



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

**THE LOTOS GROUP**

**DIRECTORS' REPORT ON THE OPERATIONS**

**OF THE LOTOS GROUP**

**IN THE SIX MONTHS ENDED**

**JUNE 30TH 2011**

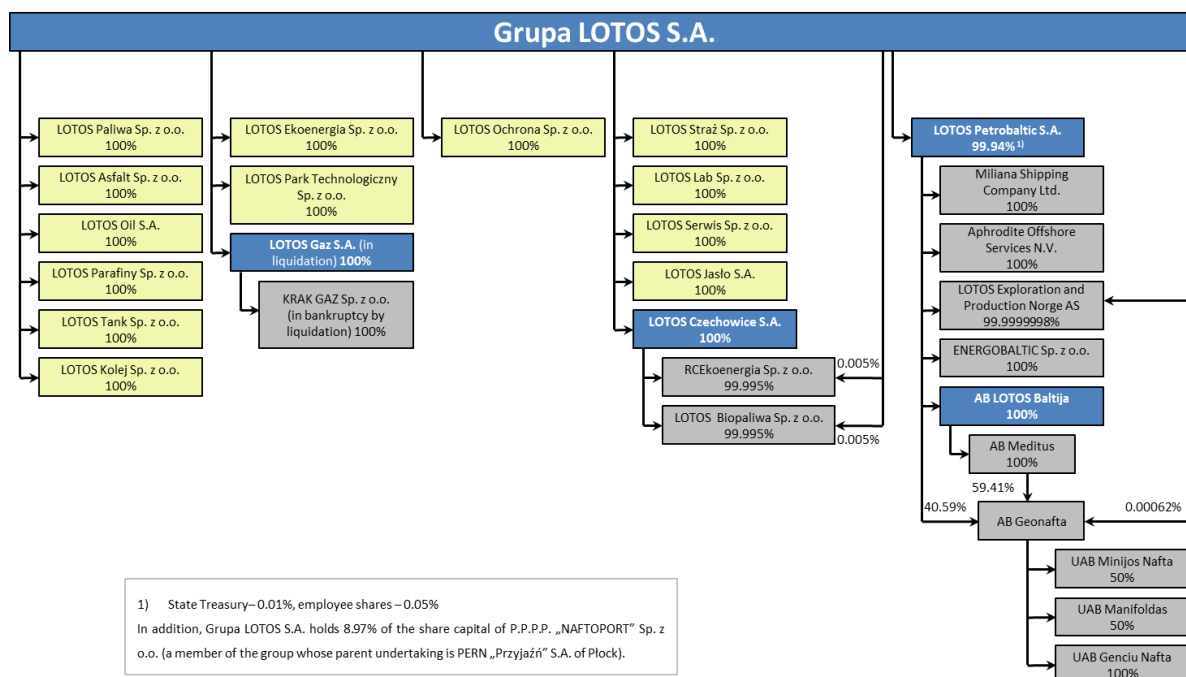
Gdańsk, August 25th 2011

## 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 OVER 5% OF THE TOTAL VOTE AT THE GENERAL SHAREHOLDERS MEETING OF GRUPA LOTOS S.A. ....	8
1.3	SHARES IN GRUPA LOTOS S.A. HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL.....	8
1.4	HUMAN RESOURCES .....	9
2.	FINANCIAL PERFORMANCE OF THE LOTOS GROUP.....	11
2.1	FACTORS WITH A BEARING ON THE RESULTS ACHIEVED IN THE FIRST HALF OF 2011.....	11
2.2	FACTORS WHICH IN THE COMPANY'S OPINION MAY AFFECT THE LOTOS GROUP'S RESULTS IN Q3 AND Q4 2011.....	20
2.3	THREATS AND RISKS IN THE SUBSEQUENT MONTHS OF 2011 .....	20
3.	OTHER INFORMATION .....	22
3.1	MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF MEETING PREVIOUSLY PUBLISHED FORECASTS FOR 2011 .....	22
3.2	COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS .....	22
3.3	MATERIAL RELATED PARTY TRANSACTIONS .....	22
3.4	SURETIES FOR THE REPAYMENT OF LOANS AND BORROWINGS, AND GUARANTEES ISSUED .....	22
4.	SIGNATURES OF THE MANAGEMENT BOARD MEMBERS .....	23

# 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 2011, the LOTOS Group comprised Grupa LOTOS S.A. (the Parent Undertaking) and 28 production and service companies, including:

- 16 subsidiaries of Grupa LOTOS S.A.
- 12 indirect subsidiaries of Grupa LOTOS S.A. and companies accounted for using the proportional method.

The following table presents the subsidiary undertakings of the LOTOS Group, their business profiles, consolidation method, and the Group's stakes in their share capitals.

**Table 1. Members of the LOTOS Group**

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group		
				Jun 30 2011	Dec 31 2010	Jun 30 2010
<b>Parent Undertaking</b>						
<b>Grupa LOTOS S.A.</b>	Gdańsk	Production and processing of refined petroleum products (mainly fuels) and their wholesale	Not applicable	Not applicable	Not applicable	Not applicable
<b>Direct subsidiaries</b>						
<b>LOTOS Paliwa Sp. z o.o.</b>	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	full	100.00%	100.00%	100.00%
<b>LOTOS Gaz S.A. w likwidacji (in</b>	Mława <sup>(1)</sup>	The company is not conducting operations	full	100.00%	100.00%	100.00%

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group		
				Jun 30 2011	Dec 31 2010	Jun 30 2010
<b>liquidation)<sup>(1)</sup></b>						
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	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 Ekoenergia Sp. z o.o. <sup>(2)</sup>	Gdańsk	The company has not commenced operations	full	100.00%	100.00%	100.00%
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	full	100.00%	100.00%	100.00%
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	full	100.00%	100.00%	100.00%
LOTOS LAB Sp. z o.o.	Gdańsk	Laboratory testing	full	100.00%	100.00%	100.00%
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	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 Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	full	100.00%	100.00%	100.00%
LOTOS Tank Sp. z o.o.	Gdańsk	Trading in aviation fuel	full	100.00%	100.00%	100.00%
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice-Dziedzice	Storage and distribution of fuels	full	100.00% <sup>(5)</sup>	97.55% <sup>(4)</sup>	96.74% <sup>(3)</sup>
LOTOS Jasło S.A.	Jasło	Renting and operating of own or leased real estate from March 24th 2011	full	100.00% <sup>(5)</sup>	98.12% <sup>(4)</sup>	97.63% <sup>(3)</sup>
LOTOS Petrobaltic S.A. <sup>(7)</sup> (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas deposits and their exploitation	full	99.94% <sup>(6)</sup>	99.32%	99.32%
LOTOS Park Technologiczny Sp. z o.o.	Jasło	The company is not conducting operations	full	100.00%	100.00%	100.00% <sup>(8)</sup>
<b>Indirect subsidiaries and companies accounted for using the proportional method</b>						
RCEkoenergia Sp. z o.o.	Czechowice-Dziedzice	Production and distribution of electricity, heat and gas	full	100.00%	97.55% <sup>(10, 11)</sup>	96.74% <sup>(9)</sup>
LOTOS Biopaliwa Sp. z o.o.	Czechowice-Dziedzice	Production of fatty acid methyl esters (FAME)	full	100.00%	97.55% <sup>(10, 11)</sup>	96.74% <sup>(9)</sup>
PLASTEKOL Organizacja Odzysku S.A.	Jasło	Provision of services	_(12)		93.70% <sup>(10)</sup>	93.70% <sup>(10)</sup>
Miliana Shipping Company Ltd.	Cyprus	Services consisting in the storage and transport of crude oil	full	99.94% <sup>(13, 14)</sup>	99.32%	99.32%
LOTOS Exploration and Production Norge AS	Stavanger Norway	Oil exploration and production at the Norwegian Continental Shelf, provision of services related to oil exploration and production;	full	99.94% <sup>(13)</sup>	99.32% <sup>(15)</sup>	99.32%
Aphrodite Offshore Services Ltd.	Netherlands Antilles	Sea transport services	full	99.94% <sup>(13)</sup>	99.32%	99.32%
Energobaltic Sp. z o.o.	Władysławowo	Production of electricity, heat, LPG and natural gas condensate	full	99.94% <sup>(13)</sup>	99.32%	99.32%

Name	Registered office	Business profile	Method of consolidation/ valuation of shares	Percentage of share capital held by the Group		
				Jun 30 2011	Dec 31 2010	Jun 30 2010
<b>AB LOTOS Baltija (parent undertaking of another group)</b> <sup>(17, 18)</sup>	Vilnius, Lithuania	Business and legal advisory services	full	99.94% <sup>(13)</sup>	99.32% <sup>(16)</sup>	100.00%
<b>AB Meditus (parent undertaking of another group)</b> <sup>(17, 19)</sup>	Vilnius, Lithuania	Business and legal advisory services	full	99.94% <sup>(13, 17)</sup>	-	-
<b>AB Geonafta (parent undertaking of another group)</b>	Gargždai, Lithuania	Crude oil exploration and production, drilling services, and purchase and sale of crude oil	full	99.94% <sup>(13, 17, 20)</sup>	40.31%	40.31%
<b>UAB Genciu Nafta</b>	Gargždai, Lithuania	Crude oil exploration and production	full	99.94% <sup>(13, 17)</sup>	40.31%	40.31%
<b>UAB Manifoldas</b>	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.97% <sup>(13, 17)</sup>	20.15%	20.15%
<b>UAB Minijos Nafta</b>	Gargždai, Lithuania	Crude oil exploration and production	proportional	49.97% <sup>(13, 17)</sup>	20.15%	20.15%

<sup>(1)</sup> On January 10th 2011, the General Shareholders Meeting of LOTOS Gaz S.A. adopted a resolution to dissolve LOTOS Gaz S.A. by way of its liquidation (see Note 15 to the interim condensed consolidated financial statements). The company's new registered address in Kraków was registered on July 8th 2011.

<sup>(2)</sup> On May 6th 2010, a change in the company's legal form from a joint stock company to a limited liability company was registered. Currently the company operates under the name LOTOS Ekoenergia Sp. z o.o.

<sup>(3)</sup> By June 30th 2010, Grupa LOTOS S.A. acquired from non-controlling shareholders an additional 11.70% of shares in LOTOS Czechowice S.A. and 12.62% of shares in LOTOS Jasło S.A.

<sup>(4)</sup> By December 31st 2010, Grupa LOTOS S.A. acquired from non-controlling shareholders an additional 12.51% of shares in LOTOS Czechowice S.A. and 13.11% of shares in LOTOS Jasło S.A.

<sup>(5)</sup> Following the transactions carried out as part of the squeeze-out process described in Note 15 to the interim condensed consolidated financial statements, and relevant entries being made in the share registers of LOTOS Czechowice S.A. and LOTOS Jasło S.A. respectively on April 7th and 8th 2011, Grupa LOTOS S.A. holds a 100% stake in LOTOS Czechowice S.A. and a 100% stake in LOTOS Jasło S.A.

<sup>(6)</sup> By June 30th 2011, Grupa LOTOS S.A. acquired from non-controlling shareholders an additional 0.62% of shares in LOTOS Petrobaltic S.A. (see Note 15 to the interim condensed consolidated financial statements).

<sup>(7)</sup> On March 31st 2010, a change in the name of Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic Spółka Akcyjna to LOTOS Petrobaltic Spółka Akcyjna (abbreviated name: LOTOS Petrobaltic S.A.) was entered in the National Court Register.

<sup>(8)</sup> On March 31st 2010, a reduction in the share capital of LOTOS Park Technologiczny Sp. z o.o. to PLN 50 thousand was registered. The share capital of LOTOS Park Technologiczny Sp. z o.o. is divided into 100 shares. Following registration of the changes in the National Court Register, Grupa LOTOS S.A. holds a 100% stake in LOTOS Park Technologiczny Sp. z o.o.

<sup>(9)</sup> The shareholding changes described in item <sup>(3)</sup> above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Czechowice S.A. and LOTOS Jasło S.A.

<sup>(10)</sup> The shareholding changes described in item <sup>(4)</sup> above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Czechowice S.A. and LOTOS Jasło S.A.

<sup>(11)</sup> On November 5th 2010, Grupa LOTOS S.A. acquired from LOTOS Czechowice S.A. one share in LOTOS Biopaliwa Sp. z o.o., representing 0.005% of the company's share capital, and one share in RCEkoenergiaSp. z o.o., representing 0.005% of the company's share capital.

<sup>(12)</sup> On February 11th 2011, LOTOS Jasło S.A. executed an agreement for the sale of a block of 95.5% of shares in PLASTEKOL Organizacja Odzysku S.A. to a third party (see Note 15 to the interim condensed consolidated financial statements).

<sup>(13)</sup> The shareholding changes described in item <sup>(6)</sup> above led to changes in the Group's indirect interests in the share capitals of the subsidiaries of LOTOS Petrobaltic S.A.

<sup>(14)</sup> On June 24th 2011, LOTOS Petrobaltic S.A. acquired one share in Miliana Shipping Company Ltd. under an agreement of April 21st 2011 providing for the sale of one share in Miliana Shipping Company Ltd. by Aphrodite Offshore Services N.V. to LOTOS Petrobaltic S.A. for a price of USD 19.8 thousand (PLN 53.8 thousand, translated at the mid-exchange rate for USD quoted by the National Bank of Poland for April 21st 2011). LOTOS Petrobaltic S.A. currently holds 100% of shares in Miliana Shipping Company Ltd.

<sup>(15)</sup> On November 15th 2010, the share capital of LOTOS Exploration and Production Norge AS was increased by NOK 1. One new share in the company, with a par value of NOK 1 (PLN 0.4822, translated using the NOK mid-exchange rate quoted by the National Bank of Poland for November 15th 2010) was acquired by Grupa LOTOS S.A.

<sup>(16)</sup> On December 9th 2010, Grupa LOTOS S.A. and LOTOS Petrobaltic S.A. executed an agreement for the sale of 5,876 shares in UAB LOTOS Baltija, representing 100% of the company's share capital, for a total sale price of PLN 485 thousand.

<sup>(17)</sup> Following approvals by the General Shareholders Meeting of LOTOS Petrobaltic S.A. and the Lithuanian anti-trust authority, on February 3rd 2011 UAB LOTOS Baltija (a subsidiary of LOTOS Petrobaltic S.A.) acquired 100% of shares in UAB Meditus, which holds 59.41% of shares in AB Geonafta. LOTOS Petrobaltic S.A. directly holds 40.59% of shares in AB Geonafta, therefore, as a result of the transaction, LOTOS Petrobaltic S.A. gained control of AB Geonafta (see Note 15 to the interim condensed consolidated financial statements).

<sup>(18)</sup> On May 23rd 2011, a change in the legal form of UAB LOTOS Baltija to AB LOTOS Baltija was registered. Currently, the company operates under the name AB LOTOS Baltija (see Note 15 to the interim condensed consolidated financial statements).

<sup>(19)</sup> On May 10th 2011, a change in the legal form of UAB Meditus to AB Meditus was registered. Currently, the company operates under the name AB Meditus (see Note 15 to the interim condensed consolidated financial statements).

<sup>(20)</sup> On March 23rd 2011, LOTOS Petrobaltic S.A. and Grupa LOTOS S.A. executed an agreement whereby Grupa LOTOS S.A. purchased one share in AB Geonafra for LTL 3 thousand (PLN 3.5 thousand) (see Note 15 to the interim condensed consolidated financial statements).

Other than the changes listed above and discussed at greater length in Note 15 to the interim condensed consolidated financial statements for the six months ended June 30th 2011, in the reporting period there were no material changes in the structure of the LOTOS Group.

#### **Reduction of ING Otwarty Fundusz Emerytalny's share of total vote at the General Shareholders Meeting of Grupa LOTOS S.A.**

Following a disposal of the Company shares, settled on February 2nd 2011, ING Otwarty Fundusz Emerytalny reduced its share in the total vote at the Company's General Shareholders Meeting to less than 5%.

Prior to the disposal, ING Otwarty Fundusz Emerytalny held 6,640,532 (six million, six hundred and forty thousand, five hundred and thirty-two) shares in Grupa LOTOS S.A., representing 5.11% of the Company's share capital and carrying the right to 6,640,532 votes, or 5.11% of the total vote, at the GM.

On February 7th 2011, 5,957,442 (five million, nine hundred and fifty-seven thousand, four hundred and forty-two) Grupa LOTOS S.A. shares were registered in the securities account of ING Otwarty Fundusz Emerytalny, representing 4.59% of the Company's share capital and conferring the right to 5,957,442 votes, or 4.59% of the total vote, at the Company's GM.

#### **Registration of Grupa LOTOS S.A. Series C shares with the Polish NDS and their admission and introduction to stock-exchange trading**

By virtue of Resolution No. 16/2011 of January 4th 2011, the Management Board of the Warsaw Stock Exchange decided to admit 16,173,362 (sixteen million, one hundred and seventy-three thousand, three hundred and sixty-two) Series C ordinary bearer shares in Grupa LOTOS S.A. with a par value of PLN 1 (one złoty) per share to stock-exchange trading on the main market.

Pursuant to the above resolution, the WSE Management Board decided to introduce the Grupa LOTOS S.A. Series C shares referred to above to trading on the main market, by way of the ordinary procedure, as of January 10th 2011.

On January 10th 2011, 16,173,362 shares in Grupa LOTOS S.A. were registered with the National Depository for Securities under code No. ISIN PLLOTOS00025 and introduced to trading. Following the registration, the total number of the shares was 129,804,251.

#### **LOTOS Czechowice S.A.**

On April 7th 2011, the Company completed the minority squeeze-out process involving the purchase of LOTOS Czechowice S.A. shares from minority shareholders (entry into the share register of the acquired shares as well as the cancelled shares which were not surrendered by minority shareholders to the Company). Since April 7th 2011, Grupa LOTOS S.A. has been the sole shareholder of LOTOS Czechowice S.A.

#### **LOTOS Jasło S.A.**

On April 8th 2011, the Company completed the minority squeeze-out process involving the purchase of LOTOS Jasło S.A. shares from minority shareholders (entry into the share register of the acquired shares as well as the cancelled shares which were not surrendered by minority shareholders to the Company). Since April 8th 2011, Grupa LOTOS S.A. has been the sole shareholder of LOTOS Jasło S.A.

### **LOTOS Petrobaltic S.A.**

In H1 2011, Grupa LOTOS S.A. purchased shares from minority shareholders of LOTOS Petrobaltic S.A. as part of a voluntary sale process. In the period from February 1st to June 22nd 2011, the Company acquired 57,242 shares. Following these share purchase transactions, as at June 30th 2011 Grupa LOTOS S.A. held 99.94% of the company's share capital (prior to the launch of the share purchase process, its stake was 99.32%). On June 8th 2011, an entry was made in the company's share register to the effect that 56,486 of LOTOS Petrobaltic S.A. shares were transferred to Grupa LOTOS S.A. A subsequent entry in the share register made on July 22nd 2011 reflected the transfer to Grupa LOTOS S.A. of 756 LOTOS Petrobaltic S.A. shares. Following the entry in the share register made on July 22nd 2011, Grupa LOTOS S.A. has held voting rights attached to 99.94% of the company's share capital.

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

In connection with Grupa LOTOS S.A.'s internal restructuring, LOTOS Ekoenergia Sp. z o.o., LOTOS Park Technologiczny Sp. z o.o., and LOTOS Gaz S.A. w likwidacji (in liquidation) along with KRAK GAZ Sp. z o.o. w upadłości likwidacyjnej (in bankruptcy by liquidation) have been reclassified into the financial area as of May 1st 2011.

### **AB Meditus**

On May 10th 2011, a change in the company's legal form to AB Meditus (previously UAB Meditus) was registered.

### **AB LOTOS Baltija**

On May 23rd 2011, a change in the company's legal form to AB LOTOS Baltija (previously UAB LOTOS Baltija) was registered.

### **Aphrodite Offshore Services N.V.**

On April 21st 2011, LOTOS Petrobaltic S.A. and Aphrodite Offshore Services N.V. signed an agreement for the purchase of one share in Miliana Shipping Company Ltd. The actual transfer of the share took place on June 24th 2011, which is also the date on which the Management Board of Miliana Shipping Offshore Services N.V. adopted a relevant resolution.

### **LOTOS Gaz S.A. w likwidacji (in liquidation)**

On July 8th 2011, the company's new registered office address (ul. Armii Krajowej 18, 30-130 Kraków) was registered (previously: ul. Grzebskiego nr 10, 06-500 Mława).

## 1.2 SHAREHOLDERS HOLDING OVER 5% OF THE TOTAL VOTE AT THE GENERAL SHAREHOLDERS MEETING OF GRUPA LOTOS S.A.

Table 2. Shareholder structure of Grupa LOTOS S.A.

Shareholder	Number of shares	Number of votes	Par value of shares	% of share capital held
State Treasury	69,076,392	69,076,392	69,076,392	53.19%
Other shareholders	60,796,970	60,796,970	60,796,970	46.81%
<b>Total</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>129,873,362</b>	<b>100.00%</b>

To the best of the Company's knowledge, the entities listed above held shares in Grupa LOTOS S.A. as at June 30th 2011 and as at the date of publication of this Directors' Report.

## 1.3 SHARES IN GRUPA LOTOS S.A. HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL

Table 3. Grupa LOTOS S.A. shares

	Number of shares	Par value (PLN)
<b>Management Board, including:</b>	<b>8,636</b>	<b>8,636</b>
Mr Marek Sokołowski	8,636	8,636
<b>Supervisory Board</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>8,636</b>	<b>8,636</b>

To the best of the Company's knowledge, the persons listed above held shares in Grupa LOTOS S.A. as at June 30th 2011 and as at the date of publication of this Directors' Report.

### **Change in the holding of shares in Grupa LOTOS S.A. by a person acting as a registered proxy of Grupa LOTOS S.A.**

On January 31st 2011, the Management Board of Grupa LOTOS S.A. received a notification concerning transactions in the Company's shares executed in 2010 by a person acting as a registered proxy of Grupa LOTOS S.A.

On September 16th 2010, the person acquired 200 Grupa LOTOS S.A. shares at PLN 31.20, and on December 7th 2010 sold the shares at PLN 33.17. Both transactions were executed on the regulated market during a regular trading session.

The total value of the transactions did not exceed the threshold of EUR 5,000. This information was prepared in Katowice on January 31st 2011.

As at this Directors' Report release date, the person does not act as a registered proxy of the Company.



## 1.4 HUMAN RESOURCES

### Changes in the composition of the Management and Supervisory Boards

In the period from January 1st 2011 until the date of approval of this Directors' Report, the composition of the Management Board of Grupa LOTOS S.A. was as follows:

Paweł Olechnowicz – President of the Management Board, Chief Executive Officer,  
Mariusz Machajewski – Vice-President of the Management Board, Chief Financial Officer,  
Marek Sokołowski – Vice-President of the Management Board, Chief Operation Officer,  
Maciej Szozda – Vice-President of the Management Board, Chief Commercial Officer.

As at January 1st 2011, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Wiesław Skwarko – Chairman,  
Leszek Starosta – Deputy Chairman,  
Oskar Pawłowski – Secretary,  
Małgorzata Hirszel – Member,  
Michał Rumiński – Member,  
Rafał Wardziński – Member,  
Ewa Sibrecht-Ośka – Member,  
Rafał Lorek – Independent Member of the Supervisory Board.

On June 27th 2011, the General Shareholders Meeting of Grupa LOTOS S.A. appointed the Company's Supervisory Board for the eighth term of office. The following persons were appointed to the Supervisory Board: Małgorzata Hirszel, Ewa Sibrecht-Ośka, Leszek Starosta, Oskar Pawłowski, Michał Rumiński and Rafał Wardziński. The General Shareholders Meeting appointed Mr Wiesław Skwarko as the Chairman of the Supervisory Board. In accordance with the Company's Articles of Association, Mr Wiesław Skwarko was appointed to the Supervisory Board by the State Treasury.

As at the date of approval of this Directors' Report, the composition of the Supervisory Board of Grupa LOTOS S.A. was as follows:

Wiesław Skwarko – Chairman of the Supervisory Board,  
Rafał Wardziński – Deputy Chairman of the Supervisory Board,  
Oskar Pawłowski – Secretary of the Supervisory Board,  
Małgorzata Hirszel – Member of the Supervisory Board,  
Michał Rumiński – Member of the Supervisory Board,  
Leszek Starosta – Member of the Supervisory Board,  
Ewa Sibrecht-Ośka – Member of the Supervisory Board,

### Staffing levels at the LOTOS Group as at June 30th 2011

Table 4. Employment structure by job category – Grupa LOTOS S.A.

Item	Men	Women	Total
<b>blue-collar jobs</b>	506	5	511
<b>white-collar jobs</b>	406	397	803
Total:	<b>912</b>	<b>402</b>	<b>1,314</b>

Table 5. Employment structure by job category – the LOTOS Group

Item	Men	Women	Total
blue-collar jobs	2,537	242	2,779
white-collar jobs	1,465	954	2,419
<b>total</b>	<b>4,002</b>	<b>1,196</b>	<b>5,198</b>

Table 6. Employment structure – the LOTOS Group companies

Company	Employment as at Jun 30 2011	
	blue-collar jobs	white-collar jobs
Grupa LOTOS S.A.	511	803
LOTOS Paliwa Sp. z o.o.	0	263
LOTOS Kolej Sp. z o.o.	480	186
LOTOS Oil S.A.	136	207
LOTOS LAB Sp. z o.o.	110	43
LOTOS Serwis Sp. z o.o.	522	179
LOTOS Straż Sp. z o.o.	73	14
LOTOS Asfalt Sp. z o.o.	186	149
LOTOS Gaz S.A.	0	2
LOTOS Ochrona Sp. z o.o.	137	20
LOTOS Park Technologiczny Sp. z o.o.	0	1
LOTOS Parafiny Sp. z o.o.	174	77
LOTOS Tank Sp. z o.o.	7	10
LOTOS Jasło S.A.	41	35
LOTOS Czechowice S.A.	81	52
RC Ekoenergia Sp. z o.o.	43	26
LOTOS Biopaliwa Sp. z o.o.	21	14
Petrobaltic S.A.	196	244
ENERGOBALTIC Sp. z o.o.	21	13
LOTOS E&A Norge AS	0	17
AB LOTOS Baltija	0	7
AB Geonafta	40	57
<b>Total</b>	<b>2,779</b>	<b>2,419</b>
		<b>5,198</b>

## 2. FINANCIAL PERFORMANCE OF THE LOTOS GROUP

### 2.1 FACTORS WITH A BEARING ON THE RESULTS ACHIEVED IN THE FIRST HALF OF 2011

Table 7. Macroeconomic conditions

		H1 2011	H1 2010	H1 2011 vs. H1 2010
DATED Brent FOB prices	USD/bbl	111.09	77.29	43.7%
Urals CIF Rotterdam prices	USD/bbl	108.00	76.10	41.9%
Brent/Urals differential	USD/bbl	3.09	1.19	159.7%
Crack margin	USD/bbl	2.13	3.18	-33.0%
Crack margin: Gasoline	USD/t	148.67	152.22	-2.3%
Crack margin: Diesel oil (10 ppm)	USD/t	109.30	85.58	27.7%
Crack margin: Light fuel oil	USD/t	81.37	69.26	17.5%
Crack margin: Aviation fuel	USD/t	170.49	116.42	46.4%
Crack margin: Heavy fuel oil	USD/t	-253.28	-148.72	-70.3%
PLN/USD average exchange rate	PLN/USD	2.82	3.02	-6.6%

#### Upstream Segment

The upstream segment's higher revenue and results for H1 2011 compared with H1 2010 were attributable to 43.7% higher Brent dtd crude prices on the global markets. The segment's sales revenue includes revenue of PLN 108.4m generated by the AB Meditus Group. In volume terms, in H1 2011 the upstream segment sold 976.1 thousand barrels of crude oil, including 306.0 thousand barrels (39.6 thousand tonnes) from the Lithuanian fields sold to external customers. The upstream segment's operating result includes PLN 39.1m of profit earned by the AB Meditus Group.

Table 8: Operating results of the upstream segment

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Sales of crude oil	000' t	126.0	138.6	-9.1%
Sales revenue	PLNm	314.1	227.6	38.0%
Operating profit	PLNm	107.9	74.5	44.8%
Depreciation and amortisation	PLNm	48.6	31.0	56.8%
EBITDA	PLNm	156.5	105.5	48.3%

**Table 9: Crude oil reserves, production and sales**

Crude oil			
Reserves (mmbbl)*	Jun 30 2011	Jun 30 2010	
Norway	12.95	12.95	
Poland	34.45	35.56	
Lithuania **	6.79	-	
Production (bbl/d)	H1 2011	H1 2010	H1 2011 vs. H1 2010
Poland	3,046	4,937	-38.3%
Lithuania **	1,560	-	-
Sales (bbl)	H1 2011	H1 2010	H1 2011 vs. H1 2010
Poland	670,178	1,075,974	-37.7%
Lithuania **	305,967	-	-

\*2P – proved and probable reserves

\*\* Based on the interest in the AB Geonafra Group

## Downstream segment

The increase in the volume of processed crude in H1 2011 relative to the comparative period was due to the processing of crude in the CDU/VDU unit, placed in service following completion of the 10+ Programme. In connection with optimisation of the crude oil refining process and launch of the new crude distillation unit, the share of crude types other than Urals in the total volume of crude processed increased against the H1 2010 figure, to nearly 14.1%.

**Table 10. Structure of crude oil refining**

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Volume of crude processed by the Gdańsk refinery	000' t	4,442.9	3,675.6	20.9%
including:				
Urals crude	000' t	3,815.8	3,362.1	13.5%
Rozewie crude	000' t	61.6	127.0	-51.5%
Other types of crude	000' t	565.5	186.5	203.2%

The 52.6% higher sales revenue generated by the downstream segment in H1 2011 relative to H1 2010 was mostly due to the year-on-year increase in prices of crude oil and petroleum products on the

global markets and a 21.3% higher sales volume. The average net selling price in the downstream segment rose by 25.8%, from 2,178 PLN/t in H1 2010 to 2,739 PLN/t in H1 2011.

In H1 2011, the year-on-year increase in the operating result of the downstream segment was strongly driven by a 848.0 thousand tonnes higher volume of products and goods sold, connected mainly with a 20.9% increase in the volume of crude processed by the Gdańsk refinery. Also the average Brent/Urals differential, of 3.09 USD/bbl in H1 2011 (up by 1.90 USD/bbl year on year), was a factor contributing to the improved operating result in H1 2011 relative to H1 2010. The improvement in the H1 2011 operating result was also bolstered by the replacement of imported goods with the Group's own crude oil processing products.

**Table 11. Operating results of the downstream segment**

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Sales revenue	PLNm	13,204.3	8,655.5	52.6%
Operating profit	PLNm	654.0	370.5	76.5%
Depreciation and amortisation	PLNm	214.0	135.7	57.7%
EBITDA	PLNm	868.0	506.2	71.5%

**Table 12: Sales structure of the downstream segment**

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Consolidated sales of products and goods for resale, including:	000' t	4 821.7	3 973.7	21.3%
Gasolines	000' t	691.2	702.8	-1.7%
Raw gasoline	000' t	98.3	0.0	-
Diesel oils	000' t	2 217.3	1 852.7	19.7%
JET fuel	000' t	214.5	136.1	57.6%
Light fuel oils	000' t	196.1	156.7	25.1%
Heavy fuel oils	000' t	600.1	547.7	9.6%
Bitumens	000' t	355.1	280.2	26.7%
Other petroleum products	000' t	449.1	297.5	51.0%

In H1 2011, the overall production and sales volumes were higher than in the corresponding period of the previous year. A decline in production and sales was reported only for motor gasolines.

Table 13: Structure of Grupa LOTOS S.A.'s production

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Total output	000' t	4 955.1	4 167.0	18.9%
Gasolines	000' t	639.2	683.1	-6.4%
Raw gasoline	000' t	98.4	0.0	-
Diesel oil	000' t	2 213.9	1 846.6	19.9%
Light fuel oil	000' t	195.8	151.9	28.9%
Aviation fuel	000' t	209.0	132.4	57.9%
LPG	000' t	34.5	24.7	39.7%
Heavy fuel oil	000' t	728.0	645.0	12.9%
Bunker fuel	000' t	20.4	16.5	23.6%
Bitumen components	000' t	372.7	311.7	19.6%
Other	000' t	443.2	355.1	24.8%

Low retail margins are the outcome of difficult market conditions, brought about by a sharp rise in crude oil prices which could not be fully transferred onto customers. The declining margins led to a deterioration of the operating result of the retail business, despite a 6.5% increase in retail sales volumes compared with H1 2010.

As at the end of June 2011, the number of CODO stations was 158 (up by 5 stations relative to the end of June 2010), the number of DOFO stations was 112 (up by 9 stations) and the number of DODO stations was 48 (down by 14 stations). A total of 116 franchise agreements were signed.

## Other business

Table 14: Operating results of other business\*

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Sales revenue	PLNm	10.8	11.4	-5.3%
Operating profit/(loss)	PLNm	-0.1	-0.9	-
Depreciation and amortisation	PLNm	4.9	5.2	-5.8%
EBITDA	PLNm	4.8	4.3	11.6%

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

## Statement of comprehensive income

In H1 2011, the LOTOS Group posted PLN 733.7m in operating profit, which represented a year-on-year improvement of PLN 309.4m.

**Table 15. Operating results of the LOTOS Group**

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Sales revenue	PLNm	13,296.6	8,647.6	53.8%
EBITDA	PLNm	1,000.6	595.5	68.0%
Operating profit/(loss)*	PLNm	733.7	424.3	72.9%
Operating profit – LIFO method	PLNm	215.5	101.8	111.7%

\* Starting from January 1st 2011, the Group changed its accounting policies as regards the exchange rates used to translate business transactions denominated in foreign currencies. In H1 2011, application of the new accounting policies did not affect the Group's total net result, but did affect the values presented in the operating and financial parts of the statement of comprehensive income. To ensure data comparability, the same policies were applied to the comparable period.

\* In the six months ended June 30th 2010, the Group adjusted its sales revenue and cost of sales by PLN 11.1m.

The Group's net finance income of PLN 315.4m reported in H1 2011 was chiefly attributable to foreign exchange gains on revaluation of loans and borrowings, fair-value measurement of shares in AB Geonafta and net gain on the measurement and settlement of market risk hedging transactions. In H1 2010, the Group reported a high net loss on financing activities of PLN -1,246.1m.

In the analysed period, the Group recorded a PLN 188.5m net foreign exchange gain on revaluation of loans and borrowings, relating mainly to loans and borrowings of the Parent Undertaking.

Starting from January 1st 2011, Grupa LOTOS S.A. introduced cash flow hedge accounting with respect to foreign-currency denominated loans intended for financing of the 10+ Programme, designated as hedges of future USD-denominated petroleum product sales transactions. Accordingly, in the period January 1st–June 30th 2011, foreign exchange gains taken to the cash flow hedging reserve amounted to PLN 248.9m.

Furthermore, in connection with accounting for the transaction of taking control of AB Geonafta, the effect of fair-value measurement of LOTOS Petrobaltic S.A.'s previously held equity interest in AB Geonafta (40.59%) was recognised in finance income at PLN 104.7m.

In H1 2011, total net gain on the settlement and valuation of derivative instruments was PLN 58.4m. A PLN 60.2m net gain on currency forwards and on futures hedging the risk of changes in prices of CO2 emission allowances was also included in finance income. The effect of settlement and valuation of hedges of petroleum product prices was PLN 18.8m. The settlement and valuation of interest rate risk hedges reduced finance income by PLN 20.6m.

**Table 16. Transactions executed to hedge the risk of changes in prices of petroleum products, as at June 30th 2011**

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

**Table 17: Foreign exchange risk hedging transactions as at June 30th 2011**

Currency pair	Instrument	Volume	Currency	FX rate range
EUR/USD	Forward	116,000,000	EUR	1.31293–1.44455
EUR/PLN	Forward	61,300,000	EUR	3.9748–4.0912
USD/PLN	Forward	-70,745,000	USD	2.7005–3.11535

**Table 18. Interest rate risk hedging transactions as at June 30th 2011**

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

In H1 2011, net profit from continuing operations was PLN 889.0m, having increased by PLN 1,510.5m relative to the previous year, mainly owing to the net finance income posted by the Group in H1 2011 (compared with a high net loss recorded in H1 2010).

**Table 19. Net profit of the LOTOS Group**

		H1 2011	H1 2010	H1 2011 vs. H1 2010
Pre-tax profit/(loss)	<i>PLNm</i>	1,052.7	-821.8	1,874.5
Net profit/(loss) from continuing operations	<i>PLNm</i>	889.0	-621.5	1,510.5
Net profit/(loss) attributable to owners of the Parent	<i>PLNm</i>	888.7	-623.1	1,511.8



## Consolidated statement of financial position

Table 20. Consolidated statement of financial position

		Jun 30 2011	Dec 31 2010	Change	%
<b><u>Assets</u></b>	<b>PLNm</b>	<b>19,514.0</b>	<b>17,727.4</b>	<b>1,786.6</b>	<b>10.1%</b>
Non-current assets, including:	PLNm	11,208.1	10,872.1	336.0	3.1%
Property, plant and equipment	PLN m	9,012.1	6,173.8	2,838.3	46.0%
Tangible assets under construction	PLNm	1,465.8	4,213.7	-2,747.9	-65.2%
Current assets, including:	PLNm	8,196.1	6,847.4	1,348.7	19.7%
Inventories	PLNm	5,270.9	4,506.8	764.1	17.0%
Trade and other receivables	PLNm	2,266.6	1,821.9	444.7	24.4%
Current financial assets	PLNm	174.7	55.9	118.8	212.5%
Cash and cash equivalents	PLNm	342.0	382.6	-40.6	-10.6%
Assets available for sale	PLNm	109.8	7.9	101.9	1,289.9%
<b><u>Equity and liabilities</u></b>	<b>PLNm</b>	<b>19,514.0</b>	<b>17,727.4</b>	<b>1,786.6</b>	<b>10.1%</b>
Equity	PLNm	8,596.1	7,513.5	1,082.6	14.4%
Non-current liabilities	PLNm	5,212.3	5,039.1	173.2	3.4%
Current liabilities	PLN m	5,668.5	5,174.6	493.9	9.5%
Liabilities associated with assets available for sale	PLNm	37.1	0.2	36.9	18,450.0%

As at June 30th 2011, the LOTOS Group had total assets of PLN 19,514.0m, which means an increase of PLN 1,786.6m in H1 2011. In H1 2011, non-current assets grew by PLN 336.0m, mainly due to the recognition of intangible assets in the amount of PLN 291.8m, representing licences awarded to AB Geonafra and its group companies (UAB Genciu Nafta, UAB Minijos Nafta, and UAB Manifoldas) which confer the right to exploit crude oil reserves in Lithuania.

As at June 30th 2011, inventories amounted to PLN 5,270.9m, having increased in H1 2011 by PLN 764.1m, mainly due to higher volumes of mandatory stocks (fuels and heavy fuel oil: +62.3 thousand cubic metres; crude oil: +182.5 thousand tonnes) and higher prices of crude oil and petroleum products as at the end of H1 2011 relative to the prices at the end of 2010. Higher prices of products also led to a PLN 444.7m rise in trade and other receivables. As at the end of H1 2011, current assets totalled PLN 8,196.1m, and were by PLN 1,348.7m higher relative to the end of 2010.

As at June 30th 2011, equity totalled PLN 8,596.1m, having grown by PLN 1,082.6m during H1 2011, primarily owing to a PLN 893.5m increase in retained earnings and PLN 201.6m foreign exchange gains on measurement of cash flow hedges adjusted by the tax effect, taken to capital reserves.

Non-current liabilities grew by PLN 173.2m in H1 2011, primarily as a result of an increase in deferred tax liabilities, to reach PLN 5,212.3m as at the end of the reporting period. Non-current interest-bearing loans and borrowings totalled PLN 4,381.3m, down by PLN 22.2m relative to the figure as at the end of 2010.

At the end of June 2011, current liabilities were PLN 5,668.5m, having grown by PLN 493.9m in H1 2011, mainly due to a PLN 307.9m increase in trade payables, following primarily from a 21.5% increase in volume and 45.5% increase in value of crude oil purchased in June 2011, relative to crude

oil purchased in December 2010. As at the end of June 2011, current loans and borrowings totalled PLN 2,219.7m, having increased in H1 2011 by PLN 296.4m, mainly due to a reclassification of non-current loans to current loans and in connection with the development of operations of the upstream segment.

As at June 30th 2011, the financial debt of the LOTOS Group amounted to PLN 6,601.0m, up by PLN 274.2m on the figure reported at the end of 2010. The ratio of financial debt (adjusted by free cash) to equity was 72.8%, down by 6.3pp on December 31st 2010.

## Consolidated statement of cash flows

Table 21. Consolidated statement of cash flows

		H1 2011	H1 2010	Change
Cash flows from operating activities	<i>PLNm</i>	-272.9	465.6	-738.5
Cash flows from investing activities	<i>PLNm</i>	-400.7	-638.6	237.9
Cash flows from financing activities	<i>PLNm</i>	293.1	258.0	35.1
Change in net cash	<i>PLN m</i>	-384.5	84.1	-468.6
Cash and cash equivalents at beginning of period	<i>PLNm</i>	118.2	-165.6	283.8
Cash and cash equivalents at end of period	<i>PLNm</i>	-266.3	-81.5	-184.8

As at the end of June 2011, the LOTOS Group's cash balance (including debt under overdraft facilities) was PLN -266.3m, and was by PLN 184.8m lower than as at June 30th 2010.

The negative net cash from operating activities recorded in H1 2011, of PLN -272.9m, was connected mainly with higher balances of inventories and receivables.

The negative net cash from investing activities improved by PLN 237.9m relative to the corresponding figure reported in H1 2010 (also negative), mainly due to lower expenditure on purchases of property, plant and equipment and intangible assets.

Net cash from financing activities of PLN 293.1m was primarily owed to increases in loans and borrowings less repayments of loans and borrowings and interest paid, reduced further by the negative settlement of financial instruments and the notes issue and redemption net figure.

## Assessment of the Group's ability to meet its liabilities

In the first half of 2011, the LOTOS Group was fully 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 synthetic 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.

**Table 22. Margins, and liquidity and debt ratios**

	H1 2011	H1 2010
<b>PROFITABILITY RATIOS</b>		
EBIT (PLNm)	733.7	424.3
EBIT margin (1)	5.52%	4.91%
EBITDA (2) (PLNm)	1,000.6	595.5
EBITDA margin(3)	7.53%	6.89%
Net profit/loss (PLNm)	889.0	-621.5
Net margin (4)	6.69%	-7.19%
Return on equity (ROE) (5)	10.34%	-9.97%
Return on assets (ROA) (6)	4.56%	-3.64%
Return on average capital employed (ROACE) (7)	4.05%	2.66%
<b>LIQUIDITY RATIOS</b>		
Current ratio (8)	1.45	1.53
Quick ratio (9)	0.52	0.60
Capital employed (10) (PLNm)	2,527.6	2,158.5
Capital employed to total assets (11)	12.95%	12.63%
<b>COLLECTION/PAYMENT PERIODS</b>		
Average collection period (days) (12)	26.44	33.64
Average payment period (days) (13)	30.55	31.46
<b>CAPITAL STRUCTURE AND DEBT RATIOS</b>		
Debt ratio (14)	55.95%	63.53%
Net financial debt (15)	6,084.3	6,663.6
Net debt to equity ratio (financial leverage) (16)	70.78%	106.89%
Debt to equity ratio (17)	127.01%	174.17%

(1) operating profit (loss)/net sales revenue

(2) EBIT + amortisation/depreciation

(3) EBITDA/net sales revenue

(4) net profit (loss)/net sales revenue

(5) net profit (loss)/equity at the end of period

(6) net profit (loss)/assets at the end of period

(7)  $EBIT \times 0.81 / (\text{equity} + \text{non-current/current loans and borrowings} - \text{cash} - \text{current financial assets})$  at the end of period

(8) current assets/current liabilities (as at the end of period)

(9) (current assets - inventories)/current liabilities (as at the end of period)

(10) current assets - current liabilities (as at the end of period)

(11) capital employed/assets (as at the end of period)

(12) average trade receivables/net sales revenue)\*181

(13) (average trade payables/cost of sales)\*181

(14) total liabilities/assets (as at the end of period)

(15) non-current/current loans and borrowings - cash - current financial assets (as at the end of period)

(16) (non-current/current loans and borrowings - cash - current financial assets)/equity (as at the end of period)

(17) total liabilities/equity (as at the end of period)

An analysis of the above figures and ratios allows us to identify the following changes in H1 2011 relative to H1 2010:

- improved profitability ratios due to stronger financial performance;
- a deterioration of the current ratio (down by 5.5%) in connection with the fact that current liabilities were growing faster than current assets (up by 39.1% and 31.5%, respectively); a deterioration of the quick ratio (down by 13.4%) in connection with a 38.5% increase in inventories chiefly attributable to higher prices of crude oil and petroleum products at the end of H1 2011 relative to June 2010, and higher volumes of mandatory fuel stocks;
- a deterioration of efficiency ratios: collection period shortened by 7.2 days due to a 20.8% increase in average trade receivables accompanied by a significantly higher increase (up by 53.8%) in sales revenue; payment period shortened by 0.9 days due to average trade payables growing slower than cost of sales (up by 51.5% and 56.0%, respectively);
- a 17.1% increase in capital employed, in connection with the fact that current assets were growing faster than current liabilities (up by PLN 1,961.4m and PLN 1,592.3m, respectively), and an increase of the share of capital employed in the total assets;
- lower debt ratios: debt ratio fell by 7.6 percentage points, while debt to equity ratio was down by 47.2 percentage points, mainly in connection with reduced debt under bank loans.

## **2.2 FACTORS WHICH IN THE COMPANY'S OPINION MAY AFFECT THE LOTOS GROUP'S RESULTS IN Q3 AND Q4 2011**

Key factors which in the Company's opinion may affect the results in the second half of 2011 include:

- demand for petroleum products in Poland and Europe,
- changes in the macroeconomic environment, particularly with respect to prices of crude oil, refining margins and the USD/PLN exchange rate,
- further implementation of projects which are under way in the upstream segment, in particular the YME production project.

## **2.3 THREATS AND RISKS IN THE SUBSEQUENT MONTHS OF 2011**

The LOTOS Group operates in an environment and conditions which entail a large number of risks. The risks inherent in the various areas of the Company's operations are first identified and assessed, and then reviewed to determine what further measures need to be taken. Compared with the previous reporting period, some of the operating, financial and market-related risks were relatively reduced, among other things thanks to efforts aimed at overcoming the effects of the global financial crisis, completion of the 10+Programme and implementation of various measures aimed to mitigate earlier identified risks.

Nevertheless, all the identified risks are subject to monitoring on an ongoing basis. They include:

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

Key risks associated with the LOTOS Group's activities in 2011 include:

- risk of adverse changes in prices of commodities and petroleum products, as well as in currency exchange rates,

- price competition – the risk of necessity to follow the market leader and take the market conditions into account in determining the Group's pricing policy, which may result in price and margin reductions,
- risk of increased costs due to delayed government decisions concerning the National Indicative Target and growing costs of biocomponents,
- production and technological risks, in particular in the upstream segment, connected with production of hydrocarbons from underground formations,
- risk of reduced liquidity.

For all these risks, detailed analyses have been performed, mitigation strategies are being implemented (including mitigation plans), and procedures have been developed to be followed in the case a risk materializes.

### **3. OTHER INFORMATION**

#### **3.1 MANAGEMENT BOARD'S POSITION ON THE FEASIBILITY OF MEETING PREVIOUSLY PUBLISHED FORECASTS FOR 2011**

Grupa LOTOS S.A. has not published any consolidated performance forecasts for 2011.

#### **3.2 COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS**

In H1 2011 no court, arbitration or administrative proceedings were pending concerning liabilities or debt claims with a value in excess of 10% of Grupa LOTOS S.A.'s equity, to which Grupa LOTOS S.A. or any of its subsidiaries would be party. Other material proceedings have been described in Note 16.2 to the interim condensed consolidated financial statements for the six months ended June 30th 2011.

#### **3.3 MATERIAL RELATED PARTY TRANSACTIONS**

In H1 2011, transactions with related parties of Grupa LOTOS S.A. were executed on standard market terms. They have been described in Note 17.13 to the interim condensed consolidated financial statements for the six months ended June 30th 2011.

#### **3.4 SURETIES FOR THE REPAYMENT OF LOANS AND BORROWINGS, AND GUARANTEES ISSUED**

##### **LOTOS Petrobaltic S.A.'s undertaking 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 covering all the activities undertaken by LOTOS Exploration and Production Norge AS as part of its exploration and production operations on the Norwegian Continental Shelf. In the guarantee, LOTOS Petrobaltic S.A. confirmed that it undertook to assume full financial liability which may arise in connection with LOTOS Exploration and Production Norge AS' activities 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 which occurred with respect to the contingent liabilities, guarantees and sureties in H1 2011 have additionally been described in Notes 16.1 and 18 to the interim condensed consolidated financial statements for the six months ended June 30th 2011.

#### 4. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, Chief Executive Officer	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	
	Mariusz Machajewski
Vice-President of the Management Board, Chief Operation Officer	
	Marek Sokołowski
Vice-President of the Management Board, Chief Commercial Officer	
	Maciej Szozda