

## Letter from the President of the Board

Sustainable development and corporate social responsibility are the basic criteria underlying the LOTOS Group's activities.

*Państwie i Szanowni,*

2010 was a truly landmark year for the LOTOS Group for three important reasons: firstly – its wide-ranging CAPEX project (10+ Programme) was completed, secondly – our market position was markedly strengthened both in the operational and marketing areas, and thirdly – a new strategy for 2011–2015, along with development directions until 2020, was adopted.

The completion of the 10+ Programme, in line with its objectives and within schedule, is for the Company, its Management Board, and for me personally, a source of enormous satisfaction. Especially that for more than a year – particularly in 2009 – our operating environment was marked by a profound financial crisis accompanied by a severe slowdown of the global economy and significantly elevated risks. We managed, however, to ward off its impact on the project implementation, with a strong dialogue-based contribution from our employees.

The 10+ Programme was the largest CAPEX project to have ever been undertaken by Grupa LOTOS, and one of the major initiatives carried out at that time in the Polish industrial sector and the European refining industry. With its completion, the Company's processing capacities have been expanded to 10.5 million tonnes of crude – up by 75% on the start year (2006). Moreover, the depth of conversion has been significantly increased, leading to a shift in the production structure towards the highest quality products attractive in market terms (such as diesel oils and aviation fuel) which on the one hand offer particularly high margins and are more profitable whereas on the other hand their quality guarantees better parameters with regard to environmental protection. It also increases export possibilities of high-margin products into more demanding foreign markets. Their share in the product mix has risen to 10%, which has obviously been reflected in the Company's financial performance and value.

The new facilities and units installed as part of the 10+ Programme are among the most sophisticated and technologically advanced, which has a positive effect on the quality of products, while mitigating the environmental impact of our industrial processes. For the Company, which has firmly embedded the principles of sustainable growth into its strategy, the environmental benefits offered by the 10+ Programme are as important as the purely production-related gains. We remain socially responsible in every aspect of our operations.

As it was nearing completion, the 10+ Programme delivered measurable and spectacular effects already in 2010. For the first time ever, the volume of crude oil processed by the Gdańsk refinery exceeded 8 million tonnes – an increment of more than 48% on a year earlier. That strong production potential allowed the Company to increase its share of the Polish fuel market from 28.3% to over 31%. In practice, it meant that the target market share envisaged for not earlier than 2012 in the LOTOS Group's strategy, effective until the end of 2010, was achieved in the year 2010.

The completion of the 10+ Programme has already substantially strengthened the Company's competitive and market position, laying down solid foundations for its sustainable and consistent growth, based on innovation and sustainability in all dimensions: social, environmental and economic. We are now excellently placed to establish a presence as a large and modern oil company and an important player in Central Europe. Grupa LOTOS will be pursuing that objective in line with its strategy for 2011–2015, along with development directions until 2020, adopted in November 2010.

Following the outlays on the operational segment, the Company's main development efforts will now focus on the upstream and downstream segments. Grupa LOTOS will intensify work on the Baltic Sea and on the licenses acquired, or planned to be acquired, on the North Sea. With that end in mind, in 2010 we undertook equity consolidation of the upstream assets; as part of this effort, we took over full control of Lithuanian production company AB Geonafta, through our subsidiary – LOTOS Petrobaltic. The strategic goal is to produce 1.2 million tonnes of crude oil by 2015.

In the downstream area, the strategic goal is to maintain the not lower than 30% share of the domestic fuel market, achieved in 2010, and to increase the share of the domestic retail market from 7% to 10%.

The overarching strategic objective remains to create and maximise the Company's shareholder value. In that context, the year 2010 was also highly successful. Sales revenue reached PLN 19.7bn – a 37% increase on the previous year, and operating profit amounted to PLN 763m, up 82% on 2009.

The fact that the Company has consistently reported robust financial performance, translated from the second quarter into relatively stable prices of its shares on the Warsaw Stock Exchange, while the release of the new strategy triggered their strong appreciation. This attests to the market's belief that Grupa LOTOS has sustainably staved off the threats arising from the global financial crisis, and to the investors' confidence in our ability to successfully deliver the strategic vision – of establishing Grupa LOTOS as a strong player in the European oil industry. That confidence is highly prized by the Company, its Management Board and me personally. I am convinced that it is equally grounded in the LOTOS Group's business achievements as in the fact that for many years the LOTOS Group's



**Paweł Olechnowicz**  
President of the Board  
Chief Executive Officer

strategy has been aligned with the sustainability principles and based on an open dialogue with employees – especially under the unique “Let’s talk about LOTOS” programme – and with investors.

The Company’s openness and transparency have gained attention and recognition. Our shares were again included in the RESPECT index, launched in 2009 by the Warsaw Stock Exchange. The LOTOS brand is also gaining strength – as evidenced by Rzeczpospolita’s ranking of the most valuable Polish brands, according to which the market value of the LOTOS brand rose 10% on the year before.

I wish to note with pride and satisfaction that since 2002 the Gdańsk refinery has evolved from an operation with annual capacities of 4.5 million tonnes and a monolithic structure into a vertically integrated oil conglomerate with annual throughput capacities of 10 million tonnes, which has built an upstream segment well-placed for international expansion. Over that time, Grupa LOTOS has posted a four-fold rise in revenues, while the LOTOS trademark has enjoyed a growing recognition in the international market. It is the pride and joy for the management personnel and all employees, as well as a source of immense satisfaction for the Management Board, that the role of the Pomerania region and Polish economy has been strengthened.

The consistency, openness, transparency, and respect for the principles of sustainable growth and corporate social responsibility are the basic criteria underlying the LOTOS Group’s economic, social and environmental performance. They determine the manner and quality of corporate management, forming the foundation on which Grupa LOTOS’ value and reputation, as well as confidence in the Company, are built. This approach has yielded measurable benefits in the form of improving hard business indicators – revenues, profit and margins – as well as more difficult to capture but no less important qualitative benefits associated with the mitigation of the Company’s environmental footprint and the Company’s perception by its social partners. These synergies constitute a huge capital of Grupa LOTOS. I assure you that we intend to develop it, while working towards improving Poland’s energy security and the strength of its economy.

*Best regards,*



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