# THE LOTOS GROUP

**DIRECTORS' REPORT ON THE FINANCIAL RESULTS OF THE LOTOS GROUP**

**IN Q1 2007**

Gdańsk, May 15th 2007

*Introduction*

In Q1 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 as well as wholesale of refined petroleum products and retail sale of fuels. In particular, the focus was placed on execution of the key development project of Grupa LOTOS S.A., i.e. the Comprehensive Technical Upgrade Programme (PKRT), preparatory work to increase production of crude oil from the deposits held by the Group and diversification of oil supplies. Moreover, the Group conducted current operating activities including maximisation of crude oil processing, maintenance of the refining units, increase in sales of products, optimisation of the use of upstream and refining assets and further enhancement of the Company's market position.

While carrying out the activities in Q1 2007, which were aimed at most efficient leveraging of assets and growth opportunities in the Baltic Sea region, the Group took into account the changes in market environment, long- and midterm trends in the oil sector, its market position and financial standing as well as optimum utilisation of the location of its refinery. The activities are executed based on the following strategic development programmes implemented within the Group, which are of fundamental importance for building the Company's shareholder value:

- Comprehensive Technical Upgrade Programme (PKRT).
- Programme for Development of Exploration and Production of Crude Oil.
- Programme for Diversification of Crude Oil Supplies.
- PROSTA Service Station Network Development Programme.
- Trading Structure Development and Optimisation Programme.
- Operational and Management Excellence Programme.
- Programme for restructuring and consolidation of the Group's assets.

In Q1 2007, as part of the Comprehensive Technical Upgrade Programme the, Group continued negotiations with Fluor and UHDE/Technip consortium with a view to reaching agreement on the final terms and conditions of the investment project and launching the project execution. The project launch will be phased in, based on preliminary agreements drawn up in March and April 2007.

Following the work carried out by Uhde Edeleanu in relation to the basic design of a the crude oil distillation unit (CDU) with a capacity of 4.5m tonnes, the tender procedure for execution of the unit was conducted on the basis of bids submitted by six international engineering companies. Moreover, ABB Lummus Global continued construction of the diesel hydrodesulphurisation unit (HDS).

As regards upstream activities, in Q1 2007 crude oil was produced from the B3 reservoir. Furthermore, preparations to launch production from new crude oil reservoirs were underway, and the analysis of potential geological hydrocarbon reserves in the Polish economic zone was carried out, which may result in extending the scope of Petrobaltic S.A.'s exploration. As part of the Programme for Diversification of Crude Oil Supplies, a contract was signed for a shipment of Forties oil from the North Sea. The oil was supplied to the Gdańsk refinery in February through Naftoport.

In Q1 2007, in the retail area the Group continued to develop a modern nationwide LOTOS service station network by changing the network structure.

The average prices of Brent oil were USD 57.8/bbl (6.3% and 3.1% down on Q1 2006 and Q4 2006, respectively). The decline in oil prices went hand in hand with a decline in the Brent/Ural differential, which in Q1 2007 dropped to USD 3.4/bbl, representing 5.6% and 2.6% decline in relation to Q1 2006 and Q4 2006, respectively. In Q1 2007, the average refining margins increased up to USD 4.8/bbl (17.1% on Q1 2006). The growth of refining margins is primarily attributable to the increase in crack margins on key products, including gasoline to USD 133.1/tonne and diesel fuel to USD 109.0/tonne.

Despite the operating maintenance shutdown of certain units, including the hydrocracker, in Q1 2007 the Group operated at 101.7% of its nameplate throughput capacity.

In Q1 2007, the LOTOS Group posted consolidated sales revenue of PLN 2,548.8m, operating profit of PLN 52.9m, net profit on continued operations of PLN 62.8m and net profit attributable to equity holders of the parent in the amount of PLN 56.0m. In comparison with Q1 2006, sales revenue dropped by 5.3%, operating profit by 59.5%, net profit on continued operations by 46.6% and net profit attributable to equity holders of the parent decreased by 45.5%. The impact of the LIFO inventory valuation on the operating result was positive and reached PLN 1.9m, thereby increasing operating profit to PLN 54.8m.

The LOTOS Group's revenue was materially affected by the slide in prices of crude oil and petroleum products on global markets. The average net selling price of the products and goods for resale fell by 6.6%, from PLN 1,683/tonne in Q1 2006 to PLN 1,571/tonne in Q1 2007. The sales volume in Q1 2007 amounted to 1,622.0 thousand tonnes, which translates into an increase of 23.6 thousand tonnes (1.5%) year on year.

In view of a number of market and operational factors, which adversely affected the Group's financial performance, gross profit on sales fell year on year. The decline may be attributed to:

- Operating maintenance shutdown of the hydrocracking unit at the Gdańsk refinery, related to replacement of the catalyst, which increased operating expenses (overhaul cost) and affected the Company's ability to generate refining margins in the first half of March 2007;
- Deteriorated terms of Ural oil purchases, due to market uncertainty in the wake of the suspension of oil supplies through the Druzhba pipeline in January 2007;
- Liquidation of relief related to the use in production of gasoline and diesel oil of components obtained from plastic waste processing, which led to the closing of these activities at LOTOS Jasło and the lack of crude processing at LOTOS Czechowice;
- Requirement to store growing volumes of mandatory stocks, which translated into higher logistics and storage expenses,
- Negative impact of inventory valuation on gross profit on sales, compared with the positive impact seen in Q1 2006,
- Appreciation of the Polish currency.

Concurrently, the Management Board of Grupa LOTOS S.A. estimates that the Group's results in Q1 2007 are in line with the Company's expectations for 2007 and the Management Board's projections. The events which led a deteriorated performance relative to Q1 2006 are mostly of non-recurrent nature and had been foreseen by the Company.

To provide investors with a picture of its operating performance after Q1 2007, the Management Board of the LOTOS Group releases the Group's estimated financial and operating results for April 2007. In accordance with preliminary data, in April the Group's consolidated operating profit was PLN 60.0m, and EBITDA was PLN 85.0m. In April 2006, the Gdańsk refinery processed 507.4 thousand tonnes of crude oil, using 102.9% of its throughput capacity. The LOTOS Group sold 577,5 thousand tonnes of crude oil products. The hydrocracking unit processed 104.4 thousand tonnes, which means that the unit's current capacity is fully utilised.

The LOTOS Group is currently implementing the Operational and Management Excellence Programme (in cooperation with Shell) and the Trading Structure Development and Optimisation Programme. Work has also commenced on preparation of the comprehensive Operating Costs Optimisation Programme. The measures to be implemented are designed to streamline the management of the Group as a holding organization and to strengthen its position on the market of crude oil products in Poland. At the same time, the Management Board Grupa LOTOS S.A. made a decision to discontinue analyses related to the potential acquisition of the assets of Rafineria Nafty Glimar from the receiver and to abandon its plans to participate in the tender.

***Comprehensive Technical Upgrade Programme***

As concerns execution of the Comprehensive Technological Upgrade Programme, the Company's largest investment project and most important one in terms of prospective increase in the Company value, in Q1 2007 the Company focused on reviewing the received bids, preparing contracts and commencing execution of the project.

The activities aimed at commencement of the construction of crude oil distillation unit (CDU) were continued. Uhde Edeleanu completed the base design of the CDU unit. The tender procedure for execution of the unit was conducted based on bids submitted by six international engineering companies. The construction of the new CDU unit will boost oil processing capacity of the Group's refinery in Gdańsk, to the amount of 10.5m tonnes *pa* in 2010, up from the current level of 6 million tonnes.

Under the EPC contract, ABB Lummus Global executed the project related to the diesel hydrodesulphurisation unit (HDS). The subsequent stages of design were completed and orders were placed for basic equipment and machines (reactor, separators and compressors). The construction of HDS unit will enable the Group to increase its production of diesel oils and meet the quality requirements, which are to apply as of 2009 (maximum sulphur content of 10 ppm).

In Q1 2007, negotiations with Fluor and UHDE/Technip consortium were conducted based on the bids submitted in the middle of December 2006 for the execution of PKRT project, including, in particular, the hydrocracking unit and supporting units as well as development of infrastructure. During the negotiations, both bidders adjusted their bids in accordance with the modified terms and conditions. Further intense negotiations were scheduled between March and April 2007, and will result in gradual launch of the investment project based on preliminary agreements.

By the end of 2006, nearly all preparatory work at the PKRT construction site was completed, including ground levelling, draining and providing electricity to the site. In Q1 2007, the construction site infrastructure was prepared (entrance gate, internal roads, buildings and structures for employees and companies executing the project).

***PROSTA Programme***

In Q1 2007, the Company 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 work commenced in the previous quarters, including:

- On January 5th 2007, a CODO service station in Katowice was placed in service,
- A plot with a construction permit for a service station was purchased in Opole,
- Comprehensive LPG module installation programme was continued with regard to the service stations acquired from ExxonMobil and Slovnaft,
- Two new service stations, in Tarnów and Opatówek near Kalisz, were included in the LOTOS Family commercial partnership system.

Q1 2007 saw the continuation of disinvestment processes aimed at optimising the structure of the service stations network and rationalising the real estate assets. One company owned station was disposed of as part of the process.

As at March 31st 2007 the LOTOS service station network comprised 371 locations, including 132 COCO/CODO stations, 59 DOFO stations and 180 DODO stations. In accordance with the targets of the PROSTA Programme concerning the transformation of DOFO stations into stations operating in a different model, in Q1 2007, for the first time, the aggregate number of high-margin COCO and CODO stations exceeded the number of DODO stations.

***Petrobaltic and Crude Production Activities***

With regard to the oil production activities, in Q1 2007, activities were conducted on the B3 reservoir, where 47.5 thousand tonnes of crude oil were produced. The entire crude oil output of the B3 reservoir produced in Q1 2007 was shipped to the Gdańsk refinery. Concurrently, in Q1 2007, preparations were conducted to launch production from new deposits of crude oil in the Baltic Sea basin. Furthermore, potential geological hydrocarbon reserves were analysed in the Polish economic zone of the Baltic Sea, which may significantly expand the scope of Petrobaltic S.A.'s exploration activities.

***Southern Refineries (LOTOS Czechowice and LOTOS Jasło)***

In Q1 2007, further restructuring work was carried out to adapt LOTOS Jasło S.A. and LOTOS Czechowice S.A. to operate within the LOTOS Group. In connection with the expiry of the excise tax relief to encourage the use of plastics as a component in production of fuels, the management of LOTOS Jasło conducted work related to the restructuring of the Company's activities and phasing out of the plastics recycling operations.

As part of implementation of the LOTOS Group's Strategy aiming at establishing a horizontal corporate structure of the LOTOS Group and the policy providing for liquidation of the second tier of subsidiary undertakings, in Q1 2007, preparations were made for certain equity transactions planned for the subsequent quarters.

***Market Environment and Operations***

In Q1 2007, the average price of Brent crude stood at USD 57.8 per barrel and was lower by USD 3.9 per barrel (6.3%) on the average price in the corresponding period of 2006. Compared with the market prices in Q4 2006, the oil price was down by USD 1.8 per barrel (3.1%). The drop in Q1 2007 vs. Q4 2006 was accompanied by a further reduction in the Brent/Ural differential, from USD 3.6 per barrel in Q1 2006 to USD 3.4 per barrel in the corresponding period of 2006 (5.6% decrease). In comparison with Q4 2006, the differential fell by 2.6%.

It should be noted that in Q1 2007, the average refining margin increased to USD 4.8 per barrel, which, compared with Q4 2006 (USD 3.0 per barrel), represents an increase of 59.0%. Concurrently, compared with the analogous period of 2006, the refining margin rose by USD 0.7 per barrel (up by 17.1%). Increase in the refining margin was related to higher average crack margins on the key products, primarily including gasoline and diesel oil. The average crack margin on gasoline rose by 24.5%, to USD 109.0 per tonne, while the crack margin on diesel oil went up by 5.7%, to USD 109.0 per tonne.

As scheduled, in Q1 2007, the LOTOS Group carried out repair and maintenance work on the key production installations, including the hydrocracking unit. Despite shutdown of some of the units, in Q1 2007, a total of 1,504.8 thousand tonnes of crude oil were processed, which represents capacity utilisation of 101.7% of the design capacity of the Gdańsk refinery.

The Group refineries processed 1,402.1 thousand tonnes of Ural crude in the reporting period, which accounted for 93.2% of the processing volume. The balance also comprised the Rozewie crude oil produced by Petrobaltic – 30.5 thousand tonnes (2.0% of the processing volume), Kuwait crude oil – 13.6 thousand tonnes (0.9% of the processing volume) and Forties crude oil – 58.6 thousand tonnes (3.9% of the processing volume).

In Q1 2007, the LOTOS Group sold 344 thousand tonnes of motor gasolines, 608 thousand tonnes of diesel oil, 88 thousand tonnes of light fuel oil, 349 thousand tonnes of heavy fuel oil, 74 thousand tonnes of jet fuel, and 159 thousand tonnes of other products.

Compared with Q4 2006, the employment at the LOTOS Group in Q1 2007 decreased to 5,605 staff (by 19 employees). The headcount decrease was mainly caused by retirement of employees and the beginning of the restructuring processes at LOTOS Paliwa Sp. z o.o. and LOTOS Jasło.

***Review of the Consolidated Results of the LOTOS Group for Q1 2007***

Income Statement

In Q1 2007, sales revenue of the LOTOS Group amounted to PLN 2,548.0m and was down by 5.3% year on year. The decrease was driven mainly by a decline in market prices of crude oil and petroleum products on the global markets. The average net selling price fell by 6.6%, from PLN 1,683 per tonne in Q1 2006 to PLN 1,571 per tonne in Q1 2007. The Q1 2007 sales volume of the LOTOS Group amounted to PLN 1,662.0 thousand tonnes, which represented a y-o-y increase of 23.6 thousand tonnes (up by 1.4%). In the quarter under review, sales of diesel fuel, as well as bitumens and bitumen components rose, while the volume of sales of fuel oils and gasolines declined.

Compared with the corresponding period of the previous year, the Q1 2007 cost of sales went down by 3.2% and amounted to PLN 2,273.6m. The Q1 2007 unit selling cost was PLN 1,402 per tonne, i.e. 4.6% less than in Q1 2006. A larger decrease in the net unit price of sold products compared to the unit selling cost resulted in the Q1 2007 gross profit decreasing to PLN 274.4m, i.e. down by 19.6% relative to Q1 2006.

The lower gross profit on sales was mainly a result of larger scope of maintenance, and in particular, the planned operational maintenance shutdown of the hydrocarking unit at the Gdańsk refinery related to the replacement of a catalyst, deterioration in the terms of Ural oil acquisition terms, lower results of the Southern Refineries attributable to the expiration of the tax relief encouraging the use of a plastics component in the production of gasolines and diesel oils and discontinuation of oil processing at LOTOS Czechowice, the necessity to store increasingly higher volumes of mandatory stocks, and appreciation of the Polish currency.

Selling costs incurred by the LOTOS Group in Q1 2007 amounted to PLN 165.3m (up by 17% year on year). The main reasons for the growth included an 8.6% increase in the volume of export sales as well as the fact that the Company covered the entire amount of transport costs related to the exports of fuel oil and Jet A-1 fuel. In the analysed period, general and administrative expenses increased by 18.4% compared with Q1 2006 and amounted to PLN 73.6m; the growth was mainly driven by an increased scale of the Company’s operations. In Q1 2007, the Group reported profit on other operating activities of PLN 17.4m (PLN 24.7m higher than the loss incurred in Q1 2006). The Group’s operating profit for the first three months of 2007 stood at PLN 52.9m, representing a decrease of PLN 77.8m from the Q1 2006 figure. The difference between Q1 2007 operating profit and the corresponding figure recorded in Q1 2006 was reduced by profit on the financing activities, which amounted to PLN 28.0m in Q1 2007 (compared with PLN 19.1m in Q1 2006).

The Q1 2007 profit before tax amounted to PLN 80.9m, down by PLN 68.9m year on year. The Q1 2007 net profit on continued operations amounted to PLN 62.8m, which represented a year-on-year decrease of 46.6%. The Q1 2007 profit attributable to equity holders of the parent was PLN 56.0m.

Balance Sheet

As at March 31st 2007, the balance-sheet total of the LOTOS Group was PLN 8,002.7m, up by PLN 76.3m during Q1 2007. The growth was mainly caused by increased stocks (up by PLN 112.0m) as a result of the statutory volume of mandatory stocks and increased prices of crude oil and petroleum products at the end of Q1 2007 compared with the prices reported at the end of 2006.

As at March 31st 2007, the Group's equity amounted to PLN 5,597.1m. The PLN 62.7m increase in equity recorded in Q1 2007 resulted chiefly from of a PLN 56.0m increase in retained earnings and a PLN 6.8m rise in minority interests.

In Q1 2007, non-current liabilities decreased slightly, chiefly as a result of a lower level of long-term loans and borrowings, and amounted to PLN 743.5m as at the end of March 2007. Concurrently, caused by an increase in short-term loans and borrowings as well as a decrease in short-term provisions, in Q1 2007, the balance of current liabilities increased by PLN 20.7m to amount to PLN 1,662.2m at the end of the period.

Cash Flows

As at the end of Q1 2007, the cash balance recorded by the LOTOS Group amounted to PLN 635.5m, having increased by PLN 77.8m relative to the end of Q1 2006.

In Q1 2007, net cash provided by operating activities amounted to PLN 64.6m, up by PLN 156.0m relative to the negative cash balance in Q1 2006. The Q1 2007 increase in net cash provided by operating activities was driven primarily by depreciation and amortisation of PLN 75.0m, net profit of PLN 62.8m, a PLN 44.9m loss on investing activities, increase in liabilities by PLN 18.2m, and a positive difference between current corporate income tax and corporate income tax paid in the amount of PLN 5.4m. The key factors with a negative impact on the operating cash flows in the reporting period included a PLN 112.0m increase in inventories, a PLN 19.7m decrease in provisions and a PLN 17.1m rise in prepayments and deferred income.

Cash used in investing activities in Q1 2007 amounted to PLN 52.0m, down by PLN 109.9m relative to PLN 161.9m recorded in Q1 2006. The change resulted mainly from a PLN 77.1m decrease in expenses incurred in connection with the acquisition of fixed assets and intangible assets, which reached the level of PLN 60.4m in Q1 2007.

In Q1 2007, the balance of cash from financing activities conducted by the LOTOS Group was close to null and reached PLN -0.1m, down on PLN 43.2m recorded in Q1 2006. The variation is attributable mainly to a PLN 42.8m year-on-year drop in the positive difference between cash provided by contracted loans and borrowings and cash used in connection with the loans and borrowings.

Operating Profit/Loss of the LOTOS Group in Q1 2007 by Business Segments Along with Comparable Data for Q1 2006

The operating activities of the LOTOS Group are divided into four business segments: crude oil production, refining and marketing, retail network, 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.

| **(PLNm)** | **Business segments** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Crude oil production** | | **Refining and marketing** | | **Retail** | | **Other business** | |
| | **Q1 2006** | **Q1 2007** | **Q1 2006** | **Q1 2007** | **Q1 2006** | **Q1 2007** | **Q1 2006** | **Q1 2007** |
| **Sales revenue** | 82 | 77 | 2,662 | 2,508 | 202 | 235 | 63 | 98 |
| *Inter-segment sales* | 77 | 70 | 184 | 207 | 0 | 0 | 57 | 93 |
| *External sales* | 5 | 7 | 2,478 | 2,301 | 202 | 235 | 6 | 5 |
| Operating expenses | -29 | -45 | -2,584 | -2,502 | -210 | -249 | -54 | -92 |
| Adjustments | -2 | 12 | 2 | 13 | 0 | 1 | -1 | -3 |
| **Operating profit** | 51 | 44 | 80 | 19 | -8 | -13 | 8 | 3 |
| Amortisation and depreciation | 11 | 12 | 53 | 53 | 6 | 8 | 2 | 2 |
| **Earnings before interest, income tax depreciation, and amortisation (EBITDA)** | 62 | 56 | 133 | 72 | -2 | -5 | 10 | 5 |

*Source: LOTOS Group*

## Crude Oil Production

The Q1 2007 revenue on crude oil production was PLN 77m. Net of the operating expenses of PLN 45m and after adjustments, the operating profit amounted to PLN 44m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) reached PLN 56m.

The Q1 2007 revenue generated in the production segment was affected considerably by the termination of the pilot test production from the B8 reservoir in Q4 2006 as well as the drop of prices of light Brent oil on international markets. The prices of Brent oil are used as the basis for calculating the price of the Rozewie crude produced by Petrobaltic and purchased by the LOTOS Group. Compared to Q1 2006, the revenue fell due to a decrease in the average price of Brent oil to USD 57.8/bbl, or by 6.3% below the average price quoted in Q1 2006, and a lower production volume which reached 47.5 thousand tonnes in the reporting period, relative to 65.2 thousand tonnes produced in Q1 2006.

## Refining – Production and Marketing

In Q1 2007, the refining segment generated sales revenue of PLN 2,508m, operating profit of PLN 19m, and earnings before interest, depreciation, income tax and amortisation (EBITDA) of PLN 72m. EBITDA margin of the refining segment in Q1 2007 stood at 2.9%, and the operating margin reached 0.8%.

The refining segment's operating profit for Q1 2007 was affected to a large extent by the maintenance operating shutdown of the hydrocracking unit and other units as well as by deteriorating market conditions, such as a decrease of 6.4% in the Ural/Brent differential relative to the corresponding period of the previous year. The operating maintenance shutdown of the hydrocracking unit took place in the first half of March, lasted for 13 days and had a negligible impact on the volume and regularity of oil product deliveries from the LOTOS Group. However, due to a temporary lack of throughput on the hydrocracking unit and maintenance work concurrently conducted on other units, which also required their temporary shutdown, the Company's ability to leverage on the increased refining margins prevailing on the international markets was limited. Concurrently, in order to retain the market, as necessitated by shutdown of the unit, the Company imported larger volumes of components and goods. The estimated negative effects of the shutdown on the operating profit, resulting from the reduced ability to generate full refining margins and from expenses incurred in connection with the operational shutdown and other maintenance work, translated into a total negative impact of approximately PLN 28.0m.

The revenue generated by the refining segment was also adversely affected by an increase in mandatory stocks, coupled with unfavourable conditions regarding margins, additional costs following from the abolition of the recycled plastics components blending tax relief, which was the basis of plastic recycling activities at LOTOS Jasło, and discontinuation of the production processes at LOTOS Czechowice at the end of Q1 2006.

**Retail Operations (Service Stations Network)**

In Q1 2007, sales revenue in the retail segment amounted to PLN 235m. The segment reported EBIT of PLN -13m, and EBITDA of PLN -5m.

The Group's performance in the retail business in Q1 2007 was affected mainly by the seasonal nature of sales and lower margins with respect to fuels delivered by LOTOS Paliwa to DODO and DOFO stations. Furthermore, the retail business' EBIT was affected by the increase in retail unit margins at the COCO stations, which in Q1 2007 rose by more than 4% relative to Q1 2006, accompanied by a 30% drop in unit retail margins relative to Q4 2006.

As at the end of Q1 2007, the number of COCO stations was 132 (no change as of the end of Q4 2006), the number of DOFO stations reached 59 (two stations more), and the number of DODO stations fell to 180 (32 stations less). The number of signed franchise agreements rose to 82 (five agreements more).

**Other Business**

In Q1 2007, the sales revenue on other business was PLN 98m, the segment's operating profit was PLN 3m, and EBITDA amounted to PLN 5m.

<u>Impact of the LIFO Inventory Valuation on the Consolidated Results of the LOTOS Group in Q1 2007</u>

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 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 stock valuation defers the impact of changes in oil prices on the prices of finished products. Thus, an increase in oil prices on the global markets 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 consolidated operating profit of the LOTOS Group for Q1 2007 accounting for the estimated impact of using the LIFO method for inventory valuation (along with the comparable data for Q1 2006) is presented as item 2.

| No. | (PLNm) | Q1 2007 | Q1 2006 | Change |
|---|---|---|---|---|
| **1.** | **Operating profit** | 52.9 | 130.7 | -59.5% |
| **2.** | **Operating profit – LIFO method** | 54.8 | 110.1 | -50.2% |

*Source: LOTOS Group*

In Q1 2007, the impact of inventory valuation led to a drop in financial profit by PLN 1.9m, compared with a PLN 20.6m increase in Q1 2006. Should the LIFO method be applied for inventory valuation, the operating profit would amount to PLN 54.8m and PLN 110.1m in Q1 2007 and Q1 2006, respectively.

The assumptions made in calculating the Q1 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 Q1 2006) are described in Current Report No. 29/2006.