THE LOTOS GROUP

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31ST 2005 AND DECEMBER 31ST 2004

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

THE LOTOS GROUP
FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS – CONSOLIDATED

	PLN '000		EUR '000	
THE LOTOS GROUP	four quarters cumulative Jan 1 – Dec 31 2005	four quarters cumulative Jan 1 – Dec 31 2004	four quarters cumulative Jan 1 – Dec 31 2005	four quarters cumulative Jan 1 – Dec 31 2004
Sales revenue	9,646,474	7,450,313	2,397,652	1,648,956
Pre-tax profit	1,148,634	688,200	285,495	152,317
Net profit	930,328	542,807	231,235	120,138
Net cash provided by/(used in) operating activities	596,043	388,957	148,148	86,087
Net cash provided by/(used in) investing activities	(909,239)	(152,605)	(225,993)	(33,776)
Net cash provided by/(used in) financing activities	930,056	(254,958)	231,167	(56,429)
Total net cash flow	618,076	(19,822)	153,624	(4,387)
	PLN '000		EUR '000	
	As at Dec 31 2005	As at Dec 31 2004	As at Dec 31 2005	As at Dec 31 2004
Total assets	7,044,206	4,022,527	1,825,018	986,155
Equity attributable to parent undertaking's shareholders	4,568,938	2,642,630	1,183,724	647,862
Equity attributable to minority interests	257,595	14,882	66,738	3,648
Total equity	4,826,533	2,657,512	1,250,462	651,511
Basic earnings per ordinary share (PLN/EUR)	9.63	5.62	2.39	1.24
Diluted earnings per ordinary share (PLN/EUR)	-	-	-	-

FINANCIAL HIGHLIGHTS – NON-CONSOLIDATED

	PLN '000		EUR '000	
Grupa LOTOS S.A.	four quarters cumulative Jan 1 – Dec 31 2005	four quarters cumulative Jan 1 – Dec 31 2004	four quarters cumulative Jan 1 – Dec 31 2005	four quarters cumulative Jan 1 – Dec 31 2004
Sales revenue	8,545,013	6,590,719	2,123,882	1,458,705
Pre-tax profit	652,598	623,720	162,205	138,046
Net profit	536,255	495,415	133,287	109,649
Net cash provided by/(used in) operating activities	233,935	330,459	58,145	73,140
Net cash provided by/(used in) investing activities	(712,872)	(48,709)	(177,186)	(10,781)
Net cash provided by/(used in) financing activities	697,565	(251,463)	173,381	(55,656)
Total net cash flow	218,628	30,287	54,340	6,703
	PLN '000		EUR '000	
	As at Dec 31 2005	As at Dec 31 2004	As at Dec 31 2005	As at Dec 31 2004
Total assets	5,378,274	3,720,033	1,393,407	911,996
Equity	4,082,420	2,552,354	1,057,677	625,730
Basic earnings per ordinary share (PLN/EUR)				
Diluted earnings/(loss) per ordinary share (PLN/EUR)	5.55	5.13	1.38	1.13

THE LOTOS GROUP
CONSOLIDATED BALANCE SHEETS
as at December 31st 2005 and December 31st 2004

PLN '000	Dec 31 2005 PLN '000 (unaudited)	Dec 31 2004 PLN '000
ASSETS		
Non-current assets		
Property, plant and equipment	3,330,071	2,139,475
Goodwill	40,131	11,871
Intangible assets	51,707	45,577
Investment property	5,888	231
Investments in associated undertakings	77,581	27,572
Financial assets	17,404	6,165
Deferred tax asset	27,505	9,209
Other non-current assets	32,275	486
Total non-current assets	**3,582,562**	**2,240,586**
Current assets		
Inventories	1,429,817	828,620
Trade and other receivables	1,103,428	735,334
Income tax receivables	6,771	13,677
Prepayments	11,374	4,728
Non-current securities	135,830	43,234
Cash and cash equivalents	774,424	156,348
Total current assets	**3,461,644**	**1,781,941**
Total assets	**7,044,206**	**4,022,527**

THE LOTOS GROUP
CONSOLIDATED BALANCE SHEETS
as at December 31st 2005 and December 31st 2004

PLN '000	Dec 31 2005 PLN '000 (unaudited)	Dec 31 2004 PLN '000
EQUITY AND LIABILITIES		
Equity		
Share capital	113,700	78,700
Reserve funds	970,951	-
Retained earnings	3,482,115	2,563,930
Currency-translation differences	2,172	-
Equity attributable to parent undertaking's shareholders	**4,568,938**	**2,642,630**
Equity attributable to minority interests	**257,595**	**14,882**
Total equity	**4,826,533**	**2,657,512**
Non-current liabilities		
Loans and borrowings	294,198	143,737
Non-current provisions	180,265	42,090
Deferred tax liability	220,245	190,960
Other liabilities	3,101	69
Total non-current liabilities	**697,809**	**376,856**
Current liabilities		
Liabilities and accruals and deferred income	1,264,495	747,631
Income tax expense	67,004	455
Loans and borrowings	111,452	184,571
Current provisions	76,021	55,502
Other financial liabilities	892	-
Total current liabilities	**1,519,864**	**988,159**
Total equity and liabilities	**7,044,206**	**4,022,527**

THE LOTOS GROUP
CONSOLIDATED PROFIT AND LOSS ACCOUNTS
for the three and twelve months ended December 31st 2005 and December 31st 2004

PLN '000	3 months ended Dec 31 2005 PLN '000 (unaudited)	12 months ended Dec 31 2005 PLN '000 (unaudited)	3 months ended Dec 31 2004 PLN '000 (unaudited)	12 months ended Dec 31 2004 PLN '000
Total sales revenue	4,096,111	13,849,636	2,988,297	11,193,641
Excise tax and other charges	(1,141,576)	(4,203,162)	(941,495)	(3,743,328)
Sales revenue	2,954,535	9,646,474	2,046,802	7,450,313
Cost of sales	(2,557,588)	(8,050,542)	(1,664,409)	(6,139,178)
Net profit/(loss) on sales	**396,947**	**1,595,932**	**382,393**	**1,311,135**
Other operating income	4,699	33,922	5,342	20,444
Excess of company's share in net assets over the acquisition cost	288,437	288,437	-	-
Selling costs	(153,032)	(507,331)	(128,389)	(387,423)
General and administrative expenses	(85,873)	(268,141)	(71,712)	(212,826)
Other operating expenses	(17,906)	(42,516)	(5,744)	(119,145)
Operating profit	**433,272**	**1,100,303**	**181,890**	**612,185**
Financial income	29,344	79,125	25,156	107,915
Financial expenses	(9,870)	(48,757)	7,991	(37,885)
Interest in investments in associated undertakings	1,490	1,873	634	5,985
Sale of investments in associated undertakings	-	16,090	-	-
Pre-tax profit	**454,236**	**1,148,634**	**215,671**	**688,200**
Corporate income tax	(35,766)	(172,611)	(40,854)	(143,978)
Profit after tax	**418,470**	**976,023**	**174,817**	**544,222**
Profit attributable to minority interests	(10,399)	(45,695)	(238)	(1,415)
Net profit	**408,071**	**930,328**	**174,579**	**542,807**
Attributable to:				
Parent undertaking's shareholders	408,071	930,328	174,579	542,807
Minority interests	10,399	45,695	238	1,415
	418,470	**976,023**	**174,817**	**544,222**
Earnings per share				
- basic	4.22	9.63	1.81	5.62
- diluted	-	-	-	-

THE LOTOS GROUP
CONSOLIDATED CASH-FLOW STATEMENTS
for the three and twelve months ended December 31st 2005 and December 31st 2004

PLN '000	12 months ended Dec 31 2005 PLN '000 (unaudited)	12 months ended Dec 31 2004 PLN '000
Cash flows from operating activities		
Net profit	**930,328**	**542,807**
Adjustments:		
Profit attributable to minority interests	45,695	1,415
Share in net profit/(loss) of subordinated undertakings valued with equity method	(1,873)	(5,985)
Depreciation and amortisation	263,142	192,511
Foreign exchange gains/(losses)	(976)	(35,756)
Net interest and dividend paid	7,807	12,022
(Profit)/loss on investing activities	(24,115)	43,642
Current income tax	172,611	143,978
Income tax paid	(135,505)	(159,536)
Increase in receivables	(219,328)	(117,913)
Increase in inventories	(463,183)	(273,682)
Increase/(decrease) in liabilities	292,099	(38,086)
Increase/(decrease) in provisions	(1,896)	55,174
Change in accruals and deferrals	20,315	7,512
Other, net	(289,078)	20,854
Net cash provided by/(used in) operating activities	**596,043**	**388,957**
Cash flows from investing activities		
Sale of non-current financial assets	41,648	-
Dividend and interest received	33,784	7,433
Acquisition of property, plant and equipment and intangible assets	(792,387)	(228,680)
Acquisition of non-current financial assets, including:	(119,554)	-
- acquisition of subsidiary undertakings net of cash acquired	117,680	-
(Acquisition)/ sale of current financial assets	(90,193)	95,002
Other, net	17,463	(26,360)
Net cash provided by/(used in) investing activities	**(909,239)**	**(152,605)**
Cash flows from financing activities		
Increase in loans and borrowings	351,349	25,567
Share issue adjusted for issue expenses	1,015,000	-
Repayment of loans and borrowings	(396,018)	(258,336)
Interest paid	(16,975)	(14,324)
Dividends paid to parent undertaking's shareholders	(15,740)	(6,217)
Dividends paid to minority shareholders	(3,022)	-
Other, net	(4,538)	(1,648)
Net cash provided by/(used in) financing activities	**930,056**	**(254,958)**
Change in cash on account of foreign exchange (gains)/losses	1,216	(1,216)
Change in net cash	**618,076**	**(19,822)**
Cash at beginning of period	**156,348**	**176,170**
Cash at end of period	**774,424**	**156,348**
- restricted cash	7,342	14,297

THE LOTOS GROUP
STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
for the twelve months ended December 31st 2005 and December 31st 2004

PLN '000	Share capital	Reserve funds	Revaluation capital reserve	Retained earnings	Translation reserve	Total equity
Jan 1 2004*	**78,700**	**1,050,926**	**93,111**	**302,614**	**-**	**1,525,351**
Change in accounting standards and policies	-	-	-	580,689	-	580,689
Transfers	-	(1,050,926)	(93,111)	1,144,037	-	-
Jan 1 2004 – adjusted	**78,700**	**-**	**-**	**2,027,340**	**-**	**2,106,040**
Net profit for 12 months ended Dec 31 2004	-	-	-	542,807	-	542,807
Dividends to shareholders from 2003 profit distribution	-	-	-	(6,217)	-	(6,217)
Dec 31 2004	**78,700**	**-**	**-**	**2,563,930**	**-**	**2,642,630**
Jan 1 2005*	**78,700**	**1,317,218**	**86,531**	**598,887**	**-**	**2,081,336**
Change in accounting standards and policies	-	-	-	561,294	-	561,294
Transfers	-	(1,317,218)	(86,531)	1,403,749	-	-
Jan 1 2005 – adjusted	**78,700**	**-**	**-**	**2,563,930**	**-**	**2,642,630**
Net profit for 12 months ended Dec 31 2005	-	-	-	930,328	-	930,328
Dividends to shareholders from 2004 profit distribution	-	-	-	(15,740)	-	(15,740)
New share issue	35,000	-	-	-	-	35,000
Share premium	-	980,000	-	-	-	980,000
Issue expenses including income tax	-	(9,049)	-	-	-	(9,049)
Changes in the Group's structure	-	-	-	(3)	-	(3)
Other	-	-	-	3,600	2,172	5,772
Dec 31 2005 (unaudited)	**113,700**	**970,951**	**-**	**3,482,115**	**2,172**	**4,568,938**

* Based on financial statements prepared in accordance with PAS.

GRUPA LOTOS S.A.
BALANCE SHEETS
as at December 31st 2005 and December 31st 2004

PLN '000	Dec 31 2005 PLN '000 (unaudited)	Dec 31 2004 PLN '000
ASSETS		
Non-current assets		
Property, plant and equipment	1,885,341	1,801,271
Intangible assets	43,729	43,911
Financial assets	686,507	252,904
	2,615,577	**2,098,086**
Current assets		
Inventories	1,258,336	768,075
Trade and other receivables	1,068,769	718,410
Income tax receivables	-	7,859
Prepayments	2,218	3,494
Current financial assets	133,871	43,234
Cash and cash equivalents	299,503	80,875
	2,762,697	**1,621,947**
Total assets	**5,378,274**	**3,720,033**

GRUPA LOTOS S.A.
BALANCE SHEETS
as at December 31st 2005 and December 31st 2004

PLN '000	Dec 31 2005 PLN '000 (unaudited)	Dec 31 2004 PLN '000
EQUITY AND LIABILITIES		
Equity		
Share capital	113,700	78,700
Reserve funds	970,951	-
Retained earnings	2,997,769	2,473,654
Total equity	**4,082,420**	**2,552,354**
Non-current liabilities		
Loans and borrowings	-	112,289
Non-current provisions	14,288	15,442
Deferred tax liability	178,128	190,959
Total non-current liabilities	**192,416**	**318,690**
Current liabilities		
Liabilities and accruals and deferred income	997,680	620,798
Income tax liability	61,604	-
Loans and borrowings	-	177,544
Current provisions	44,154	50,647
Total current liabilities	**1,103,438**	**848,989**
Total equity and liabilities	**5,378,274**	**3,720,033**

GRUPA LOTOS S.A.
PROFIT AND LOSS ACCOUNTS
for the three and twelve months ended December 31st 2005 and December 31st 2004

PLN '000	3 months ended Dec 31 2005 PLN '000 (unaudited)	12 months ended Dec 31 2005 PLN '000 (unaudited)	3 months ended Dec 31 2004 PLN '000 (unaudited)	12 months ended Dec 31 2004 PLN '000
Total sales revenue	3,680,553	12,275,076	2,733,035	10,283,269
Excise tax and other charges	(1,022,441)	(3,730,063)	(918 637)	(3,692,550)
Sales revenue	2,658,112	8,545,013	1,814,398	6,590,719
Cost of sales	(2,475,576)	(7,549,108)	(1,517,579)	(5,585,188)
Net profit/(loss) on sales	**182,536**	**995,905**	**296,819**	**1,005,531**
Other operating income	1,031	6,645	1,914	16,240
Selling costs	(89,328)	(309,943)	(71,033)	(248,141)
General and administrative expenses	(43,748)	(147,801)	(48,680)	(135,025)
Other operating expenses	(2,898)	(4,299)	(3,652)	(108,631)
Operating profit	**47,593**	**540,507**	**175,368**	**529,974**
Financial income	21,692	139,156	22,765	123,705
Financial expenses	(4,122)	(27,065)	11,289	(29,959)
Pre-tax profit	**65,163**	**652,598**	**209,422**	**623,720**
Corporate income tax	(13,039)	(116,343)	(39,095)	(128,305)
Net profit	**52,124**	**536,255**	**170,327**	**495,415**
Earnings per share				
- basic	0.54	5.55	1.76	5.13
- diluted	-	-	-	-

GRUPA LOTOS S.A.
CASH-FLOW STATEMENTS
for the twelve months ended December 31st 2005 and December 31st 2004

PLN '000	12 months ended Dec 31 2005 PLN '000 (unaudited)	12 months ended Dec 31 2004 PLN '000
Cash flows from operating activities		
Net profit	**536,255**	**495,415**
Adjustments:		
Depreciation and amortisation	173,201	164,119
Foreign exchange gains/(losses)	-	(36,821)
Net interest and dividend paid	(45,217)	(12,992)
(Profit)/loss on investing activities	(25,501)	44,900
Current income tax	116,343	128,305
Income tax paid	(57,592)	(136,503)
Increase in receivables	(350,359)	(13,520)
Increase in inventories	(490,261)	(287,111)
Increase/(decrease) in liabilities, accruals and deferred income	364,449	(81,259)
Increase in accruals and deferred income	13,591	5,656
Increase/(decrease) in provisions	(2,254)	40,198
Decrease in prepayments and accrued income	1,277	271
Other, net	3	19,801
Net cash provided by/(used in) operating activities	**233,935**	**330,459**
Cash flows from investing activities		
Sale of property, plant and equipment and intangible assets	1,478	22,291
(Acquisition)/sale of current financial assets	41,648	106,437
Dividends and interest received	51,387	23,805
Acquisition of property, plant and equipment and intangible assets	(269,352)	(122,302)
Acquisition of non-current financial assets	(276,538)	(17,675)
Other, net	(261,495)	(61,265)
Net cash provided by/(used in) investing activities	**(712,872)**	**(48,709)**
Cash flows from financing activities		
Increase in loans and borrowings	-	24
Share issue	1,015,000	-
Repayment of loans and borrowings	(289,316)	(208,065)
Redemption of short-term debt securities	-	(18,000)
Interest paid	(6,985)	(11,684)
Dividends paid	(15,740)	(6,217)
Other, net	(5,394)	(7,521)
Net cash provided by/(used in) financing activities	**697,565**	**(251,463)**
Change in cash on account of foreign exchange (gains)/losses	-	-
Change in net cash	**218,628**	**30,287**
Cash at beginning of period	**80,875**	**50,588**
Cash at end of period	**299,503**	**80,875**
-restricted cash	522	13,518

GRUPA LOTOS S.A.
STATEMENTS OF CHANGES IN EQUITY
for the nine months ended September 30th 2005 and September 30th 2004

PLN ‘000	Share capital	Reserve funds	Revaluation capital reserve	Retained earnings	Total equity
Jan 1 2004*	**78,700**	**1,050,080**	**93,111**	**257,838**	**1,479,729**
Change in accounting standards and policies	-	-	-	583,427	583,427
Transfers	-	(1,050,080)	(93,111)	1,143,191	-
Jan 1 2004 – adjusted	**78,700**	**-**	**-**	**1,984,456**	**2,063,156**
Net profit for 12 months ended Dec 31 2004	-	-	-	495,415	495,415
Dividends to shareholders from 2003 profit distribution	-	-	-	(6,217)	(6,217)
Dec 31 2004	**78,700**	**-**	**-**	**2,473,654**	**2,552,354**
Jan 1 2005*	**78,700**	**1,290,181**	**86,531**	**544,034**	**1,999,446**
Change in accounting standards and policies	-	-	-	552,908	552,908
Transfers	-	(1,290,181)	(86,531)	1,376,712	-
Jan 1 2005 – adjusted	**78,700**	**-**	**-**	**2,473,654**	**2,552,354**
Net profit for 12 months ended Dec 31 2005	-	-	-	536,255	536,255
Dividends to shareholders from 2004 profit distribution	-	-	-	(15,740)	(15,740)
Share issue	35,000	-	-	-	35,000
Share premium	-	980,000	-	-	980,000
Issue expenses including income tax	-	(9,049)	-	-	(9,049)
Other	-	-	-	3,600	3,600
Dec 31 2005 (unaudited)	**113,700**	**970,951**	**-**	**2,997,769**	**4,082,420**

* Based on financial statements prepared in accordance with PAS.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 12 MONTHS ENDED DECEMBER 31ST 2005

1. General Information

Grupa LOTOS S.A. ("the Company", "the Parent Undertaking"), the parent undertaking of the LOTOS Group ("the Group") was established by virtue of the 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 Group's core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes exploration and extraction of crude oil and natural gas reserves.

2. Composition of the Group

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2005	**Dec 31 2004**
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	sales of fuels and provision of services for retail networks of international concerns; logistic services	full	100.00%	100.00%
LOTOS Mazowsze S.A.	Mława	sales of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, and domestic sales of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	production and sale of bitumens	full	100.00%	100.00%

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2005	**Dec 31 2004**
LOTOS Ekoenergia S.A.	Gdańsk	construction of basic CTUP units; the company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing	full	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	personal and property protection	full	87.44%	87.44%
LOTOS Parafiny Sp. z o.o.	Jasło	production and sale of paraffin	full	100.00%	26.00%
LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A.)[(1)]	Czechowice	production and processing of refined petroleum products and their wholesale	full	80.04%	-
LOTOS Jasło S.A. (parent undertaking of another group; formerly Rafineria Jasło S.A.)[(2)]	Jasło	production and processing of refined petroleum products and their wholesale and retail sale	full	80.01%	-
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, crude oil and natural gas production	full	69.00%	-
UAB LOTOS Baltija	Lithuania	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	not consolidated due to immateriality	100.00%	60.29%
BiproRaf Sp. z o.o.	Gdańsk	design services for oil industry	not consolidated due to immateriality	50.00%	50.00%
Rafineria Nafty Glimar S.A. (Glimar Refinery)	Gorlice	refining (currently discontinued due to the company's bankruptcy)	not consolidated due to lack of control	91.54%	-
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated due to immateriality	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.*	Gorlice	management of the Glimar Refinery assets	full	90.00%	100.00%
Laboratorium Badacz Sp. z o.o.	Jasło	services	not consolidated due to immateriality	100.00%	-
Indirect Subsidiary Undertakings					
RCEkoenergia Sp. z o.o	Czechowice-Dziedzice	services	full	80.04%	-
RCParafiny Sp. z o.o.	Czechowice-Dziedzice	no operations – assets transferred to LOTOS Parafiny in exchange for shares	full	80.04%	-
RCRemo Sp. z o.o.	Czechowice-Dziedzice	services	full	80.04%	-

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2005	**Dec 31 2004**
CBA Racer Sp. z o.o.	Czechowice-Dziedzice	services	full	80.04%	-
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	services	equity method	80.04%	-
RCPaliwa Sp. z o.o.	Czechowice-Dziedzice	trading (not commenced yet)	equity method	80.04%	-
RCTransport Sp. z o.o.	Czechowice-Dziedzice	services	equity method	80.04%	-
LOTOS Tank Sp. z o.o.	Jasło	trading	Full/equity method	86.01%	30.00%
Parafiny Sp. z o.o.	Jasło	production of refined petroleum products	full	-	13.00%
Rafineria Jasło Monto-Rem Sp. z o.o.	Jasło	services	full	79.56%	-
Plastekol Organizacja Odzysku S.A.	Jasło	services	full	53.61%	-
Rafineria Jasło Sped-Kol Sp. z o.o.	Jasło	no operations – lease of assets to LOTOS Kolej	not consolidated due to immateriality	80.01%	-
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	services	not consolidated due to immateriality	80.01%	-
Chemipetrol Sp. z o.o.	Jasło	trading – assets transferred to LOTOS Parafiny in exchange for shares	not consolidated due to immateriality	80.01%	-
Miliana Shipping Company Ltd.	Cyprus	services	full	68.93%	-
Aphrodite Offshore Services Ltd.	Netherlands Antilles	services	not consolidated due to immateriality	69.00%	-

Associated Undertakings

Energobaltic Sp. z o.o.	Gdańsk	manufacturing	equity method	32.16%	-	
UAB Naftos Gavyba	Klaipeda, Lithuania	service activities	equity method	29.46%	-	
AB Geonafta	Gargždai, Lithuania	crude oil production	equity method	27.60%	-	
UAB Minijos Nafta	Gargždai, Lithuania	crude oil production	equity method	13.80%	-	
UAB Genciu Nafta	Klaipeda, Lithuania	crude oil production	equity method	13.80%		
UAB Manifoldas	Gargždai, Lithuania	crude oil production	equity method	13.80%	-	
UAB Gelmiu Turtaj	Gargždai, Lithuania	exploration of new hydrocarbon reserves	at acquisition cost	19.95%	-	
Naftoport Sp. z o.o.	Gdańsk	operation of reloading terminals for crude oil and petroleum products	equity method	*	25.64%	

** See Note 15.*

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

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

(2) On January 2nd 2006, the District Court of Rzeszów registered the change of the name of Rafineria Jasło S.A. to LOTOS Jasło S.A.

3. Rules of Presentation

Starting from January 1st 2005, the Group is statutorily required to prepare consolidated financial statements in accordance with the International Accounting Standards, the International Financial Reporting Standards and the related interpretations published in the form of the European Commission's regulations. In view of the ongoing endorsement of the IFRS standards in the EU and the Group's operations, there is no difference between the IFRS applied by the Group and the IFRS endorsed by the European Union.

These condensed consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS").

The IFRS include the standards and interpretations adopted by the International Accounting Standards Board („IASB") and the International Financial Reporting Interpretation Committee ("IFRIC").

With the exception of the Parent Undertaking, the Group's undertakings maintain their accounting books in accordance with the accounting standards specified in the Polish Accountancy Act of September 29th 1994 (the "Act") and the provisions issued thereunder ("Polish Accounting Standards"). The consolidated financial statements include adjustments which are absent from the accounting books of the Group's undertakings, and which have been introduced to adjust the financial statements of these undertakings to the IFRS.

In 2003, the IASB issued IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), whose adoption is obligatory when preparing financial statements for periods beginning on January 1st 2004 or later. Given that the Group did not prepare any consolidated financial statements in accordance with IFRS in the past, it will apply IFRS 1 in its first consolidated financial statements prepared under IFRS, namely the financial statements for the year ended December 31st 2005.

In particular, IFRS 1 requires disclosure in the opening balance prepared in accordance with IFRS of all assets, equity and liabilities which are required to be disclosed under IFRS. IFRS 1 permits valuation of a portion of an undertaking's property, plant and equipment at fair value as at the date of transition to IFRS, and using that fair value as the deemed cost of property, plant and equipment as at that date. The Parent Undertaking determined the values and recognised the adjustment to the opening balance as at January 1st 2004 (see Note 5).

In these condensed consolidated financial statements, the Parent Undertaking disclosed the financial information of the Group of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic ("GK Petrobaltic") for the twelve months ended December 31st 2005, assuming that GK Petrobaltic accounts for the shares in Naftos Gavyba ("NG"), its associated undertaking, using the equity method as at December 31st 2004, taking into account the dividend paid in the twelve months ended December 31st 2005. The consolidated financial statements of the NG Group (NG Group), prepared in line with the accounting policies applicable in Lithuania, served as the basis for disclosure in the consolidated financial statements of NG's value corresponding to the number of NG shares held by Petrobaltic. Therefore, the financial results for the twelve months ended December 31st 2005 may change after GK Petrobaltic's share in the NG Group's result for 2005 is taken into account.

The measurement and reporting currency of these consolidated financial statements is the Polish złoty (PLN).

These consolidated financial statements are presented in PLN '000.

The financial information as at December 31st 2005 and for the twelve months then ended contained in these condensed consolidated financial statements, were not audited.

The financial information as at December 31st 2004 and for the year then ended, which were prepared in accordance with the Polish Accounting Standards (PAS), were audited.

These condensed consolidated financial statements were prepared assuming that the Group's companies would continue as going concerns in the foreseeable future. As at the date of signing these condensed financial statements there exist no circumstances which would indicate any threat to the Group's companies continuing as going concerns.

4. Accounting Policies

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards. As stated in Note 5, as at the date of first-time adoption of IFRS as the basis of accounting, the items of property, plant and equipment and intangible assets were recognised at their fair value, which was assumed as their adjusted initial value. The key accounting policies adopted by the Group are presented below.

a) Basis for Consolidation

The consolidated financial statements include the financial statements of the Parent Undertaking and financial statements of the key undertakings it controls, prepared as at the balance-sheet date. The Company is deemed to exercise control over an undertaking if it holds directly or indirectly, through its subsidiaries, over 50% of the total vote in the governing bodies of such an undertaking, unless it can be proved that such holding does not result in exercising control. Control is also exercised when the parent undertaking is able to influence the financial and operating policy of the subordinated undertaking so as to derive benefits from its activities.
Subsidiary undertakings are subject to consolidation as of the date when the Group assumes control over them and cease to be consolidated when the control is lost.
For the purposes of consolidation, all significant balances and transactions between consolidated undertakings were eliminated.

The consolidated financial statements were prepared in accordance with uniform accounting policies consistently applied for transactions and events of similar nature.

b) Investments in Associated Undertakings

An associated undertaking is an undertaking where the Company holds a 20–50% share in the total vote, or an undertaking over which the parent undertaking exercises significant influence but not control.

Equity interests in associated undertakings are valued using the equity method, except for those cases when a given investment is classified as held for trading. Investments in associated undertakings are valued at the acquisition cost, taking into account the changes in the Company's share in the net assets which occurred until the balance-sheet date, less impairment losses. The Group recognises its share in the profit/ loss of associated undertakings in the profit and loss account, and its share in changes in equity of associated undertakings is disclosed under investor's equity.
The balance-sheet dates are the same for associated undertakings and for the Group; associated undertakings and the Group apply consistent accounting policies.

c) Intangible Assets

Intangible assets are recognised if the Group is likely to obtain future economic benefits attributable directly to the assets. Initially, intangible assets are recorded at acquisition or production cost, if they are acquired in separate transactions. Intangible assets acquired as part of the acquisition of a business are capitalised at fair value as at the acquisition date. Following initial recognition, intangible assets are valued at acquisition or production cost less accumulated amortisation and impairment losses.
Intangible assets are amortised using the straight-line method over their estimated useful lives.
The expected useful lives of the Group's intangible assets are from 2 to 21 years.

d) Goodwill of Subordinated Undertakings

Goodwill is the excess of the acquisition cost over the fair value of the Group's share in identifiable net assets of acquired subsidiary, associated undertaking or a joint venture, as at the acquisition date. The goodwill relating to acquisition of subsidiary undertakings is disclosed under intangible assets, while the goodwill relating to acquisition of associated undertakings is disclosed under investments in associated undertakings.

If the acquisition cost is lower than the fair value of the identifiable acquired net assets of an acquired undertaking, the difference is disclosed as profit in the profit and loss account for the period in which the acquisition took place.

Goodwill is disclosed as asset at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year. Any impairment of value is recognised immediately in the profit and loss account and is not reversed in consecutive periods.
As at the date of assuming control, the acquired goodwill is allocated to every cash-generating unit which may benefit from synergies resulting from the merger. The Company calculates any impairment of value by estimating recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its balance-sheet value, the Company recognises impairment losses. If goodwill comprises a part of a cash-generating unit and the Company sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the balance-sheet value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. Goodwill sold in such circumstances is valued using the relative value of the sold business and the value of the retained part of the cash-generating unit.

e) Property, Plant and Equipment

Property, plant and equipment, other than land, are valued at acquisition or production cost, less accumulated depreciation and impairment losses.

Land is valued at acquisition cost less any impairment losses. In the case of perpetual usufruct of land, acquisition cost is understood to mean the amount paid to a third party.

Initial cost of property, plant and equipment comprises the acquisition cost plus all costs directly related to their acquisition and adaptation for use. Costs incurred on an asset which is already in service, such as repairs, overhauls or operating fees, are expensed in the reporting period in which they were incurred.

Property, plant and equipment (including their components), other than land, are depreciated using the straight-line method over their estimated useful lives. The depreciation rates are as follows:

Buildings and structures	1.25–10%
Plant and equipment	5–20%
Vehicles	7–40%
Other property, plant and equipment	10–50%

Gains or losses on disposal/ liquidation or discontinuation of use of property, plant and equipment are defined as the difference between the proceeds on the sale of property, plant and equipment and their net value, and disclosed in the profit and loss account.

f) Assets under Construction

Assets under construction are valued at the amount of aggregate costs directly attributable to the acquisition or production of such assets, including financial expenses, less impairment losses, if any. Assets under construction include investment materials purchased for construction. Assets under construction are not depreciated until completed and placed in service.

g) Impairment Losses

Property, plant and equipment and other non-current assets, including goodwill, intangible assets and financial assets, are tested for impairment if certain events or changes in the environment may result in lowering the value of these assets below their balance-sheet value. Impairment losses are recognised in the amount equal to the difference between the balance-sheet valuation of assets and the higher of: the fair value of the asset less the selling costs or the value-in-use determined for the individual asset. In order to verify the balance-sheet valuation, the assets are identified as the smallest cash-generating units to which a given asset may be assigned.

h) Investments

Investment property

Investment property is measured at acquisition cost less accumulated depreciation and impairment losses. Investment property, including investments in land, perpetual usufruct of land, buildings and structures, includes property which the Company does not use for its own purposes but which will generate benefits in the form of value appreciation or income from rent.

i) Inventories

Inventories are stated at the lower of: their acquisition or production cost or their net realisable value.

Costs incurred in order to bring each inventory item to its present location and conditions are accounted for in the following manner:

- materials and goods for resale – acquisition cost calculated on weighted average basis,
- finished goods and work-in-progress – the cost of direct materials and labour and an appropriate portion of indirect production costs, established on the basis of normal capacity.

Net realisable value is the selling price estimated as at the balance sheet date net of VAT and excise taxes or fuel charge, less any rebates, discounts and other similar items, and less the estimated costs to complete and costs to sell.

j) Current and Non-Current Receivables

Trade receivables are initially disclosed at the present value of expected cash flows, and subsequently valued at adjusted acquisition cost (amortised cost), using the effective interest rate, less impairment losses, if any. An impairment loss on trade receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original contractual terms. The amount of the impairment is measured as the difference between the balance-sheet value of the given assets and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the impairment loss is recognised in the profit and loss account under other operating expenses.

k) Foreign Currency Transactions

Transactions denominated in foreign currencies are disclosed in the functional currency of the Company (Polish złoty) as at the transaction date. using the following exchange rates:

1) buy or sell rate of the bank at which the transaction is effected – in the case of sale and purchase of currencies and payment of receivables and payables; or

2) mid exchange rate quoted for the given currency by the National Bank of Poland as at that date unless a different exchange rate in specified in another document binding on a given undertaking.

Cash assets and liabilities denominated in foreign currencies as at the balance-sheet date are translated into the złoty at relevant złoty mid exchange rates quoted by the National Bank of Poland as at that date. The resulting foreign exchange gains and losses are posted in the profit and loss account, except for foreign exchange gains and losses which are considered a part of external financing cost and are capitalised under non-current assets. Non-cash items valued at their historic cost in foreign currency are translated at the exchange rate effective as at the date of the initial transaction. Non-cash items measured at fair value in a foreign currency are translated at the exchange rate effective as at the date of the fair value measurement.

Exchange rates applied for the balance-sheet valuation purposes:

Mid exchange rate quoted by NBP as at	Dec 31 2005	Dec 31 2004
USD	3.2613	2.9904
EUR	3.8598	4.0790
CHF	2.4788	2.6421

l) Cash and Cash Equivalents

Cash in hand and at banks, as well as and non-current deposits held to maturity are valued at face value.

Cash and cash equivalents as disclosed in the consolidated cash-flow statement comprise cash in hand and cash at banks, as well as those bank deposits maturing within three months which are not classified as placements.

m) Accruals and Deferrals

The Group discloses prepayments if they relate to future reporting periods.

Accrued expenses are disclosed at probable values of current-period liabilities.

Employees of the Group undertakings are entitled to holidays in accordance with the rules set forth in the Polish Labour Code, The Group recognises the cost of employee holidays on an accrual basis using the liability method, The amount of the provision for unused holidays is calculated on the basis of the difference between the balance of holidays actually used and the balance of holidays used established proportionately to the passage of time.

n) Equity

Equity is disclosed in the accounting records by categories, in accordance with the rules set forth in applicable laws and in the Articles of Association.

The share capital of the LOTOS Group is the share capital of the parent undertaking and is disclosed at its par value, in the amount specified in the Company's Articles of Association and in the relevant entry in the National Court Register.

o) Provisions

The Group discloses provisions where it has a liability (legal or following from commercial practice) resulting from past events, and it is certain or highly probable that the discharge of this liability would cause an outflow of funds representing economic benefits, and the amount of the liability may be reliably estimated.

p) Employee Benefit Schemes

The Group undertakings have in place length-of-service award schemes and old-age and disability pension schemes. The payments under these schemes are expensed so that the costs of length-of-service awards and retirement severance pays can be amortised over the whole employment period. The costs related to the abovementioned benefits are determined using the actuarial valuation of the forecast entitlements of individual employee.

q) Loans and Borrowings

Financial liabilities under loans, borrowings, and debt securities are valued at the moment of their first-time recognition in the accounting records at their acquisition cost, i.e. at the fair value of the payment for the assumption of liabilities. In subsequent periods financial liabilities are recognised at the amortised acquisition cost, except for the liabilities held for trading, which are valued at the effective interest rate.

r) Costs of External Financing

Costs of external financing are disclosed as the costs of the period in which they were incurred, except for the costs which relate directly to the acquisition, construction or production of an asset being completed, which costs are capitalised as a part of the acquisition or production cost of such an asset.

To the extent that the funds are borrowed specifically for the purpose of acquiring the asset being completed, the amount of the costs of external financing which may be capitalised as part of such asset is determined as the difference between the actual costs of external financing incurred in connection with a given loan in a given period and the proceeds from temporary investments of the borrowed funds.

To the extent that the funds are borrowed without a specific purpose and are later allocated for the acquisition of an asset being completed, the amount of the costs of external financing which may be capitalised is determined by applying the capitalisation rate to the capital expenditure on that asset.

s) Deferred Income Tax

Mandatory decrease of profit/(increase of loss) comprises: current income tax (CIT) and deferred income tax. The current portion of the income tax is calculated based on the net profit/(loss) (taxable income) for a given financial year. The net profit (loss) established for tax purposes differs from the net profit (loss) established for financial reporting purposes due to the exclusion of the income which is taxable and the costs which are deductible in future years and the expenses and income which will never be subject to deduction/taxation. The tax charges are calculated based on the tax rates effective for a given financial year.

The amount of the deferred tax is determined with the use of the balance-sheet liability method in relation to all timing differences existing as at the balance-sheet date between the tax value of assets and liabilities and their balance-sheet value as disclosed in the consolidated financial statements.

Deferred tax liability provision is recognised in relation to all positive timing differences.

Deferred tax liability is recognised in relation to all positive timing differences on investments in subsidiary or associated undertakings and on shares in co-subsidiary undertakings, unless the dates of reversal of the timing differences are controllable or the timing differences are not likely to be reversed in the foreseeable future.

Deferred tax assets are disclosed in relation to all negative timing differences and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences and losses to be used.

In the case of negative timing differences on the shares in subordinated or associated undertakings and on the shares in co-subsidiary undertakings, the related deferred tax asset is disclosed in the balance sheet in the amount of the taxable income expected to be generated in the foreseeable future (as a result of the reversal of these timing differences) which would enable the negative timing differences to be offset.

The balance-sheet value of a deferred tax asset is verified as at each balance-sheet date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realisation of this deferred tax asset would be generated.

Deferred tax assets and deferred tax liabilities are calculated using tax rates expected to be effective at the time of realisation of particular asset or release of particular provision, based on tax rates (and tax legislation) effective as at the balance-sheet date or tax rates (and tax legislation) certain to be effective as at the balance-sheet date in the future.

Deferred income tax is disclosed in the profit and loss account, unless it relates to items disclosed directly under equity. In the latter case, deferred income tax is also posted directly to equity.

In the event of a change in the tax rate, the Company revalues the deferred tax assets and liabilities and the result of the revaluation is posted to the profit and loss account for the period in which the revaluation was made.

Deferred tax assets and deferred tax liabilities are disclosed in the balance sheet at their value following their set-off in particular undertakings consolidated within the Group.

t) Financial Instruments

At the time of their initial recognition, financial instruments are valued at acquisition cost (price), equal to the fair value of the payment made for them. The transaction costs are included in the initial value of the financial instruments.
Following the initial recognition, financial instruments are classified under one of the following four categories and are valued as follows:

- Financial instruments which are measured at fair value; the related gains and losses are disclosed in the profit and loss account,
- Financial instruments held to maturity which are valued at their amortised cost using the effective interest rate; the related gains or losses are disclosed in the profit and loss account at the moment of derecognition of particular financial instruments from the balance sheet,
- Loans and accounts receivable which are valued at their amortised cost using the effective interest rate; the related gains and losses are disclosed in the profit and loss account. Accounts receivable which mature in the short term and do not have a specified interest rate are valued at amounts due.
- Financial instruments available for sale which are measured at fair value; the revaluation gains/losses are charged to the revaluation capital reserve until the investment is sold or its value is reduced. Then, the cumulative revaluation gain/loss is charged to the consolidated profit and loss account.

The fair value of financial instruments for which a ready market exists is measured in relation to the prices quoted on that market as at the relevant balance-sheet date. If there is no quoted market price, the fair value is estimated using appropriate valuation techniques.
Financial instruments are derecognised from the balance sheet when the Group loses control over contractual rights comprising particular financial instruments; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

u) Recognition of Revenue

Revenue is recognised in the amount proportionate to the probable economic benefit for the Group which can be reliably valued.

v) Sales of Goods for Resale and Products

Sales revenue is disclosed at the fair value of payments received or due, and it represents the accounts receivable for the products, goods for resale and services provided in the ordinary course of business, less discounts, VAT and other sales-related taxes (excise tax, fuel charge).

The sales of goods for resale are recognised at the moment of delivery and transfer of the property rights.

w) Interest

Interest income is recognised as the interest accrues (using the effective interest rate), unless the receipt of the interest is doubtful.

x) Dividends

Dividends receivable are included in the financial income as at the day of adoption of a resolution on profit distribution by the relevant governing body of the Company, unless the resolution provides for a different dividend record date.

y) Government's Subsidies

If there is reasonable certainty that the subsidy will be received and that all related conditions will be fulfilled, subsidies are recognised at fair value.

If the subsidy concerns a cost item, it is recognised as income in keeping with the matching principle. If it concerns an asset, its fair value is disclosed in the deferred income account, an then written off annually in equal portions through the profit and loss account over the estimated useful life of the asset.

z) Management Board's Estimates

The preparation of financial statements in accordance with the International Financial Reporting Standards requires a number of judgments and estimates which affect the value of items disclosed in the financial statements and in the notes thereto. Although the judgments and estimates are based on the Management Board's best knowledge of the current and future events and actions, the actual results might differ from the estimates.

The assumptions used in the estimates are described in the relevant notes.

aa) Net Earnings per Share

Earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in this reporting period. The Group does not disclose the diluted earnings/loss per share, since it has no potentially dilutive ordinary shares outstanding.

5. Effect of Application of New Accounting Standards and Changes in Accounting Policies

Starting from January 1st 2005, by virtue of the Act, the Group is obliged to prepare consolidated financial statements in accordance with the International Accounting Standards, the International Financial Reporting Standards and the related interpretations published in the form of the European Commission regulations.

The IASB issued IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), whose adoption is obligatory when preparing financial statements for periods beginning January 1st 2004 or later. IFRS 1 applies to undertakings which prepare their financial statements in accordance with the IFRS for the first time and those which have already applied the IFRS, but their financial statements included a statement on incompliance with specified standards. IFRS 1 requires that the first financial statements prepared in accordance with the IFRS should be the first annual financial statements in which a given undertaking applies all IFRS and confirms full compliance with all IFRS.

2005 is the first year in which financial statements are prepared in accordance with the International Financial Reporting Standards. The data presented below is required to be disclosed in the year of first-time adoption of the IFRS. The last financial statements prepared in accordance with the Polish Accountancy Act were the financial statements for the year ended December 31st 2004, therefore the date of transition to the IFRS is January 1st 2004.

In connection with changes in the accounting policies, the data contained in these consolidated and non-consolidated financial statements differ from the values of equity and net profits disclosed in the financial statements for previous reporting periods and prepared in accordance with the Polish Accountancy Act.

PLN '000	Consolidated equity as at		Consolidated net profit as at
	Jan 1 2004	Dec 31 2004	12 months ended Dec 31 2004
Before restatement	**1,525,351***	**2,081,336 ***	**572,002***
Change in the exchange rate applied to translate assets, equity and liabilities expressed in foreign currencies	(11,874)	-	11,874
Profit distribution for employee benefits	(7,749)	(7,462)	(9,513)
Measurement of assets at fair value	733,502	693,890	(39,612)
Other	840	1.680	840
Deferred tax	(134,030)	(126,814)	7,216
	---------	---------	---------
Total adjustments	580,689	561,294	(29,195)
	=========	=========	=========
Restated data	**2,106,040**	**2,642,630**	**542,807**
	=========	=========	=========

* In accordance with the accounting policies as presented in the consolidated financial statements for the year ended December 31st 2004 (PAS).

PLN '000	Non-consolidated equity as at		Non-consolidated net profit as at
	Jan 1 2004	Dec 31 2004	12 months ended Dec 31 2004
Before restatement	**1,479,729***	**1,999,446***	**534,416***
Change in the exchange rate applied to translate assets, equity and liabilities expressed in foreign currencies	(11,874)	-	11,874
Profit distribution for employee benefits	(6,431)	(6,191)	(8,242)
Measurement of assets at fair value	735,762	685,913	(49,849)
Deferred tax	(134,030)	(126,814)	7,216
	---------	---------	---------
Total adjustments	583,427	552,908	(39,001)
	=========	=========	=========
Restated data	**2,063,156**	**2,552,354**	**495,415**
	=========	=========	=========

* In accordance with the accounting policies as presented in the non-consolidated financial statements for the year ended December 31st 2004 (PAS).

Key Differences between PAS and IFRS

Profit Distribution for Employee Benefits

According to Polish business practice shareholders of the Company have the right to allocate a part of profit for employee benefits, including payment of bonuses and contributions to the Company's social benefits fund. Such distribution is presented in the statutory financial statements, similarly to dividend payments, through change in equity. In the financial statements prepared in accordance with the IFRS such distributions are charged to operating expenses of the year which the distribution concerns.

Change of the Exchange Rate Applied to Translate Assets and Liabilities Denominated in Foreign Currencies

In 2004, the Company introduced changes in the applied accounting principles in relation to those applied in the financial statements for 2003. These changes resulted from the amendments to the Polish Accountancy Act that came into force on January 1st 2004. Changes to accounting principles introduced in connection with the amended Accountancy Act were disclosed by adjusting the individual items of the financial statements for 2003 for the amount concerning the given period. The effect of the amendments concerning previous years was disclosed as an adjustment to the item "retained earnings". Since the IFRS do not specify the exchange rate that should be used to value assets and liabilities denominated in foreign currencies, the Company presented the changes resulting from the applied exchange rate as change of estimates, and consequently the difference concerning the opening balance of the period ended December 31st 2004 was fully recognised in the profit and loss account of this period.

Measuring of Assets at Fair Value

As at the date of transition to the IFRS, property, plant and equipment and intangible assets were recognised at fair value, which was assumed as their adjusted initial value (deemed cost). This recognition relates, among others, to the perpetual usufruct of land received free of charge, which was not recorded in the accounting records kept in accordance with the Polish Accounting Standards ("PAS"), as the Company was unable to determine its acquisition cost, and the property, plant and equipment which were revalued in accordance with indices published by the Polish Central Statistics Office (GUS).

PLN '000	Balance-sheet value according to PAS Jan 1 2004	Balance-sheet value according to IFRS Jan 1 2004	Adjustment	Including adjustment following fair value measurement
Intangible assets	18,432	31,585	13,153	13,153
Land	31,104	214,218	183,114	183,114
Buildings and structures	758,250	1,056,151	297,901	297,901
Plant and equipment	469,983	706,181	236,198	236,198
Vehicles	10,298	13,288	2,990	2,990
Other tangible assets	5,856	29,761	23,905*	146
Total	**1,293,923**	**2,051,184**	**757,261**	**733,502**

* The adjusted value reflects the transfer of assets disclosed in the financial statements prepared in accordance with PAS under other balance-sheet items.

Effect on Deferred Income Tax

The described adjustments to the financial statements prepared in accordance with the PAS change the balance of deferred income tax.

Moreover, the items of the consolidated financial statements prepared in accordance with the PAS and of those prepared in accordance with the IFRS may differ materially. The scope of supplementary information to consolidated financial statements as required under the PAS differs from that required under the IFRS.

6. Activities in the Interim Period

There are no cyclical or seasonal changes in the Group's activities in the interim period.

7. Changes in Estimates

There were no changes in the estimates concerning the Group, except those presented in Note 15 to these consolidated financial statements.

8. Restructuring Costs

The Group conducts no activities that would require provisioning for restructuring costs other than the activities described in more detail in Note 18.2 to the consolidated financial statements.

9. Corporate Income Tax

PLN '000	12 months ended Dec 31 2005 (unaudited)	12 months ended Dec 31 2004
Corporate income tax	212,272	152,833
Deferred tax	(39,661)	(8,855)
	========	========
Total tax	**172,611**	**143,978**

The current portion of the income tax was calculated at the rate of 19% on the tax base.

10. Discontinued Operations

The Group did not discontinue any operations.

11. Dividends

On May 13th 2005, the General Shareholders Meeting of the Parent Undertaking approved the 2004 dividend amount of PLN 15,740 thousand (PLN 0.20 per share). Pursuant to the Resolution of the General Shareholders Meeting of Grupa LOTOS S.A. on the distribution of the Company's net profit for the year ended December 31st 2004, adopted on May 13th 2005, the dividend payment date was set at June 22nd 2005.

12. Earnings per Share

	12 months ended Dec 31 2005	12 months ended Dec 31 2004
Consolidated net profit (PLN '000) (A)	930,328	542,807
Weighted average number of shares (in thousands) (B)*	96,632	96,632
Earnings per share (A/B)	9.63	5.62

* Earnings per share were computed on the basis of the weighted average number of shares in the period January 1st – December 31st 2005. New Series B shares were included in the weighted average number of shares starting from June 28th 2005, which was the registration date of Grupa LOTOS S.A.'s share capital increase through the issue of Series B shares (see Note 14).

13. Changes in Loans and Borrowings

PLN '000	as at Dec 31 2005	as at Dec 31 2004
	(unaudited)	
Non-current	294,198	143,737
Current	111,452	184,571
	========	========
Total loans and borrowings	**405,650**	**328,308**

In the period January 1st – December 31st 2005, a number of changes were recorded in the Group's loans and borrowings, which included the following:

- In April 2005, the Parent Undertaking repaid CHF 42,500 thousand under a loan from Dresdner Bank Luxembourg;
- In June and August 2005 the Parent Undertaking prepaid instalments under loans contracted from Kredyt Bank S.A. and BPH S.A., in the amounts of PLN 29,000 thousand and 35,714 thousand, respectively;
- On October 24th 2005 Grupa LOTOS S.A. prepaid the last instalment of a loan from Dresdner Bank Luxembourg, totalling CHF 42,500 thousand..
- in January, April and December 2005, LOTOS Paliwa Sp. z o.o. made three drawdowns under a short-term loan, totalling PLN 50,000 thousand (of which PLN 25,000 thousand was repaid in 2005), on the basis of an agreement with Bank PeKaO S.A., dated July 13th 2004;
- in April 2005, LOTOS Paliwa Sp.z o.o. made the first drawdown under a long-term investment loan of 24,039 thousand, on the basis of an agreement with Kredyt Bank S.A., dated March 4th 2002;
- in July and December 2005, LOTOS Paliwa Sp. z o.o. made drawdowns of PLN 37,000 thousand and PLN 158,745 thousand, under a loan agreement with Bank Polska Kasa Opieki S.A. and PKO Bank Polski S.A., dated December 16th 2004.

14. Share Capital and Reserve Funds

Share Issue

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

– 58,229,340 Series A ordinary registered shares,
– 20,470,660 Series A ordinary bearer shares,
– 35,000,000 Series B ordinary bearer shares,
– 35,000,000 rights to Series B new shares.

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

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

Pursuant to Resolution No. 178/2005 of June 3rd 2005, the Management Board of the Warsaw Stock Exchange admitted up to 35,000,000 rights to Series B shares of Grupa LOTOS S.A. to trading on the main market.

On June 4th and June 6th 2005, the Company allotted Series B Shares in the Retail Offering and the Institutional Offering, respectively. Upon the allotment, the Public Offering was announced as successful.

1. The Public Offering comprised 35,000,000 Series B Shares.

   The Shares were offered as follows:

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

2. The reduction rate in the Retail Offering was 96.58%. Retail investors placed the aggregate number of 31,646 subscription orders for 257,634,549 Series B Shares.

3. In the Institutional Offering, during the Book-building process Polish and international institutional investors declared demand for 86,192,129 Offered Shares. In the Institutional Offering, Series B Shares were allotted in accordance with the subscription orders placed.

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

5. The shares were acquired at the issue price of PLN 29.00.

6. The aggregate number of orders placed in the Public Offering for Series B Shares was 31,763, of which:

- 31,646 in the Retail Offering, and
- 117 in the Institutional Offering.

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

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

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

The Management Board of the Warsaw Stock Exchange set the last listing date for 35,000,000 (thirty-five million) rights to Series B ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1 (one) per share (ISIN code: PLLOTOS00041), at July 7th 2005.

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

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

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

The share issue price was set at PLN 29.00 per share. The issue proceeds were PLN 1,015,000 thousand. The share premium was PLN 980,000 thousand and was disclosed under reserve funds, net of the expenses directly related to the share issue, adjusted for income tax of PLN 9,049 thousand (see the tables on pages 5 and 12).

Net issue proceeds (proceeds after the expenses directly related to the share issue, adjusted for corporate tax) equalled to PLN 1,005.9 million.

As at December 31st 2005, the net issue proceeds were used as follows:
(a) to purchase shares in Petrobaltic, the Czechowice Refinery, the Jasło Refinery and the Glimar Refinery – PLN 257m,
(b) to finance the Comprehensive Technical Upgrade Programme (CTUP Project) – PLN 7.9m,
(c) to finance modernisation investments in the Gdańsk refinery – PLN 80.9m.

Furthermore, in November 2005 the amount of PLN 65m was contributed to the equity of LOTOS Paliwa Sp. z o.o. in connection with the implementation of the PROSTA Programme, consisting in the development of a service stations network (as described in Note 17 to these condensed consolidated financial statements for the twelve months ended December 31st 2005).

The remaining part of the net issue proceeds, that is PLN 595.1m, will be used towards the execution of the investment projects referred to in item (b) and (c).

Assimilation of Shares

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

By virtue of Resolution No. 652 of November 28th 2005, the National Depository for Securities (Polish NDS) decided to assimilate, on December 2nd 2005, 63,170 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00033) with 55,545,970 ordinary bearer shares of Grupa LOTOS S.A. (ISIN code PLLOTOS00025). The 63,170 ordinary bearer shares had been created through a conversion of 63,170 ordinary registered shares on December 1st 2005. Following assimilation, the shares will be marked with ISIN code PLLOTOS00025. As of December 2nd 2005: 55,609,140 shares of Grupa LOTOS S.A. will be marked with ISIN code PLLOTOS00025, 58,090,860 shares of Grupa LOTOS S.A. will be marked with ISIN code PLLOTOS00033.

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

15. Changes in the Structure of the LOTOS Group

A. Acquisition of Shares in the Czechowice Refinery, Jasło Refinery, Glimar Refinery and Petrobaltic S.A.

The agreement of January 13th 2005, under which Grupa LOTOS S.A. purchased shares in the Czechowice Refinery (80.04%), Jasło Refinery (80.01%), Glimar Refinery (91.54%), and Petrobaltic S.A. (69.00%) from Nafta Polska S.A. was finalised on February 3rd 2005. The agreement value totalled PLN 257,276 thousand.

Since

- as at the transaction date, both Grupa LOTOS S.A. and the undertakings whose shares were acquired were controlled by Nafta Polska S.A.,
- IFRS 3 (Business Combinations) does not specify consolidation methods in the case of transactions between entities subject to joint control,

the Parent Undertaking had the right to choose the transaction settlement method from among the methods under other accounting standards or under IFRS 3 (Business Combinations). Therefore, the Company chose, as the binding consolidation method, the purchase method described in detail in IFRS 3.

Pursuant to IFRS 3, as at the acquisition date, the Company performed for each acquired company a separate valuation of goodwill, being the difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. The valuation is to be adjusted on the basis of the results of an independent valuation of assets, liabilities and contingent liabilities of the acquired companies.

As at the date of these condensed consolidated financial statements, the Company recognised an adjustment reflecting the difference between the cost of the business combination and the acquiring company's share in the fair value of identifiable assets, liabilities and contingent liabilities.

The transaction concerned shares in Rafineria Nafty Glimar S.A. in bankruptcy ("Glimar Refinery"). Since control over the Glimar Refinery's assets has been assumed by a bankruptcy administrator, the company is excluded from consolidation. As at December 31st 2005, the balance-sheet value of the Glimar Refinery is PLN 0.

The purchase prices and the book value of individual companies' key net assets as at the acquisition date are as follows:

(PLN '000)	Jasło Refinery	Czechowice Refinery	Petrobaltic
Merger cost (purchase price)	**0.001**	**13.918**	**245.931**
Percentage share in the share capital of the acquired undertakings	80.01%	80.04%	69%
Current assets	102,768	212,760	141,817
Non-current assets	121,728	92,293	652,701
Total assets	**224,496**	**305,053**	**794,518**
Provisions and other	23,126	64,627	137,594
Non-current liabilities	15,051	-	36,977
Current liabilities and accruals and deferred income	108,660	120,471	54,528
Total liabilities	**146,837**	**185,098**	**229,099**
Net assets	**77,659**	**119,955**	**565,419**
Company's share in net assets	**62,135**	**96,012**	**390,139**
Excess of company's share in net assets over the acquisition cost	**62,135**	**82,094**	**144,208**

B. Disposal of Shares in Naftoport Sp. z o.o. (associated company)

On April 14th 2005, Grupa LOTOS S.A., as the Seller, and PERN Przyjaźń S.A. ("PERN"), as the Buyer, concluded an agreement concerning the sale of 13 shares with a par value of PLN 589 thousand per share and aggregate par value of PLN 7,657 thousand, which as at the agreement date represented 16.67% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych Naftoport Sp. z o.o. ("Naftoport"). To be finalised, the transaction had to be approved by the Polish Anti-Trust and Consumer Protection Authority; such approval was issued on April 13th 2005. Following the disposal of the shares, Grupa LOTOS S.A. holds an 8.97% equity interest in Naftoport Sp. z o.o.

As a result of Grupa LOTOS S.A. selling a part of its interest in Naftoport, its non-consolidated financial statements prepared for the twelve months ended December 31st 2005 show a realised profit of PLN 26,344 thousand.

In the consolidated financial statements prepared for the twelve months ended December 31st 2005, the profit realised by the Company on the sale was adjusted for the value of shares measured with the equity method which was attributable to the sold interest, and amounted to PLN 16,090 thousand.

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

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

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

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

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

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

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

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

Following the share capital increases, Grupa LOTOS S.A. holds 80.66% of the share capital of LOTOS Park Technologiczny Sp. z o.o. As at December 31st 2005, the LOTOS Group consolidated the undertaking using the full method, however the share capital increase was not registered as at that date.

D. Acquisition of Shares in UAB LOTOS Baltija

On November 16th 2005 Grupa LOTOS S.A. acquired 4,400 shares in UAB LOTOS Baltija of Lithuania (a subsidiary), which represent 39.71% of the subsidiary undertaking's share capital. Following the transaction, Grupa LOTOS S.A. holds 100% of shares in UAB LOTOS Baltija. The transaction was valued at PLN 510,000. The par value of the acquired shares is LTL 65 per share, and their total par value is LTL 286,000. UAB LOTOS Baltija's business is the sale of lubricating oils produced by Grupa LOTOS S.A., in Lithuania, Latvia, and Belarus. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group, and aims at increasing the Company's operational efficiency in the area of export to the countries situated east of Poland.

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

On December 16th 2005, Grupa LOTOS S.A. concluded an agreement to acquire 14,639 shares in LOTOS Parafiny Sp. z o.o. from the following parties:
- Rafineria Jasło S.A. – 5,108 shares with an aggregate par value of PLN 5,108 thousand, representing 25.82% of the share capital of LOTOS Parafiny Sp. z o.o.;
- RC Parafiny – 9,003 shares with an aggregate par value of PLN 9,003 thousand, representing 45.51% of the share capital of LOTOS Parafiny Sp. z o.o.;
- Chemipetrol Sp. z o.o. – 528 shares with an aggregate par value of PLN 528 thousand, representing 2.67% of the share capital of LOTOS Parafiny Sp. z o.o.

Following the transaction, Grupa LOTOS S.A. increased its shareholding in LOTOS Parafiny Sp. z o.o. from 26% to 100% of the shares, conferring the rights to 100% of the total vote at the General Shareholders Meeting. The transaction was valued at PLN 15,516.6 thousand. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group.

F. Other

On October 3rd 2005, LOTOS Lab Sp. z o.o. entered into an agreement with the Jasło Refinery, which provides for the acquisition of 100% of shares in Laboratorium Badacz Sp. z o.o. of Jasło. The sale concerns 519 shares with a par value of PLN 500 per share, and total par value of PLN 259.5 thousand. The transaction, whose aggregate value was PLN 327.3 thousand, was fully financed with LOTOS Lab's own funds. In accordance with the agreement, LOTOS Lab Sp. z o.o. made the payment for shares by December 27th 2005.

16. Contingent Liabilities

16.1. Material Surety and Guarantee Agreements

16.1.1. Material Surety and Guarantee Agreements of the Company

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 the Jasło Refinery 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 the Jasło Refinery and the Company signed an agreement whereby the following security was established for the Company's interest with respect to the surety:

- registered pledge under the registered pledge agreement of February 18th 2004 on the following shares held by the Jasło Refinery:
  - 3,182 shares in MONTO-REM Sp. z o.o. with a par value of PLN 1,591 thousand,
  - 700 shares in LOTOS Tank Sp. z o.o. with a par value of PLN 350 thousand,
  - 373 shares in Laboratorium BADACZ Sp. z o.o. with a par value of PLN 186 thousand,
  - 1,100 shares in CHEMIPETROL Sp. z o.o. with a par value of PLN 550 thousand,
  - 2,104 shares in Rafineria Jasło SPED-KOL Sp. z o.o. with a par value of PLN 1,052 thousand,
  - 904 shares in LOTOS Parafiny Sp. z o.o. with a par value of PLN 904 thousand,
  - 350 shares in JASBIT – Rafineria Jasło Sp. z o.o. with a par value of PLN 350 thousand,

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

Regardless of the above, the agreement states that the Jasło Refinery will seek to obtain a bank guarantee or surety to replace the surety issued by the Company.
If the Jasło Refinery is in breach of the agreement, it will pay the Company a contractual penalty of 10% of the surety value, subject to the reservation that if the value of the damage is higher than the contractual penalty, the Company may seek compensation equal to the full value of the damage.

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

Under the agreement of October 20th 2005, the LOTOS Group waived its rights under the security in the form of registered pledges on the following shares held by the Jasło Refinery:

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

Surety for LOTOS Partner Sp. z o.o

The Company granted to Naftobazy Sp. z o.o. a surety in the amount of PLN 3,000 thousand together with a guarantee of repayment by PREEM TERMINALE RZECZNE SP. z o.o. (renamed LOTOS PARTNER Sp. z o.o.) of receivables under the warehousing agreement of December 23rd 2002. Following the expiry of the aforementioned warehousing agreement on December 31st 2005 , the surety granted to Naftobazy Sp. z o.o. also expired.

16.1.2. Material Surety Agreements and Guarantees of Petrobaltic

Liabilities to Bank Ochrony Środowiska S.A.

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

- to increase the share capital of Energobaltic by an amount equal to the company's cumulative net loss incurred in the period from the abovementioned loan agreements date to the date of the first sale (confirmed by an invoice) of power from the CHP plant in Władysławowo (according to the Issuer's information, such sale was made on July 3rd 2003), if the loss exceeds 20% of Energobaltic's share capital,

- to apply a part of net profit (in the amount not exceeding the amount assumed in the Bank-approved final projection for the project financed with the loan) towards share capital increase in Energobaltic,

- not to dispose of or encumber its shares in Energobaltic without a prior consent of the Bank.

Surety for Liabilities of Miliana Shipping Company Ltd

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

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

16.1.3. Material Surety Agreements and Guarantees of the Czechowice Refinery

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

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

16.2. Material Liabilities under Promissory Notes

16.2.1. Material Liabilities of the Company under Promissory Notes

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

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

As at December 31st 2005, five cheques totalling PLN 313,000 thousand have been submitted to customs authorities to secure the Company's customs duty liabilities.

16.2.2. Material Liabilities of the Jasło Refinery under Promissory Notes

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

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

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

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

- blank promissory note in the amount of PLN 4,300 thousand, issued to PBS Sanok as loan security, expiring on September 29th 2006,

- blank promissory note in the amount of PLN 12,000 thousand, issued to PKO BP S.A. (Jasło Branch) as loan security, expiring on August 30th 2006,

- blank promissory note in the amount of PLN 2,500 thousand, issued to PZU (Rzeszów Branch) as excise guarantee security, expiring on April 30th 2006.

16.2.3. Material Liabilities of Petrobaltic under Promissory Notes

Security for Current Account Loan

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

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

17th 2000 as amended by Annex No. 1 of July 4th 2001 and Annex No. 2 of June 27th 2002, whereby the loan amount was increased to PLN 15,000 thousand,

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

16.3. Material Liabilities of LOTOS Paliwa Sp. z o.o.

On June 9th 2005, LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) concluded an agreement with PKO BP S.A. concerning the assignment of claims and rights by way of security under commercial agreements. The agreement is part of security established in respect of a bank loan agreement of December 16th 2004, concluded between LOTOS Paliwa Sp. z o.o. and Bank Polska Kasa Opieki S.A. and PKO Bank Polski S.A., for a loan in the amount of PLN 340,000 thousand. The conclusion of the abovementioned agreement and the concurrent conclusion, on June 9th 2005, of other security agreements, makes it possible to commence the performance of loan agreement of December 16th 2004.

The agreement will expire on the day on which all Secured Claims under the bank loan agreement of December 16th 2004 are unconditionally, irrevocably and fully satisfied. The value of the loan over the agreement term has been estimated at PLN 340,000 thousand.

17. Material Events Subsequent to the End of Fourth Quarter of 2005

1. On January 2nd 2006, LOTOS Czechowice S.A. (formerly Rafineria Czechowice S.A.) acquired, in exchange for a contribution in kind, 8,920 shares in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. for the aggregate amount of PLN 4,460 thousand, representing . As a result of the transaction, LOTOS Czechowice S.A. became the owner of 55.24% of shares in LOTOS Park Technologiczny Sp. z o.o., with a par value of PLN 500 per share. Following the transaction, LOTOS Czechowice S.A. holds 60.58% of shares in LOTOS Park Technologiczny Sp. z o.o. Prior to the execution of the transaction, Grupa LOTOS S.A. and LOTOS Czechowice S.A. held 12.5% and 11.93%, respectively, of shares in LOTOS Park Technologiczny Sp. z o.o. Additionally, Grupa LOTOS S.A. holds an 80.04% equity interest in LOTOS Czechowice S.A. The transaction is part of a programme intended to rearrange the structure of the LOTOS Group and a programme aimed at restructuring the Southern Refineries.

2. On January 2nd 2006, LOTOS Czechowice S.A. sold certain assets separated form its enterprise (real property and other property) to LOTOS Oil S.A. The total net value of the transaction was PLN 11,592 thousand.

3. On January 5th 2006, LOTOS Serwis Sp. z o.o. acquired the following assets:
   - 2,428 shares in RCRemo Sp. z o.o. of Czechowice – Dziedzice from LOTOS Czechowice S.A., controlled in 80.04% by Grupa LOTOS S.A., for the aggregate amount of PLN 3,000 thousand
   - 3,200 shares in Monto – Rem Sp. z o.o. of Jasło from LOTOS Jasło S.A., controlled in 80.01% by Grupa LOTOS S.A., for the aggregate amount of PLN 1,768 thousand. Until the execution of the transaction, Monto – Rem Sp. z o.o. operated as part of the LOTOS Jasło Group, as a wholly-owned subsidiary of LOTOS Jasło S.A., while RCRemo Sp. z o.o. had been wholly-owned by LOTOS Czechowice S.A. Following the transaction, LOTOS Serwis Sp. z o.o. came to hold 100% of shares in RCRemo Sp. z o.o. and 100% of shares in Rafineria Jasło Monto – Rem Sp. z o.o. The par value per share in RCRemo Sp. z o.o. and in Rafineria Jasło Monto – Rem Sp. z o.o. is PLN 1 thousand and PLN 500, respectively. The aggregate par value of 100% of shares in the two companies acquired by LOTOS Serwis Sp. z o.o. amounts to PLN 2,428 thousand and PLN 1,600 thousand, respectively. The transaction is part of a programme intended to rearrange the structure of the LOTOS Group and a programme aimed at restructuring the Southern Refineries.

4. On January 10th 2006, Grupa LOTOS S.A. and LOTOS Parafiny Sp. z o.o. executed Annex No. 1 to the agreement of December 31st 2004, concerning the sale by Grupa LOTOS S.A. of slack waxes to LOTOS Parafiny Sp. z o.o. The aggregate gross value of the agreement amounts to approximately PLN 58,000 thousand.

5. On January 20th 2006, the District Court for Kraków-Śródmieście of Kraków, XII Commercial Division of the National Court Register, registered a share capital increase to PLN 8,074 thousand at LOTOS Park Technologiczny Sp. z o.o. Following the increase, the share capital of LOTOS Park Technologiczny Sp. z o.o. is divided into 16,148 shares with a par value of PLN 500 per share, conferring the right to 16,148 votes. The share capital increase was effected through non-cash contributions made by LOTOS Czechowice S.A., whose value was established at PLN 4,460 thousand.

6. On January 23rd 2006, the District Court of Rzeszów, XII Commercial Division, registered a change in the share capital of LOTOS Parafiny Sp. z o.o. in the National Court Register. Following the registration of the change, 100% of the share capital of LOTOS Parafiny Sp. z o.o. is held by Grupa LOTOS S.A. The share capital is made up of 19,783 shares with a par value of PLN 1,000 per share, conferring the rights to 19,783 votes at the company's General Shareholders Meeting. The change in the share capital of LOTOS Parafiny Sp. z o.o. occurred as a result of the agreement executed on December 16th 2005 between Grupa LOTOS S.A., Rafineria Jasło S.A., RC Parafiny and Chemipetrol Sp. z o.o., whereby Grupa LOTOS S.A. acquired 14,639 shares in LOTOS Parafiny Sp. z o.o.

7. By virtue of resolutions adopted by the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. on January 30th 2006 the following persons were removed from the Company's Supervisory Board:
   1. Cezary Nowosad – Chairman
   2. Janusz Rachoń – Deputy Chairman
   3. Katarzyna Dawidczyk – Secretary
   4. Grzegorz Urban – Member
   5. Anna Andrzejczak – Member
   6. Piotr Krupa – Member
   7. Robert Karwowski – Member.

   The following persons were appointed to the Supervisory Board:
   1. Jan Szomburg – Chairman
   2. Jacek Tarnowski – Member
   3. Henryk Siodmok – Member
   4. Jan Stefanowicz – Member
   5. Grzegorz Szczodrowski – Member.

8. On January 31st 2006, Grupa LOTOS S.A. acquired 8,600 shares in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. for the aggregate amount of PLN 4,300 thousand. The shares were paid for in cash. As a result of the transaction, Grupa LOTOS S.A. became the owner of 34.7% of shares in LOTOS Park Technologiczny Sp. z o.o. with a par value of PLN 500 per share. Following the transaction, Grupa LOTOS S.A. holds 38.4% of shares in LOTOS Park Technologiczny Sp. z o.o. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group and a programme aimed at restructuring the Southern Refineries.

9. On February 2nd 2006, Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A. signed an agreement providing for the sale of liquid fuels to Neste Polska Sp. z o.o. The agreement was concluded for a definite period, i.e. until December 31st 2008. The estimated value of the agreement during its term is PLN 2,400,000 thousand. The agreement provides for contractual penalties with the estimated maximum value of PLN 55,000 thousand. The agreement does not contain any provisions which would prevent the parties thereto from seeking additional compensation pursuant to general provisions of the law. Simultaneously, on February 2nd 2005, in connection with the conclusion of the aforementioned trilateral agreement, LOTOS Partner Sp. z o.o. and Neste Polska Sp. z o.o. terminated the previous agreement for the sale of liquid fuels, dated January 1st 2004. Given the new agreement signed between Neste Polska Sp. z o.o., LOTOS Partner Sp. z o.o., and Grupa LOTOS S.A., the termination is not expected to give rise to any material financial consequences.
10. On February 13th 2006, BP Polska Sp. z o.o., LOTOS Partner Sp. z o.o. and Grupa LOTOS S.A. executed an agreement providing for the sale of liquid fuels to BP Polska Sp. z o.o. The agreement was concluded for a definite period, i.e. until December 31st 2006. The estimated value of the agreement during its term is PLN 1,030,000 thousand.
11. On February 16th 2006, LOTOS Czechowice S.A. signed an agreement on sale, to Paul Klacska Sp. z o.o., of 100% of shares held in RC Transport Sp. z o.o., that is 3,213 shares with a par value of PLN 500 per share and total par value of PLN 1,606.5 thousand. The selling price of all the shares is PLN 2,800 thousand. The transfer of the ownership right from LOTOS Czechowice S.A. to the buyer is conditional on the satisfaction of all of the following conditions:

    - the buyer concludes a transport agreement with LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.)

    - the Buyer pays the price for the shares to LOTOS Czechowice S.A.

    The transaction is part of a programme intended to rearrange the structure of the LOTOS Group and a programme aimed at restructuring the Southern Refineries. No links exist between Grupa LOTOS S.A. or the persons managing or supervising Grupa LOTOS S.A., and Paul Klacska Sp. z o.o. or its management staff.

18. Supplementary Information

18.1 Comprehensive Technical Upgrade Programme (CTUP)

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

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

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

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

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

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

In Q4 2005, the Company's activities relating to the Comprehensive Technical Upgrade Programme focused on further technological development work, negotiating agreements relating to various aspects of the Project, and making preliminary contacts with selected financial institutions. At this stage, the licensors of the three principal Project technologies performed the design work relating to the development of the base designs for the key installations, negotiations were conducted with selected bidders interested in developing a base integrative design for the Project and providing engineering services, and final negotiations with STASCO were conducted concerning an agreement for the supply of additional feedstock for the Project installations. The first effects of these activities are expected in Q1 2006.

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

18.2 Restructuring of the Southern Refineries and Planned Consolidation of Maintenance and Laboratory Operations

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

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

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

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

The Group is considering creation of LOTOS Energomedia Sp. z o.o., a company which would provide the Southern Refineries and companies operating in their economic environment (including the Group companies and other) in energy media and would conduct water and sewage activities, using the assets of RC Ekoenergia Sp. z o.o. of Czechowice and Environmental Protection and Power Network Maintenance Unit of the Jasło Refinery.

The restructuring of the southern refineries entails transfers of shares, assets, cash and employees among the Group companies.

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

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

In accordance with the restructuring programme for the southern refineries, the Czechowice Refinery will become (next to the Jasło Refinery) a key undertaking of the LOTOS Group, through which the Group will execute its policy aimed at increasing its share in the fuel market in southern Poland as a result of expansion of the fuel storage and distribution base, which should ensure the possibility of increasing fuel supplies, significant improvement in the customer service quality, and meeting legal requirements concerning fuel storage. This investment will help the Czechowice Refinery to reduce its costs. A fuller use of the logistics base for the development of the fuel distribution network in southern Poland, as well as the launch of activities in new market segments should have a positive impact on the revenues and sales margin of the LOTOS Group.

18.3 Overhaul Shutdown in Spring 2005

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

18.4 Development of the Service Stations Network

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

- 39 service stations along with property owned, held in perpetual usufruct or under long-term leases, and

- 14 undeveloped lots for new service stations, owned or held in perpetual usufruct (including three lots covered by purchase options).

As part of the transaction, LOTOS Paliwa Sp. z o.o will also take over 24 employees of ExxonMobil Poland Sp. z o.o., who had been engaged in the expansion of the ESSO network in Poland. The net price for the organised part of business is PLN 278,500 thousand, of which PLN 250,700 thousand accounts for the 39 service stations. Furthermore, LOTOS Paliwa Sp. z o.o. agreed to purchase (for additional consideration) the assets connected with day-to-day operations of the acquired stations (stocks of fuels, receivables from agents and loyalty card holders, etc.).

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

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

On December 5th 2005, all of the conditions precedent set out in the preliminary conditional agreement on the purchase of the ESSO service stations network in Poland were satisfied. On December 14th 2005, LOTOS Paliwa Sp. z o.o. and ExxonMobil Poland Sp. z o.o. completed the aforementioned transaction by concluding the final agreement.

Following acquisition of the ESSO stations, the Company initially recognised goodwill of PLN 28.2m, reflecting the difference between the acquisition cost and the fair value of the acquired assets. Until all the stations are taken over as part of the transaction, the goodwill amount will change in the following periods.

2. On September 28th 2005, LOTOS Paliwa Sp. z o.o. entered into a preliminary agreement with Slovnaft Polska S.A. concerning the acquisition of service stations. The transaction concerns an organised part of Slovnaft Polska S.A.'s business, including in particular: 12 Slovnaft service stations located in southern Poland, in an area of strategic importance to the development of the LOTOS network, and two undeveloped lots for new service stations. Additionally, LOTOS Paliwa Sp. z o.o. may take over established partnerships with ten Slovnaft franchisees. As part of the transaction, LOTOS Paliwa Sp. z o.o. will also take over 11 qualified employees of Slovnaft Polska S.A. The agreement is contingent upon approval of the intended concentration by the Anti-Trust and Consumer Protection Authority and upon payment of the price to an escrow account. The obligations assumed by the parties in the preliminary agreement will expire if the conditions precedent are not fulfilled within seven months from the preliminary agreement date. LOTOS Paliwa Sp. z o.o. will finance the transaction with funds from the additional contributions to equity made by Grupa LOTOS S.A., representing one of the objectives of the public offering of shares, and from the loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.). The price to be paid is EUR 15m (ca. PLN 58,402 thousand), exclusive of VAT. In February 2006, LOTOS Paliwa Sp. z o.o. obtained a clearance of the intended concentration by the Anti-Trust and Consumer Protection Authority.

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

18.5 Loan -Energobaltic Sp. z o.o.

Under the shareholder agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. is obliged to 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.

If RRPV performs in accordance with the shareholder agreement, Petrobaltic S.A. may be obliged to gradually (2007–2011) purchase RRPV's claims under the loan at maturity of each principal instalment. If RRPV accepts Petrobaltic S.A.'s offer to purchase the claims, it will mean fulfilment of the condition precedent for RRPV's offer, made in 2001, to sell all the shares held by RRPV in Energobaltic at the time a default notice is served under the gas supply agreement. As at the date of these condensed 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.

18.6 Other

1. As part of reorganisation of the Parent Undertaking's trading activities, the following agreements were terminated on August 5th 2005: an agreement of December 14th 2001 between Grupa LOTOS S.A. and FALCO Mazurkiewicz, Gwiazda Sp. J. (termination by mutual agreement of the parties), and - effective as at July 31st 2005 – an agreement of July 25th 2001 between Grupa LOTOS S.A. and Przedsiębiorstwo Handlowo-Usługowe Mares Sp. z o.o. The agreements provided for sale of liquid fuels, and were terminated in connection with the reorganisation of the Company's sales, as part of which Grupa LOTOS S.A. will concentrate the wholesale of fuels in LOTOS Paliwa Sp. z o.o., its subsidiary undertaking. The process involves termination of the existing agreements concluded with Grupa LOTOS S.A. and their replacement with agreements with LOTOS Paliwa Sp. z o.o., providing for the same scope of services. Therefore, the terminations are not expected to materially affect the consolidated results of the Group.

2. On September 15th 2005, the commercial cooperation agreement concluded between Grupa LOTOS S.A. and Przedsiębiorstwo Budowlano-Handlowe Z. Niziński of Wyszków on February 13th 2002 was terminated by mutual agreement of the parties. The agreement provided for sale of liquid fuels and was terminated in connection with the transfer of liquid fuel wholesale to LOTOS Paliwa Sp. z o.o., a subsidiary of Grupa LOTOS S.A. Therefore, the termination is not expected to materially affect the consolidated results of the Group.

3. On November 23rd 2005, LOTOS Paliwa Sp. z o.o. and ARGE Sp. z o.o. signed an agreement on sale and supply of liquid fuels to ARGE Sp. z o.o. The agreement was concluded for an indefinite period. Its five-year value is estimated at PLN 902,094 thousand. The agreement's terms are standard market terms.

4. In connection with the restructuring of trading activities of the Parent Undertaking, an agreement of August 1st 2001 between Grupa LOTOS S.A. and Pol-Miedź Trans Sp. z o.o. was terminated with effect from October 31st 2005. The notice period is six months, therefore the agreement termination date will be April 30th 2006. The agreement concerns sales of liquid fuels. It was terminated as the wholesale of fuels is being transferred from Grupa LOTOS S.A. to LOTOS Paliwa Sp. z o.o., a subsidiary. The process involves terminating agreements concluded by Grupa LOTOS S.A. and signing new agreements, providing for the same scope of cooperation, with LOTOS Paliwa Sp. z o.o. Therefore, the termination is not expected to materially affect the consolidated results of the Group.

5. On November 4th 2005, LOTOS Paliwa Sp. z o.o. and Pol-Miedź Trans Sp. z o.o. entered into an agreement, concluded for an indefinite term, under which LOTOS Paliwa Sp. z o.o. will sell liquid fuels to Pol-Miedź Trans Sp. z o.o. The agreement's five-year value is estimated at PLN 1,560,000 thousand.

SUPPLEMENTARY INFORMATION PROVIDED UNDER THE REGULATION OF THE MINISTER OF FINANCE ON CURRENT AND PERIODIC INFORMATION TO BE PUBLISHED BY ISSUERS OF SECURITIES, DATED OCTOBER 19TH 2005

Pursuant to Par. 91 of the Regulation of the Minister of Finance on current and periodic information to be published by issuers of securities, dated October 19th 2005, (Dz.U. of 2005, No. 209, item 1744), the Management Board of Grupa LOTOS S.A. hereby releases the following information:

I. Rules Applied in the Translation of the Financial Highlights into the Euro

The balance-sheet items contained in the table "Financial Highlights" were translated as at December 31st 2005 at the mid exchange rate quoted by the National Bank of Poland for the euro on that date, that is EUR 1 = PLN 3.8598. The items of the profit and loss account and the cash-flow statement contained in the table "Financial Highlights" for four quarters of 2005 (cumulative) were translated at the rate EUR 1 = PLN 4.0233 (equal to the arithmetic mean of the mid exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st to December 31st 2005).

The balance-sheet items contained in the table "Financial Highlights" were translated as at December 31st 2004 at the mid exchange rate quoted by the National Bank of Poland for the euro on that date, that is EUR 1 = PLN 4.0790. The items of the profit and loss account and the cash-flow statement contained in the table "Financial Highlights" for four quarters of 2004 (cumulative) were translated at the rate EUR 1 = PLN 4.5182 (equal to the arithmetic mean of the mid exchange rates quoted by the National Bank of Poland for the last day of each full month in the period January 1st to December 31st 2004).

II. Organisation of the LOTOS Group, Including a List of the Undertakings Subject to Consolidation

The structure of the LOTOS Group and a list of the undertakings subject to consolidation are presented in Note 2 to these condensed consolidated financial statements for the twelve months ended December 31st 2005.

III. Effects of Changes in the Structure of the LOTOS Group

The effects of changes in the Group's structure, including those resulting from a business combination, acquisition or sale of the Group's undertakings are described in Note 15 to these condensed consolidated financial statements for the twelve months ended December 31st 2005.

IV. Opinion of the Management Board on the Feasibility of Meeting Earlier Published Forecasts of Financial Results for the Year

The 2005 financial performance presented in these condensed consolidated financial statements for Q4 2005 does not differ materially from the forecast disclosed in the Current Report No. 84/2005, with the exception that it does not reflect the impact of the measurement of the fair value of assets, equity and liabilities of the Southern Refineries and Petrobaltic S.A. on the consolidated financial result. In Current Report No. 84/2005, the Company estimated the fair value measurement's impact on the consolidated net profit at PLN 200m, and the amount finally disclosed in the Q4 2005 financial statements is PLN 288m. Moreover, in connection with the situation described in Note 3 to these condensed consolidated financial statements, the financial results disclosed herein do not reflect the impact of the UAB Naftos Gavyba Group's activities in 2005 on the consolidated financial results of the LOTOS Group. The impact was included in the forecast but is deemed to be immaterial.

V. Shareholders Holding, Directly or Indirectly through Subsidiary Undertakings, 5% or More of the Total Vote at the General Shareholders Meeting of the Parent Undertaking as at the Date of this Report

As at the date of this report, the shareholder structure of the Company was as follows:

	Number of shares	Number of votes	Par value of shares	% share of the 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	46,796,970	46,796,970	46,796,970	41.16 %
Total	113,700,000	113,700,000	113,700,000	100.00 %

* The Company has no information on any other shareholders holding, directly or indirectly through subsidiary undertakings, 5% or more of the total vote at the General Shareholders Meeting of the Parent Undertaking, as it received no information to this effect by the date of these condensed consolidated financial statements.

VI. Changes in the Number of the Company Shares or Rights to the Company Shares Held by the Management and Supervisory Staff, in Accordance with the Information Available to the Company

	As at the date of the previous report	Acquisition	Sale	Other	As at the date of this report *
Management Board, including:			-	-	
Paweł Olechniewicz	42,755	-	-	-	42,755
Marek Sokołowski	8,636	-	-	-	8,636
Total	51,391	-	-		51,391

**As at February 20th 2006.*

VII. Material Court, Arbitration or Administrative Proceedings and other Risks Concerning the Parent Undertaking or its Subsidiary Undertakings

VII.1 Material Proceedings Pending before Public Administration Authorities in Connection with the Company's Business

On March 21st 2005, the President of the Polish Anti-Trust and Consumer Protection Authority issued a decision whereby anti-trust proceedings were instigated *ex officio* to investigate the issue of a suspected agreement between Polski Koncern Naftowy ORLEN S.A. of Płock and Grupa LOTOS S.A. of Gdańsk, concerning a simultaneous discontinuation of the production and distribution of the universal U95 gasoline. In the opinion of the Company's Management Board, given that in fact the production and sale of the U95 universal gasoline was not discontinued, the allegations of the Anti-Trust and Consumer Protection Authority are unfounded. In April 2005, the Management Board motioned for issuing a decision to the effect that Grupa LOTOS S.A. has not been found to use competition-limiting practices.

In July 2005, the Parent Undertaking appealed to the Anti-Monopoly Court against the Anti-Trust and Consumer Protection Authority's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005, the Company filed yet another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use competition-liming practices. In October 2005 the

Company received another decision of the Anti-Trust and Consumer Protection Authority concerning limitation of access to a part of the evidence, against which the Company appealed to the Anti-Monopoly Court. The case is pending.

VII.2 Material Proceedings Pending before Public Administration Authorities in Connection with the Czechowice Refinery's Business

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

Proceedings Related to the Value Added Tax for Certain Months of 1998

In connection with the tax inspections and the issued decisions related to the value added tax, on December 29th 2003 the Czechowice Refinery filed complaints with the Supreme Administrative Court against three decisions of the Director of the Tax Chamber of Katowice, concerning the value added tax for October 1998, July 1998 and May 1998. The total value of the disputed claims amounted to PLN 1,229 thousand. Decisions were issued in all of the above cases. Cassation complaints were filed against all of the above decisions: by the Czechowice Refinery in relation to the value added tax for July 1998, and the Tax Chamber Director in relation to the value added tax for October 1998, July 1998 and May 1998.
The Czechowice Refinery paid the amounts of VAT together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

In December 2005, the Czechowice Refinery received the following decisions of the Supreme Administrative Court:
- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for October 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
-a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for May 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;
- a decision upholding the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for July 1998); the Supreme Administrative Court resolved not to award costs of cassation proceedings.

Proceedings Related to Excise Tax for Certain Months of 1998

As a result of the inspections carried out by the tax authorities, there are six tax proceedings pending against the Czechowice Refinery, related to the decisions concerning excise tax for certain months of 1998, against which the Czechowice Refinery submitted appeals to the administrative court. The total value of the disputed claims under appeal proceedings is PLN 2,881 thousand.
The Supreme Administrative Court set October 26th 2005 as the date for the court hearing concerning excise tax for September 1998, August 1998 and June 1998.
The Czechowice Refinery paid the amounts of excise tax together with default interest. There is a possibility that as a result of the tax and court proceedings the amounts paid will be returned together with high interest.

Proceedings Related to Excise Tax for Certain Months of 2000 and 2001

By virtue of its decisions of December 7th 2004, the Head of the Customs Office of Bielsko-Biała instigated *ex officio* two proceedings with respect to the Czechowice Refinery in order to determine the amount of excise tax liability, and reopened seven proceedings in order to determine the excise tax liability for March.

The proceedings were closed – on March 31st 2005, the Head of the Customs Office issued a decision under which the Czechowice Refinery paid its tax arrears (plus interest) in the amount of PLN 273 thousand.

Proceedings Related to Corporate Income Tax for 1999

On January 21st 2005, the Czechowice Refinery received from the Head of the Second Tax Office of the Katowice Province in Bielsko-Biała a decision of January 19th 2005, on instigation *ex officio* of tax proceedings related to the 1999 corporate income tax. On June 20th 2005, the Head of the Second Tax Office of the Katowice Province issued a decision closing the proceedings. On July 15th 2005, PLN 856 thousand was transferred to the Czechowice Refinery's bank account as payment under the challenged decision. In July 2005 the Czechowice Refinery appealed against the decision, as a result of which the amount to be reimbursed to the Refinery may be increased by approximately PLN 241 thousand. On September 15th 2005, the Czechowice Refinery was notified that the appeal would be handled by November 18th 2005.

On November 2nd 2005, the Czechowice Refinery submitted a request for the prolongation of the time allowed for presenting its position with respect to the evidence gathered in the case up until November 10th 2005. On November 21st 2005, the Czechowice Refinery received a decision of the Director of the Tax Chamber, dated November 18th 2005, upholding the challenged decision issued by the first instance authority. On December 21st 2005, the Czechowice Refinery filed a complaint against the decision issued by the Director of the Tax Chamber of Katowice on November 18th 2005. The value of the disputed claims was PLN 282,932. In February 2006, LOTOS Czechowice received from the Provincial Administrative Court of Gliwice a letter of the Director of the Tax Chamber, dated January 19th 2006, in which he requested that the Czechowice Refinery's appeal be dismissed.

Inspection Related to Excise Tax for Certain Months of 2004

The officers of the Customs Office of Bielsko-Biała conducted an inspection at the Czechowice Refinery in order to determine the correct amount of the excise tax payable for the period January 1st 2004 – September 30th 2004. As a result of the inspection, tax proceedings related to the above issue may be instigated with respect to the Czechowice Refinery.
In connection with the above issue, tax proceedings were instigated *ex officio* on May 18th 2005. Before conclusion of the proceedings, it is difficult to determine whether the excise tax liabilities will be reassessed, and if so, what their amounts will be.

By virtue of his decision of December 28th 2005, the Head of the Customs Office in Bielsko-Biała postponed the deadline for the settlement of the matter to February 28th 2006.

VII.3 Material Proceedings Instigated against the Company

Proceedings upon Action Brought by PETROECCO JV Sp. z o.o. for Compensation for Damages Incurred as a Result of Monopolistic Practices

On May 18th 2001, PETROECCO JV Sp. z o.o. brought an action against the Company whereby it seeks the courts' decision awarding an amount of PLN 6,975 thousand, together with statutory interest as at May 1st 1999, as compensation for damages incurred as a result of the Company's monopolistic practices, which involved selling BS base oils in a manner favouring some customers, whose orders were executed to a disproportionately higher extent than the orders of PETROECCO JV Sp. z o.o.

The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Trust and Consumer Protection Authority of September 26th 1996, in which the Authority ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.

The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation, fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals, in case No. I ACa 824/03, and submitted for re-examination by the District Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

As at the date of these condensed financial statements, the case is pending before the Regional Court of Gdańsk (First Instance Court) and its file No. is IX GC 134/04. The Company defends itself by raising substantive charges (it questions the fact that any damage was incurred by PETROECCO JV Sp. z o.o., the amount of the alleged damage, and the existence of the cause and effect relationship between the monopolistic practices and the damage). Following the hearing of June 2005, the Regional Court of Gdańsk ordered a court expert in accountancy and economics to draw up a report concerning the extent of damages which the plaintiff incurred as a result of Grupa LOTOS S.A.'s activities. The date of the next hearing has not been fixed.

Proceedings upon Action Brought by the Minister of State Treasury for Invalidation of the Share Purchase Agreement Concerning Shares in Naftoport Sp. z o.o.

On November 3rd 2005, Grupa LOTOS S.A. was served a nullity suit submitted by the Minister of State Treasury, concerning the agreement of August 18th 1998 between Grupa LOTOS S.A. and Polska Żegluga Morska, a state-owned company, concerning the sale of two shares in Naftoport Sp. z o.o., valued at PLN 3,340 thousand. The proceedings have been postponed until March 2006 in order to hear the testimony of a witness. The Company's Management Board believes that based on a preliminary analysis of the suit and the attached documents, the State Treasury's action may be deemed groundless.

VII.4 Court Proceedings Instigated by the Company or the Companies of Its Group

Court Proceedings Instigated by the Jasło Refinery against a Private Individual

On December 4th 2003, the Regional Court of Krosno issued, in the course of binding advice procedure, a decision in favour of the Jasło Refinery, whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, the Jasło Refinery submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand – delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security mortgage.

VII.5 Material Proceedings Pending before the Competent Arbitration Court in Connection with the Activities of Petrobaltic and its Subsidiary

1. AB Geonafta, a subsidiary of Naftos Gavyba (hereinafter referred to as the Subsidiary) is a party to court proceedings against AB Svenska Petroleum Exploration (hereinafter referred to as SPE) related to the establishing of UAB Genciu Nafta, whose founders and shareholders are the Subsidiary and SPE. The litigation concerns applying the provisions of the Subsidiary's Articles of Association, and it was referred to the International Court of Arbitration at the International Chamber of Commerce (hereinafter referred to as the Arbitrator), which reached a final decision on October 30th 2003. The outcome of this case will remain unknown until the Arbitrator's award takes effect in the Lithuanian jurisdiction.

   Once the Arbitrator's decision has been confirmed and allowed, the Subsidiary will bear the following costs:

   a. The Subsidiary together with the Lithuanian government will reimburse SPE for the amount of USD 12,579 thousand along with interest calculated at the rate of 6% annually on that amount for the period from January 1st 2002 to the reimbursement date. If the Arbitrator's decision is confirmed in the Lithuanian jurisdiction, the Subsidiary will seek to have the Lithuanian government cover the liability in its entirety;
   b. The Subsidiary shall reimburse SPE for the amount of USD 312 thousand to cover the costs of court proceedings.

   Once the Arbitrator's decision has been confirmed and allowed, the Subsidiary will obtain the following sums:

   a. SPE will reimburse the Subsidiary for the amount of USD 1,325 thousand along with interest calculated at the rate of 6% annually on that amount for the period from April 6th 2002 to the reimbursement date;
   b. The Subsidiary will have the right to demand that the elected President of the Management Board and the Chief Executive Officer of UAB Genciu Nafta be the candidates put forward by the Subsidiary's representatives;
   c. The Subsidiary will have the right to demand that its share in the profits from oil production by UAB Genciu Nafta be increased from 50% to 75%, with effect as of January 1st 2002;
   d. The Subsidiary will have the right to demand that UAB Genciu Nafta repay the debt which it owes to the Subsidiary in the amount of LTL 664 thousand.

   In 2004, dividend in the amount of LTL 5,973 thousand and an outstanding payment for deliveries and services in the amount of LTL 885 thousand were allegedly remitted to the Subsidiary by UAB Minijos Nafta. The funds were blocked by a court enforcement officer in Copenhagen due to the claims filed by SPE against the Subsidiary. The subsidiary appealed against the court enforcement officer's decision to the Danish Supreme Court.

   As at the date of these financial statements AB Geonafta has not settled the abovementioned payment and the amounts due in connection with the court proceedings, as their outcome remains unknown and will remain so until the Arbitrator's award takes effect in the Lithuanian jurisdiction.

   On July 1st 2005, UAB Minijos Nafta's liability towards AB Geonafta expired as AB Geonafta obtained both sums in the aggregate amount of LTL 6,858 thousand.

2. Petrobaltic was a party to proceedings before the Arbitration Tribunal of VIAC (Vienna International Arbitration Centre), case No. SCH-4843, relating to (i) Petrobaltic S.A.'s claim against Jade-Dienst GmbH to pay the amount of EUR 390 thousand and (ii) Jade-Dienst GmbH's counterclaim against Petrobaltic S.A. to pay the amount of EUR 814 thousand.

   In December 2005, the Arbitration Tribunal allowed Petrobaltic S.A.'s claim, thus dismissing Jade-Dienst GmbH's counterclaim.

VIII. Proceedings Related to the Liabilities or Claims of the Parent Undertaking or Its Subsidiaries Whose Aggregate Amount Represents 10% or More of the Company's Share Capital

In the period January 1st to December 31st 2005, the Parent Undertaking was not a party to any proceedings related to liabilities or claims of the Parent Undertaking or its subsidiaries whose aggregate amount would represent 10% or more of the company's share capital.

IX. Information about non-recurring transactions executed between the related undertakings of the Group

In the period January 1st – December 31st 2005, no non-recurring transactions with a value exceeding EUR 500 thousand occurred between the related undertakings of the Group, except for the ones described in Note 15 to these condensed consolidated financial statements for 12 months ended December 31st 2005 and those itemised below:

1. On February 3rd 2005, the Supervisory Board of Grupa LOTOS S.A. consented to additional shareholder contributions to the share capital of LOTOS Paliwa Sp. z o.o. (wholly-owned subsidiary of Grupa LOTOS S.A.) in the amount of PLN 89,600 thousand, which should be made by June 30th 2006. On February 8th 2005, the Extraordinary General Shareholders Meeting of LOTOS Paliwa Sp. z o.o. approved additional contributions to the share capital in the amount of PLN 24,600 thousand, to be performed by February 10th 2005.

2. On March 31st 2005, Petrobaltic S.A. entered into additional agreements in connection with four loan agreements concluded in 2002-2004 with UAB Naftos Gavyba of Lithuania (a subsidiary in which Petrobaltic holds a 42.70% equity interest). The aggregate value of the loans, as at the respective agreement dates, totalled LTL 16,680 thousand and USD 716,414.49. Under the agreements, the Parties agreed that the loans would be repaid by March 31st 2005. As part of an offset of mutual accounts, a part of the dividend payable for 2004 to Petrobaltic S.A. by UAB Naftos Gavyba was applied towards repayment of the loans and the related interest. The loan agreements have been fully settled. The offset, performed by virtue of the additional agreements, totalled LTL 19,221,827.43 (EUR 5,567,396.60, as translated at the mid exchange rate quoted by the NBP for March 31st 2005). The largest amount settled by way of the offset was LTL 9,905,429.55 (EUR 2,869,001.66, as translated at the mid exchange rate quoted by the NBP as at March 31st 2005) under loan agreement of September 23rd 2003.

3. On May 9th 2005, LOTOS Asfalt Sp. z o.o. concluded an agreement with the Instal-Rem - Monto-Rem Consortium which includes Rafineria Jasło Monto Rem Sp. z o.o. Under the agreement the Consortium, as the general contractor, agreed to modernise the asphalt production unit at the Jasło Branch of LOTOS Asfalt Sp. z o.o. Grupa LOTOS S.A. holds 100% of shares in LOTOS Asfalt Sp. z o.o. and an 80.01% equity interest in the Jasło Refinery, which holds 99.44% of the share capital of Rafineria Jasło Monto Rem Sp. z o.o. The agreement expires on February 28th 2006. The transaction is valued at PLN 12,499 thousand.

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

5. On May 31st 2005, LOTOS Paliwa Sp. z o.o. and the Jasło Refinery concluded an agreement, whereby the Refinery agreed to sell service stations to LOTOS Paliwa Sp. z o.o. The transaction was made as part of the process of streamlining the structure of the LOTOS Group. LOTOS Paliwa Sp. z o.o. and the Jasło Refinery are subsidiaries of Grupa LOTOS S.A., in which Grupa LOTOS S.A. holds 100% and 80.01% of the shares, respectively. The transaction is valued at PLN 5,100 thousand.

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

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

8. On June 23rd 2005, Grupa LOTOS S.A. and LOTOS Ekoenergia S.A. (subsidiary) concluded an agreement with Lockheed Martin Corporation and M.W. Kellogg. Under the agreement, Lockheed Martin Corporation is to perform, with the support of M.W. Kellogg, its offset obligations towards Grupa LOTOS S.A. and LOTOS Ekoenergia S.A. as part of the Comprehensive Technical Upgrade Programme of Grupa LOTOS S.A. The Programme was included in the offset obligations that Lockheed Martin Corporation assumed under the Offset Agreement of April 18th 2003, concluded with the State Treasury of Poland in connection with the acquisition of F-16 jets.

9. On June 30th 2005, Statoil Polska Sp. z o.o. and Grupa LOTOS S.A. (Producer) and LOTOS Partner Sp. z o.o. (Supplier) concluded a contract, whereby Grupa LOTOS S.A. is to sell fuel to Statoil Polska Sp. z o.o. The contract term is 2006–2010. The value of the contract over the contract term has been estimated at PLN 8,320,000 thousand. If Statoil Polska Sp. z o.o. purchases less fuel than provided for in the agreement, then it will be obliged to pay consideration for the Producer's guarantee of the continuity of fuel supplies, as specified in the agreement.

10. On July 1st 2005, LOTOS Asfalt Sp. z o.o. concluded an agreement with the Czechowice Refinery (Grupa LOTOS S.A. holds 100% shares in LOTOS Asfalt Sp. z o.o. and 80,04% of the Czechowice Refinery's share capital). Under the agreement, LOTOS Asfalt Sp. z o.o. purchased from the Czechowice Refinery property and other assets related to asphalt production. The transaction was valued at PLN 2,500 thousand.

11. On August 19th 2005, the Supervisory Board of Grupa LOTOS S.A. approved additional contributions to the equity of LOTOS Paliwa Sp. z o.o. (wholly-owned by Grupa LOTOS S.A.) in the amount of PLN 77,600, to be made on December 31st 2005. On August 19th 2005, the Extraordinary General Shareholders Meeting of LOTOS Paliwa Sp. z o.o. resolved on an additional contribution in the amount of PLN 77,600 thousand, to be made by December 31st 2005.

12. On September 8th 2005, the Management Board of Grupa LOTOS S.A. entered into an agreement under which Grupa LOTOS S.A. granted a loan of PLN 2,500 thousand to LOTOS Parafiny. By the end of January 2006, the loans are to total PLN 9,000 thousand. The financial terms of the agreement do not differ from standard market terms. The loan, to be repaid in full by the end of 2008, is to finance an investment project consisting in the launch of a candle production plant in Czechowice. The aggregate amount of the project will be PLN 14,100 thousand. The decision to carry out the project by LOTOS Parafiny Sp. z o. o. was made with a view to capturing additional margin in the value chain of wax products manufacturing and to improving the Company's economic efficiency in the long run. Construction of the candle production plant represents part of the restructuring process for the southern refineries of the LOTOS Group.

13. On September 12th 2005, Grupa LOTOS S.A. and the Jasło Refinery entered into an agreement on sale of liquid fuels to the Jasło Refinery. The agreement was concluded for a definite term and expires on December 31st 2006. Its value is estimated at PLN 725,739 thousand. Should at least 90% of the ordered quantity of fuels not be delivered or collected, Grupa LOTOS S.A. or the Jasło Refinery, respectively, may demand a contractual penalty of PLN 20 per cubic meter of such fuel. As of the agreement date, the liquid fuel sale agreement concluded between Grupa LOTOS S.A. and the Jasło Refinery on February 5th 2004 was terminated.

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

15. On October 18th 2005, LOTOS Mazowsze S.A. and LOTOS Paliwa Sp. z o.o. entered into an agreement on sale of liquid fuels to LOTOS Mazowsze S.A. The agreement was concluded for an indefinite term. Its five-year value is estimated at PLN 540,151 thousand.

16. On October 27th 2005, LOTOS Paliwa Sp. z o.o. and the Jasło Refinery entered into an agreement, concluded for an indefinite term, under which the Jasło Refinery will sell liquid fuels to LOTOS Paliwa S.A. The agreement's five-year value is estimated at PLN 1,950,000 thousand. The agreement was made as part of initiatives aimed at reorganising LOTOS Group's trading activities.

17. On November 7th 2005, Grupa LOTOS S.A. received a notice from LOTOS Paliwa Sp. z o.o. requesting a contribution to the company's equity in the amount of PLN 142,600 thousand, to be made on November 14th 2005, on the basis of resolutions of the Extraordinary General Shareholders Meeting of LOTOS Paliwa Sp. z o.o. Of this amount, PLN 65,000 thousand will be financed with the proceeds from the issue of Series B shares, in accordance with the Issue Prospectus of Grupa LOTOS S.A. The balance will be covered with internally generated funds of Grupa LOTOS S.A. The contributions to LOTOS Paliwa Sp. z o.o.'s equity are to be made in connection with the implementation of the PROSTA Programme (development of the service stations network), and will be applied towards capital expenditure related to the Programme, including the recent purchase of ESSO stations from ExxonMobil Poland Sp. z o.o. and the Polish stations of Slovnaft. Another reason for the contribution is that the company wants to accelerate implementation of the Programme while maintaining correct funding structure.

18. On November 16th 2005 Grupa LOTOS S.A. acquired 4,400 shares in UAB LOTOS Baltija of Lithuania, which represent 39.71% of the subsidiary undertaking's share capital. Following the transaction, Grupa LOTOS S.A. holds 100% of shares in UAB LOTOS Baltija, which represent 100% of the total vote. The value of the transaction has been established at PLN 510,000. The par value of the acquired shares is LTL 65 per share, and their total par value is LTL 286,000 (PLN 329,472, translated at the mid exchange rate quoted by the National Bank of Poland for November 16th 2005). UAB LOTOS Baltija's business is the sale of lubricating oils produced by Grupa LOTOS S.A., in Lithuania, Latvia, and Belarus. The abovementioned transaction is part of a programme intended to rearrange the structure of the LOTOS Group, and aims at increasing the Company's operational efficiency in the area of export to the countries situated east of Poland.

19. On December 30th 2005, Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. and Shell Polska Sp. z o.o. entered into an agreement on sale and supply of liquid fuels to Shell Polska Sp. z o.o. The agreement replaced the sale agreement, expiring on December 31st 2005, executed between LOTOS Partner and Shell Polska Sp. z o.o. If LOTOS Partner fails to supply to Shell Polska Sp. z o.o., or Shell Polska Sp. z o.o. fails to collect, a minimum quantity of fuel as stipulated in the agreement, the injured party will have the right to demand payment of contractual penalty up to the maximum estimated amount of PLN 10,000 thousand. The agreement does not contain any provisions which would prevent seeking additional compensation on general terms. The new agreement was concluded for a definite term, i.e. until December 31st 2006. The value of the agreement is estimated at PLN 410,000 thousand.

X. Information on Loan Sureties or Guarantees Issued by the Parent Undertaking or Its Subsidiaries, where the Value of Such Sureties or Guarantees Issued to a Single Entity or Its Subsidiaries Represents 10% or More of the Company's Equity

In the period from January 1st to December 31st 2005 the Parent Undertaking and its subsidiaries issued no loan sureties or guarantees to any entity or its subsidiary whose value would represent 10% or more of the Company's equity.

XI. Information Material for the Assessment of the Personnel, Assets, Financial Standing and the Financial Result of the Group and their Changes, and for the Assessment of the Parent Undertaking's Ability to Fulfil Its Obligations

There is no other information material for the assessment of the personnel, assets, financial standing and the financial result of the Group and their changes, or for the assessment of the Company's ability to fulfil its obligations, apart from the information provided below and the information contained in other sections of these condensed consolidated financial statements of the Group and in the notes thereto.

1. By virtue of the Regulation of the Minister of Finance of January 14th 2005 amending the Regulation on the exemptions from the excise tax, the excise tax relief for the Jasło and Czechowice Refineries has been changed as follows:
   a) transport relief was reduced from PLN 120 to PLN 96 per each tonne of crude oil for processing;
   b) relief related to the use in the production of fuels of components obtained from plastic waste processing in the specialist catalytic plastics processing units was reduced as follows:
      - from PLN 300 to PLN 240 per every 1,000 litres of diesel oil,
      - from PLN 180 to PLN 144 per every 1,000 litres of motor gasolines.

2. On April 13th 2005, Petrobaltic S.A. and Energobaltic Sp. z o.o. signed Annex 4 to the shareholder loan agreement of November 12th 2001. The parties agreed on the extension of the deadlines for the payment of interest (scheduled for June 30th 2007 and December 20th 2007) and principal amount of the loan by Energobaltic Sp. z o.o.

3. By virtue of the Resolution of the General Shareholders Meeting of UAB Naftos Gavyba, dated March 31st 2005, the company allocated LTL 26m dividend to Petrobaltic S.A. In May 2005, approximately LTL 6.8m was disbursed to Petrobaltic S.A. (the outstanding portion of the dividend was offset against the loans advanced to Petrobaltic S.A. by UAB Naftos Gavyba.

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

5. Repayment of loans by Grupa LOTOS S.A., referred to in Note 13 to these condensed consolidated financial statements.

XII. Factors Which will Have a Bearing on the Group's Results in the Next Quarter or in a Longer Time Horizon, According to the LOTOS Group's assessment

The Management Board believes that the factors presented below will have a bearing on the Company's and the Group's results in the next quarter of 2006 or in a longer time horizon:

- quotations of oil and petroleum products prices,
- PLN/USD exchange rate,
- supply and demand for petroleum products,
- changes in tax regulations affecting excise tax relief used by the Southern Refineries; the changes may result in lower economic effectiveness of these companies,
- pursuant to the Regulation of the Minister of Finance of January 27th 2006, the relief related to the use in the production of fuels of components obtained from plastic waste processing in the specialist catalytic plastics processing units, was restored to the 2005 level,
- increase in the annual production capacity, expanded during the overhaul shutdown, from 4.5m to 6m tonnes**,**
- implementation of the PROSTA Programme (development of the service stations network), which involves taking out investment loans by LOTOS Paliwa Sp. z o.o., a subsidiary, and development of retail sales of fuel.

XIII. Signatures of the Management Board Members

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

February 28th 2006