

Financial Standing and Assets



Ladies and Gentlemen,

2008 was a period of instability on a scale unprecedented for many years. The economic slump of key world economies and the crisis of the global financial sector have changed the rules of economic life. This situation had to leave its mark on the Company, which belongs to the global oil market. The drastic fall in oil prices that occurred in the second half of the year and the very strong fluctuations in the USD/PLN exchange rate affected the operation of Grupa LOTOS and its financial results to a large extent.

In these difficult external conditions, Grupa LOTOS consistently followed the premises of its strategy. We maintained a growing trend in sales, particularly important for the planned increase of throughput up to 10.5 million tonnes per year. The increase in sales was recorded mostly in medium distillates, which is very important in the context of the product structure planned after the execution of the 10+ Programme.

The performance of the 10+ Programme, the largest investment project of Grupa LOTOS, complied with its premises. In 2009, the first production systems were commissioned: the Hydrocracking Diesel Desulphurization (HDS) and the Crude Distillation Unit/Vacuum Distillation Unit (CDU/VDU). This will enable the growth of oil processing at the refinery in Gdansk by the end of 2009 and will bring the first economic benefits of the investment.

In order to provide funds for the execution of the 10+ Programme, Grupa LOTOS signed a credit contract with a consortium of 17 financial institutions in June 2008, which, together with the credit contract from the end of 2007 for financing the Company's stocks, has guaranteed the funding for this key investment. The transaction was recognised as the transaction of the year in the European oil sector, i.e. the European Oil Deal of the Year, by the prestigious specialist magazine 'Project Finance International' owned by Thomson Reuters. The investment was also granted the title of the European Petrochemical Deal of the Year by Euromoney, the publisher of the 'Project Finance Magazine' monthly.

Our cautious approach to negotiations, and the structure of the transactions have both proven correct in these times of global financial crisis. The diversification of risk between a large number of financial institutions has protected the Company against difficulties in the performance of the contract when many institutions have faced financial hardships. As the American dollar is the basic currency for Grupa LOTOS, used to express most of the Company's incomes and costs, the investment credit was also taken in this currency. This step significantly reduced the risk related to the economic efficiency of the investment. However, the financial outcome of the Company at the level of financial activity has become very sensitive to FX fluctuations.

Last year, apart from the timely execution of the 10+ Programme, Grupa LOTOS commenced the fulfilment of production plans on the Norwegian Continental Shelf. In 2008, LOTOS Norge, a subsidiary of Grupa LOTOS, purchased 20% of shares in the Yme oil field. The start of the production and thus the first financial benefits are planned for the second half of 2009.

2008 was another year of steps taken to develop and intensify sales. The LOTOS Dynamic premium class fuels were launched successfully at petrol stations, together with the Navigator loyalty programme. The effects of these measures included the increase in sales at LOTOS stations and the improved economy of the retail segment.

The dynamic change in the USD/PLN exchange rate in 2008, as well as the dramatic fall in oil prices on the global markets required a revaluation of the Company's stocks, which affected the financial result for last year. It is noteworthy that these factors were of an accounting nature only and did not have any negative impact on the Company's liquidity, which was maintained at the level required during the investment. But for the burdens due to the revaluation of stocks, which Grupa LOTOS is obliged to maintain under law, and due to the revaluation of currency credits, last year would have ended with an estimated gross profit of approximately PLN 350m.

In spite of the difficult situation and massive financial burdens, Grupa LOTOS continued the performance of its investment plans, which is evidence of its financial strength and management quality in times of crisis.

We hope that the completion of the largest investment executed at present by Grupa LOTOS will coincide with the start of an economic upturn in the world, which in our opinion should strengthen the economic effects of our strategy.

Kind regards,



Mariusz Machajewski

Vice-President of the Management Board

Economic-Finance Director

Grupa LOTOS S.A.