GRUPA LOTOS S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

I. GENERAL NOTES

1. Background

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

The 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 Company is the holding company of the Grupa LOTOS S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 19 and 33 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2011.

The principal activities of the 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 organic chemicals (PKD 20.14),
- 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).

As at 31 December 2011, the Company's issued share capital amounted to 129 873 thousand zlotys. Equity as at that date amounted to 5 833 442 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 Company's issued share capital was as follows:

(in thousand zlotys)

1. Background (continued)

	Number of shares	Number of votes	Par value of shares	% of issued share capital
State Treasury	69 076 392	69 076 392	69 076 392	53,19%
Other Shareholders	60 796 970	60 796 970	60 796 970	46,81%
Total	129 873 363	129 873 363	129 873 363	100,00%

According to information included in the Company's Share Register as at 17 April 2012, the following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- 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.

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.

(in thousand zlotys)

2. Background (continued)

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 17 April 2012, the Company's Management Board was composed of:

Paweł Olechnowicz	- President, General Director
Marek Sokołowski	- Member, Director of Production and Development
Mariusz Machajewski	- Member, Finance Director
Maciej Szozda	- Member, Sales Director

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

2. Financial Statements

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

2.1 Auditors' opinion and audit of financial statements

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

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

Ernst & Young Audit sp. z o.o. and the key certified auditor 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 with subsequent amendments).

Under the contract executed on 18 May 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2011.

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

Based on our audit, we issued an unqualified opinion dated 17 April 2012, stating following:

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

1. We have audited the attached financial statements for the year ended 31 December 2011 of Grupa LOTOS S.A. ('the Company') located in Gdańsk at 135 Elbląska Street, containing statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flow, the statement of changes in equity for the period from 1 January 2011 to 31 December 2011 and the additional notes and explanations ('the attached financial statements').
2. The truth and fairness[1] of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records 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 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 financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material

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

respects, with the required applicable accounting policies, whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

3. We conducted our audit of the attached financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - 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 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 financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2011 to 31 December 2011, as well as its financial position[3] as at 31 December 2011;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.
5. Without qualifying our opinion, we draw attention, that in the accompanying financial statements the Company has presented shares in the subsidiaries and associates at cost less any impairment write down. In accordance with the accounting policies resulting from International Financial Reporting Standards, the Capital Group of Grupa LOTOS S.A. ('The LOTOS Group'), of which the Company is the dominant entity, prepared it's consolidated financial statements dated 17 April 2012. The consolidated net profit from continuing operations of The LOTOS Group for the year ended 31 December 2011 amounts to PLN 649 322 thousand, the consolidated equity as at 31 December 2011 amounts to PLN 7 782 383 thousand and the consolidated assets amounts to PLN 20 423 220.
6. We have read the 'Directors' Report for the period from 1 January 2011 to 31 December 2011 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance 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 with subsequent amendments)."

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

(in thousand zlotys)

2.1. Auditors' opinion and audit of financial statements (continued)

We conducted the audit of the Company's financial statements during the period from 25 July 2011 to 17 April 2012. We were present at the Company's head office from 25 July 2011 to 5 August 2011, from 14 November 2011 to 25 November 2011, from 20 February 2012 to 2 March 2012, from 12 March 2012 to 14 March 2012 and from 3 April 2012 to 5 April 2012.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 17 April 2012, confirming that:

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

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

2.3 Financial statements for prior financial year

The Company's financial statements were audited by Marcin Zieliński, key certified auditor no. 10402, acting on behalf of Ernst & Young Audit Sp z o. o., Rondo ONZ 1, Warszawa, registered on the list of entities authorised to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2010.

The Company's financial statements for the year ended 31 December 2010 were approved by the General Shareholders' Meeting on 27 June 2011 and the shareholders resolved to appropriate the 2010 net profit as follows:

Reserve capital	463 454
Company Social Fund	1 500
	-------------
	464 954
	========

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

2.3. Financial statements for prior financial year (continued)

The financial statements for the financial year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 4 July 2011 with the National Court Register.

The statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity and the statements of cash flow for the year ended 31 December 2010, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B number 686 on 28 February 2012.

The closing balances as at 31 December 2010 were correctly brought forward in the accounts as the opening balances at 1 January 2011.

(in thousand zlotys)

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2009 - 2011. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2011 and 31 December 2010, including the fact that:

- financial data for the year 2010 was presented according to the adjustments described in Note 9.2 of the additional notes, included in the financial statement for the year ended 31 December 2011,
- financial data for the year 2009 was presented according to the adjustments described in Note 9.2 of the additional notes, included in the financial statement for the year ended 31 December 2010.

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

	2011	**2010**	**2009**
Total assets	16 449 524	14 678 065	12 556 630
Shareholders' equity	5 833 442	5 945 053	5 480 099
Net profit/ loss	307 670	464 954	591 327
Return on assets (%) Net profit x 100% / Total assets	1,9%	3,2%	4,7%
Return on equity (%) Net profit x 100% / Shareholders' equity at the beginning of the period	5,2%	8,5%	13,0%
Profit margin (%) Net profit x 100% / Sales of finished goods, goods for resale and raw materials	1,1%	2,6%	4,7%
Liquidity I Current assets / Short-term creditors	1,43	1,41	2,14
Liquidity III Cash and cash equivalents / Short-term creditors	0,00	0,00	0,01

(in thousand zlotys)

	2011	2010	2009
Debtors days	29 days	34 days	41 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			
Creditors days	38 days	36 days	24 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	77 days	90 days	83 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	65,7%	70,2%	83,2%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	64,5%	59,5%	56,4%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	4,3%	2,6%	3,5%
December to December	4,6%	3,1%	3,5%

3.2 Comments

Based on the analysis of the above data and financial ratios, the following trends may be observed in 2011:

All of the profitability indices decreased in 2011 in comparison to prior years. It was caused by the decline of the net profit throughout all analyzed years together with mutual increase in asset, equity and changes in sales.

Return on assets ratio, which amounted to 1.9% in 2011, has decreased by 1.3 pp in comparison to 2010, when it amounted to 3.2%, whereas in 2009 the ratio was 4.7%. Return on equity ratio has decreased by 3.3 pp to the level of 5.2% in 2011 compared to 2010, when it amounted to 8.5%. In 2009 return on equity ratio reached 13%.

3.2 Comments (continued)

Profit margin, which amounted to 1.1% in 2011, has decreased by 1.5 pp compared to 2010, when it amounted to 2.6%. In 2009 profit margin ratio reached 4.7%

Liquidity I ratio was 1.43 in 2011 and reached almost the same level as in 2010, when it amounted to 1.41. The ratio decreased in comparison to 2009, when it reached 2.14. The decline was caused by a considerable rise in short term payables combined with a slower increase in working capital.

Liquidity III ratio (cash liquidity) reached similar levels over 2009-2011 amounting to 0.01. It was caused by the low level available cash and cash equivalents.

Debtors days ratio systematically decreased in years 2011-2009. It amounted to 41 days 2009, 34 days in 2010 and 29 days in 2011. The reason behind this change is a disproportionate increase in trade receivables in comparison to increase in net sales.

Creditors days ratio was moderately raising in years 2011-2009. It amounted to 24 days in 2009, 36 days in 2010 and 38 days in 2011. These upward trend was mainly triggered by a faster rise in short term payables than increase in operating costs.

The inventory days ratio was fluctuating in the range 77-90 days in years 2009-2011. It amounted to 83 days in 2009, 90 days in 2010 and 77 days in 2011. The reason behind the aforesaid trend was increase in obligatory inventory level in the Company accompanied by fluctuations in operating costs.

The Company's stability of financing ratio and the debt ratio at 31 December 2011 indicate increasing debt financing level in comparison with the prior periods. The debt ratio increased stable in years 2009-2011 form the level of 56.4% in 2009, through 59.5% in 2010, to the level of 64.5% in 2011. The analyzed rise was caused by the significant upswing in liabilities compared to the total assets, mainly due to end of debt raising process in relation to investment project Program 10+.

The Company's stability of financing ratio indicates decrease in the constant capital financing level in 2011 in comparison with the prior periods. The ratio amounted to 83.2% in 2009, decreased by 13 pp to the level of 70.2% in 2010 and finally reached the level of 65.7% in 2011, that was lower by 4.5 pp compared to the year 2010.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2011 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 5 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2011, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2011 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the mySAP.com integrated computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

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

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

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

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2011.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2011.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2011 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2011 to 31 December 2011 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance 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 with subsequent amendments).

5. Conformity with Law and Regulations

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

6. Work of Experts

During our audit we have taken into account the results of the work of independent actuary responsible for the calculation of the present value of the Company's future liabilities towards employees, 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	Partner
________________________	________________________
Marcin Zieliński certified auditor No. 10402	Jacek Hryniuk

Warsaw, 17 April 2012