GRUPA LOTOS S.A.

LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

I. GENERAL NOTES

1. Background

Grupa LOTOS S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 18 September 1991. The Company's registered office is located in Gdańsk at 135 Elbląska Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000106150 on 10 April 2002.

The Company was issued with tax identification number (NIP) 583-000-09-60 on 9 June 1993 and statistical number (REGON) 190541636 on 25 February 1998.

The Company is the holding company of the Capital Group Grupa LOTOS S.A. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 13 and 38 of the Additional Notes and Explanations to the audited financial statements for the year ended 31 December 2006.

The principal activities of the Company are as follows:

- Manufacture of refined petroleum products (PKD 23.20.A),
- Processing of refined petroleum products (PKD 23.20.B),
- Manufacture of industrial gasses (PKD 24.11.Z),
- Manufacture of other inorganic basic chemicals (PKD 24.13.Z),
- Manufacture of other organic basic chemicals (PKD 24.14.Z),
- Manufacture of plastics (PKD 24.16.Z),
- Production of electricity (PKD 40.11.Z),
- Transmission of electricity (PKD 40.12.Z),
- Distribution and sale of electricity (PKD 40.13.Z),
- Manufacture of gaseous fuels (PKD 40.21.Z),
- Distribution and sale of gaseous fuels through mains (PKD 40.22.Z),
- Heat (steam and hot water) production (PKD 40.30.A),
- Heat (steam and hot water) supply (PKD 40.30.B),
- Collection and purification of water, with services provision excluded (PKD 41.00.A),
- Services related to distribution of water (PKD 41.00.B),
- Extraction of crude petroleum (PKD 11.10.A),
- Extraction of natural gas (PKD 11.10.B),

(in thousand zlotys)

- General construction work related to linear engineering structures: pipelines, power supply lines and telecommunication transmission lines (PKD 45.21.D),
- Wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51.Z),
- Wholesale of chemical products (PKD 51.55.Z),
- Transport via railway (PKD 60.10.Z),
- Transport via pipelines (PKD 60.30.Z),
- Cargo handling at sea ports (PKD 63.11.A),
- Cargo handling at inland ports (PKD 63.11.B),
- Cargo handling at other handling facilities (PKD 63.11.C),
- Cargo storage and warehousing at sea ports (PKD 63.12.A),
- Cargo storage and warehousing at inland ports (PKD 63.12.B),
- Cargo storage and warehousing at other storage facilities (PKD 63.12.C),
- Research and experimental development on chemical sciences and engineering (PKD 73.10.B),
- Research and experimental development on technical sciences (PKD 73.10.G),
- Research and experimental development on other natural sciences and engineering (PKD 73.10.H).

As at 31 December 2006, the Company's issued share capital amounted to 113.700 thousand zlotys. Total equity as at that date amounted to 4.485.147 thousand zlotys.

Based on the information submitted in accordance with article 69 Act on the public offer and conditions for introduction of financial instruments to the organized trading system and public companies dated 25 July 2005 (Journal of Law No. 184 from 2005, item 1539, with amendments), the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Skarb Państwa	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%
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Total	113 700 000	113 700 000	113 700 000	100,00%
	=======	=======		=====

In accordance with Current Report no. 10/2007 the Management Board of the Company received notification that as a result of acquisition of the Company's shares in transactions carried out on the Warsaw Stock Exchange, which were settled on 6 March 2007, ING Nationale-Nederlanden Polska OFE came into possession of 5.876.589 of Grupa LOTOS S.A. shares, representing 5,17% of the Company's share capital. Prior to the change in its shareholdings, ING Nationale-Nederlanden Polska OFE fund owned 5.676.589 shares of Grupa LOTOS S.A., representing 4,99% of the Company's share capital.

(in thousand zlotys)

There were no movements in the share capital in the reporting period.

As at 17 April 2007, the composition of the Company's Management Board was as follows:

Paweł Olechnowicz	- President
Marek Sokołowski	- Member
Jarosław Kryński	- Member
Mariusz Machajewski	- Member

During the course of the financial year 2006 the following changes in Company's Management Board took place:

- on 19 June 2006 the tenure of Mr Wojciech Kowalczyk, the Vice-President of the Management Board, Trade Director expired,
- on 19 June 2006 Mr Mariusz Machajewski was appointed to the post of the Vice-President of the Management Board, Chief Financial Officer;
- on 29 September 2006 Mr Jarosław Kryński was appointed to the post of the Vice-President, Sales Director.

2. Financial Statements

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by Supervisory Board on 29 May 2006 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act').

Under the contract executed on 7 July 2006 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2006.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued a qualified auditors' opinion including emphases of matter dated 17 April 2007, stating the following:

"To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached financial statements for the year ended 31 December 2006 of Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, containing:
   - the balance sheet as at 31 December 2006 with total assets amounting to 5.977.280 thousand zlotys,
   - the profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 406.714 thousand zlotys,
   - the cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash outflow amounting to 417.965 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 406.714 thousand zlotys and
   - the additional notes and explanations

   ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and

[1] Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'

fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted, except as discussed in paragraph 5 below, our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. The financial statements for the prior financial year ended 31 December 2005 were subject to our audit and we issued an opinion including emphases of matter on these financial statements, dated 27 April 2006. The emphases of matter concerned the liabilities relating to the financing operating and investment activities of Rafineria Nafty Glimar S.A. ('RN Glimar') becoming payable and the fact of preparation of consolidated financial statements by the Company. We refer to these matters in paragraph 7 of this opinion.

5. As presented in detail in Note 11 to the accompanying financial statements the Company is in process of executing the Comprehensive Technological Development Programme ('PKRT'). Within the confines of this programme the Company signed two agreements on the execution of the front-end engineering design for PKRT, valuation and tending an offer for execution of the worked out project. The aggregate cost of both agreements amounted to 102 million zlotys and increased the value of tangible assets under construction. Currently, the Company is in course of analysing both projects with a view to preparing a complex project that would be most suitable for the Company's needs. The current state of analysis is not sufficient for the Company to determine the scope to which both projects will be used in the future with regard to preparation of the final base project for PKRT. Taking all of the above into consideration, we are unable to express whether and in which amount the part of above projects' costs incurred should be charged to profit and loss account.

6. In our opinion, except for potential effects of the matter described in paragraph 5, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;
   - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Company's articles of association.

[2] Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

7. Without further qualifying our opinion, we draw attention to the following issues:
   (a) As presented in detail in Note 11 to the accompanying financial statements, the Company made prepayments for deliveries of reactors, which are part of the PKRT project, totalling 75 million zlotys. Taking into account that till the date of issuing this opinion the Company has not placed the final purchase order for these reactors there is a risk that the signed intent letters might be cancelled and advances might not be returned in full amount. Due to the fact that the final date of placing an order for two out of four reactors has already expired, the date of placing the final order for another two reactors is approaching, the final comprehensive project of PKRT has not yet been approved, as mentioned in paragraph 5 of this opinion, and the fact that the Supervisory Board has not consented to sign an agreement for general execution of PKRT, there is an uncertainty concerning the realization of the prepayments for tangible assets under construction presented in the attached financial statements.

   (b) As described in detail in Note 19 to the accompanying financial statements, the Company signed loan agreements with RN Glimar, dated 23 September 2003 and 8 April 2004, in order to finance its operating and investing activities, including in particular the Hydrokompleks Glimar project, in the total amount of 90 million zlotys. In the attached financial statements prepared as at 31 December 2006, the Company created the provision for the loans granted to RN Glimar and provisions for liabilities resulting from the above mentioned agreements in the total amount of 90 million zlotys. We draw attention to the fact, that in accordance with the loan agreements, under certain circumstances not all of these liabilities may be payable in their full amount.

   In addition, as described in detail in the above mentioned Note, the Company committed to co-finance the Hydrokompleks Glimar project and to maintain appropriate financial and economic position of RN Glimar, which on 19 January 2005 was declared bankrupt.

   (c) The Company has disclosed in the attached financial statements shares in subsidiaries and associates at the acquisition cost diminished by impairment write-offs. The Capital Group Grupa LOTOS S.A. ('the Capital Group'), for which the Company is a dominant entity, has prepared consolidated financial statements. The financial results and net assets of the Capital Group differ from the Company's financial results for the year ended 31 December 2006 and its net assets as of that date.

8. We have read the 'Directors' Report for the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)."

We conducted the audit of the Company's financial statements during the period from 27 November 2006 to 17 April 2007. We were present at the Company's head office where the

Company's books of account are kept from 27 November 2006 to 1 December 2006 and from 26 February 2007 to 17 April 2007.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 17 April 2007, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2005 were audited by Michał Orzechowski, Certified Auditor No. 10190/7525, acting on behalf of Ernst & Young Audit sp. z o.o., Rondo ONZ 1, Warsaw. The certified auditor issued an opinion with emphases of matters on the financial statements for the year ended 31 December 2005. The emphases of matter concerned the liabilities relating to the financing of operating and investment activities of Rafineria Nafty Glimar S.A. ('RN Glimar') becoming payable and the fact of preparing consolidated financial statements by the Company.

The Company's financial statements for the year ended 31 December 2005 were approved by the General Shareholders' Meeting on 19 June 2006, and the shareholders adopted a resolution to allocate the net profit for the year 2005, amounting to 532.268 thousand zlotys, to the reserve funds of the Company.

The financial statements for the financial year ended 31 December 2005, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 22 June 2006 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2005, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2005, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1387 on 1 December 2006.

The closing balances as at 31 December 2005 were correctly brought forward in the accounts as the opening balances at 1 January 2006.

[4] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

(in thousand zlotys)

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2004 - 2006. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2005 and 31 December 2006.

The ratios for the year 2006 were calculated on the basis of financial information included in the consolidated financial statements for the year ended 31 December 2006 and do not take into account any implications of the qualification included in the auditors' opinion.

	2006	**2005**	**2004**
Total assets	5.977.280	5.375.563	3.715.330
Shareholders' equity	4.485.147	4.078.433	2.552.354
Net profit	406.714	532.268	495.415
Return on assets (%)	6,8%	9,9%	13,3%
Net profit x 100 / Total assets			
Return on equity (%)	10,0%	20,9%	24,0%
Net profit x 100 / Shareholders' equity at the beginning of the period			
Profit margin (%)	3,5%	6,2%	7,5%
Net profit x 100 / Sales of finished goods, goods for resale and raw materials			
Liquidity I	2,4	2,5	1,9
Current assets / Short-term creditors			
Liquidity III	0,0	0,3	0,1
Cash and cash equivalents / Short-term creditors			
Debtors days	47 days	45 days	39 days
Trade debtors x 365			

(in thousand zlotys)

	2006	2005	2004
Sales of finished goods, goods for resale and raw materials			
Creditors days	22 days	37 days	26 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	54 days	61 days	50 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	78,1%	79,4%	77,3%
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity			
Debt ratio (%)	25,0%	24,1%	31,3%
(Total liabilities and provisions) x 100 / Total assets			
Rate of inflation:			
Yearly average	1,00%	2,10%	3,50%
December to December	1,40%	0,70%	4,40%

3.2 Comments

The following trends may be observed based on the above financial ratios:

In 2006 all profitability indices decreased in comparison to the prior year due to the lower by 125.554 thousand zlotys net profit than in 2005 and by 88.701 thousand zlotys than in 2004. In 2006 return on assets amounted to 6,8% and was lower than in prior year by 3 pp (2005: 9,9%) and over 6 pp than in 2004 in which it amounted to 13,3%.

In 2006 return on equity amounted to 10% and was lower by almost 11 p.p. and 14 p.p. than in 2005 and 2004 in which it amounted to 20,9% and 24,0% respectively. Profit margin amounted to 3,5% in 2006 and was also lower than in 2005 and 2004 as it amounted to 6,2% and 7,5% respectively.

In 2006 liquidity ratios decreased in comparison to the prior year due to increase in short-term liabilities and significant decrease in cash. In 2006 liquidity I ratio amounted to 2,4 and decreased slightly in comparison to 2005 in which it amounted to 2,5. In 2004 it amounted to 1,9. Liquidity III ratio decreased significantly close to 0 level as at 31 December 2006 from 0,3 as at 31 December 2005 and 0,1 as at 31 December 2004.

Debtors days ratio which amounted to 47 days in 2006 systematically increased within the space of the years analysed due to the faster increase in trade debtors in comparison to the increase in sales. In 2005 it amounted to 45 days and in 2004 – 39 days. In 2006 creditors days ratio amounted to 22 days and decreased by 15 days in comparison to 2005 and by 4 days comparing to 2004 in which it amounted to 37 and 26 days respectively. Inventory days ratio decreased in comparison to the prior year by 7 days and in 2006 it amounted to 54 days. In 2004 this ratio amounted to 50 days.

As at 31 December 2006 the stability of financing and debt ratio indicated slightly higher engagement of debt in financing the Company's activity at the end of 2006 in comparison to the analogous balance of the prior year and also the similar financing structure comparing to 31 December 2005 and 2004. The Company keeps relatively low level of leverage which influences positively the stability of financing ratio. Apart from deferred tax provision, the Company has no other long-term liabilities.

As at 31 December 2006 the stability of financing ratio indicated slight decrease in financing Company's activity by equity and long-term debt in 2006 in comparison to the analogous period of the prior year (decrease from 79,4% in 2005 to 78,1% in 2006) and increase comparing to the balance as at 31 December 2004 (from 77,3% in 2004 respectively). Debt ratio increased by almost 1 pp from 24,1% in 2005 to 25% in 2006. As at 31 December 2004 this ratio amounted to 31,3%.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2006 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 5 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2006, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2006 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the MySAP.com computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act, including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2006.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2006.

Included in our Auditor's opinion is qualification relating to inability to verify whether the part of the costs incurred to execute the basis project of the Comprehensive Technological Development Programme ('PKRT') and in which amount should be charged to profit and loss account. The Company signed two agreements on the execution of the front-end engineering design for PKRT, valuation and tending an offer for executing the worked out project. The aggregate cost of both agreements amounted to 102 million zlotys and increased the value of tangible assets under construction. Currently, the Company is in course of analysing both projects with a view to preparing a complex project that would be most suitable for the Company's needs. The current stage of analysis is not sufficient for the Company to determine the scope to which both projects will be used in the future with regard to preparation of the final base project for PKRT.

Moreover, as presented in Note 11 of the additional notes and explanations to the audited financial statements, the Company has made prepayments for deliveries of reactors, which are part of the PKRT project, totalling 75 million zlotys. Taking into account that till the date of issuing our opinion the Company has not placed the final purchase order for these reactors there is a risk that the signed intent letters might be cancelled and advances might not be returned in full amount. Due to the fact that the final date of placing an order for two out of four reactors has already expired, the date of placing the final order for another two reactors is approaching, the final comprehensive project of PKRT has not yet been approved, as mentioned in paragraph 5 of the opinion, and the fact that the Supervisory Board has not consented to sign an agreement for general execution of PKRT, there is an uncertainty concerning the realization of the prepayments for tangible assets under construction presented in the audited financial statements.

As described in detail in Note 19 of the additional notes and explanations to the audited financial statements, the Company signed loan agreements with RN Glimar, dated 23 September 2003 and 8 April 2004, in order to finance its operating and investing activities, including in particular the Hydrokompleks Glimar project, for the total amount of 90 million zlotys. In the audited financial statements prepared as at 31 December 2006 the Company created a provision for the loans granted to RN Glimar and provisions for liabilities resulting from the above mentioned agreements, in the total amount of 90 million zlotys. We draw attention to the fact that, in accordance with the loan agreements, under certain circumstances not all of these liabilities may be payable in their full amount.

In addition, as described in detail in the above mentioned Note, the Company committed to co-finance the Hydrokompleks Glimar project and to maintain appropriate financial and economic position of RN Glimar, which on 19 January 2005 was declared bankrupt.

3. Notes to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2006 (jointly 'notes to the financial statements') were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2006 to 31 December 2006 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

6. Work of Experts

During our audit we have taken into account the results of the work of an independent actuary, the company A&E Consult Grupa Konsultingowa Sp. z o.o., responsible for calculation of the present value of future liabilities towards employees other than pay.

Certified Auditor
Registration No. 10402/7665

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Marcin Zieliński

Jacek Hryniuk
Certified Auditor
Registration No. 9262/6958

Warsaw, 17 April 2007