THE LOTOS GROUP

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)

THE LOTOS GROUP
CONSOLIDATED 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	3,311,780	2,139,475
Goodwill	15	54,588	11,871
Intangible assets	13	51,086	45,577
Investment property	14	5,888	231
Investments in associated undertakings	16	83,336	27,572
Financial assets	17	20,193	6,165
Deferred tax asset	39	26,593	9,209
Other non-current assets	18	28,016	486
Total non-current assets		**3,581,480**	**2,240,586**
Current assets			
Inventories	19	1,432,939	828,620
Trade and other receivables, including:	20	1,060,348	744,604
- income tax receivables		8,705	13,677
Prepayments		11,288	4,728
Current financial assets	24	135,760	43,234
Cash and cash equivalents	22	767,794	155,012
Total current assets		**3,408,129**	**1,776,198**
Total assets		**6,989,609**	**4,016,784**

THE LOTOS GROUP
CONSOLIDATED 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		113,700	78,700
Reserve funds		970,951	-
Retained earnings/(deficit)		3,466,911	2,563,930
Currency-translation differences		2,266	-
Equity attributable to parent undertaking's shareholders		**4,553,828**	**2,642,630**
Equity attributable to minority interests	29	**254,281**	**14,882**
Total equity		**4,808,109**	**2,657,512**
Non-current liabilities			
Loans and borrowings	30	294,198	143,737
Non-current provisions	31	191,802	42,090
Deferred tax liability	39	218,677	190,960
Other (financial) liabilities		11,230	69
Total non-current liabilities		**715,907**	**376,856**
Current liabilities			
Trade payables, accruals and deferred income, and other liabilities, including:	32	1,273,519	742,343
- income tax expense		65,302	455
Loans and borrowings	30	111,452	184,571
Current provisions	31	79,660	55,502
Other financial liabilities		962	-
Total current liabilities		**1,465,593**	**982,416**
Total equity and liabilities		**6,989,609**	**4,016,784**

THE LOTOS GROUP
CONSOLIDATED 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	34	9,645,545	7,450,313
Cost of sales	35	(8,053,554)	(6,139,178)
Net profit/(loss) on sales		**1,591,991**	**1,311,135**
Other operating income	36	35,645	20,444
Excess of net assets' fair value over acquisition cost	40	266,625	-
Selling costs	35	(501,650)	(387,423)
General and administrative expenses	35	(273,986)	(212,826)
Other operating expenses	37	(48,718)	(119,145)
Operating profit		**1,069,907**	**612,185**
Financial income	38	75,742	107,915
Financial expenses	38	(52,557)	(37,885)
Interest in investments in associated undertakings	16	28,472	5,985
Sale of investments in associated undertakings	17	16,090	-
Pre-tax profit		**1,137,654**	**688,200**
Corporate income tax	39	(168,815)	(143,978)
Net profit		**968,839**	**544,222**
Net profit attributable to minority shareholders		(53,715)	(1,415)
Net profit attributable to Parent Undertaking's shareholders		915,124	542,807
Net earnings per share attributable to Parent Undertaking's shareholders	28		
- basic		9.47	6.90
- diluted		-	-

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

PLN '000	Note	Year ended Dec 31 2005	Year ended Dec 31 2004
Cash flows from operating activities			
Net profit		968,839	544,222
Adjustments:			
Share in net profit/(loss) of subordinated undertakings valued with equity method		(28,472)	(5,985)
Depreciation and amortisation		263,615	192,511
Foreign exchange gains		568	(35,756)
Net interest and dividend paid		7,059	12,022
(Profit)/loss on investing activities		(17,340)	43,642
Current income tax		168,815	143,978
Income tax paid		(135,467)	(159,536)
Increase in receivables	25	(163,192)	(118,503)
Increase in inventories	25	(458,772)	(273,682)
Increase/(decrease) in liabilities, accruals and deferred income	25	271,859	(30,434)
Increase/(decrease) in provisions	25	(3,435)	55,174
Change in prepayments and accrued income	25	(8,868)	(174)
Other, net	25	(267,027)	20,854
Net cash provided by/(used in) operating activities		**598,182**	**388,333**
Cash flows from investing activities			
Sale of non-current financial assets		41,648	-
Dividend received		33,469	5,892
Interest received		315	1,541
(Acquisition)/sale of property, plant and equipment and intangible assets		(799,195)	(228,680)
Acquisition of non-current financial assets, including:		(119,554)	-
- acquisition of subsidiary undertakings net of cash acquired		(117,680)	-
(Acquisition)/ sale of current financial assets		(90,193)	95,002
Other, net		17,448	(26,360)
Net cash provided by/(used in) investing activities		**(916,062)**	**(152,605)**
Cash flows from financing activities			
Increase in loans and borrowings		351,349	25,567
Share issue		1,015,000	-
Repayment of loans and borrowings		(396,018)	(258,336)
Interest paid		(16,513)	(14,324)
Dividends paid to parent undertaking's shareholders		(15,740)	(6,217)
Dividends paid to minority shareholders		(3,022)	-
Other, net		(4,740)	(1,648)
Net cash provided by/(used in) financing activities		**930,316**	**(254,958)**
Change in cash due to foreign exchange (gains)/losses		(346)	(1,216)
Change in net cash		**612,782**	**(20,446)**
Cash at beginning of period	25	**155,012**	**175,458**
Cash at end of period	25	**767,794**	**155,012**
- restricted cash		1,572	12,986

PLN '000	Share capital	Reserve funds	Revaluation capital reserve	Retained earnings/ (deficit)	Translation reserve	Equity attributable to Parent Undertaking's shareholders	Equity attributable to minority shareholders	Total equity
Jan 1 2004*	**78,700**	**1,050,926**	**93,111**	**302,614**	**-**	**1,525,351**	**1,676**	**1,527,027**
Change in accounting standards and policies	-	-	-	580,689	-	580,689	-	580,689
Transfers	-	(1,050,926)	(93,111)	1,144,037	-	-	-	-
Jan 1 2004 – adjusted	**78,700**	**-**	**-**	**2,027,340**	**-**	**2,106,040**	**1,676**	**2,107,716**
Net profit for the year ended Dec 31 2004	-	-	-	542,807	-	542,807	1,415	544,222
Dividends to shareholders from 2003 profit distribution	-	-	-	(6,217)	-	(6,217)	-	(6,217)
Other	-	-	-	-	-	-	11,791	11,791
Dec 31 2004	**78,700**	**-**	**-**	**2,563,930**	**-**	**2,642,630**	**14,882**	**2,657,512**
Net profit for the year ended Dec 31 2005	-	-	-	915,124	-	915,124	53,715	968,839
Dividends to shareholders from 2004 profit distribution	-	-	-	(15,740)	-	(15,740)	-	(15,740)
New share issue	35,000	-	-	-	-	35,000	-	35,000
Share premium	-	980,000	-	-	-	980,000	-	980,000
Issue expenses including income tax	-	(9,049)	-	-	-	(9,049)	-	(9,049)
Other	-	-	-	3,597	2,266	5,863	185,684	191,547
Dec 31 2005	**113,700**	**970,951**	**-**	**3,466,911**	**2,266**	**4,553,828**	**254,281**	**4,808,109**

* Based on financial statements prepared in accordance with the Polish Accounting Standards.

(PLN '000)

1. General Information

Grupa LOTOS S.A. ("the Company", "the Parent Undertaking"), the parent undertaking of the Group of Grupa LOTOS S.A. ("the Group") was established by virtue of the Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (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 Parent Undertaking's registered office is situated at ul. Elbląska 135, 80-718 Gdańsk, Poland.

In 2003, by virtue of its decision of May 28th 2003, the District Court of Gdańsk, XII Commercial Division of the National Court Register, changed the Company's name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

The Group's core business consists in the production and processing of refined petroleum products and their wholesale and retail sale. The Group's business also includes exploration and extraction of crude oil and natural gas reserves.

2. Composition of the Group

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2005	**Dec 31 2004**
Parent Undertaking					
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable
Direct Subsidiary Undertakings					
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%
LOTOS Partner Sp. z o.o.	Gdańsk	Sales of fuels and provision of services for retail networks of international concerns; logistic services	full	100.00%	100.00%
LOTOS Mazowsze S.A.	Mława	Sales of LPG, heavy fuel oil and special products (sulphur, plasticizers, fuels containing recycled components)	full	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sales of base oils	full	100.00%	100.00%
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%
LOTOS Ekoenergia S.A.	Gdańsk	Construction of basic PKRT units; the company has not commenced operations	full	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%

(PLN '000)

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2005	**Dec 31 2004**
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	full	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	87.44%	87.44%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	26.00%
LOTOS Czechowice S.A. (parent undertaking of another group, formerly Rafineria Czechowice S.A. (1))	Czechowice-Dziedzice	Production and processing of refined petroleum products and their wholesale	full	80.04%	-
LOTOS Jasło S.A. (parent undertaking of another group, formerly Rafineria Jasło S.A. (2))	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale	full	80.01%	-
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of reserves, crude oil and natural gas production	full	69.00%	-
UAB LOTOS Baltija	Lithuania	wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	not consolidated due to immateriality	100.00%	60.29%
BiproRaf Sp. z o.o.	Gdańsk	Design services for oil industry	not consolidated due to immateriality	50.00%	50.00%
Rafineria Nafty Glimar S.A. w upadłości (in bankruptcy)	Gorlice	Refining (currently discontinued due to the company's bankruptcy)	not consolidated due to lack of control	91.54%	-
LOTOS Hydrokompleks Sp. z o.o.	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	not consolidated due to immateriality	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	Business and management consultancy services	full	90.00%	100.00%
Laboratorium Badacz Sp. z o.o.	Jasło	Services	not consolidated due to immateriality	100.0%	-
Indirect Subsidiary Undertakings					
RCEkoenergia Sp. z o.o	Czechowice-Dziedzice	Services	full	80.04%	-
RCParafiny Sp. z o.o.	Czechowice-Dziedzice	No operations – assets transferred to LOTOS Parafiny in exchange for shares	full	80.04%	-
RCRemo Sp. z o.o.	Czechowice-Dziedzice	Services	full	80.04%	-
CBA Racer Sp. z o.o.	Czechowice-Dziedzice	Services	full	80.04%	-
RCSerwis Sp. z o.o.	Czechowice-Dziedzice	Services	equity method	80.04%	-
RCPaliwa Sp. z o.o.	Czechowice-Dziedzice	Trading (not commenced yet)	equity method	80.04%	-
RCTransport Sp. z o.o.	Czechowice-Dziedzice	Services	equity method	80.04%	-
LOTOS Tank Sp. z o.o.	Jasło	Trading	full/equity method (3)	86.01%	30.00%
Parafiny Sp. z o.o.	Jasło	Production of refined petroleum products	full	-	13.00%
Rafineria Jasło Monto-Rem Sp. z o.o.	Jasło	Services	full	79.56%	-
Plastekol Organizacja Odzysku S.A.	Jasło	Services	full	53.61%	-
Rafineria Jasło Sped-Kol Sp. z o.o.	Jasło	No operations – lease of assets to LOTOS Kolej	not consolidated due to immateriality	80.01%	-

(PLN '000)

Name	Registered office	Business profile	Method of consolidation /valuation of shares	Percentage of share capital held by the Group	
				Dec 31 2005	**Dec 31 2004**
Petrosoft.pl Technologie Informatyczne Sp. z o.o.	Jasło	Services	not consolidated due to immateriality	80.01%	-
Chemipetrol Sp. z o.o.	Jasło	Trading	not consolidated due to immateriality	80.01%	-
Miliana Shipping Company Ltd.	Cyprus	Services	full	68.93%	-
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Services	not consolidated due to immateriality	69.00%	-

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

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

(2) On January 2nd 2006, the District Court of Rzeszów registered a change in the company's name from Rafineria Jasło S.A to LOTOS Jasło S.A.

(3) In 2004, the company was valued with the equity method, whereas in 2005 it was consolidated with the full method.

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

Associated Undertakings of the Parent Undertaking and Subsidiary Undertakings

Energobaltic Sp. z o.o.	Gdańsk	Manufacturing	equity method	32.16%	-
UAB Naftos Gavyba	Klaipeda, Lithuania	Services	equity method	29.46%	-
Naftoport Sp. z o.o.	Gdańsk	Operation of reloading terminals for crude oil and petroleum products	equity method	(4)	25.64%

(4) See Note 17 to the consolidated financial statements.

3. Composition of the Supervisory and Management Boards of the Parent Undertaking

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

4. Approval of the Financial Statements

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

5. Going Concern

These consolidated financial statements were prepared on the assumption that the material companies of the Group would continue their business activities for the 12 months subsequent to the balance-sheet date, i.e. December 31st 2005. As at the date of signing these consolidated financial statements no facts or circumstances have been identified that might pose a threat to the Group's material companies continuing as going concerns in the 12 months following the balance-sheet date.

6. Duration of the Group

The duration of the Group is unlimited.

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

These consolidated financial statements of the LOTOS Group 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 Group'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 consolidated 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 consolidated financial statements is the Polish złoty (PLN). These consolidated financial statements are presented in the złoty (PLN), and all the figures are presented in thousands of złotys, unless indicated otherwise.

9. Basis for the Preparation of the Consolidated Financial Statements

Starting from January 1st 2005, by virtue of the Polish Accountancy Act ("the Act"), the Group is obliged to prepare consolidated financial statements in accordance with the International Accounting Standards, the International Financial Reporting Standards ("IFRS") and the related interpretations published in the form of the European Commission regulations. Presently, taking into account the ongoing IFRS implementation process in the EU as well as the Group's operations, there is no difference between the IFRS applied by the Group and the IFRS adopted by the European Union.

These consolidated financial statements were prepared in accordance with the 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").

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

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 incompliance with specified standards. IFRS 1 requires that the first financial statements prepared in accordance with the IFRS should be the first annual financial statements in which a given undertaking applies all IFRS and confirms full compliance with all IFRS.

These consolidated financial statements are the first full annual consolidated financial statements prepared in accordance with the IFRS. For the purpose of these consolidated 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 Act, were the consolidated financial statements prepared as at December 31st 2004.

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

1) The Group's companies determined deemed cost of plant, property and equipment, and intangible assets by determining their fair value as at the date of transition to IFRS,

2) The Parent Undertaking made no adjustments to the settlements of business combinations, which were accounted for in accordance with PAS and which occurred before the date of transition to IFRS.

For the effect of the IFRS restatement of the consolidated financial statements see Note 11 to the consolidated financial statements.

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 Group 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 consolidated financial statements. The Company believes this effect to be immaterial.

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

10. Accounting Policies

The consolidated financial statements have been prepared using the historical cost method, except for investment property and financial derivatives, which are measured at fair value.

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

a) Basis for Consolidation

These consolidated financial statements have been prepared on the basis of the financial statements of the Parent Undertaking and financial statements of the material undertakings it controls, prepared as at December 31st 2005.

Subsidiary undertakings are consolidated starting from the date when the Group assumes control over them and cease to be consolidated when the control is lost. The Company is deemed to exert control when it holds, directly or through its subsidiary undertakings, more than 50% of votes in a given undertaking unless it is possible to prove that the ownership of over 50% of votes is not tantamount to exerting control. The Company's ability to influence a given undertaking's financial and operational policies is also deemed exerting control.

All significant balances and transactions between the Group's undertakings, including significant unrealised profits on intra-group transactions, have been eliminated in their entirety. Unrealised losses are eliminated unless they point to an impairment of value.

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

b) Investments in Associated Undertakings

Investments in associated undertakings are recognised using the equity method. Associated undertakings are the undertakings over which the Parent Undertaking has significant influence, either directly or indirectly through its subsidiary undertakings, and which are neither its subsidiary undertakings nor interests in joint ventures. The financial statements of associated undertakings serve as a basis for the equity method valuation of the shares held by the Parent Undertaking. Associated undertakings' financial years coincide with the Company's financial year.

Investments in associated undertakings are initially recognised in the balance-sheet at acquisition cost, adjusted for subsequent changes in the Parent Undertaking's share in the net assets of the associated undertakings, and reduced by impairment losses, if any. The profit and loss account includes the Parent Undertaking's share of the profits and losses of the associated undertakings. In the case of a change recognised directly in an associated undertaking's equity, the Parent Undertaking recognises its share in such change and, if applicable, discloses it in the statement of changes in equity.

c) Intangible Assets

Intangible assets are recognised if the Group is likely to obtain future economic benefits attributable directly to the assets. Initially, intangible assets are recognised at acquisition or production cost, if they are acquired in separate transactions. Intangible assets acquired as part of the acquisition of a business are recognised 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.

The Company capitalises and recognises as an intangible asset both the licence fees for the exploration and identification of crude oil and natural gas reserves as well as the fees under the concluded mining use agreements for the exploration and identification of crude oil and natural gas reserves. The commencement and execution of the exploration work is conditional upon obtaining relevant licence and establishing the mining use.

Intangible assets are amortised using the straight-line method over their estimated useful lives.

(PLN '000)

The expected useful lives of the Group's intangible assets range from 2 to 21 years.

d) Goodwill of Subordinated Undertakings

The goodwill relating to acquisition of a business undertaking is initially recognised at acquisition cost, equal to the excess of the cost of the business combination over the acquiring undertaking's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired undertaking. Following the initial recognition, goodwill is carried at acquisition cost less cumulative impairment losses. Goodwill is tested for impairment once a year. It is not amortised.

As at the date of assuming control, the acquired goodwill is allocated to every identifiable cash-generating unit. The Company calculates any impairment of value by estimating recoverable value of the cash-generating unit relevant to a given part of goodwill. If the recoverable value of a cash-generating unit is lower than its balance-sheet value, the Company recognises impairment losses. If goodwill comprises a part of a cash-generating unit and the Company sells a part of the business of the cash-generating unit, the goodwill connected with the sold business is included in the balance-sheet value of the sold business for the purpose of calculating gains or losses on disposal of the part of business. In such a case, goodwill pertaining to the sold business should be measured using the relative value of the sold business, *pro-rata* to the interest in the retained part of the cash-generating unit.

e) Property, Plant and Equipment

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

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

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

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

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

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

In its financial statements, under tangible assets, the Group discloses an asset corresponding to the value of provision for the liquidation of a mining plant. This issue is regulated under IAS 16: *Property, Plant and Equipment*, which reads: "The cost of an item of property, land and equipment comprises … the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period." The Group's obligation to incur costs of liquidation of the Offshore Oil Rig results directly from the reasons specified in IAS 16. Under Paragraph 63 of the same standard, the entities applying the IAS are obliged to test the value of an asset periodically, at least at each balance-sheet date. It should further be emphasised that the International Financial Reporting Interpretations Committee (IFRIC) has issued Interpretation IFRIC 1: *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The Interpretation directly refers to, *inter alia*, IAS 16, including in particular to the revaluation of an asset recognised as future liquidation cost. Revaluation of an asset so recognised may be caused by:

– change in estimated cash used to ensure the performance of the liquidation obligation,
– change in the current market discount rate,
– shortening of the time until liquidation, leading to the settlement of the discount rate (increase in the value resulting from the lapse of time).

f) Assets under Construction

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

g) Impairment Losses

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

h) Investment Property

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

i) Inventories

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

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

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

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

j) Trade Receivables 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 Group will not be able to collect all amounts due in accordance with the original contractual terms. The amount of the impairment is measured as the difference between the balance-sheet value of the given assets and the present value of estimated future cash flows discounted at the effective interest rate. The amount of the impairment loss is recognised in the profit and loss account under other operating expenses.

k) Foreign Currency Transactions

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

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

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

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

Exchange rates applied for the purposes of balance-sheet valuation:

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

The financial statements of foreign undertakings are translated into the Polish currency at the following exchange rates:
- items of the balance sheet – at the mid exchange rate quoted by the National Bank of Poland for the balance-sheet date;
- items of the profit and loss account – at the exchange rate computed as the arithmetic mean of mid exchange rates quoted by the National Bank of Poland for the days ending each financial month. The resulting currency-translation differences are recognised directly in equity as a separate component.

The US dollar is the functional currency of foreign subsidiary undertakings. As at the balance-sheet date, assets and liabilities of these foreign undertakings are translated into the currency used by the Group for presentation purposes at the exchange rate prevailing on the balance-sheet date, while their profit and loss accounts are translated at the weighted average exchange rate for a given financial year. The resulting currency-translation differences are recognised directly in equity as a separate component. At the time of disposal of a foreign undertaking, the accumulated deferred currency-translation differences recognised in equity and relating to this foreign undertaking are transferred to the profit and loss account.

l) Cash and Cash Equivalents

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

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

m) Accruals and Deferrals

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

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

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

n) Equity

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

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

o) Provisions

Provisions are created when the Group has an obligation (legal or following from commercial practice) resulting from past events, and when it is probable that the discharge of this obligation will cause an outflow of funds representing economic benefits, and the amount of the obligation may be reliably estimated. If the Group anticipates that the costs for which provisions have been made will be recovered, e.g. under an insurance agreement, the recovery of such funds is recognised as a separate item of assets, but only when such recovery is practically certain to occur. The cost related to a given provision is disclosed in the profit and loss account, less any recoveries. If the effect of the time value of money is significant, the amount of provisions is determined by discounting projected future cash flows to their 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 obligation. If the discount method is applied, an increase in provisions as a result of lapse of time is recognised as financial expenses.

p) Retirement Severance Pay and Length-of-Service Awards

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

q) Interest-Bearing 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.

r) Costs of External Financing

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

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

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

s) Government's Subsidies

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

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

t) Emission Credits

The Group recognises emission credits in its financial statements based on the net liability method – the Group recognises only those liabilities that result from exceeding the emission credits limit granted to it, and the liability is recognised only after the Group 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.

u) Income tax

For the purposes of financial reporting, the Group 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 consolidated 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), and
- in the case of taxable temporary differences associated with investments in subsidiary or associated undertakings, and interests in joint ventures, unless the investor is able to control the timing of the reversal of the temporary differences or it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised in relation to all deductible temporary differences, unused tax assets, 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), and
- in the case of deductible temporary differences associated with investments in subsidiary or associated undertakings and interests in joint ventures, the related deferred tax asset is recognised in the balance sheet in the amount of the taxable income expected to be generated in the foreseeable future (as a result of the reversal of these temporary differences) which would enable the deductible temporary differences to be offset.

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

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

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

Deferred income tax assets and deferred income tax liability are recognised in the balance sheet at the value obtained after their set-off in particular undertakings consolidated within the Group.

v) Financial Instruments

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

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

The fair value of financial instruments for which a ready market exists is measured in relation to the prices quoted on that market as at the relevant balance-sheet date. If there is no quoted market price, the fair value is estimated using appropriate valuation techniques.

Financial instruments are derecognised from the balance sheet when the Group loses control over contractual rights comprising particular financial instruments; this is usually the case when a financial instrument is sold or when all the cash flows related to a given instrument are transferred to a third party.

t) Recognition of Revenue

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

u) Sales of Goods for Resale and Products

Sales revenue is recognised 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.

v) Interest

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

w) Dividends

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

x) 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 Management Board made estimates concerning provisions, property, plant and equipment, intangible assets, goodwill and merger transactions. The significant assumptions used in the estimates are described in the relevant notes.

y) Net Earnings per Share

Earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares in this reporting period. The Group does not disclose the diluted earnings/loss per share, since 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 consolidated financial statements differ from the values of equity and net profits disclosed in the financial statements for previous reporting periods and prepared in accordance with the Polish Accountancy Act.

PLN '000	Consolidated equity as at		Consolidated net profit as at
	Jan 1 2004	Dec 31 2004	Year ended Dec 31 2004
Before restatement	**1,525,351***	**2,081,336 ***	**572,002***
Change in the exchange rate applied to translate assets, equity and liabilities expressed in foreign currencies	(11,874)	-	11,874
Profit distribution for employee benefits	(7,749)	(7,462)	(9,513)
Measurement of assets at fair value	733,502	693,890	(39,612)
Other	840	1,680	840
Deferred tax	(134,030)	(126,814)	7,216
	---------	---------	---------
Total adjustments	580,689	561,294	(29,195)
	=========	=========	=========
Restated data	**2,106,040**	**2,642,630**	**542,807**
	=========	=========	=========

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

Key Differences between PAS and IFRS

Profit Distribution for Employee Benefits

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

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

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

Measuring of Assets at Fair Value

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

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

* The adjusted value reflects the transfer of 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 (in full-time job equivalents) should create the Social Benefits Fund. In accordance with the statute and internal rules of procedure, the Group companies have created such funds and make periodic contributions charged to costs. The purpose of the Social Benefits Fund is to subsidise social activities, finance loans to employees and other social spending.

As described in Note 33, the Group offsets the Fund’s assets with its liabilities towards the Fund, as the Fund’s assets are not fully controlled by the Group’s companies.

Other Differences

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

12. Property, Plant and Equipment

PLN '000	Dec 31 2005	Dec 31 2004
Land	362,075	235,435
Buildings and structures	1,520,335	1,071,153
Plant and equipment	764,594	634,776
Vehicles and other tangible assets	375,968	53,463
Tangible assets under construction	288,808	144,648
Total	**3,311,780**	**2,139,475**

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	**217,463**	**1,081,328**	**766,541**	**49,136**	**58,895**	**32,876**	**2,206,239**
Increase, including:	22,680	69,332	38,720	19,862	17,044	114,690	282,328
- purchase	-	56	1,627	14,108	5,691	256,495	277,977
- transfers	22,181	64,201	30,837	5,225	11,188	(151,346)	(17,714)
- inclusion of new undertakings in consolidation	499	4,763	6,250	360	165	32	12,069
- other	-	312	6	169	-	9,509	9,996
Decrease, including:	(430)	(124)	(3,701)	(1,110)	(476)	(2,919)	(8,760)
- sale	(430)	-	(221)	(832)	(9)	-	(1,492)
- other	-	(124)	(3,480)	(278)	(467)	(2,919)	(7,268)
Gross book value as at Dec 31 2004	**239,713**	**1,150,536**	**801,560**	**67,888**	**75,463**	**144,647**	**2,479,807**
Gross book value as at Jan 1 2005	**239,713**	**1,150,536**	**801,560**	**67,888**	**75,463**	**144,647**	**2,479,807**
Increase, including:	128,528	531,128	276,058	265,228	124,563	162,544	1,488,049
- purchase	15	287	2,539	13,551	23,270	765,367	805,029
- settlement of investments	103,045	304,954	177,593	21,440	28,107	(688,299)	(53,160)
- inclusion of new undertakings in consolidation	25,468	225,101	90,832	221,341	73,186	82,853	718,781
- other	-	786	5,094	8,896	-	2,623	17,399
Decrease, including:	(280)	(6,542)	(17,988)	(6,815)	(13,315)	(18,204)	(63,144)
- sale	(280)	(548)	(425)	(5,814)	(110)	(20)	(7,197)
- liquidation	-	(798)	(11,004)	(150)	(1,956)	-	(13,908)
- donations, transfer for no consideration	-	(93)	-	-	-	-	(93)
- other	-	(5,103)	(6,559)	(851)	(11,249)	(18,184)	(41,946)
Gross book value as at Dec 31 2005	**367,961**	**1,675,122**	**1,059,630**	**326,301**	**186,711**	**288,987**	**3,904,712**
Accumulated depreciation as at Jan 1 2004	**3,247**	**25,177**	**60,360**	**35,847**	**29,134**	**-**	**153,765**
Increase, including:	1,031	54,279	109,339	7,834	17,650	-	190,133
- depreciation	1,031	53,380	108,577	7,751	17,630	-	188,369
- inclusion of new undertakings in consolidation	-	64	762	83	18	-	927
- other	-	835	-	-	2	-	837
Decrease	-	(73)	(2,915)	(544)	(189)	-	(3,721)
Accumulated depreciation as at Dec 31 2004	**4,278**	**79,383**	**166,784**	**43,137**	**46,595**	**-**	**340,177**

PLN '000	Land	Buildings and structures	Plant and equipment	Vehicles	Other tangible assets	Tangible assets under construction	Total
Accumulated depreciation as at Jan 1 2005	**4,278**	**79,383**	**166,784**	**43,137**	**46,595**	**-**	**340,177**
Increase, including:	1,609	75,850	138,191	29,142	22,905	-	267,697
- depreciation	1,609	74,835	132,477	28,526	17,455	-	254,902
- other	-	1,015	5,714	616	5,450	-	12,795
Decrease	(1)	(685)	(10,139)	(2,762)	(2,091)	-	(15,678)
Accumulated depreciation as at Dec 31 2005	**5,886**	**154,548**	**294,836**	**69,517**	**67,409**	**-**	**592,196**
Impairment charges as at Jan 1 2004							
	-	-	-	-	-	-	-
Increase							
Decrease	-	-	-	-	156	-	156
	-	-	-	-	-	-	-
Impairment charges as at Dec 31 2004	**-**	**-**	**-**	**-**	**156**	**-**	**156**
Impairment charges as at Jan 1 2005	**-**	**-**	**-**	**-**	**156**	**-**	**156**
Increase	-	239	200	-	5	189	633
Decrease	-	-	-	-	(43)	(10)	(53)
Impairment charges as at Dec 31 2005	**-**	**239**	**200**	**-**	**118**	**179**	**736**
Net book value as at Jan 1 2004	**214,216**	**1,056,151**	**706,181**	**13,289**	**29,761**	**32,876**	**2,052,474**
Net book value as at Dec 31 2004	**235,435**	**1,071,153**	**634,776**	**24,751**	**28,712**	**144,647**	**2,139,474**
Net book value as at Dec 31 2005	**362,075**	**1,520,335**	**764,594**	**256,784**	**119,184**	**288,808**	**3,311,780**

13. Intangible Assets

PLN '000	Dec 31 2005	Dec 31 2004
Development expense	504	-
Software	5,426	2,717
Patents and licences	43,824	42,041
Other	1,332	819
Total	**51,086**	**45,577**

Changes in Intangible Assets

PLN '000	Development expense	Software	Patents and licences	Other	Total
Gross book value as at Jan 1 2004	**100**	**4,223**	**30,846**	**392**	**35,561**
Increase, including:	-	1,198	16,248	694	18,140
- purchase	-	581	40	533	1,154
- transfers	-	284	16,130	-	16,414
- inclusion of new undertakings in consolidation	-	1	15	2	18
- other	-	332	63	159	554
Decrease, including:	-	(69)	(335)	(205)	(609)
- sale	-	(6)	-	-	(6)
- other	-	(63)	(335)	(205)	(603)
Gross book value as at Dec 31 2004	**100**	**5,352**	**46,759**	**881**	**53,092**
Gross book value as at Jan 1 2005	**100**	**5,352**	**46,759**	**881**	**53,092**
Increase, including:	533	4,710	8,010	1,591	14,844
- purchase	-	386	299	647	1,332
- settlement of investments	-	3,611	6,707	123	10,441
- transfers	-	-	-	-	-
- inclusion of new undertakings in consolidation	227	713	967	821	2,728
- other	306	-	37	-	343
Decrease, including:	-	(736)	(91)	(621)	(1,448)
- sale	-	(71)	-	-	(71)
- liquidation		(415)	-	-	(415)
- other	-	(250)	(91)	(621)	(962)
Gross book value as at Dec 31 2005	**633**	**9,326**	**54,678**	**1,851**	**66,488**
Accumulated amortisation as at Jan 1 2004	**88**	**1,888**	**1,993**	**4**	**3,973**
Increase, including:	12	735	2,728	58	3,533
- amortisation	12	735	2,693	58	3,498
- inclusion of new undertakings in consolidation	-	-	4	-	4
- other	-	-	31	-	31
Decrease	-	(37)	(3)	-	(40)
Accumulated amortisation as at Dec 31 2004	**100**	**2,586**	**4,718**	**62**	**7,466**
Accumulated amortisation as at Jan 1 2005	**100**	**2,586**	**4,718**	**62**	**7,466**
Increase, including:	56	1,738	6,140	457	8,391
- amortisation	56	1,738	6,137	457	8,388
- other	-	-	3	-	3
Decrease	-	(481)	(4)	-	(485)
Accumulated amortisation as at Dec 31 2005	**156**	**3,843**	**10,854**	**519**	**15,372**
Impairment charges as at Jan 1 2004	**-**	**-**	**-**	**-**	**-**
Increase	-	49	-	-	49
Decrease	-	-	-	-	-

PLN '000	Development expense	Software	Patents and licences	Other	Total
Impairment charges as at Dec 31 2004	**-**	**49**	**-**	**-**	**49**
Impairment charges as at Jan 1 2005	**-**	**49**	**-**	**-**	**49**
Increase	-	8	-	-	8
Decrease	(27)	-	-	-	(27)
Impairment charges as at Dec 31 2005	**(27)**	**57**	**-**	**-**	**30**
Net book value as at Jan 1 2004	**12**	**2,335**	**28,853**	**388**	**31,588**
Net book value as at Dec 31 2004	**-**	**2,717**	**42,041**	**819**	**45,577**
Net book value as at Dec 31 2005	**504**	**5,426**	**43,824**	**1,332**	**51,086**

14. Investment Property

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Opening balance	231	594
Increase:	15,957	-
Change in the Group's composition	15,957	-
Decrease:	(10,300)	(363)
- sale	(10,300)	(363)
Closing balance	**5,888**	**231**

15. Goodwill

PLN '000	Dec 31 2005	Dec 31 2004
Balance-sheet value of consolidation goodwill:		
LOTOS Partner Sp. z o.o.	1,862	1,862
LOTOS Mazowsze S.A.	10,009	10,009
Total	**11,871**	**11,871**
Balance-sheet value of business combination goodwill*	42,717	-
Total	**54,588**	**11,871**

*The goodwill results from the purchase of the ESSO service stations network by LOTOS Paliwa (see Note 40).
No goodwill valuation allowances were made by the Group in 2005 or 2004.

16. Investments in Associated Undertakings

PLN '000	Dec 31 2005	Dec 31 2004
Investments in associated undertakings valued with equity method		
Naftos Gavyba Group(1)	58,425	-
Naftoport Sp. z. o.o.	-	27,384
LOTOS Tank Sp. z o.o.	-	188
Total	58,425	27,572
Other non-current financial assets (1)	24,911	-
Total investments in associated undertakings	**83,336**	**27,572**

(1) As at December 31st 2005, the Petrobaltic Group recognised assets invested in UAB Naftos Gavyba, its associated undertaking. The recognised amount is the funds provided to UAB Naftos Gavyba by Petrobaltic in 2000 to finance the purchase of AB Geonafta shares, subject to a condition precedent (Conditional Agreement on Purchase of Ownership Rights to Shares, dated July 18th 2000; the Agreement). Transfer of the shares was conditional upon UAB Naftos Gavyba performance of its investment obligations towards AB Geonafta, as specified in the privatisation agreement of AB Geonafta. In 2001–2005, UAB Naftos Gavyba performed all of its investment obligations, which consumed LTL 56m, and acquired 41 million of AB Geonafta shares. The most recent increase in AB Geonafta's share capital took place on April 25th 2005. Performance of these obligations was financed in full with UAB Naftos Gavyba's own funds sourced from dividends paid out in consecutive years by AB Geonafta. With the condition precedent fulfilled on April 25th 2005, Petrobaltic could take over the shares in AB Geonafta specified in the Agreement. By the date of these financial statements, UAB Naftos Gavyba had not made any entry in the share register of AB Geonafta which would constitute the transfer the ownership rights to the shares purchased by Petrobaltic under a condition precedent. On March 15th 2006, the Management Board of Petrobaltic S.A. requested the Supervisory Board for an opinion on termination of the Agreement, and its consent to enter into an agreement with the shareholders of Lithuania's Naftos Gavyba on termination of the Agreement, and to enter into an agreement with Naftos Gavyba on termination of the Agreement. After the Supervisory Board issues its opinion and consents, the Management Board of Petrobaltic will request the General Shareholders Meeting for its consent to terminate the Agreement and to enter into an agreement with the shareholders of Naftos Gavyba on termination of all the Agreements on Purchase of Ownership Rights to Shares concluded between Naftos Gavyba and its shareholders, and on return of the funds invested in 2000. Having taken these steps, Petrobaltic would hold only Naftos Gavyba shares with a par value of LTL 4,270.00. Concurrently, on March 24th 2006, an agreement supplementary to the Agreement of July 18th 2000 was signed by Petrobaltic S.A. and UAB Naftos Gavyba to postpone the deadline for transferring the ownership rights to the shares in AB Geonafta to August 31st 2007.

Even though its interest in Naftos Gavyba is less than 20%, the Parent Undertaking – through Petrobaltic, its subsidiary – has a significant influence over the company and treats it as an associated undertaking.

Net assets of material undertakings valued with equity method:

PLN '000	Dec 31 2005	Dec 31 2004
Naftos Gavyba Group	136,825	-
Naftoport Sp. z. o.o.	-	106,796
LOTOS Tank Sp. z o.o.	-	627

Liabilities and provisions for liabilities of material undertakings valued with equity method:

PLN '000	Dec 31 2005	Dec 31 2004
Naftos Gavyba Group	68,630	-
Naftoport Sp. z. o.o.	-	5,888
LOTOS Tank Sp. z o.o.	-	7,188

Sales revenue of material undertakings valued with equity method:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Naftos Gavyba Group	101,524	-
Naftoport Sp. z. o.o.	-	64,657
LOTOS Tank Sp. z o.o.	-	57,598

Net profit/(loss) of material undertakings valued with equity method:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Naftos Gavyba Group	62,460	-
Naftoport Sp. z. o.o.	-	23,210
LOTOS Tank Sp. z o.o.	-	113

Share in profit (loss) of undertakings valued with equity method:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Naftos Gavyba Group	26,598	-
Naftoport Sp. z. o.o.	2,355	5,951
LOTOS Tank Sp. z o.o.	-	34
Other undertakings valued with equity method	(481)	-
Total	28,472	5,985

17. Financial Assets

PLN '000	Dec 31 2005	Dec 31 2004
Shares in non-consolidated subsidiary undertakings	1,954	705
Shares in other undertakings	10,031	1,509
Other non-current financial assets	8,208	3,951
Total	**20,193**	**6,165**

1. On April 14th 2005, Grupa LOTOS S.A., as the Seller, and PERN Przyjaźń S.A. ("PERN"), as the Buyer, concluded an agreement concerning the sale of 13 shares with a par value of PLN 589 thousand per share and aggregate par value of PLN 7,657 thousand, which as at the agreement date represented 16.67% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych Naftoport Sp. z o.o. ("Naftoport"). To be finalised, the transaction had to be approved by the Polish Anti-Trust and Consumer Protection Authority; such approval was issued on April 13th 2005. Following the disposal of the shares, Grupa LOTOS S.A. holds an 8.97% equity interest in Naftoport Sp. z o.o. As a result of Grupa LOTOS S.A. selling a part of its interest in Naftoport, its non-consolidated financial statements prepared for the year ended December 31st 2005 show a realised profit of PLN 26,344 thousand. In the consolidated financial statements prepared for the year ended December 31st 2005, the profit realised by the Company on the sale was adjusted for the value of shares measured with the equity method which was attributable to the sold interest, and amounted to PLN 16,090 thousand.

2. 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.

18. Other Non-Current Assets

PLN '000	Dec 31 2005	Dec 31 2004
Other non-current prepayments and accrued income	8,548	486
Non-current receivables	19,468	-
Total	**28,016**	**486**

19. Inventories

PLN '000	Dec 31 2005	Dec 31 2004
Finished products	418,958	193,725
Semi-finished products and work in progress	273,078	126,134
Goods for resale	15,216	60,431
Materials	725,687	448,330
Net inventories	**1,432,939**	**828,620**

As at December 31st 2005, the balance-sheet value of inventories valued at net realisable selling prices was PLN 148,879 thousand, compared to PLN 52,606 thousand as at December 31st 2004.

Allowances on Account of Measurement at Net Realisable Selling Prices

PLN '000	Dec 31 2005	Dec 31 2004
Finished products	9,629	7
Semi-finished products and work in progress	2,353	7,573
Goods for resale	1,107	-
Materials	8,727	5,688
Total valuation allowances for inventories	**21,816**	**13,268**

During the year ended December 31st 2005, the Group made a valuation allowance for inventories in the amount of PLN 19,192 thousand and released a valuation allowance for inventories in the amount of PLN 9,671 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 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 Parent Undertaking 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 Group).

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

PLN '000	**Dec 31 2005**	**Dec 31 2004**
Mandatory reserves	800,688	411,772

20. Trade and Other Receivables

PLN '000	**Dec 31 2005**	**Dec 31 2004**
Trade receivables, including:	926,267	708,585
- from related undertakings	501	104
- from other undertakings	925,766	708,481
Receivables from the state budget	107,517	32,313
Other receivables, including:	26,564	3,706
- from related undertakings	47	-
- from other undertakings	26,517	3,706
	=============	============
Net receivables	**1,060,348**	**744,604**
Valuation allowance for receivables	134,178	92,244
	=============	============
Gross receivables	**1,194,526**	**836,848**
	=============	============

Information on transactions with related parties is presented in Note 46. The payment period for trade receivables in the normal course of sales is 14–50 days. The concentration of risk related to sales is limited due to the large number of the Group's business partners.

21. Impairment Charges on Receivables

PLN '000	**Year ended Dec 31 2005**	**Year ended Dec 31 2004**
Beginning of period	92,244	17,986
Increases, including:	66,516	79,765
Change in the Group's composition	(24,582)	(5,507)
Decreases	============	============
	134,178	92,244
End of period	============	============
	============	============

22. Cash and Cash Equivalents

PLN '000	Dec 31 2005	Dec 31 2004
Cash in hand and cash at banks	739,652	150,686
Other cash	28,142	4,326
Total	**767,794**	**155,012**

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 Group'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 Group was PLN 763,681 thousand (as at December 31st 2004: PLN 274,848 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, related mainly to shipments of products in accordance with the suspended-excise-tax procedure.

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

Overview of Financial Instruments

The Group 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 Group companies do not issue any derivative financial instruments held for trading.

The Parent Undertaking has implemented written guidelines for currency risk management; these guidelines define the risk tolerance level and the general risk management policy. The Parent Undertaking 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 Group does not apply hedging accounting; accordingly, any change in fair value of derivatives is posted 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 Group 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 created 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 November 12th 2001 an agreement was concluded under which Petrobaltic S.A. granted a loan to Energobaltic Sp. z o.o. (associated undertaking). As at December 31st 2005, Petrobaltic S.A.'s receivables under the loan (including accrued interest) amounted to USD 6,386 thousand (or PLN 20,825 thousand). On the basis of an analysis of the economic and financial standing of Energobaltic Sp. z o.o., performed based on the 2005 financial statements, and considering the projections for the following years and the related risk of a loss of liquidity in the event of failure of the measures taken by the Management Board of Energobaltic Sp. z o.o. to restructure the company's indebtedness, i.e. to postpone the repayment of bank loans and shareholder loans, a valuation allowance was made for the full value of the loan. A valuation allowance was also made for the value of shares held in Energobaltic Sp. z o.o.

Under the shareholder agreement, in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the gas supply agreement for the year, Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV"), to purchase the claims under the loan advanced by RRPV to Energobaltic. If RRPV performs in accordance with the shareholder agreement, Petrobaltic S.A. may be obliged to gradually (2007–2011) purchase RRPV's claims under the loan at maturity of each principal instalment. If RRPV accepts Petrobaltic S.A.'s offer to purchase the claims, it will mean fulfilment of the condition precedent for RRPV's offer, made in 2001, to sell all the shares held by RRPV in Energobaltic at the time a default notice is served under the gas supply agreement. As at the date of these consolidated financial statements, no such notice was delivered. Any breach of the terms and conditions of the gas supply agreement in the following years entitles RRPV to issue such a notice within the timeframes provided for in the agreement. In view of the above, the Parent Undertaking created a provision of PLN 24,188 thousand related to the shareholder agreement and disclosed under other provisions.

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 Parent Undertaking's 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 Group 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 Group's other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivatives, the Group'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 Group.

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.

24. Current Financial Assets

PLN '000	**Dec 31 2005**	**Dec 31 2004**
Positive valuation of financial instruments, including:	5,328	21,191
- Currency forwards	2,016	1,678
- Currency swaps	24	-
- Currency and interest rate swaps	3,288	19,513
Repo transactions	30,024	-
Treasury bonds	3,879	-
Treasury bills	93,140	22,043
Loans	177	-
Other	3,212	-
Total	**135,760**	**43,234**

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:	8,111,541	-	3,097	-	6,312
Acquisition	8,091,910	-	177	-	-
Revaluation	8,479	-	2,920	-	-
Other	-	-		-	6,312
Inclusion of new undertakings in consolidation	11,152	-	-	-	-
Decrease, including:	(8,026,283)	-	(2,920)	(73)	(1,426)
Sale	(8,005,078)	-	-	-	(1,426)
Revaluation	(21,205)	-	(2,920)	(73)	-
Closing balance as at Dec 31 2005	**128,492**	**-**	**-**	**3,879**	**6,395**
Gross value	120,013	-	51,136	3,783	6,813
Revaluation	8,479	-	(50,959)	96	(418)
Balance-sheet disclosure					
Long-term investments	-	-	-	-	6,395
Short-term investments	128,492	-	177	3,879	-
Current liabilities	-	-	-	-	-
	-----------	-----------	-----------	-----------	-----------
Total	**128,492**		**177**	**3,879**	**6,395**
	===========	===========	===========	===========	===========

(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**	**-**	**-**	**5,407**	**1,509**
Gross value	174,939	-	28,407	5,286	1,927
Revaluation	19,691	-	(28,407)	121	(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)	(1,624)	-
Sale	(5,957,750)	-	-	(1,503)	-
Revaluation	(19,691)	-	(19,632)	(121)	-
	-----------	-----------	-----------	-----------	-----------
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**
	===========	===========	===========	===========	===========

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)**
							Aggregate 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.
*** The fair value of the transaction is determined by discounting the difference between the sale of currency at a forward rate and the purchase of currency at a spot rate.

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/interest rate swap	Sep 4 2003	Sep 8 2003 – Apr 24 2006	CHF/PLN	2.9	57,200	LIBOR CHF/ 6M	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/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**

AGGREGATE 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.

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	(85)
				TOTAL		**73,488**	**1.677**

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

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 (Bank pays)	GL's reference rate (GL pays) ***	Fair value as at Dec 31 2004 (PLN '000)**
Grupa LOTOS S.A.	Currency/interest rate swap	Apr 17 2003	Apr 24 2003 – Apr 25 2005	CHF/PLN	2.8	56,790	LIBOR CHF/ 6M	5.1	(4,193)
Grupa LOTOS S.A.	Currency/interest rate swap	Sep 4 2003	Sep 8 2003 – Apr 24 2006	CHF/PLN	2.9	57,200	LIBOR CHF/ 6M	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 (Bank pays)***	GL's reference rate (GL pays) ***	Fair value as at Dec 31 2004 (PLN '000)**
Grupa LOTOS S.A.	Currency/interes t 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/interes t 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**
					AGGREGATE 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.

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

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

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

PLN '000	Dec 31 2005	Dec 31 2004
Cash at banks	761,024	149,804
- current accounts	515,259	39,222
- deposits up to 1 year	245,765	110,582
Cash in hand	1,729	882
Other cash	5,041	4,326
Total cash	**767,794**	**155,012**

Restricted cash comprises cash held by the Group companies e.g. in order to secure operations.

Breakdown of the Group'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 PLN '000	Dec 31 2005	Dec 31 2004
Balance-sheet change in net non-current and current receivables	(335,213)	(134,139)
Change in income tax receivables	(4,972)	6,633
Change in receivables due to change in the Group's composition	153,099	8,797
Other	23,894	206
Change in receivables as disclosed in the cash-flow statement	(163,192)	(118,503)

Liabilities and accruals and deferred income PLN '000	**Dec 31 2005**	**Dec 31 2004**
Balance-sheet change in current and non-current liabilities	620,642	(241,563)
Change in short- and long-term loans	45,468	269,759
Change in income tax liabilities	(64,847)	70
Change in investment liabilities	23,806	(43,825)
Change in liabilities due to change in the Group's composition	331,509	(13,762)
Other	21,700	(1,113)
Change in liabilities as disclosed in the cash-flow statement	271,859	(30,434)

Inventories PLN'000	**Dec 31 2005**	**Dec 31 2004**
Balance-sheet change in inventories	(604,319)	(280,473)
Change in inventories due to change in the Group's composition	145,508	6,740
Other	39	51
Change in inventories as disclosed in the cash-flow statement	(458,772)	(273,682)

Provisions PLN '000	**Dec 31 2005**	**Dec 31 2004**
Balance-sheet change in provisions	201,587	45,072
Change in provisions due to change in the Group's composition	(181,800)	(304)
Change in deferred tax liability	(27,717)	2,884
Other	4,495	7,522
Change in provisions as disclosed in the cash-flow statement	(3,435)	55,174

Prepayments and accrued income PLN'000	**Dec 31 2005**	**Dec 31 2004**
Balance-sheet change in prepayments and accrued income	(14,620)	(339)
Change in prepayments and accrued income due to change in the Group's composition	6,232	158
Other	480	7
Change in prepayments and accrued income as disclosed in the cash-flow statement	(8,868)	(174)

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
Excess of interest in net assets over acquisition cost	(266,625)	-
Valuation allowance for non-current financial assets	-	19,632
Other	(402)	1,222
Total other net items	(267,027)	20,854

26. Share Capital and Reserve Funds

Share Issue

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

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

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

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

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

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

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

   The Shares were offered as follows:

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

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

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

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

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

6. The aggregate number of orders placed in the Public Offering for Series B Shares was 31,763, of which:
   - 31,646 in the Retail Offering, and
   - 117 in the Institutional Offering.

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

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

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

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

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

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

	Number of shares	Number of votes	Par value	% 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 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 recognised under reserve funds, net of the expenses directly related to the share issue, adjusted for income tax of PLN 9,049 thousand. Net issue proceeds (proceeds after the expenses directly related to the share issue, adjusted for corporate tax) equalled to PLN 1,005.9 million.

Assimilation of Shares

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

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

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

27. Dividends

On May 13th 2005, the General Shareholders Meeting of the Parent Undertaking approved the 2004 dividend amount of PLN 15,740 thousand (PLN 0.20 per share). Pursuant to the Resolution of the General Shareholders Meeting of Grupa LOTOS S.A. on the distribution of the Company's net profit for the year ended December 31st 2004, adopted on May 13th 2005, the dividend payment date was set at June 22nd 2005. Starting January 1st 2005, the Parent Undertaking shall distribute the Company's net profit computed in accordance with the IFRS.

As at the date of these financial statements, the Management Board of the Parent Undertaking did not make any decisions on distribution of the Parent Undertaking's profit for 2005.

28. Earnings per Share

	Year ended Dec 31 2005	Year ended Dec 31 2004
Consolidated net profit attributable to the Parent Undertaking's shareholders (PLN '000) (A)	915,124	542,807
Weighted average number of shares (in thousands) (B)*	96,632	78,700
Earnings per share (A/B)	9.47	6.90

* 2005 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 26). The 2004 earnings per share 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 26).

29. Minority Interests

PLN '000	Dec 31 2005	Dec 31 2004
Balance as at January 1st	14,882	1,676
Inclusion of new undertakings in consolidation	203,454	14,779
Share in profit/(loss) of subsidiary undertakings	53,715	1,415
Changes in shareholder structure of subsidiary undertakings	(16,272)	(2,988)
Dividends paid out by subsidiary undertakings	(2,521)	-
Other	1,023	-
Balance as at end of period	**254,281**	**14,882**

30. Loans, Borrowings and Other Financial Liabilities

Loans and Borrowings

PLN '000	Dec 31 2005	Dec 31 2004
Bank loans	392,100	328,308
Borrowings	13,550	-
Total	**405,650**	**328,308**
Including:		
Non-current portion	294,198	143,737
Current portion	111,452	184,571

Loans and Borrowings by Lender

PLN '000	Dec 31 2005	Dec 31 2004
Non-current portion		
Kredyt Bank S.A.	50,987	29,973
Bank syndicate (Dresdner Bank Luxembourg S.A.- the agent)	-	112,289
BRE Bank S.A.	2,233	1,475
NFOŚiGW (National Fund for Environmental Protection and Water Management)	11,550	-
PeKaO S.A	30,874	-
PKO BP S.A.	2,809	-
Bank syndicate (PKO BP S.A. and PeKaO S.A)	195,745	-
Total non-current portion	**294,198**	**143,737**
Current portion		
Kredyt Bank S.A.	7,776	35,000
BPH S.A.	-	35,714
Bank syndicate (Dresdner Bank Luxembourg S.A.- the agent)	-	112,806
BRE Bank S.A.	2,912	1,027
PeKaO S.A.	32,542	-
ING Bank Śląski S.A.	31,898	-
Citibank Handlowy S.A.	-	24
PKO BP S.A.	29,985	-
Podkarpacki Bank Spółdzielczy S.A.	4,300	-
Bank Handlowy w Warszawie S.A.	2	-
NFOŚiGW (National Fund for Environmental Protection and Water Management)	2,000	-
Bank syndicate (PKO BP S.A. and PeKaO S.A)	37	-
Total current portion	**111,452**	**184,571**
Total	**405,650**	**328,308**

Bank Loans and Borrowings by Currency as at December 31st 2005

PLN '000	USD loans	PLN loans	Total
2006	7,454	103,998	111,452
2007	7,454	53,770	61,224
2008	7,454	53,523	60,977
2009	7,454	51,500	58,954
2010	7,454	51,800	59,254
after 2010	1,056	52,733	53,789
Total	**38,326**	**367,324**	**405,650**

The table above presents loans and borrowings according to their maturity dates. In 2005, the average effective interest rate of the loans was approx. 5.1%.

(PLN '000)

Bank/entity name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment method etc.)	Collateral
		PLN	Currency	PLN	Currency	PLN	Currency	Current portion	Non-current portion		
Kredyt Bank S.A. Gdańsk Branch	Warsaw	60,000	-	7,776	-	50,987		Dec 31 2006	Jun 30 2015	1M WIBOR + bank margin	Mortgage, blank promissory note, assignment of receivables under insurance policies
PeKaO S.A.	Warsaw	25,000	-	25,000	-	-	-	May 19 2006	-	1M WIBOR + bank margin	Power of attorney for the bank to charge the account with amounts due, representation on submission to enforcement
Bank syndicate (PKO BP S.A. and PeKaO S.A.)	Warsaw	340,000	-	37	-	195,745	-		Dec 31 2014	3M WIBOR + bank margin	Blanket security (deposit) mortgage for each lender, representation on submission to enforcement, assignment of receivables under insurance policies, trade agreements, lease agreements, registered pledge on assets
PKO BP S.A.	Warsaw	25,000	-	16,834	-	-	-	current account loan – revolving limit	Nov 3 2008	1M WIBOR + bank margin	Representation on submission to enforcement
BRE BANK S.A.	Gdańsk	5,000	-	1,667	-	2,233	-	Sep 30 2006	Sep 30 2008	1M WIBOR + bank margin	Registered pledge, assignment of receivables, blank promissory note
BRE BANK S.A.	Gdańsk	1,900	-	1,245	-	-	-	Aug 31 2006	-	1M WIBOR + bank margin	Assignment of receivables, blank promissory note

(PLN '000)

Bank/entity name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment method etc.)	Collateral
		PLN	Currency	PLN	Currency	PLN	Currency	Current portion	Non-current portion		
Bank Handlowy w Warszawie S.A.	Warsaw	2,000	-	2	-	-	-	Jan 2 2006 current account loan	-		
PKO BP S.A.	Krosno branch	5,000	-	5,000	-	-	-	Aug 30 2006	-	1M WIBOR + bank margin	Promissory note, assignments, pledge on inventories
Podkarpacki Bank Spółdzielczy S.A.	Sanok	4,300	-	4,300	-	-	-	Sep 29 2006	-	1M WIBOR + bank margin	Mortgage, promissory note, pledge, assignments
ING Bank Śląski S.A.	Krosno branch	4,500	-	1,500	-	-	-	Sep 30 2006		1M WIBOR + bank margin	Pledge on inventories and property, plant and equipment
PKO BP S.A.	Krosno branch	7,000	-	6,798	-	-	-	Jul 29 2006	-	1M WIBOR + bank margin	Mortgage, promissory note
ING Bank Śląski S.A.	Warsaw	30,000	-	29,408	-	-	-	Aug 8 2006	-	1M WIBOR + bank margin	Mortgage, assignments, pledge
PKO BP S.A.	Krosno branch	4,500	-	1,353	-	2,809	-	Oct 10 2006	Dec 31 2008	1M WIBOR + bank margin	Assignment of receivables and mortgage
NFOŚiGW (National Fund for Environmental Protection and Water Management)	Warsaw	15,000	-	2,000	-	11,550	-	Sep 30 2006	Sep 30 2010	half of the bill rediscount rate	Surety
PeKaO S.A.	Krosno branch	500	-	88	-	-	-	Jun 30 2006	-	1M WIBOR + bank margin	Assignment
ING Bank Śląski S.A.	Katowice	990	-	990	-	-	-	Sep 8 2006	-	1M WIBOR + bank margin	Assignment, pledge on inventories

(PLN '000)

Bank/entity name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment method etc.)	Collateral
		PLN	Currency	PLN	Currency	PLN	Currency	Current portion	Non-current portion		
PeKaO S.A.	Warsaw	56,409	USD 14,800	7,454	USD 2,286	30,874	USD 9,466	Dec 31 2006	Feb 28 2011	1M LIBOR + bank margin	Pledge on property, plant and equipment
Total				**111,452**	**USD 2,286**	**294,198**	**USD 9,466**				

The bank margins on the contracted loans and borrowings are in the range of 0.05% – 2.0%.

31. Provisions

PLN '000	Dec 31 2005	Dec 31 2004
Non-current provisions		
Provision for land reclamation	37,190	2,050
Length-of-service awards and retirement severance pays	49,771	39,011
Penalties, damages and other	1,054	-
Other provisions	103,787	1,029
Total non-current provisions	**191,802**	**42,090**
Current provisions		
Provision for land reclamation	3,142	-
Length-of-service awards and retirement severance pays	12,751	5,034
Penalties, damages and other	100	-
Other provisions	63,667	50,468
Total current provisions	**79,660**	**55,502**
Total	**271,462**	**97,592**

Computation of the provisions for employee benefits 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.

Changes in Provisions

The changes in provisions were as follows:

PLN '000	Provision for land reclamation	Length-of-service awards and retirement severance pays	Penalties, damages and other	Other provisions*	Total
As at Jan 1 2004	**1,807**	**33,408**	**-**	**13,103**	**48,318**
Increase	1,043	16,379	-	51,428	68,850
Decrease	(800)	(5,742)	-	(13,034)	(19,576)
As at Dec 31 2004	**2,050**	**44,045**	**-**	**51,497**	**97,592**
As at Jan 1 2005	**2,050**	**44,045**	**-**	**51,497**	**97,592**
Increase	39,915	30,342	1,154	144,113	215,524

PLN '000	Provision for land reclamation	Length-of-service awards and retirement severance pays	Penalties, damages and other	Other provisions*	**Total**
Decrease	(1,633)	(11,865)	-	(28,156)	(41,654)
As at Dec 31 2005	**40,332**	**62,522**	**1,154**	**167,454**	**271,462**

*The item "Other provisions" includes the following items:

PLN '000	**Provision for Glimar[1]**	**Provision for the Offshore Oil Rig project [2]**	**Provision for Energobaltic[3]**	**Provision for interest**	**Other**	**Total**
As at Jan 1 2004	-	-	-	-	13,103	13,103
Increase	41,107	-	-	-	10,321	51,428
Decrease	-	-	-	-	(13,034)	(13,034)
As at Dec 31 2004	41,107	-	-	-	10,390	51,497
As at Jan 1 2005	41,107	-	-	-	10,390	51,497
Increase	-	82,026	24,188	3,416	34,483	144,113
Decrease	-	(2,428)	-	-	(25,728)	(28,156)
As at Dec 31 2005	41,107	79,598	24,188	3,416	19,145	167,454

[1] Grupa LOTOS S.A. and Rafineria Nafty Glimar S.A. signed 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. On January 19th 2005, the District Court of Nowy Sącz declared Rafineria Nafty Glimar S.A. of Gorlice bankrupt. As at December 31st 2005 and December 31st 2004, the assets under the loans advanced were fully covered by an allowance. As at the above dates, the Company also created a provision for the remaining receivables under these agreements.

[2] – Petrobaltic has a legal obligation to create a provision for the liquidation of the Offshore Oil Rig in the amount of 3% to 10% of the value of depreciation charges on non-current assets involved in the operations of the Offshore Oil Rig.

[3] – In 2001, Petrobaltic advanced a loan to Energobaltic Sp. z o.o., an associated company. Pursuant to the shareholders agreement ("the Shareholders Agreement"), Petrobaltic S.A. is obliged to offer to the other shareholder and lender of Energobaltic Sp. z o.o., that is Rolls-Royce Power Ventures (Władysławowo) Limited ("RRPV") to purchase the claims under the loan advanced by RRPV to Energobaltic in the event that the aggregate amount of waste gas supplied by Petrobaltic S.A. to Energobaltic Sp. z o.o. in 2005 is lower than the minimum offtake amount provided for in the Gas Supply Agreement for that year. The provision amounts to PLN 24,188 thousand.

32. Liabilities, Accruals and Deferred Income

PLN '000	Dec 31 2005	Dec 31 2004
Trade payables, including:	844,341	444,203
from related undertakings	3,270	348
Tax and social security payable	319,236	214,117
Special accounts	8,182	3,750
Salaries and wages payable	7,432	5,726
Accrued expenses	45,759	9,092
Other liabilities, including:	48,569	65,455
from related undertakings	2,824	336
Total	**1,273,519**	**742,343**

The terms of transactions with related undertaking are described in Note 46. 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 three months. 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 Parent Undertaking and some other Group companies have a status of 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.

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

As described in Note 11 to these consolidated 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 Group companies.

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

PLN '000	Dec 31 2005	Dec 31 2004
Assets of the Company's Social Benefits Fund		
Cash on separate bank account of the Company's Social Benefits Fund	2,770	1,336
Receivables from employees under the Company's Social Benefits Fund	6,662	4,600
Prepayments and accrued income	-	-
Other	152	96
Total	**9,584**	**6,032**
Liabilities related to the Company's Social Benefits Fund	-	
Liabilities of the Company's Social Benefits Fund	9,146	5,743
Other	438	289
Total	**9,584**	**6,032**

34. Sales Revenue

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Sales of products	12,934,840	10,241,348
Sales of services	59,937	43,542
Total sales of products	12,994,777	10,284,890
Sales of goods for resale	850,819	906,020
Sales of materials	2,823	2,731
Total sales of goods for resale and materials	853,642	908,751
	13,848,419	**11,193,641**
Elimination of excise tax and fuel charge	(4,202,874)	(3,743,328)
Total	**9,645,545**	**7,450,313**

35. Cost by Type

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Depreciation and amortisation	263,290	192,511
Raw materials and energy used	7,308,386	5,007,002
Contracted services	500,787	407,666
Taxes and charges	65,750	47,592
Salaries and wages	274,593	172,090
Social security and other benefits	81,627	42,487
Other costs by type	105,150	66,425
Goods for resale and materials sold	640,545	891,694
Total	**9,240,128**	**6,827,467**
Adjustments:		
Change in products and adjustments in cost of sales	(410,938)	(88,040)
Total operating expenses, including:	**8,829,190**	**6,739,427**
Cost of sales	8,053,554	6,139,178
Selling costs	501,650	387,423
General and administrative expenses	273,986	212,826

36. Other Operating Income

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Gain on disposal of property, plant and equipment	4,335	1,337
Subsidies	732	-
Release of provisions	3,513	7,339
Reversal of valuation allowance for receivables	9,349	-
Compensation received	4,020	4,572
Other operating income	13,696	7,196
Total	**35,645**	**20,444**

37. Other Operating Expenses

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Loss on disposal of property, plant and equipment	54	29
Revaluation of non-financial assets	24,258	69,292
Provisions created	4,048	45,012
Other operating expenses	20,358	4,812
Total	**48,718**	**119,145**

38. Net Financial Income and Expenses

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Dividend received	581	14
Interest	25,071	12,190
Foreign exchange gains	20,247	73,177
Gains on disposal of investments	16,078	9,744
Revaluation of investments	-	-
Other	13,765	12,790
Total financial income	**75,742**	**107,915**
Interest	29,021	16,077
Foreign exchange losses	1,796	1,553
Loss on disposal of investments	50	-
Revaluation of investments	14,423	18,077
Other	7,267	2,178
Total financial expenses	**52,557**	**37,885**
Net financial income (expenses)	**23,185**	**70,030**

39. Corporate Income Tax

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Corporate income tax	208,496	152,833
Deferred tax	(39,681)	(8,855)
Total tax	168,815	143,978

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

The difference between the tax amount disclosed in the profit and loss account and the amount calculated by applying the tax rate to pre-tax profit results from the following items:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Pre-tax profit	1,137,654	688,200
Corporate income tax at the applicable rate (19% in 2004 and 2005)	216,154	130,758
Permanent differences, including:	(249,154)	69,580
Excess of net assets' fair value over acquisition cost	(266,625)	-
Interest in investments in associated undertakings	(28,472)	(5,985)
Other permanent differences	45,943	75,565
Tax effect of differences	(47,339)	13,220
Corporate income tax	168,815	143,978
Effective tax rate	0.15	0.21

The corporate income tax of PLN 2,312 thousand was disclosed directly under equity.

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:		
Foreign-currency loan valuation	-	-
Provision for employee benefits	9,612	8,369
Difference between current tax value and book value of tangible assets	1,835	1,842
Valuation allowance for inventories	2,491	2,520
Foreign exchange losses on foreign-currency settlements	1,460	9
Tax loss amortised over time	457	217
Valuation allowance for accounts receivable	11,899	13,469
Other	27,874	4,259
Total deferred tax asset	**55,628**	**30,685**
Deferred tax liability		
Difference between current tax value and book value of tangible assets	244,774	206,592
Positive valuation of foreign-currency settlements	-	1,308
Positive valuation of derivatives	1,012	3,709
Positive valuation of loans	-	264
Other	1,926	563
Total deferred tax liability	**247,712**	**212,436**
Net deferred tax asset/(liability)	**(192,084)**	**(181,751)**

Since the Group companies are separate taxpayers, deferred tax asset and deferred tax liability are calculated at each company individually.

Consequently, consolidated balance-sheets present deferred tax assets and liabilities as follows:

PLN '000	Dec 31 2005	Dec 31 2004
Deferred tax asset:	26,593	9,209
Deferred tax liability:	(218,677)	(190,960)
Net deferred tax asset/(liability)	**(192,084)**	**(181,751)**

Taxable temporary differences are expected to expire in 2005–2084**.**

40. Business Combinations

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

On February 3rd 2005, the agreement of January 13th 2005 was finalised, whereby Grupa LOTOS S.A. purchased from Nafta Polska S.A. shares in the following companies:

- Czechowice Refinery (80.04%),
- Jasło Refinery (80.01%),
- Glimar Refinery, in bankruptcy (91.54%),
- Petrobaltic (69.00%).

The value of the shares purchased under the agreement totalled PLN 257,276 thousand and was fully paid up by Grupa LOTOS S.A. in cash.

Since

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

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

Pursuant to IFRS 3, as at the date an entity is taken over, i.e. as at the acquisition date, the acquirer is obliged to allocate the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date. Any difference between the acquisition cost and the acquirer's interest in the value of the assets, liabilities and contingent liabilities so measured constitutes the (negative) goodwill.
The allocation is made exclusively with repsect to those assets and liabilities that exist on the acquisition date. In addition, IFRS 3 prohibits, in relation to the acquired net assets, the creation of provisions for opertaing losses of future periods as they are an item arising after the acquisition.

As at the date of the consolidated financial statements, the Company, in accordance with the above policies, performed for each acquired company a separate valuation of goodwill and recognised the difference between the acquisition cost and the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Since control over the assets of Rafineria Nafty Glimar S.A. ("Glimar Refinery") has been assumed by a bankruptcy administrator, the company is not consolidated by Grupa LOTOS S.A. As at December 31st 2005, the balance-sheet value of the Glimar Refinery shares is PLN 0.

The purchase prices and the fair value of individual companies' key net assets as at the acquisition date (February 3rd 2005) are as follows:

(PLN '000)	Jasło Refinery	Czechowice Refinery	Petrobaltic
Merger cost (purchase price)	**0.001**	**13,918**	**245,931**
Percentage share in the share capital of the acquired undertakings	80.01%	80.04%	69.00%
Current assets, including:	102,768	222,533	141,817
Cash and cash equivalents	3,576	23,950	114,643
Non-current assets	121,728	92,293	631,814
Total assets	**224,496**	**314,826**	**773,631**
Provisions and other	11,646	67,388	159,175
Non-current liabilities	15,051	-	36,977
Current liabilities and accruals and deferred income	108,499	129,761	54,528
Total liabilities	**135,196**	**197,149**	**250,680**
Net assets	**89,300**	**117,677**	**522,951**
Company's share in net assets	**71,449**	**94,189**	**360,836**
Excess of company's share in net assets over the acquisition cost	**71,449**	**80,271**	**114,905**
Total negative goodwill charged to income in the consolidated profit and loss account*		**266,625**	

* Negative goodwill does not represent cash flows.

The prices of shares in companies which are the subject of the transaction were determined by the parties to the sales agreement of January 13th 2005 based on reports by independent consultancy companies acting individually at the request of Nafta Polska S.A. as the seller and Grupa LOTOS S.A. as the buyer.

Individual companies were valued in accordance with generally accepted market practice, primarily with the use of an income-based method, i.e. the discounted cash flow method (DCF). This method involves calculating the total value of projected cash flows taking into account changes in the time value of money, based on a company's business plan containing complete projections of its financial performance. This approach presents the value of the whole company as an operating business unit for a potential investor intending to conduct the company's business in line with the approved business plan.

The DCF valuation of the Southern Refineries was based on business plans and financial projections submitted by the Management Boards of the individual companies and the values arrived at in this valuation were lower than those finally agreed upon in the agreement of January 13th 2005. The objective of the acquisition of the Southern Refineries and Petrobaltic S.A. by Grupa LOTOS S.A. was to implement the assumptions of the Strategy for the Oil Industry in Poland, including general restructuring of the Southern Refineries which would enable them to continue at least part of their operations in the changing legal environment (e.g. introduction of stricter requirements with respect to product standards and the environmental protection, abolition of excise tax credit) and market environment.

When acquiring the shares, Grupa LOTOS S.A. intended to carry out the restructuring and ensure continued operations of the Southern Refineries and Petrobaltic S.A. to the extent permitted by legal and market conditions. This means that the use of the DCF valuation method was in accordance with the market standards, and the economic value of shares in the acquired companies was not materially different from the amounts agreed upon in the agreement.

The excess of the value of Grupa LOTOS S.A.'s share in the acquired net assets of the consolidated companies over their acquisition cost (disclosed in the consolidated profit and loss account at PLN 267m) results from the application of IFRS 3 and measurement of the identifiable individual assets, liabilities and contingent liabilities of the acquired companies at fair value as at the acquisition date. The valuation method applied to the acquired net assets for the purposes of IFRS 3 differs significantly from the valuation method applied to the companies' shares for the purposes of the transaction. In the first case, the fair value of individual non-current assets was determined by way of an independent valuation by asset appraisal experts, while the value of individual liabilities and contingent liabilities was determined and disclosed based on the Company's best estimates, taking into account e.g. the results of environmental protection experts' work.
For the purposes of IFRS 3, the fair value of individual items of property, plant and equipment was determined in the following manner:

- The fair value of real estate was measured using the comparative approach, the price comparison method, and the statistical market analysis techniques; the first assets to be valued were separate pieces of real estate held by the individual companies, and subsequently the fair value of the whole real estate (including land), broken down by individual items of property, plant, and equipment, was determined with the use of appropriate asset classification rules;
- Movables were valued using the multiples method, taking into account the adjusted initial value of tangible assets (including official adjustments of value), the technical condition, the technical and economic wear and tear (percentage), and the effect of macroeconomic factors (such as inflation, changes in the value of currency, etc).

The valuation showed an increase in the value of those assets which are disclosed as off-balance-sheet items in accordance with the PAS (land perpetual usufruct) as well as those which have been fully depreciated but are still used in the business activities of the companies and continue to provide economic benefits. Moreover, the value of the acquired companies' liabilities and contingent liabilities which had not been disclosed in the financial statements of the companies or were disclosed in lower amounts was also increased as a result of the valuation.

Compared with the initially estimated goodwill arising from business combination, as presented in the consolidated interim financial statements, a significant change occurred, namely negative goodwill was identified, which in the consolidated interim financial statements was presented in the balance sheet under provisions.

By acquiring the Southern Refineries and Petrobaltic S.A., Grupa LOTOS S.A. assumed liabilities whose fair value cannot be reliably estimated at present. It is also difficult to determine whether an outflow of economic benefits will be necessary to settle the liabilities. Therefore, the liabilities were not disclosed as at the acquisition date (February 3rd 2005). The write-off for negative goodwill disclosed in these consolidated financial statements due to the requirements of IFRS 3 was not decreased by the undetermined fair value of such future liabilities. The effects, if any, of discharging these liabilities will have to be disclosed in future consolidated financial statements of the Group.

B. Acquisition of ESSO Service Station Network

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

- 39 service stations along with real estate owned, held in perpetual usufruct or under long-term leases,
- 14 undeveloped lots for new service stations, owned or held in perpetual usufruct (including three lots covered by call options).

The preliminary agreement provided for a transfer of 24 employees of ExxonMobil Poland Sp. z o.o., who had been engaged in the expansion of the ESSO network in Poland.

As part of the transaction, Grupa LOTOS S.A. and ExxonMobil are to conduct domestic and international cooperation in serving ESSO customers at LOTOS stations in Poland and LOTOS customers holding fleet cards at service stations accepting ESSO cards outside Poland (in a number of European countries). It also provides for a continuation of the loyalty scheme for ESSO retail customers. Furthermore, LOTOS Paliwa Sp. z o.o. agreed to purchase (for additional consideration) assets connected with day-to-day operations of the acquired stations (stocks of fuels, receivables from agents and loyalty card holders, etc.).
On December 14th 2005, LOTOS Paliwa Sp. z o.o. and ExxonMobil Poland Sp. z o.o. completed the transaction by concluding the final agreement. The net price for the organised part of business is PLN 283,318 thousand, of which PLN 250,728 thousand accounts for the 39 service stations.
LOTOS Paliwa Sp. z o.o. financed the transaction with funds from the additional contributions to equity made by Grupa LOTOS S.A. and from the loan granted under the agreement concluded in 2004 between LOTOS Paliwa Sp. z o.o. and a bank syndicate (Bank Pekao S.A. and PKO BP S.A.).

As at December 31st 2005, the expenditure incurred by LOTOS Paliwa Sp. z o.o. to the purchase of the organised part of business amounted to PLN 248,048 thousand, of which PLN 215,458 thousand was spent to acquire 33 stations.
Acquisition of the ESSO stations resulted in the recognition of goodwill in the amount of PLN 42,717 thousand, reflecting the difference between the acquisition cost and the fair value of the acquired assets. The difference relates to one cash-generating unit. No cash was acquired in the transaction.

Acquisition of the ESSO stations resulted in the recognition of goodwill in the amount of PLN 42,717 thousand, reflecting the difference between the acquisition cost and the fair value of the acquired assets. No need to make an allowance was identified upon impairment testing. The recoverable value of cash-generating units was determined on the basis of their fair value. Since the Group is building its retail network, the fair value was determined on the basis of prices in similar transactions made in recent period.

(PLN '000)	
Merger cost (acquisition cost)	259,530
Non-current assets	216,813
Goodwill	42,717

41. Contingent and Off-Balance-Sheet Liabilities

Material Contingent and Off-Balance-Sheet Liabilities of Grupa LOTOS S.A.

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

Under the agreement, the Company issued an irrevocable surety to repay the loan contracted by the Jasło Refinery from the National Fund for Environmental Protection and Water Management under a loan agreement of December 10th 2003. The surety covers the loan amount of up to PLN 15,000 thousand. In connection with the surety agreement, on February 6th 2004 the Jasło Refinery and the Company signed an agreement whereby the following security was established for the Company's interest with respect to the surety:

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

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

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

Pursuant to an annex of October 20th 2005 to the registered pledge agreement of February 18th 2004, 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.

Surety Granted to LOTOS Partner Sp. z o.o.

The Company granted a surety of up to PLN 3,000 thousand to Naftobazy Sp. z o.o. and a guarantee of payment by PREEM TERMINALE RZECZNE Sp. z o.o. (renamed to LOTOS PARTNER Sp. z o.o.) of liabilities under the storage agreement of December 23rd 2002. Upon the expiry of the storage agreement on December 31st 2005, the surety granted by the Company to Naftobazy Sp. z o.o. also expired.

Material Liabilities of the Parent Undertaking under Promissory Notes

Security Established for the Benefit of Customs Duty Authorities

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 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 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 for a total amount of PLN 313,000 thousand were submitted to customs authorities to secure the Parent Undertaking's customs duty liabilities.

Material Contingent and Off-Balance-Sheet Liabilities of Petrobaltic S.A.

Liabilities to Bank Ochrony Środowiska S.A.

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

- to increase the share capital of Energobaltic by an amount equal to the company's cumulative net loss incurred in the period from the abovementioned loan agreements date to the date of the first sale (confirmed by an invoice) of power from the CHP plant in Władysławowo (according to the Issuer's information, such sale was made on July 3rd 2003), if the loss exceeds 20% of Energobaltic's share capital;
- to apply a part of net profit (in the amount not exceeding the amount assumed in the Bank-approved final projection for the project financed with the loan) towards share capital increase in Energobaltic;
- not to dispose of or encumber its shares in Energobaltic without a prior consent of the Bank.

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Czechowice S.A.

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

Material Contingent and Off-Balance-Sheet Liabilities of LOTOS Jasło S.A.

Liabilities under Promissory Notes towards Nafta Polska S.A.

The Jasło Refinery has issued nine blank promissory notes to Nafta Polska S.A. Under the promissory note declarations of January 19th 2000, the promissory notes secure the liabilities of the Jasło Refinery under claims concerning environmental damage on the property specified in the agreement of January 19th 2000 between the Jasło Refinery and Carbon Black Polska Sp. z o.o. The promissory notes may be filled in by Nafta Polska if the Jasło Refinery fails to perform any of its obligations under the agreement. As provided for in the declarations, each promissory note may be filled in with up to PLN 1,000 thousand.
Under an agreement of January 19th 2000 between Nafta Polska S.A. and the Jasło Refinery, if no obligation arises on the part of Nafta Polska S.A. to provide any performance, in whole or in part, under the performance bond agreement relating to the agreement on environmental issues with Carbon Black Polska Sp. z o.o. by the time Nafta Polska S.A. is removed from the enterprise register, Nafta Polska S.A. will place the unrealised promissory notes in court deposit so that they can be returned after the court's decision on removing Nafta Polska S.A. from the enterprise register becomes final. Similarly, the unrealised promissory notes will be returned to the Jasło Refinery after 10 years following the agreement date if Nafta Polska S.A. is not removed from the enterprise register and is not obliged to any performance under the surety agreement.

Liabilities under Promissory Notes towards the Minister of Economy

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

Other Liabilities under Promissory Notes

Furthermore, as at December 31st 2005, the Jasło Refinery had the following contingent liabilities:

- blank promissory note in the amount of PLN 4,300 thousand, issued to PBS Sanok as loan security, expiring on September 29th 2006,
- blank promissory note in the amount of PLN 12,000 thousand, issued to PKO BP S.A. (Jasło Branch) as loan security, expiring on August 30th 2006,
- blank promissory note in the amount of PLN 2,500 thousand, issued to PZU (Rzeszów Branch) as excise guarantee security, expiring on April 30th 2006.

42. Material Events Subsequent to the Balance-Sheet Date

1. On January 2nd 2006, LOTOS Czechowice S.A. acquired, in exchange for a contribution in kind, 8,920 shares in the increased share capital of LOTOS Park Technologiczny Sp. z o.o. for the aggregate amount of PLN 4,460 thousand, representing . As a result of the transaction, LOTOS Czechowice S.A. became the owner of 55.24% of shares in LOTOS Park Technologiczny Sp. z o.o., with a par value of PLN 500 per share. Following the transaction, LOTOS Czechowice S.A. holds 60.58% of shares in LOTOS Park Technologiczny Sp. z o.o. Prior to the execution of the transaction, Grupa LOTOS S.A. and LOTOS Czechowice S.A. held 12.5% and 11.93%, respectively, of shares in LOTOS Park Technologiczny Sp. z o.o.

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

3. On January 5th 2006, LOTOS Serwis Sp. z o.o. acquired the following assets:

   - 2,428 shares in RCRemo Sp. z o.o. of Czechowice – Dziedzice from LOTOS Czechowice S.A., controlled in 80.04% by Grupa LOTOS S.A., for the aggregate amount of PLN 3,000 thousand,

   - 3,200 shares in Rafineria Jasło Monto – Rem Sp. z o.o. of Jasło from LOTOS Jasło S.A., controlled in 80.01% by Grupa LOTOS S.A., for the aggregate amount of PLN 1,768 thousand.

   The acquisitions were financed with internally generated funds.
   Until the execution of the transaction, Rafineria Jasło Monto – Rem Sp. z o.o. had operated as part of the LOTOS Jasło Group, as a wholly-owned subsidiary of LOTOS Jasło S.A., while RCRemo Sp. z o.o. had been wholly-owned by LOTOS Czechowice S.A. Following the transaction, LOTOS Serwis Sp. z o.o. came to hold 100% of shares in RCRemo Sp. z o.o. and 100% of shares in Rafineria Jasło Monto – Rem Sp. z o.o. The par value per share in RCRemo Sp. z o.o. and in Rafineria Jasło Monto – Rem Sp. z o.o. is PLN 1 thousand and PLN 500, respectively. The aggregate par value of 100% of shares in the two companies acquired by LOTOS Serwis Sp. z o.o. amounts to PLN 2,428 thousand and PLN 1,600 thousand, respectively. The transaction is part of a programme intended to rearrange the structure of the LOTOS Group and a programme aimed at restructuring the Southern Refineries.

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

5. On January 23rd 2006, the District Court of Rzeszów, XII Commercial Division, registered a change in the share capital of LOTOS Parafiny Sp. z o.o. in the National Court Register. Following the registration of the change, 100% of the share capital of LOTOS Parafiny Sp. z o.o. is held by Grupa LOTOS S.A. The share capital is made up of 19,783 shares with a par value of PLN 1,000 per share, conferring the rights to 19,783 votes at the company's General Shareholders Meeting. The change in the share capital of LOTOS

Parafiny Sp. z o.o. occurred as a result of the agreement executed on December 16th 2005 between Grupa LOTOS S.A., Rafineria Jasło S.A., RC Parafiny and Chemipetrol Sp. z o.o., whereby Grupa LOTOS S.A. acquired 14,639 shares in LOTOS Parafiny Sp. z o.o.

6. By virtue of resolutions adopted by the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. on January 30th 2006 the following persons were removed from the Company's Supervisory Board:

   1. Cezary Nowosad – Chairman,
   2. Janusz Rachoń – Deputy Chairman,
   3. Katarzyna Dawidczyk – Secretary,
   4. Grzegorz Urban – Member,
   5. Anna Andrzejczak – Member,
   6. Piotr Krupa – Member,
   7. Robert Karwowski – Member.

   The following persons were appointed to the Supervisory Board:

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

7. 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.

8. On February 16th 2006, LOTOS Czechowice S.A. signed an agreement on sale, to Paul Klacska Sp. z o.o., of 100% of shares held in RC Transport Sp. z o.o., that is 3,213 shares with a par value of PLN 500 per share and total par value of PLN 1,606.5 thousand. The selling price of all the shares is PLN 2,800 thousand. The transfer of the ownership right from LOTOS Czechowice S.A. to the buyer is conditional on the satisfaction of all of the following conditions:
   - the buyer concludes a transport agreement with LOTOS Paliwa Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.),
   - the Buyer pays the price for the shares to LOTOS Czechowice S.A.

9. On March 30th 2006, LOTOS Paliwa Sp. z o.o received a decision of the Gdańsk Tax Office of March 28th 2006 relating to the determination of the value added tax liability for January 2005. Acting pursuant to Art. 109 of the Act on Value Added Tax of March 11th 2004 (Dz. U. No. 54, item 535, as amended), the Head of the Tax Office imposed an additional tax liability on the company, related to the settlement of the purchase of an organised part of business of LOTOS Mazowsze. The financial statements of LOTOS Paliwa Sp. z o.o. for the year ended December 31st 2005 give no account of the effects of this event since the Management Board of the company appealed against the decision and believes that the appeal will be considered favourably for LOTOS Paliwa Sp. z o.o.

10. On April 11th 2006, LOTOS Ekoenergia S.A. and Shell International Trading and Shipping Company Limited (Shell Trading) entered into an agreement on feedstock supply for the installations which are to be constructed under the Comprehensive Technical Upgrade Programme of Grupa LOTOS S.A. (PKRT) The agreement, whose term is 12 years from the commencement of commercial operation of the PKRT project, secures the supply of feedstock by Shell Trading to LOTOS Ekoenergia S.A. The commencement of performance of the obligations related to the supply and offtake of feedstock is subject to prior implementation of PKRT. The value of the agreement to LOTOS Ekoenergia S.A. over the agreement term is estimated at PLN 11bn, counting from the anticipated date of commencement of supplies, based on the forecast oil market prices. The agreement stipulates contractual penalties for failure to perform both

parties' obligations of supply/offtake of agreed volumes of feedstock meeting relevant quality requirements. The value of the penalties may exceed the PLN equivalent of EUR 200,000. The abovementioned agreement, in addition to the earlier concluded offtake agreement securing the collection from LOTOS Ekoenergia S.A. by Shell Trading of the product surplus generated after the implementation of the PKRT project, is another essential step in the execution of the project, which was specified as one of the main issue objectives. The Comprehensive Technical Upgrade Programme, in which Grupa LOTOS S.A. intends to invest over PLN 3.2bn in 2005–2009, provides for the construction of an IGCC unit, an SDA unit and an MHC unit at the Gdańsk refinery.

43. Material Court, Arbitration or Administrative Proceedings, Other Risks Concerning the Parent Undertaking or Its Subsidiaries

Material Proceedings Pending before Public Administration Authorities in Connection with the Parent Undertaking'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 Parent Undertaking appealed to the Anti-Monopoly Court against the Anti-Trust and Consumer Protection Authority's decision limiting access to a part of the evidence gathered in the case. Independent of the appeal, in September 2005, the Company filed another request with the Court to issue a decision to the effect that Grupa LOTOS S.A. does not use competition-liming practices. In October 2005 the Company received another decision of the Anti-Trust and Consumer Protection Authority concerning limitation of access to a part of the evidence, against which the Parent Undertaking appealed to the Anti-Monopoly Court. The case is pending.

Material Proceedings Pending before Public Administration Authorities in Connection with the Business of the Czechowice Refinery (currently LOTOS Czechowice)

Tax Proceedings and Court and Administrative Proceedings Related to Taxes

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

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

In December 2005, the Czechowice Refinery (currently LOTOS Czechowice) received the following decisions of the Supreme Administrative Court:
- a decision repealing the decision of the Provincial Administrative Court issued in December 2004 (with respect to the tax for October 1998) in the part concerning determination of the tax liability, tax arrears and default interest; the above issues were submitted for re-examination to the Provincial Administrative Court, and with respect to other issues the cassation complaint was dismissed;

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

Proceedings Related to Excise Tax for Certain Months of 1998

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

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

By virtue of its decisions of December 7th 2004, the Head of the Customs Office of Bielsko-Biała instigated ex *officio* two proceedings with respect to the Czechowice Refinery (currently LOTOS Czechowice) in order to determine the amount of excise tax liability, and reopened seven proceedings in order to determine the excise tax liability for March. The proceedings were closed – on March 31st 2005, the Head of the Customs Office issued a decision under which the Czechowice Refinery (currently LOTOS Czechowice) paid its tax arrears (plus interest) in the amount of PLN 273 thousand.

Proceedings Related to Corporate Income Tax for 1999

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

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

Inspection Related to Excise Tax for Certain Months of 2004

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

By virtue of his decision of February 27th 2006, the Head of the Customs Office in Bielsko-Biała postponed the deadline for the settlement of the matter to May 30th 2006.

Material Proceedings Instigated against the Company.

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

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

The alleged use of the monopolistic practices by the Company was confirmed by a decision of the Anti-Trust and Consumer Protection Authority of September 26th 1996, in which the Authority ordered the Company to abandon such practices. The Company appealed against the decision. The Provincial Court of Warsaw – the Anti-Monopoly Court, changed, by virtue of its decision of October 22nd 1997, only the wording of the decision and ordered the Company to abandon monopolistic practices. The cassation complaint against this decision filed by the Company was dismissed by the Supreme Court by virtue of its decision of June 2nd 1999.
The Regional Court of Gdańsk, by virtue of its decision of December 21st 2002, dismissed the action for compensation, fully complying with the Company's objection referring to the statute of limitation. However, this decision was overruled on December 4th 2003 by the Gdańsk Court of Appeals, in case No. I ACa 824/03, and submitted for re-examination by the District Court of Gdańsk. The Court of Appeals found that the reference to the statute of limitation was not justified. According to the Court, it was only on June 2nd 1999 (the date of the Supreme Court's ruling) that PETROECCO JV Sp. z o.o. became aware that the damage it incurred resulted from monopolistic practices giving rise to the Company's liability in tort, and it is as of that date, in the Court's opinion, that the three-year period of limitation of compensation claims should be counted.

As at the date of these consolidated 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. On April 21st 2006, a ruling rejecting the claim in its entirety was passed.

Court Proceedings Instigated by the Company or the Companies of Its Group

Court Proceedings Instigated by the Jasło Refinery (currently LOTOS Jasło) against a Private Individual

On December 4th 2003, the Regional Court of Krosno issued, in the course of binding advice procedure, a decision in favour of the Jasło Refinery (currently LOTOS Jasło), whereby it ordered payment of PLN 4,829 thousand, together with interest, representing claims under unpaid invoices for goods sold (file No. VIII GNc 292/03). The order for payment became final. Due to the fact that on April 2nd 2004 the debtor was declared bankrupt, with a possibility of concluding an arrangement, the Jasło Refinery (currently LOTOS Jasło) submitted to the judge-commissioner its claims in the total amount of PLN 7,668 thousand, including: (i) PLN 6,138 thousand – outstanding principal of the payment due for the goods sold; (ii) PLN 1,498 thousand –

delayed payment interest; and (iii) PLN 32 thousand – costs of litigation before the Regional Court of Krosno related to the case. The claims of up to PLN 2,580 thousand, including the principal and interest, are not subject to the arrangement as they are secured on the bankruptcy estate by a security mortgage.

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

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

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

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

   b. The Subsidiary shall reimburse SPE for the amount of USD 312 thousand to cover the costs of court proceedings.

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

   a. SPE will reimburse the Subsidiary for the amount of USD 1,325 thousand along with interest calculated at the rate of 6% annually on that amount for the period from April 6th 2002 to the reimbursement date;

   b. The Subsidiary will have the right to demand that the elected President of the Management Board and the Chief Executive Officer of UAB Genciu Nafta be the candidates put forward by the Subsidiary's representatives;

   c. The Subsidiary will have the right to demand that its share in the profits from oil production by UAB Genciu Nafta be increased from 50% to 75%, with effect as of January 1st 2002;

   d. The Subsidiary will have the right to demand that UAB Genciu Nafta repay the debt which it owes to the Subsidiary in the amount of LTL 664 thousand.

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

   As at the date of these financial statements AB Geonafta has not settled the abovementioned payment and the amounts due in connection with the court proceedings, as their outcome remains unknown and will remain so until the Arbitrator's award takes effect in the Lithuanian jurisdiction. On July 1st 2005, UAB Minijos Nafta's liability towards AB Geonafta expired as AB Geonafta obtained both sums in the aggregate amount of LTL 6,858 thousand.

2. Petrobaltic was a party to proceedings before the Arbitration Tribunal of VIAC (Vienna International Arbitration Centre), case No. SCH-4843, relating to (i) Petrobaltic S.A.'s claim against Jade-Dienst GmbH to pay the amount of EUR 390 thousand and (ii) Jade-Dienst GmbH's counterclaim against Petrobaltic S.A. to pay the amount of EUR 814 thousand. In December 2005, the Arbitration Tribunal allowed Petrobaltic S.A.'s claim, thus dismissing Jade-Dienst GmbH's counterclaim.

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

The remuneration paid and payable to the members of the Management Board and the Supervisory Board of the Company (the Parent Undertaking) and of the related undertakings of the Group was as follows:

PLN '000	Year ended Dec 31 2005	Year ended Dec 31 2004
Management Board	497	443
Supervisory Board	286	260
Management Board – subsidiary or associated undertakings	43	-
Total	826	703

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

PLN '000	Dec 31 2005	Dec 31 2004
Management Board	20	23
Supervisory Board	-	28
Total	20*	51*

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

45. Employment Structure

Average employment by category:

	Year ended Dec 31 2005	Year ended Dec 31 2004
Blue-collar workers	3,146	1,851
White-collar workers	1,994	1,115
Total	5,140	2,966

46. 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
Associated undertakings valued with equity method	4,887	3,907	229	1,440
Non-consolidated undertakings	4,869	17,253	319	4,654
Total	9,756	21,160	548	6,094

(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
Associated undertakings valued with equity method	-	4,917	-	210
Non-consolidated undertakings	4,949	3,766	104	474
Total	4,949	8,683	104	684

Share in the net profit of the Parent Undertaking and consolidated undertakings:

(PLNm)	**Year ended Dec 31 2005**	**Year ended Dec 31 2004**
Net profit of the Parent Undertaking, after consolidation adjustments	458	468
Net profit of consolidated undertakings, after consolidation adjustments		
Petrobaltic Group	113	-
LOTOS Jasło Group	(3)	-
LOTOS Czechowice Group	20	-
LOTOS Paliwa Sp. z o.o.	20	(5)
LOTOS Oil S.A.	24	17
LOTOS Asfalt Sp. z o.o.	29	30
Other consolidated undertakings, after consolidation adjustments	41	34
Excess of net assets' fair value over acquisition cost	267	-
	=======	=======
Net profit	969	544
	=======	=======

47. Entity with Significant Influence over the Group

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 held directly a 6.93% stake in Grupa LOTOS S.A. (on December 31st 2004 the State Treasury held 10.01% of its shares). As at December 31st 2005, the State Treasury held directly and indirectly a 58.84% equity interest in Grupa LOTOS S.A. (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 40, stood at PLN 23,932 thousand (including dividend payment of PLN 11,805 thousand).

48. 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