GRUPA LOTOS S.A.

LONG-FORM AUDITORS’ REPORT
SUPPLEMENTING THE INDEPENDENT AUDITOR’S OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005
I. GENERAL NOTES

1. Background

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

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

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

The Company is the holding company of the Grupa Lotos capital group. Details of transactions with affiliated entities are enclosed in the Note 39 of the Additional Notes and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company’s governing body are included in Note 14 of the Additional Notes and Explanations to the audited financial statements for the year ended 31 December 2005.

The principal activities of the Company are as follows:

- manufacturing of crude oil products (PKD 23.20.A),
- processing of crude oil products (PKD 23.20.B),
- manufacturing of technical gasses (PKD 24.11.Z),
- manufacturing not organic other basic chemical products (PKD 24.13.Z),
- manufacturing organic other basic chemical products (PKD 24.13.Z),
- manufacturing of plastic raw materials (PKD 24.16.Z),
- manufacturing of electrical energy (PKD 40.11.Z),
- transportation of electrical energy (PKD 40.12.Z),
- distribution and trade in electrical energy (PKD 40.13.Z),
- manufacturing of fuel gases (PKD 40.21.Z)
- distribution and trade of fuel gases in chain system (PKD 40.22.Z),
- manufacturing of heating energy (steam and hot water) (PKD 40.30.A),
- distribution of heating energy (steam and hot water) (PKD 40.30.B),
- consumption and purification of water, excluding service activity (PKD 41.00.A),
- service in respect of water distribution (PKD 41.00.B),
- crude oil exploration (PKD 11.10.A),
- natural gas exploration (PKD 11.10.B),
- performance of general civil work in the area of line constructions: pipelines, power supply lines, electric traction line and telecommunication – long – distance transmission lines (PKD 45.21.D),
- wholesale trade of solid, liquid, gaseous oils and oil-derivative(PKD 51.51.Z),
- wholesale trade of petrochemical products (PKD 51.55.Z),
- rail transportation (PKD 60.10.Z),
- road transportation by specialized vehicles (PKD 60.24.A),
- road transportation by universal vehicles (PKD 60.24.B),
- hiring vehicles with a driver (PKD 60.24.C),
- pipeline transportation (PKD 60.30.Z),
- sea ports reloading (PKD 63.11.A),
- inland ports reloading (PKD 63.11.B),
- other warehouses reloading (PKD 63.11.C),
- storage of goods in sea ports (PKD 63.12.A),
- storage of goods in inland ports (PKD 63.12.B),
- storage of goods in other warehouses (PKD 63.12.C),
- research and development activity in area of chemical science (PKD 73.10.B),
- research and development activity in area of technical science (PKD 73.10.G),
- research and development activity in area of other natural and technical science (PKD 73.10.H)

As at 31 December 2005, the Company’s issued share capital amounted to 113 700 thousand zlotys. Equity as at that date amounted to 4 78 433 thousand zlotys.

In accordance with extract from National Court Register as at 15 March 2005, the ownership structure of the Company’s issued share capital was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>Number of votes</th>
<th>Par value of shares</th>
<th>% of issued share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>7 878 030</td>
<td>7 878 030</td>
<td>7 878 030</td>
<td>6.93%</td>
</tr>
<tr>
<td>Nafta Polska S.A.</td>
<td>59 025 000</td>
<td>59 025 000</td>
<td>59 025 000</td>
<td>51.91%</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>46 796 970</td>
<td>46 796 970</td>
<td>46 796 970</td>
<td>41.16%</td>
</tr>
<tr>
<td>Total</td>
<td>113 700 000</td>
<td>113 700 000</td>
<td>113 700 000</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Ownership structure of the Company’s issued share capital as at 31 December 2004 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of shares</th>
<th>Number of votes</th>
<th>Par value of shares</th>
<th>% of issued share capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasury</td>
<td>787.803</td>
<td>787.803</td>
<td>7.878.030</td>
<td>10.01%</td>
</tr>
<tr>
<td>Nafta Polska S.A.</td>
<td>5.902.500</td>
<td>5.902.500</td>
<td>59.025.000</td>
<td>75.00%</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>1.179.697</td>
<td>1.179.697</td>
<td>11.796.970</td>
<td>14.99%</td>
</tr>
<tr>
<td>Total</td>
<td>7.870.000</td>
<td>7.870.000</td>
<td>78.700.000</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

During the Lear there were following events that influenced the Company’s issued share capital of the Company:

- The Company lowered the nominal value of its shares from ten to one PLN.
- The Company issued 35 million of shares of B series, which were offered during the Initial Public Offering that took place between the 4 and 6 June 2005. Those shares were purchased by other shareholders.

As at 27 April 2006, the Company’s Management Board was composed of:

Paweł Olechnowicz - President
Marek Sokolowski - Member
Wojciech Kowalczyk - Member

2. Financial Statements

On 8 December 2004 the General Shareholders’ Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

2.1. Auditors’ opinion and audit of financial statements

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

Ernst & Young Audit Sp. z o.o. was appointed by the Supervisory Board on 28 June 2005 to audit the Company’s financial statements.

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

Under the contract executed on 27 July 2005 with the Company’s Management Board, we have audited the financial statements for the year ended 31 December 2005.

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

Based on our audit, we issued an auditors’ opinion dated 27 April 2006, stating the following:

This is a translation of a document originally issued in the Polish language.
“To the Supervisory Board

1. We have audited the attached financial statements for the year ended 31 December 2005 of Grupa Lotos S.A. (‘the Company’) located in Gdańsk, at 135 Elbląska Street, containing:
   - the balance sheet as at 31 December 2005 with total assets amounting to 5,375,563 thousand zlotys,
   - the profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 532,268 thousand zlotys,
   - the statement of changes in shareholders’ equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders’ equity amounting to 1,526,079 thousand zlotys,
   - the cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash inflow amounting to 219,084 thousand zlotys and
   - the additional notes and explanations (‘the attached financial statements’).

2. The truth and fairness\(^1\) of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Company’s Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair\(^2\) and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (‘the Accounting Act’),
   - the auditing standards issued by the National Chamber of Auditors,

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

4. The financial statements for the prior financial year ended 31 December 2004 were subject to our audit and we issued an opinion including emphases of matter on these financial statements, dated 31 March 2005. The emphases of matter concerned: the liabilities relating to the financing operating and investment activities of Rafineria Nafty Glimar S.A. (‘RN Glimar’) becoming payable, indicating the necessity to provide additional financial support for the Rafineria Jasło S.A. and Rafineria Czechowice S.A. in order to assure the going concern of those entities and the fact of preparing consolidated financial statements.

\(^1\) Translation of the following expression in Polish: “prawidłowość, rzetelność i jasność”

\(^2\) Translation of the following expression in Polish: “prawidłowe, rzetelne i jasne”

This is a translation of a document originally issued in the Polish language.
5. In our opinion, the attached financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Company’s operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position as at 31 December 2005;
- have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
- are, in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Company’s articles of association.

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

a) As described in detail in Note 20 of the attached financial statements, the Company signed loan agreements with RN Glimar, dated 23 September 2003 and 8 April 2004, in order to finance its operating and investing activities, including in particular the Hydrokompleks Glimar project, for the total amount of 90 million zlotys. In the attached financial statements prepared as at 31 December 2005, the Company created a provision for the loans granted to RN Glimar, and provisions for liabilities resulting from the above-mentioned agreements, in the total amount of 90 million zlotys. We draw attention to the fact that, in accordance with the loan agreements, under certain circumstances not all of these liabilities may be payable in full amount.

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

b) The Company has disclosed in the attached financial statements shares in subsidiaries and associates at the acquisition cost diminished by impairment write-offs. Grupa Lotos S.A. capital group (“The Capital Group”), where the Company is a dominant entity, has prepared consolidated financial statements. Net result and net assets of the Capital Group for the year ended 31 December 2005 amount to, respectively, 968,839 thousand zlotys and 4,808,109 thousand zlotys.

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

We conducted the audit of the Company’s financial statements during the period from 5 December 2005 to 9 December 2005 and in the period from 27 February 2006 to 27 April 2006. We were present at the Company’s head office from 5 December 2005 to 9 December 2005 and from 27 February 2006 to 31 March 2006

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3 Translation of the following expression in Polish: ‘sytuacja majątkowa i finansowa’

This is a translation of a document originally issued in the Polish language.
2.2. Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness\(^4\) of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 27 April 2006, confirming that:

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

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

2.3. Financial statements for prior financial year

The Company’s financial statements for the year ended 31 December 2004 were audited by Michał Orzechowski, Certified Auditor No. 10190/7525, acting on behalf of Ernst & Young Audit Sp. z o.o., Emilii Plater 53 00-113 Warsaw. The certified auditor issued an with emphasis of matters. These emphasis of matters concerned following:

- probability that not all the liabilities undertaken due to involvement in the financing of operating and investing activities of Rafineria Nafty Glimar S.A. may be fully payable;
- Risk of going concern of Rafineria Czechowice S.A., Rafineria Jasło S.A. (purchased on 13 January 2005) without considerable additional source of financing of the current and investing activities of these refineries;
- Emphasis concerning the preparation of consolidated financial statement

The Company’s financial statements for the year ended 31 December 2004 were approved by the General Shareholders’ Meeting on 13 May 2005, and the shareholders resolved to appropriate the 2004 net profit as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends for the shareholders</td>
<td>15,740</td>
</tr>
<tr>
<td>Reserve capital</td>
<td>512,485</td>
</tr>
<tr>
<td>Company Social Fund</td>
<td>798</td>
</tr>
<tr>
<td>Employee’s bonuses and related charges</td>
<td>5,393</td>
</tr>
<tr>
<td><strong>Total Appropriation</strong></td>
<td><strong>534,416</strong></td>
</tr>
</tbody>
</table>

The financial statements for the financial year ended 31 December 2004, together with the auditors’ opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors’ Report, were filed on 25 May 2005 with the National Court Register.

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

This is a translation of a document originally issued in the Polish language.
The introduction to the financial statements, the balance sheet as at 31 December 2004, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2004, together with the auditors’ opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B No. 1577 on 12 October 2005.

The closing balances as at 31 December 2004 were correctly brought forward in the accounts as the opening balances at 1 January 2005.

3. Analytical Review

3.1. Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2004 - 2005. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2005. The selected financial information and data for 2003 were not presented as the Company has changed in 2005 the accounting policies to International Financial Reporting Standards as adopted by the EU and the comparable data for earlier periods are not available.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>5 375 563</td>
<td>3 715 330</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>4 078 433</td>
<td>2 552 354</td>
</tr>
<tr>
<td>Net profit/ loss</td>
<td>532 268</td>
<td>495 415</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>9,9%</td>
<td>13,3%</td>
</tr>
<tr>
<td>Net profit x 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>20,9%</td>
<td>24,0%</td>
</tr>
<tr>
<td>Net profit x 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity at the beginning of the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit margin (%)</td>
<td>6,2%</td>
<td>7,5%</td>
</tr>
<tr>
<td>Net profit x 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of finished goods and goods for resale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity I</td>
<td>2,5</td>
<td>1,9</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term creditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity III</td>
<td>0,3</td>
<td>0,1</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term creditors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This is a translation of a document originally issued in the Polish language.
| Ratio Description                                                                 | 2004 | 2005  
|----------------------------------------------------------------------------------|------|-------
| Debtors days                                                                     | 45   | 40    
| Trade debtors x 365                                                              |      |       
| Sales of finished goods, goods for resale and raw materials                      |      |       
| Creditors days                                                                   | 37   | 26    
| Trade creditors x 365                                                            |      |       
| Costs of finished goods, goods for resale and raw materials sold                 |      |       
| Inventory days                                                                   | 61   | 50    
| Inventory x 365                                                                  |      |       
| Costs of finished goods, goods for resale and raw materials sold                 |      |       
| Stability of financing (%)                                                       | 0,80 | 0,79  
| (Equity + long-term provisions and liabilities) x 100                            |      |       
| Total liabilities, provisions and equity                                          |      |       
| Debt ratio (%)                                                                   | 0,24 | 0,31  
| (Total liabilities and provisions) x 100                                         |      |       
| Total assets                                                                      |      |       
| Rate of inflation                                                                |      |       
| Yearly average                                                                   | 2.1% | 3.5%  
| December to December                                                             | 0.7% | 4.4%  

3.2. **Comments**

The following trends may be observed based on the above financial ratios:
- Return on assets slightly decreased in the year 2005 in comparison to previous year,
- Profit margin decreased from 7.5% in the year 2004 to 6.2% in the year 2005,
- Both Liquidity I and liquidity III ratio increased in comparison to the year 2004,
- Debtors days ratio increased from 40 days in the year 2004 to 45 days in current year,
- Creditors days ratio increased from 26 days to 37 days in year 2005,
- Inventory days decreased in the year 2005 to 61 from 50 days in the previous year,
- Stability of financing did not change substantially in the current year,
- Debt ratio decreased from 0.31 in the previous year to 0.24 in the current year.
3.3. Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2005 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note 5 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2005, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2005 and that there are no circumstances that would indicate a threat to its continued activity.
II. DETAILED REPORT

1. Accounting System

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

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

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

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

Details of the Company’s assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2005.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2005.

3. Notes to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2005 (jointly ‘notes to the financial statements’) were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors’ Report

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

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

6. **Work of Experts**

During our audit we have taken into account the results of the work of the following independent experts:

-expert reviewers in respect of fixed assets and intangibles

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

Michał Orzechowski
Certified Auditor No. 10190/7525

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, 27 April 2006