THE LOTOS GROUP

DIRECTORS' REPORT
ON THE FINANCIAL PERFORMANCE OF GRUPA LOTOS S.A. FOR Q1 2009

Gdańsk, May 14th 2009

CONTENTS

1 INTRODUCTION

In Q1 2009, the Management Board of Grupa LOTOS S.A. pursued the LOTOS Group's Strategy until 2012 in the key segments of the Group's business, including:

- the upstream segment (exploration for and production of crude oil)
- the downstream segment (oil refining, wholesale of refined petroleum products and retail sales of fuels).

In the upstream segment, in Q1 2009 the Group produced crude oil and natural gas from the B3 and B8 deposits. Total crude oil production was 38.8 thousand tonnes and was lower by 12.5 thousand tonnes (down by 24.4%) year on year, which was primarily caused by operating failures which occurred in Q1 2009. In the same reporting period, natural gas output was 3,422 thousand m^3, which dropped by 57.9% relative to Q1 2008.

In Q1 2009, Petrobaltic conducted work relating in particular to the production from B8 and B3 deposits, maintenance and repair work, reconstruction work, and seismic and geotechnical surveys.

In the reporting period, the share capital of LOTOS Exploration & Production Norge AS (LOTOS E&P Norge) was increased by NOK 240m, to NOK 430m. The new shares were acquired by Petrobaltic, which financed the acquisition with its internally generated funds. The increase was designed to provide for further development of LOTOS E&P Norge's business and to cover the expenditure connected with the purchase of a 10% interest in the Yme field. The purchase took place in Q4 2008. On January 23rd 2009, LOTOS E&P Norge was granted interests in four exploration licences in the southern area of the North Sea and in the Norwegian Sea.

The volume of crude oil processed in Q1 2009 was 1,159.7 thousand tonnes, which represented a 78.4% utilisation of the nameplate throughput capacity of the Gdańsk refinery. The lower volume of processed oil as compared with Q1 2008 was due to a scheduled overhaul shutdown at the Gdańsk Refinery of Grupa LOTOS S.A., which commenced in mid-March 2009. The interruption to oil processing lasted 33 days from March 15th 2009 to April 17th 2009. The volume of Ural crude processed was 1,024.7 thousand tonnes (88.3% of total crude oil processed). The volume of Rozewie oil processed in Q1 2009 was 35.6 thousand tonnes (3.1% of total crude oil processed).

In Q1 2009, the LOTOS Group sold 280 thousand tonnes of motor gasolines, 763 thousand tonnes of diesel oil, 116 thousand tonnes of light fuel oil, 229 thousand tonnes of heavy fuel oil, 89 thousand tonnes of jet fuel, 38 thousand tonnes of bitumens, and 130 thousand tonnes of other products.

In Q1 2009, the activities related to the implementation of the 10+ Programme focused on performing the execution contracts.

In the reporting period, the Group continued to develop a modern, countrywide network of LOTOS service stations by expanding the network. As at the end of Q1 2009, the number of COCO/CODO stations stood at 141 (an increase by two stations relative to Q4 2008), the number of DOFO stations stood at 84 (an increase by five stations), and the number of DODO stations was 90 (down by 37; the decrease is attributable to the expiry of agreements for the operation of DODO stations as of January 1st 2009). The number of signed franchise agreements was 97.

In Q1 2009, the average price of Brent oil (Dated Brent FOB) was USD 44.46 per barrel, less than in Q4 2008 (by USD 11.01 per barrel, or 19.8%) and less than in Q1 2008 (by USD 52.25 per barrel, or 54.0%).

The average price of Ural CIF Rotterdam oil was USD 43.65 per barrel, and was lower than in Q4 2008 (by USD 10.93 per barrel, or 20.0%) and lower than in Q1 2008 (by USD 49.70 per barrel, or 53.2%).

Lower oil prices in Q1 2009 as compared with Q4 2008 were accompanied by a 9.0% decline in the Brent/Ural differential – from USD 0.89 per barrel in Q4 2008 to USD 0.81 per barrel in Q1 2009. In relation to Q1 2008, the Brent/Ural differential shrank by USD 2.56 per barrel (76.0%).

Q1 2009 saw the average refining margin drop to USD 4.19 per barrel. The margin was 43.3% lower than in Q4 2008, and 5.6% lower (by USD 0.25 per barrel) year on year.

The USD/PLN exchange rate fluctuated from 2.88 to 3.89, to reach 3.54 at the end of March 2009 (up by 19.5% from the end of Q4 2008). In Q1 2009, the average USD/PLN exchange rate stood at 3.45 and was by 20.8% higher than the average exchange rate in Q4 2008. The EUR/PLN exchange rate ranged from 3.91 to 4.89, to reach 4.70 at the end of Q1 2009 (up by 12.6%). The average EUR/PLN exchange rate was 4.49 in Q1 2009 (up by 19.4%).

The LOTOS Group's performance in the reporting period was driven by a number of factors, including in particular:

- volatility of the USD/PLN exchange rate,
- revaluation of foreign-currency loans,
- concluded hedging transactions,
- falling prices of crude oil,
- decline in the Brent/Ural differential,
- lower refining margin,
- overhaul shutdown costs,
- package of anti-crisis measures implemented at the Company.

In Q1 2009, the LOTOS Group posted consolidated sales revenue of PLN 2,716m, operating profit of PLN 1.7m, net loss from continuing operations of PLN 666m, and net loss attributable to owners of the parent of PLN 659m. Compared with Q1 2008, the sales revenue dropped by 24% and operating profit by 98%.

2 PETROBALTIC AND THE UPSTREAM SEGMENT

With respect to the upstream operations, in Q1 2009 Petrobaltic continued to produce oil and gas from the B3 and B8 deposits. The total crude oil output was 38.8 thousand tonnes and was lower by 12.5 thousand tonnes (down by 24.4%) year on year, which was primarily caused by operating failures which occurred in Q1 2009. In the reporting period, output of natural gas was 3,422 thousand m^3, having decreased by 57.9% relative to Q1 2008.

In Q1 2009, the key tasks carried out by Petrobaltic included:

- Production from the B8 deposit at the Petrobaltic rig until January 14th 2009,
- Production from the B3 deposit, including water pumping to the deposit of the Offshore Oil Rig located at the Baltic Beta rig,
- Maintenance and repair work on PG-1,
- Reconstruction work on B 3-9 and B 3-10 drills,
- 2D seismic surveys over the B22 and B101 potential deposits,
- 3D seismic surveys over the B28 and B23 potential deposits,
- Sea bed geotechnical surveys performed to assess the possibility of rig anchoring.

With respect to LOTOS Exploration & Production Norge AS (LOTOS E&P Norge), on January 20th 2009 the Management Board of Petrobaltic S.A. decided to commence the procedure to register another increase in the share capital of LOTOS E&P Norge and the acquisition of the company shares by Petrobaltic S.A. The share capital of LOTOS E&P Norge was increased from NOK 190m to NOK 430m. The new shares created as part of the share capital increase, with the total par value of NOK 240m are equal, indivisible and are treated by Petrobaltic as a long-term investment. Petrobaltic covered the 240 million new shares in LOTOS E&P Norge with cash, paying a price equal to the par value of the shares, i.e. NOK 240m and financed the acquisition with its internally-generated funds.

LOTOS E&P Norge was recapitalised by way of issue of new shares to provide for further development of its business and to cover the purchase of a 10% interest in the Yme field, which took place in Q4 2008. Following the transaction, Petrobaltic came to hold a 20% interest in the Yme field.

On January 23rd 2009, following the round APA 2008, LOTOS Exploration and Production Norge AS was granted interests in the following exploration licences in the southern area of the North Sea and in the Norwegian Sea:

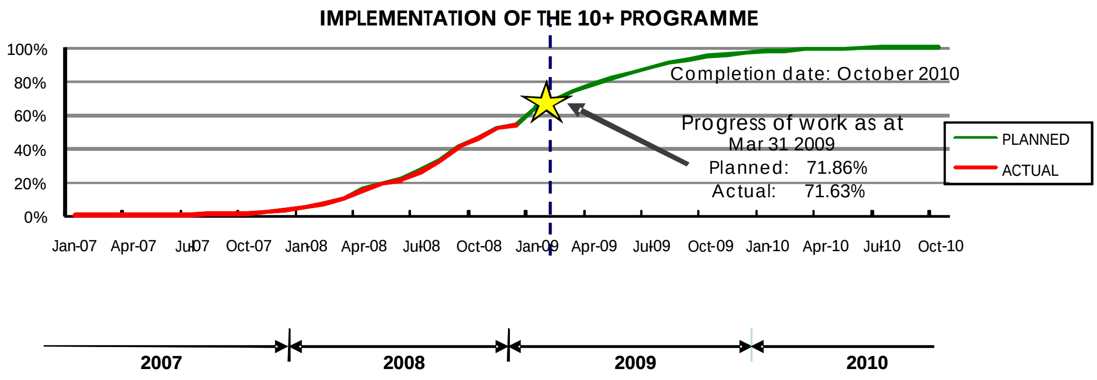
1. Exploration licence PL 497: LOTOS E&P Norge – 10% interest (other partners: Det Norske Oljeselskap ASA (the operator) – 35% interest, Bridge Energy AS – 30% interest, Dana Petroleum Norway – 25% interest).
2. Exploration license PL 498: LOTOS E&P Norge (the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4 Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).
3. Exploration license PL 503: LOTOS E&P Norge (the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4 Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).
4. Exploration license PL 515: LOTOS E&P Norge – 20% interest (other partners: Rocksource ASA (the operator) – 60% interest, Skagen 44 AS – 20% interest).

LOTOS E&P Norge also initiated its activities under the licences, especially those under which it acts as the operator (PL 498 and PL 503). The activities included an analysis of seismic data performed in order to mitigate the exploration risk. Rules of cooperation between the partners under each of the licences were also established.

3 10+ PROGRAMME

In Q1 2009, the implementation of the 10+ Programme, the largest investment project of Grupa LOTOS S.A. of key importance for the future growth of the Company's value, focused on performing the concluded execution contracts.

The current progress of work under the 10+ Programme is presented in the chart below.



Source: Grupa LOTOS S.A.

In Q1 2009, the work on the technical design of the ROSE unit was continued, in cooperation with the contractor, Technip Italy. In February 2009, the building permit for the unit was obtained, and in March 2009 ground levelling was completed and piling work commenced.

As part of the HDS (diesel hydrodesulphurisation) project, in Q1 2009 the assembly of pipelines and apparatuses was continued, underground cabling was completed, and power receivers, as well as control and instrumentation terminals, were connected. Work also continued on the fitting of thermal insulation on apparatuses and pipelines. Hydraulic tests of pipelines commenced and the assembly of plates in the R1 reactor was completed. The unit start-up was carried out in line with the agreed start-up timetable.

As part of the CDU/VDU project (crude distillation unit), in Q1 2009 the main construction work was completed. The assembly of steelwork structures was continued, pipeline prefabrication and assembly as well as apparatus and furnace assembly were under way. Work on apparatus insulation commenced. Supplies of apparatuses and equipment continued. The start-up and operating documentation was prepared. The design work for specific works was being finalised.

As part of the MHC (mild hydrocracking unit) project, in Q1 2009 the design work was being finalised and the design of the tester system in the reactor system was continued. Pipeline materials, steelwork elements and unit equipment were supplied. Foundation laying and the work on the underground pipeline continued. Work was also underway on the construction of cable conduits, slop channels and the underground system. Electrical works were also carried out. The assembly of internal trestles continued.

As part of the HGU (hydrogen generating unit) project, the design work was being finalised and start-up documentation was being developed. The assembly of the structure of the reformer furnace and assembly of the majority of apparatuses and equipment was completed. Cabling and laying of control and instrumentation installation continued.

As part of the KAS project (amine sulphur unit), pipeline prefabrication continued and the assembly of cable conduits on trestles and cabling was completed. The start-up work commenced and the first auxiliary utilities were fed to the units.

In the area of auxiliary installations and infrastructure, work continued on construction of inter-unit connections and utilities, storage tanks and auxiliary facilities.

Financing of the 10+ Programme

In Q1 2009, another several drawdowns under the credit facilities financing the 10+ Programme were made and their dates and amounts were set taking into account Grupa LOTOS S.A.'s payment position and the level of expenditure connected with the implementation of the 10+ Programme. The drawdowns were disbursed by the banks in accordance with the relevant requests filed by Grupa LOTOS S.A. and based on the information on the current financial standing of Grupa LOTOS S.A.

As at March 31st 2009, approx. 57% of the total value of the facilities available to finance the 10+ Programme were used.

In March 2009, as part of the performance of offset obligations under the agreement for the supply of multirole aircraft F-16 concluded with the government of the Republic of Poland, Lockheed Martin Corporation made a payment of another licence fee instalment to the licensor of the ROSE technology (used in one of the production units covered by the 10+ Programme).

4 THE SERVICE STATION EXPANSION PROGRAMME (*PROSTA* PROGRAMME)

In Q1 2009, the Group was developing its retail service station network through subsidiary LOTOS Paliwa, focusing on continued expansion of the COCO and CODO station network and the development of the DOFO station network.

In the period, the Group continued the initiatives taken up in the previous quarters:

- COCO/CODO service stations in Rawicz and Nowa Sól were placed in service in January 2009.
- Five new stations – in Bielsk Podlaski, Czaplinek, Środa Śląska, Żyrzyn and Rumia – joined the LOTOS Family Commercial Partnership Programme.
- PREMIUM fuels were offered at 135 COCO/CODO stations and 59 DOFO stations as at March 31st 2009.
- The second edition of the Navigator Loyalty Programme was launched on March 1st 2009.

As at March 31st 2009, the LOTOS service station network comprised 315 locations, including 141 CODO stations, 84 DOFO stations and 90 DODO stations. A total of 97 franchise agreements were signed. In line with the assumptions of the Company's strategy for 2008–2012 regarding transfer of the DODO stations to another operational platform, since Q1 2007 the total number of COCO/CODO and DOFO service stations has been larger than the number of DODO stations.

5 LOTOS CZECHOWICE AND LOTOS JASŁO

In Q1 2009, LOTOS Czechowice and LOTOS Jasło continued the restructuring of their human resources, operations, internal organisation and technologies, and pursued other activities with a view to developing their production capacities and implementing new projects with the use of to-date idle assets.
In addition, work was undertaken to incorporate the companies' assets (terminals, storage facilities) in the integrated fuel logistics system of Grupa LOTOS S.A. Additionally, as part of the work related to fuel storage, efforts were continued to expand the storage facilities. Storage activities will ultimately be the companies' main area of business.

6 MARKET ENVIRONMENT AND OPERATIONS

6.1 Oil and Fuel Markets

In Q1 2009, the average price of Brent crude (Dated Brent FOB) was USD 44.46 per barrel and was lower by USD 11.01 per barrel (19.8%) quarter on quarter, and by USD 52,25 per barrel (54.0%) year on year.

The average price of Ural CIF Rotterdam was USD 43.65 per barrel and was lower by USD 10.93 per barrel (20.0%) quarter on quarter, and by USD 49.70 per barrel (53.2%) year on year.

The lower crude prices were accompanied by a fall in the Brent/Ural differential, from USD 0.89 per barrel in Q4 2008 to USD 0.81 per barrel in Q1 2009 (9.0%). The differential shrank by USD 2.56 per barrel relative to Q1 2008 (76.0%).

In Q1 2009, the average refining margin fell by 43.3% quarter on quarter, to USD 4.19 per barrel. Relative to Q1 2008, the refining margin decreased by USD 0.25 per barrel (5.6%).

The average crack margin on gasoline expanded by 38.5% on Q4 2008, to USD 87.14 per tonne, while the average crack margin on diesel oil dropped by 44.2%, to USD 109.04 per tonne. Compared with Q1 2008, the average crack margin on gasoline declined by 28.7%, whereas the average crack margin on diesel oil fell by 37.5%.

6.2 Foreign Exchange Market

In Q1 2009, the USD/PLN exchange rate moved in the range of 2.88 – 3.89, to end the quarter at 3.54 (up by 19.5% from the end of Q4 2008). In Q1 2009, the average USD/PLN exchange rate was 3.45, and was by 20.8% higher than in Q4 2008 and by 44.5% higher relative to Q1 2008.

In Q1 2009, the EUR/PLN exchange rate moved in the range of 3.91 – 4.89, to end the quarter at 4.70 (up by 12.6% from the end of Q4 2008). The average EUR/PLN exchange rate during the reporting period was 4.49 (19.4% higher than in Q4 2008 and 25.7% higher than in Q1 2008).

6.3 Operational Review

In Q1 2009, the Gdańsk refinery processed 1,159.7 thousand tonnes of crude, which represented a 78.4% utilisation of the nameplate throughput capacity (97.3% in terms of refinery working days). The lower volume of processed oil as compared with Q1 2008 was due to a scheduled overhaul shutdown at the Gdańsk Refinery of Grupa LOTOS S.A., which commenced in mid-March 2009. The interruption to oil processing lasted 33 days from March 15th 2009 to April 17th 2009.

The Gdańsk refinery processed 1,024.7 thousand tonnes of Ural crude, which accounted for 88.3% of the total processing volume. The balance comprised the Rozewie oil extracted by Petrobaltic – 35.6 thousand tonnes (3.1% of the processing volume), the Volve oil – 6.5 thousand tonnes (0.6% of the processing volume), and the Aasgard oil – 92.9 thousand tonnes (8.0% of the processing volume).

In Q1 2009, the LOTOS Group sold 280 thousand tonnes of motor gasolines, 763 thousand tonnes of diesel oil, 116 thousand tonnes of light fuel oil, 229 thousand tonnes of heavy fuel oil, 89 thousand tonnes of jet fuel, 38 thousand tonnes of bitumens, and 130 thousand tonnes of other products (including 40 thousand tonnes of LPG, 12 thousand tonnes of lubricants, 20 thousand tonnes of base oils, 12 thousand tonnes of reformate, 19 thousand tonnes of bunker fuel, and 27 thousand tonnes of other petroleum products).

Compared with Q4 2008, the workforce at the LOTOS Group in Q1 2009 increased to 4,915 employees (37 new employees hired).

The workforce increase was due to hiring new employees in connection with intensified activity in the area of licensed transport services at LOTOS Kolej Sp. z o.o. and the implementation of the 10+ Programme at Grupa LOTOS S.A.

7 DISCUSSION OF CONSOLIDATED RESULTS OF THE LOTOS GROUP

7.1 Consolidated Statement of Comprehensive Income

In Q1 2009, the sales revenue of the LOTOS Group was PLN 2,716.6m, i.e. less by PLN 844.8m than in Q1 2008, mainly due to the falling prices of crude oil and petroleum products on the global markets as compared with the prices in Q1 2008 and lower sales volumes. In Q1 2009, the average price of Brent crude (Dated Brent) was USD 44.46 per barrel, which represented a year-on-year fall of 54.0%. The average net selling price dropped by 19.6%, from PLN 2,055 per tonne in Q1 2008 to PLN 1,651 per tonne in Q1 2009.

The Q1 2009 sales volume of the LOTOS Group was 1,645.0 thousand tonnes, which represented a year-on-year decrease of 88.5 thousand tonnes (5.1%). Relative to the Q1 2008 sales volume of 1,733.5 thousand, the analysed quarter saw declines in the sales volumes of the following products: heavy fuel oils (by 111.2 thousand tonnes), gasolines (by 45.1 thousand tonnes), reformate (by 42.3 thousand tonnes), JET A-1 fuel (by 33.9 thousand tonnes), bitumens and bitumen components (by 10.0 thousand tonnes), bunker oil (9.9 thousand tonnes), and lubricants, base oils, liquefied gases and other oil products (in total, down by 13.1 thousand tonnes). At the same time, the sales volumes of diesel oils and light fuel oils rose by 161.4 thousand tonnes and 15.6 thousand tonnes, respectively.

Year on year, in Q1 2009 cost of sales went down by PLN 738.7m (or 23.0%) and amounted to PLN 2,475.4m.

The Q1 2008 unit cost of sales was PLN 1,505 per tonne, i.e. 18.8% less than in Q1 2008. In Q1 2009, the average gross margin per tonne of sold products was PLN 147 and fell by 26.8% relative to Q1 2008.

In Q1 2009, the LOTOS Group generated a gross profit on sales of PLN 241.3m, lower by 30.5% compared with the corresponding period of 2008. The main reason for the drop of the gross profit on sales was the overhaul shutdown at the Gdańsk refinery of Grupa LOTOS S.A. In Q1 2009, the average quarterly crack margin on Diesel 10, light fuel oil, JET fuel and gasoline 10 ppm (Gasoline 10) decreased year on year by 37.5%, 41.1%, 45.6% and 28.7%, respectively. In Q1 2009, the average refining margin reached USD 4.19 per barrel, and was lower by 5.7% relative to Q1 2008.

The progressive weakening of the złoty during Q1 2009 from USD 1/PLN 2.96 on December 31st 2008 to USD 1/PLN 3.54 on March 31st 2009 resulted in foreign exchange losses related to operating activities in the amount of PLN 104.3m, whereas in Q1 2008 the LOTOS Group reported foreign exchange gains of PLN 29.6m due to the strengthening of the Polish currency.

The average USD/PLN exchange rate was 44.5% higher than in Q1 2008 (up by PLN 1.06). Since Grupa LOTOS S.A. has a long USD position related to its operations, the depreciation of the złoty against the US dollar positively contributed to the Group's operating result in Q1 2009.

The selling costs incurred by the LOTOS Group in Q1 2009 amounted to PLN 158.9m, and were down by 1.4% year on year, principally due to the lower volume of sales and higher USD/PLN exchange rate.

General and administrative expenses also remained at a level close to that seen in Q1 2008 and amounted to PLN 84.5m.

In Q1 2009, the LOTOS Group reported a profit on other operating activities, which amounted to PLN 3.8m, relative to a loss of PLN 4.3m in Q1 2008.

Due to the unfavourable macroeconomic developments driven by a rapid weakening of the Polish złoty in Q1 2008, the overhaul shutdown and the fall of the Brent/Ural differential – from USD 3.37 per barrel in Q1 2008 to USD 0.8 per barrel in Q1 2009– for Q1 2009 the LOTOS Group reported a profit on operating activities of PLN 1.7m, lower by PLN 93.0m relative to the figure recorded in Q1 2008.

In Q1 2009, the Group reported a loss of -PLN 791.6m on financing activities as compared with a profit of PLN 255.4m in Q1 2008. The substantial loss in Q1 2009 results chiefly from foreign exchange loss on revaluation of loans, amounting to -PLN 612.9m and from the valuation and settlement of market risk hedging transactions of -PLN 221.8m. Since the revaluation affects long-term loans whose repayment is spread over a long period, the rapid increase in the exchange rate which occurred in Q1 2009 had no bearing on the Company's liquidity in the short or medium term.

The total excess of the negative settlement of derivatives in Q1 2009 was charged to finance expenses and amounted to -PLN 64.4m, including: settlement of foreign exchange risk hedging transactions (forwards) of -PLN 88.7m, settlement of refining margin hedging transactions (full barrel swaps) of -PLN 27.6m, settlement of futures contracts executed to hedge the prices of CO_2 emission rights of -PLN 1.6m, and settlement of other transactions (FRA, IRS transactions and options) amounting to PLN 1.7m.

As at the end of March 2009, open (not settled) futures contracts charged to finance expenses totalled -PLN 157.4m, including foreign exchange risk hedging transactions (forwards) with a value of -PLN 144.3m, SWAP transactions executed to hedge the interest rate risk, amounting to -PLN 51.8m, refining margin hedging transactions (full barrel swaps) with a value of PLN 36.9m, futures contracts executed to hedge the prices of CO2 emission rights with a value of PLN 3.8m and other transactions (FRAs and options), amounting to -PLN 2.0m.

The tables below present detailed information on open hedging transactions.

Table 1 Refining margin hedging transactions (full barrel swap) as at March 31st 2009

	Period	**Q2 2009**	**Q3 2009**
	Volume (bbl)	2,501,004	3,000,999
Product/Raw material	**Index**	**Weighted average barrel structure**	
Gasoline	Gasoline 95r 10ppm NWE barge (Argus)	24.86%	25.67%
Jet fuel	Jet Cargoes CIF NWE / ARA (Platts)	13.02%	10.95%
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	32.70%	43.57%
Light fuel oil	Gasoil 0.1 Cargoes CIF NWE / ARA (Platts)	6.22%	1.22%
Heavy fuel oil	1 PCT Cargoes FOB NEW (Platts)	0.36%	0.08%
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	22.84%	18.52%
Crude oil	Brent (Dtd) (Platts)	-100.00%	-100%
	Margin ranges in transactions (USD/bbl)	10.0-11.6	12.4-14.3

Source: Grupa LOTOS S.A.

Table 2 Foreign exchange risk hedging transactions as at March 31st 2009

Currency pair	**Instrument**	**Volume**	**Currency**	**FX rate range**
EUR/USD	Forward	347,672,409	EUR	1.2472 - 1.3564
EUR/PLN	Forward	-26,500,000	EUR	4.5695 - 4.7215
USD/PLN	Forward	-293,500,000	USD	2.6800 - 3.7735

Source: Grupa LOTOS S.A.

Table 3 Interest rate risk hedging transactions as at as at March 31st 2009

Instrument	Start date	Expiry date	Nominal value	Currency	Interest rate range	Reference rate
FRA	Jul 15 2009	Jan 15 2010	200,000,000	USD	1.315% - 1.315%	6M LIBOR
IRS	from Oct 15 2008 to Jul 15 2011	from Jun 30 2011 to Jan 15 2018	1,380,000,000	USD	3.33% -4.33%	6M LIBOR

Source: Grupa LOTOS S.A.

The net loss from continuing operations for Q1 2009 was PLN 666.3m, whereas the net loss from continuing operations attributable to owners of the parent was PLN 659.0m.

7.2 Consolidated Statement of Financial Position

As at March 31st 2009, the balance-sheet total of the LOTOS Group was PLN 13,014.2m, up by PLN 812.2m during Q1 2009. The growth was caused by a PLN 1,237.8m rise in non-current assets in connection with the implementation of the 10+Programme and purchase of interests in production licences covering the Yme field on the North Sea, with a concurrent PLN 425.4m drop in current assets. During Q1 2009, cash and cash equivalents fell by PLN 248.9m in connection with investment expenditure related to the acquisition and development of the Yme field. In the reporting period, the income tax receivable went down by PLN 151.1m. In addition, due to a PLN 1,034.5m drop in sales revenue in Q1 2009 compared with Q4 2008, trade and other receivables decreased by PLN 84.3m. In the reporting period, inventories rose by PLN 62.1m mainly due to an overhaul shutdown at the Gdańsk refinery and a change in prices of products and goods. As at the end of March 2009, current financial assets amounted to PLN 300.5m, including PLN 274.1m relating to the measurement of hedging transactions.

As at March 31st 2009, the Group's equity was PLN 5,252.8m, which means a PLN 547.2m drop in Q1 2009, principally as a result of lower retained earnings (down by PLN 659.0m) and a concurrent PLN 119.2m increase in exchange differences on translating foreign operations.

In Q1 2009, non-current liabilities went up by PLN 1,378.8m, mainly due to an increase in the level of non-current loans and borrowings primarily connected with the 10+ Programme. As at the end of Q1 2009, non-current liabilities amounted to PLN 5,079.4m, of which PLN 4,786.5m was attributable to interest-bearing loans and borrowings.

As at March 31st 2009, current liabilities amounted to PLN 2,682.1m, down by PLN 19.4m as compared with the end of 2008.

Liabilities and accruals and deferred income were down by PLN 152.0m, principally as a result of settlements related to the acquisition of the Yme field. In Q1 2009, the LOTOS Group's current loans and borrowings remained at a similar level than as at the end of 2008, and as at March 31st 2009 amounted to PLN 509.9m. As at the end of Q1 2009, other current financial liabilities amounted to PLN 352.7m, with PLN 351.4m of that figure attributable to negative measurement of financial instruments.

7.3 Consolidated Statement of Cash Flows

As at the end of March 2009, the cash balance recorded by the LOTOS Group was PLN 155.1m, having decreased by PLN 447.8m relative to the end of March 2008.

In Q1 2009, net cash provided by operating activities was PLN 56.6m and was down by PLN 26.9m year on year. The increase in cash flows from operating activities in Q1 2009 was driven primarily by: adjustments for foreign exchange losses amounting to PLN 577.1m, loss on investing activities of PLN 151.3m, PLN 76.5m decrease in receivables, adjustments resulting from settlement of financial instruments of PLN 75.2m and amortisation and depreciation of

PLN 73.3m. In the analysed period, the key factors with a negative impact on the operating cash flows included a net loss of PLN 666.3m, a negative difference of PLN 148.6m between the corporate income tax disclosed in the income statement and the corporate income tax paid, increase in inventories by PLN 62.1m, a PLN 19.4m decrease in liabilities and prepayments and accrued income higher by PLN 19.8m.

In Q1 2009, cash used in investing activities amounted to -PLN 862.2m, and declined by PLN 432.2m year on year. The negative value of cash flows in Q1 2009 is mainly attributable to expenses incurred on acquisition of tangible and intangible assets (PLN 735.9m) and prepayments for tangible assets under construction (PLN 130.4m).

In Q1 2009, the balance of cash flows from financing activities at the Group reached PLN 619.5m (up by PLN 140.5m year on year). The improvement primarily followed from a rise in cash provided by loans and borrowings, which amounted to PLN 760.0m and were reduced by adjustments resulting from settlement of financial instruments of PLN 75.2m, interest paid of PLN 45.4m and repayment of loans and borrowings of PLN 19.7m.

8 OPERATING RESULTS BY BUSINESS SEGMENTS

Until 2008, for management purposes the LOTOS Group's operating activities were divided into four business segments: crude oil production, refining and marketing, retail, and other business.

The crude oil production segment comprised activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production.

The refining and marketing segment comprised chiefly the production and processing of refined petroleum products and their wholesale.

The retail segment comprised the activities related to the sales conducted through the network of service stations controlled by the Group.

The other business comprised auxiliary, transport, service and other activities.

Since 2009, in connection with the obligation to apply IFRS 8 *Operating Segments* (IFRS 8) by listed companies for annual periods beginning after January 1st 2009, Grupa LOTOS S.A. changed the presentation of operating activities with respect to business segment identification.

In accordance with IFRS 8, the Group is required to disclose information on its operating segments based on internal reports that are regularly reviewed by the Chief Executive Officer (CEO) in order to allocate resources to the segments and assess their performance.

For management purposes, the LOTOS Group is divided into business units which correspond to the business segments.

The Group's operating activity comprises two main reportable operating segments:

- upstream segment – comprising activities related to the acquisition of crude oil and natural gas reserves, and crude oil and natural gas production
- downstream segment – comprising the production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities

The segments are identified at the Group's level. The Company is included in the downstream segment. The upstream segment is comprised of the Petrobaltic Group.

Segment performance is assessed on the basis of sales revenue, EBIT (= operating profit/(loss)) and EBITDA (= operating profit/(loss) before depreciation and amortisation).

Until 2008, the segment performance was measured once the intersegment adjustments were made and any adjustments relating to intra-group transactions were recognised in the segment which was the selling party in such a transaction.

Since 2009, the segment performance has been measured before the intersegment adjustments.

Table 4 Q1 2009 operating result by business segments

PLNm	Upstream		Downstream		Other (*)		Consolidation adjustments		Consolidated	
	Q1 2009	Q1 2008	Q1 2009	Q1 2008	Q1 2009	Q1 2008	Q1 2009	Q1 2008	Q1 2009	Q1 2008
Sales revenue	36	81	2,679	3,504	72	108	-71	-133	2,716	3,561
Intersegment sales	35	80	20	29	15	23	-71	-133	0	0
External sales	1	1	2,659	3,475	57	85	0	0	2,716	3,561
Operating profit	-15	36	-6	58	-7	-6	30	7	2	95
Amortisation and depreciation	11	13	62	67	0.3	0.5	-0.1	-1	73	79
EBITDA	-4	49	56	125	-6.7	-5.5	30	6	75	174

**) includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., the LOTOS Gaz Group, which are not included in either segment.*

Source: Grupa LOTOS S.A.

8.1 Crude Oil Production

The Q1 2009 revenue from crude oil production was PLN 36m, the operating loss amounted to -PLN 15m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) reached -PLN 4m. In the corresponding period of 2008, the operating profit and EBIDTA were PLN 36m and PLN 49m, respectively.

The operating profit generated by the upstream segment was affected by crude oil prices, the volume of crude oil production, which reached 38.8 thousand tonnes in Q1 2009, a lack of external revenue, and an operating loss posted by Lotos E&P Norge.

8.2 Downstream Segment

In Q1 2009, the downstream segment generated sales revenue of PLN 2,679m, operating loss of -PLN 6m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 56m. In the corresponding period of 2008, the operating profit and EBIDTA were PLN 58m and PLN 125m, respectively.

In the downstream segment, the Group's retail business recorded finance income of PLN 345m, an operating loss of -PLN 2m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 8m. In the corresponding period of 2008, the retail business' operating loss and EBIDTA were -PLN 8m and PLN 1m, respectively.

In Q1 2009, the operating performance of the downstream segment was significantly affected by prevailing market conditions, in particular by exchange rates. In Q1 2009, the USD/PLN exchange rate oscillated between USD/PLN 2.88 and 3.89 and as at the end of March 2009 it was USD/PLN 3.54 (up by 19.5% as compared with the end of Q4 2008). The average USD/PLN exchange rate in Q1 2009 was USD 1/PLN 3.45, which means a 20.8% increase quarter on quarter. The EUR/PLN exchange rate fluctuated from 3.91 to 4.89, to reach 4.70 at the end of Q1 2009 (up by 12.6% from the end of Q4 2008). In the reporting period, the average EUR/PLN exchange rate stood at 4.49 and was by 19.4% higher than the average exchange rate in Q4 2008 and by 25.7% higher relative to the average exchange rate in Q1 2008.

The volatile exchange rates brought about the adverse effect of foreign exchange differences on the segment's operating performance, related to the cycle of settlement of payments for crude oil.

In addition, in Q1 2009 as compared with Q4 2008 the average prices of the Brent Dated (FOB) oil and the URAL CIF Rotterdam oil fell by 19.8% and 20.0%, respectively; concurrently, the refining margin shrank by 43.3% and the Brent/Ural differential decreased by 9.0%. Relative to Q1 2008, the average prices of the Brent Dated (FOB) oil and the URAL CIF Rotterdam oil declined by 54.0% and 53.2%, respectively; the refining margin decreased by 5.6%, to USD 4.19 per barrel, and the Brent/Ural differential fell by 76.0%, to USD 0.81 per barrel.

As at the end of Q1 2009, the number of COCO/CODO stations was 141 (up by two stations on Q4 2008), the number of DOFO stations was 84 (up by five stations), and the number of DODO stations stood at 90 (down by thirty-seven stations due to the expiry of the related agreements on January 1st 2009). The number of signed franchise agreements was 97.

8.3 Other Business

In Q1 2009, the sales revenue from other business was PLN 72m, the segment's operating loss was -PLN 7m, and EBITDA amounted to -PLN 6.7m. In the corresponding period of 2008, the operating loss and EBITDA were -PLN 6m and -PLN 5.5m, respectively.

9 IMPACT OF THE LIFO INVENTORY VALUATION

Below we present information on the impact of the LIFO (last in, first out) inventory valuation method on the consolidated performance of the LOTOS Group for Q1 2009.

In line with its inventory valuation policies, the LOTOS Group uses the weighted average of the acquisition cost to measure decreases in inventories. This method of inventory valuation defers the impact of changes in oil prices on the prices of finished products. Thus, an increase in oil prices on the global market has a positive effect on the financial performance, while a decrease drives it down. The operating profit accounting for the impact of this valuation method is presented as item 1 in the table below.

The impact of the LIFO valuation is presented as item 2, and consolidated operating profit of the LOTOS Group for Q1 2009 accounting for the estimated impact of using the LIFO method (along with the comparable data for Q1 2008) is presented as item 3.

Table 5 Impact of inventory valuation on operating result

No.	*(PLNm)*	*Q1 2009*	*Q1 2008*	*Change*
1.	Operating profit	1.7	94.7	-98.2%
2.	Effect of LIFO valuation	-83.3	-45.2	-84.5%
3.	Operating profit – LIFO method	-81.6	49.5	-264.9%

Source: Grupa LOTOS S.A.

In Q1 2009, the impact of inventory valuation drove up the operating result by PLN 83.3m, compared with the increase of PLN 45.2m in Q1 2008. If the LIFO method had been applied to inventory valuation, the operating result would have been -PLN 81.6m for Q1 2009 and PLN 49.5m for Q1 2008.

In Q1 2009, the main factor which caused the reversal of a relationship, under which the downward trend in crude oil prices had a negative bearing on the Group's financial performance with the decreases in inventories measured using the weighted average of the acquisition cost, was a positive balance of PLN 158.3m between the reversed impairment charges, with the inventories valued using the weighted average and the LIFO methods.

The much lower amounts of the reversed impairment charges under the LIFO method are attributable to lower impairment charges made as at the end of Q4 2008 under this method. This primarily follows from the fact that, according to the methodology applied at Grupa LOTOS S.A. for the LIFO valuation method, January 1st 2001 is the date on which we start to compare the effects of different valuation methodologies – for this date we assumed that inventories are equal under both valuation methodologies (inventories measured with the LIFO method are lower because of the value of the first stocks, made at all-time low crude prices in 2001).

The assumptions made in calculating the Q1 2009 operating profit of the LOTOS Group accounting for the estimated impact of the LIFO method (along with the comparable data for Q1 2008) are described in Current Report No. 29/2006.