CAPITAL GROUP
GRUPA LOTOS S.A.

LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006
I. GENERAL NOTES

1. Background

The holding company of the Capital Group Grupa LOTOS S.A. (hereinafter ‘the Group’ or ‘the Capital Group’) is Grupa LOTOS S.A. (‘the holding company’, ‘the Company’). The holding 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 holding 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 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),
- 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).

The scope of activities of the Group’s subsidiaries, jointly controlled entities and associates are similar to this of the holding company.

As at 31 December 2006, the Company’s issued share capital amounted to 113,700 thousand zlotys. The Group’s equity as at that date amounted to 5,534,334 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:

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>Number of votes</th>
<th>Par value of shares</th>
<th>% of issued share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skarb Państwa</td>
<td>7 878 030</td>
<td>7 878 030</td>
<td>7 878 030</td>
<td>6,93%</td>
</tr>
<tr>
<td>Nafta Polska S.A.</td>
<td>59 025 000</td>
<td>59 025 000</td>
<td>59 025 000</td>
<td>51,91%</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>46 796 970</td>
<td>46 796 970</td>
<td>46 796 970</td>
<td>41,16%</td>
</tr>
<tr>
<td>Total</td>
<td>113 700 000</td>
<td>113 700 000</td>
<td>113 700 000</td>
<td>100,00%</td>
</tr>
</tbody>
</table>
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.

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:

Pawel Olechnowicz  - President
Marek Sokołowski  - Member
Jaroslaw Kryniski  - 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 Jaroslaw Kryniski was appointed to the post of the Vice-President, Sales Director.
## 2. Group Structure

As at 31 December 2006, the Capital Group Grupa LOTOS S.A. consisted of the following subsidiaries (direct or indirect) and jointly controlled entities which are not commercial companies:

<table>
<thead>
<tr>
<th>Entity name</th>
<th>Consolidation method</th>
<th>Type of opinion</th>
<th>Name of authorised entity that audited financial statements</th>
<th>Balance sheet date</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOTOS Jasło S.A.</td>
<td>Purchase accounting</td>
<td>Qualified opinion with emphases of matter</td>
<td>Ernst &amp; Young Audit Sp. z o.o.</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Czechowice S.A</td>
<td>Purchase accounting</td>
<td>Qualified opinion with emphases of matter</td>
<td>Ernst &amp; Young Audit Sp. z o.o.</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>Petrobaltic S.A</td>
<td>Purchase accounting</td>
<td>Qualified opinion with emphases of matter</td>
<td>Ernst &amp; Young Audit Sp. z o.o.</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Paliwa Sp. z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion with emphases of matter</td>
<td>Ernst &amp; Young Audit Sp. z o.o.</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Oil S.A.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Ernst &amp; Young Audit Sp. z o.o.</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Partner Sp. z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Kancelaria Bieglego Rewidenta Ewa Dreliszak</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Asfalt Sp. z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Kancelaria Bieglego Rewidenta Ewa Dreliszak</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Kolej Sp. z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Kancelaria Bieglego Rewidenta Ewa Dreliszak</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Lab Sp. z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Kancelaria Bieglego Rewidenta Ewa Dreliszak</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Serwis Sp.z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Moore Stephens Kancelaria Bieglych Rewidentoe</td>
<td>31 December 2006</td>
</tr>
<tr>
<td>LOTOS Parafiny Sp. z o.o.</td>
<td>Purchase accounting</td>
<td>Unqualified opinion</td>
<td>Moore Stephens Kancelaria Bieglych Rewidentoe</td>
<td>31 December 2006</td>
</tr>
</tbody>
</table>
As at 31 December 2006 shares in the following associates (direct and indirect) were recognised in the Group’s consolidated financial statements using the equity method:

<table>
<thead>
<tr>
<th>Name and registered office</th>
<th>Type of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energobaltic Sp. z o.o., Gdańsk, Polska</td>
<td>Manufacturing and distributing energy, gas, steam and hot water</td>
</tr>
<tr>
<td>UAB Naftos Gavyba, Klaipeda, Litwa</td>
<td>Capital operations in oil sector</td>
</tr>
</tbody>
</table>

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 2 of the additional notes and explanations to the consolidated financial statements of the Group for the year ended 31 December 2006.
3. Consolidated Financial Statements

3.1 Auditors’ opinion and audit of consolidated 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 Group’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 consolidated 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 consolidated financial statements for the year ended 31 December 2006.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated 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 consolidated financial statements of Capital Group Grupa LOTOS S.A. (‘the Group’), for which the holding company is Grupa LOTOS S.A. (‘the Company’) located in Gdańsk, at 135 Elbląska Street, for the year ended 31 December 2006 containing:
   - the consolidated balance sheet as at 31 December 2006 with total assets amounting to 7,926,475 thousand zlotys,
   - the consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 734,652 thousand zlotys,
   - the consolidated 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 726,225 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 143,629 thousand zlotys and
   - the additional notes and explanations
   (‘the attached consolidated financial statements’).

2. The truth and fairness\(^1\) of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Company’s

\(^1\) Translation of the following expression in Polish: ‘rzetelność, prawidłowość i jasność’
Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair.

3. We conducted, except as discussed in paragraphs 5-7 below, our audit of the attached consolidated 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the prior financial year ended 31 December 2005 were subject to our audit and we issued a qualified opinion including emphases of matter on these financial statements, dated 27 April 2006. The qualifications concerned: inability to assess the potential effect of the issues, which were subject to qualifications included in the auditors’ opinion on the consolidated financial statements of the Lithuanian Capital Group UAB Naftos Gavyba and inability to verify the appropriateness of the estimations of provisions created by the subsidiary LOTOS Czechowice S.A. for both, the potential cost of removing and utilizing production waste stored in so called ‘acid holes’ plus provisions for future reclamation of land, on which certain installations designed as being due for liquidation are located in total amount of 39 million zlotys.

The emphases of matter related to recognition of profit of 267 million zlotys in the consolidated financial statements as a result of excess of interest in the net assets fair value over the acquisition cost on the share purchase transaction of Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. in bankruptcy (91.54%) and Petrobaltic S.A. (69.00%), and also the liabilities relating to financing of operating and investment activities of Rafineria Nafty Glimar S.A. (‘RN Glimar’) becoming payable. To the qualifications and emphases of matter included in the auditors’ opinion to the consolidated financial statements for the prior financial year ended 31 December 2005 we also refer to in the paragraphs 6, 7 and 9 of this opinion.

5. As presented in detail in Note 11 to the accompanying consolidated 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

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2 Translation of the following expression in Polish: ‘rzetelne, prawidłowe i jasne’
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 the consolidated profit and loss account.

6. The Group recognized in the attached consolidated financial statements provisions created for both the potential cost of removing and utilizing production waste plus a provision for future reclamation of land, on which certain installations designated as being due for liquidation are located. Total provisions amounted to 40 million zlotys. With reference to the amount of post production waste and the area of land, which were the basis for the calculation of the provisions’ value, the estimation was performed on the basis of the Group’s documentation as well as its technological employees best knowledge, however no quantity survey, using proper drilling techniques, which would ensure full credibility of the results, was conducted. Furthermore, there is a significant range of the value of the provisions for the reclamation of the land, as assessed by the environmental experts. Taking all the above into consideration, as well as lack of measurement data regarding pollution concentration plus actual contaminated locations in the Group’s refineries, we were unable to verify the appropriateness of the performed estimations and the resulting value of the provisions stated above.

7. The Group presents 42.7% share in the UAB Naftos Gavyba Capital Group (‘The NG Group’), located in Lithuania, using the equity method, in the amount of 83 million zlotys. The basis of including in the attached consolidated financial statements the value of the NG Group, being the value of interest in the equity of the NG Group, was the consolidated financial statements of the NG Group prepared as at 31 December 2006 according to accounting principles applicable in Lithuania. The auditor of the consolidated financial statements of the NG Group issued a qualified opinion, dated 13 March 2007, and the qualifications concerned:

- limitation of scope relating to inability to assess all financial consequences of arbitration proceeding, of which one of the subsidiary – AB Geonafta is a party. The proceedings are described in detail in paragraph 41 to the attached consolidated financial statements.

- lack of independent assessment of the size of natural resources owned by the NG Group and as a result limitation of scope in relation to the net book value of fixed assets used in mining activities and corresponding depreciation.

Furthermore, the Group presents in the attached consolidated financial statements advances for purchase of AB Geonafta shares in the total amount of 25 million zlotys. The Group commissioned carrying out an independent valuation of possessed assets engaged in the Lithuanian venture. As a result of lack of control, the Group has no influence on the operating activity of the NG Group and limited abilities to administer these assets. Above mentioned issues have crucial effect on the realisable value of these assets.
Taking into consideration qualifications concerning the consolidated financial statements of the NG Group for the year ended 31 December 2006 presented above, application of different accounting principles by the NG Group as well as lack of influence on the operating activity of the NG Group and results of independent valuation, as at the date of issuing this opinion we were unable to assess whether the value of assets engaged in the NG Group and AB Geonafta presented in the attached consolidated financial statements is correct and fully realisable.

8. In our opinion, except for potential effects of the matters described in paragraphs 5-7, the attached consolidated financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Group’s operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position as at 31 December 2006;
- have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

9. Without further qualifying our opinion, we draw attention to the following issues:

(a) As presented detail in Note 11 to the accompanying consolidated financial statements, the Company made prepayments for deliveries of reactors, which are part of the PKRT project, totalling to 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 advances presented in the attached consolidated financial statements.

(b) As at 31 December 2006, the Group recognised goodwill arising from the acquisition of the organised parts of business of ExxonMobile Poland Sp. z o.o. and Slovnaft Polska S.A. in total amount of 55 million zlotys. As presented in Note 16 to the accompanying consolidated financial statements, the Group carried out the impairment test for goodwill based on analysis of discounted cash flows for purchased petrol stations of ESSO and SLOVNAFT chains. Due to the fact that the forecasted cash flows are determined by the series of future events and financial outcomes achieved in year 2006 by the purchased petrol stations are significantly lower than expected, in our opinion there is an uncertainty concerning the realisable value of the total goodwill amount presented in the attached consolidated financial statements.

3 Translation of the following expression in Polish: ‘sytuacja majątkowa i finansowa’
(c) The Group presents as assets from exploration and evaluation of mineral resources the costs of drilling and other costs incurred in connection with exploration of gas reserves from B-4 and B-6 areas in the total amount of 48 million zlotys. As disclosed in Note 11 to the accompanying consolidated financial statements the Group commissioned an independent analysis of the economic viability of development of these reserves. According to the findings of the analysis, significant capital expenditure is required to obtain positive profitability from their exploration. Currently, the Group does not assume incurring significant costs for further search or exploration of B-4 and B-6 geological areas in its mid-term plans, however according to the Management Board assessment, due to the strategic nature of these reserves, the value possible to recover from the activated costs of exploration and evaluation of mineral resources on these areas outweighs the balance sheet value. In our opinion there is an uncertainty concerning the realisable value of the full amount of activated costs in the attached consolidated financial statements.

(d) As described in detail in Note 19 to the attached consolidated 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 attached consolidated financial statements prepared as at 31 December 2006 the Group 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.

10. 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 consolidated 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 from 27 November 2006 to 1 December 2006 and from 26 February 2007 to 17 April 2007.
3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness\(^4\) of the consolidated financial statements and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 17 April 2007, from the Management Board of the holding company confirming that:

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

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

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group 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, reg. no. 130. The certified auditor issued a qualified opinion with emphases of matter on the consolidated financial statements for the year ended 31 December 2005.

The qualifications concerned: inability to assess the potential effect of the issues, which were subject to qualifications included in the auditors’ opinion on the consolidated financial statements of the Lithuanian Capital Group UAB Naftos Gavyba and inability to verify the appropriateness of the estimations of provisions created by the subsidiary LOTOS Czechowice S.A. for both, the potential cost of removing and utilizing production waste stored in so called ‘acid holes’ plus provisions for future reclamation of land, on which certain installations anticipated for liquidation are located in total amount of 39 million zlotys.

The emphases of matter related to recognition of profit of 267 million zlotys in the consolidated financial statements as a result of excess of interest in the net assets fair value over the acquisition cost on the share purchase transaction of Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. in bankruptcy (91.54%) and Petrobaltic S.A. (69.00%), and also the liabilities relating to the financing of operating and investment activities of Rafineria Nafty Glimar S.A. (‘RN Glimar’) becoming payable. We refer to the qualifications and emphases of matter included in the auditors’ opinion on the consolidated financial statements for the financial year ended 31 December 2005 in the auditors’ opinion on the consolidated financial statements for the year ended 31 December 2006 (see also paragraph I.3.1. of this report).

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\(^4\) Translation of the following expression in Polish: “rzetelnośc, prawidłowość i jasność”

This is a translation of a document originally issued in the Polish language.

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The consolidated financial statements for the year ended 31 December 2005 were approved by the General Shareholders’ Meeting on 19 June 2006.

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

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

4.1 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 qualifications included in the auditors’ opinion.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>7,926,475</td>
<td>6,989,609</td>
<td>4,016,784</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>5,534,334</td>
<td>4,808,109</td>
<td>2,657,512</td>
</tr>
<tr>
<td>Net profit/loss</td>
<td>734,652</td>
<td>968,839</td>
<td>544,222</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>9,3%</td>
<td>13,9%</td>
<td>13,6%</td>
</tr>
<tr>
<td>Net profit x 100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>15,3%</td>
<td>36,5%</td>
<td>25,8%</td>
</tr>
<tr>
<td>Net profit x 100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity at the beginning of the period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit margin (%)</td>
<td>5,7%</td>
<td>10,0%</td>
<td>7,3%</td>
</tr>
<tr>
<td>Net profit x 100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of finished goods, goods for resale and raw materials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity I</td>
<td>2,6</td>
<td>2,5</td>
<td>1,9</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term creditors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity III</td>
<td>0,5</td>
<td>0,6</td>
<td>0,2</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term creditors</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Debtors days**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>34 days</td>
<td>35 days</td>
<td>35 days</td>
<td></td>
</tr>
</tbody>
</table>

**Creditors days**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 days</td>
<td>38 days</td>
<td>23 days</td>
<td></td>
</tr>
</tbody>
</table>

**Inventory days**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>57 days</td>
<td>65 days</td>
<td>43 days</td>
<td></td>
</tr>
</tbody>
</table>

**Stability of financing (%)**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>80,3%</td>
<td>80,2%</td>
<td>76,9%</td>
<td></td>
</tr>
</tbody>
</table>

**Debt ratio (%)**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>30,2%</td>
<td>31,2%</td>
<td>33,8%</td>
<td></td>
</tr>
</tbody>
</table>

**Rate of inflation:**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly average</td>
<td>1,00%</td>
<td>2,10%</td>
<td>3,50%</td>
</tr>
<tr>
<td>December to December</td>
<td>1,40%</td>
<td>0,70%</td>
<td>4,40%</td>
</tr>
</tbody>
</table>

### 4.2 Comments

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

In 2006 all profitability ratios decreased in comparison to the prior year due to the lower by 234,187 thousand zlotys net profit than in 205. In 2006 return on assets amounted to 9,3% and was lower than in the prior year by almost 5 pp (2005: 13,9%) and over 4 pp than in 2004 in which it amounted to 13,6%.

In 2006 return on equity amounted to 15,3% and was lower by over 21 pp and almost 11 pp than in 2005 and 2004 in which it amounted to 36,5% and 25,8% respectively. Profit margin amounted to 5,7% in 2006 and was also lower than in 2005 and 2004 as is amounted to 10,0% and 7,3% respectively.
In 2006 liquidity ratios were at the similar level as in the prior year. In 2006 liquidity I ratio amounted to 2,6. In comparison to 2005 it increased by 0,1 (2005: 2,5) and comparing to 2004 – by 0,6 (2004: 1,9). In 2006 liquidity III ratio amounted to 0,5 and decreased slightly in comparison to 2005 in which it amounted to 0,6. In 2004 it amounted to the level of 0,2.

Debtors’ days ratio which amounted to 34 days in 2006 decreased from 35 days in 2005 and 2004 due to the faster increase in sales in comparison to the increase in trade debtors. In 2006 creditors days ratio amounted to 25 days and decreased by 13 days in comparison to 2005 and increased by 2 day comparing to 2004 in which it amounted to 38 and 23 days respectively. Inventory days ratio decreased in comparison to the prior year by 8 days and in 2006 it amounted to 57 days (in 2005: 65 days). In 2004 this ratio amounted to 43 days.

As at 31 December 2006 the stability of financing and debt ratio indicated slightly higher engagement of equity in financing the Group’s activity at the end of 2006 in comparison to the balance of the prior year and also the similar financing structure comparing to 31 December 2005. The Company keeps relatively low level of leverage which influences positively the stability of financing ratio.

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 similar periods of the prior years. In practice the ratio has similar level in 2006 and 2005, 80,3% and 80,2% respectively and increased by over 3 pp in comparison to the balance as at 31 December 2004 in which it amounted to 76,9%. The debt ratio decreased by 1 pp from 31,2% in 2005 to 30,2% as at 31 December 2006. As at 31 December 2004 this ratio amounted to 33,8%.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding 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 consolidated financial statements for the year ended 31 December 2006, the Management Board of the holding company has stated that the financial statements of subsidiaries and joint ventures included in the consolidated financial statements were prepared on the assumption that these entities 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. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group’s accounting policies and rules for the presentation of data are detailed in Note 10 of the additional notes and explanations to the Group’s consolidated financial statements for the year ended 31 December 2006. During the audited reporting period, there have been no changes in the accounting policies.

3. Structure of assets, liabilities and equity

The structure of the Group’s assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2006.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

In the auditors’ opinion we have disclosed qualifications and emphases of matter to the following positions of the consolidated financial statements:

- fixed assets – paragraphs 5 and 9c of the auditors’ opinion,
- prepayments for assets under construction – paragraph 9a of the auditors’ opinion,
- goodwill – paragraph 9b of the auditors’ opinion,
- provisions – paragraphs 6 and 9d of the auditors’ opinion,
- investments in associates and short-term investments – paragraph 7 of the auditors’ opinion.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining goodwill impairment, the impairment charged in the financial year and up to the balance sheet date were presented in Note 16 of additional notes and explanations to the consolidated financial statements.

In the auditors’ opinion on the consolidated financial statements for the year ended 31 December 2006 we indicated the uncertainty of the realisable value of goodwill presented in the audited consolidated financial statement.
3.2 Shareholders’ funds including minority interest

The amount of shareholders’ funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders’ interest amounted to 306,416 thousand zlotys as at 31 December 2006. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders’ funds has been presented in Notes 25 and 28 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2006 and include the financial data for the period from 1 January 2006 to 31 December 2006.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the group’s result for the year

Details of the items which have an impact on the Group’s result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2006. In the auditors’ opinion we have disclosed qualifications and emphases of matter to the following positions of the consolidated financial statements:

- fixed assets – paragraphs 5 and 9c of the auditors’ opinion,
- prepayments for construction in progress – paragraph 9a of the auditors’ opinion,
- goodwill – paragraph 9b of the auditors’ opinion,
- provisions – paragraphs 6 and 9d of the auditors’ opinion,
7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in the International Financial Reporting Standards as approved by EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors’ opinion.

8. Work of Experts

During our audit we have taken into account the results of the work of independent actuary responsible for calculating the present value of future liabilities towards employees other than wages and from valuations of independent experts concerning shares in subsidiaries and associates.

Warsaw, 17 April 2007