MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL PERFORMANCE IN Q4 2011

This is a translation of a document originally issued in Polish

THE LOTOS GROUP

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*An excel file with the operating and financial data for Q4 2011 and the previous reporting periods is published simultaneously with the quarterly report in the investor relations section of our website under the name **"databook".***

Link: **http://www.lotos.pl/en/inwestorski/inwestorzy/podstawowe_dane_finansowe**

1 Market environment

- ***Substantial increase in crude prices relative to Q4 2010***
- ***Appreciation of the USD relative to Q4 2010 and Q3 2011***
- ***Improved crack margins on high-margin products, such as diesel oil, light fuel oil and jet fuel, and lower margins on gasoline***

Macroeconomic data

Chart 1: Brent/Urals prices and the USD/PLN exchange rate

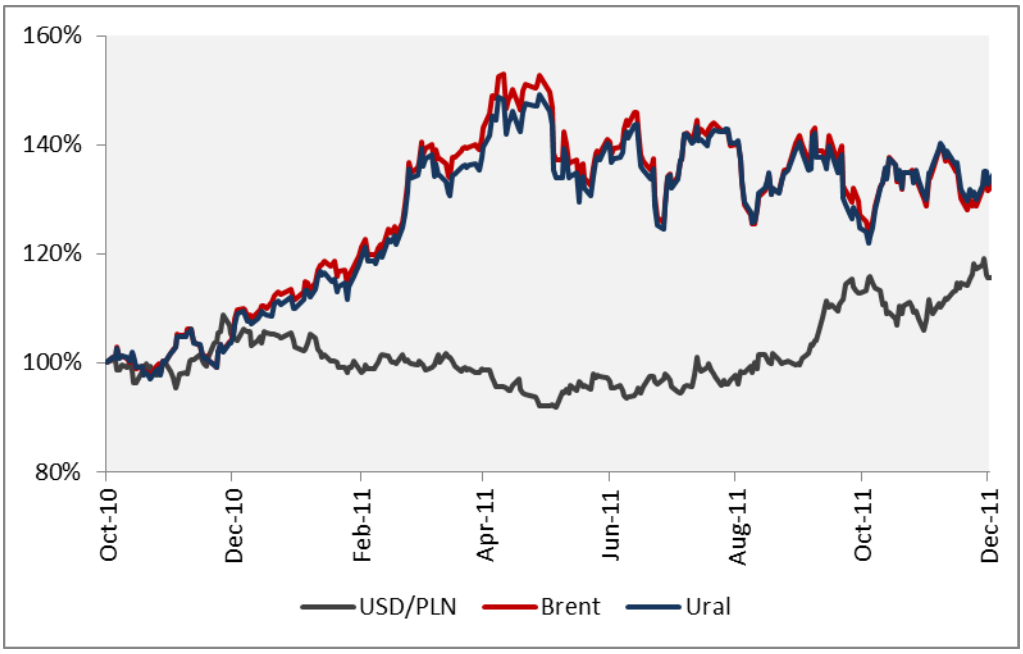

Table 1: Brent/Urals prices and Grupa LOTOS S.A.'s model margin

Crude oil (USD/bbl)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
DATED Brent FOB prices	**109,35**	113,41	86,47	*-3,6%*	*26,5%*
Urals CIF Rotterdam prices	**108,63**	111,52	85,16	*-2,6%*	*27,6%*
Brent/Urals differential *	**0,29**	0,75	1,52	*-61,3%*	*-80,9%*
Model refining margin**	**3,88**	2,34	4,55	*65,7%*	*-29,1%*

** Brent vs. Urals spread.*
***Model margin for an output structure in an averaged scenario of typical annual operation of Grupa LOTOS S.A.'s refinery, assuming maximization of output of middle distillates. An annual throughput has been assumed that corresponds to the maximum distillation capacity if Urals crude was the only input (the value of Urals crude is determined as the difference between DTD Brent and the Urals Rtd vs. forward Dtd Brent spread). The figure for Q4 2010 has been given for the purpose of comparison. In Q4 2010, Grupa LOTOS S.A.'s refinery had a different technological configuration in connection with the ongoing 10+ Programme.*

Table 2: Crack margins

Products (USD/t)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Crack margin: Gasoline	**107,42**	166,56	132,73	*-35,5%*	*-19,1%*
Crack margin: Naptha	**43,52**	91,23	135,78	*-52,3%*	*-67,9%*
Crack margin: Diesel oil (10 ppm)	**146,41**	110,49	106,82	*32,5%*	*37,1%*
Crack margin: Light fuel oil	**118,06**	85,81	77,33	*37,6%*	*52,7%*
Crack margin: Jet fuel	**179,96**	158,79	131,23	*13,3%*	*37,1%*
Crack margin: Heavy fuel oil	**-206,56**	-231,07	-190,34	*10,6%*	*-8,5%*

Crack margin on diesel oil higher by 37% relative to Q4 2010

Table 3: Exchange rate

Currency (USD/PLN)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
PLN/USD exchange rate at end of period	**3,42**	3,26	2,96	*4,9%*	*15,5%*
Average quarterly PLN/USD exchange rate	**3,28**	2,94	2,92	*11,6%*	*12,3%*

Appreciation of the US dollar against the złoty

Macroeconomic factors that had a material impact on the LOTOS Group's performance in Q4 2011 included:

- higher prices of Dated Brent relative to Q4 2010 (up by 26.5%) and slightly lower average quarterly crude prices relative to Q3 2011 (down by 3.6%),
- average quarterly USD exchange rate in Q4 2011 up by 12.3% on Q4 2010 and by 11.6% on Q3 2011,
- dramatic appreciation of the dollar towards the end of the period, by more than 15.5% relative to Q4 2010 and by about 4.9% relative to Q3 2011, which had an effect on revaluation of the Group’s debt, mostly denominated in the dollar,
- considerable volatility of the PLN exchange rate throughout Q4 2011, which fluctuated between PLN/USD 3.05 on October 28th 2011 to PLN/USD 3.51 on December 15th 2011,
- Brent/Urals differential down in Q4 2011 by 80.9% on Q4 2010 and by 61.3% on Q3 2011,
- improved crack margin on middle distillates and lower crack margin on gasolines.

2 Upstream segment

- ***Segment's standardized result (net of the effect of one-off impairment losses - on assets related to the YME project and on the PL455 licence - totalling PLN 234m): PLN 33m***
- ***Production from the B3 field, temporary production commencement at the B8 field and restructuring of the sea shipping business***
- ***Interests in two new licences strengthened the portfolio of the exploration and production assets in Norway***
- ***Drilling of four appraisal and production wells in Lithuania***

Table 4: Crude oil reserves, production and sales

Reserves (mbbl) *	**Dec 31 2011**	**Sep 30 2011**	**Dec 31 2010**		
Norway	**12,95**	12,95	12,95		
Poland	**33,85**	34,17	35,00		
Lithuania **	**6,47**	6,63	bd		
total	**53,27**	53,75	47,95		
Production (bbl/d)	**Q4 2011**	**Q3 2011**	**Q4 2010**	**Q4 2011 vs. Q3 2011**	**Q4 2011 vs. Q4 2010**
Poland	**3 556**	3 032	2 878	**17,3%**	**23,5%**
Lithuania **	**1 738**	1 803	bd	**-3,6%**	**-**
total	**5 294**	4 835	2 878	**9,5%**	**83,9%**
Sales (bbl)	**Q4 2011**	**Q3 2011**	**Q4 2010**	**Q4 2011 vs. Q3 2011**	**Q4 2011 vs. Q4 2010**
Poland	**221 664**	211 213	202 667	**4,9%**	**9,4%**
Lithuania **	**151 691**	155 347	N/A	**-2,4%**	**-**
total	**373 355**	366 560	202 667	**1,9%**	**84,2%**

**2P – proved and probable reserves.*
*** Based on the interest held in the AB Geonafta Group.*

Table 5: Natural gas reserves, production and sales

Reserves (bcm)*	**Dec 31 2011**	**Sep 30 2011**	**Dec 31 2010**		
Poland	**0,504**	0,509	0,521		
Production (mcm)	**Q4 2011**	**Q3 2011**	**Q4 2010**	**Q4 2011 vs. Q3 2011**	**Q4 2011 vs. Q4 2010**
Poland	**4,6**	4,0	3,7	**15,0%**	**24,3%**
Sales (mcm)	**Q4 2011**	**Q3 2011**	**Q4 2010**	**Q4 2011 vs. Q3 2011**	**Q4 2011 vs. Q4 2010**
Poland	**2,8**	2,5	2,3	**12,0%**	**21,7%**

**2P – proved and probable reserves.*

LOTOS Petrobaltic S.A.

In the Baltic Sea, production of oil and gas from the B3 field continued in Q4 2011 and temporary production from the B8 field was launched (3.6 thousand tonnes of crude).
Restructuring of the sea shipping business at the LOTOS Petrobaltic Group was completed during the quarter. The core business was separated from the assets as such through the establishment of the Miliana Shipping Company Ltd Group, comprising an assets holding division (a group named Miliana Shipping Group Ltd) and an operating division (Miliana Shipmanagement Ltd). In addition to other ships, the shipping assets include also two tug boats, Bazalt and Granit, which LOTOS Petrobaltic contributed to the Miliana Shipping Company Ltd Group. Thanks to the restructuring process, a modern shipping group was established.

LOTOS E&P Norge AS (LOTOS EPN)

Award of 30% interests in two licences in the Norwegian Sea

On November 17th 2012, as part of the APA 2011 Licensing Round, the Norwegian Ministry of Petroleum and Energy awarded to LOTOS EPN 30% interests in two production licenses in the Norwegian Sea.

PL643 – blocks 6406, 6406/4:	**LOTOS EPN – 30%** VNG Norge AS (operator) – 40% Edison International Spa – 30%
PL655 – block 6610/2:	**LOTOS EPN – 30%** Wintershall (operator) – 30% Centrica – 20% VNG – 20%

link:
http://www.regjeringen.no/upload/OED/pdf%20filer/TFO2011/TFO2011_awards.pdf

Further delays in the YME project

According to the information obtained from Talisman Energy (operator of the YME field), the launch of production from the field, previously expected in Q2 2012, will be further delayed.
LOTOS EPN, which is the operator of the PL503/503B licences, completed the 3D seismic surveys and commenced processing of the data.
As operator of the PL498 licence, LOTOS EPN started preparations to drill in late Q3/early Q4 2012 the first exploration/appraisal well, which included signing an agreement with Maersk Drilling in October 2011. In Q4 2011, the company continued preparations to drill an exploration/appraisal well under the PL497 licence (planned for Q2 2012).

The LOTOS Geonafta Group

In Q4 2011, AB LOTOS Geonafta drilled the Girkaliai-8 appraisal/production well in the Girkaliai field. UAB Manifoldas was engaged in drilling the Vezaiciai-19 well in the Vezaiciai field and the Liziai-2 well in the Liziai prospect. UAB Genciu Nafta was engaged in drilling the Genciai-14HR production well, in respect of which additional geological analyses are under way in connection with its workover in order to launch production.

Table 6: Operating results of the upstream segment

Operating results (PLNm)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Sales revenue	**139,2**	128,9	48,1	*8,0%*	*189,4%*
Operating profit/(loss)	**-201,0**	43,5	-55,9	-	-
Depreciation and amortisation	**27,5**	27,6	14,3	*-0,4%*	*92,3%*
EBITDA	**-173,5**	71,1	-41,6	-	-

In Q4 2011, sales revenue of the upstream segment was by PLN 91.1m higher than in Q4 2010, mainly due to the rise in oil prices, appreciation of the dollar and higher oil sales volumes following the acquisition of control (on February 3rd 2011) over AB Meditus, holder of a 59.41% interest in AB Geonafta. PLN 10.3m higher sales revenue in Q4 2011 relative to Q3 2011 was chiefly attributable to the higher USD exchange rate.

The segment's sales revenue for Q4 2011 included PLN 61.9m of revenue of AB LOTOS Geonafta. The segment's oil sales volume in Q4 2011 was 373.4 thousand bbl (48.1 thousand tonnes) and included 151.7 thousand bbl (19.5 thousand tonnes) of crude oil produced in the Lithuanian fields and sold outside the Group. The upstream segment's operating result included PLN 21.3m of profit earned by AB LOTOS Geonafta. The segment's PLN 27.5m depreciation/amortisation figure comprised PLN 7.0m of amortisation of AB Geonafta's licences.

The LOTOS Group tested for impairment the interests in the hydrocarbon reserves held by LOTOS EPN under the acquired production licences covering the YME field development project, and recognised an impairment loss on these assets. This impairment loss had a PLN 78.8m negative effect on the consolidated net profit for Q4 2011.

See: note 17 – IFRS 4Q 11

3 Downstream segment

- ***Higher domestic demand for diesel oil and diesel sales volumes at the LOTOS Group relative to Q4 2010***
- ***Strong demand for and sales of bitumen***
- ***Segment's sales revenue up by 44.7% relative to Q4 2010***
- ***Expansion of Polish retail market share to 5.4%* (in terms of the number of service stations) and to 7.6%* (in terms of gasoline and diesel oil sales volumes) at the end of Q4 2011***
- ***45 new OPTIMA stations launched within the LOTOS network in Q4 2011***

**Source: Prepared in-house based on data from the Polish Organisation of Oil Industry and Trade.*

Table 7: Structure of crude oil refining

Volume of crude oil processed by the Gdańsk refinery (thousand tonnes)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
	2 362,1	2 359,7	2 223,9	*0,1%*	*6,2%*
including:					
Urals crude	**2 300,9**	2 245,8	1 833,4	*2,5%*	*25,5%*
Rozewie crude	**28,5**	51,8	49,0	*-45,0%*	*-41,8%*
Other types of crude	**32,7**	62,1	341,5	*-47,3%*	*-90,4%*

In Q4 2011, the utilisation rate of the refinery's installed capacity and the volume of processed crude remained similar to those recorded in Q3 2011 and slightly higher than in Q4 2010, due to completion of the 10+ Programme and optimisation of production with a view to maximising the refining margin. With two independent crude distillation lines, Grupa LOTOS now enjoys greater flexibility in selecting crude blends to adequately respond to market conditions (i.e. depending on the margins that can be generated on the individual petroleum products).

Table 8: Structure of Grupa LOTOS S.A.'s production

Total output (thousand tonnes)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
	2 608,1	2 653,9	2 569,9	*-1,7%*	*1,5%*
Gasolines	**363,4**	372,3	375,2	*-2,4%*	*-3,1%*
Raw gasoline	**51,7**	24,4	74,7	*111,9%*	*-30,8%*
Diesel oils	**1 201,8**	1 245,3	1 122,9	*-3,5%*	*7,0%*
Light fuel oils	**127,0**	81,4	152,9	*56,0%*	*-16,9%*
Jet fuel	**113,3**	140,6	51,8	*-19,4%*	*118,7%*
Heavy fuel oil	**215,3**	202,9	348,6	*6,1%*	*-38,2%*
Bitumen components	**267,6**	337,3	212,3	*-20,7%*	*26,0%*
Other	**268,0**	249,7	231,5	*7,3%*	*15,8%*

Table 9: Sales structure of the downstream segment

Consolidated sales of refining products, goods for resale and materials (thousand tonnes)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
	2 555,8	2 552,3	2 487,0	*0,1%*	*2,8%*
Gasolines	**365,8**	388,9	364,3	*-5,9%*	*0,4%*
Raw gasoline	**51,7**	24,5	74,6	*111,0%*	*-30,7%*
Diesel oils	**1 267,1**	1 260,7	1 121,1	*0,5%*	*13,0%*
Light fuel oils	**133,6**	73,5	152,8	*81,8%*	*-12,6%*
Jet fuel	**102,9**	139,2	46,5	*-26,1%*	*121,3%*
Heavy fuel oils	**162,2**	147,6	334,5	*9,9%*	*-51,5%*
Bitumens	**289,2**	346,9	226,8	*-16,6%*	*27,5%*
Other petroleum products	**183,3**	171,0	166,4	*7,2%*	*10,2%*

Petroleum products market in Q4 2011

In Q4 2011, Grupa LOTOS' overall sales volume increased slightly relative to Q4 2010 (up by 68.8 thousand tonnes), and remained fairly unchanged relative to Q3 2011 (up by 3.5 thousand tonnes).

In Poland, demand for **gasoline** was on a downward trend, both in Q4 2011 and throughout 2011. In 2011, domestic consumption of motor gasolines was down by 4.5%* compared with 2010, which may be attributed to higher prices and lower real purchasing power of an average Polish car owner. In 2011, Grupa LOTOS maintained its share in the gasoline market at a similar level as in 2010.

Domestic diesel consumption in the first 11 months of 2011 up by 8% on 2010

The Polish economy generated better-than-expected results, which had a positive effect on the domestic **diesel oil** market. As a result, in 2011 demand for diesel oil increased by 8% relative to 2010.

In fact, from among all products sold by the LOTOS Group, the rise in sales volumes of diesel oils was the most substantial (up by 146.0 thousand tonnes) when compared with Q4 2010.

Milder temperatures led to a drop in demand for **light fuel oil** (LFO) (Grupa LOTOS' sales decreased by 12.6% relative to Q4 2010). In 2011, domestic consumption of LFO dropped by 11.1%* yoy. Despite the fact that Grupa LOTOS sold less LFO in Q4 2011 than in 2010, on a cumulative basis its sales volumes in 2011 increased relative to 2010, resulting in an improved market share for these products.

Higher production and sales of bitumen

Demand for **bitumens** remained strong, chiefly on the back of good weather, favourable to road construction projects (relative to Q4 2010, Grupa LOTOS' sales of bitumens rose by 27.5%). Moreover, a number of the road construction projects entered their final phases (also in connection with preparations for the Euro 2012 championships), when demand for bitumen is the highest.

Following completion of the 10+ Programme, the Company's capacity to produce middle distillates increased. To capitalise on this improvement, having first fulfilled its obligations to domestic business partners, Grupa LOTOS exported diesel oil and **jet fuel** with favourable margins.

Owing to the fact that deep conversion units have come on stream in the Gdańsk refinery and some of the heavy residues have been transferred for use in bitumen production, Grupa LOTOS limited production and sales of low-margin **heavy fuel oil** (HFO). In Q4 2011, this product recorded the largest sales volume decrease of 172.3 thousand tonnes, down by 52.1% relative to Q4 2010.

Segment's sales revenue up by 45% relative to Q4 2010

**Source: Polish Organisation of Oil Industry and Trade, the Company.*

Table 10: Operating results of the downstream segment

Operating results (PLNm)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Sales revenue	**8 312,3**	7 544,6	5 742,8	*10,2%*	*44,7%*
Operating profit	**354,3**	55,6	339,3	*537,2%*	*4,4%*
Depreciation and amortisation	**134,1**	132,2	100,0	*1,4%*	*34,1%*
EBITDA	**488,4**	187,8	439,3	*160,1%*	*11,2%*

The 44.7% rise in the downstream segment's sales revenue in Q4 2011 relative to Q4 2010 was mostly attributable to growing prices of crude oil and petroleum products on the global markets, appreciation of the US dollar, higher sales volumes and optimised sales structure. In Q4 2011, the average price for Brent crude (Dated Brent) was 109.35 USD/bbl, up by 22.88 USD/bbl (or 26.5%) on Q4 2010. The average net selling price in the downstream segment rose by 40.8%, from 2,309 PLN/t in Q4 2010 to 3,252 PLN/t in Q4 2011. Relative to Q3 2011, the segment's selling prices increased by 10.0%, mainly on the back of higher exchange rates. The higher USD exchange rate was the main reason behind the 10.2% rise in sales revenue relative to Q3 2011.

In Q4 2011, operating result of the downstream segment was by PLN 15.0m higher than in Q4 2010. The Q4 2011 operating result was positively affected by higher crack margins on middle distillates and optimised fuel sales volume and structure.

Operating result of the downstream segment was negatively affected in Q4 2011 by impairment losses on tangible assets under construction, totalling PLN -28m.

Network of LOTOS service stations

Table 11: Number of service stations in the LOTOS network at end of period

Total number of service stations	Dec 31 2011	Sep 30 2011	Dec 31 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
	369	324	324	*13,9%*	*13,9%*
CODO	**190**	161	154	*18,0%*	*23,4%*
including: LOTOS OPTIMA	**33**	3	0	*1000,0%*	-
DOFO	**136**	117	109	*16,2%*	*24,8%*
including: LOTOS OPTIMA	**17**	2	0	*750,0%*	-
franchise agreements signed	**139**	121	113	*14,9%*	*23,0%*
DODO	**43**	46	61	*-6,5%*	*-29,5%*

Table 12: Operating results of the retail business

Operating results (thousand tonnes/PLN	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Sales volume	**267,1**	280,6	259,7	*-4,8%*	*2,9%*
Sales revenue	**1 469,8**	1 439,7	1 142,0	*2,1%*	*28,7%*
Operating profit/(loss)	**-11,2**	-2,1	-3,8	-	-
Depreciation and amortisation	**12,0**	12,0	12,6	*0,0%*	*-4,8%*
EBITDA	**0,8**	9,9	8,8	*-91,9%*	*-90,9%*

**In order to better reflect the results of the Group's operations, starting from 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.*

45 new OPTIMA service stations

In Q4 2011, the retail sales volume rose by 2.9% relative to Q4 2010, mostly owing to an expanding domestic market for fuels (record-high increase in diesel oil consumption, while consumption of gasolines dropped).

In mid-2011, LOTOS OPTIMA, a new line of service stations was launched in the economy segment. Out of the overall figure of 50 OPTIMA service stations, 45 were opened in Q4 2011. Since most of the stations became operational at the end of Q4 2011, the Group expects to see an increase in its sales volumes in 2012. In order to improve profitability of the retail business in adverse market conditions, Grupa LOTOS has been reducing operating costs by developing the OPTIMA service stations in the economy segment.

The continued negative operating performance of the retail segment is a consequence of a low unit margin on sales of fuels, which follows from a deterioration of market conditions due to oil price rallies, higher USD/PLN exchange rate and a limited scope for passing the increases onto the market.

Table 13: Effect of inventory valuation on the operating results of the downstream segment

Effect of inventory valuation on the operating results (PLNm)	Q4 2011	Q3 2011	Q4 2010
Operating profit	**354,3**	55,6	339,3
LIFO effect*	**-348,5**	-124,5	-177,7
LIFO operating profit/(loss)	**5,8**	-68,9	161,6

**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 crude oil prices on the prices of finished products. Thus, an increase in crude oil prices has a positive effect on the financial performance, while a decrease drives it down. The operating result accounting for the impact of this valuation method is presented in the table.*

In Q4 2011, the weighted average method of inventory valuation applied by the LOTOS Group, combined with the appreciation of the dollar during the quarter, drove up the operating result of the downstream segment by PLN 348.5m. In the comparative period, the inventory valuation method boosted the operating profit of the segment by PLN 177.7m. In the previous quarter, i.e. Q3 2011, the operating result was lifted by PLN 124.5m. If the LIFO method had been applied to inventory valuation, the operating result of the downstream segment would have been PLN 5.8m in Q4 2011, PLN -68.9m in Q3 2011 and PLN 161.6m in Q4 2010.

4 Other business

Table 14. Operating results of other business*

Operating results (PLNm)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Sales revenue	**7,4**	5,2	5,3	***42,3%***	***39,6%***
Operating profit/(loss)	**3,8**	-0,6	-0,4	**-**	**-**
Depreciation and amortisation	**2,3**	2,5	2,5	***-8,0%***	***-8,0%***
EBITDA	**6,1**	1,9	2,1	***221,1%***	***190,5%***

* *Includes: LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., Energobaltic Sp. z o.o. and LOTOS Gaz S.A. w likwidacji (in liquidation).*

5 Consolidated statement of comprehensive income

In Q4 2011, the LOTOS Group posted PLN 190.2m in operating profit, up by PLN 97.6m on Q3 2011 and down by PLN 114.6m on Q4 2010, due to various effects of non-recurring events involving recognition of impairment losses on assets. Foreign exchange losses related to operating activities decreased operating profit by PLN 12.2m, whereas in Q4 2010 the foreign exchange differences had a positive effect on EBIT of PLN 84.4m.

EBIT in Q4 2011 of over PLN 190m

For the 12 months of 2011, operating profit of the LOTOS Group reached PLN 1,016.5m, which represented 95.8% of the operating profit generated in 2010 (PLN 1,061.4m).

EBIT in 2011 over PLN 1bn

Table 15. Operating results of the LOTOS Group

Operating results (PLNm)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Sales revenue	**8 364,4**	7 597,5	5 735,4	*10,1%*	*45,8%*
EBITDA	**353,7**	254,5	421,2	*39,0%*	*-16,0%*
Operating profit	**190,2**	92,6	304,8	*105,4%*	*-37,6%*
LIFO operating profit/(loss)	**-158,3**	-31,9	127,1	-	*-224,5%*

** 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. 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 data for Q4 2010.*

In Q4 2011, net profit was PLN 93.8m, compared with a net profit of PLN 251.5m in Q4 2010 and a net loss of 328.6m in Q3 2011. The effect of the recognised impairment losses on assets (net of their impact on the Group's tax position) was PLN -108.2m (of which the effect of impairment losses on assets related to the YME project was PLN -78.8m).

Q4 2011 net profit of PLN 94m

For the 12 months of 2011, net profit was PLN 654.2m, i.e. PLN 27.2m less than in 2010.

Table 16. Net profit of the LOTOS Group

Net profit (PLNm)	Q4 2011	Q3 2011	Q4 2010	Q4 2011 vs. Q3 2011	Q4 2011 vs. Q4 2010
Pre-tax profit/(loss)	**-35,3**	-432,5	245,0	*-91,8%*	*-114,4%*
Net profit/(loss)	**93,8**	-328,6	251,5	*-128,5%*	*-62,7%*
Net profit/(loss) attributable to owners of the Parent	**93,7**	-328,6	251,3	*-128,5%*	*-62,7%*

In Q4 2011, the LOTOS Group reported net finance expenses of PLN -225.5m, primarily due to PLN -123.9m foreign exchange losses from revaluation of debt denominated in foreign currencies, PLN -58.1m negative valuation and settlement of hedging transactions, and PLN -63.6m of interest on debt.

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. In consequence, in the period from January 1st 2011 to December 31st 2011, foreign exchange losses taken to the cash flow hedging reserve were PLN -514.3m. In Q4 2011, foreign exchange losses reducing the value of the cash flow hedging reserve were PLN -177.2m.

In the analysed period, net valuation and settlement of market risk hedging transactions at the LOTOS Group was negative at PLN -58.1m.

In Q4 2011, total net loss 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 -47.5m. The net loss on settlement and valuation of interest rate hedging transactions in Q4 2011 was PLN -10.6m.

Table 17: Foreign exchange risk hedging transactions as at December 31st 2011

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	209 100 000	EUR	1.2914 - 1.44393
EUR/PLN exchange rate	Forward	36 350 000	EUR	4.2133 - 4.6462
USD/PLN exchange rate	Forward	-175 100 000	USD	2.8895 - 3.5806

Table 18: Interest rate risk hedging transactions as at December 31st 2011

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Oct 15 2008 to Jul 15 2011	from Jan 15 2013 to Jan 15 2018	500 000 000	USD	3.33% - 4.22%	6M LIBOR

6 Consolidated statement of financial position

Table 19: Consolidated statement of financial position

	Dec 31 2011	Dec 31 2010	change	%
Assets (PLNm)	**20 350,5**	17 727,4	*2 623,1*	***14,8%***
Non-current assets, including:	**11 469,7**	10 872,1	*597,6*	***5,5%***
Property, plant and equipment	**8 964,4**	6 173,8	*2 790,6*	***45,2%***
Tangible assets under construction	**1 543,6**	4 213,7	*-2 670,1*	***-63,4%***
Current assets, including:	**8 773,1**	6 847,4	*1 925,7*	***28,1%***
Inventories	**5 863,2**	4 506,8	*1 356,4*	***30,1%***
Trade and other receivables	**2 185,7**	1 821,9	*363,8*	***20,0%***
Current financial assets	**129,0**	55,9	*73,1*	***130,8%***
Cash and cash equivalents	**382,3**	382,6	*-0,3*	***-0,1%***
Assets available for sale	**107,7**	7,9	*99,8*	***1263,3%***
Equity and liabilities (PLNm)	**20 350,5**	17 727,4	*2 623,1*	***14,8%***
Equity	**7 778,3**	7 513,5	*264,8*	***3,5%***
Non-current liabilities	**5 744,0**	5 039,1	*704,9*	***14,0%***
Current liabilities	**6 788,1**	5 174,6	*1 613,5*	***31,2%***
Liabilities associated with assets available for sale	**40,1**	0,2	*39,9*	***19950,0%***

Increase in non-current assets following recognition of intangible assets related to licences in Lithuania

As at December 31st 2011, the LOTOS Group had total assets of PLN 20,350.5m, which means an increase of PLN 2,623.1m during the 12 months of 2011. Non-current assets grew by PLN 597.6m, mainly due to the recognition of intangible assets in the amount of PLN 291.8m, representing licences awarded to AB LOTOS Geonafta and its group members (UAB Genciu Nafta, UAB Minijos Nafta, and UAB Manifoldas) which confer the right to exploit hydrocarbon reserves in Lithuania.

As at December 31st 2011, inventories stood at PLN 5,863.2m, meaning an increase of PLN 1,356.4m during 2011, chiefly due to the rise in volumes of mandatory reserves as a result of higher production and sales figures – a result of improved production capacity of the Gdańsk refinery and higher prices of crude oil and petroleum products at the end of 2011 compared with the end of 2010. Higher product prices also brought about a PLN 363.8m rise in trade and other receivables. As at December 31st 2011, current assets totalled PLN 8,773.1m, and were by PLN 1,925.7m higher than on December 31st 2010.

As at December 31st 2011, equity amounted to PLN 7,778.3m, having grown by PLN 264.8m over the 12 months of 2011, primarily as a result of the PLN 658.1m increase in retained earnings and the PLN -415.5m foreign exchange losses on valuation of cash flow hedges net of the tax effect, taken to the cash flow hedging reserve.

Non-current liabilities grew by PLN 704.9m during the 12 months of 2011, primarily as a result of the PLN 580.4m increase in non-current interest-bearing loans and borrowings, attributable mainly to revaluation of debt using a higher exchange rate, as well as to Grupa

LOTOS S.A.'s and the upstream segment's investing activities. Other non-current financial liabilities grew by PLN 153.3m in 2011, primarily in connection with the PLN 106.5m increase in lease liabilities.

As at December 31st 2011, current liabilities stood at PLN 6,788.1m, having grown by PLN 1,613.5m in 2011, mainly due to the PLN 1,231.9m increase in trade payables, accruals and deferred income and other liabilities. Current loans and borrowings increased by PLN 483.9m, mainly as a result of a transfer of non-current loans to current loans and in connection with development of the upstream segment operations.

As at December 31st 2011, the financial debt of the LOTOS Group amounted to PLN 7,391.1m, up by PLN 1,064.3m on the figure reported at the end of 2010, following primarily from the change in the USD/PLN exchange rate. The ratio of financial debt (adjusted by free cash) to equity was 90.1%, i.e. by 11.0pp more than as at December 31st 2010.

7 Consolidated statement of cash flows

Table 20: Consolidated statement of cash flows

Consolidated statement of cash flows (PLNm)	Q4 2011	Q3 2011	Q4 2010
Cash flows from operating activities	**703,8**	473,8	57,9
Cash flows from investing activities	**-263,7**	-188,9	-140,1
Cash flows from financing activities	**-299,2**	-29,2	-12,4
Change in net cash	**145,1**	279,0	-88,9
Cash and cash equivalents at beginning of period	**12,7**	-266,3	207,1
Cash and cash equivalents at end of period	**157,8**	12,7	118,2

As at the end of Q4 2011, the LOTOS Group's cash balance (including current account overdrafts) stood at PLN 157.8m, and was by PLN 39.6m higher than at the end of 2010, and by PLN 145.1m higher than at the end of Q3 2011.

Positive cash flows from operating activities

In Q4 2011, net cash flows from operating activities were positive at PLN 703.8m, primarily owing to net profit of PLN 93.8m, increased by a PLN 163.5m amortisation and depreciation figure, a PLN 272.4m loss from investing activities, and a PLN 100.2m foreign exchange loss. The figure accounted for a PLN 117.8m decrease in receivables and a PLN 89.5m increase in current liabilities net of loans and borrowings.

Higher cash and cash equivalents at end of period

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

In Q4 2011, net cash flows from financing activities were negative at PLN -299.2m. The figure accounted for PLN -132.0m of repayment of loans and borrowings along with paid interest adjusted by increase in loans and borrowings, a PLN -120.0m bonds redemption figure and PLN -45.5m of negative settlement of financial instruments.