

**THE LOTOS GROUP
DIRECTORS REPORT ON THE LOTOS GROUP OPERATIONS IN 2007**



THE LOTOS GROUP

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IN 2007

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INTRODUCTION

This Directors' Report on the LOTOS Group's operations in 2007 was prepared by the Management Board pursuant to the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities, dated October 19th 2005 (Dz. U. No. 209, item 1744).

1. ORGANISATIONAL STRUCTURE OF THE LOTOS GROUP

1.1. STRUCTURE OF THE LOTOS GROUP AS AT DECEMBER 31ST 2007

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,¹
- LOTOS Oil S.A. - consolidated with the full method,
- LOTOS Asfalt 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 Exploration and Production Norge AS - consolidated with the full method,²
- LOTOS Park Technologiczny Sp. z o.o. - consolidated with the full method,
- LOTOS Tank Sp. z o.o. - consolidated with the full method,³

¹ On July 5th 2007, change of the company name from LOTOS Mazowsze S.A. to LOTOS Gaz S.A. was registered.

² On September 22nd 2007, the Central Registrar of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, registered office in Norway. Grupa LOTOS S.A. acquired 100% of the shares in the new entity.

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- LOTOS Czechowice S.A- consolidated with the full method,
- LOTOS Jasło S.A. - consolidated with the full method,
- PPIEZRiG Petrobaltic S.A. - consolidated with the full method,
- UAB LOTOS Baltija – consolidated with the full method,
- Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy) – not consolidated,
- LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation) - not consolidated,⁴

-
- *LOTOS Partner Sp. z o.o.*⁵,
 - *PPU BiproRaf Sp. z o.o.*⁶

Indirect subsidiary undertakings:

- RCEkoenergia Sp. z o.o. - consolidated with the full method,
- LOTOS Biopaliwa - Sp. z o.o. - consolidated with the full method,
- RCSerwis Sp. z o.o. - not consolidated,
- Plastekol Organizacja Odzysku S.A. - consolidated with the full method,
- Chemipetrol Sp. z o.o. - not consolidated,
- Miliana Shipping Company Ltd. - consolidated with the full method,
- Aphrodite Offshore Services Ltd. – not consolidated,
- KRAK – GAZ Sp. z o.o. - consolidated with the full method.⁷

-
- *RC Paliwa Sp. z o.o.*⁸,
 - *Rafineria Jasło Sped-Kol Sp. z o.o.*⁹,

³ On April 11th 2007, Grupa LOTOS S.A. concluded an agreement with LOTOS Jasło S.A. (in which Grupa LOTOS S.A. holds 80.01% shares) for the purchase of 700 shares in LOTOS Tank Sp. z o.o. (30%-owned by Grupa LOTOS S.A. as at the date of the agreement).

⁴ On November 26th 2007, by virtue of Resolution of the Extraordinary General Shareholders Meeting, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation.

⁵ On June 29th 2007, the merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was registered. The merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code by way of a transfer of all assets in LOTOS Partner Sp. z o.o. (the acquiree) to Grupa LOTOS S.A. (the acquirer).

⁶ On January 15th 2007, Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Usługowe BiproRaf Sp. z o.o. (PPU BiproRaf Sp. z o.o.) to KTI Poland S.A. of Warsaw.

⁷ On July 9th 2007, LOTOS Gaz S.A. signed the final share purchase agreement concerning 34,500 shares in KRAK-GAZ Sp. z o.o., representing 100% of this company's share capital.

⁸ On October 4th 2007, RC Paliwa Sp. z o.o. w likwidacji (in liquidation) was deleted from the National Court Register maintained by the District Court of Katowice Wschód in Katowice, VIII Commercial Division of the National Court Register (RC Paliwa Sp. z o.o. was wholly-owned by LOTOS Czechowice S.A., in which Grupa LOTOS S.A. holds a stake of 80.04%).

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- *Petrosoft.pl Technologie Informatyczne Sp. z o.o.*¹⁰

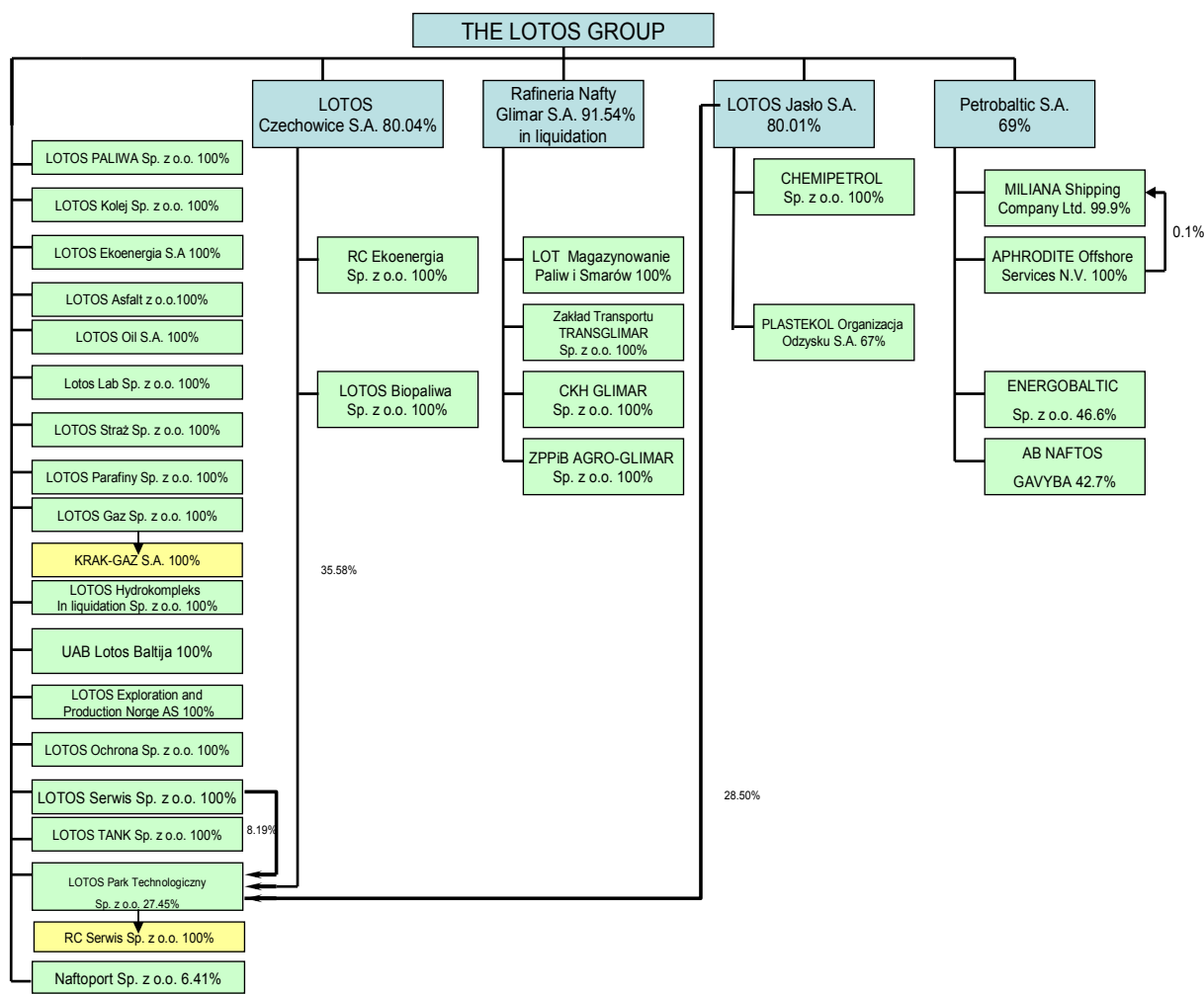
Associated undertakings:

- Energobaltic Sp. z o.o. - valued with the equity method,
- AB Naftos Gavyba - valued with the equity method¹¹,

Organisational Chart of the LOTOS Group

As at December 31st 2007 and December 31st 2006, the Group's direct share in the total vote at the general shareholders meetings of its subsidiary undertakings equalled the Group's share in the share capital of these undertakings.

As at December 31st 2007



⁹ On March 8th 2007, Rafineria Jasło Sped-Kol Sp. z o.o. w likwidacji (in liquidation) was deleted from the National Court Register maintained by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

¹⁰ On December 27th 2007, LOTOS Jasło S.A. sold 100% of the shares in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu. Sp. z o.o.

¹¹ On December 3rd 2007, the legal form of the company was changed from UAB to AB.

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1.2. CONSOLIDATED UNDERTAKINGS OF THE LOTOS GROUP

PARENT UNDERTAKING

Grupa LOTOS S.A.

Grupa LOTOS S.A. (“the Company”, “Parent Undertaking”), the Parent Undertaking of the LOTOS Group (“the Group”) was established by virtue of Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register, under entry No. KRS 0000106150. The Company was assigned the Industry Identification Number (REGON) 190541636. The Company’s registered office is situated at ul. Elbląska 135, 80-718 Gdańsk, Poland.

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

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

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

In 2005, Grupa LOTOS S.A. acquired shares in two refineries located in southern Poland and in Petrobaltic. Furthermore, in connection with the “Spring 2005” maintenance project carried out at the Gdańsk refinery, the refinery’s annual crude oil distillation capacity was increased from approximately 4.5m tonnes to 6m tonnes.

THE LOTOS GROUP COMPANIES

LOTOS Paliwa Sp. z o.o.

LOTOS Paliwa Sp. z o.o.(created by way of a spin-off from Grupa LOTOS S.A.) was incorporated by virtue of Notarial Deed dated January 12th 1996 (Rep. A No. 119/96). On April 9th 2001 the company was entered in the National Court Register (currently maintained by the District Court of Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register) under entry No. KRS 0000006312. The company’s registered office is located in Gdańsk. As at June 30th 2007, the company’s share capital was 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 sole distributor of fuels and light fuel oil within the Group. LOTOS Paliwa Sp. z o.o.’s business focuses on:

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- management and development of the fuel station network (CODO, DODO and DOFO stations) representing the second largest fuel station network on the Polish market;
- sale of fuels to institutional customers and intermediaries;
- management of the network of self-serve diesel oil pumps and development of diesel oil sales through such a network (LOTOS Diesel Service);
- retail sale and wholesale of light fuel oil (in H1 2007 LOTOS Paliwa Sp. z o.o. became the only entity within the LOTOS Group to trade in light fuel oil, and LOTOS Gaz S.A. stopped trading in this product);
- retail sale of liquid gas.

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

LOTOS Paliwa Sp. z o.o. is strengthening its runner-up position on the retail fuel market in Poland by expanding its network. In 2007 the company successfully completed the process of change of the mode of operation of its own fuel stations – from COCO to CODO, and introduced DYNAMIC brand fuels to the market. 2007 was also marked by the preparations to implement the Navigator Loyalty Programme, planned to be launched in February 2008.

LOTOS Partner Sp. z o.o.

Preem Terminale Rzeczne S.A. was incorporated by virtue of the Notarial Deed of June 11th 2001 (Rep. A No. 1881/2002). The company was entered into the National Court Register under No. KRS 0000025606, on July 11th 2001. On December 18th 2002, Grupa LOTOS S.A. (formerly Rafineria Gdańska S.A.) signed an agreement on the purchase of 100% of shares in Preem Terminale Rzeczne Sp. z o.o. from Preem Polska Sp. z o.o. According to the entry in the National Court Register, since January 17th 2003 Preem Terminale Rzeczne Sp. z o.o. has operated under the name of LOTOS Partner Sp. z o.o. Since January 7th 2005 until June 29th 2007, the company's registered office was located in Gdańsk.

LOTOS Partner Sp. z o.o.'s core business involved:

- sale of fuels to Polish institutional customers and retail fuel station networks of foreign operators
- organisation of primary logistics
- import and exchange of products in land transport
- provision of services related to national tenders
- sale of aviation and bunker fuel.

On February 27th 2007, the Management Board of Grupa LOTOS S.A. signed the plan of merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o., prepared in accordance with Art. 499.1 of the Commercial Companies Code. On June 29th 2007, the merger was registered by the District Court of Gdańsk – Północ in Gdańsk, VII Commercial Division of the National Court Register. The merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code by way of transfer of all assets in LOTOS Partner Sp. z o.o.

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(the acquiree) to Grupa LOTOS S.A. (the acquirer). As the acquirer held 100% of shares in the acquired company, the merger was executed pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the acquirer's share capital. The merger was executed as part of the restructuring of the LOTOS Group, aimed at streamlining its organisational structure. The objective of the restructuring programme is to provide the LOTOS Group with more operating flexibility and facilitate quicker response to changes in the market environment. The incorporation of LOTOS Partner Sp. z o.o. into Grupa LOTOS S.A. is an element of the restructuring of the sales division within the entire LOTOS Group and should not have a material effect on the consolidated financial results of the LOTOS Group.

LOTOS Gaz S.A. (formerly: LOTOS Mazowsze S.A.)

The company became a member of the LOTOS Group following the acquisition by Grupa LOTOS S.A.'s of 75% of shares in PETRIM Sp. z o.o. on June 17th 2003. Upon the acquisition, 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. The acquisition of 75% of shares in LOTOS Mazowsze S.A. was settled in June 2004 upon payment of a premium of PLN 4,396 thousand to the sellers. In July 2004, the remaining 25% of the 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 December 31st 2007, 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 LOTOS Mazowsze S.A. 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 implementation of its strategy in the area of LPG trade, on July 9th 2007 the company acquired 100% of shares in Krak-Gaz Sp. z o.o. for PLN 16,367.9 thousand, and on August 8th 2007 – an LPG terminal in Leszcze (the commune of Pińczów) for PLN 2,850 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 2007 amounted to PLN 2,000,000.00 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.

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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.

In 2007, the company continued to 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 increased its share in the industrial oils segment to over 30%. In 2007, the company's sales on the domestic market were close to their 2006 level.

On January 1st 2007, as part of the restructuring of the sales division within the entire LOTOS Group, LOTOS Oil S.A. took over the sale of plasticizers from LOTOS Gaz S.A.

LOTOS Asfalt 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 December 31st 2007, the company's share capital was PLN 2,000,000.00 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.

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 Asfalt Sp. z o.o. produces and sells road and industrial bitumens, emulsions and special bitumen products. Currently, LOTOS Asfalt operates three production plants: in Gdańsk, Jasło and Czechowice-Dziedzice. The Gdańsk plant produces road bitumens, a wide range of modified bitumens, as well as industrial bitumen. The Jasło plant produces industrial bitumens, bitumen mass and a wide range of bitumen emulsions. The Jasło plant is also the producer of special road bitumens, e.g. 20/30 road bitumens and UNIBIT 35/50 multigrade bitumens. The Czechowice-Dziedzice plant produces modified bitumens and operates a modern depot for redistribution of road bitumens.

LOTOS Asfalt's bitumens are sold mainly on the domestic market. Export sales are made to Sweden, the Czech Republic, Slovakia, Hungary, Austria, Romania, Germany, Lithuania, and Russia.

On December 28th 2006, Grupa LOTOS S.A. and LOTOS Asfalt Sp. z o.o. signed a significant agreement on sale of fuel oil. Accordingly, since January 1st 2007, LOTOS Asfalt Sp. z o.o. has been the LOTOS Group's member responsible for the sale of heavy fuel oil (formerly the responsibility of LOTOS Gaz S.A., then operating under the name of LOTOS Mazowsze S.A.). This change was introduced as part of the restructuring of the sales division within the LOTOS Group.

In 2007, the company commenced conceptual work connected with the construction of a waterproofing materials production plant in Jasło.

LOTOS Parafiny Sp. z o.o.

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

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

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

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

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

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

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

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

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

The company's registered office is situated in Jasło. Its operations are based on two production centres located in Jasło and Czechowice-Dziedzice, and are focused on the production of high quality paraffin, a wide range of paraffin mass, wax, ceresine, petroleum jelly and lubes. In addition, in 2006 the company entered a new finished products segment, by marketing a wide range of 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 December 31st 2007, the company's share capital amounted to PLN 500,000.00 and was divided into 50,000 Series A bearer shares with a par value of PLN 10.00 per share.

As at December 31st 2007, LOTOS Ekoenergia S.A. had not commenced operating activities and there are no plans to commence its operations in 2008, because the 10+ Programme is being carried out and financed by Grupa LOTOS S.A.

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LOTOS Kolej Sp. z o.o.

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

On April 12th 2006, the company's share capital was increased by PLN 1,767,000, from PLN 233,000 to PLN 2,000,000. The share capital is divided into 4,000 shares with a par value of PLN 500 per share.

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

The main activities of the company include:

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

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

LOTOS Serwis Sp. z o.o.

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

As at December 31st 2007, the share capital of LOTOS Serwis Sp. z o.o. amounted to PLN 2,500,000 and was divided into 5,000 shares with a par value of PLN 500 per share. Grupa LOTOS S.A. holds 100% of the share capital of LOTOS Serwis Sp. z o.o.

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

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

In 2006, the Maintenance and Investment Department of LOTOS Paliwa Sp. z o.o. was transferred to LOTOS Serwis Sp. z o.o. (the company's staff was taken over under Art. 23' of the Polish Labour Code). Subsequently,

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on July 1st 2006, LOTOS Serwis Sp. z o.o. and LOTOS Paliwa Sp. z o.o. executed an agreement whereby LOTOS Serwis Sp. z o.o. would build service stations, perform the finishing work in accordance with the required visual scheme and provide repair and day-to-day maintenance services on behalf of LOTOS Paliwa Sp. z o.o.

LOTOS Lab Sp. z o.o.

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

As at December 31st 2007, the company's share capital amounted to PLN 1,000,000 and was divided into 2,000 shares with a par value of PLN 500 per share. All the shares in the company were acquired by Grupa LOTOS S.A.

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

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

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

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

In December 2007, an audit was successfully completed at LOTOS Lab Sp. z o.o. extending the company's Research Laboratory Accreditation Certificate to cover methods related to emissions of CO₂ and dust to the air. The certificate was formally awarded on March 8th 2008.

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 December 31st 2007, its share capital amounted to PLN 3,900,000.00 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.

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

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LOTOS Ochrona Sp. z o.o.

The company was established by virtue of Notarial Deed of June 19th 1998 under the name SORG Sp. z o.o. (Rep. A No. 2482/1998). On January 15th 2002, it was entered in the National Court Register under No. KRS 0000068276. Since January 12th 2004, the company has been operating under the name of LOTOS Ochrona Sp. z o.o. with registered office in Gdańsk. As at December 31st 2007, the share capital of LOTOS Ochrona Sp. z o.o. amounted to PLN 302,500 and was divided into 605 shares with a par value of PLN 500 per share. The activities of LOTOS Ochrona Sp. z o.o. (spun off from Grupa LOTOS S.A.) consist in personal and property protection. The company provides services for the LOTOS Group and other entities performing work on the premises of the Gdańsk refinery. The objective behind limiting the company's scope of operations was to help maintain a constant high level of security at the Gdańsk refinery.

Grupa LOTOS S.A. owns 100% of shares in LOTOS Ochrona Sp. z o.o., conferring the right to 100% of the total vote at the company's General Shareholders Meeting.

On May 29th 2007, LOTOS Ochrona Sp. z o.o. and Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. signed an agreement defining the key conditions for the provision of facility and property protection services, managing the pass system, as well as ensuring order and security on the premises of Petrobaltic S.A. of Gdańsk. The agreement also provides for the transfer of 12 employees of Petrobaltic S.A. to LOTOS Ochrona Sp. z o.o. The agreement was concluded for an unspecified time.

LOTOS Exploration and Production Norge AS

On September 22nd 2007, the Central Registrar of Businesses in Brønnøysund, Norway, registered LOTOS Exploration and Production Norge AS. As at December 31st 2007, the company's share capital amounted to NOK 8,000,000.00 and was divided into 8,000,000 shares with a par value of NOK 1 per share, conferring rights to a total of 8,000,000 votes. Grupa LOTOS S.A. owns 100% of the shares in the new entity. 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.

LOTOS Park Technologiczny Sp. z o.o.

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

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

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

The company's share capital was increased to PLN 8,074,000 by way of contributions in kind totalling PLN 4,460,000; the increase was registered on January 20th 2006. As at January 20th 2006, the company's

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shareholder structure was as follows: PRPH RCRemo Sp. z o.o. – 17.55%, CBA Racer Sp. z o.o. – 15.68%, LOTOS Czechowice S.A. – 60.58%, Grupa LOTOS S.A. – 5.57%, Kolaja&Partners Sp. z o.o. – 0.62%. The company's share capital was increased again on February 20th 2006, to PLN 12,374,000, by way of cash contribution of PLN 4,300,000 made by Grupa LOTOS S.A. As at February 20th 2006, the company had the following shareholder structure: PRPH RCRemo Sp. z o.o. – 11.45%, CBA Racer Sp. z o.o. – 10.23%, LOTOS Czechowice S.A. – 39.53%, Grupa LOTOS S.A. – 38.39%, Kolaja&Partners Sp. z o.o. – 0.4%. However, as a result of PRHP RCRemo Sp. z o.o.'s incorporation into LOTOS Serwis Sp. z o.o., effected on June 30th 2006, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. changed again. As at the incorporation date, the company's shareholders were as follows: LOTOS Serwis Sp. z o.o. – 11.45%, CBA Racer Sp. z o.o. – 10.23%, LOTOS Czechowice S.A. – 39.53%, Grupa LOTOS S.A. – 38.39%, Kolaja&Partners Sp. z o.o. – 0.4%. Another share capital increase at LOTOS Park Technologiczny Sp. z o.o., to PLN 17,307,000, was made on December 22nd 2006, as the company's new shareholder – LOTOS Jasło S.A. – made a contribution in kind of PLN 4,933,000. As at December 22nd 2006, the shareholder structure of LOTOS Park Technologiczny Sp. z o.o. was as follows: LOTOS Serwis Sp. z o.o. – 8.19%, CBA Racer Sp. z o.o. – 7.31%, LOTOS Czechowice S.A. – 28.26%, Grupa LOTOS S.A. – 27.45%, Kolaja&Partners Sp. z o.o. – 0.29%, LOTOS Jasło S.A. – 28.50%. The company's shareholder structure was changed again after the incorporation of CBA Racer Sp. z o.o. into LOTOS Czechowice S.A. (effected on December 28th 2006). Since the incorporation date, the company's shareholder structure has been as follows:

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

As at December 31st 2007, the share capital of LOTOS Park Technologiczny Sp. z o.o. amounted to PLN 17,307,000.00 and was divided into 34,614 shares with a par value of PLN 500.00 per share.

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. 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 at December 31st 2007, the company's share capital amounted to PLN 500,000.00 and was divided into 1,000 shares with a par value of PLN 500.00 per share.

LOTOS Tank Sp. z o.o.'s core business consists in trade in Grupa LOTOS S.A.'s engine fuels in the southern provinces of Poland.

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UAB LOTOS Baltija

The core business of UAB LOTOS Baltija includes wholesale and retail trade in lubricating oils in Lithuania, Belarus and other countries.

The company was registered on January 31st 2000. Grupa LOTOS S.A. acquired 5,680 shares in the company, with a par value of LTL 100 per share, representing 85.03% of the company's share capital. The remaining 1,000 shares, representing 14.97% of the company's share capital, were acquired by AUTOTEPAS joint-stock company. On May 29th 2001, the founding capital of Baltic LOTOS was increased by LTL 440,000, through the issue of 4,400 shares with a par value of LTL 100 per share. The new shares were acquired by PPH ADWA Adam Gostyński, the exclusive distributor of Grupa LOTOS S.A.'s oils on the Ukrainian market.

In 2003, the company's name was changed from Baltic Lotos to LOTOS Baltija.

In H1 2004 Grupa LOTOS S.A. purchased from AUTOTEPAS, a minority shareholder in the company, the 1,000 shares in Lotos Baltija for LTL 45 per share. On November 16th 2005, PPH ADWA Adam Gostyński and Grupa LOTOS S.A. executed a share purchase agreement, under which Grupa LOTOS S.A. acquired the remaining shares in Lotos Baltija, thus increasing its equity stake in the company from 61.29% to 100%.

In May 2006, the company opened an office in Vilnius, which became its registered office.

KRAK GAZ Sp. z o.o.

This company has operated on the LPG market since 1998. As at December 31st 2007, the company's share capital amounted to PLN 3,450 thousand. From the very beginning of its existence, the company has been involved in the sale of LPG at LPG service stations. In 2007 the company had 44 own LPG service stations and cooperated with DOFO LPG service stations. In 1999 the company started to import LPG from Russia and commenced distribution of the imported LPG from its own storage and loading terminal in Bochnia, thus including the wholesalers and semi-wholesalers in its customer base. In 2007, thanks to its activity on the LPG trade market, Krak Gaz maintained its high market share (estimated at 6%), having sold approximately 159 thousand tonnes of LPG. In line with the company owners' decision, in 2007 the company's Management Board started to look for a strong (in terms of capital and organisational capacity) partner to enter the company. On July 9th 2007, LOTOS Gaz S.A. acquired 100% of shares in Krak-Gaz Sp. z o.o. In 2008 the company is planned to be incorporated into LOTOS Gaz S.A.

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THE LOTOS CZECHOWICE GROUP

LOTOS Czechowice S.A.

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

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

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

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

On November 27th 2006, by virtue of court decision (case file No. KA. VIII NS-REJ.KRS/028721/06/350) RC Paliwa Sp. z o.o., a subsidiary of LOTOS Czechowice S.A., was placed in liquidation. On October 4th 2007, the District Court for Katowice-Wschód in Katowice, VIII Commercial Division of the National Court Register, deleted RC Paliwa Sp. z o.o. from the National Court Register.

RC Ekoenergia Sp. z o.o.

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

As at December 31st 2007, the share capital of RC Ekoenergia Sp. z o.o. amounted to PLN 20,061,000, and was divided into 20,061 shares with a par value of PLN 1,000 per share. RC Ekoenergia Sp. z o.o. is wholly owned by LOTOS Czechowice S.A. Grupa LOTOS S.A. holds, indirectly through shares held in LOTOS Czechowice S.A., an 80.04% equity interest in RC Ekoenergia Sp. z o.o.

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

RC Paliwa Sp. z o.o.

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

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On November 27th 2006, by virtue of court decision (case file No. KA. VIII NS-REJ.KRS/028721/06/350), the company was placed in liquidation. On October 4th 2007 the District Court for Katowice-Wschód in Katowice, VIII Commercial Division of the National Court Register, deleted the company from the National Court Register.

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 December 31st 2007, the company's share capital amounted to PLN 10,000,000.00 and was divided into 20,000 shares with the par value of PLN 500.00 per share. The company is wholly owned by LOTOS Czechowice S.A. By December 31st 2007, the company had not commenced any operating activities.

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

On March 29th 2007, LOTOS Biopaliwa Sp. z o.o. was granted the building permit for the unit for the production of fatty acid methyl esters in Czechowice-Dziedzice. The permit became final on April 4th 2007. On April 11th 2007 MAN Ferrostaal AG of Essen and Prochem S.A. (the contractors employed to construct the facility) took over the construction site.

On June 29th 2007, LOTOS Biopaliwa Sp. z o.o. concluded an agreement with the National Fund for Environmental Protection and Water Management for a PLN 35,000,000.00 loan granted on preferential terms with a view to financing a part of the FAME project.

In 2007, concurrently with the construction work, the company conducted activities aimed at securing supplies of the feedstock for the production of FAME. On October 26th 2007, the company concluded an agreement for the supply of raw rapeseed oil with Komagra Sp. z o.o. The value of the agreement over its entire term is estimated at PLN 500,000 thousand. On December 21st 2007, LOTOS Biopaliwa Sp. z o.o. concluded another major agreement for the supply of raw rapeseed oil, with Zakłady Tłuszczowe Kruszwica S.A. The value of the agreement over its entire term is estimated at PLN 500,000 thousand.

On September 4th 2007, the company's Supervisory Board approved the final organisational structure of LOTOS Biopaliwa Sp. z o.o. Accordingly, in 2007 the company started the process of recruitment of its future employees, planned to be completed in Q1 2008.

On December 27th 2007, the company obtained the integrated permit issued by the Provincial Governor of the Katowice Province. The integrated permit which will enable the company to conduct its operations in compliance with the environmental laws.

The start-up of the FAME production unit and launch of the company's operations is scheduled for April 2008.

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THE LOTOS JASŁO GROUP

LOTOS Jasło S.A.

The company was formed as a result of transformation of the state-owned enterprise Podkarpackie Zakłady Rafineryjne im. Ignacego Łukasiewicza of Jasło, which had a more than a hundred years long presence in the Polish oil industry. From July 1st 1996, the company operated under the name Rafineria Jasło Spółka Akcyjna.

On December 20th 2005, the company's Extraordinary General Shareholders Meeting passed a resolution amending the company's Articles of Association with respect to the company name. Since January 2nd 2006, the company name has been LOTOS Jasło Spółka Akcyjna.

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

As at December 31st 2007, the company's share capital amounted to PLN 48,000,000 and was divided into 6,000,000 shares with a par value of PLN 8 per share.

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

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

On April 11th 2007, LOTOS Jasło S.A. sold to Grupa LOTOS S.A. all the shares held in LOTOS Tank Sp. z o.o. (700 shares, representing 70% of the share capital of LOTOS Tank Sp. z o.o.) and on December 27th 2007, sold its entire stake in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu. Sp. z o.o. The sold shares represented 100% of the share capital of PETROSOFT.pl Technologie Informatyczne Sp. z o.o.

On March 5th 2007, the District Court of Rzeszów, XII Commercial Division of the National Court Register, deleted Rafineria Jasło SPED-Kol Sp. z o.o. from the National Court Register.

On December 31st 2007, LOTOS Jasło S.A. transferred to LOTOS Parafiny Sp. z o.o. the right of perpetual usufruct to a part of land plot No. 1062/137, with the area of 1,295 m², and the ownership right to the office building and the structures situated on the plot, as well as the right of perpetual usufruct to a part of land plot No. 1062/147, with the area of 2,340 m², and the ownership right to tanks A-29, A-30, A-31, A-32, A-33, A-41 and to other structures and installations located on this plot.

On December 31st 2007, LOTOS Jasło S.A. transferred to LOTOS Oil S.A. the right of perpetual usufruct to a part of the land plot No. 1062/147, with the area of 902 m², and the ownership right to the "Bednarnia-suszarnia" office building with the floor space of 1,088 m².

Further, on December 28th 2007, LOTOS Jasło S.A. signed a preliminary agreement to sell the ownership right to land property covering plots No. 1065/3, 1066/4, 1066/6, 1067/3 and 1068/1, with the total area of 6,094 m², to Naftobudowa S.A. The final sale agreement was executed on January 28th 2008.

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LOTOS TANK Sp. z o.o.

On April 11th 2007, LOTOS Jasło S.A. and Grupa LOTOS S.A. executed an agreement under which LOTOS Jasło S.A. sold to Grupa LOTOS S.A. its entire stake in LOTOS Tank Sp. z o.o. (700 shares). The shares covered by the agreement, with the total par value of PLN 350 thousand, represented 70% of the share capital of LOTOS Tank Sp. z o.o. The shares were sold for PLN 642.5 thousand.

PLASTEKOL Organizacja Odzysku S.A.

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

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

As at December 31st 2007 the company's share capital amounted to PLN 1,000,000, and was divided into 1,000 Series A registered ordinary shares with a par value of PLN 1,000 per share. The company's principal shareholder is LOTOS Jasło S.A., which holds 670 shares representing 67% of the total vote at the General Shareholders Meeting, while the remaining twelve shareholders own 330 shares, representing jointly 33% of the total vote at the General Shareholders Meeting.

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

THE PETROBALTIC GROUP

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

PPiEZRiG Petrobaltic S.A. (Petrobaltic S.A.) commenced its activities as a limited liability company on January 1st 1999, following commercialisation of 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 December 31st 2007, the company's share capital amounted to PLN 92,400,000.00 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.

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The core activities of Petrobaltic S.A. consist in the development of oil and gas fields and crude oil and natural gas production.

On June 1st 2007, the security function at Petrobaltic S.A. was taken over by LOTOS Ochrona Sp. z o. o. The Petrobaltic S.A.'s security staff was transferred to LOTOS Ochrona Sp. z o.o. under Art. 23' of the Polish Labour Code. In Q2 2007, LOTOS Lab Sp. z o.o. took over a part of laboratory activities of Petrobaltic S.A. Subsequently, LOTOS Lab Sp. z o.o. and Petrobaltic S.A. concluded an agreement for the provision of laboratory services. On June 30th 2007, the parties signed an agreement for the purchase of laboratory equipment from Petrobaltic S.A. for PLN 104,565 (VAT-exclusive). In connection with the takeover of the laboratory activities from Petrobaltic S.A. by LOTOS Lab Sp. z o.o., three employees were transferred to and employed by LOTOS Lab Sp. z o.o. (two persons were employed as of July 1st 2007, and one person as of September 1st 2007).

PPiEZRZG Petrobaltic S.A. (69% owned by Grupa LOTOS S.A.) received a licence issued by the Minister of Environmental Protection on May 11th 2007 under which it may produce gasoline gas from the B4 reservoir. The effective term of the licence is 25 years. The operations under the licence should commence within 24 months from the licence date. On May 11th 2007, the Minister of Environmental Protection executed with PPiEZRZG Petrobaltic S.A. a mining use agreement concerning production of natural gas from the B4 reservoir. The agreement defines the conditions to be met by the business using the licence. The B4 reservoir is located within Poland's exclusive economic zone of the Baltic Sea, approx. 104 km north-east off Łeba. The reservoir's industrial resources of gasoline gas amount to approx. 2,000m³. On December 17th 2007, the company received decisions issued by the Minister of Environment extending the term of the seven licences for exploration and prospecting of oil and gas deposits situated at the sea areas of the Republic of Poland.

On December 28th 2007 the company sold its shares in Polski Serwis Płynów Wiertniczych Sp. z o.o.

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

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

Energobaltic Sp. z o.o.

Energobaltic Sp. z o.o. was incorporated by virtue of 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.

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As at December 31st 2007, the share capital of Energobaltic Sp. z o.o. amounted to PLN 14,701,500, and was divided into 1,815 shares with a par value of PLN 8,100 per share. Petrobaltic S.A. holds 846 shares in Energobaltic Sp. z o.o., representing 46.6% of its share capital.

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

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. Petrobaltic S.A. holds 4,270 shares 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 December 31st 2007. On December 3rd 2007, the company changed its legal form from UAB to AB.

AS AT DECEMBER 31ST 2007, RAFINERIA NAFTY GLIMAR S.A. OF GORLICE WAS IN BANKRUPTCY.

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2. CHANGES IN ORGANISATION AND MANAGEMENT OF THE LOTOS GROUP

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

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

In 2007, the key event with a bearing on the organisation and management of the LOTOS Group was the merger of Grupa LOTOS S.A. with its subsidiary LOTOS Partner Sp. z o.o. As a result of the merger, Grupa LOTOS S.A. took over the activities performed by LOTOS Partner Sp. z o.o., including:

- sale of fuels to Polish institutional customers and retail fuel station networks of foreign operators
- organisation of primary logistics
- import and exchange of products in land transport
- provision of services related to national tenders
- sale of jet and bunker fuel

These changes triggered a reorganisation in the logistics division at Grupa LOTOS S.A. aimed at adjusting its structure to the new activities.

As of April 1st 2007, the subordination of the Security and Protection Office has been changed. The Office, which earlier reported directly to the Director of Security and Corporate Services, became subordinated to the Deputy Chief Officer for Strategy and Corporate Support.

The name of the organisational unit of Director of Security and Corporate Services was changed to Corporate and Administration Director.

The Restructuring Office and the Strategy and Development Office were merged to form a new organisational unit within the structures of Grupa LOTOS S.A., namely the Strategy and Restructuring Office, subordinated directly to the Deputy Chief Officer for Strategy and Corporate Support.

As of April 1st 2007, the following changes have been implemented in the organisational structure of the Division of the Chief Commercial Officer:

- the Sales Support Centre, which earlier reported directly to the Chief Commercial Officer, was subordinated to the Logistics Director,
- the Oil Procurement Department, which earlier reported to the Procurement and Sales Director, was liquidated and the Crude Oil Supply Diversification Office, subordinated directly to the Chief Commercial Officer, was created based on the liquidated department,
- the Tender Arrangement Department, which earlier reported directly to the Procurement and Sales Director, was liquidated and replaced with the newly-created Department of Product Swap Transactions.

Organisational changes in the Division of the Chief Commercial Officer were introduced on July 2nd 2007:

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DIRECTORS REPORT ON THE LOTOS GROUP OPERATIONS IN 2007

- the Sales Support Centre was liquidated and replaced with the newly-created Sales Support Office,
 - the Supply Logistics Department was liquidated and replaced with the newly-created Supply Logistics Office,
 - the Product Logistics Department was liquidated and replaced with the newly-created Product Control Office,
 - the following organisational units subordinated directly to the Procurement and Sales Director were liquidated:
 - Finished Products Trading Office,
 - Raw Materials Trading Department,
 - Department of Product Swap Transactions,
- and replaced with the following newly-created organisational units:
- Land Transaction Office,
 - Marine Transaction Office,
 - Component Trading Department.

On September 3rd 2007, the scope of responsibilities of the Corporate Services Office and its superior unit, the Corporate and Administration Director. was changed. The Sponsoring Department was liquidated and its responsibilities were allocated between the Strategic Marketing Office and the Communications Office.

On November 19th 2007:

- Division of the Asset Management Director, subordinated directly to the Chief Executive Officer, was created, with two subordinate organisational units:
 - Ownership Supervision Department,
 - Equity Investment and Restructuring Department;
- the Change Management Office, subordinated directly to the Deputy Chief Officer for Strategy and Corporate Support, was created within the Division of the Deputy Chief Officer for Strategy and Corporate Support and the position of Corporate and Administration Director was liquidated;
 - Corporate Services Office,
 - Administration Services Department,
- in the Division of the Chief Commercial Officer, the Product Marketing Office and the Product Risk Management Department, subordinated directly to the Procurement and Sales Director, were liquidated,
- in the Division of the Chief Financial Officer, the Asset Management Office was liquidated and the name of the Risk Management Department was changed to Financial Risk Management Office,
- in the Division of the Production and Development Director, the names of the following organisational units were changed as follows: Director of the Comprehensive Technical Upgrade Programme to Refinery Extension Director; Office for Coordination of the Comprehensive Technical Upgrade

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Programme to Office for Coordination of Refinery Extension; Key Unit Office to Office for Construction of Key Units; Auxiliary Unit Office to Office for Construction of Auxiliary Units.

Integrated Risk Management System

In 2007, work started to develop an Integrated Risk Management System at the LOTOS Group. The objective of the project is to develop and implement an integrated risk management system (ERM) and to establish effective mechanisms for risk identification, assessment, monitoring and counteracting.

Internal Audit Rules

In 2007, the Internal Audit Office of Grupa LOTOS S.A. developed the Group's Internal Audit Rules which were published on January 21st 2008 (subsequently to the balance-sheet date) and took effect as of March 1st 2008.

The Rules lay down the objectives, powers and responsibilities of the Internal Audit Office and define its place in Grupa LOTOS S.A.'s organisational structure. The mission of the Internal Audit Office is to contribute to the growth of the Group's value by reviewing operations of the organisation and advising how to increase its efficiency. The document includes a Code of Ethics to be applied by internal auditors operating within the LOTOS Group. In the Rules, the Group's Internal Audit Guide is named, which contains a collection of principles and methodologies for planning, execution and reporting of auditing tasks.

Besides the changes described above, which took place in 2007, no other material changes in the organisation and management of Grupa LOTOS S.A. occurred.

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

In many areas of its operations the LOTOS Group applies uniform corporate policies. Those requirements are conveyed to Grupa LOTOS S.A.'s subsidiaries by way of directives of the President of the Management Board – Chief Executive Officer of Grupa LOTOS S.A. The fulfilment of and compliance with such requirements is verified during corporate audits. In 2007, each subsidiary of the Grupa LOTOS S.A. was audited at least once.

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LOTOS Paliwa Sp. z o.o.

On January 31st 2007, the Company disposed of the Transport Department, in the form of an organised part of business, to a company from outside the LOTOS Group. In 2007, LOTOS Paliwa Sp. z o.o. successfully concluded the process of changing the operating formula of its service stations from COCO to CODO, which means that all the stations are now operated under the agency model.

LOTOS Partner Sp. z o.o.

On June 29th 2007, the merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was registered. Changes in the organisation and management which followed the merger are described in Par. 2.1.

LOTOS Oil S.A.

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 2007, the Company modernised and upgraded its southern branches (e.g. a social and administration building was acquired for the Company's Jasło branch from LOTOS Jasło S.A. on December 31st 2007).

LOTOS Gaz S.A. (former LOTOS Mazowsze S.A.)

With effect from January 1st 2007, in connection with the restructuring of the sales division within the entire LOTOS Group, LOTOS Gas 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. On July 5th 2007, change of the Company's name from LOTOS Mazowsze S.A. to LOTOS Gaz S.A. was registered. In order to pursue its LPG strategy, the Company acquired 100% of shares in Krak-Gaz (on July 9th 2007) and an LPG terminal in Leszcze, the Pińczów commune (on August 8th 2007) for PLN 2,850 thousand. In 2008, the Company will carry out its plan of merging with Krak-Gaz Sp. z o.o.

LOTOS Asfalt Sp. z o.o.

On December 28th 2006, Grupa LOTOS S.A. and LOTOS Asfalt Sp. z o.o. signed a significant agreement on sales of fuel oil. Thus, since January 1st 2007, LOTOS Asfalt Sp. z o.o. has been the LOTOS Group's member responsible for sales of heavy fuel oil (formerly the responsibility of LOTOS Gaz S.A., operating under the name LOTOS Mazowsze S.A.). This change was made as part of the restructuring of the sales division of the LOTOS Group.

LOTOS Parafiny Sp. z o.o.

On December 31st 2007, LOTOS Parafiny Sp. z o.o. acquired from LOTOS Jasło S.A. a perpetual usufruct right to a portion of a plot of land No. 1062/137 with an area of 1,295m², along with the ownership right to an office and administration building and structures situated on the plot. The total price was PLN 387,200.00 (VAT exclusive). Concurrently, the Company acquired a perpetual usufruct right to a portion of a plot of land No. 1062/147 with an area of 2,340 m², along with the ownership right to containers A-29, A-30, A-31, A-32, A-33, A-41 and other structures and equipment situated on the plot, for a total price of PLN 611,300.00 (VAT exclusive).

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LOTOS Park Technologiczny Sp. z o.o.

On December 18th 2007, LOTOS Park Technologiczny Sp. z o.o. concluded a preliminary agreement with LOTOS Oil S.A. concerning sale of real property (warehouse) for PLN 104,800.00 (VAT exclusive).

LOTOS Park Technologiczny Sp. z o.o. – subsequent to the balance-sheet date

On February 8th 2008, the Company signed an agreement with LOTOS Asfalt Sp. z o.o. concerning sale of built-up land for PLN 515,000.00 (VAT exclusive) and a conditional agreement for sale of unbuilt land for PLN 349,000.00 (VAT exclusive).

On February 13th 2008, the Company signed a preliminary agreement concerning sale of properties related to Obszar Przeróbki Surowców Tłuszczowych „Terpen” of Czechowice-Dziedzice to an entity outside the LOTOS Group.

On February 25th 2008, LOTOS Park Technologiczny Sp. z o.o. concluded an agreement with LOTOS Oil S.A. concerning sale of real property (warehouse) for PLN 104,800.00 (VAT exclusive).

LOTOS Hydrokompleks Sp. z o.o. in liquidation

On November 26th 2007, by virtue of an Extraordinary General Shareholders Meeting resolution, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation.

LOTOS Ochrona Sp. z o.o.

On May 29th 2007, LOTOS Ochrona Sp. z o.o. and Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. signed an agreement defining the key conditions for the provision of facility and property protection services, managing the pass system, as well as ensuring order and security on the premises of Petrobaltic S.A. of Gdańsk. The agreement also provides for the transfer of 12 employees of Petrobaltic S.A. to LOTOS Ochrona Sp. z o.o. The agreement was concluded for an unspecified time.

LOTOS Lab Sp. z o.o.

In Q2 2007, LOTOS Lab Sp. z o.o. took over the laboratory activities of Petrobaltic S.A. Subsequently, LOTOS Lab Sp. z o.o. and Petrobaltic S.A. concluded an agreement for the provision of laboratory services. On June 30th 2007, the parties signed an agreement for the purchase of laboratory equipment from Petrobaltic S.A. for PLN 104,565 (VAT-exclusive). In connection with the takeover of the laboratory activities from Petrobaltic S.A. by LOTOS Lab Sp. z o.o., three employees were transferred to and employed by LOTOS Lab Sp. z o.o. (two persons were employed as of July 1st 2007, and one person as of September 1st 2007).

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

On May 29th 2007, LOTOS Ochrona Sp. z o.o. and Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. signed an agreement defining the key conditions for the provision of facility and property protection services, managing the pass system, as well as ensuring order and security on the premises of Petrobaltic S.A. of Gdańsk by LOTOS Ochrona Sp. z o.o.. The agreement also provides for the transfer of 12

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employees of Petrobaltic S.A. to LOTOS Ochrona Sp. z o.o. The agreement was concluded for an unspecified time.

In Q2 2007, LOTOS Lab Sp. z o.o. took over the laboratory activities of Petrobaltic S.A. Subsequently, LOTOS Lab Sp. z o.o. and Petrobaltic S.A. concluded an agreement for the provision of laboratory services. On June 30th 2007, the parties signed an agreement for the purchase of laboratory equipment from Petrobaltic S.A. for PLN 104,565 (VAT-exclusive). In connection with the takeover of the laboratory activities from Petrobaltic S.A. by LOTOS Lab Sp. z o.o., three employees were transferred to and employed by LOTOS Lab Sp. z o.o. (two persons were employed as of July 1st 2007, and one person as of September 1st 2007).

On December 28th 2007 Petrobaltic S.A. sold its shares in Polski Serwis Płynów Wiertniczych Sp. z o.o.. The shares represented 10% of the share capital of Polski Serwis Płynów Wiertniczych Sp. z o.o.

AB Naftos Gavyba (previously UAB Naftos Gavyba)

UAB Naftos Gavyba, a company in which Petrobaltic S.A. holds a stake of 42.7% (Petrobaltic S.A. is 69% owned by LOTOS S.A.) changed its legal form from UAB to AB on December 3rd 2007.

LOTOS Czechowice S.A.

As part of the restructuring LOTOS Czechowice S.A., on November 27th 2006, by virtue of court decision (case file No. KA. VIII NS-REJ.KRS/028721/06/350) RC Paliwa Sp. z o.o., a subsidiary of LOTOS Czechowice S.A., was placed in liquidation. On October 4th 2007, RC Paliwa w likwidacji Sp. z o.o. was deleted from the National Court Register by the District Court for Katowice Wschód in Katowice, VIII Commercial Division of the National Court Register.

RC Paliwa Sp. z o.o.

On October 4th 2007, the company was deleted from the National Court Register by the District Court for Katowice Wschód in Katowice, VIII Commercial Division of the National Court Register.

LOTOS Jasło S.A.

As part of the restructuring of the Southern Refineries, in 2007 LOTOS Jasło S.A. sold the assets identified as not related to its operations to members of the LOTOS Group and other entities.

On April 11th 2007, LOTOS Jasło S.A. sold all of its shares in LOTOS Tank Sp. z o.o. (700 shares, representing 70% of the share capital of LOTOS Tank Sp. z o.o.) to Grupa LOTOS S.A. for the price of PLN 642.5 thousand. On December 27th 2007, LOTOS Jasło S.A. sold its entire stake in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu. Sp. z o.o. for the price of PLN 675 thousand. The shares represented 100% of PETROSOFT.pl Technologie Informatyczne Sp. z o.o.'s share capital.

Furthermore, on March 5th 2007, Rafineria Jasło SPED-Kol Sp. z o.o. was deleted from the National Court Register by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

On December 31st 2007, LOTOS Jasło S.A. transferred to LOTOS Parafiny Sp. z o.o. the right of perpetual usufruct to a part of land plot No. 1062/137, with the area of 1,295 m², and the ownership right to the office building and the structures situated on the plot, as well as the right of perpetual usufruct to a part of land plot

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No. 1062/147, with the area of 2,340 m², and the ownership right to tanks A-29, A-30, A-31, A-32, A-33, A-41 and to other structures and installations located on this plot.

On December 31st 2007, LOTOS Jasło S.A. transferred to LOTOS Oil S.A. the right of perpetual usufruct to a part of the land plot No. 1062/147, with the area of 902 m², and the ownership right to the "Bednarnia-suszarnia" office building with the floor space of 1,088 m² for the total amount of PLN 182,800.00 (VAT-exclusive).

Further, on December 28th 2007, LOTOS Jasło S.A. signed a preliminary agreement to sell the ownership right to land property covering plots No. 1065/3, 1066/4, 1066/6, 1067/3 and 1068/1, with the total area of 6,094 m², to Naftobudowa S.A. The final sale agreement was executed on January 28th 2008.

LOTOS TANK Sp. z o.o.

On April 11th 2007, LOTOS Jasło S.A. and Grupa LOTOS S.A. executed an agreement under which LOTOS Jasło S.A. sold to Grupa LOTOS S.A. its entire stake in LOTOS Tank Sp. z o.o. (700 shares). The shares covered by the agreement, with the total par value of PLN 350 thousand, represented 70% of the share capital of LOTOS Tank Sp. z o.o. The shares were sold for PLN 642.5 thousand.

Rafineria Jasło SPED-KOL Sp. z o.o.

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

On March 5th 2007, the Company was deleted from the National Court Register by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

PETROSOFT.pl Technologie Informatyczne Sp. z o.o.

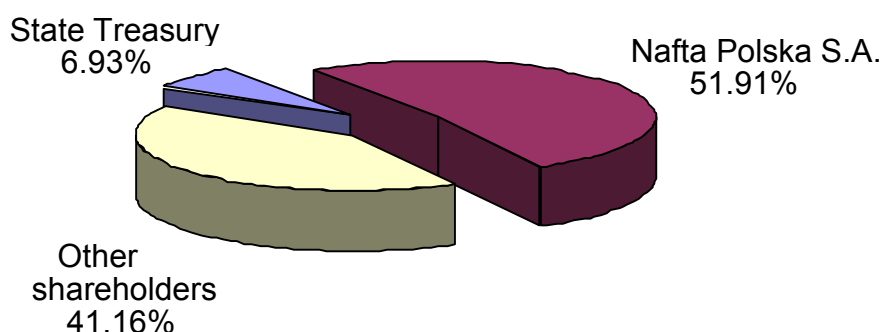
On December 27th 2007, LOTOS Jasło S.A. sold its entire stake in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu. Sp. z o.o. The shares, whose aggregate par value amounted to PLN 68 thousand, represented 100% of PETROSOFT.pl Technologie Informatyczne Sp. z o.o.'s share capital. The shares, whose value as disclosed in the books of LOTOS Jasło S.A. was PLN 70.4 thousand, were sold for the price of PLN 675 thousand. The shareholders in Petrosoft.eu. Sp. z o.o. are the employees of PETROSOFT.pl Technologie Informatyczne Sp. z o.o.

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3. OWNERSHIP CHANGES IN THE LOTOS GROUP IN 2007

3.1. STRUCTURE OF GRUPA LOTOS S.A.'S SHARE CAPITAL

Chart 1 Structure of Grupa LOTOS S.A.'s share capital as at December 31st 2007



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

3.2. CHANGES IN THE SHAREHOLDER STRUCTURE OF GRUPA LOTOS S.A. IN 2007

Increase of ING Nationale-Nederlanden Polska PTE S.A.'s stake above the 5% threshold

On March 9th 2007, Grupa LOTOS S.A. was notified by ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A. that on March 7th 2007, 5,876,589 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny. The shares represented 5.17% of the Company's share capital and conferred the right to 5,876,589 votes at its General Shareholders Meeting (5.17% of the total vote).

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

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Decrease of ING Nationale-Nederlanden Polska PTE S.A.'s stake below the 5% threshold

On October 22nd 2007, Grupa LOTOS S.A. was notified that as a result of disposal of the Company shares, settled on October 18th 2007, ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny reduced its share in the total vote at the General Shareholders Meeting of the Company to a level below 5%.

Prior to the disposal, ING Nationale-Nederlanden Polska held 5,701,348 (five million, seven hundred and one thousand, three hundred and forty-eight) Grupa LOTOS S.A. shares. The shares represented 5.01% of the Company's share capital and conferred the right to 5,701,348 votes at its General Shareholders Meeting (5.01% of the total vote). On October 19th 2007, 5,575,269 (five million, five hundred and seventy-five thousand, two hundred and sixty-nine) Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska. The shares represented 4.90% of the Company's share capital and conferred the right to 5,575,269 votes at its General Shareholders Meeting (4.90% of the total vote).

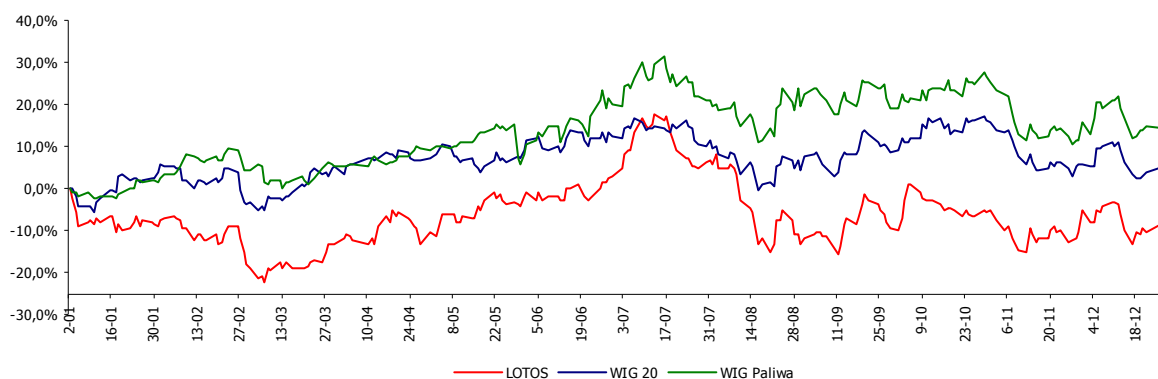
3.3. CHANGES IN THE SHAREHOLDER STRUCTURE WITHIN THE GROUP

Acquisition of 70% of shares in LOTOS Tank sp. z o.o. from LOTOS Jaslo S.A.

On April 11th 2007, Grupa LOTOS S.A. entered into an agreement with LOTOS Jaslo S.A. (80.01% owned by Grupa LOTOS S.A.), whereby it purchased 700 shares in LOTOS Tank Sp. z o.o. (in which Grupa LOTOS S.A. previously held 30% of shares). Grupa LOTOS S.A. purchased the shares in LOTOS Tank Sp. z o.o. for PLN 642.5 thousand, using internally generated funds. As a result of the transaction, LOTOS Tank Sp. z o.o. became a wholly-owned subsidiary of Grupa LOTOS S.A.

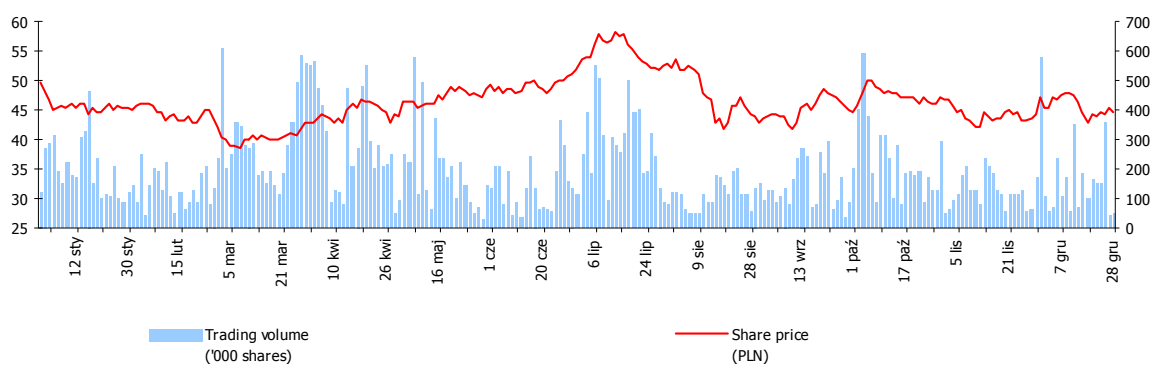
3.4. PRICE OF GRUPA LOTOS S.A. SHARES ON THE WARSAW STOCK EXCHANGE IN 2007

Chart 2 Performance of Grupa LOTOS S.A. stock price and of WIG 20 and WIG Paliwa indices in 2007



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Chart 3 Grupa LOTOS S.A. - Share price and trading volume in 2007



In January 2007, Grupa LOTOS S.A. shares started trading at PLN 49.50, with WIG 20 at 3,347.75 points. The Company stock price continued to decline in the first months of the year as a result of the strong downward trends which began in early September 2006 (a correction of the downward trend took place at the end of 2006). The first two months of the year were also marked by falling stock prices of other oil companies, due to low prices of oil and oil products prevailing on international markets. In that period, the WIG 20 index was rising and reached its all-time high on February 22nd 2007.

At the end of February and beginning of March, the Warsaw Stock Exchange suffered a correction caused by news of a slowdown in the US economy and a massive sale of shares at the Chinese stock exchange. On March 7th, the WIG 20 index and Grupa LOTOS S.A. share price hit their all-time lows (at 3,173.93 points and PLN 38.50, respectively). Then, both WIG 20 and Grupa LOTOS S.A. stock price recovered from these lows and followed a rising trend, moving to new historic maximums at the WSE in mid-July (a correction in the upward movement took place in the second half of April). WIG 20 reached its maximum of 3,899.59 points on July 6th, while the price of Grupa LOTOS S.A. shares hit its all-time high on July 13th, reaching PLN 58.15. The performance of WIG 20 was positively affected by the selection of Poland as the co-host of the European Football Championship finals (EURO 2012). In Q2 2007, the WIG Paliwa index provided the highest rate of return among all the sector subindexes (13.9%), driven by a rise in oil prices on global markets.

Between mid-July and mid-August, Grupa LOTOS S.A. share price strongly depreciated (by almost 28%). Thereafter, the Company stock price followed a horizontal trend until the end of the year, driven by relatively strong fluctuations between PLN 41.8 and PLN 50.0. A rise seen in November was related to the publication of the Company's quarterly results, which exceeded market expectations. In the same period, the WIG 20 index was in a long-term downward trend caused by the US subprime mortgage crisis and its escalation. Declines in the WIG Paliwa subindex were related to a drop in the refining margin on global markets and the US dollar weakening against the zloty.

During the entire 2007, the Company stock price performed worse relative to the WIG-Paliwa sector subindex (which comprises the following stocks: PKN Orlen, PGNiG, Grupa LOTOS S.A., MOL, Petrolinvest and CP Energia). At the end of the year, the price of the Company shares was PLN 44.5, which represented an all-year decrease of 10.1%. As at the end of the year, the WIG Paliwa index stood at 3,548.44 points, which represented a 13.3% increase relative to the beginning of January, taking into account a change in the value of the subindex

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due to a 1-to-10 subindex denomination of May 28th 2007 (the denomination of all sector subindexes was designed to enhance the transparency of information delivered through the indexes to investors and analysts). As at the end of 2007, the WIG 20 index stood at 3,456.05 points, which represented a growth of 3.2% for the entire year.

3.5. ASSIMILATION OF SHARES AFTER THE BALANCE-SHEET DATE

By virtue of Resolution No. 52/08 of January 29th 2008, on February 1st 2008 the National Depository for Securities (Polish NDS) assimilated 6,400 ordinary bearer shares of Grupa LOTOS S.A. (created through conversion, on February 1st 2008, of 6,400 ordinary registered shares bearing ISIN code PLLOTOS00033) with 55,629,209 ordinary bearer shares of Grupa LOTOS S.A. bearing ISIN code PLLOTOS00025.

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

Since February 1st 2008:

- 55,635,609 shares of Grupa LOTOS S.A. have been marked with ISIN code PLLOTOS00025, and
- 58,064,391 shares of Grupa LOTOS S.A. have been marked with ISIN code PLLOTOS00033.
- By virtue of Resolution No. 71/2008 of January 24th 2008, the Management Board of the Warsaw Stock Exchange introduced, on February 1st 2008, by way of the ordinary procedure, 6,400 Series A ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share and ISIN code PLLOTOS00033, to trading on the main market.

In line with the aforementioned resolution, the shares were introduced to trading on February 1st 2008 on condition that on that day the Polish NDS would convert the registered shares in Grupa LOTOS S.A. into ordinary bearer shares and assimilate them, on February 1st 2008, with the shares of Grupa LOTOS S.A. already traded on the stock-exchange under ISIN code PLLOTOS00025.

4. PAYMENT OF DIVIDEND FOR 2006

On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on the distribution of Grupa LOTOS S.A.'s net profit for 2006. Pursuant to the resolution, the net profit of PLN 406,714 thousand for the year ended December 31st 2006 was allocated to:

- the statutory reserve funds – PLN 365,782 thousand,
- dividend payment – PLN 40,932 thousand.

Pursuant to the abovementioned resolution of the Annual General Shareholders Meeting of May 28th 2007, on July 31st 2007 Grupa LOTOS S.A. paid out dividend for the financial year ended December 31st 2006 in the amount of PLN 0.36 per share.

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5. DESCRIPTION OF THE LOTOS GROUP'S DEVELOPMENT POLICY

5.1. EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF THE LOTOS GROUP

The key external factors material for the development of 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 2007 the prices of crude oil were higher than in 2006.
- **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 the LOTOS Group include:

- **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.
- **Execution 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 execution 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.
- **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.

5.2. 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.

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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 turn should lead to an improvement of the general economic efficiency of oil processing at Grupa LOTOS S.A.'s refinery in Gdańsk.

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

As far as marketing activities are concerned, Grupa LOTOS S.A. intends to pursue the goal of maintaining its competitive position in the region by increasing its market shares and then keeping them at a stable level, by expanding its 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.

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

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

PLN '000	Jan 1 – Dec 31 2007	% share	Jan 1 – Dec 31 2006	% share
Gasolines	5,443,756	28.72%	5,471,410	29.81%
Diesel oils	8,912,408	46.99%	8,015,889	43.68%
Light fuel oil	770,844	4.07%	1,013,948	5.53%
Heavy fuel oil	550,056	2.90%	679,907	3.70%
Jet-A1 aviation fuel	881,133	4.65%	921,545	5.02%
Lubricants	410,488	2.17%	401,290	2.19%
Base oils	237,916	1.26%	238,263	1.30%
Bitumens and components for their production	882,656	4.66%	783,672	4.27%
Liquid gases	474,374	2.50%	260,676	1.42%
Other refinery products	181,058	0.96%	393,575	2.14%
Total crude oil products and goods	18,744,689	98.88%	18,180,175	99.06%
Other goods and materials	115,291	0.61%	91,674	0.50%
Services	96,598	0.51%	79,920	0.44%
Total	18,956,578	100.0%	18,351,769	100.00%
Other adjustments *	(13,779)		(12,779)	
Elimination of excise tax and fuel charge	(5,817,676)		(5,540,886)	
Total	13,125,123		12,798,084	

Production volume structure (%) – THE LOTOS GROUP

	2007	2006
Diesel oils	40%	36%
Gasolines	21%	23%
Fuel oils	14%	17%
including: light fuel oil	5%	7%
Other refinery products	25%	24%

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

	Jan 1 2007 – Dec 31 2007	% share	Jan 1 2006 – Dec 31 2006	% share
Gasolines	1,474	21%	1,596	23%
Diesel oils	2,824	40%	2,558	36%
Light fuel oil	351	5%	485	7%
Heavy fuel oil	626	9%	739	10%
Jet-A1 aviation fuel	442	6%	450	6%
Lubricants	87	1%	94	1%
Base oils	109	2%	90	1%
Bitumens and components for their production	899	13%	785	11%
Liquid gases	187	3%	104	1%
Other refinery products	111	2%	149	2%
Total crude oil products and goods	7,110	100%	7,050	100%

In 2007, the LOTOS Group's sales volume was 1.5% higher than in 2006, and reached 7,110 thousand tonnes. Relative to 2006, the most substantial rise in sales volume was recorded in the base oils group (up by 21%). Strong sales were also reported in bitumens and components for their production – sales volume in this product group rose by 14.5% (the Group sold 114 thousand tonnes more of products from this group than in 2006). The increase in Grupa LOTOS S.A.'s sales volume was driven mainly by a 10% rise in sales of diesel oil, responsible for a sales uplift by 266 thousand tonnes. On the other hand, relative to 2006 sales of gasolines and light fuel oil dropped by 121 thousand tonnes and 134 thousand tonnes, respectively, while sales of heavy fuel were lower by 112 thousand tonnes. Compared with the 2006 figures, sales of jet fuel and lubricants remained roughly unchanged (they declined respectively by 2% and 8%).

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

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

	Jan 1 2007 – Dec 31 2007	% share	Jan 1 2006 – Dec 31 2006	% share
Domestic sales, including:	16,136,657	85.2%	15,446,784	84.2%
- products	15,335,203	81.0%	15,082,326	82.2%
- goods and materials	801,454	4.2%	364,458	2.0%
Exports, including:	2,806,142	14.8%	2,904,985	15.8%
- products	2,729,222	14.4%	2,870,671	15.6%
- goods and materials	76,920	0.4%	34,314	0.1%
Total	18,942,799		18,351,769	
excise tax, fuel charge	(5,817,676)		(5,540,886)	
TOTAL	13,125,123	100.0%	12,810,883	100.0%

LOTOS Group's key customers in 2007

In 2007, the only customer whose share in the LOTOS Group sales exceeded 10% was Statoil Poland Sp. z o.o. of Warsaw – its share amounted to 10.7%.

In 2006, the only customer whose share in the LOTOS Group sales exceeded 10% was Statoil Polska Sp. z o.o. of Warsaw – its share amounted to 13.4 %.

Grupa LOTOS S.A.'s raw materials, semi-finished products and chemicals supply structure (PLN '000)

	Jan 1 – Dec 31 2007	% share	Jan 1 – Dec 31 2006	% share
Crude oil	8,324,473	80.1%	8,457,514	81.8%
Diesel oil	1,414,370	13.6%	1,147,962	11.1%
MTBE	201,046	1.9%	210,026	2.0%
Heavy fuel oil	157,010	1.5%	137,085	1.3%
Straight-run gasoline	11,511	0.1%	83,655	0.8%
Additives	111,314	1.1%	73,169	0.7%
Ethyl alcohol	67,549	0.6%	60,635	0.6%
Diesel oil component	-	0.0%	43,407	0.4%
Paraffines/slack waxes	46,067	0.4%	29,949	0.3%
Other	69,485	0.8%	102,903	1.0%
Total	10,402,825	100.0%	10,346,305	100.0%

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LOTOS Group's petroleum products supply structure in 2007 (PLN '000)

	Jan 1 – Dec 31 2007	% share	Jan 1 – Dec 31 2006	% share
LPG	330,141	41.33%	110,446	34.71%
Gasolines	306,116	38.32%	106,148	33.36%
Diesel oils	143,540	17.97%	95,359	29.98%
Other	19,085	2.38%	6,211	1.95%
Total	798,882	100.00%	318,164	100.00%

LOTOS Group's supply structure in 2007 (PLN '000)

	Jan 1 – Dec 31 2007	% share	Jan 1 – Dec 31 2006	% share
Raw materials	10,416,819	77.2%	10,377,011	84.2%
Goods	853,566	6.3%	374,795	3.0%
Services	944,207	7.0%	720,910	5.9%
Other materials	225,677	1.7%	332,845	2.7%
Other purchases	1,054,626	7.8%	517,446	4.2%
Total	13,494,895	100.0%	12,323,007	100.0%

LOTOS Group's key suppliers in 2007

The suppliers whose share in the LOTOS Group purchases in 2007 exceeded 10% of the Group's revenue were J & S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of United Kingdom – their shares in the Group's purchases amounted to 38.32% and 16.71%, respectively.

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

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

	Jan 1 – Dec 31 2007	% share	Jan 1 – Dec 31 2006	% share
Domestic purchases	995,286	8.9%	794,285	7.4%
Imports	10,222,423	91.1%	9,894,728	92.6%
Total purchases	11,217,709	100.0%	10,689,013	100.0%

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

8.1. INCOME STATEMENT

In 2007, sales revenue of the LOTOS Group amounted to PLN 13,125.1m and was up by 2.6% year on year, due to an increase of PLN 30 per tonne in the average net selling price and a rise of 0.9% in the sales volume of petroleum products and derivatives. In 2007, the sales volumes of diesel oils, bitumens, bitumen components, liquefied gases and base oils increased, while the sales volumes of gasolines, fuel oils, JET A-1 fuel and lubricants dropped.

In 2007, costs of sales amounted to PLN 11,346.7m and were by 3.4% higher than in the previous year. As the increase in costs of sales was higher than the increase in sales revenue, in 2007 the LOTOS Group's gross profit on sales was 2.3% lower year on year, at PLN 1,778.4m. The decrease was mainly attributable to the appreciation of PLN against USD (Grupa LOTOS S.A. had a long USD position), and to less favourable purchase terms for the Ural blend in 2007. In 2007, the USD mid exchange rate fell by PLN 0.34/USD, or 10.8% year on year.

In 2007, consolidated operating profit was PLN 713.7m, down by PLN 84.7m or 10.6% on 2006. The decrease was mostly attributable to higher selling costs (PLN 31.9m) and general and administrative expenses (PLN 21.5m). Costs and expenses relating to the LOTOS Group's other operating activities amounted to PLN 113.7m in 2007 and were principally connected with revaluation allowance for the risk of failure to use the entire capital expenditure incurred, because of postponing execution of the heavy residue gasification project and an impairment loss on goodwill generated upon acquisition of an organised part of enterprise from ExxonMobil Poland and Slovnaft. In 2007, the LOTOS Group recorded a loss on other operating activities of PLN -31.8m, that is PLN 10.4m higher on 2006.

The financial income of the Group totalled PLN 313.5m in 2007, up by PLN 180.3m year on year. The factors which contributed to high financial income in 2007 included foreign exchange gains (attributable to the appreciation of PLN) and the effect of hedging transactions. The Group's net financial income was PLN 290.8m in 2007, or PLN 173.3m up on the 2006 figure.

The 2007 consolidated pre-tax profit totalled PLN 1,004.5m, having increased by PLN 88.6m from the 2006 figure. In 2007, the Group reported net profit on continued operations of PLN 814.1m, up by PLN 79.5m relative to 2006. Net profit attributable to the Parent Undertaking's shareholders was PLN 777.2m, or PLN 97.2m up on 2006.

8.2. BALANCE SHEET

As at December 31st 2007, the balance-sheet total of the LOTOS Group was PLN 9,720.4m, up by PLN 1,956.8m in 2007. The growth was mainly caused by an increase in the value of stocks (up by PLN 881.9m) connected with the requirement to maintain larger volumes of mandatory stocks (as required under the provisions of the Act on Stocks of Crude Oil, Petroleum Products and Natural Gas) and higher prices of

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crude oil and petroleum products at the end of Q4 2007 compared with the prices reported at the end of 2006. Moreover, due to the ongoing projects executed as part of the 10+ Programme, there occurred a substantial rise in prepayments for tangible assets under construction (PLN 633.8m). Given higher prices of the Group's products in 2007 relative to 2006, 2007 saw a PLN 223.8m increase in trade and other receivables, a PLN 152.6m increase in cash and cash equivalents, as well as a PLN 134.4m increase in property, plant and equipment. At the same time, current financial assets fell by PLN 84.7m, to PLN 119.3m. The amount includes valuation of transactions executed to hedge refining margins and foreign exchange rates in 2008.

In connection with the execution of the 10+ Programme, the LOTOS Group took steps designed to mitigate market risk relating to refining margins and foreign exchange rates during the programme execution.

Transactions Hedging Refining Margins

The Company hedges strategic price risk by selling *full barrel swaps*¹².

The table below sets forth detailed data on concluded forward contracts.

Table 1 List of forwards as at December 31st 2007

Period		Q1 2008	Q2 2008	Q3 2008
Volume (bbl)		3,029,999	4,699,998	2,246,001
Product/feedstock	Index	Weighted average barrel structure		
Gasoline	Gasoline 95r 10ppm NWE barge (Argus)	37.0%	29.0%	29.1%
Jet fuel	Jet Cargoes CIF NWE / ARA (Platts)	6.6%	7.7%	7.7%
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	33.6%	39.0%	39.4%
Light heating oil	Gasoil .1 Cargoes CIF NWE / ARA (Platts)	5.9%	5.2%	5.2%
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	16.9%	19.1%	18.6%
Crude oil	Brent (Dtd) (Platts)	-100.0%	-100%	-100%
Margin range in transactions (USD/bbl)		9.19–9.30	9.25–9.60	8.90–9.20

¹² A full barrel swap transaction consists in fixing, in a single transaction, a price for crude oil index and individual product indices, according to an assumed structure. This is a transaction appropriate for hedging Grupa LOTOS S.A.'s strategic price risk, as by selling this type of swap the Company frees itself from the dependence on significant fluctuations of refining margins.

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Foreign Exchange Hedging Transactions

The US dollar is the natural currency of the market on which Grupa LOTOS S.A. operates. The US dollar is used in quotations of market prices of crude oil and crude oil products and settlements between counterparties on the fuel market. Grupa LOTOS S.A. has a structural long position in the US dollar resulting from its operating activities. Therefore, it was deemed that the most appropriate currency to incur and repay long-term loans to finance the 10+ Programme is the US dollar (reduction of the structural long position and the resultant strategic limitation of the foreign exchange risk).

In view of the market standards as well as the situation on the EPC (Engineering, Procurement & Construction) contracts market, at the time of signing the contracts for the implementation of the 10+ Programme, the remuneration of the EPC contractors under the EPC contracts was specified mainly in the euro.

In a situation discussed above, where the currency of capital expenditure differs from the currency of the loan financing the expenditure (and from the currency of own funds generated by the Company), there is a significant risk that the available funds will be insufficient to cover the capital expenditure in the event of any adverse changes in the EUR/USD exchange rate, i.e. strengthening of the euro against the US dollar.

The purpose of the foreign exchange transactions open as at the end of 2007 was to limit the investment risk (primarily the EUR/USD risk) and the operating risk (primarily the USD/PLN risk). Certain EUR/USD and all EUR/PLN transactions were concluded to finally produce USD/PLN transactions, which very often is a more efficient way to execute foreign exchange transactions due to the higher liquidity of the EUR/PLN market. The table below presents detailed information on the concluded foreign exchange transactions.

Table 2 List of forward transactions

Currency pair	Instrument	Volume	Spread	Valuation Dec 31 2007 (PLNm)
EUR/USD	Forward	EUR 670,000,000	1.43727 – 1.46951	42.922
EUR/PLN	Forward	-EUR 195,500,000	3.58224 – 3.624	6.556
USD/PLN	Forward	-EUR 499,000,000	2.481466 – 2.5324	35.455

The valuation of open transactions may change significantly and should not be considered separately from an assessment of the effect of the risk factors on the cash flows generated on the items disclosed as underlying exposure.

In the assets structure, the share of non-current assets decreased from 48.7% in 2006 to 46.4% in 2007.

As at December 31st 2007, equity was PLN 6,150.9m. Over the 12 months of 2007, equity increased by PLN 749.0m, mainly as a result of increase in retained earnings.

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In 2007, non-current liabilities went up by 68.9%, chiefly due to a PLN 512.2m rise in non-current loans and borrowings. At the end of 2007, non-current liabilities stood at PLN 1,215.6m.

At the end of 2007, current liabilities were PLN 2,353.8m, having increased by PLN 711.8m, mainly due to higher costs of raw materials and the consequent PLN 367.3m increase in trade payables, and due to a PLN 343.7m increase in current loans and borrowings.

In the structure of shareholders equity and liabilities, the share of equity shrank from 69.6% at the end of 2006 to 63.3% in 2007, while the shares of non-current and current liabilities increased by 3.2 and 3.1 percentage points, respectively.

8.3. CASH FLOWS

As at December 31st 2007, the balance of cash in the LOTOS Group amounted to PLN 477.1m. In the course of 2007, cash decreased by PLN 147.1m.

In 2007, net cash provided by operating activities amounted to PLN 189.5m, and was considerably (by PLN 464.9m) lower than in 2006. Low net cash provided by operating activities was chiefly a result of a PLN 883.2m increase in inventory and a PLN 252.7m increase in receivables. The key factors increasing operating cash flow in the analysed year included net profit of PLN 814.1m, amortisation and depreciation of PLN 306.2m, and a PLN 253.1m increase in liabilities.

In 2007, net cash used in investing activity amounted to PLN 816.4m and was 94.9m higher than net cash used in investing activity in 2006. The main items of investing cash outflow in 2007 included prepayments for tangible assets under construction (PLN 681.6m) and purchase of intangible assets and property, plant and equipment (PLN 368.7m). At the same time, net investing cash flow was positively affected by sale of current financial assets for PLN 184.0m.

In 2007, the LOTOS Group disclosed high net cash provided by financing activities of PLN 481.5m. Given that in 2006 the Group reported net cash used in financing activities of PLN -78.2m, the Group improved its net financing cash flow by PLN 559.6m. This improvement is attributable mainly to PLN 580.0m cash inflow under loans and borrowings contracted in 2007.

8.4. NON-RECURRING EVENTS WITH AN IMPACT ON THE COMPANY'S PERFORMANCE

In 2007, the LOTOS Group did not record any non-recurring events which could have an impact on its performance.

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9. CONTRACTED LOANS (INCLUDING LOAN MATURITY DATES) AND SURETIES AND GUARANTEES GRANTED TO LOTOS GROUP

9.1. CONTRACTED LOANS AND LOAN AGREEMENTS

Loans and borrowings as at December 31st 2007:

Bank's/lender's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN	Foreign currency	PLN	Foreign currency	PLN	Foreign currency	Current portion	Non-current portion		
Bank Millennium S.A.	Warsaw	120,000	-	72,341	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
PKO BP S.A.	Warsaw	254,000	-	16,705	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-	USD 40,000 or equivalent	-	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		1,741	USD 715	-	-		-	1M LIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	-		14,647	EUR 4,089	-	-		-	1M EURIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-	USD 40,000 or equivalent	586	-	-	-	Overdraft facility	-	T/N WIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		60,844	USD 24,987	-	-		-	SW LIBOR + bank's margin	submission to enforcement
Bank Handlowy w Warszawie S.A.	Warsaw	-		610	EUR 170	-	-		-	SW EURIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw	20,000 or equivalent	-	20,044	-	-	-	Overdraft facility	-	O/N WIBOR + bank's margin	submission to enforcement
Bank BPH S.A.	Warsaw	-	-	-	-	-	-		-	1M LIBOR + bank's margin	submission to enforcement
BZ WBK S.A.	Warsaw	30,000	-	2,101	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	300,000	-	188,961	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement

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Bank's/lender's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN	Foreign currency	PLN	Foreign currency	PLN	Foreign currency	Current portion	Non-current portion		
Bank syndicate (Bank Pekao S.A., PKO BP S.A., BRE Bank S.A. and Rabobank Polska S.A.)	Warsaw		USD 400,000	-	-	486,379	USD 199,745	-	Dec 20 2011	1M LIBOR + bank's margin	registered pledge over inventories, financial and registered pledge over receivables under bank account agreements related to the agreement, power of attorney to the bank accounts, power of attorney for each bank to establish pledges over new accounts related to the agreement, assignment of rights under agreements for storage of Grupa LOTOS S.A.'s inventories by third parties, assignment of rights under insurance policies covering inventories, representation on submission to enforcement
Kredyt Bank S.A.	Warsaw	60,000	-	6,000	-	38,987	-	Dec 31 2008	Jun 30 2015	1M WIBOR + bank's margin	mortgage
Bank syndicate (PKO BP S.A. and Bank Pekao S.A.)	Warsaw	340,000	-	43,505	-	260,683	-	Dec 31 2008	Dec 31 2014	1M WIBOR + bank's margin	mortgage
Bank Pekao S.A.	Warsaw	14,349	-	3,423	-	-	-	Overdraft facility		1M WIBOR + bank's margin	power of attorney to bank account
Bank Pekao S.A.	Warsaw	8,687	-	8,687	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement, power of attorney to bank account
Raiffeisen Bank Polska S.A.	Rzeszów Branch	10,000	-	2,000	-	8,000	-	Jan 31 2008	Dec 28 2012	1M WIBOR + bank's margin	power of attorney to bank account, security (deposit) mortgage
Raiffeisen Bank Polska S.A.	Rzeszów Branch	10,000	-	2,000	-	-	-	Jan 31 2008	-	1M WIBOR + bank's margin	assignment of receivables by way of security, registered pledge on inventories, assignment by way of security
Bank Gospodarki Żywnościowej S.A.	Kraków	2,641	-	553	-	-	-	Sep 30 2008	-	1M WIBOR + bank's margin	registered pledge on non-current assets

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Bank's/lender's name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN	Foreign currency	PLN	Foreign currency	PLN	Foreign currency	Current portion	Non-current portion		
Bank Pekao S.A.	Warsaw	20,000	-	18,381	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	power of attorney to bank account
ING Bank Śląski S.A.	Kraków	10,000	-	9,797	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
Bank Pekao S.A.	Warsaw	5,000	-	4,684	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	assignment of receivables by way of security
Bank Pekao S.A.	Warsaw	430	-	430	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	submission to enforcement
ING Bank Śląski S.A.	Warsaw	30,000	-	16,014	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, assignment of receivables by way of security
PKO BP S.A.	Warsaw	9,000	-	7,895	-	-	-	Overdraft facility	-	1M WIBOR + bank's margin	mortgage, pledge, promissory notes, assignment by way of security
NFOŚiGW (National Fund for Environmental Protection and Water Management)	Warsaw	15,000	-	3,000	-	6,300	-	Sep 30 2008	Sep 30 2009	0.5% of rediscount rate	surety
Bank Pekao S.A.	Kraków	25,289	EUR 7,060	2	EUR 1	14,777	EUR 4,125	Mar 31 2008	Dec 31 2015	1M EURIBOR + bank's margin	ordinary mortgage on real estate
Bank Pekao S.A.	Kraków	20,000	-	5,426	-	-	-	Sep 30 2008	-	1M WIBOR + bank's margin	security (deposit) mortgage on real estate
Bank Pekao S.A.	Kraków	44,754	-	-	-	225	-	-	Dec 31 2015	1M WIBOR + bank's margin	ordinary mortgage on real estate
NFOŚiGW (National Fund for Environmental Protection and Water Management)	Warsaw	35,000	-	1,250	-	15,669	-	Oct 1 2008	Dec 20 2014	0.8% of rediscount rate	bank guarantee, promissory notes
Bank Pekao S.A.	Warsaw	56,409	USD 14,800	5,566	USD 2,256	11,923	USD 4,895	Dec 31 2008	Feb 28 2011	1M LIBOR + bank's margin	pledge on property, plant and equipment
TOTAL				517,193	USD 27,958 EUR 4,260	842,943	USD 204,640 EUR 4,125				

The banks' margins on the contracted loans and borrowings are in the range of 0.07% – 2.30%.

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For detailed information on contracted loans and borrowings, see Notes to the Consolidated Financial Statements of the LOTOS Group for 2007.

9.2. GUARANTEES GRANTED TO LOTOS GROUP

- On January 3rd 2007, at the request of Grupa LOTOS S.A. Bank PKO BP S.A. issued a bank guarantee for the benefit of ABB Lummus Global GmbH in the form of a letter of credit for the amount of EUR 19,034 thousand. The guarantee expires on April 30th 2008. On May 8th 2007 and on October 16th 2007 the amounts of EUR 13,436 thousand and EUR 43 thousand, respectively, were drawn down under the letter of credit, while on October 25th another EUR 31 thousand was drawn thereunder. The balance as at the date of these consolidated financial statements was EUR 5,524 thousand.
- On January 27th 2007, at the request of Grupa LOTOS S.A. Bank Handlowy w Warszawie S.A. issued a bank guarantee in the form of a letter of credit for USD 42,600 thousand. The guarantee expired on April 10th 2007.
- 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 expires on May 4th 2008, while the guarantor's liability continues until July 3rd 2008. On May 5th 2008, the amount of the guarantee was changed to PLN 200,000 thousand. The guarantee expires on May 5th 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 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. As of October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the amount of the letter of credit will be raised to EUR 52,313 thousand in the period January 1st – March 31st 2008 (inclusive), and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The original validity term of the guarantee was to expire on December 31st 2007.
- On August 10th 2007, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs duty, taxes and other customs charges for the amount of PLN 7,000 thousand. The contingent liability expired on January 31st 2008.

Events Subsequent to the Balance-Sheet Date

- On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. opened a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand at the mid-exchange rate quoted by the National Bank of Poland as at January 2nd 2008) for the benefit of Technip KTI S.p.a, valid through June 30th 2008. The letter of credit was issued to secure the performance of a construction contract related

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to the amine complex. On April 23rd 2008, the validity period of the letter of credit was extended to December 31st 2008. 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 37,561 thousand.

- On January 16th 2008, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a payment guarantee of USD 10,800 thousand (PLN 26,214 thousand translated at the mid exchange rate quoted by the National Bank of Poland for January 16th 2008) for the benefit of Total Deutschland Gmbh in connection with the supply of gasoline. The guarantee expires on May 31st 2008.

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10. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

In 2007, the LOTOS Group demonstrated full capability to meet its obligations towards third parties. The balance of the working capital loans as at December 31st 2007 amounted to PLN 449.6m. A detailed structure of the outstanding debt is presented in Note 30 to the financial statements.

As regards the payment standing, as at December 31st 2007 the liquidity ratios were high.

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	2007	2006
Operating profit (PLN '000)	713,664	798,346
Operating margin (1)	5.44%	6.24%
Pre-tax profit (PLN '000)	1,004,494	915,891
Gross sales margin (2)	7.65%	7.16%
Net profit (PLN '000)	814,147	734,652
Net margin (3)	6.20%	5.74%
Return on equity (ROE) (4)	13.24%	13.60%
Return on assets (ROA) (5)	8.38%	9.46%
Current ratio (6)	2.21	2.42
Quick ratio (7)	1.11	1.38
Average collection period (in days) (8)	35.95	30.05
Average payment period (in days) (9)	29.67	26.32
Capital employed (10)	2,854,175	2,331,909
Capital employed to total assets (11)	29.36%	30.04%
Debt ratio (12)	36.72%	30.42%
Debt to equity ratio (13)	58.03%	43.72%

(1) operating profit/ net sales revenue

(2) pre-tax profit/ net sales revenue

(3) net profit/ net sales revenue

(4) net profit/ equity at end of period

(5) net profit/ assets at end of period

(6) current assets / current liabilities

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

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

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

(10) current assets - current liabilities

(11) capital employed /assets

(12) total liabilities/ assets

(13) total liabilities/ equity

11. KEY RISKS AND THREATS AND THE EXTENT OF THE GROUP'S EXPOSURE TO SUCH RISKS AND THREATS

11.1. EXTERNAL RISKS AND THREATS RELATED TO THE GROUP'S MARKET ENVIRONMENT:

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

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

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

- **Risk related to CO₂ emission allowances** – Grupa LOTOS S.A. refinery can be potentially granted CO₂ emission allowances for 2008–2012 that will not be sufficient to cover the CO₂ emissions level anticipated after the completion of the 10+ Programme. In such a case, Grupa LOTOS S.A. may need to purchase emission allowances on the market, which will increase its operating expenses.

11.2. INTERNAL RISKS AND THREATS RELATED TO THE COMPANY'S BUSINESS

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- **Financial risks** – the Company is primarily exposed to market risk (prices of raw materials and oil products, CO₂ emission allowances as well as the currency and interest rate risks) and the liquidity and credit risks. Grupa LOTOS S.A. has established procedures for managing each of those risk types, as described in detail in the 2007 financial statements of Grupa LOTOS S.A.

- **Risk related to the execution of the 10+ Programme** – key risks related to the execution of the 10+ Programme include the risk of high costs of investments, the risk of delays in project execution, and technological risks. Other risks related to the execution of the Programme are being gradually reduced, as the work on preparing and executing the project advances.

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

12.1. SIGNIFICANT AGREEMENTS EXECUTED BY GRUPA LOTOS S.A. IN 2007

- On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) signed an agreement whereby LOTOS Kolej Sp. z o.o. will provide comprehensive railway services to Grupa LOTOS S.A.

The services include:

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

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

- On January 23rd 2007 Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) and BP Polska Sp. z o.o. signed a significant agreement concerning sale and delivery of liquid fuels to BP Polska Sp. z o.o.

The agreement was concluded for a definite term (until December 31st 2007) and its value is estimated at PLN 1,000,000 thousand. The agreement provides for contractual penalties of up to PLN 22,000 thousand but does not contain any provisions excluding the right to seek additional compensation on general terms.

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

- On June 21st 2007, as part of the 10+ Programme, Grupa LOTOS S.A. and Technip Italy S.p.A., as the general contractor, along with Technip KTI S.p.A., Technip Polska Sp. z o.o and KTI Poland S.A., signed the EPC LSTK (Lump Sum Turn Key) contract for engineering, procurement and construction of the mild hydrocracking unit (MHC) and the amine sulphur recovery complex, i.e. acid recovery unit (ARU), sour water stripper (SWS) and sulphur recovery unit/tail gas treatment unit (SRU/TGTU) for Grupa LOTOS S.A.

The scope of the construction of MHC, ARU, SWS and SRU/TGTU is adjusted to the planned annual oil processing volume of 10.5 million tonnes. The contract is to be performed within about 42 months.

The value of the contract amounts to PLN 2,208,050,600 (translated at the mid exchange rate quoted by the National Bank of Poland for June 20th 2007). The agreement is deemed significant as its value exceeds 10% of Grupa LOTOS S.A.'s equity.

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The contract provides for payment of contractual penalties to Grupa LOTOS S.A. in the event of a delay in the performance or failure to comply with the parameters agreed for the constructed units. The overall contractor's liability towards Grupa LOTOS S.A. is limited to 8% of the contract's value.

The contract will become effective upon fulfilment of the following conditions precedent: receipt of the required performance bonds by Grupa LOTOS S.A., issue of a letter of credit by the bank of Grupa LOTOS S.A. and transfer to Technip Italy S.p.A. of the rights and obligations under the prior agreements for delivery of relevant equipment concluded by Grupa LOTOS S.A.

The contract was executed as part of the development strategy of the LOTOS Group, which provides for the construction of utilities under the 10+ Programme. The Programme's objective is to increase the annual throughput capacity of the Gdańsk refinery by approximately 75%, to 10.5 million tonnes of crude oil, with a higher conversion ratio.

- On August 1st 2007, Grupa LOTOS S.A. and Lurgi S.A. of Kraków executed an annex to the contract of July 19th 2007 for engineering, procurement and construction management services to build the oil distillation unit (Current Report No. 37/2007). In accordance with the annex, Lurgi S.A. of Kraków is to deliver components for the construction of the oil distillation unit. The construction of the unit is to be completed in the second half of 2009.

Following the execution of the annex, the aggregate value of agreements concluded between Grupa LOTOS S.A. and Lurgi S.A. in the 12 months immediately preceding the execution of the annex amounts to EUR 183m (PLN 697.7m at the mid exchange rate quoted by the National Bank of Poland for August 1st 2007). Taking into account the annex, the contract for engineering, procurement and construction management services to build the oil distillation unit is the largest transaction concluded between Grupa LOTOS S.A. and Lurgi S.A. and its value stands at approx. EUR 101m (approx. PLN 385m at the mid exchange rate quoted by the National Bank of Poland as at August 1st 2007).

The contract provides for contractual penalties. Lurgi S.A.'s liability in the event of failure to properly perform the contract is limited to 8% of the contract's value.

The contract is deemed significant as the total value of agreements concluded between Grupa LOTOS S.A. and Lurgi S.A. in the last 12 months exceeds 10% of Grupa LOTOS S.A.'s equity.

- On October 8th 2007, Grupa LOTOS S.A. and PKN Orlen S.A. executed two agreements on sale and purchase of liquid fuels between Grupa LOTOS S.A. and PKN Orlen S.A.

Following the execution of the two agreements the estimated aggregate value of all contracts concluded between Grupa LOTOS S.A. and PKN Orlen S.A. over the 12 months preceding the execution of the contracts is PLN 732m. From among those agreements the agreement with the largest value in the preceding 12 months is that of October 8th 2007, providing for the sale of liquid fuels by Grupa LOTOS S.A. to PKN Orlen S.A. The agreement was concluded for a definite term, until January 20th 2008. Its value is estimated at PLN 173m.

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The agreement provides for contractual penalties of up to approx. PLN 1m and does not contain provisions permitting either party to seek additional compensation in excess of the penalties.

The agreement is considered significant as the total value of the contracts concluded between Grupa LOTOS S.A. and PKN Orlen S.A. over the preceding 12 months exceeds 10% of the equity of Grupa LOTOS S.A.

- On December 4th 2007, the Management Board of Grupa LOTOS S.A. reported that the aggregate value of the contracts concluded between Grupa LOTOS S.A. and J&S Service & Investment Ltd. over the preceding 12 months amounted to PLN 637,392 thousand, and thus exceeded 10% of Grupa LOTOS S.A.'s equity.

The largest of the contracts in terms of value is the SPOT contract for the delivery of Rebco crude concluded on June 14th 2007; its value is PLN 197,771 thousand. The contract contains no provisions on contractual penalties and its terms do not differ from the terms commonly applied in contracts of this type.

- On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising BANK POLSKA KASA OPIEKI S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw, and RABOBANK POLSKA S.A. of Warsaw executed a loan agreement.

The agreement provides 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 is the first element of the financing strategy for the operations of Grupa LOTOS S.A. in the coming years, related to the execution of the 10+ Programme. The lending term under the agreement may be extended by the parties by one year. The main security for the loan is an agreement on registered pledge over the inventories of Grupa LOTOS S.A. (along with related assignments of rights under agreements on storage of inventories and insurance agreements) and an agreement on pledge over cash receivables under an agreement on keeping the bank accounts of Grupa LOTOS S.A. related to the loan agreement (along with a power of attorney to the accounts). The other provisions of the loan agreement, including those pertaining to contractual penalties, do not differ from provisions commonly applied in agreements of such type

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

The Management Board of Grupa LOTOS S.A. also reported that in connection with the above loan agreement, Grupa LOTOS S.A. entered into two registered pledge agreements in order to secure the liabilities incurred by Grupa LOTOS S.A. Pursuant to the agreements, the registered pledge created for the lenders covers the inventories of Grupa LOTOS S.A. with the estimated value (as at November 30th 2007) of ca. USD 900,000 thousand (PLN 2,260,350 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 19th 2007) and cash receivables under an agreement for keeping the bank accounts of Grupa LOTOS S.A. related to the loan agreement.

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There are no links between Grupa LOTOS S.A. or its management staff and the banks for which the pledges were created or their management staff.

The assets covered by the pledge agreements are deemed assets of significant value as their value exceeds 10% of the equity of Grupa LOTOS S.A.

- On December 27th 2007, Grupa LOTOS S.A. and Shell Polska Sp. z o.o. executed an agreement on sale of fuels. The agreement, in effect from January 1st 2008 to December 31st 2008, provides for supplies of liquid fuels to Shell Polska Sp. z o.o.

The estimated value of the agreement, which is the largest among all agreements executed with Shell Polska Sp. z o.o. over the past 12 months, is approximately PLN 380,000 thousand.

Pursuant to the provisions of the agreement, the maximum estimated value of contractual penalties may reach PLN 6,000 thousand. Except as stated above, the agreement does not contain any provisions which would enable the parties to seek satisfaction of their claims for non-performance of the contractual obligations pursuant to the laws of general application.

The other terms of the agreement do not differ from those customarily applied in agreements of this type.

The agreement is deemed significant as the total estimated value of the agreements executed between Grupa LOTOS S.A. and Shell Polska Sp. z o.o. over the preceding 12 months amounted to PLN 660,000 thousand, thus exceeding 10% of the equity of Grupa LOTOS S.A.

- On December 31st 2007, Grupa LOTOS S.A. and Lukoil Warsaw Sp. z o.o. of Warsaw (formerly ConocoPhillips Poland Sp. z o.o.) executed an agreement on sale of fuels. The agreement provides for the sale of liquid fuels to Lukoil Warsaw Sp. z o.o. and will be in force between January 1st 2008 and December 31st 2008.

The agreement, whose estimated value is PLN 480,000 thousand, is the largest of all agreements concluded between Grupa LOTOS S.A. and Lukoil Warsaw Sp. z o.o. over the 12 months immediately preceding its execution, whose value totalled PLN 840,000 thousand.

Pursuant to the provisions of the agreement, the maximum estimated amount of contractual penalties may reach PLN 7,500 thousand. Receipt of contractual penalties precludes the parties from seeking additional compensation for damages in excess of the contractual penalties pursuant to the laws of general application. The other terms of the agreement do not differ from those customarily applied in agreements of such type.

The agreement is deemed significant as the total estimated value of the agreements executed between Grupa LOTOS S.A. and Lukoil Warsaw Sp. z o.o. over the past 12 months exceeded 10% of the equity of Grupa LOTOS S.A.

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12.2. SIGNIFICANT AGREEMENTS CONCLUDED BY GRUPA LOTOS S.A. SUBSEQUENT TO THE BALANCE-SHEET DATE

- 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.

In 2007, Grupa LOTOS S.A. did not enter into any significant insurance or cooperation agreements.

12.3. SIGNIFICANT AGREEMENTS CONCLUDED BY THE OTHER COMPANIES OF THE LOTOS GROUP IN 2007

- On October 26th 2007 LOTOS Biopaliwa Sp. z o.o. (wholly owned by LOTOS Czechowice S.A., an 80.04% subsidiary of Grupa LOTOS S.A.) entered into an agreement with KOMAGRA Sp. z o.o. of Warsaw, providing for the supplies of crude rapeseed oil to LOTOS Biopaliwa Sp. z o.o. The agreement is to secure the supplies of the basic raw material for the currently constructed unit for the production of fatty acid methyl esters (FAME) with expected annual capacity of 100 thousand tonnes.

The agreement was concluded for five years and provides for contractual penalties of up to 5% of the agreement's value. The agreement provides that the payment of the contractual penalties does not preclude the possibility of seeking compensation in excess of the penalties. The value of the agreement throughout its term is estimated at approximately PLN 500,000 thousand. The agreement provides for an automatic termination without either party held liable if the trading activities specified in the agreement do not commence by the first quarter of 2008.

The other terms of the agreement do not differ from the terms and conditions commonly applied in agreements of this type.

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

- On December 21st 2007 LOTOS Biopaliwa Sp. z o.o. (wholly owned by LOTOS Czechowice S.A., a subsidiary of Grupa LOTOS S.A., which holds 80,04% of LOTOS Czechowice S.A. shares) entered into an agreement with Zakłady Tłuszczowe Kruszwica S.A. of Kruszwica, providing for annual deliveries of raw rapeseed oil to LOTOS Biopaliwa Sp. z o.o. The parties to the agreement agreed upon

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a supply of at least 12,000 tonnes of raw rapeseed oil in the annual period 2007/2008 and at least 40,000 tonnes in the subsequent annual periods.

The purpose of the agreement is to secure supplies of the key feedstock for the new FAME unit, currently under construction, whose expected production capacity is 100 thousand tonnes annually.

The agreement was concluded for a definite term from December 21st 2007 to July 31st 2012, and provides for contractual penalties, equal to 10% of the gross value of the supplies, for failure to perform the contractual obligations. In the event of withdrawal from the agreement, the contractual penalty equals 5% of the total agreement value.

The agreement provides that the payment of the contractual penalties does not preclude the possibility of seeking compensation in excess of the penalties. The value of the agreement throughout its term is estimated at PLN 500,000 thousand.

The other terms of the agreement do not differ from the terms and conditions commonly applied in agreements of this type.

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

In 2007, Grupa LOTOS S.A. did not enter into any significant insurance or cooperation agreements.

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

13.1. CHANGES IN ORGANISATIONAL OR CAPITAL LINKS

LOTOS Partner Sp. z o.o.

On June 29th 2007, the merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. was registered. The merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code by way of a transfer of all assets in LOTOS Partner Sp. z o.o. (the acquiree) to Grupa LOTOS S.A. (the acquirer). As a result of the merger, Grupa LOTOS S.A. took over the activities performed by LOTOS Partner Sp. z o.o., including:

- sale of fuels to Polish institutional customers and retail fuel station networks of foreign operators
- organisation of primary logistics
- import and exchange of products in land transport
- provision of services related to national tenders
- sale of jet and bunker fuel

These changes triggered a reorganisation in the logistics division at Grupa LOTOS S.A. aimed at adjusting its structure to the new activities.

LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.)

On July 5th 2007, change of the company's name from LOTOS Mazowsze S.A. to LOTOS Gaz S.A. was registered.

Krak-Gaz Sp. z o.o.

On July 9th 2007, LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.), a wholly-owned subsidiary of Grupa LOTOS S.A., entered into the final agreement on the purchase of 34,500 shares (100% of the share capital) in KRAK-GAZ Sp. z o.o.

LOTOS Tank Sp. z o.o.

On April 11th 2007, Grupa LOTOS S.A. concluded an agreement with LOTOS Jasło S.A. (in which Grupa LOTOS S.A. holds 80.01% shares) for the purchase of 700 shares in LOTOS Tank Sp. z o.o. (before that date, Grupa LOTOS S.A. held 30% shares in the company).

PPU BiproRaf Sp. z o.o.

On January 15th 2007, Grupa LOTOS S.A. sold 35 shares in Przedsiębiorstwo Projektowo-Uslugowe BiproRaf Sp. z o.o. to KTI Poland S.A. of Warsaw. As a result of the transaction, Grupa LOTOS S.A. is no longer a shareholder of BiproRaf Sp. z o.o.

LOTOS Exploration and Production Norge AS

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On September 22nd 2007, the Central Registrar of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, with registered office in Norway. Grupa LOTOS S.A. acquired 100% of shares in the new company.

RC Paliwa Sp. z o.o. w likwidacji (in liquidation)

On October 4th 2007, the District Court for Katowice Wschód of Katowice, VIII Commercial Division of the National Court Register, deleted RC Paliwa Sp. z o.o. w likwidacji (in liquidation) from the National Court Register (LOTOS Czechowice S.A., in which an 80.04% equity interest was owned by Grupa LOTOS S.A., held 100% of shares in RC Paliwa Sp. z o.o.).

Rafineria Jasło Sped-Kol Sp. z o.o. w likwidacji (in liquidation)

The liquidation proceedings with respect to the company were launched on February 1st 2006. The liquidation report was drawn up as at December 12th 2006 and approved by the Extraordinary General Shareholders Meeting of Sped-Kol Sp. z o.o. w likwidacji (in liquidation) on December 22nd 2006.

On March 5th 2007, the company was deleted from the National Court Register by the District Court of Rzeszów, XII Commercial Division of the National Court Register.

Petrosoft.pl Technologie Informatyczne Sp. z o.o.

On December 27th 2007, LOTOS Jasło S.A. sold 100% of shares in PETROSOFT.pl Technologie Informatyczne Sp. z o.o. to Petrosoft.eu. Sp. z o.o. The shares with the total par value of PLN 68 thousand represented 100% of the share capital of PETROSOFT.pl Technologie Informatyczne Sp. z o.o. LOTOS Jasło S.A. sold the shares, whose value as disclosed in its accounting books amounted to PLN 70.4 thousand, for the price of PLN 675 thousand. The shareholders in Petrosoft.eu. Sp. z o.o. are employees of PETROSOFT.pl Technologie Informatyczne Sp. z o.o.

LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation)

On November 26th 2007, by virtue of Resolution of the Extraordinary General Shareholders Meeting, LOTOS Hydrokompleks Sp. z o.o., a wholly-owned subsidiary of Grupa LOTOS S.A., was placed in liquidation.

AB Naftos Gavyba (formerly UAB Naftos Gavyba)

On December 3rd 2007, UAB Naftos Gavyba, in which a 42.7% equity interest is held by Petrobaltic S.A. (Grupa LOTOS S.A. controls 69% of the share capital of Petrobaltic S.A.) changed its legal form from UAB to AB.

Przedsiębiorstwo Przeladunku Paliw Płynnych Naftoport Sp. z o.o.

On April 17th 2007, by virtue of the ruling of the Court of Appeals of Szczecin, dated December 28th 2006, concerning an action brought by the Minister of State Treasury against Polska Żegluga Morska Przedsiębiorstwo Państwowe and Grupa LOTOS S.A. (Docket No. I ACa 675/06), the number of shares held by Grupa LOTOS S.A. in Naftoport Sp. z o.o. as entered in the share register of Naftoport Sp. z o.o. was changed from seven to

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five. As a result of the change, Grupa LOTOS S.A.'s share in the share capital of Naftoport Sp. z o.o. fell from 8.97% to 6.41%.

Polski Serwis Płynów Wiertniczych Sp. z o.o.

On December 28th 2007, Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. sold its shareholding in Polski Serwis Płynów Wiertniczych Sp. z o.o. The shares represented 10% of the share capital of Polski Serwis Płynów Wiertniczych Sp. z o.o.

13.2. KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE GROUP – INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS

The LOTOS Group's major investments in tangible and intangible assets made in 2007 (PLN '000)

Tangible assets under construction and purchases of property, plant and equipment and intangible assets, including:	Capital expenditure in the period Jan 1 – Dec 31 2007
Construction and assembly work	4104,607
Procurement from external suppliers – purchases	61,205
Acquisition of intangible assets	24,334
Other capital expenditure	296,539
Prepayments for tangible assets under construction	681,601
Settled prepayments	(47,839)
Total	1,120,447

KEY DOMESTIC AND FOREIGN INVESTMENTS OF THE GROUP – EQUITY INVESTMENTS

Acquisition of Shares in KRAK-GAZ Sp. z o.o. by LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.)

On March 26th 2007, LOTOS Gaz S.A. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concluded a conditional preliminary agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. from natural persons. The conclusion of the final purchase agreement was conditional upon the Competition and Consumer Protection Office's approval of the business concentration involving the acquisition by LOTOS Gaz S.A. of control over KRAK-GAZ Sp. z o.o. through purchase of its shares. The value of the shares in KRAK-GAZ Sp. z o.o. to be purchased under the agreement was determined at PLN 16.367,9 thousand. Subsequently, in connection with the Competition and Consumer Protection Office having approved the business concentration involving the acquisition by LOTOS Gaz S.A. of control over KRAK-GAZ Sp. z o.o. through purchase of its shares, on July 9th 2007 LOTOS Gaz S.A. (a wholly-owned subsidiary of Grupa LOTOS S.A.) entered into the final agreement on the purchase of 34,500 shares in KRAK-GAZ Sp. z o.o. LOTOS Gaz S.A. purchased the shares in KRAK-GAZ Sp. z o.o. for the price of PLN 16.367,9 thousand and financed the transaction with its own financial resources.

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The core business of KRAK-GAZ Sp. z o.o. consists in wholesale and retail distribution of LPG. The acquisition of the equity interest in the company by LOTOS Gaz S.A. is part of Grupa LOTOS S.A.'s strategy aimed at increasing the share of the LOTOS Group in the domestic LPG market

Acquisition by Grupa LOTOS S.A. of 70% of shares in LOTOS Tank sp. z o.o.

On April 11th 2007, Grupa LOTOS S.A. entered into an agreement with LOTOS Jasło S.A. (80.01% owned by Grupa LOTOS S.A.), whereby it purchased 700 shares in LOTOS Tank Sp. z o.o. (in which Grupa LOTOS S.A. previously held 30% of shares). Grupa LOTOS S.A. purchased the shares in LOTOS Tank Sp. z o.o. for PLN 642.5 thousand, using internally generated funds. As a result of the transaction, LOTOS Tank Sp. z o.o. became a 100% subsidiary of Grupa LOTOS S.A. The shares, with the total par value of PLN 350 thousand, are equal and indivisible, and represent 70% of the share capital of LOTOS Tank Sp. z o.o. Grupa LOTOS S.A. acquired the shares for PLN 642.5 thousand, using its own financial resources.

Acquisition of 100% of shares in LOTOS Exploration and Production Norge AS

On September 22nd 2007, the Central Registrar of Businesses in Brønnøysund registered LOTOS Exploration and Production Norge AS, with registered office in Stavanger, Norway. The share capital of the company is divided into 8,000,000 shares with a par value of NOK 1 per share, conferring the right to 8,000,000 votes. Grupa LOTOS S.A. acquired 100% of shares in the new company by contributing the entire share capital of NOK 8,000,000 (i.e. PLN 3,871,200, translated at the mid-exchange rate quoted by the National Bank of Poland on September 17th 2007). The Company was established for the purpose of exploration and production of oil on the Norwegian Continental Shelf.

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14. TRANSACTIONS WITH RELATED UNDERTAKINGS

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

No.	Party to the transaction	Sale (PLN '000)	Purchase (PLN '000)
1	LOTOS Paliwa Sp. z o.o.	7,977,175	-
2	LOTOS Partner Sp. z o.o. (H1 2007)	2,380,777	47,297
3	LOTOS Oil S.A.	215,471	-
4	LOTOS Parafiny Sp. z o.o.	69,634	-
5	LOTOS Kolej Sp. z o.o.	7,243	213,228
6	LOTOS Serwis Sp. z o.o.	49,219	4,797
7	LOTOS GAZ S.A. Group	111,946	-
8	LOTOS Lab Sp. z o.o.	-	12,615
9	LOTOS Ochrona Sp. z o.o.	-	6,828
10	LOTOS Straż Sp. z o.o.	-	10,287
11	LOTOS Asphalt Sp. z o.o.	696,631	-
12	Grupa Kapitałowa LOTOS Jasło S.A.	74,172	82,783
13	Grupa Kapitałowa LOTOS Czechowice S.A.	-	18,316
14	Grupa Kapitałowa Petrobaltic S.A	5,479	286,803

* The equivalent of EUR 500,000 is PLN 1,888 thousand (EUR/PLN = 3,7768 – arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of each month in the period January 1st – December 31st 2007).

Except for the transactions described below, in the period from January 1st to December 31st 2007 Grupa LOTOS S.A. did not enter into any non-typical transactions with any of its related parties whose value would exceed EUR 500 thousand.

- On January 23rd 2007, Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) and BP Polska Sp. z o.o. concluded a significant agreement for the sale and supply of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite term (until December 31st 2007) and its value is estimated at PLN 1,000,000 thousand. The agreement provides for contractual penalties of up to PLN 22,000 thousand but does not contain any provisions excluding the right to seek additional compensation on general terms. The agreement is deemed significant as its value exceeds 10% of Grupa LOTOS S.A.'s equity.
- On January 2nd 2007, Grupa LOTOS S.A. and LOTOS Kolej Sp. z o.o. (wholly owned by Grupa LOTOS S.A.) signed an agreement whereby LOTOS Kolej Sp. z o.o. will provide comprehensive railway services to Grupa LOTOS S.A. The services include:
 - dispatch and receipt of railway shipments sent by or addressed to Grupa LOTOS S.A.,
 - procurement of the required number of tank cars of appropriate type for Grupa LOTOS S.A.'s shipments,

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- technical servicing and maintenance of proper technical condition of railway assets owned by Grupa LOTOS S.A.

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

- On December 21st 2007 LOTOS Biopaliwa Sp. z o.o. (wholly owned by LOTOS Czechowice S.A., a subsidiary of Grupa LOTOS S.A., which holds 80.04% of shares in LOTOS Czechowice S.A.) entered into an agreement with Zakłady Tuszczowe Kruszwica S.A. of Kruszwica, providing for annual deliveries of crude rapeseed oil to LOTOS Biopaliwa Sp. z o.o. The parties to the agreement agreed upon a supply of at least 12,000 tonnes of crude rapeseed oil in the annual period 2007/2008 and at least 40,000 tonnes in the subsequent annual periods.

The purpose of the agreement is to secure supplies of the key feedstock for the new FAME unit, currently under construction, whose expected production capacity is 100 thousand tonnes annually.

The agreement was concluded for a definite term from December 21st 2007 to July 31st 2012, and provides for contractual penalties equal to 10% of the gross value of the supplies, for failure to perform the contractual obligations. In the event of withdrawal from the agreement, the contractual penalty equals 5% of the total agreement value.

The agreement provides that the payment of the contractual penalties does not preclude the possibility of seeking compensation in excess of the penalties. The estimated value of the agreement over its term is PLN 500,000 thousand.

The other terms of the agreement do not differ from the standard terms used in this type of agreements.

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

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

15.1. LOANS ADVANCED

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

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

As at December 31st 2007, assets under the loans advanced were fully covered by a valuation allowance, and as at December 31st 2007 the Company had created a provision for potential receivables under these agreements in the amount of PLN 15m.

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. On March 11th 2008, the District Court of Nowy Sącz issued a decision to discontinue the bankruptcy proceedings with respect to Rafineria Nafty Glimar S.A. As at the date of this report, the decision was not final.

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

On November 12th 2001, an agreement was concluded under which Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to USD 7,381.4 thousand as at December 31st 2007, which represented the equivalent of PLN 17,973.7 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., is PLN 24.8m.

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 submit to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV"), an offer to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV exercises its rights under the shareholder agreement, Petrobaltic S.A. may be obliged to gradually (2012–2016) purchase RRPV's claims under the loan at maturity of each principal instalment. If RRPV accepts Petrobaltic S.A.'s offer to purchase the claims, it will

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mean fulfilment of the condition precedent for RRPV's offer, made in 2001, to sell all the shares held by RRPV in Energobaltic at the time a default notice is served under the gas supply agreement. As at the date of these consolidated financial statements, no such notice was delivered. Any breach of the terms and conditions of the gas supply agreement in the following years entitles RRPV to issue such a notice within the timeframes provided for in the agreement. In view of the above, in 2006 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 December 31st 2007, the provision amounted to PLN 21.7m.

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

On September 8th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 2,500 thousand to LOTOS Parafiny Sp. z o.o. Furthermore, on March 10th 2006 Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 4,500 thousand to LOTOS Parafiny Sp. z o.o. Both loans are intended to finance the investment in a candle production plant in Czechowice.

Both loans were repaid by LOTOS Parafiny Sp. z o.o. in December 2007, i.e. before the final repayment date specified in the agreements.

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.

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

On June 26th 2007, Grupa LOTOS S.A. executed an agreement on granting a loan of PLN 600 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, Annex No. 1 to the agreement was signed on January 30th 2008, effective from December 31st 2007, under which the loan repayment date was changed to June 30th 2008.

15.2. MATERIAL SURETIES

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

Under the agreement, the Company issued an irrevocable surety to repay the loan contracted by Rafineria Jasło S.A. (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.

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(currently LOTOS Jasło S.A.) and the Company signed an agreement whereby security was established for the Company's interest with respect to the surety.

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

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

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

Surety Agreement between LOTOS Gaz S.A. and Pekao S.A.

On December 19th 2007, LOTOS Gaz S.A. concluded a surety agreement with Pekao S.A., whereunder LOTOS Gaz S.A. issued a surety securing the repayment of a PLN 5,000 thousand loan contracted by Krak-Gaz Sp. z o.o. under loan agreement No. 12/2006/CKK of May 16th 2006. The surety was issued for the amount of up to PLN 7,500 thousand.

15.3. MATERIAL LIABILITIES UNDER PROMISSORY NOTES

- On January 3rd 2007, Grupa LOTOS S.A. issued a blank promissory note and a promissory note declaration as financial security for a contract with ABB Lummus Global GmbH.
- The validity of the blank promissory note of July 7th 2005 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2007. The original validity term of the blank promissory note expired on July 7th 2006, and was subsequently extended until July 5th 2007.
- The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure the Company's tax liability connected with the procedure of suspending the excise tax collection, was extended until June 16th 2008. The original validity term of the blank promissory note expired on March 16th 2007.

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 Jasło Refinery under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between the Jasło Refinery and Carbon Black Polska Sp. z o.o. The promissory notes may be filled in by Nafta Polska S.A. if the Jasło Refinery fails to perform any of its

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obligations under the agreement. As provided for in the declarations, each promissory note may be filled in with up to PLN 1,000 thousand.

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

- Rafineria Jasło S.A. (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 the Jasło Refinery's obligations under an agreement on financial support for a new investment project, concluded between the Minister of Economy and the Jasło Refinery on November 1st 2002. The promissory note may be filled in with an amount of up to PLN 5,674 thousand. Furthermore, as at December 31st 2007, LOTOS Jasło S.A. had a liability under:
 - a blank promissory note issued to secure a working capital overdraft facility granted by PKO BP S.A., the Krosno branch, for the amount of PLN 20,000 thousand, with the validity term expiring on July 29th 2011.
- 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.
- On August 7th 2007, LOTOS Biopaliwa Sp. z o.o issued a blank promissory note with the "no protest" clause for the benefit of the National Fund for Environmental Protection and Water Management, valid through June 30th 2015. The blank promissory note was issued to secure the repayment of interest, contractual penalties, if any, and other expenses under the loan agreement of June 29th 2007, concluded between LOTOS Biopaliwa Sp. z o.o. and the National Fund for Environmental Protection and Water Management. The loan amounts to PLN 35,000 thousand and is secured with a bank guarantee issued for the benefit of the National Fund for Environmental Protection and Water Management on August 7th 2007 by Pekao S.A. The guarantee is charged to the loan limit under an investment loan agreement of December 14th 2006.

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15.4. OTHER MATERIAL CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES

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

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 Bank Ochrony Środowiska S.A., 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 (in the amount not exceeding the amount assumed in the Bank-approved final projection for the project financed with the loan) towards share capital increase at Energobaltic Sp. Z o.o.;
- 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 B8 reservoir has commenced, and – after the first three months of production from the B8 reservoir – Petrobaltic S.A. confirms in the same manner that the gas volume estimates pertaining to the reserve – contained in the gas supply forecast of December 7th 2005 submitted to the Bank by Energobaltic Sp. z o.o. – has proven 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 (Władysławowo) 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.

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Following receipt of the notice, under the Shareholder Agreement Petrobaltic is obliged to offer to RRPV to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV accepts the offer, Petrobaltic will be obliged to gradually (2012–2016) purchase RRPV's claims under the loan, at maturity of each principal instalment, at a 2% discount. As at December 31st 2007 the total amount of the loan advanced by RRPV to Energobaltic Sp. z o.o. was USD 6.04m (USD 5m in principal plus interest), the 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 today, no such notice has been issued. Therefore, as we were advised in an opinion issued by an external law firm, the conditional offer could be executed only in 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 shareholding in Energobaltic Sp. z o.o.

Events Subsequent to the Balance-Sheet Date

On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. opened a stand-by letter of credit for EUR 39,085 thousand (or PLN 140,608 thousand, translated according to the mid-exchange rate quoted by the National Bank of Poland on January 2nd 2008) for the benefit of Technip KTI S.p.a, valid through March 30th 2008. The letter of credit was issued to secure the performance of a contract connected with the construction of an amine complex.

As at December 31st 2007, the Group's liabilities under material agreements concerning capital expenditure on property, plant and equipment (the 10+ Programme) amounted to PLN 2,735m (PLN 655m as at December 31st 2006).

16. USE OF ISSUE PROCEEDS TO IMPLEMENT THE ISSUE OBJECTIVES

In line with the issue objectives presented in the Prospectus of Grupa LOTOS S.A., by December 31st 2007 the net issue proceeds were used to finance:

- acquisition of the Southern Refineries and Petrobaltic S.A.: PLN 257.3m,
- the 10+ Programme (formerly the Comprehensive Technical Upgrade Programme): PLN 495.8m,
- PROSTA service stations network development programme: PLN 65m,
- modernisation projects at the Gdańsk Refinery: PLN 188m.

17. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL RESULTS AND PREVIOUSLY PUBLISHED FORECASTS OF 2007 FINANCIAL RESULTS

Grupa LOTOS S.A. published its consolidated financial estimates for 2007 on September 26th 2007 and subsequently revised it on November 12th 2007. The final revision of the guidance for consolidated operating profit/(loss) was the effect of the auditor's work on the audit of the Consolidated Financial Statements on May 6th 2008 and was occasioned by the need to recognise the effects of financial instruments valuation differently from the manner in which they were presented in the LOTOS Group's financial statements for four quarters of 2007. As a result, consolidated sales revenue of the LOTOS Group in 2007 decreased, while consolidated financial income increased, thus reducing operating profit of the LOTOS Group in 2007 to the level significantly different from the previously forecast figure.

Presented below is the review of performance against the 2007 consolidated earnings forecast of the LOTOS Group, as revised on May 6th 2007.

Selected operating forecasts of the LOTOS Group for 2007:

Item	Forecast	Actual	Performance
Forecast crude oil production ('000 tonnes):	192.3	186.6	97.0%
Forecast crude oil processing ('000 tonnes):	6,194	6,156.5	99.4%

Selected forecasts for consolidated income statement of the LOTOS Group prepared in accordance with IFRS (PLNm):

Item	Forecast	Actual	Performance
Sales revenue:	12,935	13,125	101.5%

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Operating profit/(loss):	714	714	100.0%
Pre-tax profit/(loss):	927	1004	108.3%
Net profit/(loss) attributable to equity holders of the parent:	713	777	109%

Position of the Management Board of Grupa LOTOS S.A. on the changes in the consolidated financial results of the LOTOS Group for 2007 compared with the financial results for the four quarters of 2007 on a cumulative basis

	Annual (a)	Q4 2007 (b)	Difference (a-b)	%
Non-current assets	4,508,126.00	4,495,560.00	12,566.00	0%
Current assets	5,207,992.00	5,199,869.00	8,123.00	0%
Assets available for sale	4,266.00	4,266.00	-	0%
Total assets	9,720,384.00	9,699,695.00	20,689.00	0%
Equity	5,816,227.00	5,811,700.00	4,527.00	0%
Minority interests	334,691.00	327,828.00	6,863.00	2%
Total equity	6,150,918.00	6,139,528.00	11,390.00	0%
Sales revenue	13,125,123.00	13,132,531.00	- 7,408.00	0%
Operating profit	713,664.00	718,951.00	- 5,287.00	-1%
Net profit from continued operations	814,147.00	793,670.00	20,477.00	3%
Profit attributable to equity holders of the parent	777,160.00	763,547.00	13,613.00	2%
Profit attributable to minority interests	36,987.00	30,123.00	6,864.00	19%

The amounts disclosed in the 2007 consolidated financial statements do not differ materially from the financial data presented in the interim condensed consolidated financial statements for the three and twelve months ended December 31st 2007.

18. DESCRIPTION OF MATERIAL OFF-BALANCE-SHEET ITEMS

For a detailed description of material off-balance-sheet items, see Notes to the 2007 consolidated financial statements of the LOTOS Group.

19. MAJOR RESEARCH AND TECHNICAL DEVELOPMENT ACHIEVEMENTS OF THE LOTOS GROUP

In 2007, the Company completed R&D work on the following technologies:

- production technology of the Premium fuels (Lotos Dynamic Diesel and Lotos Dynamic 98),
- production technology of paraffins with low oil content,
- production technology of a new generation, non-toxic plasticizer for the rubber industry.

Grupa LOTOS S.A. acquired the technology for the production of paraffin emulsions used as anticaking agents in synthetic fertilizers.

Furthermore, Grupa LOTOS S.A. launched the production of hydrofined paraffin, a new product complying with the RAL quality requirements.

Technical approvals for turbine oils were obtained from turbine producers.

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

In 2007, Grupa LOTOS S.A. financed investments using its own resources and was in the process of raising debt financing for the 10+ Programme.

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks, comprising BANK POLSKA KASA OPIEKI S.A. of Warsaw, PKO BP S.A. of Warsaw, BRE BANK S.A. of Warsaw and RABOBANK POLSKA S.A. of Warsaw, executed an agreement concerning 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 execution of the 10+ Programme.

On December 21st 2007, Grupa LOTOS S.A. sent to interested financial institutions an invitation to submit bids for financing the 10+ Programme and the Company's working capital, in the amount of USD 1,550m and USD 200m, respectively. In February 2008, the submitted bids underwent careful evaluation. Throughout March 2008, work was underway to determine the final composition of the consortium of financial institutions which

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would cover all the Company's financing needs, as well as to agree on common commercial (commissions, margins) and legal (commitment letter, term sheet) terms of the financing. As a result, on April 11th and April 14th 2008, a Commitment Letter was signed with a selected group of more than ten banks which:

- formally established the bank consortium which made a commitment to advance the credit facility in the agreed amount on the agreed commercial terms,
- provided the basis for taking further steps and entering the final stage of negotiations addressing the legal issues related to the financing,
- allowed the banks to allocate appropriate resources to the 10+ Programme.

In the opinions issued to date, the financial advisors engaged by the Company to lend support in the process of raising financing for the investments stated that the attractiveness of the 10+ Programme will allow the Company to obtain debt financing under the aforementioned Commitment Letter, which will cover Grupa LOTOS S.A.'s needs related to the ongoing and planned investment projects.

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

10+ Programme (Comprehensive Technical Upgrade Programme)

With respect to the execution of the 10+ Programme, the Company's largest investment project of key importance for the growth of its value, the Company's efforts in 2007 focused on reviewing the received bids, preparing the contractor selection process and launching the implementation phase of the project, commencing the performance of concluded execution contracts, further selection of contractors and efforts relating to the organisation of financing: technological, market, legal and insurance analyses of the 10+ Programme, as well as work on a financing concept for the Programme, negotiations and cooperation with financial institutions.

In 2007, the Company continued the efforts to commence the construction of a new distillation unit (CDU/VDU). A tender procedure for execution of the unit was conducted on the basis of bids submitted by six international engineering companies. A preliminary contract was signed with Lurgi S.A., under which a detailed engineering design of the unit was prepared to serve as the basis for ordering the main unit components and obtaining the construction permit. The contract with Lurgi S.A. was finally executed on July 19th 2007 and then amended on August 1st 2007 by including equipment delivery at an agreed lump price. The contract value amounted to EUR 101.5m.

Negotiations concerning the construction of the unit were also finalised (as a continuation of the preliminary agreement). A tender procedure was conducted and the contractor for the construction work (piling and foundation construction) was selected. Following the obtainment of the construction permit for the unit, the work started in mid-December 2007. Following the construction of the new CDU/VDU unit, the annual oil throughput in the Gdańsk refinery of Grupa LOTOS S.A. will increase to 10.5m tonnes in 2010 up from the current level of 6m tonnes.

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The work was also continued on optimising the concept for the utilisation of the ROSE unit, based on the Kellogg Brown & Root technology, as part of the implemented configuration of the 10+ Programme. On July 25th 2007, a meeting with the licensor was held in London, in August samples of vacuum residue were sent to Houston, USA, and an agreement on technological analyses was executed. In September, a reference visit to a refinery in the United States was held and tests were performed on a comparable unit. These efforts were designed to prepare assumptions for the verification of the base design of the unit. On October 19th 2007, an agreement was executed with the licensor (KBR) for a review of the base design of the unit.

Under an EPC contract with ABB Lummus Global, the contractor constructed the diesel hydrodesulphurisation unit (HDS). The main modules and apparatus (columns, reactor, compressors, separators, heat exchangers and pumps) were ordered. ABB selected the contractor to perform the construction work. The subsequent stages of the engineering design were completed. The Company transferred to the contractor land purchased as a backup. On July 23rd 2007, the final construction permit for the unit was obtained. The construction of the HDS unit will enable the Group to increase its production of diesel oils and meet the quality requirements which are to apply as of 2009 (maximum sulphur content of 10 ppm). On August 20th, a decision permitting the construction of a new access way to Grupa LOTOS S.A.'s premises became final.

As far as the other units to be constructed as part of the 10+ Programme are concerned, the execution concept consisting in constructing and launching, in the first place, the hydrocracking unit and the auxiliary units and making the necessary extensions to the utilities and offsite facilities was approved. The time of execution of the heavy residue gasification unit will depend on the market situation with respect to the sale of heavy products, in particular bitumens, whose sale is an alternative for heavy residue gasification.

In June 2007, a number of EPC contracts were signed for the execution of the key installations of the 10+ Programme, including contracts for the engineering design, delivery and construction of the hydrocracking unit (MHC) and the amine sulphur recovery unit (ASR) (contracts with Technip Italy and KTI), as well as the auxiliary installations, i.e. the hydrogen generating unit (HGU) (with Lurgi). An EPC contract for the design, organisation of deliveries and construction management was also signed with Fluor S.A., concerning the extension of the utilities and offsite facilities (U&O). All those contracts were preceded by preliminary contracts, thanks to which work related to the engineering design could begin as early as April and May 2007. On October 8th 2007, decision on environmental requirements to be complied with by the units planned to be executed took effect. On November 8th 2007, a construction permit for the ASR unit was obtained and the construction work commenced immediately after the permit became final. On November 20th 2007, a construction permit for the HGU unit was obtained.

With respect to the other units, work connected with the engineering design and ordering key equipment was continued. All investment tasks were executed in line with their budgets and timetables.

As regards utilities and offsite facilities, the preparation of a concept for the modernisation of the sewage treatment plant has been ordered, and assumptions concerning fan cooling towers have been agreed upon. A tender for the execution of works designed to ensure an additional access way to the construction site was underway. Terms of reference for the purposes of a tender for the construction of new tanks have been prepared and the design assumptions for the pipeline connecting the refinery and Naftoport were developed in more detail.

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As part of the work aimed at arranging financing for the 10+ Programme, the transaction structure and an information package for banks were being prepared. Wood MacKenzie was engaged to perform a market analysis for the purposes of the 10+ Programme. The analysis confirmed the possibility of selling additional quantities of Grupa LOTOS S.A.'s products on the European market without entering into long-term contracts. Wood MacKenzie (WMK) presented its assessment of the European product market from the perspective of the production structure to be introduced by Grupa LOTOS S.A. in the future, as well as an analysis of the bitumen market. The volume of domestic sales as projected by Grupa LOTOS S.A. was also confirmed as achievable. A comparative analysis of Grupa LOTOS S.A.'s competitiveness before and after the implementation of the 10+ Programme was performed. The comparison included 107 European refineries. The final report on the analysis confirmed the correctness of Grupa LOTOS S.A.'s market assumptions justifying the execution of the 10+ Programme, including in particular: demand forecasts for individual products and possibility of marketing these products in Poland and other European countries, price forecasts, and the favourable effect of the 10+ Programme on the Company's competitive position.

Stone & Webster performed a technological analysis of the 10+ Programme for the financing institutions. In the analysis, Stone & Webster considered the current configuration of the Programme and the concluded EPC contracts. Also the final due diligence report included a positive assessment of the 10+ Programme and identified no material risks in any of the Programme's aspects covered by the due diligence examination (including the budget, timetable, contractor selection strategy, management strategy, environmental issues, permits, and technology).

Additionally, a legal adviser to the financial institutions was selected and engaged. Based on the bids submitted, the Linklaters law firm was selected as the legal adviser to the financial institutions and engaged to perform a legal due diligence of the 10+ Programme and Grupa LOTOS S.A. The legal due diligence report, containing a positive assessment of Grupa LOTOS S.A., was prepared towards the end of December 2007. Linklaters was also involved in the preparation of the term sheet proposed to prospective participants in financing.

The legal adviser to the financial institutions will participate in adopting decisions concerning the final wording of financial documents connected with the financing of the Programme, such as credit facility agreements or the package of legal security instruments. Miller was selected as the insurance adviser to the financial institutions. Based on a due diligence examination concerning the insurance programme connected with the execution of the 10+ Programme, Miller accepted and positively assessed Grupa LOTOS S.A.'s insurance assumptions for the coming years.

Insurance policies covering construction and assembly risks connected with the commencement of the 10+ Programme (in line with the assumptions of Grupa LOTOS S.A.'s Insurance Programme for 2008–2010) were arranged. Work was completed on extended operating insurance for the existing assets of Grupa LOTOS S.A.'s Gdańsk refinery. The policy for 2008–2010 was signed on November 30th 2007.

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The process of developing a concept of and organising the financing for the 10+ Programme and other needs of the Company had several phases. The final version of the Information Memorandum comprising the financial model for the 10+ Programme was prepared. The memorandum was included in the documentation package intended for banks interested in submitting financing proposals concerning the Programme. Following the preparation of the financing concept, a brief presentation of the concept ("Project Brief") was prepared in September 2007 and sent to selected financial institutions. Q3 2007 saw a round of meetings with the financial institutions interested in financing the Programme, during which the proposed financing structure was presented and discussed. Following the meetings, Grupa LOTOS S.A. received declarations of interests from all their participants containing preliminary proposals of financing terms and conditions, as well as – in certain cases – comments on the concept. Generally, the financing structure presented to the financial institutions met with their approval.

In December 2007, the Company signed a credit facility agreement with a syndicate of four banks (Bank PEKAO S.A., PKO BP S.A, BRE BANK S.A. and RABOBANK Polska S.A.). The agreement provided for USD 400m for refinancing/financing the inventories maintained by Grupa LOTOS S.A. This was the first step in the process of raising financing for Grupa LOTOS S.A.'s needs connected with the execution of the 10+ Programme. The facility will enable the existing inventories to be refinanced and the funds frozen in the inventories to be released.

Subsequently, on December 21st 2007 Grupa LOTOS S.A. sent to the interested financial institutions an invitation to submit bids for financing the 10+ Programme and the Company's working capital in the amount of USD 1,550m and USD 200m, respectively. The invitation was accompanied by an extensive information package including the Information Memorandum, reports from technological, market, insurance and legal due diligence of the 10+ Programme and Grupa LOTOS S.A., the financial model, annual reports and environmental impact studies, the proposed term sheet together with an opinion issued by the banks' legal adviser, and a signed credit facility agreement for the financing of inventories. The invitation documentation was saved on a dedicated server and made available to banks and other financial institutions. The deadline for submitting bids was set for January 2008.

Towards the end of January 2008, Grupa LOTOS S.A. started receiving firm bids from banks. A preliminary bid was also submitted by the Italian export credit agency SACE.

In February 2008, the submitted bids underwent careful evaluation. Throughout March 2008, work was underway to determine the final composition of the consortium of financial institutions which would cover all the Company's financing needs, as well as to agree on common commercial (commissions, margins) and legal (commitment letter, term sheet) terms of the financing. As a result, on April 11th and April 14th, a Commitment Letter was signed with a selected group of approximately a dozen banks which:

- formally established the bank consortium which made a commitment to advance the credit facility in the agreed amount on the agreed commercial terms,
- provided the basis for taking further steps and entering the final stage of negotiations addressing the legal issues related to the financing,
- allowed the banks to allocate appropriate resources to the 10+ Programme.

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Furthermore, on February 20th 2008, the Extraordinary General Shareholders Meeting adopted a resolution to approve the provision of security for the loans required to finance the 10+ Programme.

In Q1 2008, work on the arrangement of a CARGO insurance policy covering deliveries for the purposes of the 10+ Programme was being completed. The policy, which will remain valid throughout the life of the 10+ Programme (in line with the assumptions of Grupa LOTOS S.A.'s Insurance Programme for 2008-2010), was signed at the end of March 2008.

In 2007, Grupa LOTOS S.A. also implemented a programme of recruitment of employees who – after receiving appropriate training and gaining experience at the refinery – will operate units constructed as part of the 10+ Programme.

As at December 31st 2007, the aggregate expenditure (including prepayments) on the execution of the 10+ Programme amounted to PLN 1,130m. The construction and launch of the units under the 10+ Programme will increase the oil conversion ratio and the volume of the produced fuels, especially diesel oil.

Petrobaltic and the production segment

In 2007, in the exploration and production segment the company continued oil and gas production at the B3 reservoir, where 3,006,774 tonnes of crude oil have been produced since the launch of production.

The total 2007 crude oil and natural gas outputs amounted to 186,571 tonnes and 20,543,598 cubic metres, respectively. The entire 2007 crude oil output from the B3 reservoir was shipped by an oil tanker to the Gdańsk refinery and the natural gas (16,021,261 cubic metres) was transmitted via a pipeline to Energobaltic Sp. z o.o.'s CHP plant in Władysławowo.

Petrobaltic S.A. also continued the preparations to commence the exploration of new offshore crude oil reserves outside the Polish economic zone of the Baltic Sea. An analysis of potential geologic deposits of carbohydrates in the Polish economic zone of the Baltic Sea was conducted, thus delineating a considerably larger exploration area for Petrobaltic S.A.

In May 2007, Petrobaltic S.A. obtained a 25-year licence for the production of gasoline gas from the B4 reservoir.

Petrobaltic S.A. evaluated the reserves and economic feasibility of production with respect to its four sea exploration licences:

1. Wolin
2. Gaz Południe
3. Sambia Wschód
4. Sambia Zachód

The most important projects executed in 2007 in the exploration and production segment included:

- preparation of liquidation of the B3-16 well.

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- reconstruction of the B3-7 well and resumption of production with the use of a deep-well pump,
- commencement of drilling of the B8-Z1 well and preparation of production from the B8 field,
- implementation of new IT programs supporting bore modelling and economic analyses of projects concerning crude oil,
- preparation of the launch of operations of Norge AS Exploration and Production, Grupa LOTOS S.A.'s subsidiary in Norway,
- completion of the reconstruction of the B3-9 and B3-15 wells at the B3 field and launch of production from those wells.
- drilling of the B3-21 well.

***PROSTA* Programme**

In 2007, the Company was developing its retail service station network through subsidiary LOTOS Paliwa under the *PROSTA* programme, which focused on continued expansion of the COCO and CODO station network and the development of the DOFO station network.

In 2007, the Company continued the following activities commenced in previous quarters:

- a CODO service station in Katowice was placed in service on January 5th 2007;
- land with the permit for construction of a service station was purchased and the construction of the service station in Opole at ul. Sosnkowskiego/Szarych Szeregów was commenced; the station was launched on July 24th 2007;
- two preliminary agreements were concluded, relating to the acquisition of land plots intended for the construction of service stations (in Warsaw and Strzeszowice (the Zielona Góra Province));
- the comprehensive LPG module installation programme was continued with regard to the service stations acquired from ExxonMobil and Sloznaft;
- fourteen new stations (in Tarnów, Opatówek near Kalisz, Serock, Szczecin, Koszalin, Nidzica, Kozenice, Wola Cicha, Baranów Sandomierski, Słupia, Budzyń, Sompolinek, Busko Zdrój and Jasionka) were included into the LOTOS Family Commercial Partnership Programme;
- two agreements for the running of DOFO stations (in Kowalewo and Piława) were terminated;
- a CODO service station in ul. Elbląska, Gdańsk, was launched on December 8th 2007.

As at December 31st 2007, the LOTOS service station network comprised 379 locations, including 133 COCO/CODO stations owned by LOTOS Paliwa, 71 DOFO stations and 175 DODO stations. A total of 90 franchise agreements were signed. In line with the assumptions of the *PROSTA* programme concerning the transfer of the DODO stations to another operating platform, the total number of high-margin COCO/CODO/DOFO stations has exceeded the number of DODO stations as of Q1 2007.

Southern Refineries

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In 2007, the Company continued the restructuring efforts aimed at adapting LOTOS Jasło S.A. and LOTOS Czechowice S.A. to operate within the LOTOS Group.

LOTOS Czechowice S.A. executed the FAME investment project (unit for the production of diesel oil biocomponents) through its subsidiary LOTOS Biopaliwa Sp. z o.o. The phase of the project consisting in the construction of ancillary infrastructure (storage tanks, electricity service lines, etc.) and the construction work on the principal part of the plant were completed. Installation of technological equipment entered its final stage. The start-up of the plant is scheduled to take place in spring 2008 and its commissioning – at the end of April 2008.

Moreover, LOTOS Czechowice S.A. prepared new investment projects (approved at the level of Grupa LOTOS S.A.) aimed at expanding the capacity of fuel storage on a service basis (construction of a new storage tank and upgrade of the existing tanks to comply with applicable legal requirements) and enhancing the product mix of distributed fuels (construction of an LPG terminal). The projects are scheduled to be completed in Q3–Q4 2008. They will lead to a gradual increase in the company's revenue from fuel storage and distribution services provided to Grupa LOTOS S.A.

LOTOS Jasło S.A. undertook efforts aimed at improving its financial performance. The company started to restructure its headcount through voluntary severance schemes and voluntary redeployment schemes.

The work at the DRW unit is limited to the production of feedstock used by LOTOS Asphalt, as it is no longer possible to conduct economically effective production of fuels after the abolition of the relief encouraging the use of a plastics component in the production of gasolines and diesel oils and after the discontinuation of plastics pyrolysis.

A development plan for a production unit processing waste plastics was prepared. The first phase of the project – waste sorting – had already been launched and completed. During the second phase, LOTOS Jasło installed a plastics regranulation line, which will further extend the Company's recycling operation. Furthermore, negotiations were held with potential investors interested in cooperating with LOTOS Jasło in the area of treatment of used oils at Jasło.

Drawing upon the knowledge of specialised foreign research centres, the company searched for technical and technological possibilities of using the plastics processing unit to produce alternative fuels. An option which was considered provides, among other things, for the expansion of the existing unit and launch of processing of oils with the use of highly advanced technologies to finally obtain products that may be used to produce oils.

LOTOS Jasło also undertook activities aimed at including a part of the refinery's site in the Tarnobrzeg Special Economic Zone, with the intention of using it for new investment projects to be executed in Jasło by the marketing companies of the LOTOS Group. LOTOS Asphalt Sp. z o.o. plans to develop a tar board production plant there, while LOTOS Parafiny – a candle plant. In November 2007, LOTOS Jasło received a decision on the creation of a Special Economic Zone on the site owned by the company. Part of the area located within the zone has already been allocated to a greenfield investment to be executed by LOTOS Asphalt (a tar board production plant). The remaining area will be gradually used in new investment projects undertaken by the LOTOS Group.

In addition, both southern Refineries undertook activities aimed at disposing of the real estate owned by them to interested parties: companies of the LOTOS Group and third parties. LOTOS Czechowice and LOTOS Jasło

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have already performed stock takes and valuations of disposable assets (real estate), and presented a proposal for their utilisation.

Moreover, in line with the approved strategy for closing down the operations of LOTOS Park Technologiczny by the end of 2008, a process of selling the company's assets to the LOTOS Group members operating in Czechowice and Jasło as well as to external investors was continued.

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

On February 27th 2007, the Management Board of Grupa LOTOS S.A. signed the plan of merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o., prepared in accordance with Art. 499.1 of the Commercial Companies Code. On June 29th 2007, the merger was registered. The merger was effected pursuant to Art. 492.1.1 of the Commercial Companies Code by way of transfer of all LOTOS Partner Sp. z o.o.'s assets (the acquiree) to Grupa LOTOS S.A. (the acquirer).

As the acquirer held 100% of shares in the acquired company, the merger was executed pursuant to Art. 515.1 of the Commercial Companies Code, i.e. without increasing the share capital of Grupa LOTOS S.A.

The merger was executed as part of the restructuring of the LOTOS Group, aimed at streamlining its organisational structure. The objective of the restructuring programme is to provide the LOTOS Group with more operating flexibility and facilitate quicker response to changes in the market environment. The merger of Grupa LOTOS S.A. and LOTOS Partner Sp. z o.o. is an element of the restructuring of the sales division within the entire LOTOS Group and did not have a material effect on the consolidated financial results of the LOTOS Group.

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

22.1. EXTERNAL AND INTERNAL FACTORS MATERIAL TO THE DEVELOPMENT OF THE LOTOS GROUP

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

- **Quotation prices of crude oil and petroleum products** – changes in market prices of crude oil and petroleum products have a material impact on the Company's financial performance. In 2007, the prices of crude oil were higher than in 2006.
- **PLN/USD exchange rate** – the performance of the Company and its Group is also, to some extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of raw materials and some products are quoted in the American dollar.

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

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

- **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.
- **Execution 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 execution 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.
- **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.

22.2. DEVELOPMENT PROSPECTS FOR THE GROUP'S BUSINESS

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

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

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

Grupa LOTOS S.A. intends to pursue this goal through various operational and marketing activities. The operating activities include the implementation of the 10+ Programme. Completion of the Programme will enable the Company to improve the economies of scale in refining volumes and conversion ratio, which in turn should lead to an improvement of the general economic efficiency of oil processing at Grupa LOTOS S.A.'s refinery in Gdańsk.

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Another important direction in the operating area is the development of the upstream business, which will enable the Group to improve the security of crude oil supplies and reduce its exposure to fluctuations in crude oil prices.

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

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

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

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

23.1. CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARDS OF GRUPA LOTOS S.A.

MANAGEMENT BOARD – sixth term of office

From January 1st until November 13th 2007, the composition of the Management Board was as follows:

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

On November 13th 2007, the Supervisory Board of Grupa LOTOS S.A. removed Mr Jarosław Kryński from the position of Vice-President of the Management Board, Chief Commercial Officer.

From November 13th to December 31st 2007, the composition of the Management Board was as follows:

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

Until May 8th 2008, no changes occurred in the composition of the Management Board of Grupa LOTOS S.A.

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

SUPERVISORY BOARD – sixth term of office

From January 1st to May 28th 2007, the composition of the Supervisory Board was as follows:

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

On May 28th 2007, the Annual General Shareholders Meeting of Grupa LOTOS S.A. removed Mr Jacek Tarnowski from the position of Member of the Supervisory Board of Grupa LOTOS S.A. and appointed:

- Jan Stefanowicz to the position of Chairman of the Supervisory Board of Grupa LOTOS S.A., who previously served as Deputy Chairman of the Supervisory Board of Grupa LOTOS S.A.,
- Marta Busz to the position of Member of the Supervisory Board of Grupa LOTOS S.A.,
- Izabela Emerling to the position of Member of the Supervisory Board of Grupa LOTOS S.A.

On May 14th 2007, the Supervisory Board appointed Mr Henryk Siodmok to the position of Deputy Chairman of the Supervisory Board of Grupa LOTOS S.A.

From May 28th to December 31st 2007, the composition of the Supervisory Board was as follows:

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

Until May 8th 2008, no changes occurred in the composition of the Supervisory Board of Grupa LOTOS S.A.

23.3. RULES OF APPOINTMENT AND REMOVAL OF MANAGEMENT STAFF; SCOPE OF POWERS OF THE MANAGEMENT STAFF:

Rules of Appointment and Removal of Management Staff; Scope of Powers of the Management Staff, in particular the Power to Decide on an Issue or Redemption of Shares

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..

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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,

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- 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.

President of the Management Board, Chief Executive Officer – manages and directs all aspects of the operations of the LOTOS Group and is responsible for the Group's operations in general.

Vice-President of the Management Board, Production and Development Director – manages, coordinates and directs all aspects of the operations of the production division, technology division and the division of implementation of the 10+ Programme of the Company and is responsible for these areas of activities.

Vice-President of the Management Board, Chief Financial Officer – manages all financial and economic as well as accounting aspects of the Company's operations and is responsible for these areas of activities.

Vice-President of the Management Board, Chief Commercial Officer – effectively manages all aspects of the sales, procurement and distribution processes at the LOTOS Group in accordance with the marketing strategy adopted by the Management Board and is responsible for these areas of activities.

At the meeting of November 13th 2007, the Supervisory Board removed Mr Jarosław Kryński from the position of Vice-President of the Management Board, Chief Commercial Officer, and assigned his duties to the President of the Management Board until the appointment of a new member of the Management Board.

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

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARDS:

LOTOS Paliwa Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Jarosław Kobus
- Marcin Herra
- Mariusz Machajewski

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On November 21st 2006, the Extraordinary General Shareholders Meeting removed Mr Jarosław Kryński from the Supervisory Board and appointed Mr Marcin Herra to serve on the Board.

From January 17th 2007 to November 21st 2007, the Supervisory Board was composed of:

- Jarosław Kobus
- Jarosław Kryński
- Mariusz Machajewski

On January 17th 2007, the Extraordinary General Shareholders Meeting removed Mr Paweł Olechnowicz from the Supervisory Board and appointed Mr Jarosław Kobus to serve on the Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Jarosław Kryński
- Mariusz Machajewski

LOTOS Partner Sp. z o.o.

On June 29th 2007, i.e. on the day of merger of LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A., the Supervisory Board was composed of:

- Jarosław Kryński
- Marek Herra
- Piotr Dąbek

On February 15th 2007, Mr Wojciech Kowalczyk resigned from the position of Chairman and from membership of the Supervisory Board of LOTOS Partner Sp. z o.o.

As at January 1st 2007, the Supervisory Board was composed of:

- Wojciech Kowalczyk (as of December 20th 2006 delegated to perform the duties of the company's Management Board for a specified period of time),
- Marek Herra
- Piotr Dąbek
- Jarosław Kryński

LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.)

As at December 31st 2007, the Supervisory Board was composed of:

- Andrzej Pieniecki
- Radosław Gorszka
- Dariusz Falkiewicz

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On February 27th 2007, the Extraordinary General Shareholders Meeting removed Mr Henryk Malesa from the Supervisory Board and appointed Mr Dariusz Falkiewicz to serve on the Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Andrzej Pieniecki
- Radosław Gorszka
- Henryk Malesa

LOTOS Oil S.A.

As at December 31st 2007, the Supervisory Board was composed of:

- Dariusz Falkiewicz
- Radosław Gorszka
- Wojciech Blew

On June 13th 2007, the Extraordinary General Shareholders Meeting appointed Mr Wojciech Blew to serve on the Supervisory Board.

From June 11th 2007 to June 13th 2007, the Supervisory Board was composed of:

- Dariusz Falkiewicz
- Radosław Gorszka

On June 11th 2007, Grupa LOTOS S.A. removed Mr Jarosław Koźlik from the Supervisory Board and appointed Mr Dariusz Falkiewicz in his place.

From May 23rd 2007 to June 11th 2007, the Supervisory Board was composed of:

- Radosław Gorszka
- Jarosław Koźlik

On May 23rd 2007, Grupa LOTOS S.A. removed Mr Leszek Stokłosa from the Supervisory Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Leszek Stokłosa
- Radosław Gorszka
- Jarosław Koźlik

LOTOS Asphalt Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Dariusz Falkiewicz
- Paweł Wiśniewski
- Kazimierz Kowalczyk

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In 2007, no changes were made to the composition of the Supervisory Board.

LOTOS Parafiny Sp. z o.o.

As at December 31st 2007, the Management Board was composed of:

- Leszek Stokłosa
- Dominik Tomczyk

On July 31st 2007, Mr Marek Kobak resigned from membership of the Management Board, with effect from July 31st 2007.

From July 2nd 2007 to July 31st 2007, the Management Board was composed of:

- Leszek Stokłosa
- Dominik Tomczyk
- Marek Kobak

On July 2nd 2007, the Supervisory Board of LOTOS Parafiny Sp. z o.o. removed Mr Andrzej Siwec from the Supervisory Board and appointed Mr Dominik Tomczyk in his place.

From June 1st 2007 to July 2nd 2007, the Management Board was composed of:

- Leszek Stokłosa
- Andrzej Siwec
- Marek Kobak

On May 24th 2007, the Supervisory Board of LOTOS Parafiny Sp. z o.o. appointed Mr Leszek Stokłosa as President of the Management Board, with effect from June 1st 2007.

From January 1st 2007 to May 31st 2007, the Management Board was composed of:

- Jacek Wilkoszewski
- Andrzej Siwec
- Marek Kobak

In May 2007, Mr Jacek Wilkoszewski resigned from the position of President of the Management Board, with effect from May 31st 2007.

As at January 1st 2007, the Management Board was composed of:

- Jacek Wilkoszewski
- Andrzej Siwec
- Marek Kobak

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LOTOS Ekoenergia S.A.

As at December 31st 2007, the Supervisory Board was composed of:

- Rafał Kapała
- Anna Gutjar
- Paweł Wiśniewski

On May 30th 2007, the Annual General Shareholders Meeting removed Messrs Marek Sokołowski and Mariusz Machajewski from the Supervisory Board and appointed Ms Anna Gutjar and Mr Paweł Wiśniewski to serve on the Board.

From May 23rd 2007 to May 30th 2007, the Supervisory Board was composed of:

- Rafał Kapała
- Marek Sokołowski
- Mariusz Machajewski

On May 23rd 2007, Grupa LOTOS S.A. removed Mr Paweł Olechnowicz from the Supervisory Board and appointed Mr Rafał Kapała to serve on the Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Marek Sokołowski
- Mariusz Machajewski

LOTOS Kolej Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Marek Sokołowski
- Anna Gutjar
- Wojciech Kowalczyk

In 2007, no changes were made to the composition of the company's Supervisory Board.

LOTOS Lab Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Marek Herra
- Andrzej Pieniecki
- Małgorzata Kurek – Czuber

In 2007, no changes were made to the composition of the company's Supervisory Board.

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LOTOS Serwis Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Marek Sokołowski
- Grzegorz Błędowski
- Anna Gutjar

In 2007, no changes were made to the composition of the company's Supervisory Board.

LOTOS Straż Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Marek Sokołowski
- Marek Herra
- Paweł Wiśniewski

In 2007, no changes were made to the composition of the company's Supervisory Board.

LOTOS Ochrona Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Cezary Józwiak
- Grzegorz Błędowski
- Karolina Przymanowska

On May 29th 2007, the Annual General Shareholders Meeting of LOTOS Ochrona Sp. z o.o. removed Mr Andrzej Schulz from the Supervisory Board and appointed Mr Cezary Józwiak to serve on the Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Andrzej Schulz
- Grzegorz Błędowski
- Karolina Przymanowska

LOTOS Exploration and Production Norge AS

As at December 31st 2007, the Board of Directors was composed of:

- Paweł Olechnowicz
- Olav Fjell
- Rafał Kapała

On September 22nd 2007, LOTOS Exploration and Production Norge AS. was registered. The following persons were appointed to the Board of Directors of the first term of office:

- Paweł Olechnowicz
- Olav Fjell

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- Rafał Kapala

LOTOS Park Technologiczny Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Leszek Stokłosa
- Rafał Kapala
- Leszek Wasilewski

On May 11th 2007, the Annual General Shareholders Meeting of LOTOS Park Technologiczny Sp. z o.o. removed Mr Henryk Malesa from the Supervisory Board and appointed Mr Rafała Kapala to serve on the Board

As at January 1st 2007, the Supervisory Board was composed of:

- Leszek Stokłosa
- Henryk Malesa
- Leszek Wasilewski

LOTOS Tank Sp. z o.o.

As at December 31st 2007, the Supervisory Board was composed of:

- Dariusz Falkiewicz
- Wojciech Okine
- Radosław Gorszka

On May 29th 2007, LOTOS Jasło S.A. appointed Messrs Dariusz Falkiewicz and Wojciech Okine to the Supervisory Board.

From May 20th 2007 to May 29th 2007, the Supervisory Board was composed of:

- Radosław Gorszka

On May 20th 2007, Mr Witold Sobczak resigned from membership of the Supervisory Board.

From May 16th 2007 to May 20th 2007, the Supervisory Board was composed of:

- Radosław Gorszka
- Witold Sobczak

On May 16th 2007, Ms Iwona Hawliczek resigned from membership of the Supervisory Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Radosław Gorszka
- Iwona Hawliczek
- Witold Sobczak

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LOTOS Czechowice S.A.

As at December 31st 2007, the Supervisory Board was composed of:

- Marek Sokołowski
- Małgorzata Czczott
- Jarosław Nowak
- Leszek Stokłosa

On January 1st 2007, the Extraordinary General Shareholders Meeting appointed Mr Leszek Stokłosa as another member of the Supervisory Board.

As at January 1st 2007, the Supervisory Board was composed of:

- Marek Sokołowski
- Małgorzata Czczott
- Jarosław Nowak

LOTOS Jasło S.A.

As at December 31st 2007, the Supervisory Board was composed of:

- Wojciech Kowalczyk
- Lucjan Jarzyński
- Stanisław Płatek
- Marek Herra
- Eugeniusz Łopatkiewicz
- Leszek Stokłosa

On July 12th 2007, the Extraordinary General Shareholders Meeting appointed Mr Leszek Stokłosa as another member of the Supervisory Board.

As at January 1st 2007, the Supervisory Board was composed of:

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

Petrobaltic S.A.

As at December 31st 2007, the Supervisory Board was composed of:

- Paweł Olechnowicz
- Agnieszka Trzaskalska
- Ryszard Pieniążek

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- Jarosław Kamyk
- Mariusz Machajewski
- Sławomir Sadowski

On May 25th 2007, the Annual General Shareholders Meeting of Petrobaltic S.A. appointed the following persons to the Supervisory Board of the second term of office:

- Paweł Olechnowicz
- Agnieszka Trzaskalska
- Ryszard Pieniążek
- Jarosław Kamyk
- Mariusz Machajewski
- Sławomir Sadowski

As at January 1st 2007, the Supervisory Board was composed of:

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

UAB LOTOS Baltija

As at December 31st 2007, the Board of Directors was composed of:

- Dariusz Falkiewicz
- Anna Gutjar
- Artur Warsocki

In 2007, there were no changes in the composition of the company's Supervisory Board.

Rafineria Nafty Glimar S.A. w upadłości (in bankructcy)

As at December 31st 2007, the Supervisory Board was composed of:

- Leszek Stokłosa
- Grzegorz Zgoda
- Radosław Gorszka

On August 14th 2007, the Extraordinary General Shareholders Meeting of Rafineria Nafty Glimar S.A. w upadłości removed Mr Marek Sokółowski from the Supervisory Board and appointed Mr Leszek Stokłosa in his place.

As at January 1st 2007, the Supervisory Board was composed of:

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- Marek Sokołowski
- Grzegorz Zgoda

LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation)

As at December 31st 2007, the Supervisory Board was composed of:

- Marek Sokołowski
- Grzegorz Zgoda
- Zbigniew Paszkowicz

In 2007, no changes were made to the composition of the company's Supervisory Board.

CHANGES IN THE COMPOSITION OF MANAGEMENT BOARDS:

LOTOS Paliwa Sp. z o.o.

As at December 31st 2007, the Management Board was composed of:

- Hanka Krzyżańska
- Rafał Kapala

On July 9th 2007, the company's Supervisory Board removed Mr Jarosław Koźlik from the Management Board.

From April 1st 2007 to July 9th 2007 the Management Board was composed of:

- Hanka Krzyżańska
- Rafał Kapala
- Jarosław Koźlik

On March 14th 2007, the Supervisory Board of LOTOS Paliwa Sp. z o.o. removed Mr Adam Loewe from the Management Board (with effect from March 31st 2007) and appointed Ms Hanka Krzyżańska to the Management Board (with effect from April 1st 2007).

From January 1st 2007 to March 31st 2007 the Management Board was composed of:

- Adam Loewe
- Rafał Kapala
- Jarosław Koźlik

LOTOS Partner Sp. z o.o.

As at June 29th 2007, i.e. on the date of merger of LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A., the company had a single-member Management Board:

- Wojciech Kowalczyk

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On February 15th 2007, the Supervisory Board of LOTOS Partner Sp. z o.o. appointed Mr Wojciech Kowalczyk as President of the company's Management Board.

As at January 1st 2007, the company had a single-member Management Board:

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

LOTOS Gaz S.A. (formerly LOTOS Mazowsze S.A.)

As at December 31st 2007, the company had a single-member Management Board:

- Henryk Malesa

On April 1st 2007, Mr Tadeusz Szkudlarski tendered resignation from his position of a Member of the Management Board.

From February 27th 2007 to March 31st 2007 the Management Board was composed of:

- Tadeusz Szkudlarski
- Henryk Malesa

On February 28th 2007, the Supervisory Board of LOTOS Gaz S.A. removed Mr Dariusz Falkiewicz from the Management Board (with effect from February 28th 2007) and appointed Mr Henryk Malesa to the Management Board.

As at January 1st 2007, the Management Board was composed of:

- Tadeusz Szkudlarski
- Dariusz Falkiewicz

LOTOS Oil S.A.

As at December 31st 2007, the Management Board was composed of:

- Jacek Neska
- Jacek Matracki

On July 11th 2007, the Supervisory Board of LOTOS Oil S.A. appointed Mr Jacek Matracki to the company's Management Board.

As at January 1st 2007, the company had a single-member Management Board:

- Jacek Neska

LOTOS Asphalt Sp. z o.o.

As at December 31st 2007, the Management Board was composed of:

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- Krzysztof Brygała
- Jacek Topolski

On August 31st 2007, the Supervisory Board of LOTOS Asphalt Sp. z o.o. appointed Mr Jacek Topolski as Member of the company's Management Board.

As at January 1st 2007, the company had a single-member Management Board:

- Krzysztof Brygała

LOTOS Parafiny Sp. z o.o.

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

- Jacek Wilkoszewski
- Andrzej Siwec

On July 31st 2007, Mr Marek Kobak resigned from membership of the Management Board, with effect from July 31st 2007.

From July 2nd 2007 to July 31st 2007 the Management Board was composed of:

- Leszek Stokłosa
- Dominik Tomczyk
- Marek Kobak

On July 2nd 2007, the Supervisory Board of LOTOS Parafiny Sp. z o.o. removed Mr Andrzej Siwec from the Management Board and appointed Mr Dominik Tomczyk in his place.

From June 1st 2007 to July 2nd 2007 the Management Board was composed of:

- Leszek Stokłosa
- Andrzej Siwec
- Marek Kobak

On May 24th 2007, the Supervisory Board of LOTOS Parafiny Sp. z o.o. appointed Mr Leszek Stokłosa as President of the company's Management Board, with effect from June 1st 2007.

From January 1st 2007 to May 31st 2007 the Management Board was composed of:

- Jacek Wilkoszewski
- Andrzej Siwec
- Marek Kobak

In May 2007, Mr Jacek Wilkoszewski resigned from his position of President of the Management Board, with effect from May 31st 2007.

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As at January 1st 2007, the Management Board was composed of:

- Jacek Wilkoszewski
- Andrzej Siwec
- Marek Kobak

LOTOS Ekoenergia S.A.

As at December 31st 2007, the company had a single-member Management Board:

- Radosław Gorszka

On May 23rd 2007, the Supervisory Board removed Mr Wojciech Blew and Mr Piotr Dąbek from the Management Board and appointed Mr Radosław Gorszka.

As at January 1st 2007, the Management Board was composed of:

- Wojciech Blew
- Piotr Dąbek

LOTOS Kolej Sp. z o.o.

As at December 31st 2007, the company had a single-member Management Board:

- Henryk Gruca

In 2007, no changes were made to the composition of the company's Management Board.

LOTOS Lab Sp. z o.o.

As at December 31st 2007, the company had a single-member Management Board:

- Wojciech Marjański

In 2007, no changes were made to the composition of the company's Management Board.

LOTOS Serwis Sp. z o.o.

As at January 1st 2007, the Management Board was composed of:

- Piotr Przyborowski
- Andrzej Małczyński
- Kazimierz Malec

In 2007, no changes were made to the composition of the company's Management Board.

LOTOS Straż Sp. z o.o.

As at December 31st 2007, the company had a single-member Management Board:

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- Ireneusz Litwinowicz (President of the Management Board).

On October 11th 2007, the Supervisory Board of LOTOS Straż Sp. z o.o. appointed Mr Ireneusz Litwinowicz as President of the company's Management Board.

As at January 1st 2007, the company had a single-member Management Board:

- Ireneusz Litwinowicz (Member of the Management Board)

LOTOS Ochrona Sp. z o.o.

As at December 31st 2007, the company had a single-member Management Board:

- Dariusz Maciejewski

On November 23rd 2007, the Supervisory Board of LOTOS Ochrona Sp. z o.o. removed Mr Edward Panasiewicz from the Management Board and appointed Mr Dariusz Maciejewski in his place.

As at January 1st 2007, the company had a single-member Management Board:

- Edward Panasiewicz

LOTOS Exploration and Production Norge AS

As at December 31st 2007, the company's Director General and CEO was Mr Henrik Carlsen.

On September 22nd 2007, LOTOS Exploration and Production Norge AS was registered. On October 3rd 2007, the company's Board of Directors appointed Mr Henrik Carlsen as the company's Director General and CEO.

LOTOS Park Technologiczny Sp. z o.o.

As at December 31st 2007, the Management Board was composed of:

- Robert Bialik
- Marek Wiktor

On February 26th 2007, the Supervisory Board of LOTOS Park Technologiczny Sp. z o.o. appointed Mr Marek Wiktor as Member of the company's Management Board.

From January 18th 2007 to February 26th 2007 the company had a single-member Management Board:

- Robert Bialik

On January 18th 2007, the Supervisory Board of LOTOS Park Technologiczny Sp. z o.o. removed Mr Dariusz Wit vel Wilk from the position of Member of the Management Board following his resignation.

As at January 1st 2007, the Management Board was composed of:

- Robert Bialik

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- Dariusz Wit vel Wilk

LOTOS Tank Sp. z o.o.

As at December 31st 2007, the company had a single-member Management Board:

- Bogdan Musiał

On July 18th 2007, the Supervisory Board of LOTOS Tank Sp. z o.o. removed Ms Elżbieta Grabowska from the position of Member of the Management Board.

As at January 1st 2007, the Management Board was composed of:

- Bogdan Musiał
- Elżbieta Grabowska

LOTOS Czechowice S.A.

From May 31st 2007 to December 31st 2007 the Management Board was composed of:

- Tadeusz Szkudlarski,
- Paweł Rak.

From January 1st 2007 to May 31st 2007 the Management Board was composed of:

- Tadeusz Szkudlarski
- Marek Lesisz
- Paweł Rak

LOTOS Jasło S.A.

As at December 31st 2007, the Management Board was composed of:

- Zdzisław Nisztor
- Jerzy Franek

In 2007, no changes were made to the composition of the company's Management Board.

Petrobaltic S.A.

As at December 31st 2007, the Management Board was composed of:

- Henryk Wronkowski
- Zbigniew Miazek

On December 18th 2007, Mr Tomasz Głobiński resigned from the position of Vice-President of the Management Board. On December 18th 2007, the Supervisory Board appointed Mr Zbigniew Miazek to the Management Board.

From December 14th 2007 to December 18th 2007 the Management Board was composed of:

The following document is a translation of 'Directors' Report on The LOTOS Group Operations in 2007', originally prepared in the Polish language, which is the only legally binding document.

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- Henryk Wronkowski
- Tomasz Głobiński

On December 14th 2007, Mr Grzegorz Strzelczyk resigned from the position of Vice-President of the Management Board.

From April 17th 2007 to December 14th 2007 the Management Board was composed of:

- Henryk Wronkowski
- Grzegorz Strzelczyk
- Tomasz Głobiński

On April 17th 2007, the Supervisory Board removed Mr Przemysław Jaworski from the Management Board.

As at January 1st 2007, the Management Board was composed of:

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

UAB LOTOS Baltija

As at December 31st 2007 the company's Chief Administrative Officer (CAO) was:

- Laimis Stasiskis

In 2007, there were no changes on the position of the company's CAO.

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

As at December 31st 2007, the company had a single-member Management Board:

- Łukasz Jagodziński

On May 31st 2007, the Supervisory Board removed Mr Henryk Malesa from the Management Board and appointed Mr Łukasz Jagodziński in his place.

As at January 1st 2007, the company had a single-member Management Board:

- Henryk Malesa

LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation)

As at December 31st 2007, the company's liquidator was Mr Łukasz Jagodziński.

On November 26th 2007, the company's Extraordinary General Shareholders Meeting appointed Mr Łukasz Jagodziński as the company's liquidator.

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As at January 1st 2007, the company had a single-member Management Board:

- Łukasz Jagodziński

24. AGREEMENTS BETWEEN THE ISSUER AND THE MANAGEMENT STAFF

Compensation Agreements

Apart from standard employment contracts concluded by Grupa LOTOS S.A. with the management staff in 2007, no agreements were executed that provide for compensation to the management staff in the event they resign or are dismissed without a good reason or in the event they resign or are dismissed as a result of the Company's takeover by another entity.

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

25.1. REMUNERATION PAID AND DUE TO MEMBERS OF THE MANAGEMENT BOARD OF GRUPA LOTOS S.A. IN 2007

Remuneration paid and due to Members of the Management Board of Grupa LOTOS S.A. in 2007:

PLN '000	Year ended December 31st 2007
Paweł Olechnowicz	181
Marek Sokołowski	180
Mariusz Machajewski*	239
Jarosław Kryński	138
Total	738

*Including remuneration due for the period before appointment to the Management Board of Grupa LOTOS S.A.

25.2. REMUNERATION PAID AND DUE TO MEMBERS OF THE MANAGEMENT BOARD OF GRUPA LOTOS S.A. IN CONSIDERATION OF THEIR MEMBERSHIP IN THE SUPERVISORY BOARDS OF SUBSIDIARY UNDERTAKINGS IN 2007

PLN '000	Year ended December 31st 2007
Paweł Olechnowicz	219

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Marek Sokołowski	34
Jarosław Kryński	1
Mariusz Machajewski	20
Total	274

25.3. REMUNERATION PAID AND DUE TO MEMBERS OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A. IN 2007

Remuneration paid and due to members of the Supervisory Board of Grupa LOTOS S.A. in 2007:

PLN '000	Year ended December 31st 2007
Beata Zawadzka	36
Marta Busz	19
Emerling Izabela	19
Grzegorz Szczodrowski	36
Henryk Siodmok	36
Jacek Mościcki	36
Jacek Tarnowski	18
Jan Stefanowicz	38
Total	239

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

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

The management and supervisory staff of Grupa LOTOS S.A. who hold shares in the subsidiaries of Grupa LOTOS S.A. were as follows:

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

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

To the Company's knowledge, as at December 31st 2007, the shareholders holding, directly or indirectly, through subsidiaries, 5% or more of the total vote at the General Shareholders Meeting of Grupa LOTOS S.A. were as follows:

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

Changes in 2007

On March 9th 2007, Grupa LOTOS S.A. was notified by ING Nationale-Nederlanden Polska Powszechnie Towarzystwo Emerytalne S.A. that on March 7th 2007, 5,876,589 Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny. The shares represented 5.17% of the Company's share capital and conferred the right to 5,876,589 votes at its General Shareholders Meeting (5.17% of the total vote).

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

On October 22nd 2007, Grupa LOTOS S.A. was notified that as a result of disposal of the Company shares settled on October 18th 2007 ING Nationale-Nederlanden Polska Otwarty Fundusz Emerytalny reduced its share in the total vote at the General Shareholders Meeting of the Company to a level below 5%.

Prior to the disposal, ING Nationale-Nederlanden Polska held 5,701,348 (five million, seven hundred and one thousand, three hundred and forty-eight) Grupa LOTOS S.A. shares. The shares represented 5.01% of the Company's share capital and conferred the right to 5,701,348 votes at its General Shareholders Meeting (5.01% of the total vote).

On October 19th 2007, 5,575,269 (five million, five hundred and seventy-five thousand, two hundred and sixty-nine) Grupa LOTOS S.A. shares were registered in the securities account of ING Nationale-Nederlanden Polska. The shares represented 4.90% of the Company's share capital and conferred the right to 5,575,269 votes at its General Shareholders Meeting (4.90% of the total vote).

28. 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 to:

- review the non-consolidated and consolidated financial statements for the first half of the years 2007, 2008 and 2009, and

- audit the annual non-consolidated and consolidated financial statements for 2007, 2008, 2009.

The total value of the agreement for 2007 was PLN 865 thousand, including PLN 856 thousand for the review of the non-consolidated and consolidated financial statements for the first half of 2007 and for the audit of the non-consolidated and consolidated financial statements for 2007.

The total value of the agreement for 2008-2009 was PLN 1,678 thousand.

Moreover, the member companies of the LOTOS Group and Deloitte Audyt Sp. z o.o. of Warsaw concluded agreements on, *inter alia*, audit of the non-consolidated and consolidated financial statements in 2007–2009. The total value of agreements for 2007 is PLN 426 thousand.

The total value of agreements for 2008-2009 is PLN 672 thousand.

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

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

29. 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.

30. 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.

31. INFORMATION ON CONTROL SYSTEMS FOR EMPLOYEE STOCK OPTION PLANS

In 2007, no control system for employee stock option plans existed at Grupa LOTOS S.A.

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

One Grupa LOTOS S.A. share confers the right to one vote at the General Shareholders Meeting with a proviso that as long as Nafta Polska SA holds the Company shares conferring the right to at least one-fifth of the total number of votes at the Company, the rights of Grupa LOTOS S.A. shareholders are limited so that neither of them can exercise more than one-fifth of the total number of votes at the Company on the day a General Shareholders Meeting. This limitation of voting rights does not apply to Nafta Polska S.A. For the purposes of this paragraph, the exercise of voting rights by a subsidiary is deemed the exercise of voting rights by the parent undertaking within the meaning of the regulations on public trade in securities.

The limitation of the voting rights referred to in the first sentence of Par. 10.3 of the Articles of Association of Grupa LOTOS S.A. does not release the buyers and holders of the Company shares from the obligations provided for in the regulations on public trade in securities, in particular from 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 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.

33. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, CEO	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	

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	Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	
	Marek Sokołowski