

**CAPITAL GROUP OF GRUPA LOTOS S.A.**

**LONG-FORM REPORT  
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

## **I. GENERAL NOTES**

### **1. Background**

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

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.6a of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005.

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

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

The principal activities of the holding company are as follows:

- manufacturing of crude oil products (PKD 23.20.A),
- processing of crude oil products (PKD 23.20.B),
- manufacturing of technical gasses (PKD 24.11.Z),
- manufacturing not organic other basic chemical products (PKD 24.13.Z),
- manufacturing organic other basic chemical products (PKD 24.13.Z),
- manufacturing of plastic raw materials (PKD 24.16.Z),
- manufacturing of electrical energy (PKD 40.11.Z),
- transportation of electrical energy (PKD 40.12.Z),
- distribution and trade in electrical energy (PKD 40.13.Z),
- manufacturing of fuel gases (PKD 40.21.Z)
- distribution and trade of fuel gases in chain system (PKD 40.22.Z),
- manufacturing of heating energy (steam and hot water) (PKD 40.30.A),
- distribution of heating energy (steam and hot water) (PKD 40.30.B),
- consumption and purification of water, excluding service activity (PKD 41.00.A),
- service in respect of water distribution (PKD 41.00.B),
- crude oil exploration (PKD 11.10.A),
- natural gas exploration (PKD 11.10.B),

- performance of general civil work in the area of line constructions: pipelines, power supply lines, electric traction line and telecommunication – long – distance transmission lines (PKD 45.21.D),
- wholesale trade of solid, liquid, gaseous oils and oil-derivative(PKD 51.51.Z),
- wholesale trade of petrochemical products (PKD 51.55.Z),
- rail transportation (PKD 60.10.Z),
- road transportation by specialized vehicles (PKD 60.24.A),
- road transportation by universal vehicles (PKD 60.24.B),
- lease of trucks with drivers (PKD 60.24.C),
- pipeline transportation (PKD 60.30.Z),
- sea ports reloading (PKD 63.11.A),
- inland ports reloading (PKD 63.11.B),
- other warehouses reloading (PKD 63.11.C),
- storage of goods in sea ports (PKD 63.12.A),
- storage of goods in inland ports (PKD 63.12.B),
- storage of goods in other warehouses (PKD 63.12.C),
- research and development activity in area of chemical science (PKD 73.10.B),
- research and development activity in area of technical science (PKD 73.10.G),
- research and development activity in area of other natural and technical science (PKD 73.10.H)

As at 31 December 2005, the Company's issued share capital amounted to 113,700 thousand zlotys. Equity as at that date amounted to 4,808,109 thousand zlotys.

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

	Number of shares	Number of votes	Par value of shares	% of issued 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 %
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Total	113,700,000	13,700,000	113,700,700	100%

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

	Number of shares	Number of votes	Par value of shares	% of issued 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%
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Total	7,870,000	7,870,000	78,700,000	100.00%

During the year ended 31 December 2005 the following events that influenced the Company's issued share capital took place:

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

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

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

## 2. Group Structure

As at 31 December 2005, the Capital Group Grupa Lotos S.A. consisted of the following subsidiaries (direct or indirect) and jointly controlled entities which are not commercial companies:

<u>Entity name</u>	<u>Consolidation method</u>	<u>Type of opinion</u>	<u>Name of authorised entity that audited financial statements</u>	<u>Balance sheet date</u>
GK Lotos Jasło S.A.	Purchase accounting	Unqualified opinion with emphases of matter	Ernst & Young Audit Sp. z o.o.	31 December 2005
GK Lotos Czechowice S.A	Purchase accounting	Qualified opinion with emphases of matter	Ernst & Young Audit Sp. z o.o.	31 December 2005
GK Petrobaltic S.A	Purchase accounting	Qualified opinion with emphases of matter	Ernst & Young Audit Sp. z o.o.	31 December 2005
LOTOS Paliwa Sp. z o.o.	Purchase accounting	Unqualified opinion with emphases of matter	Ernst & Young Audit Sp. z o.o.	31 December 2005
LOTOS Partner Sp. z o.o.	Purchase accounting	Unqualified opinion with emphases of matter	Certified Auditor Ewa Dreliszak	31 December 2005
LOTOS Oil S.A.	Purchase accounting	Unqualified opinion with emphases of matter	Ernst & Young Audit Sp. z o.o.	31 December 2005
LOTOS Kolej Sp. z o.o.	Purchase accounting	Unqualified opinion	Certified Auditor Ewa Dreliszak	31 December 2005
LOTOS Serwis Sp.z o.o.	Purchase accounting	Unqualified opinion	Accounting bureau- Jerzy Łopacki	31 December 2005

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

LOTOS Mazowsze S.A.	Purchase accounting	Unqualified opinion	Accounting bureau- Jerzy Łopacki	31 December 2005
LOTOS Lab Sp. z o.o.	Purchase accounting	Unqualified opinion	Accounting bureau- Jerzy Łopacki	31 December 2005
LOTOS Ochrona Sp. z o.o.	Purchase accounting	No audit obligation	N/A	31 December 2005
LOTOS Asfalt Sp. z o.o.	Purchase accounting	Unqualified opinion	„Rewit” Księgowi i Biegli Rewidenci Sp. z o.o.	31 December 2005
LOTOS Straż Sp. z o.o.	Purchase accounting	No audit obligation	N/A	31 December 2005
LOTOS Parafiny Sp. z o.o.	Purchase accounting	Unqualified opinion	„AUD-FIN” Certified Auditor-Services	31 December 2005
LOTOS Park Technologiczny	Purchase accounting	No audit obligation	N/A	31 December 2005
LOTOS Ekoenergia S.A.	Purchase accounting	Unqualified opinion	Stowarzyszenie Ekspertów Księgowych i Podatkowych Sp. z o.o.	31 December 2005

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Notes 2 and 40 of the additional notes and explanations to the consolidated financial statements of the Group for the year ended 31 December 2005.

### **3. Consolidated Financial Statements**

#### **3.1. Auditors' opinion and audit of consolidated financial statements**

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

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

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

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

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

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

#### **'To the Supervisory Board**

1. We have audited the attached consolidated financial statements of Grupa Lotos S.A. Group ('the Group'), for which the holding company is Grupa Lotos S.A. ('the Company') located in Gdańsk, at 135 Elbląska Street, for the year ended 31 December 2005, containing:
  - the consolidated balance sheet as at 31 December 2005 with total assets amounting to 6,989,609 thousand zlotys,
  - the consolidated profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 968,839 thousand zlotys,
  - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 2,150,597 thousand zlotys,
  - the consolidated cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash inflow amounting to 616,782 thousand zlotys and
  - the additional notes and explanations ('the attached consolidated financial statements').
2. The truth and fairness<sup>1</sup> of the attached consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements are, in all material respects, true and fair<sup>2</sup>.
3. We conducted, except for the issues described in points 5 and 6 below, our audit of the attached consolidated financial statements in accordance:
  - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
  - the auditing standards issued by the National Chamber of Auditors,

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

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<sup>1</sup> Translation of the following expression in Polish: "*prawidłowość, rzetelność i jasność*"

<sup>2</sup> Translation of the following expression in Polish: "*prawidłowe, rzetelne i jasne*"

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4. The consolidated financial statements for the prior financial year ended 31 December 2004 were subject to our audit and we issued an opinion including emphases of matter on these financial statements, dated 31 March 2005. The emphases of matter concerned: the liabilities relating to the financing operating and investment activities of Rafineria Nafty Glimar S.A. ('RN Glimar') becoming payable, indicating the necessity to provide additional financial support for Rafineria Jasło S.A. and Rafineria Czechowice S.A. in order to assure the going concern of those entities and the fact that the standalone financial statements, on the basis of which the consolidated financial statements were prepared, were subject to audit by other auditors.
5. The holding company consolidated the UAB Naftos Gavyba Capital Group ("The NG Group"), located in Lithuania, using the equity method. The basis of including in the attached consolidated financial statements the value of the NG Group, being the value of interest in the equity of the NG Group, was the consolidated financial statements of the NG Group prepared according to accounting principles applicable in Lithuania. The auditor of the consolidated financial statements of the NG Group issued a qualified audit opinion, dated 28 March 2006, and the qualifications concerned:
- lack of independent assessment of the size of natural resources owned by the NG Group, and as a result, limitation of audit scope in relation to the net book value of fixed assets used in mining activities and corresponding depreciation,
  - limitation of audit scope relating to the inability to assess all financial consequences of arbitration proceedings, of which one of the subsidiaries - AB Geonafta is a party. The proceedings are described in detail in Note 43 of the additional notes and explanations to the attached consolidated financial statements.
- As at the date of issue of the opinion, we were unable to assess the potential effect of the issues, which were subject to qualification included in the auditor's opinion on the consolidated financial statements of the NG Group, as well as of the different accounting principles used by the NG Group, on the value of the NG Group as recognised in the attached consolidated financial statements.
6. The Group recognizes in the attached consolidated financial statements, a provision created by Lotos Czechowice S.A. (formerly: Rafineria Czechowice S.A.) ("LC") for both, the potential cost of removing and utilizing production waste stored in so called "acid holes" plus a provision for future reclamation of land, on which certain installations designated as being due for liquidation are located. Total provision amounts to 39,283 thousand zlotys. With reference to the amount of post production waste and the area of land designated as being due for liquidation, which were the basis for the calculation of the provisions' value, the estimation was performed on the basis of LC's documentation as well as its technological employees best knowledge, however no quantity survey, using proper drilling techniques, which would ensure full credibility of the results, was conducted. Furthermore, there is a significant range of the value of the provision for the reclamation of the land, as assessed by the environmental expert. Taking all the above into consideration, as well as the lack of measurement data regarding pollution concentration plus actual contaminated locations, we were unable to verify the appropriateness of the performed estimations and the resulting value of the provision stated above.

7. In our opinion, except the result of potential adjustments resulting from matters described in points 5 and 6 above, the attached consolidated financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position<sup>3</sup> as at 31 December 2005;
  - have been prepared, in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
  - are, in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
8. Without further qualifying our opinion, we draw attention to the following issues:
- a) As described in detail in Note 40 of the attached consolidated financial statements, the sales agreement, dated 13 January 2005, between Grupa Lotos S.A. and Nafta Polska S.A. concerning shares of Rafineria Czechowice S.A. (80.04%), Rafineria Jasło S.A. (80.01%), Rafineria Nafty Glimar S.A. in bankructcy (91.54%) and Petrobaltic S.A. (69.00%) was implemented on 3 February 2005. As required by the International Financial Reporting Standard 3 "Business combinations" as at the acquisition date the Company measured, for each of the acquired entities separately, the value of goodwill, being the difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, as a result of which, in the attached consolidated financial statements of the Group, in the entry 'Excess of interest in the net assets fair value over the acquisition cost' profit of 266.6 million zlotys was recognized.
- b) As described in detail in Note 23 of the attached consolidated financial statements, the Company signed loan agreements with RN Glimar, dated 23 September 2003 and 8 April 2004, in order to finance its operating and investing activities, including in particular the Hydrokompleks Glimar project, for the total amount of 90 million zlotys. In the attached consolidated financial statements prepared as at 31 December 2005, the Company created a provision for the loans granted to RN Glimar, and provisions for liabilities resulting from the above-mentioned agreements, in the total amount of 90 million zlotys. We draw attention to the fact that, in accordance with the loan agreements, under certain circumstances not all of these liabilities may be payable in their full amount.
- In addition, as described in detail in the above mentioned note, the Company committed to co-finance the Hydrokompleks Glimar project and to maintain appropriate financial and economic position of RN Glimar, which on 19 January 2005 was declared bankrupt.
9. We have read the 'Directors' Report for the period from 1 January 2005 to 31 December 2005 and the rules of preparation of annual statements ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744).<sup>3</sup>

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<sup>3</sup> Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"



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

### **3.2. Representations provided and data availability**

The Management Board of the holding company confirmed its responsibility for the truth and fairness<sup>4</sup> of the consolidated financial statements and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 27 April 2006 from the Management Board of the holding company that:

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

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

### **3.3. Consolidated financial statements for prior financial year**

The consolidated financial statements of the Group prepared in accordance with Polish accounting regulations for the year ended 31 December 2004 were audited by Michał Orzechowski, Certified Auditor No. 10190/7525, acting on behalf of Ernst & Young Sp. z o.o. reg. no. 130. The certified auditor issued an unqualified opinion with emphases of matter on the consolidated financial statements for the year ended 31 December 2004.

The consolidated financial statements for the year ended 31 December 2004 were approved by the General Shareholders' Meeting on 13 May 2005.

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

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

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<sup>4</sup> Translation of the following expression in Polish: "*prawidłowość, rzetelność, i jasność*"

#### 4. Analytical Review

##### 4.1. Basic data and financial ratios

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

	2005	2004
Total assets	6,989,609	4,016,784
Shareholders' equity	4,808,109	2,657,512
Net profit	968,839	544,222
Return on assets (%)	13.1%	13.5%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$		
Return on equity (%)	34.4%	25.8%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$		
Profit margin (%)	9.5%	7.3%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$		
Liquidity I	2.3	1.8
$\frac{\text{Current assets}}{\text{Short-term creditors}}$		
Liquidity III	0.5	0.2
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$		
Debtors days	35	35
$\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$		

Creditors days	38	26
<hr style="width: 50%; margin: auto;"/>		
Trade creditors x 365		
Costs of finished goods, goods for resale and raw materials sold		
Inventory days	65	50
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Inventory x 365		
Costs of finished goods, goods for resale and raw materials sold		
Stability of financing (%)	0.80	0.77
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(Equity + long-term provisions and liabilities) x 100		
Total liabilities, provisions and equity		
Debt ratio (%)	0.31	0.34
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(Total liabilities and provisions) x 100		
Total assets		
Rate of inflation:		
Yearly average	2.1%	3.5%
December to December	0.7%	4.4%

#### **4.2. Comments**

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

- return on assets slightly decreased in the year 2005 in comparison to previous year,
- return on equity increased from 25.8% in 2004 to 34.4% in 2005,
- profit margin decreased from 7.3% in the year 2004 to 9.5% in the year 2005,
- both Liquidity I and liquidity III ratio increased in comparison to the year 2004,
- debtors days ratio did not change in 2005 in comparison to 2004 and amounted to 35 days,
- creditors days ratio increased from 26 days do 38 days in year 2005,
- inventory days decreased In the year 2005 to 65 from 50 days in the previous year
- stability of financing did not change substantially in the current year,
- debt ratio decreased from 0,34 in the previous year to 0,31 in the year 2005.

#### **4.3. Going concern**

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

In note 5 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2005, the Management Board of the holding company has stated that the financial statements of subsidiaries and joint ventures included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2005 and that there are no circumstances that would indicate a threat to its continued activity.

## **II. DETAILED REPORT**

### **1. Completeness and accuracy of consolidation documentation**

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

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in note 10 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2005. During the audited reporting period, following the article 55.6a of the Accounting Act, for the purpose of preparation the consolidated financial statements the Group has changed the accounting policies to International Financial Reporting Standards as adopted by the EU. The effects of this change were presented in note 11 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2005.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2005.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation. In the auditor's opinion the qualifications concerning the following issues have been included:

- waste utilization accrual,
- value of UAB Naftos Gavyba shares.

#### **3.1. Goodwill on consolidation and amortisation**

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 15 of additional notes and explanations to the consolidated financial statements.

#### **3.2. Shareholders' funds including minority interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders' interest amounted to 254,281 thousand zlotys as at 31 December 2005. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 26 of the additional notes and explanations to the consolidated financial statements.

**3.3 Financial year**

**4. Consolidation adjustments**

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

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

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

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

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

The effects of the sale of a part of the shares of Przedsiębiorstwo Przeladunku Paliw Płynnych Naftoport Sp. z o.o. were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

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

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2005.

**7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in the Accounting Act and the regulations issued based thereon**

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

**2. Conformity with Law and Regulations**

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

**8. Work of the expert**

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

-expert reviewers in respect of fixed assets and intangibles of Grupa Lotos S.A, Lotos Jasło S.A., Lotos Czechowice S.A, PPiEZRiG Petrobaltic S.A.

on behalf of  
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Warsaw, 27 April 2006