THE LOTOS GROUP

DIRECTORS' REPORT ON THE FINANCIAL RESULTS OF THE LOTOS GROUP

FOR Q4 2007

Gdańsk, February 28th 2008

CONTENTS

1 INTRODUCTION

In Q4 2007, 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.

As a result of implementation of the Strategy, 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 of the domestic retail and wholesale markets is expected to reach 10% and 30%, respectively.

In the area of upstream activities, in Q4 2007 the Group produced crude oil from the B3 oil field and the new B8 oil field. Total crude oil production amounted to 44.5 thousand tonnes.

The volume of Ural crude processed in Q4 2007 amounted to 1,442.9 thousand tonnes. As part of diversification of crude oil supplies, in Q4 2007 the Group processed 66.7 thousand tonnes of Forties crude.

The Gdańsk Refinery processed 1,559.0 thousand tonnes of crude oil, which means 104.2% utilisation of the nameplate capacity.

In Q4 2007, the LOTOS Group sold 426 thousand tonnes of motor gasolines, 740 thousand tonnes of diesel oil, 123 thousand tonnes of light fuel oil, 121 thousand tonnes of heavy fuel oil, 130 thousand tonnes of jet fuel, 249 thousand tonnes of bitumens and 146 thousand tonnes of other oil products.

In Q4 2007, the Company continued efforts aimed at raising financing for the 10+ Programme, in cooperation with its advisers and financial institutions.

In the retail area, in Q4 2007 the Group continued to develop a modern countrywide LOTOS service station network by changing the network structure. As at the end of Q4 2007, the number of COCO/CODO stations was 133, the number of DOFO stations was 71, and the number of DODO stations fell to 175. The number of franchise agreements signed increased to 90.

In Q4 2007, the average price of Brent oil was USD 88.45 per barrel, and was higher than in Q3 2007 (by USD 13.71 per barrel, or 18.3%) and in Q4 2006 (by USD 28.85 per barrel, or 48.4%). The higher oil prices in Q4 2007 as compared with Q3 2007 were accompanied by a 10.1% increase in the Brent/Ural differential – from USD 2.76 per barrel in Q3 2007 to USD 3.04 per barrel in Q4 2007. In relation to Q4 2006, the Brent/Ural differential fell by 13.4% (from USD 3.51 per barrel).

The increase in oil prices went hand in hand with a decrease in crack margins. In Q4 2007, the average refining margin fell to USD 5.20 per barrel and was 5.3% lower than in Q3 2007 (when it amounted to USD 5.49 per barrel) and 75.7% higher (up by USD 2.24 per barrel) than in Q4 2006.

In Q4 2007, the LOTOS Group posted consolidated sales revenue of PLN 3,987.9m, operating profit of PLN 158.6m, net profit on continued operations of PLN 241.3m and net profit attributable to equity holders of the parent in the amount of PLN 231.2m. In comparison with

Q4 2006, sales revenue increased by 26%, operating profit went up by 103%, net profit on continued operations increased by 133%, and net profit attributable to equity holders of the parent by 132%.

2 PETROBALTIC AND THE PRODUCTION AREA

In the exploration and production area, in Q4 2007 oil and gas production continued at the B3 and B8 reservoirs. The crude oil and natural gas outputs amounted respectively to 44.5 thousand tonnes and 4,889.3 thousand cubic meters. The sales of crude oil to the LOTOS Group (actual supplies by oil tanker) amounted to 55.8 thousand tonnes. Petrobaltic shipped the entire crude oil output by oil tanker to Grupa LOTOS S.A. and the natural gas was sent via a pipeline to Energobaltic Sp. z o.o.'s power plant in Władysławowo.

In Q4 2007, the key tasks carried out in the exploration and production area included:

- completion of the workover of the B3-9 and B3-15 wells at the B3 oil field and launch of production from these wells,
- commencement of permanent production from the B8 oil field,
- commencement of 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 Q4 2007 focused on performing the execution contracts, signing further contracts and arrangement of financing (technical, market, legal and insurance due diligence of the 10+ Programme, work on the financing concept for the Programme, and negotiations with financial institutions).

In Q4 2007, the activities aimed at commencing the construction of a new crude and vacuum distillation unit (CDU/VDU) were completed. A tender procedure was carried out which led to the selection of a construction work contractor (to execute piling works and foundations). After the building permit was obtained, construction work on the unit started in mid December 2007.

The Company also continued work on optimising the use of the ROSE unit based on Kellog Brown & Root (KBR) technology as part of the 10+ Programme framework. On October 19th 2007, the Company signed an agreement concerning review of the base design of the unit with the licensor (KBR).

As regards the other units, the Company continued to work on technical design and ordering main components of the units. The work was carried out as budgeted and in line with the schedule of the investment project.

Capital expenditure on the 10+ Programme, including prepayments, incurred as at December 31st 2007 amounted to PLN 1,130m.

On October 8th 2007, the environmental impact decision with respect to the planned units became final. On November 8th 2008, the Company obtained a building permit with respect to the amine sulphur recovery (ASR) unit; construction work started as soon as the permit decision became final. On November 20th 2007, a building permit was obtained with respect to the hydrogen generation unit (HGU).

Supported by its advisers and financial institutions, in Q4 2007 the Company continued efforts aimed at raising financing for its 10+ Programme.

Stone & Webster conducted a technical due diligence of the 10+ Programme in its current configuration and taking into account the EPC contracts already signed (due diligence for the financing institutions). Their final due diligence report gives a positive assessment of the 10+ Programme and does not find any material risk in any of its investigated aspects (e.g. budget, schedule, contracting and management strategy, environment, approvals, technology).

Wood McKenzie in turn carried out a market analysis of the 10+ Programme. In Q4 2007, the company submitted its final report. The report confirmed correctness of the market assumptions made by Grupa LOTOS S.A., underlying the rationale for the 10+ Programme, including with respect to the forecast demand for the particular products and the possibility of their placement on the Polish and the European markets, the forecast prices and the positive impact of the 10+ Programme on the competitive position of the Company.

The due diligence analysis of the insurance programme related to the implementation of the 10+ Programme was carried out by Miller. The firm approved and gave a positive recommendation on Grupa LOTOS S.A.'s insurance assumptions for the forthcoming years.

In November 2007, Grupa LOTOS S.A. arranged insurance against construction and assembly risks connected with the commencement of implementation of the 10+ Programme (in line with the assumptions of the Grupa LOTOS S.A.'s Insurance Programme for 2008-2010). Moreover, in the last days of November work was completed on the extended operational insurance of the existing assets of Grupa LOTOS S.A.'s refinery in Gdańsk. The insurance policy for the years 2008-2010 was signed on November 30th 2007.

The process of legal due diligence of Grupa LOTOS S.A. and the 10+ Programme commenced in October 2007. This analysis was conducted by Linklaters, legal adviser to the banks. The report from the legal due diligence, with conclusions positive for Grupa LOTOS S.A., was prepared at the end of December 2007. Furthermore, Linklaters were engaged to join in the preparation of the credit facility term sheet to be proposed to the potential financing parties.

The process of preparation of the financing concept and of arrangement of the financing for the 10+ Programme and the Company's other needs was divided into several stages. When the preliminary financing concept was ready, in September 2007 the Company prepared a short presentation of the concept (the Project Brief), which was sent to the financial institutions interested in the transaction. Grupa LOTOS S.A. received initial declarations of interest in the financing of the 10+ Programme together with the initial proposed financing terms and, in some cases, comments on the financing concept.

After an analysis of the banks' declarations, a decision was made to arrange the financing in two packages: the first one concerning the financing of the 10+ Programme and the second one for the financing of the feedstock and products inventory.

In December 2007, Grupa LOTOS S.A. signed an agreement on a USD 400m credit facility to refinance/finance the inventory maintained by Grupa LOTOS S.A. with a syndicate of four banks (Bank PEKAO S.A., PKO BP S.A, BRE BANK S.A. and RABOBANK Polska S.A.). That was the first step in the process of raising financing for Grupa LOTOS S.A.'s needs arising in connection with the 10+ Programme. The credit facility will allow the Company to refinance its existing inventory and to free its own funds used to finance the inventory.

In Q4 2007 Grupa LOTOS S.A. sent a request for proposals to provide financing of the 10+ Programme and the Company's working capital, in the amounts of USD 1,550m and USD 200m, respectively, to the interested financial institutions. The request for proposals, together with an extensive information package (including an information memorandum on the 10+ Programme and the Company, reports from the technical, market, insurance and legal due diligence analyses of the 10+ Programme and Grupa LOTOS S.A., the financial model, annual and environmental reports, the proposed financing term sheet together with an opinion of the legal adviser to the banks, and the signed inventory financing credit facility agreement) was presented on a dedicated server and made available to the banks and other financial institutions on December 21st 2007.

Concurrently, in Q4 2007 Grupa LOTOS S.A. continued to implement a programme of recruitment of the employees who – after receiving appropriate training and gaining experience at the refinery – will operate units constructed as part of the 10+ Programme.

4 *PROSTA* PROGRAMME

In Q4 2007, the Group was developing its retail service station network through subsidiary LOTOS Paliwa under the *PROSTA* project, which focused on continued expansion of the COCO and CODO station network and the development of the DOFO station network.

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

- on December 8th 2007, a new COCO/CODO service station at ul. Elbląska in Gdańsk was put into operation,
- the comprehensive LPG module installation programme was continued with regard to the service stations acquired from ExxonMobil and Slovnaft,
- seven new service stations – in Wola Cicha, Baranów Sandomierski, Słupia, Budzyń, Sompolinek, Busko Zdrój and Jasionka – joined the "LOTOS Family" DOFO Commercial Partnership Programme.

As at December 31st 2007, the LOTOS Paliwa service station network comprised 379 locations, including 133 COCO/CODO stations, 71 DOFO stations, and 175 DODO stations. A total of 90 franchise agreements were signed. In line with the assumptions of the PROSTA Programme regarding transition of DODO stations to another operational platform, as of Q1 2007 the aggregate number of high-margin COCO/CODO and DOFO service stations has exceeded the number of DODO stations.

5 SOUTHERN REFINERIES (LOTOS CZECHOWICE AND LOTOS JASŁO)

In Q4 2007, further restructuring work was carried out to adapt LOTOS Jasło S.A. and LOTOS Czechowice S.A. to operate within the LOTOS Group.

LOTOS Biopaliwa Sp. z o.o., a subsidiary owned by LOTOS Czechowice, entered into the final stage of the construction of a methyl ester production plant. Construction of ancillary infrastructure related to the plant was completed, and currently the technological equipment is being mounted. The start-up of the plant is envisaged to take place on March 1st 2008, and its commissioning – towards the end of April 2008.

In November 2007, LOTOS Jasło received a decision on the creation of a Special Economic Zone on the company's site. Part of the area located within the zone has already been allocated to a greenfield project to be executed by LOTOS Asfalt (a tar board production plant). The remaining portion of the area will be successively used in new investment projects undertaken by the LOTOS Group.

LOTOS Jasło continued work related to an investment project involving the installation of a plastics regranulation line, which (along with the previously completed sorting facility) will further extend the company's recycling operations. Furthermore, negotiations are being held with potential investors interested in cooperating with LOTOS Jasło in the field of reprocessing of oils processed by the Jasło plant. An option being considered provides, among other things, for expansion of the existing unit and launch of processing of lubricants with highly advanced technologies, which would lead to obtaining products that may be used in lubricant production.

Moreover, in line with the approved strategy which envisages closing down the operations of LOTOS Park Technologiczny by the end of 2008, the company's assets were being sold to the LOTOS Group members operating in Czechowice and Jasło, as well as to external investors.

6 MARKET ENVIRONMENT AND OPERATIONS

6.1 Petroleum and Fuel Market

In Q3 2007, the average price of Brent crude stood at USD 88.45 per barrel and was higher relative to Q3 2007 (up by USD 13.71 per barrel, i.e. 18.3%) and to the corresponding period of 2006 (up by USD 28.85 per barrel, i.e. 48.4%).

The increase in Q4 2007 vs. Q3 2007 was accompanied by a rise in the Brent/ Ural differential, from USD 2.76 per barrel in Q3 2007 to USD 3.04 per barrel in Q4 2007 (10.1%). Compared with Q4 2006, the differential fell from USD 3.51 per barrel (-13.4%).

In Q4 2007, the average refining margin fell by 5.3%, to USD 5.20 per barrel, compared with Q3 2007 (USD 5.49 per barrel). Compared with the corresponding period of 2006, the refining margin rose by USD 2.24 per barrel (75.7%).

The average crack margin on gasoline declined by 15.7% on Q3 2007, to USD 130.6 per tonne, while the average crack margin on diesel oil went up by 37.7%, to USD 157.4 per tonne.

6.2 Operational Review

In Q4 2007, 1,559.0 thousand tonnes of crude oil were processed by the Gdańsk refinery, which means 104.2% utilisation of its nameplate capacity.

The Group refineries processed 1,442.9 thousand tonnes of Ural crude in the reporting period, which accounted for 92.6% of the total processing volume. The balance comprised the Rozewie oil extracted by Petrobaltic – 49.0 thousand tonnes (3.1% of the processing volume), and the Forties oil – 66.7 thousand tonnes (4.3% of the processing volume).

In Q4 2007, the LOTOS Group sold 426 thousand tonnes of motor gasolines, 740 thousand tonnes of diesel oil, 123 thousand tonnes of light fuel oil, 121 thousand tonnes of heavy fuel oil, 130 thousand tonnes of jet fuel, 249 thousand tonnes of bitumens, and 146 thousand tonnes of other products (including 64 thousand tonnes of LPG, 10 thousand tonnes of engine oils, 34 thousand tonnes of base oils, 11 thousand tonnes of other oils, 16 thousand tonnes of paraffins, 9 thousand tonnes of sulphur, 1 thousand tonnes of plasticizers, and 1 thousand tonnes of other oil products).

Compared with Q3 2007, the employment at the LOTOS Group in Q4 2007 fell to 4,764 staff (395 employees left). The headcount decrease was mainly caused by the ongoing restructuring processes at LOTOS Paliwa and LOTOS Jasło.

7 DISCUSSION OF CONSOLIDATED RESULTS OF THE LOTOS GROUP

7.1 Income Statement

In Q4 2007, the sales revenue of the LOTOS Group amounted to PLN 3,987.9m and was up by 26.5% year on year, mainly due to substantial increase in the prices of crude oil and petroleum products on the global markets. The average net selling price rose by 25.8%, from PLN 1,638 per tonne in Q4 2006 to PLN 2,061 per tonne in Q4 2007. The Q4 2007 sales volume of the LOTOS Group amounted to PLN 1,934.7 thousand tonnes, which represented a year-on-year increase of 10.7 thousand tonnes (0.6%). In the analysed quarter, the sales volume of liquefied gases, bitumens, bitumen components, JET A-1 fuel and base oils increased, whereas the sales volume of gasolines, fuel oils and diesel oils declined.

In Q4 2007, the US dollar average exchange rate fell by PLN 0.46 /USD, i.e. by 15.4%, on the average exchange rate prevailing in Q4 2006.

Compared with the corresponding period of the previous year, the Q4 2007 cost of sales went up by 27.9% and amounted to PLN 3,499.3m. The Q4 2007 unit cost of sales was PLN 1,809 per tonne, i.e. 27.1% more than in Q4 2006.

In Q4 2007, gross profit on sales increased by PLN 74.1m (17.9%) relative to Q4 2006, to PLN 488.6m. In Q4 2007, the unit gross margin on sales went up by 17.2% year on year. The change in the gross profit on sales was mainly a result of higher average crack margin, which rose from USD 2.96 per barrel in Q4 2006 to USD 5.20 per barrel in Q4 2007, and the lower USD average exchange.

Selling costs incurred by the LOTOS Group in Q4 2007 amounted to PLN 185.5m (down by 2.9% year on year). In the analysed period, general and administrative expenses decreased by 7.1% compared with Q4 2006 and stood at PLN 100.9m.

The LOTOS Group’s other operating expenses in Q4 2007 amounted to PLN 71.9m. The main expense items here were a PLN 24.1m valuation impairment for the risk that a part of expenditure incurred on the heavy residue gasification project may remain not used due to the postponement of the project implementation, and a PLN 18.2m charge on account of impairment of goodwill related to the acquisition of an organised part of business from ExxonMobile Poland and Slovnaft.

In Q4 2007, the Group disclosed a loss of PLN 43.6m on other operating activities (a loss of PLN 36.8m in the corresponding period of 2006).

The LOTOS Group’s operating profit for Q4 2007 stood at PLN 158.6m, representing an increase of PLN 80.4m from the Q4 2006 figure.

In Q4 2007, the LOTOS Group’s financial income amounted to PLN 152.2m, including PLN 67.5m attributable to hedging of currency exposure transactions connected with operating activities, and PLN 67.8m relating to 2008.

The Q4 2007 net financial income of the LOTOS Group amounted to PLN 138.6m and was PLN 89.7m higher relative to Q4 2006.

The Q4 2007 pre-tax profit amounted to PLN 297.2m, up by PLN 170.1m year on year.

The Q4 2007 net profit on continued operations posted by the LOTOS Group amounted to PLN 241.3m, which represented a year-on-year increase of 132.9%. The Q4 2007 profit attributable to equity holders of the parent was PLN 231.2m.

7.2 Balance Sheet

As at December 31st 2007, the balance-sheet total of the LOTOS Group was PLN 9,699.7m, up by PLN 1,936.2m during 2007. The growth was caused by an increase in inventories (up by PLN 880.9m) caused by the higher requirement concerning the volume of mandatory stocks provided for in the Act on Mandatory Stocks of Crude Oil, Petroleum Products and Natural Gas, and by higher prices of crude oil and petroleum products at the end of Q4 2007 compared with the prices reported at the end of 2006. Moreover, due to the ongoing projects executed as part of the 10+ Programme, there occurred a substantial rise in prepayments for tangible assets under construction (by PLN 632.9m). Concurrently, 2007 saw a PLN 262.6m increase in trade receivables, a PLN 152.1m increase in cash and cash equivalents, and a PLN 133.2 increase in property, plant and equipment, driven by higher prices of products in 2007 compared to the end of 2006. At the same time, current financial assets fell by PLN 84.7m, to PLN 119.3m. This amount includes PLN 95.7m attributable to the valuation of contracts hedging the refining margin and the exchange rates for 2008.

The valuation is connected with the newly commenced activities aimed at reducing the market risk relating to the refining margin and the exchange rates over the term of the 10+ Programme. Details of the transactions are provided below

Transactions hedging the refining margin

The Company hedges strategic pricing risk by means of full barrel swap contracts[1].

Detailed information on concluded hedge transactions is presented in the table below.

Table 1 List of transactions

Period		Q1 2008	Q2 2008	Q3 2008
Volume (barrels)		3,029,999	4,699,998	2,246,001
Commodity	**Index**	**Barrel structure (weighted average)**		
Gasoline	Gasoline 95r 10ppm NWE barge (Argus)	37.0%	29.0%	29.1%
Jet fuel	Jet Cargoes CIF NWE / ARA (Platts)	6.6%	7.7%	7.7%
Diesel oil	10 PPM Cargoes CIF NWE / ARA (Platts)	33.6%	39.0%	39.4%
Light fuel oil	Gasoil .1 Cargoes CIF NWE / ARA (Platts)	5.9%	5.2%	5.2%
Heavy fuel oil	3.5 PCT Barges FOB Rotterdam (Platts)	16.9%	19.1%	18.6%
Crude oil	Brent (Dtd) (Platts)	-100.0%	-100%	-100%
Range of margins in the contracts (USD per barrel)		9.19–9.30	9.25–9.60	8.90–9.20

[1] *In a full barrel swap contract a fixed price is set in a single transaction for the crude oil index and for individual product indices, in accordance with a pre-defined structure. This type of transaction is relevant for the hedging of strategic pricing risk of Grupa LOTOS S.A. as by selling such swaps the Company acquires protection against considerable fluctuations of refining margins.*

Transactions hedging currency exposure

The US dollar is the natural currency on the market on which Grupa LOTOS S.A. operates: it is applied in quotations of market prices for crude oil and petroleum products, as well as in settlements with business partners on the fuel market. Thus, on account of its operating activities Grupa LOTOS S.A. has a structural long position in the US dollar. Therefore, the US dollar has been identified as the most appropriate currency for contracting and repaying long-term loans for the financing of the 10+ Programme (reduction of the structural long position and hence strategic mitigation of the currency risk).

Based on the commonly followed practices and in view of the conditions prevailing on the EPC market at the time when the contracts for the implementation of the 10+ Programme were signed, the compensation for the contractors under the EPC contracts was defined mainly in euro.

The difference between the currency of the capital expenditure and the currency of the debt contracted to finance the expenditure (and cash generated by the Company) gives rise to a risk of capital expenditure exceeding available resources in the event of adverse changes in the EUR/USD exchange rate, i.e. in the case of the euro's appreciation against the US dollar.

Currency contracts entered into at the end of 2007 were aimed at mitigating both the risk relating the investments (mainly EUR/USD contracts) and the risk relating to the operating activities (mainly USD/PLN contracts) in 2008. A portion of EUR/USD contracts and all of the EUR/PLN contracts were carried out in order to obtain a synthetic USD/PLN position, which frequently proves more efficient because the EUR/PLN currency market is characterised by higher liquidity. Detailed information on the concluded transactions is presented in the table below.

Table 2 Forward contracts

Currency pair	Instrument	Volume	Exchange rate range
EUR/USD	Forward	EUR 670,000,000	1.437 – 1.470
EUR/PLN	Forward	EUR -195,500,000	3.582 – 3.624
USD/PLN	Forward	USD -499,000,000	2.482 – 2.532

The valuation of the open contracts may be subject to considerable fluctuations, and should be considered in the context of the estimated influence of the risks on the value of cash flows on the Company's underlying exposure.

As at December 31st 2007, the Group's equity amounted to PLN 6,139.5m, which means a PLN 737.6m rise during the twelve months of 2007, mainly as a result of higher retained earnings.

Non-current liabilities in 2007 went up by 69.0%, chiefly due to a PLN 512.2m increase in the level of non-current loans and borrowings, and amounted to PLN 1,216.2m as at the end of 2007.

In the analysed period current liabilities increased by PLN 701.9m and stood at PLN 2,343.9m at the end of the year, primarily due to higher prices of crude oil, translating into a PLN 361.9m rise in liabilities and accruals and deferred income, and a PLN 343.7m rise in current loans and borrowings over the year.

7.3 Cash Flow

As at the end of December 2007, the cash balance recorded by the LOTOS Group amounted to PLN 490.6m, having decreased by PLN 133.5m relative to the end of 2006.

In Q4 2007, net cash provided by operating activities amounted to PLN 64.4m, down by PLN 81.1m relative to Q4 2006. The Q4 2007 low level of net cash provided by operating activities was driven primarily by a PLN 219.6m rise in inventories, a PLN 39.2m profit on investing activities and a negative balance of PLN 24.6m between the paid and current income tax. The key factors with a positive impact on the operating cash flows in the reporting period included net profit of PLN 241.3m, amortisation and depreciation of PLN 84.0m, a PLN 19.7m decrease in payables and a PLN 19.2m increase in provisions.

Cash used in investing activities in Q4 2007 amounted to PLN 394.5m, which means a change of PLN 46.8m relative to Q4 2006 (PLN 347.7m). The change resulted mainly from the fact that in Q4 2007 expenditure on prepayments for tangible assets under construction was higher by PLN 153.9m, and purchases of current financial assets were higher by PLN 71.5m relative to Q4 2006. The negative balance of net cash from investing activities in Q4 2007 was primarily a result of prepayments for tangible assets under construction, totalling PLN 237.2m, and the expenditure related to acquisition of property, plant and equipment and intangible assets in the amount of PLN 165.9m.

In Q4 2007, the cash provided by financing activities of the LOTOS Group amounted to PLN 534.9m, which, compared with PLN 86.8m of cash used in financing activities in Q4 2006 represents a substantial increase. The high positive balance of cash flows from financing activities was mainly driven by cash from contracted loans and borrowings, which in Q4 2007 amounted to PLN 539.3m.

8 OPERATING RESULTS BY BUSINESS AREAS

The operating activities of the LOTOS Group are divided into four business areas: crude oil production, refining and marketing, retail network, and other business. A detailed description of the business areas 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 areas.

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

Table 3 Operating result by business area

PLN million	Areas							
	Crude oil production		Refining and marketing		Retail		Other business	
	Q4 2007	Q1-Q4 2007	Q4 2007	Q1-Q4 2007	Q4 2007	Q1-Q4 2007	Q4 2007	Q1-Q4 2007
Sales revenue	87	310	3.950	12.950	361	1.259	135	467
Inter-area sales	86	287	336	1.130	1	2	122	434
External sales	1	23	3.614	11.820	360	1.257	13	33
Operating expenses	-56	-196	-3.788	-12.328	-388	-1.309	-136	-447
including adjustments for one-off events	-	-	-39	-13	-18	-18	-	-
Consolidation adjustments	-4	20	-	-	1	-	-3	-7
Operating profit	27	134	162	622	-26	-50	-4	13
Amortisation and depreciation	18	54	57	219	6	29	3	9
EBITDA	45	188	219	841	-20	-21	-1	22

Source: Grupa LOTOS S.A..

8.1 Crude Oil Production

The Q4 2007 revenue from crude oil production was PLN 87m. Net of the operating expenses of PLN 56m and after adjustments, the operating profit amounted to PLN 27m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) reached PLN 45m. In the corresponding period of 2006, the operating profit and EBIDTA were PLN 65m and PLN 78m, respectively.

Operating profit generated by the production area has been affected by the volume of Rozewie oil processed by the Gdansk Refinery, which reached 49.0 thousand tonnes in Q4 2007, relative to the sales of Rozewie crude oil to Grupa LOTOS S.A. by Petrobaltic, which amounted to 55.8 thousand tonnes.

8.2 Refining – Production and Wholesale

In Q4 2007, the refining area generated sales revenue of PLN 3,950m, operating profit of PLN 162m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 219m. In the corresponding period of 2006, the operating profit and EBIDTA were PLN 41m and PLN 96m, respectively.

The EBITDA margin of the refining area in Q4 2007 stood at 5.5%, and the operating margin reached 4.1%.

The operating profit of the refining area was considerably affected by the market conditions prevailing in Q4 2007 (in Q4 2007 the refining margin decreased by 5.3% year on year; however, it rose over the full year) and a 10.1% increase in the Brent/Ural differential as compared with Q3 2007. Compared with Q4 2006, the refining margin rose by 75.7% (to USD 5.20 per barrel) and the Brent/Ural differential fell by 13.4% (down to USD 3.04 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 Q4 2007, sales revenue in the retail area amounted to PLN 361m. The area reported operating loss of PLN 26m (net of the effect of one-off events the operating loss would be PLN 8m), and EBITDA of PLN -20m. In the corresponding period of 2006, the area reported an operating loss of -PLN 22m and a negative EBITDA of -PLN 21m.

In Q4 2007 retail margins went up by 20.8% relative to Q3 2007, and fell by 18.5% on the Q4 2006 figure.

In Q4 2007, the Group's performance in the retail area was mainly affected by the process of restructuring and developing an optimum structure of service stations network.

As at the end of Q4 2007, the number of COCO/CODO stations was 133 (one station more), the number of DOFO stations amounted to 71 (up by seven), and the number of DODO stations fell to 175 (two stations fewer). The number of the franchise agreements rose to 90.

Other Business

In Q4 2007, the sales revenue from other business was PLN 135m, the area's operating profit was PLN 4m, and EBITDA amounted to PLN 1m. In the corresponding period of 2006, the operating profit and EBIDTA were PLN 0 and PLN 3m, respectively.

9 IMPACT OF 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 Q4 2007.

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 Q4 2007 accounting for the estimated impact of using the LIFO method for inventory valuation (along with the comparable data for Q4 2006) is presented as item 3. Item 4 shows the operating profit calculated with the LIFO method, with the result on exchange rate hedging contracts relating to the particular period charged to the operating profit, and one-off expenses excluded.

Table 4 Impact of inventory valuation on the operating profit

No.	(PLNm)	Q4 2007	Q4 2006	Change	Q1-Q4 2007	Q1-Q4 2006	Change
1.	Operating profit	158.6	78.2	102.8%	719.0	798.3	-10.0%
2.	Effect of LIFO inventory valuation	-158.1	169.2	-193.5%	-393.3	133.0	-395.8%
3.	Operating profit – LIFO method	0.5	247.4	-99.8%	325.7	931.3	-65.0%
4.	Operating profit – LIFO method *	124.9	255.4	-51.1%	527.0	939.4	-43.9%

Source: Grupa LOTOS S.A.

** Including transactions entered into to hedge the Company's operating activities, and excluding one-off expenses.*

In Q4 2007, the impact of inventory valuation increased the operating profit by PLN 158.1m, compared with a decrease of PLN 169.2m in Q4 2006. Should the LIFO method be applied for inventory valuation, the operating profit would amount to PLN 0.46m and PLN 247.4m in Q4 2007 and Q4 2006, respectively.

Cumulatively, at the end of Q4 2007 the impact of inventory valuation increased the operating profit by PLN 393.3m, compared with a decline of PLN 133m in Q1–Q4 2006. Should the LIFO method be applied for inventory valuation, the operating profit would amount to PLN 325.7m at the end of Q4 2007 and PLN 931.3m at the end of Q4 2006.

Should the LIFO method be applied for inventory valuation, taking into account the result on exchange rate hedging transactions relating to the particular period and excluding one-off expenses, the operating profit would amount to PLN 124.9m in Q4 2007 and PLN 255.4m in Q4 2006.

Cumulatively, should the LIFO method be applied for inventory valuation, taking into account the result on exchange rate hedging transactions relating to the particular period and excluding one-off transactions, the operating profit would amount to PLN 527.0m at the end of Q4 2007 and PLN 939.4m at the end of Q4 2006.

The assumptions made in calculating the Q4 2007 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 Q4 2006) are described in Current Report No. 29/2006.