

Letter from the President of the Board (2012 Report)

Ladies and Gentlemen,

It is with a sense of pride and satisfaction that I present the financial statements of Grupa LOTOS S.A. for the fiscal year 2012.

The economic slowdown which affected many countries across Europe has begun to deteriorate into a recession, and the spate of bad economic news has put consumers on red alert, prompting them to significantly cut their spending on everyday essentials – including motor fuels. For 12 months, Western Europe has lived in fear of imminent eurozone collapse, amid violent swings in currency exchange rates. For an enterprise importing crude oil, such swings can be detrimental. The price of crude oil remained high, hovering around USD 100/bbl, and given the strong currency volatility and flat demand for fuels, this presented an enormous challenge to the oil companies.

But in such an adverse environment, our strategy has proved its worth. We were right in predicting that in a market riddled with challenges, with crude prices soaring, only those refineries with optimal plant and equipment would be well placed for success. Having completed the 10+ Programme, Grupa LOTOS is at the technological cutting edge of the European and global refining industries. Thanks to projects undertaken sufficiently in advance, 2012 allowed us to ramp up production and win market shares, while delivering robust financial performance. It was, by all means, another year in which we increased Company value and reinforced the foundations for further growth.

I am proud to admit that that inventory of our 2012 successes is a long one. We recorded PLN 33.1bn in revenue, a 13% improvement on the year before. This was generated by record high throughput volumes at the Gdańsk refinery, which processed 9.7 million tonnes of crude oil (up by 5.6% on 2011). We also saw 15.1% year-on-year growth in crude oil production, with volumes produced from our own sources running to 262,000 tonnes. Our net profit came in at PLN 936m, up 44% on 2011.

In 2012, Grupa LOTOS paid nearly PLN 9.5bn in taxes, the lion's share of which (PLN 9.37bn) went to the state budget. Our expanded refinery and growing output of fuels and other LOTOS products were also a bounty to local government (at the municipal, county and provincial levels). Last year, local government's tax receipts from Grupa LOTOS' operations totalled PLN 85.3m. There is a steady upward trend in our tax payments, which between 2009 and 2012 grew by nearly PLN 1.5bn.

Grupa LOTOS solidified its position on the retail fuel market, with LOTOS OPTIMA as the fastest growing network in Poland. The total number of LOTOS branded stations operating in Poland at the end of 2012 was 401, including 101 sites branded as LOTOS OPTIMA. In addition to the prime quality of the fuels and oils on offer, customers of LOTOS stations highly value their friendly, helpful service, a fact confirmed by numerous customer satisfaction surveys.

The upstream business of Grupa LOTOS, integrated as LOTOS Petrobaltic, is also growing at a fairly brisk rate. LOTOS Petrobaltic has established its own group, with more than a dozen subsidiaries. They are engaged in ongoing production projects or will be used as vehicles through which Grupa LOTOS will gain access to oil reserves beneath the floor of the Baltic Sea, on the Norwegian shelf of the North and Norwegian Seas, as well as in Lithuania. Our strategic plans set target production volumes at 1.2 million tonnes, to be achieved by 2015.

Based on the innovative ideas of the refinery's staff, the MHC unit has been enhanced to deliver a much larger output of high quality fuel product than originally

designed. The facility works at a conversion ratio of about 85%, significantly above the originally planned level of 60%, which means that ours is the world's most efficient mild hydrocracking process.

We have also entered into production of xylene, a component used in making polyester. Given the rapidly increasing output of packaging materials world-wide, xylene is now in great demand on the international market.

Amongst Polish brands, the value of LOTOS has been estimated at more than PLN 1bn, a fourfold increase from 2004. The numerous awards and distinctions we have received, both in Poland and abroad, confirm that the LOTOS brand is excellently received by both the market and the general public. We have also been ranked sixth among the leading companies from Central Europe.

In line with our growth strategy, we will undertake activities aimed at leveraging our existing potential, while opening up new fields of expansion. To further this strategic objective, we have entered into an agreement with PGNiG on the joint exploration for and production of natural gas and crude oil, from both traditional and unconventional deposits. LOTOS Petrobaltic S.A. and CalEnergy Resources Poland Sp. z o.o. will work together on the development of the B4 and B6 gas fields on the Baltic Sea, which are estimated to contain up to 4bn cubic metres of resources.

Towards the year's end, we also signed an agreement with Zakłady Azotowe w Tarnowie-Mościcach on a preliminary feasibility study for two major projects: a steam cracker and polyethylene production unit, and an aromatics complex. These projects follow logically from the site and technical conditions, as well as the goal of utilising the refinery's semi-products to meet market demand.

At Grupa LOTOS, we attach great importance to the social implications and ethical aspects of our operations. In 2012, all our employees had a chance to contribute to LOTOS's ethical vision, which defines the system of values to be adhered to in every position at every level of the Company. The principles we singled out as the most

important include professionalism, respect, transparency and cooperative spirit. Grupa LOTOS is widely acclaimed for its CSR actions, while its sponsorship of sports has come to be recognised as a paragon of modern relations between business and sports.

Despite the sheer size of our organisation, Grupa LOTOS is able to act with a considerable degree of flexibility – a crucial factor in today’s rapidly changing environment. We can respond quickly and implement solutions that ensure secure execution of the Group’s major growth-oriented projects, despite the challenging and volatile macroeconomic climate. A case in point is our new efficiency and savings initiative, rolled out in early 2012 as the Optimum Expansion Programme, which has delivered annual savings of PLN 220m. Another important element of our Development Strategy is the newly launched 2013-2015 Efficiency and Growth Programme, which focuses on delivering efficiency gains and putting all the companies of the LOTOS Group on track for further fast-paced growth.

Ladies and Gentlemen, we are truly pleased with our strong performance as it reflects the soundness of our business decisions. Even so, given the low likelihood of the macroeconomic climate improving and Europe’s economic growth recovering any time soon, I would like you to take careful note of last year’s events, which are set to create LOTOS value in the years to come. We have entered the 2013 fiscal year ‘armed’ with the knowledge and experience of previous crises. Our team of qualified experts, dedicated to their work and the Company, the general understanding of our clear-cut and realistic development strategy and high quality business management, make it more than certain that Grupa LOTOS will survive the current turmoil in good shape – they guarantee that it will continue to grow, going from strength to strength in all its markets.

Yours faithfully,

