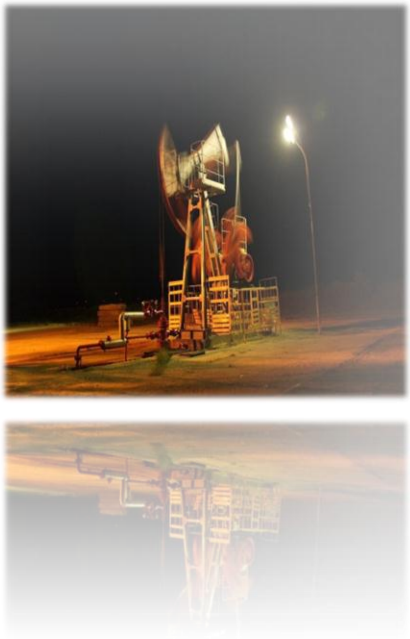
This is a translation of the document originally issued in Polish



MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE IN Q3 2012

THE LOTOS GROUP

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Contents

*An excel file with the operating and financial data for Q3 2012 and the previous reporting periods is published together with the quarterly report in the Investor Relations section of our website as **"databook"**.*

1 Market environment

- ***Grupa LOTOS's model refining margin at 6.95 USD/bbl (up 197% on Q3 2011)***
- ***Favourable crack margins on gasolines and mid-distillates maintained***
- ***Crude oil prices in upward trend***
- ***Appreciation of the Polish złoty against the US dollar at the end of Q3 relative to Q2 2012 and Q3 2011***

Macroeconomic data

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

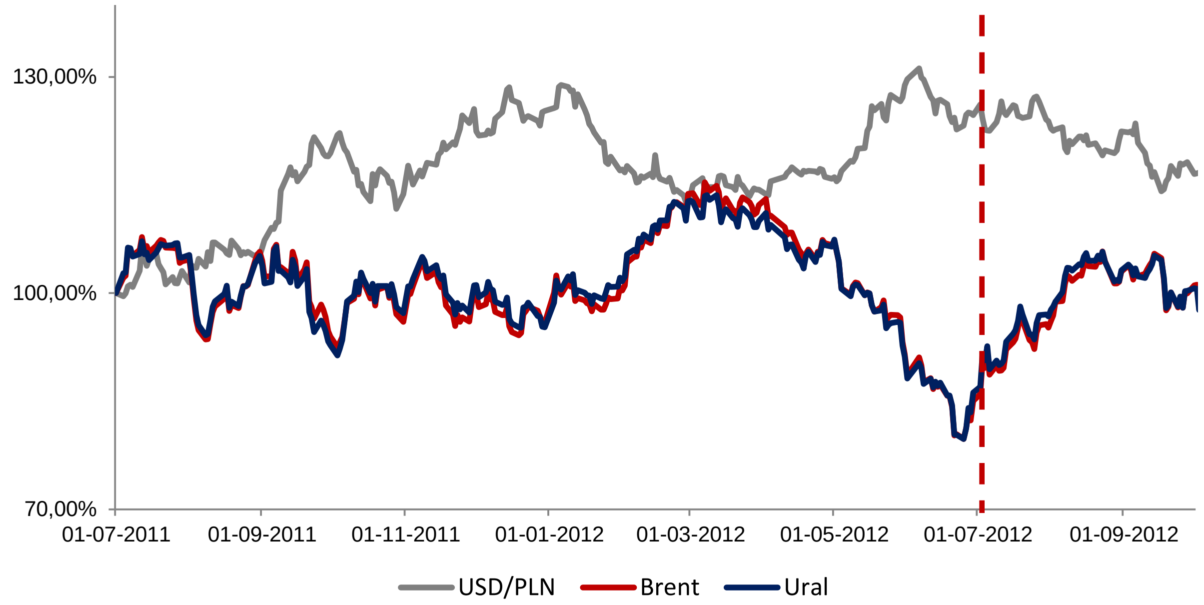


Table 1: Brent/Urals prices and Grupa LOTOS's model margin

(USD/bbl)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
DATED Brent FOB prices	**109,50**	108,29	113,41	*1,1%*	*-3,4%*
Ural CIF Rotterdam prices	**108,67**	106,31	111,52	*2,2%*	*-2,6%*
Brent/Ural differential*	**0,68**	2,11	0,75	*-67,8%*	*-9,2%*
Model refining margin**	**6,95**	6,52	2,34	*6,6%*	*197%*

** Brent vs. Urals spread.*
***Model margin for the output structure in the averaged scenario of typical annual operation of Grupa LOTOS's refinery, assuming maximized yields of middle distillates. An annual throughput has been assumed to correspond to the maximum distillation capacity if Urals crude was the only feedstock, whose value is determined as the difference between DTD Brent and the Urals Rtd vs. forward Dtd Brent spread.*

Table 2: Crack margins

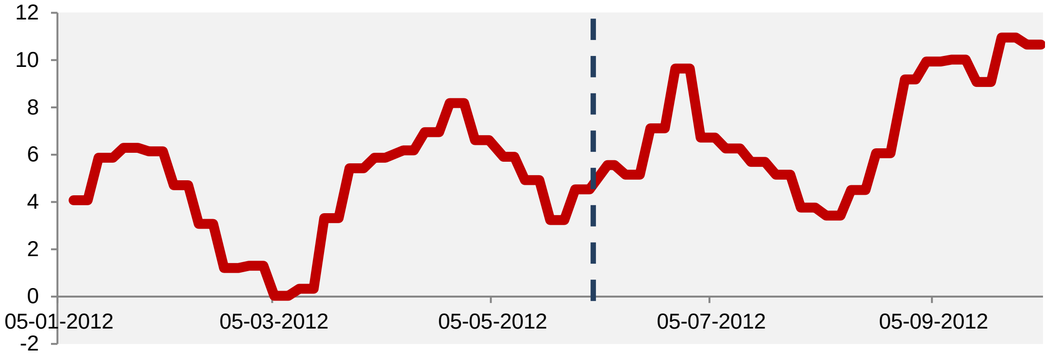
(USD/t)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
Crack margin: Gasoline	**226,92**	213,67	166,56	*6,2%*	*36,2%*
Crack margin: Naptha	**75,11**	55,84	91,23	*34,5%*	*-17,7%*
Crack margin: Diesel oil (10 ppm)	**152,76**	126,78	110,49	*20,5%*	*38,3%*
Crack margin: Light fuel oil	**114,39**	104,12	85,81	*9,9%*	*33,3%*
Crack margin: Jet fuel	**192,82**	171,67	158,79	*12,3%*	*21,4%*
Crack margin: Heavy fuel oil	**-210,73**	-197,00	-231,07	*-7,0%*	*8,8%*

Table 3: Exchange rates

(USD/PLN)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
PLN/USD exchange rate at end of period	**3,18**	3,39	3,26	*-6,2%*	*-2,5%*
Average quarterly PLN/USD exchange rate	**3,31**	3,33	2,94	*-0,6%*	*12,6%*

In Q3 2012, the macroeconomic conditions were favourable to the refining industry:

Fig. 2: Grupa LOTOS's model refining margin in Q1 2012–Q3 2012



Factors which had a material effect on the LOTOS Group's performance in Q3 2012 included:

Exchange rates:

- Decline in the PLN/USD exchange rate in Q3 2012 from its high of 3.47 on July 25th 2012 to its low of 3.11 on September 14th 2012 resulted in foreign exchange gains on operating activities (mainly attributable to the settlement of crude purchases), which added PLN 64.4m to the Group's EBIT (versus PLN -91.3m in Q2 2012 and PLN -282.7m in Q3 2011).
- Depreciation of the US dollar at the end of the period (down 6.2% relative to Q2 2012) had a positive effect on reevaluation of the LOTOS Group's debt, most of which is denominated in the US dollar.

Feedstock and products:

- Continued growth of Grupa LOTOS's model refining margin to 6.95 USD/bbl in Q3 2012 (up 0.43 USD/bbl qoq and 4.61 USD/bbl yoy),
- Favourable crack margins on gasolines in Q3 2012 drove the Group's EBIT up,

- Slight upward trend in the quoted prices of Brent Dated in Q3 2012 had no material impact on the LOTOS Group's operating result,
- The Q3 2012 decline in Brent/Urals differential by 9.2% on Q3 2011 and by 67.8% on Q2 2012 adversely affected the Group's performance.

2 Upstream segment

- ***Segment's operating result of PLN 46.4m (up 19% year on year)***
- ***Further consolidation of Lithuanian subsidiaries – execution of the agreement for purchase of a 50% interest in UAB Manifoldas.***

Table 4: Crude oil reserves, production and sales

Reserves (mbbl) *	**Sept 30 2012**	**June 30 2012**	**Sept 30 2011**		
Norway	**12,95**	12,95	12,95		
Poland	**32,68**	32,98	34,17		
Lithuania **	**6,03**	6,17	6,63		
total	**51,66**	52,10	53,75		
Production (bbl/d)	**3Q2012**	**2Q2012**	**3Q2011**	**3Q12/2Q12**	**3Q12/3Q11**
Poland	**3 233**	4 004	3 149	*-19,3%*	*6,6%*
Lithuania **	**1 579**	1 620	1 707	*-2,5%*	*-12,4%*
total	**4 812**	5 624	4 856	*-14,4%*	*-0,5%*
Own production sales (bbl)	**3Q2012**	**2Q2012**	**3Q2011**	**3Q12/2Q12**	**3Q12/3Q11**
Poland	**216 236**	443 096	447 664	*-51,2%*	*2,4%*
Lithuania **	**120 084**	178 128	172 650	*-32,6%*	*-22,7%*
total	**336 320**	621 224	620 314	*-45,9%*	*-8,2%*

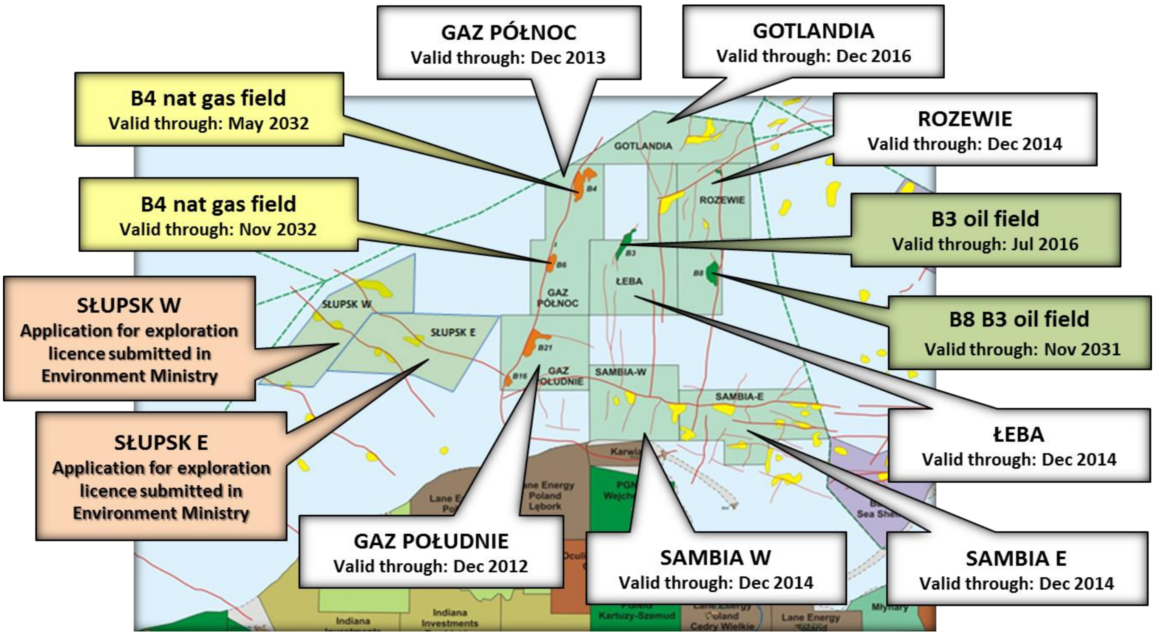
**2P – proved and probable reserves*
*** pro rata to the ownership interest in the AB Geonafta Group*

Table 5: Natural gas reserves, production and sales

Reserves (bcm)*	**Sept 30 2012**	**June 30 2012**	**Sept 30 2011**		
Poland	**0,488**	0,492	0,509		
Production (mcm)	**3Q2012**	**2Q2012**	**3Q2011**	**3Q12/2Q12**	**3Q12/3Q11**
Poland	**4,20**	5,20	4,00	*-19,2%*	*5,0%*
Sales (mcm)	**3Q2012**	**2Q2012**	**3Q2011**	**3Q12/2Q12**	**3Q12/3Q11**
Poland	**2,50**	2,90	2,50	*-13,8%*	*0,0%*

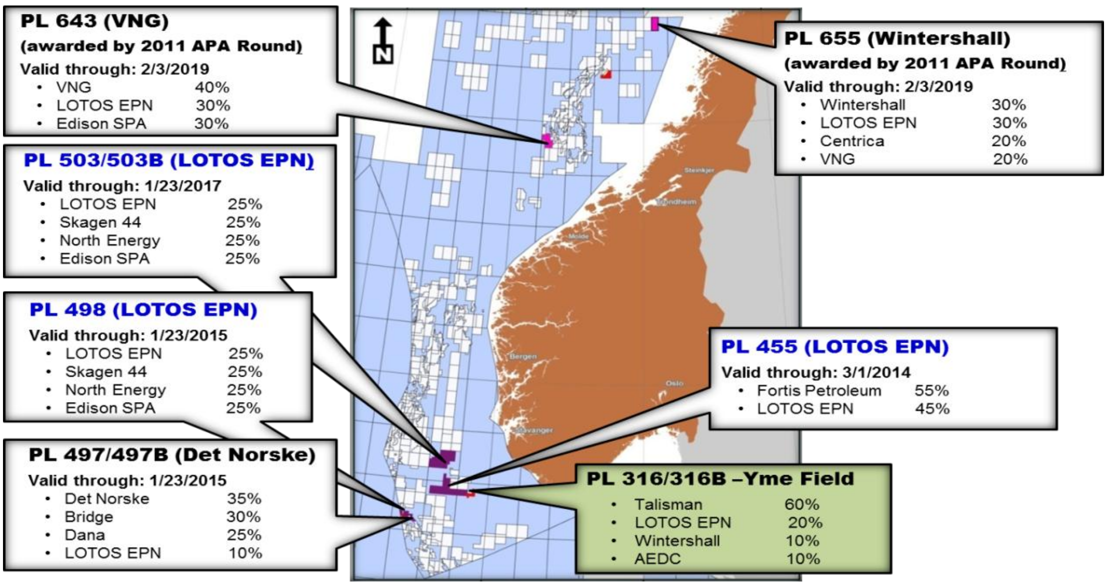
**2P – proved and probable reserves*

LOTOS Petrobaltic S.A.



In Q3 2012, the company produced crude oil and natural gas from the B3 field. Further wells drilled as part of the B8 field development project confirmed the feasibility of achieving the assumed oil recovery factor.

LOTOS Exploration &Production Norge AS (LOTOS EPN)



Following the drilling (in Q3 2012) of an exploration well in the PL497/PL497B licence area on the North Sea, the Mærsk Guardian drilling platform will be towed to the PL498 licence area operated by LOTOS EPN, where an exploration well will be drilled in the Cretaceous formations on the Skagen prospect.

On July 10th 2012, upon identifying cracks in the supports of the platform legs and due to the failure of SBM, the platform's owner and supplier, to provide relevant safety certificates, Talisman, the operator on the YME field, evacuated the platform staff and suspended the work, of which it notified the Petroleum Safety Authority (PSA) of Norway as required under relevant regulations.

The estimated scope of actions necessary to repair the cracks and resume work on the rig is being analysed. Research and design work is concurrently carried out by both SMB and Talisman, which may further delay the implementation of the Yme project.

LOTOS EPN is taking active steps to acquire an interest in a producing field in Norway due to the potential financial benefits arising from the possibility to settle its tax asset relating to the impairment losses recognised on the Yme field.

The LOTOS Geonafta Group

In Q3 2012, AB LOTOS Geonafta and UAB Genciu Nafta were engaged in production of crude oil from the Girkaliai, Kretinga, Nausodis and Genciu on-shore fields in the Lithuanian Republic. UAB Manifoldas conducted production from the Liziai and Veziaciai fields.

On September 27th 2012, AB LOTOS Geonafta executed an agreement in Vilnius for the purchase of a 50% interest in UAB Manifoldas. A credit facility agreement was also executed with Nordea Bank Finland Lithuania Branch for the company to finance part of the costs of acquiring UAB Manifoldas shares. The transaction should be closed by December 31st 2012, provided that the Lithuanian anti-trust authority's clearance is obtained.

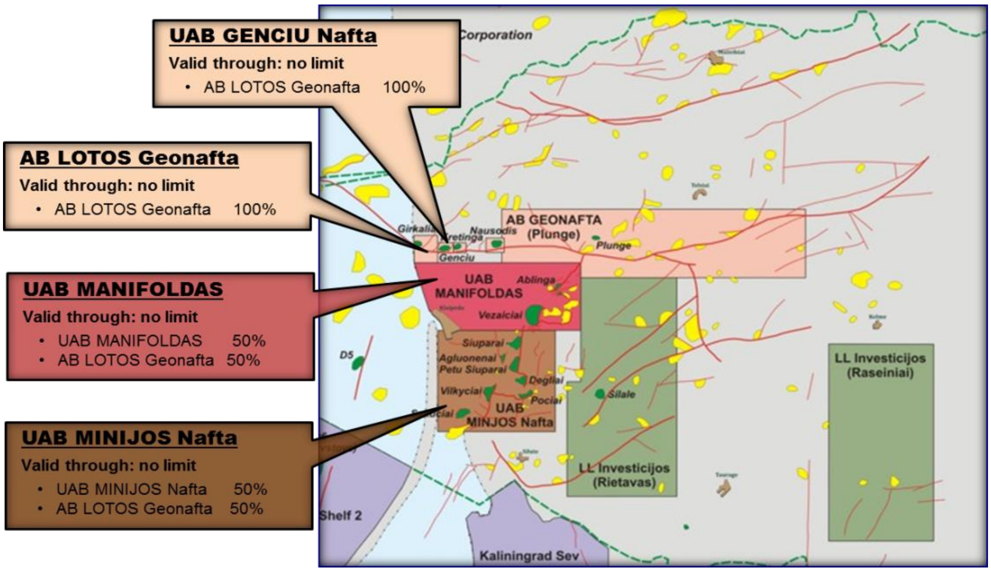


Table 6: Operating results of the upstream segment

(PLNm)	Q3 2012	Q2 2012	Q3 2011	Q312/Q212	Q312/Q311
Revenue	**125.4**	237.3	128.9	*-47.2%*	*-2.7%*
Operating profit/(loss)	**46.4**	-835.8	39.0	-	*19.0%*
Normalised operating profit/(loss)*	**46.4**	127.1	39.0	*-63.0%*	*19.0%*
Depreciation and amortisation	**30.7**	31.6	32.1	*-2.8%*	*-4.4%*
EBITDA	**77.1**	-804.2	71.1	-	*8.4%*

* operating result excluding the effect of non-recurring events: in Q2 2012 impairment loss on interest in the YME project

The upstream segment's revenue for Q3 2012 stayed relatively flat compared with Q3 2011. The PLN 111.9m decline in the segment's revenue relative to Q2 2012 came mainly as a result of lower volumes of the crude oil sold, both from the Rozewie and the Lithuanian fields.

The upstream segment's Q3 2012 operating result included PLN 11.9m of profit earned by the LOTOS Geonafta Group. The segment's result for Q2 2012 comprised the PLN 962.9m impairment loss on LOTOS EPN's interest in hydrocarbon reserves in the acquired production licences comprising the YME field development project (PLN 934.6m on the consolidated level). The segment's operating result for Q3 2012 was 63% lower than the previous quarter's underlying result, i.e. excluding the effect of non-recurring events.

3 Downstream segment

- ***Increased revenue (up 13% on Q3 2011 and up 2.5% on Q2 2012)***
- ***Record-high crude processing volumes and increased diesel production with favourable crack margin on diesel oil***
- ***34% share in the domestic fuels market at the end of Q3 2012***
- ***Improved performance in the retail area***
- ***8% share of the LOTOS brand in the retail market despite the shrinking demand for fuel***

Table 7: Structure of crude refining output

Volume of crude oil processed by the Gdańsk refinery (thousand tonnes)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
	2 450,3	**2 415,5**	**2 359,7**	*1,4%*	*3,8%*
including:					
Urals crude	**2 144,4**	2 230,5	2 245,8	*-3,9%*	*-4,5%*
Rozewie crude	**46,6**	71,6	51,8	*-34,9%*	*-10,0%*
Other types of crude	**259,3**	113,4	62,1	*128,7%*	*317,6%*

In Q3 2012, utilisation of the Gdańsk refinery's capacities was high at 98.7% (up by 6.5pp on Q2 2012). The crude throughput volume reached its record-high (up by 90.6 thousand tonnes on Q3 2011 and by 34.8 thousand tonnes on Q2 2012). The flexibility of the Gdańsk refinery was used towards a larger share of other than Ural and Rozewie crudes (Basrah Light, Troll and Arab Extra Light crudes). The refining margin continued to grow (up 6.6% USD/bbl on Q2 2012 and up 197% on Q3 2011), reaching an average quarterly value of 6.95 USD/bbl.

Increased diesel oil yields (up 72.4 thousand tonnes on Q2 2012), accompanied by higher crack margin on diesel oil (up 25.98 USD/t on Q2 2012), strengthened the contribution of higher crack margin to Grupa LOTOS's operating result.

Table 8: Grupa LOTOS's production mix

Total output (thousand tonnes)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
	2 667,6	**2 584,1**	**2 653,9**	*3,2%*	*0,5%*
Gasolines	**368,0**	370,8	372,3	*-0,8%*	*-1,2%*
Naphta	**69,4**	80,1	24,4	*-13,4%*	*184,4%*
Diesel oils	**1 230,0**	1 157,6	1 245,3	*6,3%*	*-1,2%*
Light fuel oils	**59,3**	47,4	81,4	*25,1%*	*-27,1%*
Jet fuel	**130,7**	153,4	140,6	*-14,8%*	*-7,0%*
Heavy fuel oil	**272,8**	258,2	202,9	*5,7%*	*34,5%*
Bitumen components	**241,9**	250,2	337,3	*-3,3%*	*-28,3%*
Other*	**295,5**	266,4	249,7	*10,9%*	*18,3%*

** Other products include: fuel and technical gases, sulphur, reformate, base oils, Hydrowax, xylene fraction and LPG.*

Table 9: Sales structure of the downstream segment

Sales (thousand tonnes)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
	2 583,0	**2 562,1**	**2 552,1**	*0,8%*	*1,2%*
Gasolines	**398,4**	354,1	388,9	*12,5%*	*2,4%*
Naphta	**69,4**	80,1	24,5	*-13,4%*	*183,3%*
Diesel oils	**1 223,9**	1 195,8	1 260,7	*2,3%*	*-2,9%*
Light fuel oils	**62,2**	50,6	73,5	*22,9%*	*-15,4%*
Jet fuel	**137,3**	142,3	139,2	*-3,5%*	*-1,4%*
Heavy fuel oils	**252,8**	213,6	147,6	*18,4%*	*71,3%*
Bitumens	**258,7**	252,7	346,9	*2,4%*	*-25,4%*
Other petroleum products	**180,3**	272,9	170,8	*-33,9%*	*5,6%*

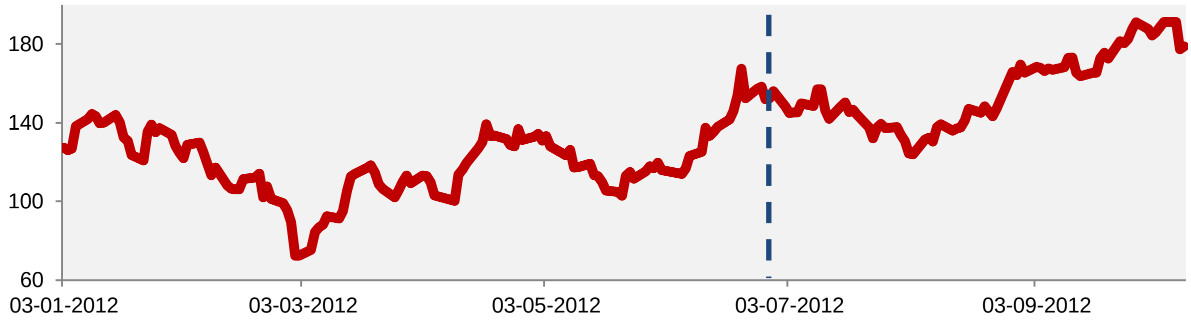
<u>Petroleum products market in Q3 2012:</u>

The 6.6% fall in liquid fuels consumption in Poland in the first eight months of 2012 (relative to August 2011) reflects the downswing in the national economy. In September 2012, a PMI reading for the Polish manufacturing hit its lowest level since 2009 (47 points), suggesting that the industrial downturn will deepen.

At the end of August 2012, domestic demand for diesel oil shrank by 7.1% year on year. Negative performance in the construction industry, combined with rising costs of transport, dampen demand for the fuel. In Q3 2012, the LOTOS Group's overall share in the Polish fuels market was 34% (up 0.7 pp year on year).

During the quarter, the total output and volumes of sales in the Group's downstream segment saw further growth relative to both Q2 2012 (up 20.9 thousand tonnes) and Q3 2011 (up 30.9 thousand tonnes).

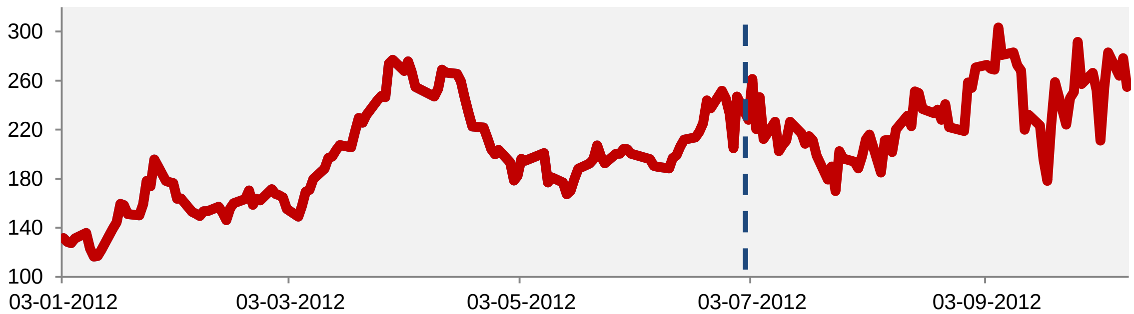
Fig. 3: Crack margin on diesel oil: Q1 2012–Q3 2012



In Q3 2012, crack margins on **diesel oil** on the international markets continued to grow (up 20.5% or 25.98 UDS/t on Q2 2012, and up 38.3% or 42.27 USD/t on Q3 2011).

After eight months of 2012, Grupa LOTOS's share in the diesel oil market was 35.6% (up 0.3pp year on year). The Company's diesel oil output remained flat compared with Q3 2011. Despite the fall in domestic consumption, a material increase was seen in diesel oil exports from Poland to the United Kingdom, Germany, Denmark and the Czech Republic, which was fully attributable to Grupa LOTOS.

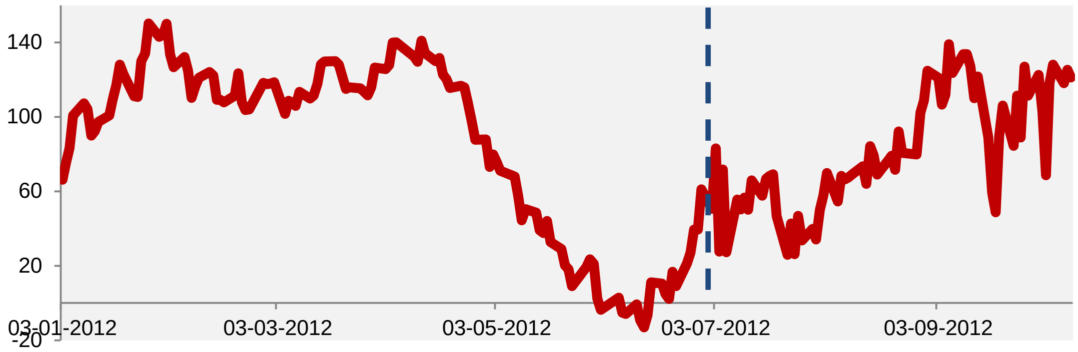
Fig. 4: Crack margin on motor gasoline: Q1 2012–Q3 2012



In Q3 2012, the downward trend in domestic demand for **motor gasoline** continued, including the recent reduction in retail demand. After eight months of 2012, domestic gasoline consumption contracted by 3.7% year on year, which was partially offset by stronger demand for LPG (up 2.5% year on year). The Group's rising share in the shrinking Polish motor gasoline market (up 2.4% year on year, to 29.1%) was primarily driven by the invariably high sales growth rate in the wholesale and retail channels.

Further, in Q3 2012, motor gasoline sales were accompanied by the upward trend in the crack margin prevailing on global markets for the second consecutive quarter (up 36.2% on Q3 2011 and up 6.2% on Q2 2012).

Fig. 5: Crack margin on naphta: Q1 2012–Q3 2012



In the discussed period, the production and sales volumes of naphta exported to France, the Netherlands and the United Kingdom remained high, enabling the Company to achieve an attractive crack margin on naphta (up 34.5% or 19.27 USD/t on Q2 2012).

Table 10: Operating results of the downstream segment

(PLNm)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
Sales revenue	**8 530,3**	8 318,6	7 544,6	*2,5%*	*13,1%*
Operating profit	**524,2**	-57,5	55,6	-	$\boxed{\textit{842,8\%}}$
Depreciation and amortisation	**131,5**	131,0	132,2	*0,4%*	*-0,5%*
EBITDA	**655,7**	73,5	187,8	*792,1%*	*249,1%*

The 13.1% rise in the downstream segment's revenue in Q3 2012 relative to Q3 2011 was mostly attributable to a 11.7% increase in the segment's average net selling price and a 1.2% uplift in its sales volume. Driven by the 12.6% appreciation of the average quarterly USD exchange rate and the optimised sales structure, the average net selling price in the downstream segment rose from PLN 2,956 PLN/t in Q3 2011 to 3,302 PLN/t in Q3 2012.

Compared with Q2 2012, revenue went up 2.5% mainly due to the increase in the average net selling price (up 1.7% on Q2 2012), which primarily resulted from the growing prices of crude oil and petroleum products.

In Q3 2012, the downstream segment's operating result increased mainly on the back of higher crack margins on gasolines, diesel oils, aviation fuel and fuel oils, as well as a higher average quarterly USD exchange rate. In the discussed period, the strengthening of the Polish złoty resulted in foreign exchange gains of PLN 64.4m. The Q3 2011 foreign exchange losses on operating activities stood at PLN -282.7m. Foreign exchange losses on hedge accounting reduced the Q3 2012 operating result by PLN 11.8m (compared with PLN 5.3m in Q3 2011).

Network of LOTOS service stations

Table 11: Number of service stations in the LOTOS network at end of the period

Total number of service stations	Sept 30 2012	June 30 2012	Sept 30 2011	Q3 12/Q2 12	Q3 12/Q3 11
	368	**368**	**324**	***0,0%***	***13,6%***
CODO	**198**	195	161	***1,5%***	***23,0%***
including: LOTOS OPTIMA	**38**	37	3	***2,7%***	***1166,7%***
DOFO	**135**	138	117	***-2,2%***	***15,4%***
including: LOTOS OPTIMA	**15**	19	2	***-21,1%***	***650,0%***
franchise agreements signed	**152**	147	121	***3,4%***	***25,6%***
DODO	**35**	35	46	***0,0%***	***-23,9%***

The LOTOS Group continued to expand and restructure its retail network, particularly under the OPTIMA brand of economy service stations. In Q3 2012, LOTOS was the most dynamically growing service station network in Poland (year on year). As at the end of Q3 2012, as many as 11 motorway service areas operated under the LOTOS brand. The Group tested the new visual identity of the Premium segment service stations. The expansion of the service station network translated into a higher retail margin.

Table 12: Operating results of the retail business

(thousand tonnes/PLNm)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
Sales volume	**271,8**	258,1	280,6	***5,3%***	***-3,1%***
Sales revenue	**1 583,8**	1 476,2	1 439,7	***7,3%***	***10,0%***
Operating profit/(loss)	**4,0**	2,7	-2,1	***48,1%***	-
Depreciation and amortisation	**12,6**	12,3	12,0	***2,4%***	***5,0%***
EBITDA	**16,6**	15,0	9,9	***10,7%***	***67,7%***

Despite the declining retail consumption of fuels in Poland as at the end of August 2012 (down 6% year on year), Grupa LOTOS recorded an increase in both retail sales volumes (up 5.3% quarter on quarter) and revenue (up 7.3% quarter on quarter and up 10% year on year).

Despite the continued decline in fuel consumption in Poland, the LOTOS Group's share in the retail fuel market (in terms of total gasoline and diesel oil sales volumes) was 8% as at the end of August 2012 (vs. 7.6% a year before).

Revenue in the retail segment rose primarily on the back of higher prices of gasolines and diesel oils on the world markets, as well as a higher average quarterly USD exchange rate (relative to Q3 2011). The increase in the retail segment's operating result (up 48% on 2Q12) resulted mainly from higher sales volumes and improved retail margin on the domestic fuel market.

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

Table 13: Effect of inventory valuation on the operating result of the downstream segment

(PLNm)	Q3 2012	Q2 2012	Q3 2011
Operating profit/(loss)	**524,2**	-57,5	55,6
LIFO effect*	**22,2**	204,6	-124,5
LIFO operating profit/(loss)	**546,4**	147,1	-68,9

**In line with its inventory valuation policies, the LOTOS Group uses the weighted average method to measure decrease in inventories. This method of inventory valuation 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 reflecting the impact of this inventory valuation method is presented in the table.*

In Q3 2012, the weighted average method of inventory valuation applied by the LOTOS Group, combined with fluctuations in crude prices and volatile exchange rates reduced the operating result of the downstream segment by PLN 22.2m (the LIFO effect). In the comparative period, the applied inventory valuation method added PLN 124.5m to the operating result due to growing crude prices. In Q2 2012, lower crude prices drove the operating result down by PLN 204.6m. If the LIFO method had been applied to inventory valuation, the operating result of the downstream segment would have been PLN 546.4m in Q3 2012, PLN 147.1m in Q2 2012, and PLN -68.9m in Q3 2011.

4 Other business

Table 14: Operating result of other business*

(PLNm)	Q3 2012	Q2 2012	Q3 2011	Q3 12/Q2 12	Q3 12/Q3 11
Sales revenue	**5,7**	7,3	5,2	***-21,9%***	***9,6%***
Operating profit/(loss)	**0,7**	2,5	-0,5	***-72,0%***	-
Depreciation and amortisation	**2,7**	2,5	2,5	***8,0%***	***8,0%***
EBITDA	**3,4**	5,0	2,0	***-32,0%***	***70,0%***

**In Q2 2012 and Q3 2011 it included: 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). In Q3 2012, it included: 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 Q3 2012, the LOTOS Group posted PLN 603.8m in operating profit, including PLN 46.4m of the upstream segment, PLN 524.2 of the downstream segment and PLN 0.7m from other business, increased by PLN 32.5m in consolidation adjustments (related mainly to margin on stocks of Rozewie crude). The Group's operating result in Q3 2012 was PLN 530.6m higher from the Q2 2012 Underlying operating result (excluding the effect of non-recurring events).

Table 15: Operating results of the LOTOS Group

(PLNm)	Q3 2012	Q2 2012	Q3 2011	Q312/Q212	Q312/Q311
Revenue	**8568.8**	8384.1	7597.5	*2.2%*	*12.8%*
EBITDA	**768.3**	-696.8	254.6	-	*201.8%*
Operating profit/(loss)	**603.8**	-861.4	88.2	-	*584.6%*
Normalised operating profit/(loss)*	**603.8**	73.2	88.2	*724.9%*	*584.6%*
LIFO-based operating profit/(loss)	**626.0**	-656.8	-36.3	-	-

* operating result excluding the effect of non-recurring events: in Q2 2012 impairment loss on interest in the YME project

In Q3 2012, the LOTOS Group reported net finance income of PLN 145.2m, primarily owing to PLN 101.7m of foreign exchange gains on revaluation of debt denominated in foreign currencies, a PLN 99.6m net gain on the valuation and settlement of hedging transactions, and PLN -53.0m negative balance of interest on debt, interest income and commission fees.

Following the adoption by Grupa LOTOS of cash flow hedge accounting with respect to foreign-currency denominated credit facilities used to finance the 10+ Programme, designated as hedges for future USD-denominated petroleum product sales transactions, foreign exchange gains taken to the cash flow hedging reserve in Q3 2012 were PLN 315.0m (Q3 2011: PLN -585.9m). In Q2 2011, foreign exchange losses reducing the value of the cash flow hedging reserve were PLN -299.5m.

In the analysed period, net valuation and measurement of market risk hedging transactions at the LOTOS Group was positive at PLN 99.6m. In Q3 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 CO_2 emission allowances, was PLN 95.2m. The effect of valuation of transactions hedging petroleum product prices was positive at PLN 7.8m. The net loss on settlement and valuation of interest rate hedging transactions was PLN -3.4m.

Table 16: Transactions hedging petroleum products prices as at September 30th 2012

Period	Commodity	Light heating oil	Heavy sulphur fuel oil
		Gasoil .1 Cargoes CIF NWE / ARA	3.5 PCT Barges FOB Rotterdam
Q42012	Volume (mt)	-1 833	8 333
	Price range (USD/mt)	975 - 1018,5	639,25 - 689,5

Table 17: Transactions hedging foreign exchange risk as at September 30th 2012

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	250 951 000	EUR	1,2594 - 1,30925
EUR/PLN exchange rate	Forward	28 000	EUR	4,1518 - 4,2008
USD/PLN exchange rate	Forward	-368 200 000	USD	3,1754 - 3,5806

Table 18: Transactions hedging interest rate risk as at September 30th 2012

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

In Q3 2012, the Group recorded a consolidated net profit of PLN 626.1m (Q2 2012: net loss of PLN -529.0; Q3 2011: net loss of PLN -331.3m).

In the first nine months of 2012, the Group earned a net profit of PLN 694.2m, up PLN 118.9m year on year.

Table 19: Net profit/loss of the LOTOS Group

(PLNm)	Q232012	Q2 2012	Q3 2011
EBIT	**603,8**	-861,4	88,2
Pre-tax profit/(loss)	**749,0**	-1287,7	-437,0
Net profit/(loss)	**626,1**	-529,0	-331,3
Net profit/(loss) attributable to owners of the Parent	**626,0**	-528,8	-331,4

6 Consolidated statement of financial position

Table 20: Consolidated statement of financial position

	Sept 30 2012	June 30 2012	change	%
Assets (PLNm)	**20 357,9**	**20 423,2**	***-65,3***	***-0,3%***
Non-current assets, including:	**11 215,3**	11 582,2	*-366,9*	***-3,2%***
Property, plant and equipment	**8 690,8**	8 965,5	*-274,7*	***-3,1%***
Tangible assets under construction	**850,5**	1 558,1	*-707,6*	***-45,4%***
Deferred tax assets	**1 084,6**	400,1	*684,5*	***171,1%***
Current assets, including:	**9 140,9**	8 731,9	*409,0*	***4,7%***
Inventories	**5 834,8**	5 855,8	*-21,0*	***-0,4%***
Trade and other receivables	**2 494,7**	2 190,0	*304,7*	***13,9%***
Current financial assets	**223,9**	129,1	*94,8*	***73,4%***
Cash and cash equivalents	**480,8**	383,7	*97,1*	***25,3%***
Assets available for sale	**1,7**	109,1	*-107,4*	***-98,4%***
Equity and liabilities (PLNm)	**20 357,9**	**20 423,2**	***-65,3***	***-0,3%***
Equity	**8 743,8**	7 782,4	*961,4*	***12,4%***
Non-current liabilities	**5 327,6**	5 847,5	*-519,9*	***-8,9%***
Current liabilities	**6 286,5**	6 752,9	*-466,4*	***-6,9%***
Liabilities associated with assets available for sale	**0,0**	40,4	*-40,4*	***-100,0%***

As at September 30th 2012, the LOTOS Group's total assets were PLN 20,357.9m, down PLN 65.3m during the first nine months of 2012.

Non-current assets fell PLN 366.9m, mainly on the upstream segment's impairment losses.

As at September 30th 2012, inventories were PLN 5,834.8m and remained flat relative to the end of 2011. A rise in petroleum product prices in September 2012 as compared with the end of 2011 was the key driver of a PLN 304.7m increase in trade and other receivables. A PLN 94.8m growth in current financial assets was mainly related to higher positive valuation of derivative financial instruments (up PLN 59.7m). Decrease in assets held for sale was primarily attributable to the sale of 100% of shares in LOTOS Parafiny to a third party on January 10th 2012.

As at the end of Q3 2012, current assets totalled PLN 9,140.9m, up PLN 409.0 relative to December 31st 2011.

As at September 30th 2012, equity amounted to PLN 8,743.8m, having grown by PLN 961,4m over the first nine months of 2012, primarily as a result of the PLN 694.2m increase in retained earnings and the PLN 289.4m 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 in the first nine months of 2012 by PLN 519.9m, mainly on the decrease in non-current interest-bearing borrowings and other debt instruments, and amounted to PLN 5,327.6m.

As at the end of September 2012, current liabilities totalled PLN 6,286.5m, having decreased by PLN 466.4m mainly on the back of a PLN 316.8m decline in trade and other payables attributable to lower prices of crude purchased in September 2012 relative to December 2012. As at the end of September 2012, current borrowings and other debt instruments were PLN 2,302.4, down PLN 105.3m relative to the end of 2011.

As at September 30th 2012, the financial debt of the LOTOS Group was PLN 6,666.5m, down PLN 725.1m on the end of 2011. The ratio of financial debt (net of free cash) to equity was 70.7%, i.e. 19.3pp lower than as at December 31st 2011.

7 Consolidated statement of cash flows

Table 21. Consolidated statement of cash flows

(PLNm)	Q3 2012	Q2 2012	Q3 2011
Cash flows from operating activities	729,8	530,5	473,2
Cash flows from investing activities	-191,8	-156,8	-188,3
Cash flows from financing activities	-266,7	-225,1	-29,2
Change in net cash	248,1	173,4	279,0
Cash and cash equivalents at beginning of period	-121,8	-295,2	-266,3
Cash and cash equivalents at end of period	126,3	-121,8	12,7

As at the end of Q3 2012, the LOTOS Group's cash balance (including current account overdrafts) was PLN 126.3m.

The high positive balance of cash flows from operating activities in Q3 2012, of PLN 729.8m, was mainly related to robust Q3 net profit and increase in current liabilities.

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

Cash flows from financing activities in Q3 2012, of PLN -266.7m, chiefly comprise proceeds from borrowings and other debt instruments and outflows on principal and interest payments of PLN -161.0m, as well as a PLN -99.3m net bonds issue and redemption figure.