

## Letter from the President of the Management Board of Grupa LOTOS S.A. Accompanying the 2008 Annual Report

Ladies and Gentlemen,

The year behind us witnessed the consistent pursuit by Grupa LOTOS S.A. of its strategy aimed to further enhance the Company's value and help it gain an ever larger share of the increasingly more competitive petroleum market. One of the key elements of our updated strategy, approved by the Supervisory Board on June 14th 2008, is the 10+ Programme, one of the largest industrial projects currently underway in Central and Eastern Europe. The credit facility agreement, concluded on June 27th 2008 with an impressively large group of seventeen international banks and financial institutions, ensures stable financing and successful implementation of the whole project, within the adopted timeframes. The agreement was named the transaction of the year in the European oil sector and was hailed as the best financial project of the year by several high-profile specialist magazines.

The first effects of our intensive work on the 10+ Programme are expected to be seen already this year. The first industrial units built as part of the Programme are due to be commissioned in summer and autumn of 2009. Once they are placed in service, the capital invested in the project will begin to yield returns. Apart from the 10+ Programme, in 2008 Grupa LOTOS S.A. focused on the dynamic expansion of its upstream operations. The key developments in that period included the acquisition by LOTOS E&P Norge, a subsidiary of Grupa LOTOS S.A., of a 20% interest in North Sea's Yme field. Production from the field is expected to start in the fourth quarter of 2009. As part of the APA 2008 round, the Company was awarded further licenses for oil exploration and production on the Norwegian Continental Shelf. Under two out of the four obtained licenses, LOTOS Norge will be the field operator, responsible for the management of the whole complex process of field development. While testifying to our capabilities, the awarded licenses are a confirmation of the trust placed in our Company by the Norwegian authorities. We also had a number of projects underway on the Baltic Sea. The measurable effect they delivered was an approximately 40% increase in oil production relative to 2007. In the area of sales, 2008 was another year when Grupa LOTOS saw its market share grow, on the back of its consistently pursued marketing strategy and efforts to build the strength of the LOTOS brand, accompanied by efficient development of the sales channels and the introduction of new competitive products, such as *Navigator* loyalty cards and *Dynamic* fuels.

On November 21st 2008, analysts of UniCredit published an unreliable and irresponsible equity research report on Grupa LOTOS S.A. In connection with the report, which injured the good name of Grupa LOTOS S.A. and negatively affected the economic interests of the Company and its shareholders, the Management Board took immediate concrete steps with a view to protecting the Company's rights. The incident was promptly submitted for examination by the Polish Financial Supervision Authority (the PFSA), as well as the UK and German market regulators. On November 26th 2008, the PFSA commenced proceedings against the entity which prepared the recommendation.

The Company's Management Board, fully supported by the Supervisory Board, the main shareholder and the employees, took strong steps against the attack, which eroded the Company's share price.

Thanks to its decisive and swift response the Company managed to avert serious threats to its ongoing operations and its future.

The Company's results and its assessment were strongly affected by the events that occurred over the last few months of 2008. The financial crisis, which emerged outside Poland, could hardly have been expected not to affect our country. As a company operating in a sector in which transactions are settled in US dollars, Grupa LOTOS S.A. was particularly hit by two phenomena: the sudden slump of crude oil prices from USD 147 per barrel to approximately USD 30–40 per barrel at the year end, and the dramatic depreciation of the Polish zloty against the US dollar. The depreciation of the zloty against the dollar adversely affected our financial performance. The accounting valuation of the strategic reserves of crude oil and fuels, which Grupa LOTOS S.A. has a statutory obligation to maintain, was subject to a drastic downward revision. The combined effect of these factors pushed the Company's 2008 net result into negative territory. However, this was an accounting result only. In 2008, the Company's performance at the operating level improved on 2007; if it were not for the write-downs related to the revaluation of inventories discussed earlier, the Company would have closed the year with an estimated operating profit of PLN 470.5m. It needs also to be stressed that in 2008 Grupa LOTOS generated record-breaking sales revenue of over PLN 16bn (up by more than 24% year-on-year), which positively affected the Company's liquidity.

The Management Board of Grupa LOTOS S.A. recognised and interpreted indicators of the encroaching financial crisis very early. This enabled the Company to avoid the trap of toxic currency options. Hedges were executed for the amounts and periods required to secure the actual transactions under loan agreements concluded to finance the 10+ Programme. Concurrently, a number of anti-crisis measures were taken, whose speed and extent allowed the Company to quickly work out a coherent programme for fighting the slowdown. In this difficult process, thanks to open, efficient and matter-of-fact communication with the employees and trade unions representing them, the Company built a common platform for effective anti-crisis activity. Owing to intensive communication efforts, all the Group employees obtained reliable information about potential threats and the actions which must be taken in order to minimise them. The decisions made by Grupa LOTOS S.A. in the face of the crisis were among the first in Poland to be taken on such a large scale and with such success.

Despite a sharp economic downturn and unfavourable external market conditions, Grupa LOTOS S.A. successfully coped with the difficulties it faced. In 2008, the Group created the foundations for further building of the company value, which will come particularly useful when the economic situation changes. I am deeply convinced that a company that has successfully overcome such threats may look into the future with confidence. In the future we are set to be a leading player, taking business management standards to an entirely new level.

Yours faithfully,  
Paweł Olechnowicz  
President of the Management Board  
CEO  
Grupa LOTOS S.A.