
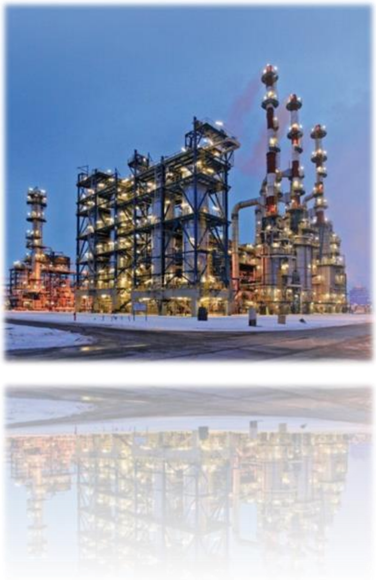


This is a translation of a document originally issued in Polish

MANAGEMENT’S DISCUSSION AND ANALYSIS OF GRUPA LOTOS S.A.’S FINANCIAL PERFORMANCE IN Q4 2012

GRUPA LOTOS S.A.

ISIN	Warsaw Stock Exchange	Thomson Reuters	Bloomberg
PLLOTOS00025	LTS	LTOS.WA	LTS PW

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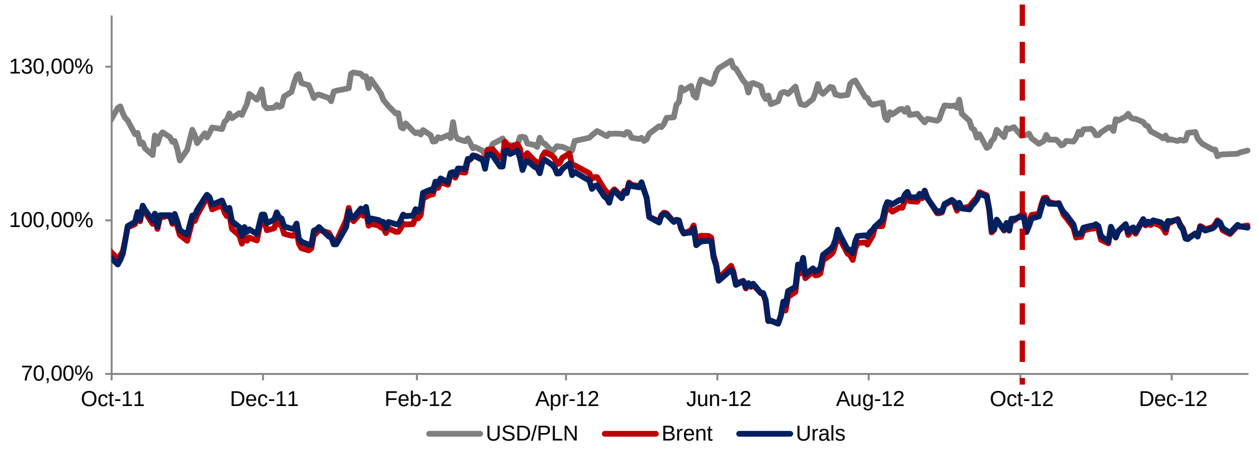
*An excel file with the operating and financial data for Q4 2012 and the previous reporting periods is published together with the 2012 annual report in the Investor Relations section of our website as **"databook"**.*

1 Market environment

- **Grupa LOTOS S.A.'s model refining margin at 5.41 USD/bbl (down 22.2% on Q3 2012)**
- **Margins on mid-distillates relatively unchanged from Q3 2012**
- **Appreciation of the Polish złoty against the US dollar at the end of Q4 relative to Q3 2012 and Q4 2011**

Macroeconomic data

Brent/Urals prices and the USD/PLN exchange rate



Brent/Urals prices and Grupa LOTOS S.A.'s model margin (USD/bbl)

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/Q3 2012	Q4 2012/Q4 2011
DATED Brent FOB prices	**110.08**	109.50	109.35	0.5%	0.7%
Urals CIF Rotterdam prices	**108.64**	108.67	108.63	0.0%	0.0%
Brent/Urals differential *	**1.09**	0.68	0.29	60.3%	275.9%
Model refining margin USD/bbl**	**5.41**	6.95	3.88	-22.2%	39.5%

** Brent vs. Urals spread.*
***Model margin for an output structure in an averaged scenario of typical annual operation of Grupa LOTOS' refinery, assuming maximised output 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.*

Crack margins (USD/t)

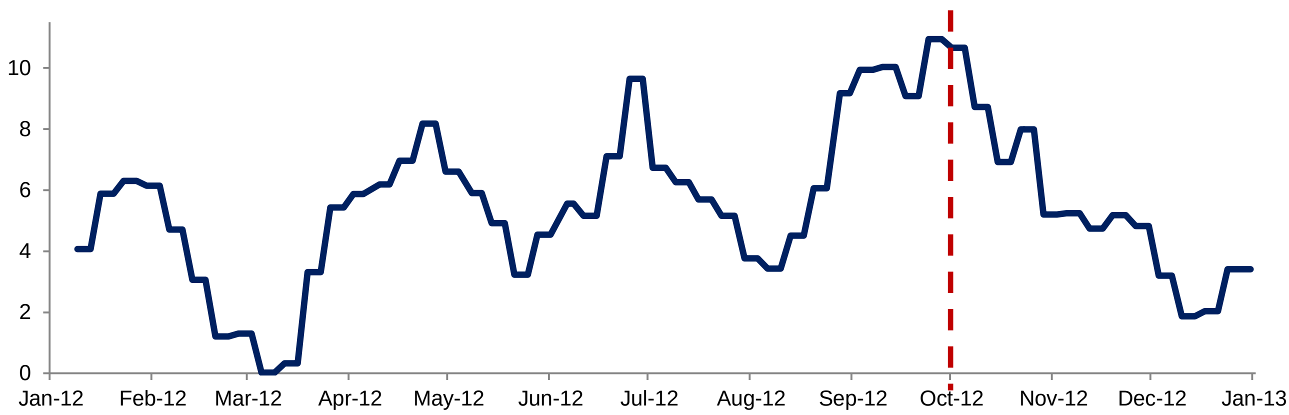
	Q4 2012	Q3 2012	Q4 2011	Q4 2012/Q3 2012	Q4 2012/Q4 2011
Crack margin: gasoline	**152.86**	226.92	107.42	-32.6%	42.3%
Crack margin: naphtha	**105.30**	75.11	43.52	40.2%	142.0%
Crack margin: Diesel oil (10 ppm)	**153.69**	152.76	146.41	0.6%	5.0%
Crack margin: Light fuel oil	**119.17**	114.39	118.06	4.2%	0.9%
Crack margin: Aviation fuel	**190.53**	192.82	179.96	-1.2%	5.9%
Crack margin: Heavy fuel oil	**-246.35**	-210.73	-206.56	-16.9%	-19.3%

USD/PLN exchange rates

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/Q3 2012	Q4 2012/Q4 2011
PLN/USD exchange rate at end of the period	**3.10**	3.18	3.42	-2.5%	-9.4%
Average quarterly PLN/USD exchange rate	**3.17**	3.31	3.28	-4.2%	-3.4%

In Q4 2012, the prices of the key refinery products changed slightly, which had no major impact on the condition of the refining industry:

Grupa LOTOS S.A.'s model refining margin in Q1 2012 – Q4 2012



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

Exchange rates:

- The exchange rate of the Polish złoty against the US dollar remained relatively stable – slow depreciation of the złoty until the first half of November and a subsequent reversal of the trend in the second half of November; lower exchange rate fluctuations relative to Q3 2012 minimised the amount of exchange differences on operating activities (PLN -0.8m vs. PLN +64.4m in Q3 2012);

- Depreciation of the US dollar at the end of the period (down 2.5% relative to Q3 2012) had a positive effect on remeasurement of the LOTOS Group's debt, most of which is denominated in the US dollar (the effect was smaller than in the previous quarter when the US dollar fell 6.2% against the złoty);

Feedstock and products:

- Grupa LOTOS S.A.'s model refining margin declined, following two quarters of growth, to 5.41 USD/bbl in Q4 2012;

- Crack margins on key products remained flat, except margins on motor gasoline (down by 32.6% on Q3 2012) and naphtha (up by 40.2% on Q3 2012);

- The trend in the quoted prices of Brent Dated in Q4 2012 had no material impact on the LOTOS Group's operating result;

- Slight increase in the Brent/Ural differential (up by 0.80 USD on Q4 2011 and up by 0.41 USD on Q3 2012).

2 Upstream segment

- **Settlement to remove the defective platform from the Yme field**
- **Segment's operating result at PLN -25.30m in Q4 2012**
- **Further consolidation of Lithuanian subsidiaries – acquisition of full control over UAB Manifoldas**

Crude oil reserves, production and sales

Reserves (mbbl) *	**Dec 31 2012**	**Sep 30 2012**	**Dec 31 2011**		
Norway	**12.95**	12.95	12.95		
Poland	**32.16**	32.74	33.61		
Lithuania **	**8.43*** **	6.21	6.84		
Total	**53.54**	51.90	53.40		
Production (bbl/d)	**Q4 2012**	**Q3 2012**	**Q4 2011**	**Q4 2012/Q3 2012**	**Q4 2012/Q4 2011**
Poland	**3,147**	3,233	3,556	**-2.6%**	**-11.5%**
Lithuania **	**1,519**	1,579	1,738	**-3.8%**	**-12.6%**
Total	**4,667**	4,812	5,294	**-3.0%**	**-11.8%**
Sales of own products (bbl)	**Q4 2012**	**Q3 2012**	**Q4 2011**	**Q4 2012/Q3 2012**	**Q4 2012/Q4 2011**
Poland	**196,396**	216,236	221,936	**-9.2%**	**-11.5%**
Lithuania **	**152,101**	120,084	151,681	**26.7%**	**0.3%**
Total	**348,497**	336,320	373,617	**3.6%**	**-6.7%**

**2P – proved and probable reserves*

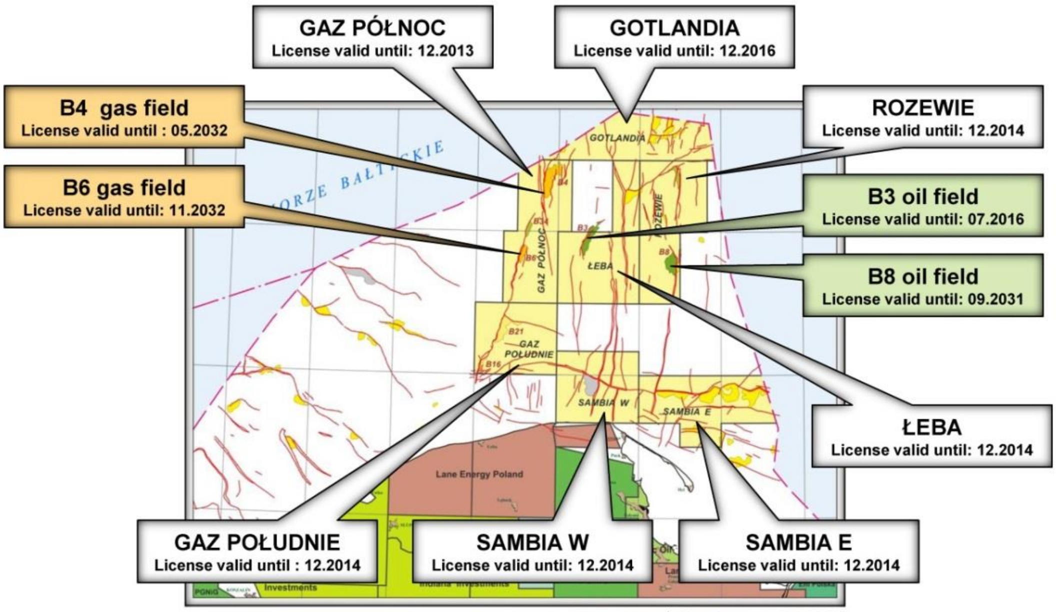
*** pro rata to the ownership interest in the AB LOTOS Geonafta Group*

**** the change in reserves relative to Q3 2012 results mainly from the purchase of the 50% interest in UAB Manifoldas*

Natural gas reserves, production and sales

Reserves (billion m^3)*	**Dec 31 2012**	**Sep 30 2012**	**Dec 31 2011**		
Poland	**0.484**	0.488	0.504		
Production (million m^3)	**Q4 2012**	**Q3 2012**	**Q4 2011**	**Q4 2012/Q3 2012**	**Q4 2012/Q4 2011**
Poland	**4.1**	4.2	4.6	**-2.4%**	**-10.9%**
Sales (million m^3)	**Q4 2012**	**Q3 2012**	**Q4 2011**	**Q4 2012/Q3 2012**	**Q4 2012/Q4 2011**
Poland	**2.6**	2.5	2.8	**4.0%**	**-7.1%**

**2P – proved and probable reserves*

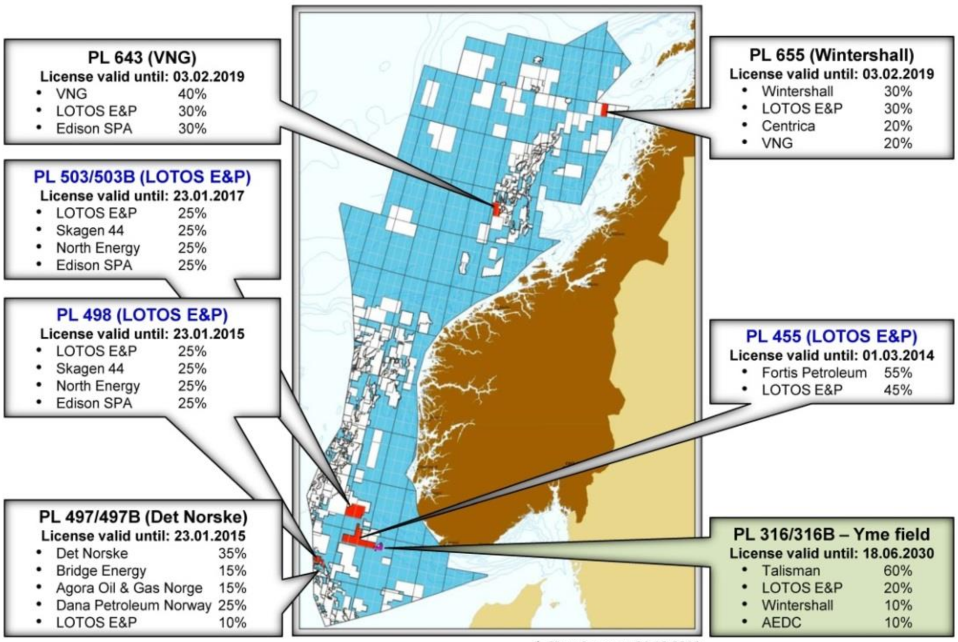


** Situation as at 31.12.2012*

In Q4 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.

On October 30th 2012, **LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o.** signed a cooperation agreement, which sets out **the terms of cooperation** between the parties in developing the B4 and B6 gas fields in the Baltic Sea. The project is to be executed through a special purpose vehicle, in which LOTOS Petrobaltic and CalEnergy Resources will share profits and costs on a 51:49 basis (51% for LOTOS Petrobaltic and 49% for CalEnergy Resources). Under the preparatory work schedule, seismics acquisition and selection of a preliminary field development concept are scheduled for 2013–2014. Upon completion of that stage, a final investment decision concerning development of the fields will be made. Under the agreement, CalEnergy Resources will finance the cost of seismic surveys and preparation of the preliminary field development concept attributable to both CalEnergy Resources and LOTOS Petrobaltic. The agreement is subject to a few conditions precedent, including the condition that the project's economic viability is not adversely affected by the new legislation on hydrocarbon production tax.

LOTOS Exploration & Production Norge AS (LOTOS EPN)



** Situation as at 31.12.2012*

In Q4 2012, LOTOS E&P Norge AS issued Series B shares, which were acquired in full by LOTOS Petrobaltic S.A. These included:

- shares with a value of NOK 115,000,000 issued in November 2012, and
- shares with a value of NOK 171,000,000 issued in December 2012.

Following the share issues, LOTOS E&P Norge AS's share capital as at December 31st 2012 totalled NOK 950,718,441.

On March 12th 2013, [1]Talisman Energy (the Yme field operator) and SBM Offshore (rig owner) announced that an agreement had been reached concerning the removal of the defective rig from the Yme field. Under the agreement, SBM Offshore paid joint venture partners an amount of USD 470m. On behalf of the licence holders, Talisman Energy agreed to make the necessary preparations and remove the rig from the field. SBM Offshore will be responsible for towing and scrapping the rig onshore. At the same time, the ownership of the subsea structure installed on the YME field be transferred to the joint venture partners. The structure was supplied by SBM and the company has an obligation to disassemble it and reclaim the drilling site upon completion of production. The parties will cover the costs of decommissioning work as set out in the agreement.

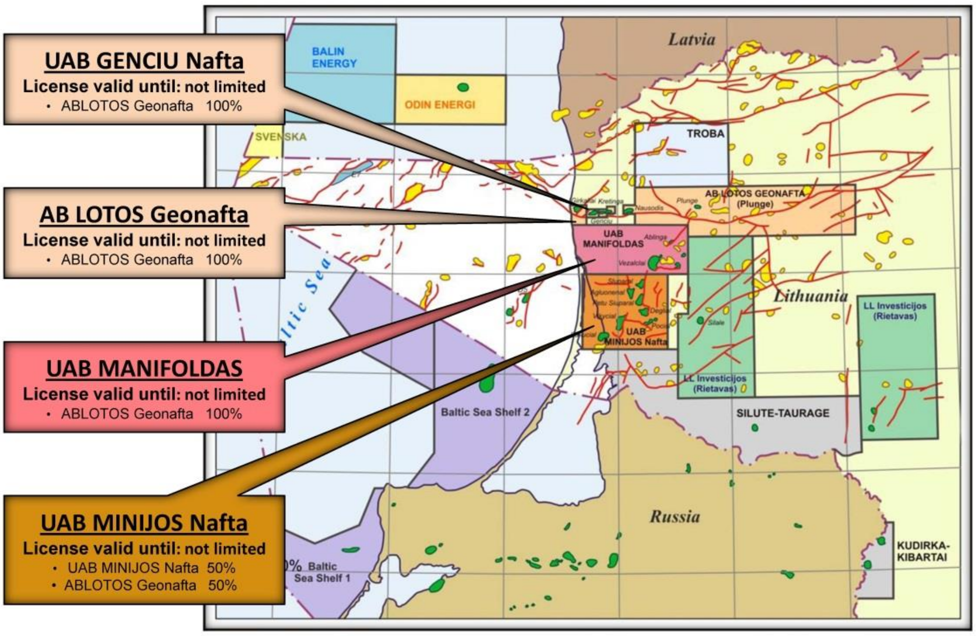
[1] *Event subsequent to the balance-sheet date*

AB LOTOS Geonafta Group

In Q4 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 for the purchase of a 50% interest in UAB Manifoldas. The transaction was financed with the company's own funds and a bank loan. The condition precedent under the share purchase agreement was to secure clearance from the Competition and Consumer Protection Office of the Republic of Lithuania for the purchase of UAB Manifoldas shares by AB LOTOS Geonafta, which was granted on October 31st 2012.

On November 28th 2012, the transaction was closed – the full purchase price was paid and ownership of 50% of the UAB Manifoldas shares was transferred to the buyer.



** Situation as at 31.12.2012*

Upstream segment's operating results (PLNm)

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
Revenue	**132.8**	125.4	139.3	**5.9%**	**-4.7%**
Operating profit/(loss)	**-25.3**	46.4	-245.0	**-**	**-**
Operating result net of non-recurring events*	**25.0**	46.4	25.4	**-46.1%**	**-1.6%**
Depreciation and amortisation expense	**44.5**	30.7	32.8	**45.0%**	**35.7%**
EBITDA	**19.2**	77.1	-212.2	**-75.1%**	**-**

** net of effects of non-recurring events*

The upstream segment's revenue for Q4 2012 was down on Q4 2011. The primary cause of the PLN 6.5m decline in the segment's revenue relative to Q4 2011 was lower sales volumes of the Rozewie crude as the B8 field was on temporary production in Q4 2011 (3.6 thousand tonnes of oil produced). A PLN 7.4m rise in the segment's revenue on Q3 2012 was a result of increased sales volumes of oil produced in Lithuania.

The segment's Q4 2012 operating result was adjusted to account for the impairment losses on LOTOS Norge's Norwegian exploration licences (PL 497 and PL 498) of PLN 74.5m, the impairment losses on AB Geonafta assets due to impairment of licenses in the amount of PLN 14.5m, the provision for the unavoidable costs arising under the previously executed agreement for the transport of crude oil from the Yme field of PLN 12.6m, and the effect of accounting for the step acquisition of control over UAB Manifoldas of PLN 57.7m.

3 Downstream segment

- **Launch of the 100th LOTOS Optima station**
- **Record-high volume of processed crude**
- **An over PLN 200m rise in LIFO-based operating result on Q4 2011**

Structure of crude oil refining ('000 tonnes)

Volume of crude oil processed by the Gdańsk refinery ('000 tonnes)	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
	2,535.3	**2,450.3**	**2,362.1**	**3.5%**	**7.3%**
including:					
Urals crude	**2,324.6**	2,144.4	2,300.9	**8.4%**	**1.0%**
Rozewie crude	**24.3**	46.6	28.5	**-47.9%**	**-14.7%**
Other types of crude	**186.4**	259.3	32.7	**-28.1%**	**470.0%**

In Q4 2012, the Gdańsk refinery's processing capacities were utilised at 95.8% (+6.6 p.p. yoy). The crude throughput volume reached its record-high (up 85 thousand tonnes on Q3 2012 and up 173.2 thousand tonnes on Q4 2011). The flexibility of the upgraded refinery was used to optimise the feedstock towards a larger share of heavier Urals crude (91.7%), offering the potential for diesel oil production.

The refining margin fell 22.20% on Q3 2012, but increased 39.50% on Q4 2011, and came in at the average quarterly value of 5.41 USD/bbl.

Increased motor gasoline yields (up 25.4 thousand tonnes on Q4 2011) and naphtha yields (up 52.9 thousand tonnes on Q4 2011), accompanied by continued attractive crack margins, as compared with Q4 2011, strengthened the contribution of higher global crack margins to the LOTOS Group's operating result.

Structure of Grupa LOTOS' output ('000 tonnes)

Total output	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
	2,692.6	2,667.6	2,608.1	**0.9%**	**3.2%**
Gasolines	**388.8**	368.0	363.4	**5.7%**	**7.0%**
Naphtha	**104.6**	69.4	51.7	**50.7%**	**102.3%**
Diesel oils	**1,148.3**	1,230.0	1,201.8	**-6.6%**	**-4.5%**
Light fuel oil	**115.2**	59.3	127.0	**94.3%**	**-9.3%**
Jet fuel	**130.6**	130.7	113.3	**-0.1%**	**15.3%**
Heavy fuel oil	**306.0**	272.8	215.3	**12.2%**	**42.1%**
Bitumen components	**186.6**	241.9	267.6	**-22.9%**	**-30.3%**
Other*	**312.5**	295.5	268.0	**5.8%**	**16.6%**

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

Sales structure of the downstream segment ('000 tonnes)

Sales of refining products, merchandise and materials	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
	2,614.6	2,583.0	2,556.0	1.2%	2.3%
Gasolines	**417.7**	398.4	365.8	4.8%	14.2%
Naphtha	**104.6**	69.4	51.7	50.7%	102.3%
Diesel oils	**1,151.0**	1,223.9	1,267.1	-6.0%	-9.2%
Light fuel oil	**108.3**	62.2	133.6	74.1%	-18.9%
Jet fuel	**137.4**	137.3	102.9	0.1%	33.5%
Heavy fuel oil	**299.3**	252.8	162.2	18.4%	84.5%
Bitumens	**193.0**	258.7	289.2	-25.4%	-33.3%
Other petroleum products	**203.3**	180.3	183.5	12.8%	10.8%

Petroleum products market in Q4 2012

In 2012, domestic liquid fuel consumption fell 8.6% (year on year), reflecting a slowdown of the Polish economy, driven mostly by poor performance of the construction industry in Q4 2012, as well as growing unemployment paired with a diminishing number of available jobs and a decline in real gross remuneration. The expansion of the black market is another factor which may have had a significant impact on the decline in fuel consumption. In December 2012, the market saw a significant drop in industrial output and a downturn in construction and assembly services. The PMI for Polish manufacturing was below 50 points for the ninth consecutive month, indicating poor market conditions persisting despite the upward trend seen in Q4 2012, when the index rose to 48.5 points at the end of the quarter.

At the same time, the LOTOS Group's overall share in the Polish fuels market increased to 34.3% (up 0.7 pp year on year). In Q4 2012, the total production and sales volume of the Group's downstream segment was stable.

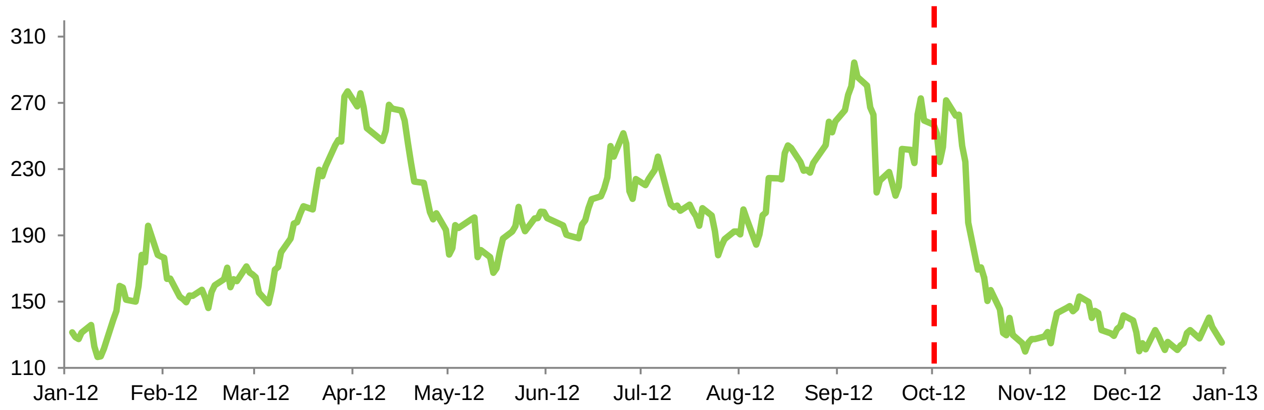
In 2012, domestic demand for diesel oil shrank by 9.3% year on year. Diesel oil consumption, which was down in November 2012, decreased even further in December, hitting the all-year low of -19.5%. Apart from the slowdown in the economy and the construction and transport industries, which provided no stimulus for demand for diesel oil, the trend was also partially driven by the high base, i.e. high fuel consumption in December 2011 attributable to the planned increase in excise duty for diesel oil.

Diesel oil – Q1 2012/Q4 2012 crack margin

In Q4 2012, crack margins on **diesel oil** on the international markets fell. The Q4 2012 average price was relatively flat quarter on quarter and improved slightly year on year (up 0.6%, i.e. USD 0.93/t, on Q3 2012 and 5%, i.e. USD 7.28/t on Q4 2011).

In 2012, Grupa LOTOS's share in the diesel oil market was 35.9% (up 0.3 pp year on year). The largest improvement in market share was recorded in retail sales of LOTOS branded diesel oil, which accounted for 9.5% of the market (up 0.5 pp. on 2011). The Company's diesel oil output remained flat compared with 2011. Despite the fall in domestic consumption, diesel oil exports from Poland, mostly to the United Kingdom and Germany, increased nearly threefold, with the figure fully attributable to Grupa LOTOS S.A.

Motor gasoline – Q1–Q4 2012 crack margin



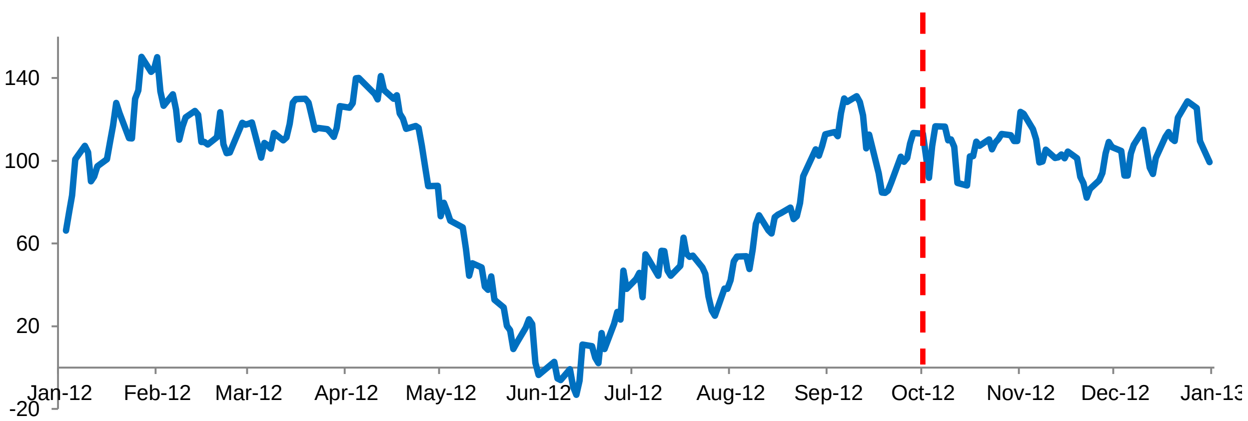
In Q4 2012, the domestic demand for **motor gasoline** was falling gradually (down 5.4% on Q4 2011). A decrease in purchasing power of the Polish society resulted in retail customer's growing interest in cheaper fuel, that is LPG.

In Q4 2012, the crack margin on motor gasoline on global markets was significantly lower (down 32.60% or USD 74/t) than in Q3 2012, but clearly higher (up by 42.3% or USD 45.44/t) than in Q4 2011.

The total production of gasoline in Poland rose 3% in 2012. Given the 5% decline of the domestic demand, the importance of exports increased (up 30% relative to 2011). The largest Polish exporter of motor gasoline was the LOTOS Group, which sold the product to Sweden, the United Kingdom and the Netherlands.

The Group's rising share in the shrinking Polish motor gasoline market (up 2.3% year on year, to 29.4%) was primarily driven by the invariably strong sales in the wholesale and retail channels.

Naphtha – Q1–Q4 2012 crack margin



In Q4 2012, naphtha output and sales volumes reached their record highs, which translated into attractive crack margin (up 40.2% or USD 30.19/t on Q3 2012 and up by 142% or USD 61.78/t on Q4 2011). The Company exports naphtha to France, the Netherlands and the United Kingdom.

Aviation fuel – Q1–Q4 2012 crack margin

In Q4 2012, the LOTOS Group enjoyed the record high output and sales volumes for aviation fuel (up by 25% or 130.6 thousand tonnes on Q3 2012 and up by 14% or 66.8 thousand tonnes on Q4 2011), which enabled the Group to maintain attractive crack margin, relatively flat on Q3 2012 and slightly up on Q4 2011 (by 5.9% or USD 10.57/t).

Downstream segment's operating results (PLNm)

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
Revenue	**8,272.9**	8,530.3	8,313.4	-3.0%	-0.5%
Operating profit/(loss)	**165.4**	524.2	351.0	-68.4%	-52.9%
Depreciation and amortisation expense	**125.6**	131.5	134.1	-4.5%	-6.3%
EBITDA	**291.0**	655.7	485.1	-55.6%	-40.0%

In Q4 2012, the downstream segment reported revenue slightly down on both Q3 2012 and Q4 2011, which is mainly attributable to the segment's lower average net selling price. The downstream segment's average net selling price stood at PLN 3,164/t in Q4 2012 and was lower by 4.2% relative to Q3 2012 and by 2.7% relative to Q4 2011. The decrease was mainly driven by the lower quarterly average USD/PLN exchange rates (down 4.2% on Q3 2012 and down 3.4% on Q4 2011).

The decrease in the downstream segment's operating result in Q4 2012 relative to Q4 2011 was primarily driven by crude oil prices falling in Q4 2012 (on the back of crude prices falling on global markets and the appreciation of the Polish złoty) vs. Q4 2011, mainly due to the appreciation of the US dollar. The segment's result was supported mainly by higher crack margins on fuels and higher Brent/Ural differential.

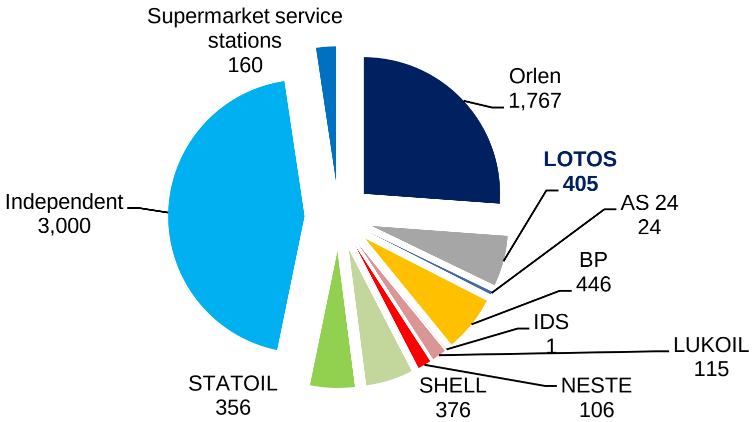
Network of LOTOS service stations

Number of service stations in the LOTOS network at end of the period

Total number of service stations	Dec 31 2012	Sep 30 2012	Dec 31 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
	405	368	369	10.1%	9.8%
CODO	**223**	198	190	12.6%	17.4%
including: LOTOS OPTIMA	**71**	38	33	86.8%	115.2%
DOFO	**154**	135	136	14.1%	13.2%
including: LOTOS OPTIMA	**30**	15	17	100.0%	76.5%
franchise agreements signed	**155**	152	139	2.0%	11.5%
DODO	**28**	35	43	-20.0%	-34.9%

At the end of 2012, there were about 6,700 service stations in Poland. The retail segment consolidated and the network of stations was optimised. The LOTOS Group continued the expansion and restructuring of its retail network, particularly with respect to the Optima economy brand (overall increase in the number of stations by about 10% vs. Q3 2012 and Q4 2011). In Q4 2012, the LOTOS network was the most dynamically growing service station network in Poland (year on year). At the end of the quarter, it comprised 405 stations. The Group's share in the retail market at the end of 2012 was 8%.

Polish retail market as at December 31st 2012



Source: Polish Organisation of Oil Industry and Trade (POPiHN).

At the end of 2012, the LOTOS Optima network comprised 101 sites, double the number of stations in the economy segment in 2011. At present, the LOTOS Optima outlets operate across the country. Non-fuel sales are a material area of operations of the LOTOS service station network.

Operating results of the retail area (PLNm)

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
Sales volume (thousand tonnes)	**248.1**	271.8	267.1	-8.7%	-7.1%
Revenue	**1,453.0**	1,583.8	1,469.8	-8.3%	-1.1%
Operating profit/(loss)	**-2.2**	4.0	-11.2	-	-
Depreciation and amortisation expense	**13.5**	12.6	12.0	7.1%	12.5%
EBITDA	**11.3**	16.6	0.8	-31.9%	1,312.5%

Effect of inventory measurement on the operating result of the downstream segment (PLNm)

	Q4 2012	Q3 2012	Q4 2011
Operating profit/(loss)	**165.4**	524.2	351.0
LIFO* effect	**60.8**	22.2	-348.5
LIFO-based operating result	**226.2**	546.4	2.5

**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 reflecting the impact of this inventory measurement method is presented in the table.*

In Q4 2012, the weighted average method of inventory measurement applied by the LOTOS Group, combined with lower crude prices and exchange rates, reduced the operating result of the downstream segment by PLN 60.8m (the LIFO effect). In the comparative period, the applied inventory measurement method added PLN 348.5m to the operating result due to the strengthening exchange rate. In Q3 2012, the operating result fell PLN 22.2m. If the LIFO method had been applied to inventory measurement, the operating result of the downstream segment would have been PLN 226.2m in Q4 2012, PLN 546.4m in Q3 2012, and PLN 2.5m in Q4 2011.

4 Other business

Operating result of other business*

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
Revenue	**7.2**	5.7	7.3	**26.3%**	**-1.4%**
Operating profit/(loss)	**0.8**	0.7	3.7	**14.3%**	**-78.4%**
Depreciation and amortisation expense	**2.6**	2.7	2.3	**-3.7%**	**13.0%**
EBITDA	**3.4**	3.4	6.0	0.0%	**-43.3%**

** Includes: 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 Q4 2012, the LOTOS Group posted PLN 139.7m in operating profit, including PLN -25.3m from the upstream segment, PLN 165.4 from the downstream segment, and PLN 0.8m from other business, less PLN 1.2m in consolidation adjustments (related mainly to realised the margin on stocks of Rozewie crude).

Operating performance of the LOTOS Group (PLNm)

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
Revenue	**8,325.8**	8,568.8	8,365.5	**-2.8%**	**-0.5%**
EBITDA	**311.9**	768.3	311.9	**-59.4%**	0.0%
Operating profit/(loss)	**139.7**	603.8	143.1	**-76.9%**	**-2.4%**
LIFO-based operating result	**200.5**	626.0	-205.4	**-68.0%**	**-**

In Q4 2012, the LOTOS Group recorded net finance income of PLN 22.5m. It included net foreign exchange gains of PLN 39.6m, a PLN 27.8m on positive measurement and settlement of hedging transactions, and a PLN -45.9m negative balance of interest on debt, interest income and commissions.

In Q4 2012, the effect of measurement and settlement of market risk hedging transactions at the LOTOS Group comprises a PLN 30.8m positive contribution from settlement and measurement of derivatives hedging the foreign exchange risk, a PLN -5.9m negative contribution from settlement and measurement of futures hedging the risk of changes in prices of CO2 emission allowances, a PLN 3.7m positive contribution from settlement and measurement of interest rate swaps (IRS) hedging the interest rate risk, and a PLN -0.8m negative contribution from settlement and measurement of hedges of petroleum product prices.

Transactions hedging petroleum products prices as at December 31st 2012

Period	Product / commodity	Light fuel oil	Heavy fuel oil
		Gasoil .1 Cargoes CIF NWE / ARA	3.5 PCT Barges FOB Rotterdam
Q2 2013	Volume (mt)	-240	1,127
	Price range (USD/mt)	915.00	591.25
Q3 2013	Volume (mt)	-1,710	8,033
	Price range (USD/mt)	915.0	591.25
Q4 2013	Volume (mt)	-1,050	4,932
	Price range (USD/mt)	915.00	591.25

Transactions hedging foreign exchange risk as at December 31st 2012

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	177,610,000	EUR	1.2594 - 1.30855
EUR/PLN exchange rate	Forward	2,391,125	EUR	4.0717 - 4.1474
USD/PLN exchange rate	Forward	-426,551,536	USD	3.0855 - 3.4565

Transactions hedging interest rate risk as at December 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%	3M LIBOR - 6M LIBOR
	to Jan 15 2015	to Jan 15 2019				

Futures hedging the risk related to carbon dioxide (CO2) emission allowances as at December 31st 2012

Instrument	Type of instrument	2013		2014	
		Volume (mt)	Price range (EUR/mt)	Volume (mt)	Price range (EUR/mt)
EUA	Futures	365,000	7.92 - 8.63	158,000	8.95 - 9.05
CER	Futures	620,000	0.25 - 0.45	-	-

In Q4 2012, the LOTOS Group posted consolidated net profit of PLN 228.8m (down by 397.3m on Q3 2012 and up by PLN 154.8m on Q4 2011). In 2012, net profit of the LOTOS Group was 923.0m, up by PLN 273.7m on 2011.

Net profit/(loss) of the LOTOS Group (PLNm)

	Q4 2012	Q3 2012	Q4 2011	Q4 2012/ Q3 2012	Q4 2012/ Q4 2011
Operating profit/(loss)	**139.7**	603.8	143.1	**-**	**-**
Pre-tax profit/(loss)	**162.9**	749.0	-79.4	**-78.3%**	**-305.2%**
Net profit/(loss)	**228.8**	626.1	74.0	**-63.5%**	**209.2%**

6 Consolidated statement of financial position

Consolidated statement of financial position (PLNm)

Assets	**Dec 31 2012**	**Dec 31 2011**	**Change**	**%**
	20,056.4	20,423.2	-366.8	**-1.8%**
Non-current assets, including:	**11,505.6**	11,582.2	-76.6	**-0.7%**
Property, plant and equipment	**9,685.9**	10,523.5	-837.6	**-8.0%**
Other intangible assets	**544.5**	475.6	68.9	**14.5%**
Deferred tax assets	**1,121.3**	400.1	721.2	**180.3%**
Current assets, including:	**8,548.4**	8,731.9	-183.5	**-2.1%**
Inventories	**5,965.7**	5,855.8	109.9	**1.9%**
Trade receivables	**1,640.4**	2,075.6	-435.2	**-21.0%**
Other current assets	**462.1**	246.7	215.4	**87.3%**
Cash and cash equivalents	**268.3**	383.7	-115.4	**-30.1%**
Assets held for sale	**2.4**	109.1	-106.7	**-97.8%**
Equity and liabilities	**20,056.4**	20,423.2	-366.8	**-1.8%**
Equity	**9,062.4**	7,782.4	1,280.0	**16.4%**
Non-current liabilities	**5,414.7**	5,847.5	-432.8	**-7.4%**
Current liabilities	**5,579.3**	6,752.9	-1,173.6	**-17.4%**
Liabilities directly associated with assets held for sale	**0.0**	40.4	-40.4	**-100.0%**

As at December 31st 2012, the LOTOS Group's total assets were PLN 20,056.4m, down PLN 366.8m in 2012.

Key changes in assets:

- a PLN 837.6m decrease in property, plant and equipment and a PLN 721.2m increase in deferred tax assets, attributable mainly to impairment losses in the upstream segment,
- a PLN 109.9m increase in inventories,
- a PLN 435.2m drop in trade receivables, largely on the back of a lower average net selling price and a decline in sales volume in December 2012 relative to December 2011,
- a PLN 215.4m increase in other current assets, mainly as a result of higher level of deposits at Grupa LOTOS S.A. (earmarked for financing of the maintenance shutdown scheduled for 2013) and receivables from the state budget other than income tax,
- a PLN 115.4m reduction in cash and cash equivalents.

The PLN 1,280.0m year-on-year increase in the LOTOS Group's equity to PLN 9,062.4m as at the end of 2012 was mainly driven by:

- increase of retained earnings by PLN 923.0m;
- foreign exchange gains on measurement of cash flow hedges adjusted for the tax effect and charged to reserve capital of PLN 382.5m.

The share of equity in total equity and liabilities was up from 38.1% in 2011 to 45.2% in 2012.

Non-current liabilities declined in 2012 by PLN 432.8m:

- mainly due to the PLN 668.3m decrease in non-current interest-bearing borrowings and other debt instruments, primarily owing to measurement of the debt using a lower exchange rate and repayment of the debt;
- in connection with a PLN 217.0m increase in deferred tax liabilities (mainly at Grupa LOTOS S.A.).

Current liabilities as at December 31st 2012 declined by PLN 1,173.6m (relative to December 31st 2011):

- due to a PLN 332.7m decline in short-term borrowings, primarily driven by the partial repayment of the inventory financing facility and depreciation of the US dollar;
- as a result of a PLN 643.0m decrease in trade payables related to crude oil purchases, mainly at the Parent;
- due to a PLN 163.2m decline in other provisions and liabilities (primarily liabilities to the state budget other than income tax).

As at December 31st 2012, the financial debt of the LOTOS Group was PLN 6,390.6m, down PLN 1,001.0m on December 31st 2011. The decrease was chiefly attributable to the lower USD exchange rate (down PLN 0.32/USD relative to December 31st 2011) and debt repayment. The ratio of financial debt (adjusted for free cash) to equity was 67.6% (22.4pp less than as at December 31st 2011).

7 Consolidated statement of cash flows

Consolidated statement of cash flows (PLNm)

	Q4 2012	Q3 2012	Q4 2011
Cash flows from operating activities	**395.6**	729.8	698.8
Cash flows from investing activities	**-348.6**	-191.8	-254.6
Cash flows from financing activities	**-406.3**	-266.7	-299.5
Change in net cash	**-367.0**	248.1	148.9
Cash and cash equivalents at beginning of the period	**126.3**	-121.8	12.7
Cash and cash equivalents at end of the period	**-240.7**	126.3	161.6

As at the end of Q4 2012, the LOTOS Group’s cash balance (including current account overdrafts) was PLN -240.7m.
In Q4 2012, net cash flows from operating activities were positive at PLN 395.6m, primarily owing to net profit for the period, increased by amortisation and depreciation figure.

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

Cash flows from financing activities in Q4 2012, of PLN -406.3m, chiefly comprise proceeds from borrowings and other debt instruments and outflows on principal and interest payments of PLN -412.0m.

8 Explanation of differences between actual financial performance and previously published forecasts for 2012

On January 31st 2013, the Management Board of Grupa LOTOS S.A. presented estimates of selected financial and operating data for 2012 and Q4 2012.

Compared with the estimated result published on January 31st 2013, the operating result of the LOTOS Group in 2012 is down PLN 33m lower, mainly on recognition of additional impairment losses and provisions in the upstream segment. Having assessed the indications of impairment of production licences in Lithuania and having carried out relevant tests, the Group made necessary adjustments. Given the delays in the performance of the YME project in Norway, the Group recognised a provision in the upstream segment's operating result for the unavoidable costs under the previously executed agreement for the transport of crude oil.