CAPITAL GROUP Grupa LOTOS S.A.

LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

I. GENERAL NOTES

1. Background

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

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 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 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.

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) 5830000960 on 9 June 1993 and statistical number (REGON) 190541636 on 25 February 1998.

The principal activities of the holding company are as follows:

- production of crude oil and natural gas (PKD 06)
- manufacturing and processing of coke and crude oil refined products (PKD 19),
- manufacturing of technical gases (PKD 20.11),
- production of other basic inorganic chemicals (PKD 20.13),
- production of other basic organic chemicals (PKD 20.14),
- production of basic plastics (PKD 20.16),
- production and supply of electricity, gas, steam, hot water and air for air-conditioning systems (PKD 35),
- uptake, treatment, and supply of water (PKD 36),
- works relating to pipeline, telecommunication line and Power line construction (PKD 42.2),
- electrical, water and sewage as well as other construction installations (PKD 43.2),
- wholesale of fuels and derivatives products (PKD 46.71),
- wholesale of chemical products (PKD 46.75),
- railway transport of goods (PKD 49.2),
- pipeline transport (PKD 49.5),
- reloading of goods (PKD 52.24),
- warehousing and storage of goods (PKD 52.1),
- technical test and analyses (PKD 71.2),
- other scientific and technical research and development(PKD 72.19).

(in thousand zlotys)

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

As at 31 December 2010, the Company's issued share capital amounted to 129.873 thousand zlotys. Equity as at that date amounted to 5.945.053 thousand zlotys.

In accordance with article 69 Act on the public offer and conditions for introduction of financial instruments to the organized trading system and public companies dated 25 July 2005 (Journal of Law No. 184 from 2005, item 1539, with amendments), the ownership structure of the holding company's issued share capital was as follows:

	Number of Soares	Number of votes	Par value of shares	% of issued share capital
Skarb Państwa	69.076.392	69.076.392	69.076.392	53,19%
ING OFE	6.524.479	6.524.479	6.524.479	5,02%
Other shareholders	54.272.491	54.272.491	54.272.491	41,79%
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Total	129.873.362	129.873.362	129.873.362	100,00%
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During the period covered by the financial statements for the financial year ended 31 December 2010 and during the period between the balance sheet date to 11 April 2011, the following changes occurred in the ownership structure of the holding company:

- Change in the number of shares of Grupa LOTOS S.A. held by the State Treasury.

  Based on the orders placed and accepted, on 22 January 2010, the State Treasury sold in block transactions a total of 14,000,000 ordinary bearer shares in Grupa LOTOS S.A., representing 10.78% of the share capital of Grupa LOTOS S.A. and giving right to 14,000,000 votes, or representing 10.78% of the total number of votes at Grupa Lotos S.A.

  Prior to the change, the State Treasury, represented by the Minister of the State Treasury, held a total of 83,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing 63.97% of the Company's share capital and giving right to 83,076,392 votes, or representing 63.97% of the total number of votes in Grupa LOTOS S.A.

  After the change, the State Treasury, represented by the Minister of the State Treasury, holds a total of 69,076,392 ordinary bearer shares in Grupa LOTOS S.A., representing a total of 53.19% of the Company's share capital and 69,076,392 votes, or 53.19% of the total number of votes in Grupa LOTOS S.A.

- Introduction to public trading "A" class shares of Grupa LOTOS S.A. Absorption of Grupa LOTOS S.A. shares by the National Depository for Securities (KDPW).

  Based on the Resolution No. 26/2010 of 18 January 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to public trading on the main market, as of 19 January 2010, by way of ordinary procedure, 57,987,030 "A" class shares in Grupa LOTOS S.A., with a par value of 1 zloty per share, which were marked by the National Depository for Securities with the code No. PLLOTOS00033.

  Based on the Resolution No. 33/10 of its Management Board, the National Depository for Securities decided to absorb on 19 January 2010, 57,987,030 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion on 19 January 2010 of 57,987,030 ordinary registered shares (code No. PLLOTOS00033) into 55,635,609 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The absorbed shares were marked with the code No. PLLOTOS00025.

  As of 19 January 2010, 113,622,639 shares in Grupa LOTOS S.A. were marked with the code No. PLLOTOS00025, and 77,361 shares in Grupa LOTOS S.A. were marked with the code No. PLLOTOS00033.

  Based on the Resolution No. 316/2010 of 1 April 2010, the Management Board of the Warsaw Stock Exchange decided to introduce to public trading on the main market, as of 12 April 2010, by way of ordinary procedure, 8,250 "A" class shares in Grupa LOTOS S.A., with a par value of 1 zloty per share, which were marked by the National Depository for Securities with the code No. PLLOTOS00033.

  Based on the Resolution No. 185/10 of its Management Board, the National Depository for Securities decided to absorb on 12 April 2010 8,250 ordinary bearer shares in Grupa LOTOS S.A., created through a conversion on 12 April 2010 of 8,250 ordinary registered shares (code No. PLLOTOS00033) into 113,622,639 ordinary bearer shares in Grupa LOTOS S.A. (code No. PLLOTOS00025). The absorbed shares were marked with the code No. PLLOTOS00025.

  Since 12 April 2010, the shares of Grupa LOTOS S.A. have been marked as follows:
  - code No. PLLOTOS00025 – 113,630,889 shares,
  - code No. PLLOTOS00033 – 69,111 shares.

- Grupa LOTOS S.A. "C" class shares accepted for registration with the National Depository for Securities. Admittance and introduction to public trading of Grupa LOTOS S.A. "C" class shares.

  Based on the Resolution No. 895/10 of the Management Board of the [Polish] National Depository for Securities (the "Polish NDS") dated 29 December 2010, the Polish NDS decided to accept in a deposit 16,173,362 "C" class ordinary bearer shares in Grupa LOTOS S.A. with a par value of 1 zloty per share, assigning them a code No. PLLOTOS00025, provided that a decision is made by the market operator to introduce these shares to trading on a regulated market on which other Grupa LOTOS S.A. shares marked with the code No. PLLOTOS00025 are traded.

(in thousand zlotys)

The Management Board of the Warsaw Stock Exchange S.A. (WSE), by virtue of Resolution No. 16/2011 dated 4 January 2011 decided to admit as of 10 January 2011 to public trading 16,173,362 "C" class ordinary shares of Grupa LOTOS S.A. with a par value of 1 zloty per share. Based on the above-mentioned Resolution, the WSE Board has decided to introduce to public trading, by way of ordinary procedure, the said "C" class shares of Grupa LOTOS S.A. on 10 January 2011.

According to the Announcement of the Operating Department of the Polish NDS, 16,173,362 ordinary shares were registered under ISIN code PLLOTOS00025 on 10 January 2011. The total number of shares under ISIN code PLLOTOS00025 after the registration was 129,804,251.

- Decrease in ING Otwarty Fundusz Emerytalny's share in the total number of votes at the General Shareholders Meeting of Grupa LOTOS S.A.

  On 7 February 2011, the Management Board of Grupa LOTOS S.A. was notified that ING OFE's share in the total number of votes at the General Shareholders Meeting of the Company decreased below 5% following its disposal of shares in the Company on 2 February 2011.

  Prior to the disposal, ING OFE held 6,640,532 shares in Grupa LOTOS S.A., which represented 5.11% of the Company's share capital and gave right to 6,640,532 votes at the General Shareholders Meeting (5.11% of the total number of votes). On 7 February 2011, the securities account of ING OFE showed 5,957,442 shares in Grupa LOTOS S.A., which represented 4.59% of its share capital and gave right to 5,957,442 votes at the General Shareholders Meeting of Grupa LOTOS S.A. (4.59% of the total number of votes).

There were no movements in the share capital in the reporting period.

As at 11 April 2011, the holding company's Management Board was composed of:

Olechnowicz Paweł	- President
Sokołowski Marek	- Member
Machajewski Mariusz	- Member
Szozda Maciej	- Member

There were no changes in the holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

(in thousand zlotys)

2. Group Structure

As at 31 December 2010, the Grupa LOTOS S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
LOTOS Paliwa Sp. z o.o.	Purchase accounting	Unqualified opinion	Ernst & Young Audit Sp. z o.o.	31.12.2010
LOTOS Oil S.A.	Purchase accounting	Unqualified opinion	Ernst & Young Audit Sp. z o.o.	31.12.2010
LOTOS Asfalt Sp. z o.o.	Purchase accounting	Unqualified opinion	Ernst & Young Audit Sp. z o.o.	31.12.2010
LOTOS Kolej Sp. z o.o.	Purchase accounting	Unqualified opinion	Ernst & Young Audit Sp. z o.o.	31.12.2010
LOTOS Petrobaltic S.A. (holding company in own capital group).	Purchase accounting	Unqualified opinion with emphasis of matter	Ernst & Young Audit Sp. z o.o.	31.12.2010
Energobaltic Sp. z o.o.	Purchase accounting	Unqualified opinion with emphasis of matter	Ernst & Young Audit Sp. z o.o.	31.12.2010
LOTOS Exploration and Production Norge AS	Purchase accounting	Unqualified opinion with emphasis of matter	Ernst & Young AS, Norwegia	31.12.2010
LOTOS Czechowice S.A. (holding company in own capital group)	Purchase accounting	Unqualified opinion	Rewit Południe Sp. z o.o.	31.12.2010
LOTOS Jasło S.A (holding company in own capital group).	Purchase accounting	Unqualified opinion	Kancelaria biegłych rewidentów Rewido Sp. z o.o.	31.12.2010
LOTOS Serwis Sp. z o.o.	Purchase accounting	Unqualified opinion	Audytorium Biegli Rewidenci Grabowski, Pigoń Sp. P.	31.12.2010
LOTOS Lab Sp. z o.o.	Purchase accounting	Unqualified opinion	Rewit Księgowi i Biegli Rewidenci Sp. z o.o.	31.12.2010

(in thousand zlotys)

LOTOS Parafiny Sp. z o.o.	Purchase accounting	Unqualified opinion	Kancelaria biegłych rewidentów Rewido Sp. z o.o.	31.12.2010
LOTOS Tank Sp. z o.o.	Purchase accounting	Unqualified opinion	ESO Audit s.c.	31.12.2010
RCEkoenergia Sp. z o.o.	Purchase accounting	Unqualified opinion	Rewit Południe Sp. z o.o.	31.12.2010
LOTOS Biopaliwa Sp. z o.o.	Purchase accounting	Unqualified opinion	Rewit Południe Sp. z o.o.	31.12.2010
Miliana Shipping Company Ltd.	Purchase accounting	Unqualified opinion	Savvides Audit Limited, Cypr	31.12.2010
UAB LOTOS Baltija	Purchase accounting	Unqualified opinion	HLB Provisus UAB, Litwa	31.12.2010
LOTOS Gaz S.A.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
LOTOS Ekoenergia Sp. z o.o.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
LOTOS Straż Sp. z o.o.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
LOTOS Ochrona Sp. z o.o.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
LOTOS Park Technologiczny Sp. z o.o.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
„PLASTEKOL Organizacja Odzysku" S.A.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
KRAK - GAZ Sp. z o.o. w upadłości likwidacyjnej	Purchase accounting	No audit obligation	No audit obligation	31.12.2010
Aphrodite Offshore Services Ltd.	Purchase accounting	No audit obligation	No audit obligation	31.12.2010

As at 31 December 2010 percentage share in the total number of votes held by the Group in the subsidiaries and associates equal to the share of the Company in the share capital of the respective subordinate entity.

As at 31 December 2010 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity pickup method:

Name	Registered office	Type of activity
AB Geonafta (before acquisition - AB „Naftos Gavyba”) (holding Company in Capital Group)	Gargždai, Lithuania	oil exploration, prospecting and production, drilling services, oil trading

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 2 of other explanatory notes ("the additional notes and explanations") to the consolidated financial statements of the Group for the year ended 31 December 2010.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

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

Ernst & Young Audit sp. z o.o. was appointed by Supervisory Board on 17 December 2009 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 18 May 2010 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2010.

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 unqualified auditors' opinion with emphasis of matter dated 11 April 2011, stating the following:

'To the Supervisory Board of Grupa LOTOS S.A.

1. We have audited the attached consolidated financial statements of Capital Group Grupa LOTOS S.A. ('the Group'), for which the holding company is Grupa LOTOS S.A. ('the Company') located in Gdańsk at Elbląska 135 Street, for the year ended 31 December 2010 containing, the consolidated statement on financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2010 to 31 December 2010 and additional notes and explanations ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'

on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

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

4. The consolidated financial statements for the prior financial year ended 31 December 2009 were subject to an audit by a key certified auditor acting for another authorised audit firm who issued a qualified opinion with an emphasis of matter on these financial statements, dated 26 April 2010. The qualification concerned the impact of ability to verify the influence of the issues, which were the subject of the qualifications in the auditors' opinion issued to the consolidated financial statements of the Lithuanian Capital Group of AB Geonafta on the value of the shares held by the Group in the dominant entity of the AB Geonafta Capital Group. The emphasis of matter concerned the assets related to capital expenditures incurred on the exploration of gas fields B-4 and B-6 as well as the costs of drilling in the total amount of 47.8 million zlotys.

5. In our opinion, 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 2010 to 31 December 2010, as well as its financial position[3] as at 31 December 2010;
   - have been prepared 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.

6. As disclosed in note No. 17 of the additional notes and explanations to the attached consolidated financial statements, the Group recognized under construction in progress the expenditures incurred by LOTOS Exploration and Production Norge AS for the purchase of 20% interest in Norwegian production licenses relating to the YME field as well as the costs of drilling and other costs of said field exploration in the total amount of 1,151 million zlotys. The Group carried out an impairment test for the said assets described in the mentioned note, based on the

[2] Translation of the following expression in Polish: '*rzetelne i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

analysis of discounted cash flows for the 20% interest held in hydrocarbons' reserves acquired as part of the production licenses for the development of the YME field. Without qualifying our opinion, we draw attention to the uncertainty indicated by the Company's Management concerning recoverability of these assets recognized in the attached consolidated financial statements in respect of the YME field due to the fact that the forecasted cash flows are determined by a series of future events, in particular, by market volatility of crude oil prices.

7. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 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 dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).'

We conducted the audit of the consolidated financial statements during the period from 19 July 2010 to 23 August 2010, from 8 November 2010 to 3 December 2010, from 24 January 2011 to 13 March 2011 and from 4 April 2011 to 11 April 2011. We were present at the holding company's head office from 19 July 2010 to 23 August 2010, from 8 November 2010 to 3 December 2010 and from 24 January to 4 March 2011.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, 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 11 April 2011, from the Management Board of the holding company confirming that:

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

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

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2009 were audited by Piotr Sokołowski, key certified auditor no. 9752, acting on behalf of

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

Delloite Audyt Sp. z o.o., Al. Jana Pawła II 19, Warsaw, registered on the list of entities authorised to audit financial statements under no. 73. The key certified auditor issued a qualified opinion with an emphasis of matter on the consolidated financial statements for the year ended 31 December 2009. The qualification concerned the lack of ability to verify the influence of these issues, which were the subject of the qualification in the auditors' opinion issued to the consolidated financial statements of the Lithuanian Capital Group of AB Geonafta for the value of the shares held by the Group in the dominant entity of the AB Geonafta Capital Group. The emphasis of matter concerned the assets related to capital expenditures incurred on the exploration of gas fields B-4 and B-6 as well as the costs of drilling in the total amount of PLN 47.8 million.

The consolidated financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 28 June 2010.

The consolidated financial statements of the Group for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 7 July 2010 with the National Court Register.

The consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year ended 31 December 2010, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 145 on 1 February 2011.

(in thousand zlotys)

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 2008 - 2010. The ratios were calculated on the basis of financial information included in the consolidated financial statements for the years ended 31 December 2009 and 31 December 2010 taking into consideration the fact that the financial data for the year ended 31 December 2009 were presented in line with the changes described in point 9.2 of the additional notes and explanations included in the consolidated financial statement for the year 31 December 2010.

The ratios for the years 2008-2009 were calculated on the basis of financial information included in the approved consolidated financial statements for the year ended 31 December 2009 audited by another auditor acting on behalf of another authorized entity.

	2010	**2009**	**2008**
Total assets	17 736 029	15 225 952	12 319 949
Shareholders' equity	7 513 477	6 846 145	5 918 003
Net profit/ loss	678 609	928 661	-362 559
Return on assets (%)	3,8%	6,1%	-2,9%
Net profit/loss x 100% / Total assets			
Return on equity (%)	9,9%	15,7%	-5,9%
Net profit/loss x 100% / Shareholders' equity at the beginning of the period			
Profit margin (%)	3,4%	6,5%	-2,2%
Net profit/loss x 100% / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1,33	1,88	1,99
Current assets / Short-term creditors			

Liquidity III	0,08	0,13	0,27
Cash and cash equivalents / Short-term creditors			
Debtors days	32 dni	37 dni	27 dni
Trade debtors x 365 days / Sales of finished goods, goods for resale and raw materials			
Creditors days	36 dni	24 dni	20 dni
Trade creditors x 365 days / Operating costs			
Inventory days	87 dni	80 dni	55 dni
Inventory x 365 days / Operating costs			
Stability of financing (%)	70,9%	82,1%	79,5%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	57,6%	55,0%	52,0%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	2,6%	3,5%	4,2%
December to December	3,1%	3,5%	3,3%

4.2 Comments

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

All of the profitability indices (return on equity, return on assets, profit margin) increased in 2009 in comparison to 2008. In 2010 all mentioned ratios decreased with respect to the prior year. It was caused by the significant fluctuation of net profit throughout all analyzed years together with mutual increase in asset, equity and changes in sales.

Liquidity I ratio performed downward trend in years 2008-2010 and amounted to 1,99 in 2008, 1,88 in 2009 and 1,33 in 2010. The decline was caused by a considerable rise in long term payables combined with a slower increase in working capital.

Liquidity III ratio was declining systematically in years 2008-2010. The ratio amounted to 0,08 in 2010 in comparison to 0,13 in 2009 and 0,27 in 2008. The changes in the analyzed period were mainly caused by the slip in cash and cash equivalents together with an upsurge in short term payables.

Debtors days ratio fluctuated in years 2008-2010. It amounted to 27 days 2008, 37 days in 2009 and 32 days in 2010. The reason behind these fluctuation is a disproportionate increase in trade receivables in comparison to fluctuations in net sales.

Creditors days ratio was moderately raising in years 2008-2009 and in year 2010 amounted to 36 days. These upward trend was mainly triggered by a faster rise in short term payables than operating costs.

The inventory days ratio took off in 2010 in comparison to years 2008-2009 to the level of 87 days. The reason behind the aforesaid trend was increase in obligatory inventory level in the Company.

The Group's stability of financing ratio and the debt ratio at 31 December 2010 indicates increasing debt financing level in comparison with the prior periods. The debt ratio increased stable in years 2008-2010 form the level of 52% in 2008 to the level of 57,6% in 2010. The analyzed rise was caused by the significant upswing in debt relating to the investment project – '10+'.

The Group's stability of financing ratio and the debt ratio at 31 December 2010 indicates the lower share of the constant capital in the Group's financing structure. In years 2008-2010 the Group's stability of financing ratio was slightly fluctuating. It amounted to 79.5% in 2008, increased to the level of 82,1% in 2009 and finally decreased to the level of 70,9% in 2010. The slump in 2010 was mainly caused by the reclassification change of the loan financing obligatory inventory from long-term to short-term.

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 2010 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 2010, the Management Board of the holding company has stated that the financial statements of the Group entities 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 2010 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 2010.

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 2010.

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

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 10.4 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 14.658 thousand zlotys as at 31 December 2010. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 32 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2010 and include the financial data for the period from 1 January 2010 to 31 December 2010.

4. Consolidation adjustments

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

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

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

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

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

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

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

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2010.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

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

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2010 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 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 dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

10. Conformity with Law and Regulations

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

11. Work of Experts

During our audit we have taken into account the results of the work of independent actuaries responsible for the calculation of the present value of the future employee benefit other than salaries.

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

Key Certified Auditor

Marcin Zieliński
certified auditor
no. 10402

Partner

Jacek Hryniuk

Warsaw, 11 April 2011