

Letter from the President of the Management Board of Grupa LOTOS



Ladies and Gentlemen,

Last year was a time of consistent implementation of the strategy adopted by the LOTOS Group aimed at the further growth of the Concern's value and the gradual increase of its share in the increasingly competitive oil market. One of the key elements of the updated strategy approved by the Supervisory Board of Grupa LOTOS on 14 June 2008 is the execution of the 10+ Programme.

This is one of the largest industrial investments being implemented in Central and Eastern Europe. The credit contract executed on 27 June 2008 with as many as seventeen international banks and institutions guarantees the stable funding and efficient execution of the whole investment in compliance with

the adopted schedule. The agreement was recognised as the transaction of the year on the European oil market and several prestigious specialist magazines have called it the best financial project of last year.

The concrete effects of the intense work on the implementation of the 10+ Programme will be visible already this year. The first systems constructed as part of the Programme will be launched in the summer and autumn of 2009. Thus, the return on the investment outlays will commence. The operation of Grupa LOTOS in 2008, apart from the execution of the 10+ Programme, focused on the dynamic development of the exploration and production sector. The subsidiary, LOTOS Norge, acquired a 20% share of the Yme field in the North Sea. The start of production from this field will commence already in Q4 2009. The Company obtained the next oil exploration and production licenses on the Norwegian Continental Shelf within the APA 2008 round. In two out of four licenses granted in this procedure, LOTOS Norge is acting as the operator, i.e. the company managing the whole complex process of developing fields. This fact reflects the high competences of the Polish company and the confidence it enjoys among Norwegian authorities. The Baltic Sea also saw some concrete projects last year, whose measurable result has been the increase of oil production by approximately 40% compared to 2007.

In the trading area, Grupa LOTOS achieved another growth of market share. This fact results firstly from the consistently implemented trading strategy and the development of a strong brand, as well as the effective development of sales channels and the launch of new competitive products, such as Navigator cards and LOTOS Dynamic fuel.

On 21 November 2008, an unreliable and irresponsible recommendation was published by analysts of UniCredit. As the publication infringed the reputation of the Concern and had a negative impact on the interests of Grupa LOTOS and its shareholders, the Management Board took immediate steps aimed at protecting the Company's rights. The case was filed immediately to the Polish Financial Supervision Authority and the UK and German regulators. The Polish Financial Supervision Authority initiated proceedings against the authors of the recommendation on 26 November 2008.

The Management Board of Grupa LOTOS, supported by the Supervisory Board and the main shareholder and with the full commitment of the Company's personnel, took firm action to counteract the assault, which had a negative impact on the Company's stock prices. The strong and fast reaction reduced the threat of serious consequences to the operation and the future of Grupa LOTOS.

The events of the last months of 2008 affected the results and assessment of the whole year. The effects of the financial crisis that occurred outside Poland did not spare our country. Grupa LOTOS, being part of the sector whose transactions are settled in American currency, was affected by two phenomena in particular – the sudden drop in crude oil prices from 147 USD/barrel to approximately 30-40 USD/barrel at the end of the year and the sudden slump of the PLN exchange rate against the USD. The fall in the Polish currency rate vs. the dollar had a negative impact on the financial results. There was a severe accounting depreciation of the strategic oil and fuel stocks, which Grupa LOTOS has to maintain pursuant to legal regulations. The combined effect of these factors resulted in a negative net result of the Company in 2008. Nevertheless, this concerned only the accounting result. In 2008, the LOTOS Group generated operational parameters better than in 2007 and but for the above-mentioned burdens resulting from the discount of stocks, last year would have ended with an estimated operational profit of PLN 470.5m. It is worth mentioning that the LOTOS Group generated record incomes on sales exceeding PLN 16 billion last year. This implies more than a 24% growth compared to 2007, which has a positive impact on the financial liquidity of the Company.

The Management Board of Grupa LOTOS received and interpreted the first signals of the coming financial crisis very early. Owing to this, the Company did not fall victim to the 'toxic' FX options. Hedging transactions were executed for values and timelines necessary for securing actual transactions of credit contracts concluded in order to fund the 10+ Programme. At the same time, anti-crisis actions were taken, whose pace and scope provided the fast development of a coherent programme of counteracting the economic slowdown. Because of open, effective and concrete communication in this difficult process with employees and their union representation, the Company created a common platform for counteracting the crisis effectively. Owing to intense informative and communicative measures, all employees of the LOTOS Group received reliable information on potential hazards and measures that have to be taken to neutralize such threats. The decisions taken by Grupa LOTOS in view of the crisis were among the first actions taken on such a scale and with high efficiency in Poland.

In spite of the economic slump and the unfavourable internal market conditions, Grupa LOTOS has managed to overcome the hurdles. In 2008, conditions were created for the further growth of goodwill, which will be particularly important in the changing economic situation. I believe that a Company that has successfully faced such a considerable threat may look ahead optimistically. The future of Grupa LOTOS is to be a leader setting new standards in business.

Best regards,


Paweł Olechnowicz
President of the Management Board
Chief Executive Officer
Grupa LOTOS S.A.