

**GRUPA LOTOS S.A.
DIRECTORS' REPORT
ON THE OPERATIONS OF GRUPA LOTOS S.A. IN 2005**



GRUPA LOTOS S.A.

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(Translation of a document originally issued in Polish)

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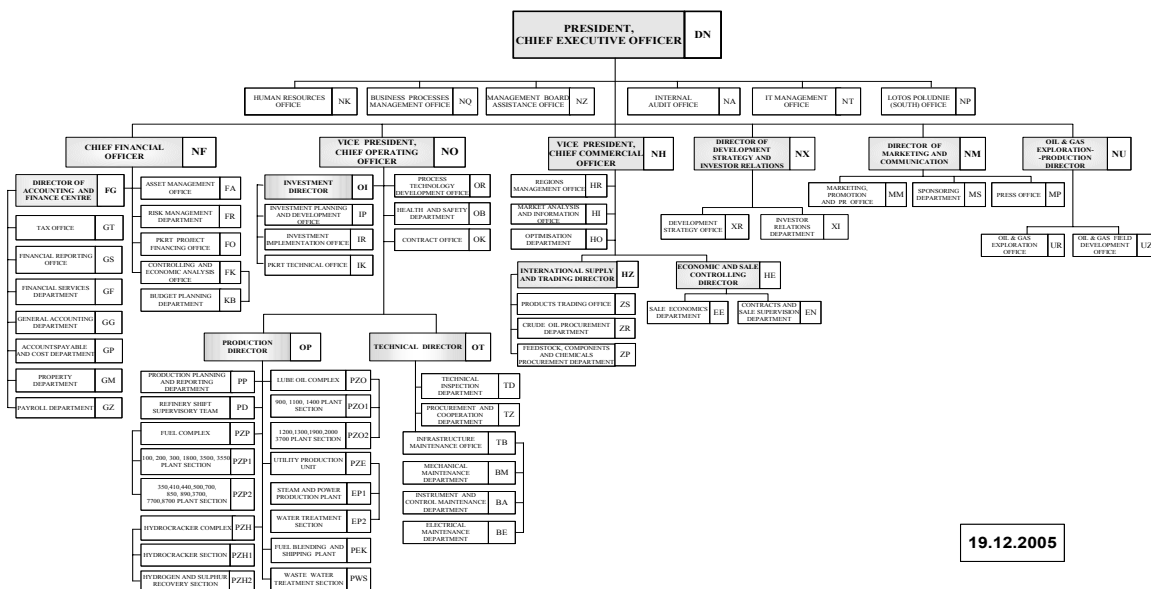
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INTRODUCTION

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

1 STRUCTURE OF GRUPA LOTOS S.A. AS AT DECEMBER 31ST 2005

Organization Chart of Grupa LOTOS S.A.



In 2005, the following changes took place in the organisational structure of Grupa LOTOS S.A.:

- The division of the Development Strategy and Investor Relations Director was established, comprising the Development Strategy Office and the Investor Relations Department;
- The division of the Oil-Gas Explorations-Production Director was created, comprising the Oil & Gas Exploration Office and the Oil & Gas Field Development Office;
- The division of the Marketing and Communication Director was created, comprising the Marketing, Promotion and PR Office, the Sponsoring Department, and the Press Office.
- The division of the Economics and Sale Controlling Director was created, reporting directly to the Chief Commercial Officer; the division comprises the Sale Economics Department and the Contracts and Sale Supervision Department;
- The Optimisation Department and the Regions Training Management Office were created within the division of the Chief Commercial Officer;
- The Economics Office, the Investor Relations Department, the Budgeting and Controlling Department, the Asset Management Department and the Economic Analysis Team were liquidated within the division of the Economic and Financial Director. The Controlling and Economic Analysis Office,

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together with the subordinated Budget Planning Department, as well as the Asset Management Office were created to replace the liquidated units;

- At the Accounting and Finance Centre, the position of the Director of the Accounting and Finance Centre was separated from the function of the Chief Accountant. Furthermore, the Tax and Financial Reporting Department was divided into the Tax Office and the Financial Reporting Office.

As at December 31st 2005, the organisational structure of Grupa LOTOS S.A. comprised the following organisational units:

- 12 divisions, including six reporting directly to the Chief Executive Officer
- 25 offices
- 21 departments
- 10 units
- 4 production plants

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2 CHANGES IN THE SHAREHOLDER STRUCTURE OF GRUPA LOTOS S.A. IN 2005

2.1 ISSUE OF 35,000,000 SERIES B SHARES OF GRUPA LOTOS S.A.

On May 17th 2005, Grupa LOTOS S.A. applied to the Warsaw Stock Exchange for admission to trading on the main market of shares in Grupa LOTOS S.A.

On June 3rd 2005, pursuant to Resolution No. 178/2005, the Management Board of the Warsaw Stock Exchange admitted the following shares of Grupa LOTOS S.A., with a par value of PLN 1 per share, to trading on the main market:

- 58,229,340 Series A ordinary registered shares
- 20,470,660 Series A ordinary bearer shares
- up to 35,000,000 Series B ordinary bearer shares, subject to a condition that the Company's share capital is increased through the issue of Series B shares.

The Public Offering comprised 35,000,000 Series B Shares, which were offered as follows:

- 8,800,000 Shares in the Retail Offering
- 26,200,000 Shares in the Institutional Offering, including:
 - 16,500,000 Shares in the Polish Institutional Offering, and
 - 9,700,000 Shares in the International Institutional Offering.

All the shares offered by the Company, i.e. 35,000,000 Series B Shares, were allotted as a result of the subscription.

The issue price was set at PLN 29.00 per share. The issue proceeds were PLN 1,015,000 thousand. The share premium was PLN 980,000 thousand and was disclosed under reserve funds, net of the expenses directly related to the share issue, adjusted by income tax, i.e. PLN 9,049 thousand.

By virtue of Resolutions No. 179/2005 and 180/2005 of June 8th 2005, the Management Board of the Warsaw Stock Exchange decided to:

- introduce, by way of an ordinary procedure, 20,545,970 Series A ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share (ISIN code: PLLOTOS00025) to trading on the main market,
- introduce 35,000,000 rights to Series B ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share (ISIN code: PLLOTOS00041), to trading on the main market.

The abovementioned shares and rights to Series B ordinary bearer shares of Grupa LOTOS S.A. were first quoted on the Warsaw Stock Exchange on June 9th 2005. The closing price of the first listing was PLN 30.00.

On June 28th 2005, the Company's Management Board received the decision of the District Court of Gdańsk, XII Commercial Division of the National Court Register, concerning registration of Grupa LOTOS S.A.'s share capital increase through the issue of Series B shares. The share capital increase was registered by the Court on June 28th 2005. Following the registration, the share capital amounts to PLN 113,700,000 and is divided into 113,700,000 shares. The total number of votes attached to all the shares issued by Grupa LOTOS S.A. after the registration of the share capital increase is 113,700,000 votes.

Assimilation of Shares

The Management Board of the Warsaw Stock Exchange (WSE) made the decision (by virtue of Resolution No. 404 of November 25th 2005) to introduce to stock exchange trading 63,170 Series A ordinary bearer shares of Grupa LOTOS S.A. with a par value of PLN 1 per share, bearing the following ISIN Code assigned by the Polish National Depository for Securities (NDS): PLLOTOS00033. The shares were introduced to trading on the main market, on December 2nd 2005, by way of the ordinary procedure.

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By virtue of Resolution No. 652 of November 28th 2005, the National Depository for Securities (Polish NDS) assimilated, on December 2nd 2005, 63,170 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLOTOS00033) with 55,545,970 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLOTOS00025). The 63,170 ordinary bearer shares had been created through a conversion of 63,170 ordinary registered shares on December 1st 2005. Following assimilation, the shares were marked with ISIN code PLOTOS00025. As of December 2nd 2005: 55,609,140 shares of Grupa LOTOS S.A. will be marked with ISIN code PLOTOS00025, 58,090,860 shares of Grupa LOTOS S.A. will be marked with ISIN code PLOTOS00033.

By virtue of Resolution No. 78/2006 of March 22nd 2006, the Management Board of the Warsaw Stock Exchange decided to introduce, as of April 4th 2006, 11,819 Series A ordinary bearer shares of Grupa LOTOS S.A. to trading on the primary market. The shares have the par value of PLN 1 per share and bear ISIN code PLOTOS00033, assigned by the Polish National Depository for Securities.

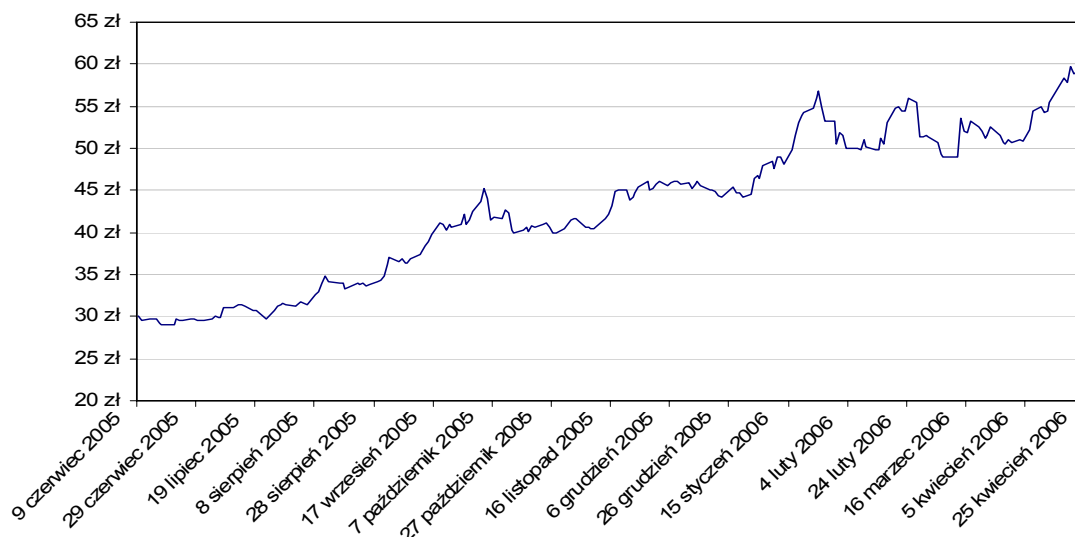
By virtue of Resolution No. 148/06 of March 29th 2006, the National Depository for Securities assimilated, on April 4th 2006, 11,819 ordinary bearer shares of Grupa LOTOS S.A., created through a conversion of 11,819 ordinary registered shares (ISIN code: PLOTOS00033) on April 3rd 2006, with 55,609,140 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code: PLOTOS00025).

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

Structure of Grupa LOTOS S.A.'s share capital as at December 31st 2005:

	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 %

2.2 Price of Grupa LOTOS S.A. Shares Since Their First Listing on the WSE



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

In 2005, the key changes in the management rules followed from the Company's reorganisation. As a result of establishing new organisational units, the scope of responsibilities of the employees in charge of the newly-created units was changed.

Changes Related to the Development of the Exploration and Production Business

In July 2005, the division of Oil & Gas Exploration-Production Director was established, which resulted in considerable changes to Grupa LOTOS S.A.'s organisational structure. The division is responsible for the execution of tasks related to the exploration, identification and development of oil and gas fields. The Oil & Gas Exploration-Production Director manages the full spectrum of the exploration and production activities defined in the Management Board's strategy for this area of operations.

Changes Related to the Establishment of the Development Strategy and Investor Relations Director's Division

In 2005, the creation of the division of Development Strategy and Investor Relations Director brought about significant changes in the Company's organisational structure. The division is responsible for the execution of tasks related to the Company's development strategy and investor relations. The Director of this division is responsible for managing the full spectrum of activities related to building Grupa LOTOS S.A.'s strategy and handling investor relations.

Changes Related to the First Listing of the Grupa LOTOS S.A. Shares on the WSE

In connection with its status of a listed company, Grupa LOTOS S.A. has implemented rules ensuring compliance with all legal requirements related to the status. The rules concern preparation and publication of mandatory current and periodic reports, as well as communication within Grupa LOTOS S.A. The Company has implemented rules of confidential information flow and rules concerning restrictions related to purchase and sale of Grupa LOTOS S.A. securities, applicable to individuals who have access to confidential information.

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

Sales structure of Grupa LOTOS S.A.

(%)

	2005	2004
Diesel oil	33,51	29,40
Gasolines	26,09	25,49
Fuel oil,	19,60	24,50
Including:light fuel oil	10,36	12,64

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

(PLN '000)

Item	2005	% share	2004	% share
Gasolines	4.218.448	34,36%	3.823.298	37,2%
Diesel oil	5.224.488	42,56%	3.944.226	38,4%
Light fuel oil	1.066.129	8,68%	989.280	9,6%
Heavy fuel oil	347.529	2,83%	322.978	3,1%
Jet-A1 aviation fuel (and naphta)	536.256	4,37%	504.223	4,9%
Lubricants	1.123	0,01%	32.510	0,3%
Base oils	250.302	2,04%	275.096	2,7%
Bitumens and components for their production	296.497	2,42%	194.856	1,9%
Liquid gases	86.696	0,71%	87.603	0,9%
Other refinery products	188.030	1,53%	55.061	0,5%
Total crude oil products and goods, including:	12.215.498	99,51%	10.229.131	99,5%
Services	56.082	0,46%	40.067	0,4%
Other goods and materials	4.210	0,03%	14.071	0,1%
Total	12.275.790	100,0%	10.283.269	100,0%
Elimination of excise tax and fuel charge	(3.730.062)		(3.692.550)	
Total	8.545.728		6.590.719	

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

(thousands of tonnes)

Item	2005	% share	2004	% share
Gasolines	1.352	25,59%	1.279	25,5%
Diesel oil	1.737	32,88%	1.476	29,4%
Light fuel oil	537	10,16%	634	12,6%
Heavy fuel oil	478	9,05%	595	11,9%
Jet-A1 aviation fuel	282	5,34%	354	7,1%
Lubricants	-	-	7	0,1%
Base oils	156	2,95%	168	3,3%
Bitumens and components for their production	523	9,90%	384	7,7%
Liquid gases	48	0,91%	52	1,0%
Other refinery products	170	3,22%	70	1,4%
Total crude oil products and goods	5.283	100,00%	5.019	100,00%

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

Sales revenue (net of VAT) by markets

(PLN '000)

Item	2005	Share (%)	2004	Share (%)
Domestic sales, including:	10.348.532	84,30%	9.045.903	87,97%
- products and services	9.327.752	75,98%	8.665.326	84,27%
- goods and materials	1.020.780	8,32%	380.577	3,70%
Export sales, including:	1.927.258	15,70%	1.237.366	12,03%
- products and services	1.927.258	15,70%	1.225.599	11,92%
- goods and materials	-	-	11.767	0,11%
Total	12.275.790	100,00%	10.283.269	100,00%
Elimination of excise tax and fuel charge	(3.730.062)		(3.692.550)	
Total	8.545.728		6.590.719	

Key Customers in 2005

In 2005, Grupa LOTOS S.A. had two customers whose shares in Grupa LOTOS S.A.'s sales exceeded 10%. These were the subsidiaries LOTOS Paliwa Sp. z o.o. and LOTOS Partner, with respective shares of 34.3% and 23.46%.

Grupa LOTOS S.A.'s purchases of oil products and goods by region in 2005

(PLN '000)

Item	2005	Share (%)	2004	Share (%)
Domestic purchases	1.164.705	15,19%	880.583	16,0%
Imports	6.501.501	84,81%	4.622.738	84,0%
Total purchases	7.666.206	100,0%	5.503.321	100,0%

Structure of the LOTOS Group's oil product supplies in 2005 and 2004

(PLN '000)

Key products purchased	Value	Share (%)	Value	Share (%)
Diesel oils	-	0,00%	251.692	50,1%
Gasolines	-	0,00%	231.887	46,2%
Other	597.345	100,00%	18.503	3,7%
Total	597.345	100,0 %	502.082	100,0%

Grupa LOTOS S.A.'s Major Suppliers in 2005

The only supplier whose share in Grupa LOTOS S.A.'s purchases exceeded 10% of its revenue in 2005 was J&S Service Investment Ltd. of Cyprus – its share in Grupa LOTOS S.A.'s purchases amounted to 50.03% of Grupa LOTOS S.A.'s sales revenue.

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

6.1 PROFIT AND LOSS ACCOUNT

Sales revenue

In 2005, Grupa LOTOS S.A. generated net revenue on sales of products, goods for resale and materials of PLN 8,545.7m, up by 29.7% from 2004. The net revenue on sales of products increased by 24.3% and accounted for 90.2% of total sales revenue. The 2005 net revenue on sales of goods for resale and materials amounted to PLN 840.2m, and were higher by 114.2% relative to 2004. Domestic sales of products accounted for 74.2% of total revenue on sales of products. The 2005 total sales volume amounted to 5,182.8 thousand tonnes, of which 295.5 thousand tonnes were fuel sales. Relative to 2004, the total sales volume increased slightly – by 3.3% (including a 6.7% rise in the volume of white fuel sales). The 2005 increase in sales revenue was mainly driven by higher prices of crude oil and petroleum products on global markets. The average net selling price at Grupa LOTOS S.A. was PLN 1,649 per tonne and increased by 25.6% on 2004.

Operating profit

In 2005, the cost of sales amounted to PLN 7,549.5m and was 35.2% higher than in 2004. The unit cost of sales amounted to PLN 1,457 per tonne, up by 30.9% from 2004. The 2005 net profit on sales amounted to PLN 996.3m and was slightly – 0.9% – lower than in 2004. One of the reasons which led to the drop included the costs of the overhaul shutdown in the second quarter of 2005 (PLN 44.6m) and the loss of sales margin (caused by the 47-day production shutdown), which in the shutdown period was really high. Following increases in selling costs (by 26%), general and administrative expenses (by 9.8%) and a significant drop in other operating expenses (by 90.4%), the operating profit amounted to PLN 535.1m, up by PLN 5.1m (1%) from 2004. The 2005 increase in selling costs followed mainly from changes in fuel logistics.

The increase in profit on other operating activities was chiefly a result of allowances made in connection with the financial standing of Rafineria Nafty Glimar in 2004.

Financing activities

The 2005 profit on financing activities stood at PLN 112.1m, up by PLN 18.3m (19.6%) from 2004. The main causes of the increase include higher dividends from subsidiary undertakings and the sale of shares in Naftoport Sp. z o.o. (associated company) and PPU Ciech S.A. At the same time, 2005 saw a significant decrease in foreign exchange gains.

Pre-tax profit and net profit

The 2005 pre-tax profit generated by Grupa LOTOS S.A. stood at PLN 647.2m, up by PLN 23.5m over the 2004 figure. The 2005 net profit amounted to PLN 532.3m, up by 7.4% from the previous year.

6.2 BALANCE sheet

As at December 31st 2005, Grupa LOTOS S.A.'s assets, equity and liabilities totalled PLN 5,375.6m, following an increase of PLN 1,660.2m during 2005. The change followed from a PLN 517.8m growth (24.7%) in non-

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current assets relative to the figure reported as at December 31st 2004. The non-current financial assets rose by PLN 433.6m, which was mainly a result of the acquisition of the Southern Refineries and Petrobaltic, and the purchase of bonds with the proceeds from the public issue of Grupa LOTOS S.A. shares, which took place in June. In 2005, the property, plant and equipment increased by PLN 84.1m in connection with completion of investments in progress (comprising mainly a fuel terminal and tanks) and modernisation of production facilities.

As at December 31st 2005, the current assets stood at PLN 2,759.7m, up by PLN 1,142.4m (70.6%) from 2004.

The inventories grew by PLN 490.3m, mainly as a result of increased production capacity, higher prices of raw materials and products, and a higher level of mandatory reserves. Increased production capacity and higher product prices also contributed to a PLN 343.9m rise in trade and other receivables. In 2005, current financial assets increased by PLN 90.7m, following purchases of securities with the share issue proceeds. Cash and cash equivalents increased by PLN 219.1m in the same period.

The share of non-current assets in the asset structure fell from 56.5% (2004) to 48.7% (2005). The share of property, plant and equipment decreased by 13.4 percentage points, while that of non-current investments increased by 6.0 percentage points.

An almost PLN 1,526.1m increase in equity resulted from a PLN 35m share capital increase, a nearly PLN 971m rise in the reserve funds following a share capital increase, and a PLN 520.1m increase in retained earnings. The equity's share in total liabilities increased from 68.7% (2004) to 75.9% (2005).

In 2005, as a result of a decrease in loans, non-current liabilities fell by PLN 126.3m. As at December 31st 2005, current liabilities stood at PLN 1,104.8m, up by almost PLN 260.5m as compared to the level as at December 31st 2004, which mainly resulted from an increase in liabilities related to the purchases of crude oil by Grupa LOTOS S.A. At the same time, Grupa LOTOS S.A. repaid all its debt under loan agreements, which reduced the level of liabilities.

6.3 CASH FLOWS

As at the end of 2005, Grupa LOTOS S.A. disclosed cash totalling PLN 299.0m, which is PLN 219.1m up on the figure as at December 31st 2004.

In 2005, the net cash provided by operating activities amounted to PLN 234.7m, which represents a PLN 95.0m decrease year on year. The primary reasons for the lower net cash provided by operating activities in 2005 were as follows:

- a PLN 338.4m increase in receivables in 2005 relative to 2004, resulting from higher selling prices,
 - a PLN 203.2m increase in inventories, attributable to higher price of crude oil and larger mandatory reserves.
- The abovementioned changes were accompanied by a PLN 371.5m increase in liabilities and accruals and deferred income, while in 2004 these items fell by PLN 82.3m.

Net cash flows from investing activities in 2005 totalled PLN -713.2m, and went down by PLN 664.5m compared to 2004, when they stood at PLN -48.7m. The change was caused primarily by a PLN 217.2m increase in outflows on the acquisition of non-current financial assets financed with the proceeds from the new issue of shares, by a PLN 147.4m increase in outflows on the acquisition of property, plant and equipment and intangible assets as well as a PLN 196.6m decrease in profit on trading in short-term securities.

In 2005, Grupa LOTOS S.A. had a large positive balance of cash flows from financing activities, totalling PLN 697.6m, which, given the negative balance recorded in 2004, means an improvement of PLN 949.0m. The high balance resulted from the issue of the Company shares, whose effect was offset by an outflow of cash on loan repayment.

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

LOANS AND BORROWINGS AS AT DECEMBER 31ST 2005 (PLN'000)

	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Non-current portion		
Bank Consortium (Dresdner Bank Luxembourg S.A.- the agent)	-	112.289
Total non-current portion	-	112.289
Current portion		
Kredyt Bank S.A.	-	29.000
BPH S.A.	-	35.714
Bank Consortium (Dresdner Bank Luxembourg S.A.- agent)	-	112.806
Citibank Handlowy S.A.	-	24
Total current portion	-	177.544
Total	-	289.833

In the period January 1st – December 31st 2005, a number of changes occurred in the Company's loans and borrowings, including the following:

- In April 2005, the Company repaid CHF 42,500 thousand under a loan from Dresdner Bank Luxembourg;
- In June and August 2005 the Company prepaid instalments under loans contracted from Kredyt Bank S.A. and BPH S.A., in the amounts of PLN 29,000 thousand and 35,714 thousand, respectively;
- In October 2005, the Company prepaid the last instalment of a loan from Dresdner Bank Luxembourg, totalling CHF 42,500 thousand.

Furthermore, as at December 31st 2005, the amount of undrawn loan funds available to the Company was PLN 579,680 thousand (as at December 31st 2004: PLN 232,221 thousand); all conditions precedent relating to these loans had been fulfilled. On July 20th 2005, Grupa LOTOS S.A. entered into an agreement with Bank Millennium S.A. on a stand-by loan of up to PLN 300,000 thousand. In October 2005, the parties signed an annex to the abovementioned agreement, whereby the amount of the stand-by loan was reduced to PLN 250,000 thousand. The loan will secure cheques issued to customs authorities as security for Grupa LOTOS S.A.'s accounts receivable under customs duties, mainly related to shipments of products in accordance with the suspended-excise-tax procedure.

SURETIES AND GUARANTEES GRANTED TO GRUPA LOTOS S.A.

In 2005, Grupa LOTOS S.A. was not granted any sureties or guarantees.

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8 ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During the period covered by the financial statements, Grupa LOTOS S.A. was able to meet all of its liabilities towards third parties.

Before the issue of Series B shares, Grupa LOTOS S.A. used short-term loans. Upon receipt of proceeds from the issue of Series B Shares, a part of the funds raised was, in line with the terms of the Issue Prospectus of Grupa LOTOS S.A., allocated to repayment of short-term debt. As at December 31st 2005, the Company had no outstanding working capital loans. For a detailed specification of debt under loans see Note 25 to the Financial Statements.

In 2005, Grupa LOTOS S.A. did not grant any loans otherwise than to LOTOS Park Technologiczny Sp. z o.o., LOTOS Parafiny Sp. z o.o. and from the Company's Social Benefits Fund.

As regards the Company's payment standing, the liquidity ratios as at December 31st 2005 were high mainly due to the inflow of proceeds from the issue of Series B Shares by Grupa LOTOS S.A.

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

Item	2005	2004
Operating profit (PLN '000)	535 081	529 974
Operating margin (1)	6,26%	8,04%
Pre-tax profit (PLN'000)	647 170	623 720
Gross margin (2)	7,57%	9,46%
Net profit (PLN '000)	532 268	495 415
Net margin (3)	6,23%	7,52%
Return on equity (ROE) (4)	13,05%	19,41%
Return on assets (ROA) (5)	9,90%	13,33%
Current ratio (6)	2,50	1,92
Quick ratio (7)	1,36	1,01
Average collection period (in days) (8)	37,56	38,91
Average payment period (in days) (9)	28,11	24,84
Capital employed (10)	1 654 925	772 958
Capital employed to total assets (11)	30,79%	20,80%
Debt ratio (12)	24,13%	31,30%
Debt to equity ratio (13)	31,80%	45,56%

(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

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(12) total liabilities/assets

(13) total liabilities/equity

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9 KEY RISKS AND THREATS

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

- **Risk related to the overall macroeconomic situation** – the financial situation of the Company 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 income, 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 reserves, 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. New risks which may arise in the future include the introduction of legal regulations requiring fuel producers to add a specified percentage of biocomponents to the fuel produced; simultaneously, the current exemptions from excise tax, related to the addition of biocomponents, would be retained or limited. Another new risk relates to the Grupa LOTOS S.A. refinery being granted CO₂ emission allowances for 2008–2012 permitting it to emit less CO₂ than anticipated following 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.

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

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

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

- **Risk related to the execution of the Comprehensive Technical Upgrade Programme (PKRT)** – PKRT is the Company's most important and valuable investment and development project. Major risks related to the execution of the project include the risk of high costs of investments, the risk of delays in project execution, and technological risks. The risk related to ensuring feedstock for installations and access to markets for finished products, described in the Issue Prospectus, has been significantly mitigated through the execution of feedstock supply and offtake contracts for the products manufactured at the units. Other risks related to the execution of PKRT are being gradually reduced, along with the progress of the work on preparing and executing the project.

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

10.1 SIGNIFICANT AGREEMENTS CONCLUDED BY THE COMPANY IN 2005

- On January 13th 2005, Grupa LOTOS S.A. and Nafta Polska S.A. concluded a conditional agreement under which the Company acquired: (i) 6,002,870 registered shares in Rafineria Czechowice S.A., with a par value of PLN 10 per share, (ii) 4,800,798 registered shares in Rafineria Jasło S.A., with a par value of PLN 8 per share, (iii) 9,520,000 registered shares in Rafineria Nafty Glimar S.A., with a par value of PLN 10 per share, and (iv) 6,375,600 registered shares in Petrobaltic, with a par value of PLN 10 per share. The agreement, totalling PLN 257,276 thousand, provides for several conditions precedent, which were all fulfilled on February 3rd 2005.
- On February 7th 2005, Grupa LOTOS S.A. and LOTOS Mazowsze S.A. concluded an agreement under which LOTOS Mazowsze S.A. undertook to sell, for and on behalf of the Parent Undertaking, liquefied gas and the RG heavy fuel oil to the customers of Grupa LOTOS S.A. with whom product purchase transactions are executed exclusively on the suspended excise tax basis.
The agreement was concluded for an unspecified period and may be terminated by either party at one month's notice, with effect from the end of the calendar month. Information on the value of the agreement has been withheld from publication.
- On March 30th 2005, Grupa LOTOS S.A. and PKN Orlen S.A. concluded a contract concerning purchase of Diesel oil and unleaded gasoline.
The contract was concluded for a specified period – until June 14th 2005. Information on the value of the agreement has been withheld from publication.
- On April 6th 2005, Grupa LOTOS S.A. concluded a contract with Slovnaft for the purchase of light fuel oil. If at least 90% of the product quantity specified in the relevant monthly order is not accepted or delivered, either the Parent Undertaking or Slovnaft, as appropriate, has the right to demand that the other party pay a contractual penalty in the amount specified in the agreement. The contract was concluded for a specified period – until December 31st 2005. Information on the value of the agreement has been withheld from publication.
- On April 20th 2005, Grupa LOTOS S.A. concluded a contract with Petraco Oil Company Ltd. for the purchase of the Russian Export Blend Crude Oil (REBCO) from May 1st 2005 to April 30th 2006.
The crude oil under the contract is supplied by land, through the Druzhba Pipeline, on the DAF basis to Adamowo-Zastawa. Petraco Oil Company Ltd. provided the Company with a bank guarantee, issued by RAFFFEISEN ZENTRALBANK OESTERREICH AG, AM STADPARK 9, A-1030 VIENNA, AUSTRIA, under which the bank irrevocably and unconditionally undertook to make payment to Grupa LOTOS S.A., on its first demand, to cover PETRACO's liabilities of up to USD 4,000,000 under the contract of April 20th 2005. The guarantee is valid until May 6th 2006. Information on the value of the agreement has been withheld from publication.
- On June 14th 2005, Grupa LOTOS S.A. and the Military Property Agency (AMW) concluded three contracts under which Grupa LOTOS S.A. is to sell fuel to AMW. The contracts' term is 2005–2007. The value of the largest of the three contracts is PLN 218,891 thousand. The aggregate value of the three contracts over the contract term is PLN 469,775 thousand. Under the contracts, in the event of default by either party, the defaulting party is subject to a contractual penalty equal to 10% of the value of that part of the agreement which it failed to perform.
- On June 30th 2005, Statoil Polska Sp. z o.o. and Grupa LOTOS S.A. (Producer) and LOTOS Partner Sp. z o.o. (Supplier) concluded a contract, whereby Grupa LOTOS S.A. is to sell fuel to Statoil Polska

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Sp. z o.o. The contract term is 2006-2010. The value of the contract over the contract term has been estimated at PLN 8,320,000 thousand. If Statoil Polska Sp. z o.o. purchases less fuel than provided for in the agreement, then it will be obliged to pay consideration for the Producer's guarantee of the continuity of fuel supplies, as specified in the agreement.

- On September 15th 2005, the commercial cooperation agreement concluded between Grupa LOTOS S.A. and Przedsiębiorstwo Budowlano-Handlowe Z. Niziński of Wyszaków on February 13th 2002 was terminated by mutual agreement of the parties. The agreement provided for sale of liquid fuels. The agreement was terminated in connection with the transfer of liquid fuel wholesale to LOTOS Paliwa Sp. z o.o., a subsidiary of Grupa LOTOS S.A., in line with the Company's plans described in the Issue Prospectus and as part of the aforementioned reorganisation of the Group's wholesale operations, which is being implemented through termination of the existing agreements between Grupa LOTOS S.A. and wholesale customers and conclusion of new agreements between LOTOS Paliwa Sp. z o.o. and wholesale customers. The termination is not expected to materially affect the consolidated results of the Group.
- As part of the reorganisation of trading activities at Grupa LOTOS S.A. and the transfer of the wholesale of fuels to LOTOS Paliwa Sp. z o.o., with effect from June 30th 2005, Grupa LOTOS S.A. terminated the existing standard agreement on the sale of fuels produced by Grupa LOTOS S.A., entered into with POL-OIL-COMPANY. The agreement was replaced by an agreement executed on May 24th 2005 between POL-OIL-COMPANY Sp. z o.o. and LOTOS Paliwa Sp. z o.o. The above agreement provides for the sale of fuels by LOTOS Paliwa Sp. z o.o. The term of the agreement is unspecified. The five-year value of the agreement has been estimated at PLN 1.5bn. Under the agreement, the Seller must pay the penalty of PLN 20.00 for each cubic metre of fuel it fails to deliver, and the Buyer must pay the same penalty for each cubic metre of fuel it fails to collect. The payment of the contractual penalties does not exclude the parties' right to seek compensation in excess of the above penalties.
- On September 12th 2005, Grupa LOTOS S.A. and Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) entered into an agreement on sale of liquid fuels to Rafineria Jasło S.A. The agreement was concluded for a specified period and it expires on December 31st 2006. The value of the agreement during its term is estimated at PLN 725,739 thousand. Should at least 90% of the ordered quantity of fuels not be delivered or collected, the relevant party may demand a contractual penalty of PLN 20 per each cubic meter of such fuel. As of the agreement date, the liquid fuel sales agreement concluded between Grupa LOTOS S.A. and Rafineria Jasło S.A. on February 5th 2004 was terminated.
- On October 12th 2005, Grupa LOTOS S.A. terminated an agreement of August 1st 2001 between Grupa LOTOS S.A. and Pol-Miedź Trans Sp. z o.o., with effect from October 31st 2005. The notice period is six months, therefore the agreement termination date will be April 30th 2006. The agreement concerns sales of liquid fuels. The agreement was terminated by Grupa LOTOS S.A. in connection with the reorganisation of the Company's trading activities described in the Issue Prospectus and involving the transfer of fuel wholesale from Grupa LOTOS S.A. to the subsidiary LOTOS Paliwa Sp. z o.o. The process involves terminating agreements concluded with Grupa LOTOS S.A. and signing new agreements, providing for the same scope of cooperation, with LOTOS Paliwa Sp. z o.o. The termination is not expected to materially affect the consolidated results of the Group.
- On December 30th 2005, Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (100% subsidiary of Grupa LOTOS S.A.) and Shell Polska Sp. z o.o. executed a significant agreement concerning sale and supply of liquid fuels to Shell Polska Sp. z o.o. The agreement replaced the sales agreement, which expired on December 31st 2005, executed between LOTOS Partner and Shell Polska Sp. z o.o. (described in the Issue Prospectus of Grupa LOTOS S.A. in Section 11.3.2 on page 170). If LOTOS Partner fails to supply Shell Polska Sp. z o.o., or Shell Polska Sp. z o.o. fails to collect, a minimum quantity of fuel as stipulated in the agreement, the affected party may demand from the other party payment of contractual penalty up to the maximum amount of PLN 10,000 thousand. The

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agreement does not contain any provisions which would prevent the parties thereto from seeking additional compensation pursuant to general provisions of law.

The agreement was concluded for a specified period and expires on December 31st 2006.

The estimated value of the agreement is PLN 410,000 thousand. The provisions of the agreement do not differ from standard market terms.

The agreement is deemed significant as its value represents more than 10% of Grupa LOTOS S.A.'s equity.

Significant agreements concluded after balance-sheet date

- On February 2nd 2006, Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o. (a 100% 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 specified period 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 thereto from seeking additional compensation pursuant to general provisions of law.

The agreement is deemed significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A.

The Management Board of Grupa LOTOS S.A. also reports that 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, dated January 1st 2004.

No significant financial consequences of the termination of the above agreement are expected in connection with the signing of the new agreement between Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o., and Grupa LOTOS S.A.

- On February 13th 2006, BP Polska Sp. z o.o., LOTOS Partner Sp. z o.o. (a 100% subsidiary of Grupa LOTOS S.A.) and Grupa LOTOS S.A. signed a significant agreement providing for the sale of liquid fuels to BP Polska Sp. z o.o.

The agreement was concluded for a specified period and expires on December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand.

The agreement is deemed significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A.

- On March 6th 2006, ConocoPhillips Poland Sp. z o.o., LOTOS Partner Sp. z o.o. (100% subsidiary of Grupa LOTOS S.A.) 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 specified period 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 thereto from seeking additional compensation pursuant to general provisions of law.

The agreement was concluded on standard market terms; it is deemed significant as its value represents more than 10% of Grupa LOTOS S.A.'s equity.

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

11.1 ORGANISATIONAL OR CAPITAL LINKS AS AT DECEMBER 31ST 2005

Entity	Registered office	Core business	% of share capital held by Grupa LOTOS S.A. Dec 31 2005
Direct subsidiary undertakings of Grupa LOTOS S.A.			
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	sales of fuels and provision of services for retail networks of international concerns; logistic services	100.00%
LOTOS Mazowsze S.A.	Mława	sales of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)	100.00%
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, and domestic sales of base oils	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	production and sale of bitumens	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	construction of basic PKRT units; the company has not commenced operations	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanical and electric operations and controlling devices, repairs	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	personal and property protection	87.44%
LOTOS Parafiny Sp. z o.o.	Jasło	production and sale of paraffin mass	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A. ⁽¹⁾)	Czechowice	production and processing of refined petroleum products and their wholesale	80.04%
LOTOS Jasło S.A. (parent undertaking of another group, formerly Rafineria Jasło S.A. ⁽²⁾)	Jasło	production and processing of refined petroleum products and their wholesale and retail sale	80.01%
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, crude oil and natural gas production	69.00%
UAB LOTOS Baltija	Lithuania	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	100.00%
BiproRaf Sp. z o.o.	Gdańsk	design services for oil industry	50.00%
Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy)	Gorlice	refining (currently discontinued due to the company's bankruptcy)	91.54%
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	management of the Glimar Refinery assets	90.00%
Laboratorium Badacz Sp. z o.o.	Jasło	services	100.0%
Indirect subsidiary undertakings of Grupa LOTOS S.A.			
RCEkoenergia Sp. z o.o	Czechowice-Dziedzice	services	80.04%
RCParafiny Sp. z o.o.	Czechowice-Dziedzice	no operations – assets transferred to LOTOS Parafiny in exchange for shares	80.04%

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Entity	Registered office	Core business	% of share capital held by Grupa LOTOS S.A.
			Dec 31 2005
RCRemo Sp. z o.o.	Czechowice-Dziedzice	services	80.04%
CBA Racer Sp. z o.o.	Czechowice-Dziedzice	services	80.04%
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	services	80.04%
RCPaliwa Sp. z o.o.	Czechowice-Dziedzice	trading (not commenced yet)	80.04%
RCTransport Sp. z o.o.	Czechowice-Dziedzice	services	80.04%
LOTOS Tank Sp. z o.o.	Jasło	services	86.01%
Rafineria Jasło Monto-Rem Sp. z o.o.	Jasło	services	79.56%
Plastekol Organizacja Odzysku S.A.	Jasło	services	53.61%
Rafineria Jasło Sped-Kol Sp. z o.o.	Jasło	no operations – lease of assets to LOTOS Kolej	80.01%
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	services	80.01%
Chemipetrol Sp. z o.o.	Jasło	trading – assets transferred to LOTOS Parafiny in exchange for shares	80.01%
Miliana Shipping Company Ltd.	Cyprus	services	68.93%
Aphrodite Offshore Services Ltd.	Netherlands Antilles	services	69.00%
Associated undertakings			
Energobaltic Sp. z o.o.	Gdańsk	manufacturing	32.16%
UAB Naftos Gavyba	Klaipeda, Lithuania	services	29.46%
AB Geonafta	Gargždai, Lithuania	crude oil production	27.60%
UAB Minijos Nafta	Gargždai, Lithuania	crude oil production	13.80%
UAB Genciu Nafta	Klaipeda, Lithuania	crude oil production	13.80%
UAB Manifoldas	Gargždai, Lithuania	crude oil production	13.80%
UAB Gelmiu Turtaj	Gargždai, Lithuania	exploration of new hydrocarbon reserves	19.95%

As at December 31st 2005, the Company's share in the total vote at the general shareholders meetings of its subsidiary undertakings equalled the Company's share in the share capital of these undertakings.

⁽¹⁾ On December 19th 2005, the District Court of Katowice registered a change in the company's name from Rafineria Czechowice S.A. to LOTOS Czechowice S.A.

⁽²⁾ On January 2nd 2006, the District Court of Rzeszów registered a change in the company's name from Rafineria Jasło S.A. to LOTOS Jasło S.A.

11.2 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS

Share Capital Increase at LOTOS Asphalt Sp. z o.o.

On May 27th 2005, the District Court of Gdańsk, XII Commercial Division of the National Court Register, issued a decision on the entry in the National Court Register of a share capital increase at LOTOS Asphalt Sp. z o.o., up to PLN 2,000 thousand. The share capital prior to the share capital increase amounted to PLN 50 thousand. Following the share capital increase, Grupa LOTOS S.A. holds 4,000 shares (comprising 100% of the share capital and of the total vote at the General Shareholders Meeting) in LOTOS Asphalt Sp. z o.o.

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Share Capital Increase at LOTOS Oil S.A.

On June 14th 2005, the District Court of Gdańsk, XII Commercial Division of the National Court Register, issued a decision on the entry in the National Court Register of a share capital increase at LOTOS Oil Spółka Akcyjna, up to PLN 2,000 thousand. The share capital prior to the share capital increase amounted to PLN 500 thousand. Following the share capital increase, Grupa LOTOS S.A. holds 200,000 shares (comprising 100% of the share capital) in LOTOS Oil S.A.

Share Capital Increase at LOTOS Lab Sp. z o.o.

On June 17th 2005, the District Court of Gdańsk, XII Commercial Division of the National Court Register, issued a decision on the entry in the National Court Register of a share capital increase at LOTOS Lab Sp. z o.o., up to PLN 1,000 thousand. The share capital prior to the share capital increase amounted to PLN 50 thousand. Following the share capital increase, Grupa LOTOS S.A. holds 2,000 shares (comprising 100% of the share capital) in LOTOS Lab Sp. z o.o.

The share capital of the companies was increased using the profits generated in 2004. The objective of the share capital increases was to adapt their share capital to the scale of their business activities.

Acquisition of Additional Shares in LOTOS Parafiny Sp. z o.o.

On December 16th 2005, Grupa LOTOS S.A. signed an agreement whereby it acquired 14,639 shares in LOTOS Parafiny Sp. z o.o. from the parties and in the quantities specified below:

- a) LOTOS Jasto 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.;
- 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.

The share capital is made up of 19,783 shares with a par value of PLN 1,000 per share, conferring the right to 19,783 votes at the General Shareholders Meeting. On January 23rd 2006, the District Court of Rzeszów, XII Commercial Division of the National Court Register, registered a change in share capital structure of LOTOS Parafiny Sp. z o.o.

Acquisition of Additional Shares in UAB LOTOS Baltija

On November 16th 2005, Grupa LOTOS S.A. acquired from PPH ADWA Adam Gostyński 4,400 shares in the UAB LOTOS Baltija, representing 39.71% of the company's share capital. The price of the shares was PLN 510 thousand. As a result of the transaction, Grupa LOTOS S.A. increased its shareholding in the company from 61.29% to 100%.

Share Capital Increase at LOTOS Park Technologiczny Sp. z o.o.

Based on Notarial Deed Rep. A No. 9657/2005 of June 28th 2005, on September 13th 2005, the share capital increase at LOTOS Park Technologiczny Sp. z o.o., from PLN 50,000 to PLN 500,000, was entered in the National Court Register. In the increased share capital, Grupa LOTOS S.A. acquired 800 shares for a cash contribution of PLN 400,000, and Kolaja&Partners Sp. z o.o. (C II Group) acquired 100 shares for a cash contribution of PLN 50,000. Following the increase, Grupa LOTOS S.A. and C II Group held 90% and 10% of the share capital, respectively.

In line with the restructuring schedule for the Southern Refineries, based on Notarial Deed Rep. A

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No. 5551/2005 of November 25th 2005 (concerning the Extraordinary Shareholders Meeting's resolution) and Notarial Deed of December 1st 2005, Rep. A No. 5136, Rep. A No. 5127, and Rep. A No. 5145 (concerning acquisition of shares and contribution transfer), the share capital of LOTOS Park Technologiczny Sp. z o.o. was increased by contributing real estate. The total value of the contribution amounts to PLN 3,114,000, of which real estate worth PLN 1,266,000 was contributed by CBA RACER Sp. z o.o., PLN 1,417,000.00 was contributed by RC Remo Sp. z o.o. and PLN 431,000 – by LOTOS Czechowice S.A. (Measurement Division). Following the increase, the shareholder structure was as follows:

Grupa LOTOS S.A.	12,45%
Kolaja&Partners Sp. z o.o. (C II Group)	1,38%
CBA Racer Sp. z o.o.	35,03%
RC Remo Sp. z o.o.	39,21%
LOTOS Czechowice S.A.	11,93%

The capital increase took effect upon entry of the changes into the National Court Register, that is January 20th 2006.

As part of further implementation of the restructuring programme for the Southern Refineries, based on Notarial Deed No. 6124/2005, dated December 21st 2005 (concerning the Extraordinary General Shareholders Meeting's resolution) and Notarial Deed No. 9/2006, dated January 2nd 2006 – LOTOS Czechowice S.A. acquired shares for transfer of a contribution in kind; shares in RC SERWIS and the TERPEN Plant (an organised part of business of LOTOS Czechowice S.A.) were contributed to LOTOS Park Technologiczny Sp. z o.o. The value of the contribution in kind totalled PLN 4,460,000.

Following the increase, the shareholder structure was as follows:

Grupa LOTOS S.A.	5,57%
Kolaja&Partners Sp. z o.o. (C II Group)	0,62%
CBA Racer Sp. z o.o. – contribution in kind	15,68%
RC Remo Sp. z o.o. – contribution in kind	17,55%
LOTOS Czechowice S.A. – contribution in kind	60,58%

Also this capital increase took effect upon entry of the changes into the National Court Register, that is January 20th 2006.

On January 31st 2006, Grupa LOTOS S.A. acquired 8,600 shares in the increased share capital of LOTOS Park Technologiczny Sp. z o.o., for a total of PLN 4,300 thousand paid in cash. In the transaction, Grupa LOTOS S.A. acquired 34.7% of shares in LOTOS Park Technologiczny Sp. z o.o., with a par value of PLN 500 per share. Following the transaction, Grupa LOTOS S.A. holds 38.4% of shares in LOTOS Park Technologiczny Sp. z o.o.

After the increase, the shareholder structure was as follows:

Grupa LOTOS S.A.	38,39%
Kolaja&Partners Sp. z o.o. (C II Group)	0,40%
CBA Racer Sp. z o.o. – contribution in kind	10,23%
RC Remo Sp. z o.o. – contribution in kind	11,45%
LOTOS Czechowice S.A. – contribution in kind	39,53%

Also this capital increase took effect upon entry of the changes into the National Court Register, that is February 17th 2006.

Sale of Shares in Przedsiębiorstwo Przeladunku Paliw Płynnych Naftoport Sp. z o.o.

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On April 14th 2005, Grupa LOTOS S.A., as the Seller, and PERN Przyjaźń S.A., as the buyer, concluded an agreement concerning the sale of 13 shares with a par value of PLN 589 thousand per share and aggregate par value of PLN 7,657 thousand, which as at the agreement date represented 16.67% of the share capital of Przedsiębiorstwo Przeladunku Paliw Płynnych Naftoport Sp. z o.o. Following the transaction, Grupa LOTOS S.A.'s share in the share capital of Naftoport fell from 25.64% to 8.97%. The gain on the disposal of shares disclosed in the non-consolidated financial statements of Grupa LOTOS S.A. prepared for the six months ended June 30th 2005 amounted to PLN 26,344 thousand.

Disposal of Shares in PPU Ciech S.A.

On June 15th 2005, Grupa LOTOS S.A. sold its shares in the share capital of PPU Ciech S.A. The transaction involved 285,300 shares in PPU Ciech S.A. with the par value of PLN 5 per share. The aggregate par value of the sold shares was PLN 1,426 thousand. The selling price was PLN 26.80 per share, the transaction value totalled PLN 7,646 thousand, and the gain on the sale of shares amounted to PLN 6,219 thousand.

11.3 KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE COMPANY

11.3.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS

The Company's major investments executed in 2005

(PLN '000)

	Item	Expenditure
A.	Construction and assembly work, including:	154.043
B.	Procurement from external suppliers – purchases, including:	42.572
C.	Acquisition of intangible assets, including:	17.906
D.	Other capital expenditure, including:	31.602
	Total	246.123

11.3.2 EQUITY INVESTMENTS

Acquisition of Shares in Southern Refineries and Petrobaltic S.A.

The agreement of January 13th 2005, under which Grupa LOTOS S.A. purchased shares in Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. (91.54%) and in Petrobaltic S.A. (69.00%) from Nafta Polska S.A. was finalised on February 3rd 2005. The agreement's value totalled PLN 257,276 thousand. Following the transaction, as at June 30th 2005, Grupa LOTOS S.A. holds the following equity interests in the abovementioned companies:

- 80.04% of the share capital of Rafineria Czechowice S.A.,
- 80.01% of the share capital of Rafineria Jasło S.A.,
- 91.54% of the share capital of Rafineria Nafty Glimar S.A.,
- 69.00% of the share capital of Petrobaltic S.A.

The transaction was settled in June 2005 with the proceeds obtained by Grupa LOTOS S.A. from the issue of 35,000,000 Series B shares.

On June 28th 2005, the Extraordinary General Shareholders Meeting of LOTOS Park Technologiczny Sp. z o.o. resolved to increase the company's share capital from PLN 50 thousand to PLN 500 thousand, i.e. by PLN 450 thousand, by issuing 900 new shares with a par value of PLN 500 per share. Grupa LOTOS S.A. acquired 800 new shares worth PLN 400 thousand.

Following the acquisition, Grupa LOTOS S.A. holds 90% of shares in LOTOS Park Technologiczny Sp. z o.o.

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Share Capital Increase at LOTOS Park Technologiczny Sp. z o.o.

On June 28th 2005, the Extraordinary General Shareholders Meeting of LOTOS Park Technologiczny Sp. z o.o. resolved to increase the company's share capital from PLN 50 thousand to PLN 500 thousand, i.e. by PLN 450 thousand, by issuing 900 new shares with a par value of PLN 500 per share and an aggregate par value of PLN 450 thousand. The new shares were acquired as follows:

- Grupa LOTOS S.A. - 800 shares
- Kolaja&Partners Sp. z o.o. - 100 shares.

On December 1st 2005, in exchange for a contribution in kind, RC Remo Sp. z o.o., CBA Racer Sp. z o.o., and the LOTOS Czechowice S.A., respectively, acquired:

- 2,834 shares for PLN 1,417 thousand,
- 2,532 shares for PLN 1,266 thousand,
- 862 shares for PLN 431 thousand.

Following the transaction, RC Remo Sp. z o.o. holds 39.2%, CBA Racer Sp. z o.o. – 35%, and the Czechowice Refinery – 11.9% of shares in LOTOS Park Technologiczny Sp. z o.o. The par value per share is PLN 500. RC Remo and CBA Racer conduct their business as part of the Czechowice Refinery Group. The Czechowice Refinery holds 100% of their shares.

Grupa LOTOS S.A. is the holder of 80.04% of shares in the Czechowice Refinery and of 12.5% shares in LOTOS Park Technologiczny Sp. z o.o. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group and a programme intended to restructure the Southern Refineries.

Following the aforementioned share capital increase at LOTOS Park Technologiczny Sp. z o.o., Grupa LOTOS S.A. holds 80.66% of the share capital of LOTOS Park Technologiczny Sp. z o.o. As at December 31st 2005, LOTOS Park Technologiczny Sp. z o.o. was consolidated with the full method, but the share capital increase had not been registered by that date.

Acquisition of Shares in UAB LOTOS Baltija

On November 16th 2005 Grupa LOTOS S.A. acquired 4,400 shares in UAB LOTOS Baltija (a subsidiary), registered office in Lithuania, which represent 39.71% of the subsidiary undertaking's share capital. Following the transaction, Grupa LOTOS S.A. holds 100% of shares in UAB LOTOS Baltija. The value of the transaction has been established at PLN 510,000. The par value of the acquired shares is LTL 65 per share, and their total par value is LTL 286,000.

UAB LOTOS Baltija's business is the sale of lubricating oils produced by Grupa LOTOS S.A., in Lithuania, Latvia, and Belarus. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group, and aims at increasing the Company's operational efficiency in the area of export to the countries situated east of Poland.

Acquisition of Shares in LOTOS Parafiny Sp. z o.o

On December 16th 2005 the Company concluded an agreement to acquire 14,639 shares in LOTOS Parafiny Sp. z o.o. from the following parties:

- Rafineria 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.;
- RC Parafiny Sp. z o.o.– 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.;
- 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.

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The transaction totalled PLN 15,516,608.05 (i.e. PLN 1,059.95 per share). The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group.

12 TRANSACTIONS WITH RELATED UNDERTAKINGS

(PLN '000)

No.	Party to the transaction	Sales (PLN '000)	Purchases (PLN '000)
1	LOTOS Paliwa Sp. z o.o.	4.749.676	-
2	LOTOS Partner Sp. z o.o.	3.248.686	59.374
3	LOTOS Oil S.A.	125.292	-
4	LOTOS Parafiny Sp. z o.o.	45.688	-
5	LOTOS Kolej Sp. z o.o.	10.683	64.892
6	LOTOS Serwis Sp. z o.o.	4.972	45.296
7	LOTOS Mazowsze S.A.	202.205	2.408
8	LOTOS LAB Sp. z o.o.	-	11.948
9	LOTOS Ochrona Sp. z o.o.	-	4.954
10	LOTOS Straż Sp. z o.o.	-	10.260
11	LOTOS Asfalt Sp. z o.o.	313.128	-
12	BiproRaf Sp. z o.o.	-	5.979
13	Grupa Kapitałowa Rafineria Jasło S.A. (currently LOTOS Jasło S.A.)	92.883	-
14	Grupa Kapitałowa Rafineria Czechowice S.A.(currently LOTOS Czechowice S.A.)	146.645	609.523
15	Grupa Kapitałowa Petrobaltic S.A.	-	267.583

*The equivalent of EUR 500,000 is PLN 2,012 thousand (EUR/PLN = 4.0233 – arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of the month in the period January 1st – December 31st 2005).

In the period January 1st–December 31st 2005, no non-recurring transactions with a value exceeding EUR 500 thousand occurred between Grupa LOTOS S.A. and related undertakings, except for those itemised below.

- On February 3rd 2005, the Supervisory Board of Grupa LOTOS S.A. consented to additional shareholder contributions to the share capital of LOTOS Paliwa Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) in the amount of PLN 89,600 thousand, which should be made by June 30th 2006. On February 8th 2005, the Extraordinary General Shareholders Meeting of LOTOS Paliwa Sp. z o.o. approved additional contributions to the share capital in the amount of PLN 24,600 thousand, to be performed by February 10th 2005.
- On June 23rd 2005, Grupa LOTOS S.A. and LOTOS Ekoenergia S.A. (subsidiary) concluded an agreement with Lockheed Martin Corporation and M.W. Kellogg. Under the agreement, Lockheed Martin Corporation is to perform, with the support of M.W. Kellogg, its offset obligations towards Grupa LOTOS S.A. and LOTOS Ekoenergia S.A. as part of the Comprehensive Technical Upgrade Programme of Grupa LOTOS S.A. The Programme was included in the offset obligations that Lockheed Martin Corporation assumed under the Offset Agreement of April 18th 2003, concluded with the State Treasury of Poland in connection with the acquisition of F-16 jets.
- On June 30th 2005, Statoil Polska Sp. z o.o. and Grupa LOTOS S.A. (Producer) and LOTOS Partner Sp. z o.o. (Supplier) concluded a contract, whereby Grupa LOTOS S.A. is to sell fuel to Statoil Polska Sp. z o.o. The contract term is 2006–2010. The value of the contract over the contract term has been estimated at PLN 8,320,000 thousand. If Statoil Polska Sp. z o.o. purchases less fuel than provided for in the

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agreement, then it will be obliged to pay consideration for the Producer's guarantee of the continuity of fuel supplies, as specified in the agreement.

- On August 19th 2005, the Supervisory Board of Grupa LOTOS S.A. approved additional contributions to the equity of LOTOS Paliwa Sp. z o.o. (wholly-owned by Grupa LOTOS S.A.) in the amount of PLN 77,600, to be made by December 31st 2005. On August 19th 2005, the Extraordinary General Shareholders Meeting of LOTOS Paliwa Sp. z o.o. resolved on an additional contribution in the amount of PLN 77,600 thousand, to be made by December 31st 2005.
- On September 8th 2005, the Management Board of Grupa LOTOS S.A. entered into an agreement under which Grupa LOTOS S.A. granted a loan of PLN 2,500 thousand to LOTOS Parafiny. By the end of January 2006, the loans are to total PLN 9,000 thousand. The financial terms of the agreement do not differ from standard market terms. The loan, to be repaid in full by the end of 2008, is to finance an investment project consisting in the launch of a candle production plant in Czechowice. The aggregate amount of the project will be PLN 14,100 thousand. The decision to carry out the project by LOTOS Parafiny Sp. z o.o. was made with a view to capturing additional margin in the value chain of wax products manufacturing and to improving the Company's economic efficiency in the long run. Construction of the candle production plant represents part of the restructuring process for the Southern Refineries of the LOTOS Group.
- On September 12th 2005, Grupa LOTOS S.A. and Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) entered into an agreement on sale of liquid fuels to Rafineria Jasło S.A. The agreement was concluded for a definite term and expires on December 31st 2006. Its value is estimated at PLN 725,739 thousand. Should at least 90% of the ordered quantity of fuels not be delivered or collected, Grupa LOTOS S.A. or the Jasło Refinery, respectively, may demand a contractual penalty of PLN 20 per cubic meter of such fuel. As of the agreement date, the liquid fuel sale agreement concluded between Grupa LOTOS S.A. and Rafineria Jasło S.A. on February 5th 2004 was terminated.

Transactions subsequent to the balance-sheet date

- 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 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 thereto from seeking additional compensation pursuant to general provisions of the law. 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, dated 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 February 13th 2006, BP Polska Sp. z o.o., LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A. executed a significant agreement providing for the sale of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite period, i.e. until December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand.
- 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 specified period 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 thereto from seeking additional compensation pursuant to general provisions of law.

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

13.1 LOANS ADVANCED

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

On September 23rd 2003 and on April 8th 2004, Grupa LOTOS S.A. and Rafineria Nafty Glimar S.A. entered into loan agreements for the financing of operating and investing activities, including, in particular, the Glimar Hydrocomplex investment project, for an aggregate amount of PLN 90m. By December 31st 2004, Grupa LOTOS S.A. had advanced PLN 48m to Rafineria Nafty Glimar S.A. under these agreements. Additionally, in connection with the Letter of Comfort signed by Grupa LOTOS S.A. on February 12th 2004 for Bank Przemyslowo-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 June 30th 2005, assets under the loans advanced were fully covered by an allowance, and 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 Grupa LOTOS S.A. to LOTOS Parafiny Sp. z o.o.

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

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

On September 8th 2005, Grupa LOTOS S.A. and LOTOS Park Technologiczny Sp. z o.o. concluded a loan agreement under which LOTOS Park Technologiczny Sp. z o.o. was advanced PLN 1,900 thousand to be repaid in full by August 31st 2008.

13.2 SURETY AND GUARANTEE AGREEMENTS

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 the following security was established for the Company's interest with respect to the surety:

- registered pledge under the registered pledge agreement of February 18th 2004 on the following shares held by Rafineria Jasło S.A.:

- 3,182 shares in MONTO-REM Sp. z o.o. with a par value of PLN 1,591 thousand,
- 700 shares in LOTOS Tank Sp. z o.o. with a par value of PLN 350 thousand,
- 373 shares in Laboratorium BADACZ Sp. z o.o. with a par value of PLN 186 thousand,
- 1,100 shares in CHEMIPETROL Sp. z o.o. with a par value of PLN 550 thousand,
- 2,104 shares in Rafineria Jasło SPED-KOL Sp. z o.o. with a par value of PLN 1,052 thousand,

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- 904 shares in LOTOS Parafiny Sp. z o.o. with a par value of PLN 904 thousand,
- 350 shares in JASBIT – Rafineria Jasło Sp. z o.o. with a par value of PLN 350 thousand,

- registered pledge under the registered pledge agreement of February 18th 2004 on the following tangible assets owned by Rafineria Jasło S.A.: bitumens and bitumen emulsions production units, whose net value amounts to PLN 2,806 thousand, and plastics processing units, whose net value is PLN 8,155 thousand.

Irrespective 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.

Pursuant to an annex of October 20th 2005 to the registered pledge agreement of February 18th 2004, Grupa LOTOS S.A. excluded from the scope of the agreement the following assets: bitumen and bitumen emulsion units, with a net value of PLN 2,806 thousand.

Under the agreement of October 20th 2005, Grupa LOTOS S.A. waived its rights under the security in the form of registered pledges on the following shares held by Rafineria Jasło:

- 3,182 shares in MONTO-REM Sp. z o.o., with a par value of PLN 1,591 thousand,
- 700 shares in LOTOS Tank Sp. z o.o., with a par value of PLN 350 thousand,
- 373 shares in Laboratorium BADACZ Sp. z o.o., with a par value of PLN 186 thousand,
- 1,100 shares in CHEMIPETROL Sp. z o.o., with a par value of PLN 550 thousand,
- 2,104 shares in Rafineria Jasło SPED-KOL Sp. z o.o., with a par value of PLN 1,052 thousand,
- 904 shares in LOTOS Parafiny Sp. z o.o., with a par value of PLN 904 thousand,
- 350 shares in JASBIT – Rafineria Jasło Sp. z o.o., with a par value of PLN 350 thousand.

Surety Granted to LOTOS Partner Sp. z o.o.

The Company granted a surety of up to PLN 3,000 thousand to Naftobazy Sp. z o.o. and a guarantee of payment by PREEM TERMINALE RZECZNE Sp. z o.o. (renamed to LOTOS PARTNER Sp. z o.o.) of liabilities under the storage agreement of December 23rd 2002. Upon the expiry of the storage agreement on December 31st 2005, the surety granted by the Company to Naftobazy Sp. z o.o. also expired.

13.3 LIABILITIES UNDER PROMISSORY NOTES

On July 7th 2005, Grupa LOTOS S.A. submitted excise security in the form of a blank promissory note up to PLN 200,000 thousand in respect of a tax liability related to the suspended-excise-tax procedure. The security is effective up until July 7th 2006.

On July 20th 2005, Grupa LOTOS S.A. entered into an agreement with Bank Millennium S.A. on a stand-by loan of up to PLN 300,000 thousand. In October 2005, the parties signed an annex to the abovementioned agreement, whereby the amount of the stand-by loan was reduced to PLN 250,000 thousand. The loan will secure cheques issued to customs authorities as security for Grupa LOTOS S.A.'s accounts receivable under customs duties, mainly related to shipments of products in accordance with the suspended-excise-tax procedure. The financial terms and conditions of the loan do not differ materially from market conditions of such loans. The term of the agreement is 12 months.

As at December 31st 2005, five cheques for a total amount of PLN 313,000 thousand were submitted to customs authorities to secure the Company's customs duty liabilities.

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14 USE OF ISSUE PROCEEDS TO IMPLEMENT THE ISSUE OBJECTIVES

Acquisition of Shares in Southern Refineries and Petrobaltic S.A.

The agreement of January 13th 2005, under which Grupa LOTOS S.A. purchased shares in Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%) and Petrobaltic S.A. (69.00%) from Nafta Polska S.A. was finalised on February 3rd 2005. The agreement value totalled PLN 257,276 thousand. Following the transaction, as at December 31st 2005, Grupa LOTOS S.A. holds the following equity interests in the abovementioned companies:

- 80.04% of the share capital of Rafineria Czechowice S.A.,
- 80.01% of the share capital of Rafineria Jasło S.A.,
- 91.54% of the share capital of Rafineria Nafty Glimar S.A.,
- 69.00% of the share capital of Petrobaltic S.A.

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

Use of Remaining Issue Proceeds

Additionally, by December 31st 2005 the Company allocated part of the net proceeds from the share issue to the following purposes:

- PLN 7.9m – to finance the Comprehensive Technical Upgrade Programme (PKRT)
- PLN 80.9m – to finance the modernisation of the refinery in Gdańsk
- PLN 65m – additional contribution to the share capital of LOTOS Paliwa Sp. z o.o. made in November 2005 in connection with the implementation of the PROSTA programme, designed to expand the Group's service station network.

In addition to the above amounts, the rest of the net issue proceeds, in the amount of PLN 595.1m will be used to finance the implementation of the Comprehensive Technical Upgrade Programme and modernise the refinery in Gdańsk. Cash surplus has been invested as set forth in Note 13 to the financial statements.

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

The financial forecasts of Grupa LOTOS S.A. for 2005 were published in the Company's Issue Prospectus and Current Report No. 16 of May 16th 2005. On November 14th, the Company revised the above assumptions and presented a revised forecast in Current Report No. 84.

The financial results disclosed in the non-consolidated financial statements of Grupa LOTOS S.A. for 2005 do not differ materially from the forecast presented in Current Report No. 84/2005.

Forecast and actual values of selected items of the non-consolidated profit and loss account of Grupa LOTOS S.A., in accordance with the IFRS (PLN '000):

Item	Forecast	Actual	Performance
Net sales revenue	8.576.892	8.545.728	99,64 %
Depreciation/amortisation:	171.323	173.211	101,1 %
Operating profit:	571.180	535.081	93,68 %
Net profit:	542.492	532.268	98,11 %

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

In 2005, the Company completed R&D work on and launched the production of the following new products:

Eurodiesel LOTOS

In 2005, the Company developed the technology and launched the production of a new kind of diesel oil with very low sulphur content (maximum 0.001%*m/m*), named **Eurodiesel LOTOS**.

MGO

In 2005, the Company developed the technology and launched the production of marine gas oil (MGO) for export sales.

Biofuel

In 2005, the Company completed R&D work on the behaviour of biofuel with 20% bioester (FAME) content, in controlled conditions, in an open cast mine and in bus transport.

In addition to the launch of new products, in 2005 Grupa LOTOS S.A. modernised the production units at its refinery in Gdańsk. As part of the Spring 2005 overhaul, the Company's installations (atmospheric and vacuum distillation units and gasoline hydrotreater) were expanded to support the processing of 6m tonnes/year of crude oil. Additionally, in 2004, the Company constructed and placed in service a second Merox aviation fuel unit to increase the Company's Jet A-1 aviation fuel production capacity.

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

The cash, short-term securities, credit facilities, as well as cash and generated from operating activities, held by Grupa LOTOS S.A. fully secure the expenditure planned to complete the current investment projects and equity investments.

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

Comprehensive Technical Upgrade Programme (PKRT)

On March 31st 2005, a product purchase agreement was concluded between LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited, acting on behalf of Shell Trading International Limited ("STIL").

The agreement provides for the sale and delivery by LOTOS Ekoenergia of specified amounts of diesel oil or low-sulphur residue ("Products") produced by LOTOS Ekoenergia, and their purchase and collection by STIL. The term of the agreement commenced on the date of its execution by the two parties and will expire on the twelfth anniversary of placing in service the units constructed as part of the PKRT project (specifically on the last day of the calendar month in which the anniversary falls). However, the respective obligations of the parties to sell/deliver and purchase/offtake the Products depend on the financial closure of the PKRT project (which should take place by June 30th 2006) and on the commencement of its commercial operation (which should take place not later than within 48 months from the financial closure). The agreement will be automatically terminated if the financial closure or the commencement of the project's commercial operation does not take place within the timeframes provided for in the agreement. STIL will buy and collect the products as specified in the agreement, at prices computed using the formulas described therein on the basis of relevant market quotations. As to the matters not regulated in detail by the agreement, the parties' obligation to cover the costs, losses and damage suffered by one party due to the other party's breach of the agreement, is to be defined in accordance with English laws of general application. If LOTOS Ekoenergia receives a relevant instruction from the financing parties, it may assign its rights and obligations under the agreement, or the rights to the agreement, to any financing party or a natural or legal person indicated by such a party, without a prior written consent of STIL. Either party may assign its obligations or rights under the agreement to its associated undertaking; however, it will continue to bear joint and several liability for the exercise of its rights and obligations for the benefit of the other party.

Since the agreement is to be part of the project documentation for non-recourse financing, STIL has undertaken that, at the request of LOTOS Ekoenergia, it will negotiate in good faith and will execute with financing parties an agreement whose terms and conditions are acceptable for STIL, and which will provide for the relations between STIL's rights and obligations under the agreement, and financing parties' rights and obligations under the loan agreement and other credit agreements between LOTOS Ekoenergia and financing parties.

The agreement is governed by the English law. The parties excluded the application of the United Nations Convention on Contracts for the International Sale of Goods of 1980. Any disputes are to be settled in arbitration proceedings in London, in accordance with the Rules of the International Arbitration Court in London.

On July 13th 2005, Grupa LOTOS S.A. entered into an agreement with Shell Global Solutions International, whereby the latter is to provide engineering services and act as a technical advisor in the execution of the Comprehensive Technical Upgrade Programme at Grupa LOTOS S.A. The agreement followed a Letter of Intent executed on November 25th 2004 between Grupa LOTOS S.A., LOTOS Ekoenergia S.A., Shell Global Solutions International and Shell International Trading and Shipping Company.

Given the state-of-the-art nature and the technological advancement of the installations which are the core of the PKRT project, the project was included in the offset obligations assumed by Lockheed Martin Corporation (LMC) in connection with the contract to provide F-16 jets for the Polish army. The currently binding agreement with LMC and M.W.Kellogg Ltd. was signed on June 23rd 2005. It regulates the performance of LMC's offset obligations relating to the project, which include the co-financing of licences. The first payments in respect of the three key licences (to SGSI and KBR) have already been made by LMC, which made it possible to commence the base designing work on the key Project installations.

In 2005, the Company's activities relating to the Comprehensive Technical Upgrade Programme focused on further technological development work, negotiating agreements relating to various aspects of the project, and

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making preliminary contacts with selected financial institutions. At this stage, the licensors of the three principal Project technologies performed the design work relating to the development of the base designs for the key installations, negotiations were conducted with selected bidders interested in developing a base integrative design for the project and providing engineering services, and final negotiations with STASCO were conducted concerning an agreement for the supply of additional feedstock for the project installations (the agreement was concluded on April 11th 2006).

The measures described above are further steps in the process of execution of the Comprehensive Technical Upgrade Programme, which was specified as one of the main issue objectives in the Issue Prospectus of Grupa LOTOS S.A. The Comprehensive Technical Upgrade Programme, in which Grupa LOTOS S.A. intends to invest over PLN 3.2bn in 2005-2009, provides for the construction of an IGCC unit, an SDA unit and a MHC unit at the Gdańsk refinery.

Acquisition and restructuring of the Southern Refineries

The agreement of January 13th 2005, under which Grupa LOTOS S.A. purchased shares in Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. (91.54%) and in Petrobaltic S.A. (69.00%) from Nafta Polska S.A. was finalised on February 3rd 2005. The agreement's value totalled PLN 257,276 thousand. Following the transaction, as at December 31st 2005, Grupa LOTOS S.A. holds the following equity interests in the abovementioned companies:

- 80.04% of the share capital of Rafineria Czechowice S.A.,
- 80.01% of the share capital of Rafineria Jasło S.A.,
- 91.54% of the share capital of Rafineria Nafty GLIMAR S.A.,
- 69.00% of the share capital of Petrobaltic S.A.

The restructuring of the Southern Refineries in 2005 entailed transfers of shares, assets, cash, and employees among the LOTOS Group companies.

The restructuring of the Group's business and employment involved consolidation of the maintenance activities conducted by RC Remo Sp. z o.o., MONTO-Rem Sp. z o.o. and LOTOS Serwis Sp. z o.o., and consolidation of laboratory activities of Badacz Sp. z o.o. and CBA Racer Sp. z o.o. LOTOS Lab Sp. z o.o.

On October 3rd 2005, LOTOS Lab Sp. z o.o. concluded an agreement with Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) under which the company purchased 100% of shares in Laboratorium Badacz Sp. z o.o. of Jasło.

On January 5th 2006, LOTOS Serwis Sp. z o.o. acquired an equity interest in Przedsiębiorstwo RC Remo Sp. z o.o. of Czechowice-Dziedzice and in Monto-Rem Sp. z o.o. of Jasło.

Moreover, LOTOS Park Technologiczny Sp. z o.o. was engaged in the restructuring process which consisted in taking over some assets and employees of the Southern Refineries, not related to their core business, with a view to providing services for the Group companies and acquiring external investors for these operations.

On September 22nd 2005, the Supervisory Board of Rafineria Czechowice S.A. approved the company's "Long-Term Strategy," and simultaneously accepted the resolution of the Management Board on discontinuation of crude oil processing by Rafineria Czechowice S.A. as of March 31st 2006, dated September 6th 2005.

Further to the decision to discontinue crude oil processing at Rafineria Czechowice S.A. as of March 31st 2006, on December 28th 2005 Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) and PGNiG S.A. signed an annex to the crude oil purchase agreement of December 21st 2004, whereby the term of the agreement was shortened so that the agreement is to expire on March 31st 2006.

In accordance with the restructuring programme for the Southern Refineries, Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) will become (beside Rafineria Jasło S.A.) a key undertaking of the LOTOS Group, through which the Group will execute its policy aimed at increasing its share in the fuel market in southern Poland as a result of expansion of the fuel storage and distribution base, which should ensure the possibility of increasing fuel supplies, significant improvement in the customer service quality, and meeting legal requirements concerning fuel storage. This investment will help the Czechowice Refinery to reduce its costs. A fuller use of the logistics base for the development of the fuel distribution network in southern Poland,

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as well as the launch of activities in new market segments should have a positive impact on the revenues and sales margin of the LOTOS Group.

Maintenance Shutdown in Spring 2005

In the period March 26th – May 12th 2005, a technological upgrade was carried out at the Gdańsk Refinery. The maintenance and upgrade work was performed on all major production units: fuel, oil, hydrocracking and electricity media facilities. During the shutdown, as a result of the upgrade work, the crude oil distillation capacity was increased from 4.5m tonnes to 6m tonnes annually. The work required a temporary discontinuation of production at the Gdańsk Refinery, which had a significant effect on the financial results generated by the LOTOS Group in 2005. The temporary discontinuation of production necessitated earlier accumulation of a stock of products, larger than during normal operations of the units, and resulted in the loss of the sales margin on products which were not produced due to the shutdown.

PROSTA (Service Station Network Development Programme)

On August 24th 2005, LOTOS Paliwa Sp. z o.o. entered into a preliminary conditional agreement on purchase of ESSO service station network in Poland from ExxonMobil Poland Sp. z o.o. The transaction concerns an organised part of ExxonMobil Poland's business, comprising in particular:

- 39 service stations along with real estate owned or held in perpetual usufruct or under long-term leases,
- 14 undeveloped lots for new service stations, owned or held in perpetual usufruct (including three lots covered by call options).

As part of the transaction, LOTOS Paliwa Sp. z o.o. will also take over 24 employees of ExxonMobil Poland Sp. z o.o., who had been engaged in the expansion of the ESSO network in Poland. The net price for the organised part of business is PLN 278,500 thousand, of which PLN 250,700 thousand accounts for the 39 service stations.

Furthermore, LOTOS Paliwa Sp. z o.o. agreed to purchase (for additional consideration) current assets connected with day-to-day operations of the acquired stations (stocks of fuels, receivables from agents and loyalty card holders, etc.).

The agreement is contingent upon approval of the transaction by the Polish Anti-Trust and Consumer Protection Authority and upon obtaining relevant certificates confirming that the seller is not in default with payment of any amounts due to the tax or social security authorities. The final agreement will be concluded forthwith upon satisfaction of the above conditions, but not earlier than six weeks from the preliminary agreement date. The obligations assumed by the parties in the preliminary agreement will expire if the conditions precedent are not fulfilled within sixteen weeks from the preliminary agreement date.

The agreement also provides for domestic and international cooperation between Grupa LOTOS S.A. and ExxonMobil in serving ESSO customers at LOTOS stations in Poland and LOTOS customers holding fleet cards at service stations accepting ESSO cards outside Poland (in a number of European countries). It also provides for a continuation of the loyalty scheme for ESSO retail customers. LOTOS Paliwa Sp. z o.o. financed the transaction with funds from additional contributions to equity made by Grupa LOTOS S.A. and from the loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.).

All the conditions precedent provided for in the preliminary conditional agreement on the purchase of ESSO service station network in Poland concluded between LOTOS Paliwa Sp. z o.o. and ExxonMobil Poland Sp. z o.o. on August 24th 2005 were fulfilled on December 5th 2005. On December 14th 2005, LOTOS Paliwa Sp. z o.o. finalised the transaction with ExxonMobil Poland Sp. z o.o. by concluding the final agreement.

Following the acquisition of ESSO service station network, the Company initially recognised goodwill representing the difference between the acquisition price and the fair value of the acquired assets in the amount of PLN 28.2m. By the time all the service stations provided for under the agreement are taken over, the goodwill will change in subsequent periods.

On September 28th 2005, LOTOS Paliwa Sp. z o.o. entered into a preliminary conditional agreement with Sloznaft Polska S.A. concerning the acquisition of service stations. The transaction concerns an organised part of Sloznaft Polska S.A.'s business, including in particular:

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

Additionally, LOTOS Paliwa Sp. z o.o. was proposed to take over the established partnerships with ten franchisees of Slovnaft Polska S.A. As part of the transaction, LOTOS Paliwa Sp. z o.o. employed 11 qualified employees of Slovnaft Polska S.A. The agreement is contingent upon approval of the intended concentration by the Anti-Trust and Consumer Protection Authority and upon payment of the price to an escrow account. The obligations assumed by the parties in the preliminary agreement will expire if the conditions precedent are not fulfilled within seven months from the preliminary agreement date. LOTOS Paliwa Sp. z o.o. financed the transaction with funds from the additional contributions to equity made by Grupa LOTOS S.A., representing one of the objectives of the public issue, and from the loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.). The net price of the transaction will be EUR 15m, i.e. approx. PLN 58,402 thousand. In February 2006, LOTOS Paliwa Sp. z o.o. obtained the approval of the concentration from the Anti-Trust and Consumer Protection Authority and completed the transaction by executing the final agreement.

After the acquisition of 39 ESSO stations, the above transaction was another key step in the implementation of the PROSTA countrywide service stations network development programme. Following the execution of the transaction, the number of Grupa LOTOS S.A.'s stations will rise from 74 to 125 (taking into account the execution of the final agreement with ExxonMobil Poland Sp. z o.o.) and the share of the LOTOS network in the retail market will grow to 8%.

First Stock Exchange Listing of Grupa LOTOS S.A.

On June 3rd 2005, pursuant to Resolution No. 178/2005, the Management Board of the Warsaw Stock Exchange admitted the shares of Grupa LOTOS S.A., with a par value of PLN 1 per share, to trading on the main market, including:

- 58,229,340 Series A ordinary registered shares
- 20,470,660 Series A ordinary bearer shares
- up to 35,000,000 Series B ordinary bearer shares, subject to a condition that the Company's share capital is increased through the issue of Series B shares.

All the shares offered by the Company, i.e. 35,000,000 Series B Shares, were allotted as a result of the subscription.

The issue price was set at PLN 29.00 per share. The issue proceeds were PLN 1,015,000 thousand. The share premium was PLN 980,000 thousand and was disclosed under reserve funds, net of the expenses directly related to the share issue, adjusted by income tax, i.e. PLN 9,049 thousand.

The abovementioned shares and rights to Series B ordinary bearer shares of Grupa LOTOS S.A. were first quoted on the Warsaw Stock Exchange on June 9th 2005. The closing price of the first listing was PLN 30.00.

On June 28th 2005, the Company's Management Board received the decision of the District Court of Gdańsk, XII Commercial Division of the National Court Register, concerning registration of Grupa LOTOS S.A.'s share capital increase through the issue of Series B shares. The share capital increase was registered by the District Court of Gdańsk, XII Commercial Division of the National Court Register on June 28th 2005. Following the registration, the share capital amounted to PLN 113,700,000 and was divided into 113,700,000 shares. The total number of votes attached to all the shares issued by Grupa LOTOS S.A. after the registration of the share capital increase was 113,700,000 votes.

The aim of the public offering of Grupa LOTOS S.A. shares was to raise funds for:

- acquisition of the Southern Refineries and Petrobaltic
- implementation of the Comprehensive Technical Upgrade Programme
- implementation of the PROSTA programme

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- modernisation work at Grupa LOTOS S.A.'s refinery in Gdańsk.

Natural Environment

- On December 30th 2005, by virtue of decision No. ŚR/Ś.II.6619/6/05 of the Governor of the Gdańsk Province, Grupa LOTOS S.A. obtained an integrated permit for its crude oil refining unit and a CHP plant. The permit covers atmospheric emission of gases and dusts, production and management of waste, noise emission, discharge of sewage to surface water, and underground water consumption. The permit is valid for ten years.
- Pursuant to the Polish Council of Ministers' Regulation on the adoption of the National Allocation Plan for CO₂ Emission Allowances for 2005–2007 and the list of installations excluded from the EU emission allowance trading scheme from January 1st 2005 to December 31st 2007, dated December 27th 2005, Grupa LOTOS S.A. obtained a CO₂ emission allowance for the years 2005-2007, for the following quantities:
 - Grupa LOTOS S.A.'s CHP plant – 1,206,800 (No. 390 in the Regulation of the Council of Ministers),
 - Grupa LOTOS S.A.'s refinery – 667,500 (No. 636 in the Regulation of the Council of Ministers).

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

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

- **Quotation prices of crude oil and petroleum products** – in H2 2005 the prices of crude oil increased markedly, only to be followed by the prices of petroleum products. A substantial rise was also reported in the refining margin.
- **PLN/USD exchange rate** – the performance of the Company 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.
- **Change of legal regulations with respect to excise tax reliefs** – excise tax reliefs are enjoyed primarily by Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) and Rafineria Jasło S.A. (members of the LOTOS Group). Given the planned limitations in the excise tax reliefs (until some of them, e.g. transport relief, are eventually abolished), the Company has been pursuing restructuring and investment activities designed to transform the companies' business so as to ensure that they remain profitable even after the reliefs are reduced. The activities include transformation of Rafineria Jasło S.A. into a waste processing centre, and Rafineria Czechowice S.A. into a logistic centre and, perhaps, a biocomponent production plant of the LOTOS Group in the southern Poland.

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

- **Making full use of the expanded production capacity** – in Q2 2005, the Company performed overhaul work and expanded its processing capacity to 6m tonnes of oil annually. As of July 2005, the refining units of Grupa LOTOS S.A. were working at nearly full capacity. Higher volumes of processed oil, coupled with favourable levels of refining margins, are expected to have a positive effect on the performance of the Company and its Group.
- **Further expansion of the fuel retail sales network** – execution of the PROSTA programme is the key factor in strengthening the Company's position on the fuel retail market. One of the main tasks is to effectively incorporate the 39 Esso stations acquired in a transaction consisting in the purchase of an organised part of ExxonMobil Polska Sp. z o.o.'s business into the LOTOS network and to build new stations on the real estate acquired in the transaction. Another task is to effectively incorporate the 12 Slovnaft stations acquired in a transaction consisting in the purchase of an organised part of Slovnaft Polska S.A.'s business into the LOTOS network and to take over established partnerships with Slovnaft Polska S.A.'s ten franchisees.
- **Execution of the Comprehensive Technical Upgrade Programme** – a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. 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.
- **Development of upstream business** – the planned development of the upstream business is expected to strengthen the Group's independence of external sources of raw materials and further improve its financial performance.

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 Company's further development and building shareholder value.

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The execution of the investment programmes and plans set forth in the Issue Prospectus will enhance the domestic market position of the Company and should consequently improve its financial performance and share price.

The key objective of Grupa LOTOS S.A.'s development policy is to maintain the competitiveness of the Company among oil companies operating in the Central and Eastern Europe and in the Baltic Sea Basin.

Grupa LOTOS S.A. intends to pursue this goal through various operational and market activities. The operating activities include the implementation of the Comprehensive Technical Upgrade Programme. Completion of the Programme will enable the Company to improve the economies of scale in refining volumes and depth of conversion, which in turn should lead to an improvement of the general economic efficiency of oil processing at Grupa LOTOS S.A.'s refinery in Gdańsk.

Another important direction in the development of the Group's operating activities is creation of an upstream segment, which will enable the Group to reduce its exposure to fluctuations in crude oil prices.

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

The Company's policy also envisages development of the Southern Refineries by their engagement in 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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20 CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY STAFF OF GRUPA LOTOS S.A.

MANAGEMENT BOARD – fifth term of office

As at December 31st 2005, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

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

SUPERVISORY BOARD – fifth term of office

As at December 31st 2004, the composition of the Supervisory Board was as follows:

1. Stanisław Łańcucki – Chairman of the Supervisory Board
2. Jerzy Węsierski – Deputy Chairman of the Supervisory Board
3. Grzegorz Urban
4. Jacek Namieśnik
5. Zygmunt Parczewski
6. Adam Sęk
7. Krzysztof Wrzesień
8. Beata Zawadzka
9. Tadeusz Zieliński – Secretary of the Supervisory Board

Changes in the composition of the Management and Supervisory Boards of Grupa LOTOS S.A. in 2005:

On January 14th 2005, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. removed from office the following Supervisory Board members:

1. Stanisław Łańcucki
2. Zygmunt Parczewski
3. Jacek Namieśnik

and appointed:

1. Katarzyna Dawidczyk
2. Janusz Rachoń
3. Cezary Nowosad

In the light of the above, the composition of the Supervisory Board as of January 14th 2005 was as follows:

1. Katarzyna Dawidczyk – Chairperson of the Supervisory Board
2. Jerzy Węsierski – Deputy Chairman of the Supervisory Board
3. Janusz Rachoń
4. Cezary Nowosad
5. Grzegorz Urban
6. Adam Sęk
7. Krzysztof Wrzesień
8. Beata Zawadzka
9. Tadeusz Zieliński – Secretary of the Supervisory Board

On June 29th 2005, Adam Sęk tendered his resignation from the position on the Supervisory Board. Therefore, the composition of the Supervisory Board as of June 29th was as follows:

1. Katarzyna Dawidczyk – Chairperson of the Supervisory Board
2. Jerzy Węsierski – Deputy Chairman of the Supervisory Board
3. Janusz Rachoń

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4. Cezary Nowosad
5. Grzegorz Urban
6. Krzysztof Wrzesień
7. Beata Zawadzka
8. Tadeusz Zieliński – Secretary of the Supervisory Board

On August 23rd 2005, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. removed from office the following Supervisory Board members:

1. Katarzyna Dawidczyk – Chairperson of the Supervisory Board
2. Jerzy Węsierski – Deputy Chairman of the Supervisory Board
3. Janusz Rachoń
4. Cezary Nowosad
5. Grzegorz Urban
6. Krzysztof Wrzesień
7. Beata Zawadzka
8. Tadeusz Zieliński – Secretary of the Supervisory Board

and appointed for the sixth joint term of office:

1. Cezary Nowosad – Chairman of the Supervisory Board
2. Janusz Rachoń – Deputy Chairman of the Supervisory Board
3. Grzegorz Urban
4. Beata Zawadzka
5. Anna Andrzejczak
6. Piotr Krupa
7. Jacek Karwowski
8. Jerzy Mościcki
9. Katarzyna Dawidczyk – Secretary of the Supervisory Board

The objective of the changes in the composition of the Supervisory Board was to appoint all its members for a joint term of office and to appoint new members of the Supervisory Board.

Changes in the Management and Supervisory Boards of Grupa LOTOS S.A. after the Balance-Sheet Date

Until April 25th 2006, further changes occurred in the composition of the Supervisory Board of Grupa LOTOS S.A.

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

1. Cezary Nowosad – Chairman of the Supervisory Board
2. Janusz Rachoń – Deputy Chairman of the Supervisory Board
3. Katarzyna Dawidczyk – Secretary of the Supervisory Board
4. Anna Andrzejczak
5. Grzegorza Urbana
6. Piotr Krupa
7. Robert Karwowski

and appointed the following members:

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

Simultaneously, the Extraordinary General Shareholders Meeting decided that the Supervisory Board would comprise seven members for the remaining period of the seventh term.

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Accordingly, the composition of the Supervisory Board as of January 30th 2006 was of follows:

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

Rules of Appointment and Removal of Management Staff; Scope of Powers of the Management Staff

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

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

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

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

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

- 1) setting the organisational rules of the Company, including organisation of the Company's business,
- 2) setting annual budgets and long-term strategies in the form, scope and by the dates specified by the Supervisory Board,
- 3) establishing the remuneration system at the Company,
- 4) setting rules of procedure for the Company's business,
- 5) appointing and revoking proxies,
- 6) disposing of tangible assets,
- 7) making of the Company's equity investments outside Poland and implementing all capital expenditure projects,
- 8) establishing companies under commercial law, joining companies, making contributions to cover company shares, and disposing of shares, with the exception of share subscription in exchange for debt, pursuant to the Act on Financial Restructuring of Enterprises and Banks of February 3rd 1993, and acquisition of shares in public trade,
- 9) 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 Group's operations for the previous financial year – no later than within five months from the balance-sheet date,

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- 10) 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,
- 11) establishing the agenda for a General Shareholders Meeting,
- 12) submitting a motion to convene a Supervisory Board's meeting,
- 13) matters which must be resolved by virtue of Management Board resolutions if so required by the President or at least half of the members of the Management Board.

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**21 AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND THE
MANAGEMENT STAFF**

Compensation agreements

Apart from standard management contracts concluded by Grupa LOTOS S.A. with the management staff in 2005, no agreements providing for compensation in the event of their resignation or removal for no valid reason or in the event of their removal or dismissal due to takeover of the Company were executed.

Other agreements

In 2005, one agreement existed between the management staff and the Company. The agreement concerned a 10-year loan from the Company's Social Benefits Fund, with interest rate of 5% p.a., advanced to Mr Wojciech Kowalczyk. As at December 31st 2005, the loan amounted to PLN 20 thousand.

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

The remuneration paid and due to the members of the Management and Supervisory Boards in 2005 was as follows:

Management Board	PLN
Paweł Olechnowicz	162 242,95
Marek Sokołowski	161 269,18
Wojciech Kowalczyk	173 156,20
Total	496 668,33

Supervisory Board	PLN
Adam Sęk	18 596,23
Anna Andrzejczak	8 842,91
Beata Zawadzka	31 776,60
Cezary Nowosad	28 788,50
Grzegorz Urban	32 336,71
Jacek Namieśnik	3 548,21
Jacek Karwowski	8 842,91
Janusz Rachoń	28 778,50
Jerzy Mościcki	8 842,91
Jerzy Węsierski	23 493,80
Katarzyna Dawidczyk	28 788,50
Krzysztof Wrzesień	23 493,80
Piotr Krupa	8 842,91
Stanisław Łańcucki	3 548,21
Tadeusz Zieliński	23 493,80
Zygmunt Parczewski	3 548,21
Total	285 572,71

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

According to the information held by the Company, the following persons hold shares in Grupa LOTOS S.A.:

As at December 31st 2005:

	Number of shares	Par value (PLN)
Paweł Olechnowicz	42.755	42.755
Marek Sokołowski	8.636	8.636
Supervisory Board	0	0
Total	51.391	51.391

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

As at December 31st 2005, the shareholder structure of Grupa LOTOS S.A. was as follows:

Shareholders	Number of shares	Number of votes	% of total vote at GM	Par value of shares	% of share capital held
State Treasury	7.878.030	7.878.030	6,93%	7.878.030	6,93%
Nafta Polska S.A.	59.025.000	59.025.000	51,91%	59.025.000	51,91%
Other	46.796.970	46.796.970	41,16%	46.796.970	41,16%
Total	113.700.000	113.700.000	100,00%	113.700.000	100,00%

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

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

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

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

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

27. INFORMATION ON CONTROL SYSTEMS FOR EMPLOYEE STOCK OPTION PLANS

In 2005, no control system for employee stock option plans existed at Grupa LOTOS S.A.

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

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

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29. AGREEMENT WITH THE ENTITY QUALIFIED TO AUDIT FINANCIAL STATEMENTS

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

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

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

On December 7th 2004, Grupa LOTOS S.A. concluded an agreement with Ernst and Young Audit Sp. z o.o. of Warsaw on audit of the non-consolidated and consolidated financial statements for 2004. The total value of the agreement was PLN 227 thousand, including PLN 222 thousand for the audit of the non-consolidated and consolidated financial statements for 2004.

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30. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, CEO	
	Paweł Olechnowicz
Vice-President of the Management Board, COO	
	Marek Sokołowski
Vice-President of the Management Board, Trade Director	
	Wojciech Kowalczyk