

This is a translation of a document originally issued in Polish



Parent's registered office:

Grupa LOTOS S.A.

ul. Elbląska 135, 80-718 Gdańsk, Poland

Contact:

Investor Relations at Grupa LOTOS S.A.:

Telephone: +48 58 308 73 93

E-mail: ir@grupalotos.pl

Auditor:

Ernst & Young Audit Sp. z o.o.

An excel file with the operating and financial data for Q2 2012 and the previous reporting periods is published simultaneously with the semi-annual report in the Investor Relations section of our website as ["databook"](#).

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CONTENTS

1.	BASIC INFORMATION ON THE LOTOS GROUP	3
1.1	ORGANISATION OF THE LOTOS GROUP AND CHANGES IN THE GROUP'S STRUCTURE	3
1.2	SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL VOTE AT THE GENERAL MEETING OF GRUPA LOTOS.....	9
1.3	GRUPA LOTOS SHARES HELD BY MANAGEMENT AND SUPERVISORY STAFF	9
1.4	PERSONNEL AND EMPLOYMENT	10
2.	FINANCIAL PERFORMANCE OF THE LOTOS GROUP	13
2.1	FACTORS AFFECTING THE GROUP'S PERFORMANCE IN H1 2012	13
2.2	FACTORS WHICH IN THE COMPANY'S OPINION MAY AFFECT THE LOTOS GROUP'S PERFORMANCE IN Q3 AND Q4 2012.....	25
2.3	RISKS AND THREATS RELATED TO COMPANY'S OPERATIONS IN THE REMAINING MONTHS OF 2012.....	25
2.4	MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF MEETING PREVIOUSLY PUBLISHED FORECASTS FOR 2012	26
3.	OTHER INFORMATION	26
3.1	COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS	26
3.2	RELATED-PARTY TRANSACTIONS	26
3.3	SURETIES FOR THE REPAYMENT OF LOANS, GUARANTEES AND BORROWINGS. FACTORING AGREEMENTS.....	26

1. BASIC INFORMATION ON THE LOTOS GROUP

1.1 ORGANISATION OF THE LOTOS GROUP AND CHANGES IN THE GROUP'S STRUCTURE

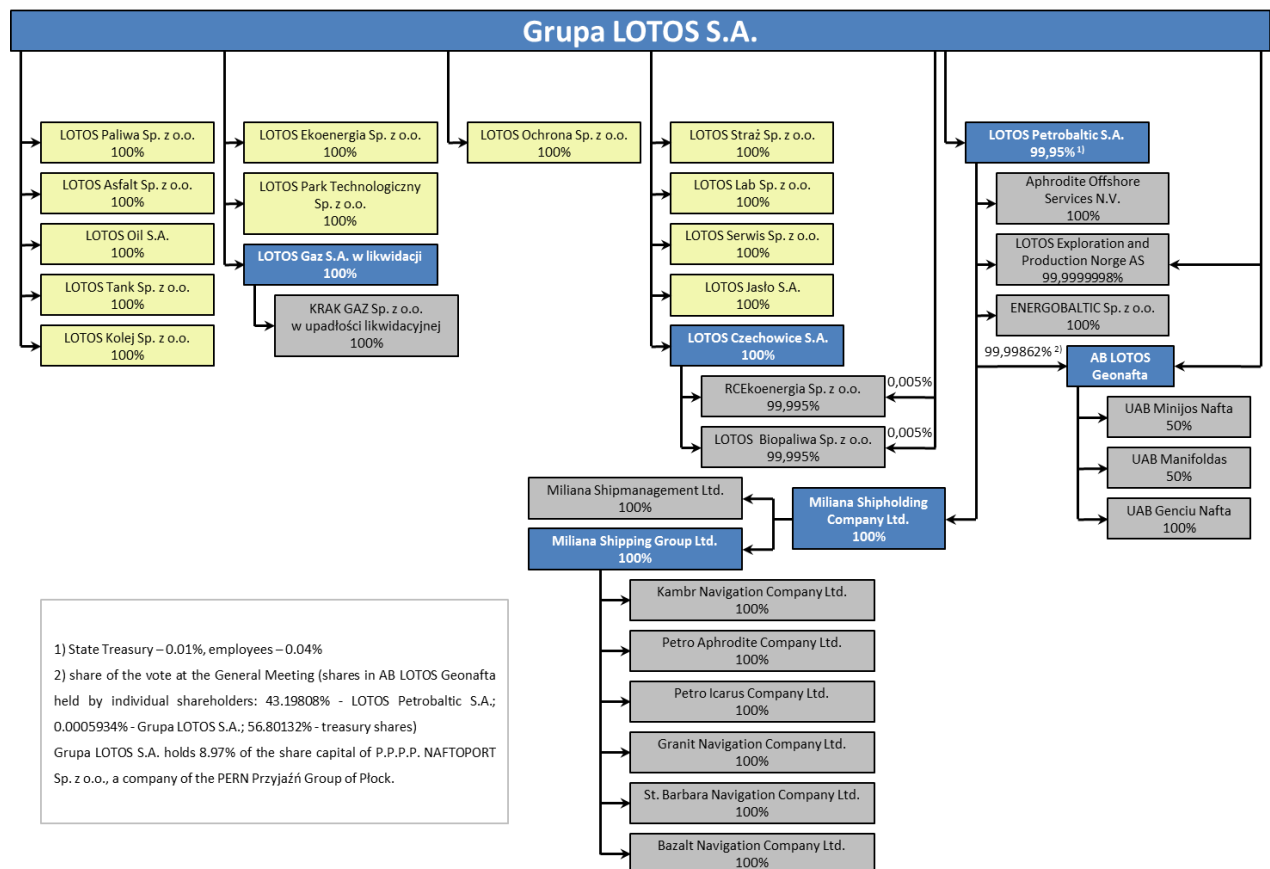
As at June 30th 2012, the LOTOS Group comprised Grupa LOTOS S.A. ("Grupa LOTOS", "the Company"), as the parent, and 33 production and service companies, including:

- 15 subsidiaries of Grupa LOTOS,
- 18 indirect subsidiaries of Grupa LOTOS accounted for using the proportional method.

Grupa LOTOS operates no branches (divisions) within the meaning of the Polish Accountancy Act. The Group's operations are divided into two main reportable operating segments:

- **upstream segment** – comprising acquisition of crude oil and natural gas reserves, and crude oil and natural gas production,
- **downstream segment** – comprising production and processing of refined petroleum products and their wholesale and retail sale, as well as auxiliary, transport and service activities.

Figure 1: Organisational structure of the LOTOS Group



**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Table 1: LOTOS Group companies

Name	Registered office	Core business	Method of consolidation/valuation of equity interests	Ownership interest (%)		
				Jun 30 2012	Dec 31 2011	Jun 30 2011
Parent						
Grupa LOTOS S.A.	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable	Not applicable
Direct subsidiaries						
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels and light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%	100.00%
LOTOS Asphalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	full	100.00%	100.00%	100.00%
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and sale of base oils	full	100.00%	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Until October 16th 2011 - trading in aviation fuel, presently - logistics services	full	100.00%	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%	100.00%
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	(1)	100.00%	100.00%
LOTOSekoenergia Sp. z o.o. (2)	Gdańsk	The company has not commenced operations	full	100.00%	100.00%	100.00%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company does not conduct operations	full	100.00%	100.00%	100.00%
LOTOS Gaz S.A. w likwidacji (in liquidation)	Kraków (3)	The company does not conduct operations	full	100.00%	100.00%	100.00%
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	full	100.00%	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire safety	full	100.00%	100.00%	100.00%

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Name	Registered office	Core business	Method of consolidation/valuation of equity interests	Ownership interest (%)		
				Jun 30 2012	Dec 31 2011	Jun 30 2011
LOTOS LAB Sp. z o.o.	Gdańsk	Laboratory analyses	full	100.00%	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electrical systems and controlling devices, overhaul and repair services	full	100.00%	100.00%	100.00%
LOTOS Jasło S.A.	Jasło	Storage and distribution of fuels From March 24th 2011 - renting and operating of own or leased real estate	full	100.00%	100.00%	100.00%
LOTOS Czechowice S.A. (parent company of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00%	100.00%	100.00%
LOTOS Petrobaltic S.A. (parent of another group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.95%	99.95% (4)	99.94%
Indirect subsidiaries and companies accounted for with the proportional method						
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00%	100.00%	100.00%
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00%	100.00%	100.00%
Aphrodite Offshore Services Ltd.	Curaçao, Netherlands Antilles	Dormant since October 17th 2011	full	99.95%	99.95% (5)	99.94%
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production on the Norwegian Continental Shelf, provision of services related to oil exploration and production	full	99.95%	99.95% (5)	99.94%

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Name	Registered office	Core business	Method of consolidation/valuation of equity interests	Ownership interest (%)		
				Jun 30 2012	Dec 31 2011	Jun 30 2011
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.95%	99.95% (5)	99.94%
AB LOTOS Baltija (parent of another group)	Vilnius, Lithuania	Business and legal advisory services	-	-	(6)	99.94%
AB Meditus (parent of another group)	Vilnius, Lithuania	Business and legal advisory services	-	-	(6)	99.94%
AB LOTOS Geonafta (parent of another group) (6)	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.95%	99.95% (5)	99.94%
UAB Genciu Nafta	Gargždai, Lithuania	Crude oil exploration and production	full	99.95%	99.95% (5)	99.94%
UAB Manifoldas	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98%	49.98% (5)	49.97%
UAB Minijos Nafta	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.98%	49.98% (5)	49.97%
Miliana Shipholding Company Ltd. (parent of another group) (7)	Nicosia, Cyprus	Storage and transport of crude oil, other sea transport related services, and managing own financial assets	full	99.95%	99.95% (5)	99.94%
Miliana Shipmanagement Ltd.	Nicosia, Cyprus	Provision of sea transport and related services	full	99.95%	99.95% (5) (8)	-
Miliana Shipping Group Ltd. (parent of another group)	Nicosia, Cyprus	Management of own assets	full	99.95%	99.95% (5) (8)	-
Kambr Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95%	99.95% (5) (8)	-
Petro Aphrodite Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95%	99.95% (5) (8)	-
Petro Icarus Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95%	99.95% (5) (8)	-
Granit Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95%	99.95% (5) (8)	-

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Name	Registered office	Core business	Method of consolidation/valuation of equity interests	Ownership interest (%)		
				Jun 30 2012	Dec 31 2011	Jun 30 2011
St. Barbara Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95%	99.95% (5) (8)	-
Bazalt Navigation Company Ltd.	Nicosia, Cyprus	Ship chartering	full	99.95%	99.95% (5) (8)	-

- (1) January 10th 2012 Grupa LOTOS and Krokus Chem Sp. z o.o. entered into an agreement to sell a 100% interest in LOTOS Parafiny Sp. z o.o. The agreement was preceded by a preliminary share purchase agreement of November 30th 2011.
- (2) On July 31st 2012, i.e. subsequently to the balance-sheet date, Grupa LOTOS and Miliana Shipholding Company Ltd. entered into an agreement to sell a 100% interest in LOTOS Ekoenergia Sp. z o.o.
- (3) The company's new business address in Kraków was registered on July 8th 2011. Previously, the company was based in Mława.
- (4) By December 31st 2011, Grupa LOTOS acquired from non-controlling shareholders an additional 0.63% interest in LOTOS Petrobaltic S.A. In Q1 2012, Grupa LOTOS continued to purchase shares from minority shareholders of LOTOS Petrobaltic S.A. as part of a voluntary sale process – on March 1st 2012, an agreement to purchase 26 shares was executed between Grupa LOTOS and an individual shareholder. The purchase was registered in the share book on March 20th 2012. The transaction resulted in only a minor change in the shareholder structure of LOTOS Petrobaltic S.A. The agreement was the last agreement to purchase LOTOS Petrobaltic shares executed on the freedom of contract basis.
- (5) The shareholding changes described in item (4) above affected Grupa LOTOS's ownership interests in the direct and indirect subsidiaries of LOTOS Petrobaltic S.A.
- (6) On November 30th 2011, the merger of AB Geonafta, AB LOTOS Baltija, and AB Meditus, as well as the change of company name from AB Geonafta to AB LOTOS Geonafta were registered. Following registration of the merger, the shareholder structure of AB LOTOS Geonafta was as follows: LOTOS Petrobaltic S.A. – 43.1980822%, Grupa LOTOS – 0.0005934%, own shares held by AB LOTOS Geonafta – 56.8013244%. The proportions of shares conferring the right to vote at the General Meeting of AB LOTOS Geonafta were as follows: LOTOS Petrobaltic S.A. – 99.99862%, Grupa LOTOS S.A. – 0.00137%. LOTOS Petrobaltic S.A. retained control of AB LOTOS Geonafta. AB LOTOS Geonafta intends to voluntarily cancel its own shares acquired in the merger process.
- (7) On January 23rd 2012, the change of company name from Miliana Shipping Company Ltd. to Miliana Shipholding Company Ltd. was registered.
- (8) 22.07.2011r. Miliana Shipping Company Ltd. (as of January 23rd 2012: Miliana Shipholding Company Ltd.) established two new companies: Miliana Shipmanagement Ltd. and Miliana Shipping Group Ltd. Both entities are wholly owned by Miliana Shipping Company Ltd. (as of January 23rd 2012: Miliana Shipholding Company Ltd.). The companies are incorporated in the Republic of Cyprus. On September 13th 2011, Miliana Shipping Company Ltd. (as of January 23rd 2012: Miliana Shipholding Company Ltd.) received a formal confirmation of the ownership of six companies based in Cyprus: Bazalt Navigation Company Ltd., Granit Navigation Company Ltd., Kambr Navigation Company Ltd., St. Barbara Navigation Company Ltd., Petro Icarus Company Ltd. and Petro Aphrodite Company Ltd. The companies were purchased as vehicles for assets (ships). On December 13th 2011, the share capital of Miliana Shipping Group Ltd. was increased from EUR 1,000 to EUR 2,000 and the newly issued shares were acquired by Miliana Shipping Company Ltd. (as of January 23rd 2012: Miliana Shipholding Company Ltd.) in exchange for a non-cash contribution in the form of shares in the following companies: Bazalt Navigation Company Ltd., Granit Navigation Company Ltd., Kambr Navigation Company Ltd., St. Barbara Navigation Company Ltd., Petro Icarus Company Ltd. and Petro Aphrodite Company Ltd. This transaction completed the process of forming the target capital structure for the sea shipping business of the LOTOS Petrobaltic Group.

Other than the changes listed above and discussed in more detail in Note 15 to the consolidated financial statements of the LOTOS Group for the six months ended June 30th 2012, there were no other material changes in the structure of the LOTOS Group in the reporting period.

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Table 2: Share buyback in H1 2012

Entity	Date	Grupa LOTOS's ownership interest	Notes
LOTOS Petrobaltic S.A.	Mar 1 2012	99.95%	Completion of voluntary share buyback
LOTOS Petrobaltic S.A.	May 8 2012	99.95%	Resolution of the Extraordinary General Meeting of LOTOS Petrobaltic on the squeeze-out (excluding MSP shares) by Grupa LOTOS

Table 3: Share capital increase in H1 2012

Entity	Date	Share capital before the increase	Amount of increase	Share capital after the increase	Currency	Notes
LOTOS E&P Norge AS	Jan 14 2012	572,733,964	91,984,477	664,718,441	NOK	new issue of shares
LOTOS Petrobaltic S.A.	Feb 2 2012	96,600,000	2,800,000	99,400,000	PLN	new issue of shares
AB LOTOS Geonafta	May 14 2012	168,526	337,052	505,578	LTL	increase in par value of existing shares (1:3)

Table 4: Share capital reduction in H1 2012

Entity	Date	Share capital before the increase	Amount of reduction	Share capital after the increase	Currency	Notes
UAB Genciu Nafta	Apr 30 2012	16,900,000	16,890,000	10,000	LTL	Cancellation of shares
AB LOTOS Geonafta	Jun 1 2012	505,578	287,175	218,403	LTL	Retirement of shares

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

1.2 SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL VOTE AT THE GENERAL MEETING OF GRUPA LOTOS

Table 5: Shareholder structure of Grupa LOTOS*

Shareholders	Number of shares/votes/par value of shares	% of the share capital/ total vote at GM
State Treasury	69,076,392	53,19%
Other shareholders	60 796 970	46,81%
Total	129,873,362	100,00%

**Data based on the information available to the Company as at the date of release of the Q1 2012 report (May 8th 2012), June 30th 2012 and the date of this Report.*

1.3 GRUPA LOTOS SHARES HELD BY MANAGEMENT AND SUPERVISORY STAFF

Table 6: Grupa LOTOS shares held by management/supervisory staff*

	Number of Grupa LOTOS shares	Par value (PLN)
Management Board, including:	9.636	9.636
Mr Zbigniew Paszkowicz	1.000	1.000
Mr Marek Sokołowski	8.636	8.636
Supervisory Board	0	0
Total	9.636	9.636






**Data based on the information available to the Company as at the date of release of the Q1 2012 report (May 8th 2012), June 30th 2012 and the date of this Report.*

1.4 PERSONNEL AND EMPLOYMENT

CHANGES IN THE COMPOSITION OF THE MANAGEMENT AND SUPERVISORY BOARDS







In view of the expiry of the Management Board's seventh term of office, the Grupa LOTOS Supervisory Board, following a recruitment procedure, resolved to appoint, as of June 28th 2012, the Company's Management Board of the joint eighth term of office.

Table 7: Management Board

Management Board Members	Function	Scope of responsibilities	Date of appointment
 Paweł Olechnowicz	President of the Management Board, Chief Executive Officer	In charge of the overall management and direction of the Company's operations.	March 12th 2002 - until now
 Mariusz Machajewski	Vice-President of the Management Board, Chief Financial Officer	In charge of the overall management of the Company's economic, financial and accounting functions, as well as the assets and restructuring processes.	June 19th 2006 - until now
 Marek Sokołowski	Vice-President of the Management Board, Chief Operation Officer	In charge of the overall production and technical management, technology development (including health, safety and environmental management), and capex programmes (technical and technological development projects).	April 19th.2002 - until now
 Maciej Szozda	Vice-President of the Management Board, Chief Commercial Officer	In charge of the overall management of marketing, supply and distribution processes at the LOTOS Group.	July 1st 2009 - until now
 Zbigniew Paszkowicz	Vice-President of the Management Board, Chief Exploration & Production Officer	In charge of the overall management of exploration & production segment at the LOTOS Group.	June 28th 2012 - until now

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Table 8: Supervisory Board

Members of the Supervisory Board	Function on Supervisory Board of 8th term of office	Date of appointment and resignation/removal	Biography, professional experience
 Wiesław Skwarko	Chairman	Jun 27 2011–	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28830
 Marcin Majeranowski	Deputy Chairman	Feb 29 2012–	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/29001
 Oskar Pawłowski	secretary	Jun 27 2011–	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28836
 Małgorzata Hirszel	member	Jun 27 2011–	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28836
 Agnieszka Trzaskalska	member	Feb 29 2012–	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28836
 Michał Rumiński	member	Jun 27 2011–	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28836
Leszek Starosta	member	Jun 27 2011–Feb 29 2012 (removed from office)	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28836
Rafał Wardziński	Deputy Chairman	Jun 27 2011–Jan 27 2012 (resigned from office)	http://www.lotos.pl/en/inwestorski/aktualnosci/wiadomosci/28836

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

EMPLOYMENT AT THE LOTOS GROUP AS AT JUNE 30TH 2012

Table 9: Employment structure by gender and job category -- Grupa LOTOS:

Item	Men	Women	Total
Blue-collar jobs	516	5	521
White-collar jobs	407	396	803
Total	923	401	1,324

Table 10: Employment structure by gender and job category -- the LOTOS Group:

Item	Men	Women	Total
Blue-collar jobs	2,448	164	2,612
White-collar jobs	1,409	924	2,333
Total	3,857	1,088	4,945

Table 11: Employment structure -- the LOTOS Group companies

Entity	Employment as at Jun 30 2012		
	Blue-collar jobs	White-collar jobs	Total
Grupa LOTOS S.A.	521	803	1,324
LOTOS Paliwa Sp. z o.o.	0	267	267
LOTOS Kolej Sp. z o.o.	563	198	761
LOTOS Oil S.A.	131	211	342
LOTOS LAB Sp. z o.o.	106	45	151
LOTOS Serwis Sp. z o.o.	515	176	691
LOTOS Straż Sp. z o.o.	76	14	90
LOTOS Asphalt Sp. z o.o.	125	144	269
LOTOS Gaz S.A.	0	1	1
LOTOS Ochrona Sp. z o.o.	140	20	160
LOTOS Park Technologiczny Sp. z o.o.	0	1	1
LOTOS Tank Sp. z o.o.	7	4	11
LOTOS Jasło S.A.	40	35	75
LOTOS Czechowice S.A.	81	52	133
RC Ekoenergia Sp. z o.o.	43	25	68
LOTOS Biopaliwa Sp. z o.o.	21	14	35
LOTOS Petrobaltic S.A.	153	246	399
LOTOS Energobaltic Sp. z o.o.	3	30	33
LOTOS EPN AS	0	20	20
AB LOTOS Baltija	0	0	0
AB LOTOS Geonafta	87	24	111
Miliana Shipping	0	3	3
Total	2,612	2,333	4,945

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Table 12: Gender profile of Grupa LOTOS's management personnel

Position	Women	Men
Management Board	0	5
Management personnel	49	115
Total	49	120

2. FINANCIAL PERFORMANCE OF THE LOTOS GROUP

2.1 FACTORS AFFECTING THE GROUP'S PERFORMANCE IN H1 2012

Table 13: Crude oil prices, differential and model margin

(USD/bbl)	H1 2012	H1 2011	H1 2012 / H1 2011
DATED Brent FOB prices	113,61	111,09	2.3%
Urals CIF Rotterdam prices	111,76	108,00	3.5%
Brent/Urals differential *	1,67	2,88	-42.1%
Model refining margin USD/bbl**	5,08	3,72	36.5%

* Brent vs. Urals spread.

**Model margin for the output structure in the averaged scenario of typical annual operation of Grupa LOTOS's refinery, assuming maximized yields of middle distillates. An annual throughput has been assumed to correspond to the maximum distillation capacity if Urals crude was the only feedstock, whose value is determined as the difference between DTD Brent and the Urals Rtd vs. forward Dtd Brent spread.

Table 14: Crack margins on petroleum products

(USD/t)	H1 2012	H1 2011	H1 2012 / H1 2011
Crack margin: gasoline	192,09	148,67	29.2%
Crack margin: raw gasoline	86,46	103,17	-16.2%
Crack margin: Diesel oil (10 ppm)	120,73	109,30	10.5%
Crack margin: Light fuel oil	99,06	81,37	21.7%
Crack margin: Aviation fuel	165,47	170,49	-2.9%
Crack margin: Heavy fuel oil	-206,19	-253,28	18.6%

Table 15: USD/PLN exchange rates

(USD/PLN)	H1 2012	H1 2011	H1 2012 / H1 2011
USD/PLN exchange rate at end of period	3.39	2.75	23.3%
Average PLN/USD exchange rate	3.27	2.82	16.0%

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Upstream segment

Table 16: Crude oil reserves, production and sales

Reserves (mbl) *	Jun 30 2012	Jun 30 2011	
Norway	12,95	12,95	
Poland	32,98	34,45	
Lithuania **	6,17	6,79	
Total	52,10	54,19	
Production (bbl/d)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Poland	4,812	3,046	58.0%
Lithuania **	1,633	1,560	4.7%
Total	6,445	4,606	39.9%
Sales of own products (bbl)	H1,2012	H1,2011	H1 2012 vs. H1 2011
Poland	977,760	670,178	45.9%
Lithuania **	318,919	305,967	4.2%
Total	1,296,679	976,145	32.8%

*2P – proved and probable reserves

** pro rata to the ownership interest in the AB Geonafta Group

The increase in the upstream segment's revenue of PLN 187.5m came mainly as a result of more than 33% higher sales volume of Rozewie crude, following the launch of temporary production from the B8 field. The segment's higher revenue in H1 2012 vs. H1 2011 were also attributable to a 16.0% rise of the average PLN/USD exchange rate and a 2.3% increase in Brent dtd crude prices on the global markets.

Table 17: Operating results of the upstream segment

(PLNm)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Revenue	501.6	314.1	59.7%
Operating result	-701.3	227.7	-
Depreciation and amortisation	62.8	55.1	14.0%
EBITDA	-638.5	282.8	-
Operating result net of non-recurring events*	261.6	101.3	158.2%

* operating result net of non-recurring events: impairment loss on the interest in the Yme field in H1 2012 and the effect of accounting for the step acquisition of control over AB Geonafta in H1 2011

The segment's operating result for H1 2012 includes an over PLN 962.9m impairment loss on LOTOS Exploration and Production Norge AS's interest in hydrocarbon reserves in the acquired production licences covering the Yme field development project (PLN 934.6m at the consolidated level).

Downstream segment

In H1 2012, utilisation of the refinery's installed capacities and processing of crude stayed relatively flat on H1 2011, as the production processes were optimised towards maximising the refining margin. With two independent crude distillation lines, Grupa LOTOS now enjoys greater flexibility in selecting crude blends to adequately respond to market conditions (depending on the margins that can be generated on individual petroleum products).

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Table 18: Structure of crude refining output

	H1 2012	H1 2011	H1 2012 vs. H1 2011
Volume of crude oil processed by the Gdańsk refinery ('000 tonnes)	4,688.0	4,442.9	5.5%
including:			
Urals crude	4,253.4	3,815.8	11.5%
Rozewie crude	107.9	61.6	75.2%
Other types of crude	326.7	565.5	-42.2%

Table 19: Structure of Grupa LOTOS' output

	H1 2012	H1 2011	H1 2012 vs. H1 2011
Output ('000 tonnes)	5,032.0	4,955.1	1.6%
Gasolines	684.8	639.2	7.1%
Raw gasoline	181.5	98.4	84.5%
Diesel oils	2,203.1	2,213.9	-0.5%
Light fuel oil	163.9	195.8	-16.3%
Jet fuel	268.4	209.0	28.4%
Heavy fuel oil	627.1	728.0	-13.9%
Bitumen components	328.2	372.7	-11.9%
Other	575.0	498.1	15.4%

Table 20: Sales structure of the downstream segment

	H1 2012	H1 2011	H1 2012 vs. H1 2011
Sales ('000 tonnes)	4,869.2	4,821.7	1.0%
Gasolines	692.2	691.2	0.1%
Raw gasoline	181.5	98.3	84.6%
Diesel oils	2,217.3	2,217.3	0.0%
Jet fuel	268.2	214.5	25.0%
Light fuel oil	167.3	196.1	-14.7%
Heavy fuel oil	523.1	600.1	-12.8%
Bitumens	301.4	355.1	-15.1%
Other petroleum products	518.2	449.1	15.4%

In H1 2012, overall production and sales volumes remained flat on H1 2011.

The 21.9% rise in the downstream segment's revenue in H1 2012 relative to H1 2011 was mostly attributable to higher average net selling prices, driven by such factors as the higher exchange rate. The average net selling price in the downstream segment rose by 20.7%, from 2,739 PLN/t in H1 2011 to 3,306 PLN/t in H1 2012.

The downstream segment's weaker operating performance in H1 2012 relative to H1 2011 was primarily a result of the weighted average method of inventory measurement applied by the Group.

DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS FOR H1 2012

Due to the decline of crude prices in Q2 2012, the LIFO effect drove down the operating result in Q2 2012 by PLN 204.6m, whereas cumulatively, though on a YTD basis it added PLN 28.8m to the operating result. In H1 2011, the growing crude prices drove up the operating result by PLN 518.2m.

Factors with a positive effect on the downstream segment's operating result in H1 2012 included mainly higher margins on fuels and heavy fuel oil and a changed sales structure.

Factors with a negative effect on the segment's result comprised chiefly a 42.1% decline of the average Brent/Urals differential and PLN 92.8m foreign exchange losses on operating activities in H1 2012.

Table 21: Operating results of the downstream segment

(PLNm)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Revenue	16,096.7	13,204.3	21.9%
Operating profit	287.9	654.7	-56.0%
Depreciation and amortisation	263.0	214.0	22.9%
EBITDA	550.9	868.7	-36.6%
LIFO-based operating result	259.8	136.5	90.3%

If the LIFO method had been applied, the operating result of the downstream segment would have been PLN 261.6m, up by 91.6% on H1 2011.

Retail business

Table 22: Network of LOTOS service stations

Total number of service stations	Jun 30 2012	Dec 31 2011	Jun 30 2011
	368	369	318
CODO	195	190	158
including: LOTOS OPTIMA	37	33	0
DOFO	138	136	112
including: LOTOS OPTIMA	19	17	0
DODO	35	43	48

At the end of 2011, LOTOS OPTIMA, a new brand of economy service stations, was launched in Poland. As at June 30th 2012, there were 56 LOTOS OPTIMA stations, with six new stations opened in H1 2012.

Table 23: Operating results of the retail business

('000 tonnes/PLNm)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Sales volume	492.1	491.4	0.2%
Revenue	2,842.3	2 435.4	16.7%
Operating result	-13.6	-25.1	-
Depreciation and amortisation	24.7	23.9	3.3%
EBITDA	11.1	-1.2	-

The continued negative operating performance of the retail segment is a consequence of a low unit margin on sales of fuels, caused by the deteriorating market conditions.

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Other business

Table 24: Operating result of other business*

(PLNm)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Revenue	14,3	10,8	32.40%
Operating result	3,9	-0,1	-
Depreciation and amortisation	5	4,9	2.00%
EBITDA	8,9	4,8	85.40%

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

Statement of comprehensive income

In H1 2012, the LOTOS Group recorded an operating loss of PLN -442.4m, which includes the effect of recognition of the impairment loss on assets relating to the Yme field.

Table 25: Operating results of the LOTOS Group

(PLNm)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Revenue	16,216.4	13,296.6	22.00%
EBITDA	-112.5	1,127.6	-
EBITDA net of non-recurring events*	801.1	1,000.5	-19.90%
Operating result	-442.4	854.2	-
Operating result net of non-recurring events*	471.2	727.1	-35.20%
LIFO-based operating result	-470.5	336.0	-
LIFO-based operating result net of non-recurring events*	443.1	208.9	112.10%

* operating result net of non-recurring events: impairment loss on the interest in the YME field and the sale of all shares in LOTOS Parafiny in H1 2012; the effect of accounting for the step acquisition of control over AB LOTOS Geonafta and the sale of Plastekol in H1 2011

The Group's net finance loss of PLN -108.3m reported in H1 2012 was chiefly attributable to a negative balance of interest on debt (PLN -121.7m), and a net loss on the measurement and settlement of market risk hedging transactions (PLN -9.7m). In H1 2011, the Group recorded a PLN 210.7m net profit on financing activities, chiefly on account of positive exchange differences.

In the analysed period, the Group recorded a PLN 17.4m net foreign exchange gain on remeasurement of bank borrowings and other debt instruments.

In H1 2012, the Group posted a PLN -9.7m net loss on the settlement and valuation of derivative instruments, which comprised PLN 34.2m of net gain on currency forwards and on futures hedging the risk of changes in prices of CO2 emission allowances, PLN -21.4m of the effect of settlement and valuation of hedges of petroleum product prices, and PLN -22.5m of net loss on the settlement and valuation of interest rate risk hedges.

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Table 26: Transactions hedging petroleum products prices as at June 30th 2012

Period	Product / commodity	Light fuel oil		Heavy fuel oil
		Gasoil .1 Cargoes CIF NWE / ARA		3.5 PCT Barges FOB Rotterdam
3Q2012	Volume (mt)	-8,658		39,358
	Price range (USD/mt)	1,018.5 – 1,022		689.5 – 697.5
4Q2012	Volume (mt)	-1,326		6,026
	Price range (USD/mt)	1,018.50		689.5

Table 27: Transactions hedging foreign exchange risk as at June 30th 2012

Currency pair	Instrument	Volume	Currency	FX exchange range
EUR/USD exchange rate	Forward	129,958,000	EUR	1.2439 - 1.30925
EUR/PLN exchange rate	Forward	20,000,000	EUR	4.6462
USD/PLN exchange rate	Forward	-197,427,750	USD	3.1194 - 3.5806

Table 28: Transactions hedging interest rate risk as at June 30th 2012

Instrument	Start date	End date	Notional amount	Currency	Interest rate range	Reference rate
IRS	from Oct 15 2008 to Jan 15 2015	from Jan 15 2013 to Jan 15 2019	550,000,000	USD	2.476% - 4.22%	3M LIBOR - 6M LIBOR

In H1 2012, the Group recorded a consolidated net profit of PLN 68.1m, which reflects the effect of recognition of the impairment loss on assets relating to the Yme field.

Table 29: Net profit of the LOTOS Group

(PLNm)	H1 2012	H1 2011	H1 2012 vs. H1 2011
Operating result	-442.4	854.2	-
Finance income	28.5	286.6	-90.1%
Finance costs	-136.8	-75.9	80.2%
Other	0.0	2.9	-100.0%
Pre-tax profit/(loss)	-550.7	1 067.8	-
Net profit/(loss)	68.1	906.6	-92.5%
Net profit/(loss) attributable to owners of the Parent	68.2	906.3	-92.5%
Net profit/(loss), net of non-recurring events*	332.4	779.5	-57.4%

* net profit/loss, net of non-recurring events: impairment loss on the interest in the Yme field and the sale of all shares in LOTOS Parafiny in H1 2012; the effect of accounting for the step acquisition of control over AB LOTOS Geonafra and the sale of Plastekol in H1 2011

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

Consolidated statement of financial position

Table 30: Consolidated statement of financial position

Assets (PLNm)	Jun 30 2012	Dec 31 2011	Change	%
	19,959.0	20,423.2	-464.2	-2.3%
Non-current assets, including:	11,231.3	11,582.2	-350.9	-3.0%
Property, plant and equipment	8,762.6	8,965.5	-202.9	-2.3%
Tangible assets under construction	764.4	1,558.1	-793.7	-50.9%
Deferred tax assets	1,103.5	400.0	703.5	175.9%
Current assets, including:	8,726.0	8,731.9	-5.9	-0.1%
Inventories	5,790.6	5,855.8	-65.2	-1.1%
Trade and other receivables	2,307.8	2,190.0	117.8	5.4%
Current financial assets	157.9	129.1	28.8	22.3%
Cash and cash equivalents	367.5	383.7	-16.2	-4.2%
Assets held for sale	1.7	109.1	-107.4	-98.4%
Equity and liabilities (PLNm)	19,959.0	20,423.2	-464.2	-2.3%
Equity	7,869.7	7,782.4	87.3	1.1%
Non-current liabilities	5,706.4	5,847.5	-141.1	-2.4%
Current liabilities	6,382.9	6,752.9	-370	-5.5%
Liabilities related to assets held for sale	0.0	40.4	-40.4	-100.0%

As at June 30th 2012, the LOTOS Group had total assets of PLN 19,959.0m, down PLN 464.2m during H1 2012. Non-current assets fell PLN 350.9m, mainly due to impairment losses recognised in H1 2012 in the upstream segment.

As at June 30th 2012, inventories were PLN 5,790.6, having declined in H1 2012 by PLN 65.2m, mainly on the lower volume of mandatory reserves of fuels and heavy fuel oil. Slightly higher product prices, the USD exchange rate, and sales volume, relative to the end of 2011, brought about a PLN 117.8m rise in trade and other receivables. Decrease in assets held for sale was primarily attributable to the sale of 100% of the shares in LOTOS Parafiny to a third party on January 10th 2012.

As at the end of H1 2012, current assets totalled PLN 8,726.0m, and stayed relatively flat on the figure reported as at December 31st 2011.

As at June 30th 2012, equity was PLN 7,869.7m, having grown PLN 87.3m over H1 2012, primarily as a result of the PLN 68.1m increase in retained earnings and the PLN 34.2m foreign exchange gains on valuation of cash flow hedges net of the tax effect, taken to the cash flow hedging reserve.

Non-current liabilities declined in H1 2012 by PLN 141.1m, mainly due to the decrease in non-current interest-bearing borrowings and other debt instruments, and amounted to PLN 5,706.4m.

Current liabilities as at the end of June 2012 were PLN 6,382.9m, having decreased by PLN 370.0m, mainly on a PLN 480.2m decline in trade payables, which was primarily due to the lower volume (down 10.7%) and lower value of crude oil purchased in June 2012 (down 25.0%) relative to December 2011. Current borrowings and other debt instruments as at the end of June 2012 were PLN 2,409.2m, and stayed relatively flat from the beginning of the year.

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

As at June 30th 2012, the financial debt of the LOTOS Group was PLN 7,300.6m, down PLN 91.0m on the end of 2011. The ratio of financial debt (net of free cash) to equity was 88.1%, i.e. by 1.9pp lower than as at December 31st 2011.

Consolidated statement of cash flows

Table 31: Cash flows

(PLNm)	H1 2012	H1 2011	Change
Cash flows from operating activities	221.7	-269.6	491.3
Cash flows from investing activities	-297.7	-404.0	106.3
Cash flows from financing activities	-210.3	293.1	-503.4
Change in net cash	-283.4	-384.5	101.1
Cash and cash equivalents at beginning of the period	161.6	118.2	43.4
Cash and cash equivalents at end of the period	-121.8	-266.3	144.5

As at June 30th 2012, the LOTOS Group's cash balance (including current account overdrafts) was PLN -121.8m.

The positive balance of cash flows from operating activities in H1 2012, of PLN 221.7m, is chiefly related to an adjustment of current period's net profit for the loss on investing activities (net of deferred tax).

The negative balance of cash flows from investing activities is PLN 106.3m higher than the negative balance reported in H1 2011, mainly in connection with the sale of shares in LOTOS Parafiny in January 2012, and outflows related to the acquisition of UAB Meditus in 2011.

Cash flows from financing activities, of PLN -210.3m, comprise proceeds from borrowings and other debt instruments and outflows on principal and interest payments.

Assessment of the ability to meet liabilities

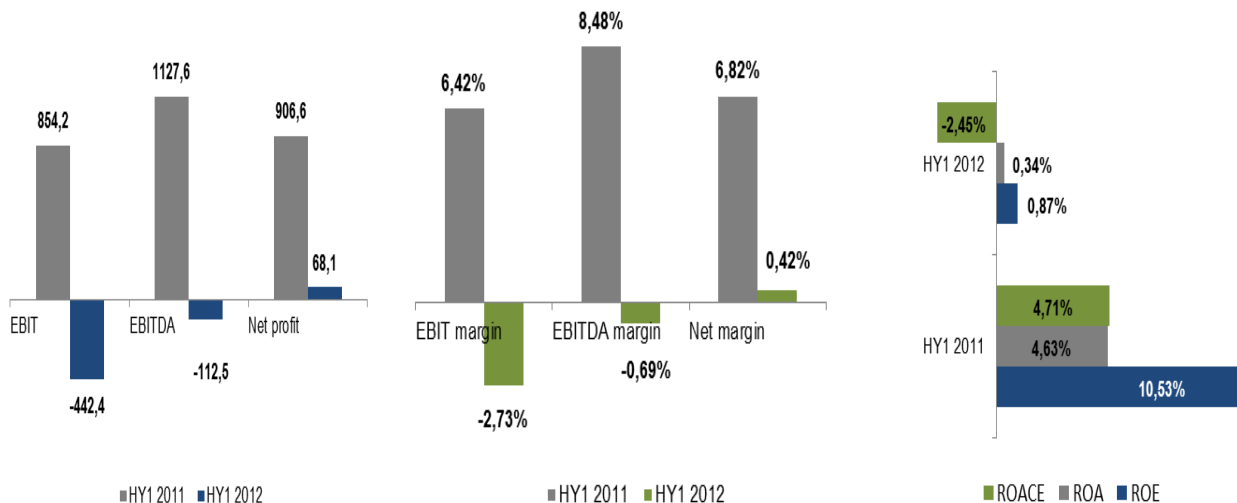
In H1 2012, the LOTOS Group was able to meet all of its liabilities towards third parties.

Information which is material for assessing the Group's assets, financial standing and financial performance, or changes in any of the foregoing

A brief assessment of the LOTOS Group's overall economic and financial standing has been prepared in the form of a ratio analysis covering margins, liquidity, turnover and debt levels.

Profitability ratios

(PLNm or %)

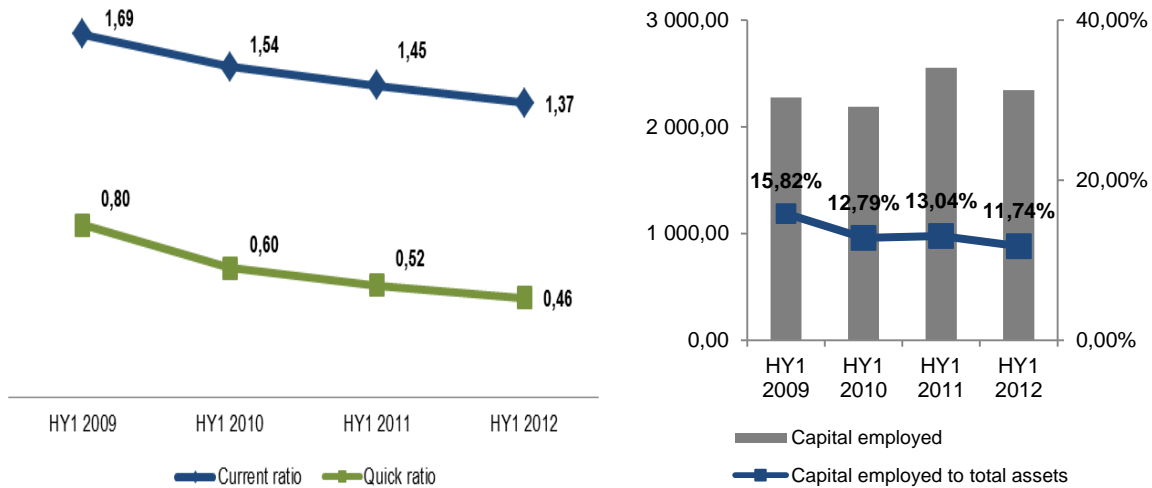


- decline of the profitability ratios caused by deteriorated financial performance

Formulas of the profitability ratios	
EBIT margin	operating profit/(loss) to net sales
EBITDA	EBIT before amortisation/depreciation
EBITDA margin	EBITDA to net sales
Net margin	net profit/(loss) to net sales
Return on equity (ROE)	net profit/(loss) to equity at the end of period
Return on assets (ROA)	net profit/(loss) to assets at the end of period
Return on average capital employed (ROACE)	operating profit/(loss) after tax to equity plus long-term and short-term borrowings and other debt instruments and net of cash and current financial assets (as at the end of the period)

Liquidity ratios

(PLNm, absolute value or %)

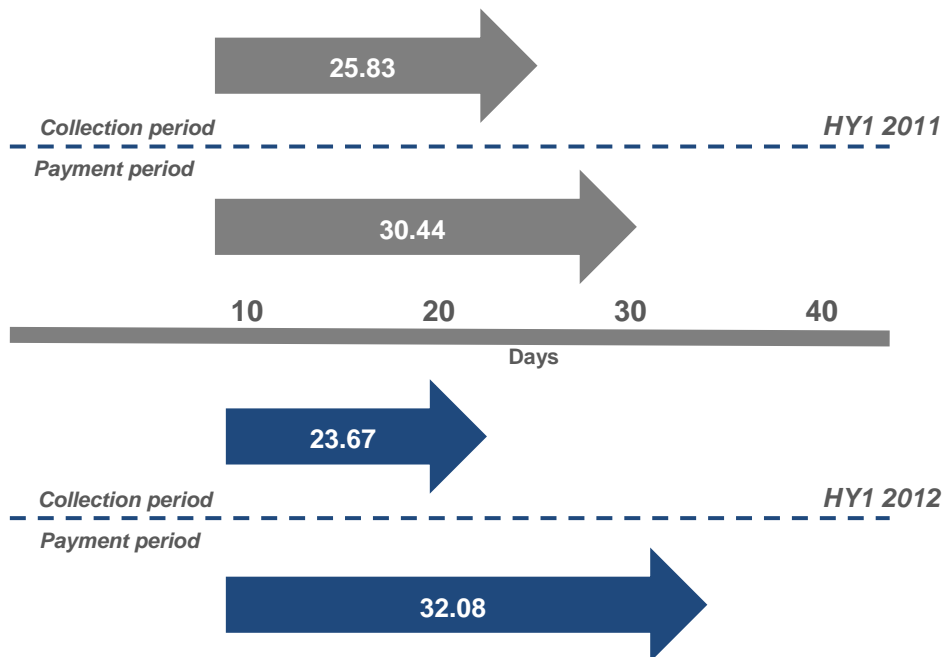


- decline of the current ratio (down 5.5%) caused by the current liabilities growing faster than current assets (up 13.1% and 6.5%, respectively); decline of the quick ratio (down 11.5%) on a 9.9% increase in inventories mainly due to the higher currency exchange rates at the end of H1 2012 relative to June 2011;
- an 8.2% decrease in capital employed caused by the current assets growing slower than current liabilities (up by PLN 531.7m and PLN 740.3m, respectively), and a lower share of capital employed in total assets.

Formulas of the liquidity ratios	
Current ratio	current assets to current liabilities (as at the end of the period)
Quick ratio	current assets net of inventories to current liabilities (as at the end of the period)
Capital employed	current assets net of current liabilities (as at the end of the period)
Capital employed to total assets	capital employed to total assets (as at the end of the period)

Collection/repayment periods

(days)



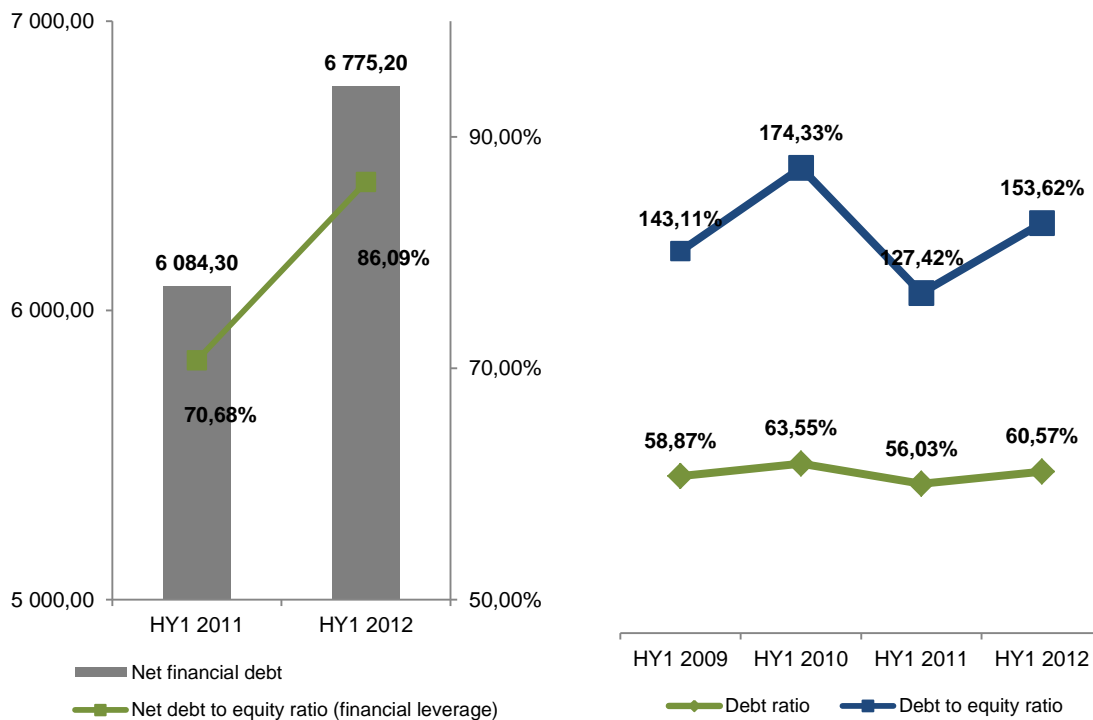
- shortening of the collection period by 2.2 days due to an 11.8% increase in average trade receivables accompanied by a significantly stronger increase in revenue (up by 22.0%); lengthening of the payment period by 1.6 days due to average trade payables growing faster than cost of sales (up by 32.9% and 26.1%, respectively).

Calculation of collection/repayment periods

Average collection period (days)	average trade receivables to net sales multiplied by 365 days of a given period
Average payment period (days)	average trade payables to cost of sales multiplied by 365 days of a given period

Capital structure and debt ratios

(PLNm or %)



- a 4.5pp increase in debt ratio and a 26.2pp increase in debt to equity ratio, mainly on higher debt under bank borrowings and lower equity.

Formulas for the capital structure and debt ratios

Debt ratio	total liabilities to total assets (as at the end of the period)
Net financial debt	long-term and short-term borrowings and other debt instruments net of cash and current financial assets (as at the end of the period)
Net debt to equity ratio (financial leverage)	long-term and short-term borrowings and other debt instruments net of cash and current financial assets to equity (as at the end of the period)
Debt to equity ratio	total liabilities to equity (as at the end of the period)

2.2 FACTORS WHICH IN THE COMPANY'S OPINION MAY AFFECT THE LOTOS GROUP'S PERFORMANCE IN Q3 AND Q4 2012

Key factors which in the Company's opinion may affect the performance in the second half of 2012 include:

- Macroeconomic environment, in particular prices of crude oil and petroleum products and the USD/PLN exchange rate, which has a bearing on the Group's financial performance as prices of crude oil and of some of the products are quoted in the American dollar and Grupa LOTOS S.A.'s debt is denominated in that currency;
- The level of demand for and supply of petroleum products in Poland and Europe. The demand for diesel oil is expected to rise in the long run, while the demand for motor gasolines is expected to weaken. These trends are reflected in the strategy pursued by the LOTOS Group,
- Execution of projects in the exploration and production segment, in particular of the YME Production Project,
- Efficiency enhancing measures taken up in line with the Optimum Expansion Programme announced by the Management Board. The effect of the Optimum Expansion Programme is estimated at around PLN 220m in 2012;
- Optimisation of operations in the production and sales segment with a view to maximising Grupa LOTOS's refining margin (increased processing capacities of the Gdańsk refinery and flexibility of production following completion of the 10+ Programme);
- Further strengthening of the market position of the LOTOS Group, with special emphasis on the development and improved profitability of retail sales;
- Expanding the scope of cash flow hedge accounting by creating new hedging relationships with respect to foreign currency -denominated loans intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions

2.3 RISKS AND THREATS RELATED TO COMPANY'S OPERATIONS IN THE REMAINING MONTHS OF 2012

Grupa LOTOS operates in an environment and conditions which entail a large number of risks. The risks inherent in the various areas of the Company's activities are identified, assessed and then analysed to determine the feasibility of reducing their potential effect on the Company's operations. Relative to the previous year, the Company has been able to consistently reduce the expected level of certain operational, financial and market risks by implementing measures to mitigate the identified risks.

For detailed information on the key risks, opportunities and challenges related to sustainable development of the LOTOS Group, see the 2011 [Integrated Annual Report](#)

The identified risks are monitored on an ongoing basis. They include:

- risks and opportunities related to the government's strategy for the petroleum industry,
- risks related to changes and interpretations of the law, including the tax law,
- risks related to the upstream business,
- operational risks, including technological risks and risks related to occupational safety and environmental protection,
- risks related to the supply of raw materials,
- marketing risks,
- financial risks.

For all these risks, detailed analyses have been performed and mitigation strategies and plans are being implemented.

2.4 MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF MEETING PREVIOUSLY PUBLISHED FORECASTS FOR 2012

The LOTOS Group has not published any separate or consolidated performance forecasts for 2012.

3. OTHER INFORMATION

3.1 COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

In H1 2012, the LOTOS Group companies were not involved in court, arbitration or administrative proceedings concerning liabilities or claims, whose value would represent at least 10% of Grupa LOTOS S.A.'s equity. For other information on relevant proceedings, see Note 16.2 to the consolidated financial statements for the six months ended June 30th 2012.

3.2 RELATED-PARTY TRANSACTIONS

In H1 2012, the Company executed transactions with related parties on standard market terms, as presented in Note 17.16 to the consolidated financial statements for the six months ended June 30th 2012.

3.3 SURETIES FOR THE REPAYMENT OF LOANS, GUARANTEES AND BORROWINGS. FACTORING AGREEMENTS

LOTOS Petrobaltic S.A.'s liabilities towards the government of Norway

On June 17th 2008, LOTOS Petrobaltic S.A. issued an unconditional and irrevocable guarantee for the benefit of the government of Norway, concerning the activities of LOTOS Exploration and Production Norge AS ("LOTOS EPN") related to its exploration and production operations on the Norwegian Continental Shelf. In the guarantee, LOTOS Petrobaltic S.A. undertook to assume any financial liabilities which may arise in connection with LOTOS EPN's operations on the Norwegian Continental Shelf consisting in exploration for and extraction of the natural resources from the sea bottom, including their storage and transport using means of transport other than ships. Apart from the contingent liability described above, in the reporting period the LOTOS Group companies were not parties to any guarantees or sureties with a value in excess of 10% of Grupa LOTOS S.A.'s equity.

Changes in contingent liabilities, sureties and guarantees in H1 2012 are presented in Notes 16.1 and 18 to the consolidated financial statements for the six months ended June 30th 2012.

Factoring agreement executed by Grupa LOTOS S.A.

On August 13th 2012, Grupa LOTOS S.A. executed an annex to a non-recourse factoring agreement concluded with Bank PEKAO S.A. on July 7th 2010. Under the annex, the credit limit was increased to PLN 610m.

The original agreement executed in 2010 provided for a credit limit of PLN 300m expiring on August 30th 2011. Under an annex of April 14th 2011 the limit was raised to PLN 370m.

**DIRECTORS' REPORT ON THE LOTOS GROUP'S OPERATIONS
FOR H1 2012**

On August 23rd 2011, another annex was executed, and the expiry date of the credit limit was extended until August 31st 2012 (PLN 230m) and September 30th 2011 (PLN 140m). Under a further annex, on September 26th 2011 the entire credit limit was set to expire on the same date, i.e. on August 31st 2012.

On June 14th 2012, another annex was signed to increase the credit limit to PLN 410m and extend its expiry date until May 31st 2013.

Factoring agreement executed by LOTOS Paliwa

On February 28th 2012, LOTOS Paliwa Sp. z o.o. executed an annex to a non-recourse factoring agreement concluded with PEKAO Faktoring Sp. z o.o. on October 6th 2011. Under the annex, the credit limit was increased from PLN 150m to PLN 300m.

The original agreement executed in 2011 provided for a credit limit of PLN 150m expiring on October 5th 2012.