

Evaluation of the situation of the Capital Group of Grupa LOTOS S.A. for 2008

Pursuant to § 3 (2) of the Bylaws of the Supervisory Board and section 1.1, part III, of the document "The Best Practices of Companies listed on the Warsaw Stock Exchange", after becoming acquainted with the Financial Statement of the Capital Group of Grupa LOTOS S.A. for 2008, the opinions and reports of the independent registered auditor, appended to the Financial Statement, the Management Board's Report on the activities of the Capital Group of Grupa LOTOS S.A. for 2008, the Supervisory Board of Grupa LOTOS S.A. submits to the Ordinary General Meeting its position on and evaluation of the situation of the Capital Group of Grupa LOTOS S.A.

In 2008, the sales of the Capital Group of Grupa LOTOS S.A. amounted to PLN 16,294.7m and were up 24.1% versus sales in 2007 due to a higher average net sales price (which rose by PLN 313.00 per tonne) and higher sales volume of oil derivative products and goods (which grew by 6.2% or 439k tonnes).

As a result of very unfavourable macroeconomic conditions associated with a marked depreciation rate of the Polish zloty and the rate at which prices of crude oil and petroleum products fell in the second half of 2008, and given a drop in Brent/Ural differential from USD 3.23 per barrel in 2007 to USD 2.40 per barrel in 2008, the Capital Group of Grupa LOTOS S.A. reported a loss on operations of PLN 145.8m in 2008.

The balance on the financial activities of the Capital Group of Grupa LOTOS S.A. in 2008 was negative and amounted to PLN -358.4m compared to the positive balance in 2007 amounting to PLN 290.8m. The high negative balance in 2008 resulted primarily from losses on currency translations to the amount of PLN -152.0m, mainly generated by the revaluation of loans and an excess of the negative settlement of derivatives hedging against market risk to the amount of PLN -235.0m. Considering the fact that the revaluation concerned long-term loans with deferred repayment schedules, a considerable increase in the exchange rate for the dollar did not affect the short- and mid-term liquidity of the Capital Group of Grupa LOTOS S.A.

The net loss on continued operations for 2008 amounted to PLN 389.9m, while the loss of the shareholders of the parent company amounted to PLN 453.9m.

At the same time, in the Supervisory Board's opinion, the year 2008 was marked by consistent implementation of the corporate strategy amid difficult external conditions, which in future will translate into a growth for shareholders. The implementation of the strategy proceeded with the focus on key development projects, in particular the 10+ Programme, a development programme in the area of crude oil exploration and production, as well as the "PROSTA" Petrol Station Development Programme.

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In 2008, activities under the 10+ Programme, the biggest investment project of Grupa LOTOS S.A., focused on the implementation of concluded construction contracts, the conclusion of further contracts and the arrangement of financing for the 10+ Programme. On 27 June 2008, Grupa LOTOS S.A. signed a loan agreement with a consortium of 17 financial institutions. This agreement, together with a loan agreement made at the end of 2007 for the financing of the Company's inventories, secured the financing for the implementation of the 10+ Programme. The agreement received the "European Petrochemical Deal of the Year" award, presented by Euromoney, and was recognised as the deal of the year in the petroleum industry by Project Finance International magazine. At the end of 2008, the level of advancement of work carried out under the 10+ Programme stood at 55%, while at the end of April 2009, this level increased to over 75.5%. In 2009, the first facilities constructed as a part of the programme will be put into service. These will allow an increase in crude oil processing capacity at the refinery of Grupa LOTOS S.A. in Gdańsk and will help the Company to derive the first economic benefits out of the investment, which, in the Supervisory Board's opinion, confirms that the 10+ Programme is implemented in accordance with the schedule and assumptions.

In the area of crude oil exploration and production, in 2008, crude oil was produced in the Baltic Sea and production projects were being developed in the Norwegian Continental Shelf. In 2008, LOTOS Exploration and Production Norge AS (LOTOS Norge), which is a member of the Capital Group of Grupa LOTOS S.A., acquired a 20 per cent interest in the Yme production project, which envisages the commencement of production in the second half of 2009. Additionally, LOTOS Norge last year acquired a 20 per cent interest in the PL455 exploration licence and received participation interests in another four exploration licences as a result of the awards received in the pre-qualification round of APA 2008.

As regards the PROSTA project, the activities of the Management Board and LOTOS Paliwa Sp. z o. o. seeking to build a modern, nationwide network of LOTOS petrol stations, focused on the continuation of the expansion of the network of own stations, the change of the Station running model into a more effective one, and the rebranding and expansion of the partnership network.

According to the Supervisory Board, the year 2008 was marked by a period wherein the corporate strategy was implemented under particularly unfavourable external conditions connected with a deepening of the international economic crisis, and, in particular, with a sharp decrease in crude oil prices and considerable fluctuations in exchange rates in the second half of the year. Despite the above-mentioned factors, the measures taken by the Management Board were successful in improving the market position of Grupa LOTOS S.A., which, in the Supervisory Board's opinion, should translate into the Company's development and future growth of the Company's Value for Shareholders. It should be noted here that

considering the fact that the Company had taken out foreign currency loans and maintained compulsory stocks, the above-mentioned negative external factors had a decisive impact on the Group's financial performance last year.

In 2008, the Management Board worked with not all Board seats filled, and attempts made by the Supervisory Board to fill the vacancies fell through.

Regarding the internal control system and corporate risk management, the Supervisory Board found that a number of procedures aimed to mitigate legal, regulatory, environmental and operational risks had been put in place. At the same time, the Company continued to work on the project to set up the Integrated Risk Management System in the Capital Group of Grupa LOTOS S.A., whose aim is to develop and implement a uniform enterprise risk management system (ERM) and put in place effective mechanisms serving to identify, monitor, and respond to risk, including contingency procedures.

The strategy for hedging prices of raw materials and petroleum products, prices of CO₂ emission permits and foreign exchange rates, implemented by the Company's Management Board in conjunction with the implementation of the 10+ Programme, has fulfilled its purpose and is positively evaluated by the Supervisory Board.

Taking account of the financial performance and development prospects of the Capital Group of Grupa LOTOS S.A. in the current year, the Supervisory Board rates the Group's situation as stable and financially sound. Given the restructuring measures implemented throughout the Group and taking account of the advanced level of the implementation of the 10+ Programme and the implemented Anti-Crisis Package, which is a response to the economic and financial crisis, the Supervisory Board positively evaluates the implementation of the budget for 2008 and the financial performance in the previous financial year, and also believes that there are no real threats to the implementation of the "Strategy of the Capital Group of Grupa LOTOS S.A. until 2012".