This is a translation of a document originally issued in Polish

MANAGEMENT'S DISCUSSION AND ANALYSIS of the Q2 2012 PERFORMANCE

THE LOTOS GROUP

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Contents

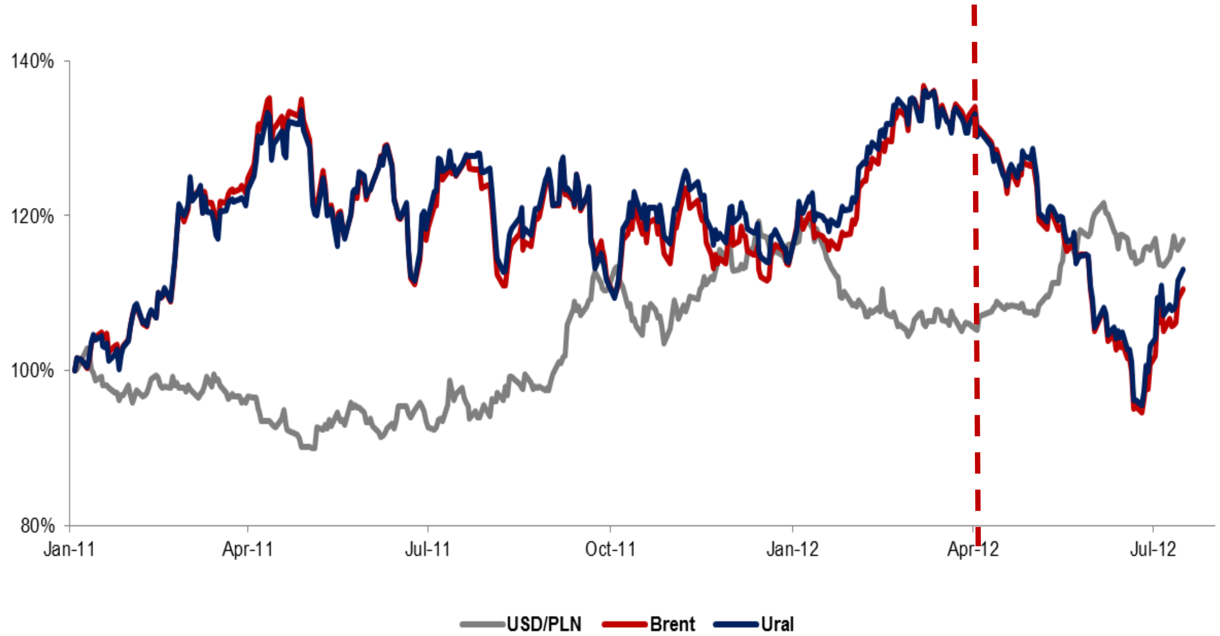
An excel file with the operating and financial data for Q2 2012 and the previous reporting periods is published together with the quarterly report in the Investor Relations section of our website as **databook**

1 Market environment

- ***Attractive crack margins on motor gasolines, diesel oil and aviation fuel***
- ***Differential up 0.85 USD/bbl on Q1 2012 and down 0.75 USD/bbl on Q2 2011***
- ***Lower prices of crude oil***
- ***Depreciation of the zloty against the US dollar as at the end of Q2 2012 relative to Q1 2012***

Macroeconomic data

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



Tab. 1: Brent/Urals prices and Grupa LOTOS's model margin

(USD/bbl)	Q2 2012	Q1 2011	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
DATED Brent FOB prices	**108,29**	118,60	117,04	*-8,7%*	*-7,5%*
Ural CIF Rotterdam prices	**106,31**	116,87	113,73	*-9,0%*	*-6,5%*
Brent/Ural differential*	**2,11**	1,26	2,86	*67,5%*	*-26,2%*
Model refining margin**	**6,52**	3,71	2,92	*75,8%*	*123,6%*

** 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 2: Crack margins

(USD/t)	Q2 2012	Q1 2011	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
Crack margin: Gasoline	**213,67**	171,84	172,21	*24,3%*	*24,1%*
Crack margin: Naptha	**55,84**	115,16	97,56	*-51,5%*	*-42,8%*
Crack margin: Diesel oil (10 ppm)	**126,78**	115,05	100,16	*10,2%*	*26,6%*
Crack margin: Light fuel oil	**104,12**	94,31	73,43	*10,4%*	*41,8%*
Crack margin: Jet fuel	**171,67**	159,63	168,11	*7,5%*	*2,1%*
Crack margin: Heavy fuel oil	**-197,00**	-214,83	-264,45	*8,3%*	*25,5%*

Table 3: Exchange rates

(USD/PLN)	Q2 2012	Q1 2011	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
PLN/USD exchange rate at end of period	**3,39**	3,12	2,75	*8,7%*	*23,3%*
Average quarterly PLN/USD exchange rate	**3,33**	3,22	2,75	*3,4%*	*21,1%*

In Q2 2012 there was an improvement in the macroeconomic environment.

Factors with a material bearing on the LOTOS Group's performance in Q2 2012 include:

Exchange rates:

- Significant increase in the average quarterly PLN/USD exchange rate (up 21.1% on Q2 2011 and 3.4% on Q1 2012) had a positive effect on the crack margin on fuels;

- Increase in the PLN/USD exchange rate at the end of the quarter (up 8.7% on Q1 2012) adversely affected remeasurement of the LOTOS Group's debt, most of which is denominated in USD;

- High volatility of the PLN/USD exchange rate in Q2 2012, from its low of 3.10 on April 3rd 2012, to its high of 3.58 on June 1st 2012, and then to 3.39 on June 29th 2012, yielded foreign exchange losses on operating activities, adversely affecting EBIT.

Feedstock and products:

- Favourable crack margins on motor gasolines and middle distillates (i.e. diesel oil, light fuel oil and aviation fuel) in Q2 2012 contributed to the increase in the LOTOS Group's overall operating result;

- Decline of Brent Dated prices in Q2 2012 (relative to Q2 2011 and Q1 2012) adversely affected the LOTOS Group's operating result;

- The quarter-on-quarter increase in the Brent/Ural differential (up 67.5% on Q1 2012) pushed the refining margin up, though the differential's 26.2% fall on Q2 2011 adversely affected the LOTOS Group's performance.

2 Upstream segment

- ***The segment's operating result (net of non-recurring events) at PLN 127.1m (up 58.9% on Q2 2011)***
- ***Increased production from the B3 field and discontinuation of temporary production from the B8 field in April (27% increase in LOTOS Petrobaltic's total output of crude on Q2 2011)***
- ***Impairment test of and impairment loss on Grupa LOTOS's interest in the Yme field***

Table 4: Crude oil reserves, production and sales

Reserves (mbbl) *	June 30 2012	March 31 2012	June 31 2011		
Norway	**12,95**	12,95	12,95		
Poland	**32,98**	33,34	34,45		
Lithuania **	**6,17**	6,32	6,79		
total	**52,10**	52,61	54,19		
Production (bbl/d)	**2Q2012**	**1Q2012**	**2Q2011**	**2Q12/1Q12**	**2Q12/2Q11**
Poland	**4 004**	5 550	3 149	*-27,9%*	*27,1%*
Lithuania **	**1 620**	1 626	1 707	*-0,4%*	*-5,1%*
total	**5 624**	7 176	4 856	*-21,6%*	*15,8%*
Own production sales (bbl)	**2Q2012**	**1Q2012**	**2Q2011**	**2Q12/1Q12**	**2Q12/2Q11**
Poland	**443 096**	534 664	447 664	*-17,1%*	*-1,0%*
Lithuania **	**178 128**	140 791	172 650	*26,5%*	*3,2%*
total	**621 224**	675 455	620 314	*-8,0%*	*0,1%*

2P – proved and probable reserves
*** pro rata to the ownership interest in the AB Geonafta Group*

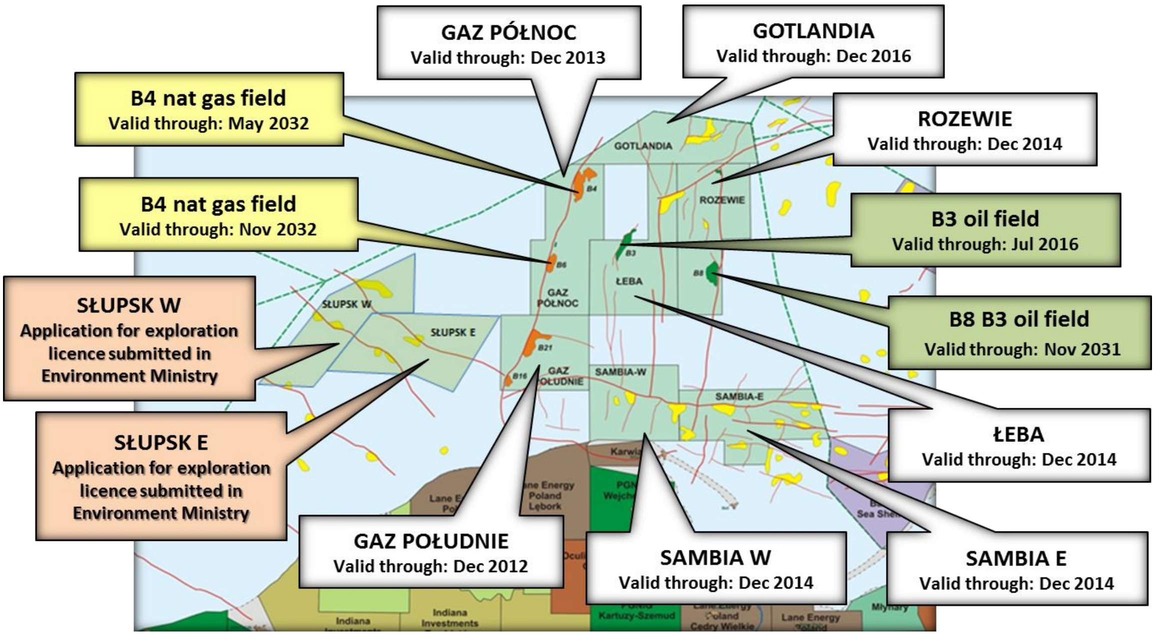
Table 5: Natural gas reserves, production and sales

Reserves (bcm)*	June 30 2012	March 31 2012	June 30 2011		
Poland	**0,492**	0,497	0,513		
Production (mcm)	**2Q2012**	**1Q2012**	**2Q2011**	**2Q12 /1Q12**	**2Q12 /2Q11**
Poland	**5,2**	7,3	3,8	*-28,8%*	*36,8%*
Sales (mcm)	**2Q2012**	**1Q2012**	**2Q2011**	**2Q12 /1Q12**	**2Q12 /2Q11**
Poland	**2,9**	2,4	2,2	*20,8%*	*31,8%*

**2P – proved and probable reserves*

LOTOS

LOTOS Petrobaltic S.A.

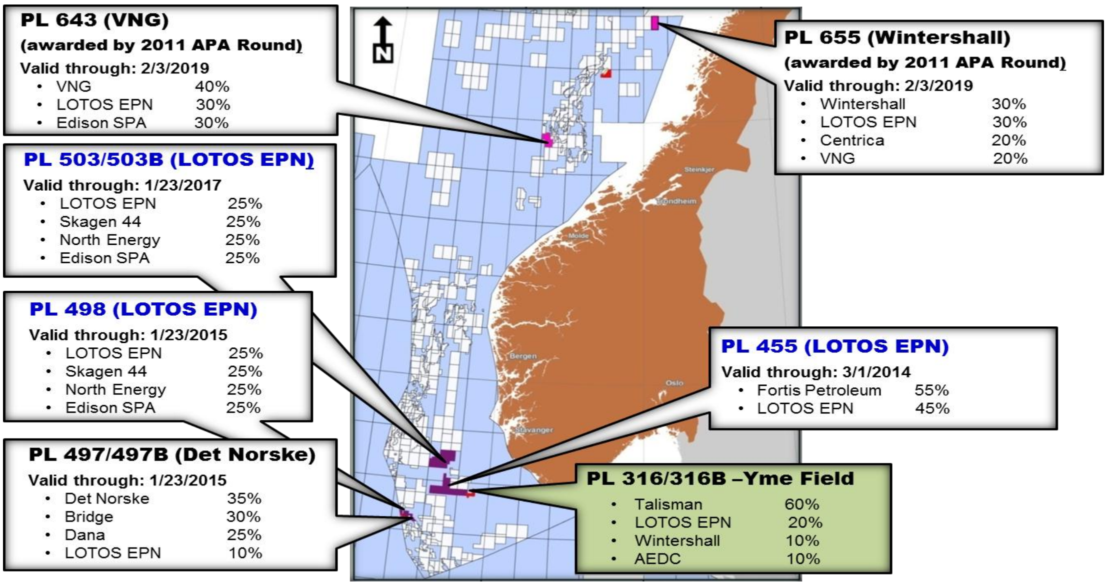


In Q2 2012, the company produced crude oil and natural gas from the B3 field.

In April 2012, temporary production from the B8 field in the Baltic Sea was discontinued. Preparations continued for further drilling, as per the field development plan. An analysis of samples from the B8 field confirmed the feasibility of improving the crude oil recovery factor with the use of appropriate technologies.

As search for a joint-venture partner continues, in a short term the company will not incur any material expenditure on the development of the B4 and B6 gas fields.

LOTOS Exploration &Production Norge AS (LOTOS EPN)



On May 4th 2012, LOTOS EPN received from the Norwegian Ministry of Petroleum and Energy a consent to extend until March 1st 2013 the deadline for making the drill-or-drop decision with respect to the PL455 licence, in order to carry out additional supplementary analyses and thus reduce any geological risks relating to drilling an exploratory well. In H2 2012, the company intends to drill two exploratory wells:

- in the PL498 licence (where LOTOS EPN is the operator);
- in the PL497/PL497B licence (where LOTOS EPN is a partner).

As at June 30th 2012, Grupa LOTOS performed another asset impairment test for its 20% interest in the production licences comprising the Yme development project. For the test purposes it was assumed that the launch of production from the Yme field would start in Q3 2015.

Based on the test results, the LOTOS Group recognised an impairment loss of PLN 934.6m (which reduced net consolidated result by PLN 285.3m). Taking into account the impairment loss, the carrying amount of the Yme tangible assets under construction was PLN 330.3m as at June 30th 2012*. In the consolidated statement of financial position, the Group recognised a deferred tax asset of PLN 1,050.7m. LOTOS EPN is taking steps to acquire an interest in a producing field in Norway, to be able to settle its deferred tax asset relating to the Yme field.

** The assumptions are described in detail in Note 17.7 to the LOTOS Group's financial statements for Q1 2012.*

<u>The LOTOS Geonafta Group</u>

In Q2 2012, AB LOTOS Geonafta and UAB Genciu Nafta produced crude oil from inland fields Girkaliai, Kretinga, Nausodis and Genciu in the Republic of Lithuania. UAB Manifoldas produced crude oil from fields Liziai and Veziaciai.

LOTOS Geonafta completed drilling a production well on the Auksoras field, where test production commenced in mid July 2012.

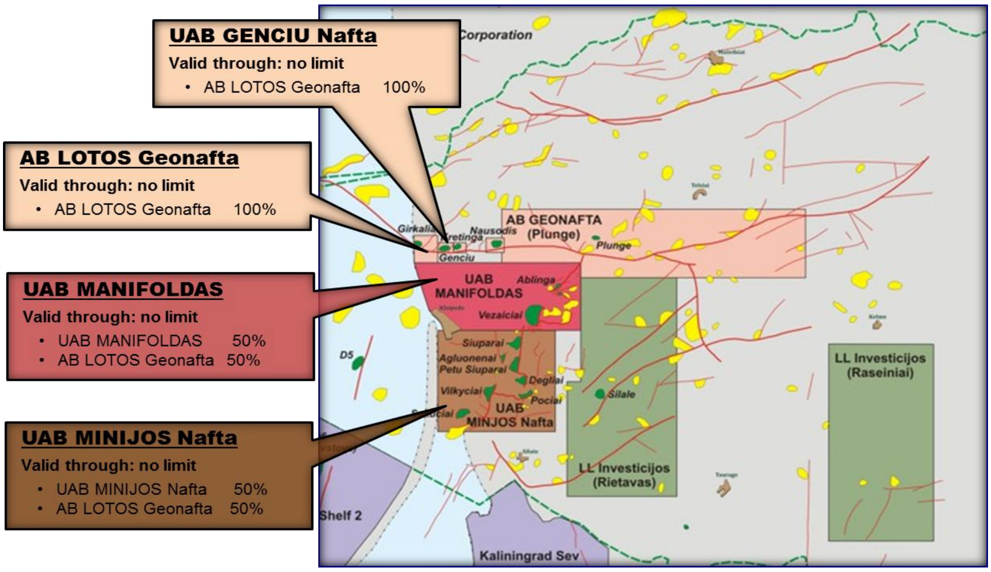


Table 6: Operating results of the upstream segment

(thousand tonnes/PLNm)	Q2 2012	Q1 2011	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
Sales revenue	**237,3**	264,3	210,3	-10,2%	12,8%
EBIT	**-835,8**	134,5	80,0	-	-
Normalised EBIT*	**31,6**	31,2	29,6	1,3%	6,8%
Depreciation and amortisation	**-804,2**	165,7	109,6	-	-
EBITDA	**127,1**	134,5	80,0	-5,5%	58,9%

** Operating result (net of non-recurring events): impairment loss on the interest in the Yme field in Q2 2012;*

The PLN 27.0m increase in the upstream segment's revenue (relative to Q2 2011) was mainly attributable to the appreciation of the US dollar. The decline of segment's revenue by PLN 27.0m on Q1 2012 was caused by lower volumes crude sales as well as lower crude prices.

The segment's operating result for Q2 2012 includes the PLN 962.9m impairment loss on LOTOS EPN's interest in hydrocarbon reserves in the acquired production licences comprising the YME field development project* (the LOTOS Group's consolidated operating result reflects a PLN 934.6m impairment loss).

**For details see Note 17.7 to the LOTOS Group's financial statements for H1 2012.*

3 Downstream segment

- ***Increase revenue (up 24% on Q2 2011 and up 7% on Q1 2012)***
- ***34.1% share in the domestic fuels market at the end of Q2 2012***
- ***Significant increase in production volumes of motor gasolines and record output of aviation fuel in response to high crack margins in Q2 2012***
- ***Improved performance in the retail area***

Table 7: Structure of crude refining output

Volume of crude oil processed by the Gdańsk refinery (thousand tonnes)	2Q2012	1Q2012	2Q2011	2Q12/1Q12	2Q12/2Q11
	2 415,5	**2 272,5**	**2 220,0**	6,3%	8,8%
including:					
Urals crude	**2 230,5**	2 022,9	1 934,9	10,3%	15,3%
Rozewie crude	**71,6**	36,3	28,7	97,2%	149,5%
Other types of crude	**113,4**	213,3	256,4	-46,8%	-55,8%

The utilisation ratio of the refinery's installed throughput capacity was 92.2% in Q2 2012. The crude throughput volume reached its record high (up 143 thousand tonnes on Q1 2012 and up 195.5 thousand tonnes on Q2 2011).

The rise of the refining margin to its average quarterly value of 6.52 USD/bbl, appropriate use of the refinery's operational flexibility, and selection of lighter types of crude in Q2 2012 helped to increase motor gasolines yields (by 56.8 thousand tonnes on Q1 2012 and by 28 thousand tonnes on Q2 2011). During the period the crack margin on motor gasolines rose by 42 USD/t on Q1 2012. The output aviation fuel was at its record high, rising 38.4 thousand tonnes on Q1 2012 and 52 thousand tonnes on Q2 2011. The crack margin on aviation fuel went up 12 USD/t on Q1 2012. During the reporting period, the share of ‘sweet’ Rozewie crude (produced by LOTOS Petrobaltic) in total feedstock increased by 97.2% on Q1 2012 and 149.5% on Q2 2011. Also the share of light Oseberg and Aasgard crudes (both offering higher gasoline and diesel oil yields) remained high, which enabled the refinery to increase the volumes of lighter distillates in response to the rising crack margins on motor gasolines.

Table 8: Structure of Grupa LOTOS' output

Total output (thousand tonnes)	2Q2012	1Q2012	2Q2011	2Q12/1Q12	2Q12/2Q11
	2 584,1	**2 447,9**	**2 474,3**	*5,6%*	*4,4%*
Gasolines	**370,8**	314,0	342,8	*18,1%*	*8,2%*
Naphta	**80,1**	101,4	23,6	*-21,0%*	*239,4%*
Diesel oils	**1 157,6**	1 045,5	1 178,4	*10,7%*	*-1,8%*
Light fuel oils	**47,4**	116,5	64,3	*-59,3%*	*-26,3%*
Jet fuel	**153,4**	115,0	101,4	*33,4%*	*51,3%*
Heavy fuel oil	**258,2**	368,9	245,5	*-30,0%*	*5,2%*
Bitumen components	**250,2**	78,0	276,8	*220,8%*	*-9,6%*
Other	**266,4**	308,6	241,5	*-13,7%*	*10,3%*

** Other products include: fuel and technical gases, sulphur, reformate, base oils, Hydrowax, xylene fraction and LPG.*

Table 9: Sales structure of the downstream segment

Sales (thousand tonnes)	Q2 2012	Q1 2012	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
	2 562,1	**2 307,1**	**2 354,6**	*11,1%*	*8,8%*
Gasolines	**354,1**	338,1	369,3	*4,7%*	*-4,1%*
Raw gasoline	**80,1**	101,4	23,5	*-21,0%*	*240,9%*
Diesel oils	**1 195,8**	1 021,5	1 164,9	*17,1%*	*2,7%*
Light fuel oils	**50,6**	116,7	66,8	*-56,6%*	*-24,3%*
Jet fuel	**142,3**	125,9	112,8	*13,0%*	*26,2%*
Heavy fuel oils	**213,6**	309,5	182,5	*-31,0%*	*17,0%*
Bitumens	**252,7**	48,7	271,2	*418,9%*	*-6,8%*
Other petroleum products	**272,9**	245,3	163,6	*11,3%*	*66,8%*

Petroleum products market in Q2 2012:

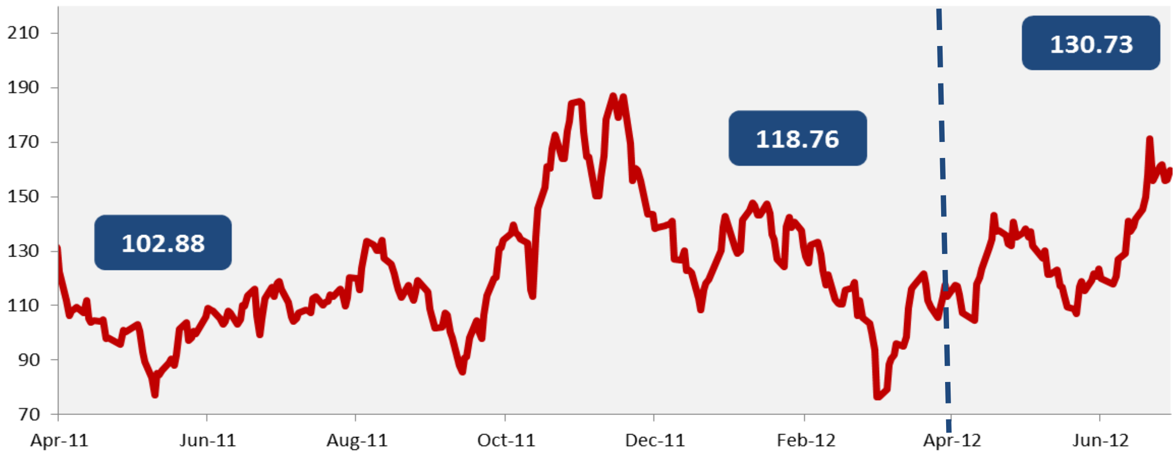
The decline of liquid fuels consumption in Poland in Q2 2012 is likely to reflect the general economic situation. A reading of the PMI indicator for the Polish manufacturing sector, which fell to its 35-month low of 48 in June 2012, suggests that the manufacturing downturn will deepen. The falling economic indicators, such as slower growth of output in the construction and assembly industries, sluggish employment growth or declining volumes of passenger car transport, combined with the anticipated weaker GDP growth (2.6% after Q2 2012), further dampen demand for fuels.

As at the end of Q2 2012, the overall consumption of fuels in Poland contracted by 7.1% year on year. During the period, the LOTOS Group's overall share in the Polish fuels market was 34.1% (up 1 pp year on year).
In Q2 2012, the total output and volumes of sales in the Group's downstream segment increased considerably relative to both Q1 2012 (up 255 thousand tonnes) and Q2 2011 (up 207.5 thousand tonnes).

Figure: Motor gasoline – Q2 2011/Q2 2012 crack margin

The decline in domestic demand for **motor gasoline** in the first six months of 2012 (down 3% year on year) was offset by higher LPG consumption (up 2.7% year on year). The situation on the fuel market is volatile – the average gasoline price reached a record-high of PLN 5.88 a litre in May, while gasoline prices on the international markets (in the złoty terms) peaked in April only to record substantial falls afterwards. In the reporting period, the key driver of the Group's rising share in the shrinking Polish motor gasoline market (up 2.9 pp year on year, to 29.3%) was high sales growth in the wholesale and retail channels.
Q2 2012 saw very attractive crack margins on motor gasoline on the international markets (up 24.1% on Q2 2011 and 24.3% on Q1 2012), buoyed by seasonal overhaul shut-downs at refineries, limited supply, low stocks and expectations of higher gasoline sales in the upcoming summer season.

Figure: Diesel oil – Q2 2011/Q2 2012 crack margin



In Q2 2012, crack margins on **diesel oil** on the international markets remained high (up 10.2% on Q1 2012 and 26.6% on Q2 2011).

As at the end of Q2 2012, consumption of diesel oil in Poland fell 7.7% year on year. Additionally, demand, so far insensitive to price changes, started to become increasingly more flexible.

As at end of Q2 2012, the LOTOS Group's share in the diesel oil market was 35.6%, up 0.5 pp year on year. The Group increased its market share as diesel oil sales through the wholesale network and the dynamically expanding retail network grew faster than the market.

Weaker demand for **light fuel oil** may be attributable to the contracting market (down 13.7% year on year). Although sales of light fuel oil at Grupa LOTOS fell 16.8 thousand tonnes, i.e. 24.3% year on year, its market share remained high at 37.4% after Q2 2012.

Figure: Aviation fuel – Q2 2011/Q2 2012 crack margin

Attractive crack margins on **aviation fuel** on the global markets brought about a record-high increase in the Company's output of **aviation fuel**, which improved both quarter on quarter (up 38.4 thousand tonnes, or 33.4%) and year on year (up 52 thousand tonnes, or 51.3%). In Poland, aviation fuel was marketed through two distribution channels: at the Gdańsk airport and through the wholesale channel. The Group also exported aviation fuel by sea, mainly to countries in the Baltic Sea basin.

Figure: Naphta – Q2 2011/Q2 2012 crack margin

In Q2 2012, sales and production volumes of **naphta**, exported by the Company to France, the Netherlands and the United Kingdom, were reduced on account of a sudden decline of raw gasoline crack margins on the global markets (down 51.5% on Q1 2012 and 42.8% on Q2 2011).

Due to seasonal fluctuations, the Q2 2012 sales of **bitumens** were far above the level seen in the previous quarter, though and slightly below the Q2 2011 figure. In the period under review, the LOTOS Group saw a rise in unit margins on domestic and export sales of bitumens.

The negative margin on **heavy fuel oil** also improved significantly, by 18 USD/t (8.3%) on Q1 2012 and as much as 67.45 USD/t (25.5%) on Q2 2011. Thanks to the operation of the high-conversion installations (ROSE), launched in Q2 2011, it was possible to feed some of the heavy residue for further processing into fuels; as a result, the output and sales of heavy fuel oil declined.

Source of data on market shares and fuel consumption: Polish Organisation of Oil Industry and Trade (POPiHN), the Company.

Table 10: Operating results of the downstream segment

(PLNm)	Q2 2012	Q1 2012	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
Sales revenue	**8 318,6**	7 778,1	6 723,1	*6,9%*	*23,7%*
Operating profit/(loss)	**-57,5**	345,4	263,4	-	-
Depreciation and amortisation	**131,0**	132,0	118,1	*-0,8%*	*10,9%*
EBITDA	**73,5**	477,4	381,5	*-84,6%*	*-80,7%*
LIFO operating profit/(loss)	**147,1**	112,7	23,3	*30,5%*	*531,3%*

The 23.7% rise in the downstream segment's revenue in Q2 2012 relative to Q2 2011 was mostly attributable to a 13.7% increase in the segment's average net selling price and an 8.8% uplift in its sales volume. Driven by the appreciation of the US dollar and the optimised sales structure, the average net selling price in the downstream segment rose from PLN 2,855 PLN/t in Q2 2011 to 3,247 PLN/t in Q2 2012.

Compared with the previous quarter (Q1 2012), revenue grew 6.9%, mainly as a result of the 11.1% sales volume increase in the segment. The average net selling price fell 3.7% (on Q1 2012) chiefly due to lower prices of crude oil and petroleum products.

The negative operating result of the downstream segment in Q2 2012 was mainly attributable to declining crude prices during the period and the weighted average inventories valuation method applied by the Group. The result was also adversely affected by foreign exchange losses on operating activities of PLN 91.3m (Q1 2012: PLN -1.5m; Q2 2011: PLN -3.8m), foreign exchange losses on hedge accounting of PLN 2.1m (Q1 2012: PLN - 3.4m) and the 26.2% fall of the Brent/Urals differential.

Factors with a positive effect on the downstream segment's operating result in Q2 2012 included mainly increased margins on fuels and heavy fuel oil, higher average PLN/USD exchange rate during the quarter and the optimised sales structure.

Network of LOTOS service stations

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

Total number of service stations	June 30 2012	March 31 2012	June 30 2011	Q2 12/Q1 12	Q2 12/Q2 11
	368	**365**	**318**	*0,8%*	*15,7%*
CODO	**195**	191	158	*2,1%*	*23,4%*
including: LOTOS OPTIMA	**37**	33	0	*12,1%*	-
DOFO	**138**	138	112	*0,0%*	*23,2%*
including: LOTOS OPTIMA	**19**	19	0	*0,0%*	-
DODO	**35**	36	48	*-2,8%*	*-27,1%*

The LOTOS Group continued to expand its retail network, particularly by opening further stations under the new brand of OPTIMA economy service stations. LOTOS is currently the most rapidly growing service station network in Poland (on a year-on-year basis). As at the end of Q2 2012, as many as 11 motorway service areas operated under the LOTOS brand.

Table 12: Operating results of the retail business

(thousand tonnes/PLNm)	Q2 2012	Q1 2012	Q2 2011	Q2 12/Q1 12	Q2 12/Q1 11
Sales volume	**258,1**	234,0	264,5	*10,3%*	*-2,4%*
Sales revenue	**1 476,2**	1 366,1	1 323,1	*8,1%*	*11,6%*
Operating profit/(loss)	**2,7**	-16,3	-12,3	-	-
Depreciation and amortisation	**12,3**	12,4	11,9	*-0,8%*	*3,4%*
EBITDA	**15,0**	-3,9	-0,4	-	-

Expansion of the LOTOS service station network directly contributed to the brand's higher share in the retail market and an improved performance of the retail segment in Q2 2012.

As at the end of Q2 2012, the LOTOS Group's share in the retail fuel market (in terms of total gasoline and diesel oil sales volumes) was 8% (end of Q2 2011: 7.6%). The share of diesel oil sold under the LOTOS brand in the total volume of diesel oil sold at service stations rose to 9.6% (up 0.6pp on Q2 2011)*. In Q2 2012, the LOTOS Group recorded an improved margin on retail fuel sales.

The higher revenue in the retail segment (up 11.6% on Q2 2011) resulted chiefly from the appreciation of the US dollar against the złoty (up 21.1% on Q2 2011).

**Source: the Company, based on data from the Polish Organisation of Oil Industry and Trade (POPiHN)*

Table 13: Effect of inventory measurement on the operating result of the downstream segment

(PLNm)	Q2 2012	Q1 2012	Q2 2011
Operating profit/(loss)	**-57,5**	345,4	263,4
LIFO effect*	**204,6**	-232,7	-240,1
LIFO operating profit/(loss)	**147,1**	112,7	23,3

**In line with its inventory measurement policies, the LOTOS Group uses the weighted average method to measure decrease in inventories. This method of inventory measurement defers the impact of changes in crude oil prices on the prices of finished products. Thus, an increase in crude oil prices has a positive effect on the financial performance, while a decrease drives it down. The operating result reflecting the impact of this inventory measurement method is presented in the table.*

In Q2 2012, the weighted average method of inventory measurement applied by the LOTOS Group, combined with lower crude prices, reduced the operating result of the downstream segment by PLN 204.6m (the LIFO effect). In the comparative period, the applied inventory measurement method added PLN 240.1m to the operating result. In Q1 2012, the operating result grew PLN 232.7m, mainly on the back of higher crude prices. If the LIFO method had been applied to inventory measurement, the operating result of the downstream segment would have been PLN 147.1m in Q2 2012, PLN 112.7m in Q1 2012, and PLN 23.3m in Q2 2011.

4 Other business

Table 14: Operating result of other business*

(PLNm)	Q2 2012	Q1 2012	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
Sales revenue	**7,3**	7,0	5,6	***4,3%***	***30,4%***
Operating profit/(loss)	**2,5**	1,4	1,1	***78,6%***	***127,3%***
Depreciation and amortisation	**2,5**	2,5	2,5	*0,0%*	*0,0%*
EBITDA	**5,0**	3,9	3,6	***28,2%***	***38,9%***

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

5 Consolidated statement of comprehensive income

In Q2 2012, the LOTOS Group recorded an operating loss of PLN -861.4m, which includes the effect of recognition as at the end of H1 2012 of the impairment loss on assets relating to the YME field.

Table 15: Operating results of the LOTOS Group

(PLNm)	Q2 2012	Q1 2012	Q2 2011	Q2 12/Q1 12	Q2 12/Q2 11
Sales revenue	**8 384,10**	7 832,30	6 781,40	*7,0%*	*23,6%*
EBITDA	**-696,8**	584,3	466,8	-	-
Normalised EBITDA*	**237,8**	563,3	466,8	*-57,8%*	*-49,1%*
Operating profit	**-861,4**	419	316,9	-	-
Normalised operating profit*	**73,2**	398	316,9	*-81,6%*	*-76,9%*
LIFO operating profit/(loss)	**-656,8**	186,3	76,8	-	-
Normalised LIFO operating profit/(loss)*	**277,8**	165,3	76,8	*68,1%*	*261,7%*

**Operating result net of non-recurring events: sale of all shares in LOTOS Parafiny in Q1 2012 and impairment loss on the interest in the YME field in Q2 2012;*

In Q2 2012, the LOTOS Group reported net finance loss of PLN -426.3m, with the key contributors being PLN -207.1m foreign exchange losses on remeasurement of debt denominated in foreign currencies, a PLN -153.1m net loss on measurement and settlement of hedging transactions, and PLN -59.5m negative balance of interest on debt, interest income and commission fees.

Following the implementation by Grupa LOTOS of cash flow hedge accounting with respect to foreign-currency denominated credit facilities used to finance the 10+ Programme, designated as hedges for future USD-denominated petroleum product sales transactions, foreign exchange losses taken to the cash flow hedging reserve in Q2 2012 were PLN -299.5m (Q2 2011: PLN +83.4m). In Q1 2012, foreign exchange gains increasing the value of the cash flow hedging reserve were PLN 341.8m.

In the analysed period, the net effect of measurement and settlement of market risk hedging transactions at the LOTOS Group was negative at PLN -153.1m. In Q2 2012, total net loss on settlement and measurement of derivative instruments, including forwards hedging the foreign exchange risk and futures hedging the risk of changes in prices of CO_2 emission allowances, was PLN -102.9m. The net loss on settlement and measurement of interest rate hedging transactions was PLN -29.9m. The effect of measurement of transactions hedging petroleum product prices was negative at PLN -20.3m.

Table 16: Transactions hedging petroleum products prices as at June 30th 2012

Period	Commodity	Light heating oil	Heavy sulphur fuel oil
		Gasoil .1 Cargoes CIF NWE / ARA	3.5 PCT Barges FOB Rotterdam
Q32012	Volume (mt)	-8 658	39 358
	Price range (USD/mt)	1018,5 - 1022	689,5 - 697,5
Q42012	Volume (mt)	-1 326	6 026
	Price range (USD/mt)	1 018,50	689,5

Table 17: 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 18: 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%	LIBOR 3M - LIBOR 6M

In Q2 2012, the Group recorded a consolidated net loss of PLN -529.0m (Q1 2012: net profit of PLN 597.1m; Q2 2011: net profit of PLN 270.0m).

For H1 2012, the Group posted a net profit of PLN 68.1m.

Table 19: Net profit/loss of the LOTOS Group

(PLNm)	Q2 2012	Q1 2012	Q2 2011
EBIT	**-861,4**	419,0	316,9
Pre-tax profit/(loss)	**-1287,7**	737,0	316,2
Net profit/(loss)	**-529,0**	597,1	270,0
Net profit/(loss) attributable to owners of the Parent	**-528,8**	597,0	270,0
Normalised net profit/(loss)*	**-243,7**	576,1	270,0

** net profit/loss, net of non-recurring events: sale of all shares in LOTOS Parafiny in Q1 2012 and impairment loss on the interest in the YME field in Q2 2012;*

6 Consolidated statement of financial position

Table 20: Consolidated statement of financial position

	June 30 2012	Dec 31 2011	change	%
Assets (PLNm)	**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 available 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	*-370,0*	***-5,5%***
Liabilities associated w ith assets available for sale	**0,0**	40,4	*-40,4*	***-100,0%***

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

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 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, relatively flat on the figure as at December 31st 2011.

As at June 30th 2012, equity was PLN 7,869.7m, having grown PLN 87.3m during H1 2012, chiefly 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 on 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, i.e. stayed relatively flat on the figure as at the beginning of the year.

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. 1.9pp lower than as at December 31st 2011.

7 Consolidated statement of cash flows

Table 21. Consolidated statement of cash flows

(PLNm)	Q2 2012	Q1 2012	Q2 2011
Cash flows from operating activities	530,5	-308,8	-585,7
Cash flows from investing activities	-156,8	-140,9	-178,2
Cash flows from financing activities	-225,1	14,8	4,2
Change in net cash	173,4	-456,8	-760,5
Cash and cash equivalents at beginning of period	-295,2	161,6	494,2
Cash and cash equivalents at end of period	-121,8	-295,2	-266,3

As at the end of Q2 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 Q2 2012, of PLN 530.5m, is chiefly related to a PLN 400.0m decline in inventories in Q2 2012 following from lower crude oil and petroleum product prices, and an adjustment of current period's net profit for the loss on investing activities (net of deferred tax).

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

Cash flows from financing activities in Q2 2012, of PLN -225.1m, chiefly comprise proceeds from borrowings and other debt instruments and outflows on principal and interest payments of PLN -305.6m.