION OF MANAGEMENT BOARDS:

LOTOS Paliwa Sp. z o.o.

As at December 31st 2006, the Management Board was composed of:

- Adam Loewe,
- Rafał Kapała,
- Jarosław Koźlik.

On February 27th 2006, the Supervisory Board enlarged the company's Management Board by appointing Mr Jarosław Koźlik to the position of the Vice-President of the Management Board.

As at January 1st 2006, the Management Board was composed of:

- Adam Loewe,
- Rafał Kapała.

LOTOS Oil S.A.

As at December 31st 2006, the company had a single-member Management Board:

- Jacek Neska.

On November 9th 2006, due to the commencement of work at Grupa LOTOS S.A., Mr Leszek Stokłosa resigned from the position of the President of the Management Board of LOTOS Oil S.A. On the same day, the company's Supervisory Board appointed Mr Jacek Neska to the position of the President of the Management Board of LOTOS Oil S.A.

As at January 1st 2006, the company had a single-member Management Board:

- Leszek Stokłosa.

LOTOS Partner Sp. z o.o.

As at December 31st 2006, the company had a single-member Management Board:

- Wojciech Kowalczyk (a member of the Supervisory Board delegated to perform the duties of the company's Management Board for a specified period of time).

On December 20th 2006, the company's Supervisory Board removed Mr Andrzej Szczęśniak from the position of the President of the Management Board and resolved to appoint Mr Wojciech Kowalczyk, the Chairman of the Supervisory Board, to perform the duties of the company's Management Board for a specified period of time.

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In the period August 8th – December 20th 2006, the company had a single-member Management Board:

- Andrzej Szczęśniak.

On August 8th 2006, the Supervisory Board of LOTOS Partner Sp. z o.o. removed Mr Igor Pawela from the position of the President of the company's Management Board and appointed Mr Andrzej Szczęśniak in his stead.

As at January 1st 2006, the company had a single-member Management Board:

- Igor Pawela.

LOTOS Asphalt Sp. z o.o.

In the period January 25th – December 31st 2006, the company had a single-member Management Board:

- Krzysztof Brygała

On January 25th 2006, the Supervisory Board of LOTOS Asphalt Sp. z o.o. removed Mr Zbigniew Kotuła from the office of a Member of the Management Board.

As at January 1st 2006, the Management Board was composed of:

- Krzysztof Brygała,
- Zbigniew Kotuła.

LOTOS Straż Sp. z o.o.

As at December 31st 2006, the company had a single-member Management Board:

- Ireneusz Litwinowicz (as a Member of the Management Board).

On October 9th 2006, Mr Dariusz Maciejewski resigned from the office of President of the company's Management Board.

As at January 1st 2006, the Management Board was composed of:

- Dariusz Maciejewski,
- Ireneusz Litwinowicz.

LOTOS Parafiny Sp. z o.o.

As at December 31st 2006, the Management Board was composed of:

- Jacek Wilkoszewski,
- Andrzej Siwiec,
- Marek Kobak.

On November 13th 2006m the Supervisory Board appointed Mr Marek Kobak to the position of a Member of the Management Board of LOTOS Parafiny Sp. z o.o.

In the period October 17th – November 13th 2006, the Management Board was composed of:

- Jacek Wilkoszewski,
- Andrzej Siwiec.

On October 17th 2006, the company's Supervisory Board removed Mr Paweł Kalbarczyk from the position of a Member of the Management Board.

As at January 1st 2006, the Management Board was composed of:

- Jacek Wilkoszewski,
- Andrzej Siwiec,
- Paweł Kalbarczyk.

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LOTOS Ochrona Sp. z o.o.

As at December 31st 2006, the company had a single-member Management Board:

- Edward Panasiewicz.

In 2006, by virtue of a resolution of the Supervisory Board, Mr Edward Panasiewicz was re-appointed as the President of the company's Management Board for a three-year term of office.

As at January 1st 2006, the company had a single-member Management Board:

- Edward Panasiewicz.

LOTOS Mazowsze S.A.

As at December 31st 2006, the Management Board was composed of:

- Tadeusz Szkudlarski,
- Dariusz Falkiewicz.

On October 2nd 2006, the company's Supervisory Board appointed Mr Dariusz Falkiewicz to serve as the President of the Management Board of LOTOS Mazowsze S.A.

In the period August 1st – October 2nd 2006, the Management Board was composed of:

- Dariusz Falkiewicz (a Member of the Supervisory Board appointed to perform the duties of the company's Management Board for a specified period of time),
- Tadeusz Szkudlarski.

In 2006, the composition of the company's Supervisory Board changed. On July 10th 2006, the company's Supervisory Board removed Mr Tadeusz Szkudlarski from the position of the President of the Management Board, with effect from July 31st 2006, while simultaneously appointing him as a Member of the company's Management Board with effect from August 1st 2006; the company's Supervisory Board also delegated Mr Dariusz Falkiewicz to perform the duties of the President of the Management board for a specified period of time, with effect from August 1st 2006.

As at January 1st 2006, the company had a single-member Management Board:

- Tadeusz Szkudlarski.

LOTOS Park Technologiczny Sp. z o.o.

As at December 31st 2006, the Management Board was composed of:

- Robert Bialik,
- Dariusz Wit vel Wilk.

On July 19th 2006, when Ms Anna Markowska tendered her resignation from the position of a Member of the Management Board of LOTOS Park Technologiczny Sp. z o.o.; on the same day, by virtue of a decision of the Supervisory Board, Mr Dariusz Wit vel Wilk was appointed to the position of a Member of the company's Management Board.

From June 8th 2006, the Management Board was composed of:

- Robert Bialik,
- Anna Markowska.

On June 8th 2006, the entry in the National Court Register was updated due to a change of the name of a Member of the company's Management Board, Ms Anna Grygiel to Anna Markowska.

As at January 1st 2006, the Management Board was composed of:

- Robert Bialik,
- Anna Grygiel.

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LOTOS Czechowice S.A.

In the period July 1st – December 31st 2006, the company's Management Board was composed of:

- Robert Bialik,
- Tadeusz Szkudlarski,
- Marek Lesisz,
- Paweł Rak.

In the period January 1st – June 30th 2006, the company's Management Board was composed of:

- Jerzy Kamiński,
- Marek Lesisz,
- Paweł Rak.

LOTOS Jasło S.A.

As at December 31st 2006, the Management Board was composed of:

- Zdzisław Nisztor,
- Jerzy Franek.

On November 23rd 2006, the Members of the Management Board tendered resignations from their positions:

As at January 1st 2006, the Management Board was composed of:

- Józef Folcik,
- Ryszard Stygar.

Petrobaltic S.A.

In the period November 17th – December 31st 2006, the Management Board was composed of:

- Henryk Wronkowski,
- Grzegorz Strzelczyk,
- Przemysław Jaworski,
- Tomasz Głobiński.

In the period January 1st – November 17th 2006, the Management Board was composed of:

- Andrzej Schulz,
- Przemysław Jaworski,
- Tomasz Głobiński.

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**23. 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. 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.

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

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

Remuneration paid and due to Members of the Management Board of Grupa LOTOS S.A.

(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 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
Total	86,223.02

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

24.2 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
Beata Zawadzka	34,262.68
Cezary Nowosad	5,368.22
Grzegorz Szczodrowski	28,894.38
Grzegorz Urban	5,368.22
Henryk Siodmok	28,894.38
Jacek Mościcki	34,262.68
Jacek Tarnowski	28,894.38
Jan Stefanowicz	30,785.38
Jan Szomburg	13,204.14
Janusz Rachoń	5,368.22
Katarzyna Dawidczyk	5,368.22
Piotr Krupa	5,368.22
Robert Karwowski	5,368.22
Total	236,775.56

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

The table below sets forth information on the management and supervisory staff of Grupa LOTOS S.A. who currently hold GRUPA LOTOS S.A. shares:

	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

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

According to the information available to the Company, as at December 31st 2006 the following were 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%
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%

On March 9th 2007, Grupa LOTOS S.A. was notified by ING Nationale-Nederlanden Polska Powszechna Towarzystwo Emerytalne S.A. that on March 7th 2007, 5,876,589 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny. The shares 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.

Prior to the change, ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny held 5,676,589 Grupa LOTOS S.A. shares, representing 4.99% of the Company's share capital and conferring the right to 5,676,589 votes at the General Shareholders Meeting, accounting for 4.99% 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%

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27. INFORMATION ON THE AGREEMENT WITH A QUALIFIED AUDITOR OF FINANCIAL 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.

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28. 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.

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**29. 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.

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**30. 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.

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31. 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.

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32. 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