CONSOLIDATED DIRECTORS' REPORT

at 30 June 2011

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1. Evolution of the Business and of the Group during the first half of year 2011

During the first half of year 2011, LSB Group's consolidated business turnover totalled EUR 577 million, representing a 22% increase with regard to the prior year. Consolidated net losses before taxes decreased 87% to EUR -4 million against EUR -33 million in the same period in 2010. It is worth noting that the Group registered income before taxes during the second quarter of 2011 amounting to EUR 1.4 million.

The volatility of the raw materials markets and the instability of the exchange rates have been factors very much in the foreground in the global economic scenario during the first half of 2011, and have had particular influence on the availability and market values of PET raw materials and, consequently, on LSB's business.

Market

The evolution of the PET resin and PET packaging market during the first half of 2011 was conditioned by raw material shortages and, consequently, end product shortages in the European market, a situation that was progressively turned around during the last months of the period as the new production capacity for PTA was put into commission in Europe and due to the increase in the flow of PET imports from Asian manufacturers given (i) the progressive weakening of the US dollar against the European currency; and (ii) the slowdown of the strong growth process experienced by Asian economies due mainly to their inflation issues.

Thus, during the first quarter of 2011, the European market experienced a marked PET shortage due to an irregular production rate of PTA by European plants as a result of the unscheduled downtime at some factories in northern Europe. This caused a decrease in the production capacity occupation of PET in Europe of up to 70%, as well as a marked increase in prices due to the sustained demand by European manufacturers of packaging, which were unable to find a supply alternative in imported material given the relative strength of the US dollar against the Euro and the strong demand of Asian economies.

However, this situation was reversed during the second quarter of the year, due mainly to the operation start-up of PKN's new PTA plant in Poland as from May, which has restored the balance of supply and demand on the market and has contributed, together with the rapid increase in PTA imports, to an increase in average occupation of installed capacity of PET in Europe of up to 85%.

The increase in European production of PET, along with the reappearance of imports from the Middle East as a result of the progressive weakening of the US dollar against the Euro and the cooling demand in Asian countries as from May, has led to a 10% decrease in PET prices from the maximum figures in March through late June, a sharper drop than that experienced by prices of the main raw materials during the same period.

The PET packaging market has been strongly affected by a supply shortage and the volatility in PET resin prices, which has limited the increase in demand as customers have turned toward other materials for their promotional activities, also delaying substitution projects of other materials for PET.

Operations

The Group's operations during the first quarter of 2011 were conditioned by the raw materials supply difficulties of PET plants during the first quarter. The Group's average production capacity occupation dropped down to 70% in late March and the Group was forced to invoke the status of force majeure so as to avoid breaching contractual commitments with its customers. In spite of this situation, LSB kept all of its plants up and running during the period. The Group's actions enabled production to be increased as from May, and throughout June, average occupation of the Group's plants reached 91%.

As regards the packaging production plants, the rate of transactions was not affected by the PET market conditions inasmuch as the decrease in the supply of raw materials from in-house production was covered through agreements with external suppliers.

Activity by the Chemicals Division (represented by Industrials Químicas Asociadas, IQA) was affected by both the decrease in demand of the El Prat plant during the first quarter and the substitution of the factory catalyst that led to scheduled downtime of operations for two weeks. An investment was also finished, making it possible to ship product by sea, which considerably increases the commercial field of action and enables IQA to supply other plants in the Group. IQA is currently operating at 100% of its glycol production capacity and has signed important supply agreements which ensure a high level of production until the end of the year.

The Artenius Green recycling plant in Balaguer started up operations during the second quarter of the year, and has ensured the supply of raw materials through the end of the year by being awarded bids for selectively-collected materials.

During this six-month period, the Group has advanced notably in normalising the financing of its working capital through the negotiation for better credit terms with its raw materials suppliers as well as by having obtained new commercial credit line facilities for an approximate amount of EUR 35 million, which has enabled it to considerably improve its liquidity position, in spite of the increase in working capital investments due to the seasonal factor of demand.

Significant events during the first half of 2011

During the first half of 2011, the Group finished with the disposal of the PET production plants located in San Roque (Cadiz) and Portalegre (Portugal), as well as of its share in Evertis, SGPS, S.A. (formerly named Begreen), in line with the objectives set out in the restructuring plan approved by the General Shareholders' Meeting.

2. Key figures of the consolidated Group

The key figures of the LSB Group at 30 June 2011 show a marked positive development of both the financial structure and operating income in year-on-year terms.

Income Statement (key figures)	**30.06.2011**	**30.06.2010**	**% Variation**
Thousands of Euros			
Operating income	596,808	486,812	+22.60%
Gross profit (Operating income – supplies))	153,221	160,336	-4.44%
EBITDA	34,715	30,342	+14.41%
Operating profits (losses)	5,052	-3,816	-232.39%
Profit (loss) attributed to the parent company	-5,546	-32,308	-82.83%
Recurring EBITDA	**36,782**	**31,785**	**+15.72%**

Balance Sheet (key figures)	**30.06.2011**	**31.12.2010**	**% Variation**
Thousands of Euros			
Shareholders' equity	296,572	302,379	-1.92%
Net borrowing	639,989	625,991	+2.24%
Net borrowing – ex PIK (including interest)	408,137	397,464	+2.69%
Operating working capital	91,286	68,545	+33.18%
Total Assets	1,254,908	1,293,628	-2.99%

Consolidated operating income increased 22.6% against the first quarter of 2010, due mainly to the strong increase in PET prices (17% in June 2010 through June 2011). In terms of volume, the Chemicals Division experienced a significant growth of 24%, while the PET and Packaging Divisions underwent a 3% increase and a 7.2% decrease, respectively.

The raw material supply difficulties during the period, of both PET and PTA, led to a 4.4% decrease in the gross margin, related to the high purchase prices of raw materials on the spot market, to ensure production needs are covered.

The accounting EBITDA increased 14.4% up to EUR 34.7 million as a result of the operating improvements implemented and the elimination of restructuring expenses incurred by the Group during the prior year. With regard to recurring EBITDA, the increase was 15.8% to EUR 36.8 million.

In the first half of 2011 the Group earned operating profits of EUR 5 million against the prior year's losses of EUR -4 million. The losses attributable to the parent company have increased through June to EUR 5.5 million against EUR 5.7 million in the first quarter of the year, which is why the Group made a slight profit during the second quarter of 2011.

The increase in operating working capital with respect to December 2010 is due to the impact of the rise in PET prices and the seasonal effect of demand, as well as the EUR 36 million decrease in aged payables to suppliers which the Group paid off during the first half of the year. During this period the Group advanced considerably in the normalisation process of the commercial financing conditions with which it operates, through the increase in the availability of lines of credit and an improvement in ordinary financing by suppliers.

The Group has a liquidity position similar to the one in December 2010, in spite of the increase in operating working capital of EUR 23 million. This liquidity position should be increased throughout the second half of the year as the seasonal drop in activity comes about with the resulting divestment of working capital and as improvements in financing conditions from suppliers become effective.

The net debt has increased slightly due to greater financing needs of working capital determined by the increase in prices mainly in Turkey, where all working capital financing is carried out through balance sheet instruments, and due to the increase in the net debt of EUR 8.5 million as a result of the final capital contribution commitments to the Portuguese affiliate Artlant PTA (formerly named Sines), the disbursement of which will be carried out as from December 2011.

3. Analysis by Business Unit

At the beginning of 2010 , the Board of Directors decided to change the disclosure method of the periodic information on the business activity in the market from a geographical criterion to a business-line criterion. This segmentation by the Board of Directors is intended to ensure that the periodic information provided is more consistent with the management information prepared by the Group, as well as to increase the transparency of the information furnished given the different nature of its activities and the varied dynamics of its business cycles.

The figures by Business Division that are shown below are non-consolidated aggregate figures that were taken from the Group's management accounts. The notes to the Consolidated Financial Statements list the reconciliation between the consolidated accounts and the management accounts.

3.1 PET / PET Recycling

According to the non-consolidated management accounts reported periodically to the Group Directors, the main figures for this division are as follows:

Key Financial Figures	30.06.2011	30.06.2010	% Variation
Thousands of Euros			
Net business turnover	275,579	214,672	+28.4%
EBITDA	12,778	9,092	+40.5%
EBIT	4,114	-17	NA

The PET/PET Recycling Division has increased its business turnover by 28.4% during the first half of year 2011 in year-on-year terms, while EBITDA increased 40.5% over the same comparative period.

This marked improvement in the Division's income is related mainly to the increase in PET prices, while the increase in production was 3% against the first quarter of 2010, a variation that is attributed to the low production capacity occupation during the first quarter due to the market situation described above. The changes in income (loss) evidence a considerable improvement in the Division's margin and overhead management.

In spite of the positive evolution of income (loss), it is worth noting that the Division's profitability is significantly affected by low activity levels and by the need to purchase raw materials on the spot market in a scenario with strongly volatile prices, which has adversely affected income (loss) in the second quarter.

During this same period the production plant of PET Recycling chips located in Balaguer (Lleida) began operating and the supply of raw material has been ensured through the end of 2011.

3.2 Packaging

The Packaging division comprises the entire PET packaging production activity of the LSB Group ans its contribution to the Group's results is summarised in the table below:

Key Financial Figures	30.06.2011	30.06.2010	% Variation
Thousands of Euros			
Gross Sales	337,365	285,340	+18.2%
EBITDA	24,783	26,444	-6.3%
EBIT	14,577	14,813	-1.6%

During the first half of 2011, the Division's business turnover increased 18.2% vis-à-vis the same period in the prior year. This growth is due mainly to the increased cost of the raw materials passed through to customers in the final price. Sales in terms of units dropped 7.2% in the compared periods.

The drop in sales in terms of volume is due to the effect of having lost a significant customer that was quite active during the first half of the prior year, as well as to the marked cool down in demand in the Turkish market.

In terms of EBITDA, the Division delivered EUR 24.8 million, accounting for a 6.3% decrease in year-on-year terms. The decrease in EBITDA is less than the decrease in sales volume, which evidences an improvement in the sales mix and in the average margin per unit sold.

The Division's profitability in the first half of the year was affected by the slowdown in new projects determined by the strong PET price volatility during the first half of the year, especially those related to the substitution processes of other materials by PET.

3.2 Chemicals Division (IQA)

This Division includes the business activities of IQA. The main figures of the management accounts reported to the Group Directors are the following:

Key Financial Figures	30.06.2011	30.06.2010	% Variation
Thousands of Euros			
Gross Sales	57,441	39,042	+47.1%
EBITDA	4,966	1,250	+297.3%
EBIT	4,131	787	+424.9%

The Division's business turnover during the first half of the year totalled EUR 57 million, a 47% year-on-year increase. In terms of volume, sales rose 24% due not only to the higher level of activity at the plant in El Prat as compared to the same period the prior year, but also to MEG sales made to third parties, which has been possible thanks to the investments effected to enable the shipping capacity by sea.

The Division generated a positive EBITDA of EUR 5 million during the first half of the year, due mainly to the favourable compared evolution in the price of MEG and ethylene, its main raw material, in spite of having gone ahead with the scheduled annual downtime to substitute the catalyser, which entailed two weeks of production inactivity.

4. Prospects for the second half of year 2011

The recent change in prices of raw materials are an indication of a price stabilisation around the levels reached in June and July, as the strong inflation experienced by the Chinese economy and the economic measures implemented to control it announce a slowdown in the growth of Asian demand. In this scenario, and as long as the EUR/USD exchange rate maintains current approximate levels, the flow of PET and PTA imports from Asia and the Middle East are expected to climb during the second half of the year, which would place greater pressure on PET manufacturers' margins.

As regards the evolution in demand for PET and PET packaging in Europe, prospects for the second half of the year involve a limited growth in line with prospects regarding the evolution of economic activities in the markets in which the Group does its business.

During the second half of the year, the Group trusts it will improve its liquidity position due to: (i) a decrease in inventories and in customer credit as a result of the seasonal factors of demand; (ii) gradually increased access to lines of credit for customer credit; and (iii) the increase in commercial credit from suppliers.

The start-up of the PTA production plant of Artlant PTA (formerly Sines), planned for November 2011, will contribute to increasing the stability in the Group's operations as long as access to PTA is ensured in better trading conditions than the current ones.

As regards the Packaging Division activity, the boost given to the development of new projects with greater added value has garnered favourable response from the Group's customers. The design and deployment of the industrial infrastructure necessary to implement up to five new projects during the last quarter of 2011 and the first quarter of 2012 is currently in the process of being completed.

During the second half of 2011, the Group will continue to make progress in achieving its objectives of non-strategic asset divestment and organisational restructuring and integration, with a view to increasing the efficiency and effectiveness of its operations, as well as to prepare the structure supporting the growth plans that will ensure LSB continues to lead the plastic packaging sector.