



THE LOTOS GROUP

DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS IN 2005

(Translation of a document originally issued in Polish)

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IN 2005

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INTRODUCTION

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

1. ORGANISATION OF THE LOTOS GROUP

1.1. STRUCTURE OF THE LOTOS GROUP AS AT DECEMBER 31ST 2005

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

Parent Undertaking

- Grupa LOTOS S.A.

Direct subsidiary undertakings:

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

Indirect subsidiary undertakings:

- RCEkoenergia Sp. z o.o - consolidated with the full method

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- RCParafiny Sp. z o.o. - consolidated with the full method
- RCRemo Sp. z o.o. - consolidated with the full method
- CBA Racer Sp. z o.o. - consolidated with the full method
- RCSerwis Sp. z o.o. – valued with the equity method
- RCPaliwa Sp. z o.o. – valued with the equity method
- RCTransport Sp. z o.o. – valued with the equity method
- LOTOS Tank Sp. z o.o. - consolidated with the full method
- Rafineria Jasło Monto-Rem Sp. z o.o. - consolidated with the full method
- Plastikol Organizacja Odzysku S.A. - consolidated with the full method
- Rafineria Jasło Sped-Kol Sp. z o.o. - not consolidated
- Petrosoft.pl Technologie Informatyczne Sp. z o.o. - not consolidated
- Chemipetrol Sp. z o.o. - not consolidated
- Miliana Shipping Company Ltd. - consolidated with the full method
- Aphrodite Offshore Services Ltd. – not consolidated

Associated undertakings:

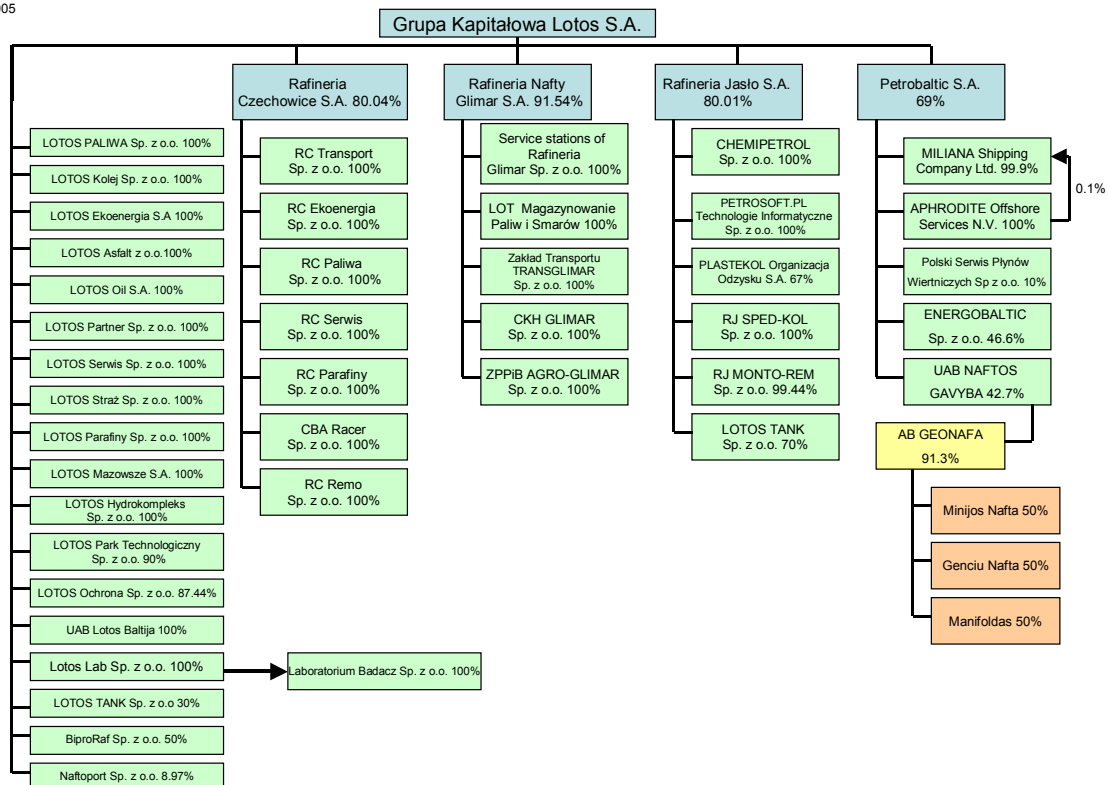
- Energobaltic Sp. z o.o. – valued with the equity method
- UAB Naftos Gavyba – valued with the equity method
- AB Geonafta – valued with the equity method
- UAB Minijos Nafta – valued with the equity method
- UAB Genciu Nafta – valued with the equity method
- UAB Manifoldas – valued with the equity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

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Organisational Structure of the LOTOS Group

As at December 31st 2005 and as at December 31st 2004, the Group's share in the total vote at the general shareholders meetings of its subsidiary undertakings equalled the Group's share in the share capital of these undertakings.

Structure of the Group
as at December 31st
2005



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1.2. CONSOLIDATED UNDERTAKINGS OF THE LOTOS GROUP

1.2.1 PARENT UNDERTAKING

Grupa LOTOS S.A.

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

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

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

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

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

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

1.2.2 THE LOTOS GROUP COMPANIES

LOTOS Paliwa Sp. z o.o.

LOTOS Paliwa Sp. z o.o.(created by way of a spin-off from Grupa LOTOS S.A.) is engaged in retail sale and wholesale of fuels and light fuel oil in Poland (excluding provision of supplies to foreign oil concerns and participation in national tenders). The company was entered in the National Court Register under entry No. KRS 0000006312. Its registered office is located in Gdańsk. As at December 31st 2005, the company's share capital was PLN 114,706,000 and was divided into 114,706 shares with a par value of PLN 1,000 per share. The company is wholly-owned by Grupa LOTOS S.A.

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

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

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

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LOTOS Partner Sp. z o.o.

The company operates under the name of LOTOS Partner Spółka z ograniczoną odpowiedzialnością. As at the end of 2004, its registered office was located at ul. Polska 1d, 81–339 Gdynia. On January 7th 2005, LOTOS Partner registered change of the office's location. Currently, the registered office's address is ul. Elbląska 135, 80–718 Gdańsk. As at December 31st 2005, the share capital of LOTOS Partner was PLN 11,859,500 and was divided into 23,719 shares with a par value of PLN 500 per share. The company is wholly-owned by Grupa LOTOS S.A.

LOTOS Partner's business consists in the provision of fuel supplies to institutional customers, in particular to retail station networks of foreign oil concerns operating in Poland. The company also distributes JET-A1 aviation fuel. At the beginning of 2005, LOTOS Partner discontinued its activity related to the development of self-serve Diesel oil pumps (LDS) and distribution of light, low-sulphur fuel oil (LOTOS RED). These changes result from the sale of LOTOS Diesel Service and LOTOS RED, as an organised part of business, to LOTOS Paliwa Sp. z o.o., which took over these activities.

LOTOS Partner Sp. z o.o.'s business involves:

- organisation of primary logistics,
- organisation of fuel import by road to the order of Grupa LOTOS S.A.,
- supply of service station networks of foreign oil concerns,
- provision of services related to national tenders.

The company's operations will include optimisation of storage and transport of Grupa LOTOS S.A.'s fuels to Polish logistic centres.

LOTOS Mazowsze S.A.

The company was established on June 17th 2003 through the acquisition of 75% of shares in PETRIM S.A. The share capital of LOTOS Mazowsze S.A. amounts to PLN 3,680,000 and is divided into 160,000 shares with a par value of PLN 23 per share. The acquisition of 75% of shares in LOTOS Mazowsze S.A. was settled in June 2004 upon payment of a premium of PLN 4,396 thousand to the sellers. In July 2004, the remaining 25% of shares were acquired for PLN 4,004 thousand. Following the acquisition, LOTOS Mazowsze became a wholly-owned subsidiary of Grupa LOTOS S.A.

Until the end of 2004, the Company's core business comprised wholesale and retail sale of liquid fuels and LPG. In January 2005, the company sold to LOTOS Paliwa Sp. z o.o. an organised part of business comprising wholesale of fuels and light fuel oil. In 2005, LOTOS Mazowsze was responsible for the sale of:

- liquid gas (LPG) and heavy fuel oil,
- special and niche products manufactured by Grupa LOTOS S.A. and Southern Refineries (e.g. sulphur, plasticizers, fuels with recycled components).

LOTOS Oil S.A.

The company was established by virtue of the act of incorporation drawn up in the form of Notarial Deed dated July 26th 2002 (Rep. No. A 3411/2002) and was entered in the National Court Register by virtue of the decision of the District Court of Gdańsk, XII Commercial Division of the National Court Register, of August 27th 2002, under entry No. KRS 0000128016.

LOTOS Oil S.A. is a wholly-owned subsidiary of Grupa LOTOS S.A. The company's share capital is PLN 2,000,000 (200,000 bearer shares with a par value of PLN 10 per share).

LOTOS Oil S.A.'s business consists in the production and distribution of lubricants: finished car and industrial oils, and lubes (domestic and foreign market), base oils (domestic market), as well as distribution of car-care products and car chemicals. Since February 1st 2004, the company has leased a production division in Czechowice and since May 4th 2004 – a production division in Gorlice. On August 1st 2005, the company's structure was expanded to include an oil production division in Jasło. On December 1st 2005, the company purchased the assets of a low-volume production division, CBA Racer, in Czechowice, leased since August 1st 2005.

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LOTOS Asphalt Sp. z o.o.

The company is entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under entry No. KRS 0000204527.

As at December 31st 2005, the company's share capital was PLN 2,000,000 and was divided into 4,000 shares with a par value of PLN 500 per share. The company is wholly-owned by Grupa LOTOS S.A.

Currently, LOTOS Asphalt Sp. z o.o. (created by way of a spin-off from Grupa LOTOS S.A.) is Grupa LOTOS S.A.'s sole customer for components for the production of bitumens. The company conducts production and trade activities based on assets leased from Grupa LOTOS S.A. and, in the first half of 2005, also from LOTOS Jasło S.A. and LOTOS Czechowice S.A.

By virtue of Notarial Deed dated July 1st 2005 (Rep. No. 2631/2005), the company purchased separated parts of business, i.e. real estate and infrastructure of the bitumen production plant, from LOTOS Czechowice S.A.; by virtue of Notarial Deed dated October 26th 2005 (Rep. No. A 5013/2005), the company purchased real estate, machines, equipment and infrastructure for the production of bitumens from LOTOS Jasło S.A.

The company produces mainly road bitumens (standard and modified) and, on a much smaller scale, industrial bitumens, bitumen emulsions and binders. LOTOS Asphalt's bitumens are sold mainly on the domestic market.

LOTOS Parafiny Sp. z o.o.

The company was established through the merger of Parafiny Rafineria Jasło Sp. z o.o., RC Parafiny Sp. z o.o. and Chemipetrol Sp. z o.o.

On May 27th 2002, the District Court of Rzeszów, XII Commercial Division of the National Court Register, entered the company in the Register of Entrepreneurs of the National Court Register, under entry No. KRS 0000114749. The registered office of LOTOS Parafiny is located at ul. 3-go Maja 101, Jasło.

On June 30th 2004, following a share capital increase the following shareholders acquired interests in the company:

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

The company's share capital was increased from PLN 904,000 to PLN 19,783,000.

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

- a) LOTOS Jasło S.A. – 5,108 shares with an aggregate par value of PLN 5,108,000, representing 25.82% of the share capital of LOTOS Parafiny Sp. z o.o.;
- b) RC Parafiny – 9,003 shares with an aggregate par value of PLN 9,003,000, representing 45.51% of the share capital of LOTOS Parafiny Sp. z o.o.;
- c) Chemipetrol Sp. z o.o. – 528 shares with an aggregate par value of PLN 528,000, representing 2.67% of the share capital of LOTOS Parafiny Sp. z o.o.

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

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

LOTOS Parafiny is engaged in the production of high quality paraffin and a wide range of paraffin mass. In addition, the company manufactures plastic lubricants for maintenance purposes. LOTOS Parafiny is responsible for distribution and sale of paraffin products in Poland and abroad.

On June 14th 2005, changes related to the company's business profile were entered in the National Court Register. The changes were aimed at adjusting the company's business profile to its current economic needs. LOTOS Parafiny expanded its scope of activities to include production of candles, votive candles and similar products, as well as retail sale of products manufactured by the company, including sale outside shop networks. These changes enabled the company to create and sell, also through the Internet, a new product line – LOTOS Ogród – including torches, garden lanterns, kindling and charcoal.

Another project currently executed by the company is the Prometeusz investment project, consisting in the launch of a candle and votive candle production plant. On January 19th 2005, the Supervisory Board of LOTOS Parafiny Sp. z o.o. adopted a resolution approving the project.

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LOTOS Ekoenergia S.A.

LOTOS Ekoenergia S.A. was established on July 17th 2002. The company is wholly-owned by Grupa LOTOS S.A. Its share capital amounts to PLN 500,000 and is divided into 50,000 bearer shares with a par value of PLN 10 per share.

LOTOS Ekoenergia S.A. is a special purpose vehicle established in 2002 to execute the Comprehensive Technical Upgrade Programme (PKRT, the Programme), consisting in the construction of three units, i.e. solvent deasphalting unit SDA/ROSE™, mild hydrocracking unit MHC, and heavy residue gasification unit IGCC. During 2005, the company did not commence its operations. In its investment plans, the LOTOS Group assumes that the main part of the PKRT investment project will be financed, constructed and operated by LOTOS Ekoenergia S.A., while Grupa LOTOS S.A. will carry out the required adaptation work regarding the infrastructure.

As part of the preparations for the investment process, on March 31st 2005 LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited, acting on behalf of Shell Trading International Limited, executed an agreement on the purchase and sale of products. The agreement provides for the sale and delivery by LOTOS Ekoenergia S.A. of specified quantities of diesel oils or low sulphur residue produced by LOTOS Ekoenergia S.A. and their purchase and collection by Shell Trading International Limited.

Moreover, on June 23rd 2005, the company together with Grupa LOTOS S.A. executed 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.

In July 2005, licence agreements for key technologies used as part of the Programme were concluded, and work on engineering design of particular units commenced.

In cooperation with the LOTOS Group's financial adviser, the work on the financial model and the initial information memorandum concerning the Programme was completed. The model and the memorandum were distributed to relevant financial institutions (European Bank for Reconstruction and Development, European Investment Bank, National Fund for Environmental Protection and Water Management, Bank Ochrony Środowiska), which marked the beginning of the preparatory phase of the funding arrangement process. A request for proposal concerning debt financing for the Programme was also sent to commercial banks.

In 2006, design work will be performed at Grupa LOTOS S.A., upon completion of which a turn-key EPC contract for the Programme will be drafted. LOTOS Ekoenergia will be a party to the contract. The company will commence activities related to the implementation of the Programme, which will probably take place in the first half of 2007, after the EPC contract is executed and after the company is provided with additional capital by the LOTOS Group and the bank financing is secured.

LOTOS Kolej Sp. z o.o.

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

As at December 31st 2005, the company's share capital stood at PLN 233,000 and was divided into 466 shares with a par value of PLN 500 per share.

The activities of LOTOS Kolej Sp. z o.o. (spun off from the assets of Grupa LOTOS S.A.) consist in the provision of comprehensive railway services for the Parent Undertaking. In February 2004, the company took over the provision of railway services to the Southern Refineries (along with their employees and assets under a lease agreement). In 2005, the company acquired from LOTOS Czechowice, LOTOS Jasło and Sped-Kol railway engines, tank cars and other movables related to the operation of railway sidings at Czechowice and Jasło.

The main tasks executed by the company include:

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

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

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LOTOS Serwis Sp. z o.o.

The company is entered in the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under entry No. KRS 0000161302. The company is wholly-owned by Grupa LOTOS S.A. Its registered office is located at ul. Elbląska 135, Gdańsk.

As at December 31st 2005, the share capital of LOTOS Serwis Sp. z o.o. amounted to PLN 2,500,000 and was divided into 5,000 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 100% of the share capital of LOTOS Serwis Sp. z o.o.

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

On January 5th 2006, in line with the strategy of the LOTOS Group, LOTOS Serwis acquired from LOTOS Czechowice S.A. 100% of shares in P.R.P.H. RCRemo, and from LOTOS Jasło – 100% of shares in RJ MONTO-REM.

LOTOS Lab Sp. z o.o.

The company was entered in the National Court Register under entry No. KRS 0000165598 on June 24th 2003. Its registered office is situated at ul. Elbląska 135, Gdańsk. As at December 31st 2005, the company's share capital amounted to PLN 1,000,000 and was divided into 2,000 shares with a par value of PLN 500 per share. All the shares in the company were acquired by Grupa LOTOS Spółka Akcyjna.

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

On December 1st 2005, LOTOS Lab acquired an organised part of business and took over the employees of CBA Racer Sp. z o.o. On December 9th 2005, the company's Management Board established the Czechowice Division of LOTOS Lab Sp. z o.o.

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

LOTOS Lab Sp. z o.o. obtained the strict quality standard certificate ISO/IEC 17025, whereby it became an certified laboratory, which considerably facilitates the company's functioning on the market. The scope of the certification comprises 52 testing methods relating to the testing of raw materials, semi-finished products, crude oil products, water, sewage and working conditions. LOTOS Lab Sp. z o.o. has concluded agreements with all the interested companies of the LOTOS Group, and is dynamically increasing the number of tests performed for external customers, which currently do not represent a significant portion of the company's sales revenue.

LOTOS Straż Sp. z o.o.

The company was established by virtue of Notarial Deed dated February 4th 2004, and entered in the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under entry No. KRS 196158 on February 20th 2004. The company commenced its operations on March 1st 2004.

As at December 31st 2005, its share capital amounted to PLN 3,900,000 and was divided into 7,800 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 100% of the share capital of LOTOS Straż Sp. z o.o.

LOTOS Straż Sp. z o.o. (spun off from the assets of Grupa LOTOS S.A.) provides fire protection services, including operational and rescue actions, prevention, issuing opinions concerning documentation, granting permits, as well as training services. LOTOS Straż Sp. z o.o. is obliged to provide services related to fire protection for Grupa LOTOS S.A. It can also provide services for other entities, however, only within the area of the Gdańsk refinery. This limitation arises from the need to maintain a permanent and highly reliable fire security at the refinery.

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LOTOS Ochrona Sp. z o.o.

The company has been operating under the name of LOTOS Ochrona Sp. z o.o. since January 12th 2004. As at December 31st 2005, its share capital amounted to PLN 302,500 and was divided into 605 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 87.44% of the company's share capital. The activities of LOTOS Ochrona Sp. z o.o. (spun off from the assets of Grupa LOTOS S.A.) consist in personal and property protection. The company provides services for the LOTOS Group and other entities.

LOTOS Park Technologiczny Sp. z o.o.

LOTOS Park Technologiczny Sp. z o.o. was established by virtue of the Deed of Incorporation of December 13th 2004 ((Rep. A No. 6729/2004), and entered in the court register maintained by the District Court for Kraków Śródmieście in Kraków, XII Commercial Division of the National Court Register under entry No. 0000225650 on January 6th 2005. Until September 13th 2005, the company was wholly owned by Grupa LOTOS S.A. Then, 10% of the company's shares were acquired by Kolaja&Partners Sp. z o.o.

In line with the restructuring schedule for the Southern Refineries, based on Notarial Deed dated November 25th 2005 (No. 5551/2005; concerning the Extraordinary General Shareholders Meeting's resolution) and Notarial Deed dated December 1st 2005 (Rep. A No. 5136, Rep. A No. 5127, and Rep. A No. 5145; concerning acquisition of shares and contribution transfer), the capital of LOTOS Park Technologiczny Sp. z o.o. was increased by a contribution of 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). As part of further implementation of the restructuring programme for the Southern Refineries, based on Notarial Deed dated December 21st 2005 (No. 6124/2005; concerning the Extraordinary General Shareholders Meeting's resolution) and Notarial Deed dated January 2nd 2006 (No. 9/2006; concerning acquisition of shares and contribution transfer), 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 totalled PLN 4,460,000. Both capital increases took effect upon entry of the changes into the National Court Register, that is January 20th 2006.

The company's core business consists in the provision of business and management advisory services.

1.2.3 THE CZECHOWICE REFINERY GROUP (CURRENTLY LOTOS CZECHOWICE S.A.)

LOTOS Czechowice S.A.

The company, which was founded by virtue of Notarial Deed dated January 9th 1996 and which conducted its operations under the name of Rafineria Czechowice S.A., is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000102608. Its registered office is located at ul. Łukasiewicza 2, Czechowice-Dziedzice. On December 19th the change of the company's name to **LOTOS Czechowice** was entered in the National Court Register.

As at December 31st 2005 the company's share capital amounted to PLN 75,000,000, and was divided into 7,500,000 shares with a par value of PLN 10 per share. Grupa LOTOS S.A. holds an 80.04% equity interest in the company.

The core business of LOTOS Czechowice consists in the production and processing of oil products and their wholesale and retail sale.

On September 6th 2005 the company's Management Board adopted resolution No. 63/IV/2005 on discontinuation of oil refining as of March 31st 2006, which came into force on September 22nd 2005, i.e. the date of the Supervisory Board's approval of "Long-term Strategy for RC S.A."

In May 2005 non-current assets of LOTOS Czechowice S.A.'s Measurement Division were sold to RC Remo Sp. z o.o., and in June the assets of LOTOS Czechowice S.A.'s Supply Department were sold to LOTOS Parafiny Sp. z o.o.

In July 2005 the Company sold separated parts of its business, i.e. real estate and the infrastructure of the Bitumen Plant to LOTOS Asphalt Sp. z o.o.

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On January 5th, LOTOS Czechowice sold 100% of shares in RC Remo Sp. z o.o. to LOTOS Serwis Sp. z o.o. Also in January 2006, RC Serwis Sp. z o.o. was contributed to LOTOS Park Technologiczny in exchange for shares.

On March 2nd 2006, the conditions for the sale of RC Transport Sp. z o.o. to an entity from outside the LOTOS Group were fulfilled.

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

RC Remo Sp. z o.o., founded by virtue of Notarial Deed dated June 4th 1998, is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000085697. Its registered office is located at ul. Łukasiewicza 2, Czechowice-Dziedzice.

As at December 31st 2005, the share capital of RC Remo Sp. z o.o. amounted to PLN 2,428,000, and was divided into 2,428 shares with a par value of PLN 1,000 per share. RC Remo Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Remo Sp. z o.o.

The company's core business comprises repair and maintenance work as well as general construction work, provided primarily to the companies of the LOTOS Group.

On November 25th 2005 a resolution was adopted to contribute a part of RC Remo Sp. z o.o.'s assets to LOTOS Park Technologiczny in exchange for shares (entered into the National Court Register on January 20th 2006).

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

RC Ekoenergia Sp. z o.o.

RC Ekoenergia Sp. z o.o., founded by virtue of Notarial Deed dated July 11th 2000, is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000113788. Its registered office is located at ul. Łukasiewicza 2, Czechowice-Dziedzice.

As at December 31st 2005, the share capital of RC Ekoenergia Sp. z o.o. amounted to PLN 18,321,000, and was divided into 18,321 shares with a par value of PLN 1,000 per share. RC Ekoenergia Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Ekoenergia Sp. z o.o.

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

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

CBA Racer Sp. z o.o., established on November 24th 2000, had not commenced operations until March 1st 2005. The company is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000084032.

As at December 31st 2005, the share capital of CBA Racer Sp. z o.o. amounted to PLN 3,729,000, and was divided into 7,458 shares with a par value of PLN 500 per share. CBA Racer Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in CBA Racer Sp. z o.o.

On November 25th 2005 a resolution was adopted to contribute a part of CBA Racer Sp. z o.o.'s assets (valued at PLN 1,266,000.00) to LOTOS Park Technologiczny in exchange for shares (entered into the National Court Register on January 20th 2006). On December 1st 2005 the company sold an organised part of its business to LOTOS Lab and part of its assets to LOTOS Oil (the assets had been previously leased by LOTOS Oil).

The business of CBA Racer Sp. z o.o. consisted in the provision of testing services related to quality of raw materials, intermediate products and oil products, as well as services related to environmental protection and health and safety at work. Since December 1st 2005 the Company has not conducted any operating activities.

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RC Paliwa Sp. z o.o.

RC Paliwa Sp. z o.o. was founded on July 11th 2000 and registered three days later (July 14th 2000) at the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under entry No. KRS 0000193717. Its registered office is located at ul. Łukasiewicza 2, Czechowice-Dziedzice.

As at December 31st 2005, the share capital of RC Paliwa Sp. z o.o. amounted to PLN 50,000, and was divided into 50 shares with a par value of 1,000 per share. RC Paliwa Sp. z o.o. is wholly-owned by Rafineria Czechowice S.A. (Currently LOTOS Czechowice S.A.) Grupa LOTOS S.A. holds, indirectly through shares held in the Refinery, an 80.04% equity interest in RC Paliwa Sp. z o.o. RC Paliwa Sp. z o.o. does not conduct any operating activities.

RC Serwis Sp. z o.o.

RC Serwis Sp. z o.o., founded by virtue of Notarial Deed dated March 27th 1998, is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under entry No. KRS 0000094669. Its registered office is located at ul. Łukowa 39, Czechowice-Dziedzice.

As at December 31st 2005, the share capital of RC Serwis Sp. z o.o. amounted to PLN 900,000.00, and was divided into 900 shares with a par value of PLN 1,000 per share. RC Serwis Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Serwis Sp. z o.o. In January 2006 the company was contributed to LOTOS Park Technologiczny Sp. z o.o.

RC Serwis Sp. z o.o. provides hotel and catering services as well as cleaning and tidying of facilities.

RC Transport Sp. z o.o.

RC Transport Sp. z o.o., founded on December 3rd 2001, is entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under entry No. KRS 072738528. Its registered office is located at ul. Łukasiewicza 2, Czechowice-Dziedzice.

As at December 31st 2005, the share capital of RC Transport Sp. z o.o. amounted to PLN 1,606,500, and was divided into 3,213 shares with a par value of PLN 500 per share. RC Transport Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Transport Sp. z o.o.

The company's operations focus on the provision and organisation of transport services (road tankers) to members of the LOTOS Group as well as external customers.

On March 2nd 2006 the conditions for the sale of RC Transport Sp. z o.o. to an entity from outside the LOTOS Group were fulfilled.

1.2.4 THE JASŁO REFINERY GROUP (CURRENTLY LOTOS JASŁO S.A.)

LOTOS Jasło S.A.

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

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

As at December 31st 2005, the share capital of Rafineria Jasło S.A. amounted to PLN 48,000,000, and was divided into 6,000,000 shares with a par value of PLN 8 per share.

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

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

On August 1st 2005, a lease agreement was executed whereby LOTOS Oil S.A. leased assets from LOTOS Jasło S.A. On October 3rd 2005, 100% of shares in Laboratorium Badacz Sp. z o.o. were sold to LOTOS Lab Sp. z o.o., while on December 16th 2005, 25.82% of shares in LOTOS Parafiny Sp. z o.o. were sold to Grupa LOTOS S.A.

On December 9th 2005, upon conclusion of a year-long liquidation proceedings, JASBIT – Rafineria Jasło Sp. z o.o. ceased to exist as a legal entity.

On October 26th 2005, following consolidation of the bitumens production operations, an agreement for the sale of assets to LOTOS Asphalt Sp. z o.o. was executed.

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTO – REM Sp. z o.o. from the minority shareholders, whereupon – on January 5th – it sold its entire shareholding in the company to LOTOS Serwis Sp. z o.o.

Rafineria Jasło MONTO-REM Sp. z o.o.

The company was established by virtue of the Deed of Incorporation of July 20th 1998. On April 25th 2002, it was entered in the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000109589. The company's registered office is located at ul. 3 Maja 101, Jasło.

The share capital contributed by its shareholder – LOTOS Jasło S.A. – amounted to PLN 1,600,000, and was covered with a cash contribution of PLN 360,838.39 and with assets worth PLN 1,239,161.61. Pursuant to the deed of incorporation, the Company's employees acquired 90 shares from LOTOS Jasło S.A.

As at December 31st 2005, the Company's share capital amounted to PLN 1,600,000, and was divided into 3,200 shares with a par value of PLN 500 per share.

The parent undertaking – LOTOS Jasło S.A. – holds 3,182 shares representing 99,44% of the total vote at the general shareholders meeting, while the company's employees, holding 18 shares, are entitled to 0.56% of the total vote at the shareholders meeting.

The company's core business consists in the provision of continuous operation services as well as repairs of machinery and production units to the parent undertaking and other member companies of the Rafineria Jasło S.A. Group (currently LOTOS Jasło S.A.).

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTO – REM Sp. z o.o. from the minority shareholders. On January 5th 2006, LOTOS Jasło sold the entire shareholding in Rafineria Jasło MONTO – REM to LOTOS Serwis Sp. z o.o.

LOTOS TANK Sp. z o.o.

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

The share capital of LOTOS TANK Sp. z o.o. as at December 31st 2005 amounted to PLN 500,000, and was divided into 1,000 shares with a par value of PLN 500 per share. The company's shareholders – Grupa LOTOS S.A. and LOTOS Jasło S.A. – hold, respectively, 300 shares representing 30% of the total vote at the general shareholders meeting and 700 shares representing 70% of the total vote at the general shareholders meeting.

The company's core business consists in trade in petroleum products and provision of fuel storage services. The company is in the process of discontinuing its operations.

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PLASTEKOL Organizacja Odzysku S.A.

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

On May 6th 2004, the annual general shareholders meeting passed a resolution to transfer the company's registered office. Since the registration of the change, which was made on August 19th 2004, the company's registered office is situated at ul. 3 Maja 101, Jasło.

On January 17th 2002, the company was entered in the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000082936.

As at December 31st 2005 the company's share capital amounted to PLN 1,000,000, and was divided into 1,000 Series A registered ordinary shares with a par value of PLN 1,000.00 per share. The company's principal shareholder is LOTOS Jasło S.A., which holds 670 shares representing 67% of the total vote at the general shareholders meeting, while the remaining twelve shareholders own 330 shares, representing jointly 33% of the total vote at the general shareholders meeting.

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

1.2.5 THE PETROBALTIC GROUP

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

PPiEZRiG Petrobaltic S.A. (Petrobaltic S.A.) commenced its activities as a limited liability company on January 1st 1999, following commercialisation of a state-owned enterprise. Currently, the company is registered under No. KRS 0000171101 in the District Court of Gdańsk, XII Commercial Division of the National Court Register. Its registered office is situated at ul. Stary Dwór 9, Gdańsk Poland.

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

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

Miliana Shipping Company Ltd.

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

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

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

Energobaltic Sp. z o.o.

Energobaltic Sp. z o.o. was incorporated by virtue of Notarial Deed dated September 10th 1997, and on May 11th 2001 the company was entered in the National Register of Entrepreneurs maintained by the District Court of Gdańsk, II Commercial Division, under No. KRS 0000011924. The company's registered office is situated at ul. Stary Dwór 9, Gdańsk.

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As at December 31st 2005, the share capital of Energobaltic Sp. z o.o. amounted to PLN 14,701,500, and was divided into 1,815 shares with a par value of PLN 8,100 per share. Petrobaltic S.A. holds 846 shares in Energobaltic Sp. z o.o., representing 46.6% of its share capital. Grupa LOTOS S.A.– indirectly through Petrobaltic S.A.– holds 32.16% of shares in Energobaltic Sp. z o.o.

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

UAB Naftos Gavyba

UAB Naftos Gavyba was incorporated on July 14th 2000. Its registered office is situated in Klaipeda, Lithuania.

The share capital of UAB Naftos Gavyba comprises 10,000 shares with a par value of 1 LTL per share. Petrobaltic S.A. holds 4,270 shares representing 42.7% of its share capital. Grupa LOTOS S.A. holds – indirectly through Petrobaltic S.A.– 29.46% of the share capital of UAB Naftos Gavyba.

The company is responsible for equity operations in the oil industry. It manages the shares of AB Geonafta, in which it held 91.38% of shares as at June 30th 2005. AB Geonafta holds 50% equity interests in the following companies: UAB Minijos Nafta, UAB Genciu Nafta, and UAB Manifoldas.

1.2.6 AS AT DECEMBER 31ST 2005 RAFINERIA NAFTY GLIMAR S.A. OF GORLICE WAS IN BANKRUPTCY.

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2. CHANGES IN THE SHAREHOLDER STRUCTURE OF THE GROUP IN 2005

2.1 ISSUE OF 35,000,000 SERIES B SHARES IN 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.

The Shares 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.

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. 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 PLLOTOS00033) with 55,545,970 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00025). 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 will be marked with ISIN code PLLOTOS00025. From December 2nd 2005: 55,609,140

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shares of Grupa LOTOS S.A. were marked with ISIN code PLOTOS00025, 58,090,860 shares of Grupa LOTOS S.A. were marked with ISIN code PLOTOS00033.

The Management Board of the Warsaw Stock Exchange made the decision (by virtue of Resolution No. 78/2006 of March 22nd 2006) to introduce to stock exchange trading 11,819 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: PLOTOS00033. The shares were introduced to trading on the main market, on April 4th 2006, by way of the ordinary procedure. 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. (ISIN code PLOTOS00033) with 55,609,140 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLOTOS00025). The 11,819 ordinary bearer shares had been created through a conversion of 11,819 ordinary registered shares on April 3rd 2006.

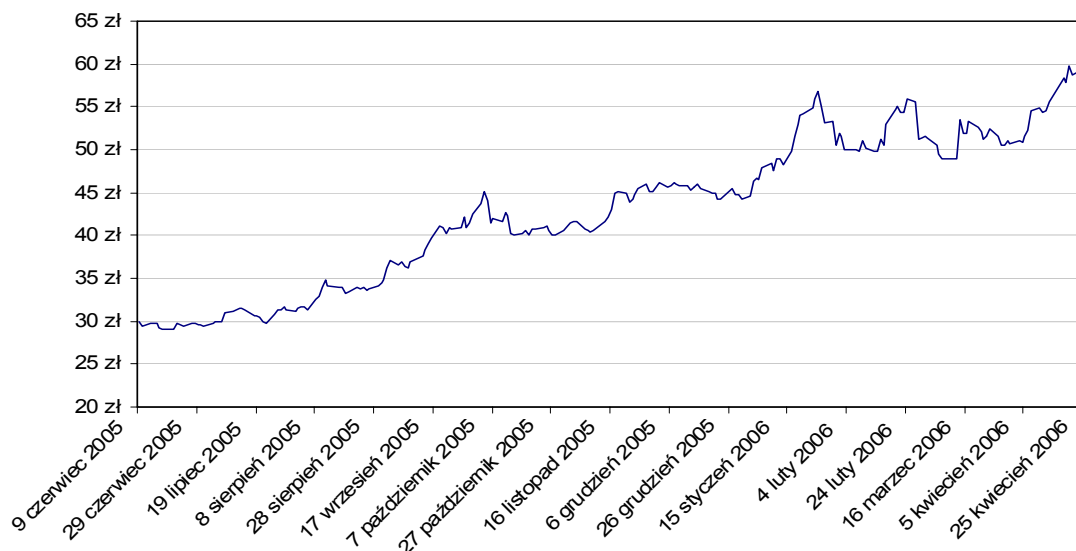
Grupa LOTOS S.A. has adopted rules for conversion of registered shares into bearer shares, which were published on January 9th 2006 in Current Report No. 3/2006.

Structure of Grupa LOTOS S.A.'s share capital following registration of changes:

	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 %

The share 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.

Price of Grupa LOTOS S.A. shares since their first listing on the WSE



2.2 SHARE CAPITAL INCREASE AT LOTOS ASFALT 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

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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.

2.3 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.

2.4 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.

2.5 ACQUISITION OF ADDITIONAL SHARES IN LOTOS PARAFINY SP. Z O.O.

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

- a) 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.;
- 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 company's share capital is made up of 19,783 shares with a par value of PLN 1,000 per share, conferring the rights to 19,783 votes at the company's General Shareholders Meeting.

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

2.6 ACQUISITION OF 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%.

2.7 SHARE CAPITAL INCREASE AT LOTOS Park Technologiczny Sp. z o.o.

Based on Notarial Deed dated June 28th 2005 (Rep. A No. 9657/2005), 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

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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 dated November 25th 2005 (Rep. A No. 5551/2005; concerning the Extraordinary Shareholders Meeting's resolution) and Notarial Deed dated 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 431,000.00 – 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.

Within the next step of the implementation of the restructuring programme for the Southern Refineries, based on Notarial Deed dated December 21st 2005 (No. 6124/2005; concerning the Extraordinary General Shareholders Meeting's resolution) and Notarial Deed dated January 2nd 2006 (No. 9/2006), LOTOS Czechowice S.A. acquired shares in LOTOS Park Technologiczny Sp. z o.o. following transfer of a contribution in kind – shares in RC SERWIS and the TERPEN Plant (LOTOS Czechowice S.A.) as an organised part of business were contributed to the company discussed. 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%

This capital increase also 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%

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

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3. CHANGES IN ORGANISATION AND MANAGEMENT OF THE LOTOS GROUP

3.1 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.

3.2 CHANGES IN ORGANISATION AND MANAGEMENT OF THE LOTOS GROUP

Integrated Management System

At the end of 2005, seven companies of the LOTOS Group successfully completed their certifications audits regarding environmental, quality, and health-and-safety at work management.

The Polish Centre for Testing and Certification confirmed the high quality of management at the following subsidiary companies: LOTOS Serwis, LOTOS Lab, LOTOS Kolej, LOTOS Straż, LOTOS Ochrona, LOTOS Parafiny and LOTOS Oil, by awarding them Integrated Management System Certificates.

Furthermore, LOTOS Asphalt received a certificate confirming the compliance of its bitumen production business with the requirements of the In-House Production Control.

To customers, the certificates are a warranty of the Group's care for the quality of the LOTOS services and products, to the public they are evidence of the Group's attention to the environmental issues, and to the employees – a guarantee of safe working conditions.

Reorganisation of the Sales Division at the LOTOS GROUP

2005 saw continued reorganisation of the sales division of Grupa LOTOS S.A. The reorganisation started in 2004, with a view to improving the efficiency of sales and streamlining the sales structure of the Group. Key changes include:

Establishment of a Logistics Operator

In order to ensure efficiency and optimise the logistics costs, LOTOS Partner Sp. z o.o. was assigned the role of a logistics operator at the LOTOS Group. In addition, the company will continue to provide services relating to the trade with institutional customers and owners of large service station networks.

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Changes in the Organisation of Fuel Sales

Other fuel distribution channels at the LOTOS Group were transferred to LOTOS Paliwa Sp. z o.o., which acquired relevant assets from other Group companies.

Changes in the Organisation of the Sale of Heavy Fuel Oil, LPG and Special Products

The sale of heavy fuel oil, LPG, and special products (plasticizers, liquid sulphur, and fuel with recycled components) has been transferred to LOTOS Mazowsze Sp. z o.o.

3.3 ORGANISATIONAL AND LEGAL CHANGES IN THE LOTOS GROUP COMPANIES

LOTOS Mazowsze S.A.

On January 3rd 2005, based on the agreement for the sale of an organised part of business between LOTOS Paliwa Sp. z o.o. and LOTOS Mazowsze S.A., the company disposed of an organised part of business. The transaction comprised transfer to LOTOS Paliwa Sp. z o.o. of assets, employees, and customers connected with wholesale of fuels. The liabilities and receivables assumed by LOTOS Paliwa Sp. z o.o. were subject to an offset in the amount of PLN 118,757,100.81, and the amount of PLN 24,582,348 remained to be paid.

As a result of the sale of an organised part of business, changes were made in the company's organisational structure to adjust it to the current scope of activity of LOTOS Mazowsze S.A.

Changes in the organisational structure were also made on June 8th 2005, in connection with the preparation of a business plan for the development of activities consisting in sale of LPG.

LOTOS Paliwa Sp. z o.o.

On January 3rd 2005, under the concluded agreements, LOTOS Paliwa Sp. z o.o. acquired, in the form of an organised part of business, organisational units whose business comprises:

- wholesale of fuels (B2B division) – from LOTOS Mazowsze S.A.,
- sale of light fuel oil (LOTOS RED) – from LOTOS Partner Sp. z o.o.,
- sale of Diesel oil through a network of self-serve pumps located directly at customers' facilities and cooperation with companies in the transport, communication and construction sectors (LOTOS Diesel Service) – from LOTOS Partner Sp. z o.o.

The aggregate capital expenditure connected with the above transactions amounted to approx. PLN 38,383 thousand.

The company's organisational structure changed in 2005, following the acquisition of new organisational units.

LOTOS Oil S.A.

Based on an agreement on lease of assets from LOTOS Jasło, on August 1st 2005 LOTOS Oil S.A. incorporated LOTOS Jasło's oil production division into its structure. On December 1st 2005, the company acquired, from CBA Racer, the assets of the low-volume production division in Czechowice, which it had leased from August 1st 2005.

On December 31st 2005, the lease agreement concerning the assets in Gorlice was terminated.

LOTOS Partner Sp. z o.o.

In line with the LOTOS Group's restructuring plan and pursuant to strategic decisions made in the course of the year as well as agreements signed on December 13th 2004, the business profile of LOTOS Partner was changed. The Company is to act as a logistics operator for the entire spectrum of primary logistics, and to supply products

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and provide services to key customers for and on behalf of the LOTOS Group. In order to achieve this objective, the HB Division of the LOTOS Group was incorporated into the company.

On January 3rd 2005, LOTOS Partner Sp. z o.o. and LOTOS Paliwa Sp. z o.o. entered into an agreement on sale to LOTOS Paliwa of organised parts of business, comprising tangible and intangible assets used to: (a) sell Diesel oil through a network of self-serve Diesel pumps located directly at customers' facilities, and to cooperate with companies in the transport, communication and construction sectors (LOTOS Diesel Service), and (b) sell RED light fuel oil (LOTOS RED).

The value of the transaction was approx. PLN 13.5m (VAT exclusive). The profit on the transaction realised by LOTOS Partner Sp. z o.o. amounted to approx. PLN 800 thousand.

In 2004, the sold businesses reported revenue of approx. PLN 779.4m and pre-tax profit of approx. PLN 2.4m. The capital expenditure of the sold businesses in 2004 stood at PLN 11.8m, including capital expenditure on assets under construction as at the end of 2004.

LOTOS Asphalt Sp. z o.o.

On March 7th 2005, an organised part of business was taken over from Rafineria Czechowice S.A. Group (currently LOTOS Czechowice S.A.).

Until June 30th 2005, the assets taken over (chiefly containers) had been leased. On July 1st 2005, the ownership of the assets was transferred to LOTOS Asphalt Sp. z o.o.

On June 1st 2005, LOTOS Asphalt acquired from Grupa LOTOS S.A. bitumen modification unit, to be installed at the Czechowice Branch of LOTOS Asphalt Sp. z o.o. The value of the transaction was PLN 588,046.66 (VAT exclusive). The launch of the unit is planned for the third quarter of 2005.

In accordance with Notarial Deed dated July 1st 2005 (Rep. No. 2631/2005), the company acquired separates parts of business, i.e. real estate and infrastructure of the bitumen division from LOTOS Czechowice S.A. and, pursuant to Notarial Deed dated October 26th 2005 (Rep. A No.5013/2005), it acquired real estate, machines and equipment and infrastructure for bitumen production from LOTOS Jasło S.A.

LOTOS Parafiny Sp. z o.o.

In 2005, the organisational structure of LOTOS Parafiny Sp. z o.o. was expanded by two units, connected with LOTOS Ogród and Prometeusz, i.e. two projects for the production and sale of decorative candles and other paraffin products.

LOTOS Lab Sp. z o.o.

On October 3rd 2005, LOTOS Lab and LOTOS Jasło entered into an agreement on the purchase of shares in Laboratorium Badacz Sp. z o.o. As a result of the agreement, LOTOS Lab acquired 519 shares with the par value of PLN 500.00 per share, representing 100% of shares in Laboratorium Badacz Sp. z o.o. The shares were acquired for PLN 327,285 thousand.

On October 11th 2005 a plan for the merger of LOTOS Lab Sp. z o.o. of Gdańsk and Laboratorium Badacz Sp. z o.o. of Jasło was adopted and signed. The merger was effected on January 3rd 2006 by way of transfer of all assets of Laboratorium Badacz to LOTOS Lab. As a result of the merger, Laboratorium Badacz and its governing bodies were dissolved. The amount of the share capital of LOTOS Lab remained unchanged.

On December 1st 2005, LOTOS Lab acquired an organised part of business and took over the employees of CBA Racer Sp. z o.o. On December 9th 2005, the company's Management Board established the Czechowice Division of LOTOS Lab Sp. z o.o. (LOTOS Lab Sp. z o.o. Oddział Czechowice).

LOTOS Kolej Sp. z o.o.

In connection with the lease agreement concerning tank cars, concluded between Grupa LOTOS S.A., LOTOS Czechowice, LOTOS Jasło, Rafineria Nafty GLIMAR Gorlice ("the Southern Refineries") and DEC Sp. z o.o.,

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LOTOS Kolej took over control of tank car routes and management of the leased tank cars as of January 1st 2005.

On January 19th 2005, bankruptcy of RN GLIMAR Gorlice S.A. was declared, which involved liquidation of its assets.

A service agreement, a cooperation agreement and other agreements pertaining to railway support services provided by LOTOS Kolej to RN GLIMAR were terminated. Due to the continued leasing of railway engines and handling of railway shipments of LOTOS Oil S.A., the company is still bound by an agreement concerning lease of an organised part of its business.

The consolidation of railway-related assets of the Southern Refineries was completed: LOTOS Kolej purchased railway engines, tank cars and other "movable" assets used in operating rail sidings in Czechowice and Jasło from LOTOS Czechowice, LOTOS Jasło and Sped-Kol. Simultaneously, LOTOS Kolej continues to lease land, buildings, structures, railway tracks, crossovers, track scales and other immovable assets of the Southern Refineries, along with other technical infrastructure situated on the leased land. Consequently, uniform rules for the company's operation in Gdańsk, Czechowice and Jasło have been introduced.

LOTOS Czechowice S.A.

In connection with the restructuring process of the Southern Refineries, the non-current assets of the Measurement Division of LOTOS Czechowice S.A. were sold to a subsidiary, RC Remo Sp. z o.o., and part of the assets of the Supply Division of LOTOS Czechowice S.A. was sold to LOTOS Parafiny Sp. z o.o.

In May 2005, the non-current assets of the Measurement Division of LOTOS Czechowice S.A. were sold to RC Remo Sp. z o.o. The transaction comprised movables with a book value of PLN 141,471.10. The selling price of the assets amounted to PLN 203,208.61 thousand. Along with the assets, 25 employees of LOTOS Czechowice S.A. were transferred to RC Remo Sp. z o.o. These steps were made as part of the consolidation strategy in which operations related to maintaining ongoing efficiency of the automation and measurement equipment and to the production of compressed air for the purposes of automation and measurement will be one of the key operational areas of RC Remo, an overhaul company.

On June 27th 2005, the assets of the Supply Division of LOTOS Czechowice S.A. were sold to LOTOS Parafiny Sp. z o.o. The transaction comprised real estate and movables with a book value of PLN 444,338.78. The sold assets became part of the candle production plant of LOTOS Parafiny Sp. z o.o. Along with the real estate, LOTOS Czechowice S.A. disposed of the perpetual usufruct right.

In July 2005, LOTOS Czechowice S.A. sold separated parts of the business, i.e. real estate and the infrastructure of its bitumen division to LOTOS Asfalt Sp. z o.o.

In accordance with Notarial Deed dated December 25th 2005 (No. 5551/2005; concerning the Extraordinary General Shareholders Meeting's resolution) and Notarial Deed dated December 1st 2005 (Rep. A No. 5136, Rep. A No. 5127, Rep. A No. 5145; concerning acquisition of shares and transfer of contributions), LOTOS Czechowice S.A. contributed PLN 431,000.00 in the form of the Measurement Division to LOTOS Park Technologiczny in exchange for shares. As a subsequent stage of the restructuring of the Southern Refineries' assets, pursuant to Notarial Deed dated December 21st 2005 (No. 6124/2005; concerning the Extraordinary General Shareholders Meeting's resolution) and Notarial Deed dated January 2nd 2006 (No. 9/2006; concerning acquisition of shares in exchange for the transfer of contribution by LOTOS Czechowice), shares in RC SERWIS and the TERPEN Plant (an organised part of business of LOTOS Czechowice S.A.) were contributed to the company. The aggregate value of the contribution was PLN 4,460,000.

On January 5th, LOTOS Czechowice sold 100% of shares in RC Remo Sp. z o.o. to LOTOS Serwis Sp. z o.o. Also in January 2006 RC Serwis Sp. z o.o. was contributed to LOTOS Park Technologiczny in exchange for shares.

On March 2nd 2006, the conditions for the sale of RC Transport Sp. z o.o. to an entity from outside the LOTOS Group were fulfilled.

RC Remo Sp. z o.o.

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In May 2005, RC Remo Sp. z o.o. purchased non-current assets (the Measurement Division) from LOTOS Czechowice S.A.

On November 25th 2005, a resolution was adopted to contribute a part of RC Remo Sp. z o.o.'s assets to LOTOS Park Technologiczny in exchange for shares (entered into the National Court Register on January 20th 2006).

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

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

On November 25th 2005, a resolution was adopted to contribute a part of CBA Racer Sp. z o.o.'s assets (valued at PLN 1,266,000.00) to LOTOS Park Technologiczny in exchange for shares (entered into the National Court Register on January 20th 2006). On December 1st 2005, the company sold an organised part of its business to LOTOS Lab and a part of its assets, earlier leased by LOTOS Oil, to LOTOS Oil.

RC Serwis Sp. z o.o.

In January 2006, the company was contributed to LOTOS Park Technologiczny.

RC Transport Sp. z o.o.

On March 2nd 2006, the conditions for the sale of RC Transport Sp. z o.o. to an entity from outside the LOTOS Group were fulfilled.

LOTOS Jasło S.A.

On May 31st 2005, service stations of LOTOS Jasło S.A. were sold to LOTOS Paliwa Sp. z o.o. for PLN 5,100 thousand.

On August 1st 2005, a lease agreement was executed under which LOTOS Oil S.A. leased assets from LOTOS Jasło S.A. On October 3rd 2005, 100% of shares in Laboratorium Badacz Sp. z o.o. were sold to LOTOS Lab Sp. z o.o., and on December 16th 2005, 25.82% of shares in LOTOS Parafiny Sp. z o.o. were sold to Grupa LOTOS S.A.

On December 9th 2005, following year-long liquidation proceedings, JASBIT – Rafineria Jasło Sp. z o.o. was dissolved.

On October 26th 2005, in connection with the consolidation of the bitumen business, an agreement was executed on the sale of assets to LOTOS Asphalt Sp. z o.o.

On January 2nd 2006, LOTOS Jasło S.A. acquired 18 shares in Rafineria Jasło MONTO – REM Sp. z o.o. from minority shareholders, and on January 5th it sold its whole shareholding to LOTOS Serwis Sp. z o.o.

Rafineria Jasło MONTO–REM Sp. z o.o.

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

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4. DESCRIPTION OF THE LOTOS GROUP'S DEVELOPMENT POLICY

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

The LOTOS Group 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 Group 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, the LOTOS Group 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 CODO and DOFO service station network, and by drawing on the Group's competitive edge resulting from the seaside location of the Gdańsk refinery.

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

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

PLN '000	Jan 1 2005 – Dec 31 2005	% share	Jan 1 2004 – Dec 31 2004	% share
Gasolines	4.375.812	31,6%	4.084.450	36,5%
Diesel oil	5.826.599	42,1%	4.123.722	36,8%
Light fuel oil	1.143.944	8,3%	1.093.207	9,8%
Heavy fuel oil	476.943	3,4%	323.173	2,9%
Jet-A1 aviation fuel	537.922	3,9%	506.741	4,5%
Lubricants	368.700	2,7%	372.017	3,3%
Base oils	147.717	1,1%	159.433	1,4%
Bitumens and components for their production	412.332	3,0%	272.228	2,4%
Liquid gases	139.400	1,0%	105.072	0,9%
Other refinery products	298.976	2,1%	66.566	0,6%
Total crude oil products and goods, including:	13.728.345	99,2%	11.106.609	99,2%
Other goods and materials	60.137	0,4%	43.490	0,4%
Services	59.937	0,4%	43.542	0,4%
Total	13.848.419	100,0%	11.193.641	100,0%
Elimination of excise tax and fuel charge	(4.202.874)		(3.743.328)	
Total	9.645.545		7.450.313	

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

	Jan 1 2005 – Dec 31 2005	% share	Jan 1 2004 – Dec 31 2004	% share
Gasolines	1.382	24,3%	1.389	26,0%
Diesel oil	1.900	33,4%	1.570	29,4%
Light fuel oil	568	10,0%	703	13,2%
Heavy fuel oil	614	10,8%	595	11,1%
Jet-A1 aviation fuel	282	5,0%	356	6,7%
Lubricants	89	1,6%	78	1,5%
Base oils	81	1,4%	97	1,8%
Bitumens and components for their production	522	9,2%	389	7,3%
Liquid gases	64	1,1%	73	1,4%

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Other refinery products	196	3,4%	91	1,7%
Total crude oil products and goods	5.698	100%	5.341	100,0%

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

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

	2005	Share (%)	2004	Share (%)
Domestic sales, including:	12.994.777	93,8%	9.916.599	88,6%
- products	10.864.564	78,4%	9.030.090	80,7%
- goods and materials	2.130.213	15,4%	886.509	7,9%
Exports, including:	853.642	6,2%	1.277.042	11,4%
- products	842.820	6,1%	1.254.800	11,2%
- goods and materials	10.822	0,1%	22.242	0,2%
Total	13.848.419	100,0%	11.193.641	100,0%
excise tax, fuel charge	(4.202.874)	-	(3.743.328)	-
TOTAL	9.645.545	-	7.450.313	-

LOTOS Group's key customers in 2005

The only customers whose share in the LOTOS Group sales exceeded 10% was Grupa Statoil – its share amounted to 12%.

LOTOS Group's purchases of raw materials and crude oil products by region in 2005 (PLN '000)

	2005	Share (%)	2004	Share (%)
Domestic purchases	2.134.899	24,5%	1.350.492	22,4%
Imports	6.565.183	75,5%	4.689.676	77,6%
Total purchases	8.700.082	100,0%	6.040.168	100,0%

LOTOS Group's goods supply structure in 2005 (PLN '000)

	2005	Share (%)	2004	Share (%)
Diesel oils	75.801	15,30%	356.371	40,88%
Gasolines	7.806	1,58%	371.427	42,61%
Other	411.900	83,13%	143.978	16,52%
Total	495.507	100,0%	871.776	100,0%

LOTOS Group's supply structure in 2005 (PLN '000)

	2005	Share (%)
Raw materials	7.965.717	87,8%
Goods	534.849	5,9%
Services	320.994	3,5%
Other purchases	250.059	2,8%
Total	9.070.619	100,0%

LOTOS Group's major suppliers in 2005

The only supplier whose share in the LOTOS Group purchases exceeded 10% of the Group's revenue was J & S Service Investment Ltd of Cyprus – its share in the Group's purchases amounts to 44.3%.

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

7.1 PROFIT AND LOSS ACCOUNT

In 2005, the LOTOS Group generated sales revenue of PLN 9,645.5m, up by 29.5% on the 2004 figure. The growth was driven mainly by larger volumes of light fuels sold by the Parent Undertaking and higher unit selling prices. The cost of sales in 2005 was PLN 8,053.6m, up by 31.2% on the previous year's figure. The profit on sales in 2005 totalled PLN 1,592.0m, representing a 21.4% (PLN 280.9m) increase in relation to 2004.

The consolidated 2005 operating profit stood at PLN 1,069.9m, up by PLN 457.7m (74.8%) from 2004. The increase resulted mainly from the recognition of PLN 266.6m negative goodwill following the completion of an independent valuation of assets, liabilities and contingent liabilities of the Southern Refineries and Petrobaltic, taken over on February 3rd 2005. At the same time, due to various factors, including consolidation with the four acquired undertakings, the selling costs and general administrative expenses increased by 29.2% in relation to the previous year.

The 2005 financial income of the Group totalled PLN 75.7m, down by PLN 32.2m in comparison with the 2004 figure. At the same time, the Group's financial expenses rose by PLN 14.7m in relation to 2004.

The 2005 consolidated pre-tax profit totalled PLN 1,137.7m, having grown by PLN 449.5m from the figure reported for 2004. The profit after tax was additionally reduced by the profit attributable to minority shareholders (mainly Petrobaltic shareholders) in the amount of PLN 53.7m.

In 2005, the LOTOS Group posted a net profit (attributable to the Parent Undertaking's shareholders) of PLN 915.1m, up by PLN 372.3m on the 2004 result.

7.2 BALANCE SHEET

As at December 31st 2005, the LOTOS Group's assets totalled PLN 6,989.6m, up by 74.0% compared with the figure reported as at December 31st 2004. The value of non-current assets grew over the 12 months of 2005 by PLN 1,340.9m, mainly as a result of a PLN 1,172.3m increase in property, plant and equipment following the inclusion in consolidation of the Southern Refineries and Petrobaltic.

The share of non-current assets in the asset structure fell from 55.8% (2004) to 51.2% (2005).

The increase in current assets by PLN 1,631.9m to PLN 3,408.1m reported as at the end of December 2005 was driven mainly by higher production capacity of the Parent Undertaking, higher prices of raw materials and products, and an increase in cash due to the issue proceeds.

A PLN 2,150.6m increase in equity relative to the figure recorded as at December 31st 2004 resulted mainly from a PLN 35.0m share capital increase, a nearly PLN 971.0m rise in the reserve funds following its increase, and an almost PLN 903.0m increase in retained earnings.

As at December 31st 2005, non-current liabilities stood at PLN 715.9m, having grown by almost PLN 339.1m, i.e. 90.0%, in 2005, mainly due to a loan contracted to carry out the PROSTA Programme and an increase in long-term provisions in connection with the consolidation of the Southern Refineries and Petrobaltic. High prices of crude oil, combined with larger inventories built due to the increased oil refining by the Parent Undertaking, contributed to a rise in the balance of current liabilities, which as at the end of 2005 stood at PLN 1,465.6m, up by PLN 483.2m from December 31st 2004.

The proportion of equity to liabilities increased from 66.2% (as at the end of 2004) to 68.8% (2005), and the share of current liabilities fell by 3.5 percentage points.

(PLNm)	Dec 31 2005	Dec 31 2004	% change from Dec 31 2004
Non-current assets	3.581.480	2.240.586	59,85 %
<i>as percentage of the balance-sheet total</i>	<i>51,24 %</i>	<i>55,78 %</i>	

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Current assets	3.408.129	1.776.198	91,88 %
<i>as percentage of the balance-sheet total</i>	48,76 %	44,22 %	
TOTAL ASSETS	6.989.609	4.016.784	74,01 %
Equity attributable to parent undertaking's shareholders	4.553.828	2.642.630	72,32 %
<i>as percentage of the balance-sheet total</i>	65,15 %	65,79 %	
Minority interests	254.281	14.882	1.608,65 %
<i>as percentage of the balance-sheet total</i>	3,64 %	0,37 %	
Non-current liabilities and long-term provisions	715.907	376.856	89,97 %
<i>as percentage of the balance-sheet total</i>	10,24%	9,38 %	
Current liabilities and short-term provisions	1.465.593	982.416	49,18 %
<i>as percentage of the balance-sheet total</i>	20,97 %	24,46 %	
TOTAL EQUITY AND LIABILITIES	6.989.609	4.016.784	74,01

7.3 CASH FLOWS

As at December 31st 2005, the LOTOS Group reported cash totalling PLN 767.8m, which means a PLN 612.8m increase during 2005.

In 2005, net cash provided by operating activities was PLN 598.2m, a PLN 209.8m increase on 2004. Higher net cash flows in 2005 resulted mainly from a PLN 915.1m net profit (attributable to the Parent Undertaking's shareholders) for 2005, larger balance of liabilities related to the purchase of crude oil and higher depreciation and amortisation, following, among others, from the acquisition of Petrobaltic and the Southern Refineries.

Net cash used in investing activities in 2005 totalled PLN 916.1m, up by PLN 763.5m as compared with the figure posted in 2004. The increase was caused primarily by the acquisition of property, plant and equipment, intangible assets, and non-current and current financial assets.

In 2005, the LOTOS Group reported a large positive balance of cash flows from financing activities, totalling PLN 930.3m, as compared with -PLN 255.0m reported in 2004. The positive balance resulted from the issue of the Company shares, whose effect was offset by outflows on early repayment of loans by the Parent Undertaking, and the proceeds under a loan taken by LOTOS Paliwa.

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

Accounting and business issues related to the acquisition of shares in Rafineria Czechowice S.A., Rafineria Jaslo S.A., Rafineria Nafty Glimar S.A., and Petrobaltic S.A.

For the purposes of the agreement executed on January 13th 2005, Nafta Polska S.A. as the seller and Grupa LOTOS S.A. as the buyer agreed on the valuation of shares in companies which are the subject of the transaction, based on reports by an independent advisory company, commissioned by Nafta Polska S.A. and prepared in August and November 2004.

Similar reports, specifying lower values of the companies subject to the transaction, had been commissioned earlier by Grupa LOTOS S.A. from an independent adviser selected by the company. In those reports, the individual companies were valued in accordance with generally accepted market practice, primarily with the use of an income-based method, i.e. the discounted cash flow method (DCF). This method involves calculating the total value of projected cash flows taking into account changes in the time value of money, based on a company's business plan containing complete projections of its financial performance. This approach presents the value of the whole company as an operating business unit for a potential investor intending to conduct the company's business in line with the approved business plan.

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The DCF valuation of the Southern Refineries was based on business plans and financial projections submitted by the Management Boards of the individual companies and the values arrived at in this valuation were lower than those finally agreed upon in the agreement of January 13th 2005. The objective of the acquisition of the Southern Refineries and Petrobaltic S.A. by Grupa LOTOS S.A. was to implement the assumptions of the Strategy for the Oil Industry in Poland, including general restructuring of the Southern Refineries which would enable them to continue at least part of their operations in the changing legal environment (e.g. introduction of stricter requirements with respect to product standards and the environmental protection, abolition of excise tax credit) and market environment. Both Nafta Polska S.A. and Grupa LOTOS S.A. agreed that the current business activities of the Southern Refineries were on the decline, partially due to the fact that they were strongly subsidised (from several millions of zlotys to over PLN 100m annually) with annual excise tax credits which had to be abolished (one of the reasons being the EU regulations).

When acquiring the shares, Grupa LOTOS S.A. intended to carry out the restructuring and ensure continued operations of the Southern Refineries and Petrobaltic S.A. to the extent permitted by legal and market conditions. This means that the use of the DCF valuation method was in accordance with the market standards, and the economic value of shares in the acquired companies was not materially different from the amounts agreed upon in the agreement.

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

8.1 LOANS AND BORROWINGS

Bank/entity name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (short-term)		Outstanding loan amount (long-term)		Maturity date		Financial terms and conditions (interest rate, manner of interest payment etc.)	Type of security
		PLN	Currency	PLN	Currency	PLN	Currency	Short-term	Long-term		
Kredyt Bank S.A. O/Gdańsk	Warsaw	60.000	-	7.776	-	50.987		Dec 31 2006	Jun 30 2015	1M WIBOR + bank margin	Mortgage, blank promissory note, assignment of receivables under insurance policies
PeKaO S.A.	Warsaw	25.000	-	25.000	-	-	-	May 19 2006	-	1M WIBOR + bank margin	Power of attorney to charge the account with amounts due, representation on submission to enforcement
Konsorcjum banków (PKO BP S.A. i PeKaO S.A.)	Warsaw	340.000	-	37	-	195.745	-		Dec 31 2014	3M WIBOR + bank margin	Blanket security (deposit) mortgage for each lender, representation on submission to enforcement, assignment of receivables under insurance policies, trade agreements, lease agreements, registered pledge on assets
PKO BP S.A.	Warsaw	25.000	-	16.834	-	-	-	current account loan – revolving limit	Nov 3 2008	1M WIBOR + bank margin	Representation on submission to enforcement
BRE BANK S.A.	Gdańsk	5.000	-	1.667	-	2.233	-	Sep 30 2006	Sep 30 2008	1M WIBOR + bank margin	Registered pledge, assignment of receivables, blank promissory note
BRE BANK S.A.	Gdańsk	1.900	-	1.245	-	-	-	Aug 31 2006	-	1M WIBOR + bank margin	Assignment of receivables, blank promissory note
Bank Handlowy w Warszawie S.A.	Warsaw	2.000	-	2	-	-	-	Jan 2 2006 current account loan	-		
PKO BP S.A.	Krosno branch	5.000	-	5.000	-	-	-	Aug 30 2006	-	1M WIBOR + bank margin	Promissory note, assignments, pledge on inventories
Podkarpacki Bank Spółdzielczy S.A.	Sanok	4.300	-	4.300	-	-	-	Sep 29 2006	-	1M WIBOR + bank margin	Mortgage, promissory note, pledge, assignments
ING Bank Śląski S.A.	Krosno branch	4.500	-	1.500	-	-	-	Sep 30 2006	-	1M WIBOR + bank margin	Pledge on inventories and property, plant and equipment
PKO BP S.A.	Krosno branch	7.000	-	6.798	-	-	-	Jul 30 2006	-	1M WIBOR + bank margin	Mortgage, promissory note

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Bank/entity name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (short-term)		Outstanding loan amount (long-term)		Maturity date		Financial terms and conditions (interest rate, manner of interest payment etc.)	Type of security
		PLN	Currency	PLN	Currency	PLN	Currency	Short-term	Long-term		
ING Bank Śląski S.A.	Warsaw	30.000	-	29.408	-	-	-	Aug 8 2006	-	1M WIBOR + bank margin	Mortgage, assignments, pledge
PKO BP S.A.	Krosno branch	4.500	-	1.353	-	2.809	-	Oct 10 2006	Dec 31 2008	1M WIBOR + bank margin	Assignment of receivables and mortgage
NFOŚiGW	Warsaw	15.000	-	2.000	-	11.550	-	Sep 30 2006	Sep 30 2010	half of the bill rediscount rate	Surety
PeKaO S.A.	Krosno branch	500	-	88	-	-	-	Jun 30 2006	-	1M WIBOR + bank margin	Assignment
ING Bank Śląski S.A.	Katowice	990	-	990	-	-	-	Sep 8 2006	-	1M WIBOR + bank margin	Assignment, pledge on inventories
PeKaO S.A.	Warsaw	56.409	USD 14,800	7.454	2.286 USD	30.874	9.466 USD	Dec 31 2006	Feb 28 2011	1M LIBOR + bank margin	Pledge on property, plant and equipment
Total				111.452	2.286 USD	294.198	9.466 USD				

9. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During 2005, the LOTOS Group was able to meet all of its liabilities towards third parties.

Before the issue of Series B shares, the Group used short-term loans. Upon receipt of proceeds from the issue of 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. The balance of working capital loans as at December 31st 2005 amounted to PLN 93.8m. For a detailed specification of debt under loans see Note 30 to the financial statements.

In 2005, Grupa LOTOS S.A. did not grant any loans other than loans to LOTOS Park Technologiczny Sp. z o.o., loans to LOTOS Parafiny Sp. z o.o. and loans 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.

The Group's overall economic and financial situation was assessed by analysing the profitability, liquidity and debt ratios.

Item	2005	2004
Operating profit (PLN '000)	1 069 907	612 185
Operating margin (1)	11,09%	8,22%
Pre-tax profit (PLN '000)	1 137 654	688 200
Gross margin (2)	11,79%	9,24%
Net profit (attributable to the Parent Undertaking's shareholders) (PLN '000)	915 124	542 807
Net margin (3)	9,49%	7,29%
Return on equity (ROE) (4)	19,03%	20,43%
Return on assets (ROA) (5)	13,09%	13,51%
Current ratio (6)	2,33	1,81
Quick ratio (7)	1,35	0,96
Average collection period (in days) (8)	30,93	31,72
Average payment period (in days) (9)	29,20	24,42
Capital employed (10)	1 942 536	793 782
Capital employed to total assets (11)	27,79%	19,76%
Debt ratio (12)	31,21%	33,84%
Debt to equity ratio (13)	45,37%	51,15%

(1) operating profit/net sales revenue

(2) pre-tax profit/net sales revenue

(3) net profit (attributable to the Parent Undertaking's shareholders)/net sales revenue

(4) net profit (attributable to the Parent Undertaking's shareholders)/equity at end of period

(5) net profit (attributable to the Parent Undertaking's shareholders)/assets at end of period

(6) current assets/current liabilities

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

(8) (average trade receivables/net sales revenue)*365

(9) (average trade payables/cost of sales)*365

(10) current assets - current liabilities

(11) capital employed/assets

(12) total liabilities/assets

(13) total liabilities/equity

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

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

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

The potential risks which may arise in the future include the introduction of legal regulations whereby fuel producers would be required to add a specified percentage of biocomponents to the fuel produced, with the current exemptions from excise tax for addition of biocomponents being maintained at an unchanged level or limited.

Another potential risk is that the CO₂ emission allowances that will be granted to Grupa LOTOS S.A.'s refinery for 2008–2012 may be lower than the CO₂ emission envisaged after the Comprehensive Technical Upgrade Programme is completed. If this is the case, Grupa LOTOS S.A. may need to purchase emission allowances on the market, which will increase 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 their operations, Grupa LOTOS S.A. and the other Group companies seek to minimise tax-related risks, nevertheless, it is not possible to define to what degree the Company and the Group are exposed to this risk.

10.2 INTERNAL RISKS AND THREATS RELATED TO THE GROUP'S BUSINESS

- **Financial risks** – the Group 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)** – the Programme is the Company's most important and valuable investment and development project. Major risks related to the execution of the Programme include the risk of high costs of investments, the risk of delays in project execution, and technological risks. The risk related to ensuring feedstock for installations and access to markets for finished products, described in the Issue Prospectus, has been significantly mitigated thanks to the signing of feedstock supply agreements and offtake contracts for the products manufactured at the units. Other risks related to the execution of the Programme are being gradually reduced, along with the progress of the work on preparing and executing the project.
- **Risk related to the execution of the PROSTA Service Station Network Development Programme** – the objective of the PROSTA programme is to increase the retail market share of LOTOS brand service stations to 10-12% by 2010 and to expand the network of stations operating under the LOTOS logo to 500, to achieve, through own distribution channels, to higher retail fuel sales. Given the fact that other leading operators of service stations have also announced plans to enlarge their percentage shares in the

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retail fuel market, the implementation of this strategic goal may prove difficult or necessitate expenditure in excess of the planned levels. Nevertheless, the results of the Company's to-date efforts to consolidate its network indicate that this strategic goal is highly likely to be achieved by the Company.

- **Risk related to the Southern Refineries** – the LOTOS Group includes Rafineria Czechowice S.A., Rafineria Jaslo S.A., and Rafineria Nafty Glimar S.A. (in bankruptcy). The presence of these companies in the Group entails a number of risks which have been described in detail in the Issue Prospectus. Grupa LOTOS S.A. has been implementing a series of restructuring and development projects seeking to minimise most of the potential threats relating to the acquisition of the Southern Refineries.

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11. AGREEMENTS SIGNIFICANT TO THE OPERATIONS OF THE LOTOS GROUP, INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS, AND INSURANCE, PARTNERSHIP AND CO-OPERATION AGREEMENTS

11.1 SIGNIFICANT AGREEMENTS CONCLUDED BY GRUPA LOTOS S.A. 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. The agreement's value has been withheld from publication.

- On March 30th 2005, Grupa LOTOS S.A. and PKN Orlen concluded a contract under which the Company undertook to supply PKN Orlen with Diesel oil and unleaded gasoline.

The contract was concluded for a specified period – until June 14th 2005. The contract's value 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, have 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. The contract's value 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. The contract's value 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 has been estimated at 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 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

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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 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.

- 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 will cease to be effective on 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.

11.2 SIGNIFICANT AGREEMENTS EXECUTED BY OTHER UNDERTAKINGS OF THE LOTOS GROUP DURING 2005

- On January 1st 2005 and on February 1st 2005, respectively, LOTOS Partner and ExxonMobil Poland Sp. z o.o. executed Annex No. 1 and Annex No. 2 to the agreement of December 16th 2004, under which LOTOS Partner is to sell liquid fuels in the quantities specified therein. The agreement provides for contractual penalties if either of the parties thereto fails to comply with their obligations. LOTOS Partner may terminate the agreement at one month's notice if ExxonMobil does not agree to changes in price formulas proposed by LOTOS Partner in connection with change in fuel sale conditions on the Polish market caused by decisions of public authorities. Disputes arising under the agreement, if any, will be settled by the Arbitration Court at the National Chamber of Commerce in Warsaw. The agreement's value has been withheld from publication.
- On January 1st 2005, Rafineria Jasło S.A. and J&S Energy S.A. executed supply agreements under which J&S Energy S.A. is obliged to sell to Rafineria Jasło S.A. diesel oil and unleaded gasoline. The agreements have been concluded for a specified period – until December 31st 2005. The agreement's value has been withheld from publication.
- By virtue of Annex No. 2 of January 1st 2005, Annex No. 3 of January 5th 2005, and Annex No. 4 of February 1st 2005, LOTOS Partner Sp. z o.o. updated the agreement executed with Fortum Polska Sp. z o.o., dated December 31st 2003. Under the agreement, LOTOS Partner is to sell unleaded fuels and diesel oil in the quantities specified therein. Should Fortum Polska or LOTOS Partner fail to comply with their obligations, the relevant party will have the right to claim compensation provided for in the agreement. LOTOS Partner has undertaken to treat Fortum Polska as the most preferred customer, which means that any changes to the price formulas of the largest retail customer of Fortum (apart from companies which have capital links with LOTOS Partner) will entail relevant changes to the formulas provided for in the agreement. The agreement's value has been withheld from publication.
- On January 19th 2005, Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) and LOTOS Mazowsze S.A. executed an agreement under which LOTOS Mazowsze is to purchase diesel oil, unleaded gasoline, and universal unleaded gasoline. The sale is made under individual orders placed from time to time. The price for the products delivered to LOTOS Mazowsze by Rafineria Jasło S.A. is to be agreed upon each time an order is placed. The agreement has been concluded for a specified period – until December 31st 2005. The agreement's value has been withheld from publication.

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- In January 2005, LOTOS Paliwa took over from LOTOS Mazowsze S.A. significant wholesale customers: BAW Wielobranżowe Przedsiębiorstwo Hurtowe Sp. z o.o. of Poznań, PPH Dorota Skrzypczak of Poznań, P.P.H.-U. Patrol – Hawan, J. Zmysłony, A. Zmysłona Sp. j. of Piła, ZUH Naftohurt Jerzy Jasiński of Sompolno. Under the commercial cooperation agreements, LOTOS Paliwa has undertaken to sell to the customers, and the customers have undertaken to buy, liquid fuels of the type and in the quantities specified for each calendar quarter.

The term of the agreements is unspecified. Either party may terminate the agreement at three months' notice, effective as of the end of the month. The agreements' values have been withheld from publication.

- On March 29th 2005, LOTOS Mazowsze S.A. and LOTOS Paliwa executed an agreement whereby LOTOS Paliwa is to purchase propane butane gas in the amount ordered, based on monthly and annual orders. The agreement has been concluded for an unspecified period and may be terminated by either party at three months' notice. The agreement's value has been withheld from publication.
- On March 31st 2005, a conditional 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 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 Comprehensive Technical Upgrade Programme (specifically on the last day of the calendar month in which the anniversary falls). The respective obligations of the parties depend on the financial closure of the Comprehensive Technical Upgrade Programme and on the commencement of its commercial operation. The agreement will be automatically terminated if the above conditions are not fulfilled 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.

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.

- As part of the reorganisation of trading activities at Grupa LOTOS S.A. and the transfer of the wholesale of fuels to LOTOS Paliwa, with effect from June 30th 2005, the Parent Undertaking 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 June 9th 2005, LOTOS Paliwa Sp. z o.o. and PKO BP S.A. executed an agreement on assignment of claims and rights by way of security under commercial agreements. The agreement is part of security established in respect of a bank loan agreement of December 16th 2004, concluded between LOTOS Paliwa Sp. z o.o. and Bank Polska Kasa Opieki S.A. and PKO Bank Polski S.A., for a loan in the amount of PLN 340,000 thousand. The conclusion of the abovementioned agreement and the concurrent conclusion, on June 9th 2005, of other security agreements, makes it possible to commence the performance of loan agreement of December 16th 2004. The agreement will expire on the day on which all Secured Claims under the bank loan agreement of December 16th 2004 are unconditionally, irrevocably and fully satisfied. The value of the loan over the agreement term has been estimated at PLN 340,000 thousand.
- On June 16th 2005, LOTOS Paliwa Sp. z o.o. and Przedsiębiorstwo Budowlano-Handlowe Z. Niziński entered into an agreement. The agreement provides for the sale of fuels by LOTOS Paliwa Sp. z o.o.

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The term of the agreement is unspecified. The five-year value of the agreement has been estimated at PLN 680,000 thousand. 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 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, 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 (PLN 6.4m per station). 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. will finance the transaction with funds from the additional contributions to equity made by Grupa LOTOS S.A., which have been specified as 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.).

In 2004, ExxonMobil Poland Sp. z o.o. sold, through the network of 39 stations, 204m litres of fuels, i.e. on average approximately 5.2m litres per station annually.

The transaction is one of the key steps in the process of countrywide expansion of the PROSTA service stations network, assumed in the fuel sales development strategy of Grupa LOTOS S.A. This programme has been one of the main strategic objectives of the Management Board of Grupa LOTOS S.A., which is pursuing the strategy of building a vertically integrated oil concern operating on a nationwide scale.

Upon performance of the agreement, the number of Grupa LOTOS S.A.'s stations will go up from 74 to 113, to be further increased to 127 when the construction of new service stations on the land purchased in the transaction is completed. Thus, upon the takeover of the ExxonMobil network, the total number of service stations managed by LOTOS Paliwa will rise from 346 to 385 and the share of the LOTOS network in the retail market will grow by ca. 1.5% to 7.5%.

The agreement is deemed significant since the aggregate value of the agreements executed within the last 12 months between the companies of the LOTOS Group and ExxonMobil Sp. z o.o. amounted to PLN 480,000 thousand and thus exceeded 10% of Grupa LOTOS S.A.'s equity. The agreement of the highest value is the agreement on the purchase of the ESSO service station network.

- On September 12th 2005, Grupa LOTOS S.A. and Rafineria Jaslo S.A. entered into an agreement on sale of liquid fuels to Rafineria Jaslo S.A.

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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 September 14th 2005, Rafineria Jasło S.A. and LOTOS Mazowsze S.A. entered into an agreement on sale of liquid fuels to LOTOS Mazowsze S.A.

The agreement was concluded for an indefinite term. Its five-year value is estimated at PLN 600,000 thousand.

The parties agreed that until the end of 2005 sales will be made by particular types of fuels on a monthly basis, by place of delivery, and with excise tax paid for each delivery. Should at least 90% of the fuels ordered not be delivered or collected, the defaulting party is obliged to pay a contractual penalty of PLN 20 per cubic meter of such fuel in a given month.

As of September 14th 2005, the previous fuel sale agreement concluded between Rafineria Jasło S.A. and LOTOS Mazowsze S.A. on January 19th 2005 was terminated.

- On September 28th 2005, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) entered into a preliminary conditional agreement with Slovnaft Polska S.A. concerning the acquisition of service stations. The transaction concerns an organised part of Slovnaft Polska S.A.'s business, including in particular: 12 Slovnaft service stations located in southern Poland, 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. may take over the established partnerships with ten Slovnaft Polska S.A. franchisees. As part of the transaction, LOTOS Paliwa Sp. z o.o. will also employ 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. will finance 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.). After the acquisition of 39 ESSO stations, the above transaction is another key step in the implementation of the PROSTA countrywide service stations network development programme.

Following the execution of the transaction, the number of the LOTOS Group's stations rose 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%. The net price of the transaction will be EUR 15m, i.e. approx. PLN 58,402 thousand. The average price per station is EUR 1,244 thousand (PLN 4,843 thousand), translated at the exchange rates published by the National Bank of Poland on September 27th 2005.

- On October 18th 2005, LOTOS Mazowsze S.A. and LOTOS Paliwa Sp. z o.o. (subsidiaries wholly-owned by Grupa LOTOS S.A.) entered into a significant agreement on sale of liquid fuels to LOTOS Mazowsze S.A. The agreement was concluded for an indefinite term. Its five-year value is estimated at PLN 540,151 thousand. Should at least 90% of the ordered quantity of fuels not be collected or delivered in a given month, the defaulting party is obliged to pay a contractual penalty of PLN 20 per cubic metre of the difference between the fuel quantity actually purchased or supplied and 90% of the fuel quantity ordered. 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.
- On October 27th 2005, LOTOS Paliwa Sp. z o.o. and Rafineria Jasło S.A. (Grupa LOTOS S.A. holds 100% of shares in LOTOS Paliwa Sp. z o.o. and 80.01% of shares in Rafineria Jasło S.A.) entered into

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a significant agreement, concluded for an indefinite term, under which Rafineria Jaslo S.A. will sell liquid fuels to LOTOS Paliwa Sp. z o.o. The agreement's five-year value is estimated at PLN 1,950,000 thousand. The agreement provides for contractual penalties of PLN 20 per cubic metre of fuel if Rafineria Jaslo S.A. fails to deliver or LOTOS Paliwa Sp. z o.o. fails to collect fuel. The payment of contractual penalties does not exclude the right to seek compensation exceeding the above penalties.

The agreement was made as part of the initiatives aimed at reorganising LOTOS Group's trading activities. It is deemed significant as its estimated value represents more than 10% of Grupa LOTOS S.A.'s equity.

- On November 4th 2005, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and Pol-Miedź Trans Sp. z o.o. entered into a significant agreement, concluded for an indefinite term, under which LOTOS Paliwa Sp. z o.o. will sell and supply liquid fuels to Pol-Miedź Trans Sp. z o.o. The agreement's five-year value is estimated at PLN 1,560,000 thousand. In the event that the Seller fails to properly perform its obligation, the Buyer may demand payment of contractual penalty of PLN 20 per cubic metre of fuel for each started 24 hours of delay in fuel delivery. The agreement also provides for penalties of PLN 20 per each cubic metre of fuel not delivered by the Seller and for penalties to be charged if the Seller delivers less than 85% of the ordered quantity. 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.
- On November 23rd 2005, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and ARGE Sp. z o.o. signed a significant agreement on sale and supply of liquid fuels to ARGE Sp. z o.o. The agreement was concluded for an indefinite period. Its five-year value is estimated at PLN 902,094 thousand. 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.
- On December 14th 2005, LOTOS Paliwa Sp. z o.o. and ExxonMobil Poland Sp. z o.o. executed a final agreement on the purchase of the ESSO service stations network in Poland. The transaction concerns an organised part of ExxonMobil Poland Sp. z o.o.' business, comprising in particular:
 - 39 service stations situated on the real estate owned, held in perpetual usufruct or under long-term leases,
 - 14 undeveloped lots for new service stations.

The agreement is deemed significant since the aggregate value of the agreements executed within the last 12 months between the companies of the LOTOS Group and ExxonMobil Sp. z o.o. amounted to PLN 480,000 thousand and thus exceeded 10% of Grupa LOTOS S.A.'s equity. The value of the agreement executed on December 14th 2005 is PLN 278,500.00 thousand.

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 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.

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Agreements 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 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.

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. 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.

- 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.

The agreement was concluded on standard market terms.

- On April 11th 2006, LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading) entered into an agreement on feedstock supply for the installations which are to be constructed under the Comprehensive Technical Upgrade Programme of Grupa LOTOS S.A. (PKRT).

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

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

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

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

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

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

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

12.1 CHANGES IN THE ORGANISATIONAL OR CAPITAL LINKS

For a description of changes in the organisational or capital links between the Parent Undertaking and other entities see Section 2 Changes in the Shareholder Structure of the LOTOS Group and Section 12.2 Key Domestic and Foreign Investments of the Group.

In addition to the events described in the sections referred to above, the following changes occurred in the organisational or capital links between Grupa LOTOS S.A. and other entities in 2005:

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

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 a 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.

12.2 KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE GROUP

12.2.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS

The Group's major investments in tangible and intangible assets made in 2005 (PLN '000)

Item	Capital expenditure in 2005
Construction and assembly work	211.347
Procurement from external suppliers – purchases	136.258
Acquisition of intangible assets	67.301
Other capital expenditure	391.455
Total	806.361

12.2.2 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. held the following equity interests in the abovementioned companies:

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- 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.

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, that is by PLN 450 thousand, through an issue of 900 new shares with a par value of PLN 500 per share and the aggregate value of PLN 450 thousand. The new shares were acquired as follows:

- 800 shares were acquired by Grupa LOTOS S.A.,
- 100 shares were acquired by Kolaja & Partners Sp. z o.o.

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

- 2,834 shares for PLN 1,417 thousand,
- 2,532 shares for PLN 1,266 thousand,
- 826 shares for 431 thousand, respectively

in the increased share capital of LOTOS Park Technologiczny Sp. z o.o.

Following the transaction, RC Remo Sp. z o.o. holds 39.2% of shares, CBA Racer Sp. z o.o. – 35% of shares and LOTOS Czechowice S.A. - 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 Rafineria Czechowice S.A. 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 abovementioned transactions of the share capital increase at LOTOS Park Technologiczny Sp. z o.o., Grupa LOTOS S.A. holds 80.66% of shares in the share capital of LOTOS Park Technologiczny Sp. z o.o. As at December 31st 2005, the Group consolidated the company with the full method, however, by December 31st 2005, the share capital increase had not been registered.

Acquisition of Shares in UAB LOTOS Baltija

On November 16th 2005, Grupa LOTOS S.A. acquired 4,400 shares in UAB LOTOS Baltija, registered office in Lithuania, which represent 39.71% of that company'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 aggregate par value is LTL 286 thousand. 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, Grupa LOTOS S.A. concluded an agreement to acquire 14,639 shares in LOTOS Parafiny Sp. z o.o. from the following parties in quantities specified below:

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- a) Rafineria Jaslo S.A. – 5,108 shares with an aggregate par value of PLN 5,108 thousand representing 25.82% of the share capital of LOTOS Parafiny Sp. z o.o.;
- b) RC Parafiny Sp. z o.o. – 9,003 shares with an aggregate par value of PLN 9,003 thousand 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 thousand 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 acquisition price for those shares amounted to PLN 15,516.6 thousand. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group.

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13. TRANSACTIONS WITH RELATED UNDERTAKINGS

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 Asphalt Sp. z o.o.	313.128	-
12	BiproRaf Sp. z o.o.	-	5.979
13	Rafineria Jasło S.A. Group (currently LOTOS Jasło S.A.)	92.883	-
14	Rafineria Czechowice S.A. Group (currently LOTOS Czechowice S.A.)	146.645	609.523
15	Petrobaltic S.A. Group	-	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 the related undertakings of the Group, except for the ones described 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 March 31st 2005, Petrobaltic S.A. entered into additional agreements in connection with four loan agreements concluded in 2002-2004 with UAB Naftos Gavyba of Lithuania (a subsidiary in which Petrobaltic holds a 42.70% equity interest). The aggregate value of the loans, as at the respective agreement dates, totalled LTL 16,680 thousand and USD 716,414.49. Under the agreements, the Parties agreed that the loans would be repaid by March 31st 2005. As part of an offset of mutual accounts, a part of the dividend payable for 2004 to Petrobaltic S.A. by UAB Naftos Gavyba was applied towards repayment of the loans and the related interest. The loan agreements have been fully settled. The offset, performed by virtue of the additional agreements, totalled LTL 19,221,827.43 (EUR 5,567,396.60, as translated at the mid exchange rate quoted by the National Bank of Poland for March 31st 2005). The largest amount settled by way of the offset was LTL 9,905,429.55 (EUR 2,869,001.66, as translated at the mid exchange rate quoted by the National Bank of Poland as at March 31st 2005) under loan agreement of September 23rd 2003.
- On May 9th 2005, LOTOS Asphalt Sp. z o.o. concluded an agreement with the Instal-Rem - Monto-Rem Consortium which includes Rafineria Jasło Monto Rem Sp. z o.o. Under the agreement the Consortium, as the general contractor, agreed to modernise the asphalt production unit at the Jasło Branch of LOTOS Asphalt Sp. z o.o. Grupa LOTOS S.A. holds 100% of shares in LOTOS Asphalt Sp. z o.o. and an 80.01% equity interest in the Jasło Refinery, which holds 99.44% of the share capital of Rafineria Jasło Monto Rem Sp. z o.o. The agreement expires on February 28th 2006. The transaction is valued at PLN 12,499 thousand.

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- 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. 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.
- On May 31st 2005, LOTOS Paliwa Sp. z o.o. and the Jasło Refinery concluded an agreement, whereby the Refinery agreed to sell service stations to LOTOS Paliwa Sp. z o.o. The transaction was made as part of the process of streamlining the structure of the LOTOS Group. LOTOS Paliwa Sp. z o.o. and the Jasło Refinery (currently LOTOS Jasło S.A.) are subsidiaries of Grupa LOTOS S.A., in which Grupa LOTOS S.A. holds 100% and 80.01% of the shares, respectively. The transaction is valued at PLN 5,100 thousand.
- 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 S.A., up to PLN 2,000 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.
- 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. 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.
- 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 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 July 1st 2005, LOTOS Asphalt Sp. z o.o. concluded an agreement with the Czechowice Refinery (Grupa LOTOS S.A. holds 100% shares in LOTOS Asphalt Sp. z o.o. and 80.04% of the Czechowice Refinery's share capital). Under the agreement, LOTOS Asphalt Sp. z o.o. purchased from the Czechowice Refinery property and other assets related to asphalt production. The transaction was valued at PLN 2,500 thousand.
- 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 on 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.

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- On September 12th 2005, Grupa LOTOS S.A. and the Jasło Refinery entered into an agreement on sale of liquid fuels to the Jasło Refinery. 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 the Jasło Refinery on February 5th 2004 was terminated.
- On September 14th 2005, the Jasło Refinery and LOTOS Mazowsze S.A. entered into an agreement on sale of liquid fuels to LOTOS Mazowsze S.A. The agreement was concluded for an indefinite term. Its five-year value is estimated at PLN 600,000 thousand. The parties agreed that until the end of 2005 sales will be made by particular types of fuels on a monthly basis, by place of delivery, and with excise tax paid for each delivery. Should at least 90% of the fuels ordered not be delivered or collected, the defaulting party is obliged to pay a contractual penalty of PLN 20 per cubic meter of such fuel in a given month. As of September 14th 2005, the previous fuel sale agreement concluded between the Jasło Refinery and LOTOS Mazowsze S.A. on January 19th 2005 was terminated.
- On October 18th 2005, LOTOS Mazowsze S.A. and LOTOS Paliwa Sp. z o.o. entered into an agreement on sale of liquid fuels to LOTOS Mazowsze S.A. The agreement was concluded for an indefinite term. Its five-year value is estimated at PLN 540,151 thousand.

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. The agreement was concluded on standard market terms.

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

14.1 LOANS ADVANCED

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

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

As at 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 Petrobaltic S.A. to Energobaltic Sp. z o.o.

Under the agreement of November 12th 2001, Petrobaltic S.A. granted a loan to Energobaltic S.A. As at June 30th 2005, Petrobaltic's receivables under the loan (including interest accrued) amounted to USD 6,172 thousand (PLN 20,648 thousand).

As at June 30th 2005, the loan agreement had been amended by virtue of four annexes, with the most recent one signed on April 13th 2005.

Key terms of the agreement:

- Loan amount – USD 5,698 thousand,
- Interest – variable, based on 3M LIBOR plus fixed margin,
- Repayable in PLN at the USD/PLN mid-exchange rate quoted by the National Bank of Poland on the date immediately preceding the repayment date,
- Under the current schedule, the loan is repayable on a quarterly basis, with the first payments of the interest and the principal to be made on June 30th 2007 and December 20th 2011, respectively.

The loan is to be repaid by December 20th 2011.

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.

14.2 MATERIAL SURETY AGREEMENTS AND GUARANTEES

14.2.1 MATERIAL SURETY AGREEMENTS AND GUARANTEES OF GRUPA LOTOS S.A.

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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,
 - 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 the Jasło Refinery:

- 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.

14.2.2 MATERIAL SURETY AND GUARANTEE AGREEMENTS OF PETROBALTIC S.A.

Liabilities to Bank Ochrony Środowiska S.A.

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In connection with the loan advanced by Bank Ochrony Środowiska S.A. (the "Bank") to Energobaltic Sp. z o.o. (Energobaltic) under (i) investment loan agreement of September 11th 2001, and (ii) preferential investment loan agreement of September 11th 2001 concerning environmental protection, on December 12th 2001, Petrobaltic made a representation to the Bank whereby it agreed:

- to increase the share capital of Energobaltic by an amount equal to the company's cumulative net loss incurred in the period from the abovementioned loan agreements date to the date of the first sale (confirmed by an invoice) of power from the CHP plant in Władysławowo (according to the Issuer's information, such sale was made on July 3rd 2003), if the loss exceeds 20% of Energobaltic's share capital,
- to apply a part of net profit (in the amount not exceeding the amount assumed in the Bank-approved final projection for the project financed with the loan) towards share capital increase in Energobaltic,
- not to dispose of or encumber its shares in Energobaltic without a prior consent of the Bank.

Surety for Liabilities of Miliana Shipping Company Ltd

On June 18th 2004, Petrobaltic submitted to Bank Polska Kasa Opieki S.A. (the "Bank") a representation to the effect that Petrobaltic issued a surety for the liabilities of Miliana Shipping Company Ltd ("Miliana") under the agreement of June 18th 2004 between Miliana and the Bank concerning a loan for the financing of the purchase of an oil tanker. Petrobaltic and Miliana were jointly and severally responsible for Miliana's liabilities under the loan. Petrobaltic's responsibility was limited to USD 14,800,000, or its equivalent in the Polish złoty. As a result of the establishment of an effective maritime mortgage on the oil tanker owned by Miliana, the surety expired in April 2005 (the Bank confirmed the fact that the surety was released in its letter of April 18th 2005).

Following the conclusion on March 12th 2004 by Miliana and Bank Polska Kasa Opieki S.A. of an annex to the loan agreement of March 12th 2001, Petrobaltic submitted to the Bank a representation to the effect that Petrobaltic issued a surety for the liabilities of Miliana under the bank loan agreement of March 12th 2001 between Miliana and the Bank. Petrobaltic and Miliana were jointly and severally responsible for Miliana's liabilities under the loan. Their responsibility was limited to USD 1,500,000. The surety expired as a result of the termination, as of March 12th 2005, of a working capital loan advanced in the form of a renewable credit facility (the Bank confirmed the fact that the surety expired in its letter of March 17th 2005).

14.2.3 MATERIAL SURETY AND GUARANTEE AGREEMENTS OF RAFINERIA CZECHOWICE S.A. (LOTOS CZECHOWICE S.A.)

Guarantee issued on April 30th 2004 by Bank Millennium S.A. to the order of the Czechowice Refinery, as amended under Amendment No. 1 of May 11th 2004, Amendment No. 2 of October 29th 2004 and Amendment No. 3 of January 27th 2005. The guarantee is an excise security, as defined in Art. 43.1 of the Polish Excise Act of January 23rd 2004. Under the guarantee, issued for the benefit of the Head of Customs Office in Bielsko-Biała based in Czechowice-Dziedzice, Bank Millennium S.A. agreed to pay, jointly and severally with the Czechowice Refinery, any amounts due from the Czechowice Refinery under excise tax which arise in the period from November 1st 2004 to April 30th 2005, and interest accrued thereon up to PLN 10,000 thousand in aggregate. Bank Millennium is bound by the obligation until July 29th 2005.

Guarantee issued on April 29th 2005 by BRE BANK S.A., Bielsko-Biała Branch, to the order of the Czechowice Refinery. Under the guarantee, issued for the benefit of the Head of Customs Office in Bielsko-Biała based in Czechowice-Dziedzice, BRE BANK S.A. made an unconditional and irrevocable commitment to pay, jointly and severally with the Czechowice Refinery, at the demand of the Head of Customs Office in Bielsko-Biała, any amounts due from the Czechowice Refinery under excise tax which arise in the period from May 1st 2005 to December 31st 2005, up to PLN 17,000 thousand in aggregate. BRE BANK is bound by the commitment until March 31st 2006, except a situation where a tax liability covered by the guarantee arises by March 31st 2006 but is not due and payable on that date, in which case the guarantor's commitment will be prolonged and will expire upon the lapse of 90 days from the date on which the payment becomes due.

14.3 MATERIAL LIABILITIES UNDER PROMISSORY NOTES

MATERIAL LIABILITIES OF GRUPA LOTOS S.A. 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.

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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 receivables 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.

MATERIAL LIABILITIES OF RAFINERIA JASŁO S.A. (LOTOS JASŁO S.A.) UNDER PROMISSORY NOTES

The Jasło Refinery has issued nine blank promissory notes to Nafta Polska. Under the promissory note declarations of January 19th 2000, the promissory notes secure the liabilities of the Jasło Refinery under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between the Jasło Refinery and Carbon Black Polska Sp. z o.o. The promissory notes may be filled in by Nafta Polska if the Jasło Refinery fails to perform any of its obligations under the agreement. As provided for in the declarations, each promissory note may be filled in with up to PLN 1,000 thousand.

Under an agreement of January 19th 2000 between Nafta Polska and the Jasło Refinery, if no obligation arises on the part of Nafta Polska to provide any performance, in whole or in part, under the performance bond agreement relating to the agreement on environmental issues with Carbon Black Polska Sp. z o.o. by the time Nafta Polska is removed from the enterprise register, Nafta Polska will place the unrealised promissory notes in court deposit so that they can be returned after the court's decision on removing Nafta Polska from the enterprise register becomes final. Similarly, the unrealised promissory notes will be returned to the Jasło Refinery after 10 years following the agreement date if Nafta Polska is not removed from the enterprise register and is not obliged to any performance under the surety agreement.

The Jasło Refinery has also issued a blank promissory note to the Minister of Economy. Under the promissory note declaration issued on November 13th 2002, the promissory note is to secure performance of the Jasło Refinery's obligations under an agreement on financial support for a new investment project, concluded between the Minister of Economy and the Jasło Refinery on November 1st 2002. The promissory note may be filled in with an amount of up to PLN 5,674 thousand.

Furthermore, as at the end of fourth quarter of 2005, the Jasło Refinery had the following contingent liabilities:

- blank promissory note in the amount of PLN 4,300 thousand, issued to PBS Sanok as loan security, expiring on September 29th 2006,
- blank promissory note in the amount of PLN 12,000 thousand, issued to PKO BP S.A. (Jasło Branch) as loan security, expiring on August 30th 2006,
- blank promissory note in the amount of PLN 2,500 thousand, issued to PZU (Rzeszów Branch) as excise guarantee security, expiring on April 30th 2006.

MATERIAL LIABILITIES OF PETROBALTIC S.A. UNDER PROMISSORY NOTES

Security for Current Account Loan

June 29th 2005 saw the expiry of Agreement No. 67/2000 on a current account facility in the amount of PLN 28,000 thousand, concluded between Petrobaltic S.A. and Bank PEKAO S.A. on November 17th 2000. As a result, Bank PEKAO S.A. of Warsaw issued a representation to the effect that Petrobaltic S.A. repaid the loan in full and that the Bank released the security in the form of the following four blank promissory notes:

- blank promissory note of up to PLN 5,000 thousand and a promissory note declaration, issued as security for repayment of a loan advanced by Bank PEKAO S.A. of Warsaw under Agreement No. 67/2000 of November 17th 2000,
- blank promissory note for PLN 5,000 thousand and a promissory note declaration, issued as security for repayment of a loan advanced by Bank PEKAO S.A. of Warsaw under Agreement No. 67/2000 of November 17th 2000 as amended by Annex No. 1 of July 4th 2001 whereby the loan amount was increased to PLN 10,000 thousand,

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- blank promissory note for PLN 5,000 thousand and a promissory note declaration, issued as security for repayment of a loan advanced by Bank PEKAO S.A. of Warsaw under Agreement No. 67/2000 of November 17th 2000 as amended by Annex No. 1 of July 4th 2001 and Annex No. 2 of June 27th 2002, whereby the loan amount was increased to PLN 15,000 thousand,
- blank promissory note for PLN 13,000 thousand and a promissory note declaration, issued as security for repayment of a loan advanced by Bank PEKAO S.A. of Warsaw under Agreement No. 67/2000 of November 17th 2000 as amended by Annex No. 1 of July 4th 2001, Annex No. 2 of June 27th 2002, and Annex No. 3 of September 26th 2002 whereby the loan amount was increased to PLN 28,000 thousand.

MATERIAL LIABILITIES OF LOTOS PALIWA SP. Z O.O.

On June 9th 2005, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concluded an agreement with PKO BP S.A. concerning the assignment of claims and rights by way of security under commercial agreements. The agreement is part of security established in respect of a bank loan agreement of December 16th 2004, concluded between LOTOS Paliwa Sp. z o.o. and Bank Polska Kasa Opieki S.A. and PKO Bank Polski S.A., for a loan in the amount of PLN 340,000 thousand. The conclusion of the abovementioned agreement and the concurrent conclusion, on June 9th 2005, of other security agreements, makes it possible to commence the performance of loan agreement of December 16th 2004. The agreement will expire on the day on which all Secured Claims under the bank loan agreement of December 16th 2004 are unconditionally, irrevocably and fully satisfied. The value of the loan over the agreement term has been estimated at PLN 340,000 thousand.

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15. 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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16. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL RESULTS AND PREVIOUSLY PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2005

The 2005 financial performance presented in these consolidated financial statements for 2005 does not differ materially from the forecast published in Current Report No. 84/2005, except that it does not reflect the impact of the measurement of the fair value of assets, equity and liabilities of the Southern Refineries and Petrobaltic S.A. on the consolidated financial result.

In Current Report No. 84/2005, the Company estimated the fair value measurement's impact on the consolidated net profit at PLN 200m, while the amount finally disclosed in the 2005 financial statements is PLN 266.6 m.

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 %

Forecast and actual values of selected items of the consolidated profit and loss account of the LOTOS Group, in accordance with the IFRS (PLN'000):

Item	Forecast	Actual	Performance
Net sales revenue	9.825.326	9.645.545	98,17 %
Depreciation/amortisation:	239.135	263.290	110,1 %
Operating profit*:	854.445	803.282	94,01 %
Net profit (attributable to the Parent Undertaking's shareholders)*:	643.505	648.499	100,78 %

* Net of the excess of the fair value of net assets over their acquisition price.

Position of the Management Board of Grupa LOTOS S.A. Concerning Changes in the Consolidated Financial Results of the LOTOS Group for 2005 Compared with the Cumulative Financial Results for the Four Quarters of 2005

The consolidated financial results of the LOTOS Group for 2005 do not differ materially from the results presented on a cumulative basis after four quarters of 2005, published on March 1st 2006.

The differences in the results presented in the Q4 2005 quarterly report and this Annual Report for 2005 are primarily due to:

- 1) Final settlement of the excess of the fair value of net assets over their acquisition cost in connection with the the acquisition of shares in the Southern Refineries and Petrobaltic S.A.
- 2) Inclusion into the 2005 consolidated financial results of the LOTOS Group of Petrobaltic S.A.'s share in the result of the associated undertaking – the UAB Naftos Gavyba Group.

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17. DESCRIPTION OF MATERIAL OFF-BALANCE-SHEET ITEMS

For a detailed description of major off-balance-sheet items, see Note 41 to the consolidated financial statements of the LOTOS Group.

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**18. 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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**19. ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS,
INCLUDING EQUITY INVESTMENTS, IN VIEW OF AVAILABLE FUNDS**

The cash, short-term securities and credit facility agreements of the LOTOS Group fully secure the expenditure planned to complete the current investment projects and equity investments.

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20. MATERIAL EVENTS WHICH OCCURRED DURING THE FINANCIAL YEAR AND AFTER ITS END, PRIOR TO THE RELEASE OF 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 Comprehensive Technical Upgrade Programme (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 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

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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.

On April 11th 2006, LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading) concluded an agreement for the supply of feedstock for the installations envisaged under the Comprehensive Technical Upgrade Programme (PKRT).

The agreement, concluded for 12 years as of the launch of the commercial operation of the PKRT, guarantees the supplies of feedstock by Shell Trading to LOTOS Ekoenergia S.A. The commencement of the discharge of duties related to supply and collection of feedstock is conditional upon prior completion of the PKRT project.

The estimated value of the agreement for LOTOS Ekoenergia S.A. over its term is PLN 11bn as of the moment of the envisaged commencement of supplies, as at the forecast oil market prices.

The parties also signed an annex to the agreement of March 31st 2005 between LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading) securing the collection of the product surplus after the completion of the PKRT project ("offtake agreement"). Pursuant to the annex, the agreement may be terminated if the financial closing of the project is not reached by June 30th 2007 and the operation starts later than 42 months after that day. Moreover, LOTOS Ekoenergia has the right to extend the above deadlines by twelve and six months, respectively.

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. 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. and PGNiG S.A. signed an annex to the crude oil purchase

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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, 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.

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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 Slovnaft Polska S.A. concerning the acquisition of service stations. The transaction concerns an organised part of Slovnaft Polska S.A.'s business, including in particular:

- 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. may take over established partnerships with ten Slovnaft franchisees. As part of the transaction, LOTOS Paliwa Sp. z o.o. will also employ 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.

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%.

Conclusion of the Final Agreement on Acquisition of Slovnaft Service Stations

On March 9th 2006, LOTOS Paliwa Sp. z o.o. and Slovnaft Polska S.A. concluded the final agreement on the acquisition of Slovnaft service stations in Poland.

First Stock Exchange Listing of Grupa LOTOS S.A.

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

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.

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

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.

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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 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.

The structure of Grupa LOTOS S.A.'s share capital following the registration of changes:

	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 %

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

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

The key internal factors material for the development of the LOTOS Group include:

- **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 the LOTOS Group were working at nearly full capacity. Higher volume 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.
- **Execution of the Comprehensive Technical Upgrade Programme** – a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. and the LOTOS Group in the long run is timely execution of the Comprehensive Technical Upgrade Programme. Construction and start-up of the installations provided for in the Programme will further increase the processing capacity of the Gdańsk refinery and improve the production structure – the low-value heavy fuel oil with high sulphur content will be replaced with high-value diesel oils, for which the demand is growing.
- **Development of upstream business** – the planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials and further improve its financial performance.

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

Execution of the investment programmes and plans set forth in the Issue Prospectus will enhance the domestic market position of the Company and its Group and, consequently, will improve their financial performance and share price.

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

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

MANAGEMENT BOARD – fifth term of office

From January 1st to December 31st 2005, the composition of the Management Board 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

Until April 25th 2006, no changes had occurred in the composition of the Management Board of Grupa LOTOS S.A.

SUPERVISORY BOARD – fifth term of office

From January 1st to January 14th 2005, 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

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

Consequently, 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

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

SUPERVISORY BOARD - sixth term of office

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.

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:

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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 sixth term.

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

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- 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,
- 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.

22.2 CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY STAFF OF SUBSIDIARY UNDERTAKINGS OF GRUPA LOTOS S.A.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARDS:

LOTOS Paliwa Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Wojciech Kowalczyk
- Leszek Dylik

In the period May – August 2005, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Wojciech Kowalczyk
- Leszek Dylik
- Adam Loewe

In the period February – May 2005, the composition of the Supervisory Board was as follows:

- Paweł Olechnowicz

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- Wojciech Kowalczyk
- Rafał Kapala
- Leszek Dylik
- Adam Loewe

On February 23rd 2005, Mr Leszek Dylik joined the Supervisory Board:

As at January 1st 2005, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Wojciech Kowalczyk
- Rafał Kapala

LOTOS Kolej Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Anna Gutjar
- Marek Sokołowski
- Andrzej Pieniecki

On January 24th 2005, Ms Ewa Eljasiak was replaced by Ms Anna Gutjar.

As at January 1st 2005, the Supervisory Board was composed of:

- Ewa Eljasiak
- Marek Sokołowski
- Andrzej Pieniecki

LOTOS Lab Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Małgorzata Kurek-Czuber
- Marek Herra
- Zbigniew Paszkowicz

On March 21st 2005, Messrs Marek Sokołowski and Ryszard Błaszowski were replaced by Ms Małgorzata Kurek-Czuber and Mr Zbigniew Paszkowicz.

As at January 1st 2005, the Supervisory Board was composed of:

- Marek Sokołowski
- Marek Herra
- Ryszard Błaszowski

LOTOS Oil S.A.

As at December 31st 2005, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Rafał Kapala
- Mieczysław Broniszewski

On March 21st 2005, Ms Ewa Eljasiak and Mr Jacek Smereka were replaced by Messrs Rafał Kapala and Mieczysław Broniszewski.

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As at January 1st 2005, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Ewa Eljasiak
- Jacek Smereka

LOTOS Partner Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Marek Herra
- Wojciech Kowalczyk
- Piotr Dąbek

On January 20th 2005, Messrs Paweł Olechnowicz and Jacek Smereka were replaced by Messrs Marek Herra and Piotr Dąbek.

As at January 1st 2005, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Wojciech Kowalczyk
- Jacek Smereka

LOTOS Asphalt Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Piotr Dąbek
- Dariusz Falkiewicz
- Kazimierz Kowalczyk

On February 8th 2005, Mr Jacek Wilkoszewski was replaced by Mr Kazimierz Kowalczyk.

On September 5th 2005, Mr Wojciech Kowalczyk, who resigned from his position, was replaced by Mr Dariusz Falkiewicz.

As at January 1st 2005, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Jacek Wilkoszewski
- Piotr Dąbek

LOTOS Straż Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Marek Sokołowski
- Marek Herra
- Radosław Gorszka

On February 8th 2005, Mr Mirosław Karaszewski was replaced by Mr Radosław Gorszka.

As at January 1st 2005, the Supervisory Board was composed of:

- Marek Sokołowski
- Marek Herra
- Mirosław Karaszewski

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LOTOS Parafiny Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Józef Folcik
- Adam Loewe

On May 16th 2005, Mr Wojciech Blew was replaced by Mr Adam Loewe.

As at January 1st 2005, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Wojciech Blew
- Józef Folcik

LOTOS Serwis Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Marek Sokołowski
- Zbigniew Paszkowicz
- Anna Gutjar

On February 8th 2005, Mr Jarosław Nowak was replaced by Ms Anna Gutjar.

As at January 1st 2005, the Supervisory Board was composed of:

- Marek Sokołowski
- Zbigniew Paszkowicz
- Jarosław Nowak

UAB LOTOS Baltija

As at December 31st 2005, the Supervisory Board was composed of:

- Anna Gutjar
- Artur Warsocki
- Dariusz Falkiewicz

On December 19th 2005, Messrs Piotr Dąbek and Jan Grzesiek were replaced by Mr Dariusz Falkiewicz and Ms Anna Gutjar.

On April 29th 2005, Mr Rafał Kapała was replaced by Mr Piotr Dąbek.

As at January 1st 2005, the Supervisory Board was composed of:

- Rafał Kapała
- Artur Warsocki
- Jan Grzesiek

LOTOS Ochrona Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

- Dariusz Maciejewski

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- Grzegorz Błędowski
- Radosław Gorszka

In the period January 1st – April 12th 2005, the Supervisory Board was composed of:

- Urszula Ungier
- Tomasz Południewski
- Jerzy Najś

LOTOS Czechowice S.A.

In the period November 18th – December 31st 2005, the Supervisory Board was composed of:

- Marek Sokołowski – Chairman
- Grzegorz Herczek
- Rafał Kapala
- Alojzy Danel

In the period August 23rd – November 18th 2005, the Supervisory Board was composed of:

- Marek Sokołowski – Chairman
- Grzegorz Herczek
- Monika Giler
- Rafał Kapala
- Alojzy Danel

In the period May 10th – August 23rd 2005, the Supervisory Board was composed of:

- Marek Sokołowski – Chairman
- Grzegorz Herczek
- Monika Giler
- Anna Andrzejczak
- Rafał Kapala
- Alojzy Danel

In the period January 1st – May 10th 2005, the Supervisory Board was composed of:

- Paweł Olechnowicz – Chairman
- Teresa Imielińska – Deputy Chairperson
- Grzegorz Herczek
- Krzysztof Romaniuk
- Monika Giler
- Wojciech Blew
- Paweł Adamek
- Alojzy Danel
- Edward Kóska

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LOTOS Jaslo S.A.

As at December 31st 2005, the Supervisory Board was composed of:

- Mariusz Machajewski – Chairman
- Lucjan Jarzyński – Deputy Chairman
- Stanisław Płatek
- Eugeniusz Łopatkiewicz
- Marek Herra

As at December 20th 2005, the Supervisory Board was composed of five Members. The following changes were made to the composition of the Supervisory Board: Mr Piotr Dąbek and Ms Danuta Łojek were removed from the Supervisory Board and Mr Marek Herra was appointed to the Supervisory Board.

On May 17th 2005, Messrs Henryk Malesa and Marek Borejko were removed from the Supervisory Board while Mr Piotr Dąbek and Ms Danuta Łojek were appointed to the Supervisory Board.

As at January 1st 2005, the composition of the Supervisory Board was as follows:

- Mariusz Machajewski
- Lucjan Jarzyński
- Stanisław Płatek
- Henryk Malesa
- Marek Borejko
- Eugeniusz Łopatkiewicz

Petrobaltic S.A.

As at December 31st 2005, the Supervisory Board was composed of:

- Paweł Olechnowicz – Chairman
- Józef Głowacki – Deputy Chairman
- Ryszard Pieniążek
- Ewa Eljasiak
- Jerzy Kamiński
- Sławomir Sadowski

On March 31st 2005, Mr Paweł Olechnowicz and Ms Ewa Eljasiak were appointed to the Supervisory Board and Mr Kordian Borecko was removed from the Supervisory Board.

On January 13th 2005, Mr Cezary Nowosad tendered his resignation.

As at January 1st 2005, the Supervisory Board was composed of:

- Jerzy Kamiński
- Józef Głowacki
- Ryszard Pieniążek
- Kordian Borecko
- Sławomir Sadowski
- Cezary Nowosad

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LOTOS Mazowsze S.A.

As at December 31st 2005, the Supervisory Board was composed of:

- Dariusz Falkiewicz
- Radosław Gorszka
- Henryk Malesa

On September 8th, Mr Krzysztof Naruszewicz was removed from the Supervisory Board and Mr Dariusz Falkiewicz was appointed to the Supervisory Board.

On July 15th 2005, Mr Rafał Kapala was removed from the Supervisory Board and Mr Radosław Gorszka was appointed to the Supervisory Board.

On February 9th, Mr Wojciech Kowalczyk was removed from the Supervisory Board and replaced by Mr Henryk Malesa.

On January 1st 2005, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Rafał Kapala
- Krzysztof Naruszewicz

LOTOS Park Technologiczny Sp. z o.o.

As at December 31st 2005, the Supervisory Board was composed of:

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

On April 29th, Messrs Wojciech Blew and Grzegorz Błędowski were removed from the Supervisory Board and replaced by Messrs Marek Sokołowski, Henryk Malesa and Leszek Wasilewski.

As at January 1st 2005, the Supervisory Board was composed of:

- Wojciech Blew
- Grzegorz Błędowski
- Czesław Oruba

CHANGES IN THE COMPOSITION OF MANAGEMENT BOARDS:

LOTOS Paliwa Sp. z o.o.

As at December 31st 2005, the Management Board was composed of:

- Rafał Kapala
- Adam Loewe

Mr Tomasz Bukowski was removed from the Management Board on February 28th 2005.

Mr Robert Łaniewski was removed the Management Board on February 1st 2005.

On September 13th 2005, Mr Adam Loewe became a member of the Management Board.

Mr Sławomir Lucewicz was a member of the Management Board in the period July 12th – December 1st 2005.

On September 2nd 2005, Mr Marcin Herra was removed from office.

Mr Dariusz Falkiewicz was a member of the Management Board in the period February 1st – July 11th 2005.

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On July 12th 2005, Mr Rafał Kapała became a member of the Management Board.

As at January 1st 2005, the Management Board was composed of:

- Marcin Herra
- Tomasz Bukowski
- Robert Łaniewski

LOTOS Oil S.A.

As at December 31st 2005, the company had a single-member Management Board:

- Leszek Stokłosa

On September 30th 2005, Mr Krzysztof Czyż was removed from office.

As at January 1st 2005, the Management Board included:

- Leszek Stokłosa
- Krzysztof Czyż

LOTOS Asphalt Sp. z o.o.

As at December 31st 2005, the company had a single-member Management Board:

- Krzysztof Brygała

On January 25th 2006, Mr Zbigniew Kotuła was removed from the position of the member of the Management Board.

The following persons were appointed to the company's Management Board on March 29th 2004 and performed their duties in 2005:

- Krzysztof Brygała
- Zbigniew Kotuła

LOTOS Serwis Sp. z o.o.

In the period November 1st – December 31st 2005, the Management Board was composed of:

- Piotr Przyborowski
- Andrzej Małczyński
- Kazimierz Malec

In the period January 1st – October 31st 2005, the Management Board was composed of:

- Andrzej Małczyński
- Kazimierz Malec

LOTOS Czechowice S.A.

In the period September 14th – December 31st 2005, the Management Board was composed of:

- Jerzy Kamiński
- Marek Lesisz
- Paweł Rak.

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In the period April 22nd – September 14th 2005, the Management Board was composed of:

- Jerzy Kamiński – President
- Marek Lesisz – Vice-President
- Paweł Rak
- Jerzy Franek

In the period February 10th – April 22nd 2005, the Management Board was composed of:

- Marek Lesisz
- Paweł Rak
- Jerzy Franek

In the period January 1st – February 10th 2005, the Management Board was composed of:

- Adam Loewe – President
- Marek Lesisz – Vice-President
- Andrzej Żurek
- Jerzy Franek

LOTOS Jasło S.A.

As at December 31st 2005, the Management Board was composed of:

- Józef Folcik
- Ryszard Stygar

On May 31st 2005, Mr Robert Bialik was removed from office and the Management Board of LOTOS Jasło S.A. was composed of two persons.

As at January 1st 2005, the Management Board was composed of:

- Józef Folcik
- Ryszard Stygar
- Robert Bialik

LOTOS Mazowsze S.A.

Since February 1st 2005, the company has had a single-member Management Board:

- Tadeusz Szkudlarski

As at January 1st 2005, the Management Board was composed of:

- Tadeusz Szkudlarski
- Dariusz Falkiewicz

LOTOS Park Technologiczny Sp. z o.o.

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

- Robert Bialik
- Anna Grygiel

On April 8th 2005, Mr Henryk Malesa was removed from office and replaced, as of April 9th, by Mr Robert Bialik.

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On July 1st, Ms Anna Grygiel was appointed to the Management Board.

As at January 1st 2005, the company had a single-member Management Board:

- Henryk Malesa

LOTOS Hydrokompleks Sp. z o.o.

On July 21st 2005, Mr Wojciech Sieniawski was removed from office and replaced by Mr Łukasz Jagodziński.

As at January 1st 2005, the company had a single-member Management Board:

- Wojciech Sieniawski

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**23. AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND THE
MANAGEMENT STAFF**

Compensation Agreements

Apart from standard management contracts concluded by Grupa LOTOS S.A. with the management staff in 2005, no agreements were executed that provide for compensation to the management staff in the event they resign or are dismissed without a good reason or in the event they resign or are dismissed as a result of the Company's takeover by another entity.

Other Agreements

In 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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24. 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 Dawideczyk	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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25. AGGREGATE NUMBER AND PAR VALUE OF ALL SHARES OF GRUPA LOTOS S.A. AND SHARES OF RELATED UNDERTAKINGS OF GRUPA LOTOS S.A. HELD BY MANAGEMENT AND SUPERVISORY STAFF

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

	<i>Number of shares</i>	<i>Par value (PLN)</i>
Pawel Olechnowicz	42.755	42.755
Marek Sokolowski	8.636	8.636
Supervisory Board	0	0
Total	51.391	51.391

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

According to the information available to the Company, as at December 31st 2005 and as at the date of this Report, the following are shareholders holding, directly or indirectly through subsidiaries, 5% or more of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A.:

Shareholders	Number of shares	Number of votes	% of total vote at GM	Par value of shares	% of share capital held
State Treasury	7.878.030	7.878.030	6,93%	7.878.030	6,93%
Nafta Polska S.A	59.025.000	59.025.000	51,91%	59.025.000	51,91%
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 shareholder informed the Company of such fact by the date of this Report.

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27. 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.

Additionally, the LOTOS Group companies concluded agreements with Ernst and Young Audit Sp. z o.o. of Warsaw on the audit of their non-consolidated and consolidated financial statements for 2005. The total value of the agreements is PLN 390 thousand.

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

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

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

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

30. 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.

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

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

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32. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

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