Gdańsk, March 12th 2020

While 2019 posed many challenges for our business, it was a good year for the LOTOS Group, during which we demonstrated our ability to deliver demanding projects. Despite a challenging macroeconomic environment, the Group's financial condition remains stable. Its complementary business segments make it resilient to sharp market swings.

The global economic downturn created a tough business environment for us. The declining refining margins on most of our products and subdued market prices of oil and, particularly, of natural gas made for an accumulation of adverse developments we had to tackle. Despite the unfavourable macroeconomic landscape, our LIFO-based EBITDA last year came in at PLN 2.9bn, just 8% less than the year before. This demonstrates our ability to consistently pursue ambitious goals. We also rose to the challenge of a temporary cut of Russian oil supplies to Poland via the Druzhba pipeline. Our comprehensive efforts prevented the chloride contamination crisis from affecting our plant operations and the availability of our products. The Company also paid a record dividend of PLN 555m (PLN 3 per share) for 2018.

The landmark event last year was the completion of the EFRA Project. As most new process plants, also the EFRA units required some technical adjustments in the first months of their operation. But the Company was able to handle all issues, and today our business is more efficient and greener. We discontinued the production of high-sulfur fuel oil in response to the IMO regulations mandating a sulfur cap on marine fuels, effective from 2020. Our new units produce more diesel oil, which is increasingly in demand on the market. Having reached the strategic milestone, we can now tackle new challenges in order to deliver projects that will keep us on track to generate more value for our Shareholders.

Our high-priority project is the construction of a hydrocracking oil unit, which would enable us to make quality lubricating base oils. We are still seriously considering a CHP plant project, which would improve the energy security of our plant while enhancing our product portfolio. We are also thinking to re-start the project to build a marine terminal on the Martwa Wisła River, which would allow us to handle components and products at our own wharf, diversify product dispatch and feedstock import channels and reduce costs.

In 2019, we launched our 500th retail outlet. One element of our strategy is to strengthen the Group's position in the segment of service stations located on motorways and expressways, with 21 Motorway Service Areas currently operating under the LOTOS brand. We are committed to further expanding and enhancing our retail network. These plans are not only about increasing the number of outlets, but also about improving the service quality and attractiveness of the service stations already in operation. The LOTOS Group is poised to become a leader in alternative fuels. Our Blue Trail programme, which currently covers 12 electric vehicle charging points, was tested throughout 2019, but our strategic target is to build 130 such stations by 2022. We also invest in hydrogen: we want two hydrogen filling stations to be launched and hydrogen purification and distribution units to be built at the refinery by the end of 2021.

In addition, the Group is actively seeking to exploit opportunities related to LNG and CNG. Together with Gaz-System, we are analysing a project to build a small-scale LNG terminal in Gdańsk, which would serve as a facility for reloading and distributing LNG to end consumers and fuel stations, and to build a bunker ship with a power generation function. In the second half of 2019, we selected the contractor who is now working on a feasibility study for the project.

LOTOS is engaged in continued work to develop its portfolio of lubricating oils to make sure they meet the highest customer requirements and allow vehicles to operate in extreme weather conditions. In 2019, LOTOS Oil's sales efforts were focused on the automotive segment, particularly on increasing the share of synthetic and semi-synthetic oil products for passenger cars.

The Group is simultaneously seeking to strengthen its leading position in the market of modified bitumens, which are characterised by improved strength, a property that significantly extends their service life while maintaining high utility parameters. In 2019, LOTOS Asfalt's share in the domestic market of modified bitumens was close to 45%.

We consistently adapt our logistics operations to the trading requirements, building an efficient distribution system that meets the expectations of customers, while being continually optimised. In response to market demand, contracts to expand and upgrade the fuel terminal in Piotrków Trybunalski were signed in early 2020. The project will quadruple the terminal's storage capacity, to about 11,000 cubic meters, while doubling the amount of fuels it can handle.

Rail transport of products from the refinery in Gdańsk is a mainstay of the Group's production security. Therefore, we are upgrading our rolling stock, with contracts to purchase 11 new electric locomotives signed by LOTOS Kolej over the past year. Also, we launched an intermodal project partly financed out of EU funds, under which we want to acquire 326 rolling stock units. This is dictated by growing demand for transport of shipping containers. LOTOS Kolej continues to develop its business relations with customers from outside the LOTOS Group in both domestic and international freight transport.

We are a sponsor of sports and culture in Poland. Our widely recognised brand has come to be associated with emotions created by the best athletes and sportsmen. We know that the BEST does not come from nowhere, so we will continue to support outstanding Polish athletes and artists.

I am confident that these achievements would not have been possible without our dedicated employees. I would also like to thank the Supervisory Board for their constructive cooperation, and our customers, who have placed their trust in us by buying quality LOTOS products. Special thanks should go to our Shareholders and our business and social Partners, who have supported us in pursuing our goals. I would also like to stress that I did not assume the position of President of the Management Board of Grupa LOTOS until 2020. The Management Board that I have the honour of presiding over is facing new challenges, in particular technological, market and investment ones.

Yours faithfully,

Paweł Jan Majewski
President of the Grupa LOTOS Management Board