THE LOTOS GROUP

DIRECTORS' REPORT
ON THE FINANCIAL PERFORMANCE OF GRUPA LOTOS S.A. IN Q2 2009

Gdańsk, August 31st 2009

CONTENTS

1 INTRODUCTION

In Q2 2009, the Management Board of Grupa LOTOS S.A. (Grupa LOTOS S.A.) continued the implementation of the LOTOS Group's Strategy until 2012 in the key segments of the Group's (the LOTOS Group's) business, including:

- the upstream segment (exploration for and production of crude oil)
- the downstream segment (oil refining, wholesale of refined petroleum products and retail sales of fuels).

In the upstream segment, in Q2 2009 the Group produced crude oil and natural gas from the B3 deposit. Total crude oil production was 57.6 thousand tonnes and was lower by 24.8 thousand tonnes (down by 30.1%) year on year, which was primarily caused by the protracting repair of the PG-1 rig hindered by adverse weather conditions.

In Q2 2009, Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu "Petrobaltic" S.A. (Petrobaltic) conducted work relating in particular to the production from B3 deposit, drilling of an exploratory well on the B22 deposit, maintenance and repair work and reconstruction work.

In Q2 2009, under the licences held, LOTOS E&P Norge conducted exploration and participated in the YME Production Project, under which production wells were drilled and a production rig was constructed in Q2 2009. While the drilling work followed the schedule, according to the information furnished by the operator of the YME field (Talisman), due to the delays in the construction of the production rig, the launch of the production from the YME field, originally planned for Q4 2009, is currently expected to start in late Q1 or early Q2 2010.

The volume of crude oil processed in Q2 2009 was 1,229.0 thousand tonnes, which represented an 82.1% utilisation of the nameplate throughput capacity of the Grupa Lotos S.A.'s refinery in Gdańsk (97.9% in terms of refinery working days). The lower volume of processed oil as compared with Q2 2008 was due to the scheduled *Spring 2009* overhaul shutdown at the Gdańsk Refinery, which commenced in mid-March 2009. The interruption to oil processing lasted 33 days. In the reporting period, the Gdańsk refinery processed 1,183.7 thousand tonnes of Ural crude (96.4% of total crude oil processed), 44.1 thousand tonnes of Aasgard crude (3.6% of total crude oil processed), and 1.1 thousand tonnes of other types of crude (including 0.3 thousand tonnes of Rozewie crude produced by Petrobaltic).

In Q2 2009, the LOTOS Group sold 341 thousand tonnes of motor gasolines, 883 thousand tonnes of diesel oil, 48 thousand tonnes of light fuel oil, 44 thousand tonnes of heavy fuel oil, 98 thousand tonnes of jet fuel, 233 thousand tonnes of bitumens, and 154 thousand tonnes of other products.

In Q2 2009, the activities related to the implementation of the 10+ Programme focused on performing the execution contracts.

In the reporting period, the Group continued to develop a modern, countrywide network of LOTOS service stations. As at the end of Q2 2009, the number of COCO/CODO stations was 142 (an increase by one station over Q1 2009), the number of DOFO stations was 87 (an increase by three stations), and the number of DODO stations was 89 (down by one station). The number of effective franchise agreements was 104.

In Q2 2009, the average price of Brent oil (Dated Brent FOB) was USD 59.13 per barrel, more than in Q1 2009 (by USD 14.67 per barrel, or 33.0%) and less than in Q2 2008 (by USD 62.05 per barrel, or 51.2%). The average price of Ural CIF Rotterdam oil was USD 58.46 per barrel, and was higher than in Q1 2009 (by USD 14.82 per barrel, or 34.0%) and lower than in Q2 2008 (by USD 59.00 per barrel, or 50.2%).

However, higher oil prices in Q2 2009 as compared with Q1 2009 were accompanied by a 17.3% decline in the Brent/Ural differential – from USD 0. 81 per barrel in Q1 2009 to USD 0.67 per barrel in Q2 2009. In relation to Q2 2008, the Brent/Ural differential shrank by USD 3.05 per barrel (or 82.0%).

2009 saw the average refining margin drop to USD 3.75 per barrel. The margin was 10.5% lower than in Q1 2009, and 52.5% lower (by USD 4.14 per barrel) year on year.

The USD/PLN exchange rate fluctuated from 3.12 to 3.52, to reach 3.17 at the end of June 2009 (down by 10.4% from the end of Q1 2009). In Q2 2009, the average USD/PLN exchange rate was 3.27 and was by 5.3% lower than the average exchange rate in Q1 2009. The EUR/PLN exchange rate ranged from 4.24 to 4.65, to reach 4.47 at the end of Q2 2009 (down by 4.9% relative to the end of Q1 2009). The average EUR/PLN exchange rate was 4.45 in Q2 2009 (down by 1.0% compared with the average exchange rate in Q1 2009).

The LOTOS Group's performance in the reporting period was driven by a number of factors, including in particular:

- volatility of the USD/PLN exchange rate,
- revaluation of foreign-currency loans,
- concluded hedging transactions,
- decline in the Brent/Ural differential,
- lower refining margin,
- overhaul shutdown costs,
- higher prices of crude oil as compared with Q1 2009.

In Q2 2009, the LOTOS Group posted consolidated sales revenue of PLN 3,447.9m, operating profit of PLN 151.3m, net profit from continuing operations of PLN 755.3m, and net profit attributable to owners of the parent of PLN 739.3m. Compared with Q2 2008, the sales revenue dropped by 18.3% and operating profit by 60.8%.

In H1 2009, the LOTOS Group posted consolidated sales revenue of PLN 6,164.5m (down by 20.8% on H1 2008), operating profit of PLN 153.1m (down by 68.1%), net profit from continuing operations of PLN 89.0m, and net profit attributable to owners of the parent of PLN 80.4m.

2 THE UPSTREAM SEGMENT

The Baltic Sea Area

With respect to the upstream operations, in Q2 2009 production of oil and gas from the B3 deposit continued. The total crude oil output was 57.6 thousand tonnes and was lower than in Q2 2008, which was primarily caused by the protracting repair of the PG-1 rig hindered by adverse weather conditions. In the reporting period, output of natural gas was 2,724.4 thousand m^3, having decreased year on year. In Q2 2009, the key tasks carried out by Petrobaltic included:

- production from the B3 deposit, including water pumping to the deposit of the Offshore Oil Rig located at the Baltic Beta rig,
- completion of maintenance and repair work on the PG-1 rig; launch of production from B3-8, B3-13B and B3-14A wells,
- re-entry work on the B 3-10 well,
- boring of the B22-1 exploration well through the Petrobaltic rig,
- replacement of the mooring and transfer buoy at the B3 deposit.

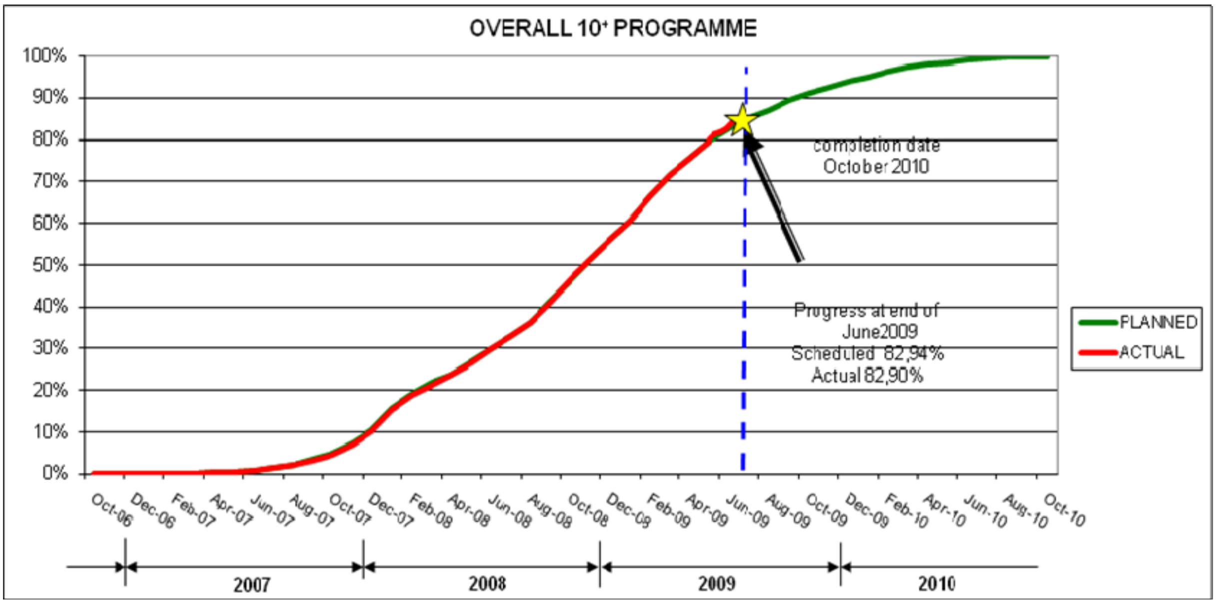
The Norwegian Continental Shelf Area

In Q2 2009, LOTOS E&P Norge conducted exploration activities, both as the operator (licences PL498 and PL503) and as an interest holder (licences PL316DS, PL316CS, PL455, PL497 and PL515). The company also participated in the implementation of the Yme Production Project, where the work completed included mainly drilling of production wells and work on the construction of a production rig. While the drilling work has been conducted as scheduled, according to the information furnished by the operator of the Yme field (Talisman), due to the delays in the construction of the production rig, the launch of the production from the Yme field, originally scheduled for Q4 2009, is currently expected to start in late Q1 or early Q2 2010.

3 10+ PROGRAMME

In Q2 2009, the implementation of the 10+ Programme, Grupa Lotos S.A.'s largest project which is of key importance for future growth of the Company's value, was focused on performing the concluded execution contracts.

The current progress of work under the 10+ Programme is presented in the chart below.



Source: Grupa LOTOS S.A.

As part of the HDS unit project (diesel hydrodesulphurisation), in Q2 2009, the assembly of pipelines and apparatuses was completed and power receivers, as well as control and instrumentation terminals, were connected. Work also continued on the fitting of thermal insulation on pipelines. Hydraulic tests of pipelines were completed. The unit start-up was completed in line with the agreed start-up schedule. The hydrodesulphurisation unit (HDS) for diesel oil was assigned the RFSU (Ready For Start Up) status on June 26th 2009. Consequently, responsibility for the unit was transferred to the Production Division of Grupa LOTOS S.A. and the unit was launched.

As part of the HGU (hydrogen generating unit) project, the design work was being finalised and start-up and commissioning documentation was being prepared. Apparatus and steelwork fire protection layers were applied and painted. Fans assembly (including test operation), cabling and instrumentation terminals were completed. The prefabrication and assembly of pipelines was completed and painting of pipelines continued. Cabling and instrumentation terminals were completed. Apparatus insulation was completed and work on pipeline insulation was continued. The assembly of pipeline electric heating as well as control and instrumentation terminals was continued. Start-up of the first systems (drinking water and service water) was commenced.

As part of the ASR project (amine sulphur unit), ARU (Amine Regeneration) and SWS (Sour Water Stripper) units were assigned the RFSU (Ready For Start Up) status on June 26th 2009. The units were prepared for start-up. As part of the sulphur recovery SRU/TGTU projects, Technip KTI completed the assembly of instrumentation terminals, pipeline electric heating, unit lighting and insulation. At the same time the start-up work and work on pipeline insulation was continued. As part of the LPG AWU (amine washing) project, construction work and the assembly of steelwork fire protection system reached the final stage, and pipeline assembly was completed. With respect to auxiliaries and infrastructure, work continued on construction of inter-unit connections and utilities, storage tanks and other structures.

As part of the CDU/VDU project (crude distillation unit), in Q2 2009 all supplies of apparatuses and equipment were delivered. The assembly of steelwork structures was continued along with pipeline prefabrication and assembly. The furnace assembly was continued and apparatus assembly was completed. Work on apparatus insulation and fire protection layers continued. The final-stage design work for specific works was continued. The apparatus start-up and registration documentation was prepared.

In Q2 2009, the work on the technical design of the ROSE unit was continued, in cooperation with the contractor, Technip Italy. In May 2009, the construction design for heating oil storage tank was delivered; in June 2009 piling work was completed and the construction site was officially handed over to the first contractor. First sea shipments of ROSEMAX components were dispatched to Gdańsk (ROSEMAX is an integral part of the unit license design and comprises structural fillers for two key apparatuses of the unit, i.e. the separators and the systems of feedstock distribution for both separators).

As part of the MHC (mild hydrocracking unit) project, in Q2 2009 the design work was being finalised for specific works. Pipeline materials, steelwork elements and unit equipment were supplied. Foundation laying and the work on the underground pipeline reached the final stage. Work was also underway on the construction of cable conduits, slop channels and the underground system. Electrical works were also carried out. The assembly of internal trestles and prefabrication of pipelines continued. Approx. 1,560-tonne 930R1A and 930R1B reactors were set on the foundations on June 11th and 12th 2009.

In addition to the facilities described above, the following facilities were assigned the RFSU (Ready For Start Up) status in Q2 2009:

- power systems,
- discharge system,
- fuel gas unit,
- High Integrity Pressure Protective Systems (protection for the process system, enabling discharge of surplus heat from the Isomerisation unit),
- trestle system (including new and modernised trestles),
- fan coolers,
- air unit,
- modernised condensate stations No. 1 and 5,
- steam systems,
- nitrogen unit – Phase I.

On June 30th 2009, the wastewater treatment plant reached the Mechanical Completion (MC) status in accordance with the schedule. The full deployment of available resources ensured timely completion of the contracted design and construction work, rendering the plant test-ready.

During the *Spring 2009* overhaul shutdown all tasks planned within the 10+ Programme were executed. The complete execution of these tasks will ensure integration of new process units with the refinery's existing system without further disruption to the production process.

Financing of the 10+ Programme

In Q2 2009, further drawdowns under the credit facilities used to finance the 10+ Programme were made and their dates and amounts were set taking into account Grupa LOTOS S.A.'s payment position and the level of expenditure connected with the implementation of the 10+ Programme. The drawdowns were disbursed by the banks on the dates and in the amounts requested by Grupa LOTOS S.A. As at June 30th 2009, approx. 66.4% of the total value of the facilities available to finance the 10+ Programme had been used.

In addition to the debt financing, Grupa LOTOS S.A. also used internally generated funds to finance the 10+ Programme, in proportions provided for in the loan agreement.

4 THE SERVICE STATION EXPANSION PROGRAMME

In Q2 2009, the Group was developing its retail service station network through its subsidiary LOTOS Paliwa, focusing on continued expansion of the COCO and CODO station network and development of the DOFO station network.

During the reporting period, the Group continued the work which commenced in the previous quarters:

- COCO/CODO service station in Kołbaskowo was placed in service in April 2009,
- four new stations – in Tuchów, Radzymin, Chęciny and Przysucha – joined the LOTOS Family Commercial Partnership Programme; at the same time the DOFO service station in Lisia Góra was excluded from the Programme,
- as at June 30th 2009, PREMIUM fuels were offered at 138 COCO/CODO stations and 64 DOFO stations.

As at June 30th 2009, the LOTOS service station network comprised 318 locations, including 142 CODO stations, 87 DOFO stations and 89 DODO stations. A total of 104 franchise agreements were signed.

5 LOTOS CZECHOWICE AND LOTOS JASŁO

In Q2 2009, LOTOS Czechowice and LOTOS Jasło continued the restructuring of their human resources, operations, internal organisation and technologies, and pursued other activities with a view to developing their production capacities and implementing new projects involving the use of idle assets.

The two companies' terminals and storage tanks were incorporated into the integrated fuel logistics system of Grupa LOTOS S.A. Additionally, as part of the work related to fuel storage, the storage facilities were being modernised.

6 MARKET ENVIRONMENT AND OPERATIONS

6.1 Oil and Fuel Markets

In Q2 2009, the average price of Brent crude (Dated Brent FOB) was USD 59.13 per barrel, up by USD 14.67 (33.0%) quarter on quarter, and down by USD 62.05 per barrel (-51.2%) year on year.

The average price of Ural CIF Rotterdam was 58.46 per barrel and was higher by USD 14.82 per barrel (34.0%) quarter on quarter and lower by USD 59.00 per barrel (-50.2%) year on year.

The higher crude prices were accompanied by a fall in the Brent/Ural differential, from USD 0.81 per barrel in Q1 2009 to USD 0.67 per barrel in Q2 2009 (-17.3%). The differential shrank by USD 3.05 per barrel (-82.0%) relative to Q2 2008.

In Q2 2009, the average refining margin fell by 10.5% quarter on quarter, to USD 3.75 per barrel. Relative to Q2 2008, the refining margin decreased by USD 4.14 per barrel (52.5%).

The average crack margin on gasoline expanded by 74.5% on Q1 2009, to USD 152.04 per tonne, while the average crack margin on diesel oil dropped by 38.1%, to USD 67.48 per tonne. Compared with Q2 2008, the average crack margin on gasoline grew by 4.5%, whereas the average crack margin on diesel oil fell by 75.5%.

6.2 Foreign Exchange Market

In Q2 2009, the USD/PLN exchange rate moved in the range of 3.12–3.52, to end the quarter at 3.17 (down by 10.4% on Q1 2009). In Q2 2009, the average USD/PLN exchange rate was 3.27, and was 5.3% lower on Q1 2009 and 49.9% higher on Q2 2008.

In Q2 2009, the EUR/PLN exchange rate moved in the range of 4.24–4.65, to end the quarter at 4.47 (down by 4.9% on Q1 2009). The average EUR/PLN exchange rate during the reporting period was 4.45 (1.0% lower on Q1 2009 and 30.6% higher on Q2 2008).

6.3 Operational Review

In Q2 2009, the Gdańsk refinery processed 1,229.0 thousand tonnes of crude, which represented an 82.1% utilisation of the nameplate throughput capacity (97.9% in terms of refinery working days). The lower volume of processed oil as compared with Q2 2008 was due to a scheduled overhaul shutdown at the Gdańsk refinery. The interruption to oil processing lasted 33 days from March 15th 2009 to April 17th 2009. During the shutdown, the planned overhaul work and work related to the preparation for incorporation of the facilities constructed as part of the 10+ Programme into the refinery's existing system were completed as scheduled.

In the reporting period, the Gdańsk refinery processed 1,183.7 thousand tonnes of Ural crude (96.4% of total crude oil processed), 44.1 thousand tonnes of Aasgard crude (3.6% of total crude oil processed), and 1.1 thousand tonnes of other types of crude (including 0.3 thousand tonnes of Rozewie crude produced by Petrobaltic).

In Q2 2009, the LOTOS Group sold 341 thousand tonnes of motor gasolines, 883 thousand tonnes of diesel oil, 48 thousand tonnes of light fuel oil, 44 thousand tonnes of heavy fuel oil, 98 thousand tonnes of jet fuel, 233 thousand tonnes of bitumens and 154 thousand tonnes of other products (including 46 thousand tonnes of LPG, 22 thousand tonnes of lubricants, 25 thousand tonnes of base oils, 6 thousand tonnes of reformate, 26 thousand tonnes of bunker fuel, and 29 thousand tonnes of other petroleum products).

Compared with the end of Q1 2009, the workforce at the LOTOS Group in Q2 2009 decreased by 29 employees, to 4,886.

7 DISCUSSION OF CONSOLIDATED RESULTS OF THE LOTOS GROUP

7.1 Consolidated Statement of Comprehensive Income

In Q2 2009, sales revenue of the LOTOS Group was PLN 3,447.9m, i.e. less by PLN 770.1m than in Q2 2008, mainly due to the falling prices of crude oil and petroleum products on the global markets as compared with the prices in Q2 2008. In Q2 2009, the average price of Brent crude (Dated Brent) was USD 59.13 per barrel, which represented a year-on-year fall of 51.2%. The average net selling price dropped by 19.5%, from PLN 2,378 per tonne in Q2 2008 to PLN 1,915 per tonne in Q2 2009.

The Q2 2009 sales volume of the LOTOS Group was 1,800.7 thousand tonnes, which represented a year-on-year increase of 26.9 thousand tonnes (1.5%). Relative to the Q2 2008 sales volume of 1,773.8 thousand tonnes, the analysed quarter saw an improvement in the sales volumes of diesel oil (up by 229.1 thousand tonnes), which was accompanied by falling sales volumes in the following products: heavy fuel oils (down by 59.1 thousand tonnes), bitumens (down by 42.8 thousand tonnes), bunker oil (down by 39.6 thousand tonnes), reformate (down by 24.1 thousand tonnes), JET A-1 fuel (down by 22.3 thousand tonnes), light fuel oils (down by 6.0 thousand tonnes), liquefied gases (down by 3.8 thousand tonnes), gasolines (down by 2.9 thousand tonnes), and lubricants, base oils and other oil products (in total, down by 1.6 thousand tonnes).

Year on year, in Q2 2009 consolidated cost of sales went down by PLN 514.6m (or 14.5%) and amounted to PLN 3,036.1m. In the reporting period, unit cost of sales was PLN 1,686 per tonne, i.e. 15.8% less than in Q2 2008. In Q2 2009, the average gross margin per tonne of products sold was PLN 229 per tonne and fell by 39.2% relative to Q2 2008.

In Q2 2009, the LOTOS Group generated a gross profit on sales of PLN 411.8m, down by 38.3% year on year. The decrease was driven mainly by a considerable fall of crack margins on intermediate fractions of oil. In Q2 2009, the average crack margin on Diesel 10 ppm, Gasoil 0.1 and JET fuel decreased year on year, respectively, to USD 67.5 per tonne (down by 75.5%), USD 45.5 per barrel (down by 80.9%) and USD 92.5 per barrel (down by 72.6%). In Q2 2009, the average refining margin reached USD 3.75 per barrel, and was lower by 52.5% relative to Q2 2008. The decrease in gross profit on sales can be additionally attributed to the overhaul shutdown at the Gdańsk refinery of Grupa LOTOS S.A. in March–April. The PLN 62.1m cost of the overhaul shutdown was charged against profit/loss for Q2 2009. A sharp year-on-year decrease in oil prices in Q2 2009 were accompanied by a 82.0% decline in the Brent/Ural differential – from USD 3.72 in Q2 2008 to USD 0.67 in Q2 2009.

In Q2 2009, the average USD/PLN exchange rate was 49.9% higher than in Q2 2008 (up by PLN 1.09). Since Grupa LOTOS S.A. has a long USD position related to its operations, the depreciation of the złoty against the US dollar was a positive contributor to the Group's operating profit in Q2 2009.

Selling costs incurred by the LOTOS Group in Q2 2009 amounted to PLN 169.3m, and were down by 9.0% year on year, principally due the implementation of the Package of Anti-Crisis Measures for the LOTOS Group and the lower volume of sales of the parent's products. General and administrative expenses reached PLN 77.6m, i.e. 2.8% up year on year, chiefly as a result of scaling up of the Group's operations, mainly in the production area.

Despite the unfavourable macroeconomic developments related to the low refining margin and Brent/Ural differential, as well as the overhaul shutdown, in Q2 2009 the LOTOS Group reported an operating profit of PLN 151.3m, which was 60.8% lower on Q2 2008.

In Q2 2009, the Group reported a profit of PLN 763.0m on financing activities, an improvement of PLN 625.9m on Q2 2008. The substantial profit in Q2 2009 results chiefly from foreign exchange gains on revaluation of loans, amounting to PLN 496.5m, and from the valuation and settlement of market risk hedging transactions of PLN 219.7m.

The total excess of the positive settlement of derivatives in Q2 2009 amounted to PLN 91.1m, including: settlement of foreign exchange risk hedging transactions (forwards) of PLN 58.3m, settlement of refining margin hedging transactions (full barrel swaps) of PLN 33.4m, and settlement of futures contracts executed to hedge the prices of CO_2 emission rights of -PLN 0.6m.

In Q2 2009, open (not settled) futures contracts totalled PLN 128.6m, including: foreign exchange risk hedging transactions (forwards) with a value of PLN 121.2m, SWAP transactions executed to hedge the interest rate risk, amounting to PLN 79.6m, refining margin hedging transactions (full barrel swaps) with a value of -PLN 65.2m, and futures contracts executed to hedge the prices of CO_2 emission rights with a value of -PLN 7.0m.

The tables below present detailed information on open hedging transactions.

Table 1 **Refining margin hedging transactions (full barrel swaps) as at June 30th 2009**

	Period	Q3 2009
	Volume (bbl)	3,000,999
Product/Feedstock	**Index**	**Weighted average barrel structure**
Gasoline	Gasoline 95r 10ppm NWE barge (Argus)	25.67%
Jet fuel	Jet Cargoes CIF NWE / ARA (Platts)	10.95%
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	43.57%
Light fuel oil	Gasoil 0.1 Cargoes CIF NWE / ARA (Platts)	1.22%
Heavy fuel oil	1 PCT Cargoes FOB NEW (Platts)	0.08%
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	18.52%
Crude oil	Brent (Dtd) (Platts)	-100%
	Margin ranges in transactions (USD/bbl)	12.4-14.3

Source: Grupa LOTOS S.A.

Table 2 **Foreign exchange risk hedging transactions as at June 30th 2009**

Currency pair	Instrument	Volume	Currency	FX rate range
EUR/USD	Forward	245,900,000	EUR	1.2493 – 1.4222
EUR/PLN	Forward	-22,450,000	EUR	4.4283 – 4.7046
USD/PLN	Forward	-62,740,100	USD	3.1015 – 3.6860

Source: Grupa LOTOS S.A.

Table 3 **Interest rate risk hedging transactions as at June 30th 2009**

Instrument	Start date	Expiry date	Nominal value	Currency	Interest rate range	Reference rate
FRA	Jul 15 2009	Jan 15 2010	200,000,000	USD	1.315% - 1.315%	6M LIBOR
IRS	from Oct 15 2008 to Jul 15 2011	from Jun 30 2011 to Jan 15 2018	1,280,000,000	USD	3.33% -4.33%	6M LIBOR

Source: Grupa LOTOS S.A.

In Q2 2009, pre-tax profit was PLN 914.3m, having improved by PLN 391.5m year on year.

Net profit from continuing operations generated by the LOTOS Group in Q2 2009 amounted to PLN 755.3m (up by 78.5% on Q2 2008). Profit attributable to owners of the Parent was PLN 739.3m.

Sales revenue of the LOTOS Group for the first six months of 2009 was PLN 6,164.5m, down by PLN 1,614.9m on H1 2008, mainly due to the falling prices of crude oil and petroleum products on the global markets as compared with the prices in H1 2008 and a decline in sales volumes attributable to overhaul shutdown at the Gdańsk refinery towards the end of Q1 and beginning of Q2 2009.

Despite the unfavourable macroeconomic developments related to the low refining margin and Brent/Ural differential, as well as the overhaul shutdown, in January–June 2009 the LOTOS Group reported a profit on operating activities of PLN 153.1m, i.e. 68.1% down year on year.

Net profit from continuing operations earned by the LOTOS Group in H1 2009 amounted to PLN 89.0m, including profit attributable to owners of the Parent of PLN 80.4m.

7.2 Consolidated Statement of Financial Position

As at June 30th 2009, the Group's total assets stood at PLN 14,375.2m, which means a PLN 2,173.2m increase in H1 2009. The increase was due, among other things, to a growth in non-current assets (by PLN 1,714.9m) and in current assets (by PLN 462.6m). In H1 2009, property, plant and equipment increased by PLN 2,528.8m, non-current financial assets by PLN 38.8m (following from recognition of the non-current portion of positive valuation of financial instruments), intangible assets by PLN 24.3m, deferred tax assets by PLN 12.5m and other assets by PLN 9.4m. Over the same period, prepayments for tangible assets under construction decreased by PLN 898.6m. The changes are attributable to the implementation of the 10+

Programme at the Parent Undertaking, and expenditure on the development of the Yme field in the North Sea.

In the discussed period, inventories also increased by PLN 471.6m, reflecting higher prices of crude oil and petroleum products as at the end of H1 2009 when compared with the prices as at the end of 2008, as well as the 140 thousand tonnes increase in mandatory stocks that the Company is required to maintain under relevant statutory provisions. Following the significant rise in product prices in H1 2009, trade and other receivables increased by PLN 280.0m. Over the same period, income tax receivable decreased by PLN 157.4m, mainly at the Parent Undertaking. The PLN 80.9m decrease in cash and cash equivalents is principally attributable to the capital expenditure incurred. As at the end of June 2009, current financial assets amounted to PLN 266.8m, of which PLN 240.4m relates to hedging transactions.

The share of non-current assets in total assets increased from 58.1% in 2008 to 61.3% as at the end of the discussed period.

As at June 30th 2009, equity stood at PLN 5,913.2m, having increased by PLN 113.2m in H1 2009. This higher value was the effect of a PLN 80.4m increase in retained earnings, a PLN 24.3m increase in translation of foreign operations and a PLN 8.5m increase in minority interests.

In H1 2009, non-current liabilities increased by PLN 1,404.6m, mainly owing to a PLN 1,302.4m increase in non-current loans and borrowings, primarily in connection with the implementation of the 10+ Programme, and a PLN 92.3m increase in other finance liabilities, predominantly in connection with the recognition of a portion of negative valuation of financial instruments. As at the end of June 2009, non-current liabilities totalled PLN 5,105.1m, including interest-bearing loans and borrowings of PLN 4,714.8m.

As at the end of June 2009, current liabilities totalled PLN 3,356.9m, having increased by PLN 655.5m, or 24.3%, in H1 2009, mainly due to a PLN 622.1m increase in payables and accruals and deferred income connected with higher prices of raw materials, and as a result of a PLN 111.3m increase in current loans and borrowings, mainly at the Parent Undertaking and at the Petrobaltic Group. As at June 30th 2009, Group’s current interest-bearing loans and borrowings stood at PLN 618.7m. As at June 30th 2009, other current financial liabilities amounted to PLN 134.2m, of which PLN 130.4m related to negative valuation of financial instruments.

The share of equity in total equity and liabilities decreased from 47.5% as at the end of 2008 to 41.1% as at the end of H1 2009. The shares of non-current and current liabilities increased by 5.2 and 1.2 percentage points, respectively.

7.3 Consolidated Statement of Cash Flows

As at the end of June 2009, the cash balance recorded by the Group was PLN 216.1m, having decreased by PLN 104.6m relative to the end of June 2008.

In Q2 2009, net cash from operating activities was PLN 449.9m, having risen by PLN 534.3m from the negative value of -PLN 84.4m recorded in the corresponding period of the previous year. The increase in net cash from operating activities in Q2 2009 was attributable mainly to a PLN 884.9m increase in current liabilities, generated net profit of PLN 755.3m, a positive balance of PLN 152.9m between the income tax disclosed in the statement of comprehensive income and the income tax paid, and depreciation and amortisation of PLN 74.2m. The key factors which eroded operating cash flows in Q2 2009 included: adjustment relating to foreign exchange gains of PLN 554.3m, a PLN

359.2m increase in receivables, a PLN 281.3m increase in inventories, the adjustment to loss on investing activity of PLN 118.1m and adjustments resulting from settlement of financial instruments of PLN 89.8m.

In Q2 2009, net cash from investing activities amounted to PLN -1,107.7m and was by PLN 745.2m lower than in Q2 2008. The negative cash flows in Q2 2009 were mainly related to expenditure incurred on the purchase of property, plant and equipment and intangible assets and prepayments for tangible assets under construction in the total amount of PLN 1,111.3m.

In Q2 2009, the Group disclosed cash flows from financing activities of PLN 682.5m, which was higher by PLN 519.9m relative to Q2 2008. The increase was mainly attributable to cash inflows in Q2 2009 under the contracted loans and borrowings. In Q2 2009, cash inflows under contracted loans and borrowings (of PLN 670.5m), increased by adjustments related to settlement of financial instruments (of PLN 89.8m), were reduced mainly by repayments of loans and borrowings (PLN 74.5m) and interest paid (PLN 3.1m).

In H1 2009, net cash from operating activities was PLN 506.6m, and was up by PLN 507.4m on the slightly negative value recorded in H1 2008.

In H1 2009, net cash from investing activities, amounting to -PLN 1,969.9m, was mainly related to expenditure incurred on the purchase of property, plant and equipment and intangible assets and prepayments for tangible assets under construction in the total amount of PLN 1,977.6m.

In H1 2009, the Group disclosed cash flows from financing activities of PLN 1,302.0m, which was higher by PLN 660.4m relative to H1 2008 owing to higher, by PLN 1,020.6m, inflows under contracted loans and borrowings as compared to H1 2008.

8 OPERATING RESULTS BY BUSINESS SEGMENTS

The Group's operating activity comprises two main reportable operating segments:

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

For a detailed description of the business segments, please refer to the Management Board's Commentary on the LOTOS Group's performance in Q1 2009.

The segment performance is computed and presented before the intersegment adjustments.

Table 4 **Q2 2009 operating result by business segments**

PLNm	Upstream		Downstream		Other (*)		Consolidation adjustments		Consolidated	
	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008	Q2 2009	Q2 2008
Sales revenue	73	147	3,419	4,174	76	122	-120	-225	3,448	4,218
Intersegment sales	72	145	32	56	16	24	-120	-225	-	-
External sales	1	2	3,387	4,118	60	98	-	-	3,448	4,218
Operating profit	10	88	176	346	-16	-5	-19	-43	151	386
Amortisation and depreciation	12	12	62	65	0	1	-0	-0	74	78
EBITDA	22	100	238	411	-16	-4	-19	-43	225	464

**) includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz Group, which are not included in either segment.*

Table 5 **H1 2009 operating result by business segments**

PLNm	Upstream		Downstream		Other (*)		Consolidation adjustments		Consolidated	
	H1 2009	H1 2008	H1 2009	H1 2008	H1 2009	H1 2008	H1 2009	H1 2008	H1 2009	H1 2008
Sales revenue	109	228	6,098	7,679	148	230	-191	-358	6,165	7,779
Intersegment sales	108	226	52	86	31	47	-191	-358	-	-
External sales	1	3	6,046	7,593	117	184	-	-	6,165	7,779
Operating profit	-5	124	170	404	-23	-12	12	-36	153	480
Amortisation and depreciation	23	25	124	131	1	1	-	-	148	158
EBITDA	18	149	294	536	-23	-11	12	-36	301	638

**) includes: LOTOS Ekoenergia S.A., LOTOS Park Technologiczny Sp. z o.o., LOTOS Gaz Group, which are not included in either segment.*

Source: Grupa LOTOS S.A.

8.1 Crude Oil Production

The Q2 2009 revenue from crude oil production was PLN 73m, the operating profit amounted to PLN 10m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) reached PLN 22m. In the corresponding period of 2008, the operating profit and EBIDTA were PLN 88m and PLN 100m, respectively.

The operating profit generated by the upstream segment was affected by crude oil prices, the volume of crude oil production, which reached 57.6 thousand tonnes in Q2 2009, a low value of external revenue, and an operating loss posted by Lotos E&P Norge.

8.2 Downstream Segment

In Q2 2009, the downstream segment generated sales revenue of PLN 3,419m, operating profit of PLN 176m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 238m. In the corresponding period of 2008, the operating profit and EBIDTA were PLN 346m and PLN 411m, respectively.

In Q2 2009, the operating performance of the downstream segment was significantly affected by prevailing market conditions, and in particular by a considerable fall of crack margins on intermediate fractions of oil. The average refining margin decreased in Q2 2009 by 52.5% year on year, to USD 3.75 per barrel. The decline in operating performance can be additionally attributed to the overhaul shutdown at the Gdańsk refinery in March–April and to the 82.0% decline in the Brent/Ural differential – from USD 3.72 per barrel in Q2 2008 to USD 0.67 per barrel in the analysed period.

In the downstream segment, the Group's retail business recorded sales revenue of PLN 428m, an operating profit of PLN 6m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 16m. In the corresponding period of 2008, the retail business' operating loss and EBIDTA were -PLN 7m and PLN 3m, respectively.

As at the end of Q2 2009, the number of COCO/CODO stations was 142 (up by one station on Q1 2009), the number of DOFO stations was 87 (up by three stations), and the number of DODO stations stood at 89 (down by one station). The number of signed franchise agreements was 104.

8.3 Other Business

In Q2 2009, sales revenue from other business was PLN 76m, the segment's operating loss was -PLN 16m, and EBITDA amounted to -PLN 16m. In the corresponding period of 2008, the operating loss and EBITDA were -PLN 5m and -PLN 4m, respectively.

The segment's operating performance was mainly influenced by the recognition of impairment losses on the property, plant and equipment of KRAK-GAZ Sp. z o.o.

9 IMPACT OF THE LIFO INVENTORY VALUATION

Below we present information on the impact of the LIFO (last in, first out) inventory valuation method on the consolidated performance of the Group for Q2 2009.

In line with its inventory valuation policies, the Group uses the weighted average of the acquisition cost to measure decreases in inventories. This method of inventory valuation defers the impact of changes in oil prices on the prices of finished products. Thus, an increase in oil prices on the global market has a positive effect on the financial performance, while a decrease drives it down. The operating profit accounting for the impact of this valuation method is presented as item 1 in the table below.

The impact of the LIFO valuation is presented as item 2, and consolidated operating profit of the Group for Q2 2009 accounting for the estimated impact of using the LIFO method (along with the comparable data for Q2 2008) is presented as item 3.

Table 6 Impact of inventory valuation on operating result

Item	PLNm	Q2 2009	Q2 2008	Change	H1 2009	H1 2008	Change
1.	Operating profit	151.3	385.7	-60.8%	153.1	480.4	-68.1%
2.	Effect of LIFO valuation	-239.1	-211.8	12.9%	-331.2	-257.0	28.9%
3.	Operating profit – LIFO method	-87.8	173.9	-150.5%	-178.1	223.4	-179.7%

Source: Grupa LOTOS S.A.

In Q2 2009, the impact of inventory valuation drove up the operating result by PLN 239.1m, compared with the increase of PLN 211.8m in Q2 2008. If the LIFO method had been applied to inventory valuation, the operating result would have been -PLN 87.8m for Q2 2009 and PLN 173.9m for Q2 2008.

Cumulatively, in H1 2009 the impact of inventory valuation drove up the operating result by PLN 331.2m compared with the increase of PLN 257.0m in H1 2008. If the LIFO method had been applied to inventory valuation, the operating result would have been -PLN 178.1m for H1 2009 and PLN 223.4m for H1 2008.

The assumptions made in calculating the Q2 2009 operating profit of the Group accounting for the estimated impact of the LIFO method (along with the comparable data for Q2 2008) are described in Current Report No. 29/2006, with a reservation that, starting from 2009, quantitative increases (a difference between the balance at the end of a period and the balance at the beginning of a given period) are measured at unit cost as at the end of the individual quarters of a given year.

Appendix 1: Consolidated Statement of Comprehensive Income for Q2 2009

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
THE LOTOS GROUP **(PLN '000)**	**3 months ended Jun 30 2009 PLN '000 (unaudited)***	**3 months ended Jun 30 2008 PLN '000 (unaudited)***
Sales revenue	3,447,868	4,217,918
Costs of sales	-3,036,117	-3,550,670
Gross profit	**411,751**	**667,248**
Other operating income	7,682	8,896
Selling costs	-169,269	-185,951
General and administrative expenses	-77,562	-75,444
Other operating expenses	-21,266	-29,046
Operating profit	**151,336**	**385,703**
Finance income	78,343	94,988
Finance expenses	684,632	42,102
Profit before tax	**914,311**	**522,793**
Corporate income tax	-158,968	-99,733
Net profit on continuing operations	**755,343**	**423,060**
Other comprehensive income		
Exchange differences on translating foreign operations	-94,844	-2,668
Total other comprehensive income, net	**-94,844**	**-2,668**
Total comprehensive income	**660,499**	**420,392**
Net profit attributable to:		
owners of the parent	739,344	398,025
non-controlling interests	15,999	25,035
Total comprehensive income attributable to:		
owners of the parent	644,500	395,357
non-controlling interests	15,999	25,035
Earnings/(loss) per share	113,700	113,700
- basic	**6.50**	**3.50**
- diluted	-	

* The auditor reviewed the consolidated financial statements of the LOTOS Group for the six months ended June 30th 2009.

Appendix 2: Consolidated Statement of Cash Flows for Q2 2009

CONSOLIDATED STATEMENT OF CASH FLOWS		
THE LOTOS GROUP		
PLN '000	3 months ended Jun 30 2009 PLN '000 (unaudited)*	3 months ended Jun 30 2008 PLN '000 (unaudited)*
Cash flows from operating activities		
Net profit/(loss) from continuing operations	**755,343**	**423,060**
Adjustments:		
Share in net profit of subordinated undertakings valued with equity method		
Depreciation and amortisation	74,217	78,147
Foreign exchange (gains)	-554,345	-32,531
Interest and profit distributions (dividends)	-5,896	-7,797
(Profit) on investing activities	-118,078	-38,243
Income tax paid	-6,076	-87,835
Income tax disclosed in the income statement	158,968	99,733
(Increase) in receivables	-359,171	-310,527
(Increase) in inventories	-281,324	-190,999
Increase/(Decrease) in current liabilities, net of loans and borrowings	884,942	-31,375
(Decrease)/Increase in provisions	-15,143	11,432
(Decrease) in prepayments and accrued income	6,263	10,118
Settlement of financial instruments	-89,784	-7,623
Other adjustments	-	35
Net cash provided by/(used in) operating activities	**449,916**	**-84,405**
Cash flows from investing activities		
Dividend received	1,737	15,447
Interest received	1,891	8,512
(Purchase) of property, plant and equipment and intangible assets	-1,070,499	-210,631
(Purchase) of current financial assets	-31	-127
Repayment of non-current loans advanced	-	9
Prepayments for tangible assets under construction	-40,781	-175,692
Other items, net	-2	-7
Net cash provided by/(used in) investing activities	**-1,107,685**	**-362,489**
Cash flows from financing activities		
Increase in loans and borrowings	670,453	177,929
Repayment of loans and borrowings	-74,462	-4,375
Interest paid	-3,090	-15,656
Dividend paid	-15	-2,578

Decrease in finance lease liabilities	-173	-333
Settlement of financial instruments	89,784	7,623
Other items, net	-30	-77
Net cash provided by/(used in) financing activities	**682,467**	**162,533**
Effect of exchange rate fluctuations on cash held	36,242	2,118
Change in net cash	**60,940**	**-282,243**
Cash and cash equivalents at beginning of period	155,150	602,981
Cash and cash equivalents at end of period	**216,090**	**320,738**
- restricted cash	**195,478**	**21,052**

* The auditor reviewed the consolidated financial statements of the LOTOS Group for the six months ended June 30th 2009.