

THE LOTOS GROUP

**DIRECTORS' REPORT
ON THE FINANCIAL PERFORMANCE OF GRUPA LOTOS S.A. IN Q3 2009**

Gdańsk, November 5th 2009

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1 INTRODUCTION

In Q3 2009, the Management Board of Grupa LOTOS S.A. (Grupa LOTOS S.A.) continued the implementation of the LOTOS Group's Strategy until 2012 in the key segments of the Group's (the LOTOS Group's) business, including:

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

In the upstream segment, in Q3 2009 the Group produced crude oil and natural gas from the B3 deposit. Total crude oil production (equal to crude oil sales to Grupa LOTOS S.A.) was 28.1 thousand tonnes and was lower by 25.1 thousand tonnes (down by 47.2%) year on year. In Q3 2009, technological production of crude oil amounted to 43.5 thousand tonnes.

In Q3 2009, Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A. (Petrobaltic) conducted work relating in particular to the production from B3 deposit and preparations to commence production from the B8 oil field in Q4 2009.

In Q3 2009, under its licences LOTOS E&P Norge conducted exploration, including electromagnetic investigation of the PL515 licence area and geochemical investigation of the PL503 licence area. The Company also participated in the YME Production Project, under which production wells were drilled and a production rig was being constructed in Q3 2009. Completion of the work required to launch production from the YME field is expected in Q2 2010.

The volume of crude oil processed in Q3 2009 was 1,514.4 thousand tonnes, which represented a 101.1% utilisation of the nameplate throughput capacity of the Grupa Lotos S.A.'s refinery in Gdańsk. In the reporting period, the Gdańsk refinery processed 1,484.7 thousand tonnes of Ural crude (98.0% of total crude oil processed), 17.9 thousand tonnes of Sahara crude (1.2% of total crude oil processed), 4.4 thousand tonnes of Aasgard crude (0.3% of total crude oil processed), and 7.4 thousand tonnes of other types of crude (including 0.1 thousand tonnes of Rozewie crude produced by Petrobaltic).

In Q3 2009, the LOTOS Group sold 395 thousand tonnes of motor gasolines, 1,030 thousand tonnes of diesel oil, 61 thousand tonnes of light fuel oil, 29 thousand tonnes of heavy fuel oil, 116 thousand tonnes of jet fuel, 315 thousand tonnes of bitumens, and 135 thousand tonnes of other products. In Q3 2009, retail sales of fuels through COCO/CODO and DOFO service stations amounted to 166 thousand tonnes.

In Q3 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. As at the end of Q3 2009, the number of COCO/CODO stations was 142 (no change), the number of DOFO stations was 95 (an increase by 2 stations), and the number of DODO stations was 87 (down by 2 stations). The number of new concluded franchise agreements was 108.

In Q3 2009, the average price of Brent oil (Dated Brent FOB) was USD/bbl 68.08, more than in Q2 2009 (by USD/bbl 8.95, or 15.1%) and less than in Q3 2008 (by USD/bbl 47.01, or 40.8%). The average price of Ural CIF Rotterdam oil was USD/bbl 67.76, and was higher than in Q2 2009 (by USD/bbl 9.29, or 15.9%) and lower than in Q3 2008 (by USD/bbl 45.57, or 40.2%).

However, higher oil prices in Q3 2009 as compared with Q2 2009 were accompanied by a 52.4% decline in the Brent/Ural differential – from USD/bbl 0.67 in Q2 2009 to USD/bbl 0.32 in Q3 2009. In relation to Q3 2008, the Brent/Ural differential shrank by USD/bbl 1.44 (or 82.0%).

Q3 2009 saw a drop of the average refining margin to USD/bbl 2.87. The margin was 23.5% lower than in Q2 2009, and 68.6% lower (by USD/bbl 6.28) year on year.

The USD/PLN exchange rate fluctuated from 2.80 to 3.19, to reach 2.89 at the end of September 2009 (down by 9.0% from the end of Q2 2009). In Q3 2009, the average USD/PLN exchange rate was 2.94 and was by 10.1% lower than the average exchange rate in Q2 2009. The EUR/PLN exchange rate ranged from 4.09 to 4.42, to reach 4.22 at the end of Q3 2009 (down by 5.5% relative to the end of Q2 2009). The average EUR/PLN exchange rate was 4.20 in Q3 2009 (down by 5.6% compared with the average exchange rate in Q2 2009).

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,
- decline in the Brent/Ural differential,
- lower refining margin,
- higher prices of crude oil as compared with Q2 2009.

In Q3 2009, the LOTOS Group posted consolidated sales revenue of PLN 4,132.0m, operating profit of PLN 185.0m, net profit from continued operations of PLN 580.0m, and net profit attributable to owners of the parent of PLN 579.4m. Compared with Q3 2008, the sales revenue dropped by 13.3% whereas operating profit grew by 372.3%.

2 THE UPSTREAM SEGMENT

The Baltic Sea Area

With respect to the upstream operations, in Q3 2009 production of oil and gas from the B3 oil field continued. The total crude oil production (equal to crude oil sales to Grupa LOTOS S.A.) was 28.1 thousand tonnes (with technological production at 43.5 thousand tonnes). In the reporting period, production of natural gas was 4.8 million cubic metres, having decreased by 31.4% year on year. In Q3 2009, the key tasks carried out by Petrobaltic included:

- production from the B3 oil field, including water injection to the well from the Offshore Oil Rig located at the Baltic Beta rig,
- workover of the B3-9 well,
- work related to the preparation of a system for injecting reservoir water to the B3 well,
- preparation for launching the production from the B8 oil field in Q4 2009,
- obtaining the amendment to the B8 field licence.

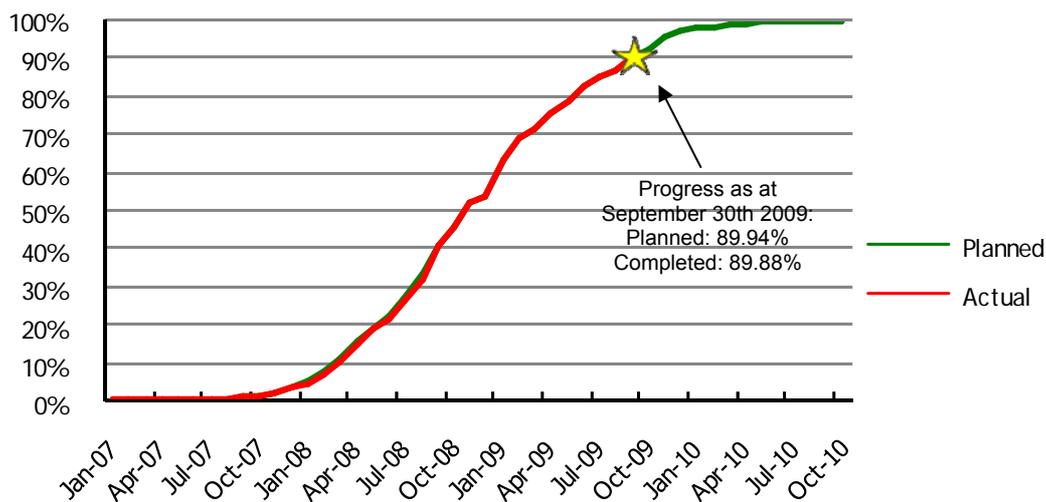
The Norwegian Continental Shelf Area

In Q3 2009, LOTOS E&P Norge conducted exploration activities, both as the operator (licences PL498 and PL503) and as an interest holder (licences PL316DS, PL316CS, PL455, PL497 and PL515). The company conducted electromagnetic survey of the PL515 licence area and geochemical survey of the PL503 licence area. LOTOS E&P Norge also participated in the implementation of the YME Production Project, which in Q3 2009 included drilling of production wells and work on the construction of a production rig. Completion of work enabling the start of production from the YME field is expected in Q2 2010.

3 10+ PROGRAMME

In Q3 2009, the implementation of the 10+ Programme, Grupa LOTOS S.A.'s largest project which is of key importance for future growth of the Company's value, was focused on performing the concluded execution contracts.

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



Completion date: October 2010
Source: Grupa LOTOS S.A.

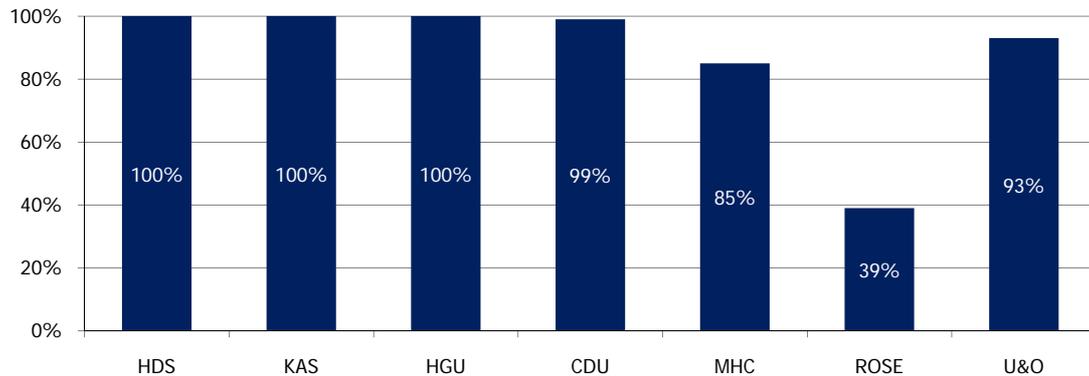
The hydrodesulphurisation unit (HDS) for diesel oil operates normally and the parameters defined in products' specifications are reached at approx. 60% capacity (as planned).

As part of the hydrogen generating unit project (HGU), the engineering work was finalised and start-up and commissioning documentation was prepared. All necessary tests, controls and training of staff were carried out, and on September 28th 2009 the HGU unit was assigned the RFSU (Ready For Start Up) status.

Within the amine sulphur recovery unit (ASR), amine regeneration (ARU) () and sour water stripper (SWS) () units operated normally. Q3 2009 saw completion of the construction of the sulphur recovery units (SRU/TGTU) and of work related to the preparation for start-up. As planned, on September 8th 2009 the units were assigned the RFSU status. The LPG amine washing unit achieved the MC (Mechanical Completion) status on October 2nd 2009.

All construction work related to the crude distillation unit (CDU/VDU) () was finalised. Installation of pipelines and insulation is still to be carried out. The MC status, confirmed by relevant reports, was achieved on October 26th 2009.

Progress of work on each unit as at September 30th 2009 is presented in the chart below.



Financing of the 10+ Programme

In Q3 2009, further drawdowns under the investment loan facility used to finance the 10+ Programme took place and their dates and amounts were set taking into account Grupa LOTOS S.A.'s current payment position and the level of expenditure connected with the implementation of the 10+ Programme.

The drawdowns were disbursed by the banks on the dates and in the amounts requested by Grupa LOTOS S.A.

As at September 30th 2009, approx. 75.4% of the total value of the facilities available to finance the 10+ Programme had been drawn.

In addition to the debt financing, Grupa LOTOS S.A. also used internally generated cash from operating activities to finance the 10+ Programme, to the extent provided for in the loan agreement.

Furthermore, in September 2009, as part of performance of its offset obligations to Grupa LOTOS S.A. under the agreement on supply of multirole aircraft F-16, concluded with the government of the Republic of Poland, Lockheed Martin Corporation made another licence payment for the technology used in one of the main production units under the 10+ Programme.

4 THE SERVICE STATION EXPANSION PROGRAMME

In Q3 2009, the Group was developing its retail service station network through its subsidiary LOTOS Paliwa, focusing on continued expansion of the COCO, CODO and DOFO station network.

During the reporting period, the Group continued the work which commenced in the previous quarters:

- CODO service station in Słupca was placed in service in August 2009; at the same time a service station in Bielsko Biała was excluded from the network,
- eight new stations – in Brzeźna, Milicz, two stations in Włocławek, Łęborg, Głinojeck, Babimost and Zielona Góra – joined the “LOTOS Family” Commercial Partnership Programme;

- as at September 30th 2009, PREMIUM fuels were offered at 138 COCO/CODO stations and 75 DOFO stations.

As at September 30th 2009, the LOTOS service station network comprised 324 locations, including 142 CODO stations, 95 DOFO stations and 87 DODO stations. A total of 108 franchise agreements were signed.

5 LOTOS CZECHOWICE AND LOTOS JASŁO

In Q3 2009, LOTOS Czechowice S.A. and LOTOS Jasło S.A. 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 involving the use of idle assets.

The two companies' terminals and storage tanks were incorporated into the integrated fuel logistics system of Grupa LOTOS S.A.

6 MARKET ENVIRONMENT AND OPERATIONS

6.1 Oil and Fuel Markets

In Q3 2009, the average price of Brent crude (Dated Brent FOB) was USD/bbl 68.08, up by USD/bbl 8.95 (15.1%) quarter on quarter, and down by USD/bbl 47.01 (40.8%) year on year.

The average price of Ural CIF Rotterdam was USD/bbl 67.76 and was higher by USD/bbl 9.29 (15.9%) quarter on quarter and lower by USD/bbl 45.57 (40.2%) year on year.

The higher crude prices were accompanied by a fall in the Brent/Ural differential, from USD/bbl 0.67 in Q2 2009 to USD/bbl 0.32 in Q3 2009 (52.4%). The differential shrank by USD/bbl 1.44 (82.0%) relative to Q3 2008.

In the reporting period, the average refining margin fell by 23.5% quarter on quarter, to USD/bbl 2.87. Relative to Q3 2008, the refining margin decreased by USD/bbl 6.28 (68.6%).

The average crack margin on gasoline dropped by 10.6% on Q2 2009, to USD 135.86 per tonne, while the average crack margin on diesel oil dropped by 10.0%, to USD 60.74 per tonne. Compared with Q3 2008, the average crack margin on gasoline fell by 2.5%, whereas the average crack margin on diesel oil fell by 73.5%.

6.2 Foreign Exchange Market

In Q3 2009, the USD/PLN exchange rate moved in the range of 2.80–3.19, to end the quarter at 2.89 (down by 9.0% on Q2 2009). In Q3 2009, the average USD/PLN exchange rate was 2.94, and was 10.1% lower on Q2 2009 and 33.6% higher on Q3 2008.

In Q3 2009, the EUR/PLN exchange rate moved in the range of 4.09–4.42, to end the quarter at 4.22 (down by 5.5% on Q2 2009). The average EUR/PLN exchange rate during the reporting period was 4.20 (5.6% lower on Q2 2009 and 27.0% higher on Q3 2008).

6.3 Operational Review

In Q3 2009, the Gdańsk refinery processed 1,514.4 thousand tonnes of crude, which represented a 101.1% utilisation of the nameplate throughput capacity.

In the reporting period, the Gdańsk refinery processed 1,484.7 thousand tonnes of Ural crude (98.0% of total crude oil processed), 17.9 thousand tonnes of Sahara crude (1.2% of total crude oil processed), 4.4 thousand tonnes of Asgard crude (0.3% of total crude oil processed), and 7.4 thousand tonnes of other types of crude (including 0.1 thousand tonnes of Rozewie crude produced by Petrobaltic).

In Q3 2009, the LOTOS Group sold 395 thousand tonnes of motor gasolines (including reformat), 1,030 thousand tonnes of diesel oil, 61 thousand tonnes of light fuel oil, 29 thousand tonnes of heavy fuel oil, 116 thousand tonnes of jet fuel, 315 thousand tonnes of bitumens and 135 thousand tonnes of other products (including 38 thousand tonnes of LPG, 17 thousand tonnes of lubricants, 36 thousand tonnes of base oils, 7 thousand tonnes of bunker fuel, and 36 thousand tonnes of other petroleum products).

In Q3 2009, total retail sales in COCO/CODO and DOFO stations reached 166 thousand tonnes, up by 19.3% on Q3 2008 and 7.6% on Q2 2009.

Compared with the end of Q2 2009, the workforce at the LOTOS Group in Q3 2009 increased by 24 employees, to 4,910.

7 DISCUSSION OF CONSOLIDATED RESULTS OF THE LOTOS GROUP

7.1 Consolidated Statement of Comprehensive Income

In Q3 2009, sales revenue of the LOTOS Group was PLN 4,132.0m, i.e. less by PLN 632.2m than in Q3 2008, mainly due to the falling prices of crude oil and petroleum products on the global markets as compared with the prices in Q3 2008. In Q3 2009, the average price of Brent crude (Dated Brent) was USD 68.08 per barrel, which represented a year-on-year fall of 40.8%. The average net selling price dropped by 15.4%, from PLN 2,347 per tonne in Q3 2008 to PLN 1,985 per tonne in Q3 2009.

The Q3 2009 sales volume of the LOTOS Group was 2,081.4 thousand tonnes, which represented a year-on-year increase of 51.5 thousand tonnes (2.5%). Relative to the Q3 2008 sales volume of 2,029.9 thousand tonnes, the analysed quarter saw an improvement in the sales volumes of the following products: diesel oil (up by 169.9 thousand tonnes), reformat (up by 14.5 thousand tonnes), base oils (up by 13.5 thousand tonnes), gasolines (up by 9.9 thousand tonnes), bitumens (up by 8.9 thousand tonnes) and other oil products (up by 7.9 thousand tonnes), which was accompanied by falling sales volumes of: bunker oil (down by 94.0 thousand tonnes), heavy fuel oils (down by 28.8 thousand tonnes), LPG (down by 27.5 thousand tonnes), light fuel oils (down by 13.7 thousand tonnes), JET A-1 fuel (down by 5.4 thousand tonnes) and lubricants (down by 3.7 thousand tonnes).

Year on year, in Q3 2009 consolidated cost of sales went down by PLN 802.7m (or 18.0%) and amounted to PLN 3,648.8m. In the reporting period, unit cost of sales was PLN 1,753 per tonne, i.e. 20.1% less than in Q3 2008. In Q3 2009, the average gross margin per tonne of products sold was PLN 232 per tonne, having grown by 50.7% relative to Q3 2008.

In Q3 2009, crack margins on middle distillates fell year on year. The average crack margin on Diesel 10 ppm, Gasoil 0.1 and JET fuel decreased year on year, respectively, to USD 60.7 per tonne (down by 73.5%), USD 45.0 per tonne (down by

78.5%) and USD 90.1 per tonne (down by 70.9%). In Q3 2009, the average refining margin reached USD/bbl 2.87, and was lower by 68.6% relative to Q3 2008.

Lower crude oil prices in Q3 2009 relative to Q3 2008 were accompanied by an 82.0% decline in the average Brent/Ural differential – from USD/bbl 1.76 in Q3 2008 to USD/bbl 0.32 in Q3 2009.

Despite the aforementioned unfavourable macroeconomic conditions, in Q3 2009 the LOTOS Group generated a gross profit of PLN 483.2m, up by 54.5% year on year.

The weighted average method used by the LOTOS Group to measure decreases in inventories improved its operating profit in Q3 2009 by PLN 86.4m, i.e. by PLN 62.3m relative to Q3 2008 (operating profit measured using the LIFO method amounted to PLN 98.6m in Q3 2009 compared with PLN 15.1m a year earlier).

Selling costs incurred by the LOTOS Group in Q3 2009 amounted to PLN 193.0m, and were up by 3.2% year on year, principally due to the higher volume of sales. In Q3 2009, the average selling cost per tonne of products sold was PLN 92.7 per tonne, up by 0.5% year on year, primarily due to the increase in the USD/PLN exchange rate. General and administrative expenses reached PLN 84.1m, i.e. they went up by 7.9% year on year, chiefly as a result of scaling up of the Group's operations, mainly in the production area.

In Q3 2009, the LOTOS Group reported a PLN 21.2m loss on other operating activities. The figure comprises a PLN 21.2m impairment charge for receivables related to Krak-Gaz Sp. z o.o., which, given the loss of control over the company, has not been consolidated since July 1st 2009.

Despite the unfavourable macroeconomic developments related to the low refining margin and Brent/Ural differential, in Q3 2009 the LOTOS Group reported an operating profit of PLN 185.0m, up by PLN 145.8m on Q3 2008.

In Q3 2009, the Group reported a profit of PLN 514.3m on financing activities, an improvement of PLN 833.5m on the loss on financing activities recorded in Q3 2008. The substantial profit in Q2 2009 resulted chiefly from foreign exchange gains on revaluation of loans and borrowings, amounting to PLN 433.9m, other foreign exchange gains of PLN 60.2m and from the valuation and settlement of market risk hedging transactions of PLN 30.5m.

The total net gain on settlement of hedging instruments in Q3 2009 posted under financial income amounted to PLN 108.6m, and included settlement of foreign exchange risk hedging transactions (forwards) of PLN 37.2m, settlement of refining margin hedging transactions (full barrel swaps) of PLN 57.7m, settlement of futures contracts executed to hedge the prices of CO₂ emission allowances of -PLN 0.4m and settlement of transactions executed to hedge the interest rate risk (FRA, IRS) of PLN 14.1m.

In Q3 2009, open (not settled) forward and futures contracts totalled -PLN 78.1m, including foreign exchange risk hedging transactions (forwards) with a value of PLN 18.8m, transactions executed to hedge the interest rate risk (FRA, IRS) amounting to -PLN 16.6m, refining margin hedging transactions (full barrel swaps) with a value of -PLN 79.7m, and futures contracts executed to hedge the prices of CO₂ emission allowances with a value of -PLN 0.6m.

The tables below present detailed information on open hedging transactions.

Table 1. Transactions hedging the prices of raw materials and crude oil products as at September 30th 2009

Period		Q4 2009	
Product/Commodity	Index	Volume (tonne)	Price range USD/tonne
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	-21,303	568.00 – 609.50
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	96,829	385.50 – 406.75

Table 2. Foreign exchange risk hedging transactions as at September 30th 2009

Currency pair	Instrument	Volume	Currency	FX rate range
EUR/USD	Forward	106,800,000	EUR	1.2515 – 1.4770
EUR/PLN	Forward	-13,100,000	EUR	4.1744 – 4.6600
USD/PLN	Forward	-4,310,000	USD	2.8387 – 3.5820

Table 3. Interest rate risk hedging transactions as at September 30th 2009

Instrument	Start date	Expiry date	Nominal value	Currency	Interest rate range	Reference rate
FRA	Oct 15 2009	Jan 15 2010	1,280,000,000	USD	0.71% – 0.71%	3M LIBOR
IRS	from Oct 15 2008 to Jul 15 2011	from Jun 30 2011 to Jan 15 2018	1,280,000,000	USD	3.33% – 4.33%	6M LIBOR

In Q3 2009, in connection with the provisional appointment of a court supervisor as of July 1st 2009 and the loss of control by LOTOS Gaz S.A. over its subsidiary Krak-Gaz Sp. z o.o., an amount of PLN 30.8m related to the loss of control over the subsidiary was disclosed in the consolidated statement of comprehensive income, which increased pre-tax profit.

In Q3 2009, the LOTOS Group reported a pre-tax profit of PLN 730.1m, compared with a loss of PLN 279.9m in Q3 2008.

In Q3 2009, net profit from continued operations amounted to PLN 580.0m, compared with a net loss from continued operations of PLN 223.9m reported in Q3 2008. Net profit attributable to owners of the parent reached PLN 579.4m.

7.2 Consolidated Statement of Financial Position

As at September 30th 2009, the LOTOS Group's total assets stood at PLN 14,786.4m, which means a PLN 2,584.4m increase in Q1–Q3 2009. The increase was due to a growth in non-current assets (by PLN 2,322.6m) and in current assets (by PLN 266.2m). In the first nine months of 2009, property, plant and equipment increased by PLN 3,311.2m, non-current financial assets by PLN 71.0m (following from, among other things, recognition of the non-current portion of gain on revaluation of financial instruments), intangible assets by PLN 30.7m, and other assets by PLN 7.6m. Over the same period, prepayments for tangible assets under construction decreased by PLN 1,008.5m, deferred tax assets dropped by PLN 88.3m, and investment property shrank by PLN 1.1m. The changes are attributable to the implementation of the 10+

Programme at the parent undertaking, and expenditure on the development of the YME field in the North Sea. In the discussed period, inventories also increased by PLN 488.9m, reflecting higher prices of crude oil and petroleum products as at the end of Q3 2009 when compared with the prices as at the end of 2008, as well as the 133 thousand tonnes increase in mandatory stocks that the Company is required to maintain under relevant statutory provisions. Following the significant rise in product prices in the first nine months of 2009, trade and other receivables increased by PLN 364.9m. Over the same period, income tax receivable decreased by PLN 141.7m, mainly at the Parent Undertaking, and current financial assets decreased by PLN 138.9m. The PLN 289.9m decrease in cash and cash equivalents is principally attributable to the capital expenditure incurred. As at the end of September 2009, current financial assets amounted to PLN 189.9m, of which PLN 188.7m relates to hedging transactions.

The share of non-current assets in total assets increased from 58.1% in 2008 to 63.7% as at the end of the discussed period.

As at September 30th 2009, equity stood at PLN 6,489.8m, having increased by PLN 689.7m in the first nine months of 2009. This higher value was the effect of a PLN 672.9m increase in retained earnings, a PLN 340.4m increase in statutory reserve funds and a PLN 16.2m increase in share capital, following from a share capital increase at Grupa LOTOS S.A., and a PLN 21.3m increase in translation of foreign operations. Over the same period, non-controlling interests decreased by PLN 361.1m as a result of accounting for the acquisition of 30.32% of shares in Petrobaltic S.A., 5% of shares in LOTOS Czechowice S.A. and 5% of shares in LOTOS Jasło S.A. from non-controlling interests.

In the first nine months of 2009, non-current liabilities increased by PLN 1,409.8m, mainly owing to a PLN 1,265.6m increase in non-current loans and borrowings, primarily in connection with the 10+ Programme, and a PLN 117.5m increase in other finance liabilities, predominantly in connection with the recognition of the non-current portion of loss on revaluation of financial instruments. As at the end of September 2009, non-current liabilities totalled PLN 5,110.3m, including interest-bearing loans and borrowings of PLN 4,677.8m.

As at the end of September 2009, current liabilities totalled PLN 3,186.4m, having increased by PLN 484.9m, or 18.0% in the first nine months of 2009, mainly due to a PLN 311.7m increase in payables and accruals and deferred income connected with higher prices of raw materials, and as a result of a PLN 153.2m increase in current loans and borrowings, mainly at the Parent Undertaking and at the Petrobaltic Group. As at September 30th 2009, the LOTOS Group's current interest-bearing loans and borrowings stood at PLN 660.6m. As at September 30th 2009, other current financial liabilities amounted to PLN 228.0m, of which PLN 138.2m related to loss on revaluation of financial instruments.

The share of equity in total equity and liabilities decreased from 47.5% as at the end of 2008 to 43.9% as at the end of September 2009. The share of non-current liabilities increased by 4.2 percentage points.

7.3 Consolidated Statement of Cash Flows

As at the end of September 2009, the cash balance recorded by the LOTOS Group was PLN 16.4m, having decreased by PLN 114.3m relative to the end of September 2008.

In Q3 2009, net cash from operating activities was PLN 149.3m, having risen by PLN 126.0m from Q3 2008. The increase in net cash from operating activities in Q3 2009 was attributable mainly to the net profit of PLN 580.0m, a PLN 114.7m excess of

the income tax disclosed in the statement of comprehensive income over the income tax paid, depreciation and amortisation of PLN 71.8m, a PLN 46.3m adjustment relating to a loss on investment activities, a PLN 27.2m decrease in prepayments and accrued income and a PLN 11.8m increase in provisions. The key factors which eroded operating cash flows in Q3 2009 included: adjustment relating to foreign exchange gains of PLN 356.3m, adjustments resulting from settlement of financial instruments of PLN 118.2m, a PLN 117.6 increase in inventories, a PLN 84.5m increase in receivables and a PLN 28.7m decrease in current liabilities.

In Q3 2009, net cash from investing activities amounted to -PLN 836.9m and was PLN 163.8m lower than in Q3 2008. The negative cash flows in Q3 2009 were mainly related to the excess of outflows over inflows relating to property, plant and equipment and intangible assets, and to outflows on prepayments for tangible assets under construction in the total amount of PLN 822.9m.

In Q3 2009, the LOTOS Group disclosed net cash from financing activities of PLN 527.4m, which was higher by PLN 69.2m relative to Q3 2008. The increase in Q3 2009 was mainly attributable to higher (by PLN 266.3m) adjustments resulting from settlement of financial instruments relative to Q3 2008. In Q3 2009, cash inflows under contracted loans and borrowings (of PLN 490.2m) were lower by PLN 186.6m than the inflows recorded in Q3 2008. In Q3 2009, outflow related to payment of interest and repayment of loans totalled PLN 79.8m, having risen by PLN 9.6m from the corresponding period of 2008.

8 OPERATING RESULTS BY BUSINESS SEGMENTS

The operating activity of the LOTOS Group 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.

For a detailed description of the business segments, please refer to the Directors' Report on the LOTOS Group's performance in Q1 2009.

The segment performance is computed and presented before the intersegment adjustments.

Table 4 Q3 2009 operating result by business segments

PLNm	Upstream		Downstream		Other		Consolidation adjustments		Consolidated	
	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009(*)	Q3 2008(**)	Q3 2009	Q3 2008	Q3 2009	Q3 2008
Sales revenue	44	96	4,114	4,709	71	137	-97	-178	4,132	4,764
<i>Intersegment sales</i>	40	94	44	54	13	30	-97	-178	0	0
<i>External sales</i>	4	2	4,070	4,655	58	107	0	0	4,132	4,764
Operating profit	4	41	212	10	-20	5	-11	-17	185	39
Amortisation and depreciation	13	12	59	67	0	0	0	0	72	79
EBITDA	17	53	271	77	-20	5	-11	-17	257	118
Total assets	1,693	1,708	13,525	10,493	47	67	-479	-66	14,786	12,202

* Includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o. and the LOTOS Gaz Group (until the date of the loss of control over the subsidiary).

** Includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., the LOTOS Gaz S.A. Group and Rafineria Nafty GLIMAR S.A.

Source: Grupa LOTOS S.A.

Table 5 Q1-Q3 2009 operating result by business segments

PLNm	Upstream		Downstream		Other		Consolidation adjustments		Consolidated	
	Q1-Q3 2009	Q1-Q3 2008	Q1-Q3 2009	Q1-Q3 2008	Q1-Q3 2009(*)	Q1-Q3 2008(**)	Q1-Q3 2009	Q1-Q3 2008	Q1-Q3 2009	Q1-Q3 2008
Sales revenue	153	325	10,212	12,388	220	367	-288	-536	10,297	12,544
<i>Intersegment sales</i>	148	320	96	140	44	76	-288	-536	0	0
<i>External sales</i>	5	5	10,116	12,248	176	291	0	0	10,297	12,544
Operating profit	-1	166	382	414	-43	-7	0	-53	338	520
Amortisation and depreciation	35	37	183	198	1	1	0	0	219	236
EBITDA	34	203	565	612	-42	-6	0	-53	557	756
Total assets	1,693	1,708	13,525	10,493	47	67	-479	-66	14,786	12,202

* Includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o. and the LOTOS Gaz Group (until the date of the loss of control over the subsidiary).

** Includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., the LOTOS Gaz S.A. Group and Rafineria Nafty GLIMAR S.A.

Source: Grupa LOTOS S.A.

8.1 Upstream Segment

The Q3 2009 revenue of the upstream segment was PLN 44m (down by 54% year on year). The operating profit amounted to PLN 4m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) reached PLN 17m. In the corresponding period of 2008, the operating profit and EBIDTA were PLN 41m and PLN 53m, respectively.

Lower year-on-year results generated by the upstream segment in Q3 2009 were driven by the following factors: fall of 41% in crude oil prices on global markets, fall of 47% in the volume of crude oil sales, and the fact that the operations of LOTOS E&P Norge focused on management issues and generated general and administrative expenses, while the company reported no operating income.

8.2 Downstream Segment

In Q3 2009, the downstream segment generated sales revenue of PLN 4,114m (down by 13% over the corresponding period of 2008), the operating profit of PLN 212m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 271m. In the corresponding period of 2008, the operating profit and EBITDA were PLN 10m and PLN 77m, respectively.

The improved performance of the downstream segment in Q3 2009 relative to the corresponding period of 2008 was driven to a large extent by a 34% increase in the average exchange rate of the US dollar in the quarter under analysis. Additionally, the significantly divergent trends in the US dollar exchange rate in the comparable periods (sharp declines in the Polish zloty in Q3 2008 against slight strengthening of the zloty in Q3 2009) and the associated foreign-exchange differences related to operating activities resulted in a higher operating profit posted by the downstream segment in Q3 2009 relative to the corresponding period of the previous year. Furthermore, the use of the weighted average method to measure decreases in inventories resulted in an improvement of the operating profit of the downstream segment in Q3 2009. Factors adverse to the downstream segment included a 69% fall in the refining margin relative to Q3 2008, and an 82% decline in the Brent/Ural differential.

The downstream segment includes the retail business. As at the end of September 2009, the number of CODO stations was 142 (up by 3 stations relative to end of June 2009), the number of DOFO stations was 95 (up by 8 stations), and the number of DODO stations stood at 87 (down by 2 stations). The total number of concluded franchise agreements was 108.

In the downstream segment, the retail business recorded sales revenue of PLN 465m, an operating profit of PLN 17m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 27m. In the corresponding period of 2008, the operating profit and EBITDA were PLN 8m and PLN 18m, respectively.

8.3 Other Operations

In Q3 2009, sales revenue from other operations was PLN 72m, the segment's operating loss was -PLN 20m, and EBITDA amounted to -PLN 20m. In the corresponding period of 2008, both the operating profit and EBITDA amounted to PLN 5m.

The Q3 2009 operating profit from other operations includes a non-recurring PLN 21.2m impairment charge for receivables from Krak-Gaz Sp. z o.o., which, following the loss of control, is no longer consolidated since July 1st 2009.

9 IMPACT OF THE LIFO INVENTORY VALUATION

Below the Company presents information on the impact of the LIFO (last in, first out) inventory valuation method on the consolidated performance of the LOTOS Group for Q3 2009.

In line with its inventory valuation policies, the 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 final 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 Group for Q3 2009 accounting for the estimated impact of using the LIFO method (along with the comparable data for Q3 2008) is presented as item 3.

Table 6 Impact of inventory valuation on operating result

Item	PLNm	Q3 2009	Q3 2008	Change
1. Operating profit		185.0	39.2	371.9%
2. Effect of LIFO valuation		-86.4	-24.1	258.5%
3. Operating profit – LIFO method		98.6	15.1	553.0%

Source: Grupa LOTOS S.A.

In Q3 2009, the impact of inventory valuation drove up the operating result by PLN 86.4m, compared with the increase of PLN 24.1m in Q3 2008. If the LIFO method had been applied to inventory valuation, the operating result would have been PLN 98.6m for Q3 2009 and PLN 15.1m for Q3 2008.

The assumptions made in calculating the Q3 2009 operating profit of the Group accounting for the estimated impact of the LIFO method (along with the comparable data for Q3 2008) are described in Current Report No. 29/2006, with a reservation that, starting from 2009, quantitative increases (a difference between the balance at the end of a period and the balance at the beginning of a given period) are measured at unit cost as at the end of the individual quarters of a given year.