

## THE LOTOS GROUP

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE IN Q2 2010

*(This is a translation of the document originally issued in Polish)*

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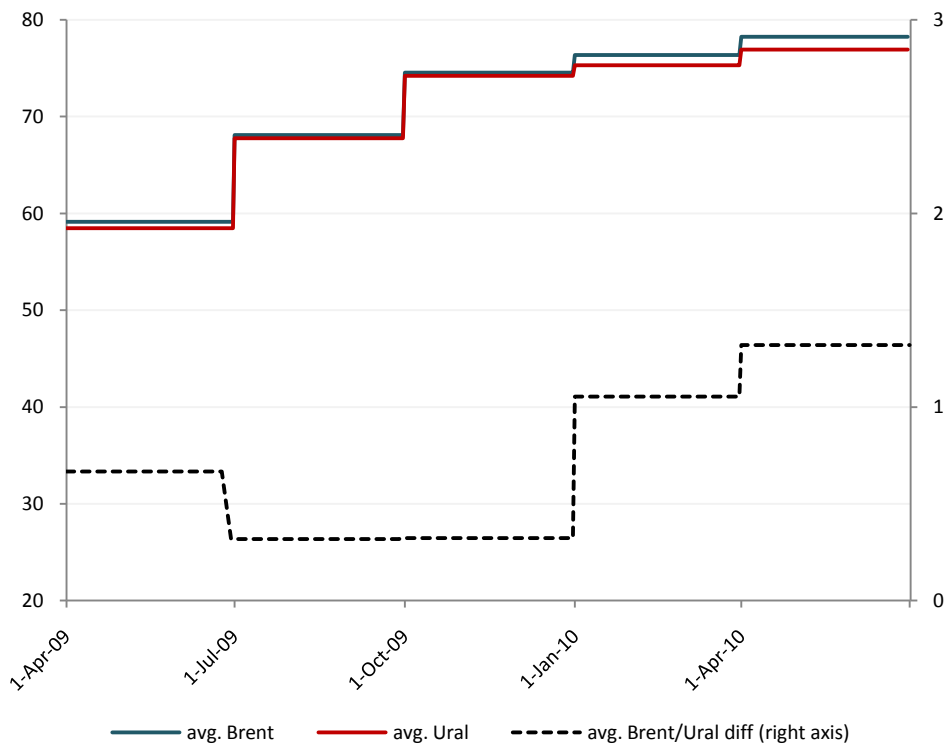
## 1 Market Environment

In Q2 2010, the average price of Brent oil (Dated Brent FOB) was 78.24 USD/bbl, more than in Q1 2010 (by 1.88 USD/bbl, or 2.5%) and in Q2 2009 (by 19.11 USD/bbl, or 32.3%).

The average price of Ural CIF Rotterdam oil was 76.92 USD/bbl, and was higher than in Q1 2010 (by 1.61 USD/bbl, or 2.1%) and in Q2 2009 (by 18.46 USD/bbl, or 31.6%).

The increase in oil prices in Q2 2010 was accompanied by a rise in the Brent/Ural differential, to 1.32 USD/bbl (1.05 USD/bbl in Q1 2010 and 0.67 USD/bbl in Q2 2009).

Chart 1: Average prices of Ural crude and Brent crude



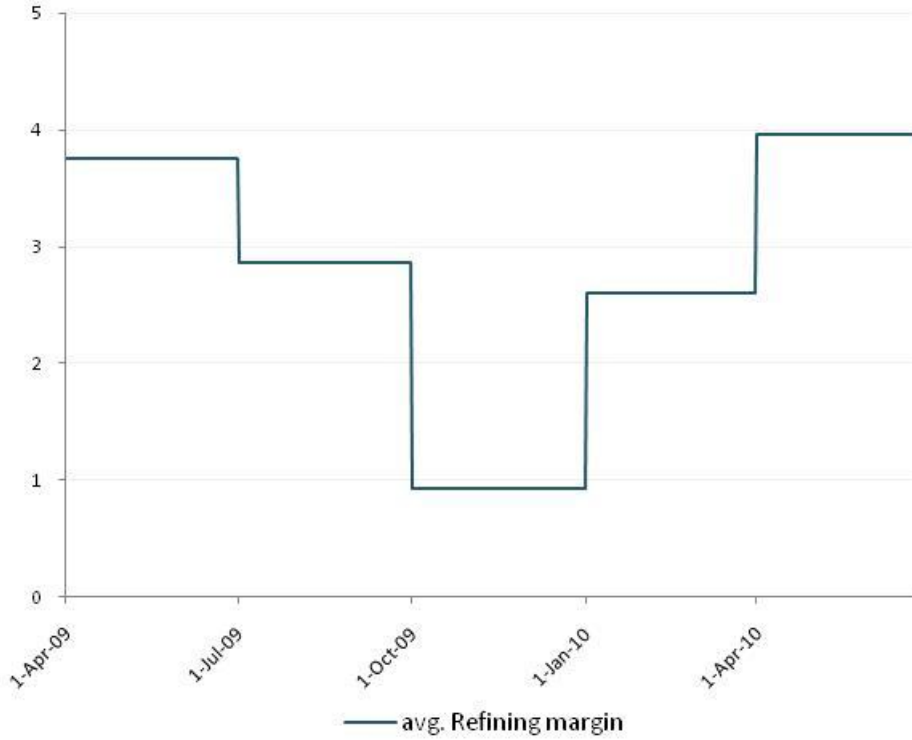
In the reporting period, the average refining margin was 3.96 USD/bbl, and was higher than in Q1 2010 (by 51.7%) and Q2 2009 (by 5.6%).

In Q2 2010, the crack margins on the medium fractions increased relative to those recorded in the previous reporting period (Q1 2010) or in the comparative period (Q2 2009). The crack margins on gasoline and heavy fuel oil decreased both quarter on quarter and year on year.

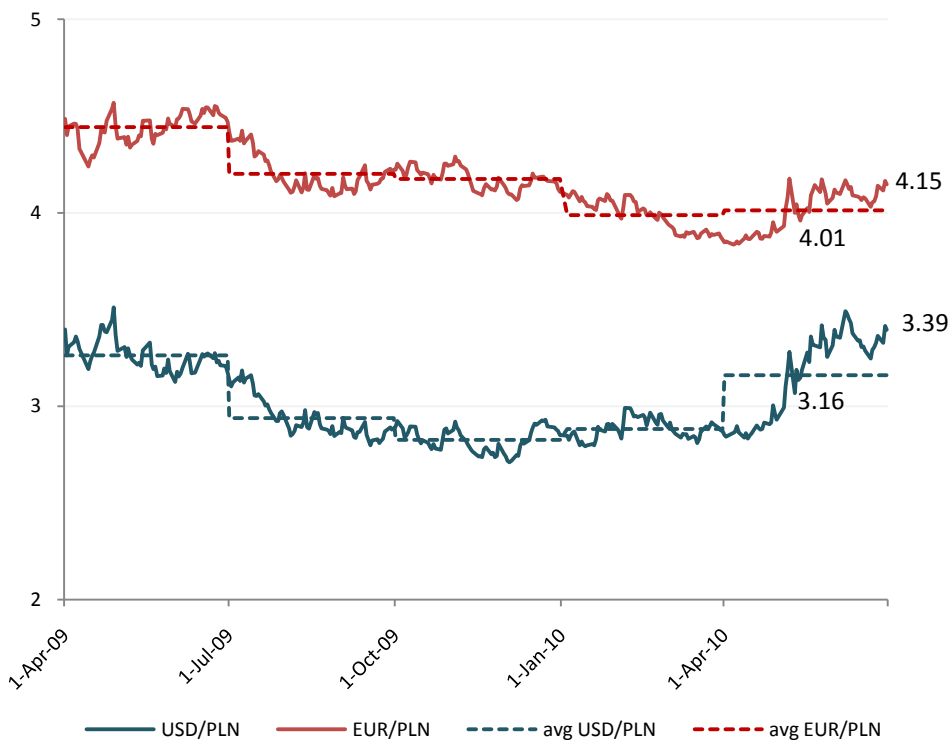
**Brent/Ural differential increased to 1.32 USD/bbl**

**Refining margin increased to 3.96 USD/bbl**

**Chart 2: Average refining margin**



**Chart 3: USD/PLN and EUR/PLN exchange rates**



In Q2 2010, the average USD/PLN exchange rate stood at 3.16, meaning a depreciation of the Polish zloty against the US dollar relative to Q1 2010 and its

**At the end of June 2010, the USD/PLN exchange rate was 3.39**

slight appreciation against the US dollar relative to Q2 2009. At the end of June 2010, the USD/PLN exchange rate was 3.39.

In Q2 2010, the average EUR/PLN exchange rate was 4.01, which means that the Polish zloty weakened against the euro quarter on quarter, but strengthened year on year. As at the end of June 2010, the EUR/PLN exchange rate was 4.15.

**Table 1: Macroeconomic conditions**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
DATED Brent FOB prices	USD/bbl	78.24	76.36	59.13	2.5%	32.3%
Ural CIF Rotterdam prices	USD/bbl	76.92	75.31	58.46	2.1%	31.6%
Brent/Ural differential	USD/bbl	1.32	1.05	0.67	25.7%	97.0%
Refining margin	USD/bbl	3.96	2.61	3.75	51.7%	5.6%
Crack margin: Gasoline	USD/t	149.67	154.77	150.21	-3.3%	-0.4%
Crack margin: Diesel oil (10 ppm)	USD/t	98.70	72.95	65.65	35.3%	50.3%
Crack margin: Light fuel oil	USD/t	79.75	59.18	43.64	34.8%	82.7%
Crack margin: Aviation fuel	USD/t	127.02	106.23	90.63	19.6%	40.2%
Crack margin: Heavy fuel oil	USD/t	-160.18	-137.54	-126.98	-16.5%	-26.1%
Average quarterly PLN/USD exchange rate	PLN/USD	3.16	2.88	3.27	9.7%	-3.4%

## 2 Upstream Segment

In Q2 2010, LOTOS Petrobaltic S.A.'s key operations included:

- Production from the B3 field, including water pumping into the reservoir at the Baltic Beta Platform located at the B3 Offshore Oil Mine.
- Continued work on the base engineering design of the production centre and related infrastructure for the B8 field.

In Q2 2010, LOTOS Exploration & Production Norge AS conducted exploration work under the licences it holds, both as the operator (licences PL498 and PL503) and as an interest holder (licences PL316DS, PL316CS, PL455, PL497 and PL515). The work included drilling an exploration well in the licence PL316DS area (no hydrocarbons were identified). The company decided not apply for extension of licences PL316CS and 316DS, as a result of which these licences expired in June.

Moreover, as part of the YME Production Project, LOTOS Exploration & Production Norge AS continued drilling of production wells and work on the construction and transport of a production platform to Norway. If the weather conditions are favourable, production from the YME field is expected to start in late 2010.

The upstream segment's higher revenue and results for Q2 2010 compared with Q2 2009 were attributable to 32.3% higher Brent dtd crude prices on the global markets.

**Table 2: Operating result of the upstream segment**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Sales of Rozewie crude	000' t	51.0	87.6	57.6	-41.8%	-11.5%
Sales of natural gas	m m <sup>3</sup>	2.9	3.1	2.7	-6.5%	7.4%
Sales revenue	PLN m	93.5	134.1	73.2	-30.3%	27.7%
Operating profit	PLN m	35.1	39.4	10.1	-10.9%	247.5%
Amortisation and depreciation	PLN m	15.2	15.8	12.0	-3.8%	26.7%
EBITDA	PLN m	50.3	55.2	22.1	-8.9%	127.6%

In Q2 2010, total crude oil output in the Baltic Sea area (B3 field) was 38.5 thousand tonnes, and was similar to the production volumes recorded in Q2 2009. In connection with completion of the production test and ongoing work on development of the field, in Q2 2010 production from the B8 field was not continued. Crude sales to Grupa LOTOS S.A. during the period amounted to 51.0 thousand tonnes, which represented a year-on-year decrease of 11.5%. During the quarter, the output of natural gas was 4.2m m<sup>3</sup>, which was fairly unchanged relative to Q2 2009.

**Crude oil output  
in Q2 2010 of  
38.5 thousand  
tonnes**

**Table 3: Operating data of the upstream segment**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
<b>Crude oil output</b>	<b>000' t</b>	<b>38.5</b>	<b>76.4</b>	<b>38.0</b>	<b>-49.6%</b>	<b>1.3%</b>
from B3 field	000' t	38.5	45.4	38.0	-15.2%	1.3%
from B8 field	000' t	0.0	31.0	0.0	-100.0%	-
<b>Natural gas output</b>	<b>m m<sup>3</sup></b>	<b>4.2</b>	<b>8.7</b>	<b>4.2</b>	<b>-51.7%</b>	<b>0.0%</b>

### 3 Downstream Segment

In Q2 2010, Grupa LOTOS S.A. processed 2,060.8 thousand tonnes of crude oil, up by 67.7% year on year. This increase in the volume of processed crude oil in the current period was due to the processing of crude oil in the CDU/VDU unit as part of the 10+ Programme in Q2 2010 and an overhaul stoppage at Grupa LOTOS S.A.'s refinery at the end of Q1 and beginning of Q2 in 2009.

**Increase in the  
volume of crude  
processed to  
2,060.8  
thousand tonnes**

At the end of June 2010, the degree of implementation of the 10+ Programme was 98.99%, compared with the planned 98.88%. Design, delivery and execution work related to the HDS, ASR, CDU/VDU and HGU units was completed.

**10+ Programme  
implementation  
status: 98.99%**

**Table 4: Structure of crude oil refining**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Volume of crude processed by the Gdańsk refinery	000' t	2,060.8	1,614.8	1,229.0	27.6%	67.7%
including:						
Ural crude	000' t	1,949.5	1,412.6	1,183.7	38.0%	64.7%
Rozewie crude	000' t	43.6	83.4	0.3	-47.7%	14,433.3%
Other types of crude	000' t	67.7	118.8	45.0	-43.0%	50.4%

The 36.6% higher sales revenue generated by the downstream segment in Q2 2010 relative to Q2 2009 was mostly due to the year-on-year increase in prices of crude oil and petroleum products on the global markets and a 15.2% higher sales volume. In Q2 2010, the average price of Brent oil (Dated Brent) was 78.24 USD/bbl, that is higher by 19.11 USD/bbl than in Q2 2009. The average net selling price in the downstream segment rose by 18.6%, from 1,932 PLN/t in Q2 2009 to 2,292 PLN/t in Q2 2010.

In Q2 2010, the year-on-year increase in the operating result of the downstream segment was strongly driven by higher crack margins on the medium fractions. A 273.0 thousand tonnes rise in the volume of products and goods sold, among other factors connected with a 39.2% increase in the volume of crude processed by the Gdańsk refinery, also contributed to a higher operating result of the downstream segment in Q2 2010 relative to Q2 2009.

In Q2 2010, the average Brent/Ural differential, which amounted to 1.32 USD/bbl (up by 0.65 USD/bbl year-on-year) was a factor contributing to the improved operating result in Q2 2010 relative to Q2 2009.

As a result of significant movements in exchange rates in Q2 2010, currency exchange differences had a negative effect on the operating result of the downstream segment. At the Parent Undertaking, currency exchange differences from operating activities (connected mainly with the crude oil payments cycle) amounted to -PLN 158.9m. In Q2 2009, foreign exchange losses from operating activities stood at -PLN 0.7m.

**Table 5: Operating result of the downstream segment**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Sales revenue	PLN m	4,753.0	3,913.6	3,478.7	21.4%	36.6%
Operating profit	PLN m	209.6	33.2	166.4	531.3%	26.0%
Depreciation/Amortisation	PLN m	73.7	62.0	55.7	18.9%	32.3%
EBITDA	PLN m	283.3	95.2	222.1	197.6%	27.6%

In Q2 2010, sales volume of the LOTOS Group's downstream segment amounted to 2,073.7 thousand tonnes, up by 273.0 thousand tonnes (or 15.2%) over the corresponding period of 2009. Compared with the sales volume reported by the downstream segment in Q2 2009, of 1,800.7 thousand tonnes, in the analysed quarter growth was recorded mainly with respect to the sales volume of heavy fuel oil (+182.3 thousand tonnes), diesel oils (+84.5 thousand tonnes) and gasolines (+30.6 thousand tonnes), and a concurrent decline was seen in the volume of (mainly export) sales of JET A-1 (-36.3 thousand tonnes).

**Operating profit  
in the  
downstream  
segment up by  
26%**

**Table 6: Structure of sales generated by the LOTOS Group**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Consolidated sales of products and goods for resale, including:	000' t	2,074.3	1,899.4	1,800.7	9.2%	15.2%
Gasoline	000' t	371.5	331.3	340.9	12.1%	9.0%
Diesel oil	000' t	967.5	885.2	883.0	9.3%	9.6%
JET aviation fuel	000' t	61.9	74.2	98.2	-16.6%	-37.0%
Light fuel oil	000' t	49.2	107.4	47.5	-54.2%	3.6%
Heavy fuel oil	000' t	226.8	320.9	44.5	-29.3%	409.7%
Bitumen	000' t	238.5	41.8	233.1	470.6%	2.3%
Other petroleum products	000' t	158.9	138.6	153.5	14.6%	3.5%
Consolidated sales of products and goods for resale, including:						
Downstream segment	000' t	2,073.7	1,897.8	1,800.7	9.3%	15.2%
Other business	000' t	0.6	1.6	0.0	-62.5%	-

In Q2 2010, operating profit was recorded in the retail business of the downstream segment, which was attributable to a higher average value of the unit retail margin on fuel sales, owing to a more favourable sales structure (higher share of sales of *Dynamic* fuels), and a higher margin on other sales at CODO stations in comparison with Q1 2010.

**Table 7: Operating results of the retail business**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Sales revenue	PLN m	514.3	433.9	427.5	18.5%	20.3%
Operating profit/(loss)	PLN m	3.7	-4.4	5.9	-	-37.3%
Depreciation/amortisation	PLN m	10.0	10.9	10.6	-8.3%	-5.7%
EBITDA	PLN m	13.7	6.5	16.5	110.8%	-17.0%

**Operating result  
in the retail  
business: PLN  
3.7m**

As at the end of June 2010, the number of CODO stations was 153 (up by five stations relative to the end of March 2010), and the number of DOFO stations and DODO stations remained unchanged at 103 and 62, respectively. The aggregate number of executed franchise agreements was 107.

In connection with the increase in the number of CODO and DOFO stations, in Q2 2010 retail sales grew by 4.6% year on year and by 12.6% relative to Q1 2010.

**Table 8: Retail sales**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
CODO and DOFO service stations	000' t	160.3	142.3	153.2	12.6%	4.6%

**Retail sales up  
by 4.6%**

## 4 Other Business

**Table 9: Operating results of other business**

		Q2 2010*	Q1 2010	Q2 2009**	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Sales revenue	PLN m	5.2	6.2	0.0	-16.1%	-
Operating profit (loss)	PLN m	-1.0	0.2	-0.1	-	-
Depreciation/amortisation	PLN m	2.8	2.3	0.0	21.7%	-
EBITDA	PLN m	1.8	2.5	-0.1	-28.0%	-

\*Includes LOTOS Ekoenergia Sp. z o. o., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz S.A. and Energobaltic Sp. z o.o. (from the date of acquiring control by LOTOS Petrobaltic S.A.).

\*\*In connection with the purchase of an organised part of business in the form of the LPG Trading Division of LOTOS Gaz S.A. by LOTOS Paliwa Sp. z o.o. from LOTOS Gaz S.A. in December 2009, in order to ensure data comparability, the sales revenue, operating profit (EBIT), amortisation and depreciation, and operating profit before amortisation and depreciation (EBITDA) related to the LPG trading business of the LOTOS Gaz Group have been presented in the downstream segment.

## 5 Impact of the LIFO Inventory Valuation

In Q2 2010, on the back of movements in the USD/PLN exchange rate and in crude oil prices, the weighted average method of inventory valuation applied by the LOTOS Group drove up the operating result by PLN 253.2m. In the comparable period, the effect of application of the method was PLN 186.9m. If the LIFO method had been applied to inventory valuation, the operating result would have been -PLN 22.8m in Q2 2010 and -PLN 28.9m in Q2 2009.

**LIFO effect:  
- PLN 253.2m**

**Table 10: Impact of inventory valuation on operating result**

		Q2 2010	Q2 2009
Operating profit (loss)	PLN m	230.4	158.0
Effect of LIFO valuation	PLN m	-253.2	-186.9
Operating profit (loss) – LIFO method	PLN m	-22.8	-28.9

\* In line with its inventory valuation policies, the LOTOS Group uses the weighted average of the acquisition cost to measure decrease 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 has a positive effect on the financial performance, while a decrease drives it down. The operating result accounting for the impact of this valuation method is presented in the table.

## 6 Statement of Comprehensive Income

In Q2 2010, the LOTOS Group posted PLN 230.4m in operating profit, which represented a year-on-year improvement of PLN 72.4m.

The Group's high net loss on financing activities of PLN 1,052.9m reported in Q2 2010 was chiefly attributable to foreign exchange losses on revaluation of loans and borrowings and to negative valuation and settlement of market risk hedging transactions. In Q2 2009 the Group reported net finance income of PLN 763.0m, mainly thanks to positive valuation of loans and borrowings (+PLN 490,5m) and valuation and settlement of market risk hedging transactions (+PLN 219.7m).



**Table 11: Consolidated statement of comprehensive income**

		Q2 2010	Q1 2010	Q2 2009	Q2 2010 vs. Q1 2010	Q2 2010 vs. Q2 2009
Sales revenue	PLN m	4,747.1	3,911.6	3,447.9	21.4%	37.7%
EBITDA	PLN m	321.8	146.1	225.6	120.3%	42.6%
EBIT	PLN m	230.4	66.3	158.0	247.5%	45.8%
EBIT – LIFO method	PLN m	-22.8	-3.0	-28.9	-	-
Net profit/loss from continuing operations	PLN m	-645.6	24.2	760.8	-	-
Net profit/loss attributable to owners of the Parent	PLN m	-648.7	25.6	744.8	-	-

In Q2 2010, the Group recorded net foreign exchange loss on revaluation of loans and borrowings of -PLN 929.4m, which related mainly to loans and borrowings at the Parent Undertaking.

The overall excess of the negative settlement of derivatives in Q2 2010 charged to finance expenses was -PLN 44.4m and included settlement of foreign exchange risk hedging transactions (forwards) of -PLN 43.8m, and settlement of other hedging transactions of -PLN 0,6m.

In Q2 2010, the effect of valuation of open (not settled) forward and futures contracts was -PLN 180.5m, which included: valuation of interest rate risk hedging IRSs of -PLN 79.2m, valuation of foreign exchange risk hedging forwards of -PLN 67.7m, effect of valuation of transactions executed to hedge prices of petroleum products of -PLN 14.0m, valuation of currency swaps of -PLN 19.5m and valuation of other hedging transactions of -PLN 0.1m.

**Table 12: Refining margin hedging transactions as at June 30th 2010**

Period	Product/Commodity	Light fuel oil	Heavy fuel oil
		Gasoil .1 Cargoes CIF NWE / ARA (Platts)	3.5 PCT Barges FOB Rotterdam (Platts)
Q3 2010	Volume (mt)	-6,684	30,384
	Price range (USD/mt)	676.70 - 756.00	460.75 - 496.00
Q4 2010	Volume (mt)	-7,306	33,206
	Price range USD/mt	660.50 - 756.00	422.00 - 496.00
Q2 2011	Volume (mt)	-2,848	12,948
	Price range (USD/mt)	715.00 - 716.00	473.00 - 476.25
Q3 2011	Volume (mt)	-4,794	21,794
	Price range (USD/mt)	715.00 - 796.00	473.00 - 517.00
Q4 2011	Volume (mt)	-4,034	18,334
	Price range (USD/mt)	715.00 - 796.25	473.00 - 517.75

**Table 13: Foreign exchange risk hedging transactions as at June 30 2010**

Currency pair	Instrument	Volume	Currency	FX rate range
EUR/USD	Forward	204,350,000	EUR	1.2185-1.4520
EUR/PLN	Forward	-9,750,000	EUR	4.0473-4.1682
USD/PLN	Forward	31,500,000	USD	2.8929-3.5000

**Table 14: Interest rate risk hedging transactions as at June 30 2010**

Instrument	Start date	Expiry date	Nominal value	Currency	Interest rate range	Reference rate
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 connection with the net loss on financing activities, in Q2 2010 the LOTOS Group recorded net loss from continuing operations of -PLN 645.6m, compared with net profit from continuing operations of PLN 760.8m reported in Q2 2009. Net loss attributable to owners of the parent reached -PLN 648.7m.

**Net loss of  
-PLN 645.6m**

## **7 Consolidated Statement of Financial Position**

As at June 30th 2010, the LOTOS Group had total assets of PLN 17,102.0m, which means a PLN 1,876.0m increase in H1 2010. In H1 2010, non-current assets grew by PLN 760.8m, chiefly due to a PLN 611.5m increase in property, plant and equipment (including tangible assets under construction and prepayments for tangible assets under construction) following mainly from implementation of the 10+ Programme at the Parent Undertaking and investment expenditure in the upstream segment. Moreover, deferred tax assets rose by PLN 178.4m, mainly at the Parent Undertaking and the LOTOS Petrobaltic Group.

As at June 30th 2010, inventories amounted to PLN 3,806.8m, having increased over H1 2010 by PLN 783.6m, mainly due to higher volumes of mandatory stocks (171.1 thousand m<sup>3</sup> more of fuels and heavy fuel oil and 36.7 thousand tonnes more of crude oil) and higher prices of crude oil and petroleum products as at the end of Q2 2010 relative to the prices at the end of 2009. Higher prices of products also led to a PLN 300.5m rise in trade receivables. In H1 2010, cash increased by PLN 93.9m, mainly at subsidiary undertaking LOTOS Paliwa. As at the end of H1 2010, current assets totalled PLN 6,242.5m, and were by PLN 1,116.1m higher relative to the end of 2009.

As at June 30th 2010, equity stood at PLN 6,234.0m, having decreased by PLN 612.1m in H1 2010, primarily due to a decrease in retained earnings and non-controlling interests following the acquisition by Grupa LOTOS S.A. of the remaining minority interests in LOTOS Jasło S.A. and LOTOS Czechowice S.A.

In H1 2010, non-current liabilities increased by PLN 1,152.3m, mainly due to a PLN 1,302.8m rise in non-current loans and borrowings connected primarily with the implementation of the 10+ Programme. Foreign currency debt under non-current loans at the Parent Undertaking grew in H1 2010 by USD 114.7m. Such a high increase in non-current debt was mainly caused by foreign exchange losses on revaluation of loans and borrowings. As at June 30th 2010, non-current liabilities in the LOTOS Group totalled PLN 6,813.0m, including interest-bearing loans and borrowings of PLN 6,245.4m and negative valuation of financial instruments of PLN 110.0m.

As at the end of June 2010, current liabilities totalled PLN 4,054.9m, having increased in H1 2010 by PLN 1,335.9m, primarily due to a PLN 896.8m increase in trade payables. This increase was primarily attributable to a 77.4% rise in the volume and a 111.6% rise in the value of crude oil purchased in June 2010 as compared with the crude oil purchased in December 2009. In the discussed period, other current financial liabilities increased by PLN 281.9m to reach PLN 301.0m at the end of June 2010, of which PLN 297.9m related to negative

valuation of financial instruments. In H1 2010, the LOTOS Group's current debt grew by PLN 146.6m, chiefly in connection with expenditure on investments in the upstream segment.

As at June 30th 2010, the financial debt of the LOTOS Group amounted to PLN 7,150.5m, up by PLN 1,449.4m on the 2009 figure. The ratio of financial debt (adjusted by free cash) to equity was 107.4%, i.e. by 29.4 percentage points more than at December 31st 2009.

**Table 15: Consolidated statement of financial position**

		Jun 30 2010	Dec 31 2009	Change	%
<b>Assets</b>	<b>PLN m</b>	<b>17,102.0</b>	<b>15,226.0</b>	<b>1,876.0</b>	<b>12.3%</b>
Non-current assets	PLN m	10,855.1	10,094.4	760.7	7.5%
Property, plant and equipment	PLN m	4,976.5	3,438.6	1,537.9	44.7%
Tangible assets under construction (including prepayments for tangible assets under construction)	PLN m	5,313.9	6,240.3	-926.4	-14.8%
Current assets	PLN m	6,242.5	5,126.4	1,116.1	21.8%
Inventories	PLN m	3,806.8	3,023.1	783.7	25.9%
Trade and other receivables	PLN m	1,837.4	1,536.9	300.5	19.6%
Current financial assets	PLN m	28.3	47.0	-18.7	-39.8%
Cash and cash equivalents	PLN m	455.9	362.1	93.8	25.9%
<b>Equity and liabilities</b>	<b>PLN m</b>	<b>17,102.0</b>	<b>15,226.0</b>	<b>1,876.0</b>	<b>12.3%</b>
Equity	PLN m	6,234.0	6,846.2	-612.2	-8.9%
Non-current liabilities	PLN m	6,813.1	5,660.8	1,152.3	20.4%
Current liabilities	PLN m	4,054.9	2,719.0	1,335.9	49.1%

## 8 Consolidated Statement of Cash Flows

As at the end of June 2010, the LOTOS Group's cash balance (including debt under overdraft facilities) was -PLN 61.8m, and was by PLN 277.9m lower than as at June 30th 2009.

In Q2 2010, net cash provided by operating activities was over eight times lower than the net operating cash flow recorded in the comparable period, mainly due to lower increase in current liabilities and higher rise in inventories.

In the discussed period, PLN 843.0m higher negative cash flows from investing activities were mainly attributable to lower (by PLN 802.0m) expenses incurred in connection with the acquisition of property, plant and equipment and intangible assets as well as lower (by PLN 33.8m) prepayments for tangible assets under construction.

Negative cash flows from financing activities in Q2 2010 were by PLN 698.9m lower than in Q2 2009. The difference was mainly attributable to lower (by PLN 553.1m) cash inflows under contracted loans and borrowings less repayments of loans and borrowings and interest paid.

**Table 16: Consolidated statement of cash flows**

		Q2 2010	Q2 2009	Change
Cash flows from operating activities	<i>PLN m</i>	55.9	449.9	-394.0
Cash flows from investing activities	<i>PLN m</i>	-264.7	-1,107.7	843.0
Cash flows from financing activities	<i>PLN m</i>	-16.4	682.5	-698.9
Change in net cash	<i>PLN m</i>	-220.4	60.9	-281.3
Cash and cash equivalents at beginning of period	<i>PLN m</i>	158.6	155.2	3.4
Cash and cash equivalents at end of period	<i>PLN m</i>	-61.8	216.1	-277.9

THE LOTOS GROUP PLN '000	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
	Jun 30	Dec 31
	2010	2009
	(unaudited)	(audited)
		(restated)
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>10,855,129</b>	<b>10,094,357</b>
Property, plant and equipment	4,976,521	3,438,629
Tangible assets under construction (including prepayments for tangible assets under construction)	5,313,941	6,240,316
Goodwill	46,688	46,688
Intangible assets	94,552	89,240
Investment property	3,605	3,762
Investments in associates	78,473	88,255
Non-current financial assets	61,486	86,052
Deferred tax assets	252,644	74,267
Other non-current assets, including:	27,219	27,148
Non-current receivables	23,151	22,061
Prepayments and accrued income	4,068	5,087
<b>Current assets</b>	<b>6,242,476</b>	<b>5,126,386</b>
Inventories	3,806,771	3,023,144
Trade and other receivables	1,837,365	1,536,854
Current income tax receivable	69,283	131,299
Prepayments and accrued income	44,777	25,982
Current financial assets	28,337	47,029
Cash and cash equivalents	455,943	362,078
<b>Assets available for sale</b>	<b>4,386</b>	<b>5,209</b>
<b>Total assets</b>	<b>17,101,991</b>	<b>15,225,952</b>

THE LOTOS GROUP PLN '000	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	
	Jun 30	Dec 31
	2010	2009
	(unaudited)	(audited) (restated)
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	129,873	129,873
Statutory reserve funds	1,311,348	1,311,348
Revaluation reserve		-
Retained earnings	4,742,656	5,353,895
Translation of foreign operations	34,372	14,277
<b>Equity attributable to owners of the Parent</b>	<b>6,218,249</b>	<b>6,809,393</b>
<b>Non-controlling interests</b>	<b>15,790</b>	<b>36,752</b>
<b>Total equity</b>	<b>6,234,039</b>	<b>6,846,145</b>
Interest-bearing loans and borrowings	6,245,407	4,942,590
Long-term provisions	282,566	275,057
Deferred tax liabilities	22,903	90,611
Other financial liabilities	201,794	300,389
Accruals and deferred income and other liabilities	60,363	52,130
<b>Total non-current liabilities</b>	<b>6,813,033</b>	<b>5,660,777</b>
Trade payables, accruals and deferred income, and other liabilities	2,787,411	1,890,654
Current income tax payable	20,845	11,867
Interest-bearing loans and borrowings	905,098	758,481
Short-term provisions	40,518	38,897
Other financial liabilities	301,047	19,131
<b>Total current liabilities</b>	<b>4,054,919</b>	<b>2,719,030</b>
<b>Total liabilities</b>	<b>10,867,952</b>	<b>8,379,807</b>
<b>Total equity and liabilities</b>	<b>17,101,991</b>	<b>15,225,952</b>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

THE LOTOS GROUP PLN '000	3 months	6 months	3 months	6 months
	ended	ended	ended	ended
	Jun 30 2010	Jun 30 2010	Jun 30 2009	Jun 30 2009
	PLN '000	PLN '000	PLN '000	PLN '000
	(unaudited)	(unaudited)	(restated)	(restated)
Sales revenue	4,747,140	8,658,743	3,447,868	6,164,503
Cost of sales	4,197,736	7,762,876	3,038,112	5,505,148
<b>Gross profit</b>	<b>549,404</b>	<b>895,867</b>	<b>409,756</b>	<b>659,355</b>
Other operating income	8,657	15,844	7,682	19,153
Goodwill impairment				
Selling costs	218,452	393,824	169,269	328,133
General and administrative expenses	92,363	177,218	68,884	150,735
Other operating expenses	16,891	43,955	21,266	28,948
<b>Operating profit</b>	<b>230,355</b>	<b>296,714</b>	<b>158,019</b>	<b>170,692</b>
Finance income	-36,030	9,914	31,985	37,944
Finance expenses	1,016,902	1,128,390	-730,990	66,536
Share of investments in associates				
Loss of control over subsidiary				
<b>Pre-tax profit/(loss)</b>	<b>-822,577</b>	<b>-821,762</b>	<b>920,994</b>	<b>142,100</b>
Corporate income tax	-176,959	-200,312	160,238	38,834
<b>Net profit/(loss) from continuing operations</b>	<b>-645,618</b>	<b>-621,450</b>	<b>760,756</b>	<b>103,266</b>
<b>Other comprehensive income</b>				
Exchange differences on translating foreign operations	28,272	20,235	-94,844	24,335
<b>Other comprehensive income, net</b>	<b>28,272</b>	<b>20,235</b>	<b>-94,844</b>	<b>24,335</b>
<b>Total comprehensive income</b>	<b>-617,346</b>	<b>-601,215</b>	<b>665,912</b>	<b>127,601</b>
<b>Net profit/(loss) attributable to:</b>				
owners of the Parent	-648,679	-623,141	744,757	94,634
minority interests	390	1,691	15,999	8,632
		-		-
<b>Total comprehensive income attributable to:</b>				
owners of the Parent	-620,602	-603,046	649,913	118,969
minority interests	585	1,831	15,999	8,632
		-		-
<b>Effective tax rate</b>	<b>22%</b>	<b>24%</b>	<b>17%</b>	<b>27%</b>
<b>Earnings/(loss) per share</b>	<b>129,873</b>	<b>129,873</b>	<b>113,700</b>	<b>113,700</b>
- basic	<b>-4.99</b>	<b>-4.80</b>	<b>6.55</b>	<b>0.83</b>
- diluted	-	-	-	-

## THE LOTOS GROUP

## CONSOLIDATED STATEMENT OF CASH FLOWS

PLN '000	3 months	6 months	3 months	6 months
	ended	ended	ended	ended
	Jun 30 2010	Jun 30 2010	Jun 30 2009	Jun 30 2009
	PLN '000	PLN '000	PLN '000	PLN '000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash flows from operating activities</b>				
<b>Net profit/(loss) from continuing operations</b>	<b>-645,618</b>	<b>-621,450</b>	<b>760,756</b>	<b>103,266</b>
Adjustments:				
Share in net profit of subordinated undertakings accounted for using the equity method				-
Depreciation and amortisation	91,401	171,180	67,534	129,904
Foreign exchange (gains)/losses	910,508	956,223	-554,345	22,785
Interest and dividends	4,164	1,687	-5,896	5,651
(Gain)/loss on investing activities	4,972	35,013	40,672	33,263
Income tax paid	-15,493	-45,262	-6,076	-31,151
Tax disclosed in income statement	-176,959	-200,312	160,238	38,834
Decrease in receivables	-125,982	-285,511	-359,171	-282,634
(Increase) in inventories	-718,501	-783,627	-281,324	-343,427
(Decrease)/increase in current liabilities, net of loans and borrowings	480,920	925,993	884,942	865,544
Increase/(decrease) in provisions	11,177	9,130	-15,143	-7,393
(Increase) in prepayments and accrued income	10,018	-19,120	6,263	-13,516
Settlement of financial instruments	225,029	322,007	-248,534	-14,572
Other adjustments	273	97		
<b>Net cash provided by/(used in) operating activities</b>	<b>55,909</b>	<b>466,048</b>	<b>449,916</b>	<b>506,554</b>
<b>Cash flows from investing activities</b>				
Sale of non-current financial assets	42	42		-
Dividends received	10,463	10,463	1,737	1,737
Interest received	270	425	1,891	5,952
Sale/(purchase) of tangible and intangible assets	-268,482	-602,335	-1,070,499	-1,806,399
Purchase of non-current financial assets				-
Sale/(purchase) of current financial assets	-21		-31	-48
Repayment of non-current loans advanced				-
Non-current loans advanced	-	-8		
Prepayments for tangible assets under construction	-6,943	-46,170	-40,781	-171,159
Other items, net			-2	-2
<b>Net cash provided by/(used in) investing activities</b>	<b>-264,671</b>	<b>-637,583</b>	<b>-1,107,685</b>	<b>-1,969,919</b>
<b>Cash flows from financing activities</b>				



Increase in loans and borrowings	181,724	656,074	670,453	1,430,496
Cash flows attributable to changes in interest in a subsidiary undertaking not resulting in loss of control over non-current financial assets	-10,891	-10,891		
Shares issued				-
Repayment of loans and borrowings	-119,898	-233,173	-74,462	-94,126
Interest paid	-21,982	-44,359	-3,090	-48,452
Dividends paid – to owners of the Parent				-
Dividends paid – to minority interests			-15	-15
Decrease in finance lease liabilities	-774	-1,444	-173	-392
Settlement of financial instruments	-44,449	-107,016	89,784	14,572
Other items, net	-82		-30	-131
<b>Net cash provided by/(used in) financing activities</b>	<b>-16,352</b>	<b>259,191</b>	<b>682,467</b>	<b>1,301,952</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>4,707</b>	<b>-845</b>	<b>36,242</b>	<b>39,150</b>
<b>Change in net cash</b>	<b>-220,407</b>	<b>86,811</b>	<b>60,940</b>	<b>-122,263</b>
<b>Cash at beginning of period</b>	<b>158,583</b>	<b>-148,635</b>	<b>155,150</b>	<b>338,353</b>
<b>Cash at end of period</b>	<b>-61,824</b>	<b>-61,824</b>	<b>216,090</b>	<b>216,090</b>