THE LOTOS GROUP

DIRECTORS’ REPORT ON THE FINANCIAL PERFORMANCE OF THE LOTOS GROUP FOR Q1 2008

Gdańsk, May 15th 2008

(This is a translation of a document oryginally issued in Polish)

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1 INTRODUCTION

In Q1 2008, the Management Board of Grupa LOTOS S.A. pursued the LOTOS Group's Strategy until 2012 in the key areas of the Group's business, including:

- exploration and production of crude oil
- oil refining and wholesale of refined petroleum products
- retail sale of fuels.

If the Strategy objectives are met, from 2011 onwards the Group's annual oil throughput should rise to 10.5 million tonnes. This will bolster the Company's position in the Baltic Sea region, and its share in the domestic retail and wholesale markets is expected to reach 10% and 30%, respectively.

In the E&P segment, in Q1 2008 the Group produced crude oil and natural gas from the B3 and B8 deposits. Total crude oil production amounted to 71.7 thousand tonnes, while total natural gas output amounted to 8,134 thousand m^3.

The volume of crude oil processed in Q1 2008 was 1,542.1 thousand tonnes, which represented a 103.1% utilisation of the nameplate throughput capacity of the Gdańsk refinery. The volume of Ural crude processed in Q1 2008 was 1,470.0 thousand tonnes.

In Q1 2008, the LOTOS Group sold 379 thousand tonnes of motor gasolines, 630 thousand tonnes of diesel oil, 100 thousand tonnes of light fuel oil, 340 thousand tonnes of heavy fuel oil, 123 thousand tonnes of jet fuel, 48 thousand tonnes of bitumens, and 113 thousand tonnes of other products.

In Q1 2008, the Group continued its activities related to the implementation of the 10+ Programme, focusing on performing the execution contracts, singing further contracts and on carrying out activities related to arranging financing for the 10+ Programme.

In the retail segment, in Q1 2008, the Group continued to develop a modern countrywide LOTOS service station network by restructuring the stations network and launching new products. As at the end of Q1 2008, the number of COCO/CODO stations was 133, the number of DOFO stations was 72, and the number of DODO stations fell to 141. The number of franchise agreements signed increased to 91.

In Q1 2008, the average price of Brent oil was USD 96.71 per barrel, and was higher than in Q4 2007 (by USD 8.26 per barrel, or 9.3%) and in Q1 2007 (by USD 38.95 per barrel, or 67.4%). The higher oil prices in Q1 2008 as compared with Q4 2007 were accompanied by a 10.9% increase in the Brent/Ural differential – from USD 3.04 per barrel in Q4 2007 to USD 3.37 per barrel in Q1 2008. In relation to Q1 2007, the Brent/Ural differential fell by 1.2% (from USD 3.41 per barrel).

The increase in oil prices went hand in hand with a decrease in crack margins. In Q1 2008, the average refining margin fell to USD 4.44 per barrel and was 14.6% lower than in Q4 2007 (when it stood at USD 5.20 per barrel) and 6.8% lower (down by USD 0.33 per barrel) year on year.

The LOTOS Group's performance in Q1 2008 was driven by a number of factors, including in particular increased prices of crude oil and crude oil products on global markets, higher sales of petroleum products, costs of creating obligatory fuel reserves, the Polish złoty strengthening against the US dollar and the concluded hedging transactions.

In Q1 2008, the LOTOS Group posted consolidated sales revenue of PLN 3,561.5m, operating profit of PLN 94.7m, net profit on continued operations of PLN 278.8m and net profit attributable to equity holders of the parent in the amount of PLN 267.9m. Year on year, sales revenue increased by 40%, operating profit went up by 79%, net profit on continued operations increased by 343%, and net profit attributable to equity holders of the parent by 378%.

2 PETROBALTIC AND THE E&P SEGMENT

In the E&P segment, in Q1 2008 oil and gas production continued at the B3 and B8 deposits. The crude oil and natural gas outputs were, respectively, 71.7 thousand tonnes and 8,134 thousand m^3, including 3,398 thousand m^3 from the B3 deposit. The entire crude oil output was shipped to the Gdańsk refinery, and the natural gas was sent via a pipeline to Energobaltic's power plant in Władysławowo. Petrobaltic's crude sales to the LOTOS Group amounted to 51.3 thousand tonnes.

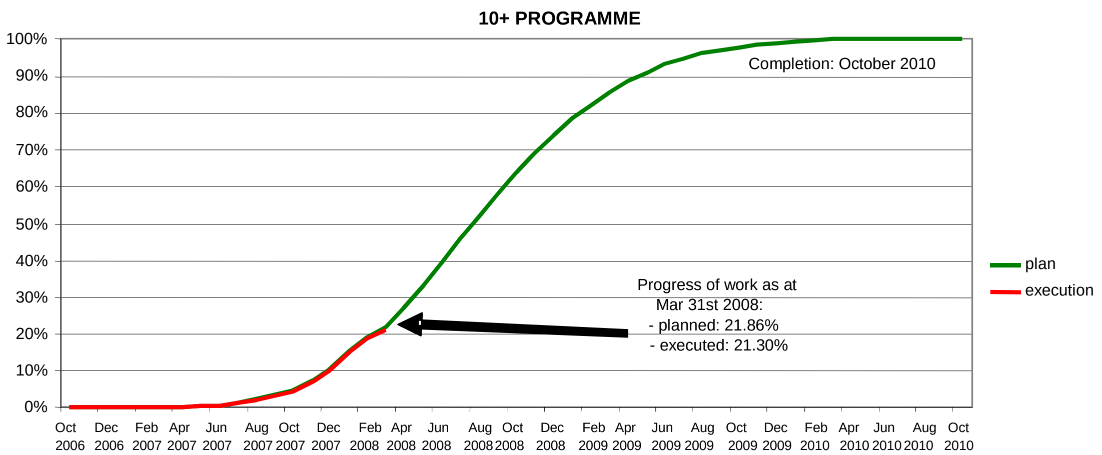
In Q1 2008, the key tasks carried out in the E&P segment included:

- production from the B8 deposit,
- drilling of the B8-Z1 well.

3 10+ PROGRAMME

As part of implementation of the 10+ Programme, the largest investment project of the LOTOS Group of key importance for the future growth of the Company's value, the Company's activities in Q1 2008 focused on performing the execution contracts, singing further contracts and arranging financing for the 10+ Programme.

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



As part of the ROSE project, Kellogg Brown & Root continued the review of the basic design. In March 2008 a series of production-related tests was carried and a preliminary report confirmed feasibility of road bitumen blending with the use of bitumens from the ROSE unit.

As part of the HDS project (diesel hydrodesulphurisation), in Q1 2008, foundations for plant and equipment, steel structures and racks were laid. The unit's power supply network was commissioned, and extension of the switchgear and substation commenced. 65% of the trestle bridge structure was executed and first deliveries of apparatus were received (nine tanks and 62 tonnes of air cooler casing). Construction of the fire protection system for trestle bridge structures commenced. Currently, the underground development work is under way.

As part of the CDU/VDU project (crude distillation unit), in Q1 2008 contracts were signed with: SARENS for assembly of heavy apparatus; Polimex/Naftoremont for assembly of pipelines and apparatus; and Elektromontaż Gdańsk (multiple contracts) for execution of work relating to electrical wiring, control and instrumentation. Moreover, in Q1 2008, piling work was completed. Currently, the underground development work is under way and foundations are being laid.

As part of the MHC project (mild hydrocracking), the design work has been continued. The piling work is in progress, with 400 piles (45% of the entire structure) already in place.

In Q1 2008, the piling work for the hydrogen generating unit (HGU) was completed, and work on land development, construction of foundations for the unit, and assembly of the reformer furnace started. All main apparatus was ordered.

As part of the KAS project (amine sulphur unit), the piling work was completed, and foundations laying and underground development commenced in Q1 2008. Deliveries of steelwork, pipeline components and materials, as well as tanks started.

In the area of auxiliary installations and infrastructure, work continued on construction of inter-unit connections and utilities, storage tanks and the pipeline to the port, as well as auxiliary facilities – in cooperation with Fluor. Tank construction schedules are closely monitored and reviewed on a regular basis; all tasks were executed within the respective budgets and timetables.

Supported by its advisers and financial institutions, in Q1 2008 the Company continued efforts aimed at raising financing for its 10+ Programme.

In January 2008, Grupa LOTOS S.A., in cooperation with its legal counsel and financial advisor, as well as with the banks' advisors (covering market, technology, insurance and legal issues) answered the banks' questions asked as part of the analysis of information contained in the information package of the 10+ Programme, distributed to the banks on December 21st 2007.

Towards the end of January 2008, banks submitted their first final bids for the financing of the 10+ Programme. Also the Italian export credit agency SACE submitted its preliminary bid.

In February 2008, Grupa LOTOS S.A. and its advisors analysed the bids submitted by the financial institutions. In March 2008, the work continued on the final structure of the syndicate, as well as on negotiating the contract terms, both commercial (fees and commissions) and legal (commitment letter, term sheet).

On February 20th 2008, the Extraordinary General Shareholders Meeting of Grupa LOTOS S.A. resolved to establish collateral for credit facilities contracted for the financing of the 10+ Programme.

In Q1 2008, the work was also finalised on the cargo transport insurance policy (known as the CARGO policy) covering deliveries for the 10+ Programme. The policy covers the entire execution period for the 10+ Programme, and is consistent with the assumptions of the Grupa LOTOS S.A.'s Insurance Programme for 2008-2010 signed in late March 2008.

4 *PROSTA* PROGRAMME

In Q1 2008, the Group was developing its retail service station network through subsidiary LOTOS Paliwa, which focused on restructuring of the service station network and launch of new products.

In the reporting period, the Group continued the following activities commenced in the previous quarters:

- On February 1st 2008, the NAVIGATOR loyalty programme was implemented at the LOTOS CODO/DOFO network,
- The comprehensive programme of upgrading the fuel installation to include new Dynamic fuels was continued,
- Two new service stations – in Kotlina and Trzebiel – joined the LOTOS Family Commercial Partnership Programme.

As at March 31st 2008, the LOTOS Paliwa service station network comprised 346 locations, including 133 CODO stations, 72 DOFO stations, and 141 DODO stations. A total of 91 franchise agreements were signed. In line with the assumptions of the PROSTA Programme regarding transfer of the DODO stations to another operational platform, since Q1 2007 the total number of high-margin COCO/CODO and DOFO service stations has been larger than the number of DODO stations.

5 SOUTHERN REFINERIES (LOTOS CZECHOWICE AND LOTOS JASŁO)

In Q1 2008, further work was carried out to adapt LOTOS Czechowice S.A. and LOTOS Jasło S.A. to operate within the LOTOS Group.

By virtue of Resolution No. 24/VI/2008 on objectives of the restructuring of the Grupa LOTOS S.A.'s assets acquired along with the acquisition of the southern refineries, of February 11th 2008, the Management Board of Grupa LOTOS S.A. decided to continue work on definition of the restructuring project.

We have defined the objectives and methods for restructuring the southern refineries' assets, and specified the target functions of particular organisations, their role in our strategy as well as the scope and timetable of the restructuring process. We have also categorised the southern assets by their significance to our business. Thus, we have divided the assets into significant assets and other resources, where the latter are viewed as auxiliary or redundant. In this way we are able to adopt a reasonable approach to the use of assets reflecting the business needs of the southern refineries.

In Q1 2008, LOTOS Biopaliwa Sp. z o.o. (a subsidiary of LOTOS Czechowice) carried out a trial start-up of the FAME unit at LOTOS Czechowice.

In line with the guidelines provided in the abovementioned Management Board's resolution, in cooperation with a third-party investor, work commenced on revamping the furfurol and ABT (acetone, benzene, toluene) units owned by LOTOS Czechowice, which are currently out of operation.

LOTOS Jasło continued work on preparation of infrastructure for implementing LOTOS Asfalt's project (a tar board production plant), for which the company is currently seeking the necessary administrative permits. Moreover, the company continued execution of the plastics regranulation line project. The production will be launched in Q2 2008.

Furthermore, we continued negotiations with investors on expansion of the used oil recycling and base oils production unit at LOTOS Jasło.

We continued disposal of LOTOS Park Technologiczny's assets to LOTOS Group companies and third-party investors. We successfully closed sale of the Terpen Plant at Czechowice-Dziedzice to an external investor.

6 MARKET ENVIRONMENT AND OPERATIONS

6.1 Oil and Fuel Markets

In Q1 2008, the average price of Brent crude was USD 96.71 per barrel and was higher by USD 8.26 per barrel, i.e. 9.3%, quarter on quarter, and by USD 38.95 per barrel, i.e. 67.4%, year on year.

The higher crude prices were accompanied by a rise in the Brent/ Ural differential, from USD 3.04 per barrel in Q4 2007 to USD 3.37 per barrel in Q1 2008 (up 10.9%). The differential fell from USD 3.41 per barrel in Q1 2007 (down 1.2%).

In Q1 2008, the average refining margin fell by 14.6% quarter on quarter, to USD 4.44 per barrel (USD 5.20 per barrel in Q4 2007). Relative to Q1 2007, the refining margin fell by USD 0.33 per barrel (6.8%).

The average crack margin on gasoline declined by 6.43% on Q4 2007, to USD 122.23 per tonne, while the average crack margin on diesel oil went up by 4.29%, to USD 164.12 per tonne. Compared with Q1 2007, the average crack margin on gasoline declined by 5.34%, whereas the average crack margin on diesel oil improved by 45.37%.

6.2 Operational Review

In Q1 2008, the Gdańsk refinery processed 1,542.1 thousand tonnes of crude, which represented a 103.1% utilisation of the nameplate throughput capacity.

The Group's refineries processed 1,470.0 thousand tonnes of Ural crude in the reporting period, which accounted for 95.3% of the total processing volume. The balance comprised the Rozewie oil extracted by Petrobaltic – 55.0 thousand tonnes (3.6% of the processing volume), the Forties oil – 15.2 thousand tonnes (1.0% of the processing volume), and the Volve oil – 1.9 thousand tonnes (0.1% of the processing volume).

In Q1 2008, the LOTOS Group sold 379 thousand tonnes of motor gasolines, 630 thousand tonnes of diesel oil, 100 thousand tonnes of light fuel oil, 340 thousand tonnes of heavy fuel oil, 123 thousand tonnes of jet fuel, 48 thousand tonnes of bitumens, and 113 thousand tonnes of other products (including 44 thousand tonnes of LPG, 8 thousand tonnes of engine oils, 23 thousand tonnes of base oils, 9 thousand tonnes of other oils, 16 thousand tonnes of paraffins, 9 thousand tonnes of sulphur, 2 thousand tonnes of plasticizers, and 2 thousand tonnes of other oil products).

Compared with Q4 2007, the employment at the LOTOS Group in Q1 2008 increased to 4,781 personnel (17 new employees hired). The headcount increase was caused by a number of factors, including development of business at LOTOS Biopaliwa and intensified activity in the area of licensed transportation services at LOTOS Kolej.

7 DISCUSSION OF CONSOLIDATED RESULTS OF THE LOTOS GROUP

7.1 Income Statement

In Q1 2008, the sales revenue of the LOTOS Group amounted to PLN 3,561.5m and was up by 40.0% year on year, mainly due to substantial increase in the prices of crude oil and petroleum products on the global markets and larger volumes of sales of petroleum products and oil derivatives. The average net selling price rose by 31.0%, from PLN 1,568 per tonne in Q1 2007 to PLN 2,055 per tonne in Q1 2008. The Q1 2008 sales volume of the LOTOS Group was 1,733.5 thousand tonnes, which represented a year-on-year increase of 111.4 thousand tonnes (6.9%). In the analysed quarter, the sales volume of JET A-1 fuel, gasolines, liquefied gases, diesel oils and light fuel oils increased, whereas the sales volume of bitumens, bitumen components and heavy fuel oils declined.

Compared with the corresponding period of the previous year, in Q1 2008 cost of sales went up by 41.8% and amounted to PLN 3,214.1m. The Q1 2008 unit cost of sales was PLN 1,854 per tonne, i.e. 32.7% more than in Q1 2007.

In Q1 2008, gross profit on sales posted by the LOTOS Group increased by PLN 70.5m (25.5%) relative to Q1 2007, to PLN 347.4m. The increase was driven mainly by a larger volume of fuel sales, seen against the backdrop of an upward trend in prices of petroleum products on global markets, and a considerable rise in crack margins on Gasoil 0.2, Diesel and JET Fuel. In Q1 2008, the average quarterly crack margins on Diesel 10, Gasoil 0.2, and JET Fuel were seen up year on year by 56.5%, 48.5% and 39.4%, respectively. Concurrently, Q1 2008 witnessed a number of year-on-year changes with an adverse effect on gross profit on sales, i.e. appreciation of the Polish złoty, tightening of the average refining margins, and less favourable terms of the Ural crude purchases. The average Q1 2008 refining margin went down by 6.8% relative to Q1 2007 to reach USD 4.44 per barrel. The average PLN/USD exchange rate was 19.4% lower than in Q1 2007 (down by PLN/USD 0.58).

Selling costs incurred by the LOTOS Group in Q1 2008 amounted to PLN 161.1m, and were down by 7.3m year on year, principally due to the depreciation of the US dollar and restructuring of the organisational units engaged in logistics and trade. In the analysed period, general and administrative expenses rose by 19.6% year on year, to PLN 87.3m. The growth was mainly driven by the growing scale of operations.

In Q1 2008, the Group disclosed operating profit of PLN 94.7m, up by PLN 41.8m year on year.

In the first three months of 2008, profit on financial activities was PLN 255.4m. This impressive figure was possible thanks to hedging transactions executed to mitigate the market risk related to changes in refining margins and foreign exchange rates in the course of implementing the 10+ Programme.

The margin and FX hedging transactions for 2008 follow from the steps taken to manage the market risk related to changes in refining margins and foreign exchange rates in the course of implementing the 10+ Programme.

As at the end of Q1 2008, closed futures contracts disclosed under financial income were PLN 260.8m, of which PLN 9.0m was attributable to refining margin hedging transactions (full barrel swaps), and PLN 252.0m – to foreign exchange risk hedging transactions (forwards). The Q1 2008 financial expenses included PLN 0.2m of loss incurred on futures contracts concluded to hedge the foreign exchange risk.

As at the end of Q1 2008, open futures contracts charged to financial expenses had negative value of -PLN 132.2m, and included refining margin hedging transactions (full barrel swaps) with a value of -PLN 71.6m, foreign exchange risk hedging transactions (forwards) with a value of -PLN 61.7m, and interest rate hedging transactions (FRAs) with a value of -PLN 0.1m. Positive valuation of PLN 1.2m was posted on futures contracts executed to hedge the foreign exchange risk.

The tables below present detailed information on the hedging transactions.

Table 1 Refining margin hedging transactions (full barrel swap) as at March 31st 2008

Period		Q2 2008	Q3 2008	Q4 2008	Q1 2009
Volume (bbl)		6,199,998	6,300,000	4,490,001	1,500,000
Product/Raw material	**Index**	**Weighted average barrel structure**			
Gasoline	Gasoline 95r 10ppm NWE barge (Argus)	28.03%	27.11%	27.00%	36.00%
Jet fuel	Jet Cargoes CIF NWE / ARA (Platts)	8.01%	8.54%	10.00%	8.00%
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	38.76%	36.57%	33.00%	30.00%
Light fuel oil	Gasoil .1 Cargoes CIF NWE / ARA (Platts)	5.64%	7.65%	11.00%	8.00%
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	19.56%	20.14%	19.00%	18.00%
Crude oil	Brent (Dtd) (Platts)	-100.00%	-100.00%	-100.00%	-100%
Margin ranges in transactions (USD/bbl)		8.95–9.6	8.45–9.2	8.6–9.9	7.61–7.8

Table 2 Foreign exchange risk hedging transactions as at March 31st 2008

Currency pair	Instrument	Value	FX rate range
EUR/USD	Forward	EUR 300,300,000	1.55–1.58
EUR/PLN	Forward	EUR 12,700,000	3.53–3.55
USD/PLN	Forward	-USD 575,100,000	2.23–2.28

Another item which considerably affected the balance on financial activities in Q1 2008 was an excess of taxable temporary differences of PLN 124.7m.

The Q1 2008 pre-tax profit was PLN 350.1m, up by PLN 269.2m year on year.

The Q1 2008 net profit on continued operations was PLN 278.8m, which represented a year-on-year increase of 343.6%. The Q1 2008 profit attributable to equity holders of the parent was PLN 267.9m.

7.2 Balance Sheet

As at March 31st 2008, the balance-sheet total of the LOTOS Group was PLN 10,128.7m, up by PLN 408.3m during the first quarter of 2008. The growth was caused by a rise in prepayments for tangible assets under construction connected with the implementation of the 10+ Programme (by PLN 281.7m), increase in inventories (up by PLN 291.9m) caused by the higher requirement concerning the volume of obligatory fuel reserves, by higher prices of crude oil and petroleum products at the end of Q1 2008 compared with the prices reported at the end of 2007, and a PLN 92.1m increase in property, plant and equipment. At the same time, a PLN 115.5m decrease was reported in cash and cash equivalents, and trade and other receivables and current financial assets declined by PLN 83.9m and PLN 69.3m, respectively.

As at March 31st 2008, the Group's equity amounted to PLN 6,426.1m, which means a PLN 275.2m rise during Q1 2008, as a result of higher retained earnings (up by PLN 267.9m) and a PLN 10.8m rise in equity attributable to minority shareholders.

In Q1 2008, non-current liabilities went up by PLN 144.5m, due to an increase in the level of non-current loans and borrowings, and amounted to PLN 1,360.2m as at the end of March 2008.

Current liabilities fell by PLN 11.4m (0.5%) compared with the figure posted at the end of 2007, and amounted to PLN 2,342.4m as at the end of Q1 2008.

In the analysed period, liabilities and accruals and deferred income rose by PLN 168.7m, other financial liabilities went up by PLN 63.3m, and current loans and borrowings decreased by PLN 242.4m, primarily due to higher prices of raw materials.

7.3 Cash Flow

As at the end of Q1 2008, the cash balance recorded by the LOTOS Group was PLN 603.0m, having decreased by PLN 32.5m. relative to the end of Q1 2007.

In Q1 2008, net cash provided by operating activities was PLN 345.4m, up by PLN 280.7m relative to Q1 2007. The Q1 2008 increase in net cash provided by operating activities was driven primarily by net profit of PLN 278.8m, increase in liabilities by PLN 147.4m, loss on investment activities of PLN 132.0m, amortisation and depreciation of PLN 79.6m, and a PLN 75.1m decrease in receivables.

The key factors with a negative impact on the operating cash flows included a PLN 292.3m increase in inventories, foreign exchange losses of PLN 60.0m, and a PLN 20.5m rise in prepayments and deferred income.

In Q1 2008, cash used in investment activities amounted to -PLN 430.0m, and relative to -PLN 52.0m recorded in Q1 2007 its level rose by PLN 378.0m. The change was caused mainly by prepayments for tangible assets under construction of PLN 309.6m, expenses incurred on acquisition of tangible assets and intangible assets (higher by PLN 66.7m) as well as a PLN 50.9m decrease in the cash balance following sale of current financial assets.

In Q1 2008, the balance of cash from financial activities at the Group reached PLN 217.1m, which is a significant improvement taking into account the slightly negative balance of -PLN 0.1m in Q1 2007. The improvement followed from a PLN 222.4m rise in cash provided by loans and borrowings.

8 OPERATING RESULTS BY BUSINESS SEGMENTS

The operating activities of the LOTOS Group are divided into four business segments: E&P, refining and marketing, retail, and other business. A detailed description of the business segments is provided in the Directors' Report on the Financial Results of the LOTOS Group for Q1 2006.

The sales revenue and operating expenses of the individual business areas are presented before eliminations of transactions between business segments.

The adjustments related to the results on intra-group transactions were appropriately allocated to the business segment which acts as the seller in a given transaction.

Table 3 **Operating result by business segments**

PLNm	Segments							
	E&P		Refining and marketing		Retail		Other business	
	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008	Q1 2007	Q1 2008
Sales revenue	77	81	2.504	3.514	235	339	98	101
Intra-group sales	70	81	207	301	0	0	93	92
External sales	7	-	2.297	3.213	235	339	5	9
Operating expenses	-45	-46	-2.498	-3.454	-249	-348	-92	-100
Consolidation adjustments	12	7	13	2	1	-	-3	-1
Operating profit	44	42	19	62	-13	-9	3	0
Amortisation and depreciation	12	13	53	55	8	9	2	3
EBITDA	56	55	72	117	-5	0	5	3

Source: Grupa LOTOS S.A..

8.1 E&P

The Q1 2008 revenue from crude oil production was PLN 81m. Net of the operating expenses of PLN 46m and after adjustments, the operating profit amounted to PLN 42m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) reached PLN 55m. In the corresponding period of 2007, the operating profit and EBIDTA were PLN 44m and PLN 56m, respectively.

Operating profit generated by the production segment has been affected by the volume of Rozewie oil processed by the Gdansk refinery, which reached 55.0 thousand tonnes in Q4 2007, relative to the sales of Rozewie crude oil to Grupa LOTOS S.A. by Petrobaltic, which amounted to PLN 51.3 thousand tonnes.

8.2 Refining and Wholesale

In Q1 2008, the refining segment generated sales revenue of PLN 3,514m, operating profit of PLN 62m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 117m. In the corresponding period of 2007, the operating profit and EBIDTA were PLN 19m and PLN 72m, respectively.

The EBITDA margin of the refining segment in Q1 2008 stood at 3.3%, and the operating margin reached 1.8%.

The operating profit of the refining segment was considerably affected by the market conditions prevailing in Q1 2008 (in Q1 2008, the refining margin decreased by 14.6% and the Brent/Ural differential increased by 10.9% quarter on quarter). Compared with Q1 2007, the refining margin went down by 6.8%, to USD 4.44 per barrel, and the Brent/Ural differential fell by 1.2%, to USD 3.37 per barrel. Another material contributing factor was the strengthening of the Polish złoty against the US dollar.

8.3 Retail Operations (Service Stations Network)

In Q1 2008, sales revenue in the retail segment amounted to PLN 339m. The segment reported operating loss of -PLN 9m, and EBITDA of PLN 0. In the corresponding period of 2007, the segment reported an operating loss of -PLN 13m, and a negative EBIDTA of -PLN 5m.

In Q1 2008, retail margins went down by 5.5% relative to Q4 2007, and rose by 10% on the Q1 2007 figure.

In Q1 2008, the Group's performance in the retail segment was mainly affected by the process of restructuring and developing an optimum structure of service stations network.

As at the end of Q1 2008, the number of COCO/CODO stations was 133 (no change on Q4 2007), the number of DOFO stations was 72 (one station more), and the number of DODO stations fell to 141 (34 stations fewer). The number of the franchise agreements rose to 91.

Other Business

In Q1 2008, the sales revenue from other business was PLN 101m, the segment's operating profit was PLN 0, and EBITDA amounted to PLN 3m. In the corresponding period of 2007, the operating profit and EBIDTA were PLN 3m and PLN 5m, respectively.

9 IMPACT OF THE LIFO INVENTORY VALUATION

Below we present information on the impact of the LIFO (last in, first out) inventory valuation method on the consolidated profit of the LOTOS Group for Q1 2008.

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

The impact of the LIFO inventory valuation method is presented as item 2, and the consolidated operating profit of the LOTOS Group for Q1 2008 accounting for the estimated impact of using the LIFO method for inventory valuation (along with the comparable data for Q1 2007) is presented as item 3.

Table 4 Impact of inventory valuation on the operating profit

No.	*(PLNm)*	*Q1 2007*	*Q1 2008*	*Change*
1.	Operating profit	52.9	94.7	78.9%
2.	Effect of LIFO inventory valuation	1.9	-45.2	-2459.5%
3.	Operating profit – LIFO method	54.8	49.6	-9.7%

Source: Grupa LOTOS S.A.

In Q1 2008, the impact of inventory valuation increased the operating profit by PLN 45.2m, compared with a decrease of PLN 1.9m in Q1 2007. Should the LIFO method be applied for inventory valuation, the operating profit would have amounted to PLN 49.5m in Q1 2008 and PLN 54.8m in Q1 2007.

The assumptions made in calculating the Q1 2008 operating profit of the LOTOS Group accounting for the estimated impact of using the LIFO method for inventory valuation (along with the comparable data for Q1 2007) are described in Current Report No. 29/2006.