

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A. FOR 2008

The Supervisory Board exercised constant supervision over the activities of Grupa LOTOS S.A. across all areas of its business, performing their duties in keeping with:

- The Code of Commercial Partnerships and Companies,
- The Company's Articles of Incorporation,
- Resolutions of the General Meeting
- By-laws of the Supervisory Board and By-laws of the Supervisory Board's Committees.

In 2008, the Supervisory Board of Grupa LOTOS S.A. exercised supervision over the Company's operations, acting in the following composition:

in the period from **01/01/2008** to **30/06/2008**, as the sixth Supervisory Board:

1. Jan Stefanowicz - Chairman of the Supervisory Board
2. Henryk Siodmok – Deputy Chairman of the Supervisory Board,
3. Beata Zawadzka
4. Marta Busz
5. Izabela Emerling
6. Jacek Mościcki
7. Grzegorz Szczodrowski – Secretary of the Supervisory Board

on **30 June 2008**, the Ordinary General Meeting appointed the seventh Supervisory Board:

1. Wiesław Skwarko – Chairman of the Supervisory Board
2. Leszek Starosta
3. Jan Stefanowicz
4. Radosław Barszcz
5. Piotr Chajderowski
6. Mariusz Obszyński

In accordance with §11 (2) of the Company's Articles of Incorporation, a Company shareholder, the State Treasury, represented by the Minister of the State Treasury removed Beata Zawadzka from the Supervisory Board effective from 30 June 2008 and appointed Małgorzata Hirszel to the Supervisory Board as a Supervisory Board Member as of 1 July 2008. Consequently, in the period from **01/07/2008** to **31/12/2008**, the composition of the seventh Supervisory Board was as follows:

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1. Wiesław Skwarko – Chairman of the Supervisory Board
2. Leszek Starosta - Deputy Chairman of the Supervisory Board
(elected Deputy Chairman of the Supervisory Board on 12 August 2008)
3. Jan Stefanowicz
4. Radosław Barszcz
5. Piotr Chajderowski
6. Małgorzata Hirszel
7. Mariusz Obszyński – Secretary of the Supervisory Board
(elected Secretary of the Supervisory Board on 12 August 2008)

On **10 March 2009**, Mr Piotr Chajderowski resigned from the Supervisory Board of Grupa LOTOS S.A. As a result, in the period from 10/03/2009 to 27/04/2009, the seventh Supervisory Board operated with a six-member line-up:

1. Wiesław Skwarko – Chairman of the Supervisory Board
2. Leszek Starosta - Deputy Chairman of the Supervisory Board
3. Jan Stefanowicz
4. Radosław Barszcz
5. Małgorzata Hirszel
6. Mariusz Obszyński – Secretary of the Supervisory Board.

On **27 April 2009**, the Extraordinary General Meeting appointed Mr Ireneusz Fąfara to the Company's Supervisory Board, thereby completing the line-up of the Company's Supervisory Board. As a result, the current composition of the seventh Supervisory Board of Grupa LOTOS S.A. is as follows:

1. Wiesław Skwarko – Chairman of the Supervisory Board
2. Leszek Starosta - Deputy Chairman of the Supervisory Board
3. Jan Stefanowicz
4. Radosław Barszcz
5. Małgorzata Hirszel
6. Ireneusz Fąfara
7. Mariusz Obszyński – Secretary of the Supervisory Board.

In 2008, the Supervisory Board of Grupa LOTOS S.A. held a total of 11 meetings, adopting 73 resolutions, with the 6th Supervisory Board holding six meetings, i.e. on 14/01/2008, 05/03/2008, 05/05/2008, 19/05/2008, 12-15/06/2008, 30/06/2008 and adopting 51 resolutions and the 7th Supervisory Board deliberating five times, i.e. on 12/08/2008,

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16/10/2008, 21/10/2008, 01/12/2008, 18-19/12/2008 and adopting 22 resolutions over that period. Four resolutions out of those adopted (no. 138/VI/2008 and 139/VI/2008 of 8 May 2008, no. 174/VI/2008 of 30 June 2008 and no. 11/VII/2008 of 2 September 2008) were passed by the Supervisory Board in accordance with the procedure set out in Article 388 § 3 of the Code of Commercial Partnerships and Companies and § 12 (3) of the Company's Articles of Incorporation.

During the reported period, the Supervisory Board adopted eight resolutions concerning absences of Board members at meetings. In all the cases concerned, the Supervisory Board found the absences of individual members to be excused.

The list of resolutions constitutes an attachment to this report .

**MAIN ISSUES AND IMPORTANT TOPICS ADDRESSED AT THE MEETINGS
OF THE SUPERVISORY BOARD OF GRUPA LOTOS S.A.**

During its meetings held in 2008, the Supervisory Board addressed issues concerning the functioning and development of Grupa LOTOS S.A., including:

- 1) the implementation of the 10+ Programme and its financing structures, as well as the approval of subsequent project stages, including:
 - an integrated program for hedging against risks related to the 10+ Programme project - giving opinions on collateral for loans to be used to finance the implementation of the 10+ Programme,
 - the adoption of the "10+ Programme Supervision and Protection Plan" and the designation of members of the Supervisory Board to closely supervise the implementation of the 10+ Programme on an ongoing basis, as well as specifying the responsibilities of the above-mentioned members of the Supervisory Board arising from the additional duties assigned to them,
 - giving consent to incurring obligations relating to the execution of exchange rate and interest rate hedging transactions in order to secure the value of investment expenditure incurred to implement the 10+ Programme,
 - giving consent to entering into an agreement for a loan to finance the implementation of the 10+ Programme and signing documents relating thereto,
 - giving consent to incurring obligations arising from interest rate hedging transactions over the period until the expected repayment date of the loans taken out to implement the 10+ Programme,

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- 2) the approval of the updated "Strategy of the Capital Group of Grupa LOTOS S.A. until 2012 and development directions for the years 2013-2020",
- 3) the purchase by Grupa LOTOS S.A. of shares in LOTOS Jasło S.A. and LOTOS Czechowice S.A. owned by the State Treasury, and the injection of capital into Grupa LOTOS S.A. in the form of shares of Petrobaltic S.A.,
- 4) logistic arrangements to ensure crude oil supplies for the Company and product shipment and a variant strategy for ensuring raw material supplies throughout the investment process and over the loan repayment period (including the assessment of its impact on the Company's performance),
- 5) giving an opinion on the launch of the incentive program in the Company in connection with the planned launch of the Company's Value Growth Programme,
- 6) changes in the rules and form of remunerating members of the Management Board and the amount of the monthly remuneration of members of the Management Board,
- 7) organisational and personal changes in Grupa LOTOS S.A.
- 8) the implementation of the Integrated Risk Management System project in the Capital Group of Grupa LOTOS S.A.,
- 9) the recapitulation of the activities of the Company and the Capital Group of Grupa LOTOS S.A. for 2008 and giving an opinion on matters submitted for consideration to the General Meeting of Grupa LOTOS S.A.,
- 10) the ongoing evaluation of the Company's economic and financial performance,
- 11) giving an opinion on the budget of Grupa LOTOS S.A. for 2009,
- 12) the selection of the insurance broker for the Capital Group of Grupa LOTOS S.A. for 2009
- 13) the continued co-operation with Deloitte Audyt Sp. z o.o. regarding the review of mid-year statements and the audit of the complete financial statements of Grupa LOTOS S.A. for 2008 and 2009,
- 14) giving consent to Grupa LOTOS S.A. to purchase from LOTOS Gaz S.A. an organised part of the enterprise - a fuel depot in Rypin and the right of perpetual usufruct of land owned by the State Treasury being a stretch of the bank of the Martwa Wisła river,
- 15) activities undertaken by the Company with regard to donations out of the Special Fund set up by way of the decision of the General Meeting for Grupa LOTOS S.A. to finance public service projects.

As UniCredit published a report containing information tarnishing the reputation of Grupa LOTOS S.A. and having a detrimental effect on the financial interests of the LOTOS Group and its shareholders, the Supervisory Board carried out an economic evaluation of the

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Company following which the Company was found to be stable and its financial liquidity unthreatened. The Members of the Supervisory Board also found that the strategic investment project - the 10+ Programme was being implemented in accordance with the adopted schedule and the budget.

In January 2009, at the request of the Ministry of the State Treasury, the Supervisory Board conducted an in-depth audit into the implementation of the 10+ Programme to investigate threats to the project implementation.

The Supervisory Board also dealt with issues relating to the Company's corporate documents, such as:

- giving an opinion on amendments to the Company's Articles of Incorporation put forward by the Management Board,
- the adoption of the consolidated text of the Company's Articles of Incorporation,
- the introduction of an amendment to the Bylaws of the Supervisory Board.

As there were vacancies for the positions of Vice-President for Trade and Vice-President for Exploration and Production, at the request of the President of the Company's Management Board, in 2008 the Supervisory Board made two attempts to fill the vacancies on the Company's Management Board.

At the request of the Organisation and Management Committee, the sixth Supervisory Board adopted a procedure for the appointment of members of the Management Board and initiated a recruitment process to fill the position of Vice-President for Trade and Vice-President for Exploration and Production (Resolution no. 138/VI/2008 and no. 139/VI/2008 of 8 May 2008). On 30 June 2008, considering the small number of applications received in the recruitment procedure advertised by the Company and taking account of the progress of work on the so-called "Salary Cap" Act, the Supervisory Board decided to terminate recruitment for the above-mentioned positions without having selected successful candidates (Resolution no. 171/VI/2008).

Subsequently, on 16 October 2008, the seventh Supervisory Board, at the request of the Organisation and Management Committee, made a decision to relaunch the recruitment procedure to fill the vacant positions on the Management Board of Grupa LOTOS S.A., at the same time adopting the Resolution no. 12/VII/2008 concerning the laying down of the procedure for the selection of candidates for the positions of Members of the Management Board of Grupa LOTOS S.A. and the Resolution no. 13/VII/2008 concerning the initiation of the recruitment procedure.

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However, after completing the recruitment procedure, on 27 January 2009, the Supervisory Board decided to conclude the above-mentioned procedure without having selected successful candidates - adopting accordingly the Resolution no. 28/VII/2009.

Moreover, the seventh Supervisory Board found it reasonable to hire an industry expert to perform the function of a permanent advisor to the Supervisory Board.

Pursuant to the decision of the Supervisory Board of 16 October 2008 (Resolution no. 14/VII/2008), Mr Stanisław Łańcucki was appointed as an advisor to the Supervisory Board for industry matters - for years associated with Grupa LOTOS S.A., previously with Rafineria Gdańska S.A. The duties of the advisor to the Supervisory Board responsible for industry matters include, but are not limited to:

- participation, whenever called by the Chairman of the Supervisory Board, in the proceedings of the Supervisory Board, including at meetings of the Supervisory Board and meetings of the Committees,
- providing advice to members of the Supervisory Board delegated to exercise individual supervision and assisting in the exercise of supervision,
- the preparation of written studies addressing the issues specified by the Chairman of the Supervisory Board.

In 2008, three Committees of the Supervisory Board were in operation:

- the Strategy and Development Committee,
- the Organisation and Management Committee,
- the Audit Committee,

fulfilling their analytical and control functions and offering important recommendations to the Supervisory Board.

During the reported year, the composition of the standing committees of the Supervisory Board changed, among other things, due to the end of the term of office of the sixth Supervisory Board and appointment by the General Meeting of the seventh Supervisory Board. On 12 August 2008, at the first meeting of the seventh Supervisory Board, the make-up of the Board Committees was determined.

1. The Strategy and Development Committee operated as:

- a four-member body in the period from 01/01/2008 to 30/06/2008
- a five-member body in the period from 12/08/2008 to 31/12/2008.

2. The Organisation and Management Committee operated as:

- a three-member body in the period from 01/01/2008 to 31/12/2008

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3. The Audit Committee operated as:

- a four-member body in the period from 01/01/2008 to 30/06/2008
- a three-member body in the period from 12/08/2008 to 31/12/2008

The composition of individual Supervisory Board Committees was as follows:

1. Strategy and Development Committee

from 01/01/2008 to 30/06/2008

1. Jan Stefanowicz - Chairman
2. Marta Busz
3. Henryk Siodmok,
4. Grzegorz Szczodrowski.

from 12/08/2008 to 31/12/2008

1. Wiesław Skwarko – Chairman
2. Radosław Barszcz
3. Leszek Starosta
4. Jan Stefanowicz
5. Małgorzata Hirszel

The Strategy and Development Committee convened five times in 2008, i.e. on 11 January, 12 February, 17 April, 13 June, 16 October 2008. The Committee analysed and exercised control over areas of fundamental importance for the development of Grupa LOTOS S.A., dealing in particular with issues concerning:

- the implementation and financing of the 10+ Programme,
- the concept of the establishment of the Baltic Enterprise (*Koncern Bałtycki*)
- updating the Strategy of the Capital Group of Grupa LOTOS S.A. until 2012,
- formulating the amended rules and form of remunerating members of the Management Board and the amount of the monthly remuneration for members of the Management Board,
- sales division management and structure,
- the Value Growth Programme,
- ensuring supplies of crude oil to Grupa LOTOS S.A.,
- the development of upstream business in Grupa LOTOS S.A.,
- the future of Rafineria Nafty Glimar S.A. (Petroleum Refinery Glimar)

2. Organisation and Management Committee

from 01/01/2008 to 30/06/2008

1. Marta Busz - Chairman
2. Grzegorz Szczodrowski
3. Beata Zawadzka

from 12/08/2008 to 31/12/2008

1. Leszek Starosta – Chairman
2. Małgorzata Hirszel
3. Mariusz Obszyński

In 2008, the Organisation and Management Committee held six meetings: on 21 April, 3 and 14 June, 25 September, 28 November and 1 December. The Committee analysed the following issues:

- the recruitment procedure to fill the positions of Vice-President for Trade and Vice-President for Exploration and Production,
- changes in the rules and form of remunerating Members of the Management Board in connection with the planned legislative changes, including the preparation of the draft Rules and Regulations of Remunerating Members of the Management Board,
- the Value Growth Programme together with the incentive programme,
- an analysis of the organisational structure of Grupa LOTOS S.A. and the Capital Group of Grupa LOTOS S.A.,
- an analysis of the adopted management and corporate governance solutions.

3. Audit Committee

from 01/01/2008 to 30/06/2008

1. Henryk Siodmok – Chairman,
2. Beata Zawadzka,
3. Jacek Mościcki,
4. Izabela Emerling.

from 12/08/2008 to 31/12/2008

1. Jan Stefanowicz - Chairman
2. Mariusz Obszyński
3. Piotr Chajderowski

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During six meetings in 2008, which were held, respectively, on: 12 February, 17 April, 19 May, 13 June, 18 September and 17 December, the Committee addressed, among other things, the following issues:

- summing up the activities of the Internal Audit office in 2007, and the Annual Audit Plan for 2008 and the Long-term Audit Plan for the years 2008-2010,
- the 10+ Programme crediting process,
- an assessment of the financial statements of Grupa LOTOS S.A. and the Capital Group of Grupa LOTOS S.A. for 2007 and a discussion of the findings of the review of the single-entity and consolidated financial statement for the first half of 2008,
- the application of IAS across the Capital Group of Grupa LOTOS S.A. - including in Petrobaltic S.A.,
- the procedure for the selection of the insurance broker for the Capital Group of Grupa LOTOS S.A.,
- assumptions of the budget of Grupa LOTOS S.A. for 2009.

The Supervisory Board actively participated in the exchange of ideas during meetings and conferences attended by members of the Management of the Capital Group of Grupa LOTOS S.A.

Also held in 2008 was a meeting between the Chairman of the Supervisory Board and representatives of the Workers Council.

The Supervisory Board positively evaluates the co-operation with the Company's Management Board in 2009 and the administrative and organisational support for the proceedings of the Supervisory Board and its Committees.

With regard to Article 395 § 2 (3) of the Code of Commercial Partnerships and Companies and § 9 (2) of the Company's Articles of Incorporation, the Supervisory Board will submit this report to the Ordinary General Meeting of Grupa LOTOS S.A. as grounds for giving discharge to the Members of the Supervisory Board for performance of their duties in the period from 1 January to 31 December 2008.