MANAGEMENT’S DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE IN Q1 2012

This is a translation of a document originally issued in Polish

THE LOTOS GROUP

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Contents

*An excel file with the operating and financial data for Q1 2012 and the previous reporting periods is published simultaneously with the quarterly report in the investor relations section of our website under the name **"databook"**.*

1 Market environment

- ***Higher prices of crude oil***
- ***Differential up by USD/bbl 0.97 vs. Q4 2011 and down by USD/bbl 1.65 relative to Q1 2011***
- ***Attractive crack margins on motor gasolines (up by 60% on Q4 2011 and by 36% on Q1 2011)***
- ***Significant appreciation of the złoty against the US dollar at the end of Q1 2012***

Macroeconomic data

Fig. 1: Brent/Urals prices and the USD/PLN exchange rate

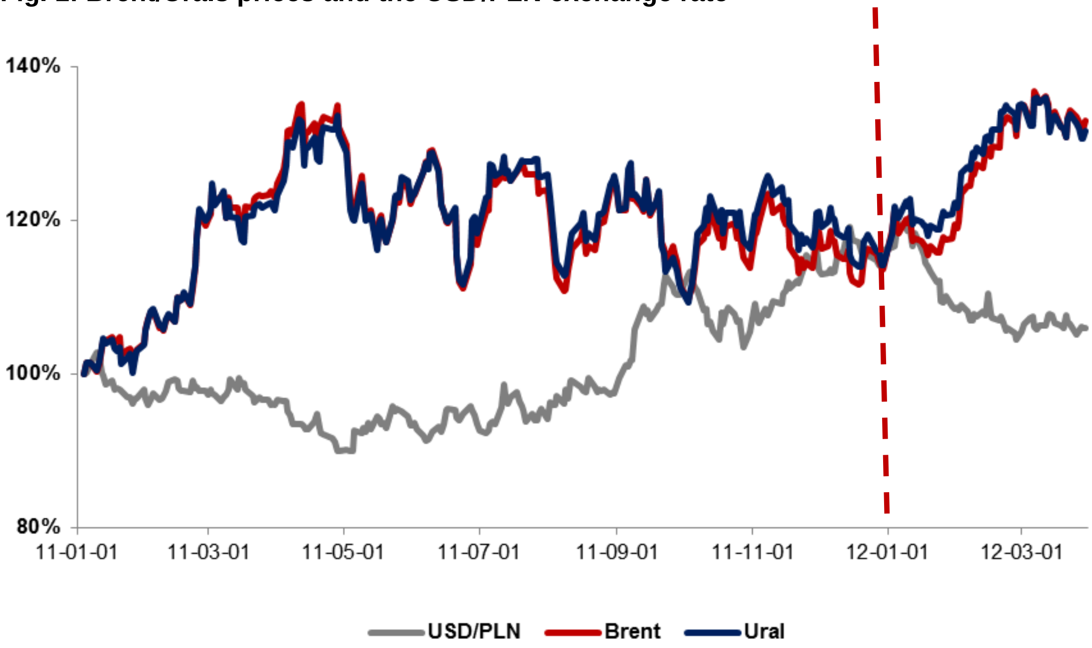


Table 1: Brent/Urals prices and Grupa LOTOS' model margin

(USD/bbl)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
DATED Brent FOB prices	**118,60**	109,35	105,43	*8,5%*	*12,5%*
Ural CIF Rotterdam prices	**116,87**	108,63	102,55	*7,6%*	*14,0%*
Brent/Ural differential*	**1,26**	0,29	2,91	*334,5%*	*-56,6%*
Model refining margin**	**3,71**	3,88	4,52	*-4,3%*	*-29,1%*

** Brent vs. Urals spread.*
***Model margin for an output structure in an averaged scenario of typical annual operation of Grupa LOTOS' refinery, assuming maximization of output of middle distillates. An annual throughput has been assumed that corresponds to the maximum distillation capacity if Urals crude was the only input (the value of Urals crude is determined as the difference between DTD Brent and the Urals Rtd vs. forward Dtd Brent spread).*

Table 2: Crack margins

(USD/t)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
Crack margin: Gasoline	**171,84**	107,42	126,19	*60,0%*	*36,2%*
Crack margin: Naptha	**115,16**	43,52	108,47	*164,6%*	*6,2%*
Crack margin: Diesel oil (10 ppm)	**115,05**	146,41	117,94	*-21,4%*	*-2,5%*
Crack margin: Light fuel oil	**94,31**	118,06	88,86	*-20,1%*	*6,1%*
Crack margin: Jet fuel	**159,63**	179,96	172,71	*-11,3%*	*-7,6%*
Crack margin: Heavy fuel oil	**-214,83**	-206,56	-242,70	*-4,0%*	*11,5%*

Table 3: Exchange rate

(USD/PLN)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
PLN/USD exchange rate at end of period	**3,12**	3,42	2,82	*-8,8%*	*10,6%*
Average quarterly PLN/USD exchange rate	**3,22**	3,28	2,88	*-1,8%*	*11,8%*

Throughout the first quarter of 2012, the macroeconomic environment was characterised by considerable volatility. Factors which had a material effect on the LOTOS Group's performance in Q1 2012 included:

Foreign currency exchange rates:

- considerable appreciation of the dollar at end of the period by 10.6% vs. Q1 2011 (but depreciation by 8.8%, or PLN 0.3, vs. Q4 2011), which was reflected in remeasurement of the LOTOS Group's debt, mostly denominated in the dollar,
- considerable increase in the average quarterly price of the dollar by 11.8% vs. Q1 2011 (and its slight decline vs. Q4 2011) affected gross profit,
- high volatility of the price of the złoty throughout Q1 2012, from 3.52 PLN/USD on January 12th 2012 to 3.07 PLN/USD on February 12th 2012, was reflected in the foreign exchange differences from operating activity and in the LIFO effect.

Commodity prices:

- the upward trend seen in the quoted prices of Brent Dated in Q1 2012 positively affected the sales results generated by the LOTOS Group,
- the Group's performance was negatively affected by the decline in the Brent/Urals differential by 56.6% vs. Q1 2011,
- the considerably broader margin on motor gasolines was due to seasonality, as well as to higher exports of European fuel to the USA,
- higher margins on naphtha were partly attributable to higher prices of motor gasolines,
- crack margins on middle distillates, which were strong in January, deteriorated in February, to hit their lowest point at the beginning of March. Demand for light fuel oil fell due to mild weather in January and February 2012.

Given the difficult conditions persisting on the European financial markets, which may result in an economic slowdown in Poland, and with a view to ensuring the Group’s stable development, on January 11th 2012 Grupa LOTOS announced implementation of the Optimal Expansion Programme (“OEP”). The

Programme provides for the launch of a number of projects designed to improve efficiency of the Group's operations. Benefits from implementation of the OEP in Q1 2012 included PLN 57m of benefits from efficiency enhancement measures, PLN 25m of savings generated by curbing administrative, marketing and sponsorship costs, and PLN 60m of savings obtained thanks to suspending implementation of some investment projects.

2 Upstream segment

- ***Strengthening the Norwegian exploration and production assets thanks to the acquisition of interests in two new licences (Halten Terrace i Træna Basin)***
- ***Crude sales up by 89.8% vs. Q1 2011***
- ***Segment's operating result of PLN 134.5m up by 631.5% vs. result for Q1 2011 net of any non-recurring events***

Table 4: Crude oil reserves, production and sales

Reserves (mbbl) *	March 31 2012	Dec 31 2011	March 31 2011		
Norway	12,95	12,95	12,95		
Poland	33,34	33,85	34,74		
Lithuania **	6,32	6,47	6,95		
total	52,61	53,27	54,64		
Production (bbl/d)	**Q1 2012**	**Q4 2011**	**Q1 2011**	**Q1 12/Q4 11**	**Q1 12/Q1 11**
Poland	5 550	3 556	2 936	56,1%	89,0%
Lithuania **	1 626	1 738	1 389	-6,4%	-
total	7 176	5 294	4 325	35,6%	65,9%
Own production sales (bbl)	**Q1 2012**	**Q4 2011**	**Q1 2011**	**Q1 12/Q4 11**	**Q1 12/Q1 11**
Poland	534 606	221 664	222 514	141,2%	140,3%
Lithuania **	140 791	151 691	133 317	-7,2%	-
total	675 397	373 355	355 831	80,9%	89,8%

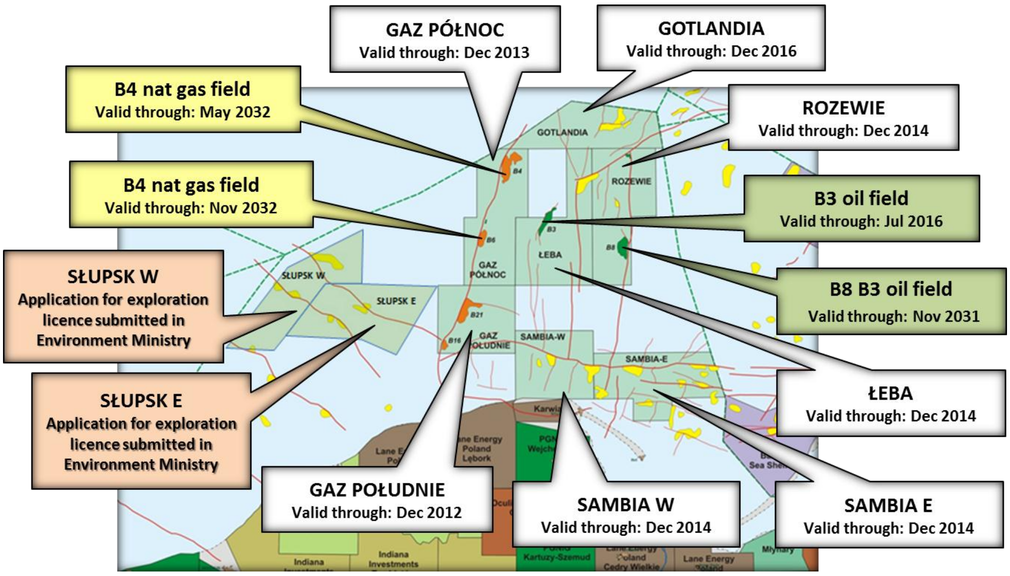
*2P – proved and probable reserves
** sales of own products based on the equity interest in the AB Geonafta Group

Table 5: Natural gas reserves, production and sales

Reserves (bcm)*	March 31 2012	Dec 31 2011	March 31 2011		
Poland	0,497	0,504	0,517		
Production (mcm)	**1Q2012**	**4Q2011**	**1Q2011**	**1Q12/4Q11**	**1Q12/1Q11**
Poland	7,3	4,6	3,7	58,7%	97,3%
Sales (mcm)	**1Q2012**	**4Q2011**	**1Q2011**	**1Q12/4Q11**	**1Q12/1Q11**
Poland	2,4	2,8	2,1	-14,3%	14,3%

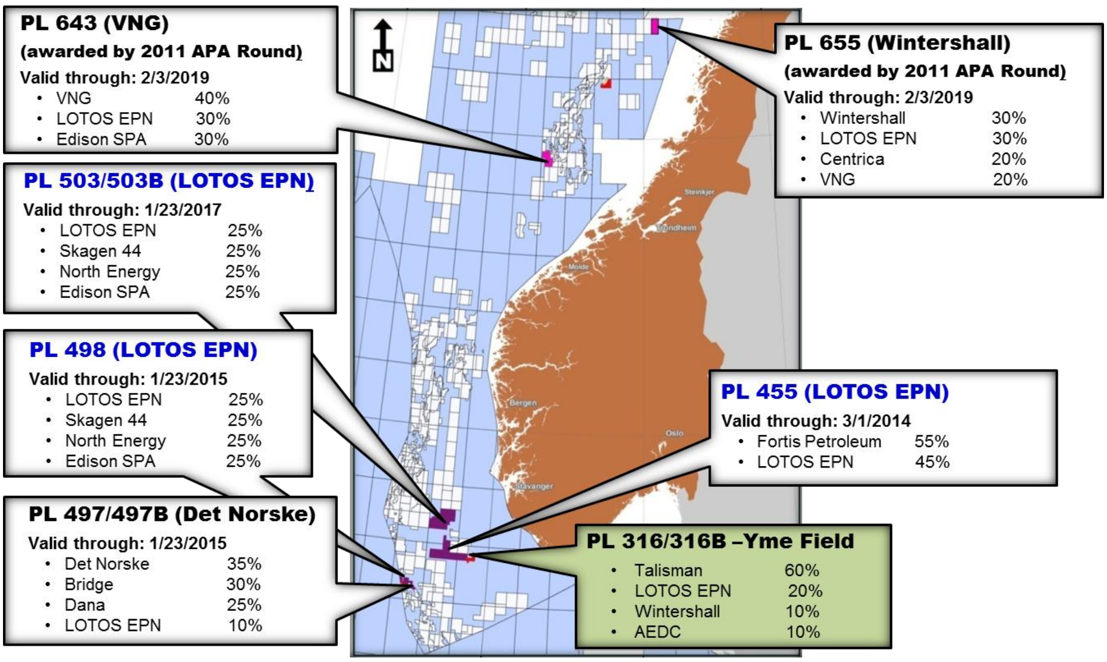
*2P – proved and probable reserves

LOTOS Petrobaltic S.A.



In Q1 2012, in the Baltic Sea the company carried on with production of oil and gas from the B3 field and continued temporary production of crude oil from the B8 field. During trial production from the B8 field, i.e. in Q4 2011 – Q2 2012, the company has extracted about 38.71 thousand tonnes.

LOTOS Exploration &Production Norge AS (LOTOS EPN)



On January 16th 2012, an arbitration court's session was held to hear a case concerning claims brought by Single Buoy Moorings Inc. ("SBM"), supplier of the MOPU (Mobile Operating and Production Unit) intended to be used to conduct production from the YME field in the Norwegian Continental Shelf. On January 25th 2011, SMB filed a claim with an arbitration court in Norway against Talisman Energy Norge AS and other holders of interests in the YME project.

On February 20th 2012, the arbitration award was announced. All the claims raised by SBM were dismissed, and the arbitration proceedings were closed.

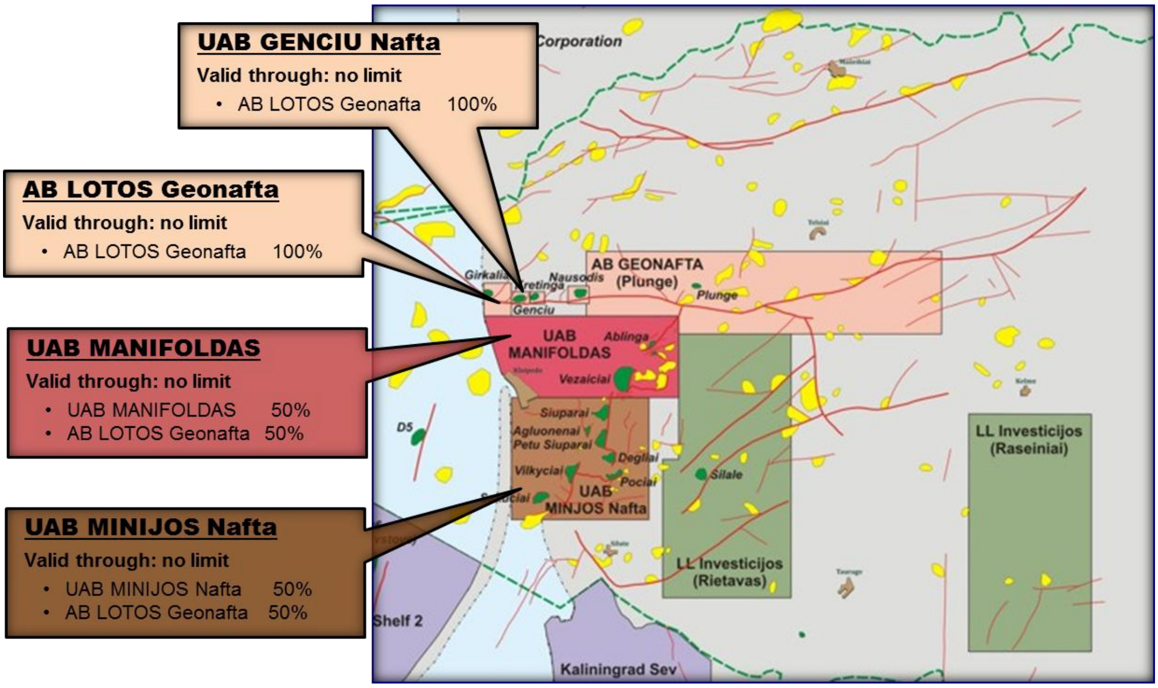
On November 17th 2012, as part of the APA 2011 Licensing Round, the Norwegian Ministry of Petroleum and Energy awarded to LOTOS EPN 30% interests in two production licenses in the Norwegian Sea.

PL643 – blocks 6406, 6406/4:	**LOTOS EPN – 30%** VNG Norge AS (operator) – 40% Edison International Spa – 30%
PL655 – block 6610/2:	**LOTOS EPN – 30%** Wintershall (operator) – 30% Centrica – 20% VNG – 20%

link: http://www.regjeringen.no/upload/OED/pdf%20filer/TFO2011/TFO2011_awards.pdf

On March 14th 2012, the company decided to abandon licence PL 515 and filed an application with the Ministry of Petroleum and Energy requesting prolongation of the PL 455 licence with a view to carrying out supplementary analytical work.

<u>The LOTOS Geonafta Group</u>



In Q1 2012, AB LOTOS Geonafta was engaged in production of crude oil from the Girkaliai, Kretinga, Nausodis and Genciu on-shore fields in the Lithuanian Republic. Furthermore, UAB Manifoldas conducted production from the Liziai and Veziaciai fields.

Table 6: Operating results of the upstream segment

Operating results (thousand tonnes/PLNm)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
Sales volume	**264,3**	139,3	103,8	*89,7%*	*154,6%*
Sales revenue	**134,5**	-245,0	147,7	-	*-8,9%*
Operating profit/(loss)	**134,5**	-5,2*	21,3*	-	*631,5%*
Depreciation and amortisation	**31,2**	32,8	25,5	*-4,9%*	*22,4%*
EBITDA	**165,7**	-212,2	173,2	-	*-4,3%*

** EBIT net of non-recurring events: impairment loss on the interest in the YME field in Q4 2011 and the effect of accounting for the step acquisition of control over AB Geonafta in Q1 2011*

The increase in the upstream segment's revenue of PLN 160.5m vs. Q1 2011 and of PLN 125.0m vs. Q4 2011 came mainly as a result of more than 140% (vs. Q4 2011 and Q1 2011) higher sales volume of Rozewie crude, following the launch of temporary production from the B8 field. Also higher quoted prices of crude oil contributed to raising the segment's revenue.

The segment's operating result for Q4 2011 accounted for the PLN 239.8m impairment loss on LOTOS Exploration and Production Norge AS's interest in hydrocarbon reserves in the acquired production licences covering the YME field development project.

The segment's operating result for Q1 2011 included the effect of accounting for the step acquisition of control of AB LOTOS Geonafta of PLN 126.4m.

3 Downstream segment

- ***Higher production and sales of motor gasolines thanks to optimisation measures***
- ***After the first two months of 2012, share in the Polish market of fuels reaches 35.1%****
- ***Segment's revenue higher by 20% vs. Q1 2011***
- ***Expansion of Polish retail market share to 8.2%* (in terms of gasoline and diesel oil sales volumes) at the end of February 2012***
- ***Further optimisation of the product mix with a view to increasing the share of high value added products***

**Source: Prepared in-house based on data from the Polish Organisation of Oil Industry and Trade (POPiHN)*

Table 7: Structure of crude oil refining

Volume of crude oil processed by the Gdańsk refinery (thousand tonnes)	Q1 2012 2 272,5	Q4 2011 2 362,1	Q1 2011 2 222,9	Q1 12/Q4 11 -3,8%	Q1 12/Q1 11 2,2%
including:					
Urals crude	2 022,9	2 300,9	1 880,9	-12,1%	7,5%
Rozewie crude	36,3	28,5	32,9	27,4%	10,3%
Other types of crude	213,3	32,7	309,1	552,3%	-31,0%

In Q1 2012, utilisation of the refinery's installed capacities and processing of crude stayed relatively flat compared with Q1 2011 and fell slightly on Q4 2011. That was connected with optimisation of production in order to maximise refining margin. With two independent crude distillation lines, Grupa LOTOS now enjoys greater flexibility in selecting crude blends to adequately respond to market conditions (depending on the margins that can be generated on the individual petroleum products). In Q1 2012, the share of light crudes such as the Rozewie crude produced by LOTOS Petrobaltic rose by 10.3% vs. Q1 2011 and by 27.4% vs. Q4 2011. The share of light Aasgard crude with gasoline potential also remained high (high crack margins on gasolines).

Table 8: Structure of Grupa LOTOS' production

Total output (thousand tonnes)	Q1 2012 2 447,9	Q4 2011 2 608,1	Q1 2011 2 480,8	Q1 12/Q4 11 -6,1%	Q1 12/Q1 11 -1,3%
Gasolines	314,0	363,4	296,4	-13,6%	5,9%
Raw gasoline	101,4	51,7	74,8	96,1%	35,6%
Diesel oils	1 045,5	1 201,8	1 035,5	-13,0%	1,0%
Light fuel oils	116,5	127,0	131,5	-8,3%	-11,4%
Jet fuel	115,0	113,3	107,6	1,5%	6,9%
Heavy fuel oil	368,9	215,3	482,5	71,3%	-23,5%
Bitumen components	78,0	267,6	95,9	-70,9%	-18,7%
Other	308,6	268,0	256,6	15,1%	20,3%

Table 9: Sales structure of the downstream segment

Consolidated sales of refining products, goods for resale and materials (thousand tonnes)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
	2 307,1	2 556,0	2 467,1	-9,7%	-6,5%
Gasolines	338,1	365,8	321,9	-7,6%	5,0%
Raw gasoline	101,4	51,7	74,8	96,1%	35,6%
Diesel oils	1 021,5	1 267,1	1 052,4	-19,4%	-2,9%
Light fuel oils	116,7	133,6	129,3	-12,6%	-9,7%
Jet fuel	125,9	102,9	101,7	22,4%	23,8%
Heavy fuel oils	309,5	162,2	417,6	90,8%	-25,9%
Bitumens	48,7	289,2	83,9	-83,2%	-42,0%
Other petroleum products	245,3	183,5	285,5	33,7%	-14,1%

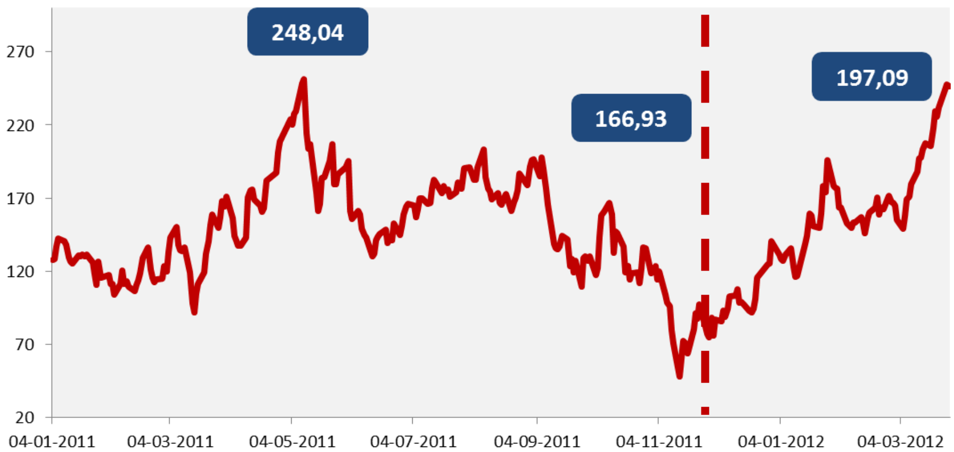
Petroleum products market in Q1 2012:

After the first two months of 2012, the overall consumption of fuels in Poland contracted by 7% (vs. the corresponding period of 2011). Over the same time, Grupa LOTOS increased its share in the Polish fuels market to 35.1%*.

In Q1 2012, total sales volume of Grupa LOTOS decreased slightly relative to Q1 2011 (down by 160 thousand tonnes), and also relative to Q4 2011 (down by 248,9 thousand tonnes).

Gasoline reacts faster than any other fuels to price changes or changes in the economic climate and financial situation of consumers. After the first two months of 2012, domestic demand for **motor gasolines** stayed flat, after it had contracted in 2011 by 4.5%*, most probably due to higher prices and lower real purchasing power of Polish drivers. On the global markets, in Q1 2012 margins on gasoline were extremely volatile. In Q1 2012, temporary opportunities appeared to export higher quantities of gasolines to the American continent, which had a positive effect on the product's crack margins.

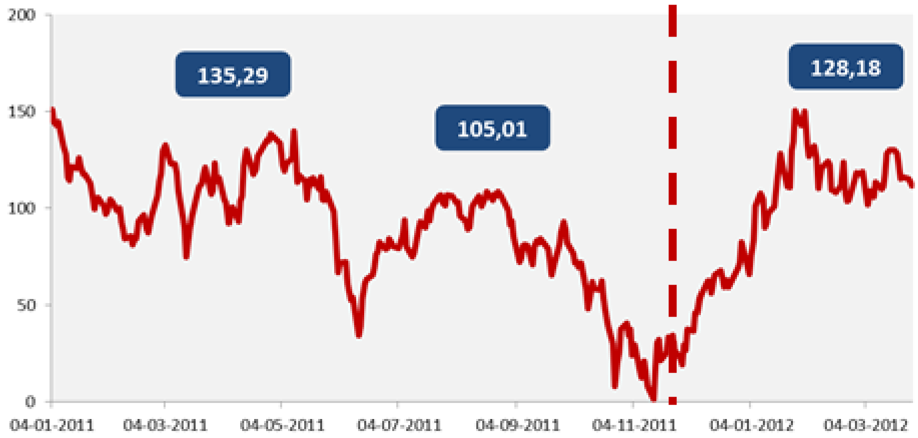
Fig. Motor gasoline – Q1 2012 crack margin



In the period under review, sales of motor gasoline at Grupa LOTOS rose by 16.2 thousand tonnes, or 5%, relative to Q1 2011. As a result, Grupa LOTOS' share in the gasoline market rose by 3.48pp (vs. the first two months of 2011), to reach 29.2% at the end of February 2012. To note, that market expansion was accompanied by very attractive crack margin on gasoline (up by 36.2% vs. Q1 2011).

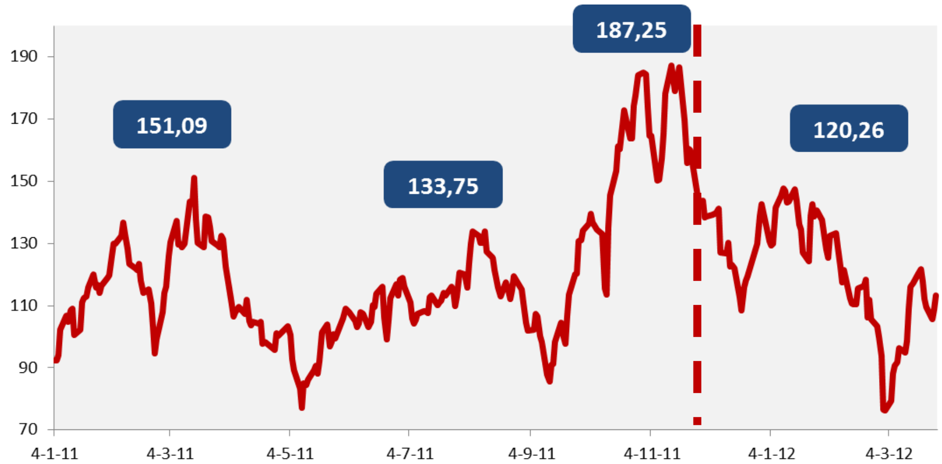
The share of high-value-added **naphtha** in the structure of Grupa LOTOS' production and sales also increased in Q1 2012 (up by 35.6% vs. Q1 2012). The highest sales volume increment (+26.6 thousand tonnes vs. Q1 2011) was recorded by Grupa LOTOS in the case of naphtha, which is exported by the Company to France, the Netherlands and United Kingdom.

Fig. Naphtha – Q1 2012 crack margin



On an average quarterly basis, in Q1 2012 crack margins on middle distillates deteriorated, particularly in the case of **diesel oils** (down by 21.4% vs. Q4 2011) and **light fuel oil** (down by 20.1% vs. Q4 2011). Weaker demand for light fuel oil may be attributable to mild winter in Europe. Sales of light fuel oil at Grupa LOTOS fell by 12.6 thousand tonnes, or 9.7%, vs. Q1 2011. Demand for diesel oil in Q1 2012 did not support price growth due to the continuing economic slowdown in Europe and the relationship between the EUR and the USD exchange rates, the effect of which included record high prices of petroleum products when expressed in the euro. In the first two months of 2012, domestic consumption of diesel oil fell by as much as 9% year on year, and was accompanied by a limitation of diesel oil sales by Grupa LOTOS (down by 30.9 thousand tonnes, or 2.9%, on Q1 2011).

Fig. Diesel oil – Q1 2012 crack margin



In Q1 2012, Grupa LOTOS recorded a drop in the sales of **bitumens** (down by 42% vs. Q1 2011), which was attributable to changes in the schedules of implementation of road construction projects and limitation of sales of bitumens abroad by ships.

In the case of **aviation fuel**, the Company recorded a sales growth both year on year and quarter on quarter (up by 24.2 thousand tonnes, or +23.8%, vs. Q1 2011). In Poland, aviation fuel was sold through two distribution channels: at the Gdańsk airport in cooperation with Statoil and through the wholesale channel, where the customers included the Polish Helicopter Emergency Medical Service and Petrolot. Once its sales obligations in the domestic market were met, Grupa LOTOS exported aviation fuel by sea to countries in the Baltic Sea basin, including Russia, Lithuania, Latvia and Sweden, generating attractive margins.

In Q1 2012, the effect of high-conversion installations (ROSE) coming on stream became fully visible. Owing to these installations it was possible to reenter some of the heavy residue for further processing into fuels, and consequently to limit the output and sales of low-margin **heavy fuel oil** (down by 23.5% vs. Q1 2011), with a concurrent reduction of output of bitumen components (down by 18.7% vs. Q1 2011). In the period under review, the largest sales volume drop was recorded at Grupa LOTOS precisely in the case of heavy fuel oil (down by 108.1 thousand tonnes, or 25.9% on Q1 2011).

**Source: Polish Organisation of Oil Industry and Trade (POPiHN), the Company*

Table 10: Operating results of the downstream segment

Operating results (PLNm)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
Sales revenue	**7 778,1**	8 313,4	6 481,2	*-6,4%*	*20,0%*
Operating profit	**345,4**	351,0	391,3	*-1,6%*	*-11,7%*
Depreciation and amortisation	**132,0**	134,1	95,9	*-1,6%*	*37,6%*
EBITDA	**477,4**	485,1	487,2	*-1,6%*	*-2,0%*

The 20.0% rise in the downstream segment's revenue in Q1 2012 relative to Q1 2011 was mostly attributable to growing prices of crude oil and petroleum products on the global markets, appreciation of the US dollar and optimised sales structure. In Q1 2012, the average price for Brent crude (Dated Brent)

was 118.60 USD/bbl, up by 13.17 USD/bbl (or 12.5%) on Q1 2011. The average net selling price in the downstream segment rose by 28.3%, from 2,627 PLN/t in Q1 2011 to 3,371 PLN/t in Q1 2012.
Compared with the previous quarter (Q4 2011), revenue fell by 6.4%, mainly as a result of the 9.7% sales volume decline in the segment. The average net selling price rose by 3.6% (vs. Q4 2011) chiefly due to higher prices of crude oil and petroleum products.
In Q1 2012, operating result of the downstream segment was by 45.9m lower than in Q1 2011 and by 5.6m lower than in Q4 2011. Factors which had a positive effect on the operating result in Q1 2012 included mainly higher margins on gasolines and heavy fuel oil and an optimised sales structure.
Factors having a negative effect on the downstream segment's operating result in Q1 2012 (vs. Q1 11) comprised chiefly lower Brent/Urals differential, lower margin on sales of products other then fuels and bitumens, and higher cost of own consumption in connection with higher prices of crude oil.

Network of LOTOS service stations

Total number of service stations	March 31 2012	Dec 31 2011	March 31 2011	Q1 12/Q4 11	Q1 12/Q1 11
	365	369	316	*-1,1%*	*15,5%*
CODO	**191**	190	156	*0,5%*	*22,4%*
including: LOTOS OPTIMA	**33**	33	0	*0,0%*	-
DOFO	**138**	136	112	*1,5%*	*23,2%*
including: LOTOS OPTIMA	**19**	17	0	*11,8%*	-
franchise agreements signed	**142**	139	116	*2,2%*	*22,4%*
DODO	**36**	43	48	*-16,3%*	*-25,0%*

Table 12: Operating results of the retail business

Operating results (thousand tonnes/PLNm)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
Sales volume	**234,0**	267,1	226,9	*-12,4%*	*3,1%*
Sales revenue	**1 366,1**	1 469,8	1 112,3	*-7,1%*	*22,8%*
Operating profit/(loss)	**-16,3**	-11,2	-12,8	-	-
Depreciation and amortisation	**12,4**	12,0	12,0	*3,3%*	*3,3%*
EBITDA	**-3,9**	0,8	-0,8	*-587,5%*	*387,5%*

After first two months of 2012, Grupa LOTOS' share in the Polish retail fuels market (in terms of total fuel sales volumes) reached 8.2% (vs. 7.5% in the corresponding period of 2011). To note, the Company's share in the retail diesel oil market at the end of February 2012 was 10%.
The larger market share and a 3.1% increase in retail sales volumes in Q1 2012 relative to Q1 2011 were attributable to the launch of a new brand of economy service stations on the Polish market - LOTOS OPTIMA, with a majority of the stations opened at the end of Q4 2011.
A major increase in revenue from the retail business (up by 22.8% on Q1 2011) was mostly attributable to higher prices of crude oil and petroleum products on the global markets, accompanied by adverse pressure on retail margins and weakening of the złoty against the US dollar (+11.8% on Q1 2011).
The continued negative operating performance of the retail segment is a consequence of a low unit margin on sales of fuels, which follows from a deterioration of market conditions due to oil and fuel price rallies and a limited scope for passing the increases onto retail price.

Table 13: Effect of inventory measurement on the operating results of the downstream segment

Effect of inventory valuation on the operating results (PLNm)	Q1 2012	Q4 2011	Q1 2011
Operating profit	**345,4**	351,0	391,3
LIFO effect*	**-232,7**	-348,5	-278,1
LIFO operating profit/(loss)	**112,7**	2,5	113,2

**In line with its inventory measurement policies, the LOTOS Group uses the weighted average method to measure decrease in inventories. This method of inventory measurement defers the impact of changes in crude oil prices on the prices of finished products. Thus, an increase in crude oil prices has a positive effect on the financial performance, while a decrease drives it down. The operating result accounting for the impact of this inventory measurement method is presented in the table.*

In Q1 2012, the weighted average method of inventory measurement applied by the LOTOS Group, combined with higher market prices of crude oil, drove up the operating result of the downstream segment by PLN 232.7m. In the comparative period, the applied inventory measurement method had a positive effect of PLN 278.1m on the operating result. In Q4 2011, the operating result was raised by PLN 348.5m, mainly on the back of appreciation of the US dollar in the period. If the LIFO method had been applied to inventory measurement, the operating result of the downstream segment would have been PLN 112.7m in Q1 2012, PLN 2.5m in Q4 2011, and PLN 113.2m in Q1 2011.

4 Other business

Table 14. Operating results of other business*

Operating results (PLNm)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
Sales revenue	**7,0**	7,3	5,2	*-4,1%*	*34,6%*
Operating profit/(loss)	**1,4**	3,7	-1,2	*-62,2%*	-
Depreciation and amortisation	**2,5**	2,3	2,4	*8,7%*	*4,2%*
EBITDA	**3,9**	6,0	1,2	*-35,0%*	*225,0%*

* *Includes: LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., Energobaltic Sp. z o.o. and LOTOS Gaz S.A. w likwidacji (in liquidation).*

5 Consolidated statement of comprehensive income

In Q1 2012, the LOTOS Group posted PLN 419m in operating profit, which comprised PLN 134.5m of operating profit of the upstream segment, PLN 345.4m of operating profit of the downstream segment, and PLN 1.4m of operating profit of other business net of consolidation adjustments of PLN 62.3m (including mainly the adjustment due to elimination of unrealised margin on crude oil of PLN 62.5m). EBIT was down by PLN 118.3m year on year and up by PLN 275.9m quarter on quarter, due to various effects of non-recurring events, including recognition of impairment losses on assets, accounting for the step acquisition of control of AB LOTOS Geonafta in Q1 2011, sale of 100% of the shares in LOTOS Parafiny to a third party on January 10th 2012 and various scale of foreign exchange losses on operating activities (Q1 2012: PLN -1.5m; Q4 2011: PLN -12.3m; Q1 2011: -20.6m).

Table 15. Operating results of the LOTOS Group

Operating results (PLNm)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
Sales revenue	**7 832,3**	8 365,5	6 515,2	*-6,4%*	*20,2%*
EBITDA	**584,3**	311,9	660,8	*87,3%*	*-11,6%*
Operating profit	**419,0**	143,1	537,3	*192,8%*	*-22,0%*
LIFO operating profit/(loss)	**186,3**	-205,4	259,2	-	*-28,1%*

The Q1 2012 consolidated net profit was PLN 597.1m (up by PLN 523.1m on Q4 2011 and down by PLN 39.5m on Q1 2011).

Table 16. Net profit of the LOTOS Group

Net profit (PLNm)	Q1 2012	Q4 2011	Q1 2011	Q1 12/Q4 11	Q1 12/Q1 11
EBIT	**419,0**	143,1	537,3	*192,8%*	*-22,0%*
Finance income	**377,0**	4,5	239	8277,8%	57,7%
Finance cost	**-59,0**	-227,0	-27,6	74,0%	113,8%
Other	-	-	2,9	-	-
Pre-tax profit/(loss)	**737,0**	-79,4	751,6	*-1028,2%*	*-1,9%*
Net profit/(loss)	**597,1**	74,0	636,6	*706,9%*	*-6,2%*
Net profit/(loss) attributable to owners of the Parent	**597,0**	74,1	636,3	*705,7%*	*-6,2%*

In Q1 2012, the LOTOS Group reported net finance income of PLN 318.0m, primarily owing to PLN 224.5m of foreign exchange gains on remeasurement of debt denominated in foreign currencies, a PLN 143.4m net gain on the valuation and settlement of hedging transactions, and PLN -53.1m negative balance of interest on debt, interest income and commission fees.

In connection with the introduction by Grupa LOTOS of cash flow hedge accounting with respect to foreign-currency denominated credit facilities intended for financing the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions, foreign exchange gains taken to the cash flow hedging reserve in Q1 2012 were PLN 341.8m (Q1 2011: PLN +165.4m). In Q4 2011, foreign exchange losses reducing the value of the cash flow hedging reserve were PLN -180.6m.

In the analysed period, net valuation and settlement of market risk hedging transactions at the LOTOS Group was positive at PLN 143.4m. In Q1 2012, total net gain on settlement and valuation of derivative instruments, including forwards hedging the foreign exchange risk and futures hedging the risk of changes in prices of $_{CO2}$ emission allowances, was PLN 137.1m. The net gain on settlement and valuation of interest rate hedging transactions was PLN 7.4m. The effect of valuation of transactions hedging petroleum product prices was negative at PLN -1.1m.

Table 17: Transactions executed to hedge the risk of changes in prices of petroleum products, as at March 31st 2012

period	commodity	light heating oil Gasoil .1 Cargoes CIF NWE / ARA	heavy sulphur fuel oil 3.5 PCT Barges FOB Rotterdam
Q2 2012	Volume (mt)	-4 230	19 230
	Price range (USD/mt)	1018,5 - 1022	689,5 - 697,5
Q3 2012	Volume (mt)	-8 658	39 358
	Price range (USD/mt)	1018,5 - 1022	689,5 - 697,5
Q4 2012	Volume (mt)	-1 326	6 026
	Price range (USD/mt)	1 018,50	689,5

Table 18: Foreign exchange risk hedging transactions as at March 31st 2012

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	138 000 000	EUR	1,30575 - 1,44393
EUR/PLN exchange rate	Forward	32 000 000	EUR	4,2133 - 4,6462
USD/PLN exchange rate	Forward	-265 700 000	USD	3,0855 - 3,5806

Table 19: Interest rate risk hedging transactions as at March 31st 2012

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Oct 15 2008	from Jan 15..2013	550 000 000	USD	2,476% - 4,22%	LIBOR 3M - LIBOR 6M
	to Jul 15 2015	to Jan 15 2019				

6 Consolidated statement of financial position

Table 20: Consolidated statement of financial position

Assets (PLNm)	March 31 2012	Dec 31 2011	change	%
Assets (PLNm)	**20 472,4**	**20 423,2**	***49,2***	***0,2%***
Non-current assets, including:	**11 478,8**	11 582,2	*-103,4*	***-0,9%***
Property, plant and equipment	**8 876,0**	8 965,5	*-89,5*	***-1,0%***
Tangible assets under construction	**1 571,7**	1 558,1	*13,6*	***0,9%***
Current assets, including:	**8 991,8**	8 731,9	*259,9*	***3,0%***
Inventories	**6 190,6**	5 855,8	*334,8*	***5,7%***
Trade and other receivables	**2 227,1**	2 190,0	*37,1*	***1,7%***
Current financial assets	**157,1**	129,1	*28*	***21,7%***
Cash and cash equivalents	**301,7**	383,7	*-82*	***-21,4%***
Assets available for sale	**1,8**	109,1	*-107,3*	***-98,4%***
Equity and liabilities (PLNm)	**20 472,4**	**20 423,2**	***49,2***	***0,2%***
Equity	**8 630,4**	7 782,4	*848*	***10,9%***
Non-current liabilities	**5 423,8**	5 847,5	*-423,7*	***-7,2%***
Current liabilities	**6 418,2**	6 752,9	*-334,7*	***-5,0%***
Liabilities associated with assets available	**0,0**	40,4	*-40,4*	***-100,0%***

As at March 31st 2012, the LOTOS Group had total assets of PLN 20,472.4m, which means a slight increase during Q1 2012. Non-current assets decreased by PLN 103.4m, mainly due to depreciation charges made in Q1 2012.

As at March 31st 2012, inventories stood at PLN 6,190.6m, up by PLN 334.8m in Q1 2012, primarily on the back of higher prices of crude oil and of petroleum products at the end of Q1 2012 (relative to Q4 2011). Higher product prices also brought about a PLN 37.1m rise in trade and other receivables. As at March 31st 2012, current assets totalled PLN 8,991.8m, and were by PLN 259.9m higher than on December 31st 2011. Decrease in assets held for sale was primarily attributable to the sale of 100% of the shares in LOTOS Parafiny to a third party on January 10th 2012.

As at March 31st 2012, equity amounted to PLN 8,630.4m, having grown by PLN 848.0m over Q1 2012, primarily as a result of the PLN 597.1m increase in retained earnings and the PLN 276.9m foreign exchange gains on valuation of cash flow hedges net of the tax effect, taken to the cash flow hedging reserve.

Non-current liabilities declined during the first three months of 2012 by PLN 423.7m, mainly due to the PLN 500.5m decrease in non-current interest-bearing borrowings and other debt instruments, primarily owing to measurement of the debt using a lower exchange rate.

Current liabilities as at March 31st 2012 were PLN 6,418.2m, having decreased over Q1 2012 by PLN 334.7m, mainly as a result of a PLN 594.0m decline in trade payables, accruals and deferred income, and other liabilities, in connection with a lower value of crude oil purchased in March 2012 relative to

December 2011. In the quarter under review, current borrowings and other debt instruments grew by PLN 297.4m, primarily following credit facility drawdowns by the Parent and by LOTOS Asfalt, as well as reclassification of non-current borrowings into current borrowings.

As at March 31st 2012, the financial debt of the LOTOS Group amounted to PLN 7,188.5m, down by PLN 203.1m on the figure reported at the end of 2011, mainly following the change in the USD/PLN exchange rate. The ratio of financial debt (net of free cash) to equity was 79.8%, i.e. by 10.2pp lower than as at December 31st 2011.

7 Consolidated statement of cash flows

Table 21. Consolidated statement of cash flows

Consolidated statement of cash flows (PLNm)	Q1 2012	Q4 2011	Q1 2011
Cash flows from operating activities	-308,8	698,8	316,1
Cash flows from investing activities	-140,9	-254,6	-225,8
Cash flows from financing activities	14,8	-299,5	288,9
Change in net cash	-456,8	148,9	376
Cash and cash equivalents at beginning of period	161,6	12,7	118,2
Cash and cash equivalents at end of period	-295,2	161,6	494,2

As at the end of Q1 2012, the LOTOS Group's cash balance (including current account overdrafts) stood at PLN -295.2m, and was by PLN 456.8m lower than at the end of 2011, and by PLN 789.4m lower than at the end of Q1 2011.

Cash flows used in operating activities in Q1 2012, of PLN -308.8m, were related chiefly to the PLN 334.5m increase in inventories and a PLN 489.1m decrease in current liabilities net of borrowings and other debt instruments.

Negative net cash flows from investing activities were mainly attributable to the expenses incurred to acquire property, plant and equipment and intangible assets.

In Q1 2012, net cash provided by financing activities was PLN 14.8m, and comprised mainly PLN 45.0m of proceeds from borrowings and other debt instruments adjusted by outflow on their repayments and interest paid, as well as a PLN -25.5m negative settlement of financial instruments.