# THE LOTOS GROUP

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## OF THE FINANCIAL PERFORMANCE IN Q1 2011

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

## CONTENTS

# 1 Market environment

**Table 1: Macroeconomic data**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| DATED Brent FOB prices | USD/bbl | 105.43 | 86.47 | 76.36 | *21.9%* | *38.1%* |
| Urals CIF Rotterdam prices | USD/bbl | 102.55 | 85.16 | 75.31 | *20.4%* | *36.2%* |
| Brent/Ural differential | USD/bbl | 2.88 | 1.31 | 1.05 | *119.8%* | *174.3%* |
| Crack margin | USD/bbl | 1.66 | 3.19 | 2.61 | *-48.0%* | *-36.4%* |
| Crack margin: Gasoline | USD/t | 126.19 | 132.73 | 154.78 | *-4.9%* | *-18.5%* |
| Crack margin: Diesel oil (10 ppm) | USD/t | 117.94 | 106.82 | 72.95 | *10.4%* | *61.7%* |
| Crack margin: Light fuel oil | USD/t | 88.86 | 77.33 | 59.18 | *14.9%* | *50.2%* |
| Crack margin: Aviation fuel | USD/t | 172.71 | 131.23 | 106.23 | *31.6%* | *62.6%* |
| Crack margin: Heavy fuel oil | USD/t | -242.70 | -190.34 | -137.54 | *-27.5%* | *-76.5%* |
| Average quarterly PLN/USD exchange rate | PLN/USD | 2.88 | 2.92 | 2.88 | *-1.4%* | *0.0%* |
| Average quarterly PLN/EUR exchange rate | PLN/EUR | 3.95 | 3.97 | 3.99 | *-0.5%* | *-1.0%* |

**Higher prices of crude oil**

One of the most significant macroeconomic factors that had a material impact on the LOTOS Group's performance in Q1 2011 was the rise in crude oil prices. In Q1 2011, the average quarterly price of Brent Dated oil was higher by 21.9% against Q4 2010 and by 38.1% against the comparative period, i.e. Q1 2010. Concurrently, the Brent/Ural differential increased by 1.57 USD/bbl relative to Q4 2010 and by 1.83 USD/bbl compared with Q1 2010. In the reporting period, an improvement in crack margin on medium distillates was accompanied by a decline in crack margins on gasolines and heavy fuel oil.

**Brent/Urals differential rises to 2.88 USD/bbl**

# 2 Upstream segment

**Table 2: Crude oil reserves, production and sales**

| Crude oil | | | | | |
|---|---|---|---|---|---|
| **Reserves (mbbl) *** | **Mar 31 2011** | **Dec 31 2010** | **Mar 31 2010** | | |
| Norway | 12.95 | 12.95 | 12.95 | | |
| Poland | 34.74 | 35.00 | 35.86 | | |
| Lithuania ** | 6.95 | - | - | | |
| **Production (bbl/d)** | **Q1 2011** | **Q4 2010** | **Q1 2010** | **Q1 2011/Q4 2010** | **Q1 2011/Q1 2010** |
| Poland | 2,936 | 2,878 | 6,592 | 2% | -55% |
| Lithuania ** | 1,389 | - | - | - | - |
| **Sales (bbl)** | **Q1 2011** | **Q4 2010** | **Q1 2010** | **Q1 2011/Q4 2010** | **Q1 2011/Q1 2010** |
| Poland | 222,514 | 202,667 | 680,214 | 10% | -67% |
| Lithuania ** | 133,317 | - | - | - | - |

** 2P – proved and probable reserves.*

*** based on the interest held in the AB Geonafta Group.*

**Table 3: Natural gas reserves, production and sales**

| Natural gas | | | | | |
|---|---|---|---|---|---|
| **Reserves (bcm) *** | **Mar 31 2011** | **Dec 31 2010** | **Mar 31 2010** | | |
| Poland | 0.517 | 0.521 | … | | |
| **Production (mcm)** | **Q1 2011** | **Q4 2010** | **Q1 2010** | **Q1 2011/Q4 2010** | **Q1 2011/Q1 2010** |
| Poland | 3.7 | 3.7 | 8.7 | 0% | -57.5% |
| **Sales (mcm)** | **Q1 2011** | **Q4 2010** | **Q1 2010** | **Q1 2011/Q4 2010** | **Q1 2011/Q1 2010** |
| Poland | 2.1 | 2.3 | 3.1 | -8.7% | -32.3% |

** 2P – proved and probable reserves.*

### Poland

**B3 field producing in Q1 2011**

In Q1 2011, in the Baltic Sea area, production of oil and gas from the B3 field continued, and further analytical and designing work in preparation for development of the B8 field was carried out.

### Lithuania

**Crude oil production in Lithuania at 1,389 bbl/d**

In the discussed period, oil production continued on the Girkaliai, Kretinga, and Nausodis fields. Also, drilling of a production well in the Vėžaičiaia field was completed for UAB Manifoldas. Additionally, work was under way on preparation of drillings of two production wells in the Girkaliai field.

### Norway

**Production from the YME field in Q4 2011**

In Q1 2011, development work continued as part of the YME production project. The mobile offshore production unit ("MOPU") stayed in the shipyard waiting for the weather conditions to improve and allow the platform to be towed and installed on the YME field. According to the information published by Talisman, the field operator, given the delay in installation of the MOPU on the field, Yme will be onstream by the end of Q4 2011.

Moreover, in the period under review LOTOS E&P Norge AS conducted exploration work under licences held, both as the operator (licences PL498, PL503, and PL556) and as an interest holder (licences PL455, PL497, and PL515). As far as licence PL556 is concerned, having carried out relevant analyses, LOTOS E&P Norge AS did not recommend entering into the second phase of exploration and making a commitment to drill an exploration well. Research and analyses showed that after making an adjustment for the relevant risks, potential reserves were not commercial. Therefore, a decision was made to relinquish the licence.

Following completion of the APA 2010 licence round in January, LOTOS E&P Norge was awarded operatorship of, and a 25% interest in, the PL 503B licence, situated in the southern part of the North Sea. The remaining 75% interest was distributed among Skagen 44 AS, Edison International Norway Branch, and 4Sea Energy AS. The PL 503B licence is an extension of the PL 503 licence held by LOTOS E&P Norge AS.

**Table 4: Operating results of the upstream segment**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Sales revenue | *PLNm* | 103.8 | 48.1 | 134.1 | *115.8%* | *-22.6%* |
| Operating profit/(loss) | *PLNm* | 23.6 | -55.9 | 39.4 | - | *-40.1%* |
| Depreciation and amortisation | *PLNm* | 23.2 | 14.3 | 15.8 | *62.2%* | *46.8%* |
| EBITDA | *PLNm* | 46.8 | -41.6 | 55.2 | - | *-15.2%* |

In Q1 2011, sales revenue of the upstream segment was by PLN 55.7m higher than in Q4 2010, mainly owing to the rise in crude oil prices and higher crude oil sales volumes. The growth of sales volumes is attributable to the acquisition of control (on February 3rd 2011) of UAB Meditus, holder of a 59.41% interest in AB Geonafta. The business of AB Geonafta and its group members, including UAB Genciu Nafta, UAB Minijos Nafta and UAB Manifoldas, consists in onshore oil exploration and production in Lithuania.

**Acquisition of control over AB Geonafta**

Relative to Q1 2010, the upstream segment's sales revenue decreased by PLN 30.3m, chiefly due to the decline in the Rozewie crude sales volume by 457.7 thousand bbl. (58.9 thousand tonnes).

The segment's sales revenue includes revenue of the UAB Meditus Group of PLN 40.8m.

The LOTOS Group's Q1 2011 Upstream segment's sales volume was at the level of 355.8 thousand bbl. and accounts for the sales of 133.3 thousand bbl. (17.4 thousand tonnes) of crude oil produced from the Lithuanian fields and sold outside of the LOTOS Group.

The upstream segment's operating result includes profit earned by the UAB Meditus Group, of PLN 14.9m.

## 3 Downstream segment

**Table 5: Structure of crude oil refining**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Volume of crude processed by the Gdańsk refinery | *000' t* | 2,222.9 | 2,223.9 | 1,614.8 | *0.0%* | *37.7%* |
| including: | *000' t* | | | | | |
| Urals crude | *000' t* | 1,880.9 | 1,833.4 | 1,412.6 | *2.6%* | *33.2%* |
| Rozewie crude | *000' t* | 32.9 | 49.0 | 83.4 | *-32.8%* | *-60.6%* |
| Other types of crude | *000' t* | 309.1 | 341.5 | 118.8 | *-9.5%* | *160.2%* |

**Higher volume of crude oil processed at the Gdańsk refinery**

The increase in the volume of processed crude in Q1 2011 relative to the comparative period was due to the processing of crude in the CDU/VDU unit, placed in service following completion of the 10+ Programme. In connection with optimisation of the crude oil refining process and the launch of the new crude distillation unit, the share of crude types other than Urals in the total volume of crude processed increased against the Q1 2010 figure, to nearly 15.4%.

**Table 6: Structure of Grupa LOTOS S.A.'s production**

| | | *Q1 2011* | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Total output | *000' t* | 2,480.8 | 2,569.9 | 1,932.6 | -3.5% | 28.4% |
| Gasolines | *000' t* | 296.4 | 300.5 | 311.8 | -21.0% | -4.9% |
| Naphtha | *000' t* | 74.8 | 74.7 | 0.0 | 0.1% | - |
| Diesel oil | *000' t* | 1,035.5 | 1,122.9 | 831.8 | -7.8% | 24.5% |
| Light fuel oil | *000' t* | 131.5 | 152.9 | 105.8 | -14.0% | 24.3% |
| Aviation fuel | *000' t* | 107.6 | 51.8 | 74.3 | 107.7% | 44.8% |
| LPG | *000' t* | 16.2 | 14.4 | 9.1 | 12.5% | 78.0% |
| Heavy fuel oil | *000' t* | 482.5 | 348.6 | 369.4 | 38.4% | 30.6% |
| Bunker fuel | *000' t* | 9.2 | 12.6 | 6.6 | -27.0% | 39.4% |
| Bitumens | *000' t* | 95.9 | 212.3 | 55.6 | -54.8% | 72.5% |
| Other | *000' t* | 231.2 | 279.2 | 168.2 | 9.6% | 81.9% |

**Table 7: Sales structure of the downstream segment**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Consolidated sales of refining products, goods for resale and materials | *000' t* | 2,467.2 | 2,487.0 | 1,899.4 | -0.8% | 29.9% |
| Gasolines | *000' t* | 321.9 | 364.3 | 331.3 | -11.6% | -2.8% |
| Raw gasoline | *000' t* | 74.8 | 74.6 | 0.0 | 0.3% | - |
| Diesel oils | *000' t* | 1,052.4 | 1,121.1 | 885.2 | -6.1% | 18.9% |
| Light fuel oils | *000' t* | 129.3 | 152.8 | 107.4 | -15.4% | 20.4% |
| Heavy fuel oils | *000' t* | 417.6 | 334.5 | 320.9 | 24.8% | 30.1% |
| JET aviation fuel | *000' t* | 101.7 | 46.5 | 74.2 | 118.7% | 37.1% |
| Bitumens | *000' t* | 83.9 | 226.8 | 41.8 | -63.0% | 100.7% |
| Other petroleum products | *000' t* | 285.6 | 166.4 | 138.6 | 71.6% | 106.1% |

**Production and sales up on Q1 2010**

In Q1 2011, overall production and sales volumes were higher than in the corresponding period of the previous year. A decline in production and sales was reported only for gasolines. Relative to Q4 2010, the LOTOS Group's total sales volume in Q1 2011 remained fairly unchanged. The Q1 2011 sales volume includes 105.0 thousand tonnes of crude sold by Grupa LOTOS S.A. as part of its trading activities.

**Table 8: Number of service stations in the LOTOS network at end of period**

| | Mar 31 2010 | Dec 31 2010 | Mar 31 2010 | Q1 2011 /Q4 2010 | Q1 2011 /Q1 2010 |
|---|---|---|---|---|---|
| | **316** | **324** | **313** | *-2.5%* | *1.0%* |
| CODO | 156 | 154 | 148 | *1.3%* | *5.4%* |
| DOFO | 112 | 109 | 103 | *2.8%* | *8.7%* |
| franchise agreements signed | 116 | 113 | 107 | *2.7%* | *8.4%* |
| DODO | 48 | 61 | 62 | *-21.3%* | *-22.6%* |

**Retail sales higher year on year**

In the reporting period, retail sales volume rose by 5.9% relative to Q1 2010 and fell by 12.6% relative to Q4 2010 (due to the seasonality of fuel sales, persistently high fuel prices, and the resulting lower consumption and lower number of service stations).

**Table 9: Operating results of the retail business (CODO, DOFO, DODO, SDS) ***

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Sales | *000' t* | 226.9 | 259.7 | 214.3 | *-12.6%* | *5.9%* |
| Sales revenue | *PLNm* | 1,116.6 | 1,145.5 | 876.6 | *-2.5%* | *27.4%* |
| Operating profit/(loss) | *PLNm* | -12.8 | -3.8 | -2.6 | - | - |
| Depreciation and amortisation | *PLNm* | 12.0 | 12.6 | 11.9 | -5.0% | 0.6% |
| EBITDA | *PLNm* | -0.8 | 8.8 | 9.3 | - | - |

**In order to better reflect the results of the Group's operations, in the Q4 2010 report retail sales have been reclassified: only sales on the retail market through the CODO (including the Motorway Service Areas), DOFO, DODO and SDS (operated by LOTOS Paliwa) service station networks have been classified as retail sales. Data for the retail business relating to Q1 2010 has been restated to ensure comparability. Comparative data for other periods is available at the corporate website of Grupa LOTOS S.A.*

**Record low margins in Q1 2011 driving down retail performance**

Deterioration in operating results of the retail business was attributable largely to lower unit margins on fuel sales, in particular at CODO and DOFO stations. Low margins are the outcome of difficult market conditions, brought about by a sharp rise in crude oil prices which could not be fully transferred onto customers.

**Table 10: Operating results of the downstream segment**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Sales revenue | *PLNm* | 6,485.5 | 5,746.3 | 3,913.6 | *12.9%* | *65.7%* |
| Operating profit/(loss) | *PLNm* | 390.7 | 339.4 | 98.9 | *15.1%* | *295.0%* |
| Depreciation and amortisation | *PLNm* | 95.9 | 100.0 | 62.0 | *-4.1%* | *54.7%* |
| EBITDA | *PLNm* | 486.6 | 439.4 | 160.9 | *10.7%* | *202.4%* |

**Higher revenue in the downstream segment**

The 65.7% higher sales revenue generated by the downstream segment in Q1 2011 relative to Q1 2010 was mostly due to the increase in prices of crude oil and petroleum products on the global markets and a 29.9% higher sales volume. In Q1 2011, the average price of Brent crude (Dated Brent) was 105.43 USD/bbl, up by 29.07 USD/bbl, or 38.1%, on Q1 2010. The average net selling price in the downstream segment rose by 27.6%, from 2,060 PLN/t in Q1 2010 to 2,629 PLN/t in Q1 2011. Relative to the previous quarter, selling prices in the downstream segment went up by 13.8%, with a 21.9% rise in the price of Brent crude. Higher of selling prices were the key factor contributing to the 12.9% rise in sales revenue compared with Q4 2010.

In Q1 2011, the nearly four-fold year-on-year increase in the operating result of the downstream segment was strongly driven by the upward trend in crude oil prices, which prevailed throughout Q1 2011. The 29.9% higher volume of sales in the reporting period also significantly boosted the operating result. Furthermore, improvement in the Q1 2011 operating result was bolstered due to the replacement of imported goods with the Group's own crude oil processing products.

In Q1 2011, the average quarterly Brent/Urals differential, at 2.88 USD/bbl (up by 1.83 USD/bbl, or 174.3%, year on year), was another factor contributing to the improved operating result in Q1 2011 relative to Q1 2010.

**Table 11: Impact of inventory valuation on operating result of the downstream segment**

| | | Q1 2011 | Q4 2010 | Q1 2010 |
|---|---|---|---|---|
| Operating profit/(loss) | *PLNm* | 390.7 | 339.4 | 98.9 |
| Effect of LIFO valuation | *PLNm* | -278.1 | -177.7 | -69.3 |
| Operating profit – LIFO method | *PLNm* | 112.6 | 161.7 | 29.6 |

* *In line with its inventory valuation policies, the LOTOS Group uses the weighted average method to measure decrease in inventories. This method of inventory valuation defers the impact of changes in 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.*

**Downstream segment operating result based on LIFO method at over PLN 112m**

In Q1 2011, the weighted average method of inventory valuation applied by the LOTOS Group, combined with higher market prices of crude oil, drove up the operating result of the downstream segment by PLN 278.1m. In the comparative period, the inventory valuation method used had a positive effect of PLN 69.3m on the segment's operating result. In Q4 2010, the operating result increased by PLN 177.7m. If the LIFO method had been applied to inventory valuation, the operating result of the downstream segment would have been PLN 112.6m in Q1 2011, PLN 161.7m in Q4 2010 and PLN 29.6m in Q1 2010.

## 4 Other business

**Table 12. Operating results of other business**

| | | Q1 2011* | Q4 2010* | Q1 2010* | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Sales revenue | *PLNm* | 5.2 | 5.3 | 6.2 | *-1.9%* | *-16.1%* |
| Operating profit/(loss) | *PLNm* | -1.2 | -0.4 | 0.1 | - | - |
| Depreciation and amortisation | *PLNm* | 2.4 | 2.5 | 2.4 | *-4.0%* | *0.0%* |
| EBITDA | *PLNm* | 1.2 | 2.1 | 2.5 | *-42.9%* | *-52.0%* |

* *Includes: LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., Energobaltic Sp. z o.o. and LOTOS Gaz S.A.*

## 5 Statement of comprehensive income

**Q1 2011 EBIT of PLN 412.6m**

In Q1 2011, the LOTOS Group posted PLN 412.6m in operating profit, which represented a year-on-year improvement of PLN 280.6m and an increase of PLN 107.8m on Q4 2010.

**Table 13. Operating results of the LOTOS Group**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Sales revenue | *PLNm* | 6,519.5 | 5,739.0 | 3,911.6 | *13.6%* | *66.7%* |
| EBITDA | *PLNm* | 533.8 | 421.2 | 211.8 | *26.7%* | *152.0%* |
| EBIT | *PLNm* | 412.6 | 304.8 | 132.0 | *35.4%* | *212.6%* |
| LIFO EBITDA | *PLNm* | 255.7 | 243.5 | 142.5 | *5.0%* | *79.4%* |
| LIFO EBIT | *PLNm* | 134.5 | 127.1 | 62.7 | *5.8%* | *114.5%* |

* *Starting from January 1st 2011, the Group changed its accounting policies as regards the exchange rates used to translate business transactions denominated in foreign currencies. In Q1 2011, application of the new accounting policies did not affect the Group's total net result, but did affect the values presented in the operating and financial parts of the statement of comprehensive income. To ensure data comparability, the same policies were applied to other presented periods.*

In Q1 2011, net profit from continuing operations amounted to PLN 635.5m, and was by PLN 611.3m higher than the net profit from continuing operations reported in Q1 2010. Relative to Q4 2010, net profit from continuing operations rose by PLN 384.0m.

**Net profit of PLN 635.5m**

**Table 14. Net profit of the LOTOS Group**

| | | Q1 2011 | Q4 2010 | Q1 2010 | Q1 2011 / Q4 2010 | Q1 2011 / Q1 2010 |
|---|---|---|---|---|---|---|
| Pre-tax profit/(loss) | *PLNm* | 751.4 | 245.1 | 0.8 | *206.6%* | *93,825.0%* |
| Net profit/(loss) from continuing operations | *PLNm* | 635.5 | 251.5 | 24.2 | *152.7%* | *2,526.0%* |
| Net profit/(loss) attributable to owners of the Parent | *PLNm* | 635.2 | 251.3 | 22.9 | *152.8%* | *2,673.8%* |

The changes in net profit in the periods presented are attributable to the changes in net finance income/expenses at the LOTOS Group. In Q1 2011, the Group recorded net finance income of PLN 335.3m, in Q4 2010 - net finance income of PLN 2.4m, and in Q1 2010 - net finance expenses of PLN -131.2m. In Q1 2011, the Group recorded net foreign exchange gains amounting to PLN 141.0m. In the period January 1st–March 31st 2011, the effect of the net gain on remeasurement of loans and borrowings denominated in foreign currencies, taken to the statement of comprehensive income, was PLN 124.0m (presented in finance income).

**Q1 2011 net finance income of PLN 335.3m**

Starting from January 1st 2011, Grupa LOTOS S.A. introduced cash flow hedge accounting with respect to foreign-currency denominated loans intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions. Accordingly, in the period January 1st–March 31st 2011, foreign exchange gains on fair-value remeasurement of hedges, taken to the revaluation reserve, amounted to PLN 165.4m.

Furthermore, in connection with accounting for the transaction of taking control of AB Geonafta, the effect of fair-value measurement of LOTOS Petrobaltic S.A.'s previously held equity interest in AB Geonafta (40.59%) was recognised in finance income at PLN 123.9m.

In the analysed period, net valuation and settlement of market risk hedging transactions at the LOTOS Group was PLN 93.1m.

**Q1 2011 net gain on settlement and valuation of derivative instruments at PLN 93.1m**

In Q1 2011, total net gain on settlement and valuation of derivative instruments, including forwards hedging the foreign exchange risk and futures hedging the risk of changes in prices of $CO_2$ emission allowances, amounted to PLN 74.6m. The effect of settlement and valuation of transactions hedging petroleum product prices, of PLN 15.6m, was taken to finance income. The effect of settlement and valuation of transactions hedging the interest rate risk increased finance income by PLN 2.9m.

**Table 15: Transactions executed to hedge the risk of changes in prices of petroleum products, as at March 31st 2011**

| Period | Product/Commodity | Light fuel oil Gasoil .1 Cargoes CIF NWE / ARA | Heavy fuel oil 3.5 PCT Barges FOB Rotterdam |
|---|---|---|---|
| **Q2 2011** | Volume (mt) | -4,879 | 22,179 |
| | Price range (USD/mt) | 715.00 – 786.50 | 473.00 – 495.00 |
| **Q3 2011** | Volume (mt) | -7,191 | 32,691 |
| | Price range USD/mt | 715.00 – 796.25 | 473.00 – 517.75 |
| **Q4 2011** | Volume (mt) | -4,880 | 22,180 |
| | Price range (USD/mt) | 715.00 – 796.25 | 473.00 – 517.75 |

**Table 16: Foreign exchange risk hedging transactions as at March 31st 2011**

| Currency pair | Instrument | Volume | Currency | FX rate range |
|---|---|---|---|---|
| EUR/USD | Forward | 116,500,000 | EUR | 1.31293 – 1.4225 |
| EUR/PLN | Forward | 88,500,000 | EUR | 3.9882 – 4.0912 |
| USD/PLN | Forward | 700,000 | USD | 2.8198 – 3.11535 |

**Table 17: Interest rate risk hedging transactions as at March 31st 2011**

| Instrument | Start date | End date | Notional amount | Currency | Interest rate range | Reference rate |
|---|---|---|---|---|---|---|
| **IRS** | from Oct 15 2008<br>to Jul 15 2011 | from Jun 30 2011<br>to Jan 15 2018 | 1,280,000,000 | USD | 3.33% – 4.33% | 6M LIBOR |
| **FRA** | from Apr 15 2011<br>to Jun 30 2011 | from Jun 30 2011<br>to Jul 15 2011 | 1,600,000,000 | USD | 0.39% | 3M LIBOR |

## 6 Consolidated statement of financial position

**Table 18. Consolidated statement of financial position**

| | | Mar 31 2011 | Dec 31 2010 | Change | % |
|---|---|---|---|---|---|
| **Assets** | ***PLNm*** | **19,006.6** | **17,736.0** | ***1,270.6*** | ***7.2%*** |
| Non-current assets, including: | *PLNm* | 11,192.7 | 10,882.3 | *310.4* | *2.9%* |
| Property, plant and equipment | *PLNm* | 6,228.4 | 6,173.8 | *54.6* | *0.9%* |
| Tangible assets under construction | *PLNm* | 4,255.8 | 4,213.7 | *42.1* | *1.0%* |
| Current assets, including: | *PLNm* | 7,813.9 | 6,845.8 | *968.1* | *14.1%* |
| Inventories | *PLNm* | 4,742.1 | 4,506.8 | *235.3* | *5.2%* |
| Trade and other receivables | *PLNm* | 2,287.2 | 1,821.9 | *465.3* | *25.5%* |
| Current financial assets | *PLNm* | 114.8 | 45.6 | *69.2* | *151.8%* |
| Cash and cash equivalents | *PLNm* | 555.2 | 391.3 | *163.9* | *41.9%* |
| **Equity and liabilities** | ***PLNm*** | **19,006.6** | **17,736.0** | ***1,270.6*** | ***7.2%*** |
| Equity | *PLNm* | 8,307.3 | 7,513.6 | *793.7* | *10.6%* |
| Non-current liabilities | *PLNm* | 5,116.0 | 5,066.5 | *49.5* | *1.0%* |
| Current liabilities | *PLNm* | 5,583.3 | 5,155.7 | *427.6* | *8.3%* |

As at March 31st 2011, the LOTOS Group had total assets of PLN 19,006.6m, which means an increase of PLN 1,270.6m during the first three months of 2011. In Q1 2011, non-current assets grew by PLN 310.4m, mainly due to the recognition of intangible assets in the amount of PLN 317.4m, representing licences awarded to AB Geonafta and its group companies (including UAB Genciu Nafta, UAB Minijos Nafta, and UAB Manifoldas) which confer the right to exploit crude oil reserves in Lithuania.

**Non-current assets grew by PLN 310.4m**

As at March 31st 2011, inventories amounted to PLN 4,742.1m, having increased over the first three months of 2011 by PLN 235.3m, mainly due to higher volumes of mandatory stocks at the Parent Undertaking (an increase in fuels and heavy fuel oil by 31.0 thousand cubic meters and in crude oil by 10.4 thousand tonnes) and higher prices of crude oil and petroleum products in Q1 2011 relative to the end of 2010. Higher product prices were the main reason behind the PLN 465.3m rise in trade and other receivables. At the end of Q1 2011, current assets totalled PLN 7,813.9m, and were by PLN 968.1m higher relative to the end of 2010.

As at March 31st 2011, equity totalled PLN 8,307.3m, having grown by PLN 793.7m during Q1 2011, owing to a PLN 638.4m increase in retained earnings and foreign exchange gains on fair-value remeasurement of hedges of future USD-denominated petroleum product sales transactions, taken to revaluation reserve in an amount of PLN 165.4m.

Non-current liabilities grew slightly in Q1 2011, primarily owing to an increase in deferred tax liabilities, to reach PLN 5,116.0m as at the quarter end. Interest-bearing loans and borrowings totalled PLN 4,385.8m, down by PLN 17.7m from the end of 2010.

At the end of March 2011, current liabilities were PLN 5,583.3m, having grown by PLN 427.6m in Q1 2011, mainly due to a PLN 549.6m increase in trade payables, following primarily from a 7.7% increase in volume and 30.9% increase in value of crude oil purchased in March 2011, relative to crude oil purchased in December 2010.

As at March 31st 2011, the financial debt of the LOTOS Group amounted to PLN 6,223.0m, down by PLN 112.5m on the 2010 end-of-year figure. The ratio of financial debt (adjusted by free cash) to equity was 68.2%, i.e. by 10.9pp less than as at December 31st 2010.

**Financial debt of PLN 6,223m at end of Q1 2011**

## 7 Consolidated statement of cash flows

**Table 19: Consolidated statement of cash flows**

| | | Q1 2011 | Q1 2010 | Change |
|---|---|---|---|---|
| Cash flows from operating activities | *PLNm* | 343.4 | 410.2 | -66.8 |
| Cash flows from investing activities | *PLNm* | -224.9 | -372.9 | 148.0 |
| Cash flows from financing activities | *PLNm* | 241.5 | 275.5 | -34.0 |
| Change in net cash | *PLNm* | 356.8 | 307.2 | 49.6 |
| Cash and cash equivalents at beginning of period | *PLNm* | 116.4 | -155.7 | 272.1 |
| Cash and cash equivalents at end of period | *PLNm* | 473.2 | 151.5 | 321.7 |

As at the end of Q1 2011, the LOTOS Group's cash balance (including current account overdrafts) was PLN 473.2m, and was by PLN 321.7m higher than at the end of Q1 2010.

**Cash flow from operating activities at PLN 343.4m**

In Q1 2011, net cash provided by operating activities was only slightly lower (down by PLN 66.8m) than in the corresponding period of the previous year.

In the discussed period, PLN 148.0m higher negative cash flows from investing activities were mainly attributable to PLN 162.5m lower expenses incurred in connection with the acquisition of property, plant and equipment and intangible assets. In Q1 2011, under purchase of intangible assets in cash flow from investing activities, the Group disclosed the expenses related to the acquisition of UAB Meditus (net of the cash acquired in the business combination) in the amount of PLN 52.3m.

In Q1 2011, net cash provided by financing activities was similar to the figure reported in Q1 2010. The difference reflects mainly a PLN 48.2m lower increase in loans and borrowings (net of the repayments made) and interest paid, and a PLN 9.7m higher adjustment from settlement of financial instruments. Furthermore, net cash provided by financing activities in Q1 2011 includes also a net notes issue and redemption figure of PLN 34.8m.