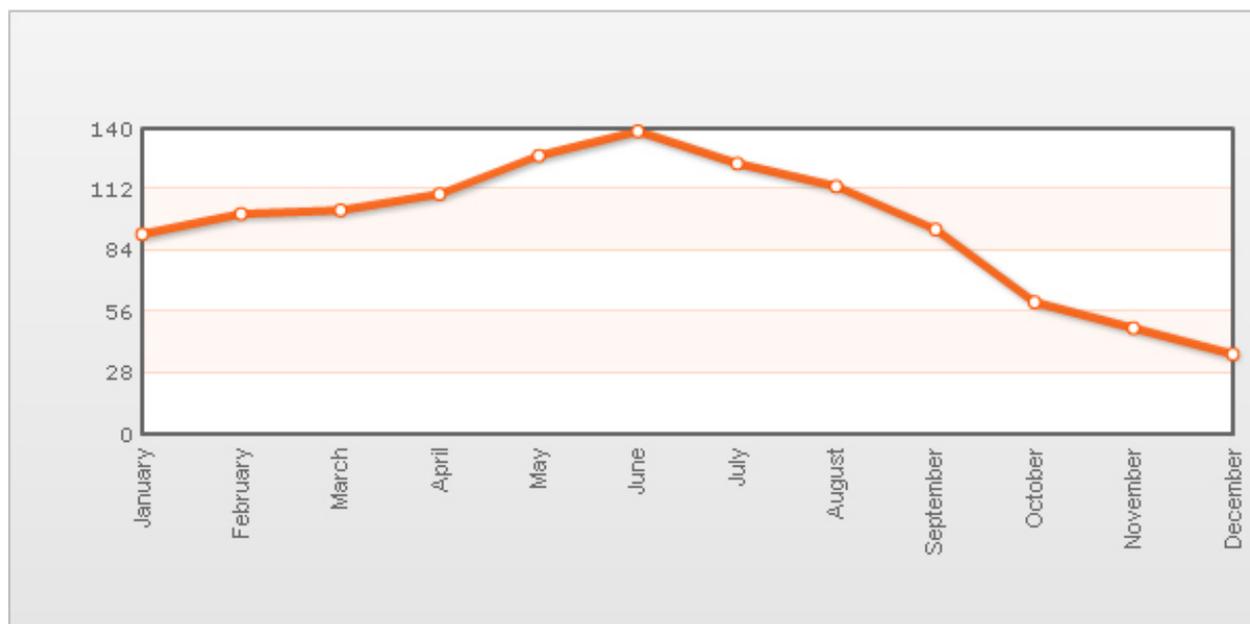


Market environment

International market

The global economic indices show that 2008 was another year of global economic growth. However, the development was not steady, as already at the beginning of the year the first symptoms of the economic slump occurred. In the second half of the year, the financial crisis started to impact other sectors of the economy. On the oil market, this phenomenon was reflected by a falling demand for oil, which caused an insignificant surplus on the market accompanied by a small growth in supply. As a result, oil prices fell from the record level of USD 140 to approximately USD 35 per barrel.

Average monthly quotations of petroleum in 2008 (USD/bbl)



In spite of the excess supply of gasoline on the European market for several years, the prices of the product achieved record amounts after the first three quarters. The cracks were on average below the levels from 2007, which resulted from falling demand on the American market (the United States consume 45% of global gasoline) in relation to imports from Europe, the strong growth in demand in Russia and China and a low USD exchange rate.

The increasing demand for diesel oil in Europe, as well as in Russia and China, caused the growth in prices of this fuel and its cracks. The demand for diesel oil was generated mostly by the transport sector, which relies to a large extent on the development of trading. The consumption of diesel oil was also increased by the popularization of diesel engines in Europe.

In the first half of 2008, record prices for cracks of aviation fuel were achieved. Nevertheless, the fourth quarter saw a significant fall in prices and margins caused by falling demand for aviation fuel.

Experts forecast that the global oil market in 2009 will be characterised by a further fall in demand due to the economic recession. The scale of changes and the prices of raw materials and products will be determined by the growth rate in China, India and Russia, the USD exchange rate and the supply side, which is characterised by geopolitical instability and financial problems, which make production projects difficult.

Poland – macroeconomic market

The first half of 2008 was characterised by a more dynamic increase in employment than in 2007, more than a 7% salary growth and falling unemployment. The favourable economic situation contributed to more than a 6% GNP growth in the first two quarters, resulting primarily from increasing consumption and investments.

However, the Polish economy started to feel the effects of the global financial crisis. The economic growth rate in 2008 was slower than in the two previous years and the fall in its dynamic occurred mostly in Q4. In spite of the apparent symptoms of the economic slump in the second half of the year, Poland belonged to the countries with the highest GNP dynamic in the European Union.

In spite of the visible signs of the slow-down, it is anticipated that the Polish economy, driven by individual consumption and relatively low dependence on exports, will develop quicker than the economies of other countries in the region.

Polish fuel market

The consumption of fuels in 2008 stabilized at the level from 2007. However, some changes in individual product groups took place.

The share of Grupa LOTOS in the fuel market amounted to 25.4%, which implies a 1.4% increase compared to 2007.

Diesel oil

The consumption of diesel oil in Poland keeps growing systematically. After a two-year increase at 20% per year, 2008 witnessed a rise by another 4.3%. It is forecast that the growing trend will be maintained in the following years. The main premises for the increase include the development of road transport and modern technologies that provide improved operating parameters of diesel engines.

Gasoline

The gasoline market in Poland is in its mature phase. In 2008, gasoline consumption fell by 4.7% compared to 2007. According to the forecasts for the consecutive years, a minor falling trend will continue; however, gasoline consumption will remain at a very high level. This situation is related to the popularity of gasoline cars, the prices of which are lower than diesel cars. An important factor is also a levelling of the retail prices of gasoline and diesel oil.

Light fuel oil

The consumption of light fuel oil has been falling systematically in Poland for several years due to the growing importance of other energy sources that are relatively cheaper. It is anticipated that light fuel oil consumption will continue decreasing in the following years.

LPG

LPG consumption in Poland fell by 3.2% in 2008 (data of POPIHN – the Polish Organization for Oil Industry and Trade). It was the second consecutive year that the consumption of this product fell. The Polish LPG market has entered its phase of maturity. This means that in stable market conditions (e.g. the relation of prices compared to other fuels) its consumption will be maintained at the same level, with possible low fluctuations.

Aviation fuel

The market of aviation fuel has developed most dynamically among all segments of the Polish economy. However, due to the global crisis, the demand growth dynamic has clearly fallen. In 2008, only 0.4% more aviation fuel was used in Poland than in 2007. The number of passengers served in Polish airports (exclusive of transit traffic) increased by 8% in 2008 (according to the Civil Aviation Office). It is estimated that the aviation fuel market will continue growing and its dynamic in the years to come will depend on the economic situation.

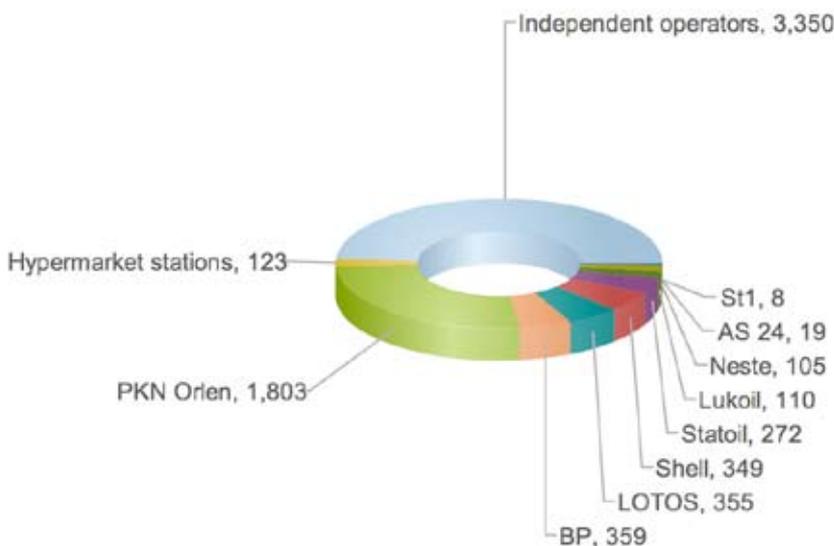
The share of Grupa LOTOS in aviation fuel consumption in 2008 amounted to 19.5%.

Retail market

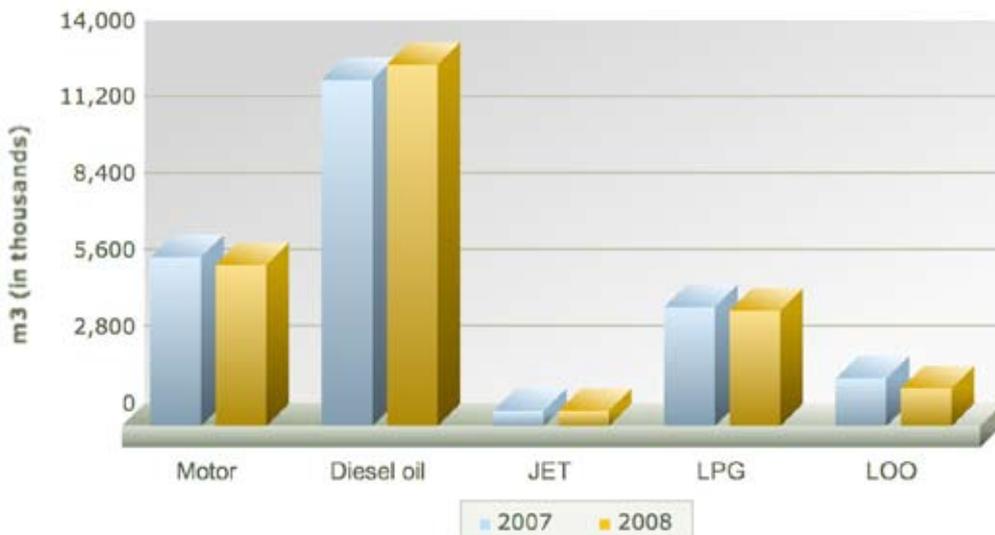
The Polish fuel market is in a segmentation phase that involves a clear distinction between premium and economy stations. In 2008, the further development of foreign concern station networks and hypermarket stations was observed. The networks of Polish concerns underwent streamlining processes that involved the expiration of franchise contracts. In 2008, the players of the motorway station market were more active, as this market witnessed the development of the premium segment. In the following years, the number of stations will change, primarily due to the development of the road network in Poland and the optimization of the networks owned by key players.

The share of Grupa LOTOS in the retail fuel market in 2008 amounted to 6%.

Fuel stations in Poland as at 31 December 2008



Domestic consumption of liquid fuels



Non-fuel products

Bitumen

The market of bitumen in 2008 weakened slightly compared to 2007 due to delays in tender procedures for road construction. However, taking account of government plans, it is forecast that the Polish market of bitumen will continue growing. The 'National Road Programme 2008-2012' strategy of the Polish Government confirms the planned investment outlays on the construction of approximately one thousand kilometres of roads. In total, the Government intends to spend 120 billion PLN on the construction and modernization of roads.

Grupa LOTOS has a 45% share in the bitumen market.

Lubricating oils

The use of lubricating oils in Poland fell in 2008 by approximately 1% compared to 2007. It is estimated that a similar falling trend will continue in the following years. The demand for oils and lubricants for the industry is decreasing, which was evident already in the second part of 2008. An important change on the market of lubricating oils is the growing demand for oils of high production parameters.

The share of Grupa LOTOS on the lubricating products market amounts to 30%.

Paraffin

In the first half of 2008, the paraffin market was strongly affected by shortages of raw materials (slack wax) and the related increase in prices. It is forecast that the prices of raw materials, paraffin and industrial paraffin masses will feature a growing trend; however, with a much lower dynamic than in the previous periods.