



GRUPA LOTOS S.A.

**NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31ST 2005
PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS
ALONG WITH THE AUDITOR'S OPINION**

(Translation of a document originally issued in Polish)

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

PLN '000	Note	Dec 31 2005	Dec 31 2004
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,885,333	1,801,271
Intangible assets	13	44,035	43,911
Financial assets	14	686,507	252,904
		-----	-----
		2,615,875	2,098,086
Current assets			
Inventories	15	1,258,336	768,075
Trade and other receivables, including:	16	1,066,411	722,544
- income tax receivables	16	-	7,859
Prepayments	17	2,022	3,494
Current financial assets	18	133,938	43,234
Cash and cash equivalents	19	298,981	79,897
		-----	-----
		2,759,688	1,617,244
		=====	=====
Total assets		5,375,563	3,715,330
		=====	=====

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

PLN '000	Note	Dec 31 2005	Dec 31 2004
EQUITY AND LIABILITIES			
Equity			
Share capital	22	113,700	78,700
Reserve funds	22	970,951	-
Retained earnings/(deficit)		2,993,782	2,473,654
Total equity		4,078,433	2,552,354
Non-current liabilities			
Loans and borrowings	25	-	112,289
Non-current provisions	26	14,288	15,442
Deferred tax liability	34	178,079	190,959
Total non-current liabilities		192,367	318,690
Current liabilities			
Trade payables, accruals and deferred income, and other liabilities, including:	27	1,060,609	616,095
- income tax expense	27	60,211	-
Loans and borrowings	25	-	177,544
Current provisions	26	44,154	50,647
Total current liabilities		1,104,763	844,286
Total equity and liabilities		5,375,563	3,715,330

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

PLN '000	Note	Year ended Dec 31 2005	Year ended Dec 31 2004
Sales revenue	29	8,545,728	6,590,719
Cost of sales	30	(7,549,452)	(5,585,188)
Net profit/(loss) on sales		996,276	1,005,531
Other operating income	31	9,828	12,828
Selling costs	30	(312,637)	(248,141)
General and administrative expenses	30	(148,242)	(135,025)
Other operating expenses	32	(10,144)	(105,219)
Operating profit		535,081	529,974
Financial income	33	139,156	123,705
Financial expenses	33	(27,067)	(29,959)
Pre-tax profit		647,170	623,720
Corporate income tax	34	(114,902)	(128,305)
Profit after tax		532,268	495,415
Earnings per share	24		
- basic		5.51	6.29
- diluted		-	-

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

PLN '000	Note	Year ended Dec 31 2005	Year ended Dec 31 2004
Cash flows from operating activities			
Net profit		532,268	495,415
Adjustments:			
Depreciation and amortisation		173,211	164,119
Foreign exchange gains/(losses)		-	(36,821)
Net interest and dividend paid		(45,284)	(12,992)
(Profit)/loss on investing activities		(25,501)	44,900
Current income tax		114,902	128,305
Income tax paid		(57,592)	(136,503)
Increase in receivables	21	(351,726)	(13,292)
Increase in inventories		(490,261)	(287,111)
Increase/(decrease) in liabilities	21	371,499	(82,258)
Increase in accruals and deferred income		13,961	5,656
Increase/(decrease) in provisions	21	(2,254)	40,198
Decrease in prepayments and accrued income		1,472	271
Other, net	21	3	19,801
		-----	-----
Net cash provided by/(used in) operating activities		234,698	329,688
		-----	-----
Net cash provided by/(used in) investing activities			
Sale of property, plant and equipment and intangible assets		1,478	22,291
(Acquisition)/sale of financial assets		(90,193)	106,437
Dividend received		51,387	23,805
Interest received		298	703
Acquisition of property, plant and equipment and intangible assets		(269,659)	(122,302)
(Acquisition)/ sale of non-current financial assets		(234,890)	(17,675)
Other, net	21	(171,600)	(61,968)
		-----	-----
Net cash provided by/(used in) investing activities		(713,179)	(48,709)
		-----	-----
Cash flows from financing activities			
Increase in loans and borrowings		-	24
Share issue	22	1,015,000	-
Repayment of loans and borrowings		(289,316)	(208,065)
Repurchase of short-term debt securities		-	(18,000)
Interest paid		(6,985)	(11,684)
Dividends paid	23	(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 due to foreign exchange (gains)/losses		-	-
		=====	=====
Change in net cash		219,084	29,516
		=====	=====
Cash at beginning of period	21	79,897	50,381
		=====	=====
Cash at end of period	21	298,981	79,897
- restricted cash		-	12,540

GRUPA LOTOS S.A.
STATEMENTS OF CHANGES IN EQUITY
for 12-month periods ended December 31st 2005 and December 31st 2004

PLN '000	Share capital	Reserve funds	Revaluation capital reserve	Retained earnings/ (deficit)	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 the year 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
Net profit for the year ended Dec 31 2005	-	-	-	532,268	532,268
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	113,700	970,951	-	2,993,782	4,078,433

*Based on financial statements prepared in accordance with PAS.

1. General Information

Grupa LOTOS S.A. ("the Company"), the parent undertaking of the LOTOS 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 (currently: the District Court for Gdańsk – Północ, VII Commercial Division of the National Court Register), under entry No. KRS 0000106150. The Company was assigned the Industry Identification Number (REGON) 190541636.

The Company's registered office is situated at ul. Elbląska 135, 80-718 Gdańsk, 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.

As disclosed in the Company's Articles of Association, the Company's core business comprises manufacturing, trading, and provision of services, in particular:

- 1) Manufacture of refined petroleum products (PKD 23.20.A)
- 2) Processing of refined petroleum products (PKD 23.20.B)
- 3) Manufacture of industrial gasses (PKD 24.11.Z)
- 4) Manufacture of other inorganic basic chemicals (PKD 24.13.Z)
- 5) Manufacture of other organic basic chemicals (PKD 24.14.Z)
- 6) Manufacture of plastics (PKD 24.16.Z)
- 7) Production of electricity (PKD 40.11.Z)
- 8) Transmission of electricity (PKD 40.12.Z)
- 9) Distribution and sale of electricity (PKD 40.13.Z)
- 10) Manufacture of gaseous fuels (PKD 40.21.Z)
- 11) Distribution and sale of gaseous fuels through mains (PKD 40.22.Z)
- 12) Heat (steam and hot water) production (PKD 40.30.A)
- 13) Heat (steam and hot water) supply (PKD 40.30.B)
- 14) Collection and purification of water, with services provision excluded (PKD 41.00.A)
- 15) Services related to distribution of water (PKD 41.00.B)
- 16) Extraction of crude petroleum (PKD 11.10.A)
- 17) Extraction of natural gas (PKD 11.10.B)
- 18) General construction work related to linear engineering structures: pipelines, power supply lines and telecommunication transmission lines (PKD 45.21.D)
- 19) Wholesale of solid, liquid and gaseous fuels and related products (PKD 51.51.Z)
- 20) Wholesale of chemical products (PKD 51.55.Z)
- 21) Transport via railway (PKD 60.10.Z)
- 22) Transport via pipelines (PKD 60.30.Z)
- 23) Cargo handling at sea ports (PKD 63.11.A)
- 24) Cargo handling at inland ports (PKD 63.11.B)
- 25) Cargo handling at other handling facilities (PKD 63.11.C)
- 26) Cargo storage and warehousing at sea ports (PKD 63.12.A)
- 27) Cargo storage and warehousing at inland ports (PKD 63.12.B)
- 28) Cargo storage and warehousing at other storage facilities (PKD 63.12.C)
- 29) Research and experimental development on chemical sciences and engineering (PKD 73.10.B)
- 30) Research and experimental development on technical sciences (PKD 73.10.G)
- 31) Research and experimental development on other natural sciences and engineering (PKD 73.10.H)

The Company's core business according to the Polish Classification of Business Activities (PKD) bears code "PKD 2320" – manufacture of refined petroleum products. The Company's segment of activities is manufacturing and distribution of crude oil, petroleum and chemical products.

2. Composition of the Supervisory and Management Boards

As at December 31st 2005, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Cezary Nowosad – Chairman of the Supervisory Board
Janusz Rachoń – Deputy Chairman of the Supervisory Board
Katarzyna Dawidczyk – Secretary of the Supervisory Board
Anna Andrzejczak – Member of the Supervisory Board
Beata Zawadzka – Member of the Supervisory Board
Grzegorz Urban – Member of the Supervisory Board
Robert Karwowski – Member of the Supervisory Board
Piotr Krupa – Member of the Supervisory Board
Jacek Mościcki – Member of the Supervisory Board

As at the date of release of these financial statements, the composition of the Supervisory Board of Grupa LOTOS S.A. is as follows:

Jan Szomburg – Chairman of the Supervisory Board
Grzegorz Szczodrowski – Secretary of the Supervisory Board
Jan Stefanowicz – Deputy Chairman of the Supervisory Board
Beata Zawadzka – Member of the Supervisory Board
Jacek Tarnowski – Member of the Supervisory Board
Henryk Siodmok – Member of the Supervisory Board
Jacek Mościcki – Member of the Supervisory Board

As at December 31st 2005 and the date of release of these financial statements, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

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

3. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on April 27th 2006.

4. Information Whether the Company is a Parent Undertaking or a Major Investor and Whether It Prepares Consolidated Financial Statements

Grupa LOTOS S.A. is the parent undertaking of the LOTOS Group and a major investor in subordinated undertakings and their related undertakings, controlled by the Company. Accordingly, Grupa LOTOS S.A. has prepared consolidated financial statements of its Group, which include these undertakings' financial data for the year ended December 31st 2005, and which were approved for publication by the Management Board on April 27th 2006.

5. Going Concern

The Company's financial statements were prepared on the assumption that the Company will continue its business activities for the 12 months subsequent to the balance-sheet date, i.e. December 31st 2005. As at the date of signing these financial statements, the Company's Management Board has identified no facts or circumstances that might pose a threat to the Company continuing as a going concern in the 12 months following the balance-sheet date as a result of a planned or compulsory discontinuation or substantial limitation of its business activities.

6. Duration of the Company

The duration of the Company is unlimited.

7. Balance-Sheet Date and the Period Covered by These Financial Statements

These financial statements of the Company comprise the balance-sheet data as at December 31st 2005 and December 31st 2004. The profit and loss account, the cash-flow statement, and the statement of changes in the Company's equity present the data for January 1st – December 31st 2005 along with the comparative data for January 1st – December 31st 2004.

The financial information as at December 31st 2005 and for the year then ended contained in these financial statements was audited. The financial information as at December 31st 2004 and for the year ended on December 31st 2004, which was prepared in accordance with the Polish Accounting Standards (PAS), was audited.

8. Measurement Currency and Reporting Currency

The measurement and reporting currency of these financial statements is the Polish zloty (PLN). These financial statements are presented in the zloty (PLN), and all the figures are presented in thousands of zlotys, unless indicated otherwise.

9. Basis for the Preparation of the Financial Statements

Starting from January 1st 2005, by virtue of the Polish Accountancy Act ("the Polish Accountancy Act"), companies may prepare 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 ("EU-endorsed IFRS"). On December 8th 2004, the Company's General Shareholders Meeting adopted a resolution approving the preparation of the Company's statutory financial statements in line with the EU-endorsed IFRS. As at the date of these financial statements' approval for publication, taking into account the ongoing implementation process of the IFRS standards by the EU as well as the Company's operations, there is no difference between the IFRS applied by the Company and the IFRS adopted by the European Union.

These financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") and the EU-endorsed IFRS. The IFRS include the standards and interpretations approved by the International Accounting Standards Board ("IASB") and by the International Financial Reporting Interpretation Committee ("IFRIC").

The International Accounting Standards Board issued International Financial Reporting Standard 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 non-compliance 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.

These financial statements are the first complete annual financial statements prepared in accordance with the IFRS. For the purpose of these financial statements, the date of transition to IFRS is January 1st 2004. The last financial statements prepared by the Company in accordance with the Polish Accounting Standards, as defined in the Polish Accountancy Act, were the financial statements prepared as at December 31st 2004.

In line with IFRS 1, the financial statements were prepared as if the Company had always applied the IFRS. The Company used the following exemption from the restatement obligation provided for in IFRS 1:

the entity determined deemed cost of plant, property and equipment, and intangible assets by determining their fair value as at the date of transition to IFRS.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretation Committee but have not entered into force yet:

- IFRS 6: *Exploration for and Evaluation of Mineral Resources*
- IFRS 7: *Financial Instruments: Disclosures*
- Interpretation – IFRIC 4: *Determining Whether an Arrangement Contains a Lease*
- Interpretation – IFRIC 5: *Rights to Interests arising from Decommissioning, Restoration, and Environmental Rehabilitation Funds*
- Interpretation – IFRIC 6: *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
- Interpretation – IFRIC 7: *Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies*
- Interpretation – IFRIC 8: *Scope of IFRS 2*
- Interpretation – IFRIC 9: *Reassessment of Embedded Derivatives*

As at the date of these financial statements, the Company is in the process of determining the effect of the changes resulting from the first-time application of the above standards or interpretations on the financial statements. The Company believes this effect to be immaterial.

The Company does not prepare information on individual business segments, as it does not meet the requirements stipulated in IFRS 14: *Segment Reporting*.

10. Key Accounting Policies

These financial statements have been prepared in accordance with the historical cost principle, with the exception of financial derivatives, which are measured at fair value.

The key accounting policies adopted by the Company are presented below.

a) Intangible Assets

Intangible assets are recognised if the Company 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 Company's intangible assets are from 2 to 21 years.

b) 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.

c) Tangible Assets under Construction

Tangible assets under construction are recognised at total costs directly relating to their acquisition or production, including financial expenses, less impairment losses. Assets under construction are depreciated until completed and placed in service.

d) Impairment Losses

Property, plant and equipment and other non-current assets, 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.

e) 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.

f) Trade and Other Receivables

Trade receivables are initially recognised 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 Company 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.

g) Foreign Currency Transactions

Transactions denominated in foreign currencies are disclosed in the functional currency of the Company (Polish zloty) 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 is specified in another document binding on a given undertaking.

As at the balance-sheet date, cash assets and liabilities denominated in other currencies than the Polish zloty are translated into the zloty at the mid exchange rate quoted for a given currency by the National Bank of Poland (NBP) as at the end of the reporting period. The resulting foreign exchange gains and losses are carried as financial income/(expense), or – in cases provided for in the accounting policies – capitalised as assets. Non-cash assets and liabilities recognised at their historic cost expressed in a foreign currency are disclosed at the exchange rate effective on the transaction date. As at the balance-sheet date, non-cash assets and liabilities recognised at fair value expressed in a foreign currency are translated at the exchange rate effective on the date of the fair value measurement.

Exchange rates applied for the balance-sheet valuation purposes:

Mid exchange rate quoted by NBP	Dec 31 2005	Dec 31 2004
USD	3.2613	2.9904
EUR	3.8598	4.0790

h) 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 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.

i) Accruals and Deferrals

The Company discloses prepayments if they relate to future reporting periods. Accrued expenses are disclosed at probable values of current-period liabilities.

The Company's employees are entitled to holidays in accordance with the rules set forth in the Polish Labour Code. The Company 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.

j) 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 Grupa LOTOS S.A. is the share capital of the Company 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.

k) Provisions

Provisions are created when the Company has a liability (legal or following from commercial practice) resulting from past events and when it is 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. If the Company anticipates that cost covered by provisions will be reimbursed, e.g. under an insurance agreement, reimbursement of such funds is disclosed as a separate item of assets, but only when such reimbursement is practically certain to occur; cost related to a given provision is disclosed in the profit and loss account, less any received reimbursements. If the effect of time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to present value at gross discount rates reflecting the current market estimates of the time value of money and risks, if any, related to a given liability. If the discount method is applied, an increase in provisions as a result of lapse of time is disclosed as financial expenses.

l) Retirement Severance Pays and Length-of-Service Awards

The Company has 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.

m) Interest-Bearing Bank Loans, Borrowings, and Debt Securities

All bank loans, borrowings, and debt securities are initially recognised at acquisition cost equal to the fair value of funds received, less cost of obtaining the loan or borrowing.

Following initial recognition, interest-bearing loans, borrowings, and debt securities are valued at amortised acquisition cost, using the effective interest rate method. Amortised acquisition cost includes cost of obtaining the loan or borrowing as well as discounts or premiums obtained at settlement of the liability. Gains or losses are charged to the profit and loss account upon removal of the liability from the balance sheet or recognition of value impairment.

n) 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.

o) Government Subsidies

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

If a subsidy concerns a cost item, it is recognised as income in matching with the expenses it is to compensate for. If it concerns an asset, its fair value is recognised as accruals and deferred income, and then it is written off annually in equal parts through profit or loss over the estimated useful life of the asset.

p) Emission Credits

The Company recognises emission credits in its financial statements based on the net liability method – the Company recognises only those liabilities that result from exceeding the emission credits limit granted to it, and the liability is recognised only after the Company actually exceeds the limit. Income from the sale of unused emission credits is recognised in the profit and loss account at the time of sale.

q) 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.

For the purposes of financial reporting, the Company creates a deferred tax liability using the balance-sheet liability method in relation to all temporary differences existing as at the balance-sheet date between the tax base of assets and liabilities and their balance-sheet value as disclosed in the financial statements.

Deferred tax liability is recognised for all taxable temporary differences:

- except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are disclosed in relation to all deductible temporary differences, unused tax credits, and unused tax losses brought forward in the amount of the probable taxable income which would enable these differences, assets and losses to be used:

- except to the extent that the deferred tax asset related to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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.

Income tax related to items posted directly to equity is disclosed under equity and not in the profit and loss account.

r) 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 recognised at fair value through profit or loss;
- Financial instruments held to maturity which are recognised at amortised cost using the effective interest rate,
- Loans and accounts receivable which are recognised at 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 recognised at amounts due.
- Financial instruments available for sale which are recognised 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 profit and loss account.

The fair value of financial instruments for which a ready market exists is determined 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 Company 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.

s) Recognition of Revenue

Revenue is recognised in the amount of probable economic benefits related to a given transaction and when the amount of revenue can be reliably estimated.

t) 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.

u) Interest

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

v) Dividends

Dividend is recognised as financial income as of the date on which the appropriate governing body of the Company adopts a resolution concerning distribution of profit, unless the resolution specifies another dividend record date.

w) 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 areas in which the Management Board prepared estimates include provisions, property, plant and equipment, as well as intangible assets. The material assumptions used in the estimates are described in the relevant notes.

x) 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 Company does not disclose the diluted earnings/loss per share, since no factors which would dilute earnings per share occur.

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

In connection with changes in the accounting policies, the data contained in these 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	Non-consolidated equity as at		Non-consolidated net profit as at
	Jan 1 2004	Dec 31 2004	Year 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)
Valuation 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 presented in the non-consolidated financial statements for the year ended December 31st 2004 (Polish Accounting Standards (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 prepared in accordance with the PAS, 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 should present the changes resulting from the applied exchange rate as change of estimates. Due to the above, 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.

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

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 primarily to the perpetual usufruct of land received free of charge, which was not recorded in the accounting records kept in accordance with the 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	17,576	30,727	13,151	13,151
Land, including held in perpetual usufruct	3,181	174,914	171,733	171,733
Buildings and structures	644,617	938,450	293,833	293,833
Plant and equipment	459,981	695,527	235,546	235,546
Vehicles	1,882	4,873	2,991	2,991
Other tangible assets	578	24,337	23,759*	44
	=====	=====	=====	=====
Total	1,127 815	1,868,828	741,013	717,298
	=====	=====	=====	=====

*The adjusted value reflects the transfer of catalysers and spare parts disclosed in the financial statements prepared in accordance with the PAS under prepayments and accrued income and under inventories, respectively.

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.

Assets for Social Purposes and Liabilities of the Company's Social Benefits Fund

The Act on Employee Benefits Fund of March 4th 1994, as amended, stipulates that each employer of more than 20 staff (full-time job equivalents) should create a Social Benefits Fund. Pursuant to the Act and in line with internal regulations, the Group has created such a fund and makes periodic contributions, charged against costs. The purpose of the Company's Social Benefits Fund is to subsidise social activities, finance loans to employees and other costs related to social activities.

As follows from Note 28, the Company offsets the Fund's assets against its liabilities to the Fund since these assets are not fully controlled by the Company.

Items of the Financial Statements

The items of 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 financial statements as required under the PAS differs from that required under the IFRS.

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

12. Property, Plant and Equipment

PLN '000	Dec 31 2005	Dec 31 2004
Land	174,915	174,915
Buildings and structures	954,661	898,262
Plant and equipment	613,549	590,880
Vehicles and other tangible assets	28,863	17,798
Tangible assets under construction	113,345	119,416
Total	1,885,333	1,801,271

Changes to Property, Plant and Equipment

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Gross book value as at Jan 1 2004	174,936	939,418	735,510	26,412	31,840	25,240	1,933,356
Increase, including:	-	5,774	13,049	1,257	6,912	94,316	121,308
- purchase	-	-	-	-	6,121	123,650	129,771
- settlement of investments	-	5,774	13,049	1,257	791	(37,078)	(16,207)
- other	-	-	-	-	-	7,744	7,744
Decrease, including:	-	(123)	(52,510)	(23,083)	(594)	(140)	(76,450)
- sale	-	-	(50,796)	(22,912)	(554)	(132)	(74,394)
- liquidation	-	(123)	(1,714)	(12)	(40)	-	(1,889)
- other	-	-	-	(159)	-	(8)	(167)
Gross book value as at Dec 31 2004	174,936	945,069	696,049	4,586	38,158	119,416	1,978,214
Increase, including:	-	104,330	133,386	346	22,569	3,362	263,993
- purchase	-	-	42	-	22,106	246,123	268,271
- settlement of investments	-	104,330	133,344	346	463	(244,499)	(6,016)
- other	-	-	-	-	-	1,738	1,738
Decrease, including:	-	(115)	(6,937)	(443)	(203)	(9,433)	(17,131)
- sale	-	-	(1,029)	(394)	(17)	-	(1,440)
- liquidation	-	(115)	(5,905)	(2)	(186)	-	(6,208)
- other	-	-	(3)	(47)	-	(9,433)	(9,483)
Gross book value as at Dec 31 2005	174,936	1,049,284	822,498	4,489	60,524	113,345	2,225,076
Accumulated depreciation as at Jan 1 2004	21	968	39,984	21,539	7,503	-	70,015
Increase, including:	-	45,911	99,684	477	14,991	-	161,063
- depreciation	-	45,911	99,684	477	14,991	-	161,063
- other	-	-	-	-	-	-	-
Decrease, including:	-	(72)	(34,499)	(19,180)	(385)	-	(54,136)
- sale	-	-	(32,839)	(19,116)	(347)	-	(52,302)
- liquidation	-	(72)	(1,660)	(12)	(38)	-	(1,782)
- other	-	-	-	(52)	-	-	(52)
Accumulated depreciation as at Dec 31 2004	21	46,807	105,169	2,836	22,109	-	176,942
Increase, including:	-	47,822	107,513	566	11,114	-	167,015
- depreciation	-	47,822	107,513	566	11,114	-	167,015
- other	-	-	-	-	-	-	-
Decrease, including:	-	(6)	(3,733)	(288)	(187)	-	(4,214)
- sale	-	-	(197)	(239)	(15)	-	(451)
- liquidation	-	(6)	(3,536)	(2)	(172)	-	(3,716)
- other	-	-	-	(47)	-	-	(47)

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Accumulated depreciation as at Dec 31 2005	21	94,623	208,949	3,114	33,036	-	339,743
Impairment charges as at Jan 1 2004	-	-	-	-	-	-	-
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Impairment charges as at Dec 31 2004	-	-	-	-	-	-	-
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	-	-	-	-
Impairment charges as at Dec 31 2005	-	-	-	-	-	-	-
Net book value as at Jan 1 2004	174,915	938,450	695,526	4,873	24,337	25,240	1,863,341
Net book value as at Dec 31 2004	174,915	898,262	590,880	1,750	16,049	119,416	1,801,271
Net book value as at Dec 31 2005	174,915	954,661	613,549	1,375	27,488	113,345	1,885,333

13. Intangible Assets

PLN '000	Dec 31 2005	Dec 31 2004
Development expense	306	-
Software	1,345	1,563
Patents and licences	42,249	42,167
Other	135	181
Total	44,035	43,911

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Changes in Intangible Assets

PLN '000	Development expense	Software	Patents and licences	Other	Total
Gross book value as at Jan 1 2004	100	2,026	30,653	225	33,004
Increase	-	105	16,189	-	16,294
Decrease	-	-	(152)	-	(152)
- sale	-	-	(152)	-	(152)
Gross book value as at Dec 31 2004	100	2,131	46,690	225	49,146
Increase	306	-	6,015	-	6,321
- settlement of investments	-	-	6,015	-	6,321
Decrease	-	-	-	-	-
Gross book value as at Dec 31 2005	406	2,131	52,705	225	55,467
Amortisation as at Jan 1 2004	88	399	1,790	-	2,277
Increase	12	169	2,830	45	3,056
- amortisation	12	169	2,830	45	3,056
Decrease	-	-	(97)	-	(97)
- sale	-	-	(97)	-	(97)
Amortisation as at Dec 31 2004	100	568	4,523	45	5,236
Increase	-	218	5,933	45	6,196
- amortisation	-	218	5,933	45	6,196
Decrease	-	-	-	-	-
Amortisation as at Dec 31 2005	100	786	10,456	90	11,432
Impairment charges as at Jan 1 2004	-	-	-	-	-
Increase	-	-	-	-	-
Decrease	-	-	-	-	-
Impairment charges as at Dec 31 2004	-	-	-	-	-
Increase	-	-	-	-	-
Decrease	-	-	-	-	-
Impairment charges as at Dec 31 2005	-	-	-	-	-
Net book value as at Jan 1 2004	12	1,627	28,863	225	30,727
Net book value as at Dec 31 2004	-	1,563	42,167	180	43,910
Net book value as at Dec 31 2005	306	1,345	42,249	135	44,035

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

14. Non-Current Financial Assets

PLN '000	Dec 31 2005	Dec 31 2004
Shares in subsidiary undertakings	435,081	158,543
Shares in associated undertakings	150	14,119
Shares in other undertakings	6,395	1,509
Other non-current financial assets, including:	244,881	74,781
- additional contributions to equity	241,981	74,781
- loans granted	2,900	-
Debt securities	-	3,952
	=====	=====
Total	686,507	252,904
	=====	=====

Undertakings in which the Company Holds Shares or Votes at the General Shareholders Meeting

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

Name	Registered office	Business profile	Percentage of share capital held by the Group		Balance-sheet value of shares	
			Dec 31 2005	Dec 31 2004	Dec 31 2005	Dec 31 2004
LOTOS Paliwa Sp. z o.o.	Gdańsk	wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	100.00%	100.00%	114,706	114,706
LOTOS Partner Sp. z o.o.	Gdańsk	sales of fuels and provision of services for retail networks of international concerns; logistic services	100.00%	100.00%	13,642	13,642
LOTOS Mazowsze S.A.	Mława	sales of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)	100.00%	100.00%	16,284	16,284
LOTOS Oil S.A.	Gdańsk	production and sale of lubricating oils and lubricants, and domestic sales of base oils	100.00%	100.00%	505	505
LOTOS Asfalt Sp. z o.o.	Gdańsk	production and sale of bitumens	100.00%	100.00%	78	78
LOTOS Ekoenergia S.A.	Gdańsk	construction of basic PKRT units; the company has not commenced operations	100.00%	100.00%	505	505
LOTOS Kolej Sp. z o.o.	Gdańsk	railway transport	100.00%	100.00%	233	233
LOTOS Serwis Sp. z o.o.	Gdańsk	maintenance of mechanical and electric operations and controlling devices, repairs	100.00%	100.00%	2,520	2,520
LOTOS Lab Sp. z o.o.	Gdańsk	laboratory testing	100.00%	100.00%	50	50
LOTOS Straż Sp. z o.o.	Gdańsk	fire protection	100.00%	100.00%	3,906	3,906
LOTOS Ochrona Sp. z o.o.	Gdańsk	personal and property protection	87.44%	87.44%	265	265
LOTOS Parafiny Sp. z o.o.	Jasło	production and sale of paraffin	100.00%	26.00%	20,843	5,170
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	80.04%	-	13,918	-

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Name	Registered office	Business profile	Percentage of share capital held by the Group		Balance-sheet value of shares	
			Dec 31 2005	Dec 31 2004	Dec 31 2005	Dec 31 2004
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	80.01%	-	-	-
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	acquisition of reserves, crude oil and natural gas production	69.00%	-	245,931	-
UAB LOTOS Baltija	Lithuania	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	100.00%	60.29%	1,158	642
BiproRaf Sp. z o.o.	Gdańsk	design services for oil industry	50.00%	50.00%	35	35
Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy) (Glimar Refinery)	Gorlice	refining (currently discontinued due to the company's bankruptcy)	91.54%	-	-	-
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	100.00%	100.00%	51	1
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	management of the Glimar Refinery assets	90.00%	100.00%	451	1
Total shares in subsidiary undertakings					435,081	158,543
Naftoport Sp. z o.o.	Gdańsk	operation of reloading terminals for crude oil and petroleum products	⁽³⁾ -	25.64%	-	13,969
LOTOS Tank Sp. z o.o.	Jasło	wholesale of liquid and gaseous fuels and derivative products	30.00%	30.00%	150	150
Total shares in associated undertakings					150	14,119
Naftoport Sp. z o.o.	Gdańsk	operation of reloading terminals for crude oil and petroleum products	8.97%	⁽³⁾ -	6,312	-
Daltrade Ltd.	London	import and distribution of chemical products	1.99%	1.99%	83	83
PPU Ciech S.A.	Warsaw	distribution of chemicals and provision of comprehensive services for domestic and foreign markets	⁽⁴⁾ -	1.44%	-	1,426
Total shares in other undertakings					6,395	1,509

⁽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⁾ 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 Przeladunku 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, as at December 31st 2005 Grupa LOTOS S.A. holds an 8.97% equity interest in Naftoport Sp. z o.o. The Company realised a profit of PLN 26,344 thousand as a result of selling a part of its interest in Naftoport.

⁽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.

Changes in the Number of Shares Held by the Company

PLN '000	Shares in subsidiary	Shares in associated	Shares in other
----------	----------------------	----------------------	-----------------

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

	undertakings	undertakings	undertakings
Book value as at Dec 31 2004	158,543	14,119	1,509
Shares acquired ⁽¹⁾	276,538	-	-
Shares sold	-	(7,657)	(1,426)
Transfers	-	(6,312)	6,312
	=====	=====	=====
Book value as at Dec 31 2005	435,081	150	6,395
	=====	=====	=====

⁽¹⁾ The agreement of January 13th 2005, under which Grupa LOTOS S.A. purchased shares in Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Petrobaltic S.A. (69.00%) and Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy) (91.54%) from Nafta Polska S.A., was finalised on February 3rd 2005. Under the agreement, the total value of shares sold stood at PLN 257,276 thousand. The value of the acquired shares was PLN 259,849 thousand. Under the agreement of December 16th 2005, the Company acquired shares in LOTOS Parafiny Sp. z o.o. for a total of PLN 15,674 thousand. On November 16th 2005, Grupa LOTOS S.A. acquired, for a total of PLN 516 thousand, 4,400 shares in UAB LOTOS Baltija of Lithuania, representing 39.71% of its share capital. Moreover, the values of shares in LOTOS Hydrokompleks Sp. z o.o. and LOTOS Park Technologiczny Sp. z o.o. increased by PLN 50 thousand and PLN 450 thousand, respectively.

15. Inventories

PLN '000	Dec 31 2005	Dec 31 2004
Finished products	303,779	97,353
Semi-finished products and work in progress	228,478	124,676
Goods for resale	17,557	111,312
Materials	708,522	434,734
	=====	=====
Net inventories	1,258,336	768,075
	=====	=====

As at December 31st 2005, the balance-sheet value of inventories recognised at net selling prices was PLN 79,183 thousand (PLN 48,373 thousand as at December 31st 2004).

Valuation Allowances for Inventories

PLN '000	Dec 31 2005	Dec 31 2004
Finished products	2,578	7,574
Semi-finished products and work in progress	-	-
Goods for resale	-	-
Materials	7,056	5,688
	=====	=====
Total valuation allowances for inventories	9,634	13,262
	=====	=====

During the year ended December 31st 2005, the Company made a valuation allowance for inventories in the amount of PLN 9,442 thousand and released a valuation allowance for inventories in the amount of PLN 13,070 thousand.

Mandatory Liquid Fuel Reserves

Pursuant to Art. 19a.5 of the Polish State Reserves and Mandatory Fuel Reserves Act of May 30th 1996 (Dz.U. No. 90, item 404 and No. 156, item 775, Dz.U. of 1997, No. 121, item 770, Dz.U. of 2000, No. 43, item 487, Dz.U. of 2001, No. 129, item 1442, and Dz.U. of 2002 No. 25, item 253), the producer and importer of liquid

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

fuels determines the quantity of mandatory liquid fuel reserves, hereinafter referred to as “reserves,” based on the volume of production and imports of liquid fuels, less any exports, in the previous calendar year, taking into account the schedule for reaching the required volume of liquid fuel reserves determined as at the end of a given year, in accordance with the appendix to the Regulation of the Minister of Economy on the schedule for the creation of liquid fuel reserves, dated June 14th 2002.

This schedule specifies the path to reach in 2008 the level of reserves corresponding to the level of 76-day average consumption in the previous year. Together with the existing economic reserves accounting for a 14-day consumption level, the level of 90-day reserves will be reached, as required by the EU regulations.

In each subsequent year, the required level of reserves should be increased by the reserves volume required for such number of days as is specified for each subsequent year in the Regulation; the basis for calculations for a producer or importer is the volume of production or import, less any exports, computed on the basis of the previous year’s figures.

Mandatory fuel reserves may be stored in the form of finished products, semi-finished products and crude oil. However, the total volume of reserves in the form of semi-finished products and crude oil (taking into account the capacity for processing crude oil into fuels) may not exceed 80%. If a fuel producer processing crude oil plans to store the reserves in the form of semi-finished products and crude oil, such producer is obliged to obtain an approval from the Minister of Economy and Labour in the form of an administrative decision.

Pursuant to the abovementioned Act, the Company was obliged in 1998 to maintain liquid fuel reserves at the level corresponding to 2% of the production or import volume in the previous year. Starting from 1999, the required level of mandatory reserves increases each year by 2% of the production or import volume, so as to reach by the end of 2008 the level of 76-day production and/or import volume (moreover, the Minister of Economy is responsible for the creation of liquid fuel economic reserves at the level corresponding to 14-day fuel consumption in a given year. The Minister may transfer this responsibility onto the Company).

In the balance sheet, the Company disclosed the following mandatory reserves:

PLN ‘000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Mandatory reserves	744,322	411,772

16. Trade and Other Receivables

PLN ‘000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Trade receivables, including:	1,046,133	712,714
- from related undertakings	915,448	549,150
- from other undertakings	130,685	163,564
Receivables from the state budget, including:	-	7,859
- income tax	-	7,859
Other receivables, including:	20,278	1,971
- from related undertakings	94	126
- from other undertakings	20,184	1,845
	=====	=====
Net receivables	1,066,411	722,544
Valuation allowance for receivables	71,780	72,734
	=====	=====
Gross receivables	1,138,191	795,278
	=====	=====

Information on transactions with related parties is presented in Note 40. The payment period for trade receivables in the normal course of sales is 14–50 days.

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Impairment Charges on Receivables

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Beginning of period	72,734	6,626
Increase	9,029	66,439
Decrease	(9,983)	(331)
	=====	=====
End of period	71,780	72,734
	=====	=====

17. Prepayments

PLN '000	Dec 31 2005	Dec 31 2004
Property and other insurance	1,882	2,118
Other	140	1,376
	=====	=====
Total	2,022	3,494
	=====	=====
Current	2,022	3,494
Non-current	-	-

18. Current Financial Assets

PLN '000	Dec 31 2005	Dec 31 2004
Positive valuation of financial instruments, including:		
- Currency forwards	5,328	21,191
- Currency swaps	2,016	1,678
- Currency and interest rate swaps	24	-
Repo transactions	3,288	19,513
Redeemable treasury bonds	30,024	-
Treasury bills	3,879	-
Treasury bills	93,140	22,043
Other	1,567	-
	=====	=====
Total	133,938	43,234
	=====	=====

19. Cash and cash equivalents

PLN '000	Dec 31 2005	Dec 31 2004
Cash in hand and cash at banks	298,981	79,803
Other cash	-	94
	=====	=====
Total	298,981	79,897
	=====	=====

Cash at banks and cash in hand bears interest at variable rates set according to the interest rate for one-day bank deposits. Short-term deposits are placed for various periods ranging from one day to one month, depending on the Company's current demand for cash, and bear interest at the interest rates set for them.

As at December 31st 2005, the amount of undrawn loan funds available to the Company was PLN 579,680 thousand (as at December 31st 2004: PLN 232,221 thousand); all conditions precedent relating to these loans had been fulfilled. 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 abovementioned agreement, whereby the amount of the stand-by loan was reduced 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.

20. Methods and Material Assumptions Adopted for Measuring Financial Assets and Liabilities at Fair Value

Overview of financial instruments

The Company is exposed to market risk, including, in particular, fluctuations of the refining margin, exchange rates and interest rates. It manages those risks using derivatives and other financial instruments. The Company does not issue any derivative financial instruments held for trading.

The Company has implemented written guidelines for currency risk management; these guidelines define the risk tolerance level and the general risk management policy. The Company has also developed procedures designed to ensure timely and detailed monitoring and control of hedging transactions. At the meetings of the Risk Management Committee ("RMC"), results of currency risk management and results on derivatives hedging commodity risk are presented. The RMC is also responsible for recommending management strategies for individual risk types to the Management Board and proposing hedging transactions exceeding predefined risk limits.

As it does not meet formal requirements, the Company does not apply hedging accounting; accordingly, any change in fair value of derivatives is charged to the profit and loss account. The fair value of financial instruments corresponds to their book value.

Description of Financial Instruments

Financial assets and liabilities held for trading

Financial assets held for trading comprise treasury bills and investment certificates. The Company discloses derivative transactions with positive fair values under financial assets held for trading. These transactions include unrealised forwards and swaps. Derivative transactions with negative fair value are disclosed under financial liabilities held for trading.

Financial assets available for sale

Non-current financial assets available for sale measured at fair value as at December 31st 2005 and December 31st 2004 include mainly shares and equity interests for which there is no active market.

Loans advanced and receivables

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

As at December 31st 2005 and December 31st 2004, assets under the advanced loans were fully covered by an allowance. As at the above dates, the Company also maintained a provision for the remaining amounts due under these agreements

On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt.

On September 8th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 2,500 thousand to LOTOS Parafiny Sp. z o.o. The loan, repayable in full by the end of 2008, is intended to finance the investment in a candle production plant in Czechowice.

On August 24th 2005, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 1,900 thousand to LOTOS Park Technologiczny Sp. z o.o. The loan is to be repaid in full by the end of August 2008.

Financial assets held to maturity

Financial assets held to maturity comprise purchased treasury bonds.

Commodity risk

The most material component of commodity risk is the refining margin defined as the difference between the price of product sold and the price of raw materials purchased. At its monthly meetings, the RMC adopts decisions concerning proposed hedging transactions. These decisions are subject to final approval by the President of the Management Board.

Interest rate risk

The exposure to market risk arising in connection with interest rate fluctuations primarily relates to loans with variable interest rates, reinvestment of free cash, and the balance of future cash flows. The Company does not use derivative financial instruments to hedge its investment portfolio. In order to ensure liquidity of this portfolio, the Company invests a significant portion of assets in debt securities for which there is a ready secondary market or another market on which such securities may be sold.

Currency risk

Main sources of currency risk are raw material imports, product exports, domestic sales indexed to foreign currencies and loans denominated in foreign currencies. Currency risk management is based on planned net foreign currency positions, in line with the assumptions stipulated in "Currency Risk Management Strategy for Grupa LOTOS S.A.", which also defines the maximum limit of the total foreign currency position and the gross global position to which the Company may be exposed in a budget year. The limit is expressed as a percentage of the Company's equity. The risk management falls within the powers of the RMC or the risk management division, depending on current risk exposure.

Credit risk

As a rule, the Company executes transactions with recognised companies of good credit standing. All customers requesting trade credit undergo verification of their financial reliability. Moreover, thanks to ongoing monitoring of receivables, the risk of uncollectible receivables is low.

In terms of the Company's other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivatives, the Company's credit risk arises as a result of the other party's inability to make the payment, and the maximum exposure to this risk is equal to the balance-sheet value of such instruments.

There is no material concentration of the credit risk within the Company.

The Company has developed a system for determining limits of exposure with respect to individual counterparties in a transaction, based on ratings granted by recognised rating agencies, solvency ratios, and value of equity of both Grupa LOTOS S.A. and the counterparties. Results on hedging transactions are taken into account in exposure measurement. The Company executes the transactions chiefly with undertakings from its Group.

Financial assets and liabilities

Changes in financial assets and liabilities by category in consecutive reporting periods:

(PLN '000)	Financial assets held for trading	Financial liabilities held for trading	Loans advanced and receivables	Financial assets held to maturity	Financial assets available for sale
Opening balance as at Jan 1 2005	43,234	-	-	3,952	1,509
Gross value	22,029	-	48,039	3,783	1,927
Revaluation	21,205	-	(48,039)	169	(418)
Increase, including:	8,100,389	-	4,467	-	6,312
Acquisition	8,091,910	-	4,400	-	-
Revaluation	8,479	-	67	-	-
Other	-	-	-	-	6,312
Decrease, including:	(8,015,131)	-	-	(73)	(1,426)
Sale	(7,993,926)	-	-	-	(1,426)
Revaluation	(21,205)	-	-	(73)	-
Closing balance as at Dec 31 2005	128,492	-	4,467	3,879	6,395
Gross value	120,013	-	52,439	3,783	6,813
Revaluation	8,479	-	(47,972)	96	(418)
Balance-sheet disclosure					
Long-term investments	-	-	2,900	-	6,395
Short-term investments	128,492	-	1,567	3,879	-
Current liabilities	-	-	-	-	-
	-----	-----	-----	-----	-----
Total	128,492	-	4,467	3,879	6,395
	=====	=====	=====	=====	=====

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

(PLN '000)	Financial assets held for trading	Financial liabilities held for trading	Loans advanced and receivables	Financial assets held to maturity	Financial assets available for sale
Opening balance as at Jan 1 2004	194,630	-	-	3,893	1,509
Gross value	174,939	-	28,407	3,783	1,927
Revaluation	19,691	-	(28,407)	110	(418)
Increase, including:	5,826,045	-	19,632	169	-
Acquisition	5,804,840	-	19,632	-	-
Revaluation	21,205	-	-	169	-
Decrease, including:	(5,977,441)	-	(19,632)	(110)	-
Sale	(5,957,750)	-	-	-	-
Revaluation	(19,691)	-	(19,632)	(110)	-
	-----	-----	-----	-----	-----
Closing balance as at Dec 31 2004	43,234	-	-	3,952	1,509
Gross value	22,029	-	48,039	3,783	1,927
Revaluation	21,205	-	(48,039)	169	(418)
Balance-sheet disclosure					
Long-term investments	-	-	-	3,952	1,509
Short-term investments	43,234	-	-	-	-
Current liabilities	-	-	-	-	-
	-----	-----	-----	-----	-----
Total	43,234	-	-	3,952	1,509
	=====	=====	=====	=====	=====

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Value of derivative transactions as at December 31st 2005 (PLN '000):

Company	Type of forward transaction	Transaction execution date	Transaction settlement date*	Forward rate	Currency pair	Base amount sold at closing (EUR '000)	Base amount sold at closing (PLN '000)	Fair value as at Dec 31 2005 (PLN '000)**
Grupa LOTOS S.A.	Currency forward	Jul 6 2005	Apr 24 2006	2.7	CHF/PLN	-	53,747	3,501
Grupa LOTOS S.A.	Currency forward	Dec 20 2005	Jan 12 2006	3.2	USD/PLN	-	32,152	(501)
Grupa LOTOS S.A.	Currency forward	Dec 30 2005	Feb 2 2006	3.9	EUR/PLN	-	5,028	(5)
Grupa LOTOS S.A.	Currency swap	Dec 30 2005	Jan 31 2006	2.8	JPY/PLN	-	99,655	24
						-		
							TOTAL	3,019

Company	Type of forward transaction	Transaction execution date	Transaction settlement date*	Forward rate	Currency pair	Base amount bought at closing (EUR '000)	Base amount bought at closing (PLN '000)	Fair value as at Dec 31 2005 (PLN '000)**
Grupa LOTOS S.A.	Currency forward	Dec 20 2005-Tue	Jan 5 2006-Thu	1.2	EUR/USD	24,000		(1,219)
Grupa LOTOS S.A.	Currency forward	Dec 27 2005-Tue	Jan 6 2006-Fri	3.2	USD/PLN		25,860	229
Grupa LOTOS S.A.	Currency forward	Dec 29 2005-Thu	Jan 6 2006-Fri	3.2	USD/PLN		32,581	31
Grupa LOTOS S.A.	Currency forward	Dec 30 2005-Fri	Jan 9 2006-Mon	3.3	USD/PLN		22,849	(20)
							Total	(979)
							TOTAL	2.040

* It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures laid down by banks.

** The fair value of a transaction is established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction) taken on the valuation day. In the case of currency swaps, in order to determine their fair value, such transactions are valued using forward rates calculated on the basis of spot rates and swap points quotations published by Reuters at 11am on the valuation date.

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Company	Type of forward transaction*	Transaction execution date	Contract term	Currency pair	Exchange rate	Base amount bought at closing (EUR '000)	Bank's reference rate	Reference rate	Fair value as at Dec 31 2005 (PLN '000)**
Grupa LOTOS S.A.	Currency and interest rate swap	Sep 4 2003	Sep 8 2003 – Apr 24 2006	CHF/PLN	2.9	57,200	6M CHF LIBOR	5.2	(8,291)
						Total	57,200		(8,291)

Company	Type of forward transaction*	Transaction execution date	Contract term	Currency pair	Exchange rate	Base amount sold at closing (EUR '000)	Bank's reference rate	Reference rate	Fair value as at Dec 31 2005 (PLN '000)**
Grupa LOTOS S.A.	Currency and interest rate swap	Sep 4 2003	Sep 8 2003 – Apr 24 2006	USD/PLN	4.0	57,200	5.2	2.8	11,579
						Total	57,200		11,579

TOTAL	114,400		3,288
--------------	----------------	--	--------------

* Purpose of the transaction:

- to hedge a long-term CHF-denominated loan bearing interest at the variable 6M CHF LIBOR rate. The purpose of the transaction was to mitigate the risk related to a change (increase) in the CHF/PLN exchange rate (affecting the principal) as well as the risk of a change (increase) in the 6M CHF LIBOR rate (affecting the repayment of interest);

- to hedge future receivables under domestic sales, sensitive to the USD exchange rate. The potential future receivables from domestic sales are dependent, by and large, on the USD/PLN exchange rate and are larger than the liabilities arising primarily in connection with the purchases of raw materials made in the U.S. dollars. Given the above, in order to safeguard its core business, Grupa LOTOS S.A. has a long currency position, and thus, it is exposed to the risk related to a decrease in the USD/PLN exchange rate. The purpose of the transaction was to mitigate the risk related to a change (decrease) in the USD/PLN exchange rate.

** As at end of period, the fair value of the financial instrument is established in accordance with the model applied by the bank.

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Value of derivative transactions as at December 31st 2004 (PLN '000)

Company	Type of forward transaction	Transaction execution date	Transaction settlement date*	Forward rate**	Currency pair	Base amount sold at closing (PLN '000)	Fair value as at Dec 31 2004 (PLN '000)***
Grupa LOTOS S.A.	Currency forward	Dec 20 2004	Jan 3 2005	3.1	USD/PLN	13,905	443
Grupa LOTOS S.A.	Currency forward	Dec 20 2004	Jan 4 2005	3.1	USD/PLN	13,906	443
Grupa LOTOS S.A.	Currency forward	Dec 20 2004	Jan 5 2005	3.1	USD/PLN	13,903	438
Grupa LOTOS S.A.	Currency forward	Dec 20 2004	Jan 6 2005	3.1	USD/PLN	13,905	438
Grupa LOTOS S.A.	Currency forward	Dec 28 2004	Jan 6 2005	3.0	USD/PLN	17,869	(84)
Total						73,488	1,678

* It is possible to settle the transaction early by taking an offsetting position and discounting the payment, or by means of other procedures laid down by banks.

** Exchange rates are rounded off to one decimal place.

*** The fair value of a transaction is established by marking to market. The resulting amount is the amount of a hypothetical offsetting position (closing the transaction) taken on the valuation day. In the case of currency swaps, in order to determine their fair value, such transactions are valued using forward rates calculated on the basis of spot rates and swap points quotations published by Reuters at 11am on the valuation date.

GRUPA LOTOS S.A.

Notes to the financial statements prepared for the year ended December 31st 2005

Company	Type of forward transaction*	Transaction execution date	Contract term	Currency pair	Exchange rate**	Base amount bought at closing (PLN '000)	Bank's reference rate	GL's reference rate**	Fair value as at Dec 31 2004 (PLN '000)***
Grupa LOTOS S.A.	Currency and interest rate swap	Apr 17 2003	Apr 24 2003 – Apr 25 2005	CHF/PLN	2.8	56,790	6M CHF LIBOR	5.1	(4,193)
Grupa LOTOS S.A.	Currency and interest rate swap	Sep 4 2003	Sep 8 2003 – Apr 24 2006	CHF/PLN	2.9	57,200	6M CHF LIBOR	5.2	(4,160)
Total						113,990			(8,353)

Company	Type of forward transaction*	Transaction execution date	Contract term	Currency pair	Exchange rate**	Base amount sold at closing (PLN '000)	Bank's reference rate**	GL's reference rate**	Fair value as at Dec 31 2004 (PLN '000)***
Grupa LOTOS S.A.	Currency and interest rate swap	Apr 17 2003	Apr 24 2003 – Apr 25 2005	USD/PLN	3.9	56,790	5.1	1.9	13,474
Grupa LOTOS S.A.	Currency and interest rate swap	Sep 4 2003	Sep 8 2003 – Apr 24 2006	USD/PLN	4.0	57,200	5.2	2.8	14,393
Total						113,990			27,867
TOTAL						227,980			19,514

* Purpose of the transaction:

- to hedge a long-term CHF-denominated loan bearing interest at the variable 6M CHF LIBOR rate. The purpose of the transaction was to mitigate the risk related to a change (increase) in the CHF/PLN exchange rate (affecting the principal) as well as the risk of a change (increase) in the 6M CHF LIBOR rate (affecting the repayment of interest);

- to hedge future receivables under domestic sales, sensitive to the USD exchange rate. The potential future receivables from domestic sales are dependent, by and large, on the USD/PLN exchange rate and are larger than the liabilities arising primarily in connection with the purchases of raw materials made in the U.S. dollars. Given the above, in order to safeguard its core business, Grupa LOTOS S.A. has a long currency position, and thus, it is exposed to the risk related to a decrease in the USD/PLN exchange rate. The purpose of the transaction was to mitigate the risk related to a change (decrease) in the USD/PLN exchange rate.

** Interest and exchange rates are rounded off to one decimal place.

*** As at end of period, the fair value of the financial instrument is established in accordance with the expert method applied by the bank.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

21. Cash Structure (supplementary information to the cash-flow-statement)

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Cash at banks	298,951	79,785
- current accounts	102,034	13,826
- deposits up to 1 year	196,917	65,959
Cash in hand	30	18
Other cash	-	94
	=====	=====
Total cash	298,981	79,897
	=====	=====

Breakdown of the Company's Activities as Disclosed in the Cash-Flow-Statement

Operating activities include transactions and events related to the core business of an undertaking and other activities which are not included in investing or financing activities.

Investing activities include transactions and events which consist in the purchase or sale of property, plant and equipment (tangible assets, tangible assets under construction), intangible assets, long-term investments and current financial assets (excluding cash and cash equivalents), as well as related monetary costs and benefits, excluding those related to income tax.

Financing activities include transactions and events which consist in the raising and repayment of funds from sources other than operating activities, as well as related monetary costs and benefits, excluding those related to income tax. The occurrence of cash flows in the financing activities gives rise to changes in the amount of equity and financial indebtedness and the proportion between them.

Causes of Differences between the Balance-Sheet Changes in Certain Items and Changes Disclosed in the Cash-Flow-Statement

Receivables	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
PLN '000		
Balance-sheet change in net non-current and current receivables	343,867	18,606
Change in income tax receivables	7,859	(5,314)
	-----	-----
Change in receivables as disclosed in the cash-flow-statement	(351,726)	(13,292)
Liabilities	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
PLN '000		
Balance-sheet change in current and non-current liabilities	140,716	(337,643)
Change in short- and long-term loans	289,833	263,030
Change in income tax liabilities	(60,211)	-
Change in investment liabilities	8,725	(7,645)
Other	(7,568)	-
	-----	-----
Change in liabilities as disclosed in the cash-flow-statement	371,499	(82,258)

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

Provisions PLN '000	Dec 31 2005	Dec 31 2004
Balance-sheet change in provisions	(20,527)	29,792
Change in deferred tax liability	12,880	2,884
Other	5,393	7,522
	-----	-----
Change in provisions as disclosed in the cash-flow-statement	(2,254)	40,198

Other Items of the Cash-Flow-Statement

The item "Other, net" under cash flows from operating activities includes the following adjustments:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Valuation allowance for non-current financial assets	-	19,632
Other	3	169
	=====	=====
Total other net items	3	19,801
	=====	=====

The item "Other, net" under cash flows from investing activities includes the following adjustments:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Contributions to equity	167,200	34,591
Loans advanced	4,400	19,632
Other	-	7,745
	=====	=====
Total other items, net	171,600	61,968
	=====	=====

22. 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.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

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.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

Structure of Grupa LOTOS S.A.'s share capital as at December 31st 2004:

	Number of shares	Number of votes	Par value of shares	% of share capital
State Treasury	787,803	787,803	7,878,030	10.01%
Nafta Polska S.A.	5,902,500	5,902,500	59,025,000	75.00%
Other shareholders	1,179,697	1,179,697	11,796,970	14.99%
Total	7,870,000	7,870,000	78,700,000	100.00%

On March 23rd 2005 the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. approved the increase of the Company's share capital through the issue of up to 35m Series B Shares. The par value of the shares was changed from PLN 10 to PLN 1 (1:10 split) – one share with the par value of PLN 10 corresponds to ten new shares with the par value of PLN 1 per share.

Structure of Grupa LOTOS S.A.'s share capital following registration of the changes and as at December 31st 2005:

	Number of shares	Number of votes	Par value of shares	% 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 "Statement of changes in equity"). The net proceeds from the share issue (net of the expenses directly related to the share issue, adjusted by income tax) reached PLN 1,005.9m.

23. Dividends

On May 13th 2005, the General Shareholders Meeting of the Company 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. Starting January 1st 2005, the Company shall distribute its net profit computed in accordance with the IFRS.

As at the date of these financial statements, the Company's Management Board has not made any decisions regarding distribution of the 2005 profit.

24. Earnings per Share

	Year ended Dec 31 2005	Year ended Dec 31 2004
Net profit (PLN '000) (A)	532,268	495,415
Weighted average number of shares (in thousands) (B)*	96,632	78,700
Earnings per share (A/B)	5.51	6.29

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

* 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 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 22). Earnings per share in 2004 were computed on the basis of the weighted average number of shares in the period January 1st – December 31st 2004, taking into account the split (see Note 22).

25. Loans, Borrowings and Other Financial Liabilities

Loans and Borrowings

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Bank loans	-	289,833
Borrowings	-	-
	=====	=====
Total	-	289,833
	=====	=====
Including:		
Non-current portion	-	112,289
Current portion	-	177,544

Loans and Borrowings by Lender

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Non-current portion		
Bank Consortium (Dresdner Bank Luxembourg S.A.- the agent)	-	112,289
	-----	-----
Total non-current portion	-	112,289
Current portion		
Kredyt Bank S.A.	-	29,000
BPH S.A.	-	35,714
Bank Consortium (Dresdner Bank Luxembourg S.A.- agent)	-	112,806
Citibank Handlowy S.A.	-	24
	-----	-----
Total current portion	-	177,544
	=====	=====
Total	-	289,833
	=====	=====

In the period January 1st – December 31st 2005, a number of changes occurred in the Company's loans and borrowings, including the following:

- In April 2005, the Company repaid CHF 42,500 thousand under a loan from Dresdner Bank Luxembourg;
- In June and August 2005 the Company 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;
- In October 2005, the Company prepaid the last instalment of a loan from Dresdner Bank Luxembourg, totalling CHF 42,500 thousand.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

26. Provisions

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Non-current provisions		
Length-of-service awards and retirement severance pays	14,288	14,588
Other provisions	-	854
	-----	-----
Total non-current provisions	14,288	15,442
Current provisions		
Length-of-service awards and retirement severance pays	2,193	2,032
Other provisions	41,961*	48,615*
	-----	-----
Total current provisions	44,154	50,647
	=====	=====
Total	58,442	66,089
	=====	=====

*Including the amount referred to in Note 20 to these financial statements.

Computation of the provisions for employee benefits as at December 31st 2005 was based on the following assumptions:

- the long-term annual remuneration growth rate is 1.8% (i.e. it equals the long-term annual inflation rate expected as at the balance-sheet date);
- discount rate for future payments of the benefits is 5.1% (i.e. it equals the yield rate on the safest long-term securities traded on the Polish capital market, as was effective on the balance-sheet date);
- the adopted employee turnover rate is based on the data submitted by the Group companies on employee turnover in 2001–2005;
- the adopted mortality and longevity ratios are based on the Life Expectancy Tables of Poland for 2004 published by the Polish Central Statistics Office (GUS) and assume that the Group's employee population is representative of the average Polish population in terms of mortality;
- it is assumed that the Group employees will retire according to the standard system, i.e. men – after their 65th birthday, women – after the 60th birthday, except for those employees who, based on the information provided by the Group companies, meet the conditions necessary to retire early.

PLN '000	Length-of-service awards and retirement severance pays	Other provisions	Total
As at Jan 1 2004	20,530	12,883	33,413
Increase	109	48,615	48,724
Decrease	(4,019)	(12,029)	(16,048)
	-----	-----	-----
As at Dec 31 2004	16,620	49,469	66,089
Increase	161	-	161
Decrease	(300)	(7,508)	(7,808)
	-----	-----	-----
As at Dec 31 2005	16,481	41,961	58,442
	=====	=====	=====

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

27. Current Liabilities, Accruals and Deferred Income

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Trade payables, including:	769,072	393,704
-to related undertakings	78,813	11,953
-to other undertakings	690,259	381,751
Liabilities to the budget, including:	257,915	190,488
- corporate income tax	60,211	-
Salaries and wages payable	1,484	1,664
Accrued expenses	20,743	6,782
Other liabilities, including:	11,395	19,710
-to related undertakings	907	763
-to other undertakings	10,488	18,947
	=====	=====
Total	1,060,609	616,095
	=====	=====

The terms of transactions with related undertaking are described in Note 40. Trade payables do not bear interest and are, as a rule, settled on a 7-30 day basis. Other liabilities do not bear interest, and their average payment period is one month. The amount resulting from the difference between VAT receivable and VAT payable is paid to the relevant tax authorities on a monthly basis. Interest payable is usually settled on a monthly basis during a financial year.

Pursuant to Art. 4.1.2. of the Excise Tax Act of January 23rd 2004 (Dz. U. of February 26th 2004), a tax liability arises e.g. at the moment of taking harmonised excise goods out of a tax warehouse. The Company is a registered tax warehouse in which harmonised excise goods are subject to suspended-excise-tax procedure and may be the object of the actions provided for in the Excise Tax Act.

28. Assets for Social Purposes and Liabilities of the Company's Social Benefits Fund

As was set out in Note 11 to these financial statements, the Company has offset the Fund's assets against its liabilities towards the Fund because the Fund's assets are not fully controlled by the Company.

The table below sets forth the Fund's assets and liabilities.

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Assets of the Company's Social Benefits Fund		
Cash on separate bank account of the Company's Social Benefits Fund	522	978
Receivables from employees under the Company's Social Benefits Fund	3,270	3,725
Other	-	37
	=====	=====
Total	3,792	4,740
	=====	=====
Liabilities of the Company's Social Benefits Fund		
Liabilities of the Company's Social Benefits Fund	3,790	4,740
Other	2	-
	=====	=====
Total	3,792	4,740
	=====	=====

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

29. Sales Revenue

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Sales of products	11,198,927	9,850,858
Sales of services	56,082	40,067
	-----	-----
Total sales of products	11,255,009	9,890,925
	-----	-----
Sales of goods for resale	882,813	378,522
Sales of materials	137,968	13,822
	-----	-----
Total sales of goods for resale and materials	1,020,781	392,344
	-----	-----
Total	12,275,790	10,283,269
	-----	-----
- including sales to related undertakings	8,702,287	6,565,400
Elimination of excise tax and fuel charge	(3,730,062)	(3,692,550)
	=====	=====
Total	8,545,728	6,590,719
	=====	=====

30. Cost by Type

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Depreciation and amortisation	173,211	164,119
Raw materials and energy used	6,663,565	4,888,628
Contracted services	514,484	414,340
Taxes and charges	39,721	36,111
Salaries and wages	65,310	63,689
Social security and other benefits	16,372	16,409
Other costs by type	42,338	33,209
Goods for resale and materials sold	815,148	401,599
	-----	-----
Total	8,330,149	6,018,104
	-----	-----
Adjustments:		
Change in products and adjustments in cost of sales	(319,818)	(49,750)
	=====	=====
Total operating expenses, including:	8,010,331	5,968,354
	=====	=====
Cost of sales	7,549,452	5,585,188
Selling costs	312,637	248,141
General and administrative expenses	148,242	135,025

31. Other Operating Income

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Gain on disposal of property, plant and equipment	488	273
Other operating income	9,340	12,555
	=====	=====
Total	9,828	12,828
	=====	=====

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

32. Other Operating Expenses

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Revaluation of non-financial assets	3,197	60,786
Other operating expenses	6,947	44,433
	=====	=====
Total	10,144	105,219
	=====	=====

33. Net Financial Income and Expenses

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Dividend received	51,387	23,805
Interest	13,402	5,154
Foreign exchange gains	21,207	72,859
Gains on disposal of investments	40,354	9,394
Other	12,806	12,493
	-----	-----
Total financial income	139,156	123,705
Interest	13,813	11,767
Revaluation of investments	12,797	18,060
Other	457	132
	-----	-----
Total financial expenses	27,067	29,959
	=====	=====
Net financial income (expenses)	112,089	93,746
	=====	=====

34. Corporate Income Tax

The main items of the Company's tax charge for the year ended December 31st 2005 and December 31st 2004:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Profit and loss account		
<i>Current tax</i>	127,782	131,189
Current tax liability	128,001	131,189
Adjustments related to tax brought forward	4	-
Other	(223)	-
<i>Deferred income tax</i>	(12,880)	(2,884)
related to created and reversed temporary differences	(12,880)	(2,884)
	=====	=====
Tax charge disclosed in the profit and loss account	114,902	128,305
	=====	=====
Statement of changes in equity		
<i>Current tax</i>	2,123	-
Tax impact of share capital increase	2,123	-
	=====	=====
<i>Deferred income tax</i>	-	-
	=====	=====
Tax benefit/(charge) disclosed under equity	2,123	-
	=====	=====

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

Reconciliation of the income tax on pre-tax profit (loss) calculated at the statutory tax rate with the income tax on pre-tax profit (loss) calculated at the Company's effective tax rate, for the year ended December 31st 2005 and December 31st 2004:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Pre-tax profit/(loss) on continuing operations	647,170	623,720
Pre-tax profit/(loss) on discontinued operations	-	-
Pre-tax profit/(loss)	647,170	623,720
	-----	-----
Corporate income tax at the statutory rate applicable in Poland: 19% (2004: 19%)	122,962	118,507
	-----	-----
Non-tax-deductible costs	202,135	206,982
Non-taxable income	(207,068)	(101,333)
Other	20,281	(38,902)
	-----	-----
Total	15,348	66,747
	-----	-----
Tax effect of the differences	2,916	12,682
	-----	-----
Corporate income tax	125,878	131,189
	-----	-----
Corporate income tax at the effective rate	0.19	0.21

As at December 31st 2005 and December 31st 2004, the net deferred tax liability comprises the following items:

PLN '000	Dec 31 2005	Dec 31 2004
Deferred tax asset		
Provision for employee benefits	3,131	3,158
Valuation allowance on inventories	1,831	2,520
Foreign exchange losses on foreign-currency settlements	1,395	-
Valuation allowance on accounts receivable	11,634	12,368
Other	6,229	3,269
	-----	-----
Total deferred tax asset	24,220	21,315
Deferred tax liability		
Difference between current tax value and book value of fixed assets	200,465	206,592
Positive valuation of foreign-currency settlements	184	1,332
Positive valuation of derivatives	1,012	4,050
Other	638	300
	-----	-----
Total deferred tax liability	202,299	212,274
	=====	=====
Net deferred tax asset/(liability)	178,079	190,959
	=====	=====

35. Contingent Liabilities

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

Under the agreement, the Company issued an irrevocable surety to repay the loan contracted by Rafineria Jasło S.A. from the National Fund for Environmental Protection and Water Management under a loan agreement of December 10th 2003. The surety covers the loan amount of up to PLN 15,000 thousand. In connection with the surety agreement, on February 6th 2004 Rafineria Jasło S.A. 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 Rafineria Jasło S.A:
 - 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 i 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 Rafineria Jasło S.A: 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

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

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

Pursuant to an annex of October 20th 2005 to the registered pledge agreement of February 18th 2004, Grupa LOTOS S.A. 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, Grupa LOTOS S.A. waived its rights under the security in the form of registered pledges on the following shares:

- 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.

Sureties

The Company granted to Naftobazy Sp. z o.o. a surety of up to 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.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

Liabilities under Promissory Notes

Security Granted to Customs Office

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 receivables 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 were submitted to customs authorities to secure the Company's customs duty liabilities.

36. Material Court, Arbitration or Administrative Proceedings, Other Risks

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 were 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 Company 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 another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use competition-limiting 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.

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.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

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 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 mid-April 2006 in order to hear the testimony of a witness. On April 21st 2006, a ruling rejecting the claim in its entirety was passed. The ruling is not final.

37. Material Events Subsequent to the Balance-Sheet Date

1. 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 of Grupa LOTOS S.A.:

1. Jan Szomburg – Chairman
 2. Jacek Tarnowski – Member
 3. Henryk Siodmok – Member
 4. Jan Stefanowicz – Member
 5. Grzegorz Szczodrowski – Member
2. 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.

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

38. Remuneration of the Management Board and the Supervisory Board and Information on Loans and Other Similar Benefits Advanced to Members of the Company's Management and Supervisory Staff

The remuneration paid and payable to the members of the Management Board and the Supervisory Board of the Company was as follows:

PLN '000	<u>Year ended Dec 31 2005</u>	<u>Year ended Dec 31 2004</u>
Management Board	497	443
Supervisory Board	286	260
	=====	=====
Total	783	703
	=====	=====

Loans and similar benefits provided to members of the management and supervisory bodies were as follows:

PLN '000	<u>Dec 31 2005</u>	<u>Dec 31 2004</u>
Management Board	20	23
Supervisory Board	-	28
	=====	=====
Total	20*	51*
	=====	=====

*10-year loan from the Company's Social Benefits Fund, bearing interest at 4% p.a.

39. Employment Structure

Average employment by category:

	<u>Year ended Dec 31 2005</u>	<u>Year ended Dec 31 2004</u>
Blue-collar workers	357	384
White-collar workers	441	417
	=====	=====
Total	798	801
	=====	=====

40. Related Undertakings

(PLN '000)	Sales to related undertakings	Purchases from related undertakings	Receivables from related undertakings	Liabilities to related undertakings
	Year ended Dec 31 2005	Year ended Dec 31 2005	As at Dec 31 2005	As at Dec 31 2005
Consolidated undertakings	8,702,135	1,078,042	915,528	79,220
Associated undertakings valued with equity method	-	-	-	-
Non-consolidated undertakings	152	5,979	14	500
Total	8,702,287	1,084,021	915,542	79,720

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

(PLN '000)	Sales to related undertakings	Purchases from related undertakings	Receivables from related undertakings	Liabilities to related undertakings
	Year ended Dec 31 2004	Year ended Dec 31 2004	As at Dec 31 2004	As at Dec 31 2004
Consolidated undertakings	6,563,994	171,149	549,261	12,085
Associated undertakings valued with equity method	1,406	3,766	15	422
Non-consolidated undertakings	-	4,917	-	209
Total	6,565,400	179,832	549,276	12,716

41. Entity with Significant Influence over the Company

As at December 31st 2005, Nafta Polska S.A. holds a 51.91% stake in Grupa LOTOS S.A. (as at December 31st 2004 Nafta Polska S.A. held 75% of its shares). Nafta Polska S.A. is controlled by the State Treasury, which as at December 31st 2005 directly held a 6.93% stake in Grupa LOTOS S.A. (as at December 31st 2004 the State Treasury held 10.01% of its shares). As at December 31st 2005 the State Treasury holds, directly and indirectly, 58.84% of shares in Grupa LOTOS S.A. (compared to 85.01% as at December 31st 2004).

The aggregate value of transactions concluded between Grupa LOTOS S.A. and Nafta Polska S.A. during the year ended December 31st 2005, in addition to the transaction described in Note 14, stood at PLN 23,932 thousand (including dividend payment of PLN 11,805 thousand).

GRUPA LOTOS S.A.
Notes to the financial statements prepared for the year ended December 31st 2005
(PLN '000)

42. 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