

**GRUPA LOTOS S.A.
DIRECTORS' REPORT ON THE OPERATIONS
OF GRUPA LOTOS S.A. IN 2008**



GRUPA LOTOS S.A.

DIRECTORS' REPORT ON THE OPERATIONS OF GRUPA LOTOS S.A. IN 2008

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

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INTRODUCTION

This Directors' Report on the operations of Grupa LOTOS S.A. in 2008 was prepared by the Management Board pursuant to the Minister of Finance's Regulation on current and periodic information to be published by issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state, dated February 19th 2009. (Dz.U. No. 33 item 259).

1. BASIC INFORMATION ON GRUPA LOTOS S.A.

Grupa LOTOS S.A. was established by virtue of the Notarial Deed dated September 18th 1991. On April 10th 2002, the Company was entered into the National Court Register maintained by the District Court of Gdańsk, XII Commercial Division of the National Court Register (currently the District Court for Gdańsk – Północ, VII Commercial Division of the National Court Register), under entry No. KRS 0000106150. The Company was assigned the Industry Identification Number (REGON) 190541636.

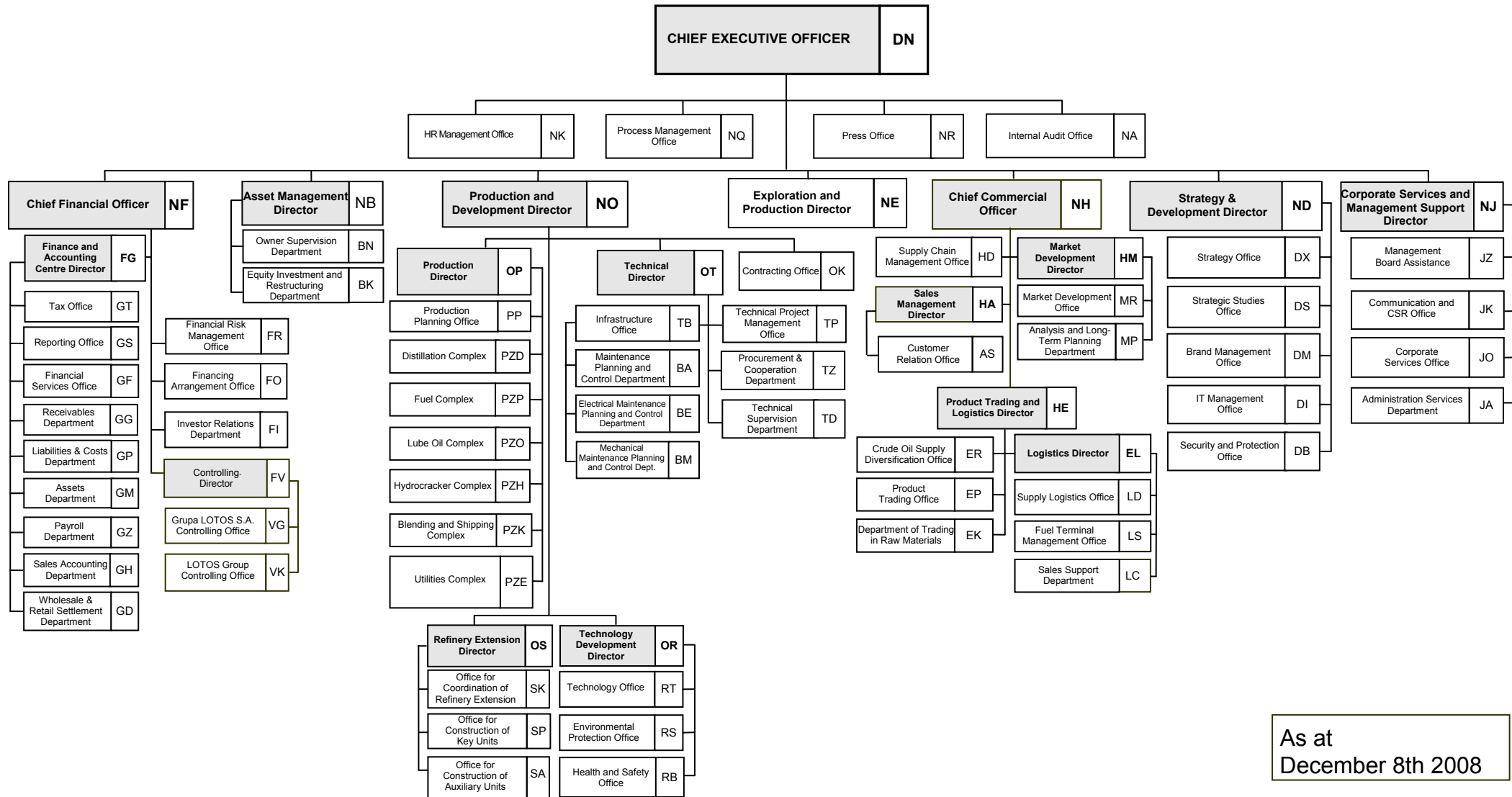
The Company's registered office is situated at ul. Elbląska 135, 80-718 Gdańsk, Poland.

In 2003, by virtue of its decision of May 28th 2003, the District Court of Gdańsk, XII Commercial Division of the National Court Register, changed the Company's name from Rafineria Gdańska Spółka Akcyjna to Grupa LOTOS Spółka Akcyjna.

As per the Company's Articles of Association, the Company's core business comprises manufacture, trading, and provision of services.

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1.1 STRUCTURE OF GRUPA LOTOS S.A. AND GRUPA LOTOS S.A.'S BRANCHES (PLANTS)



As at
December 8th 2008

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As at December 31st 2008, the organisational structure of Grupa LOTOS S.A. comprised the following units:

- 17 divisions, including 8 reporting directly to the Chief Executive Officer,
- 36 offices,
- 18 departments,
- 6 production plants.

Grupa LOTOS S.A. has no branches (plants) within the meaning of the Polish Accountancy Act.

1.2 OWNERSHIP CHANGES AT GRUPA LOTOS S.A. AND THE LOTOS GROUP IN 2008

1.2.1 OWNERSHIP CHANGES AT GRUPA LOTOS S.A.

ASSIMILATION OF SHARES

By virtue of Resolution No. 52/08 of January 29th 2008, on February 1st 2008 the National Depository for Securities (Polish NDS) assimilated 6,400 ordinary bearer shares of Grupa LOTOS S.A. (created through conversion, on February 1st 2008, of 6,400 ordinary registered shares bearing ISIN code PLLOTOS00033) with 55,629,209 ordinary bearer shares of Grupa LOTOS S.A. bearing ISIN code PLLOTOS00025.

Following the assimilation, the shares were marked with ISIN code PLLOTOS00025.

Since February 1st 2008:

- 55,635,609 shares of Grupa LOTOS S.A. have been marked with ISIN code PLLOTOS00025,
and
- 58,064,391 shares of Grupa LOTOS S.A. have been marked with ISIN code PLLOTOS00033.

By virtue of Resolution No. 71/2008 of January 24th 2008, the Management Board of the Warsaw Stock Exchange introduced, on February 1st 2008, by way of the ordinary procedure, 6,400 Series A ordinary bearer shares of Grupa LOTOS S.A., with a par value of PLN 1.00 per share and ISIN code PLLOTOS00033, to trading on the main market.

In line with the aforementioned resolution, the shares were introduced to trading on February 1st 2008 on condition that on that day the Polish NDS would convert the registered shares in Grupa LOTOS S.A. into ordinary bearer shares and assimilate them, on February 1st 2008, with the shares of Grupa LOTOS S.A. already traded on the stock-exchange under ISIN code PLLOTOS00025.

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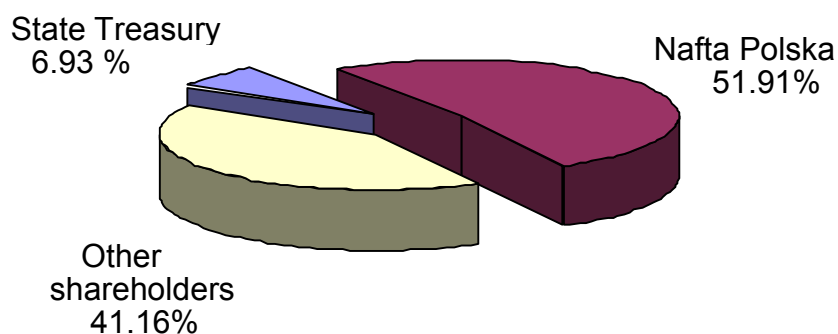
1.3 PAYMENT OF DIVIDEND FOR 2007

On June 30th 2008, the Annual General Shareholders Meeting of Grupa LOTOS S.A. adopted a resolution on the distribution of Grupa LOTOS S.A.'s net profit for 2007. Pursuant to the resolution, the net profit of PLN 745,083,686.06 for the year ended December 31st 2007 was allocated to:

- statutory reserve funds – PLN 742,584 thousand,
- special account designated for financing Grupa LOTOS S.A.'s corporate social responsibility (CSR) projects – PLN 2,500 thousand. The General Shareholders Meeting authorises the Management Board of Grupa LOTOS S.A. to apply the funds in the special account referred to in Par. 1.1 a) in accordance with the Rules Governing the Use of the CSR Special Account, adopted by virtue of Supervisory Board's Resolution No. 3 dated February 20th 2008.

1.4 SHAREHOLDER STRUCTURE

Chart 1 Structure of Grupa LOTOS S.A.'s share capital as at December 31st 2008



The structure of Grupa LOTOS S.A.'s share capital as at December 31st 2008 was as follows:

	Number of shares	Number of votes	Par value of shares [PLN]	% of share capital held
State Treasury	7,878,030	7,878,030	7,878,030	6.93 %
Nafta Polska S.A.	59,025,000	59,025,000	59,025,000	51.91 %
Other shareholders	46,796,970	46,796,970	46,796,970	41.16 %
Total	113,700,000	113,700,000	113,700,000	100.00 %

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The share capital comprises 113,700,000 ordinary shares, fully paid-up, with a par value of PLN 1 per share. Each share confers the right to one vote at the General Shareholders Meeting and carries the right to dividend.

1.5 OWNERSHIP CHANGES AT THE LOTOS GROUP IN 2008

Przedsiębiorstwo Poszukiwań i Eksploatacji Złóż Ropy i Gazu Petrobaltic S.A.

On May 19th 2008, P.P.iE.Z.R.i G. Petrobaltic S.A. decided to acquire the new issue shares in LOTOS Exploration and Production Norge AS (previously a wholly-owned subsidiary of Grupa LOTOS S.A.). Following the acquisition of the new issue shares with the value of NOK 32m, Petrobaltic S.A. came to hold 80% of the total vote at the General Shareholders Meeting of the company. On June 12th 2008, Grupa LOTOS S.A. concluded an agreement with Petrobaltic S.A. to sell 8 million shares in LOTOS Exploration and Production Norge AS, representing 20% of the company's share capital. Following the above transactions, Petrobaltic S.A., as the ultimate parent undertaking of the LOTOS Group in the exploration and production area, holds 100% of the shares in LOTOS Exploration and Production Norge AS whose core business includes the exploration for and production of crude oil on the Norwegian Continental Shelf, as well as provision of the related services.

LOTOS Exploration and Production Norge AS

In 2008, P.P.iE.Z.R.iG. Petrobaltic S.A. acquired 100% of shares in LOTOS Exploration and Production Norge AS following the increase in the company's share capital (registered on May 27th 2008) and transaction involving the sale of shares by Grupa LOTOS S.A. (the agreement of June 12th 2008). The purpose of the new share issue was to ensure financing for the further development of the company's business.

LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation)

On October 20th 2008, the company was deleted from the National Court Register.

Rafineria Nafty Glimar S.A.

On March 11th 2008, the District Court in Nowy Sącz issued a decision to discontinue the bankruptcy proceedings concerning Rafineria Nafty Glimar S.A. on the grounds of insufficient financial means available for the official receiver to continue the proceedings. Due to complaints filed against the decision to discontinue the bankruptcy proceedings, the decision became final on July 25th 2008 after the Regional Court in Kraków, XII Commercial Appellate Division, dismissed the complaints.

On December 1st 2008, Grupa LOTOS S.A. concluded an agreement with Podkarpacki Holding Budowy Dróg Drogbud Sp. z o.o. of Strzyżów concerning disposal of its shares in Rafineria Nafty Glimar S.A. The value of the transaction was PLN 1m.

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PLASTEKOL Organizacja Odzysku S.A.

In May 2008, LOTOS Jasło S.A. (controlled by Grupa LOTOS S.A. in 80.01%) proceeded with the buy-out of PLASTEKOL Organizacja Odzysku S.A. shares from minority shareholders. Following five buy-out transactions, the interest of LOTOS Jasło Sp. z o.o. in the share capital of the company increased from 67% to 83.5% (as at December 31st 2008).

Chemipetrol Sp. z o.o.

On December 30th 2008, LOTOS Jasło S.A. (controlled by Grupa LOTOS S.A. in 80.01%) and Mr. Andrzej Dzięglewicz (President of the Management Board of Chemipetrol Sp. z o.o.) entered into an agreement to sell 100% of the shares in Chemipetrol Sp. z o.o. The value of the transaction stood at PLN 266 thousand. The transaction constituted an element of reorganisation and streamlining of the structure of the LOTOS Group.

LOTOS Serwis Sp. z o.o.

On September 17th 2008, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, registered the increase in the share capital of LOTOS Serwis Sp. z o.o. from PLN 2,500 thousand to PLN 4,000 thousand. The share capital increase was effected through the acquisition of new issue shares by Grupa LOTOS S.A., which remained the holder of a 100% stake in LOTOS Serwis Sp. z o.o.

LOTOS Tank Sp. z o.o.

On September 18th 2008, the District Court of Rzeszów, XII Commercial Division of the National Court Register, registered the increase in the share capital of LOTOS Tank Sp. z o.o. from PLN 500 thousand to PLN 6,945 thousand. The share capital increase was effected through the increase of the par value of 1,000 existing shares, from PLN 500.00 per share to PLN 6,945.00 per share. Grupa LOTOS S.A. remained the holder of 100% of the share capital of LOTOS Tank Sp. z o.o. The purpose of the capital increase was to ensure the implementation by the company of the project involving the development of a jet fuel (JET-A1) airport sales segment, including the construction of a fuel terminal at the Gdańsk-Rębiechów airport.

1.6 CHANGES IN ORGANISATION AND MANAGEMENT OF GRUPA LOTOS S.A.

CHANGES IN THE ORGANISATIONAL RULES AND ORGANISATIONAL STRUCTURE OF GRUPA LOTOS S.A.

The key changes in the management rules followed from the Company's reorganisation aimed at ensuring effective implementation of "The LOTOS Group's Strategy until 2012" and reducing the cost of the Company's operations, which will result in improvement of the efficiency ratios and better

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communication between the organisational units. As a result of establishing new divisions in the organisational structure of the Company, the scope of activity of the organisational units as well as the responsibilities and powers of employees in charge of the newly-created structures was changed.

As of January 1st 2008, organisational changes were introduced, which involved the liquidation of the Division of the Exploration and Production Director (NU) together with the subordinated units: Oil & Gas Field Development Office (UZ) and Oil & Gas Exploration Office (UR). An organisational unit of the Exploration and Production Director (NE) was created based on the liquidated division. The following was also changed:

- the scope of responsibilities of the Contracting Office (OK) and the IT Management Office (WI),
- the scope of responsibilities of the Financial Risk Management Office (FR).

As of February 1st 2008, the Financial Services Department (GF) changed its name to Financial Services Office (GF) and in the Division of the Finance and Accounting Centre Director (FG) two new organisational units were created:

- Sales Accounting Department (GH),
- Wholesale & Retail Settlement Department (GD).

As of March 1st 2008, organisational changes were introduced. In the Division of the Chief Commercial Officer (NH), the existing organisational structure of the Division was liquidated and a new structure was introduced under which the following organisational units, with a direct reporting line to the Chief Commercial Officer (NH), were created:

- Market Development Director (HM) with the following subordinated units:
 - Market Development Office (MR),
 - Intelligence and Long-Term Planning Department (MP).
- Sales Management Director (HA) with the following subordinated unit:
 - Customer Relation Office (AS).
- Product Trading and Logistics Director (HE) with the following subordinated units:
 - Crude Oil Supply Diversification Office (ER),
 - Product Trading Office (EP),
 - Department of Trading in Raw Materials (EK),
- Logistics Director (EL) with the following subordinated units:
 - Supply Logistics Office (LD),
 - Fuel Terminal Management Office (LS),
 - Sales Support Department (LC).

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- Supply Chain Management Office (HD).

In the Division of the Chief Financial Officer (NF), the Controlling and Economic Analysis Office (FK) and the subordinated Budget Planning Department (KB) were liquidated and based on the liquidated structures a new organisational unit, Controlling Director (FV), subordinated directly to the Chief Financial Officer (NF), was created, with the following subordinated units:

- Grupa LOTOS S.A. Controlling Office (VG), and
- LOTOS Group Controlling Office (VK).

As of August 11th 2008, amendments were made to the Organisational Rules, reflecting the changes in the system of management and supervision of the subsidiaries and providing more details to the descriptions of business segments.

As of September 1st 2008, within the organisational structure of Grupa LOTOS S.A., in the Division of the Production Director (OP), a new organisational unit, Distillation Complex (PZD) with the subordinated units comprising the production plants, which were previously subordinated to the Fuel Complex (PZP), i.e. units 100, 300, 310, 3500, 3550, 8700 and 1800, and to the Lube Oil Complex (PZO), i.e. units 900, 1100 and 1250.

As of December 1st 2008, Intelligence and Long-Term Planning Department changed its name to Analysis and Long-Term Planning Department and changes were made to the organisational structure and the contents of the Organisational Rules, involving the liquidation of the Division of the Deputy Chief Officer for Strategy & Corporate Support (NW) in the organisational structure of Grupa LOTOS S.A. and the creation of divisions subordinated directly to the Chief Executive Officer with the following subordinated units of:

the Division of the Strategy & Development Director (ND) together with:

- Strategy Office (DX),
- Strategic Studies Office (DS),
- Brand Management Office (DM),
- IT Management Office (DI),
- Security and Protection Office (DB),

the Division of the Corporate Services and Management Support Director (NJ) together with:

- Management Board Assistance Office (JZ),
- Communication and CSR Office (JK),
- Corporate Services Office (JO),
- Administration Services Department (JA).

As of December 8th 2008, Rafineria Nafty Glimar S.A. was deleted from the list of Management Segment companies in the Organisational Rules.

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DEVELOPMENT OF NEW RULES:

- **Rules of the IT Committee**

The IT Committee was established to support the management of the development and the search for the methods facilitating optimal utilisation and operation of IT systems and tools by the companies of the LOTOS Group. The Rules of the IT Committee came into force as of May 28th 2008.

- **Rules of the Invention Designs Committee**

The Rules of the Invention Designs Committee came into force as of January 7th 2008. The Rules define the scope of activity, the powers and the procedure of the Invention Designs Committee. The purpose of the Committee is to ensure proper functioning in the area of protection of the LOTOS Group's industrial property.

- **Rules for the User of Grupa LOTOS S.A. IT Systems**

The Rules of the User of Grupa LOTOS S.A. IT Systems came into force as of February 15th. The Rules specifies basic principles governing the use of the IT systems of Grupa LOTOS S.A.

- **Rules of the Special Account Committee**

The Rules of the Special Account Committee came into force as of August 11th. The purpose of the Special Account Committee is to ensure proper functioning in the area of financing of Grupa LOTOS S.A.'s corporate social responsibility (CSR) projects. The Committee's main task is to consider applications for financial or in-kind support submitted to Grupa LOTOS S.A.

Besides the changes described above, no other material changes in the organisation and management of Grupa LOTOS S.A. occurred in 2008.

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1.7 GRUPA LOTOS S.A. – EMPLOYMENT STRUCTURE AS AT DECEMBER 31ST 2008

As at December 31st 2008, Grupa LOTOS S.A. employed 1,246 staff.

Grupa LOTOS S.A.'s employment structure by job category:

Item	Men	Women	Total
blue-collar jobs	450	5	455
white-collar jobs	399	392	791
Total:	849	397	1,246

Grupa LOTOS S.A.'s employment structure by education level:

Education	White-collar workers	Blue-collar workers	Total	
			No.	%
University degree	579	54	633	50.80
Secondary education (technical)	163	273	436	34.99
Secondary education (general)	39	26	65	5.22
Vocational education	8	84	92	7.38
Primary-level education	2	18	20	1.61
Total:	791	455	1,246	100

1.8 CHANGES IN ORGANISATIONAL OR CAPITAL LINKS BETWEEN GRUPA LOTOS S.A. AND OTHER ENTITIES

Undertakings in which the Company Holds Shares in the Share Capital or in the Total Vote in the Undertaking's Constitutive Body

As at December 31st 2008 and December 31st 2007, the Company's shares in the total vote in its subsidiary undertakings were equal to its shares in the share capitals of these undertakings.

Name	Registered office	Business profile	Percentage of share capital held by the Company		Carrying value of shares (PLN '000)	
			Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007
LOTOS Paliwa Sp. z o.o.	Gdańsk	Wholesale and retail sale of fuels, light fuel oil, management of the LOTOS service station network	100.00%	100.00%	114,706	114,706
LOTOS Partner Sp. z o.o.	Gdańsk	Sale of fuels and provision of services for retail networks of international concerns; logistic services	-	-(1)	-	-
LOTOS Gaz S.A. (parent undertaking of another group, formerly LOTOS Mazowsze S.A.)	Mława	Wholesale and retail sale of LPG	100.00%	100.00%	-	16,284

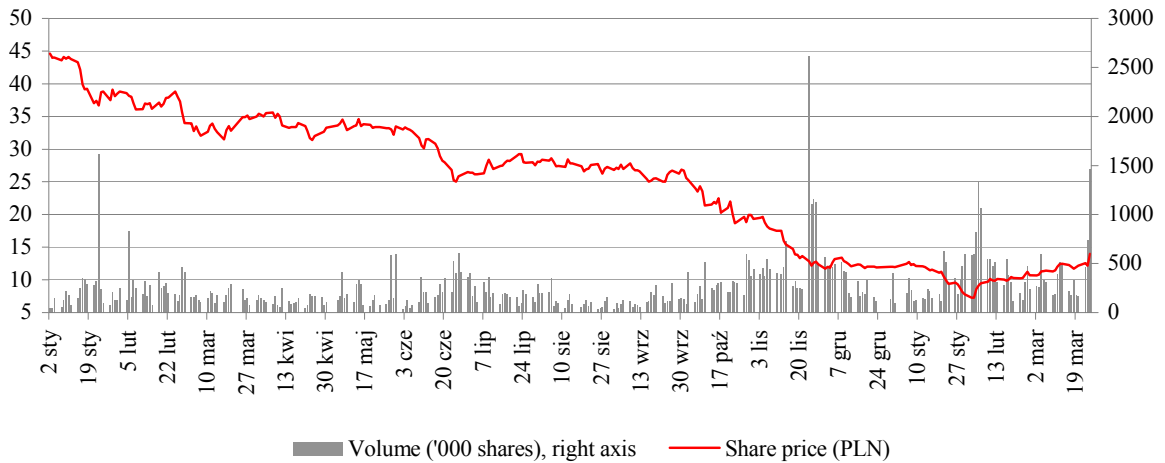
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Name	Registered office	Business profile	Percentage of share capital held by the Company		Carrying value of shares (PLN '000)	
			Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007
LOTOS Oil S.A.	Gdańsk	Production and sale of lubricating oils and lubricants, and domestic sale of base oils	100.00%	100.00%	505	505
LOTOS Asfalt Sp. z o.o.	Gdańsk	Production and sale of bitumens	100.00%	100.00%	78	78
LOTOS Ekoenergia S.A.	Gdańsk	Construction of the key installations as part of the 10+ Programme; the company has not commenced operations	100.00%	100.00%	507	505
LOTOS Kolej Sp. z o.o.	Gdańsk	Railway transport	100.00%	100.00%	233	233
LOTOS Serwis Sp. z o.o.	Gdańsk	Maintenance of mechanical and electric operations and controlling devices, repairs	100.00%	100.00%	4,020	2,520
LOTOS Lab Sp. z o.o.	Gdańsk	Laboratory testing	100.00%	100.00%	50	50
LOTOS Straż Sp. z o.o.	Gdańsk	Fire protection	100.00%	100.00%	3,906	3,906
LOTOS Ochrona Sp. z o.o.	Gdańsk	Personal and property protection	100.00%	100.00%	353	353
LOTOS Parafiny Sp. z o.o.	Jasło	Production and sale of paraffin	100.00%	100.00%	20,843	20,843
LOTOS Tank Sp. z o.o.	Jasło	Wholesale of liquid and gaseous fuels and related products	100.00%	100.00%	7,245	800
LOTOS Czechowice S.A. (parent undertaking of another group)	Czechowice	Storage and distribution of fuels	80.04%	80.04%	13,918	13,918
LOTOS Jasło S.A. (parent undertaking of another group)	Jasło	Production and processing of refined petroleum products and their wholesale and retail sale ⁽²⁾	80.01%	80.01%	-	-
Petrobaltic S.A. (parent undertaking of another group)	Gdańsk	Acquisition of crude oil and natural gas reserves and their exploitation	69.00%	69.00%	245,931	245,931
UAB LOTOS Baltija	Lithuania	Wholesale and retail sale of lubricating oils in Lithuania, Belarus, Ukraine and Latvia	100.00%	100.00%	1,158	1,158
Rafineria Nafty GLIMAR S.A.	Gorlice	Refining; currently: provision of services	-	91.54%	-	-
LOTOS Hydrokompleks Sp. z o.o. w likwidacji (in liquidation) ⁽³⁾	Gorlice	Construction and subsequent operation of hydrocomplex unit; the company has not commenced operations	-	100.00%	-	51
LOTOS Park Technologiczny Sp. z o.o.	Gorlice	Business and management consultancy services	27.45%	27.45%	2,135	2,135
LOTOS Exploration and Production Norge AS	Stavanger, Norway	Oil exploration and production at the Norwegian continental shelf, provision of services related to oil exploration and production; the company commenced operations in November 2007	-	100.00%	-	3,887
Total shares in subsidiary and associated undertakings					415,588	427,863

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1.9 GRUPA LOTOS S.A. SHARE PRICE ON THE WARSAW STOCK EXCHANGE

Chart 1 Grupa LOTOS S.A. share price in January 1st 2008–March 25th 2009

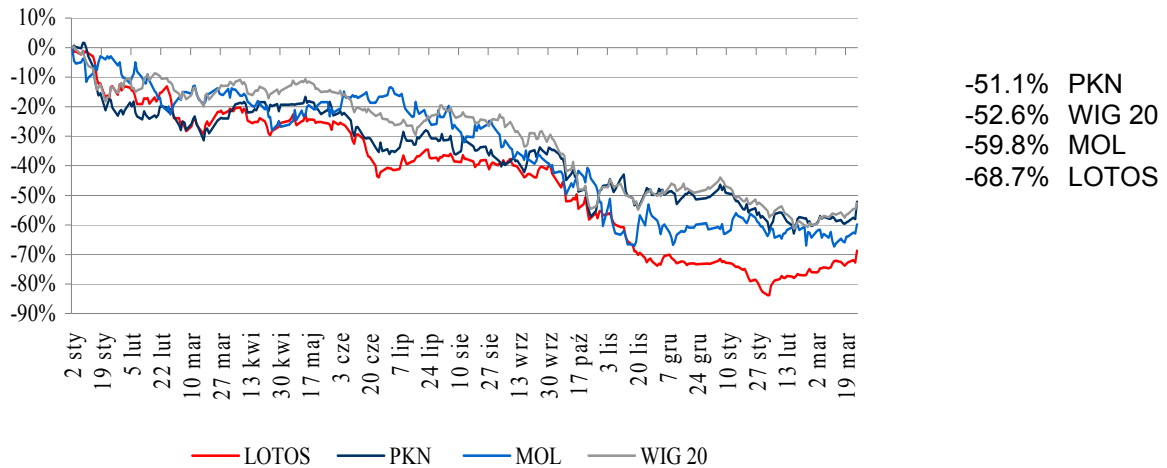


Key to the chart:

sty	January
lut	February
mar	March
kwi	April
maj	May
cze	June
lip	July
sie	August
wrz	September
paź	October
lis	November
gru	December

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Chart 1 Performance of Grupa LOTOS S.A., PKN Orlen, and MOL shares as well as the WIG 20 index in January 1st 2008–March 25th 2009



Key to the chart:

Sty	January
Lut	February
Mar	March
Kwi	April
Maj	May
Cze	June
Lip	July
Sie	August
Wrz	September
Paź	October
Lis	November
gru	December

At the opening of the first trading session in 2008, Grupa LOTOS S.A. shares traded at PLN 44.60, with the WIG20 index having opened at 3,421.25 points. In the first three weeks of January, the Company share price mirrored the performance of the WIG20 index and continued to suffer from a downward trend which started towards the end of the previous year, arriving at a monthly low of PLN 36.70 on January 23rd. The mortgage market crisis in the United States deepened and spilled over to affect financial institutions, which was the reason behind the steep slide in the Company share price (down by 22.6%) and the WIG index performance (down by 13.7%) recorded in January.

In February, up until the publication of the Q4 2007 financial results, the Company stock was trading in a range. After the release of the financial results, which fell short of expectations, on February 28th,

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the Company stock price entered into a powerful downward trend. On March 10th, the Company stock slipped into a consolidation, reaching PLN 35.00 per share at the end of the first quarter of the year. At the same time the WIG20 index consolidated, with little fluctuation, arriving at 2,981.07 points at the end of the quarter.

Until April 9th the Company share price and the WIG20 index remained in a flat trend, with minor fluctuations only. Later on, however, three brokerage houses cut their recommendation on the Company stock and the WIG20 index experienced losses, which two factors caused the share price to drop down to a monthly low, i.e. PLN 31.38. May was yet another month to witness a sluggish market. During the period, Grupa LOTOS S.A. stock price fell by 1.7% and the WIG20 index dipped by 1.8%. In June, both the Company shares and the entire WIG20 index suffered heavy losses. On June 25th, the Company stock hit a monthly low of PLN 25.00 per share. The grim situation on the Warsaw Stock Exchange followed from major declines on the global capital markets, and in the case of the Company they were further exacerbated by an unfavourable response of investors to the information that the Company's investment plans had been expanded. However, thanks to an effective information campaign and an announcement that the Company succeeded in raising funds for the planned investments, the stock of Grupa LOTOS S.A. rebounded from its monthly low, gaining 6.0% and reaching PLN 26.50 at the end of the quarter. The WIG20 index closed the quarter at 2,591.09 points, hitting the lowest level since December 2005.

In July 2008, the Company share price experienced increases intertwined with one-off corrections. The release of information on a major progress made with respect to the implementation of the 10+ Programme and on the intensification of work in the oil exploration and production segment triggered a positive investor reaction. Additionally, the stock price benefited from the appreciation of the WIG20 index, observed in late July, which stemmed from an improved sentiment on the global capital markets. From the beginning of the month, Grupa LOTOS S.A.'s share price was regaining ground and climbed by 6.3%, with the WIG20 index having appreciated by 7.6% over the same period. The reported Q2 2008 financial results of the Company proved better than expected, but this was insufficient to shield Grupa LOTOS S.A. stock against losses, and in August 2008 it dropped from PLN 28.39 at the beginning of the month to PLN 27.27 at the end of the month. Uncertainty prevailing on the market, coupled with sluggish investor activity during summer holidays, contributed to a 4.4% slide of the WIG20 index and extremely low trading volumes. Throughout September, the Company stock price traded in a range. At the same time, the WIG20 index fell by 7.7% due to the collapse of Lehman Brothers and financial difficulties of several major financial institutions having come to light. As at the end of the third quarter of 2008, the WIG20 index dropped to 2,384.22 points.

October and November witnessed an inflow of increasingly alarming news from abroad, which resulted in further declines in the WIG20 index. In October, the Company stock price closely followed the movements in the WIG20 index only to fall behind it in November. During the month, the price plunged by record 36.7%, with high trading volumes. At the end of November, the price arrived at PLN 12.35. Oil stocks, apart from being affected by unfavourable developments in the global

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economy, took a heavy blow due to a wave of major declines in oil prices which commenced in August. On November 20th, the price of Brent oil dropped to USD 47.91 per barrel, which many analysts interpreted as yet another sign of impending recession that was bound to weaken the global oil demand. Furthermore, on November 13th Grupa LOTOS S.A. published its financial results which turned out to be worse than expected, and on November 24th, UniCredit released a report in which it set the value of the Company shares at PLN 0. December ended with the Company share price up by 2.1%. The first half of the month, however, saw a very sharp upturn in the stock price, which was a rebound after a series of declines triggered by UniCredit's valuation in November, and, subsequently, a sharp decrease spurred by low expectations for the Q4 2008 financial results. At the end of the year, the price of Grupa LOTOS S.A. shares was PLN 11.95, with the WIG20 index having arrived at 1,789.73 points. The price of Brent oil slumped to a record low, i.e. USD 38.73 per barrel, in December 2008.

In January 2009, the Grupa LOTOS S.A. stock suffered a severe depreciation. A 37.3% decline reported during the month caused the price to hit an all-time low of PLN 7.25 on February 2nd 2009. The depreciation followed from a considerable weakening of the zloty and from the allegedly large currency risk exposure attributable to foreign-currency loans contracted by the Company. Two additional factors largely affected the Company: Deutsche Bank's cut of the price target to PLN 7.00 and the increasingly severe recession in the global economy, which contributed to a 15.0% drop in the WIG20 index. From February 3rd, the Company stock price entered into a powerful upward rally, with little correlation to the WIG20 index. An optimistic investor attitude towards Grupa LOTOS S.A. shares resulted from a crisis package being revealed by the Company and public announcements which ended the speculation on alleged liquidity problems. During the month, the stock price shot up by 47.7%, to PLN 10.71. February was yet another month of price drops driving down the WIG20 index, caused by increasingly fragile confidence in the CEE region. From the very beginning of 2009, WIG20 displayed a strong correlation with the PLN/EUR exchange rate, which touched a record low of PLN 4.92 for one euro on February 17th. In March, Grupa LOTOS S.A. stock price experienced record-breaking gains.

From March 2nd to March 25th 2009, the share price advanced by 30.8%, to PLN 13.95. The major contributing factors included the appreciation of the zloty and resultant strengthening of the entire WIG index, an announcement made by the State Treasury that the obligation to maintain mandatory fuel stocks would be assumed in the future by a dedicated agency of the State Treasury, and market expectations of a significant increase in oil prices.

Throughout 2008 and at the beginning of 2009, the Company share price showed strong correlation with the WIG20 and WIG-Paliwa (fuel sector index) indices. However, during the period, the Company stock underperformed the indices, which was best seen between the first days of November and the beginning of February, when the stock price nosedived by 72.87% due to a series of events, such as the UniCredit's recommendation or market speculation on lack of liquidity. From the beginning of January 2008 until March 25th 2009, the Company shares lost 68.72% of their value, reaching the

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price of PLN 13.95 per share. The WIG20 index depreciated by 52.59% during the period, down to 1,622.11 points. Since February 3rd, the Company share price was able to break the long-term downtrend, roaring ahead by 92.4% over 37 days.

1.10 MAJOR RESEARCH AND TECHNICAL DEVELOPMENT ACHIEVEMENTS OF GRUPA LOTOS S.A.

2008 saw the launch of motor fuels with a 5% m/m content of bio-components. Fatty acid methyl esters (FAME) were used as additives in Diesel oils, while bio-ethanol and/or ethyl tert-butyl ether (ETBE) were introduced as additives to gasolines. The sulphur content was reduced in light fuel oil from 0.2% m/m to 0.10% m/m maximum. The processes aimed at certifying reduced-toxicity oil plasticizers at caoutchouc and rubber manufacturers continued.

The following achievements were made in the field of lubricants:

- new formulae were developed for synthetic oil (Transmil Synthetic) used in industrial transmissions; the formulae obtained Flender's approval,
- a new group of motor oils – Lotos Quazar – was introduced and obtained approval from OEMs,
- new formulae were developed for zinc-free hydraulic oils – Hydromil Super L-HV,
- a new oil for vehicle transmissions – Titanis Super GL-5 75W90 – was introduced.

1.11 CORPORATE GOVERNANCE

Grupa LOTOS S.A. observes the corporate governance standards laid down in the document *Best Practices for WSE Listed Companies*, which was adopted by the Supervisory Board of the Warsaw Stock Exchange on July 4th 2007. The full contents of the document are available to the public on the official website of the Warsaw Stock Exchange in the dedicated section at <http://www.corp-gov.gpw.pl/assets/library/polish/dobrepraktyki2007.pdf>

In line with the "comply or explain" rule, in 2008 Grupa LOTOS S.A. released two reports regarding non-compliance with certain standards contained in *Best Practices for WSE Listed Companies*.

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2. KEY PRODUCTS, GOODS AND SERVICES OF GRUPA LOTOS S.A.

Percentage share of individual products in total sales volume of Grupa LOTOS S.A.

Product	2008	2007
Diesel oil	40.69%	36.75%
Gasoline	18.18%	19.90%
Components for bitumen production	11.26%	13.00%
Heavy fuel oil	8.11%	8.62%
Aviation fuel	6.67%	6.39%
Total	84.91%	84.66%

Grupa LOTOS S.A.'s sales revenue by products, goods and services (PLN '000)

PLN '000	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Gasoline	5,155,431	24.6%	5,184,421	29.5%
Diesel oil	302,066	1.4%	195,295	1.1%
Light fuel oil	10,836,826	51.8%	8,354,689	47.6%
Heavy fuel oil	481,781	2.3%	412,912	2.3%
Aviation fuel	815,487	3.9%	715,834	4.1%
Bunker fuel	569,640	2.7%	506,508	2.9%
Components for bitumen production	1,154,428	5.5%	879,035	4.9%
Base oils	411,243	2.0%	359,471	2.1%
Liquid gas	774,753	3.7%	592,349	3.4%
Reformate	138,202	0.7%	109,227	0.6%
Other refinery products	197,096	1.0%	137,528	0.8%
Total petroleum products and goods	20,836,953	99.6%	17,447,269	99.3%
Crude oil	5,044	0.0%	5,206	0.1%
Services	91,886	0.4%	101,065	0.6%
Total	20,933,883	100.0%	17,553,540	100.0%
Elimination of excise tax and fuel charge	(6,035,230)		(5,686,946)	
Total	14,898,653		11,866,594	

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Grupa LOTOS S.A.'s sales by products, goods and services (thousands of tonnes)

	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Gasoline	1,340	18.18%	1,375	19.90%
Diesel oil	2,999	40.68%	2,540	36.75%
Light fuel oil	337	4.57%	334	4.84%
Heavy fuel oil	598	8.11%	596	8.62%
Aviation fuel	492	6.67%	441	6.39%
Bunker fuel	242	3.28%	270	3.90%
Components for bitumen production	830	11.26%	899	13.00%
Base oils	171	2.32%	187	2.71%
Liquid gas	64	0.87%	55	0.79%
Reformate	152	2.06%	98	1.41%
Other refinery products	91	1.24%	84	1.22%
Crude oil	56	0.76%	33	0.47%
Total petroleum products and goods	7,372	100.00%	6,912	100.00%

The volume of Grupa LOTOS S.A.'s sales is closely linked to the volume of sales generated by the entire LOTOS Group.

In 2008, Grupa LOTOS S.A.'s sales revenue rose by 6.7% year-on year, and reached 7,372 thousand tonnes. Diesel oils recorded the highest volume increase, that is by 18% (sales higher by 459 thousand tonnes), and accounted for 41% of total sales. Strong sales growth was also reported in reformat, which grew by 55% (higher sales volume by 54 thousand tonnes). However, the share of this product in total sales is only 2%. Sales of aviation fuel rose significantly too, that is by 11%, which translated into higher sales volume (by 51 thousand tonnes). On the other hand, Grupa LOTOS S.A. recorded lower sales of bitumens (69 thousand tonnes less than in 2007), gasolines (35 thousand tonnes less), bunker fuels (27 thousand tonnes less) and base oils (17 thousand tonnes less). Sales of fuel oils, liquid gases and other refinery products remained fairly unchanged from the 2007 figures.

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3. CHANGES IN SALES MARKETS AND SOURCES OF SUPPLY OF MATERIALS, GOODS AND SERVICES

Grupa LOTOS S.A.'s net sales revenue by markets in 2008 (PLN '000)

	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Domestic sales, including:	18,061,675	86.3%	15,154,057	86.3%
- <i>products</i>	17,208,675	82.2%	14,710,349	83.8%
- <i>goods and materials</i>	853,000	4.1%	443,708	2.5%
Export sales, including:	2,872,208	13.7%	2,399,483	13.7%
- <i>products</i>	2,865,319	13.6%	2,390,845	13.6%
- <i>goods and materials</i>	6,889	0.1%	8,638	0.1%
Total	20,933,883	100.0%	17,553,540	100.0%
excise tax, fuel charge	(6,035,230)		(5,686,946)	
TOTAL	14,898,653		11,866,594	

Grupa LOTOS S.A.'s key customers in 2008

In 2008, there were two customers whose share in Grupa LOTOS S.A.'s sales exceeded 10% – LOTOS Paliwa Sp. z o.o. (a subsidiary of Grupa LOTOS S.A.), and STATOIL Poland. Sales to these customers accounted for, respectively, 42.86% and 11.25% of total sales.

In 2007, the customers whose share in Grupa LOTOS S.A.'s sales exceeded 10% were the same two companies: LOTOS Paliwa Sp. z o.o. (a subsidiary of Grupa LOTOS S.A.), and STATOIL Poland. Sales to these customers accounted for, respectively, 67.22% and 11.83% of total sales.

Grupa LOTOS S.A.'s purchases of raw materials and petroleum goods by region (PLN '000)

	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Domestic purchases	1,191,207	8.5%	1,018,387	9.3%
Imports	12,894,901	91.5%	9,983,820	90.7%
Total purchases	14,086,108	100.0%	11,002,207	100.0%

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Grupa LOTOS S.A.'s supply structure in 2008 (PLN '000)

	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Raw materials	13,496,399	80.0%	10,583,334	83.5%
Goods	589,709	3.5%	417,989	3.3%
Services	760,320	4.5%	724,578	5.7%
Materials	89,627	0.5%	75,062	0.6%
Other purchases (¹)	1,926,022	11.5%	879,075	6.9%
Total	16,862,077	100.0%	12,680,038	100.0%

(¹) including property, plant and equipment, tangible assets under construction, prepayments for tangible assets under construction, intangible assets.

Grupa LOTOS S.A.'s petroleum goods supply structure in 2008 (PLN '000)

	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Diesel oils	283,728	48.11%	104,986	25.12%
Gasolines	305,981	51.89%	307,205	73.49%
Heavy fuel oil	-	-	5,798	1.39%
Total	589,709	100.00%	417,989	100.00%

Grupa LOTOS S.A.'s raw materials, semi-finished products and chemicals supply structure in 2008 (PLN '000)

	Jan 1 – Dec 31 2008	% share	Jan 1 – Dec 31 2007	% share
Crude oil	10,481,183	77.7%	8,609,679	81.4%
Diesel oil	1,767,882	13.1%	1,414,370	13.4%
MTBE	685,740	5.1%	201,046	1.9%
Gasolines	159,296	1.2%	-	-
Heavy fuel oil	115,451	0.8%	130,720	1.2%
Straight-run gasoline	-	-	11,511	0.1%
Vacuum distillate	6,709	0.1%	9,874	0.1%
Ethyl alcohol	121,802	0.9%	67,491	0.6%
Additives	17,485	0.1%	56,995	0.5%
Light fuel oil	82,591	0.6%	34,099	0.3%
Other	58,260	0.4%	47,549	0.5%
Total	13,496,399	100.0%	10,583,334	100.0%

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Grupa LOTOS S.A.'s major suppliers in 2008

In 2008, the suppliers whose shares in the Company's purchases exceeded 10% of its revenue were J&S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of the United Kingdom. Their shares in the Company's purchases amounted to 35.81% and 19.57%, respectively.

In 2007, the suppliers whose shares in the Company's purchases exceeded 10% of its revenue were J&S Service Investment Ltd of Cyprus and Petraco Oil Company Ltd of the United Kingdom. Their shares in the Company's purchases amounted to 40.78% and 17.79%, respectively.

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4. KEY FINANCIAL AND ECONOMIC DATA CONTAINED IN THE ANNUAL NON-CONSOLIDATED FINANCIAL STATEMENTS AND NON-RECURRING FACTORS AND EVENTS WITH A BEARING ON GRUPA LOTOS S.A.'S PERFORMANCE

Income Statement

Sales Revenue

In 2008, Grupa LOTOS S.A.'s net revenue from sales of products, goods for resale and materials amounted to PLN 14,898.7m and was higher by 25.6% relative to the 2007 figure, primarily driven by significantly higher average annual prices of petroleum products on global markets in 2008 compared with 2007. Net revenue from sales of products accounted for 95.3% of total sales revenue. In 2008, net revenue from sales of goods for resale and materials amounted to PLN 694.1m and was up by 62.8% compared with 2007. Net domestic revenue from sales of products accounted for 79.8% of total net revenue from sales of products.

In 2008, the total sales volume reached 7,371.8 thousand tonnes, including 189.7 thousand tonnes of fuel sales and 55.8 thousand tonnes of crude oil sales. Diesel oils were the largest item in the sales structure, accounting for 40.7% of total sales. In 2008, the total sales volume increased by 6.7% compared with 2007. The largest rise in sales was reported for Diesel oils (up by 459.3 thousand tonnes), while reformat, jet fuel and crude oil rose by, respectively, 53.7 thousand tonnes, 50.6 thousand tonnes and 23.1 thousand tonnes. On the other hand, sales of bitumen components declined by 68.3 thousand tonnes, sales of gasolines – by 34.8 thousand tonnes, sales of bunker fuel – by 27.5 thousand tonnes and sales of base oils – by 16.7 thousand tonnes. The volume of domestic sales increased by 7.3%, while export sales grew by 4.5%. In 2008, the average net selling price was PLN 2,021.0 per tonne, having risen by 17.7% on the 2007 figure.

Operating Profit

In 2008, the cost of sales recorded by Grupa LOTOS S.A. amounted to PLN 14,867.3m and was up by 37.0% on the 2007 figure. The unit cost of sales increased to PLN 2,016.8 per tonne, or by 28.5%, compared with 2007. The growth of the unit cost of sales was higher than that of the average selling price, which resulted in a PLN 983.8m year-on-year drop of gross profit on sales in 2008, to PLN 31.4m.

The main reason behind such a significant decline in gross profit on sales was a sharp drop in crude oil prices in Q3 and Q4 2008, which affected the valuation of inventories and the cost of raw materials used. Due to the necessity to adjust the value of inventories of raw materials and products held at the end of the year to reflect their real value at current prices, gross profit on sales posted by Grupa LOTOS S.A. decreased by PLN 221.5m. On January 2nd 2008, the quoted price of Brent dtd crude

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was USD 96.9 per barrel; it continued to grow strongly in H1 2008 to reach its 2008 peak at USD 144.2 per barrel on July 3rd 2008; thereafter, it began to fall sharply, down to USD 36.5 per barrel on December 31st 2008. The falling prices of crude oil and petroleum products in H2 2008 had an adverse impact on the Company's 2008 performance, while the upward trend in prices had a positive influence on its results in 2007. The impact of inventory valuation (made by Grupa LOTOS S.A. using the weighted average method) combined with the downtrend in prices resulted in a decline of the 2008 gross profit on sales by PLN 609.1m, while the upward trend prevailing in 2007 expanded the gross profit on sales by PLN 375.4m.

In 2008, the average USD/PLN exchange rate was USD 1: PLN 2.41, and was lower by 0.36 than the average USD/PLN exchange rate in 2007. The long USD position of Grupa LOTOS S.A. had a negative bearing on the gross profit on sales generated in 2008. Additionally, the sharp depreciation of the Polish zloty in H2 2008, from USD 1 : PLN 2.13 on July 1st 2008 to USD 1 : PLN 2.96 on December 31st 2008, resulted in foreign exchange losses which increased the cost of sales by PLN 316.4m.

Side by side with the adverse factors and events, 2008 saw a rise of crack margins on intermediate fractions of oil. The average refining margin rose to USD 7.18 per barrel and was 23.8% higher than in 2007 (USD 5.80 per barrel).

Selling costs incurred by the Company in 2008 amounted to PLN 376.8m and were down by PLN 17.9m compared with 2007. The decrease was driven mainly by the lower USD exchange rate. A 12.9% rise in general and administrative expenses was attributable to business scale expansion. In 2008, the net result on other operating activities was negative and stood at -PLN 7.2m, due mainly to a realised loss from the sale of CO₂ emission allowances.

The combination of the above factors translated into a loss on operating activities of PLN 573.5m, compared to an operating profit of PLN 416.1m reported in 2007. In 2008, the operating result of Grupa LOTOS S.A. computed using the LIFO method was PLN 35.6m, while a year earlier, it was PLN 40.7m.

Financing Activities

In 2008, the Company reported a PLN 282.7m loss on financing activities, as compared with a profit of PLN 456.1m in 2007. The high loss in 2008 stems chiefly from foreign exchange losses of PLN 139.5m, which resulted mainly from loan revaluation and from the excess of the negative balance of settlement of derivatives used to hedge market risk, amounting to -PLN 235.0m. Since the revaluation related to long-term loans whose repayment is spread over a long period, the significant increase in

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the USD exchange rate had no bearing on the liquidity of Grupa LOTOS S.A. in the short or medium term.

The total excess of the negative balance of settlement of derivatives in 2008 was charged to financial expenses and amounted to -PLN 235.0m, including: settlement of transactions hedging the refining margin (full barrel swaps) of -PLN 173.2m, settlement of forward transactions hedging the foreign exchange risk of -PLN 67.5m, settlement of FRA transactions executed to hedge the interest rate risk, amounting to PLN 3.3m, and settlement of futures contracts executed to hedge the prices of CO₂ emission rights of PLN 2.4m.

In 2008, the effect of the valuation of open forward and futures positions was charged to financial expenses and totalled -PLN 6.6m, including SWAP transactions hedging the interest rates risk of -PLN 152.7m, transactions hedging the refining margin (full barrel swaps) of PLN 98.2m, forward transactions hedging the foreign exchange risk of PLN 49.7m, and other transactions (futures and FRAs) of -PLN 1.9m.

For detailed information on derivative transactions, see Note 20.2 to the non-consolidated financial statements.

Net Loss

Net loss on continued operations for the period January–December 2008 was PLN 675.7m, whereas in 2007 the Company reported a net profit on continued operations of PLN 745.1m.

Balance Sheet

As at December 31st 2008, Grupa LOTOS S.A.'s assets and equity and liabilities as disclosed in the balance sheet totalled PLN 9,491.0m, following an increase of PLN 1,810.5m in 2008. A PLN 1,982.8m growth (58.5%) in non-current assets relative to the figure reported as at December 31st 2007 was mainly driven by a PLN 1,511.4m increase in property, plant and equipment, and a PLN 428.5m increase in prepayments for tangible assets under construction due to the implementation of the investment projects under the 10+ Programme.

In 2008, current assets decreased by PLN 172.3m and as at December 31st 2008 stood at PLN 4,121.3m. The decrease was due mainly to the valuation of inventories being lower by PLN 196,4m, which followed from a sudden drop of prices of crude oil and petroleum products and a PLN 230.5m decrease in trade and other receivables related to the decline in the prices of petroleum products. At the same time, in 2008, current financial assets increased by PLN 202,3m on account of a higher positive valuation of financial instruments, which reached PLN 302.2m as at the end of 2008.

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The share of non-current assets in total assets of Grupa LOTOS S.A. increased from 44.1% in 2007 to 56.6% in 2008, mainly due to a rise in the share of property, plant and equipment and prepayments for tangible assets under construction. A drop in the share of current assets in total assets was attributable to the decrease in the share of inventories and the share of trade and other receivables.

A PLN 675.7m decrease in the equity of Grupa LOTOS S.A. resulted from lower retained earnings in 2008. The share of equity in total equity and liabilities decreased from 66.1% in 2007 to 46.4% in 2008.

In 2008, non-current liabilities of Grupa LOTOS S.A. went up by PLN 2,498.3m, primarily due to an increase in the amount of non-current loans and borrowings, mainly related to the implementation of the 10+ Programme and the maintenance of mandatory stocks. As at the end of 2008, non-current liabilities amounted to PLN 3,127.5m, of which PLN 3,098.5m is attributable to loans and borrowings.

As at December 31st 2008, current liabilities stood at PLN 1,963.7m and were down by PLN 12.0m compared with December 31st 2007. Liabilities and accruals and deferred income decreased by PLN 160.0m in 2008, as a result of such factors as a PLN 474.5m drop in trade payables caused by lower prices of crude oil in 2008, and a PLN 239.5m increase in investment liabilities. In 2008, current loans and borrowings went down by PLN 64.1m to PLN 314.5m. As a result of negative valuation of financial instruments of PLN 212.9m, as at the end of 2008, other financial liabilities increased by PLN 209.1m in 2008.

Cash Flows

As at the end of 2008, the balance of cash held by Grupa LOTOS S.A., including bank overdrafts, was negative, at -PLN 134.3m, having increased by PLN 139.8m relative to the end of the previous year.

In 2008, Grupa LOTOS S.A. reported net cash used in operating activities of PLN 160.8m, down by PLN 169.7m relative to net cash provided by operating activities in 2007. The negative balance is attributable chiefly to a net loss of PLN 675.7m, a PLN 394.2m decrease in liabilities and accruals and deferred income, a negative balance of current income tax and income tax paid of -PLN 363.3m, as well as net interest and dividend paid of PLN 119.3m. The cash flows from operating activities of Grupa LOTOS S.A. increased in 2008 mainly as a result of a decrease in receivables of PLN 407.6m, foreign exchange loss adjustment of PLN 343.4m, adjustments resulting from settlement of financial instruments of PLN 238.2m, a decrease in inventories of PLN 196.3m, and amortisation of PLN 183.7m.

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In 2008, net cash used in investing activities amounted to -PLN 1,712.1m, which represented a PLN 1,068.1m change from the balance of -PLN 644.0m recorded in 2007. The change was caused mainly by a PLN 852.0m increase in expenditure incurred on the purchase of property, plant and equipment and intangible assets, a PLN 117.8m increase in expenditure incurred on prepayments for tangible assets under construction, and a PLN 74.9m decrease in dividends received.

In 2008, Grupa LOTOS S.A. posted PLN 2,010.4m in net cash provided by financing activities, which was higher by PLN 1,532.8m as compared with 2007. The increase resulted mainly from cash provided by loans and borrowings of PLN 2,279.1m, reduced by PLN 238.2m on account of adjustments resulting from negative balance of settlement of financial instruments.

Assessment of Non-Recurring Factors and Events Affecting the Company's Operating Performance

In H2 2008, there occurred the following non-recurring events which had a material bearing on Grupa LOTOS S.A.'s performance in 2008:

- unprecedented sudden drop of prices of crude oil and petroleum products on global markets (on July 3rd 2008, the price of dtd Brent crude reached its 2008 high of USD 144.2 per barrel, which was followed by a sudden decline that brought the price down to USD 36.5 per barrel as at December 31st 2008),
- rapid depreciation of zloty (from PLN 2.02 : 1 USD as at July 21st 2008 to PLN 2.96 : 1 USD as at December 31st 2008).

5. EXPLANATION OF DIFFERENCES BETWEEN ACTUAL FINANCIAL PERFORMANCE AND PREVIOUSLY PUBLISHED FORECASTS FOR 2008 FINANCIAL PERFORMANCE

Grupa LOTOS S.A. did not publish any non-consolidated performance forecasts for 2008.

6. ASSESSMENT OF FINANCIAL RESOURCES MANAGEMENT

During the period covered by the financial statements, Grupa LOTOS S.A. was able to meet all of its liabilities towards third parties. In the period from January 1st to December 31st 2008 the Company used investment and working capital overdraft facilities. As at December 31st 2008, the Company had available funds under the overdraft facilities. For a detailed specification of debt under loans, see Note 24 to the financial statements.

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A synthetic assessment of Grupa LOTOS S.A.'s overall economic and financial standing was based on a ratio analysis of profitability, liquidity and debt levels.

Item	2008	2007
Operating profit/loss (PLN '000)	-573,456	416,054
Operating margin (1)	-3.85%	3.51%
Pre-tax profit/loss (PLN '000)	-856,160	872,137
Gross sales margin (2)	-5.75%	7.35%
Net profit/loss (PLN '000)	-675,704	745,084
Net margin (3)	-4.54%	6.28%
Return on equity (ROE) (4)	-15.36%	14.68%
Return on assets (ROA) (5)	-7.12%	9.70%
Current ratio (6)	2.10	2.17
Quick ratio (7)	0.94	0.92
Average collection period (in days) (8)	33.84	47.49
Average payment period (in days) (9)	19.92	28.62
Capital employed (10)	2,157,557	2,317,772
Capital employed to total assets (11)	22.73%	30.18%
Debt ratio (12)	53.64%	33.92%
Debt to equity ratio (13)	115.71%	51.32%

(1) *operating profit (loss)/net sales revenue*

(2) *pre-tax profit (loss)/net sales revenue*

(3) *net profit (loss)/net sales revenue*

(4) *net profit (loss)/equity at end of period*

(5) *net profit (loss)/assets at end of period*

(6) *current assets/current liabilities*

(7) *(current assets – inventories)/current liabilities*

(8) *(average trade receivables/net sales revenue)*365*

(9) *(average trade payables/cost of sales)*365*

(10) *current assets – current liabilities*

(11) *capital employed/assets*

(12) *total liabilities/assets*

(13) *total liabilities/equity*

(10) *current assets – current liabilities*

(11) *capital employed/assets*

(12) *total liabilities/assets*

(13) *total liabilities/equity*

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7. KEY DOMESTIC AND FOREIGN INVESTMENTS OF GRUPA LOTOS S.A. AND ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS

INVESTMENTS IN TANGIBLE AND INTANGIBLE ASSETS MADE BY GRUPA LOTOS S.A. IN 2008 (PLN '000)

Tangible assets under construction and acquisition of property, plant and equipment and intangible assets, including:	Capital expenditure in Jan 1 – Dec 31 2008
Construction and assembly work	525,789
Procurement from external suppliers – purchases	619,008
Acquisition of intangible assets	5,169
Other capital expenditure	541,184
Prepayments for tangible assets under construction	773,027
Settled prepayments	(344,543)
Total	2,119,634

EQUITY INVESTMENTS

Share capital increase at LOTOS Serwis Sp. z o.o.

On September 17th 2008, the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, registered an increase of the share capital of LOTOS Serwis Sp. z o.o. from PLN 2,500 thousand to PLN 4,000 thousand. The share capital increase was effected through the acquisition of the new shares by Grupa LOTOS S.A. Grupa LOTOS S.A. continues to hold 100% of the shares in LOTOS Serwis Sp. z o.o.

Share capital increase at LOTOS Tank Sp. z o.o.

On September 18th 2008, the District Court in Rzeszów, XII Commercial Division of the National Court Register, registered an increase of the share capital of LOTOS Tank Sp. z o.o. from PLN 500 thousand to PLN 6,945 thousand. The share capital increase was effected by raising the par value of the existing 1,000 shares from PLN 500.00 to PLN 6,945.00 per share. Grupa LOTOS S.A. continues to hold 100% of the shares in LOTOS Tank Sp. z o.o. The company's share capital was increased in connection with the project to set up a new segment within the Company which will handle the sales of aviation fuel (JET-A1) directly to airports, including the project to build a fuel depot in Gdańsk-Rębiechów.

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ASSESSMENT OF FEASIBILITY OF PLANNED INVESTMENTS, INCLUDING EQUITY INVESTMENTS, IN VIEW OF AVAILABLE FUNDS

In 2008 Grupa LOTOS S.A. financed investments using its own resources, as well as external funds raised in connection with the 10+ Programme.

On December 20th 2007, Grupa LOTOS S.A. and a consortium of four banks executed an agreement concerning a four-year revolving loan for a total amount of USD 400,000 thousand (PLN 1,004,600 thousand, translated at the mid exchange rate quoted by the National Bank of Poland for December 19th 2007) for refinancing and financing the inventories of Grupa LOTOS S.A. The agreement was the first element of the strategy for financing the operations of Grupa LOTOS S.A. in the coming years, related to the implementation of the 10+ Programme.

On June 27th 2008, Grupa LOTOS S.A. executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital of Grupa LOTOS S.A. The agreement concerns a long-term credit facility for the total amount of USD 1,750,000,000 (PLN 3,739,050 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising a term loan facility of USD 975,000,000 (PLN 2,083,185 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), a redrawable working capital loan facility of USD 200,000,000 (PLN 427,320 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), an investment loan of USD 425,000,000 (PLN 908,055 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero and a contingent term loan facility of USD 150,000,000 (PLN 320,490 thousand, translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008).

Together with Grupa LOTOS S.A.'s own resources, the contracted external financing fully covers the Company's financing needs connected with the ongoing and planned investment projects.

8. EXTERNAL AND INTERNAL FACTORS MATERIAL FOR THE DEVELOPMENT OF GRUPA LOTOS S.A., AS WELL AS KEY RISKS AND THREATS, AND THE DEGREE OF THE ISSUER'S EXPOSURE TO SUCH RISKS OR THREATS

EXTERNAL AND INTERNAL RISKS MATERIAL FOR THE DEVELOPMENT OF GRUPA LOTOS S.A.

The key external factors material for the development of Grupa LOTOS S.A. include:

- **Quotation prices of crude oil and petroleum products** – changes of market prices of crude oil and petroleum products have a material impact on the Company's financial performance.
- **PLN/USD exchange rate** – the performance of the Company and its Group is also, to a large/considerable extent, affected by foreign exchange rates, particularly the PLN/USD exchange rate, due to the fact that the prices of the raw materials and of some products are quoted in the American dollar.
- **Petroleum products demand and supply levels** – the demand for Diesel oil is expected to rise in the long run, while the demand for engine fuels is expected to stabilise. These trends are reflected in the investment plans for the Company and its Group.

The key internal factors material for the development of Grupa LOTOS S.A. include:

- **Implementation of the 10+ Programme** – a material factor with a bearing on the development and financial performance of Grupa LOTOS S.A. and the LOTOS Group in the longer run will be the timely implementation of the 10+ Programme. The construction and start-up of the installations provided for in the Programme will allow the Gdańsk refinery to increase its processing capacity (to 10.5 million tonnes *per annum*) and the oil conversion ratio, which will have a positive effect on the product slate.
- **Development of upstream business** – the planned development of the upstream business is expected to strengthen the Group's independence from external sources of raw materials, further improve its financial performance and enhance the Company's value.
- **Further expansion of the fuel retail sales network** – the implementation of the PROSTA programme is the key factor in strengthening the Company's position on the fuel retail market. In particular, restructuring activities aimed at improving the efficiency of service stations will play a crucial role.

RISKS AND THREATS FACED BY THE ISSUER AND THE EXTENT TO WHICH THE ISSUER IS EXPOSED TO SUCH RISKS AND THREATS

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Similarly to other oil sector operators, Grupa LOTOS S.A. is to a significant extent exposed to external risks following from the overall macroeconomic climate in Poland and worldwide. These are chiefly risks related to fluctuations in interest and exchange rates, volatility of commodity prices and refining margins, the risk related to prices of CO₂ emission allowances, as well as risks related to availability of raw materials and financing sources.

Another risk factor with a substantial bearing on the Company's operations is the regulatory risk, especially the risk of changes in and interpretations of the tax laws, as well as changes in governmental policies and the consequent alteration of strategic goals.

Further risks material in the context of the Company's business are the liquidity risk and credit risk related to financing and commercial transactions.

Grupa LOTOS S.A.'s operations involve also:

- the environmental risk – risk of insufficient number of CO₂ emission allowances, risk of a serious industrial failure leading to excessive emissions into the air, water and/or soil as well as the risk of failure to meet the requirements of domestic and EU environmental laws,
- process and technology risk – especially hazards related to the processed substances, technological processes applied, apparatus and equipment used, as well as operating conditions related to, e.g., high pressure and temperature parameters,
- health risks, e.g. employee exposure to hazardous and nuisance factors related to their job tasks and proximity of technological processes, potentially leading to accidents at work or occupational diseases.

At the time of global financial turmoil and high volatility of the prices of commodities and petroleum products as well as currency exchange rates, the crucial issues for Grupa LOTOS S.A.'s development are timely completion of the 10+ Programme, gaining access to own crude oil reserves, strengthening of the market position, and enhancing the sales efficiency.

Below are described key risks in particular business segments.

Risks related to the execution of the 10+ Programme

The execution of the 10+ Programme carries a number of risks typical of large investment projects. Apart from the usual risks related to costs and deadlines as well as to ensuring the appropriate quality and meeting security requirements, 2009 may also bring on other factors as a consequence of the global financial and economic crisis.

Risks related to the upstream business

One of the key goals of Grupa LOTOS S.A. is gradual development of oil production. The revised strategy of Grupa LOTOS S.A. for 2008-2012, published in June 2008, assumes a material increase in capital expenditure on the upstream segment.

The upstream operations are planned to be developed gradually, as the Company acquires further interests (initially minority interests) in exploration and production licences. The goal behind this

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approach is to gain experience through cooperation with the field operators. Given the global economic slowdown, the production plans may be revised due to the need to reschedule the spending of funds on some production projects.

Risks related to the supply of raw materials

In 2008, Grupa LOTOS S.A. continued efforts related to the strategy of oil supply diversification, focusing on two key aspects of this strategic goal:

- security of crude oil supplies,
- higher competitiveness.

Marketing risks

Given that the macroeconomic conditions in which Grupa LOTOS S.A. operates strongly impact its sales, Grupa LOTOS S.A. is exposed to the adverse effect of market factors, especially in the context of the current economic downturn. Demand for the products of Grupa LOTOS S.A. will depend on the extent and duration of the crisis.

Risks related to the financing of operations

In mid 2008, Grupa LOTOS S.A. signed credit facility agreements for the financing of the 10+ Programme. The credit facility is a long-term loan, advanced by more than a dozen high-profile financial institutions.

Potential risks related to financing are as follows:

- risk of limited access to financing for both investment projects and working capital,
- risk related to Grupa LOTOS S.A.'s ability to ensure 40% of the financing for the 10+ Programme from its own funds, generated from operating cash flows, which is one of the conditions for the drawdown of the credit facility for the 10+ Programme,
- risk of higher cost of financing or deterioration of the financing terms.

Risks related to changes in tax laws and to tax law interpretations

The legal environment in which Grupa LOTOS S.A. operates is characterised by frequent changes in tax legislation. Newly introduced regulations and changes in the manner of applying the existing laws influence the operations of Grupa LOTOS S.A. and the type of activities it undertakes, and have a bearing on the amount of tax liabilities. In view of the numerous regulatory changes the Company has implemented internal procedures designed to ensure legal compliance as well as to identify and mitigate tax risk and its effect on the financial statements of Grupa LOTOS S.A. Changes in the regulations are monitored on an ongoing basis, thus enabling the Company to appropriately adapt its internal tax accounting systems.

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Legal risks of strategic nature

In preparing its strategic analyses Grupa LOTOS S.A. cooperates with governmental bodies responsible for developing and implementing the government's strategy for the oil sector. Relevant Ministries are kept informed of the progress in implementing the particular objectives of the governmental strategy as well as of the proposed development directions for the Polish oil sector. The Company also monitors the Polish and EU legislation pertaining to the oil sector and obtains opinions on laws to be enacted or already in force, especially with respect to regulations on mandatory stocks of crude oil and fuels as well as bio-components and biofuels.

Risk of stricter quality requirements for oil products

Grupa LOTOS S.A. keeps close eye on the proposed new standards and regulations relevant for its production and sales. The source of information on future changes in quality requirements is Technical Committee 222 at the Polish Committee for Standardisation, responsible for petroleum products and process liquids. Thanks to its active participation in the work of the subcommittees comprised in Technical Committee 222 Grupa LOTOS S.A. is able to issue opinions on the proposed European standards still at the stage of their development. The Company can also have a say on the level of quality requirements, especially for motor fuels, through participation in the Polish Organisation of Oil Industry and Trade. Participation in the work of the above organisations substantially reduces the risks of delayed compliance with future quality standards for oil products. 2009 is not expected to bring any changes in the standards or laws which would make the existing requirements for petroleum products, especially motor fuels, more stringent.

Environmental risks, process and technology risks, health risks

To reduce the likelihood of adverse events, such as occupational diseases and health hazards related to the job tasks of Grupa LOTOS S.A.'s employees, preventive measures and efforts come into focus. In line with applicable laws and internal regulations, the Company identifies potential workplace hazards and assesses occupational risks related to such factors as noise, vibrations, chemical and biological substances, explosive atmospheres, plant and equipment, and nuisance in workplaces equipped with visual display units.

Risk of insufficient number of CO₂ emission allowances for the existing units and risk of failure to obtain a sufficient number of the allowances for new units or units which have been substantially modified (resulting in higher CO₂ emissions)

In mid 2008 (July 1st 2008), the Polish Council of Ministers' Regulation on the National Allocation Plan of Carbon Emission Allowances for 2008-2012, issued under the EU emission trading scheme to existing installations and installations undergoing modification (Dz.U. No. 202, item 1248), was published and the allocation was made. In accordance with the current legislation, allowances for

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Phase II (the years 2008–2012) were given free of charge to all the installations covered by the emission trading scheme. In line with the allocation and based on: a) formal settlement of the first year of the National Allocation Plan of Carbon Emission Allowances II (2008) and b) emission forecasts until 2012, the Company does not anticipate any shortage of the allowances for the existing units.

The need for additional allowances will arise in the second half of 2009. Grupa LOTOS S.A. is very likely to obtain additional allowances in connection with the execution of the 10+ Programme. However, some uncertainty follows from the absence of set rules for acquiring such allowances.

Grupa LOTOS S.A. manages its key risks, focusing particularly on the financial and market risks.

Financial and market risks are managed by the Financial Risk Management Committee, which is responsible for the supervision and coordination of the financial risk management process at Grupa LOTOS S.A. The efforts in this area are designed to maximise the result on market risk management at the assumed risk level, stabilise the cash flows, ensure short-term financial liquidity, support the activities related to the arrangement of financing for investment activities.

Management of the following risks is particularly important for the operations of Grupa LOTOS S.A.:

- risk related to the prices of raw materials and petroleum products
- risk related to prices of carbon allowances (CO₂)
- currency risk
- interest rate risk
- liquidity risk
- counterparty risk in financial transactions
- counterparty risk in non-financial transactions

For all the above risks Grupa LOTOS S.A. has put in place appropriate management procedures. The factor which determines risk management until 2010 is the liquidity of the LOTOS Group, related especially to the implementation of the 10+ Programme.

In 2008, Grupa LOTOS S.A. started preparations to implement the Integrated Enterprise Risk Management programme.

9 DEVELOPMENT PROSPECTS OF GRUPA LOTOS S.A. TAKING INTO ACCOUNT THE ASSUMED MARKET STRATEGY

The restructuring and investment activities undertaken by the Management Board of Grupa LOTOS S.A. (appointed in 2002), which were crowned with the public offering, floatation of the Company shares on the Warsaw Stock Exchange and obtaining additional funds, constitute a springboard for the LOTOS Group's further development and building shareholder value.

The execution of the investment programmes and plans set forth in the updated strategy for 2006–2012 will enhance the domestic market position of the Company and the LOTOS Group and should consequently improve its financial performance and share price.

The key objective of Grupa LOTOS S.A.'s development policy is to maintain the competitiveness of the Company among oil companies operating in the Baltic Sea basin and the Central and Eastern Europe. Grupa LOTOS S.A. intends to pursue this goal through various operational and market activities.

The operating activities include the implementation of the 10+ Programme. Completion of the Programme will enable the Company to improve the economies of scale in refining volumes and depth of conversion, which in turn should lead to an improvement of the general economic efficiency of oil processing at Grupa LOTOS S.A.'s refinery in Gdańsk.

Another important direction in the development of the Group's operating activities is creation of an upstream segment, which will enable the Group to reduce its exposure to fluctuations in crude oil prices.

As far as marketing activities are concerned, Grupa LOTOS S.A. intends to pursue the goal of maintaining its competitive position in the region by increasing its market shares and then keeping them at a stable level, by expanding its the CODO and DOFO service station network, and by drawing on the competitive edge resulting from the seaside location of the Gdańsk refinery.

The Company's policy also envisages development of the Southern Refineries by their expansion into new areas, i.e. logistics and distribution, biofuel production and plastic recycling.

The Company's policy assumes that expansion in the abovementioned areas will be pursued with due regard to environmental protection and reduction of the company's environmental impact.

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Updated “Strategy of the LOTOS Group until 2012”

On June 16th 2008, the Supervisory Board of Grupa LOTOS S.A. approved the updated “Strategy of the LOTOS Group until 2012”. In line with the updated Strategy, the Group will continue its policy focused on stimulating sustainable development of its core business, with an overriding strategic goal of creating value for shareholders.

The “Strategy of the LOTOS Group until 2012” was updated with respect to key objectives for each of the three main areas of the Company’s operations:

- exploration & production segment,
- operating segment,
- marketing segment.

Key Objectives of the Updated Strategy in the Exploration and Production Segment:

- improve security of crude oil supplies processed by the refineries by securing direct access to hydrocarbon reserves,
- achieve stable growth of hydrocarbon production by 2012 through the implementation of programmes aimed at increasing production rates from the Baltic Sea deposits, which are covered by licences held by Petrobaltic S.A., as well as through the execution of new projects outside of Poland,
- increase the share capital of Grupa LOTOS S.A. by way of a contribution in-kind of shares in Petrobaltic S.A. held by the State Treasury.

According to the updated Strategy, the total output of the exploration & production segment will reach at least 10% of the LOTOS Group’s crude throughput volume in 2012 and will rise above 20% by 2015. The average ROACE (return on average capital employed) for the whole segment will be over 15%. The related investment expenditure in 2006–2012 is estimated at PLN 5.1bn.

Key Objectives of the Updated Strategy in the Operating Area:

In the operating area, the key objective is to improve the economic effectiveness of crude oil processing, through increasing throughput volumes, with a concomitant increase in the conversion ratio and reduction in sulphur content. To this end, we are implementing the two-stage 10+ Programme. Additionally, the Group will build the necessary facilities which are not covered by the scope of the 10+ Programme, while upgrading some of the existing units.

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These projects will yield the following outcomes:

- the annual crude processing capacity will have risen to 10.5 million tonnes, with a concomitant increase of the conversion ratio,
- universal configuration of the facilities will allow the Company to produce various types of fuels in response to market demand,
- the production of heavy fuel and bunker oil with high sulphur content will be minimised to comply with new environmental regulations which are being implemented,
- the Company will have gained more flexibility with respect to its overhaul policy, and thus the operational availability of its production units will increase,
- the existing fuel storage depots will be expanded and new logistics infrastructure will be created for shipment of large consignments by sea,
- it will become possible to simultaneously process various types of crude oil,
- the LOTOS Group's competitive position in relation to other European refineries will improve.

The expenditure on the implementation of the strategic objectives in the operating area in 2006–2012 is estimated at approx. PLN 6.7bn, including approx. PLN 5.2bn for the implementation of Stage I (scheduled for 2006–2010) of the 10+ Programme.

Key Objectives of the Updated Strategy in the Marketing Segment:

- secure a 30% share in the Polish market of fuels by 2012,
- secure a 40% share in the Polish market of aviation fuels by 2012,
- enhance LPG sales efficiency,
- secure a 10% share in the retail market of fuels by 2012,
- enter the self-service filling stations segment,
- secure a 20% share of sales of fuels on motorways, once the main stage of the motorway construction programme is completed,
- expand the Group's network of filling stations by flexibly taking advantage of market opportunities, including opportunities for organic and non-organic growth.

The estimated expenditure on the strategic objectives in the marketing area in 2006–2012 may reach PLN 1.1bn.

Key Objectives of the Updated Strategy in Relation to Financial Activities:

It is assumed that the Company will use external financing to fund the implementation of its strategy, however, the debt to equity ratio should not at any time be higher than 0.8.

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The assessment of effectiveness of the LOTOS Group's operations will be based on an analysis of the EBITDA margin (excl. excise duty) and return on capital employed, whose value until 2012 should not be lower than 9% and 12%, respectively. According to the LOTOS Group's strategy, the aggregate capital expenditure in 2006–2012 will total approx. PLN 12.9bn.

The payment of dividend will be subordinated to the optimisation of the financing structure of the LOTOS Group. During the implementation of the key strategic programmes, the dividend will not exceed 10% of net profit. Following the implementation of the programmes, the dividend is intended to grow up to 30% of net profit. The dividend policy for subsidiary undertakings is determined by the Management Board of Grupa LOTOS S.A., upon taking into consideration their financial standing and development programmes.

Development Directions for 2013–2020

The most important step aiming at increasing the Company's value – following the implementation of the strategic objectives until 2012 – is the development of the exploration and production segment, and the strengthening of the market position. The contemplated projects include:

- continuation of efforts aiming at increasing crude oil production, to exceed 20% of the processing capacities by 2015, with an upward trend in the subsequent years,
- construction of a heavy residue gasification unit, focused on hydrogen and energy carrier generation – Stage 2 of the 10+ Programme,
- launch of new-generation biofuel production,
- CO₂ sequestration – depositing CO₂ in geological structures,
- continuation of activities supporting construction of underground storage facilities for oil and petroleum products (caverns),
- development of technologies contributing to margin growth.

Decisions related to the development activities will be based on feasibility studies, and will be implemented in line with the LOTOS Group's financing capabilities. The Group does not exclude the possibility of entering into financing/equity arrangements or establishing a joint venture with a strategic partner.

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Key Macroeconomic and Price-related Assumptions Adopted by Grupa LOTOS S.A. for the Purpose of Formulating the Key Assumptions of its Financial Policy Until 2012:

	2009	2012
Oil price (2008 fixed prices):		
- dtd Brent (USD/bbl)	112.52	128.02
- Ural CIF Rotterdam (USD/bbl)	108.8	124.52
Crack spreads for products (2008 fixed prices):		
- Premium gasoline 10 ppm – Cargoes CIF NEW (USD/t)	145	145
- Diesel 10 ppm – Cargoes CIF NWE (USD/t)	178	178
- Gasoil 0.1% – Cargoes CIF NWE (USD/t)	140	140
- Fuel Oil 3.5% – Barges FOB Rotterdam (USD/t)	-271	-271
EUR/PLN	3.50	3.20
USD/PLN	2.56	2.48

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10. CONTRACTED AND TERMINATED AGREEMENTS CONCERNING LOANS AND BORROWINGS, AS WELL AS INFORMATION ON MATURITY DATES AND SURETIES AND GUARANTEES ISSUED

Loan agreements concluded by Grupa LOTOS S.A. in 2008:

Bank name; form of incorporation	Registered office	Loan amount as per agreement		Outstanding loan amount (current portion)		Outstanding loan amount (non-current portion)		Maturity date		Financial terms and conditions (interest rate, interest payment schedule etc.)	Type of security
		PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	PLN (in '000)	Foreign currency (in '000)	Current portion	Non-current portion		
Bank Consortium (1)			USD 1,125,000	11,629	USD 3,926	1,434,195	USD 484,231	Mar 15 2009	Jan 15 2021	based on 1M, 3M or 6M LIBOR USD, depending on the interest period as selected from time to time + bank's margin	mortgage, registered pledge over existing and future movables, registered pledge over bank accounts, assignment of rights under agreements for the implementation and management of the 10+ Programme, assignment of rights under insurance agreements relating to the Gdańsk refinery, assignment of licence, hedging and sale agreements with a value of over PLN 10m per year, submission to enforcement
Bank Consortium (2)			USD 425,000	3,748	USD 1,266	479,576	USD 161,920	Mar 15 2009	Jan 15 2021	fixed interest rate	
Bank Consortium (3)			USD 200,000 or its equivalent	246,093				Overdraft facility		3M WIBOR + bank's margin	
				8,096	EUR 1,940					3M EURIBOR + bank's margin	
				33,058	USD 11,161					3M LIBOR USD + bank's margin	

* Bank consortium (1): Banco Bilbao Vizcaya Argentaria S.A., Bank of Tokyo-Mitsubishi UFJ (Holland) N.V., Pekao S.A., BNP Paribas S.A., Caja de Ahorros y Monte de Piedad de Madrid, Calyon, DnB Nor Bank ASA, DnB Nor Polska S.A., Fortis Bank S.A./N.V., ING Bank Śląski S.A., KBC Finance Ireland, Kredyt Bank S.A., Nordea Bank AB, PKO BP S.A., The Royal Bank of Scotland plc, Société Générale S.A., Bank Zachodni WBK S.A., Rabobank Polska S.A., Bank Gospodarki Żywnościowej S.A. and Sumitomo Mitsui Banking Corporation Europe Limited.

** Bank consortium (2): Banco Bilbao Vizcaya Argentaria S.A., BNP Paribas S.A. and Fortis Bank S.A./N.V.

*** Bank consortium (3): Pekao S.A., PKO BP S.A., BNP Paribas S.A., ING Bank Śląski S.A., Nordea Bank Polska S.A., Rabobank Polska S.A. and BGŻ S.A.

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SURETIES AND GUARANTEES

- On April 27th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs-duty debts, taxes and other customs-related charges for the amount of PLN 160,000 thousand. On May 5th 2008, the value of the guarantee rose to PLN 200,000 thousand. The guarantee expires on May 4th 2009, while the guarantor's liability continues until July 3rd 2009. On December 17th 2008, the value of the guarantee decreased to PLN 125,000 thousand.
- On August 10th 2007, at the request of Grupa LOTOS S.A. Deutsche Bank PBC S.A. issued a bank guarantee for the benefit of the Customs Chamber to secure liabilities under customs duty, taxes and other customs charges for the amount of PLN 7,000 thousand. The contingent liability expired on January 31st 2008.
- On June 27th 2008, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a guarantee for PLN 14,500 thousand for the benefit of the Customs Office of Pruszków as excise security. The guarantee expired on August 10th 2008.
- On January 3rd 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee for the benefit of CB&I LUMMUS GmbH in the form of a documentary letter of credit for the amount of EUR 19,034 thousand (the equivalent of PLN 72,843 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 3rd 2007). The original validity term of the guarantee expired on June 30th 2008. Subsequently, the validity term of the letter of credit was extended several times; the most recent extension of its validity term was until March 31st 2009. As a result of successive draws under the letter of credit, as at December 31st 2008, its value was EUR 346 thousand (the equivalent of PLN 1,444 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).
- On July 10th 2007, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a bank guarantee in the form of a stand-by letter of credit for EUR 45,000 thousand (the equivalent of PLN 169,448 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for July 10th 2007) for the benefit of Technip Italy S.p.A. The letter of credit was issued to secure the provision of services connected with the construction of an MHC unit and an amine complex. The original validity term of the guarantee expired on December 31st 2007. On October 19th 2007, the validity term of the letter of credit was extended until June 30th 2008 and the total amount of the letter of credit was raised to EUR 52,313 thousand in the period January 1st – March 31st 2008, and subsequently up to EUR 53,462 thousand in the period April 1st – June 30th 2008. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 was EUR 47,355 thousand, and in the period October 1st – November

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14th 2008 – EUR 45,515 thousand. On November 14th 2008, the letter of credit was cancelled by mutual agreement between the parties.

- On January 16th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee of USD 10,800 thousand (PLN 26,214 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for January 16th 2008) for the benefit of Total Deutschland GmbH in connection with the supply of gasoline. The guarantee expired on May 31st 2008.
- On May 2nd 2008, at the request of Grupa LOTOS S.A., Bank Millennium S.A. issued a guarantee for PLN 13,200 thousand for the benefit of the Customs Office of Bielsko-Biała as excise security. The guarantee expired on June 30th 2008.
- On June 26th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a payment guarantee for USD 12,000 thousand (the equivalent of PLN 25,704 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for June 26th 2008) for the benefit of TOTAL DEUTSCHLAND GmbH in connection with the supply of gasoline. The original validity term of the guarantee expired on December 31st 2008. On December 12th 2008, the validity term of the guarantee was extended until January 31st 2009. The guarantee expired with the end of its validity period.

SURETIES AND GUARANTEES SUBSEQUENT TO THE BALANCE-SHEET DATE

- On January 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a guarantee for PLN 1,500 thousand for the benefit of the Customs Office in Pruszków as excise security. The guarantee expires on June 30th 2009.
- On February 2nd 2009, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a guarantee for USD 18,000 thousand (the equivalent of PLN 62,690 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for February 2nd 2009) for the benefit of TOTAL DEUTSCHLAND GmbH. The guarantee was issued to secure the payment of amounts due for the delivery of Diesel oil and gasoline, and remains valid through July 31st 2009.

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OTHER MATERIAL CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES

- The validity of the blank promissory note of March 16th 2006 for PLN 200,000 thousand, issued to secure Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until June 16th 2009. The original validity term of the blank promissory note expired on March 16th 2007, and was subsequently extended until June 16th 2008.
- The validity of the blank promissory note of July 5th 2005 for PLN 200,000 thousand, issued to secure the Grupa LOTOS S.A.'s tax liability connected with the suspended excise tax collection procedure, was extended until July 7th 2009. The original validity term of the blank promissory note, which expired on July 7th 2006, was extended until July 5th 2007 and then until July 7th 2008.
- On January 2nd 2008, at the request of Grupa LOTOS S.A., Bank Pekao S.A. issued a stand-by letter of credit for EUR 39,085 thousand (the equivalent of PLN 140,608 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Technip KTI S.p.A, valid through March 31st 2008. The letter of credit was issued to secure the performance of a construction contract related to the amine complex. On April 1st 2008, the validity period of the letter of credit was extended until June 30th 2008 and its amount decreased to EUR 37,634 thousand. The amount of the stand-by letter of credit in the period July 1st – September 30th 2008 was EUR 38,668 thousand, and in the period October 1st – November 4th 2008 – EUR 38,595 thousand. On November 4th 2008, the letter of credit was cancelled by mutual agreement between the parties.
- On April 1st 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 5,195 thousand (the equivalent of PLN 18,240 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 1st 2008) for the benefit of LURGI S.A., valid through June 30th 2008. On July 1st 2008, the amount of the letter of credit was raised to EUR 10,979 thousand and its validity term was extended until September 30th 2008. The letter of credit was issued to secure the performance of a contract related to the construction of a hydrogen generation unit (HGU). On October 1st 2008, the validity term of the letter of credit was extended until December 31st 2008 and its value was again increased – to EUR 14,923 thousand. Then, on January 1st 2009, the validity term of the letter of credit was extended until March 31st 2009, and its amount decreased to EUR 14,234 thousand. Since December 17th 2008, the letter of credit has been financed under the term loan facility granted by the group of financial institutions. (see Note 30 to the Consolidated Financial Statements). The letter of credit expired on March 31st 2009.

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- On April 30th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 7,230 thousand (the equivalent of PLN 25,019 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for April 30th 2008) for the benefit of LURGI S.A., valid through July 31st 2008. The letter of credit was issued to secure the performance of the EPC contract for the crude and vacuum distillation units (CDU/VDU). On July 31st 2008, the validity period of the letter of credit was extended until October 31st 2008. The value of the stand-by letter of credit was increased to EUR 15,356 thousand. On November 1st 2008, the validity term of the letter of credit was extended until January 31st 2009. The value of the stand-by letter of credit was raised to EUR 20,175 thousand (the equivalent of PLN 71,752 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for November 3rd 2008). On February 1st 2009, the validity term of the letter of credit was extended until April 30th 2009 and its value decreased to EUR 15,647 thousand. Since December 17th 2008, the letter of credit has been financed under the term loan facility granted by the group of financial institutions.

- On June 2nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 64,403 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for June 2nd 2008) for the benefit of CB&I LUMMUS GmbH. The original validity term of the letter of credit expired on December 31st 2008. The letter of credit was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). On January 1st 2009, the validity term of the letter of credit was extended, first until January 31st 2009, and then until March 31st 2009. As a result of successive draws under the letter of credit, its value as at December 31st 2008 was EUR 2,913 thousand (the equivalent of PLN 12,154 thousand, translated using the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).

- On September 18th 2008, at the request of Grupa LOTOS S.A., Deutsche Bank Polska S.A. issued a stand-by letter of credit for USD 10,000 thousand (the equivalent of PLN 23,428 thousand, translated at the USD/PLN mid-exchange rate quoted by the National Bank of Poland for September 18th 2008) for the benefit of PETROPLUS MARKETING AG. The validity period of the letter of credit expired on October 31st 2008. The letter of credit was issued to secure the payment for Diesel oil supplies. The guarantee expired with the end of its validity period.

- On October 22nd 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a documentary letter of credit for EUR 19,034 thousand (the equivalent of PLN 70,690 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for October 22nd 2008) under the term loan facility granted by the group of financial

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institutions. The letter of credit, issued for the benefit of CB&I LUMMUS GmbH, is valid through June 30th 2009. It was issued to secure the performance of a contract related to a diesel hydrodesulphurisation unit (HDS). As a result of successive draws under the letter of credit, its value as at December 31st 2008 was EUR 11,830 thousand (the equivalent of PLN 49,359 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 31st 2008).

- On December 19th 2008, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. opened a stand-by letter of credit for EUR 500 thousand (the equivalent of PLN 2,057 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for December 19th 2008) under the term loan facility granted by the group of financial institutions. The letter of credit, issued for the benefit of LURGI S.A., is valid through May 31st 2009. The letter of credit was issued to secure the performance of a contract related to modernisation of a condensate station and construction of a fuel gas terminal.

OTHER MATERIAL CONTINGENT AND OFF-BALANCE-SHEET LIABILITIES SUBSEQUENT TO THE BALANCE-SHEET DATE

- On January 2nd 2009, at the request of Grupa LOTOS S.A., Bank PKO BP S.A. issued a stand-by letter of credit for EUR 3,000 thousand (the equivalent of PLN 12,517 thousand, translated at the EUR/PLN mid-exchange rate quoted by the National Bank of Poland for January 2nd 2008) for the benefit of Umicore Precious Metals Refining, valid through October 15th 2009. The stand-by letter of credit was issued to secure lease payments under platinum lease agreement.
- On February 27th 2009, Grupa LOTOS S.A. issued a blank promissory note for the amount of up to PLN 400,000 thousand for the benefit of the Customs Office in Gdańsk to secure the Company's tax liability in connection with the suspended excise tax collection procedure. The blank promissory note is valid through January 13th 2011.
- On April 1st 2009, the validity term of the documentary letter of credit for the benefit of CB&I LUMMUS GmbH, issued at the request of Grupa LOTOS S.A. by Bank PKO BP S.A. on January 3rd 2007, was extended until May 31st 2009.
- On April 1st 2009, the validity term of the documentary letter of credit for the benefit of CB&I LUMMUS GmbH, issued at the request of Grupa LOTOS S.A. by Bank PKO BP S.A. on June 2nd 2008, was extended until May 31st 2009 (see Note 42, item 13 to the financial statements).

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11. LOANS ADVANCED, INCLUDING LOANS, SURETIES AND GUARANTEES GRANTED TO RELATED UNDERTAKINGS OF GRUPA LOTOS S.A.

Loans

- On February 27th 2007, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 1,200 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, the following annexes were executed: annex No. 1 of February 27th 2007, whereby the deadline for creating security for the loan was postponed, and annex No. 2 of January 30th 2008, effective as of December 31st 2007, which extended the loan repayment date until June 30th 2008. LOTOS Park Technologiczny Sp. z o.o. repaid the loan in full on June 4th 2008.

- On June 26th 2007, Grupa LOTOS S.A. executed an agreement under which it granted a loan of PLN 600 thousand to LOTOS Park Technologiczny Sp. z o.o. Subsequently, the following annexes to the agreement were signed: Annex No. 1, executed on January 30th 2008 and effective as of December 31st 2007, which extended the loan repayment date until June 30th 2008, and Annex No. 2 of July 1st 2008, whereby the final repayment date for the loan postponed to August 31st 2008. LOTOS Park Technologiczny Sp. z o.o. settled its liabilities under the loan on August 20th 2008 (the principal amount) and on August 22nd 2008 (the accrued interest).

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12. EVENTS AND AGREEMENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP.

12.1 SIGNIFICANT AGREEMENTS CONCLUDED BY THE PARENT UNDERTAKING IN 2008 AND SUBSEQUENT TO THE BALANCE-SHEET DATE

Trade Agreements

Agreements between Grupa LOTOS S.A. and BP Polska Sp. z o.o.

On January 14th 2008, Grupa LOTOS S.A. and BP Polska Sp. z o.o. of Kraków entered into an agreement on sale and purchase of liquid fuels between Grupa LOTOS S.A. and BP Polska Sp. z o.o.

The agreement, whose estimated value amounted to PLN 1.300m, remained in force until December 31st 2008. The estimated maximum amount of contractual penalties was PLN 21,000 thousand. The agreement did not contain any provisions permitting either party to seek compensation in excess of the contractual penalties. The other terms and conditions of the agreement did not differ from the terms and conditions commonly applied in agreements of such type.

On December 30th 2008, Grupa LOTOS S.A. and BP Polska Sp. z o.o. of Kraków entered into another agreement on sale of liquid fuels by Grupa LOTOS S.A. to BP Polska S.A.

The agreement was executed for a specified period from January 1st to December 31st 2009, and its estimated value is PLN 1.195bn.

The agreement provides for contractual penalties whose maximum value is estimated at PLN 23.9m. The agreement does not contain any provisions under which either party would be entitled to seek compensation in excess of the contractual penalties.

The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

The agreements were deemed significant as their estimated value exceeded 10% of Grupa LOTOS S.A.'s equity.

Agreement between Grupa LOTOS S.A. and LOTOS Biopaliwa Sp. z o.o.

On April 18th 2008 Grupa LOTOS S.A. and LOTOS Biopaliwa Sp. z o.o. (a wholly-owned subsidiary of LOTOS Czechowice S.A. in which Grupa LOTOS S.A. holds 80.04% of shares) concluded an agreement on supply of methyl esters to Grupa LOTOS S.A.

The agreement, whose five-year value is estimated at PLN 1,700,000 thousand, has been concluded for an indefinite term. The agreement provides for contractual penalties in the event of default. The maximum amount of such penalties is 10% of the VAT-inclusive value of goods. Payment of contractual penalties does not exclude the parties' right to seek compensation in excess of the

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penalties. The other terms of the agreement do not differ from provisions commonly applied in agreements of such type.

The agreement is deemed significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

Agreement between Grupa LOTOS S.A. and PKN Orlen S.A.

On June 30th 2008, Grupa LOTOS S.A. and PKN Orlen S.A. concluded an agreement on sale of liquid fuels to PKN Orlen S.A.

Following the execution of the agreement, the aggregate value of agreements concluded between Grupa LOTOS S.A. and PKN Orlen S.A. in the period since October 8th 2007, i.e. the publication date of current report no. 42/2007 on the conclusion of agreements between the two entities, is estimated at PLN 568m. The agreement with the highest value was the one concluded on June 30th 2008, concerning the sale of liquid fuels by Grupa LOTOS S.A. to PKN Orlen S.A. The agreement was concluded for a specified period and remained in force from July 1st to December 31st 2008. Its estimated value was approx. PLN 234.5m. The agreement provided for contractual penalties whose estimated maximum value was approx. PLN 1.1m. The agreement did not contain any provisions under which either party would be entitled to seek compensation in excess of the contractual penalties. The other terms and conditions of the agreement did not differ from the terms and conditions commonly applied in agreements of such type.

The agreements concluded by Grupa LOTOS S.A. and PKN Orlen S.A. were deemed significant as their aggregate value exceeds 10% of the equity of Grupa LOTOS S.A.

Agreement between Grupa LOTOS S.A. and LOTOS Tank Sp. z o.o.

On October 20th 2008 Grupa LOTOS S.A. and LOTOS Tank Sp. z o.o. (a wholly-owned subsidiary of Grupa LOTOS S.A.) entered into an agreement on sale of aviation fuels to LOTOS Tank Sp. z o.o.

The agreement, whose value over a period of five years is estimated at PLN 2,000,000 thousand, was concluded for an unspecified time. It provides for standard contractual penalties whose amount may exceed 10% of the agreement value, depending on the quantity of non-supplied product or uncollected orders.

Pursuant to the provisions of the agreement, the payment of contractual penalties does not deprive the injured party of the right to seek compensation in excess of any such penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

The agreement was deemed significant agreement as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

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Agreements Concluded between Grupa LOTOS S.A. and StatoilHydro ASA, for an Aggregate Value Corresponding to the Value of a Significant Agreement

On November 3rd 2008, the Management Board of Grupa LOTOS S.A. reported that the total value of the agreements concluded between Grupa LOTOS S.A. and StatoilHydro ASA within the last 12 months stood at USD 276.7m (or PLN 766.5m at the mid exchange rate quoted for USD by the National Bank of Poland as at November 3rd 2008) and thus reached the significant value threshold, i.e. it exceeded 10% of Grupa LOTOS S.A.'s equity.

In value terms, the largest of the agreements concluded within the last 12 months was the agreement of July 16th 2008 governing Grupa LOTOS S.A.'s purchase of crude oil from StatoilHydro ASA. The value of this agreement was USD 79.4m (or PLN 161.2m at the mid exchange rate quoted for USD by the National Bank of Poland as at July 16th 2008). The agreement provided for no conditions or deadlines precedent, nor did it provide for any contractual penalties. The agreement was concluded on the terms and conditions typical for this type of agreements.

Agreement between Grupa LOTOS S.A. and Statoil Poland Sp. z o.o.

On November 20th 2008, Grupa LOTOS S.A. and Statoil Poland Sp. z o.o. of Warsaw entered into an agreement on sale of liquid fuels by Grupa LOTOS S.A. to Statoil Poland Sp. z o.o.

The agreement, whose estimated value amounts to PLN 7bn, was executed for a specified period from January 1st 2009 to December 31st 2011; it may be extended until December 31st 2013.

The maximum value of contractual penalties is estimated at PLN 140m. The agreement does not contain any provisions under which either party would be entitled to seek compensation in excess of the contractual penalties.

The other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

The agreement was deemed significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

Concurrently, an Annex was signed to the agreement between Grupa LOTOS S.A., LOTOS Partner Sp. z o.o. and Statoil Polska Sp. z o.o. of June 30th 2005 (Current Report No. 51/2005 of June 30th 2005), under which the agreement on sale of liquid fuels to Statoil Poland Sp. z o.o. was terminated with effect from December 31st 2008.

Agreement between Grupa LOTOS S.A. and Shell Poland Sp. z o.o.

On December 3rd 2008, Grupa LOTOS S.A. and Shell Poland Sp. z o.o. of Warsaw entered into an agreement on sale of liquid fuels to Shell Poland Sp. z o.o.

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The agreement was executed for a specified period from January 1st to December 31st 2009. Its estimated value is PLN 860m

The maximum value of contractual penalties is estimated at PLN 16m. The agreement does not contain any provisions permitting either party to seek additional compensation in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly used in agreements of such type.

The agreement was deemed significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

Agreement between Grupa LOTOS S.A. and Lukoil Polska Sp. z o.o.

The Management Board of Grupa LOTOS S.A. reports that on December 22nd 2008, Grupa LOTOS S.A. and Lukoil Polska Sp. z o.o. of Warsaw entered into an agreement on sale of liquid fuels to Lukoil Polska Sp. z o.o.

The agreement was executed for a specified period from January 1st to December 31st 2009. Its estimated value is PLN 675m.

The estimated maximum value of contractual penalties is PLN 13.5m. The agreement does not contain any provisions permitting either party to seek additional compensation in excess of the contractual penalties. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

The agreement was deemed significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

Agreement between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH

On February 13th 2009, the Management Board of Grupa LOTOS S.A. received back the agreement, signed by both parties, between Grupa LOTOS S.A. and TOTAL DEUTSCHLAND GmbH of Berlin. The agreement of February 1st 2009 concerns purchase of liquid fuels by Grupa LOTOS S.A. from TOTAL DEUTSCHLAND GmbH.

The agreement was executed for a specified period from January 1st to December 31st 2009. Its estimated value is PLN 563m,

The agreement does not contain any provisions on contractual penalties. The parties may seek full compensation for damage suffered before the common court of law in Berlin, in accordance with the German Law which is the governing law for the agreement. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

The agreement was deemed significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

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Agreement between Grupa LOTOS S.A. and NESTE OIL (SUISSE) SA

On March 13th 2009, the Management Board of Grupa LOTOS S.A. received back the agreement, signed by both parties, concerning purchase of liquid fuels by Grupa LOTOS S.A. from Neste Oil (Suisse). The agreement was signed on December 10th 2008.

The agreement was executed for a specified period from January 1st to December 31st 2009. Its estimated value is PLN 624m.

The agreement does not contain any provisions on contractual penalties. The parties may seek full compensation for damage suffered before the common court of law in London, in accordance with the English Law which is the governing law for the agreement. The other terms and conditions of the agreement do not differ from the terms and conditions commonly applied in agreements of such type.

The agreement was deemed significant as its estimated value exceeds 10% of Grupa LOTOS S.A.'s equity.

Loan Agreement Related to the Implementation of the 10+ Programme

Credit facility agreement of June 27th 2008

On June 27th 2008, Grupa LOTOS S.A. and the following institutions: Banco Bilbao Vizcaya Argentaria, S.A.; Banco Bilbao Vizcaya Argentaria S.A., London Branch; Banco Bilbao Vizcaya Argentaria S.A., Milan Branch; Bank Polska Kasa Opieki S.A.; Bank Zachodni WBK S.A.; Bank of Tokyo-Mitsubishi UFJ (Holland) N.V.; BNP Paribas S.A.; Caja de Ahorros y Monte de Piedad de Madrid; Caja de Ahorros y Monte de Piedad de Madrid, Zweigniederlassung Wien; Calyon; DnB Nor Bank ASA; Fortis Bank S.A./N.V.; Fortis Bank S.A./N.V., - Succursale in Italia; ING Bank N.V. / ING Bank Śląski S.A.; KBC Bank N.V., Dublin Branch / Kredyt Bank S.A; Nordea Bank Finland Plc; Nordea Bank Polska S.A. / Nordea Bank AB (Publ); Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna; Rabobank Polska S.A. / Bank Gospodarki Żywnościowej S.A.; SACE S.p.A. - Servizi Assicurativi del Commercio Estero; "Societe Generale" S.A. (the Polish branch); Societe Generale S.A.; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi UFJ, Ltd. i The Royal Bank of Scotland Plc executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital of Grupa LOTOS S.A. Bank Calyon was appointed the Senior Facility Agent, while Société Générale S.A. (the Polish branch) was assigned the role of the Senior Security Agent.

Concurrently, Grupa LOTOS S.A. executed a sub-agreement under the credit facility agreement, concerning a credit facility tranche guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero, to which the following are parties: BNP Paribas S.A., Fortis Bank S.A./N.V., - Succursale in Italia, Banco Bilbao Vizcaya Argentaria S.A., Milan and SACE S.p.A. - Servizi Assicurativi del Commercio Estero.

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Execution of the credit facility agreement is one of the key elements of the strategy of financing Grupa LOTOS S.A.'s operations in the upcoming years. The credit facility agreement is a along with the loan agreement for refinancing and financing of the inventories of Grupa LOTOS S.A. of December 20th 2007 (Current Report No. 55/2007) secure funds sufficient to meet the Company's total requirement for external financing in connection with the implementation of the 10+ Programme.

The agreement concerns a long-term credit facility for the total amount of USD 1,750,000 thousand (PLN 3,739,050 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), comprising a term loan facility of USD 975,000 thousand (PLN 2,083,185 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), a redrawable working capital loan facility of USD 200,000 thousand (PLN 427,320 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008), an investment loan of USD 425,000 thousand guaranteed by SACE S.p.A. - Servizi Assicurativi del Commercio Estero (PLN 908,055 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008) and a contingent term loan facility of USD 150,000 thousand (PLN 320,490 thousand translated at the mid-exchange rate quoted by the National Bank of Poland for June 27th 2008). The credit facility must be repaid not later than 12.5 years after the first interest payment date. The other terms and conditions of the credit facility agreement, including those pertaining to the security, do not differ from the standard terms and conditions of such agreements.

The credit facility is secured principally with:

- 1) a mortgage with the highest ranking over Grupa LOTOS S.A.'s ownership title or perpetual usufruct right to the real property required for the conduct of operations by the existing and expanded Gdańsk refinery,
- 2) agreement creating a registered pledge over sets of existing and future (acquired over the period of implementation of the 10+ Programme) movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the aforementioned credit facility, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems,
- 3) agreement creating financial registered pledges over Grupa LOTOS S.A.'s claims under bank account agreements executed in connection with the financing of the 10+ Programme (the agreement creating the pledges does not cover claims under other bank account agreements concluded by Grupa LOTOS S.A.), and
- 4) agreements for the assignment of the rights and debt claims of Grupa LOTOS S.A. arising under the agreements related to the implementation of the 10+ Programme, the agreements for the management of the 10+ Programme, hedging agreements, license agreements, insurance documents (related to the Gdańsk refinery and the 10+ Programme) as well as under sales contracts concluded by Grupa LOTOS S.A. with its subsidiaries, if the contracts' annual value exceeds PLN 10,000

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thousand. The documents constituting the security for the benefit of Société Générale S.A., the Polish branch (the Senior Security Agent), were executed concurrently with the credit facility agreement.

The agreement is considered significant as its estimated value represents more than 10% of the equity of Grupa LOTOS S.A. There are no links between Grupa LOTOS S.A. or its management staff and the banks for the benefit of which the pledges are to be created or their management staff.

The assets on which the pledges and the mortgage were established are deemed significant as their value exceeds 10% of the equity of Grupa LOTOS S.A. The value of the assets of Grupa LOTOS S.A. which will be encumbered with the pledges and the mortgage specified above will not exceed PLN 2,195,551,210.92 based on the book value as at May 31st 2008 and the maximum amount to be secured with the pledges and the mortgage specified above is USD 2,625,000,000 (PLN 5,608,575 thousand at the mid exchange rate quoted by the National Bank of Poland for June 27th 2008). Grupa LOTOS S.A. has disclosed the information relating to the security due to the fact that the value of the pledges and the mortgage established on the assets specified above exceeds EUR 1,000,000.

A registered pledge created over Grupa LOTOS S.A.'s assets (i.e. over sets of existing and future – acquired over the period of implementation of the 10+ Programme – movables, owned by Grupa LOTOS S.A. and forming a part of or closely related with the Gdańsk refinery or financed under the credit facility agreement providing for the financing of the 10+ Programme, used in production, storage and distribution of petroleum products and crude oil, along with the infrastructure and necessary auxiliary equipment, and in particular on the movables comprising the basic production installations, auxiliary production installations, equipment used to blend products, loading facilities, transport pipelines, storage tanks, CHP plants, wastewater treatment plants, water intakes, and water, electricity, process steam and compressed air systems) was entered into the register of pledges by a competent district court on September 5th 2008.

On July 3rd 2008, the Management Board of Grupa LOTOS S.A. received a confirmation that Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (operating under the name of Rabobank Nederlands) had acceded to the above agreements.

In 2008 and after December 31st 2008 no company of the LOTOS Group was a party to any significant agreements other than those mentioned above.

12.2 EVENTS SIGNIFICANT FOR THE OPERATIONS OF GRUPA LOTOS S.A. AND THE LOTOS GROUP

PETROBALTIC AND THE PRODUCTION SEGMENT

In the E&P segment, in 2008 oil and gas production continued from the B3 and B8 deposits. The crude oil and natural gas outputs were, respectively, 257.7 thousand tonnes, and 29,289 thousand cubic metres. The entire crude oil output was shipped to the Gdańsk refinery, and the natural gas,

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after being partially used – by the B3 Offshore Oil Rig and the gas flares of the Petrobaltic platform (B8 deposit), was sent via a pipeline to Energobaltic's heat and power plant in Władysławowo. Petrobaltic's crude sales to Grupa LOTOS S.A. amounted to 227.6 thousand tonnes, and the volume of processed Rozewie oil in 2008 was 208.4 thousand tonnes, which accounted for 3.36% m/m of the total processing volume of the Gdańsk refinery.

In 2008, the key tasks carried out by Petrobaltic included:

- production from the B8 deposit,
- drilling of the B8-Z1 well and the B8-Z1 bis branch from the Petrobaltic platform,
- production from the B8 deposit from the Petrobaltic platform,
- production from the B3 deposit, including water pumping to the deposit of the Offshore Oil Rig located at the Baltic Beta platform,
- maintenance and repair work on PG-1,
- geochemical surveys conducted on the B22, B101 and K1 structures,
- 2D seismic surveys conducted on the B22 and B101 potential deposits,
- 3D seismic surveys conducted on the B28 potential deposit,
- sea bed geotechnical surveys performed to assess the possibility of rig anchoring.

Petrobaltic S.A., the leading company of the LOTOS Group in the field of exploration and production, became a shareholder of LOTOS Exploration and Production Norge AS, whose core business consists in exploration for and production of crude oil on the Norwegian Continental Shelf. In connection with the planned further expansion of LOTOS E&P Norge's business, the company's share capital was increased to NOK 40m by way of an issue of new shares. Petrobaltic S.A., having acquired all shares in the increased capital and then purchased the remaining shares from Grupa LOTOS S.A., became the sole shareholder of LOTOS E&P Norge. On August 26th 2008, Petrobaltic S.A. acquired 150,000,000 new Lotos E&P Norge shares for a price of NOK 1 per share (same as par value), i.e. for a total price of NOK 150m, and signed a loan agreement under which Petrobaltic advanced a USD 50m loan to Lotos E&P Norge, to be repaid by 2012. Both transactions were executed to finance the purchase of 10% interest in the PL316 YME license. Another transaction of purchase of interest in the YME field license was also financed using a loan of USD 55m (PLN 176.61m, translated at the mid-exchange rate quoted by the National Bank of Poland for January 15th 2009), extended by Petrobaltic S.A. and proceeds from the increase of LOTOS E&P Norge's share capital by Petrobaltic S.A. by NOK 240m (PLN 106.46m translated at the mid-exchange rate quoted by the National Bank of Poland for January 15th 2009)

In connection with the assumption of rights and obligations associated with the ownership of the 10% interest in the 316, 316B, 316CS and 316DS production licences, Petrobaltic S.A. issued an

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unconditional and irrevocable guarantee relative to LOTOS Exploration & Production Norge AS' exploration and production activities conducted on the Norwegian Continental Shelf. Issuance of the guarantee by Petrobaltic S.A. was necessary in connection with certain formal and legal requirements imposed by the Norwegian government on investors operating on the Norwegian Shelf.

In the guarantee, Petrobaltic S.A. confirmed that it undertakes to assume full financial liability which may arise in connection with LOTOS E&P Norge AS' activities consisting in exploration for and extraction of the natural resources from the sea bottom, including storage and transport on the Norwegian Shelf using means of transport other than ships.

Petrobaltic S.A. undertook to assume liability for:

- any liabilities assumed by LOTOS E&P Norge AS towards the Norwegian state, any Norwegian commune or any other Norwegian authority,
- any liability for damages, including recourse liability, incurred by LOTOS E&P Norge AS in accordance with the Norwegian law towards the Norwegian state, any Norwegian commune or any other Norwegian authority as well as any natural or legal persons, including companies, associations and other organisations, in connection with any environmental contamination or personal injury.

In connection with the commencement of operations by LOTOS E&P Norge AS in the area of oil exploration and production, the value of the estimated potential claims under the guarantee may exceed 10% of the Issuer's equity.

Production Licenses in the North Sea

In order to expand its activities on the Norwegian Shelf, LOTOS E&P Norge obtained from the Norwegian Ministry of Energy and Crude Oil a permit to produce crude oil and took steps designed to acquire assets necessary for launching operations.

On May 20th 2008, the company signed an agreement with Norwegian company Revus Energy concerning purchase of 10% of interests in production licences which cover the YME field and an additional exploration area. The YME field is located 110 km off the coast, in the southern part of the Norwegian sector of the North Sea.

Upon the fulfilment of all the conditions precedent, on August 29th 2008 LOTOS E&P Norge AS assumed all rights and obligations connected with the ownership of the 10% interest in the 316, 316B, 316CS and 316DS production licences located in the North Sea.

The value of the abovementioned agreement is USD 52.5m (or PLN 119.1m, translated at USD/PLN mid-exchange rate quoted by the National Bank of Poland for August 29th 2008). That value will be increased by the amount of investment expenditure made by Revus Energy during the jointly agreed

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period preceding the assumption of rights and obligations connected with the licences, which will reach approximately USD 12m (or PLN 27.2m, translated at USD/PLN mid-exchange rate quoted by the National Bank of Poland for August 29th 2008). The recoverable crude oil reserves of the YME field which correspond to the 10% interest held by LOTOS E&P Norge AS, are estimated by the operator (Talisman) at 6.8 million bbl (about 900 thousand tonnes). Production from the field is expected to start in October 2009.

Following the second purchase of a 10% interest in 2008, LOTOS E&P Norge came to hold a 20% interest in the YME field, which corresponds to 13.6 million barrels (ca. 1,800 thousand tonnes) of recoverable crude oil reserves (figures according to estimates by Talisman, the field operator).

On October 22nd 2008, LOTOS E&P Norge signed an agreement with Norwegian company Det Norske Oljeselskap ASA concerning purchase of a 10% interest in the North Sea production licences No. 316, 316B, 316CS and 316DS. Upon the fulfilment of conditions precedent, on December 30th 2008 LOTOS E&P Norge acquired rights and obligations connected with the ownership of the 10% interest in the licences.

In connection with the transaction, on January 20th 2009, LOTOS E&P Norge paid NOK 547,156,703, which comprised the acquisition price, capital expenditure connected with the development of the YME field and costs of exploration work in the licence areas incurred between the economic date of the transaction and the date of its settlement, plus interest accrued for the period.

Exploration Licenses in the North and the Norwegian Sea

On August 26th 2008, LOTOS Exploration and Production Norge AS signed an agreement with Noreco, a Norwegian exploration and production company, on purchase of a 20% interest in the PL455 exploration licence covering the area of 1,365 square kilometres, located in the southern part of the Norwegian section of the North Sea.

LOTOS Exploration and Production Norge AS will acquire a 20% interest in the said licence in exchange for covering 40% of the estimated expenditure to be incurred by Noreco on performance of seismic surveys under the PL455 licence, i.e. approx. NOK 38m (PLN 15.9m, translated at mid-exchange rate for NOK quoted by the National Bank of Poland for August 26th 2008). Upon the fulfilment of conditions precedent, the transaction was effected on October 31st 2008.

On December 18th 2008, in the pre-qualification round APA 2008, LOTOS Exploration and Production Norge AS was granted interests in the following exploration licences in the southern area of the North Sea and in the Norwegian Sea:

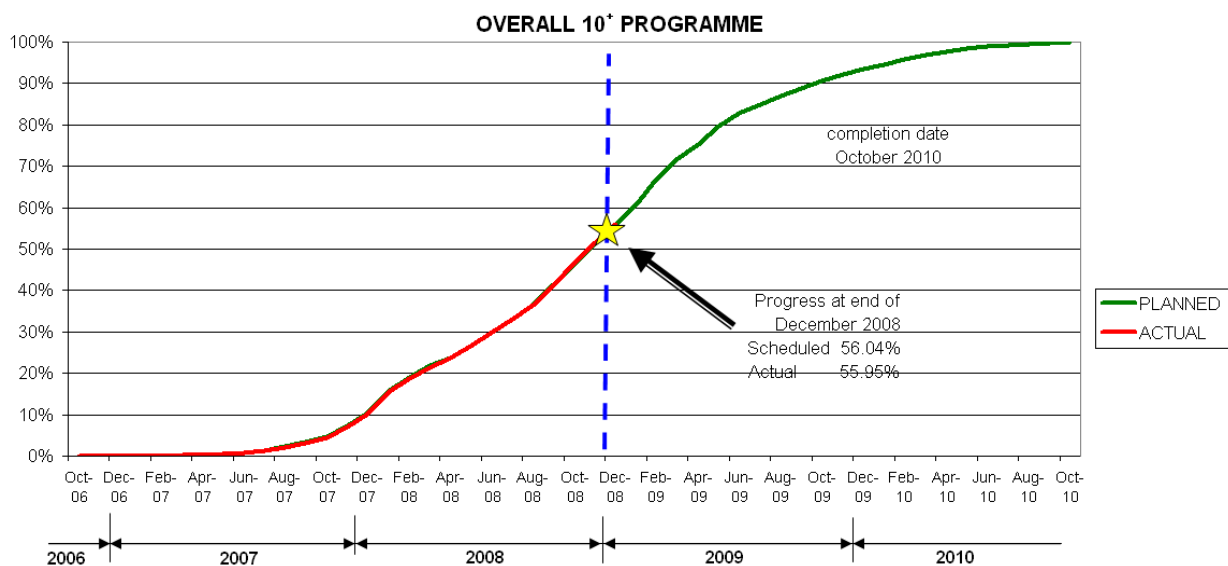
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- Exploration licence PL 497: LOTOS E&P Norge – 10% interest (other partners: Det Norske Oljeselskap ASA (acting as the operator) – 35% interest, Bridge Energy AS – 30% interest, Dana Petroleum Norway – 25% interest).
- Exploration license PL 498: LOTOS E&P Norge (acting as the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4 Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).
- Exploration license PL 503: LOTOS E&P Norge (acting as the operator) – 25% interest (other partners: Skagen 44 AS – 25% interest, 4 Sea Energy AS – 25% interest, Edison International Spa Norway branch – 25% interest).
- Exploration license PL 515: LOTOS E&P Norge – 20% interest (other partners: Rocksource ASA (acting as the operator) – 60% interest, Skagen 44 AS – 20% interest).

10+ PROGRAMME

In 2008, activities related to the implementation of the 10+ Programme, the largest investment project of the LOTOS Group of key importance for the future growth of the Group's value, focused on performing the execution contracts, signing further contracts and arranging financing for the 10+ Programme.

The progress of work under the 10+ Programme as at December 31st 2008 is presented in the chart below.



Source: The Company.

ROSE Unit

In spring, Kellogg Brown & Root made a review of the base design. A series of production-related tests was concluded, which confirmed the feasibility of road bitumen production on the basis of bitumen from the ROSE unit (heavy residue processing unit).

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In line with the Early Work Agreement (EWA) concerning the ROSE unit construction signed on June 27th 2008 with Technip Italy SpA, the final terms and conditions of the EP contract for the design services and deliveries had been negotiated. Upon obtaining approval of the financing institutions, the EP contract was signed on September 10th 2008 and work on the technical and outline design of the ROSE unit was commenced in cooperation with the contractors, M.W. Kellogg and KBR.

HDS Unit

As part of the HDS unit project (diesel hydrodesulphurisation), in 2008, foundations were laid for plant and equipment, as well as for steelwork of trestle bridges and racks. The unit power supply network was commissioned, the extension of the contactor and switchgear centres commenced. The construction work on cable conduits and trays was concluded and delivered apparatuses were assembled, including the 713-tonne reactor shipped from Italy.

In addition, work continued on the assembly of apparatuses and pipelines as well as fitting of their thermal insulation. The fire protection system for trestle bridges and apparatuses was completed. Automation and outdoor electrical works continued. The start-up procedures were designed.

CDU/VDU Unit

As part of the CDU/VDU unit project (crude distillation unit), in 2008, contractors were selected and major contracts were signed for the assembly of furnaces, heavy apparatuses and pipelines, as well as for the execution of electric and control and automation work. Prefabrication of pipelines was carried out and deliveries of apparatuses and equipment commenced. Foundation laying was completed. The assembly of steelwork structures was continued and a stack for both furnaces of the CDU/VDU unit was erected. Work on the start-up documentation was commenced and the design work for specific works is currently being finalised.

MHC Unit

As part of the MHC unit project (mild hydrocracking), in 2008, the engineering design work was continued. The majority of apparatuses and equipment was ordered. Commissioning inspections were initiated with respect to the reactors which will be delivered and assembled in H1 2009. Foundation laying and construction of the underground pipeline system continued. Work was underway on the construction of cable conduits, slop channels and the underground system. Electrical works were also carried out.

HGU Unit

As part of the HGU (hydrogen generating unit) project construction works were being finalised. Underground piping works, electrical and automation works continued. All catalyst pipes for the reformer furnace and materials for pipeline prefabrication were delivered to the construction site.

Assembly of the structure of the reformer furnace and assembly of apparatuses and equipment continued. Work on the HGU manual was in progress.

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ASR

As part of the ASR project (Amine-Sulphur Recovery), the foundations on the ARU/SWS/SRU/TGTU installations were laid, the assembly of mechanical above-ground tanks was completed, while the assembly of apparatuses was being finalised. The assembly of steelwork structures and pipelines was continued. The fire protection system for trestle bridges was completed. Automation and outdoor electrical works continued. In November 2008, the start-up team commenced its work.

Utilities and Off-Sites

In 2008, work continued on construction of inter-unit connections and utilities, storage tanks and auxiliary facilities. Materials were ordered for pipeline systems, a contract was signed for assembly of pipelines and pipe bearers, as well as for construction of a new nitrogen unit. The construction work on new power-supply facilities was in progress. In addition, a contract for the construction of a new unit forming part of the process water preparation complex was executed, as was a contract for upgrading the interconnection control systems and water systems.

Steel shells of four VR, VGO storage tanks, two pyrolyse gasoline storage tanks and three diesel storage tanks were assembled. Work on the roofing of the tanks was carried out. Foundation laying for the LPG tank was completed and the tank's assembly commenced. Work continued on the assembly of the pipeline leading to the R7 terminal at the Grupa LOTOS S.A.'s site.

With respect to auxiliary facilities, in 2008, the extension of the wastewater treatment plant was continued as well as concrete and reinforcement works in the complex of cooling water towers (CWT). Final commissioning and pressure testing of underground network systems were completed. Construction work began at the Water Department site, deliveries were launched for the purposes of expanding the CHP building, and preparations for construction of the discharge system commenced. Main power-supply stations GBDM and GPZ3 were built, the construction of power substations for CDU, MHC and HGU units was advanced, fit-out works on power systems were commenced, main high and medium voltage cable networks were laid.

Financing of the 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 in connection with the information pack relating to the 10+ Programme distributed to the banks on December 21st 2007.

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

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

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The work was also being 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, is consistent with the assumptions of the Grupa LOTOS S.A.'s Insurance Programme for 2008–2010 and was signed in late March 2008.

In March 2008, following negotiations based on the submitted bids, the final structure of the syndicate of financial institutions which would provide full financing of the project was determined, and the contract terms, both commercial (commissions and margins) and legal were agreed.

In April, Grupa LOTOS S.A. and the syndicate of banks signed a commitment letter which constitutes the banks' binding obligation to advance a credit facility on the agreed commercial terms, together with the term sheet, which sets forth the basic formal and legal terms of the transaction. Subsequently, detailed provisions of the credit facility agreement and the accompanying financial documentation (including security agreements) were negotiated. Finally, on June 27th 2008, Grupa LOTOS S.A. and the bank syndicate executed a credit facility agreement to finance the implementation of the 10+ Programme and the working capital needs of Grupa LOTOS S.A.

CALYON Bank acts as the Senior Facility Agent, while SOCIÉTÉ GÉNÉRALE S.A. performs the role of the Senior Security Agent. Concurrently, under the credit facility agreement, Grupa LOTOS S.A. executed a sub-agreement concerning the credit facility tranche guaranteed by SACE, an Italian export credit agency.

The process of fulfilling conditions precedent to drawdowns under the long-term credit facility to finance the implementation of the 10+ Programme and the working capital needs of Grupa LOTOS S.A. concluded in August.

The first tranche of the working-capital loan was drawn down on August 19th 2008, and the first tranche of the investment loan was drawn down on August 26th 2008.

In September, the Company received the decision issued by the District Court of Gdańsk-Północ on the entry into the Register of Pledges of the pledge established on the assets forming the Gdańsk Refinery (the pledge is one of security instruments established for the benefit of the lenders financing the 10+ Programme).

In November 2008, Grupa LOTOS S.A. received a notification issued by the District Court of Gdańsk and concerning the entry into the Land and Mortgage Register of deposit mortgage on real estate for the benefit of the Senior Security Agent. The mortgage is one of the key instruments securing credit facilities advanced for the financing of the 10+ Programme.

In September 2008, the Company received the final confirmation (issued by the Agent of the credit facility tranche guaranteed by SACE) to the effect that the conditions precedent to the drawdown of this tranche of the investment credit facility had been fulfilled. The first drawdown under this credit facility tranche was made in October 2008.

Subsequent drawdowns, their dates and amounts, depended on Grupa LOTOS S.A.'s payment ability at a given time and the amount of expenses connected with the implementation of the 10+

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Programme. In 2008, drawdowns were made in line with the drawdown notices placed by Grupa LOTOS S.A., based on the information on the then current financial standing of the Company.

As at December 31st 2008, the Company had drawn down approximately 46% of the facilities advanced to finance the implementation of the 10+ Programme.

PROSTA PROGRAMME

In 2008, a subsidiary undertaking, LOTOS Paliwa restructured its service station network and launched several new products, and subsequently focused on further development of the CODO service station network and expansion of the DOFO service station network.

Material Activities Performed in the Implementation of the PROSTA Programme in 2008:

- On February 1st 2008, the NAVIGATOR loyalty programme was implemented at the LOTOS CODO/DOFO network.
- The programme for upgrading the fuel installation to include new Dynamic fuels was continued.
- COCO/CODO service stations were placed in service: at ul. Arkuszowa in Warsaw in June, at ul. Batalionów Chłopskich in Szczecin in August, at ul. Żwirki i Wigury in Bydgoszcz and ul. Kapelanka in Kraków in September, and in Strzeszowice, Radzymin and Zegrze in December. In October, the service station in Lipno (the Province of Bydgoszcz) was excluded from the network and sold.
- 13 new stations (in Kotlin, Trzebiel, Bartoszyce, Dębica, Cieszyn, Włodawa, Zwoleń, Kórnik, Gronów Górny near Elbląg, Lublin, w Ruściec, Żabno and Ostrowiec Świętokrzyski) were included into the LOTOS Family Commercial Partnership Programme; the DOFO service station in Bielsk Podlaski was excluded from the Programme.
- As at December 31st 2008, 54 DOFO service stations offered Premium fuels.

As at December 31st 2008, the LOTOS service station network comprised 355 locations, including 139 CODO stations, 79 DOFO stations and 137 DODO stations. A total of 92 franchise agreements were signed. In line with the assumptions of the Company's Strategy for 2008–2012 regarding transfer of the DODO stations to another operational platform, the total number of COCO/CODO and DOFO service stations is larger than the number of DODO stations since Q1 2007. On December 31st 2008, 46 agreements for DODO service stations expired.

SOUTHERN RAFINERIES

In 2008, LOTOS Czechowice and LOTOS Jasło were pursuing the objectives set out in the LOTOS Group's strategy for the Southern Refineries, designed to achieve their operational integration with the LOTOS Group. Restructuring was conducted in the area of employment, operating activity,

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organisation and technology, and the use of the Southern Refineries' assets (depots and tanks) in Grupa LOTOS S.A.'s integrated fuel logistics. Work was underway to expand the two companies' storage capacities, as storage is intended to become their core business.

LOTOS Jasło

LOTOS Jasło S.A. focused on changing its operating profile in connection with the discontinuation of oil processing in Q3 2008. As at the end of 2008, the company's core business consisted in provision of services related to trade in (distribution of) oil products, storing of fuels as well as building and maintaining reserves of fuels. The company is developing a number of projects which involve recycling of plastics with the aim to upgrade and expand the used oil recycling process. Having reviewed their respective proposals and technologies, the company began negotiations with prospective investors, aimed at reaching agreements in the form of letters of intent that would define the terms and conditions of proposed cooperation.

LOTOS Park Technologiczny

LOTOS Park Technologiczny Sp. z o.o. continued disposal of its assets to the LOTOS Group companies and third-party investors. The negotiations concerning sale of the Terpen Plant at Czechowice-Dziedzice to an external investor were concluded.

In line with the timetable, LOTOS Park Technologiczny Sp. z o.o. carried out the allocation of human resources and assets with the aim to discontinue the company's operating activity.

LOTOS Czechowice

In May 2008, LOTOS Czechowice S.A. launched a methyl ester (FAME) production unit. Methyl esters are a component used by Grupa LOTOS S.A. in biodiesel production (project executed by LOTOS Biopaliwa Sp. z o.o. on LOTOS Czechowice's site).

The start-up of the FAME production unit at full capacity (100 thousand tonnes of FAME per year in the continuous production process) took place. Grupa LOTOS S.A. has entered into agreements for the feedstock supplies with Komagra Sp. z o.o., Zakłady Tłuszczowe Kruszwica S.A. and Zakłady Tłuszczowe of Bodaczów. In the near future, methyl esters will be produced from rapeseed oil (about 90% of feedstock) and methanol (about 10% of feedstock).

In accordance with the contract terms, production tests were being carried out and production of the biocomponent was launched at LOTOS Czechowice S.A. The construction work for a tank with the capacity of 32 thousand m³ was continued. Once completed, the tank will increase Grupa LOTOS S.A.'s available storage capacities in southern Poland. The tank was placed in service on February 6th 2009.

Efforts undertaken by LOTOS Czechowice S.A. led to an agreement for the use of the ABT and furfural units (which are currently out of operation) as part of a project executed jointly with a foreign investor.

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SALT CAVERNS

In 2008, Grupa LOTOS S.A. made preparations for the construction of hydrocarbon underground storage facilities in salt caverns. Under the project, the Company is to build storage caverns with a total capacity of 7 million m³, which later could be expanded to 15 million m³. The project is to be executed in the area between Gdańsk and Tczew, which is optimal both in terms of geology and logistics, especially because of the proximity of the PERN *Drushba* pipeline, the refinery, and the port in Gdańsk, which provides complete loading and unloading infrastructure. As part of the preparatory work, letters of intent were exchanged with the local authorities having jurisdiction over the area of interest for the LOTOS Group. In addition, close cooperation was initiated with the National Institute for Geology so as to determine the optimal location for the storage facilities. Preliminary financial analyses were conducted, which confirmed the viability of the project. Since one of the project's assumptions is that the construction of storage facilities should not require substantial funding from the LOTOS Group, the Group started cooperation with an external entity which will arrange financing. In addition, steps were taken to obtain additional funding from the European Union as part of the "Infrastructure and Environment" Operational Programme.

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13. AGGREGATE NUMBER AND PAR VALUE OF ALL SHARES OF GRUPA LOTOS S.A. AND SHARES OF RELATED UNDERTAKINGS OF GRUPA LOTOS S.A. HELD BY MANAGEMENT AND SUPERVISORY STAFF

To the best of the Company's knowledge, the following persons hold shares in Grupa LOTOS S.A. The management and supervisory staff of Grupa LOTOS S.A. holding shares in Grupa LOTOS S.A. and shares of its related undertakings as at December 31st 2008:

	Number of shares	Par value (PLN)
Management Board, including:	8,636	8,636
Marek Sokolowski	8,636	8,636
Supervisory Board	0	0
Total	8,636	8,636

14. USE OF ISSUE PROCEEDS TO IMPLEMENT THE ISSUE OBJECTIVES

Grupa LOTOS S.A. did not issue any securities in 2008.

15. MATERIAL TRANSACTIONS WITH RELATED UNDERTAKINGS

Transactions worth more than EUR 500 thousand executed by the parent undertaking with related undertakings (PLN '000)

No.	Party to the transaction	Sales for year ended Dec 31 2008	Purchases for year ended Dec 31 2008
1	LOTOS Paliwa Sp. z o.o.	9,924,596	-
3	LOTOS Oil S.A.	273,873	-
4	LOTOS Parafiny Sp. z o.o.	72,808	-
5	LOTOS Kolej Sp. z o.o.	8,126	230,901
6	LOTOS Serwis Sp. z o.o.	4,564	77,843
7	LOTOS GAZ Group	141,685	4,475
8	LOTOS Lab Sp. z o.o.	-	12,795
9	LOTOS Ochrona Sp. z o.o.	-	11,339
10	LOTOS Straż Sp. z o.o.	-	10,273
11	LOTOS Asfalt Sp. z o.o.	878,402	-
12	LOTOS Jasło Group	103,396	115,450
13	LOTOS Czechowice Group	-	104,437
14	Petrobaltic Group	17,598	374,902

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* The equivalent of EUR 500,000 is PLN 1.766 thousand (EUR 1 = PLN 3.5321 – arithmetic mean of the exchange rates quoted by the National Bank of Poland on the last day of each month in the period January 1st – December 31st 2008).

The transactions concluded by the Parent Undertaking or its subsidiary undertakings on terms deviating from the market terms are described in the 2008 Non-Consolidated Financial Statements (Note 43).

16. AGREEMENTS BETWEEN THE ISSUER AND THE MANAGEMENT STAFF

Compensation Agreements

Apart from standard employment contracts concluded by Grupa LOTOS S.A. with the management staff in 2008, no agreements were executed that provide for compensation to the management staff in the event they resign or are dismissed without a good reason or in the event they resign or are dismissed as a result of the Company's takeover by another entity.

17. REMUNERATION, AWARDS OR BENEFITS PAYABLE OR POTENTIALLY PAYABLE TO THE MANAGEMENT AND SUPERVISORY STAFF OF GRUPA LOTOS S.A.

Remuneration paid or due to members of the Management Board of Grupa LOTOS S.A.:

PLN	Year ended December 31st 2008
Paweł Olechnowicz	199,866
Marek Sokołowski	219,520
Mariusz Machajewski	186,256
Total	605,642

Remuneration paid or due to members of the Management Board of Grupa LOTOS S.A. in consideration of their membership in the supervisory boards of subsidiary undertakings:

PLN	Year ended December 31st 2008
Paweł Olechnowicz	228,694
Marek Sokołowski	108,648
Mariusz Machajewski	104,123
Total	441,465

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Remuneration paid or due to members of the Supervisory Board of Grupa LOTOS S.A.

PLN	Year ended December 31st 2008
Henryk Siodmok – Deputy Chairman of the Supervisory Board	22,966
Grzegorz Szczodrowski – Secretary of the Supervisory Board	22,966
Beata Zawadzka – Member of the Supervisory Board	22,966
Marta Busz – Member of the Supervisory Board	22,966
Izabela Emerling – Member of the Supervisory Board	22,966
Jacek Mościcki – Member of the Supervisory Board	22,966
Wiesław Skwarko – Chairman of the Supervisory Board	-
Leszek Starosta – Deputy Chairman of the Supervisory Board	16,559
Mariusz Obszyński – Secretary of the Supervisory Board	16,559
Radosław Barszcz – Member of the Supervisory Board	16,559
Piotr Chajderowski – Member of the Supervisory Board	16,559
Małgorzata Hirszel – Member of the Supervisory Board	16,559
Jan Stefanowicz – Member of the Supervisory Board	40,037
Total	260,628

* The Company received from Mr Wiesław Skwarko a waiver of the remuneration due to him for serving as a member of the Supervisory Board of Grupa LOTOS S.A. The waiver will remain in effect until further notice. Any notice revoking the waiver will not have a retroactive effect on the remuneration so waived.

As at December 31st 2008, the Company did not advance any loans or similar benefits to members of the management and supervisory staff.

18. INFORMATION ON KNOWN AGREEMENTS WHICH MAY GIVE RISE TO FUTURE CHANGES IN THE NUMBER OF SHARES HELD BY THE EXISTING SHAREHOLDERS AND BONDHOLDERS

The Management Board of Grupa LOTOS S.A. has no knowledge of any agreements which may give rise to future changes in the number of shares held by the existing shareholders and bondholders.

19. INFORMATION ON CONTROL SYSTEMS FOR EMPLOYEE STOCK OPTION PLANS

In 2008, no control system for employee stock option plans existed at Grupa LOTOS S.A.

20. DESCRIPTION OF MATERIAL OFF-BALANCE-SHEET ITEMS

For a description of material off-balance-sheet items of Grupa LOTOS S.A., see Section 10 of this Directors' Report on the Operations of Grupa LOTOS S.A. in 2008.

21. BUY-BACK OF OWN SHARES

Grupa LOTOS S.A. did not buy back any own shares in 2008.

22. COURT, ARBITRATION OR ADMINISTRATIVE PROCEEDINGS

In 2008, Grupa LOTOS S.A. was not a party to any court, arbitration or administrative proceedings with respect to liabilities or receivables of Grupa LOTOS S.A. or any of its subsidiaries, where the value of liabilities or receivables under such proceedings would equal 10% or more of the Company's equity.

23. INFORMATION ON ENVIRONMENTAL ISSUES

Grupa LOTOS S.A. makes every effort to maintain the balance between its industrial activity and the natural environment.

The *Environmental Activities Plan* implemented by the Company provides for abiding by the legal regulations on environmental protection, as well as for minimising or – wherever possible – eliminating the environmental impact of the Company's operations.

10+ Programme and the Environment

2008 witnessed intensive work connected with the implementation of the 10+ Programme. Based on the *Report on the Assessment of the Plant's Environmental Impact Following the Implementation of the Strategic 10+ Programme*, as well as on the procedures and rules stipulated in the Environmental Management System (a part of the Integrated Management System implemented at the Company), the impact of the investment programme's environmental aspects on each of the receptors in the construction phase and the operation phase of the 10+ Programme units was assessed. With a view to minimising the environmental impact of the 10+ Programme units during the construction phase, the Company selected technology partners for the construction phase: Technip ABB Lummus Global Lurgi and Fluor (experienced in the design and construction of refining and chemical plants).

For the operating phase of the 10+ Programme units, the Company selected technologies supplied by the industry leaders: Shell, Kellog and Chevron. The selected production equipment and modules are compliant with Best Available Technology Reference (BREF) for the refining industry, including those relating to the technologies of the future (Best Available Technologies, BAT). Production equipment and modules also meet legal standards of emissions and guarantee that environment quality standards will be met in the vicinity of the refinery.

The implementation of the 10+ Programme will enable the Company to achieve its projected economic objectives with a relatively low increase in pollutant emissions. The advancement of the technological solutions applied and the newly installed or upgraded equipment was analysed, as were materials and

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feedstock management, energy efficiency and global impact issues, including in particular greenhouse gas emissions. All these parameters will remain below the permitted levels. Unit emission rates for air emissions, wastewater and other waste will decrease.

Main Investment Tasks Completed ^(a) or Commenced ^(b) in 2008

Pro-environmental investment projects executed under the 10+ Programme

- HDS unit,
- Extension of the wastewater treatment plant.

Capital expenditure (PLN '000) in:	2008	2007	2006
- total Capex	1,910,687	858,482	284,104
- pro-environmental investments	220,561	99,880	34,387

The other pro-environmental investment projects

- ^(a) Theft-prevention monitoring system along the product pipelines between the Refinery and the port, which has improved the efficiency of protection of the pipelines against acts of third parties.
- ^(b) Air-tight sealing of the wastewater treatment plant's equipment: the 5100 S-107 A/B separator, the 5100 S-12 flocculator, the 5100 S-3B retention tank and the intermediate pumping station for oiled wastewater, with view to eliminating the emission of disagreeable odours. Prefabrication of the necessary components of the air-tight sealing and degassing product utilisation system commenced. The commissioning is scheduled to take place by the end of Q4 2009.
- ^(a) Computer system for the visualisation and optimisation of energy use, supporting the reduction of emissions.
- ^(a) Use of natural gas in the Refinery's fuel gas system, supporting the reduction of CO₂ emissions.
- ^(b) Xylene separation unit, designed to reduce the share of noxious aromatics in gasolines to the minimum level necessary to meet the other parameters required of this product group.
- ^(b) Replacement of burners in the Lentjes (2700 K-2 and 2700 K-3) boilers with low-emission burners. The project is scheduled to be completed in 2010.

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24. INFORMATION ON THE AGREEMENT WITH A QUALIFIED AUDITOR OF FINANCIAL STATEMENTS

On June 29th 2007, Grupa LOTOS S.A. and Deloitte Audyt Sp. z o.o. of Warsaw concluded an agreement providing amongst other things for:

- review of the non-consolidated and consolidated financial statements for the first six months of 2007, 2008 and 2009;
- audit of the non-consolidated and consolidated financial statements in 2007–2009.

The total remuneration for the audit, review of and verification procedures with respect to these financial statements, as well as other services provided by Deloitte Audyt Sp. z o.o. is set forth below.

PLN '000	2008	2007
Audit of non-consolidated and consolidated financial statements	466	480
Confirmation services, including:	373	385
- review of non-consolidated and consolidated financial statements	243	250
Other services	50	12
Tax advisory services	-	-
TOTAL	889	877

The value of the agreement concluded for 2009 amounts to PLN 839 thousand.

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25. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

President of the Management Board, Chief Executive Officer	
	Paweł Olechnowicz
Vice-President of the Management Board, Chief Financial Officer	
	Mariusz Machajewski
Vice-President of the Management Board, Production and Development Director	
	Marek Sokołowski