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Deloitte Touche Tohmatsu

LOT Polish Airlines
Final Report

Delivery Order No. 17

Contract No. EUR-0014-I-00-1056-00
Eastern Europe Enterprise Restructuring and Privatization Project

USAID
U.S. Agency for International Development
EUR/RME

November 15, 1994

Deloitte Touche Tohmatsu International

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December 16, 1994

Mr. William Binns
USAID
ENI/PER/EP
1800 North Kent Street
Rosslyn, VA 22209

Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 17, LOT Polish Airlines, Draft Final Report

Dear Bill,

In accordance with Article IV of the above-referenced Delivery Order, enclosed please find four copies of the Draft Final Report for LOT Polish Airlines. Also included are annexes of reports which were originally submitted with Delivery Order No. 8. In the interests of providing a complete summation of our work with this LOT we are resubmitting these reports at this time.

These deliverables were prepared by the Deloitte and Touche team working in Poland. If you have any questions concerning these deliverables, please call Adrienne Brombaugh at (202) 879-5650.

Sincerely,

Lizann Prosser
Senior Manager
Central & Eastern Europe

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I. INTRODUCTION

Under Contract #EUR-0014-I-00-1056, Delivery Order # 08, Deloitte & Touche provided technical assistance to LOT Polish Airlines. The objective of the assignment was to assist the airline in its restructuring, ultimately leading to privatization of the airline.

Our assistance to LOT included providing guidance and advice to the airline in the adoption of a new mission, i.e. becoming a competitive and profitable company. The company is determined to evolve into a successful and viable business. According to the strategy developed during our assignment, the mission of the company is based on two overriding objectives:

- generating sufficient profits without government support
- becoming a market-oriented and service-based organization.

In the initial stage of our assignment, we agreed with management that the following changes in concept and operating philosophy of the company within the new environment should be:

Situation in the Prior Planned Economy	Requirements in the Competitive Market Economy
Government Budget Accounts	Grow Shareholder Value
Operate within Costs	Earn Profits
Generate Foreign Currency	Generate Cash Flow
Easy Access to Capital	Compete for Capital
Revenue as Measure of Success	Return on Investment
Functional Hierarchical Structure	Task Force/Business Unit Structure
Cross Subsidized Pricing	Cost-based/Yield-based Pricing
Employment Security	Performance Security
Low Emphasis on Productivity	High Emphasis on Productivity

Deloitte & Touche was requested to continue the tasks undertaken during the first stage of the project under Delivery Order # 17. The primary objectives under D.O. # 17 were:

- Establishment of an East-West strategic partnership
- Commercialization and privatization of the airline.

Establishing an East-West strategic partnership required the assistance of an investment bank. This assistance would guarantee continuation of a professional level of services as well as transferring a majority of the costs of the transaction to a success-fee basis. Because the process of retaining an investment bank to assist LOT Polish Airlines in the negotiations with potential strategic partners took longer than it was anticipated under the contract scheduling, Deloitte & Touche proposed to re-focus the scope of assistance to LOT under D.O. #17. As approved by both USAID and LOT, management requested Deloitte & Touche to assist them in preparation of a business plan and a transformation of financial statements according to international recognized standards.

II. OVERVIEW OF LOT POLISH AIRLINES

Polskie Linie Lotnicze LOT has provided transportation services for passengers and cargo since 1929. During its 65 year history, the company has gradually diversified the range and scope of its services. Initially a domestic airline, LOT expanded to western European gateways and in 1973 began North Atlantic flights. In 1979, LOT launched connections with the Far East. Currently, the route network served by LOT includes 7 domestic and 49 international gateways. It includes the major European and American markets.

PLL LOT has the most modern fleet within Europe. In 1993, LOT owned 16 Boeings and 7 ATR planes.

In 1993, the company had total gross revenues in the amount of 6,587 bln PZL. Projections for 1994 assume an increase in yield of 31% which should result in revenues in the amount of 8,638 bln PZL. The real increase in revenues (after including an inflation rate for 1994) would be approximately 2%. Taking into consideration that the devaluation of Polish currency on an annual basis may be lower, the real growth in revenues could be higher.

In 1993 the company accomplished a number of activities which were proposed in the restructurization plan. Among the most important were:

- Separation of catering and cargo activities from core activities
- Launching of new routes
- Initiation of a training program, organized by Pegasus and financed by the Dutch government
- Continuation of the Integrated Domestic and International Transportation Program
- Development of a frequent flyer program - "Voyager"
- Implementation of a new yield management system.

In addition to these activities, management of the company concentrated on negotiations with potential strategic alliance partners. At the beginning of 1994, an agreement with American Airlines was signed. According to information obtained from publicly available sources, final terms of the contract should be determined by the end of July 1994. We have been informed by representatives of LOT that the major benefits which LOT would expect from this agreement are:

- gaining access to the American market - inland routes,
- gaining access to a sophisticated reservation system,
- increasing cargo shipments,
- transformation of the Warsaw airport into a larger hub within Eastern Europe,
- intensification of operations over the Atlantic,
- promotion and marketing training,
- access to specialist training and know-how.

III. ACCOMPLISHMENT OF THE USAID CONTRACTORS

LOT Polish Airlines has obtained significant gains in both productivity and operations and has entered into an number of joint ventures with Western firms due to the assistance provided by Deloitte & Touche. Specifically, the major accomplishments derived by LOT during the period of our assistance have been:

- LOT completed a major reorganization
  - The current organizational structure of LOT is the result of a complex reorganization conducted in the first half of 1993. This organizational change transformed LOT from a typical "Eastern European" Governmental monolith into an organization resembling that of Western Airlines. As a result of this transformation, LOT has significantly increased operating efficiency by defining and simplifying their organization, organizational procedures, and information flows. They have also increased the quality of their services and become more competitive. They have intensified their marketing focus and activities and concentrated on their core business.

- LOT has initialized major changes in their Human Resources policies.
  - LOT created a new Human Resources organization during the organizational transformation. This new organization has a strong focus on Human Resources development and training. LOT has entered into an agreement with the Dutch Government to provide sponsored training programs.

- LOT has focused their marketing activities.
  - LOT plans to spend approximately 2% of their revenue (about average for all IATA members) for marketing. For 1994 the major proportion of the marketing budget has been delegated to promotion and advertisement activities in the Polish Market. LOT has contracted with Pentor, a professional research company, to conduct market research for airlines services in Poland. LOT has also held discussions with Time Management concerning business class promotion and services. LOT also has implemented new pricing policies more closely resembling those of Western carriers.

- LOT separated non-core businesses from the Company.
  - As a result of the restructuring reorganization process, catering and ground service were separated from the company. Management of these companies was delegated to professional world-wide companies. Catering is managed by SAS service partners and ground service is managed by AMR Services International. Approximately 1200 employees were transferred to these new companies significantly reducing the number of employees involved in core operations. LOT plans to separate a number of other activities in the near future.

- LOT has conducted presentations and reviews of the airline with a number of Western airlines.
  - In 1992, we assisted LOT with the development of a presentation specifically designed to interest foreign airlines in developing associations and relationships with LOT. These presentations were given to Air New Zealand, Lufthansa and others. As

a direct result of these presentations, LOT now leases aircraft from Air New Zealand during peak periods, AMR manages ground services and SAS services partners manages catering.

- LOT has 1993 financial statements, transformed in accordance with international standards.
  - LOT needs "Western" styled financial statements in order to negotiate with Western organizations. This was a significant endeavor and should greatly assist LOT as their management continues on the road towards privatization.

- We prepared a business plan for LOT airlines. This is a comprehensive document that provides LOT Management with a document that will be used in attracting foreign investment and assistance.

Additionally, Deloitte & Touche performed advisory services to the management of LOT, which, in particular, included the following:

- Preparation of a report presenting pre-privatization issues and recommendations. This report is attached in Appendix 1,

- Preparation of a presentation of LOT Polish Airlines which described LOT's background, privatization issues and opportunities for potential strategic partners. This report is attached in Appendix 2.

- Preparation of a report presenting a business plan developed by the management of LOT Polish Airlines for 1994. An English version of this business plan is attached in Appendix 3.

- Preparation of a report including LOT financial statements for 1993, compiled in accordance with international accounting standards.

- Preparation of a software diskette containing a financial forecasting model which was used for preparing the privatization plan. This was accompanied by training on the use of this model by LOT's finance department. This model is currently used as a financial planning model and as a part of the periodic reporting system.

- Preparation of detailed analyses of proposals from investment banks. We participated in meetings with the selection committee and assisted them in the evaluation of proposals. The proposals were evaluated using the following criteria:

  - experience in the airline industry
  - experience in Poland and other Eastern European countries
  - relevant experience in privatization and advisory work
  - experience of the advisory team
  - proposed approach of the assignment
  - price and billing arrangement
  - knowledge of LOT Polish Airlines
  - LOT's relations with the investment bank

- involvement/advisor to potential strategic partners
- involvement/advisor to competing airlines in Eastern Europe.

As a result of the analysis and review by the selection committee, Bankers Trust was appointed to assist LOT and the Ministry of Transportation in negotiating an East-West strategic alliance and with the privatization of the company.

IV. USAID CONTRACTORS INDIVIDUAL PARTICIPATION

Presented below in a summary of individual consultant working days on the LOT project:

Expatriates

Financial planners

Coen Potters	38 days
Mike Barrington	24 days
Richard Sterbanz	36 days

Accountants/Auditors

Paul Pepliński	16 days

Marketing and Exp. Promotion

Walter Tabaczyk	3 days

Polish nationals

Partners/Directors

Jan Maciejewicz	11 days
Andrzej Koliński	0.5 day

Managers

Jacek Glinka	0.5 day
Wojciech Roman	19 days
Maria Wójcik-Korpała	8 days

Seniors/Consultants

Grzegorz Margas	15 days
Jolanta Kokosińska	16 days

Assistants/Associates

Monika Rymuszka	15 days

V. OUTSTANDING ISSUES

5.1 Privatization of the Airline

After two years of market-orientation transformation, LOT Polish Airlines is just at the beginning of the process towards privatization. The goal to privatize the company, set in 1992 and to be accomplished within a 2-3 year period, was not realistic in terms of timing or scope, but privatization of the company was used as the reason and rationale to initiate and accomplish the restructuring work which was started during that period.

The privatization of LOT Polish Airlines was first discussed during the years 1991-1992, when the national economy of Poland was undertaking the transformation process. Privatization was considered as a must to adjust to free market "economies". Private companies were considered to be more efficient and to promote the stability of a market economy.

During that period of time, the Polish government and their advisors on privatization thought that methods which were applied in privatizing airlines in such countries as the UK or Australia would be easy to follow. One of the privatization paths that LOT Polish Airlines considered emulating was the privatization of British Airways in the UK. Due to significant differences in the situation of the two airlines, such as the size of the airline, the economic environment and other external factors associated with the boom in the airline business in the world economy which accompanied the privatization of BA, this approach did not easily adopt to the privatization of LOT.

The privatization of LOT was set as a priority by its management. It also was supported by the liberal government, however, the opinions on the financial and operational performance of the airline differed. Deloitte & Touche was retained by USAID, at the request of the management of the company, to assist in the transition process. One of the purposes of the assignment was to obtain government support for the transformation processes within the company and for the implementation of a privatization strategy.

The goals of this assignment were significantly completed, in spite of difficulties the company encountered in the beginning of the process towards obtaining a long-term commercial viability.

At the end of 1992 the company was commercialized, i.e. transformed into a joint stock company. As a joint stock company, LOT Polish Airlines is subject to a more stringent financial discipline. Under the regulations of the commercial code, the company's financial statements require a statutory audit. In 1993, the company presented, for the first time, financial statements audited by a licensed auditing firm in accordance with Polish accounting standards. For 1993, the company showed net profits in the amount of 42 billion PZL.

Our privatization study identified issues which required a new approach to managing the company in the new environment. For example, the deciding factor for selling company shares to potential investors is the return on assets. This information was difficult to obtain from the company accounts before commercialization. Profitability ratios calculated based on the 1993 accounts showed that results obtained by LOT Polish Airlines were not sufficient to attract serious investors. For instance, in 1993 the company reported a negative return on equity (6.32%), as compared to 5.4% in 1992. If international accounting standards had been applied to the equity valuation and the operating profit calculation, the ratio might significantly differ.

Additionally the situation throughout the world has not provided an environment conducive to the privatization of airlines.

The Gulf War was widely blamed at the time for triggering a worldwide collapse in confidence and profitability throughout the commercial aviation and airline industry. The underlying cause of the loss of confidence however was the financial market's reaction to the realization that growth forecasts published during the economic boom of the late 80s were not necessarily now achievable.

The air traffic growth curve failed to continue its accelerating upward trend as a consequence, in part, of passengers not flying during the Gulf crisis and this served to highlight to bankers the risks they were exposing themselves to in meeting the ever-increasing demands for finance for new and expensive airline equipment. The Japanese banks, who had earlier dominated the market for aerospace finance, reassessed their portfolios and, almost to a man, withdrew substantially from the market.

In the late 80s, demand had outstripped supply and aircraft values - both new and used - soared. Poor, or even negative airline operating profits could be sustained because of readily realizable balance sheet profits. The lending institutions could look less at the covenant of the operator and more to the maintenance, or even enhancement, of the aircraft's values.

This underlying assumption was a key element in financing the boom in orders placed in response to the economic growth projections. An air of confidence all round led to manufacturers increasing production rates and both airlines and leasing companies placing substantial forward orders. They acted on the assumption that 100% funding would be obtainable at the time of delivery because, by then, there would already be significant equity values in the aircraft. Some operators even funded their business solely on the back of the potential equity in their order books.

Like all trends, it could not and did not last. The downturn in business caused reassessments. Retrenchments by several major operators resulted in orders and options for new aircraft being rescheduled or canceled. Premium values for new aircraft disappeared an the bubble burst.

Airlines, which had been sustained by the equity they assessed as available in their new aircraft, found that their anticipated finance lines were no longer available. Capital profits were no longer there to cover increasing operating losses and thus many airlines collapsed in a very public manner. Confidence, already shaken by the downturn in business, now started to disappear completely. This became an inevitable self-sustaining spiral.

Like all true markets, over-reaction occurred. We now have the euphoria of the boom times replaced by the gloom and despondency of the lean. Whilst it will turn full circle in time because of the underlying demand for air transportation, few are prepared to forecast when.

In the meantime the industry is in crisis.

- Airlines have not fully regained the traffic lost during the Gulf crisis because of continuing worldwide economic recession. Fares continue to be forced downward in endeavors to regain load factors and match competition. With few exceptions, profitability of airlines is hammered and optimism becomes replaced by a siege mentality.

- Manufacturers, with long lead times for the production cycle of an airliner, are forced to reschedule orders and reduce production levels. But, like a supertanker making a course adjustment, the effects of such change can only be seen several years hence, by which time the market could even have recovered.

- Lenders, either direct to operators or to the intermediate leasing companies, see their security evaporate and confusion of opinion as to when, or even if, values will recover.

- Leasing companies are caught in the stranglehold between the problems of the operators and those of the lenders. Their position is possibly the worst of all. Their customers may be having problems in servicing rental payments and, in any event, have the alternative of hiring in much cheaper aircraft from the massive poll of now surplus equipment available at bargain basement lease rates.

The lenders, who may not be committed to provide new funds to finance outstanding orders, may well have decided that their aerospace portfolio is full, or even overfull, and be looking to reduce their exposure rather than increase it. So new funds to meet maturing commitments are simply not available.

The manufacturers, facing declining order books and already holding substantial deposits, may not be very amenable to rescheduling or accepting cancellations of firm orders without extracting significant penalties to reflect the damage being caused to their businesses.

The present financial situation of LOT may cause a lack of confidence in long-term returns. The company has operated in the new environment for a short period of time. The experience of "rush" transactions in the airline business in Eastern Europe, i.e. Czech Airlines and Malev Hungarian Airlines, has not encouraged other equity transactions in the airline business.

Achieving the goal of privatization is not an easy task, both for the management and the owners (the Polish government). There are both external and internal issues. Some external issues are:

- the current situation in the airline industry, both in Europe and in the US
- the perceived high political risk of investing in East and Central Europe
- systematic risk - differences of economic and financial systems
- market risk - accountability of doing business in Poland, especially in such a complicated area as airlines

Some internal issues which make privatization in a short period of time difficult are:

- operational viability of the airline against investment requirements (changing the fleet)
- financial results from the core business
- accessibility of the financial information for separate activities, of which the profitability calculation of routes is especially significant

Despite efforts undertaken during past two years, LOT Polish Airlines is not yet a good privatization candidate, both for local and foreign investors. Strategic alliance is the first step on the way to improving the operations of the company. At this time, the government could not negotiate a good price for the offered equity, even if the investors expressed interest. Valuation of the airline would be complicated. Selling the company to foreign investors does not guarantee long-term stability for a national airline. Selling shares locally would probably not satisfy the two sides of the transaction - seller and investor. Floatation of the company shares and listing on the stock exchange should be viewed as a 3-5 year goal.

Strategic alliance

In the overview of the operations of LOT, we mentioned the strategic alliance negotiations with American Airlines. We have not been informed about the details of these negotiations. Negotiations were expected to be concluded at the end of July, 1994, according to the information released to the public.

APPENDIX 1

APPENDIX 2

APPENDIX 3

Deloitte Touche Tohmatsu

LOT Polish Airlines Annex I: Restructuring and Privatization Plan

Delivery Order No. 17

Contract No. EUR-0014-I-00-1056-00
Eastern Europe Enterprise Restructuring and Privatization Project

USAID

U.S. Agency for International Development
EUR/RME

May, 1992

Deloitte Touche Tohmatsu International

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PLL LOT
RESTRUCTURING AND PRIVATISATION PLAN

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A. THE PAST -- AN INSTRUMENT OF FOREIGN POLICY

B. THE FUTURE -- A COMPETITIVE COMMERCIAL COMPANY

C. CORPORATE OBJECTIVES

I. MISSION AND PURPOSE OF LOT

A. The Past -- An Instrument of Foreign Policy

LOT's mission in the past was to be the national flag carrier of the Polish Republic

- Primarily political -- to extend influence
- A second purpose was economic -- to generate foreign currency overseas

* **Routes, Fares, Sales & Marketing**

- Routes were established for political reasons: many were unprofitable
  - -- Large portion of routes servicing the East bloc and Middle East
  - -- High number of routes in proportion to number of international passengers
- Fares were not based on cost or economics
  - -- Low cost government subsidized fares for Polish citizens and citizens of other East bloc countries
- Monopoly control over sales & marketing
  - -- Foreign currency regulations prevented Polish citizens from using services provided by foreign carriers
  - -- Reliance on General Sales Agents
  - -- Overreliance on ethnic market

* **Operations**

- Reliance on Soviet aircraft became a severe constraint
  - -- Poor quality
  - -- High maintenance costs
  - -- High fuel consumption
  - -- Limited capacity, limited cargo
  - -- No emphasis on service -- which was below western standards

I. MISSION AND PURPOSE

B. The Future -- A Competitive Commercial Company

LOT's mission is to become a successful and viable enterprise

* To operate profitably without government support
* To be a market-oriented, service-based organization
* To be a good corporate citizen who represents Poland to the international community

* **Routes, Fares, Sales & Marketing Changes**

  - Concentrate on key markets and drop unprofitable, non-strategic routes
  - Improve yield
  - Promote business-oriented scheduling
  - Cater to needs of business travellers
  - Implement aggressive advertising campaign
  - Promote "Western business airline" reputation

* **Operational Changes**

  - Modernize fleet
    - -- Changeover to Western aircraft
    - -- Retire/ground Soviet aircraft
  - Promote Warsaw Okęcie airport as a major east European hub airport and LOT's position domestically and internationally
    - -- Introduce price competitive connections to major European and long haul markets
    - -- Develop regional hub and spoke operations to increase East-West traffic flow
    - -- Develop regional commuter operations linking major Polish markets to major EC hubs
  - Implement Western-style management control and cost reduction in the restructuring process

* **Overall Strategy**

  - Establish an East-West strategic partnership to gain access to:
    - -- Larger markets and increased traffic
    - -- Distribution and information technology
    - -- Western-style management and operations
    - -- Global CRS covering the important markets of Western Europe, America and the Far East

I. MISSION AND PURPOSE OF LOT

C. Corporate Objectives

LOT's corporate objectives are set out below. Management recognizes that some objectives may conflict with others, and that it will be a critical management task to handle such trade-offs.

* **Privatization objectives**

LOT's ownership will be transformed in order to realize the following objectives:

- To increase the value of the company to ensure the State obtains the greatest benefit (both as the seller of and as the continuing holder of shares in LOT)
- To establish a viable & competitive enterprise
- To create the environment for managing the business as a profit-motivated commercial enterprise
- To facilitate a partnership with a Western airline and strengthen LOT's position in the European Market
- To enhance the financial strength and condition of the airline with an injection of capital
- To generate the funds required for our investment programs, possibly with the assistance of foreign parties
- To provide an appropriate level of accountability to our customers

* **Financial objectives**

LOT's long term financial objective as a privatized entity will be to maximise returns to its shareholders:

- To increase the value of the company
- To operate on a profitable basis
- To improve the financial condition and increase the financial strength of the company
- To revise and improve the capital structure of the company
- To be able to attract capital in the domestic and foreign capital markets
- To improve the financial controls

* **Service quality and customer satisfaction**

An objective is to provide a consistently high level of service to customers. such that it is the "carrier of choice" on the routes where it operates. To achieve this aim our quality goals will have to be achieved throughout the organization. not just in those areas which directly interface with customers.

* **Commercial and marketing objectives**

Our marketing and distribution objectives are to become the preeminent carrier in Central and Eastern Europe and to establish Warsaw as a major connecting hub in the region to radically improve LOT's performance at different points of sale, and to various customer segments. These objectives clearly involve changes in yield management, computer reservation systems and our channel policy. inter alia. We will be best able to realize our goals in this area together with a strong partner. Some of our specific goals include:

- Realize profitable growth in traffic
- Improve the image and awareness in the marketplace
- Attain a higher revenue mix of traffic
- Extending the coverage and effectiveness of LOT's distribution channels

* **Operational/technical objectives**

LOT's operational performance objective is to provide services as efficiently as possible, while aiming to raise technical performance to levels achieved by best-practice airlines. We believe our customers will demand such standards in the future.

Cost reduction targets will be achieved in a number of ways:

- Introduction of new fleet
- Reduction of overall employee numbers in line with actual operational needs
- Separate the cargo and catering activities and move them to subsidiaries
- Reduce the costs of outside handling and overseas catering
- Improve the control of direct operating costs

LOT is also setting targets in technical areas, especially where poor performance means failure to meet our customers' needs.

* **New business development and divestment**

LOT is keen to exploit businesses opportunities in new and exciting areas for the airline, including the development of a package of services that truly opens up the business travel sector to us. The airline will develop new business that support our core activity where it is profitable to do so, and will divest/subcontract others as appropriate. Our goal is to review our business which are not airline-related with a view to divestment.

* **Social**

It will be a continuing part of LOT's overall objectives to balance our social and commercial duties. To this end, we will continue to protect the health and safety of our staff at the workplace, and provide other services in line with operational requirements.

While recognizing the need for staff reductions in some areas, LOT is committed to the redeployment or retraining of staff, wherever possible.

We plan to investigate how employees can be involved in owning LOT shares after privatization.

* **Fleet**

LOT's plan is to replace the predominantly Soviet fleet with Western aircraft so as to:

- Increase market acceptance and customer confidence
- Attract higher yield passengers
- Reduce direct operating costs

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PLL LOT
RESTRUCTURING AND PRIVATISATION PLAN

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II. OVERVIEW OF THE STRATEGY

A. Competitive Position

* LOT's growth in passengers and passenger kilometers over the years 1986-1990 was above the average of the Eastern European airlines. See the chart on the following page

* LOT has a sizeable route network in Europe

* Frequent domestic services feeding Warsaw from major Polish cities

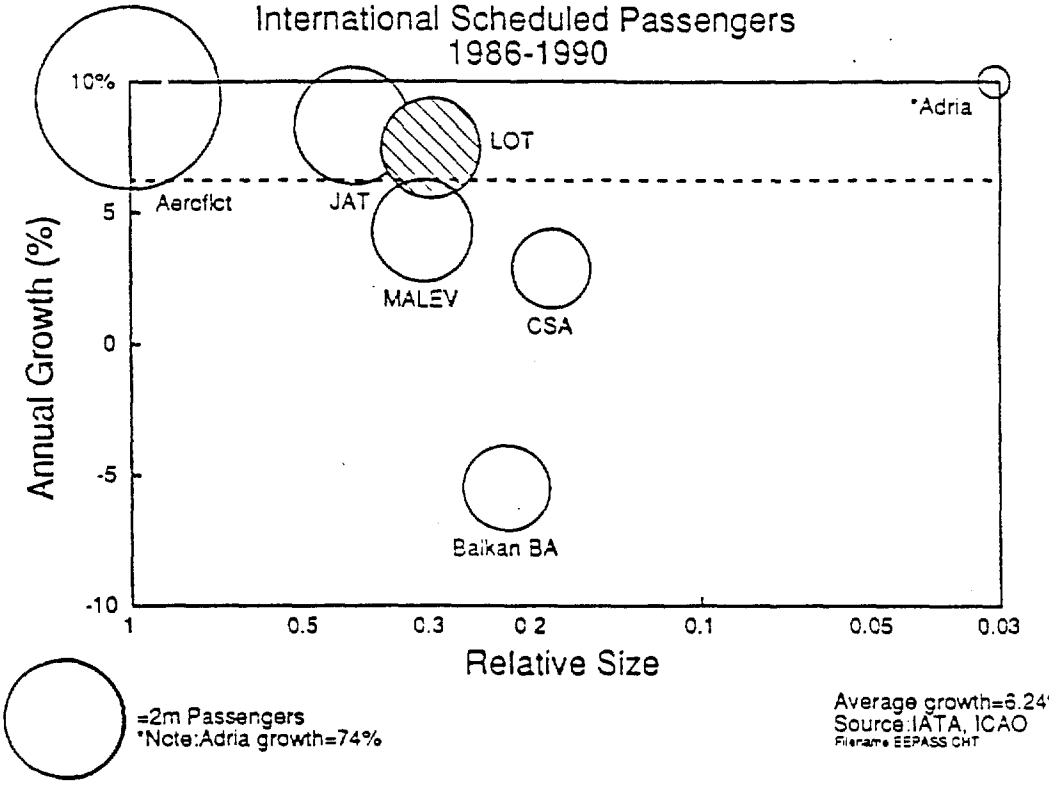
* Extensive sales office network in Poland

* Sales offices in each city served on its international network

* However LOT is losing market share of the traffic into Warsaw from the West

EASTERN EUROPEAN AIRLINES

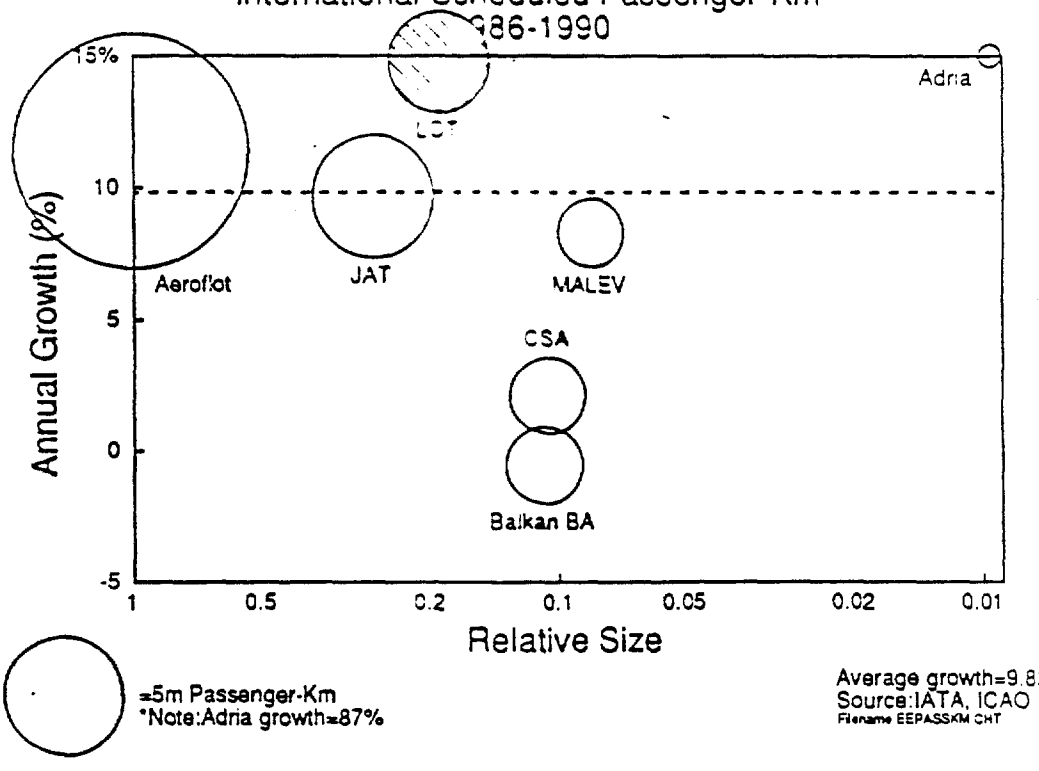
International Scheduled Passengers
1986-1990



Average growth=6.24%
Source:IATA, ICAO
Filename EEPASS CHT

EASTERN EUROPEAN AIRLINES

International Scheduled Passenger-Km
1986-1990



Average growth=9.82%
Source:IATA, ICAO
Filename EEPASSKM CHT

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II. OVERVIEW OF THE STRATEGY

B. Strategic Options

Six broad strategic options were identified and considered by the LOT Steering Group: Strategies based on Warsaw connecting hub:

* **Option 1 Low Fare European Hub**

Establish Warsaw connection routings as an attractive alternative for air travel between major and secondary European cities and maintain share leadership in Warsaw local origin and destination traffic.

- Offer significantly lower fares than major Western European carriers
- Offer consistent, reliable, "no frills" service
- Offer a well constructed schedule:
  - -- carefully constructed connecting banks
  - -- competitive trip times
  - -- reasonable service frequency
  - -- selected time-of-day departures
- Operate an efficient connecting hub
- Develop domestic and East European routes as traffic materializes

* **Option 2 East-West Strategic Partnerships**

In conjunction with a strong, long-term alliance with a leading West European, North American or Far Eastern airline, develop Warsaw into a major hub connecting East and West Europe and North America/the Far East.

- LOT would concentrate on providing highly competitive service between Warsaw and East European markets, a domestic route network, and complementary long haul and West European routes
- A West European partner would establish Warsaw as a secondary hub and provide feed traffic from West European markets and its existing overseas markets
- A North American or Far Eastern partner would establish Warsaw as a major European connecting hub and provide long haul feed traffic
- The partners would engage in extensive joint marketing and share their distribution strength:
  - -- LOT would concentrate on building market strength in Poland and East European markets;
  - -- LOT's partners would provide partnership with their marketing resources in their existing markets
- Schedules would be constructed to maximize connecting traffic and partnership share of regional origin and destination traffic
- The partnership would share management and operational capabilities as appropriate for mutual advantage

II. OVERVIEW OF THE STRATEGY

A. COMPETITIVE POSITION

B. STRATEGIC OPTIONS

C. STRATEGIC ROADMAP

D. TIMETABLE

Strategies based on point-to-point international flag carrier operations:

* **Option 3 National Carrier: Targeted Markets**

Operate point-to-point service from Warsaw to selected European and long haul destinations...an extension of the current LOT strategy

- Concentrate on Polish origin and destination traffic and "natural" markets
- Offer highly competitive service:
  - -- Match or beat competitive fares with managed discounting
  - -- Consistent, reliable, standard quality service
  - -- Match competitive frequencies and manage timing
- Route structure based upon selectively negotiated bilateral rights and profitability assessment
  - -- Focus resources on key high profit routes
  - -- Opportunistic exploitation of less-competitive, secondary East European routes
  - -- Exploit future growth of regional traffic (particularly domestic and Eastern European)
- Strengthen bilateral protection insofar as possible
- Improve financial and cost position as quickly as possible, maintaining consistency with the strategy
- Develop operational and marketing capabilities in a managed and focused manner
  - -- Focus investment in selected, high priority areas
  - -- Utilize contract services where possible
  - -- Stress on productivity (labour and assets)

* **Option 4 National Carrier: Shared/Pooled Routes**

A variant of the National Carrier: Targeted Markets strategy option with emphasis on developing cooperative agreements with other selected national carriers on a bilateral basis

- Operate flights on share/pooled basis whenever possible
- Utilize joint marketing arrangements to maximum extent possible
- Offer highly attractive LOT service similar to sharing or pooling airline
- Emphasis and reliance on bilateral negotiations
  - -- Pooled and shared operations
  - -- Other non-pooled routes

Strategies based on regional operations:

* **Option 5 Regional Networks**

  Provide a highly competitive, commuter service network to link major Polish cities and Central/Eastern European markets

  - Develop domestic service competitive with other modes of transport and other regional carriers
  - Develop shuttle service, linking Warsaw with several primary European hubs
  - Exploit opportunities to develop profitable service between Polish cities and other Central/Eastern European markets
  - Immediate emphasis on restructuring organization to this new operational approach
  - Improve financial and cost position as rapidly as possible, consistent with the strategy
  - Strengthen bilateral protection insofar as possible

* **Option 6 Strategic Alliance Feeder Network**

  A variant of the Regional Feeder Network strategy based on a close, long-term strategic alliance with a leading Western European airline

  - LOT would provide a complementary, cost effective operation to generate regional feed and connecting traffic to the partner's operation
  - The partner would provide LOT with feed to its regional network and connections to multiple international destinations
  - Marketing and distribution of the partnership would be tightly integrated
  - Connecting operations of the partnership would be tightly integrated
  - Immediate emphasis on restructuring organization to this new operational approach
  - Improve financial and cost position as rapidly as possible, consistent with the strategy
  - Strengthen bilateral protection insofar as possible

Each option was assessed by the LOT Steering Group using an appraisal framework as a basis for discussion, highlighting how the strategies tied in with LOT's overall objectives and the major constraints to each option.

The evaluation summary of the options is set out on the following page.

PLL LOT STRATEGIC OPTIONS

CONSTRAINTS	Low Fare Hub	East-West Partnership	National Carrier: Target Markets	National Carrier: Shared/Pooled	Regional Network	Alliance Feeder
Financial Condition						
Relative Cost						
Bilateral Rights						
WAW Facilities						
Strategic Alliance						
OBJECTIVES						
Profitable + Privatized	$$	$$$$	$	$$		$
Independent + Identity	****	**	***	*		-
Employment + Service	ZZZ	ZZZZ	Z	ZZ		Z
	KEY	Critical	Important	Significant	Not	

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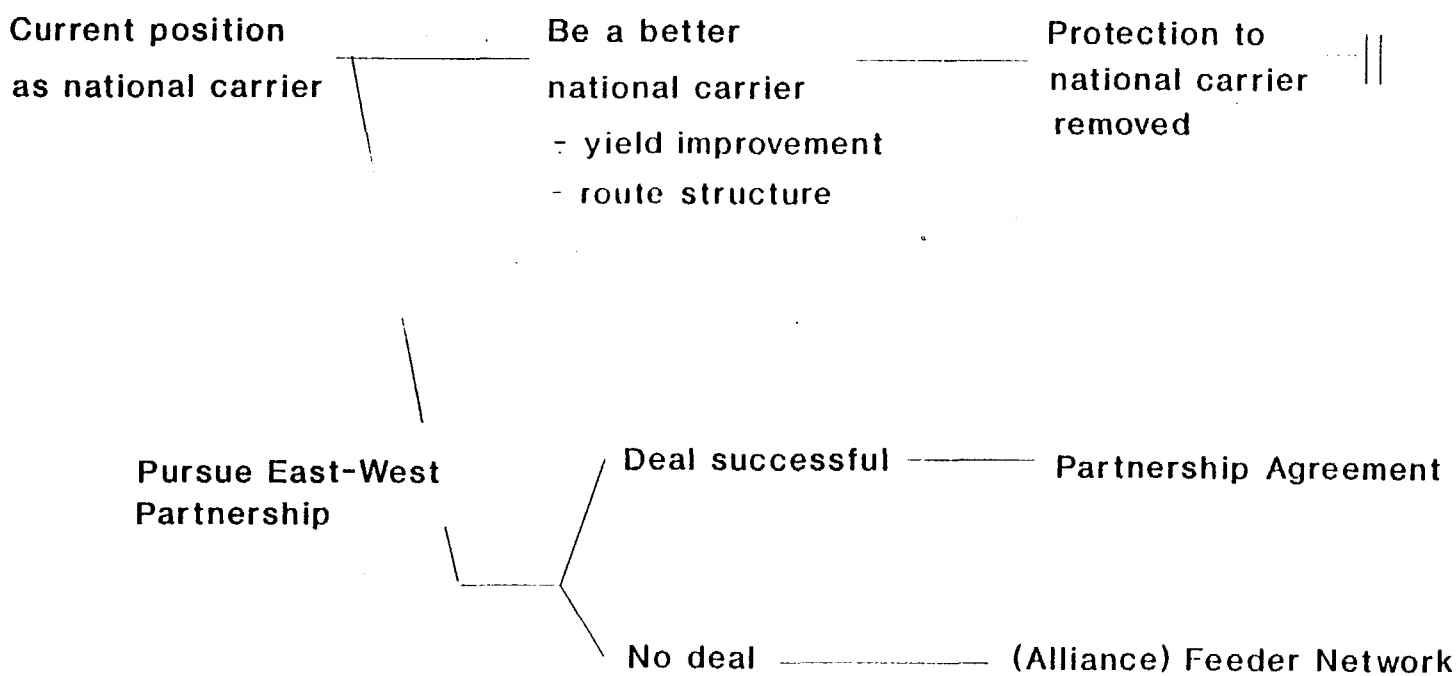
The consensus view of the Steering Group was that LOT should pursue the ambitious option 2 in the long run -- East-West Partnership, and in the meantime restructure and improve the performance on their current strategy, option 3, National Carrier: Target Markets, with a bold program of profit improvement initiatives. If LOT is unable to complete a partnership deal successfully, it would fall back on the less attractive option 6 to provide a Feeder Network.

This course of action is brought out in the strategic roadmap on the following page.

STRATEGIC "ROADMAP"



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II. OVERVIEW OF THE STRATEGY

D. Restructuring and Privatization Timetable

The overall timetable for the restructuring and privatization activities are shown on the attached schedule.

* The strategic partner search and negotiations are one major determinant of the timetable. It is assumed that preparations are completed in June 1992 so that the partner search can begin approximately 1 July 1992. It is assumed that the search will take six months and the negotiations will take six months.

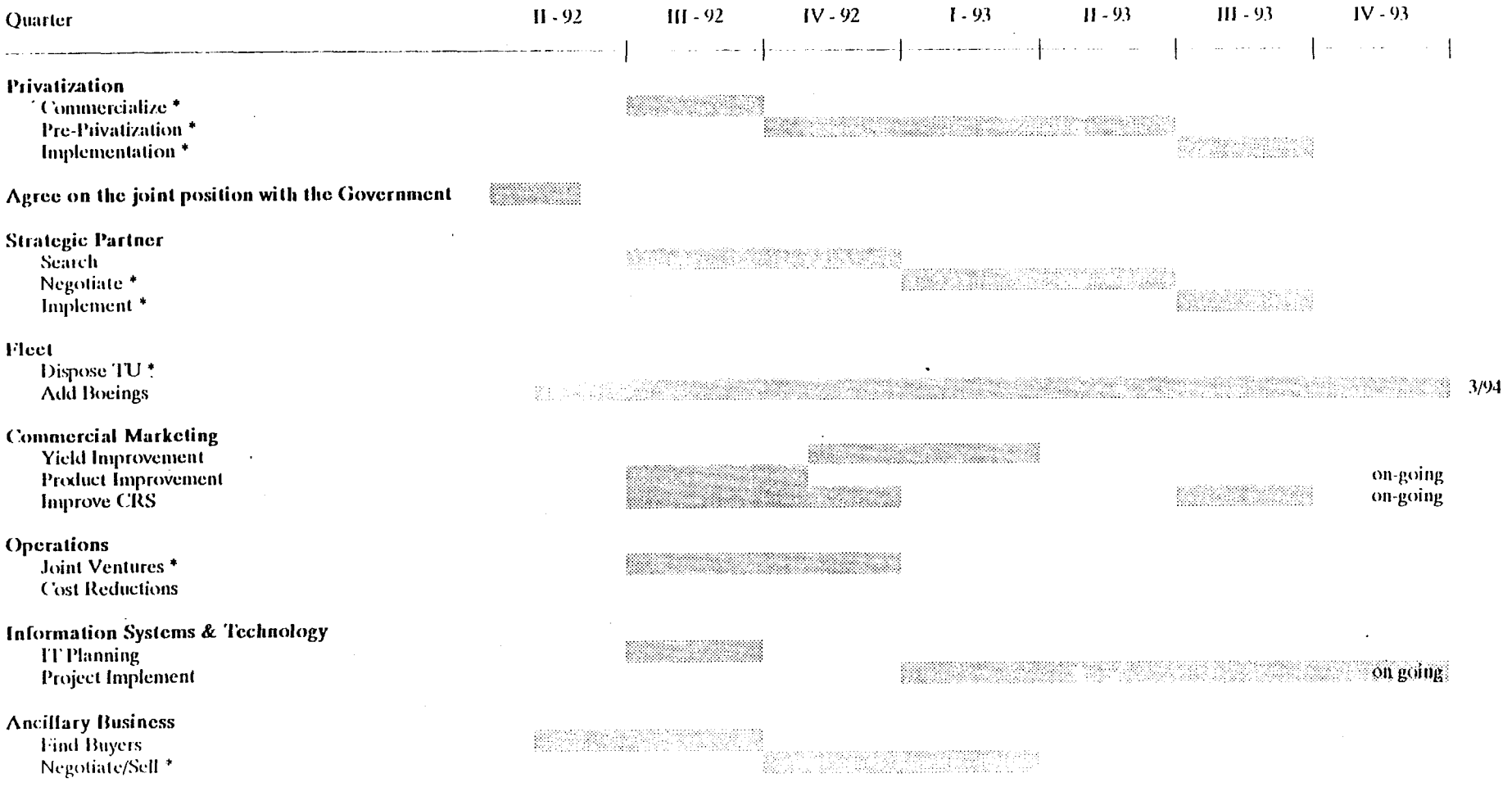
* Privatization activities are timed to coincide with the strategic partner search -- both timed to begin implementation approximately 1 July 1993.

* Restructuring of the fleet has begun and will continue: the Soviet fleet is assumed to be disposed of by November 1993.

* Commercial and Marketing, Operations and Information Systems and Technology are essentially an ongoing series of improvements and restructuring changes.

II. OVERVIEW OF THE STRATEGY

RESTRUCTURING AND PRIVATIZATION TIMETABLE



* in cooperation & under Ministry approval

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A. CURRENT SITUATION

B. OBJECTIVES AND GOALS OF PRIVATIZATION

C. NEW OWNERSHIP STRUCTURE

D. ROLE OF THE MINISTRIES

E. THE PROCESS

III. TRANSFORMING THE OWNERSHIP OF LOT

A. Current Situation -- State-Owned Enterprise

There are four bodies responsible for the oversight and management of LOT as a state-owned enterprise.

According to the Law on the State-Owned Polish Airlines LOT of December 3, 1984:

1. The General Director:

Article 25 — Is responsible for the general management of LOT, acts as the spokesman for the company and independently makes management decisions and is held accountable for them.

Appoints and dismisses deputy directors and the chief accountant upon hearing the opinion of the workers' council.

Appoints and dismisses LOT representatives abroad after obtaining the opinion of the workers' council and in agreement with the Minister of Transportation.

2. The Workers' Council:

Article 7 — Gives its opinion on motions put forth by the Ministerial Commission in cases where huge losses threaten the future activity of the airline.

Article 22 — Gives its consent for the formation of joint-ventures.

Article 38 — Represents the organs of worker self-government:
Gives its opinion on the company plan put forth by the director and changes in the plan;
Accepts reports and balance sheets presented by the director.

Article 43 — Has the authority to exercise control over all of LOT's activities, except those related to national defense and security.

Article 45 — Is elected by the workers' general assembly for a period of three years.

Article 50 — Can suspend a decision of the director if the decision: (1) is contrary to a resolution of the workers' general assembly or workers' council; (2) was passed without obtaining the opinion of the workers' council in matters in which the director is obligated to ask the workers' council for its opinion; (3) was passed without a resolution by the workers' council in matters in which the workers' council has authority.

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3. **The Workers' General Assembly:**

Article 36 Makes yearly evaluations of the work of the director and workers' council.

Article 37 Is elected by LOT employees for a three-year term.

Article 45 Elects the workers' council:
Has the power to dismiss a member of the workers' council or the whole council on its own initiative or by a motion passed by one-fifth of LOT employees.

4. **The Minister of Transportation:**

Article 23 In agreement with the Minister of Finance, approves joint-venture agreements, after obtaining the opinion of the workers' council.

Article 28 Appoints and dismisses the director upon hearing the opinion of the workers' council.

According to the Civil Aviation Law of May 31, 1962, Article 6:

Approves the purchase and sale of airplanes and contracts for the leasing of planes without crews.

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III. TRANSFORMING THE OWNERSHIP OF LOT

B. Objectives and Goals of Privatization

* LOT's ownership will be transformed in order to realize the following objectives:

  - To increase the value of the company to ensure the State obtains the greatest benefit (both as the seller of and as the continuing holder of shares in LOT)

  - To establish a viable & competitive enterprise

  - To create the environment for managing the business as a profit-motivated commercial enterprise

  - To facilitate a partnership with a Western airline and strengthen LOT's position in the European Market

  - To enhance the financial strength and condition of the airline with an injection of capital

  - To generate the funds required for our investment programs, possibly with the assistance of foreign parties

  - To provide an appropriate level of accountability to our customers

To accomplish these objectives, the following approaches will be used:

  - create an oversight structure that responds to the market, not to political interest

  - ensure that best-practice management techniques and state-of-the-art technical expertise are spread throughout the organization

  - reduce the influence of the State over business decision-making to tightly defined areas

  - provide the necessary motivation for employees to improve performance

  - establish a compensation system to attract and retain skilled employees

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III. TRANSFORMING THE OWNERSHIP OF LOT

C. New Ownership Structure

* Upon completion of privatization, the capital structure will be approximately as follows:

State	41-51%
Others	59-49%
	100%

"Others" are to consist of :

Airline Partner	20-30%
Workers and Management	10-20%
Institutional Investor or Capital Market	10-20%

The proportion of the state's share of "capital" ownership (as distinct from voting control) may need to be adjusted to exempt LOT from the excess wage tax.

The actual distribution of ownership shares will depend on the outcome of the partner search and negotiations

It is hoped that a major institutional investor will be found -- this would substantially strengthen the financial position of LOT. A secondary option is to sell shares in the capital market listed on the stock exchange. Attached is a schedule of the ownership of other selected European Airlines; none is believed to be the preferred model

* The proceeds of privatization need to result in a capital injection in LOT

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CARRIER	GOVERNMENT SHAREHOLDINGS	OTHER SHAREHOLDING DETAILS
British Airways	0%	Publicly listed since 1987. 64.58% Shares held privately by nominees and institutions holding more than 0.25% of issued capital. 35.42% Shares of less than 0.25% of issued capital held privately. Out of 298,200 shareholders, 298,153 hold less than 0.25% of issued capital 47 shareholders are institutional investors. Of these 47, Guaranty Nominees Ltd. holds the largest percentage of shares with 27.75%. The majority of other institutional investors holds less than 1%.
Lufthansa	59.16% 51.42% Federal gov't 4.44% Local gov't 2.3% Other state concerns	40.84% Publicly listed.
SAS	50% 14.3% Danish gov't (DDL Holding Company) 14.3% Norwegian gov't (DNL Holding Company) 21.4% Swedish gov't (ABA Holding Company)	50% 14.3% Publicly listed; 14.3% Publicly listed; 21.4% Publicly listed.
Austrian Airlines	51.5%	10% Swiss Air; 9% Nippon Air; 1.5% Air France; 27.6% Free float.
Swiss Air	22%	10% Austrian Air; 8% SAS; 5% Singapore Air; 6% Delta; 49% Free float (estimated)
KLM	38.2%	Balance listed on Amsterdam, Zurich, Brussels and New York stock exchanges.
Air France	99.38%	Banque National de Paris, which is 70% state-owned, is due to take an 8.8% stake.
Icelandair	0%	100% Publicly traded. 34% Icelandic Steamship Company; 23% Icelandair employees
Luxair	69.48%	30.52% Luxair Group

Sources: Airline Business, February 1992 and information obtained from brokerage houses.

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III. TRANSFORMING THE OWNERSHIP OF LOT

D. Role of the Ministries

1. **The Minister of Transportation and Maritime Economy** (hereafter called Ministry) may request the transformation of LOT into a privately-owned company with the consent of the director of the enterprise and its workers' council, after obtaining the opinion of the workers' general assembly.

2. **The Ministry** is responsible for the overall supervision of LOT during its transformation from a state-owned enterprise into a privately-owned company.

3. **The Ministry** has the authority to:

   (A) Appoint and dismiss the director of LOT after obtaining the opinion of the workers' council
   (B) Approve joint-venture agreements after obtaining the opinion of the workers' council
   (C) Approve the purchase, sale and dry lease of aircraft
   (D) Approve route changes
   (E) Declare the enterprise bankrupt

4. **The Ministry** may order the privatization of LOT. After LOT is transformed into a commercial company owned by the state and registered in the commercial register, the Minister of Transportation, within a two year period and in agreement with the Minister of Privatization, may transform LOT from a commercial company into a joint-stock company through the issuance of stock for public sale, unless the two year period is extended by the Council of Ministers.

5. **The Ministry** retains [illegible] in the oversight of LOT following the commercialization of the airlines due to:

   (A) The Minister of Transportation being the representative of the State Treasury, which would hold a majority (51%) of shares in the new joint-stock company (after sale of 49% to outside investors);

   (B) His authority to nominate six members of the nine-member Supervisory Board, which would be responsible for overseeing the management of LOT.

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6. **The Minister of Privatization** must agree to recommendations by the Minister of Transportation regarding the privatization of PLL LOT.

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Sources:

(1) Law on the Privatization of State-Owned Enterprises of July 13, 1990, Article 5, Section b, and Law on the Transformation of Ownership of State-Owned PLL LOT of June 14, 1991, Article 1, Paragraph 2 & 3.

(2) Law on the Transformation of Ownership of State-Owned PLL LOT of June 14, 1991, Article 1, Paragraph 2 & 3.

(3) (A-B) Law on the State-Owned Enterprise PLL LOT of December 3, 1984, Articles 28 & 23, (C) Law on the State-Owned Enterprise PLL LOT of December 3, 1984, Article 10, (D) Civil Aviation Law of May 31, 1962, Article 65, (E) Law on the Transformation of Ownership of State-Owned PLL LOT of June 14, 1991, Article 4.

(4) Law on the Privatization of State-Owned Enterprises of July 13, 1990, Article 19, Paragraph 1, and Law on the Transformation of Ownership of State-Owned PLL LOT of June 14, 1991, Article 1, Paragraph 2 & 3.

(5) (A) Law on the Transformation of Ownership of PLL LOT, June 14, 1991, Article 2 (B) Law on the Privatization of State-Owned Enterprises of July 13, 1990, Article 17, Paragraph 1, and Polish Commercial Code of June 27, 1934, Article 379, Paragraph 1.

(6) Law on the Transformation of Ownership of PLL LOT, June 14, 1991, Article 1, Paragraph 3.

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III. TRANSFORMING THE OWNERSHIP

E. THE PROCESS

COMMERCIALIZATION PROCESS OF "LOT"

In accordance with
Article 6 of the Privatization Act of July 13, 1990

1. Complete Feasibility Study to make a decision on the privatization method.

2. The Minister of Transportation and Maritime Economy, upon consultation with the Minister of Privatization, submits the motion to:
   a) director of the enterprise,
   b) Worker's Council
   c) the founding body

   requesting their comments on the transformation of the enterprise into a joint stock company.
   Such an comments should be given no later than one month from the date of submission the motion.
   The comments, according to the practice, are non-binding.

3. The Minister of Transformation and Maritime Economy, upon consultation with the Minister of Privatisation, submits a formal motion to Prime Minister (formal start-up of the process).

4. The Prime Minister issues the executive order on transformation the enterprise into a joint stock company.

5. The documents necessary for the privatization, as the financial and legal analysis, business plan valuation, are prepared. The decision of the Antimonopoly Office is issued. Completed also are: the draft of the articles of association and the method of distribution of stock of a future company.

6. The Minister of Transformation and Maritime Economy, upon consultation with the Minister of Privatisation, issues a decision on commercialization of the enterprise. 2/3 of the Supervisory Board is elected. The articles of incorporation are signed.

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A. OBJECTIVES AND GOALS

B. KEY FEATURES OF THE PARTNERSHIP

C. CRITICAL ISSUES

D. ACTION PLAN

IV. ESTABLISHING A STRATEGIC PARTNERSHIP

A. Objectives and Goals

* **Long term objectives**

- Establish a long term strategic alliance with a strong partner
- Achieve profitable growth for LOT by developing Warsaw as a major hub

* **Goals**

- Increase traffic on existing routes (traffic feed)
  - -- Gain access to partner's extensive route structure
  - -- Increase connection possibilities
- Obtain marketing and distribution support
  - -- Improve ailing image of LOT in Poland and abroad
  - -- Acquire access to global CRS covering the important markets of Western Europe, America and the Far East
  - -- Obtain access to the partner's distribution (agency) network
  - -- Cooperate with a partner in such areas as promotion, yield management, market segmentation, tariff policy etc.
- Get access to high yield traffic passengers
- Obtain managerial help in such areas as:
  - -- Handling both at WAW airport and abroad
  - -- Aircraft maintenance
    --create WAW Technical Center for Boeing and ATR
  - -- Company restructuring
  - -- Improve bilateral agreements
- Realize economies of scale in fleet and fuel
- Obtain operational support
  - -- Joint aircraft utilization
  - -- Joint fleet policy
  - -- Pilots and in-flight personnel sharing
- Increase LOT's future negotiation power
  - -- Obtain access to financial resources
  - -- Improve LOT's relationship with PPL

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IV. ESTABLISHING A STRATEGIC PARTNERSHIP

B. Key Features of the Partnership

* The Network
  - Coordinated schedules, shared routes and codes
  - Increased route coverage within Europe
    - -- More efficient scheduling of planes
  - Development of feed traffic through Warsaw hub
    - -- More favorable bilaterals
* Distribution and Marketing
  - Extension/rationalization of joint sales office and salesforce network
  - Coordination of CRS, yield management and pricing
  - Coordination of advertising, promotion and travel agency strategies
* Management
  - Western management expertise combined with low labor costs
* Operations
  - Maintenance agreements
  - Catering agreements
  - Handling agreements
  - Fleet agreements
  - Training agreements
  - Cargo/freight agreements
  - Procurement agreements
  - Other agreements
* Financial
* Partners' fleet compatibility

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IV. ESTABLISHING A STRATEGIC PARTNERSHIP

C. Critical Issues

* **Relationship between LOT and the Government Ministries**
  - How can we increase Polish market protection?
  - How to deal with unclear 5th freedom rights awarding rules in Poland?
  - What will be the Transportation Ministry's role in the partnership?
  - How can we improve landing and other PPL fees?
  - What changes need to be made in airport facilities?
* **Threats by potential partners**
  - How do we limit the loss of LOT's identity?
  - Will the partner make a long term commitment to WAW hub?
  - Will the partner give up current deals?
  - How do we deal with possible route conflicts and competition?
  - What are the political and cultural considerations?
* **LOT's weaknesses**
  - How do we strengthen LOT's financial situation?
  - Can we improve the poor organisation of the enterprise?
  - How do we improve the weak connections network within Europe?
* **Management**
  - How do we make the partnership work operatively?
  - What decisions would be joint?
  - What would be the decision making process?

IV. ESTABLISHING A STRATEGIC PARTNERSHIP

D. Action Plans

1. Create Profitable Long-term Strategic Alliance

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V. COMMERCIAL AND MARKETING PLAN

A. CURRENT SITUATION

B. OBJECTIVE AND GOALS

C. ACTION PLANS

V. COMMERCIAL AND MARKETING PLAN

A. Current Situation

* Currently, operations are unprofitable in an increasingly competitive international airline environment

  - Long haul routes

    -- Traffic growth and relatively full loads, especially in North Atlantic market

    -- Low intensity and efficiency of operations in the Far East

    -- Yields substantially below competitive levels

    -- Significant improvement in product quality (767 service)

    -- Very limited distribution and marketing presence

    -- Sharp increase in trans-Atlantic fare and service competition

  - Short haul routes

    -- Significant competitive disadvantage in product quality (fleet: service reliability, quality and frequency)

    -- Mixed performance results; vary by market

    -- Prevalence of "net fare" pricing and low yields

    -- Very limited distribution and marketing presence, especially in the agency channel

    -- Increase in competitor's service to Poland

  - Domestic routes

    -- Drastic curtailment in domestic service due to severe drop in market demand

    -- Need to strengthen distribution position in the emerging travel agency industry

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* Marketing expenditures are significantly limited
    - Advertising and promotion budgets constrained; focus on North American market
    - Very limited agency, corporate and cargo sales effort
    - Minimal promotional effort; new North Atlantic Frequent Flier program
* Historically, yield management practices have not been employed
* Passenger service levels at Okęcie have been poor; new terminal scheduled to open in summer, 1992
* Ongoing restructuring of routes and schedule
    - Expansion of Eastern European route schedule
    - Withdrawal from unprofitable selective routes
    - Curtailment of domestic service
    - Increased frequency in strategic markets
* Historically, distribution emphasis has been on direct sales offices rather than travel agency channels

V. COMMERCIAL AND MARKETING PLAN

B. Objectives and Goals

* Provide the commercial and marketing support necessary to achieve LOT's strategic objectives
  - Near term objectives
    - -- Achieve profitability
    - -- Convert the airline product to Western standards
    - -- Achieve successful privatization
    - -- Maintain position as the dominant carrier in the Polish market
  - Long term objectives
    - -- Realize profitable growth in traffic share
    - -- Establish WAW as the leading Eastern European hub
    - -- Become the pre-eminent Eastern European carrier

* Achieve and maintain an image and awareness in the marketplace of LOT as a provider of convenient, consistent-quality air transport at highly competitive fare levels

* Extend the coverage and effectiveness of LOT's distribution channels
  - Maintain a dominant position in the emerging Polish travel agency market
  - Achieve an effective distribution position in LOT's international agency and corporate markets
  - Achieve a fully competitive position in global and airline CRS distribution

* Maximize potential benefits from LOT's strategic partnership

* Attain a higher revenue market traffic
  - Strengthen appeal to business fliers
  - Improve pricing and yield management
  - Control distribution costs

* - Improve ATRs utilisation

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V. COMMERCIAL AND MARKETING PLAN

C. Action Plans

1. Improve Pricing and Yield Management (Long Haul Routes)
2. Achieve Managed Product Improvement
3. Optimize Fleet, Route and Schedule Structure
4. Enhance Distribution and Sales Capability
5. Maximize CRS Distribution Effectiveness
6. Maximize Advertising and Promotional Effectiveness
7. Improve Pricing and Yield Management (Central Staff)
8. Enhance Frequent Flier Program Offering
9. Enhance Cargo Marketing

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VI. FLEET PLAN

A. CURRENT SITUATION

B. OBJECTIVES AND GOALS

C. ACTION PLANS

VI. FLEET

A. Current Situation

* At present, LOT operates the following fleet:

Type of A/C	Number of A/C	Routes
Tu134	7	Medium haul
Tu154	14	Medium haul
ATR72	4	Domestic
B767	3(+1)	Long haul

* The B767s' utilisation is very high. However, all Russian aircrafts and ATRs are underutilized.

* It is difficult to secure timely deliveries of spares and engines from the Soviet manufacturer and repair station. As a result some of aircrafts are currently grounded.

* The costs of spares and overseas maintenance for the Tupolevs is constantly growing.

* LOT has already disposed of all Ilyushins and Antonovs and is going to replace the remaining Russian fleet (Tupolevs) with B737s within the next two years.

VI. FLEET

B. Objectives and Goals

* Build up confidence among LOT's current and potential customers in the fleet and the safety of LOT flight operations, thus improving the airline marketing position.

* Attract higher yield passengers:

  - Business class passengers
  - Full fare passengers.

* Reduce variable direct operating costs (fuel, landing, navigation, airport charges, handling cost) and maintenance cost. It is expected that with the coming changes in the fleet structure LOT will be able to reduce its operating costs substantially due to lower weight and fuel consumption of new aircrafts.

* Achieve high utilization of the new fleet through better maintenance planning. Obtain approval from Boeing and the Polish CAA to perform A and C checks broken down by work packages based on calendar time. This would allow more flexibility in maintenance planning which should increase aircraft utilization.

* Dispose of Russian equipment and acquire Western aircraft.

* The current plan for fleet restructuring provides for the following fleet changes:

  - disposal of Tu154s.

No of A/C	Disposal date
2	[illegible] 1992
4	[illegible] 1992
1	[illegible] 1993
7	[illegible] 1993

  - disposal of Tu134s

No of A/C	Disposal date
1	15 05/1992
1	15 03/1993
5	31 03/1993

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- lease of B767 from Air New Zealand. for the period from 14 May 1992 to 15 October 1992 and for the same periods next years.

- lease of two B737 from Linjeflyg:

No of A/C	Lease period
1	15/05/1992 - 15/03/1993
1	01/05/1992 - 15/04/1993

- purchase of new ATR72s:

No of A/C	Delivery date
1	15/10/1992
1	15/03/1994
1	15/05/1994
1	15/04/1995

- purchase of new B735s:

No of A/C	Delivery date
2	15/11/1992
2	15/12/1992
1	01/03/1993

- purchase of new B734s:

No of A/C	Delivery date
1	01/04/1993
1	01/06/1993
1	15/07/1993
1	15/03/1994

* The following benefits are expected from changing the Russian fleet to Western aircraft:

- commercial

  -- better image as an international career
  -- increased confidence from potential customers
  -- better market position, especially against former Eastern B careers
  -- product improvements

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- operational

  - -- reduction in the number of crew required
  - -- elimination of uncertainties related to overseas maintenance and spares deliveries
  - -- compliance with environmental restrictions
  - -- increased capabilities of operations in difficult atmospheric conditions
  - -- better aircraft utilization (reduction of turn around time and time required to maintain the aircraft)
  - -- possibilities to obtain proper handling and maintenance service worldwide

- financial

  - -- possibilities of yield improvement
  - -- reduction in maintenance cost
  - -- reduction of handling cost
  - -- reduction of landing fees
  - -- reduction of fuel consumption
  - -- reduction of navigation fees
  - -- reduction of A/C and pax insurance costs
  - -- reduction in crew cost

VI. **FLEET**

C. **Action Plans**

1. Reduce Capital Expenditures on Spare Engines B 737

2. Reduce Cost Requirements on Boeing 737 Rotables

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VII. OPERATIONS PLAN

A. CURRENT SITUATION

B. OBJECTIVES AND GOALS

C. ACTION PLANS

VII. OPERATIONS PLAN

A. Current Situation

* With increased price competition on the market it is important for LOT to control effectively its operating costs. However, at present, there is lack of systems and controls over these costs (budgeting system, direct operating costs system, internal audit procedures, etc.).

* LOT is in the process of reorganisation aimed at separating the following activities:

  - Cargo
  - Cathering
  - Fuelling
  - Handling

  The following has been achieved:

  - Articles of Association of the company regulated by Commercial Code were prepared and the registration process began
  - the management contract with SAS Service Partner (catering) was negotiated and signed
  - the management contract with AMR Services on managing handling services and cargo transportation was negotiated.
    The contract has not been signed due to the change in the PPL position.

* The size, composition and number of meals is not sufficiently related to the duration of flight, customer preferences on particular route, time of the day and type of class. This practice, together with the free drinks policy proves to be very expensive for LOT.

* In the short-term, LOT will enjoy an advantageous position against Western competition due to considerably low labor rates. However, additional training for pilots (due to the fleet changes) and English courses for front line personnel are required.

* Beginning from June 1992 LOT will move to the new airport facilities. Therefore, it is not justified to invest in the old airport's facilities.

* There is a distinct lack of written procedures in all departments in Technical Department.

* There is also a lack of procedures for the approval of suppliers of spares and other aircraft materials.

* Responsibility for representative offices abroad is split out to various departments. Overseas representative offices are responsible only for revenues. There are no established procedures related to purchasing handling and catering services outside Warsaw.

* Aircraft materials and parts are controlled by the Trade Department. There is no separate storage space for aircraft parts.

VII. OPERATIONS PLAN

B. Objectives and Goals

* Control Direct Operating Costs of LOT by effectively implementing a budgeting system and cost accounting system to monitor these costs on a day to day basis.

* Coordination of WAW Okęcie airport should remain under LOT's responsibility.

* Reduce costs of outside handling and overseas catering. It is intended to reduce these costs by 10% and 20% respectively.

* Separate the cargo and catering activities, currently under the control of the Operations Director, and move them to LOT's 100% subsidiaries. (Because of the decision taken in the past the facilities for cargo handling and catering are several times too large for LOT's or the Airport's foreseeable requirements).

* Negotiate agreements to employ Western managers to manage the cargo and catering activities. The agreements should ensure the following:

  - Control over direct operating costs
  - Introduction of procedures aimed at enhancing transit traffic
  - Appropriate discount policy for LOT
  - Improved quality and standard of services
  - Better utilization of excess capacities
  - Appropriate level of staff and management training
  - Retention of the best operations people
  - Repayment of LOT's liabilities related to cargo and catering terminals

* Create a joint venture with PPL to perform jointly ramp handling, pax handling and station control activities in the Warsaw Airport. This will bring about a closer day to day working relationship between LOT and PPL and limit the likelihood of PPL competing with LOT for third party handling. Joint policy on establishing rates/prices for airport services will enable to maximize transit traffic in Warsaw airport developing Warsaw as a major connecting hub in Eastern Europe. As in the case of cargo and catering, employ a Western manager who will operate a franchise for handling at Warsaw Airport. The Company awarded management contract should select and train staff to meet customer requirements of LOT and other airline customers more effectively.

* Agree with LOT/PPL joint venture an appropriate discount policy.

* Improve curfew times at Okęcie airport.

* Solve customs control problems concerning check-in procedures of international passengers at off Warsaw airports.

* Solve duty problems concerning aircraft procurement.

* Set up new stores for the storage of aircraft parts only. This store to include a bonded store and quarantine store.

* Compile a Company Manual and Procedures for the Technical Department.

* Obtain an approval of CAA/FAA (JAR 145) by January 1994. This would allow LOT to perform third party maintenance.

* Move the control for aircraft materials and parts to the Technical Department.

* Bring flight operations and ground operations under the control of one Director of Operations.
* Train staff in English and managers in English and budgeting.

VII. OPERATIONS PLAN

C. Action Plans

1. Reduce Costs of Outside Handling by 10%
2. Reduce Costs of Catering by Third Parties by 20%
3. Prepare Maintenance Schedules Appropriate to Aircraft Utilization
4. Reduce B 767 Maintenance Costs Use of All Facilities
5. Save Capital Expenditures on CFM 56 Module Change Facility
6. Train Materials Personnel in Procurement and Storage of Aircraft Components and Materials

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VIII. FINANCIAL POSITION

A. FINANCIAL CONDITIONS

B. OBJECTIVES AND GOALS

C. CAPITAL REQUIREMENT

D. ASSUMPTIONS

E. FINANCIAL PROJECTIONS

F. ACTION PLANS

VIII. FINANCIAL PLAN

A. Financial Condition

* LOT is currently in a difficult financial condition. The financial statements for the year to December 31, 1991 show a net loss before taxes of approximately US $1 m. After taxes, including the Government's excess wage tax, the loss increases to about US $41 m. Perhaps more critically, at the end of the year the company's current liabilities exceeded current assets by almost US $125 m.

* The summary income statement for 1991 is:

		US $ m
Net Sales		321
Operating expenses		(304)
Operating profit		17
Interest and other income		13
Interest expense		(29)
Income before extraordinary items and tax		1
Extraordinary items		(2)
Loss before tax	$	(1)

* The summary balance sheet at 31 December 1991 shows:

		1991 US $ m
Fixed assets		270
Deferred expenses		15
Long term loans receivable		7
Current assets		88
Total assets	US $	380 m
Current liabilities		210
Deferred Income		48
Long term loans		6
Capital		116
Total capital and liabilities	US $	380

* The above figures are subject to audit.

* During 1991 there was a negative (i.e. net absorption) cash generation of approximately US $ 11m from operations. This meant that operational expenses and the company's investment programme had to be financed, principally, by increasing creditors. This resulted in a considerable deterioration in the working capital position.

* Compared to December 31, 1990 the working capital ratio (current assets: current liabilities) deteriorated from 1.17 to 0.42. There is no absolute standard for an ideal working capital ratio. But a ratio of between 1.5:1 and 2:1 is a reasonable "rule of thumb".

* This deficiency is indicative of the company's major financial problem - a chronic shortage of cash. It highlights the need for a significant improvement in working capital.

* LOT has embarked on a major investment programme involving the complete replacement and modernisation of its aging Russian fleet and the construction of a new cargo terminal, catering and fuelling center. Unfortunately, this programme is being undertaken against a background of reduced passenger traffic, increased competition and fare reductions that are adversely effecting the profitability of airlines throughout the world. Inevitably, the combination of these two factors - a heavy investment programme and reduced profitability - have put tremendous strain on the company's finances.

* The company is currently not able to generate sufficient cash from its mainstream operations to meet its operating liabilities and to meet the leasing payments and associated investment related to the acquisition of its new airplanes.

* However, LOT has the competitive advantage on the labour costs and as national carrier on a potentially big market. That gives LOT the prospect of earning profits and generating positive cash flow. The new fleet should also allow operational cost savings in such areas as fuel, landing charges and maintenance costs. If the company can generate sufficient revenue in the highly competitive market of the future, it should be able to benefit from the improved cost structure and become profitable.

* In this sense, the company's financial problems, while not to be understated, could be considered short term. The company desperately needs a capital injection to enable it to complete its investment programme and provide sufficient working capital for its day to day operational requirements.

* The achievement of a strategic airline partnership and a capital injection should provide the company with the ability to complete its fleet modernisation programme. But the ultimate success of LOT will depend upon the successful implementation of a business strategy to secure and improve its passenger and other revenue.

* The strategic option being pursued is an alliance with another airline. It is important that LOT is perceived as a financially viable partner. If the financial condition looks too negative, this will either put off potential partners or may result in the company having to accept an unfavourable deal.

VIII. FINANCIAL PLAN

B. Objective and Goals

* The ultimate financial objective is to increase the value of the company and provide a return to the share holders.

* In this same context, the company must create the financial conditions that will allow LOT to attract capital and to pursue its medium and longer term strategic goals.

* LOT must achieve an appropriate financial structure to :

  - finance growth
  - withstand economic and seasonal fluctuations in profitability and cash generation
  - withstand competitive pressures.

  This will require an appropriate and adequate level of long term and short term capital.

* In the long term the company must be financially self-sufficient. This will mean that it will no longer be dependent on Government subsidy or guarantee. The objective will be to make an adequate return on capital invested in order to satisfy equity shareholders as well as service long and short term debt.

* The immediate objective is to implement a system of cash management so as exercise tight control over the company's scarce cash resources. This will enable the company to predict its cash needs with a greater degree of certainty and start to introduce some stability as it is able to anticipate requirements.

* LOT must also be able to demonstrate to potential strategic partners that it is able to exercise effective financial management over the assets and resources of the company.

VIII. FINANCIAL PLAN

C. Financial Support Required

* In section D below there are projected income statements and associated cash flow projections for the years 1992 to 1994. Based on these projections, LOT's cash generation or absorption, after capital investment, is estimated at:

		US $ m
1991 Outstanding liabilities		(50.4)
1992 Cash absorption		(15.3)
1993 Cash absorption		4.4
1994 Cash absorption		7.7
Total cash requirements	$	(53.6)

* This cash, or capital, requirement can be provided from one or more sources:

- equity
- debt
- profit improvement programmes
- asset sales
- divestment of investments.

* It is anticipated that identified profit improvement programmes and asset sales may contribute substantially to reducing the cash requirement:

		US $ m
1992		
Asset sales		10.0
Capital expenditure reductions		10.0
Working capital		(15.0)
1993		
Yield improvements		10.0
Cost reductions		5.0
Asset sales		20.0
1994		
Yield improvements		10.0
Cost reductions		5.0
Total potential cash generation	US $	55.0
Less taxation		24.0
Net cash generation	US $	31.0

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* The yield improvement and cost reduction programmes are described in sections V and VII respectively. The asset sales relate to the disposal of Tupolev airplanes.

* If these actions are achieved, the overall cash requirement over the 3 year period is reduced to US $ 22.6 m.

* This does allow for a further injection of cash to provide adequate working capital for LOT. It is estimated that, at minimum US $ 15 m will be required for working capital.

* The remaining capital requirement will have to be provided by equity or debt, or a combination of the two.

* In the current situation, LOT is not in a position to service or provide adequate security for a commercial lender for loans beyond those secured on aircraft. As these are already subject to leasing agreements, there is no collateral for further loans. This will mean that any commercial lender will require a guarantee from the Polish Government.

* In any event, it is doubtful if the whole of the capital requirements could take the form of loan as this will result in an unsatisfactory gearing situation. The associated interest liability would constitute an excessive burden on future year's profit and cash flow.

* Thus it is anticipated that some element of equity injection will be required. This may have to come partly from Government in preparing the company for privatisation.

* The above figures for capital requirements take no account of the liability for excess wage tax. As at December 31, 1991 this amounted to about US $ 39.9 m. It is uncertain at what rates this will be levied in the future. But it is estimated that, if the current regulations continue to prevail, the company's liability for this tax may increase by about US $44.6 m in the period to December 31, 1994.

* As part of any financial restructuring in preparation for privatisation the Polish Government will have to consider waiving this liability in whole or in part.

PLL LOT Capital Requirements 1992 – 1994

(In Millions USD)	<----- 1992		---->	<----- 1993		---->	<----- 1994		---->
Working Capital	Current	Restruct.	Revised	Current	Restruct.	Revised	Current	Restruct.	Revised
Sources									
Operations	14.5	0	14.5	31.9	15.0	46.9	32.7	15.0	47.7
Asset Sales	18.2	10.0	28.2	0	20.0	20.0	0	0	0.0
Total	32.7	10.0	42.7	31.9	35.0	66.9	32.7	15.0	47.7
Uses									
Capital Exp.	(48.0)	10.0	(38.0)	(27.5)	0	(27.5)	(25.0)	0	(25.0)
Working Capital	0	(15.0)	(15.0)	0	0	0	0	0	0
Total	(48.0)	(5.0)	(53.0)	(27.5)	0.0	(27.5)	(25.0)	0.0	(25.0)
Period Cash Flow	(15.3)	5.0	(10.3)	4.4	35.0	39.4	7.7	15.0	22.7
Begin Balance	(50.4)*		(50.4)						
Requirement	**(65.6)**	**5.0**	**(60.6)**						

Popiwek			
Previous	39.9	56.4	71.2
Current	16.4	14.8	13.3
Total	56.4	71.2	84.5

* a provision of 15% for penalty payments and interest is added to the outstanding amount of brought forward liabilities

VIII. FINANCIAL PLAN

D. Action Plan

1. Effective Cash Management

2. Implement Budget Process

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IX. ANCILLARY BUSINESSES

A. CURRENT SITUATION

B. OBJECTIVES AND GOALS

C. ACTION PLANS

IX. ANCILLARY BUSINESSES

A. Current Situation

* LOT has investments in several business ventures. The LOT share of the ventures is as follows:

Venture	% of Shares
- LIM	50%
- Export Development Bank	1.25%
- Baltona	34%
- Casinos Poland	51%

* In the current situation, and with the intention to privatize. these investments have no strategic fit with the airline business

* LOT has recently disposed of its interest in Warta S.A.

IX. ANCILLARY BUSINESSES

B. Objectives and Goals

* Retain the investments in LIM, however, renegotiate the agreement to increase the benefits to LOT
* Retain the Fueling Center
* Dispose of Export Development Bank
* Dispose of Baltona
* Dispose of Casinos Poland at the most opportune time

IX. ANCILLARY BUSINESSES

C. Action Plans

1. Generate Cash Through Sale of Baltona
2. Generate Cash Through Sale of Export Development Bank
3. Maintain Control of the Fueling Center

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Assumptions underlying the 1992, 1993 and 1994
Profit and Loss and Cash Flow statements
for LOT Polish Airline

1992 Projection

General
The projections for revenues and costs are based on the assumption the LOT will continue to operate its current route structure and that it will have a seasonal cycle that mirrors previous years of operations.

Revenues
The 1992 gross Passenger Travel revenue figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional month based on 1991 actuals. January, February and March are actuals whereas the total figure for the year has been adjusted by commercial management based on passenger travel forecasts for the long haul, short haul and domestic sector.

The 1992 Cargo figure is based on the forecast for the summer season 1992, and extrapolated for additional months based on 1991 actuals.

The 1992 Mail figure is based on 1991 actuals, 10 percent reduced.

The 1992 Excess Luggage figure is based on 1991 actuals and is assumed to remain at the same level.

The 1992 Charter figure is based on 1991 actuals assuming 4500 flying hours with the same revenue per hour as during 1991.

The 1992 Duty Free and Bar Sales figure is based on 1991 actuals 5 percent increased.

Costs
The 1992 Crew Remuneration (variable) figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals and adjusted for changes in the fleet structure.

The 1992 Fuel, Oil figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals and adjusted for fleet changes.

The 1992 Maintenance figure is based on forecasts provided by LOT's technical department.

The 1992 Special Costs (Variable) includes costs for hygienic materials which is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months and other costs such as audiovisuals and newspapers.

The 1992 Crew Salary (Fixed) figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals and adjusted for fleet changes.

The 1992 Aircraft Depreciation figure is based on projected depreciation for the Tu154 and Tu134 planes for the summer season 1992 and winter season 1992-1993.

The 1992 Special Cost (Fixed) figure is based on 1991 actuals and assumed to remain at the same level.

The 1992 Leasing figures are based on projections by the financial department for actual payments for the B767, B737 and ATR-72's, assuming LIBOR to increase from 5.5 in 1992 to 6.5 in 1993 and 7.5 in 1994.

The 1992 Insurance figure is based on the projection for the total insurance cost by type of aircraft for the summer 1992 and winter 1992-1993 season, adjusted for fleet changes.

The 1992 Crew Training figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals.

The 1992 Airport Cost figure includes handling and landing fees as well as other related airport costs such as taxes and is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals and adjusted for fleet changes.

The 1992 Navigation figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals and adjusted for fleet changes.

The 1992 Catering figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals.

The 1992 Pooling figure is based on 1991 actuals and is assumed to remain at the same level.

The 1992 Lodging figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals.

The Direct Fixed Route Costs figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months. This figure includes LOT's costs of on-line foreign sales offices worldwide.

Other Income

The 1992 Sales of Goods and Services figure is based on the 1991 actuals and includes revenues from handling services, fuel sales, catering to other airlines, car transportation tourist services LIM center and commissions from ticket sales for other airlines.

The 1992 Dividend figure is based on the financial department's projection of dividends from subsidiaries.

The Currency Exposure (Revenue) figure is based on the assumption that the Polish inflation for 1992 will be 50% and that the average exchange rate during 1992 will change from 11,500 to 15,000 Polish Zlotys per USD. This currency exposure position contains losses related to LOT's revenue stream only.

Other Costs

The 1992 Commercial and Sales Cost figure is based on the forecast for the summer schedule 1992 by route, extrapolated for additional months based on 1991 actuals. An additional sixteen million USD is added for commissions payable to other airlines and travel agency.

The 1992 General and Administration figure is based on 1991 actuals and is assumed to remain at the same level. In addition, departmental costs for 1992 of twelve million USD are added.

The 1992 Duty Free and Bar Purchases figure is directly related to the projected revenues for duty free and bar sales.

The 1992 Costs related to Other Income figure is directly related to the projected revenues for sales of goods and services with a fifty percent margin.

The 1992 Depreciation (non A/C) figure is based on 1991 actuals and is assumed to remain at the level.

The 1992 Interest (non A/C) figure is base on 1991 actuals and is assumed to remain at the same level.

The 1992 Currency Exposure (Cost) figure is based on the assumption that the Polish inflation for 1992 will be 50% and that the average exchange rate during 1992 will change from 11,500 to 15,000 Polish Zlotys per USD. This currency exposure position contains gains related to LOT's cost stream only.

The 1992 Popiwek figure is based on projections provided by the financial department.

The 1992 Taxes includes the turnover, dividenda and income taxes (40 percent) as well as the taxes over dividends received from subsidiaries (20 percent).

A restructuring line item is added to reflect the proposed improvements described in this document. These amounts are net of possible taxes.

The projected Cash Receipts and Disbursements are timed per management assumption and experience. At this time, the receipts and disbursements for January, February and March 1992 DO NOT reflect actual cash flow and are subject to change when requested information is received.

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1993 and 1994 projections

Revenues
The 1993 and 1994 gross Passenger Travel figures are based on 1992 figures. These numbers are agreed upon by management and reflect a mid ground between studies conducted by EER --1.5% annual passenger travel growth-- and LOT projections of 7%-8% annual passenger travel growth. The average yield is based on 1992 figures whereas the yield improvements are accounted for in the action steps.

The 1993 and 1994 Cargo figures are based on a 8 percent price increase annually and an increase in tons transported of 8 percent per year (Source: EER).

The 1993 and 1994 Charters and Other are assumed to increase 5 percent annually. Other revenues include mail, excess luggage and duty free and bar sales.

Costs
The 1993 and 1994 figures for Costs are extrapolated from 1992 and increased by 5 percent annually, excluding the following:

- Aircraft depreciation is adjusted for the amount of Russian planes
- Aircraft lease cost projections for 1993 and 1994 were provided by the financial department for the B767 and ATR-72 leases. The B737 projected payments are subject to change when requested information is received.
- Pooling is assumed to be zero.
- The costs for Crew Remuneration, Fuel/Oil, Crew salary, Insurance, Airport Costs and Navigation are adjusted to reflect changes in the fleet composition. The Maintenance cost projections are provided by the technical department and include expected fleet changes

Other Income
The 1993 and 1994 Sales of Goods and Services figures are based on 1992 figures. The figure is increased by 5 percent and the expected revenue from renting out the 7th and 8th floor of the LIM center is added

The 1993 and 1994 Dividend figures are based on keeping all current subsidiaries.

Other Costs
The 1993 and 1994 figures for Costs are extrapolated from 1992 and increased by 5 percent annually, excluding the following

- Non-aircraft depreciation is kept constant at the same level as for 1992
- The 1993 and 1994 currency exposure figure is a net amount for the changes in revenue and cost and is assumed to change at a similar rate as during 1992
- The 1993 and 1994 Popiwek figure is assumed to decrease 10 percent annually
- The 1993 and 1994 Taxes figure is based on the same assumptions as the 1992 figure

A restructuring line item is added to reflect the proposed improvements as described in this document. These amounts are net of possible taxes.

The projected Cash Receipts and Disbursements are timed on the same assumptions as the 1992 Cash Receipts and Disbursements.

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Passenger Revenue forecast

Expected passenger growth per sector:

	1992	1993	1994
Long Haul*	4.7%	4.4%	9.1%
Short Haul	4.1%	6.4%	8.2%
Dom.	13.4%	7.1%	33.3%

* Including Long Haul charter passengers

Expected number of passengers per sector:

	1991**	1992	1993	1994
Long Haul*	301,783	316,000	330,000	360,000
Short Haul	767,953	799,400	850,600	920,300
Dom.	98,792	112,000	120,000	160,000
	1,168,528	1,227,400	1,300,600	1,440,300

* Including Long Haul charter passengers
** Actual number of passengers

Assumptions for ticket price increases 1992 – 1994 in USD:

	1991	1992	1993	1994
Long Haul*	361	368	368	368
Short Haul	187	191	191	191
Dom.	31	35	35	35

* Including Long Haul charter passengers
Source: LOT Management

Total scheduled passenger revenue forecast 1992 through 1994 in USD:

	Actual @10.515	Forecast @15000		
	1991	1992	1993	1994
Long Haul*	108,837,140	116,386,120	121,542,467	132,591,783
Short Haul	143,583,270	152,859,235	162,649,569	175,977,426
Dom.	3,065,835	3,961,499	4,244,464	5,659,285
Total	255,486,245	273,206,855	288,436,500	314,228,493

* Including Long Haul charter passengers

Cargo Revenue forecast

International Cargo (in tonnes)

LOT	1992	1993	1994	1995
From WAW	2921.5	2949.3	2977.3	3033.9
To WAW	8,948.70	9,843.50	10,827.90	11,802.40
Outside WAW	235.00	270.20	310.80	357.40
Total	12,105.20	13,063.00	14,116.00	15,193.70

Source: EER

Revenue of 1 tonne in 1992 = 1,577 USD

Total cargo revenue forecast 1992 – 1995 in USD

Cargo	1992	1993	1994	1995
Revenues *)	19,091,831	22,250,629	25,967,777	30,186,338

*) Assuming a price increase of 8 percent annually

Operating Statistics

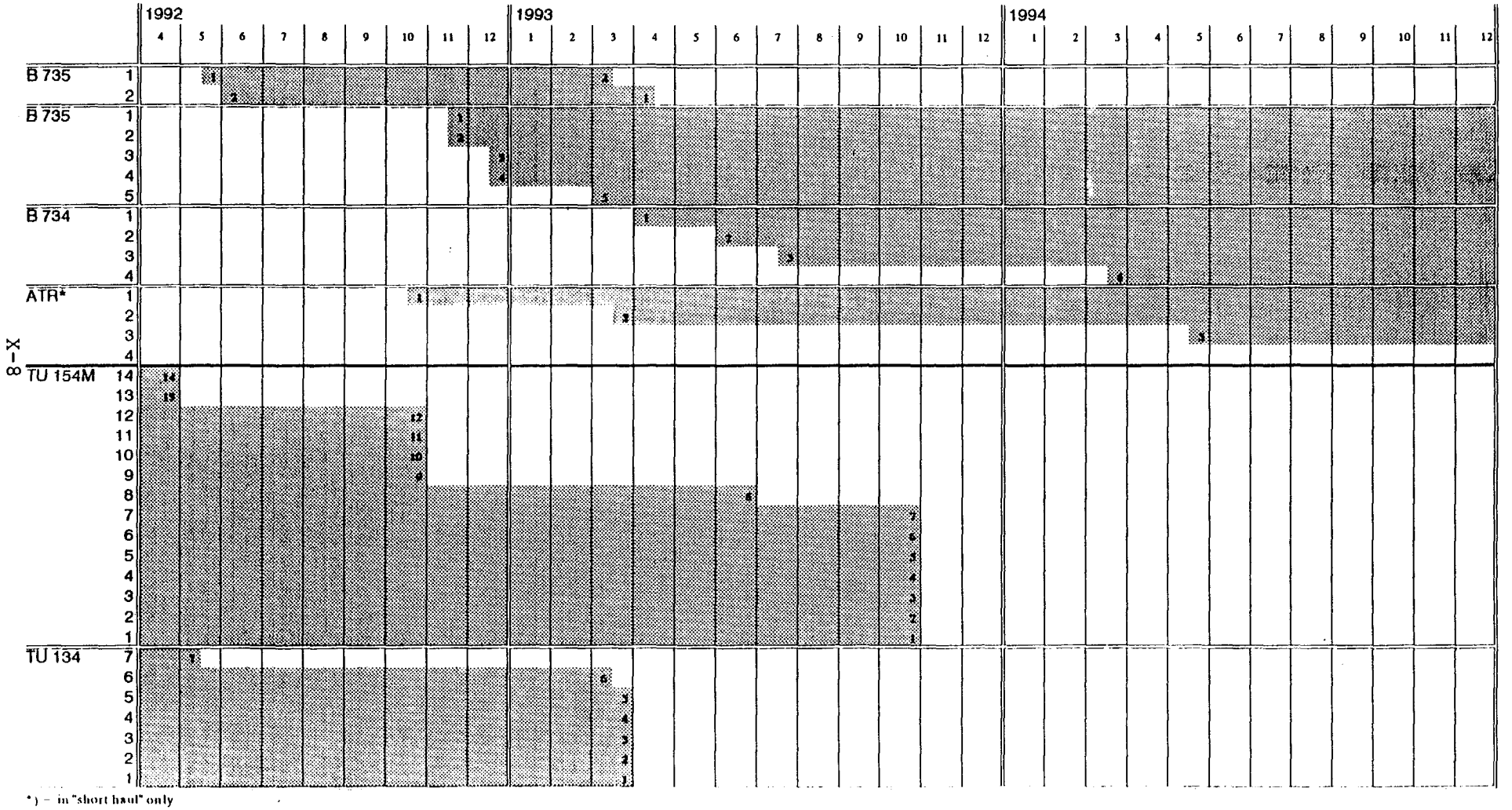
Traffic and Capacity	1991	1992	1993	1994
Revenue Passenger km (RPK) (m)	3588	3702	3650	3711
Available Seat km (ASK) (m)	5284	5552	5784	5421
Passenger load factor (%)	67.9	66.7	63.1	68.5
Cargo tonne km (m)	42	45	49	52
Total Revenue tonne (RTK) (m)	350	365	358	366
Total available tonne km (ATK) (m)	713	781	797	763
Overall load factor (%)	49.1	46.7	44.9	48.0
Paying passengers carried (000) (scheduled flights only)	944	1029	1101	1143
Tonnes of cargo carried	9434	12105	13063	14116

Relative cost level by type of aircraft per block hour

	B 735	B 734	ATR	TU 134	TU 154M
Crew wages	70.2%	71.2%	50.5%	70.0%	100.0%
Fuel/oil	53.2%	54.5%	15.5%	67.8%	100.0%
Insurance	43.1%	44.7%	42.6%	42.6%	100.0%
Navigation	53.9%	75.2%	24.1%	49.6%	100.0%
Handling	43.8%	68.2%	60.0%	60.0%	100.0%
Landing	43.8%	62.9%	16.7%	50.0%	100.0%
Landing + handling	43.8%	65.6%	38.4%	55.0%	100.0%
Productivity	114.7%	151.3%	36.5%	30.1%	100.0%
Productivity*	179	236	57	47	156

* – in millions available seat kilometers/year

TIME–SCHEDULE OF AICRAFTS EXCHANGE



*) – in "short haul" only

DATA FROM AICRAFTS EXCHANGE PROGRAMME

ROUTES COSTS

SHORT HAUL	Crew wages	Fuel/oil	Insurance	Navigation fees	Airport charges	Handling Landing
WAW AMS WAW	12,088	539,764	67,471	306,010	212,361	636,915
WAW ARN WAW	11,732	422,919	45,268	215,236	197,470	740,257
WAW ATH WAW	13,236	442,338	53,931	203,128	162,519	322,003
WAW BCN WAW	8,208	247,939	20,498	115,164	52,957	154,334
WAW BEG WAW	3,344	94,079	4,343	24,037	7,250	49,578
WAW BRU KRK WAW	4,307	100,363	5,595	36,380	16,995	62,948
WAW BRU WAW	10,493	346,697	44,135	217,954	60,936	358,488
WAW BUD WAW	6,831	81,464	33,999	74,354	73,500	203,192
WAW CDG WAW	15,894	832,281	98,994	337,149	345,144	836,509
WAW CPH WAW	13,948	402,217	30,117	127,327	182,029	617,668
WAW DAM CAI WAW	7,624	424,912	47,482	58,790	209,769	110,287
WAW FCO WAW	9,663	484,800	60,185	204,269	151,463	390,272
WAW FRA WAW	16,147	757,292	100,571	333,829	255,959	1,150,097
WAW GDN HAM GDN WAW	21,530	753,630	47,845	288,750	224,818	827,633
WAW GDN LHR GDN WAW	5,594	293,780	34,841	108,390	184,263	357,648
WAW GVA WAW	13,047	297,214	16,946	143,930	89,494	211,795
WAW HEL WAW	12,115	279,904	15,736	187,130	74,840	262,530
WAW IST WAW	7,089	364,362	44,153	101,380	140,700	183,925
WAW KRK CDG KRK WAW	8,017	428,508	49,935	134,860	209,192	480,092
WAW KRK CGN KRK WAW	10,123	266,034	13,149	73,273	71,228	227,039
WAW KRK FCO KRK WAW	7,145	375,780	44,503	136,180	159,725	405,670
WAW KRK FRA KRK WAW	15,227	562,674	50,702	179,333	195,674	698,644
WAW KRK LHR KRK WAW	8,008	425,320	49,876	148,045	263,360	488,495
WAW LCA AUH DXB LCA WAW	10,929	559,662	68,069	67,490	168,168	118,445
WAW LCA BAH DXB LCA WAW	8,968	455,792	55,857	53,992	142,656	116,482
WAW LCA WAW	4,065	[illegible]	25,321	36,562	46,660	44,958
WAW LED WAW	8,077	[illegible]	10,490	58,273	49,291	130,250
WAW LHR WAW	23,335	[illegible]	145,337	555,169	544,051	1,322,647
WAW LWO KPB LWO WAW	4,076	[illegible]	20,289	37,316	75,469	155,734
WAW LWO WAW	925	[illegible]	4,604	10,092	16,881	37,940
WAW LYS WAW	7,938	[illegible]	25,842	171,566	58,577	211,283
WAW MAD WAW	11,917	[illegible]	74,225	315,926	89,122	356,473
WAW MAN WAW	1,921	[illegible]	7,146	48,387	63,081	57,858
WAW MUC WAW	7,060	[illegible]	9,171	88,151	40,512	154,438
WAW MXP WAW	12,758	[illegible]	58,379	258,546	156,217	535,295
WAW PRG WAW	4,685	[illegible]	23,319	49,467	56,228	133,472
WAW SOF WAW	12,883	[illegible]	16,733	74,090	52,062	185,295
WAW SVO WAW	26,816	[illegible]	62,981	238,363	217,715	557,069
WAW SXF WAW	10,805	[illegible]	45,913	107,492	199,388	358,280
WAW TIP WAW	4,325	[illegible]	26,939	73,242	10,875	87,066
WAW TLV WAW	11,872	[illegible]	73,939	116,980	91,500	284,605
WAW VIE WAW	9,750	[illegible]	39,291	210,214	258,346	795,660
WAW VNO WAW	3,330	[illegible]	16,574	38,852	57,207	136,585
WAW ZRH GVA WAW	2,829	[illegible]	8,642	47,090	42,623	172,725
WAW ZRH WAW	10,719	[illegible]	36,053	195,146	111,893	488,933
TOTAL Short Haul	**441,393**	**16,558,948**	**1,835,389**	**6,607,304**	**6,090,168**	**16,217,512**
TOTAL	**605,951**	**32,061,160**	**3,267,903**	**10,798,807**	**9,179,543**	**20,457,790**
	Crew wages	**Fuel/oil**	**Insurance**	**Navigation fees**	**Airport charges**	**Handling Landing**
Share "Short Haul" in TOTAL	**72.8%**	**51.6%**	**56.2%**	**61.2%**	**66.3%**	**79.3%**

Data from PLL LOT/PROGRAM S92

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RELATIVE PRODUCTIVITY BY TYPE OF AIRCRAFTS

	Productivity in min avail. seat km/year		1992 4	5	6	7	8	9	10	11	12	1993 1	2	3	4	5	6	7	8	9	10	11	12	1994 1	2	3	4	5	6	7	8	9	10	11	12
B 735		Number of aircrafts	0	0.5	2	2	2	2	2	3	5	6	6	6.5	5.5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	179	% of total productivity	0%	4%	14%	14%	14%	14%	14%	25%	36%	40%	40%	42%	38%	36%	33%	33%	32%	32%	32%	52%	52%	52%	52%	49%	46%	45%	45%	45%	45%	45%	45%	45%	45%
B 734		Number of aircrafts	0	0	0	0	0	0	0	0	0	0	0	0	1	1	2	2.5	3	3	3	3	3	3	3	3.5	4	4	4	4	4	4	4	4	4
	236	% of total productivity	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	9%	9%	17%	22%	25%	25%	25%	41%	41%	41%	41%	45%	46%	48%	47%	47%	47%	47%	47%	47%	47%
ATR		Number of aircrafts	0	0	0	0	0	0	0.5	1	1	1	1	1.5	2	2	2	2	2	2	2	2	2	2	2	2	2	2.5	3	3	3	3	3	3	3
	57	% of total productivity	0%	0%	0%	0%	0%	0%	1%	3%	2%	2%	2%	3%	4%	5%	4%	4%	4%	4%	4%	7%	7%	7%	7%	6%	6%	7%	9%	9%	9%	9%	9%	9%	9%
TU 134		Number of aircrafts	7	6.5	6	6	6	6	6	6	6	6	6	5.5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	47	% of total productivity	13%	13%	11%	11%	11%	11%	11%	13%	11%	11%	11%	9%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TU 154		Number of aircrafts	14	12	12	12	12	12	12	8	8	8	8	8	8	8	8	7	7	7	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	156	% of total productivity	87%	83%	75%	75%	75%	75%	74%	59%	50%	47%	47%	45%	48%	50%	46%	41%	39%	39%	39%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
TOTAL		total productivity	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

* % of productivity by type of aircraft = (number of aircrafts * productivity of aircraft)/total productivity for the period

RELATIVE COSTS LEVEL (in %) DUE TO CHANGES IN FLEET COMPOSITION

Current costs level — Target costs level

	1992 4	5	6	7	8	9	10	11	12	1993 1	2	3	4	5	6	7	8	9	10	11	12	1994 1	2	3	4	5	6	7	8	9	10	11	12
Crew wages	100%	100%	100%	100%	100%	100%	100%	95%	92%	91%	91%	90%	91%	92%	90%	89%	88%	88%	88%	75%	75%	75%	75%	76%	76%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Fuel/oil	100%	100%	100%	100%	100%	100%	100%	92%	87%	85%	85%	84%	84%	84%	82%	80%	79%	79%	79%	58%	58%	58%	58%	58%	58%	57%	57%	57%	57%	57%	57%	57%	57%	57%
Insurance	100%	100%	100%	100%	100%	100%	100%	90%	84%	82%	82%	81%	83%	84%	82%	78%	77%	77%	77%	51%	51%	51%	51%	51%	52%	52%	52%	52%	52%	52%	52%	52%	52%	52%
Navigation	100%	100%	100%	100%	100%	100%	100%	91%	87%	85%	85%	84%	88%	89%	89%	87%	87%	87%	87%	70%	70%	70%	70%	71%	72%	71%	70%	70%	70%	70%	70%	70%	70%	70%
Handling	100%	100%	100%	100%	100%	100%	100%	91%	85%	83%	83%	82%	85%	86%	85%	83%	83%	83%	83%	63%	63%	63%	63%	64%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Landing	100%	100%	100%	100%	100%	100%	100%	90%	84%	82%	82%	81%	84%	85%	84%	81%	81%	81%	81%	58%	58%	58%	58%	59%	60%	60%	59%	59%	59%	59%	59%	59%	59%	59%
Landing + handling	100%	100%	100%	100%	100%	100%	100%	90%	85%	82%	82%	81%	84%	85%	85%	82%	82%	82%	82%	61%	61%	61%	61%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%

* the level of cost for April to October are 100% because the fleet change in this period are already reflected in the Summer '92 forecasts
* the relative level of cost for following months are based on the October 1992 figures

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MAINTENANCE COST

The following tabel indicates the cost projections for aircraft maintenance during 1992, 1993 and 1994.

These numbers are based on LOT's management estimates and reflect the projected changes in fleet composition

	1991*	1992	1993	1994
Tu-154, number of aircraft-months			76	
Number of aircrafts, beginning/end of year	14	14/8	8/0	
Total hours flown @125 hrs/month	13,463	14,280	9,500	
Cost per flown hour (in US$)	453	580	570	
Total cost per year	6,098,739	8,282,400	5,415,000	
Tu-134, number of aircraft-months		77	15	
Number of aircrafts, beginning/end of year	7	7/5	5/0	
Total hours flown @99 hrs/month	8,348	7,603	1,441	
Cost per flown hour (in US$)	265	380	260	
Total cost per year	2,212,220	2,889,004	374,666	
B767, inc. Air New Zealand		40.5		
Number of aircrafts, beginning/end of year	3	3/3	3/3	3/3
Total hours flown LOT	13,300	13,000	13,000	13,000
Total hours flown New Zealand		2,000	2,000	2,000
Cost per flown hour (in US$)	380	500	500	500
Cost per flown hour/N.Zealnd		480	480	480
Total cost per year	5,054,000	7,460,000	7,460,000	7,460,000
B737 – Linjeflyg, number of aircraft months		15.5	6.0	
Number of aircrafts, beginning/end of year		0/2	2/0	
Total hours flown @270 hrs/month		4,185	1,620	
Cost per flown hour (in US$)		280	280	
Total cost per year		1,171,800	453,600	
B737 – LOT, number of aircraft-months		4.0	78.0	105.5
Number of aircrafts, beginning/end of year		0/4	4/8	8/9
Total hours flown @270 hrs/month		1,080	21,060	28,485
Cost per flown hour (in US$)		210	210	210
Total cost per year**)		826,800	4,422,600	5,981,850
ATR-72, number of aircraft-months		51	60	78
Number of aircrafts, beginning/end of year	4	4/5	5/5	5/7
Total hours flown @166 hrs/month	802	8,383	9,960	12,948
Cost per flown hour (in US$)	425	125	140	160
Total cost per year	340,850	1,047,875	1,394,400	2,071,680
TOTAL MAINTENANCE COST	**13,705,809**	**21,677,879**	**19,520,266**	**15,513,530**
Assume 5% price increase per year				
TOTAL PROJECTED MAINTENANCE COST	**13,705,809**	**21,677,879**	**20,496,280**	**17,103,667**

*) – The 1991 figure does not include IL-62, IL-18 and AN-24 maintenance, which totalled US$ 3M. The B767 cost has been corrected to reflect overpayment for SAS in the amount of US$ 1.6M.

**) – The 1992 figure is increased by a first time usage cost of 600,000 US$

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1992 Pro Forma Profit and Loss Statement for LOT Polish Airline

In USD	Jan	Feb	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total		
Revenues															
Passenger	14,650,878	13,571,633	15,921,924	21,937,512	22,858,709	25,921,704	30,600,782	34,083,988	28,153,923	24,730,334	20,672,151	20,103,316	273,206,855		
Cargo	1,454,823	1,221,144	1,439,332	1,501,545	1,508,379	1,653,844	1,899,416	2,128,240	1,808,751	1,669,825	1,442,107	1,364,425	19,091,831		
Mail	82,986	77,551	90,488	54,626	55,978	46,875	38,908	32,386	44,544	37,837	67,307	139,431	768,916		
Excess Luggage[1]	115,670	94,507	117,453	119,975	125,013	141,764	167,354	186,403	153,972	135,249	113,055	109,944	1,580,358		
Charters	544,954	445,249	553,354	565,234	588,970	667,890	788,449	878,196	725,404	637,193	532,631	517,975	7,445,500		
Duty Free and Bar Sales	31,533	29,219	40,361	34,382	41,693	35,247	52,116	55,424	42,793	31,489	34,344	29,982	458,580		
Total Flying Revenue	16,880,844	15,439,304	18,162,912	24,213,273	25,178,742	28,467,323	33,547,025	37,364,636	30,929,387	27,241,927	22,861,598	22,265,073	302,552,041		
Costs															
Crew Remuneration (variable)	75,673	61,427	69,679	75,532	82,867	82,514	92,317	102,825	88,086	81,809	68,816	68,295	949,842		
Fuel, Oil	4,003,913	3,250,148	3,686,735	3,996,450	4,384,528	4,365,870	4,884,551	5,440,546	4,660,660	4,328,555	3,624,311	3,579,564	50,205,832		
Aircraft Maintenance and Repairs	1,714,734	1,391,923	1,578,898	1,711,538	1,877,737	1,869,747	2,091,879	2,329,992	1,995,995	1,853,766	1,620,447	1,641,222	21,677,879		
Special Costs (Variable)	74,880	74,880	74,880	74,880	74,880	74,880	74,880	74,880	74,880	74,880	74,880	74,880	898,560		
Total Direct Var. A/C Costs	5,869,201	4,778,378	5,410,191	5,858,400	6,420,012	6,393,012	7,143,627	7,948,244	6,819,620	6,339,010	5,388,455	5,363,962		73,732,113	
Crew Salary (fixed)	760,562	760,562	760,562	760,562	760,562	760,562	760,562	760,562	760,562	760,562	731,886	717,154	9,054,661		
Aircraft Depreciation	710,725	710,725	710,725	710,725	626,115	609,193	609,193	609,193	609,193	609,193	473,816	473,816	7,462,609		
Special Costs (Fixed)	8,831	8,831	957	19,227	34,539	45,588	51,123	63,075	2,523	121,539	12,180	34,539	402,951		
Leasing 3 * B767	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	1,774,511	21,294,135		
– 8 * ATR	857,958	857,958	857,958	1,143,944	1,143,944	1,143,944	1,143,944	1,143,944	1,143,944	1,429,930	1,429,930	1,429,930	13,727,332		
– B737 (Linjeflyg)	0	0	0	220,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	3,740,000		
– B737 (LOT)	692,685	152,767	152,767	452,371	111,204	333,613	0	0	786,095	0	894,602	503,350	4,079,354		
– 4th Boeing 767	0	0	300,000	275,000	700,000	575,000	575,000	575,000	0	0	0	0	3,000,000		
Insurance	475,687	475,687	475,687	487,466	487,466	487,466	487,466	487,466	487,466	487,466	448,881	433,726	5,721,928		
Crew Training	97,194	97,194	97,194	97,194	97,194	97,194	97,194	97,194	97,194	97,194	97,194	97,194	1,166,331		
Total Direct Fixed A/C Cost	5,378,153	4,838,235	5,130,362	5,941,000	6,175,535	6,267,071	5,938,993	5,950,945	6,101,488	5,720,395	6,302,901	5,904,221		69,649,302	
Total A/C Cost	11,247,354	9,616,613	10,540,553	11,799,401	12,595,548	12,660,083	13,082,621	13,899,189	12,921,109	12,059,406	11,691,356	11,268,184			143,381,415
Airport Costs (incl. handling & L)	3,701,217	3,004,436	3,408,017	3,694,318	4,053,057	4,035,810	4,515,278	5,029,240	4,308,313	4,001,316	3,247,091	3,135,889	46,133,984		
Navigation	1,348,594	1,094,711	1,241,762	1,346,080	1,476,792	1,470,508	1,645,209	1,832,479	1,569,799	1,457,939	1,207,778	1,189,601	16,881,254		
Catering	1,287,644	1,162,041	1,318,136	1,428,870	1,567,621	1,560,950	1,746,397	1,945,184	1,666,348	1,547,609	1,352,824	1,370,168	17,953,791		
Pooling	(32,304)	(32,304)	37,130	(687,652)	(139,304)	(430,870)	(595,913)	(76,174)	202,435	352,957	(1,333,130)	(523,304)	(3,258,435)		
Lodging	469,711	381,285	432,502	468,635	514,362	512,173	573,021	638,247	546,756	507,796	443,863	449,574	5,938,145		
Total Direct Var. Route Cost	6,774,862	5,610,169	6,437,548	6,250,452	7,472,528	7,148,572	7,883,992	9,368,976	8,293,651	7,867,616	4,918,446	5,621,927		83,648,739	
Fixed Route Costs	1,085,902	861,884	944,168	995,643	1,130,547	1,039,103	1,334,904	1,231,314	1,155,619	1,447,131	1,007,641	1,111,383	13,345,239		
Total Direct Fixed Route Cos	1,085,902	861,884	944,168	995,643	1,130,547	1,039,103	1,334,904	1,231,314	1,155,619	1,447,131	1,007,641	1,111,383		13,345,239	
Total Route Costs	7,860,765	6,472,053	7,381,715	7,246,095	8,603,075	8,187,675	9,218,896	10,600,290	9,449,270	9,314,748	5,926,087	6,733,310			96,993,978
Total Direct Operating Costs	19,108,119	16,088,666	17,922,268	19,045,495	21,196,622	20,847,758	22,301,516	24,499,479	22,370,379	21,374,153	17,617,443	18,001,494	240,375,393		
Contribution	(2,227,274)	(649,362)	240,644	5,167,777	3,980,119	7,619,565	11,245,508	12,865,157	8,559,008	5,867,773	5,244,153	4,263,579	62,176,647		
Other Income															
Sales of Goods and Services	1,931,924	1,349,318	2,114,267	2,089,520	2,238,113	2,946,999	2,590,806	2,998,035	2,570,224	2,899,338	2,153,329	2,130,961	28,012,834		
Dividends	0	0	0	0	3,815,000	0	0	0	0	0	0	0	3,815,000		
Currency Exposure (Revenue)	0	(11,904)	(23,808)	(35,712)	(47,617)	(59,521)	(71,425)	(83,329)	(95,233)	(107,137)	(119,041)	(130,946)	(785,673)		
Cont'n after Other Income	(295,350)	688,052	2,331,102	7,221,585	9,985,616	10,507,043	13,764,889	15,779,863	11,033,999	8,659,974	7,278,440	6,263,595	93,218,808		
Other Costs															
Commercial & Sales Cost	2,580,290	2,047,984	2,243,504	2,365,818	2,686,374	2,469,088	3,171,961	2,925,813	2,745,950	3,438,632	2,394,328	2,640,837	31,710,579		
Gen. & Administration	1,735,562	1,735,562	2,345,383	2,769,325	1,941,065	2,538,737	2,208,264	2,044,335	2,006,417	1,895,339	2,307,636	2,038,400	25,564,020		
Duty Free and Bar Purchases	26,907	22,921	27,795	23,498	34,744	36,949	28,529	20,992	22,896	19,988	21,022	19,479	305,720		
Costs related to Other Income	1,217,426	787,478	1,369,525	1,338,872	1,449,832	2,005,571	1,603,136	1,888,240	1,633,715	1,987,729	1,419,426	1,411,246	18,112,196		
Depreciation (non A/C)	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	1,186,507	14,238,086		
Interest (non A/C)	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	9,465,826		
Currency Exposure (Costs)	0	(77,396)	(154,792)	(232,188)	(309,584)	(386,980)	(464,376)	(541,772)	(619,168)	(696,564)	(773,960)	(851,356)	(5,108,138)		
Popiwek	2,356,345	2,050,454	1,821,886	1,658,066	1,496,004	1,261,364	1,209,230	1,187,496	1,031,160	911,817	790,182	670,066	16,442,091		
Taxes	463,684	463,684	463,684	463,684	1,226,684	463,684	463,684	463,684	463,684	463,684	463,684	463,684	6,327,208		
Total Other Costs	10,355,540	9,006,013	10,092,311	10,360,400	10,500,444	10,363,739	10,195,753	9,964,114	9,259,979	9,995,950	8,597,643	8,365,702	117,057,588		
Profit / (Loss) this period	(10,650,890)	(8,317,961)	(7,761,209)	(3,138,815)	(514,828)	143,304	3,569,136	5,815,749	1,774,020	(1,335,976)	(1,319,203)	(2,102,107)	(23,838,780)		
Restructuring	0	0	0	0	0	0	0	0	0	0	0	0	0		
New Profit / (Loss)	(10,650,890)	(8,317,961)	(7,761,209)	(3,138,815)	(514,828)	143,304	3,569,136	5,815,749	1,774,020	(1,335,976)	(1,319,203)	(2,102,107)	(23,838,780)		
Cumulative Profit / (Loss)	(10,650,890)	(18,968,851)	(26,730,060)	(29,868,874)	(30,383,703)	(30,240,399)	(26,671,263)	(20,855,513)	(19,081,494)	(20,417,470)	(21,736,673)	(23,838,780)			

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BEST AVAILABLE COPY

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In USD

Sales of Goods and Services	Jan	Feb	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
LIM 6th Floor	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	600,000
Handling Fees	666,729	556,848	627,066	734,667	752,754	714,751	747,332	838,841	804,188	762,735	699,449	722,896	8,628,256
Fuel Sales	446,771	105,106	729,584	458,030	571,911	587,271	555,063	527,550	532,691	589,178	548,235	587,272	6,238,663
Catering	123,952	81,107	75,173	60,358	102,409	101,615	138,613	146,833	144,487	120,684	97,289	83,855	1,296,375
Car Transportation	131	82	93	54	195	546	35	97	197	307	19	423	2,179
Tourist Services	162,457	162,457	143,039	266,594	240,038	902,223	402,563	658,154	397,209	812,985	287,347	228,486	4,663,552
Commissions from Ticket Sales	481,885	393,719	489,313	499,818	520,806	590,593	697,199	776,560	641,451	563,449	470,988	458,028	6,583,609
Total Sales of Goods & Services	1,931,924	1,349,318	2,114,267	2,089,520	2,238,113	2,946,999	2,590,806	2,998,035	2,570,224	2,899,338	2,153,329	2,130,961	28,012,834

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1992 Pro Forma cash Flow Statement for LOT Polish Airline

In USD	Jan	Feb	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Receipts													
Passenger	14,650,878	13,571,633	15,921,924	19,215,289	21,204,007	25,828,765	28,727,674	29,831,321	28,716,756	27,906,766	23,919,199	21,067,491	270,561,704
Cargo	1,454,823	1,221,144	1,439,332	1,501,545	1,508,379	1,653,844	1,899,416	2,128,240	1,808,751	1,669,825	1,442,107	1,364,425	19,091,831
Mail	74,786	154,923	82,986	77,551	90,488	54,626	55,978	46,875	38,908	32,386	44,544	37,837	791,887
Excess Luggage	110,573	105,549	117,152	109,759	124,832	137,005	152,372	160,795	156,324	153,507	130,392	122,099	1,580,358
Charters	553,354	565,234	588,970	667,890	788,449	878,196	725,404	637,193	532,631	517,975	572,202	467,511	7,495,010
Duty Free and Bar Sales	31,533	29,219	40,361	34,382	41,693	35,247	52,116	55,424	42,793	31,489	34,344	29,982	458,580
Sales of Goods and Services	2,036,575	2,011,474	2,036,061	1,426,899	2,873,451	2,225,490	2,656,229	2,441,985	3,001,228	2,627,226	2,401,501	2,256,932	27,995,053
Total Receipts	**18,912,522**	**17,659,176**	**20,226,786**	**23,033,314**	**26,631,298**	**30,813,172**	**34,269,190**	**35,301,833**	**34,297,392**	**32,939,176**	**28,544,287**	**25,346,278**	**327,974,424**
Disbursements													
Crew Remuneration (variable)	75,673	61,427	69,679	75,532	82,867	82,514	92,317	102,825	88,086	81,809	68,816	68,295	949,842
Fuel, Oil	3,712,879	3,587,972	4,003,913	3,250,148	3,686,735	3,996,450	4,384,528	4,365,870	4,884,551	5,440,546	4,660,660	4,328,555	50,302,807
Aircraft Maintenance and Repairs	1,714,734	1,391,923	1,578,898	1,711,538	1,877,737	1,869,747	2,091,879	2,329,992	1,995,995	1,853,766	1,620,447	1,641,222	21,677,879
Special Costs (variable)	58,789	48,016	51,648	59,291	63,794	62,397	69,810	96,365	66,610	61,864	64,773	195,206	898,563
Crew Salary (fixed)	760,562	760,562	760,562	760,562	760,562	760,562	760,562	760,562	760,562	760,562	731,886	717,154	9,054,661
Special Costs (fixed)	8,831	8,831	957	19,227	34,539	45,588	51,123	63,075	2,523	121,539	12,180	34,539	402,951
Leasing B767	0	0	0	0	1,617,118	8,595,733	0	0	0	0	1,629,688	9,451,595	21,294,135
– ATR	0	0	2,795,000	0	2,023,686	707,056	2,089,847	707,056	707,056	1,964,813	2,025,762	707,056	13,727,332
– B737 (Linjeflyg)	0	0	0	220,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	440,000	3,740,000
– B737 (LOT)	692,685	152,767	152,767	452,371	111,204	333,613	0	0	786,095	0	894,502	503,350	4,079,354
– 4th Boeing 767	0	0	300,000	275,000	700,000	575,000	575,000	575,000	0	0	0	0	3,000,000
Insurance	207,447	444,083	620,971	[illegible]	2,304,192	205,388	924,931	0	0	909,551	0	0	5,721,928
Crew Training	97,194	97,194	97,194	[illegible]	97,194	97,194	97,194	97,194	97,194	97,194	97,194	97,194	1,166,331
Airport Costs (Incl. handling & L)	3,193,773	[illegible]	[illegible]	[illegible]	[illegible]	3,604,118	4,053,057	4,035,810	4,515,278	5,029,240	4,308,313	4,001,316	46,237,813
Navigation	1,207,778	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,476,792	1,470,508	1,645,209	1,832,479	1,569,799	1,457,939	16,881,254
Catering	1,018,690	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,567,821	1,560,950	1,746,397	1,945,184	1,666,348	1,547,609	17,444,521
Pooling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	(430,870)	(595,913)	(76,174)	202,435	352,957	(2,825,238)
Lodging	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	546,247	546,756	507,796	443,883	449,574	5,938,145
Fixed Route Costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,155,619	1,447,131	1,007,641	1,111,383	13,345,239
Commercial & Sales Cost	2,580,208	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,925,813	2,745,950	3,438,632	2,394,328	2,640,837	31,710,579
Gen. & Administration	1,735,562	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2,006,417	1,895,339	2,307,636	2,036,400	25,564,020
Duty Free and Bar Purchases	26,907	22,921	[illegible]	[illegible]	[illegible]	[illegible]	28,520	20,992	22,896	19,988	21,022	19,479	305,720
Costs related to Other Income	787,478	1,369,525	1,318,872	1,449,832	[illegible]	[illegible]	1,886,240	1,633,715	1,987,729	1,419,426	1,411,246	1,217,426	18,112,196
Interest	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	788,819	9,465,826
Taxes	0	0	0	0	1,071,800	0	0	0	0	0	0	0	1,071,800
Total Disbursements	19,401,633	18,837,256	24,857,783	21,026,882	30,067,955	32,540,865	28,529,095	25,457,574	26,393,828	29,979,504	28,367,378	33,807,906	319,267,659
Other Receipts													
Dividends	0	0	0	0	3,815,000	0	0	0	0	0	0	0	3,815,000
Disposal of Assets	0	0	3,185,000	2,250,000	0	0	5,250,000	0	0	0	0	7,500,000	18,185,000
Ticket Sales for Other Carriers	4,021,919	3,725,648	4,370,843	6,022,226	6,275,111	7,115,955	8,400,443	9,356,643	7,728,738	6,788,904	5,674,863	5,518,708	75,000,000
Other Disbursements													
Aircraft Deposits	0	0	0	1,140,000	440,000	0	0	0	0	0	0	0	1,580,000
Payments to other airlines (IATA)	5,674,863	5,518,708	4,021,919	3,725,648	4,370,843	6,022,226	6,275,111	7,115,955	8,400,443	9,356,643	7,728,738	6,788,904	75,000,000
Capital related to Joint Ventures	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditures	333,333	333,333	333,333	2,333,333	2,333,333	2,333,333	3,333,333	3,333,333	8,333,336	8,333,333	8,333,333	8,333,333	48,000,000
Net Cost of Inflation/revaluation	0	(65,492)	(130,984)	(196,476)	(261,968)	(327,459)	(392,951)	(458,443)	(523,935)	(589,427)	(654,919)	(720,411)	(4,322,465)
Repayment of Debt	0	0	740,740	0	0	0	0	0	0	0	0	0	740,740
Excess / (Deficiency)	(2,475,387)	(3,238,982)	(2,040,162)	3,276,153	(228,755)	(2,639,838)	10,175,046	9,210,057	(577,543)	(7,351,973)	(9,555,381)	(9,844,747)	(15,291,511)
Restructuring	0	0	0	0	0	0	0	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000
New Excess / (Deficiency)	(2,475,387)	(3,238,982)	(2,040,162)	3,276,153	(228,755)	(2,639,838)	10,175,046	10,210,057	422,457	(6,351,973)	(8,555,381)	(8,844,747)	(10,291,511)
Payroll	2,356,345	2,050,454	1,821,886	1,656,066	1,496,004	1,261,364	1,209,230	1,187,496	1,031,160	911,817	790,182	670,086	16,442,091
Total Payment Past due Payroll	0	0	0	0	0	0	13,304,137	0	13,304,137	13,304,137	0	0	39,912,410
Total Payroll	2,356,345	2,050,454	1,821,886	1,656,066	1,496,004	1,261,364	14,513,367	1,187,496	14,335,297	14,215,954	790,182	670,086	56,354,501
Excess / (Deficiency) Incl. Payroll	(4,831,732)	(5,289,435)	(3,862,048)	1,620,087	(1,724,759)	(3,901,202)	(4,338,321)	9,022,561	(13,912,839)	(20,567,926)	(9,345,563)	(9,514,833)	(66,646,012)

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Sales of Goods and Services

Cash Flow (In USD)	Jan	Feb	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
LIM 6th Floor	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	600,000
Handling Fees	635,863	657,178	666,729	556,848	627,066	734,667	752,754	714,751	747,332	838,841	804,188	762,735	8,498,952
Fuel Sales	522,129	559,307	446,771	105,106	729,584	458,030	571,911	587,271	555,063	527,550	532,691	589,178	6,184,591
Catering	92,657	79,862	123,952	81,107	75,173	80,358	102,409	101,615	138,613	146,833	144,487	120,684	1,287,749
Car Transportation	19	423	131	82	93	54	195	546	35	97	197	307	2,179
Tourist Services	287,347	228,486	266,594	240,038	902,223	402,563	658,154	397,209	812,985	287,347	228,486	170,580	4,882,012
Commissions from Ticket Sales	448,560	436,217	481,885	393,719	489,313	499,818	520,806	590,593	697,199	776,560	641,451	563,449	6,539,570
Total	2,036,575	2,011,474	2,036,061	1,426,899	2,873,451	2,225,490	2,656,229	2,441,985	3,001,228	2,627,228	2,401,501	2,256,932	27,995,053

1992 Summary Balance Sheet

From 1992 Cash Flow:	Jan	Feb	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Excess / (Deficiency) incl. Popiwek	(4,831,732)	(5,289,435)	(3,862,048)	1,620,087	(1,724,759)	(3,901,202)	8,965,816	8,022,561	(1,608,703)	(8,263,790)	(10,345,563)	(10,514,833)	(31,733,602)
Unpaid Amounts–this month	4,831,732	5,289,435	3,862,048	1,656,066	1,724,759	3,901,202	1,209,230	1,187,496	1,608,703	8,263,790	10,345,563	10,514,833	54,394,858
Additional Payment of Past due	0	0	0	3,176,153	0	0	10,075,046	9,110,057	0	0	0	0	22,361,256
Net Unpaid	4,831,732	5,289,435	3,862,048	(1,520,087)	1,724,759	3,901,202	(8,865,816)	(7,922,561)	1,608,703	8,263,790	10,345,563	10,514,833	32,033,602
Movement for the month	0	0	0	100,000	0	0	100,000	100,000	0	0	0	0	300,000

Summary Balance Sheet (opening @ 11120 zl/USD)														Change
Cash	21,730,576	21,730,576	21,730,576	21,730,576	21,830,576	21,830,576	21,830,576	21,930,576	22,030,576	22,030,576	22,030,576	22,030,576	22,030,576	300,000
Trade Receivables	35,525,629	35,425,876	34,543,418	34,570,002	38,943,768	40,121,709	40,663,338	42,460,554	47,438,063	46,545,049	43,640,000	39,991,596	38,910,407	3,384,778
Other Curr Assets	0	(1,563,898)	(3,127,797)	(7,876,695)	(9,690,594)	(9,169,883)	(8,632,250)	(12,344,617)	(10,806,983)	(4,269,347)	2,268,286	8,941,296	8,114,305	8,114,305
Total Cur. Assets	57,256,205	55,592,553	53,146,196	48,423,882	51,083,750	52,782,401	53,861,664	52,046,513	58,661,655	64,306,278	67,938,862	70,963,467	69,055,288	11,799,083
Trade Liabilities	81,560,162	89,843,999	95,458,209	97,067,033	98,913,071	97,726,280	96,307,145	87,588,294	84,959,504	88,470,652	95,095,135	100,702,636	101,496,673	19,936,512
Popiwek Payable	39,912,410	42,268,755	44,319,209	46,141,095	47,797,161	49,293,165	50,554,529	51,763,759	52,951,256	53,982,416	54,894,233	55,684,415	56,354,501	16,442,091
Borrowed Money	18,726,619	18,726,619	18,726,619	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	(740,740)
Other Liabilities	566,277	(1,086,667)	(2,879,727)	(2,530,803)	(234,224)	1,670,043	2,763,773	4,889,105	7,129,793	6,458,088	3,890,349	1,836,473	566,277	0
Total Cur. Liabiliti	140,765,468	149,752,706	155,624,309	158,663,204	164,461,887	166,675,366	167,611,325	162,227,038	163,026,431	166,897,034	171,865,595	176,209,403	176,403,330	35,637,863
Equity/(deficit)	(83,509,263)	(94,160,153)	(102,478,113)	(110,239,322)	(113,378,137)	(113,892,965)	(113,749,661)	(110,180,525)	(104,364,776)	(102,590,757)	(103,926,733)	(105,245,935)	(107,348,043)	(23,838,780)

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Pro Forma Profit and Loss Statement for LOT Polish Airline

1993 In USD	I	II	III	IV	Total
Revenues					
Passenger	54,514,499	72,109,125	94,895,609	66,917,268	288,436,500
Cargo	4,806,136	5,429,154	6,808,693	5,206,647	22,250,629
Charters	1,618,279	1,915,355	2,509,506	1,774,635	7,817,775
Other	728,156	722,260	769,428	728,156	2,948,000
Total Flying Revenue	**61,667,070**	**80,175,893**	**104,983,235**	**74,626,706**	**321,452,904**
Costs					
Crew Remuneration (variable)	202,666	236,644	272,587	195,945	907,842
Fuel, Oil	10,592,462	12,241,923	14,048,420	9,906,439	46,789,244
Aircraft Maintenance and Repairs	4,836,608	6,068,047	5,161,466	4,430,158	20,496,280
Special Costs	235,872	235,872	235,872	235,872	943,488
Total Direct Var. A/C Costs	15,867,609	18,782,486	19,718,345	14,768,414	69,136,853
Crew Salary (fixed)	2,236,303	2,241,247	2,195,956	1,977,710	8,651,216
Aircraft Depreciation	1,404,527	812,257	710,725	236,908	3,164,417
Special Costs	19,549	104,322	122,557	176,671	423,099
Leasing B767	5,983,709	5,983,709	5,983,709	5,983,709	23,934,837
ATR	1,953,188	1,953,188	1,953,188	1,953,188	7,812,753
B737	959,520	4,292,051	11,357,494	2,455,781	19,064,846
Other	300,000	1,550,000	1,150,000	0	3,000,000
Insurance	1,344,162	1,389,460	1,341,724	1,115,207	5,190,554
Crew Training	306,162	306,162	306,162	306,162	1,224,648
Total Direct Fixed A/C Cost	14,507,121	18,632,396	25,121,515	14,205,337	72,466,370
Total A/C Cost	30,374,730	37,414,882	44,839,861	28,973,751	141,603,223
Airport Costs (Incl. handling & L)	9,183,834	10,947,318	12,594,836	8,263,199	40,989,186
Navigation	3,516,899	4,198,261	4,887,412	3,442,913	16,045,486
Catering	3,956,212	4,785,313	5,625,825	4,484,130	18,851,481
Pooling	0	0	0	0	0
Lodging	1,347,672	1,570,139	1,845,925	1,471,316	6,235,052
Total Direct Var. Route Cost	18,004,618	21,501,032	24,953,997	17,661,558	82,121,205
Fixed Route Costs	3,036,552	3,323,558	3,907,929	3,744,463	14,012,501
Total Direct Fixed Route Cos	3,036,552	3,323,558	3,907,929	3,744,463	14,012,501
Total Route Costs	21,041,169	24,824,589	28,861,926	21,406,021	96,133,706
Total Direct Operating Costs	**51,415,899**	**62,239,471**	**73,701,787**	**50,379,772**	**237,736,929**
Contribution	10,251,171	17,936,423	31,281,448	24,246,934	83,715,976
Other Income					
Sales of Goods and Services	5,046,273	11,682,888	7,462,368	6,391,946	30,583,476
Dividends	0	5,100,000	0	0	5,100,000
Cont'n after Other Income	**15,297,444**	**34,719,310**	**38,743,816**	**30,638,881**	**119,399,451**
Other Costs					
Commercial & Sales Cost	7,215,368	7,897,344	9,285,910	8,897,486	33,296,108
Gen. & Administration	6,107,331	7,611,582	6,571,965	6,551,342	26,842,221
Costs related to Other Income	3,624,655	5,133,939	5,457,384	5,122,834	19,338,812
Depreciation (non A/C)	3,559,522	3,559,522	3,559,522	3,559,522	14,238,086
Interest (non A/C)	2,484,779	2,484,779	2,484,779	2,484,779	9,939,117
Currency Exposure	(243,797)	(975,190)	(1,706,582)	(2,437,975)	(5,363,545)
Popiwek	5,605,816	3,972,091	3,085,098	2,134,877	14,797,882
Taxes	1,661,865	2,681,865	1,661,865	1,661,865	7,667,461
Total Other Costs	**30,015,539**	**32,365,932**	**30,399,940**	**27,974,731**	**120,756,142**
Profit / (Loss) this period	(14,718,095)	2,353,378	8,343,875	2,664,149	(1,356,691)
Restructuring	8,750,000	8,750,000	8,750,000	8,750,000	35,000,000
New Profit / (Loss)	(5,968,095)	11,103,378	17,093,875	11,414,149	33,643,309
Cumulative Profit / (Loss)	(5,968,095)	5,135,284	22,229,159	33,643,309	

1994 In USD	I	II	III	IV	Total
Revenues					
Passenger	59,389,185	78,557,123	103,381,174	72,901,010	314,228,493
Cargo	5,609,040	6,336,138	7,946,140	6,076,460	25,967,777
Charters	1,699,193	2,011,123	2,634,981	1,863,367	8,208,664
Other	764,564	758,373	807,899	764,564	3,095,400
Total Flying Revenue	**67,461,982**	**87,662,757**	**114,770,195**	**81,605,401**	**351,500,334**
Costs					
Crew Remuneration (variable)	187,224	217,956	255,576	197,547	858,303
Fuel, Oil	9,430,490	10,971,707	12,849,871	9,888,740	43,140,807
Aircraft Maintenance and Repairs	4,036,037	5,063,644	4,307,123	3,696,863	17,103,667
Special Costs	247,666	247,666	247,666	247,666	990,662
Total Direct Var. A/C Costs	13,901,416	16,500,973	17,660,236	14,030,815	62,093,440
Crew Salary (fixed)	2,065,905	2,064,261	2,058,918	1,993,872	8,182,956
Aircraft Depreciation	0	0	0	0	0
Special Costs	20,526	109,538	128,685	185,504	444,253
Leasing B767	6,575,830	6,575,830	6,575,830	6,575,830	26,303,318
ATR	3,492,005	3,492,005	3,492,005	3,492,005	13,968,021
B737	15,105,459	8,829,131	11,945,808	11,791,756	47,672,154
Other	300,000	1,550,000	1,150,000	0	3,000,000
Insurance	1,143,935	1,173,108	1,172,928	1,098,878	4,588,848
Crew Training	321,470	321,470	321,470	321,470	1,285,880
Total Direct Fixed A/C Cost	29,025,130	24,115,342	26,845,644	25,459,315	105,445,431
Total A/C Cost	42,926,546	40,616,315	44,505,879	39,490,130	167,538,870
Airport Costs (Incl. handling & L)	7,879,013	9,302,173	10,906,696	8,175,827	36,263,709
Navigation	3,318,860	3,896,476	4,559,680	3,482,727	15,257,743
Catering	4,154,023	5,024,579	5,907,116	4,708,337	19,794,055
Pooling	0	0	0	0	0
Lodging	1,415,056	1,648,646	1,938,221	1,544,882	6,546,805
Total Direct Var. Route Cost	16,766,951	19,871,874	23,311,714	17,911,773	77,862,312
Fixed Route Costs	3,188,379	3,489,735	4,103,325	3,931,686	14,713,126
Total Direct Fixed Route Cos	3,188,379	3,489,735	4,103,325	3,931,686	14,713,126
Total Route Costs	19,955,330	23,361,610	27,415,039	21,843,459	92,575,438
Total Direct Operating Costs	**62,881,876**	**63,977,925**	**71,920,918**	**61,333,589**	**260,114,308**
Contribution	4,580,106	23,684,832	42,849,276	20,271,812	91,386,026
Other Income					
Sales of Goods and Services	5,298,587	12,267,032	7,835,486	6,711,544	32,112,649
Dividends	0	5,100,000	0	0	5,100,000
Cont'n after Other Income	**9,878,693**	**41,051,864**	**50,684,763**	**26,983,356**	**128,598,675**
Other Costs					
Commercial & Sales Cost	7,576,136	8,292,211	9,750,205	9,342,361	34,960,913
Gen. & Administration	6,412,698	7,992,161	6,900,564	6,878,910	28,184,332
Costs related to Other Income	3,805,888	5,390,836	5,730,253	5,378,976	20,305,753
Depreciation (non A/C)	3,559,522	3,559,522	3,559,522	3,559,522	14,238,086
Interest (non A/C)	2,609,018	2,609,018	2,609,018	2,609,018	10,436,073
Currency Exposure	(255,987)	(1,023,949)	(1,791,912)	(2,559,874)	(5,631,722)
Popiwek	5,045,234	3,574,882	2,776,588	1,921,369	13,318,094
Taxes	2,161,524	3,181,524	2,161,524	2,161,524	9,666,096
Total Other Costs	**30,914,033**	**33,576,004**	**31,695,762**	**29,291,826**	**125,477,625**
Profit / (Loss) this period	(21,035,339)	7,475,859	18,989,000	(2,308,470)	3,121,050
Restructuring	3,750,000	3,750,000	3,750,000	3,750,000	15,000,000
New Profit / (Loss)	(17,285,339)	11,225,859	22,739,000	1,441,530	18,121,050
Cumulative Profit / (Loss)	(17,285,339)	(6,059,480)	16,679,520	18,121,050	

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BEST AVAILABLE COPY

12-Jun-92

Pro Forma Cash Flow Statement for LOT Polish Airline

In USD	1993 I	II	III	IV	Total
Receipts					
Passenger	59,014,108	71,041,910	86,271,357	72,109,125	288,436,500
Cargo	4,552,479	5,480,330	6,655,163	5,562,657	22,250,629
Charters	1,599,517	1,925,518	2,338,297	1,954,444	7,817,775
Sales of Goods and Services	5,046,273	11,682,888	7,462,368	6,391,946	30,583,476
Other	603,161	726,092	881,747	737,000	2,948,000
Total Receipts	**70,815,538**	**90,856,738**	**103,608,932**	**86,755,172**	**352,036,380**
Disbursements					
Crew Remuneration (variable)	202,666	236,644	272,587	195,945	907,842
Fuel, Oil	10,592,462	12,241,923	14,048,420	9,906,439	46,789,244
Aircraft Maintenance and Repairs	4,836,608	6,068,047	5,161,466	4,430,158	20,496,280
Special Costs (variable)	235,872	235,872	235,872	235,872	943,488
Crew Salary (fixed)	2,236,303	2,241,247	2,195,956	1,977,710	8,651,216
Special Costs (fixed)	19,549	104,322	122,557	176,671	423,099
Leasing B767	0	11,975,299	0	11,959,538	23,934,837
ATR	1,692,091	1,637,908	2,507,369	1,975,385	7,812,753
B737	959,520	4,292,051	11,357,494	2,455,781	19,064,846
Other	300,000	1,550,000	1,150,000	0	3,000,000
Insurance	1,344,162	1,389,460	1,341,724	1,115,207	5,190,554
Crew Training	306,162	306,162	306,162	306,162	1,224,648
Airport Costs (Incl. handling & L)	9,183,834	10,947,318	12,594,836	8,263,199	40,989,186
Navigation	3,516,899	4,198,261	4,887,412	3,442,913	16,045,486
Catering	3,956,212	4,785,313	5,625,825	4,484,130	18,851,481
Pooling	0	0	0	0	0
Lodging	1,347,672	1,570,139	1,845,925	1,471,316	6,235,052
Fixed Route Costs	3,036,552	3,323,558	3,907,929	3,744,463	14,012,501
Commercial & Sales Cost	7,215,368	7,897,344	9,285,910	8,897,486	33,296,108
Gen. & Administration	6,107,331	7,611,582	6,571,965	6,551,342	26,842,221
Costs related to Other Income	3,624,655	5,133,939	5,457,384	5,122,834	19,338,812
Interest (non A/C)	2,484,779	2,484,779	2,484,779	2,484,779	9,939,117
Taxes	0	6,584,208	0	0	6,584,208
Total Disbursements	**63,198,699**	**96,815,375**	**91,361,572**	**79,197,332**	**330,572,978**
Other Receipts					
Dividends	0	5,100,000	0	0	5,100,000
Disposal of Assets	0	0	0	0	0
Ticket Sales for Other Carriers	17,500,000	17,500,000	17,500,000	17,500,000	70,000,000
Other Disbursements					
Repayments of Outstanding Liab.	0	0	0	0	0
Payments to other airlines (IATA)	17,500,000	17,500,000	17,500,000	17,500,000	70,000,000
Capital related to Joint Ventures	0	0	0	0	0
Capital Expenditures	6,875,000	6,875,000	6,875,000	6,875,000	27,500,000
Net Cost (receipt) due to inflation and Revaluation of the Polish Zloty	(243,797)	(975,190)	(1,706,582)	(2,437,975)	(5,363,545)
Excess / (Deficiency)	985,636	(6,758,447)	7,078,942	3,120,816	4,426,947
Restructuring	8,750,000	8,750,000	8,750,000	8,750,000	35,000,000
Taxes on profits from restructuring	0	4,000,000	0	0	
New Excess / (Deficiency)	9,735,636	(2,008,447)	15,828,942	11,870,816	39,426,947
Popiwek	5,605,816	3,972,091	3,085,098	2,134,877	14,797,882
Excess / (Deficiency) Incl. Popiwek	4,129,820	(5,980,538)	12,743,844	9,735,939	24,629,065

In USD	1994 I	II	III	IV	Total
Receipts					
Passenger	64,291,150	77,394,478	93,985,742	78,557,123	314,228,493
Cargo	5,313,007	6,395,863	7,766,962	6,491,944	25,967,777
Charters	1,679,493	2,021,794	2,455,211	2,052,166	8,208,664
Sales of Goods and Services	5,298,587	12,267,032	7,835,486	6,711,544	32,112,649
Other	633,319	762,397	925,834	773,850	3,095,400
Total Receipts	**77,215,555**	**98,841,564**	**112,969,236**	**94,586,627**	**383,612,983**
Disbursements					
Crew Remuneration (variable)	187,224	217,956	255,576	197,547	858,303
Fuel, Oil	9,430,490	10,971,707	12,849,871	9,888,740	43,140,807
Aircraft Maintenance and Repairs	4,036,037	5,063,644	4,307,123	3,696,863	17,103,667
Special Costs (variable)	247,666	247,666	247,666	247,666	990,662
Crew Salary (fixed)	2,065,905	2,064,261	2,058,918	1,993,872	8,182,956
Special Costs (fixed)	20,526	109,538	128,685	185,504	444,253
Leasing B767	0	13,150,736	0	13,152,582	26,303,318
ATR	4,032,295	5,705,317	2,679,212	1,551,197	13,968,021
B737	15,105,459	8,829,131	11,945,808	11,791,756	47,672,154
Other	300,000	1,550,000	1,150,000	0	3,000,000
Insurance	1,143,935	1,173,108	1,172,928	1,098,878	4,588,848
Crew Training	321,470	321,470	321,470	321,470	1,285,880
Airport Costs (Incl. handling & L)	7,879,013	9,302,173	10,906,696	8,175,827	36,263,709
Navigation	3,318,860	3,896,476	4,559,680	3,482,727	15,257,743
Catering	4,154,023	5,024,579	5,907,116	4,708,337	19,794,055
Pooling	0	0	0	0	0
Lodging	1,415,056	1,648,646	1,938,221	1,544,882	6,546,805
Fixed Route Costs	3,188,379	3,489,735	4,103,325	3,931,686	14,713,126
Commercial & Sales Cost	7,576,136	8,292,211	9,750,205	9,342,361	34,960,913
Gen. & Administration	6,412,698	7,992,161	6,900,564	6,878,910	28,184,332
Costs related to Other Income	3,805,888	5,390,636	5,730,253	5,378,976	20,305,753
Interest (non A/C)	2,609,018	2,609,018	2,609,018	2,609,018	10,436,073
Taxes	0	7,667,461	0	0	7,667,461
Total Disbursements	**77,250,076**	**104,717,630**	**89,522,336**	**90,178,798**	**361,668,840**
Other Receipts					
Dividends	0	5,100,000	0	0	5,100,000
Disposal of Assets	0	0	0	0	0
Ticket Sales for Other Carriers	17,500,000	17,500,000	17,500,000	17,500,000	70,000,000
Other Disbursements					
Repayments of Outstanding Liab.	0	0	0	0	0
Payments to other airlines (IATA)	17,500,000	17,500,000	17,500,000	17,500,000	70,000,000
Capital related to Joint Ventures	0	0	0	0	0
Capital Expenditures	6,250,000	6,250,000	6,250,000	6,250,000	25,000,000
Net Cost (receipt) due to inflation and Revaluation of the Polish Zloty	(255,987)	(1,023,949)	(1,791,912)	(2,559,874)	(5,631,722)
Excess / (Deficiency)	(6,028,534)	(6,002,116)	18,988,812	717,703	7,675,866
Restructuring	3,750,000	3,750,000	3,750,000	3,750,000	15,000,000
Taxes on restructuring profits	0	14,000,000	0	0	14,000,000
New Excess / (Deficiency)	(2,278,534)	(16,252,116)	22,738,812	4,467,703	8,675,866
Popiwek	5,045,234	3,574,882	2,776,588	1,921,389	13,318,094
Excess / (Deficiency) Incl. Popiwek	(7,323,768)	(19,826,998)	19,962,224	2,546,314	(4,642,228)

1993 and 1994 Summary Balance Sheet pre restructuring

From Cash Flow: In USD	1993 I	II	III	IV	Total
Excess / (Deficiency)	(4,620,180)	(10,730,538)	3,993,844	985,939	(10,370,935)
Unpaid amounts	4,620,180	10,730,538	3,085,098	2,134,877	20,570,693
Additional Payment of Past Due	0	0	6,978,942	3,020,816	9,999,758
Net Unpaid	4,620,180	10,730,538	(3,893,844)	(885,939)	10,570,935
Movement for period	0	0	100,000	100,000	200,000

Summary Balance Sheet						Change
Cash	22,030,576	22,030,576	22,030,576	22,130,576	22,230,576	200,000
Other Current Assets	38,910,407	34,808,213	35,810,256	44,646,927	38,910,407	0
Other Assets	8,114,305	10,025,256	12,528,478	15,133,232	18,211,802	10,097,497
Total Cur. Assets	69,055,288	66,864,044	70,369,309	81,910,734	79,352,784	10,297,497
Trade Liabilities	101,496,673	108,417,709	105,597,504	105,709,956	98,352,980	(3,143,694)
Popiwek Payable	56,354,501	61,960,317	65,932,408	69,017,506	71,152,383	14,797,882
Borrowed Money	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	0
Other Liabilities	566,277	566,277	566,277	566,277	566,277	0
Total Cur. Liabiliti	176,403,330	188,930,182	190,082,068	193,279,617	188,057,518	11,654,188
Equity/(deficit)	(107,348,043)	(122,066,137)	(119,712,759)	(111,368,883)	(108,704,734)	(1,356,691)

From Cash Flow: In USD	1994 I	II	III	IV	Total
Excess / (Deficiency)	(11,073,768)	(9,576,998)	16,212,224	(1,203,686)	(5,642,228)
Unpaid amounts	11,073,768	9,576,998	2,776,588	1,203,686	24,631,040
Additional payment of past due	0	0	18,888,812	0	18,888,812
Net unpaid	11,073,768	9,576,998	(16,112,224)	1,203,686	5,742,228
Movement for the month	0	0	100,000	0	100,000

Summary Balance Sheet						Change
Cash	22,230,576	22,230,576	22,230,576	22,330,576	22,330,576	100,000
Other Current Assets	38,910,407	34,455,421	35,543,645	45,180,090	38,910,407	0
Other Assets	18,211,802	20,902,280	23,592,759	26,283,237	28,973,716	10,761,914
Total Cur. Assets	79,352,784	77,588,277	81,366,979	93,793,902	90,214,698	10,861,914
Trade Liabilities	98,352,980	112,578,577	105,306,538	95,967,873	92,775,749	(5,577,230)
Popiwek Payable	71,152,383	76,197,617	79,772,500	82,549,088	84,470,477	13,318,094
Borrowed Money	17,985,879	17,985,879	17,985,879	17,985,879	17,985,879	0
Other Liabilities	566,277	566,277	566,277	566,277	566,277	0
Total Cur. Liabiliti	188,057,518	207,328,350	203,631,193	197,069,116	195,798,382	7,740,864
Equity/(deficit)	(108,704,734)	(129,740,073)	(122,264,214)	(103,275,213)	(105,583,684)	3,121,050

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Deloitte Touche Tohmatsu

LOT Polish Airlines
Annex II

Delivery Order No. 17

Contract No. EUR-0014-I-00-1056-00
Eastern Europe Enterprise Restructuring and Privatization Project

USAID

U.S. Agency for International Development
EUR/RME

Deloitte Touche Tohmatsu International

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LOT POLISH AIRLINES
Outline

* Rationale and Objectives
* LOT Background
* Privatization
* The Opportunities
* Summary and Next Steps

LOT POLISH AIRLINES
Rationale and Objectives

* LOT Polish Airlines has been the national flag carrier for the Polish Republic
  - Historic objectives were political as well as economic

* LOT wishes to become a truly commercial, profitable, market-oriented, service-based enterprise
  - Currently involved in a "bold" programme of restructuring
    - Fleet, airport facilities, marketing/distribution, human resources
  - Privatized ownership
    - 49 % of shares on offer over the next two years

* LOT believes the most attractive strategy to achieve its aim is to develop Warsaw as a significant hub in cooperation with a strong alliance partner

* Today's objective is to explore opportunities for a close commercial relationship with British Airways

LOT POLISH AIRLINES
Outline

* Rationale and Objectives
* LOT Background
* Privatization
* The Opportunities
* Summary and Next Steps

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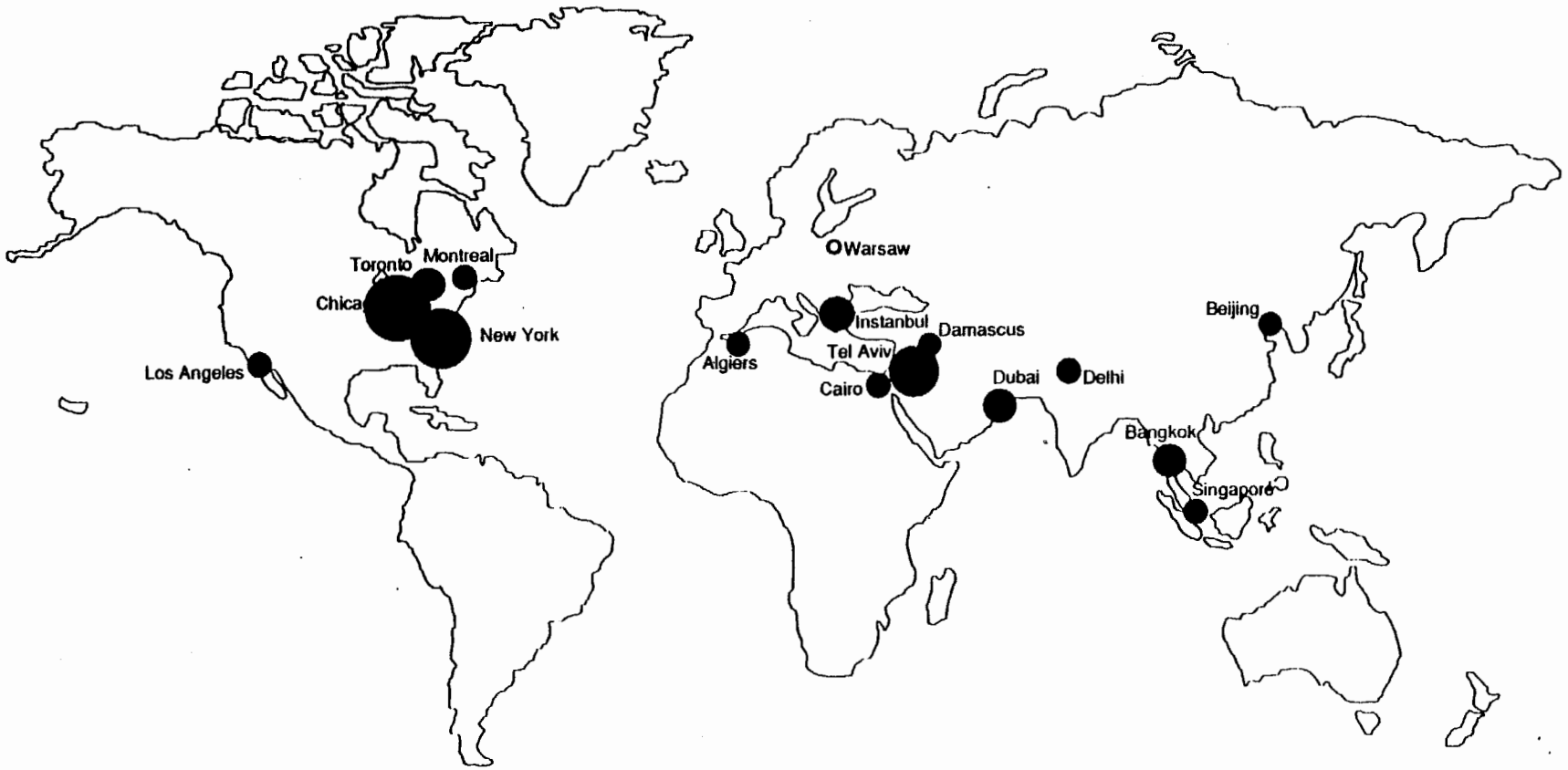
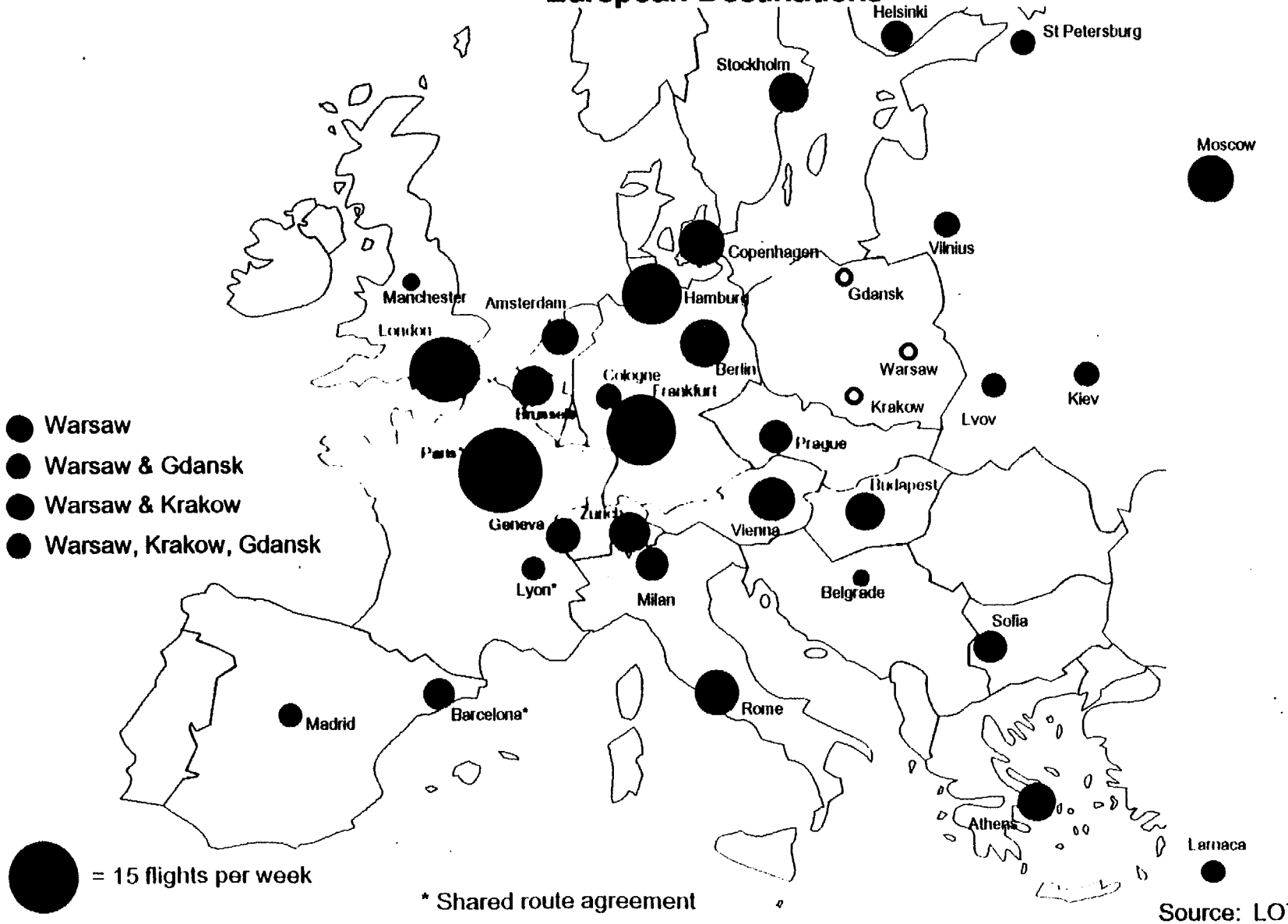
LOT POLISH AIRLINES
Current Schedule
Global Destinations



= 10 flights per week

Source: LOT timetable

LOT POLISH AIRLINES
Current Schedule
European Destinations

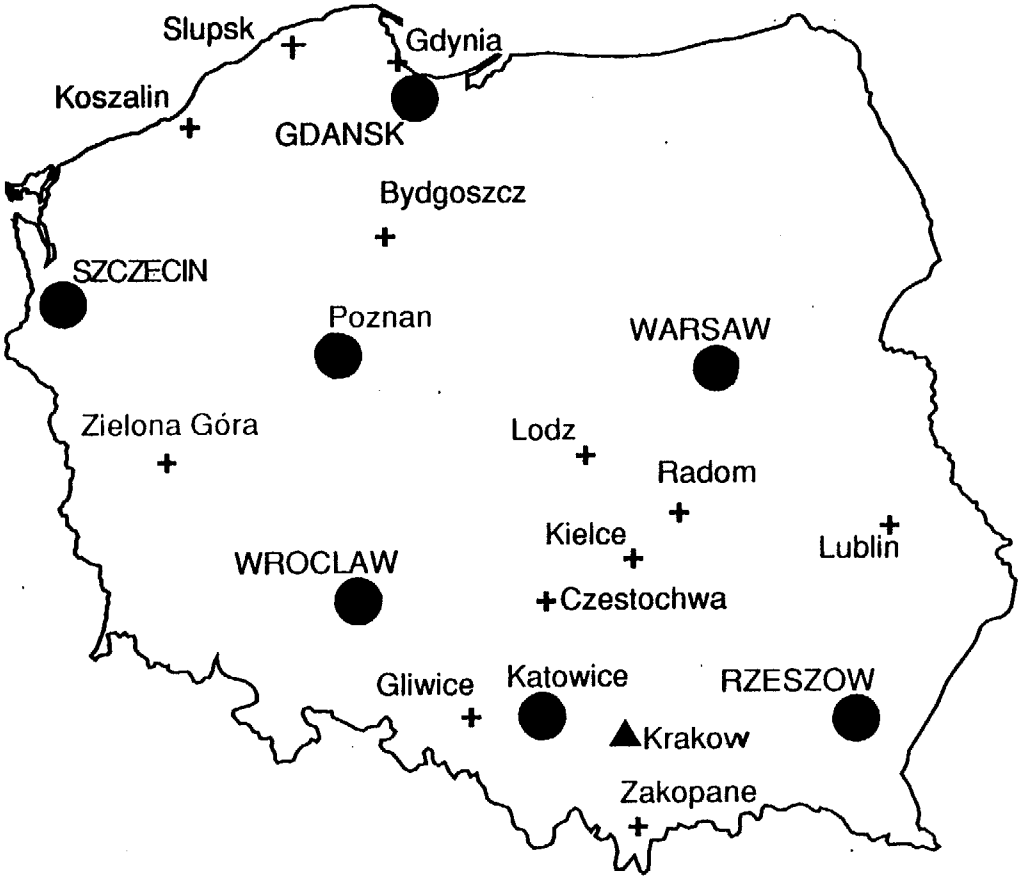


* Shared route agreement

Source: LOT timetable

LOT1102/ILOTMB3/9 92/1

LOT POLISH AIRLINES
Current Schedule
Domestic Destinations and Sales Offices



● = Domestic destination & sales office

▲ = Online LOT sales office

+ = Offline LOT sales office

Source: LOT

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LOT1102/LOTMB1/9 92/1

LOT POLISH AIRLINES
LOT Background
Sales Network

* LOT has an extensive sales office network in Poland
  - More than 50 % of all Polish air tickets are currently sold through LOT sales offices
  - LOT will have a great deal of influence over the way in which the Polish travel agency market develops during the coming years

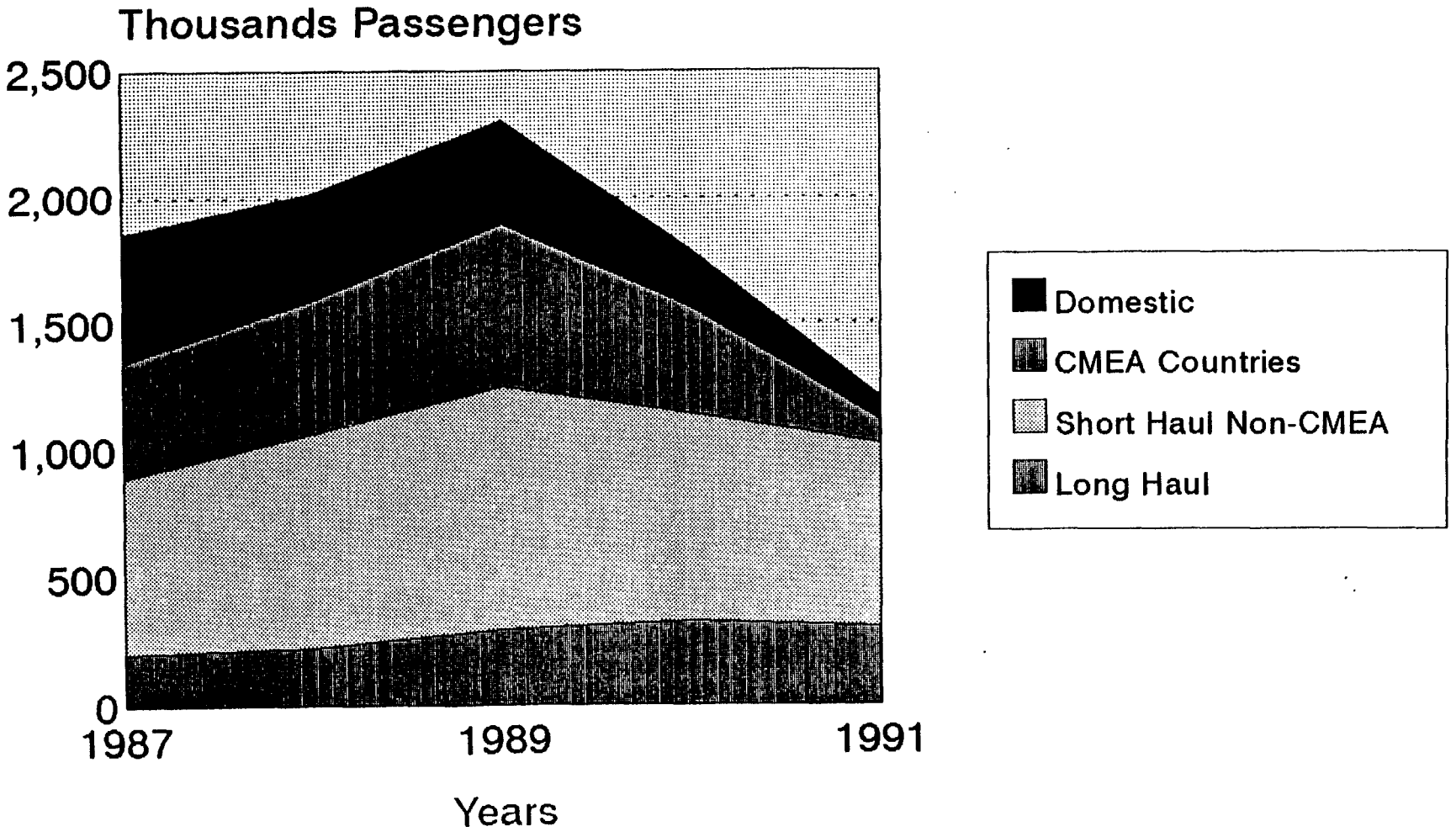
  - Possible advantages from exploiting this network with a partner
    - introduction of CRS systems
    - promotion of partner's flights in Poland

* LOT has sales offices located at each city served on its international network and at some major cities not served directly on its route structure
  - Oslo, Nicosia in Europe
  - Tokyo, Sydney, Melbourne, Los Angeles on medium/long haul

  - Advantages from joint development/rationalisation?

LOT POLISH AIRLINES

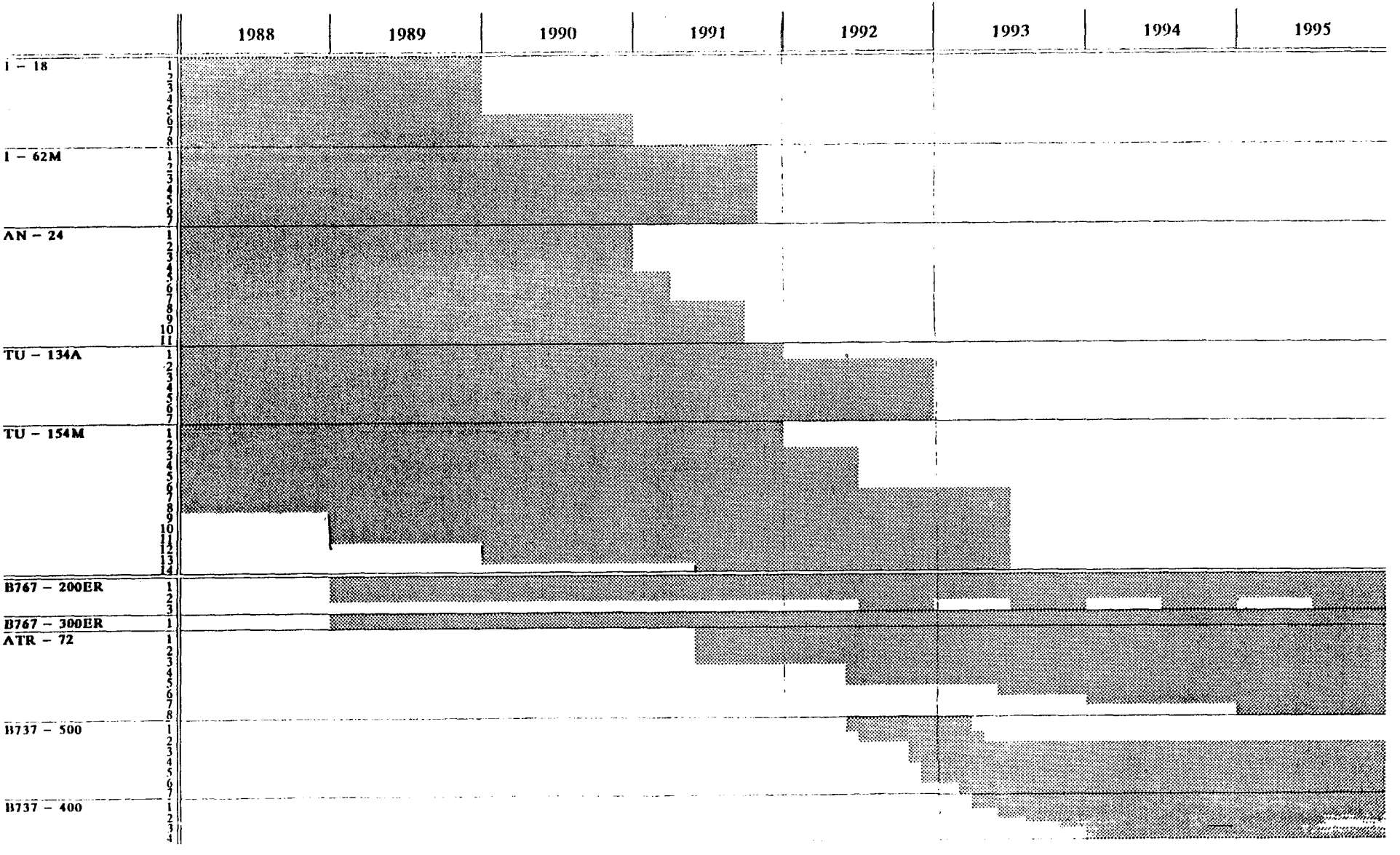
LOT Background



LOT POLISH AIRLINES

LOT Background

Fleet Modernization



LOT POLISH AIRLINES
LOT Background
Operating Statistics

'affic and Capacity	1988	1989	1990	First 6 Months 1991	1991	First 6 Months 1992
evenue Passenger Km * (RPK) (m)	3947	4887	4430	1676	3589	1614
vailable Seat Km (ASK) (m)	5143	6362	6556	2558	5284	2400
assenger load factor (%)	76.7%	76.8%	67.6%	65.5%	67.9%	67.3%
argo tonne km (m)	16	31	52	24	42	24
otal Revenue Tonne Km (RTK) (m)	357	453	433	166	350	162
otal Available Tonne Km (ATK) (m)	555	760	837	345	713	330
verall load factor (%)	64.3%	59.6%	51.7%	48.1%	49.1%	49.1%
onnes of cargo carried	6842	8593	11300	4866	9434	5367
otal passengers carried (000)	2017	2305	1782	559	1208	553
Of which:Domestic	426	417	227	60	99	52
CMEA	528	641	416	39	88	39
Shorthaul Non–CMEA	839	952	813	319	719	312
Long Haul	224	295	326	141	302	150

Including Infants

LOT Polish Airlines
LOT Background
FINANCES

* LOT has embarked in a major investment program to replace its fleet

		1991	First 6 months 1992
* Financial results before taxes (in USD):		(900,000)	2,300,000
* Revenue **) per RTK (USD)	=	0.752	0.735
Revenue **) per ATK (USD)	=	0.370	0.361
Net operating expenditures per ATK (USD)	=	0.397	0.369
Break even overall loadfactor	=	52.8 %	50.2%

**) scheduled services only

* Income statement & balance sheet in Appendix A

LOT Polish Airlines
LOT Background
Program of Restructuring

* LOT is currently preparing itself to be a competitive commercial airline by improving:
  - Marketing & sales
  - Yield management
  - Finance
  - Human resources
  - Operations

* The future strategic partner will be instrumental

LOT POLISH AIRLINES

LOT Background

Facilities

* New International Passenger Terminal
  - 37,000 sq.m
  - First use: August 1992
  - Planned passenger capacity: 3.5-5 m per year
  - Low cost handling facilities
  - Duty free
  - Transport facilities
  - Office space & retail area
  - Operating & technical service building

* New Catering Facilities
  - First use: September 1992
  - Max capacity: 22,000 meals per day
  - Fully automated
  - Hygiene & quality control systems
  - Management contract with SAS Services

* Transit Facilities
  - Transit time reduction
  - Increased capacity in Passenger handling

* Support Facilities provided by LOT
  - Ramp handling 100%
  - Passenger handling 80%
  - Management contract with AMR Services
  - New fuel farm

* New Cargo Terminal
  - Operational: October 1992
  - Freight capacity of 50,000 tonnes per year
  - Mail capacity of 10,000 tonnes per year
  - Associated office facilities
  - Fully automated storage facilities
  - Management contract with AMR Services

* Maintenance facilities
  - Four hangars
  - Workshops, plating facilities
  - Boeing trained engineers
  - Low cost skilled labour

LOT Polish Airlines
LOT Background
Summary

* Polish national flag carrier
    - Well located to serve both Western and Eastern European markets
    - Extensive route structure
    - Strong domestic (and international) sales network
    - Rapidly modernising fleet
    - Base in Warsaw with new airport facilities
    - Potential for dramatically lower labour costs than Western carriers
        - -- both for crew and for ground operations
    - Privatization process has started

* LOT believes there is a significant opportunity to develop a hub in Warsaw if it has a suitable partner of significant scale

LOT POLISH AIRLINES
Outline

* Rationale and Objectives
* LOT Background
* Privatization
* The Opportunities
* Summary and Next Steps

LOT POLISH AIRLINES
Privatization
Objectives of Privatization

* Increase value of LOT and maximise the benefits obtained by the State (both as a seller and the continuing stock holder)
* Establish a viable and competitive enterprise
* Create environment for managing the airline as a profit-motivated commercial enterprise
* Facilitate a partnership with a Western airline and strengthen LOT's position in the European Market
* Enhance the financial strength and condition of the airline with an injection of capital
* Generate the funds for investment programs, possibly with the assistance of foreign parties
* Provide an appropriate level of accountability to our customers

LOT POLISH AIRLINES
Privatization

COMMERCIALIZATION PROCESS OF "LOT"

In accordance with

Article 6 of the Privatization Act of July 13, 1990

1. Complete Feasibility Study to make a decision on the privatization method.

2. The Minister of Transportation and Maritime Economy, upon consultation with the Minister of Privatization, submits the motion to:
   a) director of the enterprise,
   b) Worker's Council
   c) the founding body

   requesting their comments on the transformation of the enterprise into a joint stock company.
   Such an comments should be given no later than one month from the date of submission the motion.
   The comments, according to the practice, are non-binding.

3. The Minister of Transportation and Maritime Economy, upon consultation with the Minister of Privatization, submits a formal motion to Prime Minister (formal start-up of the process).

4. The Prime Minister issues the executive order on transformation the enterprise into a joint stock company.

5. The documents necessary for the privatization, as the financial and legal analysis, business plan valuation, are prepared. The decision of the Antimonopoly Office is issued. Completed also are: the draft of the articles of association and the method of distribution of stock of a future company.

6. The Minister of Transportation and Maritime Economy, upon consultation with the Minister of Privatization, issues a decision on commercialization of the enterprise. 2/3 of the Supervisory Board is elected. The articles of incorporation are signed.

LOT POLISH AIRLINES
Privatization

LOT Polish Airlines is a state-owned enterprise, founded and operating on the basis of the Act of Parliament of 1984 on LOT Polish Airlines. As a consequence of this unique position (LOT is one of four companies in Poland that are governed by Acts of Parliament), LOT had to obtain special parliamentary "exemption" before it could consider privatization. Such approval was granted in June 1991, when the Polish parliament approved an Act on Privatization of LOT. This Act provides for LOT to be treated on similar basis as other state-owned enterprises. There are, however, two major points differentiating LOT from other state-owned enterprises:

1. The Act provides for a minimum 51% of voting rights to be retained by the Treasury;
2. The functions of the Treasury are to be carried out by the Minister of Transport and not, as is the norm, by the Minister of Privatization.

Privatization takes place in two stages:

1. The first stage in the privatization process, as required by law, is the transformation of the state-owned enterprise into a public limited company, with 100% of shares owned by the Treasury (the commercialization of the company). This has to be done legally for two reasons:
   a/ as the state owned enterprises have no stock, they exercise only limited control over its property and the employees of the company have a decisive voice in the affairs of such an enterprise;
   b/ the transformation in legal status initiates the privatization process.
   Under the law, once the privatization process begins, the company has to be privatized in no more than two years, unless the Council of Ministers decides otherwise. (This commercialization process is shown in the chart on the following page.

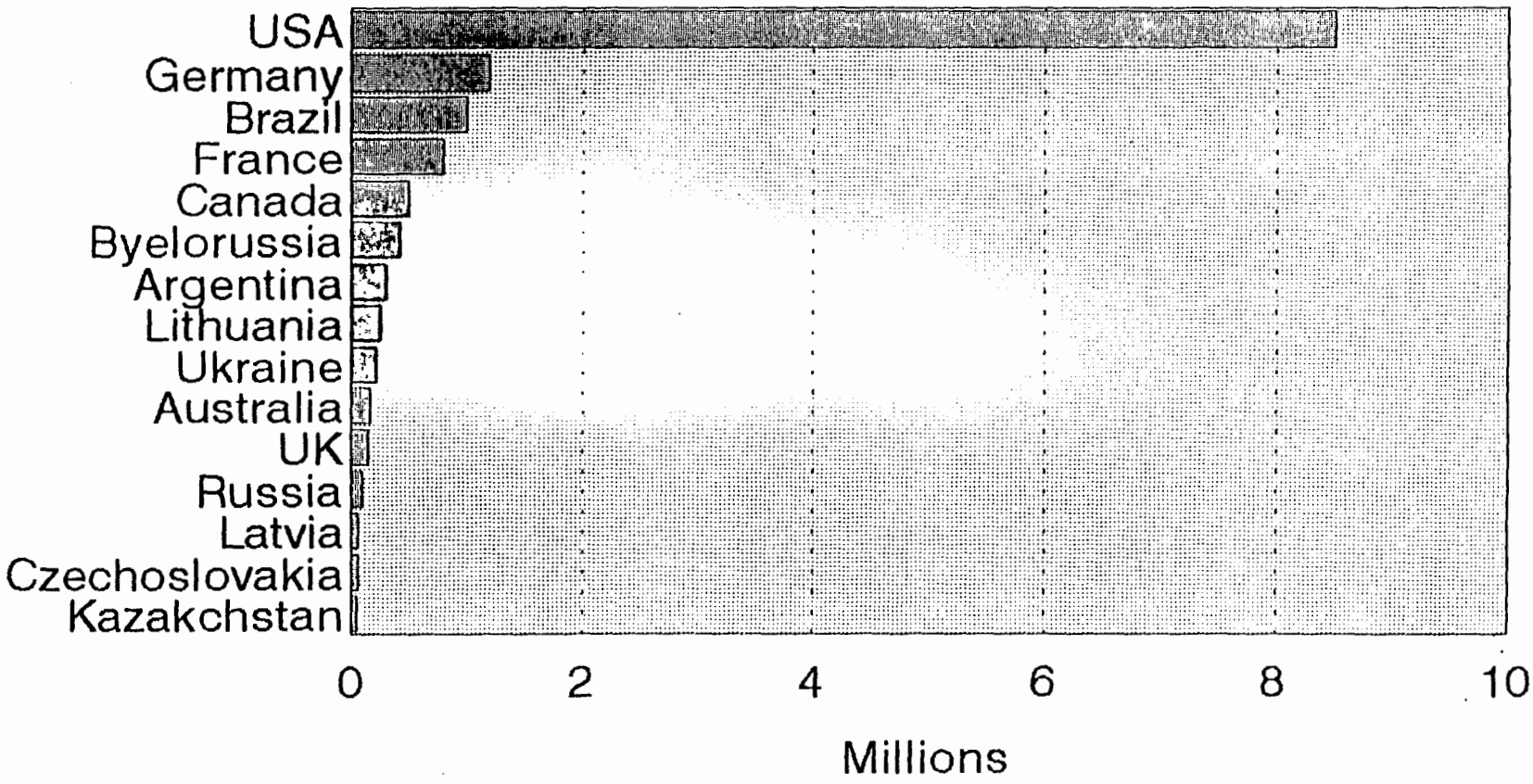
2 The second stage is the actual privatization or transfer of ownership to private parties. In the case of LOT, the major shareholder is already known, i.e. the Treasury. The law provides that up to 20% of the stock may be offered to the employees, with the remainder sold to other parties.

LOT POLISH AIRLINES
Outline

* Rationale and Objectives
* LOT Background
* Privatization
* The Opportunities
* Summary and Next Steps

Polish Population Abroad

by countries



urce: Foreign Affairs Ministry

LOT POLISH AIRLINES
The Opportunities
Polish and Eastern European Markets

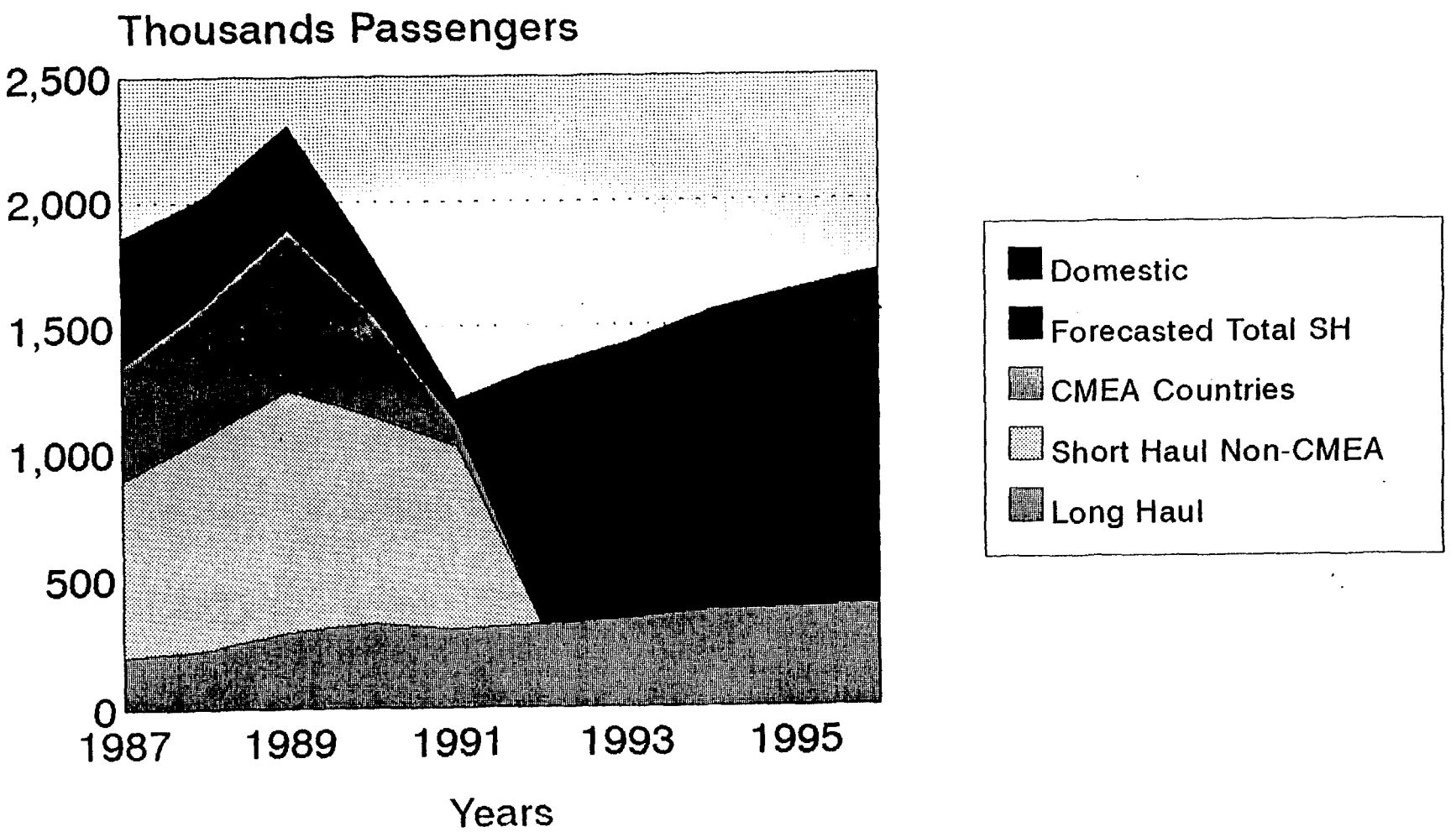
	Total population (mio)	Rank	Population Density (Persons/Sq km)	Rank	Total Est GNP in 1991	Rank
Czech Republic	10.40	4	132	1	123*	3*
Poland	**38.03**	**2**	**125**	**2**	**174**	**2**
Hungary	10.38	5	112	3	65	5
Slovakia	5.00	8	102	4	123*	3*
Romania	23.19	3	101	5	80	4
Ukraine	51.70	1	86	6	212	1
Bulgaria	8.90	7	81	7	51	7
Lithuania	3.69	9	55	8	19	8
Byelorussia	10.20	6	49	9	53	6
Latvia	2.68	10	41	10	16	9
Estonia	1.57	11	33	11	9	10

*) refers to Czech Republic and Slovakia together

Source: World Atlas, PlanEcon, Gazeta Wyborcza

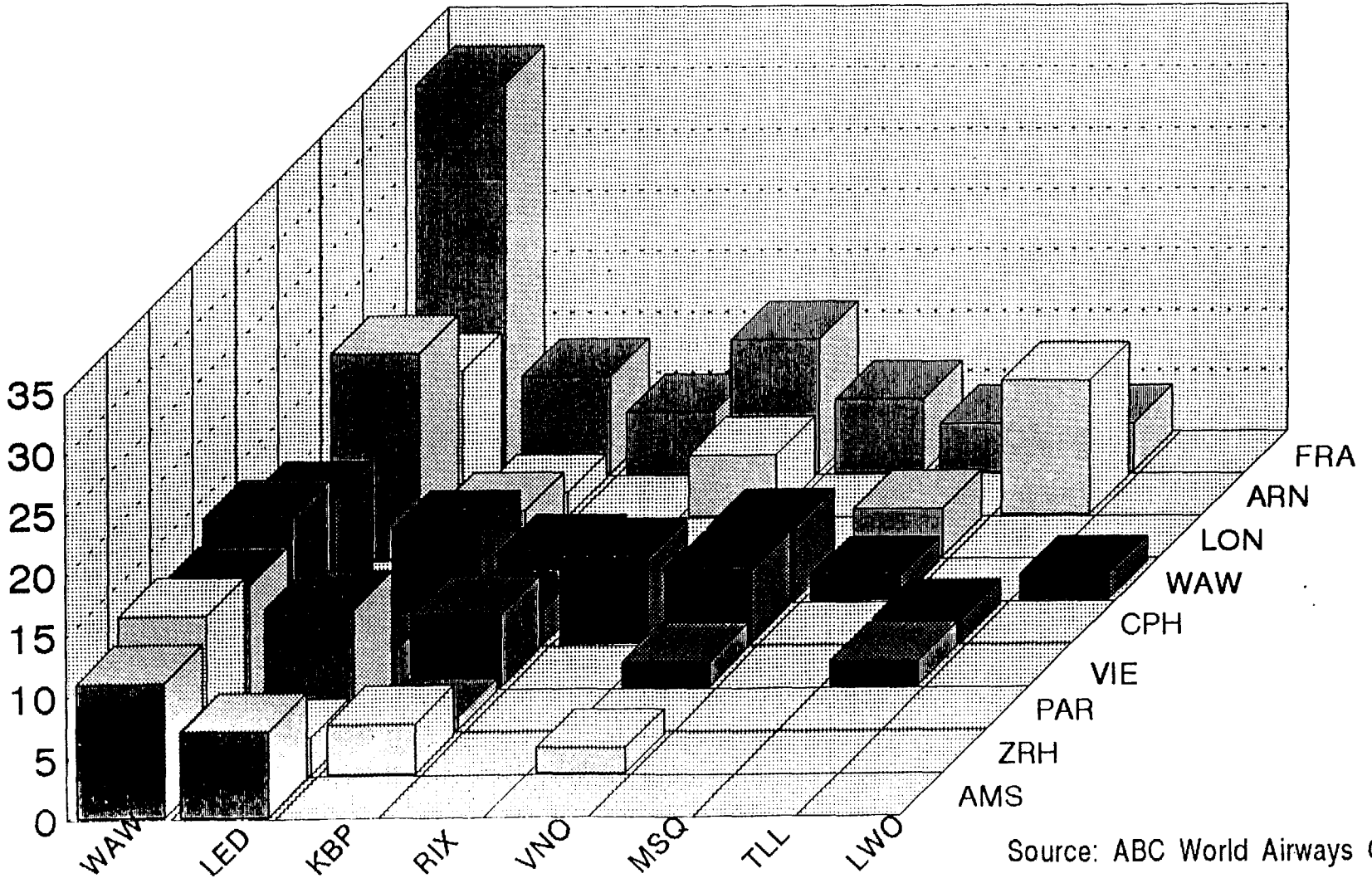
LOT POLISH AIRLINES

The Opportunities



Direct Access to Eastern-Europe

Number of direct flights per week, July 1992



Source: ABC World Airways Guide

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LOT Polish Airlines
The Opportunities
Eastern Europe: Summary

* Eastern European economies signify large potential markets
  - Large population base with per capita wealth likely to rise in the long term

BUT

  - Uncertainty in short to medium term

* An increase in higher yield traffic flows to/from the West and Eastern Europe is being observed
  - Decline in lower yield passenger numbers between Eastern European countries

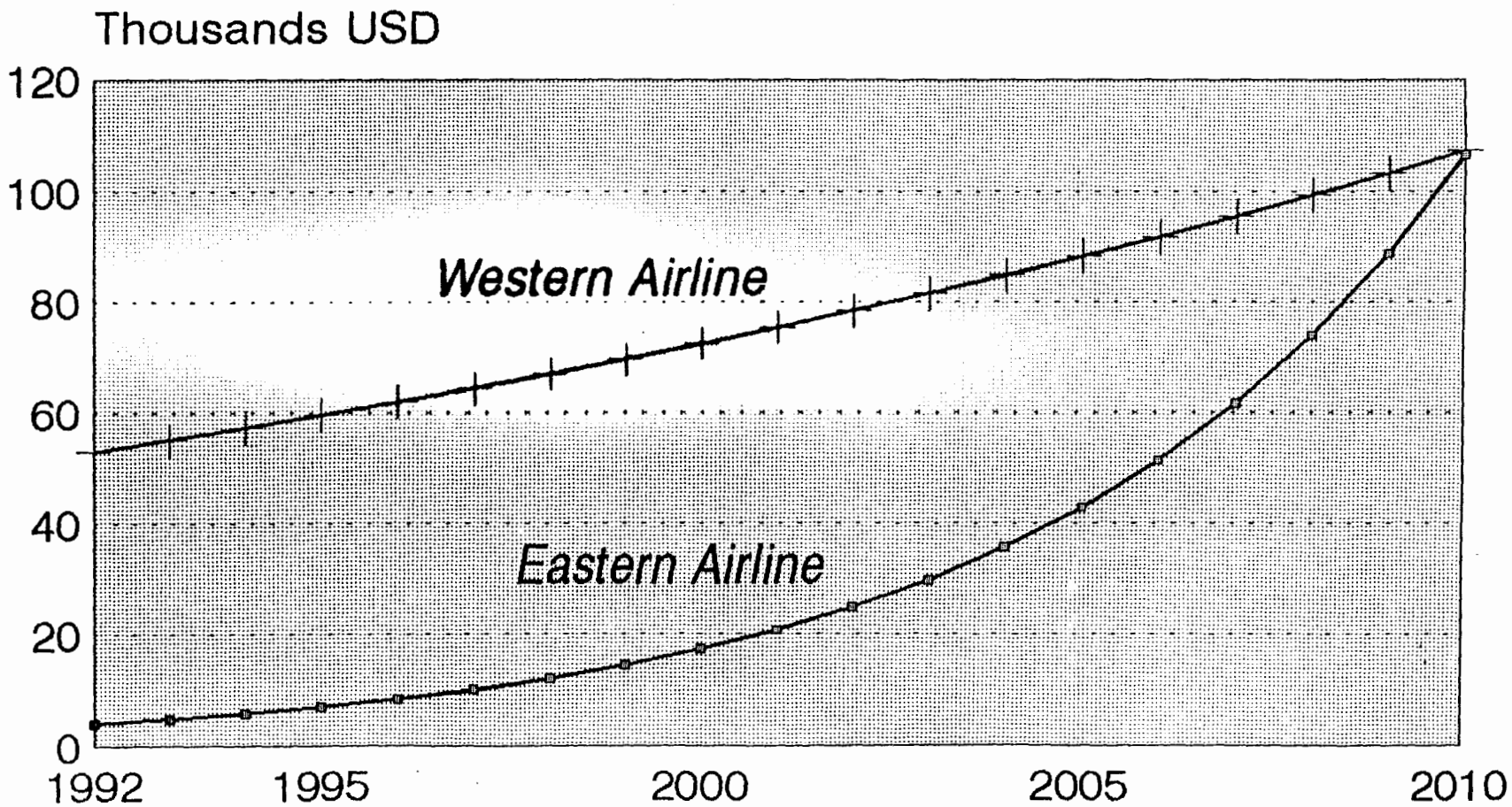
* Eastern European cities are presently not served very well by Western European hubs
  - Especially C.I.S. cities in the Baltics, Ukraine and Bylorussia

* Lufthansa is gearing up to dominate these markets
  - And is well positioned to extend its network and increase frequencies through Munich II and Berlin

* A Western airline could gain from a strong network serving the Eastern Europe market
  - By developing, extending and rationalising its structure with LOT

;omparative Average Airline Salary

EASTERN AIRLINE vs. WESTERN AIRLINE



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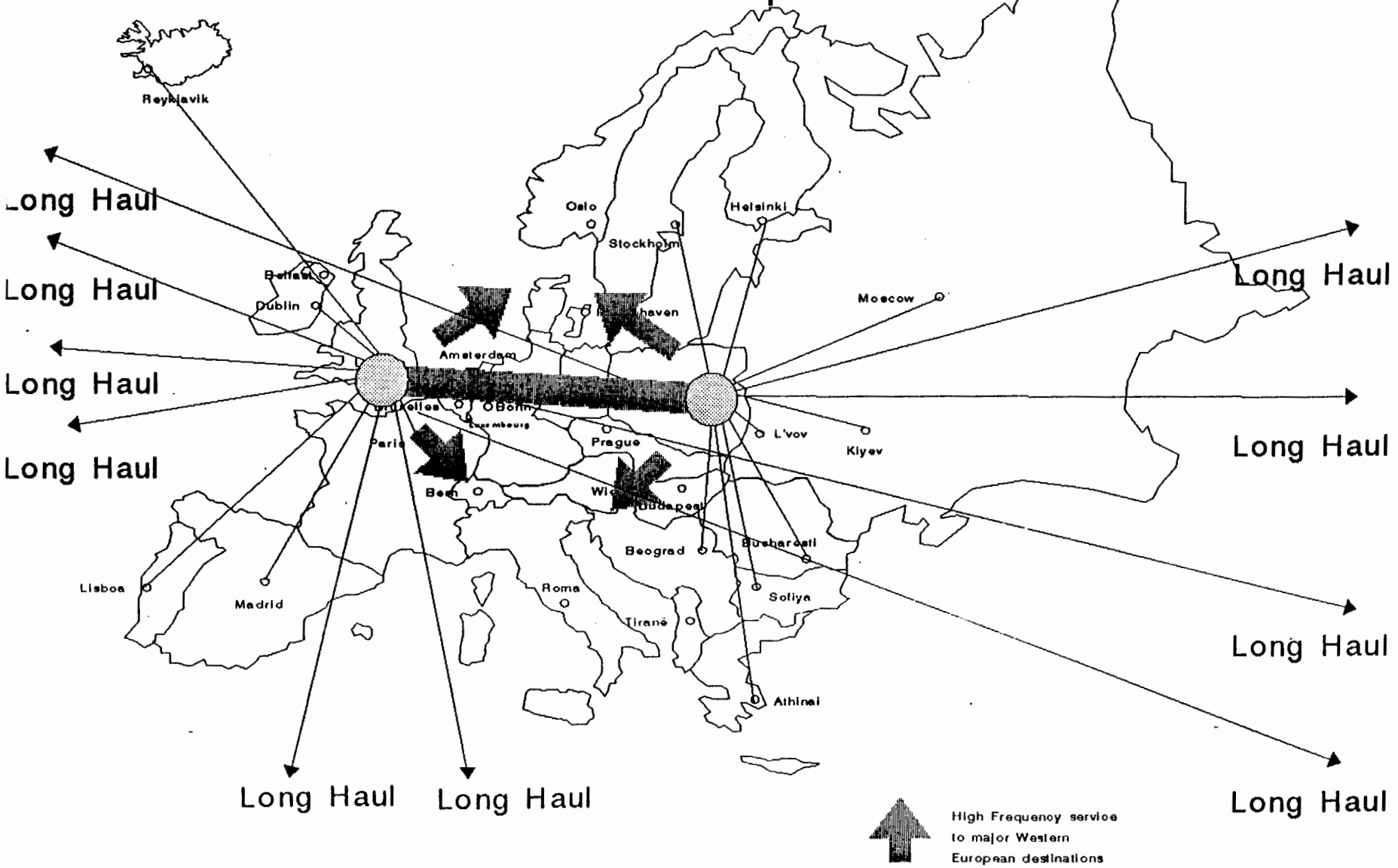
ource: SH&E

STRATEGIC PARTNERSHIP

British Airways - LOT

The Concept



LOT POLISH AIRLINES

The Opportunities: Proposal

"Possible" Features

* The Network
  - Coordinated schedules, shared routes and codes
  - Increased route coverage within Europe
    - -- More efficient scheduling of planes, eg. ATR-72's on low density routes
  - Development of feed traffic through Warsaw hub
    - -- More favourable bilaterals

* Distribution and Marketing
  - Extension/rationalisation of joint sales office and salesforce network
  - Coordination of CRS, yield management and pricing
  - Coordination of advertising, promotion and travel agency strategies

* Management
  - Western management expertise

* Operations
  - Maintenance agreements
  - Catering agreements
  - Handling agreements
  - Fleet agreements
  - Training agreements
  - Cargo/freight agreements
  - Procurements agreements
  - Other agreements

* Financial
  - Economies of scale and scope
  - Advantage labour costs
  - Access to capital markets

LOT Polish Airlines
The Opportunities
Rationale

* Eastern Europe air traffic likely to grow rapidly from fairly small current base
  - Especially higher yield traffic to/from Western Europe, North America and the Far East
  - Poland forms a significant part of this opportunity
    -- And is well located as a regional hub

moreover

* Western Europe traffic also predicted to maintain rapid growth over the next decade

BUT

* Alarming signs that airport capacity will be unable to cope with demand in many Western Europe airports
  - Increased competition for slots, especially in key hubs such as London and Frankfurt
  - Noise level restrictions exacerbating the situation

* Establishing a strong position now in Europe is critical
  - Especially attractive given the uncertainty surrounding European airline liberalisation

LOT POLISH AIRLINES
The opportunities
Rationale Cont'd

* Joint partner development of Warsaw hub provides opportunities also for the long haul routes

  - Growth forecast in long haul traffic between both N. America, the F. East and Europe
  - Increased feed from European cities into Warsaw for long haul
    - -- Continued growth of Western European traffic
    - -- Development of Central/Eastern Europe traffic
  - Warsaw well located within Europe to provide long haul connections to Far East
  - Flight times across Atlantic via Warsaw hub to many European cities are similar to those from other European hubs
  - Access to secondary European cities for partner

* Likely to be difficult for airlines to take full advantage of long haul opportunities to/from Europe without alliance

LOT POLISH AIRLINES
Outline

* Rationale and Objectives
* LOT Background
* Privatization
* The Opportunities
* Summary and Next Steps

LOT POLISH AIRLINES
Summary

* LOT has been the Polish national flag carrier
    - Extensive route and sales network, modernising fleet, new Warsaw airport, dramatically low labour costs

* LOT wishes to become a commercial, profitable & market sensitive enterprise
    - One attractive way is with a strong partner, developing a hub in Warsaw

* Significant opportunities exist for both parties from relationship between British Airways and LOT

BUT

- Many issues need to be resolved
- Need to stay flexible

LOT POLISH AIRLINES
Next Steps

* Further explore what the relationship will look like:
  - Commercial
  - Management
  - Financial
  - Operations

APPENDIX A

PLL LOT Financials 1991

An increasingly competitive environment, the Gulf crisis and a softening world economy have adversely effected the profitability of airlines throughout the world.

In 1991, during a period of a depressed travel, LOT continued its major investment programme involving the complete replacement and modernisation of its aging Russian fleet. LOT replaced seven IL 62M's and eleven AN 24 aircrafts while taking delivery of Boeing 737's and a Boeing 767 on a short term operating lease. This programme in combination with reduced passenger traffic and increased competition put strains on the company's finances.

The financial results for the year to December 31, 1991 show a net loss before taxes of 11 billion zloty. After taxes, including the Government's excess wage tax (Popiwek), the loss was about 455 billion zloty. Negotiations for relief of this penalty tax are still pending and, unless a ruling is received, this liability will remain on the balance sheet.

Other contributors to the growth in liabilities during 1991 were:

- Changes in accounting procedure for the LIM Center. This results in a liability increase of 702 billion zloty.
- Inclusion of liabilities for perpetual lease holds of 83 billion zloty.
- Inflation of the Polish zloty during 1991 of 70.3 percent.

The company's financial difficulties, while not to be understated, could be considered short term. The company needs a capital injection to enable it to complete its investment programme and to increase working capital for its operational requirements.

The company has prepared a restructuring plan to equip itself for privatization.

1990: 1 USD = 9,500 PLZ
1991: 1 USD = 12,220 PLZ

BALANCE SHEET
AS AT 31 DECEMBER

	1991 '000,000 zł	1990 '000,000 zł
ASSETS		
FIXED ASSETS		
Tangible fixed assets	2,490,190	2,428,047
Intangible assets	323,603	364,449
Investments	20,150	5,563
	2,833,943	2,798,059
DEFERRED EXPENSES	163,670	30,413
LONG TERM LOANS RECEIVABLE	77,679	66,814
CURRENT ASSETS		
Inventories	267,563	168,314
Receivables	411,959	646,926
Cash	241,644	244,599
	921,166	1,059,839
TOTAL ASSETS	3,996,458	3,955,125
CAPITAL AND LIABILITIES		
CURRENT LIABILITIES	2,200,820	908,636
DEFERRED INCOME	508,463	382,893
LONG TERM LOANS	66,693	0
CAPITAL		
Company fund	1,199,431	2,642,543
Founding fund	21,051	21,053
	1,220,482	2,663,596
TOTAL CAPITAL AND LIABILITIES	3,996,458	3,955,125

STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR ENDED 31 DECEMBER

	1991 '000,000 zl
SOURCES OF WORKING CAPITAL:	
Internal sources:	
Net loss	(459,616)
Depreciation	208,750
Amortisation of intangibles	40,846
Amortisation of terminal building	80,870
Net book value of fixed assets sold,liquidated, written off and donated	9,632
Transfers to employees' funds from costs	3,961
	(115,557)
External sources:	
Bank loans	66,693
Other	0
	66,693
Sub–total	(48,864)
USES OF WORKING CAPITAL:	
Additions to fixed assets	158,437
Change in fixed assets under construction and other fixed assets	202,522
Purchases of investments	14,587
Net disbursements on employees' funds	4,759
Increase in long term receivables	10,865
Adjustment related to LIM Sp. z o.o.	983,201
Increase in deferred expenses	133,257
Other	162
Sub–total	1,507,790
DECREASE IN WORKING CAPITAL	(1,556,654)
REPRESENTED BY:	
Increase in inventories	99,249
Decrease in receivables	(234,967)
Increase in current liabilities (excluding employees' funds)	(1,292,411)
Decrease in cash	(2,955)
	(1,431,084)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

	1991 '000,000 zł	1990 '000,000 zł
Sales	3,377,279	2,687,807
Less: turnover tax	(1,145)	(3,032)
Net sales	3,376,134	2,684,775
Operating expenses	3,202,997	2,715,508
Operating profit	173,137	(30,733)
Profit on in flight sales	2,028	
Other income (sales of materials, parts, fixed assets etc.)	31,424	
Interest and other similar income	110,369	5,040
Interest expense	(310,205)	
Income before extraordinary items and taxes	6,753	(25,693)
Extraordinary income	14,705	432,741
Extraordinary expenses	(32,616)	(228,902)
Loss before taxes	(11,158)	178,146
Income tax	0	(74,593)
Excess wage tax	(443,826)	(105,923)
Net loss after taxes	(454,984)	(2,370)
Dividends paid to the State Treasury	(4,632)	0
Net loss	(459,616)	(2,370)

Deloitte Touche Tohmatsu

LOT Polish Airlines
Annex III: Business Plan

Delivery Order No. 17

Contract No. EUR-0014-I-00-1056-00
Eastern Europe Enterprise Restructuring and Privatization Project

USAID

U.S. Agency for International Development
EUR/RME

March, 1994

Deloitte Touche Tohmatsu International

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I. SUMMARY

* Polskie Linie Lotnicze "LOT" has provided transportation services for passengers and cargo since 1929 and has continued tending to expand the range of services and improve the quality of services.

* PLL LOT has the most modern fleet within Europe. It includes mainly B - 767, B - 737 and ATR - 72

* The long term strategy of LOT is to develop transportation services through opening new connections and increasing the number of flights within the current market. In order to achieve these goals, strategic agreements with other Western airline partners are being investigated and the privatization process has started.

* Projections for 1994 assume an increase in net revenues in traffic sales of 2%.

* Over 94% of LOT's flights encompass international routes.

* The route network served by LOT includes 7 domestic and 49 international gateways. It covers major European and American markets.

* LOT will activate a new pricing policy in 1994 in order to attract new customers. With this initiative, the company began introducing new, attractive tariffs and has increased of training front line personnel.

* LOT management is implementing a yield management system in order to maximize potential revenue by optimizing management of aircraft capacity.

* LOT's new organizational structure more closely resembles those found in western airline companies.

II. BACKGROUND

This business plan has been prepared by the Board of PLL "LOT" S.A. to present the company's plans for 1994. The principal objective of the business plan is the development of activities to ensure effective short and long-term company operations. The business plan contains a description of the current situation and plans for key areas:

* core operations and supported activities;
* level and breakdown of sales;
* marketing;
* organizational structure and systems;
* human resources management;
* development strategy.

The activities covered by the business plan are aimed at strengthening the market position and increasing the company's yield. Planned activities include :

* signing strategic agreements with Western airline partners,
* increasing the quality and attractiveness of services,
* completing fleet modernization,
* opening of new routes,
* implementing the yield management system,
* intensifying marketing activities,
* increasing management efficiency.

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III. PRODUCTS AND SERVICES

Polskie Linie Lotnicze "LOT" has provided transportation services for passengers and cargo since 1929. During its 65 year history, the company has gradually diversified the range and coverage of its services. Initially, serving only domestic destinations, LOT began its diversification by expanding to Western European Gateways and in 1973 began offering North Atlantic flights. In 1979, LOT opened new connections with Far East.

Polskie Linie Lotnicze LOT S.A., besides being a traditional national carrier on both domestic and foreign routes, undertakes other activities related to its core business. These include:

* leasing of office space in LIM building, catering and cargo,
* technical services provided by LOT,
* medical services (health care services),
* services connected with other airlines co-operation,
* services provided for foreign aircraft in domestic airports beside Warsaw
* tourism services.

LOT also supervises the activity of nine companies, two of which are involved with issues separate from the core business of LOT - catering and handling.

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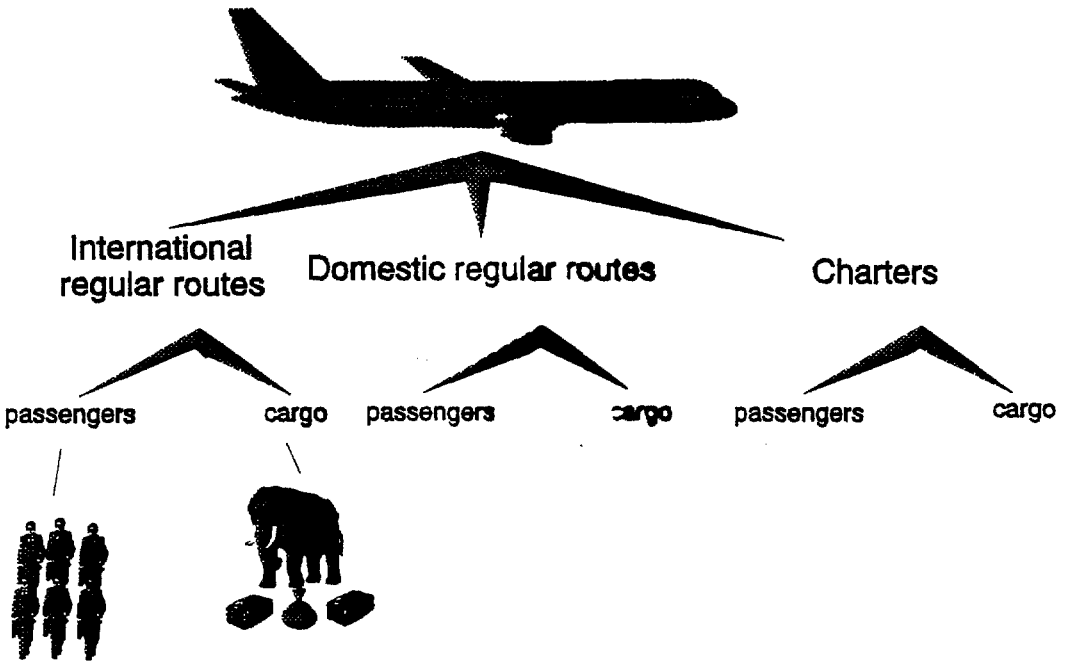
3.1. CORE BUSINESS

The core of LOT's activity is the transportation of passengers and cargo.

This activity includes two principal types of connections - regular flights and charters. The following figure depicts the types of air connections encompassed by LOT.



LOT's route network includes 7 domestic and 49 international gateways. It covers the major European and American markets. Over 94% of LOT's flights encompass international routes.

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3.1.1. 1993 activities

In 1993, LOT began the implementation of several programs aimed at increasing the attractiveness and level of quality of services provided by the company. LOT also continued the implementation of several programs, initiated in previous years, that were effective in increasing the number of passengers and total cargo.

The major activities conducted by LOT in 1993 include:

* separating catering and cargo activities from core activities

In 1993 as a result of a restructuring process in catering activities and in a broad range of ground services, these services were separated from LOT's activities. The management of these separated companies was given to world-wide professional management firms.

* launching of new routes,

Throughout 1993, in order to meet passenger requirements, LOT initiated flights to the East mainly to Vilnus, Kiev, Lvov, Mińsk and Riga and also Oslo.

* initiating the cycle of training organized by Pegasus and financed by Dutch government,

This training is of major significance to PLL LOT as it is focused on upgrading the quality of services provided and to improving the image of LOT via direct contact with customers.

* continuation of the Integrated Domestic - International Transportation Program,

In 1993, the number of international flights to/from regional gateways such as Gdańsk, Katowice and Kraków were increased. This was the continuation of the Integrated Domestic -International Transportation Program, which was initiated in the second half of 1992.

In 1993, this program encompassed approximately 25% of the total number of passengers on domestic routes.

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Connecting domestic gateways with the international route network increased the attractiveness of services offered by LOT. Due to this program, the duration of flights from any domestic airport to international gateways was abbreviated. The average duration of flights for international routes is approximately 5 hours; for Atlantic routes approximately 12 hours. The initiation and success of the Integrated Domestic - International Transport Program has enabled LOT to reduce ticket prices for domestic flights.

Another service introduced under this program was the possibility of completing customs clearance at the departure airport, eliminating the need for customs clearance in transit gateways.

Furthermore, in order to increase the level of customer satisfaction, LOT has decreased average check-in time to 20 minutes in Warsaw and 10 minutes in other domestic gateways.

* development of the "Voyager" program,

In 1993, LOT continued the promotion of its new frequent flyer program called "Voyager". Awards and privileges available within the program include: priority ticket reservations, check in at Business Class desks and an additional 10 kilos of baggage free-of-charge.

* intensifying the flights during summer season through leasing of additional aircraft,

Because of the significant increase in demand for aircraft in the summer season (especially on the North Atlantic routes) a decision was made to lease additional Boeing 767's from New Zealand (Air New Zealand) during this peak summer season. This decision resulted in increase of LOT's capacity and abilities to meet higher demand during summer season.

* starting preliminary work toward implementation of new a yield management system,

This is a system integrating a number of key issues in sales decisions including: fleet, trade program and schedule, distribution system and sales policy.

* implementing changes in reservation system,

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Since the middle of 1993, strategic changes have been introduced into the reservation system (new system of reservation classes) and a new data base was created for the new yield management system.

For passengers convenience, an inter-city bus line connecting the airport with the city center was initiated in 1993.

3.1.2. Activities planned for 1994

While continuing previously initiated programs and activities, LOT's 1994 plans include the undertaking of several new initiatives aimed at increasing the number of passengers and cargo including:

* Adding new domestic connections,

Projects for 1994 include new connections between gateways located in the south and north of Poland. This will be possible due to the purchase of new aircraft - ATR 72's, to serve the domestic market.

* Adding new international routes,

New routes to Saloniki, Beirut, Zagreb and Bratislava are to be opened in 1994.

* Improving transit procedures.

In 1994 some improvements in transit procedures in Warsaw domestic and international gateways are planned. Significant distances between international and domestic gateways cause inconvenience for passengers.

1994's plans foresee the leasing of two additional aircraft from Air New Zealand for the summer season due to the positive results of this agreement last year. Closer cooperation with Air New Zealand is also being considered together with joint purchase and maintenance of one additional aircraft.

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3.1.3. Fleet and utilization

Currently, LOT has the most modern fleet within Eastern Europe. This is the result of a 1988 decision to replace its Russian fleet with western manufactured aircrafts. In 1993, LOT owned 19 aircraft, only 3 of which were manufactured in Russia (TU - 134's).

In 1994, the remaining Russian TU - 134's will be retired. LOT expects to replace these planes with new Boeing 737's and ATR - 72's.

By the end of 1994, LOT expects its Fleet to be composed as follows :

Type of aircraft	Number	Number of seats	Haul
B-767			
- 300	1	249	long
- 200	4	208	long
B-737			
- 400	4	147	middle
- 500	6	108	middle
ATR -72	7	64	short

Additionally, LOT intends to lease two aircraft, B-767 and B-200 for the summer season.

The purchase of additional aircraft beyond current plans will be determined by market conditions.

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3.2. FOREIGN SERVICES AND SUPPLEMENTARY ACTIVITY

Apart from transportation services, LOT provides foreign services and other support activities. Support services provided by LOT include mainly services provided by technical services, office space leasing in LIM building, and cargo catering. The foreign services include ground services for foreign aircraft in domestic airports beside Warsaw, sales of services for other airlines agencies and operating fees.

Beside the above mentioned activities, LOT supervises and manages operations of nine other companies providing services like tourism, IT systems and operations in real estate.

In 1992, as a result of the restructuring process, catering and ground service were separated from the company. Management of these activities was delegated to professional world-wide companies. Catering is managed by SAS Service Partners and ground service is managed by AMR Service International.

In two of the companies separated from LOT: LOT CATERING Spółka z o.o and LOT GROUND SERVICES Spółka z o.o., LOT owns 100% of the shares.

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IV. SALES

4.1. LEVEL AND BREAKDOWN OF REVENUES

In 1993, the company had total gross revenues of 6,587 bln PZL. Projections for 1994 assume an increase in yield of 32% and will result in planned 1994 revenues of 8,747 bln PZL. The real increase in revenues (after including inflation rate for 1994) will be approximately 2.4%.

The revenue breakdown for 1993 and projections for 1994 are:

	1993	1994 (projections)
Total revenue, including:	100%	100%
Traffic sales	82.2%	82.2%
Revenue from foreign services	2.9%	2.9%
Revenue from supported activities including:	7.8%	7.2%
Revenues from office space leasing	6.2%	5.6%
Other revenues	7.1%	7.7%

4.1.1. Traffic sales

In 1993, total traffic revenue amounted to 5,447 bln PZL. 1,388,800 passengers were transported and 15,000 tons of cargo carried.

Over 94% of total traffic revenues result from international routes, mainly from the middle-range flights.

The passenger load factor was 64.4% while the weight load factor was 50.2%.

Projections for 1994 assume a 2.4% increase in traffic sales in real terms. Introduction of new B-737's and ATR-72's are planned to provide the additional capacity to achieve projections.

The projections assume the transportation of 1,508,300 passengers and 15,500 tons cargo.

Projected 1994 passenger load factor is 63.6% while the weight load factor is projected at 50.3%.

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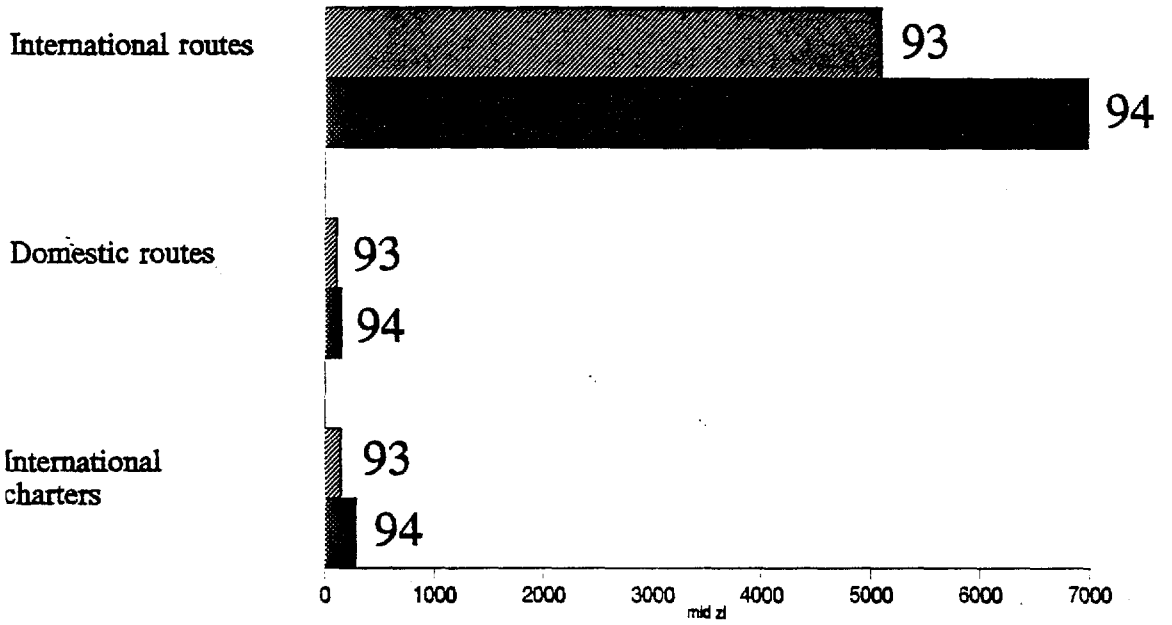
The decrease in passengers load factor is caused by fleet restructuring. The new Western aircraft which replaced the Russian ones have more seats and a comparatively higher weight load factor.

The following chart provides a breakdown of projected 1994 traffic sales in terms of value including type of cargo carried:



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CARGO

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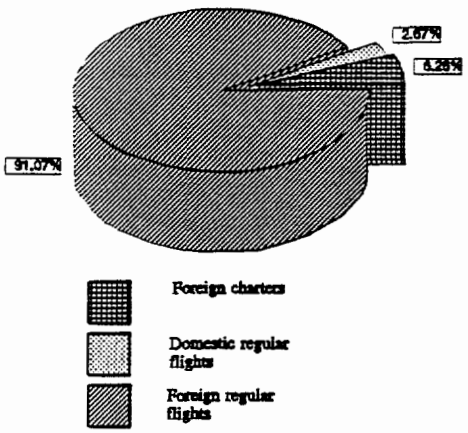

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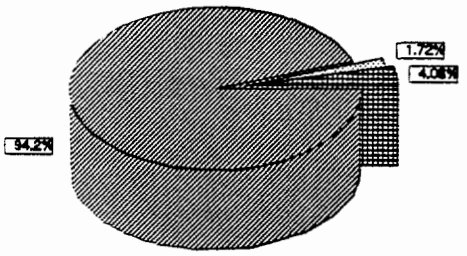

Foreign charters

Domestic regular flights

Foreign regular flights

PASSENGERS

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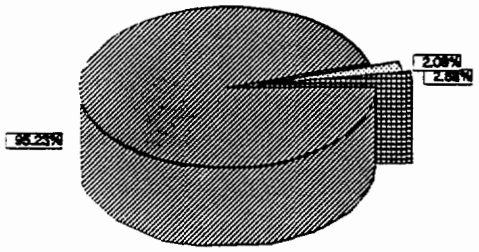

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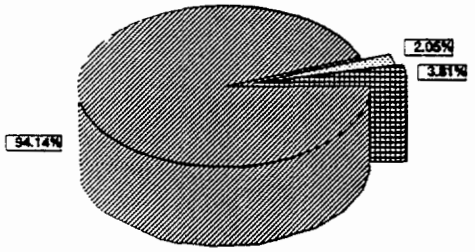

Foreign charters

Domestic regular flights

Foreign regular flights

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4.2. YIELD MANAGEMENT SYSTEM

In 1992, LOT management purchased the STRATEGY system in order to maximize potential revenue by optimizing the management of aircraft capacity.

The yield management system integrates several major commercial factors in this analysis of and response to utilization management:

* Fleet,
* Route schedule and commercial program,
* Distribution system,
* The manner of executing sales policy (price policy, reservation and agencies).

In co-operation with a consulting firm, a new methodology and implementation schedule were developed.

The project consists of 3 major phases.

* Phase I - initial analysis, design and planning,
* Phase II - implementation
* Phase III - monitoring and control.

The scope of work within the first phase was completed and included:

* Reorganization of reservation system,
* Initiating the collection of data for the reservation system base.

Work under the second phase focused on the purchase and installation of the system, conducting training for employees and adjusting the organizational structure.

The second phase was completed in the autumn of 1993.

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The third phase of the project, initiated at the end of 1994, will lead to the integration necessary to reach the planned and expected results. The principal condition required to achieve the expected results is the implementation of a distinct booking discipline.

The third phase of the project is the monitoring and improvement of system parameters. This should provide for a continuous increase of revenue due to improved system utilization.

Implementation of the Yield Management System ensures a "Win - Win - Win" situation:

* Win - increased revenue from airline operations (the number of passengers and cargo)

* Win - the discount ticket passenger (willing to purchase discounted tickets with appropriate restrictions.)

* Win - the full fare ticket passenger (for whom price is not important compared to a higher level of travel convenience, availability, flexibility).

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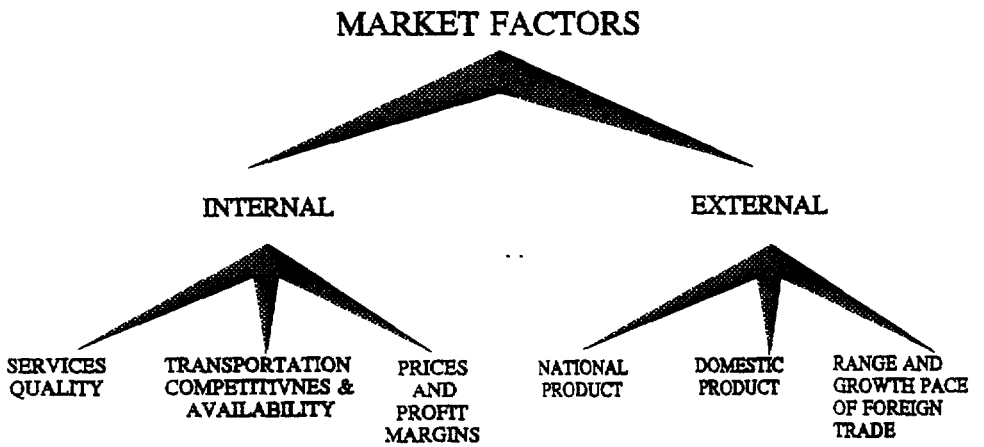
V. THE MARKET AND MARKETING

5.1. THE MARKET

5.1.1. Market factors

The following graph depicts the major market factors directly influencing the performance of air carriers.



Internal market factors influencing the growth of transportation services sales are as follow: quality of service, efficiency and availability of transportation services, and price level compared to achieved sales margin.

The major external market factors influencing LOT's profitability are level of GNP, income of citizens and the scale and pace of foreign trade relationships.

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5.1.2. Description of the market

Since 1991, a significant drop in airline operations has been observed. Increased competition among carriers has caused price wars, accompanied by an increase of handling and landing fees. This has had a significant influence on the financial performance of many airlines.

During the period 1990 - 1993, the 212 airlines associated with IATA reported cumulative losses of approximately 13.5 bln USD.

The last year IATA members generated a profit was 1989. This profit was approximately 270 mln USD.

The world wide recession over the past few years is considered the major factor contributing to airline losses. Limitations on travel expenditures introduced by many businesses resulted in a decrease in the number of passengers miles flown.

The main reasons for the downturn in the economy were: a world wide recession and the military conflict in the Persian Gulf which resulted in increases of fuel prices. Also, a significant factor influencing the decrease in passenger load factor was a reduced budget in many firms for business travel.

Prior to economic reforms, LOT's prices were highly subsidized. The loss of these subsidies, in conjunction with increased operating costs and changes in international clearings have resulted in the loss of passengers to LOT.

5.1.3. LOT's market share

As a relatively small carrier, LOT is in an unfavourable competitive position via the larger Western carriers. However, this position can change as a result of a strategic agreement.

LOT has several assets that creates potential attractiveness for partners. These assets include:

* a strong group of more than 50 mln potential customers, not only in Poland, but also among Poles living abroad and foreigners doing business in Poland,

* relatively broad rights, secured by 70 international aviation agreements signed by Poland,

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* a qualified and trained staff,
* relatively low cost of labour,
* a modern fleet,
* a modern airport in Warsaw, the newest airport in central and Eastern Europe.
* geopolitical location of Warsaw

LOT's share in 1993 passenger foreign flights from/to Poland constitutes 57%.

The most important for LOT are long-distance connections, especially those over Atlantic. They generate over 80% of the revenues on these routes and over 25% of all transportation services. Sales on these routes are seasonal. During summer, sales are doubled in comparison to sales during the winter seasons. Also, the average price in the summer season is higher. In 1994, shares in the market of flights to Toronto are expected to increase due to the resignation of Trans-Toronto airlines from flights to Poland.

On middle range routes, the most significant sales are flights to Germany, Great Britain, France and Italy due to high intensity of the most profitable business flights.

In order to attract more customers, PLL LOT will continue to upgrade the quality of services provided in business class and will adjust flights schedule for the convenience of this group of passengers requirements.

The lower outcomes on routes to Central and Eastern Europe resulted from a low intensity of passengers transportation. The only exception is the flight to Moscow (significant share of Polish business travel).

The significant route into the Middle East direction is Tel-Aviv (pilgrimage and turistical groups).

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5.2. MARKETING

The Marketing Bureau of LOT is responsible for coordination of marketing activities within the company. The main responsibility of the Bureau is creating policy in the area of:

* promotion and advertising,
* public relations,
* market researches,
* pricing,
* network and system of distribution.

In 1993, expenditures for marketing activities amounted to 2% of company revenues. Approximately the same level of is projected for 1994. This is about the average for all IATA members.

In 1994, the major proportion of the marketing budget has been delegated to promotion and advertisement activities on the Polish market. Because of increasing competition on the Polish market, LOT has undertaken plans to use a professional advertising agency in Poland, as previously done on the American market.

In the Autumn of 1993, LOT contracted with a professional research company, Pentor, to conduct market research for airline services in Poland. The results of this survey are now being analyzed. LOT has also held discussions with TIME management concerning the needs of business class passengers, which the publisher carries for several carriers.

In 1994, LOT, in order to attract more passengers, will undertake a new pricing policy. Within the context of this initiative, the company plans to introduce new, attractive tariffs and further train front line personnel.

The distribution network of the company is served by 150 IATA agents. Because of expected strategic alliances and further development of the company, the existing reservation system, GETS, will be replaced by a more modern system.

5.3. QUALITY OF LOT's PRODUCTS AND SERVICES

In civil aviation, market requirements measured by an increase in client expectations concerning the quality of services plays a significant role. This field, because of its special character, is continually confronted with international aviation standards.

As a result of growing competition and a desire to maintain existing markets, it is necessary to conduct quality control activities aimed at service delivery that meets customer expectations.

The Department of Definition and Assessment of Quality of Products of LOT is responsible for quality control.

The basic analytical tools utilized in quality control is a questionnaire completed by LOT employees while traveling on LOT aircraft. This questionnaire covers the following issues:

* behaviour of ground personnel.
* standard of service provided by flight personnel,
* the manner of serving and preparing meals,
* wording and delivery of general information by the captain and attendants,
* light reading/newspapers available on-board,
* quality of audio-video programs presented during flights,
* hygienic condition of aircraft's facilities

Based on the suggestions and opinions obtained via the questionnaires, an analysis of the level of the quality of service is developed.

For three years, PLL LOT has been participating in research conducted by the Ministry of Transportation in the United States concerning the quality of services in flights on Atlantic routes.

In 1993, the indicator of regularity and punctuality of scheduled flights was 95.8% and 77.3% respectively and were higher than in 1992

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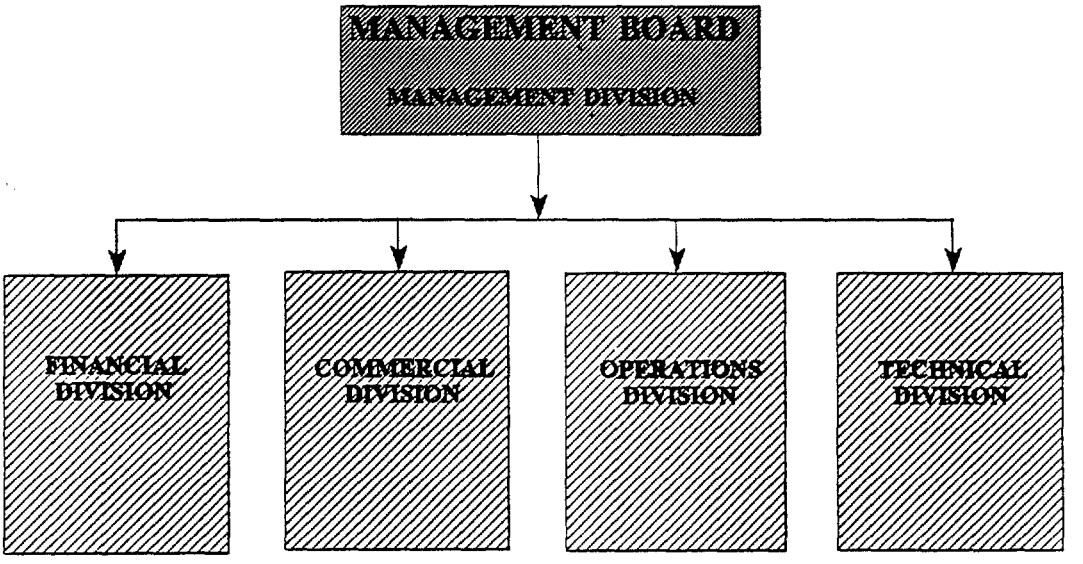
VI. ORGANIZATIONAL STRUCTURE AND HUMAN RESOURCES

6.1. ORGANIZATIONAL STRUCTURE

LOT has a vertical organizational structure. The company is organized around four functional core divisions, selected according to functional criteria. The Management Board of the company is comprised of three members - The President and two Executive Vice-Presidents. There is a management division composed of advisory units. The Advisory unit's activities are focused on strategic issues within the company in order to coordinate decision-making within LOT. Each Executive Vice-President is responsible for the activities of two divisions (financial, and marketing and sales division; and operations and technical divisions, respectively). Each of the division has a division director.

Presented below diagram depicts the organizational structure within LOT.

ORGANIZATIONAL STRUCTURE OF PLL LOT S.A.



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The current organizational structure of LOT is a result of a complex reorganization conducted in the first half of 1993. The new structure has been in place since the 28th of May, 1993. The main purposes for the reorganization were:

* highlighting the trade character of the company's activities,
* increasing the quality and competition of services,
* intensifying marketing activities,
* increasing the operating efficiency by simplifying organizational procedures and information flow.

The new organizational structure is aimed at becoming similar to those used in western airlines.

In 1992, three ancillary divisions were separated from LOT. LOT created joint venture companies with foreign partners to administer these divisions. The purpose of these divisions was to improve the organization of LOT's activities. By separating these divisions into joint ventures, the services provided in the ancillary divisions has become more efficient and work discipline and motivation have increased.

LOT's strategy includes further planned separation of other non-core divisions, including charters, fuel services, ground transportation and printing and publishing services.

6.2. HUMAN RESOURCES

In December 1993, LOT employed 4,338 staff. This level, lower than in previous years, resulted from employment reductions in 1992 and the separation from LOT of the Ground Services, Catering, and Air-Tours. These new subsidiaries, LOT Ground Services and LOT Catering removed approximately 1,250 employees from direct LOT employment. Other factors leading to reductions in employment level are:

* introduction of new air craft (modernization of the fleet),
* more effective operating procedures,
* increase in labour effectiveness.

Total decrease over 1992 in the level of employment amounted to 27% (while in 1993 it amounted to 4.5%).

Due to the wide range of services offered, a variety of specialists comprising over one hundred work categories are employed. The majority of staff members are employed within categories directly connected with LOT's core activities such as cabin and flight crews, trade and marketing employees and technical staff.

The table below shows the employment structure in the company according to principle working categories.

	Number of employees		%	
	1992	1993	1992	1993
Cabin and flight crews	1,014	1,000	22.3%	23.1%
Technical staff	605	694	13.3%	16.0%
Trade & marketing staff	716	625	15.8%	14.2%
Administrative staff and others	2,202	2,029	48.6%	46.7%
TOTAL	**4,537**	**4,338**	**100.0%**	**100.0%**

Over 70% of LOT's of staff members are employed in the technical operating divisions. The management division accounts for only 5% of total employees. The remaining 25% are employees in the financial and trade divisions.

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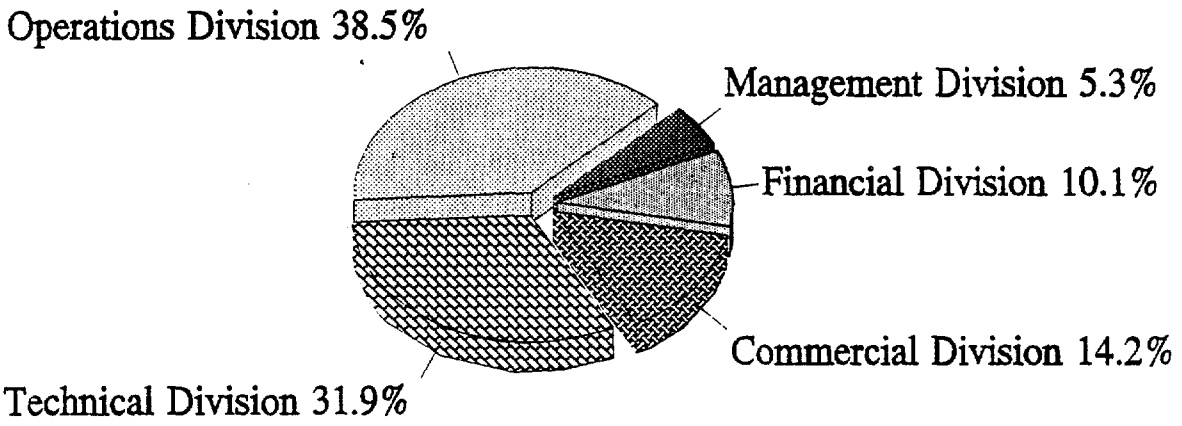
Employment structure by working classification is presented in the diagram below.

LOT EMPLOYMENT STRUCTURE BY CLASSIFICATION



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6.3. HUMAN RESOURCES MANAGEMENT

6.3.1. Human Resources policy

Human resources policy is a key issue in LOT's overall strategy policy. The organizational unit dealing with these issues is the bureau of human resources within the management division. The head of this unit is the Bureau Director.

The most significant changes in the employment structure will result from fleet modernization (replacement of Russian aircraft with western aircraft). This modernization will result in:

* reducing employment in technical and administrative divisions - mainly connected with servicing Russian planes.

* reallocating skilled technicians and other highly skilled personnel displaced by the reorganization into new positions. It is important to identify these technicians given the significant costs of hiring and training new personnel.

At present, there are no plans for further changes in employment policy. The last changes took place in 1992, when approximately 1.200 staff members were shifted to the three joint venture companies. Plans for 1994, include reducing about 350 staff. Currently, new staff employment is minimalized - new employees are to be highly qualified specialists, hired only after significant review.

6.3.2. Compensation system

The remuneration policy is determined by a 1993 agreement signed by LOT's trade unions, LOT's management Board and the Ministry of Transportation. This agreement was signed after long and tedious negotiations and precisely determines all aspects of remuneration policy within the company. The agreement also covers the principals of LOT's payroll policy for next few years.

The current costs of remuneration amounts to approximately 7.3% of operating costs (with all benefits included - approximately 10.8%).

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6.4. TRAINING POLICY

After the 1993 reorganization, the organization unit responsible for training policy development was divided into three sub-units, within three organizational divisions:

*	flight crew training	-	unit in the operations division,
*	technical staff training	-	unit in the technical division,
*	general training (Training Department)	-	unit in the management division

The responsibilities of the general training unit are limited to coordinating cash flow for planned training.

Training organized by the training units cover:

1) internal training of LOT staff,
2) national training conducted by external sources (eg. customs regulations, tax and legal regulations etc.),
3) training organized abroad (by foreign institutions like IATA, Boeing or Air New Zealand - under bilateral co-operation agreements).

Training can be single (including new types of training), repeating (every year, every second year or more frequent) and continuous on the job training.

An important aspect of training is that the majority of courses are externally financed. This external financing is beneficial to LOT as the real cost to the company is limited to accommodation fees - other costs are covered by sponsors. Currently a number of courses are financed by the Dutch government. These courses focus on all aspects of client contacts ("Customers Contact Skills"), service quality, and company image improvement ("front line' approach).

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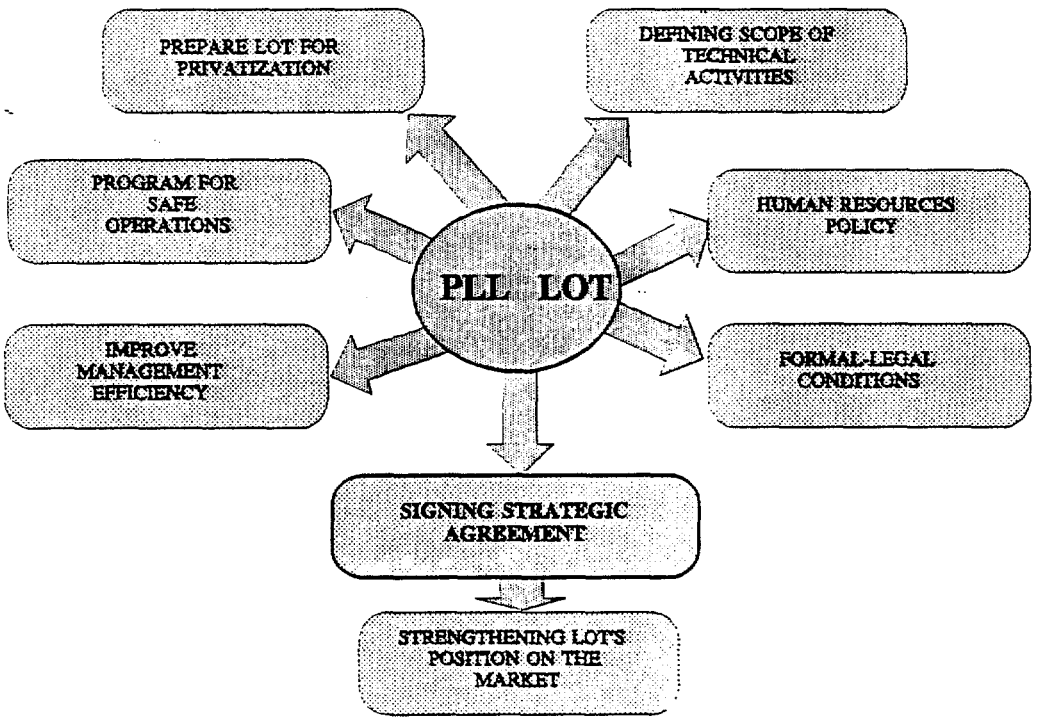
VII. DEVELOPMENT STRATEGY

In June 1993, the Board of LOT established a long term development policy (directive no. 8 as of 29th June, 1993). This program covers activities to be taken in the second part of 1993 and 1994. Seven key strategic objectives were described in the program. Those objectives are presented in the diagram below.

THE STRATEGIC OBJECTIVES OF PLL LOT S.A.



Apart from the strategic objectives of the company's future activities, the management board also highlighted other more precise goals. These comprehensive goals and objectives compromise the long term strategy of the company.

The main points of this strategy are:

1. Maintain and strengthen LOT's market position.

   - develop and implement high quality standards,
   - improve timeliness of flights,
   - prepare and implement a professional marketing campaign (intensifying marketing),
   - increase charter connections - as a market incentive,
   - develop strategic agreements with chosen airlines.

2. Prepare PLL LOT S.A. for privatization processes

   - reduce and restrict company's debt,
   - settle all legal matters connected with ownership titles and solve the problem of ancillary assets,
   - find a strategic investor,
   - select the appropriate privatization method.

3. Improve management efficiency

   - implement changes in current methods of financial and cost accounting,
   - implement a budgeting system,
   - develop an operations financing system based on the budgeting process and monitoring.

4. Implement a program of safe operations

   - implement procedures ensuring a higher level of safety for LOT's passengers,
   - implement procedures leading to better client services and ground service.

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5. Analysis and decisions on the scope of future technical activities within the company

Changes in technical activities are mainly connected with changes in fleet - replacement of Russian aircraft with western aircraft (Boeing and ATR). New aircraft require changes in policies concerning technical services, such as:

- developing and approving modified technical and organizational standards,
- implementing approved standards,
- technical certification,
- adjusting existing technical infrastructure to new technical services requirements,
- developing external technical services schedules.

These actions will require adjustments of supplementary services including: transportation services, guard services or a supplementary base for technical services.

6. Improvements in human resources

- continuing "front line" training,
- regulating social benefits within the company,
- implementing human resources development policy,
- regulating cabin and flight crews status as employees.

7. External actions

- regulating relationships with PLL,
- modifying through negotiation with the State, safety regulations concerning work standards for flight crews,
- regulating LOT's relationship with the government (concessions),
- reviewing LOT's international agreements in order to secure current and strategic interests,
- undertaking actions enabling future access to EC countries.

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The key element in the long term strategy of LOT is to sign a strategic agreement with other airline partners. This key element will determine execution of other objectives in the long term strategy.

Reduction political and economic barriers in Central and Eastern Europe will further enhance the potential for development of international air transport. The underdeveloped markets in this region will continue to attract a growing number of foreign investors.

The Polish market offers potential investors a number of advantages, including:

* significant participation in the transformation of the Polish market to a market economy,
* full foreign currency exchange and abilities of profit repatriation,
* more than 50 million Polish expatriots as potential customers,
* advantageous geographic location enabling convenient connections between Central Europe and further east.
* a new, modern airport in Warsaw with potential capacity of 4 million passengers and 50 thousand tons of cargo per year.
* the most modern fleet in Europe.
* highly skilled flight personnel.
* low labour costs.

The strategy of identifying a strategic partner for LOT began in mid-1992. A number of letters were sent to potential airlines. After receiving answers, a preliminary review indicated 2 American carriers that most closely matched LOT's objectives for cooperation. Negotiations with strategic partners have been conducted and LOT's actions in this direction will include:

* defining the position of the potential partner towards LOT's proposals,
* selection of partners for further negotiations,
* signing a preliminary agreement - "Memorandum of understanding",

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* negotiating with the strategic partner on detailed issues of the agreement,
* signing a final agreement with a strategic partner.

An agreement with a strategic partner is a key element of the strategic plans of LOT. This agreement is expected to provide for broader co-operation in other fields. The most significant potential/advantages which LOT would like to gain through an agreement are:

* gaining broader access to inter-American markets,
* access to wide range of reservation systems,
* ability to increase cargo shipments,
* further development of connections in Eastern Europe (European republics of the former Soviet Union - Lithuania, Latvia, Ukraine, Byelorussia and Rosja),
* transformation of the Warsaw airport into a larger transit airport ("hub") for Eastern Europe,
* increase in the intensity of operations over the Atlantic,
* raising quality standards to those of world class airlines (increase in quality standards will be required by the signed agreement),
* intensified promotion and marketing,
* better access to training.

In practice, each of potential strategic partners creates different opportunities. But the agreement should to be signed as soon as possible in order to allow the partnership to begin yielding results in 1995.

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VIII. FINANCIAL PROJECTIONS

Financial projections for LOT in 1994 are presented in the attached 10 tables. These projections were prepared based on the assumptions presented below.

8.1. PROJECTED EXCHANGE RATE OF US$ AND DEM

For the preparation of projected financial indicators the exchange rates of US$ and DEM to zlotys were assumed to rise from January to December 1994 by approximately 1.6% per month. The relationship of DEM/US$ was assumed to be following:

* 1 DEM = 0.58 US$
* 1 US$ = 1.7 DEM

The detailed assumptions are presented in the table below:

Months 1994	Exchange rate 1 US$ =	Exchange rate 1 DEM =
January	21,686 zl	12,756 zl
February	22,033 zl	12,961 zl
March	22,385 zl	13,168 zl
April	22,743 zl	13,379 zl
May	23,107 zl	13,593 zl
June	23,477 zl	13,810 zl
July	23,853 zl	14,031 zl
August	24,234 zl	14,255 zl
September	24,622 zl	14,483 zl
October	25,016 zl	14,715 zl
November	25,416 zl	14,951 zl
December	25,822 zl	15,190 zl

The average yearly exchange rate for 1993 was 18,383 zlotys for 1 US$, and the estimated average yearly rate for 1994 is 23,700 zlotys for 1 US$.

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8.2. INVESTMENT EXPENDITURES

The expenditures connected with planned investment projects for LOT in 1994 are divided into two basic groups:

* expenditures reserved for continued investment in construction projects, including:
  - continuation of Central Fuel and Grease Warehouse construction in Warsaw,
  - settlement of payments at the completion of Cargo and Catering Buildings in the International Airport II,
  - continuation of investments currently on hold - planned expenditures concern only the maintenance costs of buildings (construction was started in previous years - among others a Fuel and Grease Warehouse in Gdansk),
  - purchase of land for investment in construction.

* expenditures for investment purchases, including:
  - purchase of information technology, including financial software (book-keeping and revenue accounting systems) and microcomputers,
  - purchase of transport equipment including cars for personal and maintenance use,
  - purchase of airport services equipment,
  - purchase of equipment for technical base,
  - purchase of office equipment.

The purchases will be accomplished on both the domestic (payments in zlotys) and the import (payments in US$) markets. Projected increase in the exchange rate of US$ to zloty was taken into account in the calculation of import values.

The purchase of new aircraft was not placed in table 1, as it is financed on a lease basis.

A detailed time schedule of planned investment expenditures (shown in table 1) was prepared referring to the most important investment needs, presented by individual divisions of LOT.

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8.3. LOANS/REPAYMENTS SCHEDULE

LOT uses many external sources of financing, mainly in form of loans. They are used to finance current operating activity and projected investments (including leasing and purchasing of planes). To present a clear classification of loans used by the company, they have been divided into four groups:

* foreign loans (loans taken for construction of new cargo and catering buildings)
* "leasing" (reserved for payment for the leasing of planes)
* loans reserved for payment for new planes (advances and instalments) and spare parts for planes,
* domestic loans (reserved for current operating payments and payments due on long term agreements)

A detailed time schedule of individual repayments is presented in table 2,3,4,5 and 6. The latter comprises a comprehensive list of all loans, which are used or will be used by LOT.

The assumptions concerning principle and interest payments are based on:

* concluded credit agreements with specific conditions for individual credits,
* projections for taking next instalments in order to maintain the current financial liquidity and to meet schedule of payments (leasing of planes). These projections also cover the conditions for taking projected loans.
* projected increase in the exchange rate of US$ and DEM to the zloty (see p.7.1. "Projected exchange rate of US$ and DEM") - in the case of loans repaid in foreign currencies.

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8.4. REVENUES

1994 revenues for LOT were calculated according to basic sources of revenue generation (see table 7). Projected values are based on following assumptions:

* revenues from transport operations - projection in this group of revenues was based on results achieved by LOT in 1993 and on assumptions concerning the scope of transportation operations in 1994. Projected increase in revenues from transport operations will result from:
  - planned increase in the number of passengers (8.6% over 1993 results)
  - planned increase in cargo (3.3% over 1993 results)
  - inclusion of new planes into flights schedule (Boeing 737 and ATR-72)
  - projected increase in the exchange rate of US$ to zloty.

In the projections of revenues from transport operations seasonal changes in revenues were also taken into account (based on the company's experience in this field).

* revenues from other foreign services were estimated at a level similar to 1993 (increase is a result of projected increase in exchange rate of US$ to zloty)

* revenues from supplementary operations
  - revenues from the leasing of premises were based on conditions stated in leasing agreements.
  - projected revenues from supplementary operations were based on results achieved in 1993 (increase is a result of projected inflation rate in 1994).

* revenues from the sale of goods were estimated to increase by 50% over 1993 results due to projected changes in the range of products offered for sale on board the aircraft and the projected inflation rate for 1994.

* revenues from financial operations
  - interest on granted loans and bank accounts was estimated based on foreseen balances within the year and foreseen interest rates,
  - revenue from rate of exchange differences were estimated at the 1993 level,
  - dividends in other companies (sales of shares, etc.) were estimated with regard to projected financial results of these companies in which LOT is a shareholder.

* other revenues were estimated to triple. The only exemption is sale of fixed assests. They include sale of Russian aircrafts as a result of fleet modernization. The amount of this type of revenues can be only estaimated.

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8.5. COSTS

The most significant part of the costs incurred by LOT constitute operating activities of the company, i.e. transport operations. Projection of these costs in 1994 was estimated based on assumptions concerning the amount of transport work.

Cost projections for major cost groups, such as:

- take off and landing costs,
- catering costs,
- material costs (incl. fuel),
- operational leasing costs,
- SITA fees,
- commissions,
- plane maintenance,
- business travel of flight crews.

constitute over 51.5% of total costs, and result directly from planned transport operations and the number of flights, starts and landings.

Wages and salaries constitute about 7.3% of total costs (with wage related costs, about 10.8%). Projection of costs in this group is related to the salary agreement, in force at LOT.

Other costs in groups were estimated at a level close to the level of 1993 (considering foreseen rate of inflation and devaluation of zloty to the US$). The only exceptions are the following costs categories:

- depreciation - estimated on the basis of ratios which are in force in Poland
- financial leasing - level of which results from concluded agreements,
- energy - estimated on the basis of foreseen governmental price increases,
- taxes (transport tax, real estate tax, and the like) - stated on the basis of 1994 state regulated tax rates
- staff training (excl. flight crews) - a four fold increase in these costs was assumed.

Costs for other sales and internal cost of on-board sale of goods were estimated on the basis of foreseen revenues on these sales (in close relation to the results achieved in 1993). Accruals were estimated according to 1994 projections.

Financial operation costs were estimated on the basis of the following assumptions:

- interest - these costs were calculated based on concluded loan agreements (with regard to plans for taking new loans),
- rate of exchange differences were calculated according to projections for 1994.

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8.6. OTHER ASSUMPTIONS TAKEN TO CASH FLOW STATEMENT

Financial projections included in table 10 "Cash Flow Statement" were prepared on a cash basis, to present real cash flows. They cause a difference in other tables which were prepared on an accrual basis (i.e. booked independent from real payment day).

Detailed assumptions taken into account in preparation of cash flow projection comprise the following:

* Revenues:

In revenue for LOT all sources of funds were taken into account, i.e.:

* revenue from transportation operations,
* revenue from other foreign operations,
* revenue from supplementary operations (excl. revenues from LIM leasing),
* revenue from the sale of goods,
* revenues from financial operations (excl. exchange rate differences)
* other revenues (including sales of aircraft),

Furthermore as a revenue, new loans were taken into account as a source of revenues.

* Expenditures:

The following costs to LOT from its activities were included:

* costs of direct operations connected with transportation,
* other costs in groups - excl. depreciation; in plane leasing projection, a real time schedule of leasing repayments was taken into account (time -limits and amounts of repayment result from concluded loan agreements)
* internal cost of trade goods sale,
* costs of other sales,
* costs of financial operations (incl. costs of exchange rate differences); in financial cost projections, a real time schedule of interest payments was taken into account (timelimits and amounts of repayment are resulting from concluded loan agreements).

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Furthermore the following expenditures are included in the statement:

* planned investment expenditures,
* foreign and domestic debt repayment,
* repayment of advances and instalments for purchase of planes (ATR) and spare parts (Boeing),
* expenditures connected with an increase in material reserves,
* income tax, calculated at 40% rate (see table 9, short income statement)
* tax on shares fund (based on rates in force)
* overdue liabilities repayment to ZUS, WARTA, PLL and others.

* Additional Assumptions

* increase in receivables will be equalled by similar increase in liabilities (increase in working capital comprises only an increase in material reserves)
* overpaid VAT was included in revenues in Cash Flow Statement
* no revenue on accruals are included in the statement,
* accumulated cash at the end of 1993 was assumed at zero level. Based on the balance sheet of the company (first version - before audit), the cash position amounted to 360.8 bln PLZ at 31st December 1993. This was the guarantee deposit and cannot be used for current financing.

Statement of projected cash flow in 1994 prepared on the basis of above mentioned assumptions is presented on the chart on the next page.

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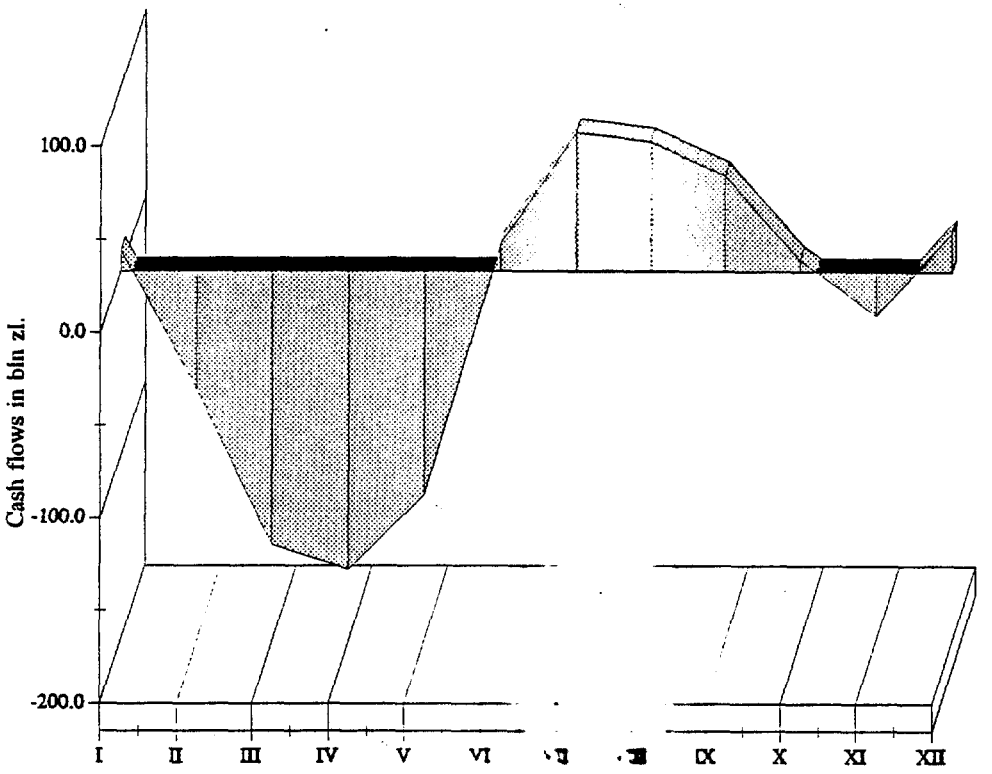
PROJECTED CASH FLOW
IN 1994



The factors influencing cash flow during each month in 1994 are as follow:

* seasonal demand for LOT's services (highest in summer),
* determined conditions for interest and principal repayment in loan agreements,
* plans for taking subsequent instalments against their line of credit.

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TABLES

Financial projections for LOT in 1994 presented in the following tables are in bln zloty (only foreign and "leasing" liabilities and total revenues on transport operations were prepared in US$ and DEM).

1) Investment expenditures
2) Loan repayments time-schedule - foreign loans
3) Loan repayments time-schedule - leasing
4) Loan repayments time-schedule - planes and spare parts repayment
5) Loan time-schedule - domestic loans
6) Loan time-schedule in total
7) Revenues
8) Costs
9) Pro-forma financial statement
10) Cash flow statement

TABLE 1
INVESTMENT EXPENDITURES (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Total investments in construction including:	67.5	3.3	3.3	3.3	3.2	3.2	3.2	0.2	0.2	0.2	0.2	0.2	0.2	20.7
* Investment continuation:	65.7	2.8	2.8	2.8	3.0	3.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0	17.3
- CMPS - Okęcie	30.3	2.7	2.7	2.7	2.9	2.9	2.9							17.0
- *MDL II - Cargo i Catering*	35.2	0.0	0.0	0.0	0.0	0.0	0.0							0.3
- ZOS - Poznań	0.2													0.0
* Holded investments	1.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	2.4
* Land purchase for investments in construction	0.6	0.3	0.3	0.3										1.0
Total investment purchases including:	38.3	3.4	3.4	3.4	3.4	3.4	3.4	24.7	24.7	24.7	24.7	24.7	24.7	168.3
* Domestic purchases, including:	11.0	0.6	0.6	0.6	0.6	0.6	0.6	4.4	4.4	4.4	4.4	4.4	4.4	30.0
- IT technology		0.5	0.5	0.5	0.5	0.5	0.5	3.8	3.8	3.8	3.8	3.8	3.8	26.0
- transport		0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.5
* Imports, including:	27.4	2.8	2.8	2.8	2.8	2.8	2.8	20.3	20.3	20.3	20.3	20.3	20.3	138.3
- IT technology		0.3	0.3	0.3	0.3	0.3	0.3	2.4	2.4	2.4	2.4	2.4	2.4	16.6
- transport		0.5	0.5	0.5	0.5	0.5	0.5	3.6	3.6	3.6	3.6	3.6	3.6	24.9
- border tax and duty (total in average 20% - excluding VAT)		0.5	0.5	0.5	0.5	0.5	0.5	3.4	3.4	3.4	3.4	3.4	3.4	23.0
Total investment expenditures	105.8	6.7	6.7	6.7	6.6	6.6	6.6	24.9	24.9	24.9	24.9	24.9	24.9	189.0

TABLE 2
REPAYMENTS' TIME-SCHEDULE - FOREIGN LOANS (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Foreign credit lines in bln zl, including:														
Repayment	**97.5**	**5.4**			**63.7**		**2.9**	**6.0**		**3.1**	**63.8**		**3.2**	**148.2**
Interest	**23.9**	**15.8**			**16.1**		**1.2**	**15.6**		**0.6**	**16.2**		**0.5**	**65.9**
CITIBANK AG Frankfurt														
Repayment	**97.5**				58.0						63.8			121.9
Interest		15.4			15.8			15.4			16.2			62.9
AMERBANK														
Repayment		5.4			5.7		2.9	6.0		3.1			3.2	26.3
Interest		0.4			0.2		1.2	0.1		0.6			0.5	3.1
Foreign loans in '000 DEM, including:														
CITIBANK AG Frankfurt														
Repayment					4,337.4						4,337.4			8,674.7
Interest		1,208.8			1,183.5			1,099.0			1,099.0			4,591.3
Foreign loans in '000 US$, including:														
AMERBANK														
Repayment		250.0			250.0		125.0	250.0		125.0			125.0	1,125.0
Interest		17.2			11.0		52.9	5.7		22.5			20.0	129.2

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TABLE 3
REPAYMENTS' TIME-SCHEDULE - LEASING (in bln zl and in 000'US$)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Leasing in bln zl, including:														
Repayment	**714.2**	**119.6**		**7.5**	**131.0**	**36.8**	**247.6**	**14.5**		**13.8**		**200.5**	**153.4**	**924.5**
Interest	**387.5**	**58.7**		**4.9**	**59.0**	**27.0**	**116.6**	**9.1**		**12.2**		**99.3**	**69.7**	**456.5**
Boeing 767 - leasing														
CITIBANK NY														
Repayment							132.8						153.4	286.2
Interest							66.0						69.7	135.7
PKO SA														
Repayment						24.0						27.7		51.7
Interest						17.9						19.1		36.9
Boeing (Boeing 737 - leasing)														
Repayment		106.2		1.2	131.0		114.8					151.2		504.3
Interest		49.8			59.0		50.6					63.4		222.7
ATR-72 - leasing														
Polka Bail														
Repayment		13.4		6.2		12.8		14.5		13.8		21.6		82.3
Interest		8.9		4.9		9.1		9.1		12.2		16.9		61.1
Leasing in '000 US$, including:														
Repayment		**5,513.2**		**333.2**	**5,758.9**	**1,593.8**	**10,544.6**	**609.7**		**559.6**		**7,887.9**	**5,939.3**	**38,740.1**
Interest		**2,706.7**		**218.6**	**2,592.1**	**1,167.9**	**4,966.8**	**380.2**		**494.5**		**3,908.9**	**2,700.3**	**19,135.9**
Boeing 737 - leasing														
CITIBANK NY														
Repayment							5,656.5						5,939.3	11,595.7
Interest							2,811.1						2,700.3	5,511.4
PKO SA														
Repayment						1,039.3						1,090.6		2,129.8
Interest						773.2						749.9		1,523.0
Boeing (Boeing 737 - leasing)														
Repayment		4,896.6		55.5	5,758.9		4,888.1					5,947.3		21,546.4
Interest		2,294.4			2,592.1		2,155.6					2,493.7		9,535.9
ATR-72 - leasing														
Polka Bail														
Repayment		616.6		277.7		554.6		609.7		559.6		850.0		3,468.1
Interest		412.3		218.6		394.7		380.2		494.5		665.3		2,565.6

TABLE 4
REPAYMENTS' TIME-SCHEDULE - PLANES & SPARE PARTS REPAYMENT (in bln zl and in 000'US$)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Plans and spare parts repayments in bln zl, including:														
Repayment				43.8	5.4	47.4	1.6			1.7	5.9		1.8	107.7
Interest				1.3			1.6			1.7			1.7	6.4
Boeing (Boeing 737 - spare parts)														
Repayment				1.6			1.6			1.7			1.8	6.7
Interest				1.3			1.6			1.7			1.7	6.4
ATR (advances and installments for planes delivery)														
Repayment				42.3	5.4	47.4					5.9			100.9
Interest														
Plans and spare parts repayments in '000 US$, including:														
Repayment				1,957.5	235.8	2,052.6	69.9			69.9	235.8		69.9	4,691.3
Interest				60.2			69.6			68.3			66.2	264.3
Boeing (Boeing 737 - spare parts)														
Repayment				69.9			69.9			69.9			69.9	279.5
Interest				60.2			69.6			68.3			66.2	264.3
ATR (advances and installments for planes delivery)														
Repayment				1,887.6	235.8	2,052.6					235.8			4,411.8
Interest														

TABLE 5
TIME-SCHEDULE - DOMESTIC LOANS, including planned (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Domestic loans in total in bln zl, including:														
Instalments	826.0	275.0			150.0		300.0					200.0	200.0	1,125.0
Repayment	851.0	97.0	97.0	125.0	77.0	89.0	73.0	90.0	88.0	88.0	36.0	70.0	62.0	992.0
Interest	63.9	10.1	7.5	9.2	7.1	7.7	7.1	7.3	7.6	3.8	4.0	5.0	4.3	80.6
Bank Śląski														
Instalments	290.0	150.0					150.0					150.0		450.0
Repayment	320.0	42.0	34.0	46.0	40.0	42.0	18.0	42.0	44.0	44.0	4.0	40.0	42.0	438.0
Interest	35.0	2.7	1.5	4.6	3.0	1.7	1.8	5.1	3.5	1.5	1.5	4.1	2.6	33.7
Bank Turystyki														
Instalments	66.0	35.0												35.0
Repayment	76.0	13.0	13.0											26.0
Interest	3.4	1.3	0.9	0.9	0.8	0.3								4.2
PBK XIII														
Instalments	350.0	40.0			150.0		150.0					50.0	200.0	590.0
Repayment	320.0	42.0	40.0	46.0	20.0	42.0	40.0	48.0	44.0	44.0	32.0	30.0	20.0	448.0
Interest	16.5	4.7	2.9	1.7	1.9	5.0	3.3	2.2	4.1	2.3	2.5	0.8	1.7	33.1
BRE SA														
Instalments	30.0	15.0												15.0
Repayment	45.0						15.0							15.0
Interest	4.0						2.0							2.0
WBK SA														
Instalments	90.0													
Repayment	90.0			23.0	7.0									30.0
Interest	5.1	1.2	1.2	1.2	1.0	0.6								5.2
Bank Wschodnio-Europejski														
Instalments		35.0												35.0
Repayment			10.0	10.0	10.0	5.0								35.0
Interest		0.2	1.0	0.7	0.3	0.0								2.3

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TABLE 6
TIME-SCHEDULE IN TOTAL (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Foreign loans in bln zl, including:														
Repayment	97.5	5.4			63.7		2.9	6.0		3.1	63.8		3.2	148.2
Interest	23.9	15.8			16.1		1.2	15.6		0.6	16.2		0.5	65.9
Leasing repayments in bln zl, including:														
Repayment	714.2	119.6		7.5	131.0	36.8	247.6	14.5		13.8	0.0	200.5	153.4	924.5
Interest	387.5	58.7		4.9	59.0	27.0	116.6	9.1		12.2	0.0	99.3	69.7	456.5
Plans and spare parts repayments in bln zl, including:														
Repayment				43.8	5.4	47.4	1.6			1.7	5.9		1.8	107.7
Interest				1.3			1.6			1.7			1.7	6.4
Domestic loans in total in bln zl, including:														
Instalments	826.0	275.0			150.0		300.0					200.0	200.0	1,125.0
Repayment	851.0	97.0	97.0	125.0	77.0	89.0	73.0	90.0	88.0	88.0	36.0	70.0	62.0	992.0
Interest	63.9	10.1	7.5	9.2	7.1	7.7	7.1	7.3	7.6	3.8	4.0	5.0	4.3	80.6
LOANS IN TOTAL (in bln zl):														
Instalments	826.0	275.0			150.0		300.0	0.0				200.0	200.0	1,125.0
Repayment	1,662.7	222.0	97.0	176.3	277.1	173.3	325.1	110.5	88.0	106.6	105.7	270.5	220.4	2,172.4
Interest	475.3	84.6	7.5	15.4	82.1	34.7	126.6	31.9	7.6	18.2	20.2	104.3	76.3	609.3

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TABLE 7
REVENUES (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Revenues on transport operations including:	5,446.9	412.9	395.9	461.4	498.6	573.9	657.5	767.3	765.2	758.0	697.6	577.1	620.9	7,186.3
Foreign transportation:	5,330.3	401.2	382.9	445.9	483.5	555.6	642.5	746.5	746.4	742.4	684.2	560.6	601.2	6,992.9
• regular flights:	5,173.5	389.0	369.8	428.7	466.5	543.2	618.2	704.6	704.7	698.9	655.9	546.9	582.4	6,708.9
- passengers	4,855.4	369.5	325.5	398.4	429.1	514.8	585.4	651.6	664.5	667.1	614.9	510.7	541.1	6,272.6
- cargo	318.1	19.4	44.3	30.2	37.4	28.4	32.8	53.0	40.2	31.8	41.0	36.2	41.4	436.3
• charters:	156.8	12.2	13.1	17.2	17.0	12.4	24.3	41.9	41.7	43.4	28.3	13.7	18.7	284.0
- passengers	136.7	11.4	12.2	16.3	16.1	11.5	22.4	40.0	39.8	41.5	26.3	11.7	16.7	265.9
- cargo	20.1	0.9	0.9	0.9	0.9	0.9	1.9	1.9	1.9	1.9	2.0	2.0	2.0	18.1
Domestic flights:	116.6	11.7	13.0	15.6	15.1	18.3	15.0	20.8	18.8	15.6	13.4	16.5	19.7	193.4
- passengers	107.2	11.1	12.3	14.8	14.3	17.5	14.2	20.1	18.1	14.8	12.6	15.7	18.9	184.4
- cargo	9.4	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	9.0
Revenues on other foreign services	192.9	20.0	20.0	20.0	20.0	20.0	20.0	25.0	25.0	20.0	20.0	20.0	20.0	250.0
Revenues on supplementary operations including:	513.7	50.0	50.0	50.0	50.0	50.0	50.0	60.0	60.0	60.0	50.0	48.7	50.0	628.7
• leasing of premises.	406.7	39.0	39.0	39.0	39.0	39.0	39.0	46.8	46.8	46.8	39.0	38.0	39.0	490.7
- LIM	129.0	10.3	10.3	10.3	10.3	10.3	10.3	12.3	12.3	12.3	10.3	10.0	10.3	129.0
- Catering / Cargo	280.7	28.8	28.8	28.8	28.8	28.8	28.8	34.5	34.5	34.5	28.8	28.0	28.8	361.7
• other supplementary operations:	104.0	11.0	11.0	11.0	11.0	11.0	11.0	13.2	13.2	13.2	11.0	10.7	11.0	138.0
- material and non-material services	56.0	6.4	6.4	6.4	6.4	6.4	6.4	7.6	7.6	7.6	6.4	6.2	6.4	80.0
- transportation services	15.5	1.4	1.4	1.4	1.4	1.4	1.4	1.7	1.7	1.7	1.4	1.4	1.4	18.0
- medical, social, vital services	29.5	3.2	3.2	3.2	3.2	3.2	3.2	3.8	3.8	3.8	3.2	3.1	3.2	40.0
Revenues on sales of goods	14.1	2.0	2.0	2.0	2.0	2.0	3.0	3.0	3.0	2.0	2.0	2.0	3.4	28.4
Revenues on financial operations	425.5	1.0	2.6	2.6	15.6	10.4	10.4	15.6	15.6	10.4	10.4	10.4	66.8	172.1
• interest on granted loans and bank accounts		0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	1.0
• foreign rate exchange differences		0.9	2.1	2.1	12.8	8.6	8.6	12.8	12.8	8.6	8.6	8.6	54.7	141.1
• dividends in other copanies (sales of shares, etc.)		0.2	0.5	0.5	2.7	1.8	1.8	2.7	2.7	1.8	1.8	1.8	11.6	30.0
Other revenues	30.3	10.0	10.0	10.0	10.0	11.0	65.0	62.0	13.0	10.0	10.0	110.0	160.0	481.0
• sale of fuel		9.5	9.5	9.5	9.5	10.5	14.3	11.5	12.4	9.5	9.5	9.6	9.5	125.0
• sale of fixed assets							50.0	50.0				100.0	150.0	350.0
• sale of materials		0.5	0.5	0.5	0.5	0.5	0.7	0.5	0.6	0.5	0.5	0.5	0.5	6.0
TOTAL REVENUES	6,623.4	496.0	480.5	546.0	596.2	667.3	805.9	933.0	881.9	860.4	790.0	768.2	921.0	8,746.5

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TABLE 8
COSTS (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Costs in groups	6,210.3	501.4	488.9	550.8	587.1	623.5	682.8	734.9	736.7	711.3	685.9	633.4	670.4	7,607.0
Depreciation:	416.4	29.0	29.1	29.2	29.3	29.4	29.5	29.6	29.7	29.9	30.0	30.1	30.2	355.1
• planes	84.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	16.0
• Cargo i Catering buildings	74.1	6.6	6.7	6.8	6.9	7.0	7.1	7.2	7.3	7.5	7.6	7.7	7.8	86.1
• LIM	144.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	138.0
• other	113.8	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	115.0
Materilas:	941.9	69.5	66.0	85.3	86.2	96.9	111.1	119.8	119.3	109.3	100.9	84.5	99.0	1,147.8
• fuel	732.2	54.5	50.0	66.9	67.0	76.4	88.0	95.9	95.7	86.0	78.0	66.8	76.9	902.0
• other materilas	209.7	15.0	16.1	18.5	19.3	20.5	23.1	23.8	23.6	23.3	22.8	17.8	22.1	245.8
Transportation services	26.4	1.4	3.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	27.6
Leasing of planes:	807.2	79.7	81.0	82.3	83.6	90.4	102.9	110.1	111.9	113.7	109.6	105.4	101.0	1,171.4
• financial	714.2	79.7	81.0	82.3	83.6	84.9	86.3	87.7	89.1	90.5	91.9	93.4	94.9	1,045.1
• operational	93.0					5.4	16.6	22.5	22.8	23.2	17.7	12.0	6.1	126.3
Maintenance:	104.6	13.7	12.9	15.6	19.0	21.3	24.6	24.9	24.5	22.8	17.9	18.3	18.5	234.1
• of planes	81.9	9.5	8.8	11.4	14.9	17.2	20.5	20.8	20.3	18.7	13.8	14.1	14.4	184.2
• other	22.7	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	49.9
Starts and lendings	1,529.5	109.3	100.9	124.6	127.5	140.7	154.9	170.5	171.4	160.4	149.7	131.4	146.6	1,687.8
Catering	286.2	23.0	21.1	27.5	28.7	32.2	36.2	39.9	39.2	35.6	32.0	29.0	31.6	376.0
Margines	501.2	34.9	33.4	38.9	41.7	47.8	54.8	63.9	63.8	63.2	58.2	48.1	51.3	600.0
SITA fees	110.5	10.4	10.6	10.7	10.9	11.1	11.3	11.4	11.6	11.8	12.0	12.2	12.4	136.5
Other material costs	80.1	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	100.0
- including energy	19.5	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	37.0
Wages and salaries	429.5	41.3	41.5	41.6	56.2	49.8	50.0	53.0	53.0	53.1	61.4	61.5	63.9	626.3
Wage related costs	199.3	19.8	19.9	20.0	27.0	23.9	24.0	25.4	25.5	25.5	29.5	29.5	30.7	300.6
Social fund	6.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	8.0
Taxes	17.1	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	20.0
Business travels	112.1	8.2	7.3	10.0	10.5	11.8	13.3	14.7	14.4	12.7	10.8	9.2	10.4	133.2
• flights crews		7.1	6.4	8.9	9.3	10.5	11.9	13.2	12.8	11.3	9.5	8.1	9.2	118.1
• trainings		0.6	0.5	0.8	0.8	0.9	1.0	1.1	1.1	1.0	0.8	0.7	0.8	10.1
• other		0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	5.0
Insurance	113.6	9.6	9.7	9.9	10.5	11.4	12.8	13.5	13.7	13.9	13.6	13.3	13.0	145.0
Trainings:	20.4	2.5	2.6	2.6	2.6	2.7	2.7	2.7	2.8	2.8	2.8	2.9	2.9	32.6
• flight crews	19.0	2.0	2.0	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3	2.4	26.2
• other personel	1.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	6.4
Other non-material costs	507.8	38.5	39.1	39.7	40.4	41.0	41.7	42.4	43.0	43.7	44.4	45.1	45.9	505.0
Accruals	(259.7)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(41.2)
Internal costs of trade goods sale	6.3	0.7	0.6	0.8	0.8	0.9	1.1	1.2	1.1	0.9	0.9	0.8	0.9	10.6
Costs of other sales:		6.0	5.5	7.3	7.3	8.3	9.5	10.4	10.3	9.3	8.5	7.3	8.4	98.0
• fuel		5.7	5.3	7.0	7.1	8.0	9.3	10.1	10.1	9.1	8.2	7.0	8.1	95.0
• fixed assets		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
• materials		0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.0
Financial costs:	818.7	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	168.3	920.0
• interest	475.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	58.3	700.0
including leasing interest	387.5	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	40.8	490.0
• foreign currency rate of exchange differences	338.8	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	110.0	220.0
• internal costs before sharing	4.6													0.0
TOTAL COSTS	6,775.6	573.0	559.9	623.8	660.1	697.6	758.3	811.3	813.1	786.4	760.1	706.4	844.5	8,594.4

TABLE 9
PRO-FORMA FINANCIAL STATEMENT (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
Total revenues	6,623.4	496.0	480.5	546.0	596.2	667.3	805.9	933.0	881.9	860.4	790.0	768.2	921.0	8,746.5
Revenues on transportation services	5,446.9	412.9	395.9	461.4	498.6	573.9	657.5	767.3	765.2	758.0	697.6	577.1	620.9	7,186.3
Revenues on other foreign services	192.9	20.0	20.0	20.0	20.0	20.0	20.0	25.0	25.0	20.0	20.0	20.0	20.0	250.0
Revenues on supplementary operations	513.7	50.0	50.0	50.0	50.0	50.0	50.0	60.0	60.0	60.0	50.0	48.7	50.0	628.7
Revenues on sales of goods	14.1	2.0	2.0	2.0	2.0	2.0	3.0	3.0	3.0	2.0	2.0	2.0	3.4	28.4
Revenues on financial operation	425.5	1.0	2.6	2.6	15.6	10.4	10.4	15.6	15.6	10.4	10.4	10.4	66.8	172.1
Other revenues	30.3	10.0	10.0	10.0	10.0	11.0	65.0	62.0	13.0	10.0	10.0	110.0	160.0	481.0
Costs of revenues generation	6,775.6	573.0	559.9	623.8	660.1	697.6	758.3	811.3	813.1	786.4	760.1	706.4	844.5	8,594.4
Costs in groups	6,210.3	501.4	488.9	550.8	587.1	623.5	682.8	734.9	736.7	711.3	685.9	633.4	670.4	7,607.0
Accruals	(259.7)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(41.2)
Internal costs on trade goods sale	6.3	0.7	0.6	0.8	0.8	0.9	1.1	1.2	1.1	0.9	0.9	0.8	0.9	10.6
Costs of other sales	0.0	6.0	5.5	7.3	7.3	8.3	9.5	10.4	10.3	9.3	8.5	7.3	8.4	98.0
Costs of financial operations	818.7	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	168.3	920.0
Operational results in total	(152.2)	(77.0)	(79.4)	(77.7)	(63.9)	(30.3)	47.7	121.7	68.8	74.0	29.9	61.9	76.5	152.1
Extraordinary items (net)	256.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross profit	104.4	(77.0)	(79.4)	(77.7)	(63.9)	(30.3)	47.7	121.7	68.8	74.0	29.9	61.9	76.5	152.1
Taxes:	62.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	9.3	23.7	28.1	107.8
Income tax		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	18.6	23.0	45.6
Tax on shares funds	62.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	62.2
Net profit	42.2	(82.2)	(84.6)	(82.9)	(69.1)	(35.5)	42.5	116.5	63.6	68.8	20.6	38.1	48.4	44.3

TABLE 10
CASH FLOW STATEMENT (in bln zl)

Specification	1993	I 1994	II 1994	III 1994	IV 1994	V 1994	VI 1994	VII 1994	VIII 1994	IX 1994	X 1994	XI 1994	XII 1994	1994
SOURCES OF FUNDS														
Revenues on transportation operations	5,446.9	412.9	395.9	461.4	498.6	573.9	657.5	767.3	765.2	758.0	697.6	577.1	620.9	7,186.3
• foreign	5,330.3	401.2	382.9	445.9	483.5	555.6	642.5	746.5	746.4	742.4	684.2	560.6	601.2	6,992.9
• domestic	116.6	11.7	13.0	15.6	15.1	18.3	15.0	20.8	18.8	15.6	13.4	16.5	19.7	193.4
Revenues on other foreign operations	192.9	20.0	20.0	20.0	20.0	20.0	20.0	25.0	25.0	20.0	20.0	20.0	20.0	250.0
Revenues on supplementary operations	513.7	39.7	39.7	39.7	39.7	39.7	39.7	47.7	47.7	47.7	39.7	38.7	39.7	499.7
• leasing of assets (excluding LIM)	409.7	28.8	28.8	28.8	28.8	28.8	28.8	34.5	34.5	34.5	28.8	28.8	28.8	361.7
• other supplementary operations	104.0	11.0	11.0	11.0	11.0	11.0	11.0	13.2	13.2	13.2	11.0	10.7	11.0	138.0
Revenues on sales of goods	14.1	2.0	2.0	2.0	2.0	2.0	3.0	3.0	3.0	2.0	2.0	2.0	3.4	28.4
Revenues on financial operations (exl. foreign currency rate of exch. differ.)	425.5	0.2	0.5	0.5	2.8	1.9	1.9	2.8	2.8	1.9	1.9	1.9	12.0	31.0
Other revenues	30.3	10.0	10.0	10.0	10.0	11.0	65.0	62.0	13.0	10.0	10.0	110.0	160.0	481.0
VAT reimbursement		3.0	2.9	3.5	3.2	3.5	3.4	3.5	3.0	3.0	2.8	2.5	3.2	37.4
Net extraordinary items	139.8													
Credits taken	826.0	275.0			150.0		300.0					200.0	200.0	1,125.0
TOTAL SOURCES OF FUNDS	7,589.2	762.9	470.9	537.1	726.4	652.0	1,090.5	911.3	859.7	842.5	773.9	952.2	1,059.3	9,638.8
USES OF FUNDS														
Costs in groups (excluding depreciation & financial leasing of planes)	5,079.7	392.7	378.8	439.4	474.2	509.2	567.0	617.6	617.9	590.9	563.9	509.9	545.3	6,206.8
Internal costs of trade goods sale	6.3	0.7	0.6	0.8	0.8	0.9	1.1	1.2	1.1	0.9	0.9	0.8	0.9	10.6
Costs of other sale	0.0	6.0	5.5	7.3	7.3	8.3	9.5	10.4	10.3	9.3	8.5	7.3	8.4	98.0
Costs of financial operations (interest - in accord. with credits time-schedule)	479.9	84.6	7.5	15.4	82.1	34.7	126.6	31.9	7.6	18.2	20.2	104.3	76.3	609.3
Income tax		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	18.6	23.0	45.6
Tax on shares fund	62.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	62.2
Increase in material reserves	299.9	1.3	1.3	1.5	1.9	2.1	2.4	2.5	2.4	2.3	1.8	1.8	1.8	23.1
Investment expenditures	105.8	6.7	6.7	6.7	6.6	6.6	6.6	24.9	24.9	24.9	24.9	24.9	24.9	189.0
Financial leasing of planes (in accordance with time-schedule)	714.2	119.6	0.0	7.5	131.0	36.8	247.6	14.5	0.0	13.8	0.0	200.5	153.4	924.5
Foreign debt repayment (in accordance with time-schedule)	97.5	5.4	0.0	0.0	63.7	0.0	2.9	6.0	0.0	3.1	63.8	0.0	3.2	148.2
Plans and spare parts repayments (in accordance with time-schedule)		0.0	0.0	43.8	5.4	47.4	1.6	0.0	0.0	1.7	5.9	0.0	1.8	107.7
Domestic debt repayment (in accordance with time-schedule)	851.0	97.0	97.0	125.0	77.0	89.0	73.0	90.0	88.0	88.0	36.0	70.0	62.0	992.0
Foreign currency rate of exchange differences	338.8	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	110.0	220.0
Liabilities repayment:		22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	22.6	271.0
- ZUS		7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	88.6
- PPL		6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	81.0
- WARTA		5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	65.4
- other		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	36.0
TOTAL USES OF FUNDS	8,035.3	751.8	535.1	685.1	887.7	772.8	1,076.0	836.6	790.0	790.9	767.7	975.7	1,038.6	9,908.0
CASH FLOW	(446.1)	11.1	(64.2)	(147.9)	(161.3)	(120.8)	14.5	74.7	69.7	51.6	6.3	(23.6)	20.7	(269.2)
CUMULATED CASH FLOW	0.0	11.1	(53.1)	(201.0)	(362.3)	(483.1)	(468.6)	(393.9)	(324.2)	(272.5)	(266.3)	(289.9)	(269.2)	(269.2)