



*(This is a translation of a document originally issued in Polish)*

**THE LOTOS GROUP**

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS  
IN THE SIX MONTHS ENDED JUNE 30TH 2008**

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## **INTRODUCTION**

This Directors' Report on the LOTOS Group's operations in the first half of 2008 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.

## **1. BASIC INFORMATION ON THE LOTOS GROUP**

### **1.1 STRUCTURE OF THE LOTOS GROUP**

**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 Gaz S.A. - consolidated with the full method
- LOTOS Oil S.A. - consolidated with the full method
- LOTOS Asphalt Sp. z o.o. - consolidated with the full method
- LOTOS Parafiny 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 Park Technologiczny Sp. z o.o. - consolidated with the full method
- LOTOS Tank Sp. z o.o. - consolidated with the full method
- LOTOS Czechowice S.A. - consolidated with the full method
- LOTOS Jasło S.A. - consolidated with the full method
- P.P.iE.Z.R.iG. Petrobaltic S.A. - consolidated with the full method
- UAB LOTOS Baltija – consolidated with the full method
- Rafineria Nafty Glimar S.A. in bankruptcy - not consolidated
- LOTOS Hydrokompleks Sp. z o.o. - not consolidated

**Indirect subsidiary undertakings:**

- RCEkoenergia Sp. z o.o. - consolidated with the full method
- LOTOS Biopaliwa Sp. z o.o. - consolidated with the full method
- PLASTEKOL Organizacja Odzysku S.A. - consolidated with the full method

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- Chemipetrol Sp. z o.o. – consolidated with the full method
- Miliana Shipping Company Ltd. - consolidated with the full method
- Aphrodite Offshore Services N.V. - consolidated with the full method
- LOTOS Exploration and Production Norge AS - consolidated with the full method<sup>1</sup>,
- KRAK – GAZ Sp. z o.o. - consolidated with the full method
- RC Serwis Sp. z o.o. - not consolidated

**Associated undertakings:**

- Energobaltic Sp. z o.o. - valued with the equity method
- UAB Naftos Gavyba - valued with the equity method.

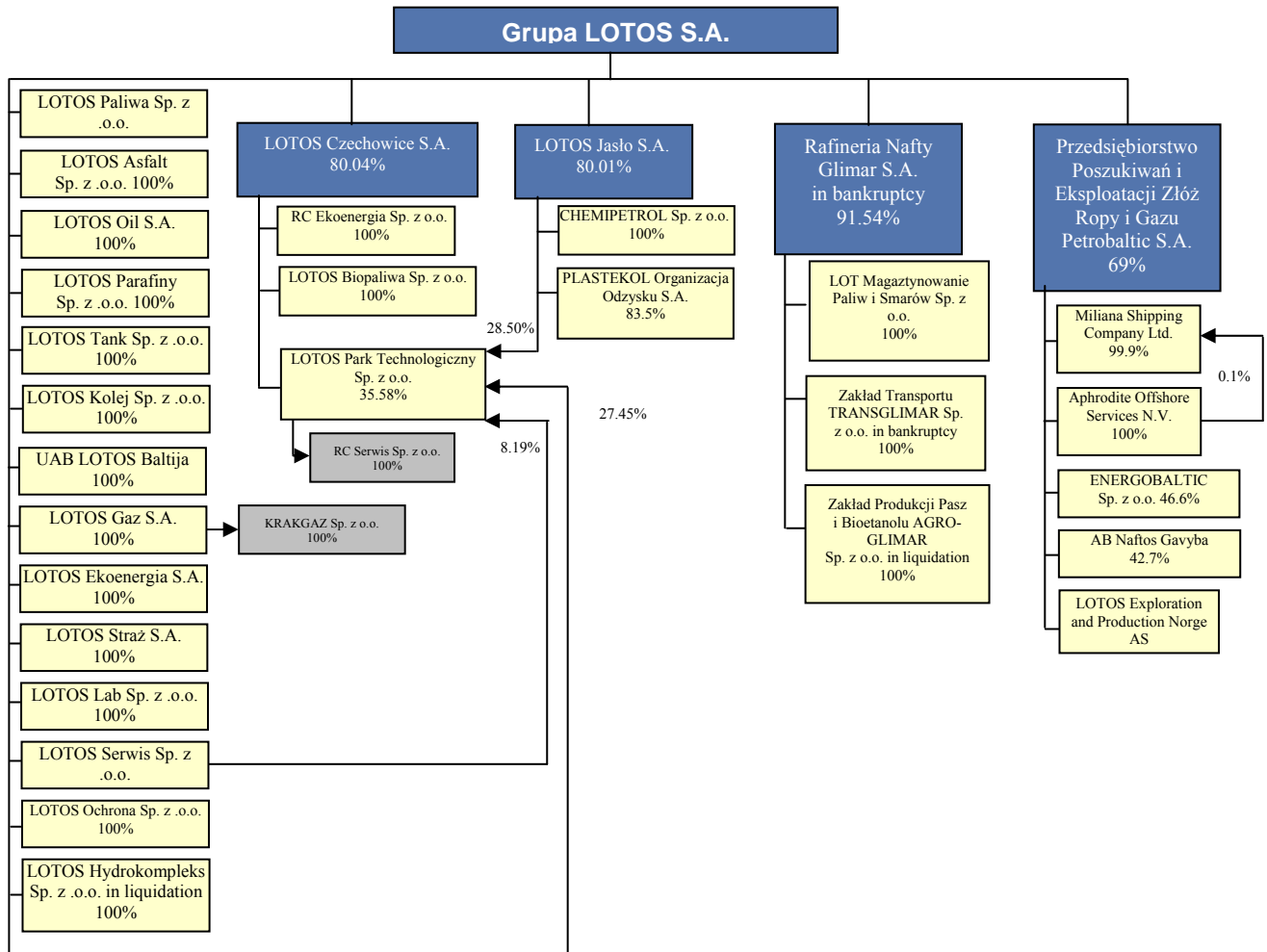
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<sup>1</sup> On September 22nd 2007, the Central Registrar of Businesses in Brønnøysund, Norway, registered LOTOS Exploration and Production Norge AS, based in Norway. Grupa LOTOS S.A. acquired 100% of shares in the newly-established company. Subsequently, on May 27th 2008, Bronnoysundregistrene, the Norwegian companies registrar, registered the share capital increase at LOTOS E&P Norge A.S. from NOK 8m to NOK 40m – the share capital increase was effected through acquisition by P.P.iE.Z.R.iG. Petrobaltic S.A. of new issue shares. Following the share capital increase, P.P.iE.Z.R.iG. Petrobaltic S.A. held 80% of the shares in the share capital of LOTOS Exploration and Production Norge AS. Subsequently, on June 12th 2008, Grupa LOTOS S.A. executed an agreement on sale of 8 million shares, representing 20% of the share capital of LOTOS Exploration and Production Norge AS, to P.P.iE.Z.R.iG. Petrobaltic S.A. On June 17th 2008, the Extraordinary General Shareholders Meeting of P.P.iE.Z.R.iG. Petrobaltic S.A. approved the acquisition by the company of 20% of shares in LOTOS Exploration and Production Norge AS. As a result of the transaction, P.P.iE.Z.R.iG. Petrobaltic S.A. holds 100% of shares in the share capital of LOTOS Exploration and Production Norge AS.

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**Organisational Structure of the LOTOS Group**

As at June 30th 2008, as at December 30th 2007 and as at June 30th 2007, the Grupa LOTOS S.A.'s share in the total vote at the General Shareholders Meetings of its subsidiary undertakings equalled the Grupa LOTOS S.A.'s share in the share capital of these undertakings.<sup>2</sup>



<sup>2</sup> As at June 30th 2008, Grupa LOTOS S.A. held 8.97% of shares in the share capital of Przedsiębiorstwo Przeladunku Paliw Płynnych NAFTOPORT Sp. z o.o.

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## **1.2 CONSOLIDATED UNDERTAKINGS OF THE LOTOS GROUP**

### **1.2.1 PARENT UNDERTAKING**

#### **Grupa LOTOS S.A.**

Grupa LOTOS S.A. ("the Company", "Parent Undertaking"), the Parent Undertaking of the LOTOS Group ("the Group") was established by virtue of Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (currently, 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.

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 and retail sale. Grupa LOTOS S.A. is also engaged in the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production.

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).

The Gdańsk refinery's crude oil distillation capacity amounts to approximately 6m tonnes annually.

Grupa LOTOS S.A. is carrying out the 10+ Programme aimed at increasing the annual throughput capacity of the Gdańsk refinery by approximately 75%, to 10.5 million tonnes of crude oil. The execution of the 10+ Programme has been divided into stages:

- stage 1 provides for the construction of the following units at the Gdańsk refinery of Grupa LOTOS S.A. until 2010: crude distillation unit, diesel oil hydrodesulphurisation unit, mild hydrocracking unit, heavy residue processing unit, hydrogen production facility, and an amine sulphur recovery (ASR) unit;
- stage 2 is the construction of a unit for heavy residue gasification after 2012.

The expenditure on the 10+ Programme is planned to amount to ca. EUR 1.47bn until 2012. In accordance with the financing strategy, 70% of the funding required to carry out the Programme will be raised from external sources.

### **1.2.2 THE LOTOS GROUP COMPANIES**

#### **LOTOS Paliwa Sp. z o.o.**

LOTOS Paliwa Sp. z o.o., spun-off from Grupa LOTOS S.A., was incorporated by virtue of Notarial Deed of January 12th 1996 (Rep. A No. 119/96) and entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on April 9th 2001 under No. KRS 0000006312. The company's registered office is located in Gdańsk. As at June 30th 2008, its share capital amounted to PLN 114,706,000.00 and was divided into 114,706 shares with a par value of PLN 1,000.00 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 exclusive distributor of fuels and light fuel oil of the Group. The operations of LOTOS Paliwa Sp. z o.o. focus on:

- management and development of the service station network (CODO, DOFO and DODO stations) representing one of the largest service station networks 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. In 2008, the Company also started selling the *Dynamic* fuels and introduced the *Navigator* loyalty programme. The sales of light fuel oil also have a significant share in total sales of the company. The company provides car maintenance services, as well as advertising and promotion services. Car maintenance services comprise car

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washing and basic car servicing. The company is gradually increasing the number of stations offering such services.

**LOTOS Gaz S.A.**

LOTOS Gaz S.A. joined the LOTOS Group as a result of the acquisition by Grupa LOTOS S.A. of a 75% stake in PETRIM S.A. on June 17th 2003. Upon the acquisition of the shares, the company's name was changed to LOTOS Mazowsze S.A. PETRIM S.A. was incorporated by virtue of the Notarial Deed of December 27th 2000 (Rep. A No. 6117/00). The company was entered in the National Court Register maintained by the District Court for the Capital City of Warsaw, XIV Commercial Division of the National Court Register, on December 14th 2001, under No. KRS 0000069388. In June 2004, the acquisition of 75% of shares in LOTOS Mazowsze S.A. was settled 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 S.A. became a wholly-owned subsidiary of Grupa LOTOS S.A.

On July 5th 2007, the company's name was changed to LOTOS Gaz S.A. As at June 30th 2008, the share capital of LOTOS Gaz S.A. amounted to PLN 3,680,000.00 and was divided into 160,000 Series A Shares with a par value of PLN 23.00 per share. The company's registered office is situated in Mława.

Until the end of 2006, the company traded in liquid propane/butane, heavy fuel oil, plasticizers, sulphur and light fuel oil. With effect from January 1st 2007, in connection with the restructuring of the sales division within the entire LOTOS Group, LOTOS Gaz S.A.'s sales structure was changed: the Company's activities are now focused on sales of liquefied gas (LPG and heating gas) and sales of sulphur.

As part of its strategy in LPG trade, on July 9th 2007 the company acquired 100% shares in KRAK-GAZ Sp. z o.o. for PLN 16,368 thousand.

**LOTOS Oil S.A.**

The company was established by virtue of the Notarial Deed of July 26th 2002 (Rep. No. A 3411/2002) and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on August 27th 2002, under No. KRS 0000128016. The company's registered office is located in Gdańsk. Its share capital as at June 30th 2008 amounted to PLN 2,000 thousand and was divided into 200,000 bearer shares (50,000 Series A shares of the first issue and 150,000 Series B shares of the second issue) with a par value of PLN 10.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Oil S.A.

LOTOS Oil S.A.'s business consists in the production and distribution of lubricants: finished car and industrial oils and lubes, base oils, as well as distribution of car-care products and car chemicals. The company operates three production centres, located in Gdańsk, Czechowice-Dziedzice and Jasło, and a Distribution Centre in Piotrków Trybunalski. On January 1st 2007, in connection with the restructuring of the sales division within the entire LOTOS Group LOTOS Oil S.A. took over from LOTOS Gaz S.A. the sale of plasticizers. In H1 2008, the company continued to consistently strengthen its leading position on the lubricants market. In line with the adopted strategy, the company maintained an over 30% share in the engine oils segment and in the industrial oils segment.

**LOTOS Asphalt Sp. z o.o.**

The company was incorporated by virtue of Notarial Deed of December 30th 2003 (Rep. A No. 4586/2003), and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on April 26th 2004 under No. KRS 0000204527. The company's registered office is located in Gdańsk. As at June 30th 2008, the company's share capital was PLN 2,000 thousand 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.

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

LOTOS Asphalt Sp. z o.o. produces and sells road and industrial bitumens, emulsions and special bitumen products; additionally, it also sells heavy fuel oil. LOTOS Asphalt Sp. z o.o. operates three production plants: in Gdańsk, Jasło and Czechowice-Dziedzice. LOTOS Asphalt's bitumens are sold mainly on the domestic market. Export sales are made to Sweden, Lithuania, the Czech Republic, Slovakia, Austria, Hungary, Germany, Russia, Romania, Latvia and Ukraine.



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**LOTOS Parafiny Sp. z o.o.**

The company was established on the basis of Parafiny Rafineria Jasło Sp. z o.o., through consolidation of the paraffin-related operations of Parafiny Rafineria Jasło Sp. z o.o., RC Parafiny Sp. z o.o. and Chemipetrol Sp. z o.o. Parafiny Rafineria Jasło Sp. z o.o. was incorporated by virtue of Notarial Deed of December 13th 1999 (Rep. A No. 4889/99) and was entered in the National Court Register (maintained by the District Court of Rzeszów, XII Commercial Register of the National Court Register) on May 27th 2002 under No. KRS 0000114749. On August 26th 2004, the change in the company's name from Parafiny Rafineria Jasło Sp. z o.o. to LOTOS Parafiny Sp. z o.o. was registered. The company's registered office is situated in Jasło. As at June 30th 2008, the share capital of LOTOS Parafiny Sp. z o.o. amounted to PLN 19,783 thousand and was divided into 19,783 shares with a par value of PLN 1,000.00 per share. Grupa LOTOS S.A. holds 100% of shares in LOTOS Parafiny Sp. z o.o.

The company's operations are based on two production centres located in Jasło and Czechowice-Dziedzice, and are focused on the production of high quality paraffin, a wide range of paraffin mass, wax, ceresine, petroleum jelly and lubes, as well as candles and votive candles.

**LOTOS Ekoenergia S.A.**

The Company was incorporated by virtue of Notarial Deed of July 17th 2002 (Rep. A nr 3211/02) and was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) on August 26th 2002 under No. KRS 0000128043. The registered office of Lotos Ekoenergia S.A. is located in Gdańsk. LOTOS Ekoenergia S.A. is a wholly-owned subsidiary of Grupa LOTOS S.A.

As at June 30th 2008, the company's share capital amounted to PLN 500 thousand and was divided into 50,000 Series A bearer shares with a par value of PLN 10.00 per share.

The company was established in 2002 to execute the 10+ Programme (Comprehensive Technical Upgrade Programme, PKRT). As at June 30th 2008, LOTOS Ekoenergia S.A. had not commenced operating activities. In its investment plans, the LOTOS Group assumed that the main part of the 10+ Programme would be financed, constructed and operated by LOTOS Ekoenergia S.A., while Grupa LOTOS S.A. would carry out the required infrastructure adaptation work at the Gdańsk refinery. Currently though, the project is being carried out and financed by Grupa LOTOS S.A.

**LOTOS Kolej Sp. z o.o.**

LOTOS Kolej Sp. z o.o. was incorporated by virtue of the Notarial Deed of January 13th 2000 (Rep. A No. 131/2000). On October 16th 2002, the company was entered in the National Court Register currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000135118. The registered office of LOTOS Kolej Sp. z o.o. is located in Gdańsk.

As at June 30th 2008, the company's share capital amounted to PLN 2,000 thousand and was divided into 4,000 shares with a par value of PLN 500.00 per share. The company is wholly owned by Grupa LOTOS S.A.

LOTOS Kolej Sp. z o.o. (spun off from Grupa LOTOS S.A.) provides the LOTOS Group with comprehensive railway services.

The main activities of the company include:

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

The company holds a licence for transport of goods by railway within the entire territory of Poland. Moreover, LOTOS Kolej Sp. z o.o. operates a rail and road tanker cleaning facility in Jasło, as well as rents tank cars for transporting liquid gases.

**LOTOS Serwis Sp. z o.o.**

LOTOS Serwis Sp. z o.o. was incorporated by virtue of the Notarial Deed of April 29th 2003 (Rep. A No. 2138/2003). On May 9th 2003, the company was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000161302. As at June 30th 2008, the company's share capital amounted to PLN 2,500 thousand and was divided into 5,000 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A. LOTOS Serwis Sp. z o.o.'s registered office is situated in Gdańsk.

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

The Company has divisions in three towns: Gdańsk, Czechowice-Dziedzice and Jasło.

On June 26th 2008, an Extraordinary General Shareholders Meeting was held, at which the Deed of Association of the company was amended. The amendment consisted in the abolishment of the company's Supervisory Board. The abolishment of the Supervisory Board is an element of a programme implemented in H1 2008 with a view to streamlining the ownership supervision at the LOTOS Group.

**LOTOS Lab Sp. z o.o.**

LOTOS Lab Sp. z o.o. was incorporated by virtue of the Notarial Deed of May 29th 2003 (Rep. A No. 2665/2003) and entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000165598 on June 24th 2003. Its registered office is situated in Gdańsk. As at June 30th 2008, the company's share capital amounted to PLN 1,000 thousand and was divided into 2,000 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A.

LOTOS Lab Sp. z o.o. performs laboratory testing in its three laboratories situated in Gdańsk, Jasło and Czechowice-Dziedzice. It provides analytical services related to crude oil, crude oil products, water, sewage, and certain chemicals, and performs measurements and prepares documentation relating to working conditions. In order to improve the quality of services offered, the company implemented a management system compliant with the PN-EN ISO/IEC 17025 Standard in its Gdańsk and Czechowice-Dziedzice laboratories and received confirmation that the scope of its Research Laboratory Certificate was extended to include research methods for bio-fuels and bio-components.

In H1 2008, the restructuring of the Jasło division of LOTOS Lab was commenced.

On June 26th 2008, an Extraordinary General Shareholders Meeting was held, at which the Deed of Association of the company was amended. The amendment consisted in the abolishment of the company's Supervisory Board. The abolishment of the Supervisory Board is an element of a programme implemented in H1 2008 with a view to streamlining the ownership supervision at the LOTOS Group.

**LOTOS Straż Sp. z o.o.**

The company was established by virtue of the Notarial Deed of February 4th 2004 (Rep. A No. 610/2004) and was entered in the Register of Entrepreneurs of the National Court Register currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register, under No. KRS 0000196158, on February 20th 2004. As at June 30th 2008, its share capital amounted to PLN 3,900 thousand and was divided into 7,800 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. holds 100% of shares in 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 Gdańsk refinery.

On June 26th 2008, an Extraordinary General Shareholders Meeting was held, at which the Deed of Association of the company was amended. The amendment consisted in the abolishment of the company's Supervisory Board. The abolishment of the Supervisory Board is an element of a programme implemented in H1 2008 with a view to streamlining the ownership supervision at the LOTOS Group.

**LOTOS Ochrona Sp. z o.o.**

Slużba Ochrony Rafinerii Gdańskiej Sp. z o.o. was established by virtue of the Notarial Deed of June 19th 1998, (Rep. A No. 2482/98). On January 15th 2002, the company was entered in the National Court Register (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 0000068276. Since December 19th 2003, the company has been operating under the name of LOTOS Ochrona Sp. z o.o.

As at June 30th 2008, the share capital of LOTOS Ochrona Sp. z o.o. amounted to PLN 302,500.00 and was divided into 605 shares with a par value of PLN 500.00 per share. The company is wholly-owned by Grupa LOTOS S.A.

The activities of LOTOS Ochrona Sp. z o.o. (spun off from Grupa LOTOS S.A.) consist in personal and property protection. The company provides services for the LOTOS Group, including P.PiE.Z.R.iG. Petrobaltic

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S.A. and other entities performing work on the premises of the Gdańsk refinery. The objective behind limiting the company's scope of operations was to help maintain a constant high level of security at the Gdańsk refinery.

**LOTOS Park Technologiczny Sp. z o.o.**

The company was established by virtue of Notarial Deed of December 13th 2004 (Rep. A No. 6729/2004). On January 6th 2005, it was entered in the National Court Register maintained by the District Court of Kraków-Śródmieście, XII Commercial Division of the National Court Register, under No. KRS 0000225650. As at June 30th 2008, the share capital of LOTOS Park Technologiczny Sp. z o.o. amounted to PLN 17,307 thousand and was divided into 34,614 shares with a par value of PLN 500.00 per share. Grupa LOTOS S.A. directly held 27.45% of the company's share capital.

Until May 28th 2008, the company was based in Gorlice; on May 28th 2008, the District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered relocation of the company's registered office, which was moved to Jasło. The company's registered office was relocated as part of the process (initiated at the end of December 2007) of winding-up of the company's operations and the company's participation in further restructuring of the Group's Southern Refineries.

**LOTOS Tank Sp. z o.o.**

The company was established by virtue of Notarial Deed of April 20th 1999 (Rep. A No. 1187/99). 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. The company's registered office is located in Jasło.

As at December 31st 2006, the company's shareholder structure was as follows:

- Grupa LOTOS S.A. held 300 shares in the company (representing 30% of total vote at its General Shareholders Meeting),
- LOTOS Jasło S.A. held 700 shares in the company (representing 70% of total vote at its General Shareholders Meeting).

On April 11th 2007, as part of the strategy aimed at streamlining the asset structure at the Southern Refineries, Grupa LOTOS S.A. purchased from LOTOS Jasło S.A. 700 shares in the company, representing 70% of its share capital, for PLN 642,500.00. Following the transaction, Grupa LOTOS S.A. became the sole shareholder in LOTOS Tank Sp. z o.o.

As part of the LOTOS Group, the company is responsible for the sales of Jet fuel (including development of the sales and meeting sales targets) to end customers, including directly to airlines.

### **1.2.3 THE LOTOS CZECHOWICE GROUP**

**LOTOS Czechowice S.A.**

The Company was founded through the transformation on January 9th 1996 of the state-owned enterprise operating under the name of Śląskie Zakłady Rafinerijne im. Ludwika Waryńskiego in Czechowice-Dziedzice, into a state-owned stock company Rafineria Czechowice S.A. On March 26th 2002, the Company was entered in the National Court Register maintained by the District Court of Katowice, VIII Commercial Division of the National Court Register, under No. KRS 0000102608. Its registered office is located in Czechowice-Dziedzice. On December 19th 2005 the change of the company's name from Rafineria Czechowice S.A. to LOTOS Czechowice S.A. was entered in the National Court Register.

As at June 30th 2008, the company's share capital amounted to PLN 75,000 thousand and was divided into 7,500,000 Series A registered shares with a par value of PLN 10.00 per share. Grupa LOTOS S.A. holds an 80.04% equity interest in the company.

The company's core business consists in provision of services related to trade in (distribution of) oil products, storing of fuels as well as building and maintaining reserves of fuels in accordance with the applicable laws and regulations. LOTOS Czechowice S.A.'s infrastructure, including storage and distribution depot, road tanker terminal along with a fuel and railway loading terminal allows the company to act as the Group's logistics operator complying with current and future regulations governing the operation of storage and distribution depots.

H1 2008 the company's restructuring process was under way.

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**RCEkoenergia Sp. z o.o.**

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

As at June 30th 2008, the share capital of RC Ekoenergia Sp. z o.o. amounted to PLN 20,061,000, and was divided into 20,061 shares with a par value of PLN 1,000.00 per share. RC Ekoenergia Sp. z o.o. is wholly-owned by LOTOS Czechowice S.A.

The core business of RC Ekoenergia Sp. z o.o. is the production, transmission, distribution and trade in energy media. In H1 2008, the energy-related components of the FAME auxiliary infrastructure was completed.

**LOTOS Biopaliwa Sp. z o.o.**

LOTOS Biopaliwa Sp. z o.o. was established in 2000 under the original name of RC Parafiny Sp. z o.o. On May 10th 2006, the change of the company's name to LOTOS Biopaliwa Sp. z o.o. was registered in the National Court Register. 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 0000065231.

As at June 30th 2008, the company's share capital amounted to PLN 10,000 thousand and was divided into 20,000 shares with a par value of PLN 500.00 per share. The company is wholly owned by LOTOS Czechowice S.A. The company's core business includes production and sale of fatty acid methyl esters (FAME). In H1 2008, the company was finalising an investment project consisting in the construction of an installation for the production of FAME, commonly known as biodiesel, with the annual throughput capacity of 100 thousand tonnes. The commissioning of the installation is currently under way.

On April 18th 2008, the company and Grupa LOTOS S.A. executed an agreement concerning supplies of FAME to Grupa LOTOS S.A.

#### **1.2.4 THE LOTOS JASŁO GROUP**

**LOTOS Jasło S.A.**

The company was formed as a result of the transformation on May 17th 1996 of the state-owned enterprise Podkarpackie Zakłady Rafineryjne im. Ignacego Łukasiewicza of Jasło into a state-owned stock company Rafineria Jasło S.A. On November 30th 2001, 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 0000068125. Since January 2nd 2006, the company's name has been LOTOS Jasło S.A.

As at June 30th 2008, the share capital of LOTOS Jasło S.A. amounted to PLN 48,000 thousand and was divided into 6,000,000 Series A registered shares with a par value of PLN 8.00 per share. Grupa LOTOS S.A. holds 80.01% of shares in LOTOS Jasło S.A.

LOTOS Jasło S.A. is a production and trading company whose core business encompasses:

- processing of crude oil, waste oil and hydrocarbon fraction derived from plastic waste
- recycling of plastic waste and waste oil
- production and sale of fuels
- logistics services for the LOTOS Group (fuel terminal)
- production of special petroleum products
- auxiliary activities (sewage treatment and electricity network management).

In H1 2008 the company's restructuring process was under way.

From May 19th to June 9th 2008, LOTOS Jasło S.A. proceeded with the buy-out of PLASTEKOL Organizacja Odzysku S.A. shares from minority shareholders. In this period, as part of the buy-out process the company acquired in aggregate 16.5% of the shares in PLASTEKOL Organizacja Odzysku S.A. As a result of the executed transactions, as at June 30th 2008 LOTOS Jasło S.A. held 83.5% shares in the share capital of PLASTEKOL Organizacja Odzysku S.A.

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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 Charges and Security Deposit Fees, dated May 11th 2001 (Dz.U. No. 63, Item 639), LOTOS Jasło S.A. (previously Rafineria Jasło S.A.) and sixteen other companies set up a common waste recovery organisation operating as a joint-stock company under the name of PLASTEKOL Organizacja Odzysku S.A., registered office in Warsaw. The company was established by virtue of the Notarial Deed of January 8th 2002 and was entered in the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register, under No. KRS 0000082936 on January 17th 2002. On May 6th 2004, the Annual General Shareholders Meeting passed a resolution to relocate the company's registered office. Since the registration of the change on August 19th 2004, the company's registered office has been situated in Jasło.

As at June 30th 2008 the company's share capital amounted to PLN 1,000 thousand, and was divided into 1,000 Series A registered non-preference shares with a par value of PLN 1,000.00 per share. The company's principal shareholder is LOTOS Jasło S.A., which, as at June 30th 2008 held 83.5% of the total vote at its 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.**

P.P.iE.Z.R.iG. Petrobaltic S.A. commenced its activities as a limited liability company on January 1st 1999, following commercialisation of the state-owned enterprise. In 2003, the company changed its legal form and became a joint-stock company. Currently, the company is registered in the National Court Register (maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register) under No. KRS 00000171101. Its registered office is situated in Gdańsk. As at June 30th 2008, the company's share capital amounted to PLN 92,400 thousand and was divided into 9,240,000 shares with a par value of PLN 10.00 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 development of oil and gas fields 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 CYP 1 per share. P.P.iE.Z.R.iG. 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., P.P.iE.Z.R.iG. 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 P.P.iE.Z.R.iG. Petrobaltic S.A.

**Energobaltic Sp. z o.o.**

Energobaltic Sp. z o.o. was incorporated by virtue of the Articles of Association of September 10th 1997. On May 11th 2001 the company was entered in the National Register of Entrepreneurs (currently maintained by the District Court for Gdańsk-Północ of Gdańsk, VII Commercial Division of the National Court Register), under No. KRS 0000011924. The company's registered office is situated in Gdańsk.

As at June 30th 2008, 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. P.P.iE.Z.R.iG. Petrobaltic S.A. holds 846 shares in Energobaltic Sp. z o.o., representing 46.6% of its share capital.

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

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**AB Naftos Gavyba (previously UAB Naftos Gavyba)**

UAB Naftos Gavyba was incorporated on July 14th 2000. Its registered office is situated in Gargždai, Lithuania. The share capital of AB Naftos Gavyba comprises 10,000 shares with a par value of LTL 1.00 per share. P.P.iE.Z.R.iG. Petrobaltic S.A. holds 4,270 shares in AB Naftos Gavyba, representing 42.7% of its share capital. The company is responsible for equity operations in the oil industry. It manages the shares of AB Geonafta, in which it held a stake of 91,38% as at June 30th 2008.

**LOTOS Exploration and Production Norge AS**

On September 22nd 2007, the Central Registrar of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS. As at January 1st 2008, the company's share capital was NOK 8,000,000.00 and was divided into 8,000,000 ordinary shares with a par value of NOK 1 per share, conferring rights to 8,000,000 votes. The company was wholly-owned by Grupa LOTOS S.A. The company's business includes the exploration for and production of crude oil on the Norwegian Continental Shelf, as well as provision of the related services.

**1.2.6 RAFINERIA NAFTY GLIMAR S.A.**

Rafineria Nafty Glimar S.A. was established upon transformation of a state-owned enterprise under the name Rafineria Nafty Glimar. The company's promoter was the State Treasury. Grupa LOTOS S.A. came to hold 91.5% of shares in Rafineria Nafty Glimar S.A. following a block transaction involving the purchase of shares in Rafineria Jasło S.A. (currently LOTOS Jasło S.A.), Rafineria Czechowice S.A. (currently LOTOS Czechowice S.A.) and P.P.iE.Z.R.iG. Petrobaltic S.A. The share purchase agreement was signed on January 13th 2005, while the ownership rights to the shares were transferred to Grupa LOTOS S.A. on February 5th 2005, upon the fulfillment of conditions precedent.

On January 19th 2005, the District Court in Nowy Sącz declared Rafineria Nafty Glimar S.A.'s bankrupt, which means that as at the date on which the company shares were acquired by Grupa LOTOS S.A. bankruptcy proceedings involving realising the debtor's assets were under way.

On March 19th 2008, the District Court in Nowy Sącz issued a decision to discontinue the bankruptcy proceedings on the grounds of insufficient financial means available for the official receiver to continue the proceedings. Due to complaints filed against the decision to discontinue the bankruptcy proceedings, as at June 30th 2008 the decision had not become final. The decision became final on July 25th 2008 after the Regional Court in Kraków, XII Commercial Appellate Division, dismissed the complaints.

**1.3 CHANGES IN THE SHAREHOLDER STRUCTURE WITHIN THE GROUP IN THE FIRST HALF OF 2008**

**PLASTEKOL Organizacja Odzysku S.A.**

As at January 1st 2008, LOTOS Jasło S.A. (controlled in 80.01% by Grupa LOTOS S.A.) held 67% of shares in PLASTEKOL Organizacja Odzysku S.A. In H1 2008, LOTOS Jasło S.A. initiated the process to buy out the company's shares from its minority shareholders.

- On May 19th 2008, LOTOS Jasło S.A. acquired 3% of shares in the company, achieving a 70% interest in its share capital;
- On May 30th 2008, LOTOS Jasło S.A. acquired 6% of shares in the company, achieving a 76% interest in its share capital;
- On June 3rd 2008, LOTOS Jasło S.A. acquired 4.5% of shares in the company, achieving an 80.5% interest in its share capital;
- On June 9th 2008, LOTOS Jasło S.A. acquired 3% of shares in the company, achieving an 83.5% interest in its share capital.

The transactions were an element of implementation of the programme aimed at streamlining the structure of the LOTOS Group.

**LOTOS Exploration and Production Norge AS**

On May 27th 2008, Bronnoysundregistrene, the Norwegian companies registrar, registered the share capital increase at LOTOS Exploration and Production Norge AS from NOK 8m to NOK 40m, which was effected

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through the acquisition of new issue shares by P.P.iE.Z.R.iG. Petrobaltic S.A. Following the increase, P.P.iE.Z.R.iG. Petrobaltic S.A. held an 80% interest in the share capital of LOTOS Exploration and Production Norge AS. The purpose of the increase of the company's share capital through the issue of new shares was to ensure financing for further development of its business, which involves exploration for and production of crude oil on the Norwegian Continental Shelf. P.P.iE.Z.R.iG. Petrobaltic S.A. acquired control of LOTOS Exploration and Production Norge AS as the Group's leading company in the area of oil and gas exploration and production. On June 12th 2008, Grupa LOTOS S.A. concluded an agreement to sell 8 million shares, representing 20% of the share capital in LOTOS Exploration and Production Norge AS, to P.P.iE.Z.R.iG. Petrobaltic S.A. On June 17th 2008, the Extraordinary General Shareholders Meeting of P.P.iE.Z.R.iG. Petrobaltic S.A. approved the acquisition of the 20% stake in LOTOS Exploration and Production Norge AS. Following the transaction, P.P.iE.Z.R.iG. Petrobaltic S.A. holds 100% of the shares in LOTOS Exploration and Production Norge AS. The transaction involving the purchase of shares by P.P.iE.Z.R.iG. Petrobaltic S.A. was an element of implementation of the programme aimed at streamlining the structure of the LOTOS Group.

On August 26th 2008, the Management Board of Petrobaltic S.A. resolved to commence the procedure for registration of a share capital increase at LOTOS Exploration and Production Norge AS and of acquisition of the shares in the company by Petrobaltic S.A. The share capital of LOTOS Exploration and Production Norge AS was increased from NOK 40m to NOK 190m. The new shares comprising the increased share capital, whose aggregate par value amounts to NOK 150m, are equal and indivisible and represent 78.9% of the increased share capital of LOTOS Exploration and Production Norge AS. Petrobaltic S.A. treats the acquired shares as a long-term investment. Petrobaltic S.A. purchased the 150 million new issue shares in LOTOS Exploration and Production Norge AS for cash. The purchase price of the shares, equal to their aggregate par value of NOK 150m (PLN 62.8m, translated at the NOK mid exchange rate quoted by the National Bank of Poland for August 26th 2008), was covered with Petrobaltic's internally-generated funds.

**Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy)**

On March 19th 2008, the District Court in Nowy Sącz issued a decision to discontinue the bankruptcy proceedings concerning Rafineria Nafty Glimar S.A. on the grounds of insufficient financial means available for the official receiver to continue the proceedings. Due to complaints filed against the decision to discontinue the bankruptcy proceedings, as at June 30th 2008 the decision had not become final. The decision became final on July 25th 2008 after the Regional Court in Kraków, XII Commercial Appellate Division, dismissed the complaints. The Management Board of Rafineria Nafty GLIMAR S.A. of Gorlice immediately took steps to take over the company's assets from the receiver.

**P.P.P.P. Naftoport Sp. z o.o.**

On May 7th 2008, the Appellate Court of Szczecin passed a ruling in the case brought by the State Treasury against Grupa LOTOS S.A. and Przedsiębiorstwo Państwowe Polska Żegluga Morska to declare invalidity of the agreement on sale of P.P.P.P. Naftoport Sp. z o.o. shares, dismissing the action brought by the State Treasury. On May 7th 2008, the ruling became final and enforceable.

**LOTOS Tank Sp. z o.o.**

On July 24th 2008, Grupa LOTOS S.A., which exercises full control over LOTOS Tank Sp. z o.o., signed a declaration on acquisition of shares in the increased share capital of LOTOS Tank Sp. z o.o. The shares will be fully paid up in cash. The share capital of LOTOS Tank Sp. z o.o. was increased from PLN 500 thousand to PLN 6,945 thousand, i.e. by PLN 6,445 thousand; the share capital increase was effected by increasing the par value of the 1,000 existing shares from PLN 500 to PLN 6,945 per share. Following the acquisition of the shares in the increased share capital of LOTOS Tank Sp. z o.o., Grupa LOTOS S.A. will continue to hold 100% of the equal and indivisible shares in the company and will be entitled to exercise 100% of the voting rights attached to the shares at the General Shareholders Meeting of LOTOS Tank Sp. z o.o. Grupa LOTOS S.A. treats the acquisition of the shares in the increased share capital of LOTOS Tank Sp. z o.o. as a long-term equity investment. The increase in the share capital of LOTOS Tank Sp. z o.o. was effected as part of the LOTOS Group's efforts to develop its activities in the area of JET fuel sales. On July 31st 2008, Grupa LOTOS S.A. paid the due amount of PLN 6,445 thousand for the shares.

**LOTOS Serwis Sp. z o.o.**

On August 5th 2008 Grupa LOTOS S.A., which exercises full control over LOTOS Serwis Sp. z o.o., acquired shares in the increased share capital of LOTOS Serwis Sp. z o.o. Grupa LOTOS S.A. acquired the shares at a

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price equal to their par value. The shares were fully paid up with cash. The share capital of LOTOS Serwis Sp. z o.o. was increased from PLN 2,500 thousand to PLN 4,000 thousand, i.e. by PLN 1,500 thousand, through the creation of 3,000 new shares with the par value of PLN 500 per share. After acquiring the shares in the increased share capital of LOTOS Serwis Sp. z o.o., Grupa LOTOS S.A. continues to hold 100% of the equal and indivisible shares in the company and 100% of the total vote at its General Shareholders Meeting. The core business of LOTOS Serwis Sp. z o.o. comprises maintenance of continuous operation and repair of equipment and installations for Grupa LOTOS S.A. and its subsidiaries. Grupa LOTOS S.A. treats the acquisition of the shares in the increased share capital of LOTOS Serwis Sp. z o.o. as a long-term investment. On August 8th 2008, Grupa LOTOS S.A. paid the due amount for the shares.

The District Court for Gdańsk-Północ in Gdańsk registered the share capital increase at LOTOS Serwis Sp. z o.o. on September 17th 2008. Following the increase, the share capital of LOTOS Serwis Sp. z o.o. amounts to PLN 4,000 thousand and is divided into 8,000 equal and indivisible shares, with the par value of PLN 500 per share, conferring the right to 8,000 votes.

#### **1.4 CHANGES IN ORGANISATION AND MANAGEMENT OF THE LOTOS GROUP.** **EMPLOYMENT STRUCTURE**

In H1 2008, no significant changes occurred with respect to the organisation and management of Grupa LOTOS S.A. As far as other members of the LOTOS Group are concerned, the changes in its organisation and management are presented below.

##### **LOTOS Exploration and Production Norge AS**

In H1 2008, P.P.iE.Z.R.iG. Petrobaltic S.A. acquired 100% of shares in LOTOS Exploration and Production Norge AS following the increase in the company's share capital (registered on May 27th 2008) and transaction involving the sale of shares by Grupa LOTOS S.A. (the agreement of June 12th 2008). The purpose of the new share issue was to ensure financing for the further development of the company's business, which involves exploration for and production of crude oil on the Norwegian Continental Shelf. LOTOS Exploration and Production Norge AS was moved from the group of direct subsidiaries of Grupa LOTOS S.A. to the Petrobaltic Group based on a rationale that P.P.iE.Z.R.iG. Petrobaltic S.A. is the LOTOS Group's leading company operating in the area of oil and gas exploration and production.

##### **LOTOS Lab Sp. z o.o., LOTOS Straż Sp. z o.o., and LOTOS Serwis Sp. z o.o.**

In H1 2008 changes were introduced at LOTOS Lab Sp. z o.o., LOTOS Straż Sp. z o.o., and LOTOS Serwis Sp. z o.o. as part of the programme aimed at streamlining the ownership supervision at the LOTOS Group. The changes consisted in the abolishment of the companies' Supervisory Boards. The companies' Extraordinary General Shareholders Meetings which amended their Deeds of Association were held in June 2008. The amendments were registered in the National Court Register maintained by the District Court of Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, in July 2008.

##### **LOTOS Park Technologiczny Sp. z o.o.**

Until May 28th 2008, the company was based in Gorlice; on May 28th 2008, the District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered relocation of the company's registered office, which was moved to Jasło. The company's registered office was relocated as part of the process (initiated at the end of December 2007) of winding-up of the company's operations and the company's participation in further restructuring of the Group's Southern Refineries.

#### **AVERAGE EMPLOYMENT AT THE LOTOS GROUP:**

	<b>6 months ended Jun 30 2008</b>	<b>6 months ended Jun 30 2007</b>
Blue-collar jobs	2,557	3,365
White-collar jobs	2,222	2,233
<b>Total</b>	<b>4,779</b>	<b>5,598</b>



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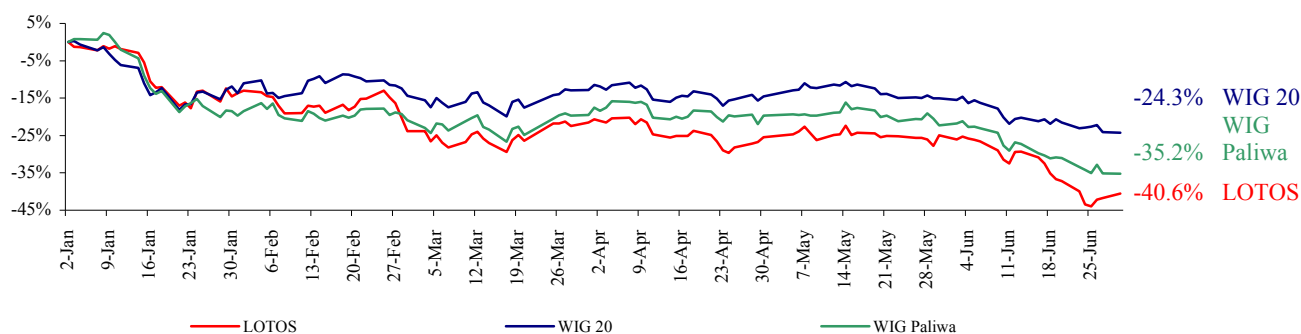
### 1.5 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN THE PARENT UNDERTAKING AND OTHER ENTITIES

In H1 2008, no significant changes occurred with respect to the organisational or capital links between Grupa LOTOS S.A. and other entities, except for the changes presented in Section 1.4 of this Directors' Report on the LOTOS Group's Operations.

### 1.6 GRUPA LOTOS S.A. SHARE PRICE ON THE WARSAW STOCK EXCHANGE

Chart 1 Changes in Grupa LOTOS S.A. share price vs. WIG 20 and WIG-Paliwa indices in H1 2008

Source: WSE



At the first session in 2008, Grupa LOTOS S.A. shares traded at PLN 44.60, with the WIG 20 index closing at 3,421.25 points. In H1 2008, however, the WSE continued the steep slide commenced in H2 2007. The bear market in Warsaw was a reflection of share price movements on the American exchanges and had to do with the global mortgage market crisis, uncertainty as to the future economic developments in the United States, and skyrocketing prices of crude oil and energy. The inflation pressures spurred a sequence of interest rate increases in Poland, highly detrimental to the equity markets. The WSE slid on relatively sluggish investor activity.

In H1 2008, the performance of Grupa LOTOS S.A. shares mimicked that of the WIG 20 index. In January 2008, the WSE continued to suffer from a downward trend which began in the second half of 2007. During the month, the price of the Company shares plummeted to a local low of PLN 36.70 on January 23rd. The downtrend which affected the Warsaw Stock Exchange was related to another wave of the mortgage meltdown in the United States. The crisis spilled over to financial markets, taking its toll on the performance of banks and insurance companies.

Subsequently, Grupa LOTOS S.A. share price was showing a flat trend, performing slightly below the WIG 20 index, yet outperforming the WIG Paliwa subindex. At the end of February and beginning of March, the share price tumbled, closing at another local low of PLN 32.04 on March 7th. This was most likely caused by the news that the Q4 2007 operating profit turned by the Company fell short of the analysts' expectations.

Over the following three months the Company shares slipped into a short-term consolidation, their price ranging between PLN 31.38 and PLN 35.59. The implementation of a costly development programme prevented the share price to overcome the trends prevailing on the WSE despite optimistic fundamental news concerning, among other things, the financial close of the 10+ Programme and execution of projects involving crude oil production on the Norwegian Continental Shelf.

June witnessed another wave of declines on the WSE, probably triggered off by concerns about potential stagflation in the United States. High inflation rates would call for raising the interest rates by FED, a decision that would be unfavourable to the stock markets. The bearish sentiment had an impact on the performance of Grupa LOTOS S.A. stock. The first half-year low was recorded on June 25th at PLN 25.00, a 43.9% slide compared to the closing price on the first trading day in 2008. Towards the end of June, the Company share price rebounded. Factors which spurred the recovery included: disclosure of information that credit facilities –

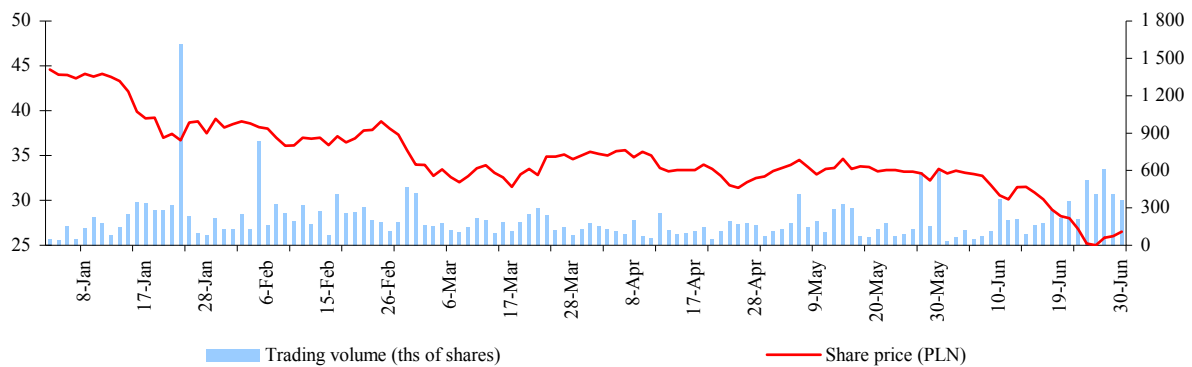
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allocated to finance the 10+ Programme – had been executed; and an elaborate presentation of Grupa LOTOS S.A.'s new upstream strategy and the related financing instruments.

At the end of June 2008, the price of the Company shares reached PLN 26.50, down by 40.6% during the six months. As at the end of H1, the WIG Paliwa index (comprising the stocks of Grupa LOTOS S.A., PKN Orlen, PGNiG, MOL, Petrolinvest and CP Energia) stood at 2,299.93 points, down by 35.2% compared with the beginning of January 2008. At the end of June, the WIG 20 index reached 2,591.09 points, which represented a 24.3% decline over six months.

**Chart 2 LOTOS - Share price and trading volume in H1 2008**



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

As at June 30th 2008, the shareholder structure of Grupa LOTOS S.A. was as follows:

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

To the best of the Company's knowledge, as at June 30th 2008 Grupa LOTOS S.A. had two shareholders holding 5% or more of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A.

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**2. KEY PRODUCTS, GOODS AND SERVICES OF THE LOTOS GROUP**

**Structure of the production volume – Grupa LOTOS S.A.**

	<b>H1 2008</b>	<b>H1 2007 (comparable data)</b>
Diesel	34.50%	33.41%
Gasolines	19.21%	20.32%
Fuel oils	18.65%	18.78%
Including: light fuel oil	4.31%	3.87%
Other refinery products	27.64%	27.48%

**Production volume (thousands of tonnes) - Grupa LOTOS S.A.**

	<b>H1 2008</b>	<b>H1 2007 (comparable data)</b>
Diesel	1,225	1,194
Gasolines	682	726
Fuel oils	662	671
Including: light fuel oil	153	138
Other refinery products	982	982
<b>Total production volume</b>	<b>3,551</b>	<b>3,572</b>

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

<b>PLN '000</b>	<b>Jan 1 – Jun 30 2008</b>	<b>% share</b>	<b>PLN '000</b>	<b>Jan 1 – Jun 30 2007</b>	<b>% share</b>
Gasolines	2,830,425	26.94%	Gasolines	2,559,155	30.92%
Diesel oils, including <i>bunker fuel</i>	5,077,487	48.33%	Diesel oils, including <i>bunker fuel</i>	3,795,824	45.86%
Light fuel oil	401,182	3.82%	Light fuel oil	287,518	3.47%
Heavy fuel oil	477,098	4.54%	Heavy fuel oil	322,583	3.90%
Jet-A1 fuel	603,799	5.75%	Jet-A1 fuel	339,507	4.10%
Lubricants	192,475	1.83%	Lubricants	205,762	2.49%
Base oils	113,780	1.08%	Base oils	106,822	1.29%
Bitumens and components for their production	378,913	3.61%	Bitumens and components for their production	336,841	4.07%
Liquid gases	250,653	2.39%	Liquid gases	148,104	1.79%
Other refinery products	100,290	0.95%	Other refinery products	88,540	1.07%
<b>Total crude oil products and goods</b>	<b>10,426,102</b>	<b>99.23%</b>	<b>Total crude oil products and goods</b>	<b>8,190,656</b>	<b>98.95%</b>
Other goods and materials	31,856	0.30%	Other goods and materials	47,328	0.57%

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PLN '000	Jan 1 – Jun 30 2008	% share	PLN '000	Jan 1 – Jun 30 2007	% share
Services	48,704	0.46%	Services	39,676	0.48%
<b>Total</b>	<b>10,506,662</b>	<b>100.00%</b>	<b>Total</b>	<b>8,277,660</b>	<b>100.00%</b>
Other adjustments	(6,949)		Other adjustments	(6,900)	
Elimination of excise tax and fuel charge	(2,720,322)		Elimination of excise tax and fuel charge	(2,656,176)	
<b>Total</b>	<b>7,779,391</b>		<b>Total</b>	<b>5,614,584</b>	

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

	H1 2008	% share	H1 2007	% share
Gasolines	753	21.47%	708	21.53%
Diesel oils, including:	1,350	38.49%	1,280	38.91%
<i>bunker fuel</i>	88	2.52%	146	4.44%
Light fuel oil	154	4.38%	144	4.38%
Heavy fuel oil	444	12.66%	458	13.92%
Jet-A1 fuel	243	6.94%	182	5.52%
Lubricants	41	1.16%	42	1.28%
Base oils	49	1.40%	46	1.39%
Bitumens and components for their production	324	9.23%	310	9.44%
Liquid gases	94	2.68%	65	1.96%
Other refinery products	56	1.58%	55	1.68%
<b>Total crude oil products and goods</b>	<b>3,507</b>	<b>100.00%</b>	<b>3,289</b>	<b>100.00%</b>

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

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

	<b>Jan 1– Jun 30 2008</b>	<b>% share</b>	<b>Jan 1 – Jun 30 2007</b>	<b>% share</b>
Domestic sales, including:	<b>8,632,984</b>	<b>82.22%</b>	<b>6,851,237</b>	<b>82.84%</b>
- <i>products</i>	8,113,982	77.28%	6,641,010	80.30%
- <i>goods and materials</i>	519,002	4.94%	210,227	2.54%
Export sales, including:	<b>1,866,729</b>	<b>17.78%</b>	<b>1,419,523</b>	<b>17.16%</b>
- <i>products</i>	1,814,356	17.28%	1,397,790	16.90%
- <i>goods and materials</i>	52,373	0.50%	21,733	0.26%
<b>Total</b>	<b>10,499,713</b>	<b>100.00%</b>	<b>8,270,760</b>	<b>100.00%</b>
excise tax, fuel charge	(2,720,322)		(2,656,176)	
<b>TOTAL</b>	<b>7,779,391</b>		<b>5,614,584</b>	

**LOTOS Group's key customers in H1 2008**

<b>Customer</b>	<b>Key products, goods and services</b>	<b>% share</b>
STATOIL POLAND SP. Z O.O.	95 RON AL unleaded gasoline, Eurodiesel	17.45%
BP POLSKA SP. Z O.O.	95 RON AL unleaded gasoline, 98 RON unleaded gasoline, Eurodiesel	7.86%
NESTE POLSKA SP. Z O.O.	95 RON AL unleaded gasoline, 98 RON unleaded gasoline, Eurodiesel	6.38%
STATOIL HYDRO ASA	98 RON unleaded gasoline, RG fuel oil	4.55%
BP OIL INTERNATIONAL	Jet A-1	2.37%

The only customer whose share in the LOTOS Group sales exceeded 10% was Statoil Poland Sp. z o.o. of Warsaw. Sales to this customer accounted for 17.45% of the Group's total sales.

**LOTOS Group's purchases of raw materials and crude oil goods and materials by region**

	<b>Jan 1 – Jun 30 2008</b>	<b>% share</b>	<b>Jan 1 – Jun 30 2007</b>	<b>% share</b>
<i>Domestic purchases</i>	<b>400,652</b>	<b>6.1%</b>	923,740	17.2%
<i>Imports</i>	<b>6,127,980</b>	<b>93.9%</b>	4,437,542	82.8%
<i>Total purchases</i>	<b>6,528,632</b>	<b>100.0%</b>	<b>5,361,282</b>	<b>100%</b>

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**LOTOS Group's supply structure in H1 2008 (PLN '000)**

	<b>Jan 1 – Jun 30 2008</b>	<b>% share</b>	<b>Jan 1 – Jun 30 2007</b>	<b>% share</b>
Raw materials	6,071,996	75.5%	4,344,179	81.0%
Goods	512,777	6.4%	275,297	5.1%
Services	493,130	6.1%	428,048	8.0%
Other purchases	965,810	12.0%	313,758	5.9%
<b>Total</b>	<b>8,043,713</b>	<b>100.0%</b>	<b>5,361,282</b>	<b>100.0%</b>

**LOTOS Group's crude oil goods supply structure in H1 2008 (PLN '000)**

	<b>Jan 1 – Jun 30 2008</b>	<b>% share</b>	<b>Jan 1 – Jun 30 2007</b>	<b>% share</b>
Diesel oils	87,356	18.27%	70,329	28.44%
Gasolines	227,680	47.61%	88,797	35.92%
LPG	158,906	33.23%	81,705	33.05%
Other	4,245	0.89%	6,391	2.59%
<b>Total</b>	<b>478,187</b>	<b>100.00%</b>	<b>247,222</b>	<b>100.00%</b>

**LOTOS Group's major suppliers in H1 2008**

<b>Supplier</b>	<b>Key products, goods and services</b>	<b>% share of purchases</b>	<b>% share of revenue</b>
J&S SERVICE INVESTMENT Ltd	Blend crude oil	40.01%	41.37%
Petraco Oil Company Ltd	Blend crude oil	20.19%	20.87%
NESTE OIL OYJ	Ethyl tertiary butyl ether – ETBE	3.07%	3.18%
PKN ORLEN	Unleaded gasoline, diesel oil	2.10%	2.18%
STATOIL ASA	Volve crude oil	1.84%	1.90%

The suppliers whose shares in the LOTOS Group's purchases exceeded 10% of its revenue were J&S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of United Kingdom. Their shares in the Group's purchases amounted respectively to 40.01% and 20.19%.

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**4. KEY FINANCIAL AND ECONOMIC DATA DISCLOSED IN THE CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS**

**4.1 INCOME STATEMENT**

In H1 2008, the LOTOS Group's sales revenue amounted to PLN 7,779.4m, which represented a year-on-year increase of 38.6%, attributable mainly to growing global prices of crude oil and petroleum products and higher volumes sold. In the same period, the average price of Brent oil (Dated Brent FOB) was 109.1 USD/bbl, up by 45.9 USD/bbl (or 72.5%) compared with H1 2007. The average net selling price of the LOTOS Group grew by 29.9%, from PLN 1,707 per tonne in H1 2007 to PLN 2,218 per tonne in H1 2008. The volume of the Group's sales in H1 2008 stood at 3,507.3 thousand tonnes, having increased year on year by 217.9 thousand tonnes, or 6.6%. In the period under review, the Group recorded higher sales volumes in most product groups, including mainly diesel oils (up by 70.0 thousand tonnes), JET A-1 fuel (up by 61.9 thousand tonnes), gasolines (up by 45.1 thousand tonnes) and liquefied gas (up by 29.3 thousand tonnes), while a drop in sales volumes was recorded in the following product groups: heavy fuel oils (down by 14.1 thousand tonnes) and lubricant oils (down by 1.4 thousand tonnes).

The H1 2008 cost of sales was PLN 6,764.8m, which represented a year-on-year increase of 39.5%. In the same period, the unit cost of sales was PLN 1,929 per tonne and was up by 30.8% on the H1 2007 figure.

Gross profit on sales posted by the LOTOS Group in H1 2008 stood at PLN 1,014.6m and was up by PLN 248.9m, or 32.5%, year on year. The increase in gross profit on sales in 2008 was driven mainly by substantially higher crack margins on intermediate fractions of oil. H1 2008 saw the following average crack margins: on Diesel 50 – 217.7 USD/t (up by 96.1%), on Diesel 10 – 225.4 USD/t (up by 101.4%), on Gasoil 0.2 – 171.0 USD/t (up by 99.8% year on year) and on JET fuel – 277.5 USD/t (up by 79.6%). In the analysed period, the sales structure changed favourably in terms of margins. The growing prices of petroleum products on global markets and, in particular, stronger growth of prices of intermediate fractions in H1 2008 relative to H1 2007 had a positive effect on consolidated gross profit on sales. Compared with H1 2007, in H1 2008 the LOTOS Group negotiated similar purchase terms for its basic raw material, the Ural crude. However, the Group's performance in H1 2008 was negatively affected by the strengthening of the Polish zloty. In H1 2008, the average PLN/USD exchange rate declined by PLN 0.61 per USD 1, or 21.1% relative to the average PLN/USD exchange rate in H1 2007, and was PLN 2.29 per USD 1.

Selling costs incurred by the LOTOS Group in H1 2008 amounted to PLN 347.0m and were up by 3.7% year on year, which was mainly due to higher sales volume. In the analysed period, general and administrative expenses amounted to PLN 162.8m, which represented an increase of 9.8% relative to the figure posted in the corresponding period of 2007. The increase was mainly driven by the growing scale of the Group's operations.

LOTOS Group's operating profit for the period January–June 2008 was PLN 480.4m and was higher by PLN 176.6m relative to the figure posted in H1 2007. In H1 2008, the result on financing activities stood at PLN 392.5m and was up by PLN 311.8m year on year. Such a strong increase was mainly due to the posting of the result on hedging transactions executed to mitigate the market risk associated with refining margins and foreign exchange rates and related to the implementation of the 10+ Programme; as well as disclosure of net foreign exchange gains on financing activities, which in the first six months of 2008 amounted to PLN 208.8m.

Refining margin, foreign exchange and interest rate hedging transactions represent measures whose objective is to mitigate the market risk related to the implementation of the 10+ Programme. With respect to the FX and interest rate risks, the use of such hedging transactions is also required under the agreement for financing the 10+ Programme.

The excess of the positive settlement of derivatives recognised as financial income for the first six months of 2008 was PLN 253.5m, including forward transactions hedging the foreign exchange risk – PLN 311.1m and futures hedging the prices of CO<sub>2</sub> emission allowances – PLN 1.2m. The effect of negative settlement of refining margin hedging transactions (full barrel swaps), amounting to PLN 58.8m, was charged to financial income, reducing the effect of the positive settlement of forward transactions hedging the foreign exchange risk and futures hedging the prices of CO<sub>2</sub> emission allowances.



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As at the end of June 2008, the effect of the valuation of open forwards and futures was charged to financial expenses and totalled PLN 78.5m, including refining margin hedging transactions (full barrel swaps) – PLN 43.5m, and forward transactions hedging the foreign exchange risk – PLN 50.1m. Positive valuations were posted on futures hedging the prices of CO2 emission allowances – PLN 8.7m, and FRA and SWAP transactions hedging the interest rates risk – PLN 0.8m and PLN 5.6m, respectively.

The H1 2008 pre-tax profit stood at PLN 872.9m and was up by PLN 488.4m year on year.

The H1 2008 net profit on continued operations earned by the LOTOS Group reached PLN 701.8m, which represented a year-on-year increase of PLN 396.8m. Profit attributable to equity holders of the parent stood at PLN 665.9m.

#### **4.2 BALANCE SHEET**

As at June 30th 2008, the balance-sheet total of the LOTOS Group was PLN 10,939.0m, up by PLN 1,218.7m during H1 2008. The growth was primarily caused by an increase in non-current assets of PLN 725.3m, mainly driven by an increase in prepayments for tangible assets under construction connected with the implementation of the 10+ Programme (up by PLN 437.8m), and by an increase in property, plant and equipment (up by PLN 311.0m). In the period under review, inventories increased by PLN 482.9m on account of the higher requirement concerning the volume of mandatory stocks and by higher prices of crude oil and petroleum products at the end of Q2 2008 compared with the prices reported at the end of 2007. An increase by PLN 238.9m in trade and other receivables is attributable to the significant increase in prices of products in H1 2008. A decline by PLN 203.1m in cash and cash equivalents is connected with the implementation of the 10+ Programme.

As at June 30th 2008, the Group's equity amounted to PLN 6,843.7m, which means a PLN 692.8m rise during H1 2008, as a result of higher retained earnings (up by PLN 665.9m) and a PLN 33.1m increase in equity attributable to minority interests.

In H1 2008, non-current liabilities went up by PLN 271.5m, primarily due to an increase in the level of non-current loans and borrowings (up by PLN 281.9m). As at the end of June 2008, non-current liabilities amounted to PLN 1,487.2m, of which PLN 1,124.8m is attributable to interest-bearing loans and borrowings.

As at the end of June 2008, current liabilities amounted to PLN 2,608.1m, which means a PLN 254.3m (10.8%) rise during H1 2008, primarily caused by a higher level of liabilities reflecting higher feedstock prices. In H1 2008, the LOTOS Group's current loans and borrowings decreased by PLN 28.0m, and as at June 30th 2008 amounted to PLN 489.2m.

#### **4.3 CASH FLOW**

As at the end of June 2008, the cash balance recorded by the LOTOS Group amounted to PLN 320.7m, having decreased by PLN 156.8m relative to the end of June 2007.

In H1 2008, net cash used in operating activities was close to nil and amounted to PLN -0.9m, down by PLN 107.5m relative to H1 2007. In H1 2008 decrease in cash flows from operating activities was due to the following factors: a PLN 483.3m increase in inventories, adjustments resulting from settlement of financial instruments of PLN 269.5m, a PLN 235.4m increase in receivables and foreign exchange gains of PLN 92.5m. In the analysed period cash flows from operating activities were increased primarily by net profit of PLN 701.8m, amortisation and depreciation of PLN 157.8m, increase in current liabilities by PLN 114.9m and a PLN 94.8m loss on investing activities.

In H1 2008, net cash used in investing activities amounted to PLN -792.5m, down by PLN 552.4m relative to H1 2007. The negative cash flows from investing activities recorded in H1 2008 were driven principally by cash used on prepayments for tangible assets under construction in the amount of PLN 485.3m and cash used on the acquisition of tangible and intangible assets, which in H1 2008 amounted to PLN 337.8m.

In H1 2008, the balance of cash provided by financing activities conducted by the LOTOS Group reached PLN 641.5m, which means a PLN 653.4m increase compared with the negative balance of PLN -11.8m recorded in H1 2007. The increase was driven by the increase in cash inflows under loans and borrowings, which in H1

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2008 were higher by PLN 395.2m relative to H1 2007, and proceeds from settlement of financial instruments in the amount of PLN 269.5m.

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**5. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL RESULTS AND PREVIOUSLY PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2008**

By September 25th 2008, Grupa LOTOS S.A. did not publish any performance forecasts for 2008.

**6. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT**

During H1 2008, the LOTOS Group was able to meet all of its liabilities towards third parties. The balance of working capital loans as at June 30th 2008 amounted to PLN 426.0m. For a detailed specification of debt under loans, see Note 30 to the financial statements.

The liquidity ratios as at June 30th 2008 showed that the LOTOS Group maintained its financial liquidity.

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

Item	H1 2008	H1 2007
Operating profit (PLN '000)	480,402	303,852
Operating margin (1)	6.18%	5.41%
Pre-tax profit (PLN '000)	872,893	384,514
Gross sales margin (2)	11.22%	6.85%
Net profit (PLN '000)	701,817	304,974
Net margin (3)	9.02%	5.43%
Return on equity (ROE) (4)	10.25%	5.39%
Return on assets (ROA) (5)	6.42%	3.60%
Current ratio (6)	2.19	2.08
Quick ratio (7)	1.01	1.04
Average collection period (in days) (8)	35.37	39.16
Average payment period (in days) (9)	30.39	32.63
Capital employed (10)	3,093,237	2,287,402
Capital employed to total assets (11)	28.28%	27.03%
Debt ratio (12)	37.44%	33.18%
Debt to equity ratio (13)	59.84%	49.65%

(1) operating profit/ net sales revenue

(2) pre-tax profit/ net sales revenue

(3) net profit/ net sales revenue

(4) net profit/ equity at end of period

(5) net profit/ assets at end of period

(6) current assets / current liabilities

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

(8) (average trade receivables/ net sales revenue)\*181

(9) (average trade payables/ cost of sales)\*181

(10) current assets - current liabilities

(11) capital employed /assets

(12) total liabilities/ assets

(13) total liabilities/ equity

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**7. KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE PARENT UNDERTAKING AND THE GROUP COMPANIES; ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS**

**7.1 INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS**

The Group's major investments in tangible and intangible assets made in H1 2008 (PLN '000)

<b>Tangible assets under construction and acquisition of property, plant and equipment and intangible assets, including:</b>	<b>Capital expenditure in Jan 1– Jun 30 2008</b>
Construction and assembly work	144,466
Procurement from external suppliers – purchases	87,023
Acquisition of intangible assets	6,981
Other capital expenditure	236,629
<b>Prepayments for tangible assets under construction</b>	<b>493,623</b>
<b>Settled prepayments</b>	<b>(51,064)</b>
<b>Total</b>	<b>917,658</b>

**7.2 EQUITY INVESTMENTS**

In H1 2008, Grupa LOTOS S.A. made no material equity investments.

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

In H1 2008, Grupa LOTOS S.A. financed its investment projects with internally generated funds and with funds raised from external sources for the implementation of the 10+ Programme.

On December 20th 2007, Grupa LOTOS S.A. and a bank syndicate signed an agreement providing for a four-year revolving loan for a total amount of USD 400,000 thousand (PLN 1,004,600 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 19th 2007), for refinancing and financing the inventories of Grupa LOTOS S.A. The agreement was the first element of the financing strategy for the operations of Grupa LOTOS S.A. in the coming years, related to the implementation of the 10+ Programme.

On June 27th 2008, Grupa LOTOS S.A. executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital of Grupa LOTOS S.A.

The agreement concerns a long-term credit facility for the total amount of USD 1,750,000,000 (PLN 3,739,050 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising a term loan facility of USD 975,000,000 (PLN 2,083,185 thousand translated at the mid-exchange rates quoted by the National Bank of Poland for June 27th 2008), a redrawable working capital loan facility of USD 200,000,000 (PLN 427,320 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), an investment loan of USD 425,000,000 (PLN 908,055 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) guaranteed by SACE S.p.A. (Servizi Assicurativi del Commercio Estero) and a contingent term loan facility of USD 150,000,000 (PLN 320,490 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008).

Together with Grupa LOTOS S.A.'s internally generated funds, the contracted external financing fully covers the Company's financing needs connected with the ongoing and the planned investment projects.

## **8. EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF THE LOTOS GROUP AND KEY RISKS AND THREATS**

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

### **Quotation prices of crude oil and petroleum products**

Changes of market prices of crude oil and petroleum products have a material impact on the Company's financial performance. In the first half of 2008 the prices of crude oil (and thus of petroleum products) were higher than in the same period of 2007.

### **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 the raw material and of some products are quoted in the American dollar.

### **Petroleum products demand and supply levels**

The demand for diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and its Group.

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

### **Development of upstream business**

The planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials, further improve its financial performance and enhance the Company's value.

### **Implementation of the 10+ 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 implementation of the 10+ Programme. Construction and start-up of the installations provided for in the Programme will allow the Gdańsk refinery to increase its processing capacity (to 10.5 million tonnes per annum) and oil conversion ratio, which will have a positive effect on the product slate.

### **Further expansion of the fuel retail sales network**

Implementation of the PROSTA programme is the key factor in strengthening the Company's position on the fuel retail market. In particular, restructuring activities aimed at improving the efficiency of service stations will play a crucial role.

## **8.1 DEVELOPMENT PROSPECTS OF THE LOTOS GROUP**

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

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

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

The operating activities include the implementation of the 10+ Programme. Completion of the Programme will enable the Company to improve the economies of scale in refining volumes and depth of conversion, which in

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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 the creation of an upstream segment, which will enable the Group to reduce its exposure to fluctuations in crude oil prices.

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

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

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

## **8.2 RISKS AND THREATS**

### **EXTERNAL RISKS AND THREATS RELATED TO THE GROUP'S MARKET ENVIRONMENT:**

#### **Risk related to the overall macroeconomic situation**

The financial standing of the Company and 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 Company and 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, fuel 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.

#### **Risk related to changes in tax legislation and its 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.

### **INTERNAL RISKS AND THREATS, RELATED TO THE COMPANY'S AND THE GROUP'S BUSINESS**

#### **Financial risks**

The Company and the Group are 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.

#### **Risk related to the implementation of the 10+ Programme**

The 10+ Programme is the Company's most important and valuable investment and development project. Major risks related to the implementation of the Programme include the risk of high costs of investments, the risk of delays in project execution, and technological risks. The risks related to the implementation of the 10+ Programme are being gradually reduced, along with the progress of the work on executing the project.

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**Risks related to the implementation of the Upstream Business Development Programme**

The Upstream Business Development Programme is one of the key projects determining the creation of the value of the LOTOS Group as a vertically integrated oil concern. The key risks in this area include delayed commencement of production at the new oil fields related to prolonged prospecting work and considerable investment expenditure necessary to acquire appropriate technical infrastructure. The projects planned and executed by the Company take account of all the risks, which is reflected in the adopted project execution schedules and the actions taken.

**Risk related to the implementation of the PROSTA Fuel Station Network Development Programme**

The objective of the PROSTA programme is to increase the retail market share of LOTOS brand fuel stations to 10% to achieve, through own distribution channels, higher retail fuel sales. Given the fact that other leading operators of fuel stations have also announced plans to enlarge their percentage shares in the 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 LOTOS Czechowice S.A., LOTOS Jasło S.A., and Rafineria Nafty Glimar S.A. (in bankruptcy). Grupa LOTOS S.A. has been implementing a series of restructuring and development projects seeking to minimise most of the potential threats connected with the Southern Refineries' presence in the Group.

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**9. CONTRACTED LOANS, LOAN AGREEMENTS AND LOAN MATURITY DATES, SURETIES AND GUARANTEES ISSUED**

For detailed information on contracted loans, loan agreements and loan maturity dates, see Note 30 to the consolidated financial statements for the six months ended June 30th 2008.

**Sureties, guarantees and other material contingent liabilities**

The validity of the blank promissory note of July 5th 2005 for PLN 200m, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2009. The original validity term of the blank promissory note, which expired on July 7th 2006, was extended until July 5th 2007 and then again until July 7th 2008.

The validity of the blank promissory note of March 16th 2006 for PLN 200m, issued to secure the Company's tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2009. The original validity term of the blank promissory note, expiring on March 16th 2007, was first extended until June 16th 2008.

On January 3rd 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for the benefit of CB&I LUMMUS GmbH for the amount of EUR 19,034 thousand (the equivalent of PLN 72,843 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 3rd 2007). The original validity term of the letter of credit was to expire on June 30th 2008. On June 24th 2008, the validity term of the letter of credit was extended until September 30th 2008. As a result of successive draws under the letter of credit, as at June 30th 2008, its value was EUR 2,408 thousand (the equivalent of PLN 8,077 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 30th 2008).

On April 27th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs-duty debts, taxes and other customs-related charges for the amount of PLN 160,000 thousand. The guarantee expired on May 4th 2008, while the guarantor's liability continued until July 3rd 2008. On May 5th 2008, the value of the guarantee rose to PLN 200,000 thousand. The guarantee expires on May 4th 2009, while the guarantor's liability continues until July 3rd 2009.

On July 10th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee in the form of a stand-by letter of credit for EUR 45,000 thousand (the equivalent of PLN 169,448 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for July 10th 2007) for the benefit of Technip Italy S.p.a. The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. On October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the total amount of the letter of credit was raised to EUR 52,313 thousand in the period January 1st – March 31st 2008, and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 will be EUR 47,355 thousand, and in the period October 1st–December 31st 2008 – EUR 45,515 thousand. The original validity term of the guarantee expired on December 31st 2007.

On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. issued a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Technip KTI S.p.a, valid through March 31st 2008. The letter of credit was issued to secure the performance of a construction contract related to the amine complex. On April 1st 2008, the validity period of the letter of credit was extended until June 30th 2008 and its amount decreased to EUR 37,634 thousand. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 will be EUR 38,668 thousand, and in the period October 1st–December 31st 2008 – EUR 38,595 thousand.

On April 1st 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 5,195 thousand (the equivalent of PLN 18,240 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2008) for the benefit of LURGI S.A., valid through September 30th 2008 and its value was increased to EUR 10,979 thousand. On October 1st 2008, the validity



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period of the letter of credit will be extended until December 31st 2008, and its value will be increased to EUR 14,923 thousand.

On April 30th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 7,230 thousand (the equivalent of PLN 25,019 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2008) for the benefit of LURGI S.A., valid through July 31st 2008. The letter of credit was issued to secure the performance of the EPC contract for the crude and vacuum distillation units (CDU/VDU). On July 31st 2008, the validity period of the letter of credit was extended until October 31st 2008. The value of the stand-by letter of credit was increased to EUR 15,356 thousand.

On May 2nd 2008, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a guarantee for PLN 13,200 thousand for the benefit of the Customs Office of Bielsko-Biała as excise security. The guarantee expired on June 30th 2008.

On June 2nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 64,403 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 2nd 2008) for the benefit of CB&I LUMMUS GmbH. The letter of credit will expire on December 31st 2008.

On June 26th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee for USD 12,000 thousand (the equivalent of PLN 25,704 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 26th 2008) for the benefit of TOTAL DEUTSCHLAND GmbH in connection with the supply of gasoline. The guarantee will expire on December 31st 2008.

On June 27th 2008, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a guarantee for PLN 14,500 thousand for the benefit of the Customs Office of Pruszków as excise security. The guarantee expired on August 10th 2008.

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**10. LOANS ADVANCED – LOANS, SURETIES AND GUARANTEES GRANTED TO THE RELATED UNDERTAKINGS OF GRUPA LOTOS S.A.**

**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., Grupa LOTOS S.A. 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 Management Board of Grupa LOTOS S.A., commitments under the Letter of Comfort do not represent financial liabilities as at the June 30th 2008. As at June 30th 2008, assets under the loans advanced were fully covered by a valuation allowance.

**Loan Advanced by P.P.iE.Z.R.iG. Petrobaltic S.A. to Energobaltic Sp. z o.o.**

On November 12th 2001, an agreement was concluded under which by P.P.iE.Z.R.iG. Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. P.P.iE.Z.R.iG. Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to USD 7,570.2 thousand as at June 30th 2008, which represented the equivalent of PLN 16,044.2 thousand. Despite the restructuring of Energobaltic Sp. z o.o.'s sources of financing, a valuation allowance still covers the full value of the loan and the value of shares held in the company due to the long-term plans presented by the Management Board of Energobaltic Sp. z o.o., decrease in gas supplies from the B3 reservoir, and postponement of gas supplies from the B8 reservoir. The aggregate amount of valuation allowances for the assets invested in the associated undertaking, Energobaltic Sp. z o.o., was PLN 22.9m as at June 30th 2008.

Under the shareholder agreement, in the event that the aggregate amount of waste gas supplied by P.P.iE.Z.R.iG. Petrobaltic S.A. to Energobaltic Sp. z o.o. is lower than the minimum offtake amount provided for in the gas supply agreement for the year, P.P.iE.Z.R.iG. Petrobaltic S.A. is obliged to submit to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures Limited ("RRPV"), an offer to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV exercises its rights under the shareholder agreement, P.P.iE.Z.R.iG. Petrobaltic S.A. may be obliged to gradually (2012–2016) purchase RRPV's claims under the loan at the maturity dates of each principal instalment. If RRPV accepts P.P.iE.Z.R.iG. Petrobaltic S.A.'s offer to purchase the claims, it will mean fulfilment of the condition precedent for RRPV's offer, made in 2001, to sell all the shares held by RRPV in Energobaltic at the time a default notice is served under the gas supply agreement.

As at the date of the consolidated financial statements, no such notice was delivered. Any breach of the terms and conditions of the gas supply agreement in the following years entitles RRPV to issue such a notice within the timeframes provided for in the agreement. In view of the above, in 2006 P.P.iE.Z.R.iG. Petrobaltic S.A. created a provision of PLN 24,188 thousand related to the shareholder agreement and disclosed under other provisions (current portion). It was agreed that interest accrued in subsequent periods and changes in the loan value resulting from exchange rate fluctuations would be accounted for on an ongoing basis. As at June 30th 2008, the provision amounted to PLN 20.0m.

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

On August 24th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 1,900 thousand to LOTOS Park Technologiczny Sp. z o.o. In accordance with the terms of the agreement, the loan is to be repaid in full by the end of August 2008. The following annexes to the agreement were subsequently signed: Annex No. 1 of January 24th 2006, Annex No. 2 of March 27th 2006, Annex No. 3 of July 21st 2006 and Annex No. 4 of September 15th 2006, under which the deadline for creating security over the Borrower's assets in respect of the liabilities under the loan was extended – the last of these annexes extended the deadline until November 30th 2006. Subsequently, on July 3rd 2008, Annex No. 5 to the loan agreement was signed, in which the Lender made a reservation that the proceeds generated by the Borrower from the sale of the assets serving as security for the liabilities under the loan would be paid to the Lender's account specified in the agreement as repayment of the loan. As at June 30th 2008, LOTOS Park Technologiczny Sp. z o.o. did not repay its liabilities

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towards Grupa LOTOS S.A. in accordance with the terms of the agreement and the annexes. The liabilities were settled on August 20th 2008 (the principal – the loan amount) and on August 22nd 2008 (the accrued interest).

On February 27th 2007, Grupa LOTOS S.A. executed an agreement whereby it granted a loan of PLN 1,200 thousand to LOTOS Park Technologiczny Sp. z o.o. Two annexes to the agreement were subsequently signed: Annex No. 1 of February 27th 2007, under which the deadline for creating security for the loan was extended, and Annex No. 2 of January 30th 2008, effective from December 31st 2007, under which the final loan repayment date was postponed to June 30th 2008. LOTOS Park Technologiczny Sp. z o.o. repaid the loan in full by June 4th 2008.

On June 26th 2007, Grupa LOTOS S.A. executed an agreement whereby it granted a loan of PLN 600 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, the following annexes to the agreement were signed: Annex No. 1 of January 30th 2008, effective from December 31st 2007, under which the loan repayment date was postponed to June 30th 2008, and Annex No. 2 of July 1st 2008, under which the final repayment date for the loan was set at August 31st 2008. As at June 30th 2008, LOTOS Park Technologiczny Sp. z o.o. did not repay its liabilities towards Grupa LOTOS S.A. in accordance with the terms of the agreement and the annexes. The liabilities were settled on August 20th 2008 (the principal – the loan amount) and on August 22nd 2008 (the accrued interest).

**Loans Advanced by P.P.iE.Z.R.iG. Petrobaltic S.A. to LOTOS Exploration and Production Norge AS**

On April 18th 2008, an agreement was executed under which P.P.iE.Z.R.iG. Petrobaltic S.A. advanced a loan of EUR 250 thousand to LOTOS Exploration and Production Norge AS. The loan was a bridge facility to be used for financing of day-to-day operations of LOTOS Exploration and Production Norge AS in connection with postponement of a new issue of shares by the company designed to provide additional equity. LOTOS Exploration and Production Norge AS repaid the liability on May 30th 2008.

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

Under the agreement, the Company issued an irrevocable surety for repayment of the loan contracted by Rafineria Jasło S.A. (currently LOTOS 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. (currently LOTOS Jasło S.A.) and the Company signed an agreement on securing the Company's interest with respect to the surety.

As at the date of the consolidated financial statements, the surety issued with respect to the loan, subject to annex of October 20th 2005, is secured by a registered pledge on the plastics processing units, owned by LOTOS Jasło S.A. The pledge was established under the registered pledge agreement of February 18th 2004.

Irrespective of the above, under the agreement LOTOS Jasło S.A. will seek to obtain a bank guarantee or surety to replace the surety issued by the Company. Should LOTOS Jasło S.A. breach the agreement, it will pay the Company a contractual penalty in the amount of 10% of the surety value; with the proviso that if the damage exceeds the contractual penalty, the Company is entitled to seek compensation for the total amount of the damage incurred.

The surety expires on November 30th 2010. As at June 30th 2008, the value of liabilities under the loan agreement which are secured by the surety stood at PLN 7,800 thousand.

**Liabilities to Bank Ochrony Środowiska S.A.**

In connection with the loans advanced by Bank Ochrony Środowiska S.A. (the "Bank") to Energobaltic Sp. z o.o. (Energobaltic) under (i) the investment loan agreement of September 11th 2001, and (ii) the preferential investment loan agreement of September 11th 2001 for environmental protection purposes, on December 12th 2001 Petrobaltic S.A. made a representation to the Bank, amended by a representation made by the shareholders on November 6th 2006, whereby it agreed (below are presented currently binding terms and conditions):

- to apply a part of net profit (whose amount in a given year may not exceed the amounts shown in the Bank-approved final financial projection for the project financed with the loan) towards share capital increase at Energobaltic Sp. z o.o.;

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- not to dispose of or encumber its shares in Energobaltic Sp. z o.o. without prior consent of the Bank, with the proviso that the Bank's consent may not be unreasonably withheld.

Failure to discharge the Shareholders' Obligation may result in termination of the loan agreements by the Bank. Concurrently, Petrobaltic S.A. will be relieved from the Shareholders' Obligation if both of the following conditions are met:

- Petrobaltic S.A. provides the Bank and Energobaltic Sp. z o.o. with a written notification to the effect that oil production from the B-8 reservoir has commenced, and – after the first three months of production from the B-8 reservoir – Petrobaltic S.A. confirms in the same manner that the gas volume estimates for the reserve – contained in the gas supply forecast of December 7th 2005 submitted to the Bank by Energobaltic Sp. z o.o. – were correct,
- the economic and financial standing of Energobaltic Sp. z o.o. poses no threat to timely repayment of the loans.

**Liabilities to Rolls-Royce Power Ventures Limited (Władysławowo)**

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

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

Following receipt of the notice, under the Shareholder Agreement Petrobaltic S.A. is obliged to offer to RRPV to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV accepts the offer, Petrobaltic will be obliged to gradually (2012–2016) purchase RRPV's claims under the loan, at maturity of each principal instalment, at a 2% discount. As at June 30th 2008, the total amount of the loan advanced by RRPV to Energobaltic Sp. z o.o. was USD 6.6m (USD 5m in principal, plus interest), which is an equivalent of PLN 13.9m (as at December 31st 2007, the total amount of the loan was USD 6.4m (USD 5m in principal, plus interest), which was an equivalent of PLN 15.6m). Following the purchase of RRPV's shares in Energobaltic Sp. z o.o., Petrobaltic S.A. would hold 1,598 shares representing 88.04% of the aggregate number of the shares.

As at the publication date of this Directors' Report on the LOTOS Group's Operations, no such notice has been issued. Therefore, as we were advised in an opinion issued by an external law firm, the conditional offer could be executed only in 2009 if Petrobaltic S.A. is in breach of the terms and conditions of the Gas Supply Agreement in 2008. However, in view of the poor financial standing of Energobaltic Sp. z o.o. and the level of gas supplies lower than expected as a result of delays in the commencement of production at the B8 reservoir, the Management Board of Petrobaltic S.A., guided by the conservative valuation principle, maintained the provision for future liabilities which might arise under the Shareholder Agreement. The provision covers the loan advanced by RRPV to Energobaltic Sp. z o.o. (less the 2% discount) and the par value of RRPV's shares in Energobaltic Sp. z o.o.

**Liabilities towards REVUS ENERGY ASA of Norway**

On June 17th 2008, Petrobaltic S.A. issued an unconditional and irrevocable guarantee, payable on first request, for the benefit of REVUS ENERGY ASA, securing the performance by LOTOS Exploration & Production Norge AS of its obligations under the agreement concluded with REVUS ENERGY ASA concerning transfer of interests in PL 316, PL 316B, PL 316CS and PL 316DS licences on the Norwegian Continental Shelf. Petrobaltic S.A. undertook to pay any amounts which may become due to REVUS ENERGY ASA as if it they were owed by Petrobaltic S.A.

The guarantee expires one month after the final date of the purchase transaction settlement specified in the agreement on the purchase of the 10% interest in production licences No. 316, 316B, 316CS and 316DS in the North Sea. If the notification date does not occur by December 31st 2008, the guarantee will expire on January 31st 2009.

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**Liabilities of Petrobaltic S.A. towards the Government of Norway**

On June 17th 2008, Petrobaltic S.A. issued an unconditional and irrevocable guarantee for the benefit of the government of Norway covering all the activities undertaken by LOTOS Exploration & Production Norge AS as part of its exploration and production operations on the Norwegian Continental Shelf. In the guarantee, Petrobaltic S.A. confirmed that it undertakes to assume full financial liability which may arise in connection with LOTOS E&P Norge AS' activities consisting in exploration for and extraction of the natural resources from the sea bottom, including storage and transport on the Norwegian Continental Shelf using means of transport other than ships.

**Liabilities under Promissory Notes towards Nafta Polska S.A.**

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

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

**Liabilities under Promissory Notes towards the Minister of Economy**

Rafineria Jasło S.A. (currently LOTOS Jasło S.A.) has also issued a blank promissory note to the Minister of Economy. Under the promissory note declaration issued on November 13th 2002, the promissory note is to secure performance of LOTOS Jasło S.A.'s obligations under an agreement on financial support for a new investment project, concluded between the Minister of Economy and LOTOS Jasło S.A. on November 1st 2002. The promissory note may be filled in with an amount of up to PLN 5,675 thousand.

**Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Oil S.A.**

On March 18th 2007, LOTOS Oil S.A. issued and submitted to the Customs Office a blank promissory note with a promissory note declaration, for the amount of PLN 10,000 thousand in order to secure an excise tax liability. The promissory note was issued to replace a bank guarantee. It is valid until October 31st 2008.

**Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Gaz S.A.**

On December 19th 2007, LOTOS Gaz S.A. and Bank Pekao S.A. concluded a surety agreement whereby LOTOS Gaz S.A. issued a surety for the repayment of a PLN 5,000 thousand loan contracted by Krak – Gaz Sp. z o.o. under loan agreement dated May 16th 2006. The surety was issued for the amount of up to PLN 7,500 thousand.

On June 30th 2008, LOTOS Gaz S.A. and ING Bank Śląski concluded a surety agreement whereby LOTOS Gaz S.A. issued a surety for the repayment of a PLN 10,000 thousand loan contracted by Krak – Gaz Sp. z o.o. under the loan agreement dated June 24th 2004.

By virtue of a resolution of LOTOS Gaz S.A.'s Supervisory Board of July 8th 2008, the Management Board of LOTOS Gaz S.A. was authorised to issue on behalf of the company a surety for the amount of PLN 15m, securing the repayment of liabilities under the aforementioned loan contracted by Krak – Gaz Sp. z o.o. on June 29th 2004.

**Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Biopaliwa Sp. z o.o.**

On August 7th 2007, LOTOS Biopaliwa Sp. z o.o. issued a blank promissory note with the "no protest" clause for the benefit of NFOŚIGW (The National Fund for Environmental Protection and Water Management), valid

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through June 30th 2015. The promissory note was issued to secure the repayment of interest, contractual penalties (if any) and other liabilities under a loan agreement concluded on June 29th 2007 by LOTOS Biopaliwa Sp. z o.o. with NFOŚIGW. The amount of the loan was PLN 35,000 thousand. The repayment of the loan is secured with a bank guarantee issued for the benefit of NFOŚIGW on August 7th 2007 by Bank Pekao S.A. against the loan limit under an investment loan agreement of December 14th 2006.

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**11. EVENTS AND AGREEMENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP**

**11.1 SIGNIFICANT AGREEMENTS CONCLUDED BY THE PARENT UNDERTAKING IN THE FIRST HALF OF 2008 AND AFTER JUNE 30TH 2008**

**Conclusion of an Agreement between Grupa LOTOS. S.A. and BP Polska Sp. z o.o.**

On January 14th 2008, Grupa LOTOS S.A. and BP Polska Sp. z o.o. of Kraków entered into an agreement on sale and purchase of liquid fuels between Grupa LOTOS S.A. and BP Polska Sp. z o.o.

The agreement, whose estimated value amounts to PLN 1.300m, will remain in force until December 31st 2008. The estimated maximum amount of contractual penalties is PLN 21,000 thousand. The agreement does not contain any provisions permitting either party to seek compensation in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

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

**Conclusion of an Agreement between Grupa LOTOS S.A. and LOTOS Biopaliwa Sp. z o.o.**

On April 18th 2008 Grupa LOTOS S.A. and LOTOS Biopaliwa Sp. z o.o. (a wholly-owned subsidiary of LOTOS Czechowice S.A. in which Grupa LOTOS S.A. holds 80.04% of shares) concluded an agreement on supply of methyl esters to Grupa LOTOS S.A.

The agreement, whose five-year value is estimated at PLN 1,700,000 thousand, has been concluded for an indefinite term. The agreement provides for contractual penalties in the event of default. The maximum amount of such penalties is 10% of the VAT-inclusive value of goods. Payment of contractual penalties does not exclude the parties' right to seek compensation in excess of the penalties. The other terms of the agreement do not differ from provisions commonly applied in agreements of such type.

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

**Credit facility agreement of June 27th 2008**

On June 27th 2008, Grupa LOTOS S.A. and the following institutions: Banco Bilbao Vizcaya Argentaria, S.A.; Banco Bilbao Vizcaya Argentaria S.A., London Branch; Banco Bilbao Vizcaya Argentaria S.A., Milan Branch; Bank Polska Kasa Opieki S.A.; Bank Zachodni WBK S.A.; Bank of Tokyo-Mitsubishi UFJ (Holland) N.V.; BNP Paribas S.A.; Caja de Ahorros y Monte de Piedad de Madrid; Caja de Ahorros y Monte de Piedad de Madrid, Zweigniederlassung Wien; Calyon; DnB Nor Bank ASA; Fortis Bank S.A./N.V.; Fortis Bank S.A./N.V., - Succursale in Italia; ING Bank N.V. / ING Bank Śląski S.A.; KBC Bank N.V., Dublin Branch / Kredyt Bank S.A.; Nordea Bank Finland Plc; Nordea Bank Polska S.A. / Nordea Bank AB (Publ); Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna; Rabobank Polska S.A. / Bank Gospodarki Żywnościowej S.A.; SACE S.p.A. - Servizi Assicurativi del Commercio Estero; "Societe Generale" S.A. (the Polish branch); Societe Generale S.A.; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi UFJ, Ltd. i The Royal Bank of Scotland Plc executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital of Grupa LOTOS S.A. Bank Calyon was appointed the Senior Facility Agent, while Société Générale S.A. (the Polish branch) was assigned the role of the Senior Security Agent. Concurrently, Grupa LOTOS S.A. executed a sub-agreement under the credit facility agreement, concerning a credit facility tranche guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero, to which the following are parties: BNP Paribas S.A., Fortis Bank S.A./N.V., - Succursale in Italia, Banco Bilbao Vizcaya Argentaria S.A., Milan and SACE S.p.A. - Servizi Assicurativi del Commercio Estero.

Execution of the credit facility agreement is one of the key elements of the strategy of financing Grupa LOTOS S.A.'s operations in the upcoming years. The credit facility agreement is a along with the loan agreement for refinancing and financing of the inventories of Grupa LOTOS S.A. of December 20th 2007 (Current Report No. 55/2007) secure funds sufficient to meet the Company's total requirement for external financing in connection with the implementation of the 10+ Programme.

The agreement concerns a long-term credit facility for the total amount of USD 1,750,000 thousand (PLN 3,739,050 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising a term loan facility of USD 975,000 thousand (PLN 2,083,185 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), a redrawable working capital loan facility of USD 200,000 thousand (PLN 427,320 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), an investment loan of USD 425,000 thousand guaranteed by

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SACE S.p.A. - Servizi Assicurativi del Commercio Estero (PLN 908,055 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) and a contingent term loan facility of USD 150,000 thousand (PLN 320,490 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008). The credit facility must be repaid not later than 12.5 years after the first interest payment date. The other terms and conditions of the credit facility agreement, including those pertaining to the security, do not differ from the standard terms and conditions of such agreements.

The credit facility is secured principally with:

- 1) a mortgage with the highest ranking over Grupa LOTOS S.A.'s ownership title or perpetual usufruct right to the real property required for the conduct of operations by the existing and expanded Gdańsk refinery,
- 2) agreement creating a registered pledge over sets of existing and future (acquired over the period of implementation of the 10+ Programme) movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the aforementioned credit facility, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems,
- 3) agreement creating financial registered pledges over Grupa LOTOS S.A.'s claims under bank account agreements executed in connection with the financing of the 10+ Programme (the agreement creating the pledges does not cover claims under other bank account agreements concluded by Grupa LOTOS S.A.), and
- 4) agreements for the assignment of the rights and debt claims of Grupa LOTOS S.A. arising under the agreements related to the implementation of the 10+ Programme, the agreements for the management of the 10+ Programme, hedging agreements, license agreements, insurance documents (related to the Gdańsk refinery and the 10+ Programme) as well as under sales contracts concluded by Grupa LOTOS S.A. with its subsidiaries, if the contracts' annual value exceeds PLN 10,000 thousand. The documents constituting the security for the benefit of Société Générale S.A., the Polish branch (the Senior Security Agent), were executed concurrently with the credit facility agreement.

The agreement is considered significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A. There are no links between Grupa LOTOS S.A. or its management staff and the banks for the benefit of which the pledges are to be created or their management staff. The assets on which the pledges and the mortgage were established are deemed significant as their value exceeds 10% of the equity of Grupa LOTOS S.A. The value of the assets of Grupa LOTOS S.A. which will be encumbered with the pledges and the mortgage specified above will not exceed PLN 2,195,551,210.92 based on the book value as at May 31st 2008 and the maximum amount to be secured with the pledges and the mortgage specified above is USD 2,625,000,000 (PLN 5,608,575 thousand at the mid exchange rate quoted by the National Bank of Poland for June 27th 2008). Grupa LOTOS S.A. has disclosed the information relating to the security due to the fact that the value of the pledges and the mortgage established on the assets specified above exceeds EUR 1,000,000.

A registered pledge created over Grupa LOTOS S.A.'s assets (i.e. over sets of existing and future – acquired over the period of implementation of the 10+ Programme – movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the credit facility agreement providing for the financing of the 10+ Programme, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems) was entered into the register of pledges by a competent district court on September 5th 2008.

**Conclusion of an Agreement between Grupa LOTOS S.A. and PKN Orlen S.A.**

On June 30th 2008, Grupa LOTOS S.A. and PKN Orlen S.A. concluded an agreement on the sale of liquid fuels to PKN Orlen S.A.

Following the execution of the agreement, the aggregate value of agreements concluded between Grupa LOTOS S.A. and PKN Orlen S.A. in the period since October 8th 2007, i.e. the publication date of current report no. 42/2007 on the conclusion of agreements between the two entities, is estimated at PLN 568m. The agreement with the highest value is the one concluded on June 30th 2008, concerning the sale of liquid fuels by Grupa LOTOS S.A. to PKN Orlen S.A. The agreement was concluded for a specified period and will remain in force from July 1st to December 31st 2008. Its estimated value is approx. PLN 234.5m. The agreement provides for contractual penalties whose estimated maximum value is approx. PLN 1.1m. The agreement does not contain



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any provisions under which either party would be entitled to seek compensation in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

The agreements concluded by Grupa LOTOS S.A. and PKN Orlen S.A. are deemed significant as their aggregate value exceeds 10% of the equity of Grupa LOTOS S.A.

## **11.2 SIGNIFICANT AGREEMENTS CONCLUDED BY THE OTHER COMPANIES OF THE LOTOS GROUP IN THE FIRST HALF OF 2008 AND AFTER JUNE 30TH 2008**

In the first half of 2008 and after June 30th 2008 no company of the LOTOS Group was a party to any significant agreements other than those mentioned above.

## **11.3 EVENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP**

### **PETROBALTIC AND THE PRODUCTION SEGMENT**

In the E&P segment, in H1 2008 oil and gas production continued from the B3 and B8 deposits. The crude oil and natural gas outputs were, respectively, 138.8 thousand tonnes, and 15,713 thousand m<sup>3</sup>. The entire crude oil output was shipped to the Gdańsk refinery, and the natural gas was sent via a pipeline to Energobaltic's heat and power plant in Władysławowo. Petrobaltic's crude sales to Grupa LOTOS amounted to 133.70 thousand tonnes.

In H1 2008, the key tasks carried out by Petrobaltic included:

- production from the B8 deposit,
- drilling of the B8-Z1 well and the B8-Z1 bis branch from the Petrobaltic platform,
- production from the B8 deposit from the Petrobaltic platform,
- production from the B3 deposit, including water pumping to the deposit on the Baltic Beta platform,
- maintenance and repair work on PG-1.

Petrobaltic S.A., the leading company of the LOTOS Group in the field of exploration and production, became a shareholder of LOTOS Exploration and Production Norge AS, whose core business consists in exploration for and production of crude oil on the Norwegian Continental Shelf. In connection with the planned further expansion of LOTOS E&P Norge's business, the company's share capital was increased to NOK 40m by way of an issue of new shares. Petrobaltic S.A., having acquired all shares in the increased capital and then purchased the remaining shares from Grupa LOTOS S.A., became the sole shareholder of LOTOS E&P Norge. On May 27th 2008, the Norwegian companies registrar registered the share capital increase at LOTOS E&P Norge AS.

In order to expand its activities on the Norwegian Shelf, LOTOS E&P Norge applied to the Norwegian Ministry of Energy and Crude Oil for a permit to produce crude oil and took steps designed to acquire assets necessary for launching operations. On May 20th 2008, the company signed an agreement with Norwegian company Revus Energy concerning purchase of 10% of interests in the North Sea production licences No. 316, 316B, 316CS and 316DS. The purchased licences cover the YME field and an additional exploration area. The YME field is located 110 km off the coast, in the southern part of the Norwegian sector of the North Sea.

Upon the fulfilment of all the conditions precedent (including receipt of the licences for exploration and production of crude oil and natural gas reserves from the PL 316, 316B, 316CS and 316DS blocks from the Norwegian Ministry of Petroleum and Energy), on August 29th 2008 LOTOS E&P Norge AS assumed all rights and obligations connected with the ownership of the 10% interest in the 316, 316B, 316CS and 316DS production licences located in the North Sea.

The value of the abovementioned agreement is USD 52.5m (or PLN 119.1m, translated at USD/PLN mid exchange rate quoted by the National Bank of Poland for August 29th 2008). That value will be increased by the amount of investment expenditure made by Revus Energy during the jointly agreed period preceding the assumption of rights and obligations connected with the licences, which will reach approximately USD 12m (or PLN 27.2m, translated at USD/PLN mid exchange rate quoted by the National Bank of Poland for August 29th 2008). The investment expenditure which remains to be made after August 29th 2008 (corresponding to the 10% interest in the YME field) before production can be started is estimated at about USD 65m (or PLN 147.5m, translated at USD/PLN mid exchange rate quoted by the National Bank of Poland for August 29th 2008).

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The recoverable crude oil reserves of the YME field which correspond to the 10% interest held by LOTOS E&P Norge AS, are estimated by the operator (Talisman) at 6.8 million bbl (about 900 thousand tonnes). Production from the field is expected to start in the second half of 2009.

In connection with the assumption of rights and obligations associated with the ownership of the 10% interest in the 316, 316B, 316CS and 316DS production licences, Petrobaltic S.A. issued an unconditional and irrevocable guarantee relative to LOTOS Exploration & Production Norge AS' exploration and production activities conducted on the Norwegian Continental Shelf. Issuance of the guarantee by Petrobaltic S.A. was necessary in connection with certain formal and legal requirements imposed by the Norwegian government on investors operating on the Norwegian Continental Shelf.

In the guarantee, Petrobaltic S.A. confirmed that it undertakes to assume full financial liability which may arise in connection with LOTOS E&P Norge AS' activities consisting in exploration for and extraction of the natural resources from the sea bottom, including storage and transport on the Norwegian Continental Shelf using means of transport other than ships.

Petrobaltic S.A. undertook to assume liability for:

1. any liabilities assumed by LOTOS E&P Norge AS towards the Norwegian state, any Norwegian commune or any other Norwegian authority,
2. any liability for damages, including recourse liability, incurred by LOTOS E&P Norge AS in accordance with the Norwegian law towards the Norwegian state, any Norwegian commune or any other Norwegian authority as well as any natural or legal persons, including companies, associations and other organisations, in connection with any environmental contamination or personal injury.

In connection with the commencement of operations by LOTOS E&P Norge AS in the area of oil exploration and production, the value of the estimated potential claims under the guarantee may exceed 10% of the Issuer's equity.

On August 26th 2008, LOTOS Exploration and Production Norge AS signed an agreement with Noreco, a Norwegian exploration and production company, on purchase of a 20% interest in the PL455 exploration licence covering the area of 1,365 square kilometres, located in the southern part of the Norwegian section of the North Sea.

LOTOS Exploration and Production Norge AS will acquire a 20% interest in the said licence in exchange for covering 40% of the estimated expenditure to be incurred by Noreco on performance of seismic surveys under the PL455 licence, i.e. approx. NOK 38m (PLN 15.9m, translated at mid exchange rate for NOK quoted by the National Bank of Poland for August 26th 2008).

The transaction will take effect once relevant approvals are obtained from the Norwegian authorities. The PL455 licence was granted to Noreco as part of qualification round APA2007. Noreco is also the licence operator and – after the transaction with LOTOS Exploration and Production Norge AS – holds a 50% interest in the licence. The seismic survey is scheduled for 2008–2009, and in 2010 the licence area will be drilled to confirm its potential. In accordance with the Norwegian tax law, if the exploration proves unsuccessful, 78% of the incurred expenditure may be reimbursed.

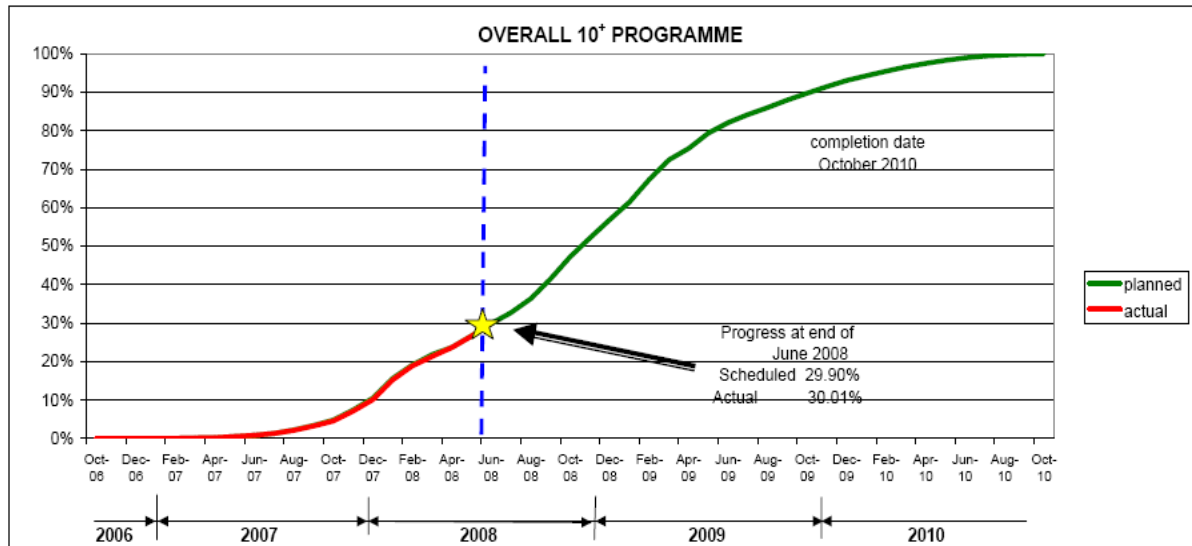
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## 10+ PROGRAMME

In H1 2008, the implementation of the 10+ Programme, the largest investment project of the LOTOS Group of key importance for the future growth of the Group's value, focused on performing the execution contracts, signing further contracts and arranging financing for the 10+ Programme.

The current progress of work under the 10+ Programme is presented in the chart below.



Source: The Company.

As part of the ROSE project, Kellogg Brown & Root continued the review of the base design. In March 2008, another series of production-related tests was concluded and the preliminary report confirmed the feasibility of road bitumen production on the basis of bitumen from the ROSE unit. Following the tender and contractor selection, the Early Work Agreement ("EWA") was signed with Technip Italy SpA, for design and delivery of materials and equipment necessary for the unit construction, as well as for technological advisory and designer supervision during the construction work.

As part of the HDS project (diesel hydrodesulphurisation), in H1 2008, foundations were laid for plant and equipment, as well as for steelwork of trestle bridges and racks. The unit power supply network was commissioned, the extension of the contactor and switchgear centres commenced, and 65% of trestle bridge structures were assembled. The final phase of the construction work on cable conduits and trays was under way and delivered apparatus was assembled.

As part of the CDU/VDU project (crude distillation unit), in H1 2008, the selection of contractors was completed and major contracts were signed for the assembly of furnaces, heavy apparatus and pipelines, as well as for the execution of electric and control and instrumentation work, fire-protection layers and the DCS and ESD systems. The assembly of steelwork and pipeline prefabrication also commenced.

As part of the MHC project (mild hydrocracking), principally, the engineering design work was continued. The majority of apparatuses and equipment was ordered, first deliveries were made to the construction site and foundation laying started.

As part of the HGU (hydrogen generating unit) project, in H1 2008 61% of construction work and 90% of underground piping was done. The external structure of the reformer furnace was assembled, as was the basic internal pipeline trestle bridge. All catalyst pipes for the reformer furnace and materials for pipeline prefabrication were delivered to the construction site.

As part of the KAS project (amine sulphur unit), the foundations laying on the ARU/SWS/SRU/TGTU installations was completed, and underground infrastructure development was in progress, as was the assembly

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of the main trestle bridge of the ARU and SWS installations. The deliveries and assembly of apparatuses commenced. Pipeline components and materials were being delivered to the site.

In the area of auxiliary installations and infrastructure, work continued on construction of inter-unit connections and utilities, storage tanks and auxiliary facilities.

Materials were ordered for pipeline systems, a contract was signed for assembly of pipelines and pipe bearers, as well as for construction of a new nitrogen unit, providing for deadlines harmonised with the requirements of the construction process. The construction work on new power-supply facilities was in progress.

In the case of storage tanks (pipeline to the sea terminal), the foundations laying for the VR, VGO and pyrolyse gasoline storage tanks is in the final stage. Piling work under the foundations of the diesel oil storage tanks was completed and foundations laying commenced. A construction design was prepared for the pipeline to the terminal. Start of the work on the LPG tank is being prepared.

With respect to auxiliary facilities, in H1 2008 the work was continued on extension of the wastewater treatment plant, final commissioning and pressure testing of underground network systems were being performed, foundations for new inter-unit trestle bridges were being laid. Designs were also being prepared for new fan coolers, while internal roads were being reconstructed in order to adapt them to the handling and transport of heavy cargo from the wharf.

Supported by its advisers and financial institutions, at the beginning of 2008 the Company continued efforts aimed at raising financing for the 10+ Programme.

In January 2008, Grupa LOTOS S.A., in cooperation with its legal counsel and financial advisor, as well as with the banks' advisers (covering market, technology, insurance and legal issues) answered the banks' questions asked as part of the analysis of information contained in the information package of the 10+ Programme, distributed to the banks on December 21st 2007.

Towards the end of January, banks submitted their first firm bids for the financing of the 10+ Programme. Also the Italian export credit agency SACE submitted its preliminary bid.

On February 20th 2008, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. resolved to establish security for the credit facilities contracted to finance the 10+ Programme.

The work was also being finalised on the cargo transport insurance policy (known as the CARGO policy) covering deliveries for the 10+ Programme. The policy covers the entire execution period for the 10+ Programme, is consistent with the assumptions of the Grupa LOTOS S.A.'s Insurance Programme for 2008–2010 and was signed in late March 2008.

In March 2008, the final structure of the syndicate of financial institutions which would provide full financing of the project was determined, and the contract terms, both commercial (commissions and margins) and legal (commitment letter, term sheet) were agreed.

In April, Grupa LOTOS S.A. and the syndicate of banks signed a commitment letter which constitutes the banks' binding obligation to advance a credit facility on the agreed commercial terms, together with the term sheet, which sets forth the basic formal and legal terms of the transaction. Subsequently, detailed provisions of the credit facility agreement and the accompanying financial documentation (including security agreements) were negotiated. Finally, on June 27th 2008, Grupa LOTOS S.A. and the bank syndicate executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital needs of Grupa LOTOS S.A.

CALYON Bank acts as the Senior Facility Agent, while SOCIÉTÉ GÉNÉRALE S.A. performs the role of the Senior Security Agent. Concurrently, under the credit facility agreement, Grupa LOTOS S.A. executed a sub-agreement concerning the credit facility tranche guaranteed by SACE, an Italian export credit agency.

The process of fulfilling conditions precedent to the origination of these facilities started.

### **PROSTA PROGRAMME**

In H1 2008, a subsidiary undertaking, LOTOS Paliwa restructured its service station network and launched several new products, and subsequently focused on further development of the CODO service station network and expansion of the DOFO service station network.

In the reporting period, the Group continued the following activities:

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- On February 1st 2008, the NAVIGATOR loyalty programme was implemented at the LOTOS CODO/DOFO network,
- The programme for upgrading the fuel installation to include new Dynamic fuels was continued,
- A CODO service station at ul. Arkuszowa in Warsaw was placed in service on June 19th 2008,
- New stations (in Kotlin, Trzebiel, Bartoszyce, Dębica, Cieszyn, Włodawa, Zwoleń, Kórnik and Gronów Górny near Elbląg) were included into the LOTOS Family Commercial Partnership Programme.

As at June 30th 2008, the LOTOS service station network comprised 348 locations, including 134 CODO stations, 76 DOFO stations and 138 DODO stations. A total of 88 franchise agreements were signed. In line with the assumptions of the PROSTA Programme regarding transfer of the DODO stations to another operational platform, the total number of high-margin CODO and DOFO service stations is larger than the number of DODO stations.

**SOUTHERN RAFINERIES (LOTOS CZECHOWICE AND LOTOS JASŁO)**

In H1 2008, LOTOS Czechowice and LOTOS Jasło were pursuing the objectives set out in the LOTOS Group's strategy for the Southern Refineries, designed to achieve their operational integration with the LOTOS Group.

LOTOS Jasło focused on changing its operating profile in connection with the discontinuation of oil processing, scheduled for Q3 2008. The company is developing a number of projects which involve recycling of plastics.

In May 2008, LOTOS Czechowice launched a methyl ester (FAME) production unit. Methyl esters are a component used by Grupa LOTOS S.A. in biodiesel production (project executed by LOTOS Biopaliwa Sp. z o.o. on LOTOS Czechowice's site).

The start-up of the FAME production unit at full capacity (100 thousand tonnes of FAME per year in the continuous production process) took place. In the near future, methyl esters will be produced from rapeseed oil (about 90% of feedstock) and methanol (about 10% of feedstock). The LOTOS Group has entered into agreements for the feedstock supplies with Komagra Sp. z o.o., Zakłady Tłuszczowe Kruszwica S.A. and Zakłady Tłuszczowe of Bodaczów.

In accordance with the contract terms, production tests were being carried out and production of the biocomponent was launched at LOTOS Czechowice. The construction work for a tank with the capacity of 32 thousand m<sup>3</sup> was continued. Once completed, the tank will increase the LOTOS Group's available storage capacities in southern Poland. The tank is scheduled to be placed in service in mid-November 2008.

At LOTOS Jasło, negotiations were being held with the aim to upgrade and expand the used oil recycling process. Having reviewed their respective proposals and technologies, the company began negotiations with prospective investors, aimed at reaching agreements in the form of letters of intent that would define the terms and conditions of proposed cooperation.

LOTOS Park Technologiczny continued disposal of its assets to the LOTOS Group companies and third-party investors. The sale of the Terpen Plant at Czechowice-Dziedzice to an external investor was successfully closed. Efforts undertaken by LOTOS Czechowice led to an agreement for the use of the ABT and furfural units (which are currently out of operation) as part of a project executed jointly with a foreign investor.

At LOTOS Park Technologiczny, the restructuring of the company's human resources and assets is progressing according to schedule and is now nearing completion.

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**12. TRANSACTIONS WITH RELATED UNDERTAKINGS**

**Transactions worth more than EUR 500 thousand executed by the parent undertaking with related undertakings (PLN '000)**

No.	Party to the transaction	Sales (PLN '000)	Purchases (PLN '000)
1	LOTOS Paliwa Sp. z o.o.	4,498,942.00	-
2	LOTOS Oil S.A.	132,772.00	-
3	LOTOS Parafiny Sp. z o.o.	31,747.00	-
4	LOTOS Kolej Sp. z o.o.	3,960.00	105,183.00
5	LOTOS Serwis Sp. z o.o.	2,282.00	25,379.00
6	LOTOS Gaz Group	72,232.00	4,474.00
7	LOTOS LAB Sp. z o.o.	-	6,349.00
8	LOTOS Ochrona Sp. z o.o.	-	5,284.00
9	LOTOS Straż Sp. z o.o.	-	5,142.00
10	LOTOS Asfalt Sp. z o.o.	321,086.00	-
11	LOTOS Jasło S.A. Group	58,878.00	70,665.00
12	LOTOS Czechowice S.A. Group	-	13,000.00
13	Petrobaltic S.A. Group	8,758.00	226,832.00

\* The equivalent of EUR 500,000 is PLN 1.739 thousand (EUR 1 = PLN 3.4776 – arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of each month in the period January 1st – June 30th 2008).

Besides the transactions specified above, in H1 2008 the parent undertaking entered into one related-party agreement worth more than EUR 500 thousand.

**Agreement between Grupa LOTOS S.A. and LOTOS Gaz S.A.**

On June 30th 2008, a final sale agreement was signed under which LOTOS Gaz S.A. sold an organised part of its business comprising the liquid fuels depot in Rypin to Grupa LOTOS S.A. The transaction is a part of the logistics assets streamlining process under way at the LOTOS Group. LOTOS Gaz S.A. is wholly owned by Grupa LOTOS S.A. The value of the transaction amounted to PLN 3,468 thousand.

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

MANAGEMENT BOARD – sixth term of office

In the period from January 1st to June 30th 2008, the composition of the Management Board was as follows:

1. Paweł Olechnowicz – President
2. Marek Sokołowski – Vice-President
3. Mariusz Machajewski – Vice-President

SUPERVISORY BOARD – sixth term of office

Until June 30th 2008, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

1. Jan Stefanowicz – Chairman,
2. Henryk Siodmok – Deputy Chairman,
3. Grzegorz Szczodrowski – Secretary,
4. Beata Zawadzka – Member,
5. Marta Busz – Member,
6. Izabela Emerling – Member,
7. Jacek Mościcki – Member.

SUPERVISORY BOARD – seventh term of office

On June 30th 2008, the General Shareholders Meeting of Grupa LOTOS S.A. appointed the Supervisory Board of the seventh term of office, composed of the following persons:

1. Wiesław Skwarko – Chairman,
2. Radosław Barszcz – Member,
3. Piotr Chajderowski – Member,
4. Leszek Starosta – Member,
5. Jan Stefanowicz – Member,
6. Mariusz Obszyński – Member.

Pursuant to Par. 11.2 of the Company's Articles of Association the Company's shareholder, the State Treasury represented by the Minister of the State Treasury, removed Ms Beata Zawadzka from the Supervisory Board (with effect from June 30th 2008) and appointed to the Supervisory Board Ms Małgorzata Hirszel (with effect from July 1st 2008).

On August 12th 2008, during its meeting, the Supervisory Board formally constituted itself. Mr Leszek Starosta was elected Deputy Chairman of the Supervisory Board, and Mr Mariusz Obszyński was appointed Secretary of the Supervisory Board.

As at the date of publication of the consolidated financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

1. Wiesław Skwarko – Chairman,
2. Leszek Starosta – Deputy Chairman,
3. Mariusz Obszyński – Secretary,
4. Radosław Barszcz – Member,
5. Piotr Chajderowski – Member,
6. Małgorzata Hirszel – Member,
7. Jan Stefanowicz – Member.

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**RULES CONCERNING THE APPOINTMENT AND REMOVAL OF MANAGEMENT STAFF,  
POWERS OF THE MANAGEMENT STAFF**

1. The Management Board is appointed by the Supervisory Board. The Supervisory Board first appoints the President of the Management Board, and then, at the President's request, the Vice-Presidents and other members of the Management Board.
2. The Management Board is appointed for a joint, three-year term of office. For important reasons, the President, the Vice-Presidents and other members of the Management Board, as well as the Management Board as a whole, may be removed from office or suspended by the Supervisory Board at any time.
3. Supervisory Board's resolutions concerning appointment or removal of the particular members of the Management Board, or of the Management Board as a whole, are adopted in the presence of at least two thirds of the Supervisory Board members.

The Management Board takes any decisions related to the management of the Company's business which are not reserved for the General Shareholders Meeting or the Supervisory Board pursuant to the Commercial Companies Code or the Company's Articles of Association.

Management Board resolutions are required with regard to the following matters:

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

Any matters not specified above are handled by individual members of the Management Board in line with the division of powers and responsibilities.



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

The value of remuneration paid and payable to the management and supervisory staff of Grupa LOTOS S.A. is presented in Note 46 to the consolidated financial statements for the first six months of 2008.

**15. 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**

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

	As at June 30th 2008	
	<i>Number of shares</i>	<i>Par value (PLN)</i>
Management Board:	8,636	8,636
Marek Sokołowski	8,636	8,636
<b>Total</b>	<b>8,636</b>	<b>8,636</b>

To the best of the Company's knowledge, members of its Supervisory Board do not hold any Company shares nor any rights to Company shares.

**16. 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.

**17. 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.

**18. INFORMATION ON CONTROL SYSTEMS FOR EMPLOYEE STOCK OPTION PLANS**

In H1 2008, no control system for employee stock option plans existed at Grupa LOTOS S.A.

**19. DESCRIPTION OF MATERIAL OFF-BALANCE-SHEET ITEMS**

For a detailed description of material off-balance-sheet items, see Note 42 to the consolidated financial statements of the LOTOS Group for the first six months of 2008.

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

One Company share confers the right to one vote at the General Shareholders Meeting, with the proviso that as long as Nafta Polska S.A. holds the Company shares conferring the rights to at least one-fifth of the total vote at the General Shareholders Meeting, the rights of the Company shareholders will be limited so that neither of them can exercise at the General Shareholders Meeting more than one-fifth of the total number of votes at the Company as at the day the General Shareholders Meeting is held. The limitation on the exercise of the voting rights referred to in the previous sentence does not apply to Nafta Polska. For the purposes of the this subparagraph, the exercise of voting rights by a subsidiary is deemed the exercise of voting rights by the parent undertaking within the meaning of the laws on public trading in securities.

The limitation on the exercise of the voting rights referred to in the first sentence of Par. 10.3 of Grupa LOTOS S.A.'s Articles of Association does not release the buyers and holders of the Company Shares from the obligations provided for in the laws on public trading in securities, and in particular the disclosure requirement related to the purchase and sale of shares in a public company, the obligation to obtain approval of a relevant authority for purchase of a specific number of shares in a public company, the obligation to publicly announce tender offers for sale or exchange of shares in a public company and to announce and carry out tender offers for sale of the remaining shares in a public company.

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**21. INFORMATION ON THE AGREEMENT WITH A QUALIFIED AUDITOR OF FINANCIAL STATEMENTS**

On June 29th 2007, Grupa LOTOS S.A. and Deloitte Audyt Sp. z o.o. of Warsaw concluded an agreement providing amongst other things for the review of the non-consolidated and consolidated financial statements for the first six months of 2007, 2008 and 2009 and for the audit of the non-consolidated and consolidated financial statements in 2007 – 2009.

The total value of the agreement comprises PLN 304 thousand for the review of the non-consolidated and consolidated financial statements for the first half of 2008 and PLN 831 thousand for the audit of the non-consolidated and consolidated financial statements for 2007.

The total value of the agreement with respect to the period 2008 – 2009 is PLN 1,678 thousand.

Furthermore, companies of the LOTOS Group concluded agreements with Deloitte Audyt Sp. z o.o. of Warsaw providing amongst other things for the audit of their non-consolidated and consolidated financial statements in 2007 – 2009.

The total value of the agreements with respect to the period 2008 – 2009 is PLN 672 thousand.

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**22. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS**

President of the Management Board, Chief Executive Officer	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	
	Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	
	Marek Sokołowski